
ST. MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES



**THE EFFECT OF SERVICE QUALITY ON CUSTOMER
SATISFACTION AND CUSTOMER LOYALTY: THE CASE OF
SELECTED COMMERCIAL BANKS IN ETHIOPIA**

**A THESIS SUBMITTED TO THE GRADUATE SCHOOL OF St. MARY UNIVERSITY IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS
OF MARKETING MANAGEMENT (MBA)**

By: - Anna Eshetie

ID; - SGS/ 0643/2010A

Advisor: - Zemenu Aynaddis (Asst. Prof.)

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Declaration

I, the undersigned, declare that this study entitled “*The Effect of Service Quality on Customer Satisfaction and Loyalty: The Case of Selected Commercial Banks in Ethiopia*” is my original work and has not been presented for a degree in any other university, and that all sources of material used for the study have been duly acknowledged.

Declared by

Name: Anna Eshitie

Signature: - _____

Certification

This is to certify that the thesis prepared by Anna Eshitie, entitled “*The Effect of Service Quality on Customer Satisfaction and Loyalty: The Case of Selected Commercial Banks in Ethiopia*” and submitted in partial fulfillment of the requirements for the Degree of Master of Marketing Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Examiner (External)	Signature	Date
Examiner (Internal)	Signature	Date
Advisor	Signature	Date

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List of Abbreviations

ATM : Automated Teller Machine

PCP : Pivotal Core Peripheral

RBV : Resource Based view

SERVQUAL : Service Quality

SPSS : Statistical Product & Services Solution

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Abstract

The purpose of this study was to examine the effect of bank service quality on customer satisfaction and loyalty among commercial banks in Ethiopia. The study was guided by the following research questions: How do customers perceive the quality of bank service offered by different banks? How does bank service quality relate to its customer satisfaction? The objective of the study was to investigate the relationship between bank service quality practices and customer loyalty among commercial banks in Ethiopia. The research used a descriptive cross sectional research design and explanatory research design. This research design was appropriate for this study since it seek to provide an overall picture of the extent to which bank service quality dimensions affect customer loyalty among commercial banks. Primary data was collected from bank customers using a Likert type scale questionnaire. The finding was that most of the commercial banks in Ethiopia use the ServQual dimensions to some extent. Demographics data was analyzed by descriptive statistics while the relationship between service quality and customer loyalty was analyzed using regression model. There was significant relationship between ServQual dimensions (reliability, assurance, tangibility, service portfolio, price and Access) and indicators of customer loyalty. Therefore, this study recommends that management should pay attention to service quality and other factors which may lead to customer loyalty.

Key words: Service Quality, Customer Loyalty, Commercial Banks in Ethiopia.

Chapter one: Introduction

1.1. Background of the study

Service quality has been important primary competitive tool for banks to achieve success in the market place with commonly undifferentiated services. Delivering quality service to customers is vital for success and survival in today's competitive banking. Service quality has drawn attention of researchers and managers in recent decades (Zeithaml, 2000). It has become significant subject because of its impact on customer loyalty. By satisfying customers through high quality service, business firms not only retain their current customers, but also increase their market share (Finn and Lamb, 1991).

Service quality has become a critical prerequisite for satisfying and retaining valued customers in banks. The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty with the product or service, greater willingness to recommend someone else, reduction in complaints and improved customer retention (Zeithaml et al., 1996). Further, a satisfied customer is likely to be a loyal customer who will give repeating business to the bank (Heskett et al., 1994). Most importantly, the cost of retaining current customers by improving product and services is significantly lower than the cost of winning new customers. Service quality is one of the serious components in any service sector because service quality helps to maintain competitive advantages in the market place. Therefore, service quality is the strategic tool to reinforce competitive advantages and increase profitability in business (Tam, 2004). So many service sectors are using this strategic component to attract and retain customers. Hence, service quality is determined through customer satisfaction and customer satisfaction is determined through customer loyalty. Similarly, in order to provide superior services to the clients, at first service providers must understand how clients perceived and evaluated their services. After that, service providers can assume clients are facilitated by various services provided by service sectors (Zeithaml et al., 2002)

Affinity between both service quality and customer satisfaction is highlighted in empirical research (Bitner et al., 1990). Therefore, relationship between customer satisfaction and service quality is very critical in service sector like banking. In case of banking sector, clients are attracted by high quality services. Moreover, advancement in technology helps banking sector to

Upgrade their service quality (example: ATM, Online Banking, Mobile Banking, and Visa card). The point is that clients are interested to those products, which have a greater value as compared to those of competitors'. In addition, consumers too are, now days demanding high quality products and services than ever before.

Banking industry in Ethiopia is consequently put into lot of pressures 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. For this reason, every banking institution should focus on service quality in order to satisfy customer and retain customer loyalty.

The level of service quality, customer satisfaction and service loyalty have become a critical factor for survival to the banking sector and others service industries as it's involves frequent interaction with customers. Consequently, the banking sector has invested significant investment in an effort to improve service quality.

Zeithalm and Bitner (2004) suggested that customer satisfaction and dissatisfaction is the effect of assessment on quality customer service and offered value by company. Tjiptono (2005) states service quality has an effect on customer satisfaction, word-of-mouth, repeat purchase, loyalty, market share, and profitability. Kotler (2000) suggested that customer satisfaction can be built through the quality of goods/services, customer service and value. This suggests that service quality is a variable that affect customer satisfaction. Customer satisfaction is the best guarantee to create and maintaining customer trust to face global competition. Creating a superior service quality should supported human resources that are reliable and adequate technology. Company success to maintain customer loyalty is affected by many factors including; service quality, either directly or mediated by an increase in role of trust, commitment and customer satisfaction. Pursuit service quality becomes an important factor for any business that is driven by need to remain competitive (Hu et al., 2009). Furthermore, service quality is one antecedents of customer satisfaction and loyalty (Herington and Weaven, 2009; Mohamad and Awang, 2009). High level of service performance is believed to be an effective way to improve customer satisfaction, trust, and customer loyalty (Huang and Liu, 2010; Kim et al, 2007).

A lot of researches on service quality and its association with customer satisfaction and loyalty have been conducted in developed countries. But, due to countries cultural differences and variety of banks available within it, (Zafar, et al., 2012) recommend future studies to examine service quality, customer satisfaction and loyalty in different countries of different banks.

In view of this, this research intends to examine the effect of service quality on customer loyalty on commercial Banks in Ethiopia. The Bank Service quality model with six dimensions developed by Bahia and Nantel (2000) will be used to evaluate the effect of service quality on customer loyalty among Commercial Banks customers in Ethiopia.

1.2. Statement of the problem

The interrelationships between service quality, customer satisfaction and customer loyalty may provide creative ideas for improving services in order to gain a competitive advantage in the retail-banking sector. Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. Service quality is one of the most attractive areas for researchers over the last decade in the retail-banking sector.

The service provided by different commercial banks in Ethiopia is stated to be beneath their expectation and less than satisfactory according to customer surveys conducted in previous researches (Yonatan(2010); Mesay (2012) et al). this research projects have indicated in their single-bank and SERVQUAL/SERVPERF assessment that the expectation of customer are not met or that the customers have low perception of service quality in investigated banks. However, most of these studies focused on drawing an association or causal relationship between service quality, customer satisfaction and loyalty based on single bank assessment, which leads to external validity problems. Moreover, they do not employ bank specific measurement instrument to survey the perception of service quality level and the result of these studies were inconclusive. With the view of alleviating, that Hussen (2012) and Yonatan (2010) in their research have called for the adoption of another model and measurement scales that is relevant to retail banking sector or modification of the usual service quality dimension to better capture service quality in the context of Ethiopian retail banking sector. Similarly, Elias (2012) has suggested industry level evaluation rather than specific bank evaluation of perceived service quality.

In the light of those backgrounds, this research studies the perception of customers toward the service quality of Ethiopian Commercial banking sector by employing Banking Service Quality (BSQ) model. Since the BSQ dimensions have been found to have high reliability and validity to measure service quality in retail banking sector in the study by Bahia and Nantel (2000) and subsequently in banking service quality comparative study by Glaveli, et al (2006), the researcher believes that the BSQ dimensions and scale can be better than other service quality measurements mostly used in past research projects i.e. SERVQUAL/SERVPERF or Hierarchical.

In regard of service quality and customer satisfaction being important factors for the enhancement of customer loyalty, Michael (2002) manifested that ‘a causal relationship and interdependence between service quality, customer satisfaction and customer loyalty, necessarily seen as a whole for evaluation and management’. For all companies, important issues for running a business are meeting customer's needs and making them satisfied. Nevertheless, many researches pointed out, higher customer satisfaction will enhance customer loyalty; next, the enhancement of customer loyalty will contribute to make profits for the business and facilitate the company's growth; therefore, the enhancement of customer satisfaction is very important, and customer loyalty cannot be overlooked by the companies. However, in the knowledge economy era, those who can master the service quality for customers, and their satisfaction will grasp the competitive advantages, further enhance their loyalty, which has been one of current key issues worth researching. Hence, this study wants to examine the effects of service quality on customer loyalty on selected commercial Banks in Ethiopia.

1.3. Research Questions

The study tried to answer the following research questions:

1. What are the service quality levels of Commercial banks in Ethiopia?
2. What is the relationship between service quality and customer satisfaction?
3. What is the relationship between customer satisfaction and loyalty?

1.4. Objectives of the Study

1.4.1. General Objective

The main objective of the study is to examine the effect of service quality (dimensions) on customer satisfaction and loyalty among Commercial Banks in Ethiopia.

1.4.2. Specific Objectives

The specific objective of the study includes:

1. To determine the service quality levels of Commercial Banks in Ethiopia.
2. To establish the relationship between service quality and customer satisfaction of Commercial Banks in Ethiopia.
3. To establish the relationship between customer satisfaction and loyalty of Commercial Banks in Ethiopia.

1.5. Significance of the research

This research will try to get insight about what customer think about the quality of the service that they receive from different Commercial Banks in Addis Ababa. Particularly, this research will try to identify those factors of the service quality that contribute and influence customer loyalty. Besides, the finding of the research can and may give stakeholders of the different Banks an overall insight on how much the quality of service that they are providing to their customer has a positive or negative effect on the level of satisfaction that customers will expect and in retaining premium customers. In addition, the research findings may be able to indicate innovative ways to improve service quality to customers and revise the current services provided by these banks so that they could remain competitive and leader of the industry by offering services that would be in line with or beyond the needs and expectations of their customers.

Lastly, the study aims to serve as a guideline for further researcher who will conduct a study on service quality in the banking industry or related fields.

