



ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE EFFECT OF SERVICE QUALITY ON CUSTOMER SATISFACTION
IN THE CASE COMMERCIAL BANK OF ETHIOPIA ADDIS ABABA
BRANCH

BY

ALEM MAMO HUSSEN

January 2016

Addis Ababa, Ethiopia

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**A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF
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DECLARATION

I, the undersigned, declare that this research paper is my original work and that all sources of the materials in the research paper have been duly acknowledged. The matter embodied in this project work has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief.

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Abstract

The aim of this study is to analyze customers' perception of service quality in Commercial Bank of Ethiopia (CBE), Addis Ababa Branch. Moreover, the study investigate the effect of quality on satisfaction by focusing on the relationship between service quality and customer satisfaction and how quality can be improved in the service at Commercial Bank of Ethiopia (CBE). A descriptive-co relational form of research design is used to conduct the study. The selection of primary studies is done by administering structured questionnaires 100 customers at CBE, Addis Ababa Branch. The research findings are analyzed using quantitative data analysis technique specifically correlation, multiple regression and beta coefficients to build the analysis and draw conclusions. Findings revealed that majority of customers (88.0 percent) are overall satisfied with the bank services and the way it is performed. The findings of the study also show that customers of the bank are satisfied by the five service quality dimensions. Specifically, customers are most satisfied with the reliability and assurance dimensions of service quality; however, customers are less satisfied with the tangibility dimension. The result confirmed that reliability, assurance and empathy are the dominant determinants of customer satisfaction. Results of the regression model also revealed that all the five service quality dimensions explained customer satisfaction by 90.7%, but the remaining 9.3% is explained by other unexplored independent variables. The SERVQUAL model is a good tool to measure service quality in CBE because all dimensions prove reliable for measurement of service quality and customer satisfaction. Specifically, the dimensions reliability, empathy, and assurance are very important in measuring service quality in CBE. General implication to management of CBE is that they should focus on all dimensions of service quality and make efforts to improve them in order to have better performance that would lead to higher perceived service quality and customer satisfaction.

Key words: *Service quality, customer satisfaction, SERVQUAL*

CHAPTER ONE

INTRODUCTION

The first chapter consists of eight sections. The first section discusses the background of the study by providing an overview about the topic. Further it discusses the basis of the research problems, research questions, objectives of the study, significant of study, scope of the study, and study limitation. Finally, this chapter discusses about the conceptual framework for the study by providing how the study investigates and service quality affects customer satisfaction.

1.1 Background of the Study

Bank is a customer oriented services industry. A bank depends upon the customers for their survival in the market. The customer is the focus and customer service is the differentiating factors (Guo et al., 2008). A bank can differentiate itself from competitors by providing high quality customer service (Naeem & Saif, 2009). Efficacy of customer service is related with progressive operation. In the competitive banking industry, customer satisfaction is considered as the essence of success. Organizations operating in service industries should consider service quality a key strategic issue for the business success (Spathis et al., 2004). Those service providers who establish a high level of service quality retain a high level of customer satisfaction; they also obtained a sustainable competitive advantage. Service quality has been referred as the extent to which a service meets customer's needs or expectations (Lewis & Mitchell, 1990).

Bank should be known about the expectation and perception of the customer. Measuring customer's expectation is the key to being able to serve the customer satisfactorily. On the other hand, with better understanding of customer's perceptions, bank can determine the actions required to meet the customer's needs. In this way they can easily satisfied the customer which is directly impact on the overall performance of the bank. Customer satisfaction is one of the important tools to run a business and to achieve the mission statement. Indeed, customer satisfaction has great significance for the future of an institution and it is seen as a basis for securing market position and achieving other objectives of the institution. Therefore, achieving high levels of service is one method to keep customers both satisfied and loyal (Perng, 2007).

According to Saravan and Rao (2007), service quality remains critical in the service industries, as businesses strive to maintain a competitive advantage in the marketplace and achieving customer satisfaction. The financial services, particularly banks, compete in the marketplace with generally undifferentiated products; therefore service quality becomes a primary competitive weapon (Stafford, 1996). Literature has proven that providing quality service delivery to customers retains them, attracts new ones, enhances corporate image, lead to positive referral by word of mouth, and above all guarantees survival and profitability (Ladhari, 2009).

Despite the criticality of service quality to businesses, measuring service quality poses difficulties to service providers, because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability (Douglas & Connor, 2003). In view of this, services require a distinct framework for quality explication and measurement. Among the prominent frameworks, SERVQUAL model developed by Parasuraman et al. (1988) is most preferred and widely used model for measuring service quality in the service industry. This model grouped into five dimensions: (1) *Reliability* (the ability to deliver the promised service dependably and accurately); (2) *Assurance* (the ability to inspire trust and confidence); (3) *Tangibles* (focus on the elements that represent the service physically); (4) *Empathy* (emotional aspect of service); and (5) *Responsiveness* (the willingness to help customers and provide prompt service).

Despite the criticality of service quality to businesses, measuring service quality poses difficulties to service providers, because of the unique characteristics of services. In view of this, services require a distinct framework for quality explication and measurement. Among the prominent frameworks, SERVQUAL model developed by Parasuraman et al. (1985; 1988) is most preferred and widely used model for measuring service quality in the service industry.

In the recent survey conducted by CBE showed that there is persistent complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines; and defection to other private banks. In short, customers' preferences and expectations seem not to match up with the bank's initiatives. This situation calls for the assessment of service quality in relation to service performance at CBE. Therefore, this study examined the effect of service quality on customer satisfaction in the banking sector in Commercial Bank of Ethiopia (CBE) at Addis Ababa Branch based on the aforementioned five SERVQUAL dimensions.

1.2 Statement of the Problem

The trade liberalization and globalization have resulted in keen competition among firms and industries. The Ethiopian banking industry is not exempted especially with the proliferation of banking and financial institutions in the country. That is, the economic liberalization of the financial sector started in 1991 laid a foundation for the formation and expansion of private banks in Ethiopia (Hansson, 1995). This coupled with rapid technological advancement and improved communication systems, have contributed to the increasing integration and resemblance amongst banks in the financial sector. As a result, banks are now faced with very high and intense competition (Harvey, 2010).

Banks operating in Ethiopia is consequently put into lot of pressures due towards increase in competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction, and hence it becomes a key to competitive advantage (Ahmossawi, 2001). In addition, service quality has a significant impact on a bank's success and performance (Mouawad and Kleiner 1996). Nowadays, service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction, and customer retention.

To this end, Commercial Bank of Ethiopia has made customer satisfaction survey in 2014 (CBE Annual Performance Report, 2013/14). The level of customer satisfaction of the bank, as per the survey conducted during the year 2014 reached 76.6% which had shown slight improvement over the level of satisfaction (75.4%) registered in 2013. The major findings of the satisfaction survey, for which an action plan had been drawn for implementation, had been the following:

- The assessment result revealed that overall service quality of the bank has been rated as the best area of customer satisfaction;
- Neatness of office spaces had been one of the areas where customers had poorly rated the bank;
- A number of modern banking technologies users /ATM, VISA card, etc/ had rated their experience and satisfaction as poor.

In the quest to improve its services, retain and attract customers, CBE has introduced innovative measures like extended business hours, ATM network, internet banking, and improved banking hall facilities among others, all in the interest of enhancing customers' comfort. These efforts which aim at

bringing satisfaction to the customers seem to be futile. Customers' preferences and expectations seem not to match up with the bank's initiatives. There is incessant complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines; and defection to other private banks.

The emerging situation calls for the assessment of service quality in relation to service performance to help CBE to improve its service quality and enhance satisfaction so as to ensure customer retention.

1.3 Research Questions

On the basis of the aforementioned problem statement and the study objectives, the research answers the following questions;

1. What is the level of customers' satisfaction on the bank's services?
2. What are the perceptions of customers on service quality?
3. Is there a significant relationship between service quality and customer satisfaction?

