



**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**SERVICE QUALITY AND ITS IMPACT ON CUSTOMER  
SATISFACTION: THE CASE OF COMMERCIAL BANK OF  
ETHIOPIA (CBE)**

**BY**

**TIGIST KEBEDE**

**JANUARY 2019**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
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SCHOOL OF GRADUATE STUDIES  
MBA PROGRAM**

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## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Abraraw Chane (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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**January 2019**

## ENDORSEMENT

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

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Advisor

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Signature

**January 2019**

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## **ABSTRACT**

The banking sector plays a vigorous role in the development of one country's economy. The growth of banking sector depends upon the services provided by them to the customers in various aspects. The growing trend of banking services is found significant saving culture promoted by banks in Ethiopia. Today, Ethiopia has a fairly developed banking system with different grades and services. The big challenge of banking industry is delivering satisfactory services for its customers with minimum cost that increase the benefits of company. This research tried to answer the questions what are the trends of bank growth and service delivery, level of customer satisfaction and impact of service quality on customer satisfaction. Thus the main objective of this study was to evaluate the service quality and its impact on customers' satisfaction by Commercial Bank of Ethiopia. The study targeted to find out the relationship between service quality dimensions and customer satisfaction by using SERVQUAL model. The research was carried out mixed methods research that included the qualitative and quantitative research methods. The primary and secondary sources of data were collected through questionnaire, interview and written material revision. Out of the total population 304 respondents were selected as sample of the study. The collected data were analyzed by using SPSS Version 24 and presented by simple tabulations and figures. The results of trend analysis indicated that the number of branches, customer number, capital and reserve and Profit before Tax of CBE showing fast growth. The service delivery and technology used by CBE depicting fast growth and improvements towards customer satisfaction. However, trends of foreign currency indicated that there is severe shortage of foreign currency that dissatisfy the customers of CBE specifically business men that exacerbate the inflation in Ethiopia. The level of customers satisfaction result indicated that the customers were satisfied with all service quality dimensions (reliability, responsiveness, tangibility and assurance) except empathy. This result indicated that there is a gap of service quality and customer satisfaction that affect good relationship of customer and banks. The impacts of service quality and customers satisfaction was measured through statistical analysis. Thus the Pearson's correlation result indicated that there is a positive and significant relationship between the service quality dimensions and customer satisfaction. The overall result from Regression model  $R^2$  value is 0.886 i.e. independent variable (service quality) accounted for 88.60% of the variance in customer satisfaction and the rest 11.4 percentages was other unexplored variables. Consequently the service quality has great impact on customers' satisfaction. Since the empathy does not meet the interests' of customers, it is suggested that better the CBE improve the services provided under empty dimensions of service quality and to fulfill the interest of the customers. Again the National Bank and CBE better to work seriously on solving the foreign currency shortage.

***Key Words: Commercial Bank of Ethiopia, Customer Satisfaction and Service Quality***

## **ABBREVIATION**

CBE	Commercial Bank of Ethiopia
COBOL	Common Business Oriented Language
MBA	Master of Business Administration
NBE	National Bank of Ethiopia
ATM	Automated Teller Machine
LC	Letter of Credit
BPR	Business Processing Reengineering
IBD	International Business Division
FC	Foreign Currency



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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of study

In today's world, the existence of all human being is related with different services including banking service, food service, communication service, medical service, transportation service, and emergency services to list some. In general, our economy is founded on service (Fitzsimons and James, 1998).

Banking system occupies an important place in a nation's economy. It plays a vital role in accelerating the rate of economic growth by mobilizing the existing or potential savings and by making the disbursement of credit to commercial undertaking and priority areas. In today's World Bank is one of the customer oriented business sectors. It is highly depends upon the customers for their existence in the market.

In 21<sup>st</sup> century banking industry interred into intensive competition with different banks in the worlds through introducing different technology. As a result, banks need to adopt themselves to the changing environment. It is essential for the banks to adopt appropriate various strategies to merge as the preferred bank of customers. Timely introduction of various services to suit the diverse needs of customers is a functional necessity to the banks. This competition created dynamic environment of banking industry in order to attract customers and maintain their customers. The key drivers are service quality, Information and Communication Technology (ICT) and customer's satisfaction to keep the bank in business world (Biju, Devandhiran & Sreehari, 2012).

Most of the banks competing each other through providing high quality customer service (Naeem and Saif, 2009). But for existence and existence of any organization in the market the way customers handled and treated is a decisive factor. In other way since the main objectives of any business organization profit maximization, customers Satisfaction play great role. Profit maximization can be achieved through increasing customer satisfaction (Wilson *et al.*, 2008). Customer satisfaction is occurred when customer needs and expectations fulfilled when using services (Faraz, 2005). Failure to fulfill customers' needs and expectation leads to business failures and put out of the markets. In other words excellent service quality controls customer's satisfaction which has vital to business success and survival in intensive competition.

The history of Commercial Bank of Ethiopia (CBE) dates back to the establishment of the state bank in 1942. CBE was legally established as a share company 1963. The state bank of Ethiopia was founded in 1942 with twin objectives; performing the duties of both commercial and central banking. In 1963, the commercial bank of Ethiopia was legally established as Share Company to take over the commercial banking activities of the state bank of Ethiopia. In 1974, merged with the privately owned Addis Ababa Bank. Since then it has been playing a significant role in development of the country. The commercial Bank of Ethiopia which is striving to embark into a world class bank is rendering state of the art and reliable services to its millions of customers both locally and abroad. The business strategies of the bank focus on the stakeholder it serves. The state owned commercial bank of Ethiopia, still dominates the market in terms of assets, deposits, capital, customer and branch network. Despite the growing competition from private banks over the last 15 years, CBE is still the leading bank in Ethiopia. This makes it one of the most reliable and strong commercial bank, both in the country and region. Its strong capital base, above 75 years of rich experience in the market and total number of branches reached 1284 as of August 10, 2018.

## **1.2 Statement of the Problem**

Service quality is the most significant parameter that needs serious attention for an organization to exceed its competitors. In any sector, whether government or private, the key for its survival and success depends on the ability to provide quality service and fulfilling customer's needs and expectations.

In today's service providers business the big challenge is delivering satisfactory services for its customers with minimum cost that increase the benefits of company. In case if customer is not satisfied with the services provided, he/she may not be willing to pay for the services or buy the products. Then he/she will look for different alternatives which probably provide better services and fulfill customer's needs (Lovelock and Wirtz, 2004). In real world, there is a gap between customer expectation and services provide that leads to customer dissatisfaction. These mismatched service delivery and expectation destroy the relationship between service delivery sectors and customers.

Nevertheless, banks found in our country (Ethiopia) have little care about their customers. This leads them to use more obsolete and traditional technologies that cause dissatisfaction and switching among customers. Likewise most of the banks in Ethiopia are facing similar challenges of delivering effective services which can satisfy their customers with minimum costs. Currently in Ethiopia Banks are encountering lots of challenges that emanate from stiff competition amongst different domestic banks. As a result, various strategies are planned to keep customer to enhance

the service quality stage and measured as the main success factor. At the present time service quality has received much awareness because satisfied customers are a key to the long-term relationship of business success (Zeithaml, Berry and Parasuraman 1996).

The Commercial Bank of Ethiopia (CBE) is leading bank in Ethiopia by having many branches and customers. But in CBE there are a lot of problems on quality of services delivery and customer satisfaction. At present, most of CBE are affected by the network failure; high waiting time and system disturbance which caused belated service delivery time. Even, if the CBE adopt rapid improvement by Implementation of BPR. Still, there is customer complaint of network failure, power interruptions, and low accessibility of ATM machines in the branches of CBE (Kasim Kelil, 2018).

The other studies find out the chronic problems that affect customer satisfaction were frequently failing network, ATM Machine failures, ATM machine transaction errors, foreign currency access particularly the business men complaining for opening LC (Letter of Credit) for goods they needs buy from out of Ethiopia. The other problem is expansion of black market of foreign currency that highly affected the economic status of the society and lack of international bank services for instance lack of accessing money transfer to other country, having globally accessible ATM Cards like MASTER card, GLOBAL card and International VISA card. There is a problem of immediate action taking in case problem occurred or systems failure. It is clear that if customers do not have a trust on the banking services it is pointless to talk about the good will of the bank.

Therefore, knowing the sources of dissatisfaction and working on its improvement is very important for CBE to meet or exceed the target customers' satisfaction with quality of services. Therefore, the bank should handle its customers so well to achieve its organizational aims. The procedures laid down at the banks are lengthy and also it was not easy to follow by them. The present customer services systems lacks serious attention on customer interests these adversely affect the customer service. Numerous studies conducted on service quality and customer satisfaction in the banking industry, but few of the studies have been conducted on CBE with holistic approach but there is very few researches conducted on trend analysis of bank growth and service delivery. Therefore, this study is very crucial to understand the customers complains and improvement of services delivery.

### **1.3 Research Question**

This study is designed to answer the following research questions:

- What are the trends of bank growth and customer satisfaction by Commercial Bank of Ethiopia?
- What is the level of customer satisfaction in CBE?
- What is the impact of service quality on customer satisfaction?

### **1.4 Objectives**

#### **1.4.1 General Objective**

The general objective of this study is to evaluate the impacts of quality of the service provided by Commercial Bank of Ethiopia on customer's satisfaction.

#### **1.4.2 Specific Objective**

- To assess the trends of bank growth and customer satisfaction by Commercial Bank of Ethiopia.
- To examine the level of customer satisfaction in Commercial Bank of Ethiopia.
- To examine the impact of service quality provision on customer satisfaction

### **1.5 Significance of the Study**

This study is very important to understand the impact of service delivery on customer satisfaction. The finding enables the banks to understand the relation between service quality and customer satisfaction and helps them to know the most important dimension used to satisfy customers. Also it indicates the extent of the gap between perceived performance and customers' expectations of service quality. Furthermore, the findings of this study may help Banks to know the problems that need attention to provide solution and further improve in the area of handling customer to be more competent and profitable. Finally this study used as a foot step for further study and used as a reference for different organization, institution as sources of information.



## **1.6 Scope and Limitation of the Study**

Scope limitation: this study is focused on assessing quality of service and its impact on customer satisfaction by commercial Bank of Ethiopian (CBE). This study focused only on quality of service and customer satisfaction.

Area limitation: this study was only focused on the branches of CBE in Addis Ababa but other regions were not included. Even the CBE has many branches in Addis Ababa but focusing only on few branches was a limitation.

Time bound delimitation: This study was focused only on the data starting from 1981 years that does not included the data from CBE establishment date.

## **1.7 Organization of the study**

This thesis is organized as five chapters. Chapter One introduces the study by discussing the introduction to the study, statement of the problem and research objectives, purpose of the study, research questions, the scope of the study, and significance and limitations of the study. The second chapter presents the literature review part of the study which will include the theoretical review in its first section followed by the review of the previous studies related to the area and empirical reviews. Chapter three discusses the methodology that going to be used by the researcher to collect data, and analysis in order to achieve the objectives of the study. It describes the population, sample size and sampling technique, research design, the data sources and collection instruments, as well as methods of presenting, interpreting and analyzing the findings. Chapter four, deals with the details result and discussion. Chapter five presents Summary, conclusion of the finding and recommendations.

## CHAPTER TWO: REVIEW OF RELATED LITERATURE

### 2.1. Theoretical Review

#### 2.1.1. Service

On different literatures the authors define 'service' in various ways. For example service defined as *“any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”* (Kotler, 2000). According to Rao (2007) service is referred to as;

*“Any intangible actions that are performed by person or machines or both to create good perception within users called service. Although services are performed by service providers and consumer together its quality results in perception and value assessment by the customer”.*

Lovelock and Wirtz (2007) indicated that, service is “time based” and the outcome of a service may result in desire change in consumer or any property of the consumer. Again scholars Lovelock and Wirtz defined services as;

*“An economic activities offered by one party to another. In exchange for money, time, and effort, service customers expect value from access to goods, labor, professional skills, facilities, networks, and systems; but they do not normally take ownership of the physical elements involved(Lovelock and Wirtz, 2011).*

Zeithaml and Bitner defined service as all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value in forms of convenience, amusement, timeliness, comfort or health that are essentially intangible concerns of its first purchaser (Zeithaml and Bitner, 2004).

### 2.2. Service Quality

Many researchers tried to explain the service quality in relation to customer expectation and experiences. The author Rao (2007) explained as “service is the one unique opportunity we have to be better than competitors and make sure our customers return”. This implied that competition of the service giving organization should work on service quality to win their competitors and attract more customers.