1.6. Scope of the study

The study is confined to Four Commercial Banks in Addis Ababa of selected Public and private Banks which are CBE, Dashin Bank, Abyssinia Bank and Nib Banks to measure the effect of service quality on customer loyalty.

1.7. Limitations of the study

Geographically, this is limited to Commercial Banks that are only planted in Addis Ababa city though there are many commercial Banks both private and public all over the country.

Methodologically, the study plans to use convenience-sampling technique and thus, it may be difficult to get an equal probability of all customers from the selected Banks being considered for sampling purpose. Hence, it could be very difficult to generalize and conclude that, the findings of this study would be valid across all Commercial Banks in Ethiopia, which exists both in Addis Ababa and outside Addis Ababa.

1.8. Operational definitions

➤ Service quality:

Defined as “the degree and direction of discrepancy between consumer’s perceptions and expectations in terms of different but relatively important dimensions of the service quality, which can affect their future purchasing behavior.” Parasuraman et al (1985).

➤ Customer Satisfaction:

Kotler& Armstrong (2012) conceptualize customer satisfaction as the extent to which a product’s perceived performance matches a buyer’s expectation. Moreover, Thakur (2005) contends that customer satisfaction includes customers’ perception that they are properly served. Therefore, the customer satisfaction is operationally defined here as customers’ perception that their needs have been served and their rating that their expectations are met.

➤ Customer loyalty:

is a behavior of repeat purchasing of a particular product/service over time.

1.9. Organization of the study

The study will be organized into five chapters. The first chapter will deal with introduction part of the study providing details related to the background of the study, statement of problem, objectives of the study, research questions, significance of the study, scope of the study, limitation of the study, and organization of the study. Chapter two will deal with the literature review, Chapter three will deal with methodologies to be used, and chapter four will present data analysis, findings and discussions of the data that will be gathered. Chapter five will deal with conclusions and recommendations of the study.

Chapter Two: Literature Review

This part covers the theoretical foundation on bank service quality dimensions and long-term relationship with customer, theories related with dimensions of bank service quality, the link between bank service quality and customer loyalty and conceptual frame work for bank service quality dimensions and long-term relationship with customer was brought into sight.

2.1. Theoretical framework

2.1.1. Service quality

Today, with increased competition, service quality has become a popular area for academic studies and has been recognized as a competitive advantage and supportive relationship with satisfied customers (Zeithmal, 2000). Also, quality of service has become an important tool in the service industry. According to Saghier, and Nathan (2013), service quality is an important concept in the service industry and is more important for financial service providers who have difficulty in showing their customers product differentiation. Moreover, several studies have

Been pursuing quality of service, and a number of theories and models have been developed to address this issue and highlight the importance of implementation and different dimensions. Furthermore, there are numerous definitions and measures of service quality, but there is no consensus on a single definition. Quality of service has been defined as an overall evaluation done by the customer service (Eshghi et al, 2008), while other researchers have defined the customer service as the extent to which services meet customers' needs or expectations. In addition, quality of service is defined as the degree of discrepancy between customers' normative expectations for service and their perceptions of the performance of the service (Parasuraman et al., 1994).

Negi (2009) suggests that customer-perceived service quality has been given increased attention in recent years, due to its specific contribution to business competitiveness, developing satisfied And loyal customers. This makes service quality a very important construct to understand by firms by knowing how to measure it and making necessary improvements in its dimensions where appropriate especially in areas where gaps between expectations and perceptions are wide.

The ability to provide a quality service will, therefore, improve a commercial banks' ability to increase market share and profitability, whilst at the same time reducing their existing customers switching

propensity to another institution. Thus, the ability to consistently provide a high quality service offering may well act as a key strategic differentiator. Furthermore, successful organizations perusing quality have realized that quality improvements must be focused where most productive (Keiningham, et al., 1995). Improved quality has a three-fold pay-off; namely reduced costs, increased customer retention, and attracting new customers drawn to the quality service provider (Keiningham *et al.*, 1995). In order to achieve service quality, it is important to identify key service expectations and focus efforts at the most beneficial point in the customer

2.1.2. Customer Satisfaction

Customer satisfaction is a result of the provision of services and goods that either meets or exceeds customer needs. The literature discusses two approaches to operationalize satisfaction, namely transaction-specific and cumulative satisfaction.

Transaction-specific satisfaction is identified as a customer's evaluation of his/her experience with a particular service/product transaction (Olsen & Johnson, 2003) whereas cumulative satisfaction is the customer's overall consumption experience with a product/service over time. Many of the previous studies on customer satisfaction use the cumulative satisfaction concept (Gupta & Zeithaml, 2006).

When a customer is evaluating the service performance of a firm, he/she compares his/her expectation prior to purchase or consumption with the actual service provided. If the service/product performance equals or is above his/her expectation, satisfaction is guaranteed. However, when the service/product performance is below expectation (a negative disconfirmation), the customer feels dissatisfied (Oliver, 1980). According to Reichheld (1993), satisfied customers are more likely to recommend the bank to others, thereby reducing the bank's cost of providing even more services because of fewer complaints. Studies have proven that the level of satisfaction experienced by customers in respect of a service/product will influence their decision to remain as a customer of the bank (e.g. Levesque & McDougall, 1996; Amin et al., 2011) .

2.1.3. Customer loyalty

Consumer satisfaction is not the ultimate goal for company. Company effort to satisfy the consumer is intended to get consumers loyalty to a product, brand or services. Creating customer loyalty is essential for company to maintain continuity of their business because loyal customers are foundation for stability and growth in market share. In this study, loyalty refers to the continuing patronage of a particular bank by a customer over time (Ladhari et al., 2011).

Bearden and Teel (1983) state that customer satisfaction is important as it guarantees purchase repetition and customer loyalty. When a customer is loyal to a bank, he/she will stay with the same bank, continuously using it, making purchase of new services with the bank, and recommending the bank's services to others.

On the other hand, when a customer is dissatisfied with the bank's services/products, he/she will react negatively and switch to another bank (Amin et al., 2011).

2.2. Service Quality Measurement Instruments

2.2.1. SERVQUAL model

The SERVQUAL tool has brought an extensive recognition as a best tool to investigate, review and measure the quality of services of several industries like banking, healthcare, hotels, etc. (Akter et al., 2008). As a result, it is an extremely supportive instrument but it cannot be implemented in the same way in all of the various industries. Therefore, It needs modification depends on the situations. For Such a different situation such as in the banking industry, the SERVQUAL instrument tools had to be modified in order to fit the particular requirements of the bank (Mostafa et al., 2005).

According to Parasuraman et al (1988), there are five dimensions of service quality that are appropriate to service providers. These dimensions have experienced several modifications and many authors came up with various dimensions related to SERVQUAL which has been recognized and implemented in various industries.

A research study that was recognized as one of the most wide ranging studies in the area of service quality was conducted by Parasuraman et al. (1988). It was offered as a multidimensional construct. In their original formulation Parasuraman et al. (1985) identified ten components of service quality; Reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, tangibles. In their work of 1988, these components were collapsed into five service quality dimensions.

The current form of SERVQUAL includes twenty two sub divisions which assist measuring service quality across the five rater dimensions which are applicable to service providing organization in general (Akter et al., 2008). According to Akter et al., (2008) those service quality dimensions with its unique features are given below:

– **Reliability**: the ability to carry out the promised service dependably and accurately

Responsiveness: the willingness to support and/help the customer and provide prompt service. It emphasizes special treatment and promptness in dealing with customer query, complaints and problems. It is communicated to customers according to the length of time they have to stay in order to get support, answer their questions, or special attention to their problems.

– **Tangibility**: referring to the appearance of physical facilities, equipment and appearance of personnel or staffs. It represents the physical image of the service that the customer will use to evaluate service quality.

– **Assurance**: referring to the knowledge and courteousness of the staff and their ability to entertain trust and confidence. Assurance is significant for services that customers perceive as high risk or where they feel doubtful about their ability to measure outcomes.

This is especially significant to banking services and healthcare.

– **Empathy**: providing individualized attention provided to customers. The essence of

Empathy is conveying, through personalized, customized, or individualized services that customers are unique and special and their needs are specified.

2.2.2. SERVPERF model

SERVPERF is a variant of SERVQUAL that contains only the perceived performance component of SERVQUAL. It is a performance-only service quality measurement instrument based on the conception that expectation of service quality influence customers perception of service quality but service quality is not a gap between expectations and perception of service quality.

Cronin and Taylor (1992) also use another method to measure service quality and they focus on measuring the actual performance of the service provided to the customer based on that the quality of service was expressed as a kind of trends and this method in measuring quality of service was actual performance measure or SERVPERF scale. As it was seen by the founders of this scale it was distinct from earlier measurements by simplicity and ease of the use, as well as its higher degree of credibility and realism because it excluded the subtraction of customers' service expectations from customers' service perceptions.

SERVPERF only measures performance perceptions and operationalize service quality as customers' evaluations of the service encounter. It uses only performance data because it assumes that respondents provide their ratings by automatically comparing performance

Perceptions with performance expectations. As a result, SERVPERF uses only the performance items of the SERVQUAL scale (Brady et al., 2002). Arguments in favor of SERVPERF are based on the notion that performance perceptions are already the result of customers' comparison of the expected and actual service (Babakus and Boller, 1992). Therefore, performance only measures will be preferred for the purpose of this study. Thus,

SERVPERF assumes that directly measuring performance expectations is unnecessary. Cronin and Taylor (1992) built their argument for the superiority of SERVPERF over SERVQUAL by empirically showing that SERVPERF is a better predictor of overall service quality than SERVQUAL. Nevertheless, many authors concurred those customer assessments continuously provided services might depend solely on performance. Hence, the authors suggesting that performance-based measures explain more of the variance in an overall measure of service quality. These findings are consistent with other research that have compared these methods in the scope of service activities, thus confirming that SERVPERF (performance-only) results in more reliable estimations, greater convergent and discriminate validity, greater explained variance, and consequently less bias than the SERVQUAL and EP scales (Cronin and Taylor, 1992; Parasuraman et al., 1994).

2.2.3. Bahia and Nantel's Scale (BSQ)

The Banking Service Quality scale was developed to measure the perceived service quality in retail banking. Bahia and Nantel (2000) used a number of the SERVQUAL dimensions, such as assurance, tangibles and reliability and incorporated additional dimensions such as access and courtesy, as suggested by Carman (1990), as well as “additional dimensions in order to cover all the facets of the marketing mix. Booms and Bitner's (1981) framework was used to represent the marketing mix with the seven Ps: (1) product/service; (2) place; (3) process; (4) participants; (5) physical surroundings; (6) price; and 7(promotion” (Bahia and Nantel, 2000).