1.4 Objectives of the Study

The main aim of this study is to assess the effect of service quality on customer satisfaction in Commercial Bank of Ethiopia (CBE) at Addis Ababa Branch. Moreover, the study examines the relationship between customer satisfaction and service quality in CBE with respect to the service quality dimensions.

The specific objectives of the study are to:

1. Assess the level of customer satisfaction.
2. Ascertain customer perception on service quality.
3. Assess the relationship between customer satisfaction and service quality dimensions.

1.5 Significant of Study

This study identifies quality dimensions significant to CBE to enable the bank to develop strategies to improve the quality of service delivery. These enhanced the Bank's competitive position in the banking industry and ensure survival of the bank, especially in this era of keen competition.

By measuring the satisfaction level of customers, CBE can develop customer-centric service approach to deal with customers in order to avoid the tendency of existing customers switching to a competing bank. By identifying what customers expect and perceive to be quality, CBE can revise, redesign or repackage

its service operations and tailor them to meet the perceptions and expectations of the customers. By this the services delivered at the bank bring satisfaction to the customers and make them stay while attracting new ones. Customers will become quality conscious, so they compare service offering of companies and will opt for superior quality services.

The study serve as a guide for CBE to develop policies which will improve its overall service delivery, especially in areas where gaps between expectations and perceptions are so wide to enhance customer satisfaction. This gives CBE a comparative advantage and the most preferred bank in the banking industry. By virtue of improved services, banks and companies alike can benchmark the policies and strategies of CBE for their quality improvement programs leading to overall improvement in the banking sector and possibly translate to other sectors of the economy.

Lastly, the study serves as a guideline for further research in service quality in the banking industry or related field.

1.6 Scope of the Study

This study was undertaken to examine the effect of service quality on customer satisfaction in the banking sector in CBE. It is limited to service quality practices of CBE. The Bank has branches in almost all the regions of Ethiopia. It has more than 958 branches stretched across the country. This study however focused on one of its branches – Addis Ababa Branch – located in Addis Ababa City; and the result will not be extended to other branches of CBE. With regard to sample respondents, only 130 respondents were selected to obtain the required primary data in order to make the study more manageable. Regarding the data collection tool, a recognized structured SERVQUAL questionnaire, which was developed by Parasuraman, et al (1988), was used for this particular study.

CHAPTER TWO

LITERATURE REVIEW

The second chapter discusses the literature reviews. Related work and theories of different authors is discussed to explain the purpose and to answer the research problems of the study. It starts with the concept of quality and concept of service quality, assessing service quality, and ensuring customer satisfaction. This chapter discusses measuring service quality using the SERVQUAL model developed by Parasuraman et al, (1988).

2.1 Concept of Quality

The word “quality” is frequently used to describe products and/or services. It connotes different meaning to different people and organizations, and therefore lacks universal definition. As a result there have been numerous definitions of quality from literature in an attempt to establish a common understanding. Until recently, the concept of quality was heavily associated with product. Thus, quality issues became prominence in the manufacturing era and that majority of the quality definitions possess product characteristics. Quality was initially seen as a defensive mechanism but it is seen as a competitive weapon for developing new markets as well as increasing market share (Davis et al, 2003).

2.1.1 Meaning of Quality

Product or Service Features

The British Standard BS 4778 defines quality as the totality of features and characteristics of a product or service that bear on its ability to satisfy a given need (Wille, 1992). An organization identifies a need in the market and produce with the mind to fulfill that need. When the need is satisfied, such organization is deemed quality organization. However, it is argued that who describes the need limiting the need rather than generalizing it.

Fitness for Use

Juran (1988) defines quality as “fitness for use”. The definition raises the question of who defines “fit” and “use”. The only way a product is said to be “fit” is when it has been tried and tested or used. A company can test a product and approve it as fit for use but a customer may disapprove it. This definition considers standard as the key element for quality. When a product is certified it is described as “fit for use”.

Conformance to Requirements

Crosby (1979) defines quality as conformance to requirements. The definition maintains that when a company sticks to the pattern provided by the customers, such product or service is deemed quality. Before the product or service is said to conform to requirement, it should be devoid of defects, meets all deadlines and ensures proper safe delivery. This definition is critiqued of its sufficiency; the “requirement” is seen as limited. The provider is likely to settle on just meeting the specification while another may come up with product or service which will better suit the underlying requirements of the customers. In other words, the customers may lack technical expertise to provide accurate specification and something better will be welcomed.

Associated Features of Product or Service

According to Feigebaum (cited in Rao et al., 1996), quality is the total composite product and service characteristics of marketing, engineering, manufacturing and maintenance through which the product and service in use will meet the expectation of the customer. The definition establishes that a product or service must be adequate in all aspect in order to meet the intended purpose or use.

Delighting the Customer

Macdonald and Piggott (1990) define quality as delighting the customer by continuously meeting and improving upon agreed requirements. Harrington (1987) argues that excellence is a never ending, so “good is not good enough” until good is better and better is best. Firms should forever improve in order to maintain their customers. When customers a delighted, it is difficult for them to be swayed. This is one of the definitions which has received credence since it considers customer’s requirement and at the same time requires the provider to look beyond the requirement to areas which will bring the optimum.

2.1.2 Categories of Quality Definition Approaches

Garvin (1980 cited in Rao et al, 1996) in an attempt to establish a common understanding of quality from the numerous definitions categorizes the definition into five approaches: transcendent, product-based, user-based, manufacturing-based and value-based. The transcendent approach defines quality as achieving or reaching for the highest standard as against being satisfied with mediocrity. Such quality is seen in artwork and literature. Product of this quality description may not appear quality to everyone.

The product-based approach identifies specific measurable features or attributes to indicate high quality. With the user-based approach, the user is the determiner of quality of a product or service. The approach

links customers' satisfaction to quality; when the product or service satisfies the user, it is described as high quality. The manufacturing-based approach describes quality much the same as Crosby as "conformance to requirement". Thus quality depends on the closeness of the product or service to the specified requirement. The specification provides standards (control limits) for tolerance (Rao et al., 1996).

The value-based approach defines quality as the degree of excellence at an acceptable price and the control of variability at an acceptable cost. There is a view that purchasing decision involves trading off the quality against the price. They sought for value – more features, better reliability and more support for their money. In other words, choice of a particular product depended on the value the customers derived from the product (Rao et al., 1996).

2.1.3 Emerging Quality Description

The accelerating expectation of the customers coupled with the rebuilt of many manufacturing systems and the edge to meet the expectations resulted in organizations considering improvement decision as pertinent. During these periods quality was described as "little q", which meant product quality. With the proliferation of service industries, a new quality movement emerged and was labeled as "big Q" (Smith, 1994). Quality which was seen as a defensive mechanism is recognized as a competitive weapon for developing new markets as well as increasing market share (Davis et al, 2003). Table 2.1 gives the distinction between "little q" and "big Q".

Table 2.1: The new quality thinking

Little q	Big Q
Quality is about products	Quality is about organization
Quality is technical	Quality is strategic
Quality is for inspector	Quality is for everyone
Quality is led by expert	Quality is led by management
Good quality is high grade	Quality is the appropriate grade
Quality is about control	Quality is about improvement

Source: Smith (1994)

Gummesson (1994) identifies three management paradigms; manufacturing paradigm which focuses on goods and mainly concerned with productivity technical standards; the bureaucratic-legal paradigm used mainly in the public sector and is more concerned with regulations and rituals before end results. The third paradigm is the service paradigm which mainly focuses on service management particularly in the marketing area and stresses the importance of customer interaction with service provider in delivering service and creating value. The service paradigm emphasizes a shift from the goods-focused to service-focused management.

