



**ST. MARY'S UNIVERSITY**  
**School of Graduate Studies**  
**Masters of Business Administration**

**AN ASSESSMENT ON THE RELATIONSHIP  
BETWEEN SERVICE QUALITY AND CUSTOMER  
SATISFACTION: THE CASE OF COMMERCIAL BANK OF  
ETHIOPIA**

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**Addis Ababa, Ethiopia**

**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

ASSESSMENT ON THE RELATIONSHIP BETWEEN SERVICE  
QUALITY AND CUSTOMER SATISFACTION:  
THE CASE OF COMMERCIAL BANK OF ETHIOPIA (MEHAL KETEMA  
BRANCH)

BY: FITSUM SIBO

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### **Declaration**

I Fitsum Sibbo, I.D. Number SGS/0040/2008B, do hereby declare that this Thesis is my original work and that it has not been submitted partially; or in full, by any other person for an award of any other Degree or other similar titles of any other university or institution and all sources of materials used for the study have been duly acknowledged.

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## **Endorsement**

This Thesis has been submitted for examination with my approval as a supervisor.

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I would like to thank God for everything he has given me. And I would also like to give a heartfelt appreciation to my parents, because if it wasn't for them I wouldn't be who I am today.

## **ACRONYMS AND ABBREVIATION**

**SERVQUAL**      Service Quality

**SPSS**            Software Package of Social Science

**CBE**             Commercial Bank of Ethiopia

**SERVPERE**    Service Performance

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## ***Abstract***

Today competition is not only rife, but growing more intense constantly. However, companies need to start paying keen attention to their competitors; they must understand their customers. Banking sector are suffering from competition. They have to believe customers as core concept of their business; customer satisfaction is what guarantees the future of banking services and it is achievable by taking up their services and customers' needs. In other words, service quality is typically defined in terms of consumer satisfaction. The purpose of this study was assessing the relationship between service quality and customer satisfaction at Commercial Bank of EthiopiaMehal Ketemabbranch using a model that describes various dimensions of service quality. To this purpose the researcher was studied the service quality of the banking using SERVQUAL model. Convenience sampling technique was used in the study. The methodology was based on primary data collected through a well-structured questionnaire administered on a sample size of 200 respondents randomly selected from Commercial Bank of EthiopiaMehal Ketema branch. In order to assess the Relationship between Service Quality and Customer Satisfaction in relation to the quality of service, five attributes were used for a better understanding of the relationship between the Attributes and Customer Satisfaction, by focusing on the retail banking industry of Commercial Bank of EthiopiaMehal Ketema branch. The study respondents were account holders of the selected branch of Commercial Bank of Ethiopiawhich is Mehal Ketema. The collected data has been analyzed with the help of tools like SPSS, Descriptive Statistics, Correlation and Regression Analysis. The results shows that the most important service quality attribute on Customer Satisfaction was responsiveness, as it is perceived as a dominant service quality. The results reveal that the service quality dimensions i.e. Tangibility, Responsiveness, Empathy, Reliability and Assurance are positively and significantly related with the customers overall satisfaction. This finding reinforces the need for the bank to place an emphasis on the underlying dimensions of service quality, especially on responsiveness and better to start with improving service quality in order to raise overall customer satisfaction.

Key Words: Customer Satisfaction, Banking Industry, Customer Satisfaction, Service Quality.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Service Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. Service quality is a recent, decisive issue in the marketing thought. Therefore, the ability of banking sector to continue and survive in the market depends on their ability to respond to the requirements of change and interact with the output of it. As the customers' needs and wishes are shaped and formed in the light of their economic, social and civilization conditions, there is a close relationship between the banks' ability to continue and survive and their ability to produce services that fit in with the increasing and changing needs of the customers. So, organizations, especially service ones, work hard to find effective ways to counter external changes in order to survive and they enhance their effectiveness by means of activating their services and creating and developing new ones.

Service quality is an increasingly important factor for organizational performance, success, and survival in the banking sector. The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty (Levesque & McDougall, 1996; Magi & Aulander, 1996; Zenithal et al., 1996; Danaher, 1997).

Furthermore, customer loyalty is a primary determinant of the long-term financial performance of firms. This is especially vital for service firms where increased loyalty can significantly increase profits (Reich held, 1996). Currently technological changes are causing banks to rethink their strategies for services offered to both commercial and individual customers (Hossain and Shirely, 2010). Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins, 1988), and expanded market share (Bowen and Hedges, 1993). Therefore, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). SERVQUAL model (Parasuraman, et al., 1988). There have been a number of empirical studies of retail bank service quality. Most of

these have measured service quality by replicating or adapting the SERVQUAL model. The model was criticized by Cronin & Taylor (1992) as the SERVQUAL scale measures customer satisfaction on perception-expectation model and not on attitude model. The authors developed the SERVPERF model to measure service quality by considering only the customer perceptions dimension. Consumers all over the world have become more quality conscious; therefore customers' requirements for higher quality service have been increased (Lee, 2005). Service sector such as the banks are obliged to provide excellent services to their customers in order to have sustainable competitive advantage.

In spite of the criticality of service quality to businesses, measuring service quality causes difficulties to service providers, as of the unique characteristics of services: intangibility, heterogeneity, inseparability and perish ability (Douglas & Connor, 2003). Insight of this, services need a distinctive framework for quality clarification and measurement. Among the major frameworks, SERVQUAL model developed by Parasuraman et al. (1985; 1988) is most preferred and widely used model for measuring service quality in the service industry.

Service quality has been and remains at the forefront of bank management's attention (Appelbaum et al., 2005), as well as a focus on the services marketing literature (Lassar et al., 2000; Arasli et al., 2005). The general notion has been that the service quality is closely related to customer satisfaction and bank performance. While the direction of the relationship has been a subject of debate in some studies (Ahmad and Kamal, 2002; Bitner, 1990; Cronin and Taylor, 1992; Yavas et al., 1997), the widely accepted belief is that the delivery of high service quality is a must for attaining customer satisfaction, and a precondition for a number of desirable behavioral outcomes that lead to high performance in retail banking (Ting, 2004; Yavas et al., 2004). To remain competitive, service providers must render quality service to their customers. Moreover, understanding and meeting customers' expectations and subsequently being different from competitors are important in order to survive in the today's world of globalization. Banking sector today is facing tough competition. If they continue to exist in the market, they need to maintain high level of customer satisfaction. Customer satisfaction and service quality are global issues that affect all organizations; be it large or small, profit or non-profit, global or local. Service organizations and plays an important role for developing countries. Hence there must be

good quality and competitive organization in maintaining customer satisfaction and further needs to improve the effectiveness and efficiency of the organization. (Tan Sri Dato 'Dr. ZetiAkhtarAzizi, 2005).