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After modification, the dimensional structure of the scale was based on six dimensions, related to specific banking services.

The first dimension is **effectiveness** and **assurance**. Effectiveness refers to the delivery of service, (especially the courtesy and friendliness of the employees

and the ability of staff to inspire a feeling of security, while **assurance** refers to the staff's ability to exhibit their communication skills and to deal with customers' needs in a confidential manner.

The second dimension is **access**, which measures the speed of service delivery. The third dimension, **price**, assesses the service delivery cost. The fourth dimension is **tangibles**, which refer to the personal appearance

of staff and the existence and cleanliness level of the bank's physical facilities. The fifth dimension is **services portfolio**, which measures the range, innovation and consistency of services offered by banks. The sixth dimension is **reliability**, which assesses the ability of bank employees to deliver the promised service accurately and without error.

2.3. Service Quality in Banking Services

According to Sulieman (2013), the service quality of banking services provided to customers have been enhanced and it can be used as a foundation for realizing service excellence to meet competition, where distinguished service has become the basis for differentiation between the banks. The concept quality of service is to match and adapt to the requirements which means that service institutions such as banks, must have certain requirements and specifications of the services it provides to customers. Under the alteration of the business environment, banks are seeking to reach beyond the quality by providing a distinguishing banking services, creating a sense of satisfaction to the customer through the service acquired and met their anticipation.

2.3.1. Relationship between Service quality and customer satisfaction

Though service quality and customer satisfaction seem to be similar, many have questioned if they are identical. In fact, some empirical studies show that the two constructs are conceptually distinct. The idea of relationship between service quality and customer satisfactions has existed for a long period of time. Both constructs have positive impact on repurchase intention and a favorable word of mouth communications. Satisfaction has a positive impact on post purchase behavior and service quality directly and indirectly exerts influence on repurchase intention through its influence on satisfaction (Hossain, 2012).

Studies suggest that there is a positive relationship between service quality and the satisfaction of customers (parasurman and berry, 1988). Moreover, other researchers suggested that there is a positive relationship between service quality, retention and future intention of customers (Ahmad et al., 2011; Jajae and Ahmad, 2012). Naeem and Saift (2009) found that customer satisfaction is the outcome of high service quality within the banking sector.

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”. Jamal and Naser (2003) stated that service quality is the antecedent of customer satisfaction. However, they found that there is no important relationship between customer satisfaction and tangible aspects of service environment.

2.3.2. Relationship between service quality and customer loyalty

About the relationship between service quality and customer loyalty, lots of views have been put forward by scholars. Some scholars have proved that service quality can directly affect customer loyalty through empirical research. Parasuraman, et al (1985) pointed out that the relation between service quality and customer behavioral intention is closely, customer's final action will be decided by service quality. In addition, the service quality will affect customer willingness to recommend to others. As we know, recommendation intention is an important index of customer loyalty. Therefore, there is a positive correlation between service quality and customer loyalty.

2.3.3. Relationship between service quality, customer satisfaction and customer loyalty

Korda and Snoji(2010) in their research on retail banks of Europe's transitional economies suggested that higher levels of perceived service quality, and especially perceived value of organizations offerings lead to greater levels of customer satisfaction and loyalty and higher performance results.

Many researchers have investigated the topic of customer loyalty and its relation to service quality and customer satisfaction in depth. Continuing in the same context, Sivadas and Baker-Prewitt (2000), have examined the applicability of Oliver's model in the store loyalty context. The findings indicate that service quality, satisfaction, and fostering a favorable relative attitude have a positive impact on the probability of customers recommending the store to others, which leads to an increase in repurchase intentions which in turn fosters store loyalty

2.4. Empirical framework

2.4.1. Assurance

Bank service quality, customer satisfaction and loyalty in Ethiopian Banking Sector were investigated by Shanka (2012). The major aim of the research paper is to measure the quality of service offered by private banks operating in Ethiopia. The research will try to prove which of these elements; empathy, responsiveness, tangibility, assurance, or reliability plays the most important role in customer satisfaction level. The research findings also indicate offering high quality service increase customer satisfaction, which in turn leads to high level of customer commitment and loyalty. Mesfin W. (2014) has examined the importance of Bank Service Quality (BSQ) dimensions in predicting and explaining the outcome variable of overall service quality, customer satisfaction and customer loyalty. Accordingly, he has concluded that Assurance and effectiveness, reliability and tangibles respectively were found to be the most important

BSQ dimensions in predicting customer satisfaction and loyalty. Blery et al. (2009) in their research stated that it is the level of knowledge and courtesy of employees for providing services and to build confidence in customer. Moreover, skilled employees who treat customers with respect and make consumers feel that they can trust the firm exemplifies assurance. Awan et al, (2011) investigated the service quality and its relationship to customer satisfaction among the customers of conventional banks and Islamic banks. They carried a survey using a modified SERVQUAL scale to 200 walk-in customers conveniently drawn. The study used regression analysis and identified five service quality dimensions namely; empathy, service architecture, convenience service encounter, employee service criteria, customer focus and five customer satisfaction dimensions: responsiveness, competency, safe transaction, competitive services and knowledge for the overall banking. On the basis of this logic, the researcher hypothesizes the following:

H1: Assurance has a positive and significant effect on the long-term customer relationship in Ethiopian commercial banks.

2.4.2. Access

Wang and Wang (2006) undertook a study on how internet affects service quality in the banking sector. He found out that the use of internet is more convenient, saves time and easy to access. This observation is relevant to this study because, one of our specific objectives is to know how bank service influences bank customer retention. Specifically, this study intends to examine service quality to see if accessibility of bank service, such as ATM services if it enhances customer retention. On the basis of this logic, the researcher hypothesizes the following:

H2: Access has a positive and significant effect on the long term customer relationship in Ethiopian commercial banks.

2.4.3. Price

Fikirte (2016) assessed the level of customer satisfaction and factors affecting customer satisfaction in commercial banks of Ethiopia on the selected branches in Addis Ababa, Ethiopia. Survey method was employed and primary data were gathered through the use of questionnaires. The questionnaires were analyzed using descriptive statistics, T-test, one-way ANOVA and regression with the support of SPSS for analysis and summarization purposes. The findings based on four different independent variables (demographic variable, service quality, corporate image

and price) revealed that age and education are demographic factors that have significant influence on customer satisfaction. The study also indicated that Empathy, reliability and assurance from dimension of service quality have a significant influence on customers' satisfaction. The study has also identified corporate image and price hold significant influence on customer's satisfaction. The study also found out that majority of the customers is satisfied with the services of commercial bank of Ethiopia.

H3: Price has a negative and significant effect on long-term customer relationship in Ethiopian commercial banks.

2.4.4. Tangibility

Dubey and Srivastava (2016) studied the impact of service quality on customer loyalty on telecom sector in India. Five antecedents of Service quality have been considered in this study viz, empathy, assurance, responsiveness, tangibility and reliability based on SERVQUAL model of Parasuraman et al (1988). Results depicted that service quality has significant and positive impact on customer loyalty and out of four antecedent of service quality tangibility has significant impact on customer loyalty. Ilhaamie (2010) examined the level of service quality, expectation and perception of the external customers towards the Malaysian public services using the SERVQUAL instrument. The study found that tangible is the most important dimension. It also has the lowest scores of perceptions. On the other hand, service quality gap is neither the lowest nor the highest. Finally, these external customers have the highest expectation on the reliability of the Malaysian public service. Mukhtar et al, (2014) documented on customer satisfaction towards financial services of banks in Bahawalpur, Pakistan. The study used correlation analysis to check the intensity of relation of customer satisfaction with dimensions of service quality. These dimensions included reliability, assurance, responsiveness, empathy and tangibility. The study found that service quality is positively correlated with customers' satisfaction. The most important variable that affects customer satisfaction is tangibility, which is followed by assurance. Regression equation derived from regression analysis shows that only assurance and tangibility has significant correlation with customer satisfaction, but reliability, empathy and responsiveness has no importance relationship with customer satisfaction. On the basis of this logic, the researcher hypothesizes the following:

H4: Tangibles has a positive and significant effect on long-term customer relationship in Ethiopian commercial banks.

2.4.5. Reliability

Leninkumar (2016), has also conducted a research on the effect of service quality on customer loyalty. The study attempted to find the relationship between service quality dimensions and customer loyalty in the Commercial Banks of Sri Lanka. The data was collected from 300 customers of four leading commercial banks through questionnaire. The finding of the research revealed that three dimensions of service quality namely, tangibles, reliability and empathy have significant and positive effect on customer loyalty. Sarvankumar and Jayakrishnan (2014) studied the effect of Service quality on Customer loyalty empirical evidence from co-operative bank in India. 415 customers were involved in the research process and the research was analyzed through correlation and regression method. The findings of the research indicated that, service quality has the impact on customer loyalty. however, empathy and reliability were service quality dimensions which influenced customer loyalty significantly. Yonatan (2012) has also conducted a research on Customers' Perception of Service Quality in Ethiopia banking sector, in which its objective was to evaluate the level of perceived service quality in the banking sector and to prioritize the service quality dimensions in terms of their importance to customers using SERVQUAL instrument. And the research has find out that the banking sector is falling behind in meeting customer expectations as evidenced from the higher gap score in most of the SERVQUAL dimensions. Moreover, while ranking the five dimensions' respondents rated Reliability as the most important service quality indicator at the three banks.

Kheng et al, (2010) employed the SERVQUAL model developed by Parasuraman et al., 1988 with five dimensions to evaluate the impact of service quality on customer loyalty among bank customers in Penang, Malaysia. Customer satisfaction was used as an intermediate variable. The findings show that improvement in service quality can enhance customer loyalty. The service quality dimensions that play a significant role in the equation are reliability, empathy, and assurance. The findings indicate that the overall respondents evaluate the bank positively, but still there are rooms for improvements. On the basis of this logic, the researcher hypothesizes the following:

H5: Reliability has a positive and significant effect on customer long term relationship in Ethiopian commercial Banks.

Ali et al (2012) in their study on the influence of service quality on service loyalty in Irangate Company measure the quality of service provided by a website in terms of 4dimensionsand examined its impact on customer loyalty. The finding of the study indicated that there is strong relationship between service quality and customer loyalty.