2.2 Description of Service

Bateson and Hoffman (1999) define services as deeds, efforts or performance whilst Regan (1963) sees services as activities, benefits or satisfactions offered for sale or provided in connection with the sale of goods. Heizer and Render (1999) describe services as “those economic activities that typically produce an intangible product such as education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical repair and maintenance like occupations”. Johns (1999) adds that service could mean an industry, a performance, an output or offering or a process. As compared to manufactured products, services are less tangible and less measurable. Service organizations have a significant proportion of their employees in direct contact with their external customers. According to Fox (1993), customers’ perception of the company is often determined by the behavior of these employees.

Service providers perceive service as a process which contains elements of core delivery, service operation, personal attentiveness and interpersonal performance which are managed differently in various industries. Customers on the other hand view service as an experience of life which consists of elements of core need, choice, and emotional content (Johns, 1999). These service elements are present in different service outputs and encounters and affect each individual’s experience differently. The factors critical to services include value (benefit at the expense of cost), service quality and interaction.

Service quality is a concept that has aroused considerable interest and debate in research. There are difficulties defining and measuring it with no overall consensus emerging on either (Wisniewski, 2001). While Eshghi et al. (2008) define service quality as the overall assessment of a service by the customers, Asubonteng et al. (1996) and Wisniewski and Donnelly (1996) define it as the extent to which a service meets customer’s needs or expectations. Lewis and Booms (1983) describe service quality “as a measure of how well the service level delivered matches customer expectations. Service is said to be quality

when it consistently conforms to customer expectations. Parasuraman et al. (1985) argues that service quality is the measure of service delivered as against expected service performance.

2.2.1 *Types of Services*

Schmenner (1986 cited in Fitzsimmons and Fitzsimmons, 2001) develops a service process matrix and categorizes service along two dimensions that significantly affect the character of the service delivery process. The vertical dimension measures the degree of labor intensity, which is defined as the ratio of labor cost to capital cost while the horizontal dimension measures the degree of customer interaction and customization, which is a marketing variable that describes the ability of the customer to affect personally the nature of the service delivered. The matrix indicates four types of services labeled as service factory, mass service, service shop and professional service.

Gronroos (2001) perceives services to be either high-touch or high-tech. High-touch services are mostly dependent on people in the service process producing the service, whereas high-tech services are predominantly based on the use of automated systems, information technology and other types of physical resources. Gronroos maintains that high-touch also includes physical resources and technology-based systems that have to be managed and integrated into the service process in a customer-oriented fashion (Gronroos, 2001). In this case, banking services include both high-tech and high-touch services. For example, high-tech services include Internet/Telephone/Short Messaging Service (SMS), ATM machines whereas high-touch services consist of instructions and personnel assistance in using the services.

2.2.2 *Characteristics of Service*

Johns (1999) argues that services are mostly described as “intangible” and their output viewed as an activity rather than a tangible object, but also admits that some service outputs have some substantial tangible components like physical facilities, equipments and personnel. Gummesson (1994) posits that, a service design which consists of a service, service system and the service delivery process considers customers, staff, technology, the physical environment, and the consumption goods. The physical aspects are important for high quality service delivery.

Bateson (1985) outlines four unique characteristics of a service to be intangibility, heterogeneity, inseparability and perishability. Unlike a product where tangible cues exist to enable consumers to evaluate the quality of the product, the quality of the service is ascertained by parameters that largely

come under the domain of “experience” and “credence” properties and are as such difficult to measure and evaluate (Parasuraman et al. 1985; Zeithaml and Bitner, 2003).

2.2.3 Banking Services

Basically, banking is a business that is registered to accept deposits from the public and make out loans. Technically, banks mobilize funds from the surplus units and channel it to the deficit units of the economy (Lockett, 1994). The objective of this fund channeling is to earn profit. This function makes banks one of the most important financial intermediaries in every economy and also assists Central Banks in achieving their monetary policies. Banks earn money in servicing beyond selling money. Banking services are about the money in different types and attributes like lending, depositing and transferring procedures. These intangible services are shaped in contracts. The structure of banking services affects the success of institution in long term. Besides the basic attributes like speed, security and ease in banking services, the rights like consultancy for services to be compounded are also preferred.

2.3 Concept of Service Quality

The concept of service quality originates from consumer behavior and confirmation/disconfirmation paradigm (Gronroos, 1992). The paradigm postulates that customers compare the quality of the product after usage to that of their expectations before usage (Swan and Comb, 1976), and indicate their satisfaction/dissatisfaction with the products or services purchased (Woodruff et al., 1983). Literature maintains that customers evaluate service quality by comparing the service provider’s actual performance “perception” with what they think service performance would be “expectations” in their service experience (Gronroos, 1982; Lehtinen and Lehtinen, 1982).

Service quality is defined as customer perception of how well a service meets or exceeds their expectations (Czepiel, 1990) or the degree of discrepancy between customers’ normative expectation for service and their perceptions of service performance (Parasuraman et al., 1985). Many practitioners define service quality as the difference between customer’s expectations for the service encounter and the perceptions of the service received (Munusamy et al., 2010). Customer expectation and perception are the two key ingredients in service quality. Oliver (1980) posits that customers judge quality as “low” if performance (perception) does not meet their expectation and quality as “high” when performance exceeds expectations.

Customers' perception of performance is what they experienced (Parasuraman et al., 1988). Literature maintains that customers' total perception of a service is based on their perception of the outcome and the process; where the outcome is either value added or quality and the process is the role undertaken by the customer (Edvardsson, 1998). The customer's perception of quality of service is based on the degree of agreement between expectations and experience (Kandampully, 1998).

The result of this comparison is perceived service quality (Gronroos, 1982, 1984; Takeuchi and Quelch, 1983; Parasuraman et al., 1985, 1988). Parasuraman et al. (1988) define perceived quality as a form of attitude, related but not equal to satisfaction, and results from a consumption of expectations with perceptions of performance. Therefore, having a better understanding of consumers attitudes will help know how they perceive service quality in banking operations.

The pivot to the concept of service quality is gap model, which stipulates that service quality is a function of the difference scores or gap between expectations and perceptions ($P - E$). The gap between expectation and performance can be positive (satisfactory), when performance exceeds expectations or negative (dissatisfaction), when performance falls short of expectations (Anderson, 1973). Service quality is low, if what is perceived is below expectation, and is high, if what is perceived meets or exceeds expectation. The result of this comparison is perceived service quality (Gronroos, 1984; Takeuchi and Quelch, 1983; Parasuraman et al., 1988).

2.4 Service Quality Models

Several models have been identified in the literature for measuring service quality. Among the approaches or models are: expectancy-disconfirmation approach, performance-only approach, technical and functional dichotomy approach, service quality versus service satisfaction approach and attribute importance approach.

The expectancy-disconfirmation model focuses on identifying customer expectation versus what they actually experienced. It compares the service performance with the expectations of the customers, which is assessed after the service encounter (Oliver, 1980).

The performance-only approach assesses service quality by enquiring from the customers about their level of satisfaction with the various features following a service encounter (Babakus and Boller, 1992; Cronin & Taylor, 1994).

The technical and functional dichotomy approach identifies two service components that lead to customer satisfaction: technical quality of the product which is based on product characteristics such as durability, security, physical features; and functional quality which is concerned with the relationships between service provider and the customer such as courtesy, speed of delivery and helpfulness (Gronroos, 1984). Customers usually lack information on the technical aspects of a service, therefore rely on functional quality to form perceptions of service quality (Donabedian, 1980).

Service quality versus service satisfaction model mainly focuses on two service components that are interrelated; the transition-specific assessment which evaluates specific features of quality and the overall assessment which evaluates overall quality. This approach links perceived quality at the time of the service encounter or immediately after it and overall satisfaction with the service. The attribute importance model focuses on the relative weight on the importance the consumer places on attributes found to be linked with service satisfaction (Gilbert et al., 2004).

Cronin and Taylor (1992) developed SERVPERF (service performance) which disregards the expectation and measured service quality perceptions by evaluating the customer's overall feeling towards the service.