In today's competitive business world, delivering better and quality service plays great role for the success of any business organization. To be successful, most of the banks in the world work better services through introducing new technology. Siddiqi argued that the banks should develop new strategy to satisfy their customer needs and also should provide quality service to be unique from competitors (Siddiqi, 2011). But there is no sole definition for quality. For some business organization quality considered as the performance standards that need to be meeting while for others meeting or satisfying the customer's needs is considered as quality services.

The dissimilarity of quality definitions comes from people having different perspective and points of views. Sometimes the consumers or users faced difficulties to define the quality but they know the extent of the quality and easily identify when see it. The difficulties occurred in defining quality is that it is a subjective concept and opinion that make varies that leads to having different definition based on their personal experiences. For instances Crosby defined quality as "*Conformance to requirements*" (Crosby, 1979), that encourages the organization to establish requirements and specifications for their organization. Then once these specifications are established, the quality goal of the various services of that organization should comply strictly.

However, scholar like Juran defined quality as "*Fitness for use*" (Juran, 1982). *This indicated that the service provided is if compatible with users need and fulfill their expectations then it is known as quality services. Different definitions of quality have been given on addressed of the website [www.qualitygurus.com](http://www.qualitygurus.com) that was accessed on December 2017, which is indicated different point of views. For example from customer point of view, from process point of view, from product point of view, and from the cost point of view. From customer point of view: "quality means fitness for use and meeting customer satisfaction."* From process point of view: "*quality means conformance with the process design, standards and specifications.*" From product point of view: "*quality means the degree of excellence at an acceptable price.*" From the cost point of view: "*quality means best combination between costs and features.*"

### **2.3. Customer's expectation**

Customers hold different types of expectations about service. The expectation of the customers tried to explain by different researchers. Some of the author says customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged. But Lewis et al., (1983) described giving quality service implies meeting the requirements to customer expectations.

Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services

marketers. Knowing what the customer expects is the first and possibly most critical step in delivering good quality service. Being wrong about what customers want can mean losing a customer's business when another company hits the target exactly. Being wrong can also mean expending money, time and other resources on things that do not count to the customer. Being wrong can even mean not surviving in a fiercely competitive market (Hubbert *et al.*, 1995). Because expectations play such a critical role in customer evaluation of services, marketers need and want to understand the factors that shape them. Marketers would also like to have control over these factors as well, but many of the forces that influence customer expectations are uncontrollable. In this section of the chapter we try to separate the many influences on customer expectations.

Many companies today talk about exceeding customer expectations delighting and surprising them by giving more than they expect. This philosophy raises the question, should a service provider try simply to meet customer expectations or to exceed them. If the customer's expectations are meeting or exceed the expectation, the company considered as higher service quality. Service quality evaluated by assessing customer's expectations and perceptions of performance level for a variety of service attributes (Parasuraman *et al.*, 1985). In case the expectations of the customers are not meet, the company is on its way not only to face displeased and hostile customers that leads again to company failure. The researchers like Asubontengs "Customer's expectation serves as a foundation for evaluating service quality because; quality is high when performance exceeds expectation and quality is low when performance does not meet their expectation" (Asubonteng *et al.*, 1996).

If the perceptions exceed expectations, the service will be considered as excellent, if only equals it will be considered as good and if it is less than expectation it will be considered as adequate. Likewise author like Vázquez classified the services as bad, poor or deficient, if it does not meet the expectation (Vázquez *et al.*, 2001). While evaluating the quality service two groups of quality should be differentiated as technical quality and functional quality (Gronroos and Christian, 1982). The technical quality is what the customer is actually receiving from the service (outcome) while functional quality is the manner in which the service is delivered (processed).

## **2.4. Customer Satisfaction**

The satisfaction described as an individual's feeling of liking or disappointment which may result from the service get or the outcome in relation to the expectation" (Lovelock, 2004). The issue winning competition and staying in the market is the crucial in today's world. Therefore the only way to being beneficial is customer satisfaction. Scholars like Mick and Fournier explained as

“customer satisfaction is one of the important outcomes of marketing activity” (Mick and Fournier, 1999).

Therefore it is possible to conclude that satisfying customers is one of the main objectives of every business. In the growing banking industry, customer satisfaction is considered as the central growth and success. In banking system to be more profitable keeping old customers and satisfying their need is very important than looking for new customers that may waste the time and money too. Scholars like Kennedy & Schneider explained the importance of customer satisfaction for a business’s success in management and marketing theory (Kennedy and Schneider, 2000).

If one customer satisfied he/she likely tell to in average nine to ten people the service quality and satisfaction but if he/she does not satisfied most likely tell to fifteen to twenty people (Krishna *et al.*, 2010). In other hand scholars like Anderson et al., (1994) specified that “Satisfied customers improve business and dissatisfied customers impair business”. Hence, handling customers and working on their satisfaction is an advantage that any business organization should practice to be successful. Customers developed their expectation from past buying experience, friends, companions, advice, marketers and competitors’ information and promises (Kotler, 2000). Therefore, the satisfaction evaluation is interrelated to all the experiences made with a certain business concerning its given products, the sales process, and the after sale service.

Gathering information about the opinion of the customer regarding a product or service is crucial that uses as a feedback for further improvements. This information can be obtained in many ways, such as customer surveys, phone interviews, and customer panel discussions. Additionally, continuously assessing customers’ opinion is the best way of updating the services on time (Rampersad, 2001). If the customer satisfied well the loyalty and revenue also increases in the future.

#### **2.4.1. Factors that Affect Customer Satisfaction**

Matzler et al., (2002) has classified the factors that may affect customer’s satisfaction into three.

1. **Basic factors:** - these are the minimum requirements that are required in a product to prevent the customer from being dissatisfied. They do not necessarily cause satisfaction but lead to dissatisfaction if absent. These are those factors that lead to the fulfillment of the basic requirement for which the product is produced. These constitute the basic attributes of the product or service. They thus have a low impact on satisfaction even though they are a prerequisite for satisfaction. In a nutshell competence and accessibility

2. **Performance factors:** - these are the factors that lead to satisfaction if fulfilled and can lead to dissatisfaction if not fulfilled. These include reliability and friendliness.
3. **Excitement factors:** - these are factors that increase customers' satisfaction if fulfilled but does not cause dissatisfaction if not fulfilled which include project management.

The all factors can contribute for customer's satisfaction in direct way or indirect that leads to business success or failure.

#### **2.4.2. The Relationship between Service Quality and Customer Satisfaction**

Parasuraman *et al.*, (1988) defined service quality and customer satisfaction as “*service quality is a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction*”. Satisfaction is a “*post consumption experience which compares perceived quality with expected quality, whereas service quality refers to a global evaluation of a firm's service delivery system*”.

According to the generalization of authors Iacobucci *et al.* (1995) the key difference between service quality and customer satisfaction is that quality relates to managerial delivery of the service while satisfaction reflects customers' experiences with that service. Additionally Bolton and Drew (1994) figured out as “*customer satisfaction depends on pre-existing or contemporaneous attitudes about service quality*”. Hence author Anderson *et al.* (1994) also point out that improved service quality will result in a satisfied customer. Service quality has found as one of the significant factors in distinguishing services and products. Service quality is an important tool to measure customer satisfaction (Pitt *et. al.*, 1995). There is a close relationship between service quality and customer satisfaction. Customer satisfaction can be protected by providing products or services with high quality. In addition, as service quality increases, satisfaction with the service and intentions to use the service also increase. Based on the survey result Siddiqi (2011) described that all the service quality attributes are positively related to customer satisfaction and customer satisfaction is positively related to customer loyalty in the retail banking settings. Kumar and Mahaptra (2009) also stated that high quality of service will result in high customer satisfaction and increase loyalty. Furthermore Parasuraman *et al.* (1988) found that customer satisfaction is the outcome of service quality.

## **2.5. The Service Quality Model**

Parasuraman et al. (1985) identified five gaps that cause unsuccessful service delivery. These are as follow;

### **1. Gap between Customer Expectation and Management Perception (Knowledge Gap).**

Management does not always perceive correctly what customers' want. Electricity company manager might think that consumer's judge the company service by the quality of employees' performance in the technique department, whereas customers may be more concerned with the courtesy and responsiveness.

### **2. Gap between Management Perception and Service Quality Specification (Standard Gap)**

management might correctly perceive the customers' wants but not set a specified performance standard. For example hospital administrators may tell the nurses to give "fast" service without specifying it quantitatively.

### **3. Gap between Service Quality Specification and Service Delivery (Delivery Gap).**

The personnel might be poorly trained or in capable or unwilling to meet the standard or they may be held to conflicting standards such as taking time to listen to customers and serving them fast. For example a bank officer who is told by the operations department to work fast and by the marketing department to be courteous and friendly to each customer.

### **4. Gap between Service Delivery and External Communication.**

Consumer expectations are affected by standards made by company representatives and advertising. If a hospital brochure shows a beautiful room, but the patient arrives and finds the room to be cheap and tack looking, external communications have distorted the customers' expectations.

### **5. Gap between Perceived Service and Expected Service**

This gap occurs when the consumer misperceives the service quality. The physician may keep visiting the patients to show case, but the patient may interpret this as an indication that something really is wrong.

## **2.6. SERVQUAL Model**

Most of literature mentioned as measuring customer's level of satisfaction was very difficult before development of SERVQUAL model. It helps to measure customers' satisfaction with

respect to different aspects of service quality and to overcome problems which is created as a result of the gap between management and customers, a survey instrument was developed by Parasuraman, Zeithaml and Berry in 1988. According to 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).

The basic assumption of the measurement was that customers can evaluate a firm's service quality by comparing their perceptions with their experience. It is designed to measure service quality as perceived by the customer. Based on the information from focus group interviews, *Parasuraman et al. (1985)* identified basic dimensions that reflect service attributes used by consumers in evaluating the quality of service provided by service businesses. Based on their study *Parasuraman et al. (1985)* identified ten key determinants of service quality. They are: 1) Reliability 2) Responsiveness 3) Competence 4) Access 5) Courtesy 6) Communication 7) Credibility 8) Security 9) Understanding/ knowing/ the customer 10) Tangibles.

Different research indicated that SERVQUAL model is an effective and stable tool for measuring service quality across service industries (*Zeithaml et al., 1990; 1993*). 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. SERVQUAL is based on five dimensions of service quality. However major criticisms have been made against the SERVQUAL model. The major one being, the five service quality dimensions are not universal and cannot be applied in all service industries. Additionally *Buttle (1996)* cited on *Aborampah, 2010* argues that there is a little proof that customers evaluate the quality of service on the basis of the difference between perception and expectation. The difference score do not give any additional information beyond that already existed in the perception's item for the result showed that the dominant contributor to the gap scores comes from the perception's score.



## 2.7. Empirical Literature

Service Quality is a qualitative factor that is extremely difficult to standardize. However, most studies in this area have concluded that service quality has a definite bearing on customer satisfaction. The following studies shows the relationship of service qualities, customer satisfaction with respect to banking sector. Most of the researchers did not give attention to trends of service quality with respect to customer satisfaction. Moreover, it can be seen that majority of researchers used service quality dimension as an independent variable and customer satisfaction as a dependent variable in their theoretical framework. Here the researcher focused on to review some of the recent study conducted on service quality and customers satisfaction aspects.

Badara, Mat, Mujtaba, Al-Refai, Badara, and Abubakar (2013) conducted research on direct effect of service quality dimensions on customer satisfaction in Nigerian Islamic bank. The analysis were done by AMOS, Descriptive Statistics and composite reliability analysis. Then the findings indicated that Tangibility, Reliability and Assurance has no significant effect on customer satisfaction while responsiveness and empathy has significant effect on customer satisfaction.

Vinita (2013) in a study considered three dimensions of service quality employee behavior, information technology and tangibility of which only the first two were found to have a positive impact on satisfaction customers in India. Siddiqui (2011) in a study conducted in Bangladesh concluded that there was a medium to high correlation between customer satisfaction and the five dimensions of service quality – tangibility, responsiveness, reliability, assurance and empathy with empathy exhibiting the highest correlation. Culiberg & Rojšek (2010) determined that assurance and empathy were the most critical factors in determining satisfaction amongst bank customers in Slovenia. They have further stated that assurance and empathy represent a “softer” dimension that deals with people’s interaction while reliability and responsiveness represent a “harder” dimension that deals with bank processes. Zafar, Zaheer and Rehman (2011) tried to study the impact of online service quality on customer satisfaction and conflict handling in banking sector of Pakistan through SPSS analyzing technique. The findings result indicted that Tangibility, Reliability, competence, and conflict Handling will positively result in customer satisfaction. Mahamad, & Ramayah, (2010) study finding shown that perceived service quality is positively associated with customer satisfaction and customer loyalty. And customer satisfaction mediates the relationship between perceived service quality and customer loyalty.