UshaLenka, et al (2009) examined whether service quality of Indian commercial banks increases customer satisfaction that fosters customer loyalty. Data were collected from 350 valued customers of scheduled commercial bank branches in Orissa (India). A questionnaire elicited information on socio– demographic variables along with human, technical, and tangible aspects of service quality, customer satisfaction, and loyalty. Results suggest that better human, technical and tangible aspects of service quality of the bank branches to increase customer satisfaction. Human aspects of service quality were found to influence customer satisfaction more than the technical and tangible aspects.

2.5. Conceptual framework and hypothesis

Most studies confirm that there is a relationship between service quality and customer satisfaction. Many research works in retail banking sector of Ethiopia have also consistently found low level of predictive and explanation statistical result between service quality dimensions and overall service quality or /and service quality vis-à-vis customer satisfaction and loyalty by employing the common and universal service quality dimensions (reliability, tangibles, responsiveness, empathy and assurance). It is the researchers believe that a strong relationship and a better level of model fitness can better be solicited by adapting (at item/variable level) the bank specific service quality model to map service quality in Ethiopian private banking sector. Moreover, most of the previous research are bank specific and lacks to represent the banking sector at large. It is the understanding the researcher that by employing and administrating the Banking Service Quality (BSQ) scale that is developed by Bahia and Nantel(2000) on sample population of representative banks, significant generalization could be made toward the level of perceived service quality in the sector. And the relationship between the dimensions of service quality, overall service quality, customer satisfaction and loyalty could be better captured.

Service quality in this research is conceptualized by adapting the Banking Service Quality (BSQ) model which is developed based on original SERVQUAL model's (Parasuramn et al, 1985) ten dimensions to address the expanded service marketing mixes and banking service peculiarities. BSQ scale has six dimensions; Effectiveness and assurance, access, price, tangibles, service portfolio and reliability. Glaveli et al (2006) in their research to compare bank service quality level in five Balkan countries have adopted the model. It is believed in this research that perceived service quality of Ethiopian commercial retail banking customers is the aggregate of the six BSQ model dimensions. The measurement of perceived service quality and causal relationship between service quality and loyalty in retail banking sector based on SERVQUAL/SERVPERF model has been dealt with and have been ascertained by different academic researchers' locally (Mesay, 2012, Hussen(2012), Belay(2012) and others). The results

Have showed that service quality has significant effect on customer loyalty in the retail-banking sector. In this study, however the measurement of service quality and causal relationship between the Banking service quality and customer loyalty will be done by employing BSQ model.

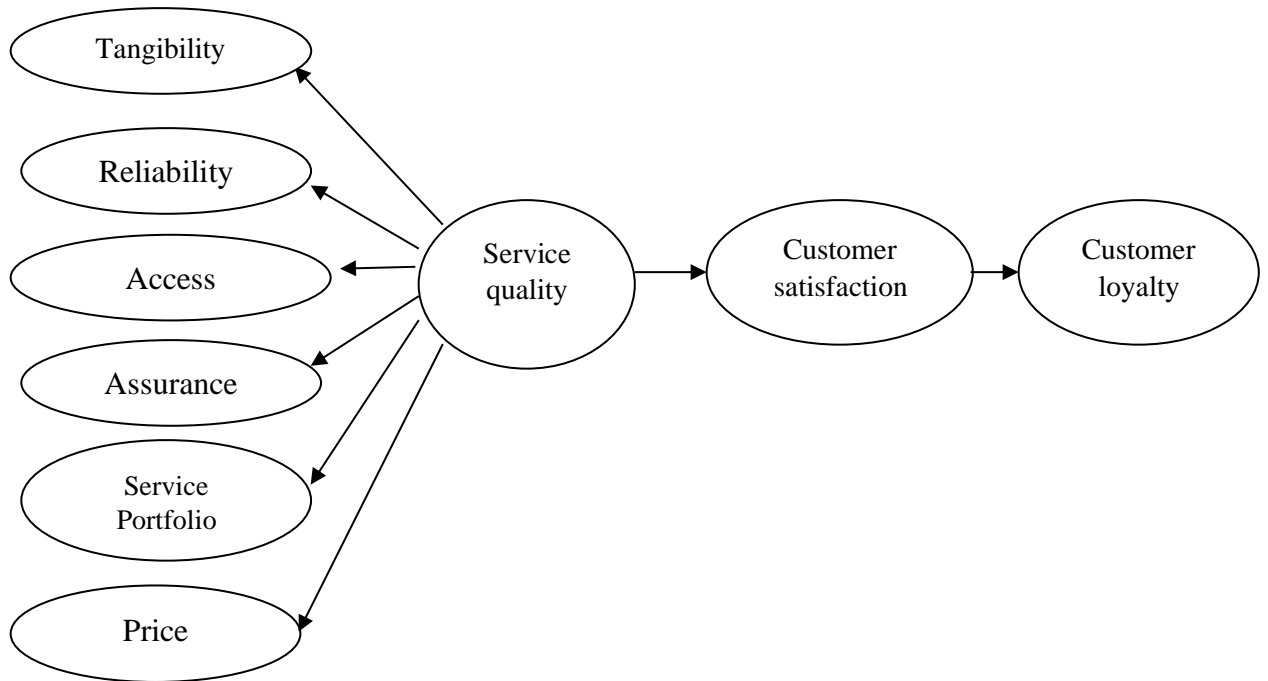


Figure 2.1: Conceptual framework

Source: Parasuraman (1988); Zeithmal et.al, (1996) and Caruana (2002)

Chapter Three: Research Methodology

This part describes the methodologies that has been be used in this study. It outlines the choice of particular research design, research approach, sample and sampling techniques, source of data collection, data collection instruments, and method of data processing and analysis.

3.1. Research approach

There are universal research approaches that are normally adopted in a study or research work. The most common are the quantitative and qualitative approaches. According to Bryman& Bell (2003), the qualitative method is collecting, analyzing, and interpreting data by observing the behavior of people, whilst quantitative research is objective and measurable. In line with the objectives of this study, quantitative research approach was applied. Quantitative research normally gives emphasis to quantification in the collection and data analysis.

3.2. Research Design

Research can be classified as descriptive, explanatory and exploratory depending on the specific objective that the research tries to address. Descriptive research sets out to describe and to interpret what is. It looks at individuals, groups, institutions, methods and materials in order to describe, compare, contrast, classify, analyze and interpret the entities and the events that constitute the various fields of inquiry. It aims to describe the state of affairs, as it exists. On the other hand, explanatory research, aims at establishing the cause and effect relationship between variables. Exploratory research is often conducted in new areas of inquiry, where the goals of the research are: (1) to scope out the magnitude or extent of a particular phenomenon, problem, or behavior, (2) to generate some initial ideas (or “hunches”) about that phenomenon, or (3) to test the feasibility of undertaking a more extensive study regarding that phenomenon (Bhattacharjee, 2012).

In light of that, the current research will have descriptive and explanatory futures. Explanatory because it tried to explain and predict the interrelationship between BSQ scale dimensions and overall service quality, customer satisfaction and loyalty. At the same time, the design of the research could be labeled as descriptive, since it attempted to describe the customer perception of service quality on commercial banks in Ethiopia.

3.3. Sample size and sampling technique

The target population of the study was customers from all commercial banks and the total sample size were determined by using simple random sampling. And out of all commercial banks four banks which are CBE, Abyssinia Bank, Dashen Bank and NIB Bank were selected randomly as a sample based on the assumption that these banks represent the remaining commercial banks which exists in Addis Ababa.

Since the total population size of these banks is not known, the following formula was used to determine the total sample size.

The representative sample size are determined by using estimation method given by Cochran (1963).

$$N_0 = Z^2 pq / e^2$$

Where, **n₀** is the required sample size

Z₂- level of confidence (the value of Z found in the statistical table, which is 1.96 for 95% confidence level

p- is the estimated proportion of an attribute that is present in the population, and **q** is 1-p

e- is the level of precision or sampling error.

The sample were drawn from maximum variability of the population (P=0.5) with 95% level of confidence with 5% precision level.

Therefore,

$$N_0 = 1.96^2 \times 0.5 \times 0.5 / 0.05^2 = 384$$

In addition, the total sample size for this research was divided for each Banks proportionally based on the number of branches that each Bank has in Addis Ababa with referring National Annual Report of 2018/2019.

None-probability sampling procedure was used for data collection. Under this sampling procedure convenience sampling procedures is found to be appropriate in selecting customers/ who will be a respondent through the process of collecting and gathering data for this study. In the questioners administering process branches of all four banks were selected conveniently.

Convenience sampling was used for collecting large number of completed surveys quickly and economically. The non-probability sampling method was adopted due to lack of finance and time constraints.

In non-probability sampling, convenience sampling is the best choice and most frequently used method due to its time and cost advantages (Lym et al., 2010). Therefore, the research was appealed to customers who were available in different branches of the selected banks.

3.4. Sources and Method of Data collection

Both primary and secondary data collection methods were used in this study and primary data were collected through questionnaires from those customers who were volunteer to participate and are able to fill questionnaires.

The questionnaire were developed using BSQ model developed by Bahia and Nantel (2000) which consists six dimensions of tangibles, reliability, service portfolio, assurance, price and access to measure the level of bank service quality that customers perceive in the bank and it was tested using a five-point Likert scale starting at (1) = strongly disagree to (5) = strongly agree and the other parts that measured loyalty of customers were prepared and distributed so that respondents could rate the service quality and their relationship accompanied by their loyalty to the banks service level.

Secondary data were collected from books, journal, articles, prior researches, reports and other written documents related with the research title and that helps to develop knowledge areas of the topic.

3.5. Data analysis techniques

The primary data collected from the survey questionnaire were analyzed using statistical package for social science SPSS version 24 for windows in order to address the research questions and test the hypotheses' that were proposed. The descriptive and inferential statistics test and analysis were employed in the data analysis. The specific techniques that this study adopted are given below;

Frequency and Descriptive statistics: was used to profile and describe the survey respondents' characteristics.

Measure of central tendency (Means) and dispersion standard deviations: was used to measure and identify the perception evaluation of service quality of customers based on the score of each dimension items.

Independent sample T-Test: was used to compare the relative mean score of each BSQ dimensions in between the private and public Banks

Pearson correlation; In order to assess the association between the BSQ dimensions, overall service quality and customer loyalty Pearson correlation were employed. When there are two variables, the analysis concerning relationship is known as bivariate analysis. Bivariate analysis in order to assess correlation on

modern statistical packages could utilize three alternative correlation techniques; Pearson correlation, Spearman rho and Kendall's tau-b. The latter two are suitable for ordinal and non-parametric data set. Hence, to test the above hypothesis bivariate correlation of Pearson product-moment and its coefficient(r) was used in this research.