Among the models for measuring service quality, the most acknowledged and applied model in variety of industries is the SERVQUAL (service quality) model developed by Parasuraman et al. The model originally provided a list of ten determinants of service quality: access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles. Further studies merged correlated variables and reduced the determinants into five consolidated dimensions: tangibles, reliability, responsiveness, assurance and empathy as the instruments for measuring service quality (Parasuraman et al., 1988; Zeithaml et al., 1990). The SERVQUAL model assesses customer expectation and perceptions of service quality by capturing the gap between expectation and experience.

2.5 Measuring Service Quality using SERVQUAL Model

An array of factors or determinants has been identified in the literature for measuring service quality. For instance, Sachev and Verma (2004) measure service quality in terms of customer perception, customer expectation, customer satisfaction, and customer attitude. Despite the numerous models for measuring service quality, Nyeck et al. (2002) admit that the SERVQUAL model remains as the most complete attempt to conceptualize and measure service quality. The model is extensive and widely used

to measure service quality in the literature. Therefore this study adopts the SERVQUAL dimensions to measure service quality in Commercial Bank of Ethiopia, Addis Ababa Branch.

The SERVQUAL dimensions: tangibles, reliability, responsiveness, assurance and empathy are the basis for service quality measurement (Parasuraman et al., 1988; Zeithaml et al., 1990).

Tangibles: The tangibles encompass the appearance of the company representatives, facilities, materials, and equipment as well as communication materials. The condition of the physical surroundings is seen as tangible evidence of care and attention to detail exhibited by the service provider (Fitzsimmons & Fitzsimmons, 2001). Davis et al. (2003) summarize tangibles as the physical evidence of the service.

Reliability: The reliability and consistency of performance of service facilities, goods and staff is seen as important (Johnston, 1997). This includes punctual service delivery and ability to keep to agreements made with the customer. According to Fitzsimmons and Fitzsimmons (2001), reliability is the ability to perform the promised service both dependably and accurately with error free.

Responsiveness: Johnston (1997) describes responsiveness as the speed and timeliness of service delivery. This includes the speed of throughput and the ability of the service to respond promptly to customer service requests, with minimal waiting and queuing time. Fitzsimmons and Fitzsimmons (2001) argue that 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.

Assurance: This considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the customer, effective communication with the customer and the general attitude that the server has the customer's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).

Empathy: According to Chase et al. (2001), empathy is the provision of caring, individualized attention to customers. Fitzsimmons and Fitzsimmons (2001) posit that empathy includes approachability, sensitivity, and effort to understand the customer's needs. Johnston (1997) describes empathy as the ability to make the customer feel welcome, particularly by the contact staff.

The SERVQUAL model identifies a gap which maintains that satisfaction is related to the size and direction of disconfirmation of a person's experience vis-à-vis his/her initial expectations (Churchill & Surprenant, 1982; Parasuraman, Zeithaml & Berry, 1985; Smith & Houston, 1982).

2.6 Assessing Service Quality

Implementing and evaluating service quality is a very complex process, because of the intangible nature of service and the difficulty in measuring customers' expectations and perception. Zeithaml and Bitner (1996) believe that content and delivery of a service are essential factors for evaluating service quality. While customers evaluate the quality of delivery, service providers determine the content of the service.

Edvardsson (1998) contends that the concept of service should be approached from the customer's perspective. Because the customer's total perception of the outcome is the "service" and the customer outcome is created in a process where service is generated through that process. Customers' involvement in the service process is necessary, since they are co-producer of service. The service process can be a delivery of service, interpersonal interaction, performance or customer's experience of service.

2.7 Ensuring Customer Satisfaction

Customer satisfaction is a widely used term in business to measure the kind of products and services provided by a company to meet its customer's expectation. Customer satisfaction is believed to be the company's key performance indicator (KPI), particularly when organizations compete for customers.

Literature establishes that customer satisfaction is a key to long-term business success (Zeithami et al., 1996). To protect/gain market shares, organizations need to outperform competitors by offering high quality product or service to ensure satisfaction of customers (Reichheld, 1996; Gronroos, 2000; Tsoukatos, 2008). With banks, customer longevity is achieved through the delivery of high quality services (Berry et al., 1985; Anderson et al., 1994; Lassar et al., 2000) especially under unregulated and volatile financial market conditions (Colgate & Lang, 2001). Banks need to understand customers' service requirements and how it impacts on service delivery and customers' attitudes (Gerrard & Cunningham, 2001; Beckett), for a small increase of customer satisfaction can lead to customer loyalty and retention (Bowen & Chen, 2001).

The ability of a bank to meet the expectations of customers determines the extent of satisfaction derived by customers. Beerli et al. (2004) describes customer satisfaction as the measure of the extent a bank

fulfils the general expectations of a customer and how far and/or close does the existing bank come to the customer's ideal bank in his mind. Customer satisfaction can be viewed as the future intentions of customers towards the service provider, which is more or less related to the attitude (Levesque et al, 1996). According to Hansemark and Albinsson (2004), "satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire". In order to maintain and increase purchases, the bank needs to provide value (high quality) to customers (Anderson & Jacobsen, 2000).

2.8 Impact of Service Quality on Customer Satisfaction

With the ever increasing competition in the marketplace resulting from trade liberalization and free economy model, it is imperative for banks to achieve customer longevity, through excellence service delivery (Lassar et al., 2000). Service quality is recognized as potential for ensuring customer satisfaction and retention, operational efficiency and profitability of an organization (Cronin, 2003). File and Prince (1992) argue that satisfied customers are comfortable repeating business with the firm and even recommend it to others. The customers sell the company to others by word-of-mouth when they are satisfied with the services (Gee et al., 2008) and thus increase firm's customer-base. Parallel to this is the study by Martins and Toledo (2000), which maintains that service quality increases market share by maintaining current customers and acquiring new ones. Krishnan et al (1999) establish that the cost of retaining existing customers by providing high quality products and services is significantly lower than the cost of winning new customers.

Literature establishes that customer satisfaction has a strong positive correlation with customer retention in the retail banking (Siddiqi, 2010; Kandampully and Suhartanto, 2000). The strong positive correlation means the customers will recommend the bank to other people. As a consequence, the bank can be assured of repeat and stable customer base. Cohen et al. (2007) found that a loyal customer takes less of the company's time during transactions and are less sensitive to price changes. Reichheld (2006) states that companies with higher customer loyalty experience growth in revenue twice as much as their competitor.

2.9 Conceptual Framework for the Study

The study investigates how service quality affects customer satisfaction. Customer satisfaction is a dependent variable which occurs when the services provided by CBE which was rated by customers as high quality and satisfactory. The study postulates that the quality of the services provided by the CBE determines the satisfactory rate of customers with the bank. CBE can ensure customer satisfaction through the provision of quality service by the Bank. To measure service performance and customer performance of a service, SERVQUAL model was used. The SERVQUAL model is made up of five variables: *tangibility*, *responsiveness*, *reliability*, *assurance* and *empathy*.

When service performance, also known as perception is higher than customers' performance of SERVQUAL variables, customers will be satisfied and CBE is likely to satisfy the customers. However, if service performance is poor, customers become dissatisfied and they will switch to a competing bank which may offers superior service. When a service provider has excellent physical facilities that are aesthetically appealing; insist on-time service delivery which is free from errors; and knowledgeable employees who consider the customers as the company's total well-being will result in high quality service delivery which will lead to customer satisfaction.