## 2.8. Conceptual Frame work

Customer satisfaction can be defined as when the customer's expectation of the service provided matches his perception of the actual service received (Parasuraman *et al.*, 1985). The relationship between customer service provided and expected service quality is the key to measure customer satisfaction. Service quality can be explained as perceived performance from the customer's perspective. The service quality impacts customer satisfaction in many organizations and maintaining customer satisfaction is the key to retaining customers and profitability. Therefore, the study on customer satisfaction has become a vital aspect. Customer satisfaction is found to be an essential tool to create and maintain loyal customers.

The conceptual framework indicates the vital process, which is useful to illustrate the track of the study. The study demonstrates the relationship between the five service quality dimensions (reliability, responsiveness, assurance, empathy and tangible) and customer satisfaction. See the figure 2.1 below.

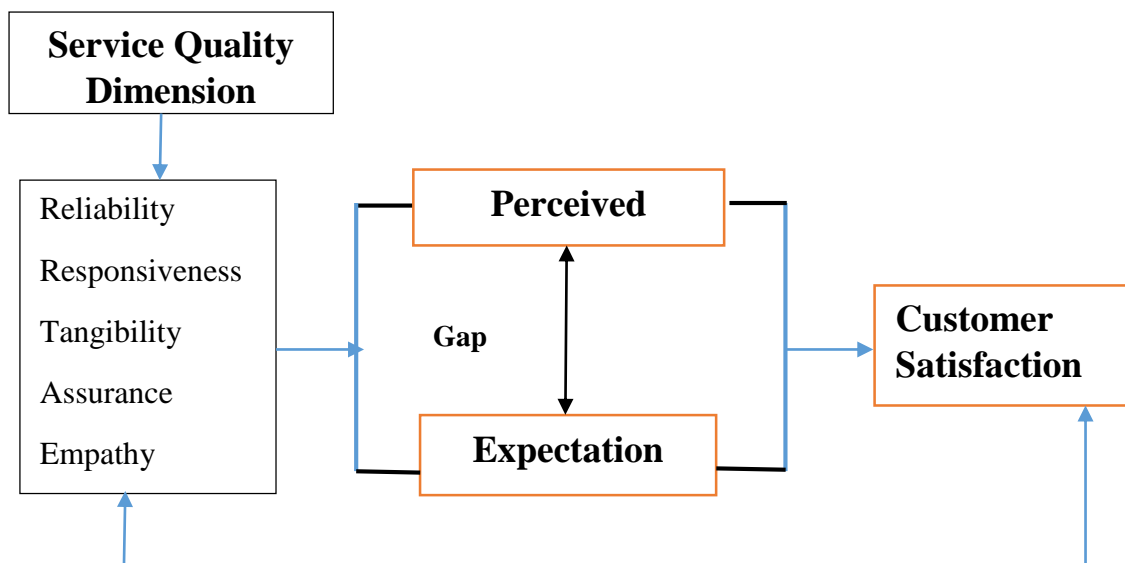


Figure 2.1 Conceptual Framework of the Study

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

Under this chapter the description of methodology of the study that consisted research design, data type and source, sampling method and size, method of data collection, reliability test and method of data analysis.

### **3.1 Research Design and Approach**

It is a common practice in a research to use sample in order to generalize about the targeted population. Tabachnick and Fidell (2001) noted that ideally, samples are selected on randomly bases this indicates the representative of the population. The intention of the study was to generalize the findings on impacts of service quality on customer satisfaction in Commercial Bank of Ethiopia (CBE). The sample selection about broader potential respondents giving equal chance of selection is vital to increasing the representativeness of the sample. Therefore, the quantitative data were collected on the service quality dimensions using SERVQUAL model. Explanatory study is used to explain the relationship between the independent variables, (service quality dimensions) and the dependent variable (customer satisfaction). The researcher used mixed methods research. Mixed methods may be defined as ‘research in which the investigator collects and analyses data, integrates the findings and draws inferences using both qualitative and quantitative approaches and methods in a single study (Tashakkori and Creswell, 2007). Research is not restricted by the use of traditional approaches to data collection but is guided by a foundation of enquiry that underlies the research activity (Creswell, 1994). A mixed methods study is one that includes a qualitative and quantitative dimension. Mixed methods research is directed by philosophical assumptions that enable the mixing of qualitative and qualitative approaches throughout the research process (Hanson, *et al.*, 2005). Many reasons have been identified for conducting a mixed methods research study. Five purposes of using mixed methods research has been identified by Greene, *et al.* (1989). These are triangulation, complementarity, development, initiation and expansion. Again Bryman (2006) identified sixteen reasons for conducting mixed methods studies. The main rationales or benefits proposed for undertaking a mixed methods study are Triangulation, Completeness, Offsetting weaknesses and providing stronger inferences, Answering different research questions, explanation of findings, illustration of data, hypotheses development and testing, instrument development and testing. These points identify the usefulness that a mixed methods research approach can have in answering a particular research question(s).

Therefore, the utilization of a mixed methods research approach can help meet the requirements of funding agencies that look for interdisciplinary research using a variety of methods.

### **3.2 Data type and Source**

The sources of data for this research were primary source and secondary sources. The sources of primary data were obtained from questionnaires and interviews. The questionnaires were distributed to customers of selected branches of CBE in Addis Ababa. The secondary sources were collected from different records, reports, National Bank, Commercial Bank of Ethiopia (CBE), books, journals, websites and documents related with service and customer satisfaction. The instruments that utilized for the primary data collection were close ended questionnaires and open-ended interview question and checklist. The mixed data obtained was very relevant to make the research findings more valuable and complete.

### **3.3 Sampling method and sample size**

The target population for this study is the customers of Commercial Bank of Ethiopia (CBE) in selected Branches of Addis Ababa. Currently the number of CBE branches in Addis Ababa is 276. Therefore, it is much cost and time consuming to collect the data from all branches. Thus, the researcher used multistage sampling techniques to select representative branches. The branches are classified according to their performance and year of open that start from Grade 1-4. Hence, the researcher identified and listed the branches according to their grades. To be more fair the researcher tried to mix the sample from all directions from East, West, North and South. Hereafter, from each grade four branches were selected randomly by using a proportional sampling technique. The reason was the number of branches under different grade of banks was not equal in number thus why the researcher applied these techniques to select equal number of banks. Consequently, four banks were selected from each grades. Then, a total of sixteen (16) branches were selected from all grades for this study.

The target population is dynamic that means the customers' number daily increasing that makes difficult to select representative sample. From selected branches equal number of respondents were selected that believed to get proper information and further in case to check if there is variation of service among branches. Therefore, from each selected branches 19 customers were selected randomly, and totally 304 respondents were selected. The details of selected branches name and number of respondents were summarized in table 3.1.

**Table 3.1. Selected banks and number sample respondents**

S/N	Grade of banks	Number of Selected branches	Name of selected branches	Number respondent. selected
1.	Grade one	4	1. Gerji Mebrat	19
			2. Arbegnoch	19
			3. Atikilt Tera	19
			4. Stadium	19
2.	Grade two	4	1. Lamberet	19
			2. Abo Mazoria	19
			3. Wolete	19
			4. Shegolle	19
3.	Grade three	4	1. Wolo Sefer	19
			2. Bomb Terra	19
			3. Asko	19
			4. Gotera	19
4.	Grade four	4	1. Andinet	19
			2. Addis Ketema	19
			3. Arada Ghiorgis	19
			4. Sarbet	19
TOTAL				304

### 3.4 Method of Data Collection

The collection data system was designed as self-administered questionnaire that were filled by the selected customers. The questionnaire is again arranged in a five likert scale measurement. A 22 items measure was used to indicate the customers feeling either agree or disagree on quality of service provided measurements variables of the 22 performance indicators statements. Additionally, to obtain international bank services information some question were developed to compare CBE service with services that can be provided by other country's bank. The variables were used to assess the services quality of the Commercial Bank of Ethiopia (CBE) by using five major the attributes service quality measurements; Tangibility, Reliability, Responsiveness, Empathy and Assurance. The variables measured the quality of services by using Likert scale with five response categories.

- Score 5 represents very satisfied answer.
- Score 4 representing satisfied answer.
- Score 3 representing answer is quite satisfied.
- Score 2 representing less satisfied answer.
- Score 1 representing answer is not satisfied.

The Likert scale method is referred to make the questions interesting to the respondents and to insure maximum response rate. Lovelock and Wright (1999) explained the customer satisfaction can be measured with one scale response ranging from ‘very satisfied’ to ‘very dissatisfied’.

### 3.5 Reliability Test

The Reliability test is a tool to measure a questionnaire's internal consistency. One researcher to be sure about the correctness of his questionnaire consistency, reliability test is very crucial. Questioner said to be reliable if answer of a person to questions are consistent or stabilized over time. It can be conducted by using SPSS software. Many scholars agreed that a construct or variables said to be reliable if it is providing value Cronbach Alpha value is greater than 0.70. The Cronbach alpha coefficient is an indicator of internal consistency of the scale. Therefore, to check the internal consistency the questioners the reliability test was conducted by first distributing 30 questionnaires to respondents. Then the Cronbach alpha coefficient for the independent variables (Tangibility, Reliability, Responsiveness, Empathy and Assurance) was found to be 0.812. Consequently, the five dimensions of service quality were far more than the minimum required that to ensure the internal consistency this study.

**Table 3.2 The result of Reliability Test**

SERVEQUAL Dimension	Number of attributes	Cronbach's alpha perceived performance
Tangibility	4	0.789
Reliability	5	0.837
Responsiveness	4	0.765
Empathy	5	0.849
Assurance	4	0.820
Customer satisfaction	-	0.812

### 3.6 Validity Test

This study addresses construct validity by adapting instruments used in previous researches.

### 3.7 Method of Data Analysis

The collected data were organized for statistical computation to explore the inherent relationships among the different variables. The collected data from respondents through questionnaire and from secondary sources were analyzed by using SPSS Version 24. The Demographic variables of

the respondents and mean scores of the service quality dimensions are interpreted using descriptive statistics whereas Correlation and regression was used to find out the relationship between service quality dimensions and customer satisfaction. Finally, the results were summarized into simple tabulations, graphs and figures with meaningful interpretation of results that leads to draw out its implication and conclusion.

## CHAPTER FOUR: RESULTS AND DISCUSSION

This chapter consists two parts; the first part was trying to present and discuss the demographic characteristics of respondents and while the second part presented the data collected through questionnaire and interview from respondents with discussions. The data collected through questionnaire from respondents was explained by using SERVQUAL model, statistical table, graphs and figures which is followed by interpretation. Under this section, the relationship between the five service quality dimensions and customer satisfaction, the service quality gap score of selected banks and the overall customer satisfaction rating were presented and analyzed respectively. Moreover, the data obtained through interview from respondents were used in line with the data obtained through questionnaire to elaborate more about the facts. The total 304 questionnaires distributed to customer of CBE. From distributed questionnaires 285 questionnaires were properly filled and returned back. This means around 93.75% questionnaires were returned that enabled continue the research.

### 4.1 Demographic Characteristics of respondents

**Table 4.1 Respondents' profile**

Category		Number of respondents	Percentage	Total
<b>SEX</b>	Male	146	51.2	285
	Female	139	48.8	
<b>Age</b>	18-29	74	26.0	285
	30-40	101	35.4	
	41-50	77	27.0	
	>50	33	11.6	
<b>Educational status</b>	High school	92	32.3	285
	Diploma/10+	135	47.4	
	Fist Degree	47	16.5	
	Master/above	11	3.9	

**Source: Survey data, 2018**

It can be seen from the table 4.1 the larger percent 51.2% of the respondents were male while the rest 48.8% were female. The age of the respondents from 18-29 years were 26%, from 30-40 years was 35.4%, from 41-50 years was 27% and above 50 years was very few only 11.6%. The majority

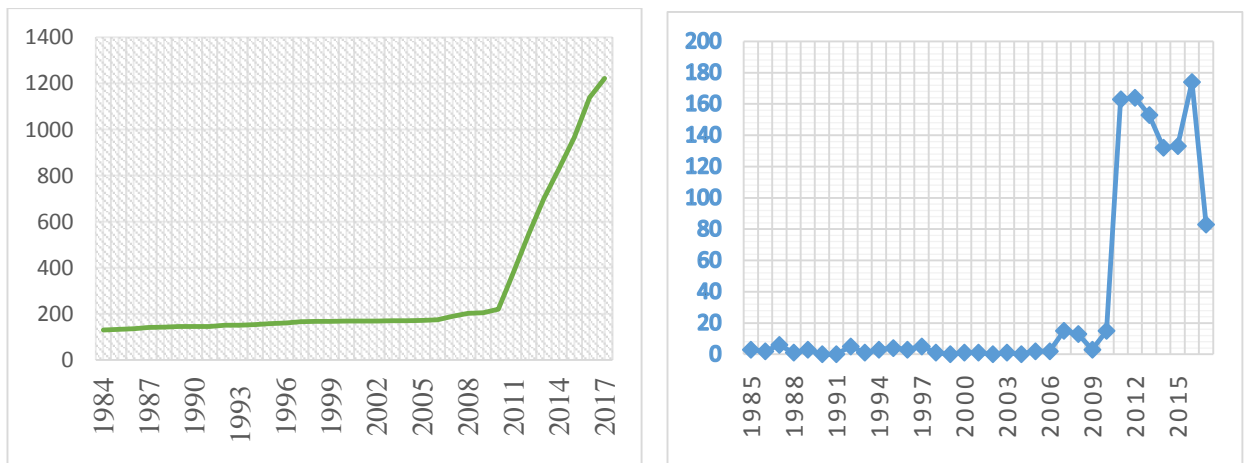


of the bank customers were from 30-40 years. In other hand, these findings revealed that most of the respondents were at productive age (30-40). The educational levels of the respondents were analyzed as indicated in table 4.1 above. The educational category of the respondents were High school level (32.3%), Diploma/10+ (47.4%), Fist Degree (16.5%) and Master/above (3.9%). Consequently most of the customers were diploma or 10+ holders.