The development and improvement in banking services from year to year is a concern of society. This can be seen increasing competition in service quality in banking. Quality of care is a top priority in creating customer satisfaction. Quality is an ability of a set of inherent characteristics of product, system or process to fulfill requirements of customers and other interested parties. Service quality has also become an essential research subject as it is critically a determinant factor towards to a firm's financial performance. The banking sector also needs quality personnel and competency. Having employees like them to provide high quality products and services is critical to build consumer confidence and good relationship, drive customer satisfaction and enhance the reputation of previous research studies, (Ndubisi & Tam, 2005) has stated 'bind' the customer is as important as when they lose will harm the institution. This was lead to a decline in revenue, increased costs to attract new customers, a bad reputation when the customer is not satisfied the problem will spread to other customers and a decline in employee retention (Colgate & Norris, 2001).

According to Parasuraman et al. (1988, 1991, 1994), service quality can be appropriately measured using the SERVQUAL method which accounts for customers perceptions of service quality.

In particular, service quality is assessed through the gap between expectations and performance. The SERVQUAL model assess service quality by considering it as a multi-dimensional construct comprising of five key dimensions namely the tangibles, reliability, responsiveness, assurance and empathy. This study was revealing which dimension of service quality are important to customers, and was provide an insight into their perception of service quality at commercial banks. This was assist banking service provider to plan and execute a marketing strategy that was maximize service quality in line with customer's current and future needs, and hence to improve customer satisfaction and retain customers which was impact positively the market share and profit .So this study aims to assess the relationship between service quality and customer satisfaction at Commercial Bank of Ethiopia Mehal Ketema branch.

## **1.2 Statement of the Problem**

Customer satisfaction and service quality are most important elements in achieving organizational goals. Organization tries to have consistence customer satisfaction with the services provided by it. Because Service Quality plays a pivotal role in determining customer satisfaction, it needs to be understood and be managed throughout the Services of an organization. Hence, Quality Services are considered as most important aspect. Satisfaction and quality have evolved along parallel tracks (Strandvik & Liljander, 1995). It is imperative that service companies' measure and monitor service quality and satisfaction with a view of influencing the behavioral intentions of their customers (Saha and Theingi, 2009). Providing a good service quality is a major issue for all businesses especially for banking industry.

Contrary to what is commonly stated, Africa's banking industry is as competitive as those in Latin America & Caribbean and not very different from the competitive environment existing in highincome countries. Also banks in Africa are well supervised as well as those in other developing countries with competition and entry regulations on par with those in other regions. In addition, Africa's banking system seems to be growing and Ethiopia is on top of that list. Ethiopia is stated to be one of the countries with an increasingly growing Banking Industry. Hence, Customer Satisfaction can be considered to determine the success or failure of a business. In order to be competitive in the marketplace, banks need to find ways to better satisfy their Customer's needs and wants. Best service quality provided was ensuring a high market share and substantial return.

The unique characteristics of service contribute to the complexities involved in assessing and managing service quality, since Quality can be several things at the same time and may have various meanings, depending on the person. This complicates both the consumer's assessment of service quality and the provider's ability to control it.

Most services involve a direct contact between the Customers and the Service provider (Mersha and Abdakha, 1990). This means, in addition to task proficiency, Interpersonal skills like Courtesy, Friendliness, Tolerance and Pleasantness are important dimensions of Service Quality, particularly in high contact service where frontline employees are the key to Customer Satisfactions (Mersha and Abdakha, 1990).

The customer is the judge of quality, as a result understanding Customer Needs, both current and future, and keeping pace with changing markets requires effective strategies for listening to and learning from Customers, measuring their Satisfaction relative to competitors and building relationships.

Customers' particularly need differences among key customer groups – must be linked closely to an organization's strategic planning, product design, process improvement, and workforce training activities. Satisfaction and dissatisfaction information are important because understanding them leads to the right improvements that can create satisfied customers who reward the company with loyalty, repeated business exchange and positive referrals. Creating satisfied customers includes prompt and effective response and solutions to their needs and desires as well as building and maintaining good relationships. A business can achieve success only by understanding and fulfilling the needs of customers. From a total quality perspective, all strategic decisions a company makes are "Customer-driven". In other words, the company must show constant sensitivity to emerging customer and market requirements.

According to a study by Collart (2000), one of the determinants of success of a firm is how the customers perceive the resulting Service Quality, as this is the key driver of perceived value. It is the perceived value which determines customer satisfaction. Many firms including banking industries begin to track their customers' satisfaction through measuring their level of service quality perceived by their customers. The most widely used model to measure perceived service quality was developed by Parasuraman et al. (1985, 1988) known as SERVQUAL. According to this model, five dimensions of Service Quality are: Tangibility, Reliability, Responsiveness, Assurance and Empathy. (A detailed discussion of the SERVQUAL model is done in the literature review section of this paper.). Even though there were few documents about the service quality with regard to Commercial Bank of Ethiopia, there are no previous well documented studies on the Relationship between Service Quality and customer satisfaction and its subsequent impact on customer satisfaction.

### **1.3 Research Question**

The main this research was; "What is the relationship between Service Quality and Customer Satisfaction?"



### **1.3.1 Sub Questions**

- What is the level of customer satisfaction?
- What is the Relationship between Service Quality and Customer Satisfaction?
- What is the gap between the need of the customers and the service quality being provided?
- What needs does the customer have in regarding the service provided by the bank?
- What effort does the bank made to address the issue of Customer Satisfaction and Service Quality?
- What was the result of the effort in addressing this issue?