Multiple Regression analysis: Regression analysis is a way of predicting an outcome variable from one predictor variable or several predictor variables (Field, 2009). The former is called simple regression and the latter is multiple regression analysis. In general, Regression analysis works toward generalizing the data set in straight line that best fit the observed data. In the regression model that was used in this research the six BSQ dimensions were the independent/predictor variables that were hypothesized to predict customer loyalty.

3.6. Ethical considerations

To go in line with ethical consideration, first of all the researcher had briefly explain in its introductory part of the questionnaire stating that respondents were not required to write their name and the responses that customers gave will be used for academic purpose and told them as their response will be confidential and by no means it will not be transferred to any third party so that unbiased responses will be gained. Besides, questionnaires were distributed only to volunteer participants or customers and approval of each management of the branches were asked to distribute the questionnaires in those branches, which the researcher assumes to be convenient and highly ethical.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

This section presents the data analysis and interpretation of the data collected. It shows the statistical tools to be used such as the frequencies and tables, weighted mean standard deviation, correlation, and regression analyses.

4.2. Response Rate

From Table 4.1 below of response rate, the results show that out of the 384 targeted respondents, 345 successfully filled the questionnaires. This represents a response rate of almost 90%. This reaction rate was great it fits in with Mugenda and Mugenda (2003) condition that a reaction rate of half is adequate for investigation and reporting; a rate of 60% is great and a reaction rate of 70% is above fabulous.

Table 4.1 Response Rate

<i>Questionnaire Distributed</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Filled and Returned Questionnaires</i>	312	81.25
<i>Unreturned Questionnaires</i>	72	18.75
<i>Total questionnaires administered</i>	384	100

Source: Own survey, 2020

4.3. Demographic Information

This part of the study looks at the background information of the respondents. It entails their Gender, Age, Duration of client ship, and Future banking. They were important for the research study as they would help in determining the level of customers' loyalty. The results are presented in Tables 4.2.

Table 4.2: Demographic Characteristics

No.	Items	Variables	Respondents	
			Frequency	Percentages
1	Age	18-30 years	39	12.5
		31-40 years	98	31.41
		41-50 years	133	42.63
		>50 years	42	13.46
		Total	312	100
2	Gender	Male	244	78.21
		Female	68	21.79
		Total	312	100
3	Duration of Client ship	< 1 year	32	10.26
		1-4 years	94	30.13
		5-9 years	134	42.95
		Above 10 years	52	16.67
		Total	312	100
4	Future Banking	Yes	221	70.83
		No	52	16.67
		Undecided	39	12.5
		Total	312	100

Source: Own survey, 2020

Table 4.2 depicts the classification of respondents according to age. Most of respondents or 42.63% (N = 133) belong to age bracket 41 to 50 years, whereas 31.41% (N = 98) are aged 31 to

40 years. About 13.46% of the respondents are above 50 years of age, and the least is shared between ages between 18 to 30 years, with 12.5%. This can be interpreted as Commercial Bank of Ethiopia has gained more interest in the age group 41 to 50 years old.

The data imply that more respondents who participated in the survey are male with 78.21% (244 out of 312), whereas females comprised only 21.79% (68 out of 312).

In order to explain the effect of service quality in commercial bank of Ethiopia on customer retention, we need to know how long the customers have stayed with the bank. 42.95% (N=134) have been customers between duration of 5-9 years, 30.13% (N=94) from 1-4 years, and 16.67% (N=52) for above 10 years and 10.26% (N=32) for less than 1 year. Table 4.4 represents how long each of the respondents has stayed with the bank. 134 of the respondents have stayed with the bank for a period of 5-9 years giving an average of 26 per year.

Majority of the respondents 70.83% who held accounts with banks intend to bank with the same bank the next 5 years. 16.67% have no intention of banking with same bank and 12.5% remain undecided. From the findings those who would like to continue banking were satisfied with the services and loyal to the bank, those are not willing to bank want to try other banks.

4.4. Result of Descriptive Analysis

The main objective of the study was to determine the relationship between service quality and long-term relationship with customer at Commercial Bank of Ethiopia. Each statement of service quality dimensions was rated on a five-point Likert scale ranging from 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree. The mean and standard deviation were used in establishing the general feelings of the respondents.

Accordingly, the overall mean (M) score between 4.21-5.00 is considered as the respondents strongly agreed (SA), if the respondents score between 3.41-4.20 means they agreed (A), the score between 2.61-3.40 is considered as the respondents are neutral (N), the respondents score between 1.81-2.60 shows that they disagreed (D) and if the respondents score between 1-1.80 shows that they strongly disagreed (SD) (Marenesh, 2018).

4.4.1. Service Quality Levels of Commercial Banks in Ethiopia

This study investigated service quality levels of Commercial banks in Ethiopia by examining whether the banks' employees are consistently courteous with customers, if the employees have adequate knowledge to answer customer questions and whether the staff are able to communicate clearly with customers. The study also sought to find out if the employees understand specific customer needs and if they are willing to help customers at all times. Table 4.4 shows the results obtained from the respondents.

Table 4.4: Service Quality Levels of Commercial Banks in Ethiopia

	Items	Mean	Standard deviation
1	The employees are consistently courteous with customers	4.21	1.25
2	The employees have adequate knowledge to answer customers' questions	4.45	1.12
3	The staff are able to communicate clearly with customers	4.18	1.65
4	The employees understand customers' specific needs	4.37	1.21
5	The bank employees are always willing to help me	4.81	1.91
Overall Mean & Standard Deviation		4.40	1.43

Source: Research data (2020)

From the findings, the overall mean score of 4.40 indicates that the service levels of commercial banks are good. The overall standard deviation of 1.43 suggests there is less variability in respondents' perception concerning the service quality levels of commercial banks in Ethiopia. .

The study findings shows that majority of the respondents agreed that the employees are consistently courteous with the customers as shown by a mean of 4.21 and standard deviation of 1.25. As per the finding of the interview, the branch managers under the study also responded that customers perceive what they expected in banking service. They also added that the bank use latest equipment and technology, facilities are visually appealing, employees are dressed properly and materials used are visually appealing. This means that the banks' service quality is pleasing to many and therefore the bank should better the service quality for the sake of the few who are not

comfortable with it.

From Table 4.4, majority of the respondents agreed that the employees had adequate knowledge to answer customers' questions as revealed by a mean of 4.45 and standard deviation of 1.12. This means that the banks service quality in terms of employees being knowledgeable is okay with most of the customers. Nonetheless, the banks managers admit that sometimes there is a gap that employees don't have knowledge about all the bank information so, whenever they have questions they refer to the manager.

Majority of the respondents agreed that the staff are able to communicate clearly with customers as shown by a mean of 4.18 and standard deviation of 1.65. This means that the banks' service quality in terms of communication by staff was satisfactory to customers. As per the findings of the interview, the branch managers also believe that their staffs are capable of communicating clearly with their customers and employees keenly listens to customers and take appropriate action that make them feel valued.

Majority of the respondents indicated that they agreed that the employees of the bank understood specific customer needs as indicated by a mean of 4.37 and standard deviation of 1.21. This means that commercial banks in Ethiopia offers service quality in terms of understanding what the customers want. The branch managers from the interview indicated that though the banks hours are convenient to all customers, giving individual personal attention is difficult because of large number of customers and it is difficult to address all. However, most of the managers responded that they treat 'premium' customers in a separate window. There is at least one separate widow to support or facilitate premium customers who bring the identification card to identified customers.

Table 4.4 also indicates that majority of the respondents revealed that they agreed that the bank employees were willing to help them as shown by a mean of 4.81 and standard deviation of 1.91. This means that commercial banks in Ethiopia offers quality service in terms of employees being willing to help the customers. However, as per the findings the interview, the branch managers opined that customers may not get what they expected and this is because of customers are large in number and to get service they have to wait long line this is more when the time is salary and some utility payment time (like Ethiopian electric utility, Addis Ababa water service utility, Addis Ababa Traffic Police penalty, etc.). Employees are willing to help customer and to avoid records

error free the bank use system to track error of employee and affect their efficiency for this case they do their best.

The bank customers prefer a friendly bank, which is willing to help in their banking operations. Therefore, willingness to help customers is likely to have an important and positive effect on customer loyalty in the banking sector in Ethiopia.

4.4.2. Relationship between Service Quality and Customer Satisfaction

The study investigates the relationship between the service quality and customer satisfaction by examining if the banks keenly listens to customers and take appropriate action making them feel valued, if the bank meets its promises on certain service by a certain time, if The bank physical appearance is appealing. The study probed if the bank employees give prompt service and if the bank always performs the service right the first time. The bank deliverance of overall excellent service was also examined. The study found out if the services offered by the bank were of high quality and if the service deliverance was superior in every way.

Table 4.5: Relationship between Service Quality and Customer Satisfaction

	Items	Mean	Standard deviation
1	The bank keenly listens to customers and take appropriate action making me feel valued	4.73	1.88
2	When the bank promises a certain service by a certain time, it delivers	4.39	1.28
3	The banks physical appearance is appealing	4.28	1.51
4	The bank employees give me prompt service	4.19	1.72
5	My bank always performs the service right the first time	4.21	1.27
6	My bank always delivers excellent overall service	4.39	1.30
7	The services offered by my bank are of high quality	4.18	1.43
8	My bank delivers superior service in every way	3.04	2.10

	Overall mean & Standard deviation	4.17625	1.56125
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Source: Research data (2020)

The overall mean score of 4.17 indicates that respondents agreed that service quality influences customer satisfaction. The overall standard deviation for this description is 1.56 suggesting that there is less variability in respondents' perception the influence of service quality on customer satisfaction.

Table 4.5 indicates that majority of the respondents revealed that they agreed that the banks employees keenly listens to them and take appropriate action that make them feel valued as shown by a mean of 4.73 and standard deviation of 1.88. This means that commercial banks in Ethiopia offers quality service in terms of customer service. The table indicates that majority of the respondents revealed that they agreed that the banks delivers promises made of certain service on time as indicated by a mean of 4.39 and standard deviation of 1.28. This means that commercial banks in Ethiopia offers quality service in terms of fulfilling their promise made to customers. Majority of the respondents indicated that they agreed that the banks physical appearance was appealing as shown by a mean of 4.28 and standard deviation of 1.51. This means that commercial banks in Ethiopia physical appearance is appealing to their customers.