Since the main objective of the study is to identify the impact of the five dimensions of service quality on customer satisfaction thus the framework of this study is given bellow:

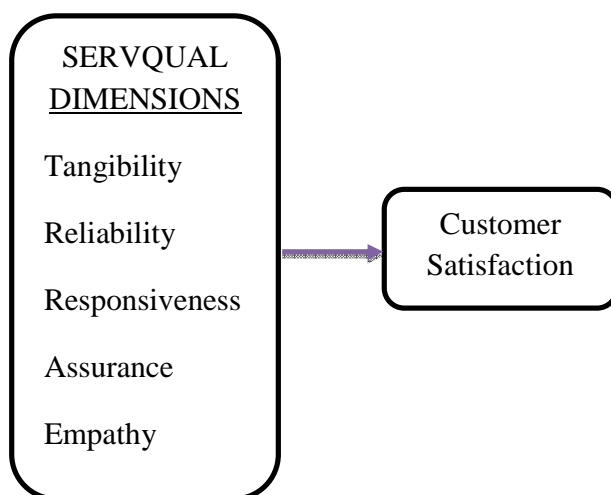


Fig. 1.1: The effect of service quality dimensions on customer satisfaction

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents the methodology used to conduct the research. Research approaches are discussed. This chapter presents research design, describes the research methods, sampling techniques and the instruments employed in the data gathering. Also it explains which sources are used to collect the data and what procedure is applied to analyze the data.

3.1 Research Design

A descriptive research was used to gain an insight into consumer's perceived service quality offered by CBE with respect to five dimensions of SERVQUAL scale. To gather data for the study, the researcher employed questionnaire survey.

A descriptive, explanatory and co relational form of research design was used to provide solutions to the research problems. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collected. The study also adopted quantitative method, because quantitative method allows explanation of a phenomenon by collecting numerical data that are analyzed using mathematically based method, particularly correlation and regression.

3.2 Population, Sample Size and Sampling Technique

In conducting this study, it is not possible, practical and sometimes expensive to gather data by considering entire population. Therefore smaller chunks of a unit sample will be chosen to represent the relevant attributes of the whole of the units. The researcher select Addis Ababa Branch based on purposive sampling, as this Branch has a large number of customers, as compared to other branches in Addis Ababa City. On the average about 978 customers visit CBE Addis Ababa Branch daily.

A non-probability sampling strategy called convenience sampling was employed, as a convenience sampling is available to the researcher by virtue of its accessibility. Thus, a convenient sample of 130 respondents was selected to obtain the required primary data. The study's instrument was a self-administered questionnaire that was developed and employed to achieve the objectives of the current study. The questionnaire was administered to the valued customers in Amharic language for better understanding.

3.3 Source of Data and Data Collection Tools Used

3.3.1 Sources of Data

The study applied both primary and secondary data sources in order to gather relevant information for the study.

A) Primary Data

As the main sources of the data, primary data was gathered from the sample customers of the CBE Addis Ababa Branch under study. The study employed mainly questionnaire – both open and closed ended – in collecting the primary data, and the analysis was substantially done based on the primary data.

B) Secondary Data

The secondary data was collected from different sources. The sources of the secondary data include websites, books, national and international journals, articles, and CBE annual reports.

3.3.2 Data Collection Tools Used

For an easy understanding and reading, the questionnaire was designed into three parts. The first part of the questionnaire requires information on demographic profile of the respondents, and the present usage of banking transactions. The second part focused on the 5 variables that are believed to impact customer satisfaction and revisit intention (i.e. dimensions of service quality). The third part measures customers' satisfaction. The services of the bank were assessed on the SERVQUAL variables: *Tangibles*, *Assurance*, *Responsiveness*, *Empathy* and *Reliability*, to determine the level of satisfaction derived from the services. In short, a recognized structured questionnaire, SERVQUAL by (Parasuraman, et al 1988), was used for this research.

3.4 Procedure

To carry out the study, the following procedures were followed. (1) The questionnaire was mainly written in English language, and then translated into Amharic version, as it is easily understood by all respondents; (2) Cronbach's alpha has been employed to evaluate the reliability scale of construct. Accordingly, the Cronbach's alpha reliability of the SERVQUAL instrument was $\alpha = 0.90$ which indicate that it has high reliability, and (3) the instrument was directly administered to sample respondents who came to the bank for getting services.

3.5 Variable Measurements

Independent variables

The independent variables are the SERVQUAL dimensions: Tangibles, Responsiveness, Reliability, Assurance and Empathy developed by Parasuraman et al. (1988). These dimensions measure customer satisfaction by taking into account the performance of the service and the expectations of customers on the service provided. Several varying number of items were developed to measure each dimension. The five independent variables are represented as follows:

$$X_1 = \textit{Tangibles}$$

$$X_2 = \textit{Reliability}$$

$$X_3 = \textit{Responsiveness}$$

$$X_4 = \textit{Assurance}$$

$$X_5 = \textit{Empathy}$$

Dependent variable

Customer satisfaction is the dependent variable that the study measure with the independent variables. The customer satisfaction is an indicator of customers being satisfied with the services rendered by the bank. Customer satisfaction is an indicator of customers' preference of the bank. The dependent variable is represented as follows:

$$Y = \textit{Customer Satisfaction}$$

3.6 Data Analysis

The basic objective of this study is to examine the effect of service quality on customer satisfaction based upon the conceptual framework of this study. The study employed both descriptive and inferential tools in analyzing the data. The descriptive analysis was chosen because of its simplicity and clarity to draw inferences. Thus, percentages, frequency and tables were used for the analysis of the collected data. Inferential statistics (e.g. correlation and multiple regressions analysis) was also used to analyze the existing relationship between the study variables. The data collected was edited and coded. The coded data then be processed using Statistical Package for Social Sciences (SPSS version 20.0).

3.7 Reliability Assessment

Reliability of the items of the variables is measured by Cronbach's alpha. According to Hair, et al., (2006), if α is greater than 0.7, it means that it has high reliability and if α is smaller than 0.3, then it implies that there is low reliability. Cronbach's alpha has been employed to evaluate the reliability scale of construct and dimension of each construct.

The internal consistency of the SERVQUAL items was assessed by computing the total reliability scale. The total reliability scale for the study is 0.90, indicating an overall reliability factors slightly same as to that of Parasuraman et al, (1988) study which was 0.92. This reliability value for this study is substantial considering the fact that the highest reliability that can be obtained is 1.0 and this is an indication that the items of the five dimensions of SERVQUAL model are accepted for analysis.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter will present a discussion of the final results and the process through which the results were obtained. In addition to this, background information of respondents will be presented. Finally, the statistical methods of analysis were discussed, which included a descriptive analysis, a correlation analysis through SPSS version 20.

The questionnaire was administered to 130 customers of Addis Ababa branch of CBE. Out of the 130 administered questionnaires, 100 were obtained for analysis. The valid questionnaires which formed the analysis yielded 77% response rate.

4.1 Demographic Profile of Respondents

Table 1: Distribution of Respondents by Age and Gender

	Male		Female		Total	
	N	%	N	%	N	%
18 - 30 Years	30	47.6	20	54.1	50	50.0
31 - 40 Years	14	22.2	8	21.6	22	22.0
41 - 50 Years	13	20.6	5	13.5	18	18.0
51 - 60 Years	4	6.3	4	10.8	8	8.0
> 60 Years	2	3.2	0	0.0	2	2.0
TOTAL	63	100.0	37	100.0	100	100.0

The above table 1 describes about the background of respondents based on age and gender. According to the data there were more male respondents as compared to the female. Concerning the age of the respondents, 47.6% of male & 54.1% of female respondents are belongs to (18-30) years of age. While 22.2% of male followed by 21.6% of female respondents are at the age of (31-40) years, 20.6% of male & 13.5 female respondents were in the range of (41-50), 6.3% of male & 10.8 % of female respondents were the range of (51-60) & 3.2% of male respondents are under the age of above 60. In short, the data shows that half of the respondents (50%) are in the age range of 18 – 30 years.