## **1.4 Objectives of the study**

### **1.4.1 General objective**

The main purpose of this study was to assess Relationship between Service Quality and Customer Satisfaction at Commercial Bank of Ethiopia Mehal Ketema branch.

### **1.4.2 The specific objective of the study includes:**

From the General Objective stated above, specific objectives are derived.

1. To examine the relationship between services quality and customer satisfaction.
2. To identify the impact of service quality on the satisfaction level of customers.
3. To measure the satisfaction level of customers within Commercial Bank of Ethiopia Mehal Ketema branch.

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

This paper would be significant in pointing out the effect of Service Quality on the Customer Satisfaction. And in addition to this, it would help the bank to be closer to the Customers and enable them to follow the desire of customers in light of Service quality.

- The study will improve the researcher's academic knowledge and skill in the research field.
- This paper will provide some insight about service quality and customer satisfaction.

- This study is intended to fill the literature gap related to service quality and customer satisfaction using a model that will describe the various factors of service delivery through five dimensions.
- The study will provide up to date information for practitioners and students in the retail banking industry for further research.
- More specifically this study was served as preliminary work or a stepping stone for further study on the issues.

### **1.5. Scope of the Study**

The respondents of the study were those customers who have saving account at Commercial Bank of Ethiopia at Mehal Ketema branch. Hence other customers of the bank those who have no saving account at the time of the data collection were not considered. This may have an effect on the effectiveness of the findings. Moreover, the paper has not distinguished between citizenship among the customers. From this point of view, any customer who has used the service of the bank before was considered as a respondent for the questionnaire regardless of their citizenship. So, the study does consider the aspects of service quality and their feeling of satisfaction.

### **1.6 Limitation of the study**

While conducting this research, a number of limitations have occurred. The first challenge was about getting all necessary data. Papers, books and articles on Service Quality are very small; due to this there was insufficient data that facilitates this paper.

Within the scope of the study, the problem of getting appropriate respondents to answer the questionnaire willingly have been a hurdle. Furthermore, some important official documents that would allow the researcher to gain a better insight were not released by the bank since they are confidential. Therefore, referencing some of the information from records was only the top of the iceberg. Therefore, such limitations have adversely affected the findings of the study.

### **1.7. Organization of the paper**

This paper is organized into five chapters. The first chapter deals with the introduction of the topic and the second chapter presents review of related literature which is about service quality and customer satisfaction. The third chapter deals with the methodology of the research and the

fourth chapter presents data analysis, findings and discussion of the data gathered. The fifth chapter presents the conclusion and recommendations of the research.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 Definition of Service Quality

Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers (Howcrof et. al., 2002). The banking industry is highly competitive, as banks are competing among each other and also with non-banks and other financial institutions (Kayak and Kucukemiroglu, 1992; Hull, 2002). Banks provide nearly identical services and they can only distinguish themselves on the basis of price and quality of service (Stafford, 1992). The service quality in banks leads to higher profits, credibility, and market share, lowering cost and improving productivity (Raddon 1987; Buzzell and Gale, 1987; Parasuraman and Berry, 1991; Heskett et. al., 1990; Adrian 1995; Bateson, 1995; Berryet.al., 1989; Garvin 1983; Kotler, 2003). Turban et al (2001) state that customer service is a series of activities designed to enhance the level of customer satisfaction a feeling that a product or service has met their expectation. Satisfied generally seem to be positive assessment of service contentment, happiness, relief, achieving aims, and happy with outcome and the fact that they did not encounter any stress.

SERVQUAL model: The initial instrument used to measure service quality was designed by Parasuraman et al., (1985). According to Parasuraman et al, (1988) service quality is a function of pre purchase customer expectation, perceived process quality and perceived output quality. They define quality as a gap between customers' expectation of service and their perception of the service experience (moments of truth) ultimately deriving the standard SERVQUAL multiple survey instrument (Parasuraman et al., 1988). The "SERVQUAL" instrument included two 22-item sections that are intended to measure customer expectations for various aspects of service quality and customer perceptions of the service they actually receive from the focal service organization (Parasuraman et al., 1988).

In short, the SERVQUAL instrument is based on gap theory (Parasuraman, 1985) which explains that a customers' perception of service quality is a function of the difference between his/her expectations about the performance of a specific firm within that class (Cronin and Taylor, 1992).

## **2.2 Service quality Model:**

Among the models for measuring service quality, the most acknowledged and applied model in diversity of industries is the SERVQUAL (service quality) model developed by Parasuraman et al. The SERVQUAL model of Parasuraman et al. (1988) proposed a five dimensional construct of perceived service quality Tangibility, Reliability, Responsiveness, Assurance and Empathy as the instruments for measuring service quality (Parasuraman et al., 1988; Zeithaml et al., 1990).

### **2.2.1 Reliability**

Reliability depends on handling customers' services problems; performing services right the first time; provide services at the promised time and maintaining error-free record. Furthermore, they stated reliability as the most important factor in conventional service (Parasuraman et al., 1988). Reliability also consists of accurate order fulfillment; accurate record; accurate quote; accurate in billing; accurate calculation of commissions; keep services promise. He also mentioned that reliability is the most important factor in banking services (Yang et al., 2004), referred to the processes, procedures and systems that would make service delivery a seamless experience (Sarashchandar et al, 2002). It highlighted whether the service delivery process was standardized, streamlined and simplified, so customers could receive the service without any problem. The structured aspects of service delivery processes have not ever been adequately studied (Sarashchandar et al, 2002). In literature there were few marketing scholars who have tried to focus on the importance of the structural content of service delivery in service quality evaluation (Dauaher and Mattson, 1998). This structural content of the service delivery process is considered important in service quality evaluation (Dauaher and Mattson, 1998). Credibility involves trustworthiness, believability and honesty. It's about having the customers best interests at heart, contributing to credibility is a company name, reputation and privacy discussions (Francis 1996). Balunywa (1995) highlights that credibility mean trust, assurance, integrity and security. Say what you mean and mean what say. This is more important in retail banking; an instruction that handles the payment system keeps customers' money

### **2.2.2 Responsiveness**

Responsiveness defined as the willingness or readiness of employees to provide service. It involves timeliness of services (Parasuraman *et al.*, 1985). It is also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers' safety in their transaction (Kumar *et al.*, 2009). Is the willingness to provide help and prompt service to customer (Parasuraman *et al.*, 1999) Responsiveness concerns the willingness or readiness of employees to provide a service in such away as; mailing a transaction slip immediately, speed on mortgage conformation, updating accounts promptly (Francis, 1996).