Majority of the respondents indicated that they agreed the banks offered a prompt service as revealed by a mean of 4.19 and standard deviation of 1.72. This means that the commercial banks in Ethiopia offers prompt service to most of their customers. Most of the respondents indicated that they agreed that the banks always perform the service right the first time as shown by a mean of 4.21 and standard deviation of 1.27. This means that commercial banks in Ethiopia offers quality service to its customers.

Table 4.5 also indicates that majority of the respondents revealed that they agreed that the banks always delivers overall excellent service as shown by a mean of 4.31 and standard deviation of 1.30. This means that commercial banks in Ethiopia offers quality services. Majority of the respondents revealed that the service offered by the bank is of high quality as shown by a mean of 4.18 and standard deviation of 1.43. This means that commercial banks in Ethiopia offers quality services to its customers. Majority of the respondents revealed that they were undecided that their

bank delivered superior services in every way as shown by a mean of 3.04 and standard deviation of 2.10.

The findings show that service quality has a significant contribution to customer satisfaction in the banking industry. This is supported by Onwonga et al. (2013), who stated that reliability and empathy are the most important service quality dimensions that contribute to customer satisfaction in retail banks in Kenya.

4.4.3. Relationship between Customer Satisfaction and Loyalty

The study sought to determine the relationship between customer satisfaction and loyalty by investigating if the customers find the performance of their bank repeatedly superior to that of their competitors. The study investigated if the customers felt very pleased with the services offered by their bank, if the bank offers a good variety of products and services that suit their needs, whether the bank interest rates are satisfactory and if the bank charges for various products and services are satisfactory. The study sought customers' opinions on the advertisements and promotions done by their bank and whether they were at variance with the actual experience and if the bank has operating hours and locations convenient to its customers. The researcher probed if the customers believed in their banks credibility and if employees instill confidence in them. Lastly the researcher examined if they had more than one bank account which would signify the level of satisfaction with their banks. Table 4.6 below shows the results received from the respondents regarding the questions relating to satisfaction.

Table 4.6 Relationship between Customer Satisfaction and Loyalty

	Items	Mean	Standard deviation
1	Repeatedly, the performance of this bank is superior to that of competitors	4.73	1.34
2	I feel very pleased with services offered by my bank	4.39	1.21
3	The bank offers a good variety of products and services that suit my needs	4.28	1.32

4	The bank's interest rates are satisfactory	4.19	1.78
5	The bank charges for various products and services are satisfactory	4.21	1.72
6	Advertisements and promotions are not at variance with the actual service experience	4.39	1.19
7	My bank has operating hours and location convenient to all its customers	4.18	1.87
8	The employees instill confidence in customers	3.04	1.72
Overall Mean & Standard Deviation		4.17625	1.51875

Source: Research data (2020)

The overall mean score of 4.17 indicates that respondents agreed that customer satisfaction influences customer loyalty. The overall standard deviation for this description is 1.5 suggesting that there is less variability in respondents' perception the influence of customer satisfaction on customer loyalty.

Table 4.6 indicates that majority of the respondents revealed that they agreed that the performance of this bank is repeatedly superior to that of the competitors as shown by a mean of 4.12 and standard deviation of 1.34. This means that most of the customers are satisfied with the performance of their bank. Majority of the respondents revealed that they agreed that they felt very pleased with the services offered by their bank as revealed by a mean of 4.54 and standard deviation of 1.21. This means that commercial banks in Ethiopia offers quality services to its customers. Table 4.6 also indicates that majority of the respondents revealed that the bank offers a good variety of products and services that suits their needs as indicated by a mean of 4.11 and standard deviation of 1.32. This means that commercial banks in Ethiopia offers quality services that meets the customers' needs.

Majority of the respondents revealed that they were undecided that their bank interest rates were satisfactory as shown by a mean of 3.20 and standard deviation of 1.78 while a few agreed that they were satisfied with the interest rates. This means that the services rendered by commercial bank of Ethiopia are not viewed as superior in every way. Table 4.6 indicates that majority of the respondents revealed that they agreed that the bank charges for various products and services are

satisfactory as shown by a mean of 4.19 and standard deviation of 1.72. This means that commercial banks in Ethiopia charges on various products and services and not good with the customers. The findings indicated that majority of the respondents agreed that advertisements and promotions are not at variance with the actual as shown by a mean of 4.37 and standard deviation of 1.19.

Majority of the respondents revealed that the banks have operating hours and location convenient to all its customers as shown by a mean of 4.48 and standard deviation of 1.87. This means that the banks' services are viewed to offer quality service in terms on timings. Majority of the respondents revealed that the employees of commercial banks in Ethiopia usually instill discipline in customers as shown by a mean of 4.62 and standard deviation of 1.72. This means that some customers of commercial banks in Ethiopia have no confidence with their bank.

In order to determine the level of satisfaction and loyalty that customers have for their banks, the respondents were asked whether they have more than one bank account and if they would recommend their bank to other people. The results indicate that majority of the respondents, 134 to be exact, have other bank accounts while the rest, 42.9%, did not have other bank accounts. This means that the customers have needs that they feel are not being satisfied by having one bank so they opt to have other bank accounts. However, 42.9% is also a fair enough number to show that banks need to put in slightly more effort to increase loyalty among customers. According McIlroy and Barnett (2000), an important factor to be considered when developing a customer loyalty program is customer satisfaction.

4.5. Correlation and Integration Results

To determine the existence and level of association, the study used bivariate correlation from which Pearson's correlation coefficient is considered. Pearson's correlation coefficient falls between -1.0 and +1.0, indicates the strength and direction of association between the two variables (Field, 2005). The Pearson's correlation coefficient (r) was used to conduct the correlation analysis to find the level and direction of the relationships between the dependent and independent variables. It was also used to rank the variables that have the strongest associations with KAM effectiveness. Correlations of 0.30 are regarded to mention worthy (Cohen, 1988). High correlation

coefficients illustrate higher level of association between the variables i.e. dependent and independent. According to Cohen (1988), the value of Pearson’s correlation is divided into three areas. A correlation coefficient between 0.10 and 0.29 will indicate a small correlation, a correlation coefficient between 0.30 and 0.49 will indicate a medium correlation, and a correlation coefficient between 0.50 and 1.0 will indicate a strong correlation.

The bivariate correlation of a two-tailed test confirm the presence of statistically significant difference at probability level $p < 0.05$ i.e. assuming 95% confidence interval on statistical analysis.

Service quality was hypothesized as having an effect on customer loyalty of commercial banks in Ethiopia. An index for service quality was calculated to represent all the items that were used to measure this construct. The customer loyalty index and the service quality index were used to test the relationship between the two constructs. Correlation analysis and regression analysis were used to test the relationship between service quality and customer loyalty. The result of Pearson correlation analysis is provided in Table 4.7.

Table 4.7: Correlations between service quality, customer satisfaction and customer loyalty

		Service Quality	Customer Loyalty	Customer Satisfaction
Service Quality	Pearson correlation	1.00	0.445**	0.698**
	Sig. (2-tailed)		0.00	0.00
	N	235	235	235
Customer Loyalty	Pearson correlation	0.445**	1.00	0.486**
	Sig. (2-tailed)	0.00		0.00
	N	235	235	235
Customer Satisfaction	Pearson correlation	0.698**	0.486**	1.00
	Sig. (2-tailed)	0.00	0.00	
	N	235	235	235

Source: Research data (2020)

The results show that service quality is significantly, positively correlated to loyalty. The result

shows a coefficient of 0.445 at $p = 0.01$ ($r = 0.445$, $p < 0.01$) which shows that the two constructs, service quality and loyalty are positively related.

4.6. Assumptions Testing in Multiple Regression

The basic assumptions should be satisfied in order to maintain data validity and robustness of the regressed result of the research under the multiple regression models. Hence, this study has conducted the assumption tests such as, multi-collinearity and normality.

Multicollinearity Test: to have good results, the independent variables should not be highly correlated with each other. In multiple regression analysis, collinearity refers to the correlation among the independent variables (Pallant, 2007).

Therefore, to make sure that there is low collinearity, the values of Tolerance and VIF (Variance Inflation Factor) should be checked. According to Pallant (2007), tolerance indicates to what extent the independent variables do not explain much of the variability of a specified independent variable and the value should not be small (more than 0.10) to indicate the absence of collinearity. In addition to that, VIF, the inverse of tolerance value, should have a value of less than 10 to avoid any concerns of collinearity (Pallant, 2007). Hence, the values in the Table 4.8 below indicate low collinearity because all Tolerance values are above 0.1 and all VIF values are less than 10. Therefore, these tests reflect that the variables used in the study are free from multicollinearity.

Table 4.8: Multicollinearity Test table

Model	Unstandardized Coefficients	Collinearity Statistics	
	B	Tolerance	VIF
(Constant)	19.671		
1			
Tangibility	0.074	.558	1.791
Assurance	0.171	.225	4.443
Service portfolio	0.191	.297	3.362
Reliability	0.230	.644	1.554
Access	0.023	.755	1.324

Price	0.121	.448	2.231
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Normal distribution/normality test: Normal distribution is one of the most important assumed statistical procedures. A standard normal distribution is one with a mean of zero and a standard deviation of one (Garson, 2012). A common test for normality is to run description statistics to get skewness and kurtosis. Skewness should be within -2 and +2 range if the data is normally distributed. Kurtosis is the peakness or flatness of distribution and the distribution shall commonly fall between -2 and +2, although a few other authors like (Garson, 2012), are more lenient and allow kurtosis to fall within -3 and +3. Following the above justification, the normality test was done for six variables on SPSS, which resulted in all the variables skewness fall within -2 and +2 range and all the variables kurtosis fall within -3 and +3 range. Therefore, the data used for the study is normally distributed.

Table 4.9: Skewness and kurtosis for normality of the data

	N	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std.Error	Statistic	Std. Error
Tangibility	312	3.6762	.86613	-.173	.172	-1.104	.342
Assurance	312	3.1258	.86828	.115	.172	-1.162	.342
Service portfolio	312	2.6480	.73921	.323	.172	-.779	.342
Reliability	312	2.4371	.70229	.137	.172	-.332	.342
Access	312	4.0319	.67669	-.331	.172	-1.084	.342
Price	312	4.4033	.57038	-.621	.172	-.743	.342
Valid N (listwise)	312						

4.7. Regression Analysis

The study of the relationship between service quality and customer loyalty was further analyzed through a simple linear regression model which was used to observe the effect of service quality in predicting the variations in customer loyalty. The following model, customer loyalty (CL) was the dependent variable and service quality (SQ) was the independent variable:

$$\text{Customer loyalty (CL)} = \beta_0 + \beta_1 (\text{SQ}) + \varepsilon$$

Where: CL = customer loyalty

β_0 = Intercept or constant

β_1 = Slope

SQ = Service quality

ε = Error or random term.