Table 2: Distribution of Respondents by Educational Level and Gender

	Male		Female		Total	
	N	%	N	%	N	%
No Education	-	-	1	2.7	1	1.0
Primary Education	-	-	1	2.7	1	1.0
Secondary Education	7	10.45	4	10.8	11	11.0
College Certificate/Diploma	17	25.37	16	43.2	33	33.0
Bachelor Degree	30	44.78	14	37.8	44	44.0
Masters Degree & Above	9	13.43	1	2.7	10	10.0
TOTAL	63	94.03	37	100.0	100	100.0

Table 2 shows the educational level of the respondents by their gender classification. According to the survey, 10.45% of male & 10.8% of female represents secondary education, college certificate/diploma holder were 25.37% of male & 43.2% of female, the bachelor degree holder represents 44.78% of male & 37.8% of female. Finally, masters degree & above respondents represents 13.43% and 2.7% of male & female respectively. In general, majority of the respondents (77%) are degree and diploma holders.

Table 3: Distribution of Respondents by Occupational Status and Gender

	Male		Female		Total	
	N	%	N	%	N	%
Self Employed	11	17.5	0	-	11	11.0
Private Sector Employee	12	19.0	7	18.9	19	19.0
Public Sector Employee	31	49.2	20	54.1	51	51.0
NGO Employee	7	11.1	6	16.2	13	13.0
Other	2	3.2	4	10.8	6	6.0
TOTAL	63	100.0	37	100.0	100	100.0

With regards to occupational status and gender of the respondents, table 3 shows that 17.5% of male respondents were self employed, 19% of male & 18.9 % of female respondents were private sector employee while 49.2% of male and 54.1% of female respondents were public sector employee, NGO employee represent 11.1% of male & 16.2% of female. The remaining 3.2 % of male & 10.8 % of female respondents represent other sectors. The data describes that more than half of the respondents are government employees.

4.2 Usage of Banking Transactions

Table 4: Frequency of Respondents Visiting the Bank

	Male		Female		Total	
	N	%	N	%	N	%
Daily	11	17.5	13	35.1	24	24.0
Every Week	11	17.5	6	16.2	17	17.0
Every Two Weeks	12	19.0	4	10.8	16	16.0
Every Month	29	46.0	14	37.8	43	43.0
TOTAL	63	100.0	37	100.0	100	100.0

In relation to the frequency of visiting the bank, table 4 shows 17.5% of male & 35.1% of female customers visit the bank daily, 17.5% of male & 16.2% of female customers visit the bank every week, 19.0% of male & 10.8% of female customers visit in every two weeks. And the other 46.0% of male & 37.8% of female customers visit the bank in every month. However, majority of the respondents (43%) visit the bank every month followed by visiting every fortnight.

Table 5: Types of Account Used by Respondents

	Male		Female		Total	
	N	%	N	%	N	%
Saving Account	49	77.8	23	62.2	72	72.0
Current Account	13	20.6	13	35.1	26	26.0
Investment	1	1.6	0	0.0	1	1.0
Personal Loan	0	0.0	1	2.7	1	1.0
TOTAL	63	100.0	37	100.0	100	100.0

Table 5 address about the types of account customers used. Accordingly, more customers had a saving account which represents 77.8% of male & 62.2% of female, the other 20.6% of male & 35.1% of female customers had current account, 1.6% of male respondent represent investment & 2.7% of the respondent had a personal loan service customer. However, there are five respondents who used both current and saving account.

Table 6: Channel Used for Transaction by Gender

	Male		Female		Total	
	N	%	N	%	N	%
ATM	46	73.0	18	48.6	64	64.0
Internet banking	3	4.8	3	8.1	6	6.0
Mobile Banking	1	1.6	2	5.4	3	3.0
Pass Book	11	17.5	10	27.0	21	21.0
Letter & Cheque	1	1.6	4	10.8	5	5.0
Local Money Transfer	1	1.6	0	0.0	1	1.0
TOTAL	63	100.0	37	100.0	100	100.0

In relation to the channel used for transaction, table 6 shows that majority of customers (64%) used ATM which accounts 73.0% of male & 48.6 % of female customers. Those customers who utilized internet banking represent 4.8% male & 8.1% of female. Besides, 1.6% of male & 5.4% of female customers used a mobile banking serves; 17.5 of male & 27.0% of female respondents used pass book for their transaction. There are also 1.6% of male & 10.8% of female respondents who used letter & cheques, but there is only 1.6% of male respondent used a local money transfer. It was also observed that there are three respondents who used multiple e-banking services.

4.3 Descriptive Statistics

Table 7: Overall Satisfaction Level on the Bank's Services

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dissatisfied	0	0.0	0.0	0.0
Dissatisfied	1	1.0	1.0	1.0
Indifferent	11	11.0	11.0	12.0
Satisfied	46	46.0	46.0	58.0
Strongly Satisfied	42	42.0	42.0	100.0
Total	100	100.0	100.0	

Table 7 above shows the overall satisfaction level in the services provided by the Commercial bank of Ethiopia Addis Ababa Branch. As indicated in the table majority (42.0 percent) of the respondents is strongly satisfied, and 46.0 percent of the respondents are satisfied. However, 11.0 percent of the respondents are neither satisfied nor dissatisfied, and 1.0 percent of the respondents are dissatisfied. The above analysis implies that the overall satisfaction level of customers on the bank service accounts for 88.0 percent.

Table 8: Mean and Standard Deviation for Service Quality Dimension

	Minimum	Maximum	Mean	Std. Deviation
Reliability	1.60	5.00	4.12	.688
Assurance	1.50	5.00	4.20	.743
Responsiveness	2.00	5.00	4.10	.659
Empathy	2.00	5.00	4.08	.649
Tangible	1.00	5.00	4.06	.765
Customer Satisfaction	2.43	5.00	4.29	.584

With respect to the service quality dimensions, table 8 depicted that that assurance has the highest mean value ($\bar{x} = 4.20$) but tangibility has the least mean value ($\bar{x} = 4.06$). Therefore, it may be concluded from the above table that respondents are most satisfied with assurance, and followed by reliability ($\bar{x} = 4.12$ & $SD = 0.688$) and responsiveness ($\bar{x} = 4.10$ & $SD = 0.659$) dimensions. Customers are less satisfied with empathy ($\bar{x} = 4.08$ & $SD = 0.649$) and tangibility ($\bar{x} = 4.06$ & $SD = 0.765$). Again, the above table depicts that general satisfaction towards CBE service provision is very high with a mean of ($\bar{x} = 4.29$ & $SD = 0.584$).

4.4 Pearson Correlation analysis

To determine the relationship between service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) and customer satisfaction, Pearson correlation was computed. Table 9 below presents the results of Pearson correlation on the relationship between service quality dimensions and customer satisfaction.

Table 9: Correlation of service quality and customer satisfaction

	Reliability	Assurance	Responsiveness	Empathy	Tangibles	Customer Satisfaction
Reliability	1	.623**	.620**	.573**	.459**	.888**
Assurance	-	1	.616**	.583**	.357**	.752**
Responsiveness	-	-	1	.641**	.428**	.643**
Empathy	-	-	-	1	.583**	.752**
Tangibles	-	-	-	-	1	.549**
Customer Satisfaction	-	-	-	-	-	1

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

The results in table 9 indicate that, there is positive and significant relationship between all service quality dimension and customer satisfaction. Reliability and customer satisfaction ($r = 0.888, p < 0.001$), assurance and customer satisfaction ($r = 0.752, P < 0.01$), responsiveness and customer satisfaction ($r = 0.643, P < 0.01$), empathy and customer satisfaction ($r = 0.752, p < 0.01$), and tangibility and customer satisfaction ($r = 0.549, P < 0.01$). There is also a positive relationship among the five quality dimensions.

4.5 Regression Analysis

Regression model was applied to test how far the service quality dimensions had impact on customer satisfaction. Coefficient of determination – 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.