Responsiveness has been shown to an important factor Aukiran (1994), suggest that efforts to increase speed of processing information and a customer is likely to a positive effect on customer satisfaction in retail banking. Balunywa, (1995) emphasizes that when a customer has a need, meet it, be easy accessible available to customer. Robert (1997) described communication as the ability a service to communicate with a customer in the away he/ she will understand. It includes the clarity, completeness, and accuracy of both verbal and written information to customer and the ability to listen and understand the customer. According to Ntayi, (1999), Communication means keeping customer informed in the language they can understand and listen to them. It may mean the company going that extra mile to adjust its language for different customers, availability of inquiries desk, informing of account changes, and clarity of staff answers and ease of understanding letters are great consideration to effective communication (Galloway, 1994).

### **2.2.3 Empathy**

Parasuraman *et al.* (1985) defined empathy as the caring and individual attention the firm provides its customers. It involves giving customers individual attention and employees who understand the needs of their customers and convenience business hours. Ananth *et al.* (2011) referred to empathy in their study on private sector banks as giving individual attention; convenient operating hours; giving personal attention; best interest in heart and understand customers' specific needs.

#### **2.2.4 Assurance**

Parasuraman et al. (1985) defined assurance as knowledge and courtesy of employees and their ability to inspire trust and confidence. According to Sadek et al. (2010), in British banks assurance means the polite and friendly staff, provision of financial advice, interior comfort, eases of access to account information and knowledgeable and experienced management team.

Access is to do with approachability and ease to contact, it may mean the service is easily accessible by telephone; waiting time to receive service is not excessive and convenient hours of operation and convenient location of service facility (Francis 1996).

According to Galloway (1994), getting right person on phone, appearance of branch, ease of getting to branch, queues at cash machines and staff available to help are issues to look out for. Robert (1997) considers accessibility to be approachability to the service location, including the ease of find one's way around the service environment and clarity of route. In the case of contact staff with means both the staff and customer ratio and amount of time each staff member has available to spend with each customer for service goods, accessibility includes both quality and range to product like account types available to the customer. This was defined by Francis (1996) as the possession of the required skill and knowledge performs a service. It involves research capacity, knowledge and skills of operational support staff. Competence is the skill, expertise and professionalism with which the services are executed. According to Robert (1997), competence includes the carrying out of correct procedures, correct execution of customer instruction, degree of product and service knowledge exhibited by contact staff, rendering of sound advice and the general ability to do a good job.

#### **2.2.5 Tangibility**

Parasuraman et al. (1985) defined tangibility as the appearance of physical facilities, equipment, personnel, and written materials. Ananth et al. (2011) referred to tangibility in their study of private sector banks as modern looking equipment, physical facility, employees are well dressed and materials are visually appealing. They are one of few dimensions that have been consistently used by different researchers (Bahia and Nantel, 2000). However tangibles refer to physical facets of service facility equipment, machinery signage, communication material (Bahia and Nantel, Parasuraman et al, 1985).It included the physical evidence of service except the personal

appearance of staff which was included in human element dimension, employees and customers are usually influenced by the tangible facets of service in physiological, psychological, emotional and cognitive ways (Bitner, 1992). The intangible aspects of the staff customer interface have a considerable influence both negative and positive in the service quality (Johnston, 1995).

Tangibles are associated with the impact on the customer's inferences about what service should be like and therefore will influence the evaluation of service quality (Parasuraman et al, 1993).

Customer's perception of tangibles was generally considered important in the case of the banks than others.

### **2.3 Customer perception of quality**

In Australia, the importance of customers' view has grown in since the deregulation of the banking sector in early 1980S (De Brouwer, 1999), since each customer perception preference has had increasingly greater impact on the bank success (Saraschandar, Rejendran and Anantharaman, 2002). Today customers are more educated than ever before. They expect more value for money and want a good service and are willing to pay for it. (Kim and Weiner, 1996) The level of courtesy and assistance required by the bank customer as increased dramatically as customers have up graded their service standards (Yavas et al, 1917). It is important for banks to differentiates themselves on the basis of customer service in order to effectively compete in the modern competitive banking environment (Alexadris Demitriadis

### **2.4 Human elements of service quality**

Referred to all aspects of the staff / customer interaction in service delivery the importance of the human element informing customers' perception of service quality has been identified by marketing scholars (Jabnouns and Al-Tamini,2003, Yavas et al 1997).Employees have an important effect on customer service because customers are educated than ever before (Movawad and Weiner 1996) Further frontline employees play a vital role in representing the firm interaction with outside parties and influencing the recognition, attitude and evaluation formed by customers (Schneider and Bowen 1996) thus frontline employees were considered to be a main driver of customer satisfaction and favorable success perception. Finally four out of five service quality dimensions were about human elements, reliability, empathy and assurance (Sarashchandar et al, 2002) and murkata, 2002)



The service quality literature initially focused on measurement issues. Following the introduction of the SERVQUAL, attention centered on the determinants of perceived service quality with particular emphasis on the service delivery process. SERVQUAL, with its five dimensions (i.e. tangibles, assurance, reliability, responsiveness, and empathy) has come to symbolize the American perspective on service quality (Brady and Cronin, 2001), the European perspective represented by Gronroos service quality model.

SERVQUAL is designed to measure service quality as perceived by the customer. Consumers in the focus groups discussed service quality in terms of the extent which service performance on the dimensions matched the level of performance that consumers thought a service should provide. A high quality service would perform at a level that matched the level that the consumer felt should be provided.

The level of performance that a high quality service should provide was termed as consumer expectations. If performance was below expectations, consumers judged quality to be low. To illustrate, if firms responsiveness was below consumers' expectations of the responsiveness that a high quality firm should have, the firm would be evaluated as low in quality in responsiveness. Parasuraman et al. (1985) basic model was that consumer perceptions of quality emerge from the gap between performance and expectations, as performance exceeds expectations, quality increases; and as performance decreases relative to expectations, quality decreases. Thus, performance-to-expectations „gaps” on attributes are used to evaluate the quality of a service from the theoretical foundation of SERVQUAL.