The results for the model are shown in the following tables:

4.7.1. Regression Result for Service Quality and Customer Loyalty

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.78	.6084	.56	.64593

Table 4.9: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.136	1	12.5243	23.871	0.00 ^b
	Residual	28.821	234	0.6291		
	Total	77.957	235			

Table 4.10: Regression Coefficient Analysis of the Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	.512	.160		3.4	.022
	Service Quality	.85931	.357	0.234	2.333	.010

The results indicate that service quality and customer loyalty are positively and significantly associated 0.010 ($p < 0.05$). A statistical significance (F-value = 23.871; $p = 0.00$) was determined. R^2 was 0.6084 or 60% which was significant at 0.001 level. This implies that service quality explained about 60% of the variation in customer loyalty. This study established that customer loyalty to commercial banks in Ethiopia was dependent on service quality. This result has satisfied the third objective of this study.

The results are consistent with studies that suggest that service quality might have a direct impact on customer loyalty (Parasuraman et al., 1991). Cronin and Taylor (1994) hypothesize that perceived service quality positively affects consumers' loyalty. Reichheld and Sasser (1990) and Cronin et al. (2000) found that good service quality leads to the retention of existing customers and the attraction of new ones, reduced costs, an enhanced corporate image, positive word-of-mouth recommendation, and ultimately enhanced profitability. They further established that service quality results in repeated sales and increased market share, which leads to customer loyalty. A research by Zeithaml et al. (1996) concluded that when organizations enhance the quality of their services, customers' favorable behavioral intentions are increased while unfavorable intentions are decreased simultaneously.

The findings further support previous studies on the direct link between service quality and customer loyalty (Bolton & Drew, 1991). Service quality has been found to have considerable impact in determining repeat purchase and customer loyalty (Jones & Farquhar, 2003). They pointed out that service quality influences a customer's subsequent behavior, intentions and preferences. When a customer chooses a provider that delivers service quality that meets or exceeds his or her expectations, he or she is more than likely choose the same provider again. Besides, Cronin and Taylor (1994) also found that service quality has a significant effect on repurchase intentions. Other studies which support that repurchase intentions are positively influenced by service quality include that of Cronin et al. (2000) and Choi et al. (2004). They established that a positive perception of service quality is an antecedent to customer loyalty. They

further found that evaluative judgments of service quality could significantly influence service loyalty and bank loyalty.

4.7.2. Regression Results for the Service Quality Dimensions

A further analysis of the relative importance of the service quality dimensions was done using a regression model.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.083044 ^a	0.6897	0.61	3.40806

Table 4.12: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1139.06	5	227.81	19.614	0.00 ^b
	Residual	4390.42	37	11.61		
	Total	5529.49	23			

Table 4.13: Regression Coefficient Analysis of the Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.671	1.273		15.45	0.00
	Tangibility	0.074	0.056	0.079	1.324	0.01
	Assurance	0.171	0.116	0.093	1.481	0.02
	Service portfolio	0.191	0.115	0.100	1.663	0.04
	Reliability	0.230	0.063	0.257	3.668	0.00

Price	0.023	0.080	0.021	0.292	0.03
Access	0.121	0.153	0.730	4.712	0.090

The results revealed a statistical significance (F- value = 19.614; $p = 0.000$, R^2 was 0.6897 or 68%) which was significant at 0.05 level. This implied that these dimensions which measured service quality accounted for about 68% of the variation in customer loyalty in this model. This study established that customer loyalty to banks will be strongly influenced by service quality.

It can be observed from Table 4.13 that using beta values to measure the variation in customer loyalty indicated that access ($\beta = 0.730$), reliability ($\beta = 0.257$) contributed to the second highest variability followed by service portfolio ($\beta = 0.100$), assurance ($\beta = 0.093$), tangibility ($\beta = 0.079$) and price ($\beta = 0.021$), respectively.

This implies that customers are concerned with the banks personnel's ability to deliver the service in a dependable and accurate manner. These were captured in the research instrument as bank honors its promises all the time, bank always performs services right the first time, bank insists on error free documentation, bank offers quality products and services always, bank employees always keep their promises and bank's contracts have clear terms. Thus reliability is used in the evaluation of service and normally is the most important attribute consumers seek in the area of quality service (Parasuraman et al., 1991).

The result of Pearson correlation analysis provided in Table 4.7 shows that service quality is significantly, positively correlated to loyalty. The matrix shows a coefficient of 0.486 which shows that the two constructs, satisfaction and loyalty are positively related. The result shows that there is a significant positive correlation between customer satisfaction and customer loyalty. ($r = 0.486$, $p < 0.01$) implies that relationship between customer satisfaction and customer loyalty is positive. The second objective was to establish the relationship between service quality and customer satisfaction in the banking sector. The above results satisfy the objective.

4.7.3. Regression Result for Customer Satisfaction and Customer Loyalty

To further assess the effect of customer satisfaction on customer loyalty, a simple regression was used to observe the effect of customer in predicting the variations in customer loyalty. The model

presented as follows shows customer loyalty as the dependent variable and customer satisfaction (CS) as independent variable:

$$\text{Customer loyalty} = \beta_0 + \beta_1 (\text{CS}) + \varepsilon$$

Where: CL = customer loyalty

β_0 = Intercept or constant

β_1 = Slope

CS = Customer satisfaction

ε = Error or random term

The results for the model are shown in the tables below:

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.81	.6561	.61	.73931

Table 4.15: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.2661	1	14.5915	23.874	0.00 ^b
	Residual	38.2442	234	0.4172		
	Total	87.5103	235			

Table 4.16: Regression Coefficient Analysis of the Model

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.632	.160		3.2	.022
Customer Satisfaction	1.253	.457	.123	2.781	.004

Dependent variable: Customer loyalty

The results indicated that customer satisfaction and customer loyalty were positively and significantly associated at 0.04 level ($p < 0.05$). A statistical significance ($F = 23.874$; $p < 0.01$) was determined. R^2 was 0.6561 or 65% which was significant at 0.05 level. This implied that customer satisfaction explained about 65% of the variation in customer loyalty.

This finding concurs with Cheng et al. (2008) who found that there is a strong positive correlation between customer satisfaction and customer loyalty. Most of the researchers found that customer satisfaction is the predictor of customer loyalty (Leverin & Liljander, 2006; Terblanche & Boshoff 2006). They found that customer satisfaction and customer loyalty are positively correlated.

This finding is also consistent with several previous studies by Sirdeshmukh et al. (2002). Lam et al. (2005) found a positive relationship between customer and satisfaction and customer loyalty. Many studies have shown that customer satisfaction affects variables that are indicators of customer loyalty or orientation toward a long- term relationship (Mittal & Kamakura, 2001). A satisfied customer's affect toward a service provider could motivate the customer to patronize the provider again and recommend the provider to other customers. This study confirms that customer satisfaction has a positive effect on customer loyalty dimensions. The form of relationship between customer satisfaction and repeat patronage could be nonlinear.

Bowen and Chen (2001) also point out that a small increase of customer satisfaction leads to an increase in customer loyalty. This current study finds that customer satisfaction has a large positive correlation with customer loyalty in the retail banking sector in Nairobi. Kandampully and Suhartanto (2000) also concurred with the finding on the relationship between satisfaction and customer loyalty.

The strong positive correlation of customer satisfaction and customer loyalty means that the bank

customers will recommend their bank to other people. As a consequence, the bank can be assured of a loyal and stable customer base, thereby reducing the cost. Loyal customers increase their spending at an increasing rate, purchase services at full fare rather than at discount, and create operating efficiencies (Keaveney, 1995), leading to a higher market share and improved profitability (Brady & Cronin, 2001). Customer satisfaction is an important antecedent for loyalty and it has been found to be the most important determinant of loyalty among on-line bank customers (Yi, 1990).

By increasing loyalty, customer satisfaction secures future revenues; reduces the cost of future transactions, decreases price elasticity; and minimizes the likelihood customers would defect if quality falters (Reichheld & Sasser, 1990). Ranaweera and Prabhu (2003) found that customer satisfaction is a significant determinant of repeat sales, positive word of mouth, and customer loyalty. The result of literature study found the behavior was highly relevant after serving quality and customer purchasing. It is by and large believed that satisfaction leads to repeat purchase and positive word-of-mouth recommendation, which are the main indicators of loyalty. If consumers are satisfied with the product or service, they are more likely to carry on purchasing, and are more willing to spread positive word of mouth. Ravald and Gronroos (1996) found that that customer satisfaction is a better predictor of customer loyalty than service quality.

The third objective of this study sought to determine the relative effect of service quality and customer satisfaction on loyalty in the banking sector. Loyalty was the dependent variable while the other constructs were independent variables. The study expected that the two constructs of service quality and satisfaction jointly affect customer loyalty of commercial banks in Ethiopia.

4.7.4. Regression Results for Service Quality and Customer Satisfaction on Customer Loyalty

The following regression model was used to test the relationship between the independent and dependent variables:

$$CL = \beta_0 + \beta_1SQ + \beta_2CS + e$$

Where: β_0 = Intercept or constant;

β_1 and β_2 = Regression coefficients or slope of the regression line of the independent variables 1 & 2. They indicate the relationship between the independent variables and the dependent variable

CL= Customer loyalty

SQ = Service quality

CS = customer satisfaction

ε = Error or random term. It represents errors that could arise due to random behavior.

Regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Beta coefficients of the independent variables were used to determine the relative importance to the dependent variable in the model. Therefore, regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Chu (2002) claims that the beta coefficients of the independent variables can be used to determine its derived importance to the dependent variable compared with other independent variables in the same model. 0 is the constant, where the regression line intercepts the y axis and the error term represents the assumed random error will occur (Hair et al., 1998). The R^2 value in the model, provided a measure of the predictive ability of the model or measured the percentage of variance in the dependent variable explained collectively by all of the independent variables (Garson, 2008). The closer the value to 1, the better the regression equation fits the data. The F test was used to test the significance of the regression model as a whole.

Table 4.17: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.84528 ^a	0.7145	.65	3.25692

Table 4.18: Analysis of Variance (ANOVA)

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	49.2661	1	14.5915	34.874	0.00 ^b
Residual	38.2442	234	0.4172		
Total	87.5103	235			

Table 4.19: Regression Coefficient Analysis of the ModelCoefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	17.60	1.18		14.92	0.000
SERVINEX	0.044	0.019	0.148	2.282	0.023
SATINDEX	0.279	0.058	0.304	4.843	0.000

In the results of the regression analysis, the standardized coefficients (β) of satisfaction and service quality show the relative importance of the two variables on customer loyalty. Satisfaction ($\beta = 0.304$) has the most influential effect on loyalty, followed by service quality ($\beta = 0.148$). It is evident from these results that satisfaction had the greatest effect on customer loyalty among the two constructs.