Table 10: Regression Model for Service Quality Dimensions

R	R Square	Adjusted R Square	Std. Error of the Estimate
.953 ^a	.907	.903	.18227
<i>a. Predictors: (Constant), Tangibles, Assurance, Responsiveness, Reliability, Empathy</i>			

As indicated in table 10 above, the R^2 value is 0.907. This result shows that the independent variables (the five service quality dimensions) accounted for 0.907 percent of the variance in the dependent variable customer satisfaction. Thus, 90.7 percent of the variation in customer satisfaction can be explained by the five service quality dimensions, but the other unexplored variables may explain the variation in customer satisfaction which accounts for 9.3 percent.

Table 11: Customer Satisfaction and the Five Service Quality Dimensions (ANOVA^b)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1501.739	5	300.348	184.514	.000 ^a
Residual	153.011	94	1.628		
Total	1654.750	99			
<i>a. Predictors: (Constant), Tangibles, Assurance, Responsiveness, Reliability, Empathy</i>					
<i>b. Dependent Variable: Customer Satisfaction</i>					

Table 11 demonstrate that there is a relationship between the five service quality dimensions and the customer satisfaction. The results of the regression in table 12 show that reliability, empathy and

assurance were the main predictors of customer satisfaction in CBE, Addis Ababa branch. As a result of this, there is a relationship between the customer satisfaction and the five service quality dimensions of the banks' service in CBE.

Table 12: Regression Model for Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.342	.955		3.501	.001
Reliability	.712	.053	.600	13.326	.000
Assurance	.335	.061	.243	5.474	.000
Responsiveness	-.110	.057	-.089	-1.922	.058
Empathy	.458	.075	.291	6.082	.000
Tangibles	.074	.053	.055	1.406	.163

a. Dependent Variable: customer satisfaction

The results of multiple regressions, as presented in table 12 above, reliability has a positive and significant effect on customer satisfaction with a beta value (beta = 0.712), at 99 percent confidence level ($p < 0.01$). The results of table 12 also showed that the standardized coefficient beta and p value of empathy were positive and significant (beta = 0.458, $p < 0.01$). The same table further shows that, assurance has a positive and significant effect on customer satisfaction with a beta value of (beta = 0.335), at 99 percent confidence level ($p < 0.01$). In the same table it was observed that tangibility has a positive but not significant effect on customer satisfaction with a beta value (beta = 0.074, $p < 0.01$). On the other hand, responsiveness has no positive and significant effect on customer satisfaction with the beta value of (beta = - 0.110).

In overall, the results revealed that on one hand, the independent variables (service quality) accounted for 90.7 percent of the variance in customer satisfaction ($R^2 = 0.907$). Thus, 90.7 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 which accounts for about 9.3 percent, shown in table 10.

Moreover, from the findings of this study, it was found out that not all of the service quality dimensions have positive impact on customer satisfaction. Out of the five service quality dimensions three dimensions (reliability, assurance, and empathy) have positive and significant impact on customer

satisfaction. Tangibility has a positive but not significant effect on customer satisfaction. On the other hand, responsiveness has a negative and not significant influence on customer satisfaction.

To put in a nutshell, the findings of this study also indicated that reliability is the most important factor to have a positive and significant impact on customer satisfaction, followed by empathy and assurance.

4.6 Results of an Open Ended Questions

One of the core values of CBE is Customer Satisfaction, i.e. CBE strive to excel in its business and satisfy its customers. Thus, CBE attempting to enhance customer satisfaction and provide quality services to customers.

Respondents were asked to give their general comments and recommend to the bank for further improvements on customer satisfaction. In addition, materials are not fulfilled in the branch. Specifically, as the printers are not working, customers are waiting longer time to take their advice, statements and the like. The other issue respondents reflected that during the shift program there are few bank staff who provides service after working hour. As a result, respondents Majority of the respondent stated that there is an improvement on service delivery and the bank also bring a number of modern technologies like ATM, mobile banking and internet banking. Regarding e- banking service, however, specifically on ATM machines still there is a problem, as most of the time the machines are not working and also take long time for replacing the lost or damaged cards. Respondents also depicted their complaints about the network problem which is the major obstacle in the check clearing operations, quick transfer of fund, cash withdrawal and etc. didn't get the intended service form the bank on time.

4.7 Discussion

With regard to the regression model for beta coefficients, the result of this study indicates that reliability has a positive and significant effect on customer satisfaction. This finding is supported by Endalkachew Abebe (2013). He found that reliability has a positive and significant effect on customer satisfaction. This finding is also supported by Tizazu Kassa (2012), and Mohamed and Alhamadani (2011). They reported that reliability has a positive and significant effect on customer satisfaction.

The finding of this study also indicates that assurance has a positive and significant effect on customer satisfaction. This finding is supported by Endalkachew Abebe (2013), Tizazu Kassa (2012) and Malik et al., (2011). They reported that assurance has a positive and significant effect on customer satisfaction.

This result also supported by Munusamy et al., (2010), found that assurance has a significant and positive effect on customer satisfaction.

However, the finding of this study indicates that responsiveness has a negative and insignificant effect on customer satisfaction. This result is different with the study by Mohammad and Alhamadani (2011); found that responsiveness has a positive and insignificant effect on customer satisfaction. This finding is also different with the study by Al-Hawary et al., (2011) reported that responsiveness has a positive and significant effect on customer satisfaction. Munusamy et al., (2010) also has different finding. According to him responsiveness has positive and significant effect on customer satisfaction.

The finding of this study indicates that tangibility has a positive and insignificant effect on customer satisfaction. This finding is supported by Mohammad and Alhamadani (2011); found that tangibility has a positive and insignificant effect on customer satisfaction. This finding is also indifferent with the study by Al-Hawary et al., (2011) reported that tangibles has a positive and significant effect on customer satisfaction. Munusamy et al., (2010) also has different finding. According to him tangibles has positive and significant effect on customer satisfaction.

The finding of this study further indicates that empathy has a positive and significant effect on customer satisfaction. This finding is supported by Mohammad and Alhamadani (2011), reported that empathy has a positive and significant effect on customer satisfaction. On the contrary Munusamy et al., (2010) found that empathy has a negative effect on customer satisfaction.

CHAPTER FIVE

FINDINGS CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of key findings, including conclusions derived from the study. The answers of the research questions are discussed followed by the contributions of the study and suggestions for bank managers. Further, it also provides reflection of the study along with recommendations for future research in the area of customer satisfaction and service quality.

5.1 Summary of Findings

This chapter gives a summary of key findings. The study is presented according to the objectives of the study. Conclusions is drawn from the findings and recommendations are given to help improve the quality of the services delivered. The study was planned at investigating the impacts of service quality on customer satisfaction in CBE Addis Ababa branch. The data were obtained through questionnaire from customers of the bank.

The results of background information of respondents indicated that majority of the total respondents (63 percent) are male, (50 percent) aged in the range of 18-30 years, (77 percent) are degree and diploma holders, more than half of the respondents were government employee, (72 percent) had a saving account, (64 percent) used ATM for transaction and (43 percent) of the respondents visits the bank every month. The results of the descriptive statistical analysis indicated that, customers were most satisfied with the reliability dimensions of service quality followed by empathy, assurance and tangibility. Furthermore, customers were less satisfied with responsiveness dimensions of service quality. Again the result of descriptive statistics also indicates that customers are satisfied with the application of e-banking.

The first research question is about level of customers' satisfaction on the bank's services. The result shows that the 88.0 percent of customers are overall satisfied with the bank services and the way it is performed/delivered. It was also found out that the overall satisfaction level is very high with a mean of 4.29 and standard deviation of 0.584. However, there are some customers who were not satisfied with the bank services. The open ended result shows that some of the respondents revealed that due to network problem the ATM machines are not functional. Thus, CBE needs to solve the network problems and meet customer satisfaction.

The second research question is about the perception of customers on service quality. Findings revealed that customers of bank were satisfied by the five service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy). The finding of the study also indicates that, customers were most satisfied with the reliability, assurance and empathy dimensions of service quality. However, customers were less satisfied with the responsiveness and tangibility dimensions.