## 4.2 Trends of bank growth and service quality by Commercial Bank of Ethiopia

### 4.2.1 Trends of number of branches from 1984-2017

In order to know the trends of service quality it is very crucial to know the historical growth of CBE that included the branches growth, customer growth, capital growth and technology growth. The trend analysis of CBE was done based on available compiled data from head quarter of commercial bank of Ethiopia. As many scholars and researcher explained that any organization that increase its branches from time to time is a profited company and the number of branches newly opened depends on its profit rate and amount. Likewise, the number of branches of commercial bank of Ethiopia was increasing from year to year with different scale of increment. As it is clearly indicated on Figure 4.1 a and b, the number of branches and rate of branch increment shown slow increment from 1984 to 2011 but from 2011 to 2017 rapid growth. See figure 4.1a and b below.



**Figure 4.1 a, Number of branches of CBE from 1984-2017      b, Rate of branch Increment from 1985-2017**

Generally CBE branch increment has shown two types growth trends. The first trend was slow increment trends from 1985 to 2011. In this phase the rate of increment of branches were ranged from zero to fifteen (maximum) number branches newly opened in the succeeding year. The Zero

growth means there is neither new branch opened in the next year/s nor the already existing number of branch shut down. This indicated that there was no strong economic reform on bank investment and no emphases given to customer satisfaction through improving bank service and accessibility. The second phase was from 2011 to 2017 in which branch growth shown vertical increment. In this phase the rate of increment of newly opened branches was ranging from 83 to 174. On average around 143 new branches were being opened annually. In the second phase most parts of potential areas were covered by CBE branches. Generally, this result directed us to say the bank shown devotion to satisfy the customer's through expanding the branches, improving service types and technology to attract more customers.

### 4.3 Trends of capital, reserve and profit before tax of CBE

As many writers suggested that any organization those have a profit can sustain in the market rivalry and resist competition either stay without expanding their branches or expand their branches through increasing their customers and accessibility of the organization services. In reverse an organization those have very less profit or no profit after few years either became out of the market through losing their customers or reinvest on their company to become competent with their competitors. Likewise this indicate that the accessibility of banks and getting services has direct impact on customer satisfaction. Therefore, the capital, reserve and profit trends of CBE that highly contribute for customer satisfaction either directly or indirectly. The capital, reserve and profit trends of CBE summarized in figure 4.2a and b below.

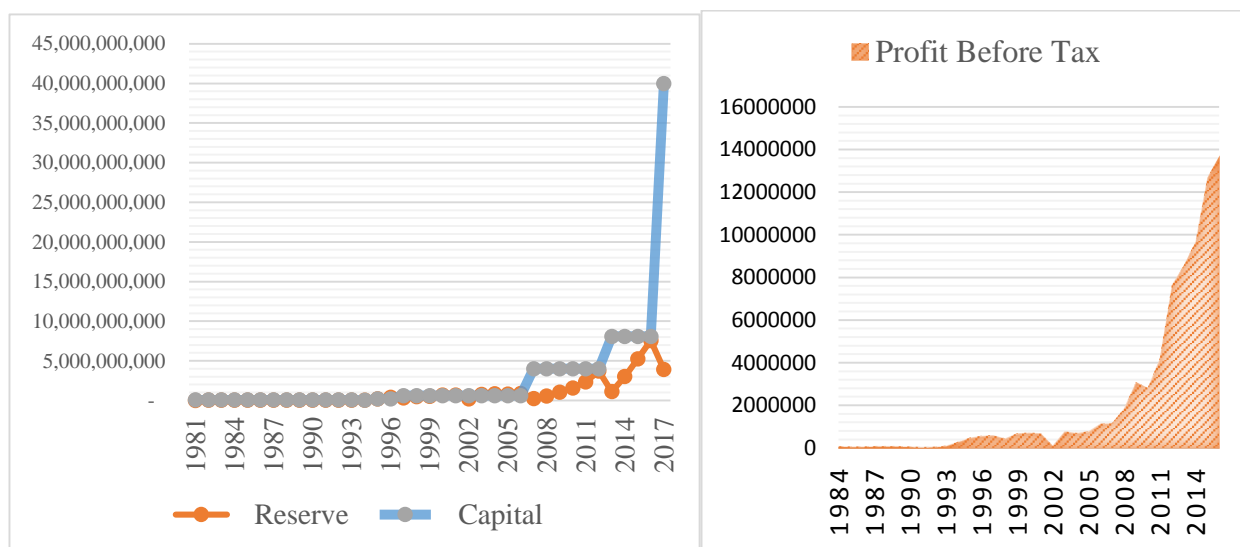


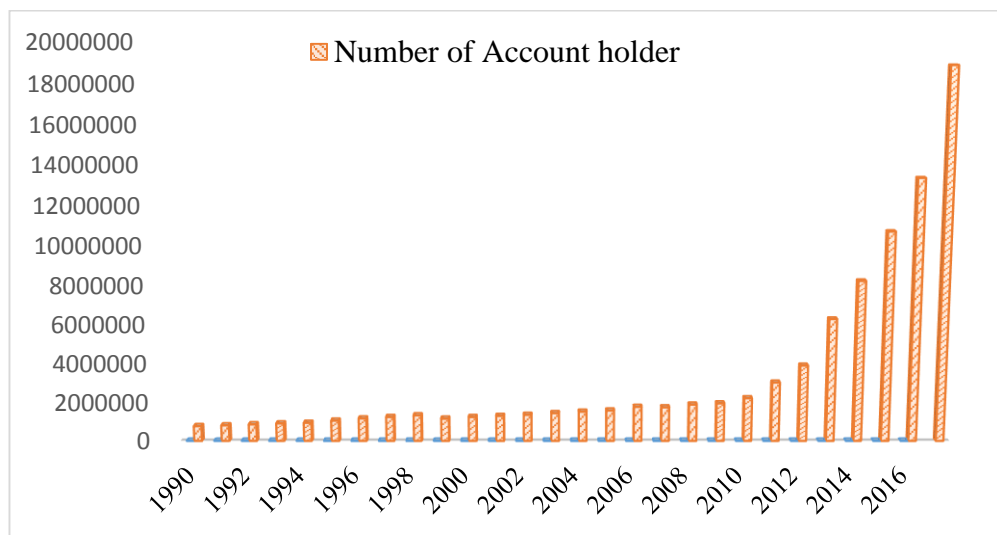
Figure 4.2 a Reserve and capital trends

b, Profit before tax trends

From the figure 4.2a and b, the capital, reserve and profit trend classified into two phases similar to branches. The first phase was up to 2011 in which growth trend was oscillating as a pendulum with almost all the same range. The second phase was from 2011 to 2017 years. At this phase the capital and profit before tax illustrated plumb increment while the reserve shows increment and decrement.

### 4.3.1 Number of account holder/customer CBE from 1990-2017

For existence of any business organization whether government or private, customers are the backbone of that organization. Without customers no one can talk about the business and customer satisfaction. Therefore, the trends of customers growth has been shown clearly on figure 4.3a.



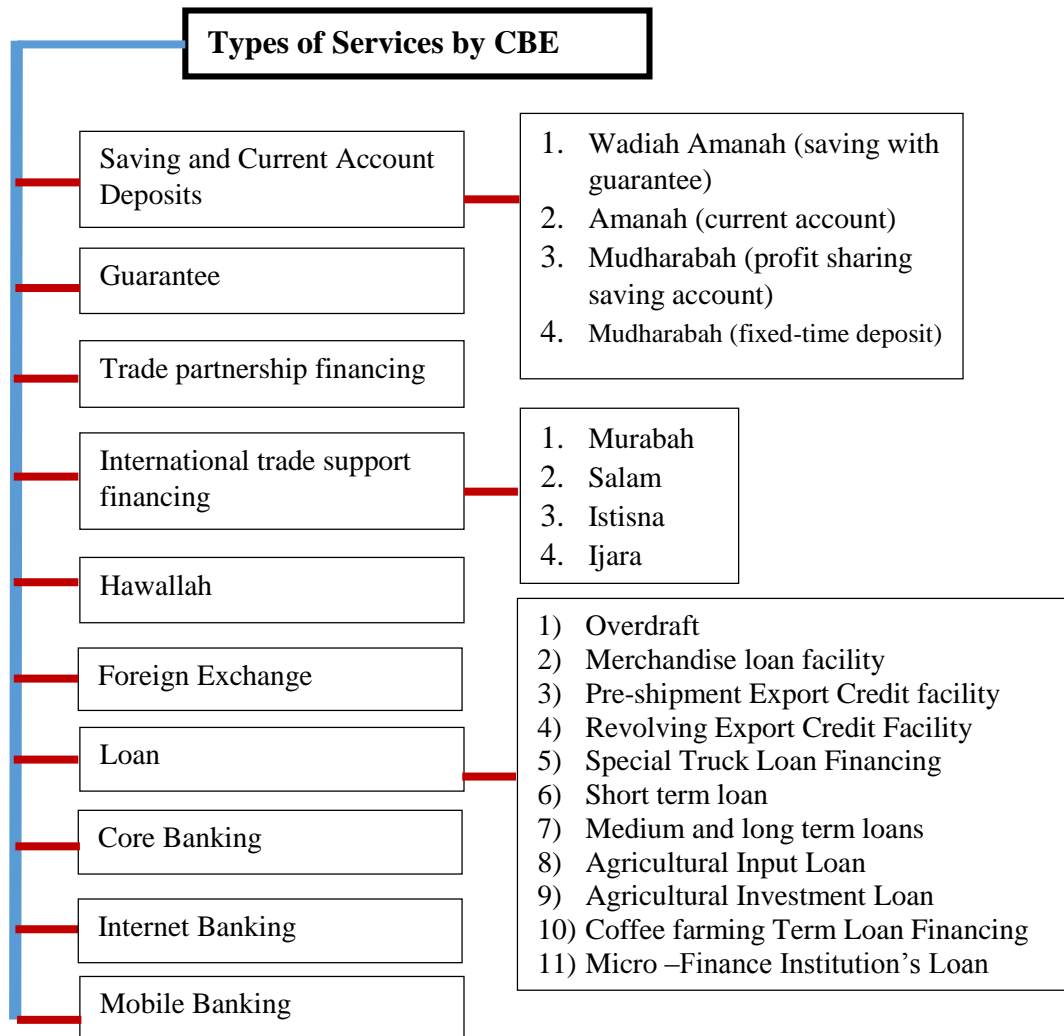
**Figure 4.3 Number of account holder/customer CBE from 1990-2017**

As figure 4.3 indicated that the trends of CBE number account customers followed the same fashion of the trends above mentioned. The growth of the customer was growing smoothly from 1990 to 2011 and from 2011 to 2017 the number of customer CBE has tremendously increasing from year to year. This indicated that more people became a customer of CBE because of its accessibility, its service speed, technology and reputation.