## **2.5 Service Quality.**

Nowadays, with the increased competition, service quality has become a popular area of academic research and has been acknowledged as an observant competitive advantage and supporting satisfying relationships with customers (Zeithmal, 2000). Service quality is concepts that has aroused substantial interest and argue in research. There are difficulties defining and measuring it with no overall consensus emerging on either (Wisniewski, 2001). Service quality has been defined as the overall assessment of a service by the customers (Eshghiet *al.*, 2008), while other studies defined it as the extent to which a service meets customers' needs or

expectations. Service is assumed to be quality when it consistently conforms to customer expectations (Asubontenget *et al.*, 1996; Wisniewski and Donnelly, 1996). Parasuraman *et al.* (1985) argues that service quality is the measure of service delivered as against expected service performance.

Service quality is defined as customer perception of how does a service meets or exceeds their expectations (Czepiel, 1990). Several practitioners define service quality as the difference between customers' expectations for the service encounter and the perceptions of the service received (Munusamy *et al.*, 2010). Customer expectation and perception are the two main ingredients in service quality.

Customers judge quality as „low' if performance (perception) does not meet up their expectation and quality as „high' when performance exceeds expectations according to Oliver (1980). Service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers). Reliability is considered the vital core of service quality.

Other dimensions will matter to customers only if a service is reliable, because those dimensions cannot compensate for unreliable service delivery (Berry *et al.*, 1994). Perceived quality has been defined as a form of attitude, related but not equal to satisfaction, and fallout from a consumption of expectations with perceptions of performance. Consequently, having an improved understanding of consumers' attitudes will facilitate knowing how they perceive service quality in banking operations (Parasuraman *et al.*, 1988). In the changing banking scenario of 21st century, the banks had to have a vital identity to provide excellent services. Banks nowadays have to be of world-class standard, committed to excellence in customers' satisfaction, and to play a major role in the growing and diversifying financial sector (Balac handran, 2005). There has been a remarkable change in the way of banking in the last few years. Customers have also accurately demanded globally quality services from banks. With various choices available, customers are not willing to put up with anything less than the best. Banks have recognized the need to meet customers' aspirations. Consequently service quality is a critical motivating force to drive the bank up in the high technology ladder.

The soundness of banking sector is of a dominant importance because it is a main component of the Ethiopian financial sector, and as efficiency in the utilization of the savings of the depositors and the banking sector resources is essential to improve the growth rate of the existent sectors of the economy (Central Bank, 2003). The purpose of banking operations is supposed to be to progress the quality of life for the overall society not just the maximization of shareholders' wealth. Service quality is a multi-dimensional and abstract concept. It is associated with some unique features e.g. inseparability of production and consumption, intangibility, and heterogeneity.

In the absence of objective measures, the measurement of quality is a very complex issue and firms often need to rely on customers' perception of service quality (Parasuraman et al., 1985). Gronroos (1984) proposed that customer compared their expectations to their experience of service quality in forming judgments. Gronroos (1993) later developed the three dimensions in defining service quality a) Functional quality: The dimension consists of the seven attributes that are process related – behavior, attitude, accessibility, appearance, customer contact, internal relationship, service mindedness; b) Technical quality: The dimension consists of five output-related attributes – employees' technical ability, employees' knowledge, technical solutions, computerized systems, and machine quality; c) Image of the service provider:

The dimension described customers' general perception of the supplier Gronroos (1982) and Parasuraman, Zeithaml and Berry (1988) were the pioneers in the conceptualization of the service quality construct, these authors maintained that the overall perception of quality was a disconfirmation of a customers' expectation and his/her evaluation of a service. Parasuraman et al. (1988) developed a disconfirmation measurement, the SERVQUAL instrument, to measure service quality and its dimensions. Although the definitions of service quality vary, the definitions are all formulated from the customer perspective: that is, what customers perceive are important dimensions of quality.

Huseyin,et. Al. (2005) believes that good knowledge of the characteristics and advantages of service quality on the part of banks do contribute for their success and their persistence in the international banking competitive environment. From these definitions we conclude that the quality of banking service is an integrative assessment of the services offered to the external client, for clients are considered to be independent individuals with various requirements on the basis of which services are provided, based on certain specification. This requires that banks

have to carefully select creative employees with high qualifications and capabilities. Service quality as perceived by customers definitely indicates what is left of their previous perception of the service quality and the level of their satisfaction with the current performance of the service. This means that satisfaction is an intermediary factor between the previous perceptions of the service quality and the present perception of it. Accordingly, and within this general framework, customers can access the service actual quality provided to them (Mualla, 1997).

Hence, the customer's satisfaction with the actual performance level of service has a further impact on the formation of the customers' perceptions of service quality. And one the service is purchased again; satisfaction becomes a major approach to the process of assessing service quality (Mualla, 1998). This study depends on this very approach – the measurement of actual performance – which is termed 'SERVPERE' (Joseph, et. al., 1992). The assessment of service quality is largely based upon Parasuraman et al.'s (1988) original development of the measure of perceived service quality (Herington and Weaven, 2008). Parasuraman et al. 1988, (as cited in Tissica Santos, 2003) developed an assessment tool known as SERVQUAL.

It consists of a list of ten dimensions (reliability; responsiveness; competence; access; courtesy; communication; credibility; security; understanding the customer; and tangibles) to measure service quality (Rod et al., 2008). Later in 1988, these ten dimensions were cut down to five ones: tangibility, reliability, responsiveness, assurance, and empathy (Wang and Shieh, 2006).