The third research question is about the significant relationship between service quality and customer satisfaction. Correlation result shows that, all service quality dimensions are positively and significantly correlated with customer satisfaction indicating quality banking service as a prerequisite for establishing and having satisfied customers. According to the correlation result, reliability, assurance and empathy are the dominant determinants of customer satisfaction. Findings of the regression model also revealed that all the five service quality dimensions explained customer satisfaction by 90.7%, but the remaining 9.3% is explained by other unexplored independent variables. On the other hand, the beta coefficients show that unlike responsiveness the four service quality dimensions including reliability, assurance, empathy and tangibility have positive impact on customer satisfaction. However, the result of tangibility is not statistically significant.

To sum up, the findings of this study indicated that reliability and assurance are the most important factors to have a positive and significant impact on customer satisfaction. In addition, except responsiveness & tangibility the three service quality dimensions significantly explain the variations in customer satisfaction.

5.2 Study Limitation

The present study collected relevant data from various sources relating to the respondents' view and for content analysis. In addition, some of the sub-samples are quite small in number while the overall sample is confined to the CBE Addis Ababa Branch customers. The findings should be generalized in providing a description of customer satisfaction of CBE to the rest of the population; however, the findings were not being generalized to other types of bank customers. Moreover, another limitation to the study is the time required to complete the study.

5.3 Conclusion

The purpose of this study is to assess the effect of service quality on customer satisfaction in CBE at Addis Ababa Branch. Moreover, the study examines the relationship between customer satisfaction and service quality in CBE with respect to the service quality dimensions.

In conclusion, knowing how customers perceive service quality and being able to measure service quality can benefit management of CBE. Measuring service quality can help management provide reliable data that can be used to monitor and maintain improved service quality. Using the SERVQUAL model to assess service quality enables management to better understand the various dimensions and how they affect quality and customer satisfaction. This will help the management of CBE to identify those that have strengths and weakness and thereby make necessary improvements.

The study elicited five quality dimensions namely reliability, assurance, responsiveness, empathy and tangibility. The results of the descriptive statistical analysis indicated that, customers were most satisfied with the reliability dimensions of service quality followed by empathy, and assurance. However, customers were less satisfied with responsiveness and tangibility dimensions of service quality.

Correlation result shows that, all service quality dimensions are positively and significantly correlated with customer satisfaction. Specifically, the three quality dimensions namely reliability, assurance and empathy are considered the most important elements to determine the quality of the services. This in turn indicates that quality banking service is a prerequisite for establishing and having satisfied customers.

The regression model summary shows that all the five service quality dimensions explained customer satisfaction by 90.7%, but the remaining 9.3% is explained by other unexplored independent variables. On the other hand, the beta coefficients show that unlike responsiveness and tangibility the three service quality dimensions have positive and significant effect on customer satisfaction.

5.4 Recommendations

Service quality and customer satisfaction are proved to be the important determinants to maintain the overall performance system of the bank. The following recommendations are suggested for service manager derived from the findings of this research.

Responsiveness and tangibility were two of the most important elements of the SERVQUAL model influencing customer satisfaction. But customers of the bank are less satisfied with these dimensions. The bank managers should enhance the responsiveness through telling customers when services will be

performed, providing prompt service to customers and willing to help customers. Moreover, the bank managers should address the tangibility through making the physical facilities of the bank to be visually appealing, employees of the bank to be neat appearing, and materials such as pamphlets or statements are visually appealing at the branch.

It is obvious that if customers do not have a trust on the banking services, it is meaningless to talk about the good will of the bank. Therefore, the bank should handle its customers so as to achieve its organizational aims. Thus, it is worthy to affirm that customers are the key for any business organization's success.

Finally, future researchers are hereby called upon to conduct a research on to measure the effects of service quality on customer satisfaction of the various branches of the bank of the same level, to ascertain the extent of service quality delivery among the commercial banks in Ethiopia.

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APPENDIX THE SERVQUAL INSTRUMENT

This questionnaire aims at analyzing and assessing the service quality and its impact on customer satisfaction in CBE Addis Ababa Branch. I would like to gather some information from you and it will help me analyzing the relationship between the service quality dimensions and customer satisfaction using the SERVQUAL model. I would be indebted if you support me in filling the questionnaire. Since the questionnaire is being used for academic purpose, the information gathered will be strictly confidential.

Alem Mamo

Part 1: Demographic Profile of Respondents

1. Age

- 18 – 30 years
- 31 – 40 years
- 41 – 50 years
- 51 – 60 years
- 60 +

2. Gender

- Male
- Female

3. Educational Level

- No Education
- Primary Education
- Secondary Education
- College Certificate or Diploma
- Bachelor's Degree
- Master Degree and above
- Other (Specify) _____

4. Current Occupation

- Self-employed
- Private Sector employee
- Public Sector employee
- NGO employee
- Other (Specify) _____

Present Usage of Banking Transactions

5. Do you visit the bank:

- Daily
- Every week
- Every two weeks
- Every month

6. Type of accounts used

- Savings account
- Current account
- Investment
- Personal loans
- Insurance services
- Other (Specify) _____

7. Type of channels used to carry out banking transactions

- ATM
- Internet banking
- Mobile banking
- Pass Book
- Letter & Cheque
- Local Money transfer
- Other (Specify) _____

PART 2: PERCEPTION

The following statements relate to your feelings about the particular bank CBE Addis Ababa branch you chose. Please show the extent to which you believe this branch has the feature described in the statement. Here, we are interested in a number that shows your perceptions about this CBE branch. These questions should be scored on a Likert scale from 1 to 5, as in Chart.

Strongly Disagree **Disagree** **Neutral** **Agree** **Strongly Agree**
1 **2** **3** **4** **5**

S/N		Statements	1	2	3	4	5
RL.1	RELIABILITY	When this branch promises to do something by a certain time, it does so.					
RL.2		When you have a problem, this branch shows a sincere interest in solving it.					
RL.3		This branch performs the service right the first time.					
RL.4		This branch provides its service at the time it promises to do so.					
RL.5		This branch insists on error free records.					
AS.6	ASSURANCE	The behavior of employees in this branch instills confidence in you.					
AS.7		You feel safe in your transactions with this branch.					
AS.8		Employees in this branch area consistently courteous with you.					
AS.9		Employees in this branch have the knowledge to answer your questions.					
RP.10	RESPONSIVENESS	Employees in this branch tell you exactly when services will be performed.					
RP.11		Employees in this branch give you prompt service.					
RP.12		Employees in this branch are always willing to help you.					
RP.13		Employees in this branch are never too busy to respond to your request.					
EP.14	EMPATHY	This branch gives you individual attention.					
EP.15		This branch has operating hours convenient to all its customers.					
EP.16		This branch has employees who give you personal attention.					
EP.17		This branch has your best interest at heart.					
EP.18		The employees of this branch understand your specific needs.					
TA.19	TANGIBLES	This CBE Addis Ababa branch has modern looking equipment.					
TA.20		This branch's physical facilities are visually appealing.					
TA.21		This branch's reception desk employees are neat appearing.					
TA.22		Materials associated with the service (such as pamphlets or statements) are visually appealing at this branch.					

PART 3: Customer Satisfaction

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

Strongly Disagree **Disagree** **Indifferent** **Agree** **Strongly Agree**
1 **2** **3** **4** **5**

S/N	Statements	1	2	3	4	5
C.1	I am satisfied with the bank’s complete range of services.					
C.2	I am satisfied with the performance of the employees of this bank.					
C.3	I am satisfied of being a client of this bank.					
C.4	I am satisfied with the bank employees’ professional competence					
C.5	I am satisfied with the quick service of this bank.					
C.6	I am satisfied with the respectful behaviour of employees.					
C.7	General Satisfaction towards the bank’s services					

What you recommend to the bank for further improvements?