### 4.4 Service provided by CBE for the customers

The service provided by any organization determines their customers need and interest satisfaction. The commercial bank of Ethiopia since started services officially, it was providing

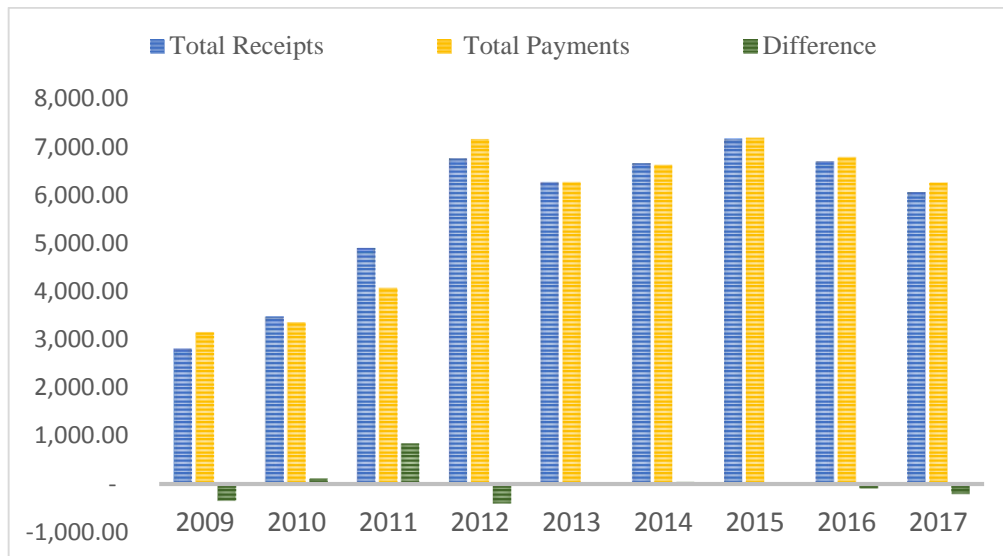
different services by adding new service types based on interest of the society from time to time. Most of the services being provided by commercial bank of Ethiopia were illustrated in figure 4.4 below.



**Figure 4.4 Major Service commercial bank of Ethiopia provide.**

#### **4.4.1 Trends of Commercial Bank of Ethiopia Foreign Currency status (FC) from 2009 to 2017**

Most of business customers were complaining on specific service like foreign currency (FC) accessibility. As it can be seen clearly from figure 4.5, only in two years 2010 and 2011 the foreign currency reservation occurred in the CBE i.e. the total payment was less than the total receipt then the difference is positive. But, in the rest years there was no foreign currency reservation in the CBE. Generally, the result indicated there is acute a shortage of foreign currency that dissatisfy the customers and raised complain on the bank.



**Figure 4.5 Trends of Commercial Bank of Ethiopia Foreign Currency status (FC)**

#### **4.5 The customer satisfaction related to trends of bank growth and services**

The relationship between service quality and customer satisfaction is direct relationship. As the Kundu and Datta (2015) explained that the indicator of service quality improvement can be expressed through general bank growth like accessibility increment, easy technology application (e-banking), additional new service based on customers need and being competitive internationally. Accordingly, the quality service trends has been classified into two phases. The first phase was before 2011 and the second phase was after 2011.

The data was collected from customers being more than ten years to know the trends service provided before 2011. According to result obtained from the interviews, the first phase the customers were less satisfied with bank services specifically under tangibility (using up-to-date equipment and technology), responsiveness (banks staffs are too busy to respond to my question).

This indicated that the accessibility of banks, service quality like speeds of services, using technology had great impact on customer satisfaction. As the result from interview indicated that before 2011 the number of CBE here in Addis Ababa is very limited. There was longline of customers waiting in order to get services because of less bank accessibility and the bankers work manually that take time.

The second phase the result indicated that the customers were more satisfied compared to the first phase. Under service quality dimensions the customers were satisfied except empathy the details available under service quality and customer satisfaction (See table 4.2). As the respondents through interview explained that there was service improvement like bank accessibility,

technology using, and new bank service addition like interest free banking system and female special account. Scholars like Kundu and Datta (2015) argued that there is a significant relationship between using modern technology and customer satisfaction. Again Ganguli and Roy, (2011) stated that there is significant relation between customer service, technology usage easiness, reliability and customer satisfaction. Therefore it can be possible say that that the technology play an important role in satisfying the customers.

The trends of customer satisfaction specific to foreign currency was tried to triangulate through interview of business men. As some respondents explained that there is a vicious cycle of acute foreign currency crunch every now and then.

*There were a lot of questions in their minds like why is that the National Bank of Ethiopia (NBE) unable to manage? What is the sources of shortage of foreign currency and does it only pure economic problem or politics? Why black market of foreign currency expanded in Addis Ababa?*

To get the answers of these entire questions, the researchers asked national bank officers and branch managers. There was no concrete and convincing answer obtained from the respondents. Only they said the export amount far reduced while the importing rate much increasing. No one was willing to talk about the political implication of foreign currency and who engaged in black market of foreign currency. Even the while such questions were raised their faces visibly change and they show apparent signs of discomfort while hear the word foreign currency reserve. The interview made with business customer specifically importers result shows that there was acute shortage of foreign currency in banks.

*One of the importer mentioned that “I am importing house used goods like furniture for several years, now I am facing denial response while applying for LC (Letter of Credit). I could not able to import goods that extremely affected my business. I am participating for different bids, after I won bids and take guarantee letter; I was applying for LC to import the said goods on bid document. Several times they did not allowed the foreign currency sometimes the bank allowed me to open LC after several months waiting for but even the amount of the foreign currency allowed was very small which was below the Proforma invoice. Secondly the time of allowance was after several months minimum six months waiting. Again he was complaining that bank officers were doing unfair things the IBD officers give priority for those give them money (commission) to arrange their LC order. The importers those have a friend or relative get priority of getting LC with requested amount. This situation was lasted for several years. Again he stated that in order to survive in the business revival most of the importers go to black market and buy the foreign*

*currency in expensive. I order to compensate their expenses (extra paid money), after the goods imported the price each goods raised up that highly affect the life of poor society and exacerbate the inflation in the country. He concluded his idea by saying there is bottle neck problem of corruption prevalence in bank sectors that immediate needs government interference needed to stop this situation before too late.*

Another importer explained that,

*“The corruption of LC opening become popular any importer who has no friend or relative or pay additional process finishing called ‘Gursha’ for the IBD officers. The LC applied either denied or simply waiting for several months and even years”. He mentioned that the Managers are doing their worn business in the black market by withdrawing the foreign currency from the banks and distributed to the shops in which black market of foreign currency exchange takes place, furthermore, the managers no willingness to open LC in legal way rather than expecting more benefits from black markets.*

#### **4.6 Service quality and customer satisfaction in Commercial Bank of Ethiopia**

The service quality and customer satisfaction can be measured through SERVQUAL model. The service quality measurement consists of five service quality dimensions namely Reliability, Assurance, responsiveness, Empathy and Tangible. In table 4.2 the SERVQUAL Model was summarized.

**Table 4.2 SERVQUAL model summary**

	<b>Level of satisfaction by Service provided</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
	<b>RELIABILITY</b>	8.15	6.93	3.15	48.85	32.93
1.	Banks fulfill its promise at the time indicated	9.8	10.2	0.7	57.2	22.1
2.	Bank's perform the service exactly at the first time	0.4	0	4.2	38.6	56.8
3.	Bank show a keen interest in solving your problems	14	8	7	41	30
4.	Bank insist on error free record	8.4	9.5	0.7	58.6	22.8
	<b>ASSURANCE</b>	1.75	2.38	2.40	50.88	42.65
5.	Bank's staff behavior instills confidence in me	2.1	7.4	3.2	42.8	44.6
6.	You feel safe in your transaction with the bank	4.9	0	2.1	55.1	37.9
7.	Bank's staff are courteous with me	0	0	3.9	51.6	44.6
8.	Bank's staff have the knowledge to answer all my question	0	2.1	0.4	54	43.5
	<b>RESPONSIVENESS</b>	5.10	6.95	3.88	37.65	46.50
9.	Bank's staff tell you exactly the time the service will be performed	1.8	1.8	1.1	23.2	72.3
10.	Bank's staff give you prompt services	15.8	7.0	12.3	40.4	24.6
11.	Bank's staff always willing to assist you	2.8	6.7	1.4	42.8	46.3
12.	Banks staff are not too busy to respond to my question	0	12.3	0.7	44.2	42.8
	<b>EMPATHY</b>	27.30	23.40	2.23	31.58	15.60
13.	Banks give me individual attention	32.7	38.9	2.5	20.7	5.6
14.	Bank operating hours convenient to me	5.6	8.1	4.6	47.0	34.7
15.	The bank has my interest at heart	22.1	38.9	0.4	27.0	11.6
16.	Bank's staff understand my specific needs	48.8	7.7	1.4	31.6	10.5
	<b>TANGIBLES</b>	0.7	9.0	1.5	62.7	32.9
17.	CBE has up-to-date equipment and technology	0	11.6	3.5	46.0	38.9
18.	The bank's employees has a neat & professional appearance	0	12.3	0.4	51.2	36.1
19.	Material associated with the service like pamphlets, statements are visually appealing at the bank	2.8	11.9	2.1	74.4	35.8
20.	Bank physical facilities visually nice	0	0	0	79.3	20.7
21.	ATM accessibility	2	1.5	2.5	58	36

**Source: Survey result, 2018**



#### **4.6.1 Reliability**

Reliability is the dimension of service quality evaluates the promises of banks and its execution from customers' point of view. Reliability is an important to determine the quality of services besides good personal service, staff attitude, knowledge and skills. As it is observed from table 4.2, an average percentage of respondents about 8.15% of strongly disagree on the reliable service of CBE, 6.93% disagree and 3.15% have shown neutral ideas while the remaining majority of respondents about 48.85 % were agreed and 32.93% were strongly agreed with the service quality dimension reliability. Under reliability the majority of customers were agreed with 57.2% to the statement "Banks fulfill its promise at the time indicated" and 9.8% strongly disagreed. Regarding "Bank's perform the service exactly at the first time" majority of respondents 56.8% were strongly agreed while only 0.4% strongly disagreed. Again with the statement "Bank shows a keen interest in solving your problems" the majority of respondents 41% of respondents were agreed while 14% strongly disagreed with the statement. Likewise "Bank insists on error free record" majority 58.6% of respondents agreed with statement and only 8.4% of the respondents strongly disagreed.

#### **4.6.2 Assurance**

By definition Assurance is a politeness of employees and their ability to convey trust and confidence so that the customer feels in courteous. It relates to the capability of the service provider to deliver the output, specifically in terms of the knowledge, behavior of staffs and trustworthiness of the employees to the customer. As it was indicated on table 4.2 the mean value of respondents under assurance the majority of respondents 50.88% agreed, 42.65% were strongly agreed while 2.40% were remain neutral. But 1.75% was strongly disagreed and 2.38% were disagreed with assurance service quality dimension. Under assurance the respondents replied on "Bank's staff behavior instills confidence in me" around 44.6% of were strongly agreed and 2.1% of the respondents strongly disagreed. Next with the statement of "You feel safe in your transaction with the bank" the majority of respondents 55.1% agreed with statement while 4.9% of the respondents were strongly disagreed. With the statement "Bank's staffs are courteous with me" around 51.6% of respondents were agreed while there was no any disagreement. Finally, with statement "Bank's staff have the knowledge to answer my entire question" the majority of respondents 54% agreed while there was no strongly disagreed.

### **4.6.3 Responsiveness**

Responsiveness refers to the prompt response to the service need of the customer and the readiness of employees to provide service. It is the speed and timeliness of service delivery. This includes the speed and the ability of the service to respond promptly to customer service requests, with minimal waiting and queuing time. When the customer is kept waiting for no apparent reason creates unnecessary negative perceptions of quality. Conversely, the ability for the bank to recover quickly when service fails and exhibit professionalism will also create very positive perceptions of quality.

Under Responsiveness the average respondent showed that 5.10% strongly disagreed, 6.95% disagreed while 3.88% refrain from supporting and not supporting preferred to remain neutral. But in contrast about 37.65% of respondents agreed and 46.50% strongly agreed. Under responsiveness the respondents were asked to react on the statements first “Bank’s staff tell you exactly the time the service will be performed” the majority of respondents about 72.3% were strongly agreed and while 1.8% were strongly disagree. Hence on the statement saying “Bank’s staff give you the prompt services” around 40.4% the respondents were agreed while 15.8% of the respondents strongly disagreed with the statement. The value of strongly disagreed were much significant that indicates there was a gap on customers satisfaction. On the question “Banks staffs are not too busy to respond to my question” the majority of the respondents 44.2% agreed with statement while significant number of respondents 12.3% disagreed with the statement.