## **2.6. Importance of services quality in banking service.**

Interestingly, most of the service quality literature was based on retail banks. In the banking sector, service quality results from the difference between the customers' perceptions for the services offered (received) by the bank and their expectations vis-a-vis the banks that offer such (expected) services (Bahia & Nantel, 2000). A number of determinants had been developed over the years in measuring the service quality of banks. Sasser et al (1978) describes levels of material, facilities, and personnel are the determinants of service quality. Lehtinen&Lehtinen(1982) consider physical quality (environment), corporate quality (company image), and interactive

quality (interaction between personnel and customers) are the determinants of service quality. Stafford (1996) identified seven attributes in assessing bank service quality – bank atmosphere, customer-employee relationship, interest rates and charges, available and convenient services, availability of ATMs, reliability, adequate tellers. Banking industry is a demand driven industry, which constitute an important part of the service industry. Retail banks therefore have to redefine their corporate image to that emphasizes service quality since it provides many advantages to a company such as allowing the company to differentiate itself from its competitors by increasing sales and market shares, providing opportunities for cross selling, improving customer relations thus enhancing the corporate image, reliability, responsiveness, credibility and communication results in the satisfaction and retention of customers and employee, thus reducing turnover rate(Lewis,1991,Newman 2001) Without any doubt, service quality is very important component in any business related activity. This is especially so, to marketer a customers' evaluation of service quality and the resulting level of satisfaction are perceived to affect bottom line measures of business success (Iacobucci et al., 1994).

Quality service is gaining more importance in banking industry (Munusamy et al, 2010). Hollowell, (1996) suggest that there is strong theoretical underpinning among customer satisfaction, customer loyalty and profitability. Levesque & McDougall (1996) pointed out that customer satisfaction and retention are critical for retail banks. Bloemer et al. (1998) explore how image, perceived service quality and satisfaction determine loyalty in a retail bank. Armstrong and Seng (2000) analyze the determinants of customer satisfaction in the banking industry.

If customers perceive that they are obtaining additional benefits from their relationship with establishment employees, their satisfaction level with the service provider will increase (Beatty et al., 1996). For present investigation five quality dimensions have been constructed as the study examines the constructs that impact on consumers' decision to stay with or leave their current banks in Ghana. In addition, the study explores whether there is any association between quality service and customer satisfaction. Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zrithaml et al., 1993); which customer thinks a service provider should offer, rather than on what might be on offer (Parasuram et al., 1988).

To some, service quality can also be defined as the difference between customers' expectations for the service encounter and the perceptions of the service received. According to the service quality theory (Oliver, 1980), it is predicted that customers will judge that quality as 'low' if performance does not meet their expectations and quality as 'high' when performance exceeds expectations. Closing this gap might require toning down the expectations or heightening the perception of what has actually been received by the customer (Parasuraman et al., 1985). According to Gronroos (1982), perceived quality of a given service is the result of an evaluation process since consumers often make comparison between the services they expect with perceptions of the services that they receive.

## **2.7. Determinants of service quality**

Classification of service quality has been addressed by a number of scholars. Lehtinen (1982), identified three (3) dimensions of physical quality, corporate quality and interactive quality, while Granoos (1988) identified five key determinants of quality service as; professionalism and skills, reputation and credibility, behavior and attributes, accessibility and flexibility, and reliability and trust worthiness.

In their revised version, Parasuraman et al (1985) identified the following determinants; reliability, responsiveness, accessibility, competence, credibility, courtesy, communication, security, the other determinants include customer perception, consistence of service delivery, human elements of service quality, tangibles of service. Physical quality relates to tangible aspects of services

Interactive quality involves the interactive nature of service and refers to two- way flow that occurs between the customer and service provider or his/her representative, including both automated and animated interaction. Corporate quality refers to the image attributed to a service provider by its current and potential customers as well as other

## **2.8 Customer satisfaction**

Literature establishes that customer satisfaction is a key to long-term business success (Zeithaml *et al.*, 1996). To protect/gain market shares, organizations need to outperform competitors by offering high quality product or service to ensure satisfaction of customers (Tsoukatos and Rand, 2006).

Banks need to understand customers' service requirements and how it impact on service delivery and customers' attitudes (Gerrard and Cunningham, 2001), for a small increase of customer satisfaction can to customer loyalty and retention (Bowen and Chen, 2001). With better understanding of customers' perceptions, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out paths for future progress and improvement (Magesh, 2010). In the banking industry, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services.

Thus, both product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers (Muslim and Isa, 2005). It is indeed true that delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets (Karatepeet *al.*, 2005). Customer satisfaction is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment and the essence of success (Siddiqi, 2010).

One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to supplant those who have been lost are high as the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Reichheld and Kenny, 1990).

In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company (File and Prince, 1992). Long-term customers also take less of the company's time and are less sensitive to price changes (Healy, 1999).

These findings highlight the opportunity for management to acquire referral business that is inexpensive to obtain. It is believed that reducing customer defections by as little as five percent can double the profits (Healy, 1999). Satisfaction with a bank's products and services plays a role in generating loyalty. In today's world of intense competition, a firm's ability to deliver high quality service that result in satisfied customers is the key to a sustainable competitive advantage (Shemwell et al. 1998). As large numbers of banks are opening up and the people are becoming more aware and conscious of quality, keen competition has emerged in the banking industry, so to retain customers banks have to provide better services to customers as service quality is an

indicator of customer satisfaction (Parasuraman et.al., 1998; Spreng and Mackoy, 1996; Jamal and Nasser, 2002; Arasli et.al., 2005a, b; Othman and Owen, 2002). Cronin et. al., (2000) and Wong and Sohal (2003) suggested that service quality demonstrate that a positive relationship with a number of behavioral intentions. Athanassopoulou et. al., (2001) find that customer satisfaction has direct effect on the behavioral responses of customers. Rust and Williams (1994) stated that the customer satisfaction leads to the greater intent to purchase. Bontis et.al, (2007), also find causal construct between customer satisfaction and customer loyalty. Sudin et.al (1994) finds that the provision of fast and efficient services, speed of transaction and the reputation and image of a bank is the most important criteria in the selection of banks by customers.

Muffato and Panizzolo (1995) state that customer satisfaction is considered to be one of the most important competitive factors for the future, and it is the best indicator of a firm's profitability. Again, customer satisfaction drives firms to improve their reputation and image, reduce customer turnover, and to increase attention to customer needs and create barriers to switching, and improve business relationships with their customers.