The results of the regression analysis as shown in Table 4.15 indicate that R^2 was 0.7145 or 71%. The statistical F test is used to determine how well the regression equation fits the data. In this study, the F value of 34.874 was significant at the 1% level, indicating that at least one of the independent variables helped to explain some of the variation in customer loyalty. Further, the adjusted coefficient of determination revealed that 65% of the variance in loyalty was explained by the regression model.

Thus, the R^2 in this regression model points to other factors not included in the model that account for loyalty in the bank. For instance, loyalty is affected by factors such as the bank's image, complaint management capabilities, the quality of communication between the firm and the

customer, trust, demographic factors such as age, gender, ethnicity, and income and prior experience with the service industry in general (Parasuraman et al., 1991) which are beyond the scope of this study.

The test of correlations among the two variables reveals that there is a positive correlation between service quality and customer loyalty ($r = 0.445$, $p < 0.01$) and customer satisfaction and customer loyalty ($r = 0.84528$, $p < 0.05$). The value of the coefficients supported the multiple regression results. They show that customer satisfaction had the greatest influence on customer loyalty followed by service quality. The third objective of this study was to establish the relationship between customer satisfaction and loyalty among Commercial Banks in Ethiopia. Therefore, the results show that no one significant factor influences customer loyalty but rather a number of factors influence customer loyalty.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of findings, conclusions and recommendations derived from the results of the study. The study had three objectives to achieve: To determine the service quality levels of Commercial banks in Ethiopia; to establish the relationship between service quality and customer satisfaction of Commercial Banks in Ethiopia and lastly, to establish the relationship between customer satisfaction and loyalty of Commercial Banks in Ethiopia.

5.2. Summary of findings

The study established that there is a positive relationship among the three variables in the models under consideration, that is, service quality, customer satisfaction and customer loyalty. This finding was supported by Kumar et al. (2009) who stated that high quality of service will result in high customer satisfaction which in turn increases customer loyalty. Heskett et al. (1994) also argued that profitability and growth are stimulated primarily by customer loyalty and loyalty is a direct result of customer satisfaction.

The results from this study indicate that service quality and customer satisfaction jointly contributed to customer loyalty. Increase in customer loyalty implied greater positive word of mouth (Appiah- Adu, 1999), decreased price sensitivity and future transaction costs (Reichheld & Sasser, 1990) and, finally, leading to better business performance (Ryals, 2005; Choi et al., 2004). The positive relationship that was identified between service quality, customer satisfaction and customer loyalty may be interpreted as customer loyalty being increased as a result of experiencing a high quality of service when customers have high customer satisfaction.

The findings indicated that service quality has a direct effect on bank customer's loyalty. This

implies that banks' management should measure quality level of services offered and try to identify those areas that need improvement in order to gain and maintain a competitive advantage. Therefore, this study attempted to compare different methods that can help banks managers to decide upon those service quality aspects that need improvement. In this respect, efforts should be made for example to reduce the number of steps taken to apply for a loan and get approval and to increase the number of tellers in a branch where necessary. For instance, decreasing waiting time will affect customers' levels of satisfaction positively and doing things right the first time can help gain competitive advantage.

The findings indicated that customer satisfaction directly influenced the level of customer loyalty. The positive relationship identified between customer satisfaction and customer loyalty may be interpreted as satisfied customers having positive behavioral intentions to revisit or continue using the same bank after receiving high service quality that produces a good perceived value. According to Brady et al. (2001), researchers and practitioners should identify ways of increasing customer satisfaction as a means of driving customer loyalty. This means that satisfied customers are likely to engage in positive word-of-mouth and to continue engaging with the same bank which helps the bank reduce attrition and costs for acquiring new customers.

This link is very strong, and it shows that if the banks' management want to make their customers loyal, they should have some unique strategies to satisfy their customers. A satisfied customer will be less inclined to take the risk of moving to other competitors (Brady et al., 2001). Customer satisfaction is important to strategists because it is a significant determinant of recurring sales, positive word-of-mouth, intention to repurchase, and customer loyalty. This finding has been supported by Mouri (2005).

5.3. Conclusions

The research findings suggest that the inclination towards ease of banking and convenience is favored by the customer and therefore, banks should find alternative strategic routes designed to improve service delivery which can either be human-based or technology-based. Bank customers' attitudes towards the provision of services and subsequent levels of customer satisfaction will impact on bank customer loyalty.

Most of the products provided by the bank are not very differentiated and they can only distinguish themselves based on price and quality. Therefore, customer loyalty is an effective tool that banks can use to gain a strategic advantage and survive in today's competitive banking environment. The key factors affecting customer loyalty include the range of services, rates, fees and prices charged (Abratt & Russell, 1999).

5.4. Recommendations

Based on the study findings and their conclusions, a number of recommendations focusing on improving customer loyalty in commercial banks can be made. The study has the following managerial implications and recommendations.

- The study established that service quality and customer satisfaction have a joint positive effect on customer loyalty. Thus, commercial banks' management should implement customer loyalty improvement programs in order to create and maintain long-lasting relationships with customers so as to have competitive advantage and to improve profitability. They should pursue customer loyalty as a marketing strategy which requires long-term commitment and understanding of service quality and satisfaction from the customer's perspective on the total bank experience. Bank management should adopt the loyalty multi-dimensional model consisting of the constructs of service quality and customer satisfaction.
- The findings indicate that while service quality is an important driver of customer loyalty, its indirect effect through customer satisfaction is overwhelmingly larger than the direct effect in generating higher customer loyalty. It is important for commercial banks' managers to understand the relevant service quality dimensions in banking that could build up positive customer satisfaction. They need to develop systematic assessment programs to monitor service quality and customer satisfaction over time. Bank staff should be informed of service results and be encouraged to take part in formulating and implementing an effective loyalty strategy.
- The results of this study also showed a strong link between customer satisfaction and loyalty which implies that if bank managers want to increase customer loyalty, they should formulate and implement some unique strategies to satisfy their customers. Bank managers,

therefore, should conduct customer surveys regularly and incorporate feedback in the changes desired by the customers. The banks should invest in training programs for their employees in to make them more effective when serving customers, especially in handling customer complaints. This can help to improve customer satisfaction and retention by reducing attritions from dissatisfied customers.

5.5. Areas for Further Research

The study takes note of the fact that data collection was done based on the views of the customers rather than on the actual data based on manipulation of variables. In actual sense, the study did not manipulate service quality, or service features and neither did it manipulate complaint handling procedures. As such the study cannot claim to have established the effect of these variables on customer loyalty as such a decision would require an experimental design. This study therefore recommends that an experimental study be conducted to determine the actual effect of these variables on customer loyalty among customers in the banking sector. This study should form a basis for that study.

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St. Mary University
School of Graduate Studies
QUESTIONNAIRE

Dear Customers,

I am post graduate students in St. Marry University department of Marketing Management. This questionnaire is part of the research project conducted on the Effect of Service Quality on Customer satisfaction and Loyalty among selected Commercial Banks in Ethiopia. Your responses to the statements below are of great importance to my project work, hence I kindly request you to answer the questions carefully and genuinely. This information will be used only for academic purpose and your responses will be treated confidential.

Please answer all questions in this section (tick appropriately)

Section A: General information

1. Name of the bank.....

2. Gender Male () Female ()

3. Age (in years)

Between 18-30 () between 31-40 () between 41-50 () above 50 ()

4. For how long have you been a customer of this bank?

Less than 1year () 1-4 years () 5-9 years () above 10 years ()

5. Do you intend to continue banking with this bank in the next 5 years?

Yes () No () Undecided ()

Section B: Indicators of customer satisfaction

3. The statements below are indicators of the determinants of customer satisfaction with banks' services. Please rank the following on a scale of 1-5(minimum to maximum) to reflect your feelings and the extent to which you agree with the statements.

Construct	SD	D	.N	A	SA
The employees are consistently courteous with customers					
The employees have adequate knowledge to answer customers' questions					
The staff are able to communicate clearly with customers					
The employees understand customers' specific needs					

The bank employees are always willing to help me					
The bank keenly listens to customers and take appropriate action making me feel valued					
When the bank promises a certain service by a certain time, it delivers					
The banks physical appearance is appealing					
The bank employees give me prompt service					
My bank always performs the service right the first time					
My bank always delivers excellent overall service					
The services offered by my bank are of high quality					

My bank delivers superior service in every way					
Repeatedly, the performance of this bank is superior to that of competitors					
I feel very pleased with services offered by my bank					
The bank offers a good variety of products and services that suit my needs					
The bank's interest rates are satisfactory					
The bank charges for various products and services are satisfactory		
Advertisements and promotions are not at variance with the actual service experience					
My bank has operating hours and location convenient to all its customers					
I believe in my bank's credibility					
The employees instill confidence in customers					

Section Three: Indicators of Customer Loyalty

The statements below are indicators of the level of loyalty to your bank. Please rank the following on a scale 1-5 (minimum to maximum) to reflect your feelings and the extent to which you agree with the statements.

Construct	SD	D	N	A	SA
I believe my bank can satisfy my future needs					
I will continue to patronize this bank even if the service charges are increased moderately					.
I am likely to pay a little bit more for using the services of this bank					..
I would like to remain as a customer of my present bank					
I would like to recommend my bank to friends and people I know					.

I will say positive things about my bank to other people					
I would like to keep close relationship with my bank					
I consider myself to be loyal to my bank					

Do you have more than one bank account? Yes [] No []

7. If you answered yes in the above question, what is your reason for operating with more than one bank?

.....

8. What do you think needs to be done to increase your level of satisfaction with the bank's service and products?

.....

APPENDIX II - Interview questions

St. Mary University School of Post Graduate Studies

Structured Interview Questionnaire

1. What do you think the minimum service expectation of customers on the bank service? Did you believe that they perceive what they expected?
2. Are you treated potential customers in separate window and make them comfortable in your service? What is your trend in your branches?
3. Which dimensions of service quality contributes more towards the overall customer satisfaction and loyalty in your bank's context?
4. Is your bank branch the only one in the area or there are other banks? If there are, what is your responsibility to attract customer to your bank?
5. What kind of problems exists that hinder to give quality service to customers?

THANK YOU SO MUCH FOR YOUR TIME