### **4.6.4 Empathy**

Empathy is providing caring and individualized attention to customers to make them feel they are receiving caring services and individualized attention. Service empathy characterizes both the service provider’s willingness and capability to respond to individual customer desires. This means putting one’s self in the shoes of the customer. Under empathy the average of the statements shows that, 27.30% of respondents strongly disagreed, 23.40% of the respondents disagreed, 2.23% of respondents remain neutral while 31.58% agreed which is large respondents and 15.60% strongly agreed with the statements. But on the question “Banks give me individual attention”, about 38.9% of responds disagreed while only 20.7% of respondents agreed with the statement. This indicated that larger number of respondents disagreed that needs attention for improvement. Again under empathy the respondents reacted on the statement “Bank operating hours convenient to me” the majority of the respondents 47% agreed with the statement while 5.6% of respondents strongly disagreed. For the question saying that “The bank has my interest at heart” the majority of the respondents 38.9% disagreed with the statement while 27% of respondents agreed. For the

question “Bank’s staffs understand my specific needs” the majority of the respondents 48.8% strongly disagreed with the statement while 31.6% of respondents agreed. This indicated that under empathy the customer were not satisfied that CBE should work on it.

#### 4.6.5 Tangibility

Tangibility refers to the appearance of physical facilities, equipment, personnel and communication materials. The average score of respondents on the subject of tangibility shows that 0.7% strongly disagreed, 9.0% disagreed, 1.5% neutral where as 62.7% that shared large number of respondents agreed with the statement and 32.9% strongly agreed on the statements of tangibility. Henceforth the statement saying “CBE has up-to-date equipment and technology” the majority of the respondents 46% agreed while about 11.6% disagreed. For the question “the bank's employees has a neat & professional appearance” the majority of respondents 51.2% agreed with the statement while significant number of respondents 12.3% disagreed. Again for the question “Material associated with the service like pamphlets, statements is visually appealing at the bank”, the majorities of the respondents 74.4% were agreed with statement and while 11.9% were disagreed. Finally for the question “Bank physical facilities visually nice” there is no disagreed rather 79.3% agreed to the statement and 20.7% strongly agreed. Finally the respondents were asked to respond on ATM accessibility, majority of them around 58% obtain the accessibility of the ATM while only 2% said no accessibility of ATM. See the details on table 4.3 below.

**Table 4.3 Core banking**

	<b>Core Banking Questionnaire (CBQ)</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
<b>1</b>	ATM’s accessibility	4.5	6.2	1.2	58.6	29.5
<b>2</b>	Core banking Reduced error on transaction	8.4	26	1.1	57.2	7.4
<b>3</b>	Core banking enhances security of account information	2.1	5.6	0	41.4	50.9
<b>4</b>	Core banking facilitates speed of services	0.4	0	0.7	25.6	73.3
<b>5</b>	Core banking generally improves the way of doing business in the bank	2.1	0	0	53.7	44.2
<b>6</b>	Core banking reduces the time spent in the bank	2.1	0	0	61.1	36.8
<b>7</b>	Core banking provides more flexible services	2.1	0	0	58.6	39.3
<b>8</b>	Core banking brings Low transaction cost	3.5	93.3	3.2	0	0
<b>9</b>	Core banking brings Quick transfer of fund	2.1	0	0	25.3	72.6
	<b>Average overall Satisfaction towards core banking</b>	<b>3.03</b>	<b>14.57</b>	<b>0.69</b>	<b>42.39</b>	<b>39.33</b>

**Source: Survey result, 2018**

As it is seen from table 4.3 table shows that the accessibility of ATM's nearby is supported as agree by 58.6% of the respondents and followed by 29.5% strongly agreed while 4.5% and 6.2% strongly disagree and disagree respectively, only 1.2% is neutral. The statement said the 'Core banking Reduced error on transaction' majority 57.2% of the respondents are agreed, 7.4% of respondents are strongly agreed, while 26% of the respondents are disagree, 8.4% of the respondents are strongly disagree and 1.1% of the respondents are neutral. Here the number of respondents disagreed is significant that shows as there is a gap of satisfaction during transaction.

As the interview result from respondents indicated that the ATM creating an error of transaction like after debited from the account, the money not reach on the hand of customer that leads to complaining to bankers solve the problems occur. Even the customers sometimes disappointed in case they need immediately that money and time is not convenient (holy day, Sunday and evening). Other problems they have mentioned was after three times try the ATM machine swallow/taken in then the after 24 hours the customers receive the ATM card. This problem again created dissatisfaction among the customers. In the case of Core banking systems enhances security of account information, 50.9% of the respondents are strongly agreed, 41.4% of the respondents are agreed, 5.6% of the respondents are disagreed, and 2.1% of the respondents are strongly disagreed. More than half of the respondents are highly satisfied with the security of account information. As far as speed of services is concerned, 73.3% of the respondents are strongly agreed, 25.6% of the respondents are agreed, while less percent of the respondents are strongly disagree 0.4% and neither agree nor disagree 0.7%. In the "Core banking generally improves the way of doing business in the bank", most of the customers are strongly satisfied 44.2%, majority of the respondents 53.7% are agreed with statement while only 2.1% of the customers strongly disagreed with the statement.

The statement says "Core banking reduces the time spent in the bank" the majority 61.1% of the respondents are agreed, 36.8% of the respondents are strongly agreed, while only 2.1% respondents strongly disagreed with statement. Again for the question of "Core banking provides more flexible services", 58.6% of the respondents are agreed, 39.3% of respondents are strongly satisfied, while only 2.1% strongly are disagree with the statement. But the question of "Core banking brings Low transaction cost", most of the respondents 93.3% are disagreed the statement and no total support the statement. The last question says Core banking brings Quick transfer of fund, 72.6% of the respondents are strongly satisfied, 25.3% of the respondents are agreed, and 2.1% strongly disagreed no neutral respondents at all.

Generally, the average overall satisfaction towards core banking systems of commercial Bank of Ethiopia (CBE), 42.39% of the respondents agreed, 39.33% strongly agreed, 3.03% strongly disagreed, 14.57% disagreed and the remain 0.69% are neither agreed or nor disagreed. There is

significant gap between satisfied and dissatisfied thus the bank should work to minimize and narrow the difference.

#### 4.6.6 International bank services

In case of international banking service, almost all respondents disagreed with the statements and explained as there is serious problems exist that affects the customers need. See table 4.4 the international services that are being provided by most of other countries.

**Table 4.4 Type of international banking service provided**

<b>International Services for private customers</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Provide International MASTER CARD, VISA CARD, GLOBAL CARD etc.	74%	4.60%	11.90%	8.80%	0.70%
Provide Foreign currency access without limitation	83.90%	3.20%	6.70%	5.30%	1.10%
Provide private Check	83.50%	4.90%	2.80%	5.60%	3.20%
Provide services of withdrawing and transferring in foreign currency/hard currency	85.60%	3.50%	5.60%	3.90%	1.40%

**Source: Source: Analyzed result from questionnaires, 2018**

As it can be seen from table 4.4, the respondents reacted on international banking services for private customers, like questions “CBE Provide International MASTER CARD, VISA CARD, GLOBAL CARD etc.” about 74% of the respondents are strongly disagreed, 4.60% of the respondents are disagreed, 11.90% of respondents are neither agree nor disagree, 8.80% of respondents are agreed and only 0.70% of the respondents are strongly agreed.

Additionally, the interviewed people strongly condemn the service systems provided in commercial bank of Ethiopia specifically Services related to access and using foreign currency. One respondent explained as follow;

*I have GLOBAL VISA Card that I have taken from Indian country. I have tried to withdraw my money in United State of American Dollar, unfortunately I couldn't. .... I have been other country like Georgia and Turk for different trainings, at those countries there is an option to withdraw your money either in local currency or in US Dollar. Then I got full access to withdraw and transfer my money in hard currency. Nevertheless here in Ethiopia all banks never allowed to access foreign currency through ATM and even in the bank POS MACHINE too. This situation dissatisfies me and disappointed me since my bank does not work to fulfill customers need.*

The other question CBE “Provide Foreign currency access without limitation” the respondents around 83.90% are strongly disagree, around 3.20% of the respondents are disagree, while about 6.70% neither agreed nor disagreed. Hence very few percentages of the respondents agree and strongly agreed 5.30% and 1.10% respectively. Here most of the business customers are strongly disagreed with the statement. The major concern of the interviewed respondents was narrated below;

*I am business man engaged on business of importing cars from different country. Before eight years I had better access to foreign currency (US Dollar). The waiting time was maximum four months to open LC (Letter of Credit) to purchase and import the cars, but recent years I am facing serious challenge of getting foreign currency to proceeds my business. Recently, my business getting down and my profit was very less compared to eight years marginal profit because of shortage of foreign currency to import cars and even the imported cars prices increased to compensate the delay time of getting LC permission. The prices increment brought other problems to my business my customers less interest to buy and faced difficulties to afford.*

The other question was “Provide private Check/use of traveler Cheques”, the respondents of commercial Bank of Ethiopia around 83.50% strongly disagreed with the statement, 4.90% of respondents are disagree, 2.80% of the respondents neither agree nor disagree, very few 5.60% agreed while 3.20% strongly agreed with the statements.

This reveals that there is a big gap to provide for the customers. Additionally the respondents categorized under strongly agree and agrees was the customers engaged on different business activities. Even this service was not common in any Commercial Banks of Ethiopia. The last question that says the CBE “Provide services of withdrawing and transferring in foreign currency/hard currency”, major percent of the respondents 85.60% strongly disagree with the statement, 3.50% disagree and 5.60% neutral. Similarly most of the respondents were not agreed but few of the customers around 3.90% agreed and only 1.40% of the customers strongly agreed with statement. The respondents explained their ideas specifically while their relatives, families, friends send the money from other countries, and the banks convert to Ethiopian birr and give to the customers.

*I am living here in Addis Ababa and engaged on importing goods from abroad but most of my families are living in USA. Usually my family are sending me US Dollar through bank but I could not access the hard currency/ US dollar. My livelihood depends on business of importing materials and commodities from other countries, which needs foreign currency. Even though my relatives send me a dollar, I cannot use that dollar and there is no any privilege for people depends on foreign remittance. Therefore, the banking*

*systems in Ethiopia discouraged me to use foreign currency that affects my business in turn. The banks better to give priority and encourage the remittance user through providing special treatment like 70% of the sent amount in dollar and 30% in Ethiopian birr.*

As many researches revealed that Commercial Bank of Ethiopia providing less services for the customer specifically international level services while compared to other developing countries banks like Bangladesh bank, Indian bank, Kenya, and Pakistan banks. Generally there is a huge gap between customers need and bank serves being provided that needs serious attention by CBE to minimize the chronic problems occurring.

#### **4.7 Overall Customer Satisfaction Level**

The customer satisfaction level indicate the banks performance whether the CBE is performing well to the best interest of customer or not. If customers do not satisfied by the service provided, the service provided was not based on the interest of the customer that means probably there is problem of service quality. In table 4.5 the customer Satisfaction Level was summarized.

**Table 4.5 Customer Satisfaction Level**

<b>Customer Satisfaction Level</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
I am satisfied with the bank's complete range of services	2.1	15.1	1.1	33.7	48.1
I am satisfied with the performance of the employees of this bank	2.1	26.3	1.1	47.7	22.8
I am satisfied of being a client of this bank.	2.1	18.6	0.4	62.5	16.5
I am satisfied with the bank employees' professional	0.4	25.6	3.2	59.6	11.2
I am satisfied with the quick service of this bank.	0	25.6	2.8	46.7	24.9
I am satisfied with the respectful behavior of employees.	0	11.9	0	54.7	33.3

**Source: Analyzed result from questionnaires, 2018**

As it was clearly shown on the table 4.5, the respondents reflected their fillings towards the service provided by CBE. To know their filling the researcher asked different questions as the respondents express their filling towards the overall services quality. The first question says "I am satisfied with the bank's complete range of services". For this question about 33.7% of customers agreed as they are satisfied with the services and 48.1% were strongly agreed. But 2.1% of the

respondents were strongly disagreed and 15.1% of the customer said disagree and mentioned they were not satisfied while the rest 1.1% kept silent neither agreed nor disagreed.

The second question was “I am satisfied with the performance of the employees of this bank”. For this question about 47.7% of customers agreed as they are satisfied with the services and 22.8% were strongly agreed. But 2.1% of the respondents were strongly disagreed and 26.3% of the customer said disagree and mentioned they were not satisfied while the rest 1.1% kept silent neither agreed nor disagreed. The third question “I am satisfied of being a client of this bank”. For this question about 62.5% of customers agreed as they are satisfied with the services and 16.5% were strongly agreed. But 2.1% of the respondents were strongly disagreed and 18.6% of the customer said disagree and mentioned they were not satisfied while the rest 0.4% kept silent neither agreed nor disagreed.