Parasuraman et al. (1985) suggested that services are intangible since they are performances and experiences. Services are heterogeneous, as their performance often varies from producer to producer, customer to customer, and day to day and production and consumption of services are inseparable.

Quality in services often occurs during service delivery, which is the interaction between a customer and a service provider. As a result, quality of service is more difficult for customers to evaluate. Customers evaluate service quality on the outcome of the service and also on the process of service delivery, and from how well a service provider actually performs, given their expectations of service performance. The key factors influencing customers' selection of a bank include the range of services (Abratt and Russell, 1999). Therefore service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry. Leeds (1992) acknowledged that approximately 40 percent of customers switched banks because of what they considered to be poor service. Customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization.

Managers need to know how to keep their customers, even if they appear to be satisfied as unsatisfied customers may choose to defect, because they do expect to receive better service elsewhere (Reichheld, 1996) Customer satisfaction, a term frequently used in marketing is a



measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as "the number of customers or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals, Customer satisfaction is the primary mental state of customer which comprise by two thing (1) expectation before purchase (2) perception about performance after purchase (Oliver 1997)[18] according to the many authors customer satisfaction is feelings of customer in the process that what has been received against what was accepted including expectation and perception about purchase decision and need and want associated with purchase decision Satisfaction became a popular topic in marketing during the 1980s and is a debated topic during both business expansions and recessions. Most discussions on customer satisfaction involve customer expectation of the service delivery, actual delivery of the customer experience, and expectations that are either exceeded or unmet. If expectations are exceeded, positive disconfirmation results, while a negative disconfirmation results when customer experience is poorer than expected.

The definition and concept of customer satisfaction According to Kotler (2002) satisfaction is the level of one's feelings after comparing the performance (results) are perceived as compared with expectations. Each company directs its business activities to produce goods and services that can provide satisfaction to consumers. Customer satisfaction through service quality can be improved by several approaches as follows:

1. Minimize gaps that occur between management and customers.
2. Companies must be able to build a shared commitment to create vision in improving the service process.
3. Provides the opportunity for customers to complain.
4. Develop and implement a responsibility, pro-active and marketing partnership in accordance with the marketing situation.

Customer satisfaction has become a key intermediary objective in service operations due to the benefits it brings to organizations (Saha and Theingi, 2009). The importance of customer satisfaction is derived from the generally accepted philosophy that for a business to be successful and profitable, it must satisfy customers (Bitner and Hubbert, 1994). Previous research has demonstrated that satisfaction is strongly associated with re-purchase intentions (Cronin and Taylor, 1992; Fornell, 1992). Customer satisfaction also serves as an exit barrier, helping a firm

to retain its customers (Fornell, 1992; Halstead and Page, 1992). Several studies have concluded that it costs more to gain a new customer than it does to retain an existing one.

In addition, customer satisfaction also leads to favorable word-of-mouth publicity that provides valuable indirect advertising for an organization (Halstead and Page, 1992; Fornell, 1992). Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. According to Oliver (1980), the customer satisfaction model explains that when the customers compare their perceptions of actual products/services performance with the expectations, then the feelings of satisfaction have arisen.

Any discrepancies between the expectations and the performance create the disconfirmation. Previous research in services acknowledges a strong positive relationship between service quality and satisfaction (Parasuraman et al., 1988; Bahia & Nantel, 2000).

Lassar et al. (2000) demonstrated that a technical/functional quality-based model of service quality is a reliable predictor of satisfaction. Jamal and Nasser (2002) also confirmed that core and relational dimensions of service quality are causal antecedents of customer satisfaction.

In the relationship-marketing literature, the outcome of customer satisfaction is strongly associated with customer loyalty. In many industries, having satisfied customers also means that organization receives fewer complaints (Fornell, 1992), hence reducing costs in handling failures. Researchers also maintain that satisfied customers are willing to pay more for the benefits they receive and are more likely to be tolerant of an increase in price (Fornell, 1992). Bitner and Hubbert (1994) concluded that, through satisfying customers, organizations could improve profitability by expanding their business and gaining a higher market share as well as repeat and referral business.

According to the international journal service industry management (1994), it is explained that customer satisfaction is managing customer relationship and profits. That is a dynamic relationship quality or link between service quality and customer satisfaction. Eugene suggests that customer satisfaction is a cognitive reaction which emerges as a response to a single or prolonged service encounters. It is the customers' subjective satisfaction judgment resulting from observations of attribute performance regarding a product or service (Oliver and Desurbo 1993),

These definitions spell out that customer satisfaction is not based on a single factor but a multiplicity of factors appreciate it in the creation of satisfaction.

The greatest difficulties in the provision of customer satisfaction vary from customer to customer. Specification of service quality is based on the expectations of a particular customer. Eugene (2000) argues that quality improvements that are not based on customer needs will not lead to improved customer satisfaction leads to loyalty and retention. Winners in today's retail banking must therefore track their customers' needs, expectation and perceived company performance. Mc Connell (1990) contends that customer dissatisfaction leads to loss of market share, reduced sales and lower profit margin. Kolter and Armstrong (1999) defended the customer satisfaction as the customer's perception that compares their pre-purchase expectations with post purchase perception. Oliver (1997, p. 13) defines satisfaction as "the consumer's fulfillment response", a post consumption judgment by the consumer that a service provides a pleasing level of consumption-related fulfillment, including under or over-fulfillment.

Oliver (1981) point of view Customer satisfaction is the evaluation a customer makes to a certain exchange, which reflects the relation of the customer's expectation and their real perception to products and services they receive. Walfried et al. (2000) adopted two techniques in their study for service quality perspectives and satisfaction in private banking, the first was SERVQUAL and the second was a measure of technical/functional quality.

In the second approach, technical quality involves what is provided while functional quality considers how it is provided. These two service quality measures were subsequently compared and contrasted as to their ability to predict customer satisfaction. The study provides initial support in favor of the idea that SERVQUAL and technical/functional quality-based models may be unequally or asymmetrically applicable across different settings and situations. The authors suggested employing both of these two measures in varying situations and contexts, as well as with different customer groups. Zhu et al. (2002) explored the impact of information technology (IT) on service quality in a large consumer bank.