The fourth question says “I am satisfied with the bank employees’ professional”. For this question about 59.6% of customers agreed as they are satisfied with the services and 11.2% were strongly agreed. But 0.4% of the respondents were strongly disagreed and 25.6% of the customer said disagreed and mentioned they were not satisfied while the rest 3.2% kept silent neither agreed nor disagreed. The number customer disagreed was very significant therefore, the bank should work for the interest of its customer. The fifth question “I am satisfied with the quick service of this bank”. For this question about 46.7% of customers agreed as they are satisfied with the services and 24.9% were strongly agreed. But 25.6% of the customer disagreed with service provided while the rest 2.8% kept silent neither agreed nor disagreed. The number customer disagreed was very significant therefore, the bank should work for the interest of its customer. The sixth question “I am satisfied with the respectful behavior of employees”. For this question about 54.7% of customers agreed as they are satisfied with the services and 33.3% were strongly agreed. But 11.9% of the customer disagreed with service provided. The number customer disagreed was very significant therefore, the bank should work for the interest of its customer.

#### **4.8 Service quality dimensions and customer satisfaction**

The relation between service quality and customer satisfaction expressed in terms of customer expectation and service being provided that leads to direct relationship either positive or negative relationship. As many scholars suggesting that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. The quality of services provided will govern customer satisfaction and attitudinal faithfulness of the customer for the organization. The way possible to know the relationship of service delivery and customer



satisfaction is through SERVQUAL Model. This includes Reliability, Assurance, Responsiveness, Empathy and Tangibility. The response of customer was summarized in table 4.6 below.

**Table 4.6 Mean and standard deviation of service quality Indicators**

<b>Descriptive Statistics</b>					
	N	Minimum	Maximum	Mean	Std. Deviation
Reliability	285	1.00	5.00	4.0175	1.00160
Assurance	285	1.00	5.00	4.2982	0.78644
Responsiveness	285	1.00	5.00	4.1263	1.11559
Empathy	285	1.00	5.00	2.8421	1.49870
Tangibility	285	1.00	5.00	4.1123	0.87292

**Source: Survey data, 2018**

**Source: Analyzed result from questionnaires, 2018**

Table 4.6 shows that assurance has the highest mean value (4.2982) scored by Assurance while the lowest mean value (2.8421) scores by empathy. The rest service quality dimensions Reliability, Responsiveness and Tangibility have 4.0175, 4.1263 and 4.1123 values respectively. Consequently, it is possible to conclude that most of the customers were satisfied with Assurance, Reliability, Responsiveness and Tangibility dimensions. In contrast customers are less satisfied with Empathy. The ascending order of customer satisfaction with service provided by CBE, Assurance is the first with 0.78644 standard deviation, Tangibility is the second with 0.87292 standard deviation, Reliability is the third with 1.00160 standard deviation, Responsiveness is the fourth with 1.11559 standard deviation and Empathy is the least with 1.49870. Therefore, in general the service provided by commercial bank of Ethiopia satisfied the customers but as the result of the survey indicated in which there is little gap between the parameters of service quality indicated that CBE should work for the best of the customers.

#### **4.8.1 Pearson Correlation analysis**

Correlations estimate the strength of the linear relationship between two (and only two) variables. Correlation coefficients range from -1.0, a perfect negative correlation, to +1.0, a perfect positive correlation. The closer correlation coefficients get to -1.0 or 1.0, the stronger the correlation. The closer a correlation coefficient gets to zero, the weaker the correlation is between the two variables. Ordinal or ratio data (or a combination) must be used. For the relationship between service quality dimensions (reliability, assurance, responsiveness, empathy and tangibility) and customer satisfaction, the Pearson correlation was computed and presented in Table 4.7.

**Table 4.7 The relationship between service quality dimensions and customer satisfaction**

		Customer Satisfaction
Tangibility	Pearson Correlation	0.890**
	Sig. (2-tailed)	0.000
	N	285
Reliability	Pearson Correlation	0.807**
	Sig. (2-tailed)	0.000
	N	285
Assurance	Pearson Correlation	0.822**
	Sig. (2-tailed)	0.000
	N	285
Responsiveness	Pearson Correlation	0.929**
	Sig. (2-tailed)	0.000
	N	285
Empathy	Pearson Correlation	0.719**
	Sig. (2-tailed)	0.000
	N	285

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

**Source:** Analyzed result from questionnaires, 2018

As it can be seen from the results in table 4.7, there is positive and significant relationship between all service quality dimension and customer satisfaction. Tangibility and customer satisfaction ( $r = 0.890$ ,  $p < 0.01$ ) which means there is strong positive relationship between Tangibility of service quality dimension and customer satisfaction. Reliability and customer satisfaction ( $r = 0.807$ ,  $P < 0.01$ ). The relationship between Reliability and customer satisfaction is strong and positive relation. Assurance and customer satisfaction ( $r = 0.822$ ,  $P < 0.01$ ). Assurance has strong positive relationship with customer satisfaction. Responsiveness has strongly positive relation with customer satisfaction with ( $r = 0.929$ ,  $P < 0.01$ ). Empathy and customer satisfaction ( $r = 0.719$ ,  $P < 0.01$ ). The empathy has positive relationship with customer satisfaction. In general as the result indicated that the service quality dimensions have positive relationship with customer satisfaction. These findings were supported with the study conducted on assessing impact of Core Banking and service quality on Customer Satisfaction in Commercial Bank of Ethiopia (Endalkachew, 2013). Most importantly, the correlations are plausible; customer satisfaction correlates positively and substantively with all other variables. This makes sense because each variable reflects as positive quality that's likely to contribute to better customer satisfaction.

#### 4.8.2 Regression model for service quality model

Regression model was applied to test how far the service quality had impact on customer satisfaction. The R square is simply the square of R. It indicates the proportion of variance in customer satisfaction that can be “explained” by service quality dimensions. In the other hand the  $R^2$  is the measure of proportion of the variance of dependent variable about its mean that is explained by the independent or predictor variables (Hair *et.al.*, 1998). Higher value of  $R^2$  represents greater explanatory power of the regression equation. R denotes the correlation between predicted and observed customer satisfaction. The adjusted R square estimates the population R square for this model and thus gives a more realistic indication of its predictive power. Therefore, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on service quality of commercial banks Ethiopia. The findings are presented in the following table 4.8 below.

**Table 4.8 Regression model for service quality dimensions**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.942 <sup>a</sup>	0.886	0.884	0.34632
a. Predictors: (Constant), Tangibles, Empathy, Reliability, Responsiveness, Assurance				

**Predictors: (Constant), tangibles, responsiveness, reliability, assurance and empathy**

It can be seen from the table 4.8 above, the R value is 0.942 that indicates the independent variable (service quality) accounted for is 94.2% of the variance in customer satisfaction. Thus is 94.2 percent of the variation in customer satisfaction can be explained by service quality and the rest 5.8 percentage other unexplored variables. Therefore, the effects of service quality on customer satisfaction are very significant. In case on unit independent variables (customer service) changes the dependent variables also changed with the magnitude of the independent variables change.

#### 4.8.3 Regression Output Coefficients a Table

The B coefficients tell us how many unit customer satisfaction performance increases for a single unit increase in each predictor (service quality dimension). Importantly, note that all B coefficients are positive numbers; the higher reliability, higher assurance, higher responsiveness, higher empathy and higher tangibility are associated with higher customer satisfaction. The column “Sig.” holds the significance levels for the predictors. As a rule of thumb, we say that a B coefficient is statistically significant if its p-value is smaller than 0.05. All of our B coefficients are statistically significant. The beta coefficients allow us to compare the relative strengths of the predictors. The table 4.9 below shows the result of regression model for Coefficients <sup>a</sup>.

**Table 4.9 Regression model for Coefficients <sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.057	0.139		-0.408	0.684
Reliability	0.245	0.088	0.189	2.767	0.006
Assurance	-0.184	0.095	-0.142	-1.933	0.054
Responsiveness	0.663	0.051	0.726	13.008	0.000
Empathy	-0.035	0.023	-0.052	-1.540	0.125
Tangibility	0.280	0.060	0.240	4.690	0.000

**a. Dependent Variable: Customer Satisfaction**

**Source: Analyzed result from questionnaires, 2018**

The results of multiple regressions, as presented in table 4.9 above, reliability has a positive and significant effect on customer satisfaction with B coefficient (B = 0.245), at 95 percent confidence level ( $p < 0.05$ ). The assurance has negative and significant effects on customer satisfaction with B value coefficient (B = -0.184), at 95 percent confidence level ( $p < 0.05$ ). Responsiveness has a positive and significant effect on customer satisfaction with B coefficient (B = 0.663), at 95 percent confidence level ( $p < 0.05$ ). The empathy has neither positive nor significant effect on customer satisfaction with the beta value of (B= -0.035,  $p < 0.05$ ). Finally the tangibility has a positive and significant effect on customer satisfaction with a beta value of (B= 0.280,  $p < 0.05$ ). The overall result from the findings of this study shows that, from five service quality dimensions only empathy has neither positive nor significant effect on customer satisfaction but the rest of service quality dimensions have impact on customer satisfaction either positively or negatively. Furthermore, out of the five service quality dimensions two dimensions assurance and empathy have negative beta coefficient and Standardized Coefficients. The findings of this study also revealed that Responsiveness is the most important factor to have positive and significant effect on customer satisfaction, followed by tangibility and reliability.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

The study was planned at investigating the Service Quality and its impacts on Customer Satisfaction in the case of Commercial Bank of Ethiopia (CBE) in Addis Ababa, Ethiopia. The data were obtained through questionnaire from customers of the CBE from different branches. Then totally sixteen (16) branches were selected from all grades and 19 respondents were involved in filling questionnaires. The 22 service item of the SERVQUAL model is used to investigate the relationship between the service quality dimensions and customer satisfaction. The data obtained from the respondents was analyzed using various statistical tools. The result of the background information of respondents indicated that around 51.2% of the respondents were male while the rest 48.8% were female. The majority 35.4% of the bank customers were aged from 30-40 years. About 47.4% respondents are diploma or 10+ degree holders.

The results of the descriptive statistical analysis indicated that the number of branches of commercial bank of Ethiopia increasing from year to year. Similarly, the growth of the customers of CBE shows increasing up to 2017. Likewise, the capital and reserve in the CBE shows increasing trends from year to years with different rate of increment. The result analysis revealed that the CBE Profit before Tax achieved strong and continuous growth systems that enhance to proceed to headfirst among other competitors. The foreign currency situation in Ethiopia, the result indicated that there is severe shortage of foreign currency that affects economic development of the country and society that exacerbate the inflation in Ethiopia. Black market of foreign currency is very common in some parts of Addis Ababa that affect the import and export business negatively. From the mean result observed that the service quality showed that the majority of respondents (48.85 %) were satisfied with service quality measurement Reliability. In case of assurance the majority of respondents (50.88%) satisfied and about 46.50% strongly satisfied with responsiveness. But in case of empathy the result shows that around half (50.7%) of the respondents were not satisfied with the service provided under empathy. On tangibility around (62.7%) of the respondents satisfied with service quality provided under tangibility.

The Pearson's correlation result indicated that there is a positive and significant relationship between the service quality dimensions and customer satisfaction. Tangibility and customer satisfaction ( $r = 0.890$ ,  $p < 0.01$ ) which means there is strong positive relationship between

Tangibility of service quality dimension and customer satisfaction. But according to Malik et al. (2011), tangibility has a negative and insignificant effect on customer satisfaction. He found that tangibility has no effect on customer satisfaction. This result is supported by with the study by Mohammad and Alhamadani (2011); found that tangible has a positive and insignificant effect on customer satisfaction. Again this finding is also reinforced by study conducted by Al-Hawary et al. (2011) and Munusamy et al. (2010) reported that tangibles has a positive and significant effect on customer satisfaction.

Reliability and customer satisfaction ( $r = 0.807$ ,  $P < 0.01$ ) this means the relationship between Reliability and customer satisfaction is strong and positive relation. This finding is also supported by Mohamed and Alhamadani (2011) and Al-Hawary et al. (2011). According to their findings reliability has a positive and significant effect on customer satisfaction. Assurance and customer satisfaction has strong positive relationship with customer satisfaction with ( $r = 0.822$ ,  $P < 0.01$ ). This finding is supported by Tizazu *et al.*, (2012), Malik *et al.*, (2011) and Munusamy et al. (2010). Their finding of these studies indicates that assurance has a positive and significant effect on customer satisfaction. Responsiveness has strongly positive relation with customer satisfaction with ( $r = 0.929$ ,  $P < 0.01$ ). However, the finding of this study indicate that responsiveness has positive and insignificant effect on customer satisfaction. This result is similar with the study by Alhamadani (2011), Munusamy et al. (2010), Al-Hawary et al. (2011) found that responsiveness has a positive and insignificant effect on customer satisfaction. Again Empathy and customer satisfaction has positive relationship with customer satisfaction with ( $r = 0.719$ ,  $P < 0.01$ ) this means the empathy has positive relationship with customer satisfaction. This finding is further supported by Mohammad and Alhamadani (2011), reported that empathy has a positive significant relationship with customer satisfaction. On the contrary Munusamy et al. (2010) found that empathy has a negative relationship with customer satisfaction.

The Interview findings revealed that CBE has huge gap on international Services for customers like providing VISA CARD, GLOBAL CARD, international MASTER CARD and personal travelling Cheques. Consequently on average about 81.75% of the respondents are dissatisfied with international services of bank being provided. The finding from the regression model result reveals that the service quality dimension the R value is 0.942 that indicates the independent variable (service quality) accounted for is 94.2% of the variance in customer satisfaction. Thus is 94.2 percent of the variation in customer satisfaction can be explained by service quality and the rest 5.8 percentage other unexplored variables. In overall, the results revealed that all independent variables (service quality dimension) accounted for 88.6 percent of the variance in customer satisfaction ( $R^2 = 0.886$ ). Thus, 88.6 percent of the variation in customer satisfaction can be

explained by the five service quality dimensions and other unexplored variables may explain the variation in customer satisfaction.

The overall result from Regression model for Coefficients <sup>a</sup> the findings shows that, from five service quality dimensions assurance and empathy has shown negative noticeable effect on customer satisfaction but the rest of service quality dimensions have positive impact on customer satisfaction. The findings of this study also revealed that Responsiveness is the most important factor to have positive and significant effect on customer satisfaction, followed by tangibility and reliability.

## **5.2 Conclusion**

This study is conducted to find out the impact service quality on Customer Satisfaction in the case of Commercial Bank of Ethiopia (CBE) in Addis Ababa, Ethiopia. The finding of the study indicates that all five service quality dimensions (tangibility, reliability, responsiveness, empathy and assurance) have positive relationship with customer satisfaction. The results of trend analysis indicated that the number of branches, customer number, capital reserve and Profit before Tax of CBE categorized into two phase by default. The first phase starting from establishment of CBE to 2011, in which constant and slow increment shown, the second phase was from 2011 to 2018, in which rapid increment observed. Generally, the trend analysis of indicated that the CBE is on the track of progressive growth. The descriptive statistics of customer satisfaction indicated most of the business men are dissatisfied with bank services specifically services related to foreign currency access. As finding showed that, there is severe shortage of foreign currency that affects economic development of the country and society that exacerbate the inflation in Ethiopia. The finding showed that customers were satisfied with all service quality dimensions except empathy in which less satisfied. About half (50.7%) of the respondents were not satisfied with the service provided under empathy. This result shows there is a gap of service quality in between CBE and customer satisfaction that affect good relationship of customer and banks. The Pearson's correlation result indicated that there is a positive and significant relationship between the service quality dimensions and customer satisfaction. The r values of Tangibility ( $r = 0.890$ ), Reliability ( $r = 0.807$ ), Assurance ( $r = 0.822$ ), Responsiveness ( $r = 0.929$ ) and Empathy ( $r = 0.719$ ) with Customer satisfaction. Most importantly, the correlations are plausible; customer satisfaction correlates positively and substantively with all other variables. This makes sense because each variable reflects as positive quality that's likely to contribute to better customer satisfaction. The overall result from Regression model for service quality dimensions the R value is 0.942. This means the independent variable (service quality) accounted for is 94.2% of the variance in

customer satisfaction. Thus is 94.2 percent of the variation in customer satisfaction can be explained by service quality and the rest 5.8 percentage other unexplored variables. Therefore, the effects of service quality on customer satisfaction are very high.

### **5.3 Recommendations**

Based on the findings the researcher forwards the following recommendations for further improvement.

- Empathy dimension was one of the most important factors influencing customer satisfaction. But customers of the CBE are less satisfied with this dimension. The bank managers should enhance their staffs in order to give attention for the customers need and interest. One way of addressing this could be by treating customer with great respect, giving individual attention to customers, serving customers based on their specific needs and treating customers in a friendly manner.
- The Business customer are the back bone of the bank by depositing huge amount of money but most of the importers were dissatisfied with foreign currency access. Therefore, better to the banks should cooperatively work with National Bank to overcome the problems. Additionally, the national bank better to stop strict control of branch banks to opening LC (letter of credit) for their customer.
- There is acute shortage of foreign currency in Ethiopia in general that consequently exacerbate the black market of hard currency. Therefore, the government should give serious attention and work to solve the shortage unless the problem became more complex.
- The CBE Ethiopia better to develop international Bank services like MASRER CARD, GLOBAL CARD, International VISA and personal travelling Cheques like other developed countries.
- One of the service provided by CBE Core banking service which include ATM machine, that most of the time not working properly because of network, error systems and wrong tractions. Therefore, the banks should work on implements of its technical parts with networks systems.



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## ANNEX ONE

### Questionnaire

This questionnaire is prepared as an instrument to conduct an academic research for the fulfillment of Masters in Business Administration at St. Merry University Addis Ababa. The main objective of the research is to assess the quality of service delivery and its impact on customers the case of Commercial Bank of Ethiopia (CBE). Therefore the information you will provide is very important for the success of my research. Moreover, the information you give will be used for only the academic research purposes. Therefore, I kindly request you to spend some minutes of your time in filling the questionnaire. Thank you for your kind cooperation in filling the questionnaire.

### Part1. General Information

Direction: **Please put a check mark (√) on the appropriate box**

1. Gender: Female  Male

2. Age: 18-29  30-40  41-50  Above50

3. Educational level: High school

Diploma/10+

Degree

Masters /Above

4. Frequency of using the bank: Daily

Twice a week

Weekly Monthly

Randomly

5. Year of being customer of CBE: 1-3years  4-6 Year  7-9 years  >10 years

**Part2. Customer satisfaction with relation to service quality dimensions.**

Please rank your views using 1-5 on whether you are satisfied or not with the service provided by the bank and the general environment under which it operates.

1=very dissatisfied 2=dissatisfied 3=indifferent 4=satisfied 5=very satisfied

Item	Scale				
	1	2	3	4	5
<b>RELIABILITY</b>					
Banks fulfill its promise at the time indicated					
Bank's perform the service exactly at the first time					
Bank show a keen interest in solving your problems					
Bank insist on error free record					
<b>ASSURANCE</b>					
Bank's staff behavior instills confidence in me					
I feel safe in my transaction with the bank					
Bank's staff are courteous with me					
Bank's staff have the knowledge to answer all my question					
<b>RESPONSIVENESS</b>					
Bank's staff tell you exactly the time the service will be performed					
Bank's staff give you the prompt services					
Bank's staff always willing to assist you					
Banks staff are not too busy to respond to my question					
<b>EMPATHY</b>					
Banks give me individual attention					
Bank operating hours convenient to me					
The bank has my interest at heart					
Bank's staff understand my specific needs					

<b>TANGIBLES</b>					
CBE has up-to-date equipment and technology					
The bank's employees has a neat & professional appearance					
Material associated with the service like pamphlets, statements are visually appealing at the bank					
Bank physical facilities visually nice					
<b>Core Banking Questionnaire (CBQ)</b>					
ATM accessibility					
Core banking Reduced error on transaction					
Core banking enhances security of account information					
Core banking facilitates speed of services					
Core banking generally improves the way of doing business in the bank					
Core banking reduces the time spent in the bank					
Core banking provides more flexible services					
Core banking brings Low transaction cost					
Core banking brings Quick transfer of fund					
<b>Customer Satisfaction Level</b>					
I am satisfied with the bank's complete range of services.					
I am satisfied with the performance of the employees of this bank.					
I am satisfied of being a client of this bank.					
I am satisfied with the bank employees' professional					
I am satisfied with the quick service of this bank.					
I am satisfied with the respectful behavior of employees.					
<b>International Services for private customers</b>					
I need International MASTER CARD, VISA CARD, GLOBAL CARD etc.					
I need Foreign currency access without limitation					
I need private Check					
I need to withdraw and transfer my money with foreign currency					

Explain the change/progress you have observed from being you are a customer of CBE?

.....  
.....  
.....  
.....

Additional information you need to add or recommend to the bank for further improvements?

.....  
.....  
.....  
.....  
.....

**Thank You for Taking Your Time to Fill This Questionnaire!!!**

## APPENDEX TWO

SPSS Output of survey data on SERVQUAL model

	<b>Service Quality</b>	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %
	<b>RELIABILITY</b>	20.53	7.13	2.20	43.95	26.23
1.	Banks fulfill its promise at the time indicated	9.8	10.2	0.7	57.2	22.1
2.	Bank's perform the service exactly at the first time	0.4	0	4.2	38.6	56.8
3.	Bank show a keen interest in solving your problems	63.5	8.8	3.2	21.4	3.2
4.	Bank insist on error free record	8.4	9.5	0.7	58.6	22.8
	<b>ASSURANCE</b>	1.75	2.38	2.40	50.88	42.65
5.	Bank's staff behavior instills confidence in me	2.1	7.4	3.2	42.8	44.6
6.	I feel safe in my transaction with the bank	4.9	0	2.1	55.1	37.9
7.	Bank's staff are courteous with me	0	0	3.9	51.6	44.6
8.	Bank's staff have the knowledge to answer all my question	0	2.1	0.4	54	43.5
	<b>RESPONSIVENESS</b>	5.10	6.95	3.88	37.65	46.50
9.	Bank's staff tell you exactly the time the service will be performed	1.8	1.8	1.1	23.2	72.3
10.	Bank's staff give you prompt services	15.8	7.0	12.3	40.4	24.6
11.	Bank's staff always willing to assist you	2.8	6.7	1.4	42.8	46.3
12.	Banks staff are not too busy to respond to my question	0	12.3	0.7	44.2	42.8
	<b>EMPATHY</b>	27.30	23.40	2.23	31.58	15.60
13.	Banks give me individual attention	32.7	38.9	2.5	20.7	5.6
14.	Bank operating hours convenient to me	5.6	8.1	4.6	47.0	34.7
15.	The bank has my interest at heart	22.1	38.9	0.4	27.0	11.6
16.	Bank's staff understand my specific needs	48.8	7.7	1.4	31.6	10.5
	<b>TANGIBLES</b>	0.7	9.0	1.5	62.7	32.9
17.	CBE has up-to-date equipment and technology	0	11.6	3.5	46.0	38.9
18.	The bank's employees has a neat & professional appearance	0	12.3	0.4	51.2	36.1
19.	Material associated with the service like pamphlets, statements are visually appealing at the bank	2.8	11.9	2.1	74.4	35.8
20.	Bank physical facilities visually nice	0	0	0	79.3	20.7
<b>Core Banking Questionnaire (CBQ)</b>						
21.	ATM's accessibility	4.5	6.2	1.2	58.6	29.5



22.	Core banking Reduced error on transaction	8.4	26.0	1.1	57.2	7.4
23.	Core banking enhances security of account information	2.1	5.6	0	41.4	50.9
24.	Core banking facilitates speed of services	0.4	0	0.7	25.6	73.3
25.	Core banking generally improves the way of doing business in the bank	2.1	0	0	53.7	44.2
26.	Core banking reduces the time spent in the bank	2.1	0	0	61.1	36.8
27.	Core banking provides more flexible services	2.1	0	0	58.6	39.3
28.	Core banking brings Low transaction cost	3.5	93.3	3.2	0	0
29.	Core banking brings Quick transfer of fund	2.1	0	0	25.3	72.6
	<b>Average overall Satisfaction towards core banking</b>	<b>3.03</b>	<b>14.57</b>	<b>0.69</b>	<b>42.39</b>	<b>39.33</b>
	<b>Customer Satisfaction Level</b>	1.12	20.52	1.43	50.82	26.13
30.	I am satisfied with the bank's complete range of services	2.1	15.1	1.1	33.7	48.1
31.	I am satisfied with the performance of the employees of this bank	2.1	26.3	1.1	47.7	22.8
32.	I am satisfied of being a client of this bank.	2.1	18.6	0.4	62.5	16.5
33.	I am satisfied with the bank employees' professional	0.4	25.6	3.2	59.6	11.2
34.	I am satisfied with the quick service of this bank.	0	25.6	2.8	46.7	24.9
35.	I am satisfied with the respectful behavior of employees.	0	11.9	0	54.7	33.3
	<b>International Services for private customers</b>	81.75	4.05	6.75	5.9	1.6
36.	Provide International MASTER CARD, VISA CARD, GLOBAL CARD etc.	74.0	4.6	11.9	8.8	0.7
37.	Provide Foreign currency access without limitation	83.9	3.2	6.7	5.3	1.1
38.	provide private Check	83.5	4.9	2.8	5.6	3.2
39.	Provide services of withdrawing and transferring in foreign currency/hard currency	85.6	3.5	5.6	3.9	1.4