Their results showed that IT based services have a direct impact on the SERVQUAL dimensions and an indirect impact on customer perceived service quality and customer satisfaction.

They also concluded that the evaluations of customers for IT based services were affected by their preference towards traditional services, experiences in using IT based services and perceived IT policies. Lewis (1991) evaluated student's assessment of banks and building societies with respect to overall satisfaction.

## **2.9 Determinants of customer satisfaction**

Togo through the transformation, Lévesque (1996), identified the drivers of customer satisfaction in retail banking to be performance, loyalty, location, skilled employees and competitive interest to deliver these benefits on an ongoing basis to its existing clientele will impact on customer satisfaction.

**Location:** understanding location are the customer benefits of convenience and accessibility which are enabling factors that make it easy for the customers to do business with the bank.

**Performance:** performance yields clear and convincing directions for designing service offerings staff development programmes and customer complaint management systems (Levesque and Gordon, 1996). Doing it right the first time and ensuring successful problem recovery results in to reliability, competitive and shows that employees are willing and ready to provide a service.

**Loyalty:** Eugene et al; (2000) suggest that loyalty is a deeply held commitment to rebuy or repurchase a preferred product or service consistently in the future despite situational influences. According to Bloemer (1998) intangible attributes such as reliability, competence, credibility and efficiency place a major role in building and maintaining loyalty thus a great intent to repurchase and likelihood of recommending the bank to others.

## **2.10. Perceived Service Quality and Customer satisfaction**

Customer satisfaction is influenced by customers' perceptions of quality (Zeithaml and Bitner, 2000). Service quality is an antecedent of the broader concept of customer satisfaction (Gotlieb et al., 1994; Buttle, 1996; Zeithaml and Bitner, 1996; Lee et al., 2000) and the relationship between service quality and loyalty is mediated by satisfaction (Caruana, 2002; Fullerton and Taylor (2002). Customer satisfaction is the customers' evaluation of services after purchase as opposed to their expectation (Oliver, 1997; Zeithaml & Bitner, 2000). Several studies report that quality's effect on customer satisfaction is often seen as greater than other antecedents (Churchill and Suprenant, 1982; Oliver and DeSarbo, 1988; Anderson and Sullivan, 1993).

Furthermore, Cronin and Taylor, 1992 concludes perceived service quality leads to customer satisfaction which in turn, has a significant effect on purchase intentions. Boulding and Zeithaml (1993) points out the positive effect of perceived service quality on behavioral intention. Expectations and delivered service influenced perceived service quality, which in turn, has an

impact on behavioral intentions such as willingness to provide favorable word of mouth and engage in repeat business (Bernhardt et al., 2000).

There is also a controversy regarding the relationship between customer satisfaction and service quality. Some authors reported that relationship exist between customer satisfaction and service quality (Oliver and DeSarbo 1988; Parasuraman, Zeithaml, and Berry 1994). Some posit that service quality is important antecedent of customer satisfaction (Parasuraman et al. 1988; Churchill and Suprenant 1982; Cronin and Taylor 1992; Spreng and Mackoy, 1996; Oliver, 1993; Fornell 1992; Oliver and DeSarbo 1988; Chigozirim, 2008).

Some other argues that customer satisfaction is an antecedent of service quality. Finally, it is agreed that customer satisfaction is broader construct than service quality, so service quality assumed to be an important antecedent of customer satisfaction.

Kotler and Armstrong (2012) preach that satisfaction is the post-purchase evaluation of products or services taking into consideration the expectations. Researchers are divided over the antecedents of service quality and satisfaction. Whilst some believe service quality leads to satisfaction, others think otherwise (Ting, 2004). The studies of Lee et al. (2000); Gilbert and Veloutsou (2006);Suleiman (2011) and Buttle (1996) suggest service quality leads to customer satisfaction. To achieve a high level of customer satisfaction, most researchers suggest that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction. As service quality improves, the probability of customer satisfaction increases Baker and Crompton (2000) defended satisfaction as a personal experience and mentality related the nitration between personal expectation and actual receive.

Customer satisfaction is the overall evaluation to services. It is the reflection customers make to their previous purchase. If it always exceeds their expectation, their loyalty increases. Customer satisfaction should be highly valued in business (Ostrom&Iacobuci, 1995; Hou& Yao, 1995; McAlexander et al., 2003). FonVielle (1997) pointed out that improving customer satisfaction is the only way to business success. The relationship among service quality and customer satisfaction has received considerable attention in the marketing literature (Brady et al., 2001; Cronin and Taylor, 1992; Meuter et al., 2000; Oliva et al., 1992; Olorunniwo et al., 2006; Zeithaml et al., 1996). Within this research area, numerous empirical studies have reported the

positive relationship between customer satisfaction and service quality (Andaleeb and Conway, 2006). The European and American customer satisfaction indices models, however, suggest that service quality is a component of satisfaction (Fornell et al., 1996). Firms that provide superior service quality also have a more satisfied customer base (Gilbert et al., 2004; Gilbert and Veloutsou, 2006). According to Bilal (1996), quality assurance in organization provides confidence to the management of the organization and customer. He argues that the organization needs to control quality in order to avoid unsatisfactory performance that leads to customer turnover.

However, Wesner et al., (1995) contends that the customer is the key driver for change and acknowledging his satisfaction is of importance to business success. Factors which lead to customer turnover like actual price charged, changing address, ineffectiveness and poor communication among others, should be considered in proper alignment to produce quality services.

Poon (1993) contends that there is need for loyalty for customers, quality labor and ensure services are consistently good. Keeping customers satisfied and happy through quality will keep them coming back rather than leaving.

Whereas Medilk (1992) argues that the customer assesses quality by his or her perceptions of the way in which services or facilities are provided. Thus means that quality concerns visitor expectation of services and what is received and delivered.

A bad customer service experience is used as an example of common customer service error hence customer turnover.

Wesner et al. (1995), contends that the successful organizations are the ones that deliver the higher standards within the limits of what the customer can afford. Quality does not need to be expensive but it has to reflect high value for money so as to satisfy the customers. Quality service is measured through customers' comments repeat new business and complaints.

Mc Connell (1990) adds that customers need to feel comfortable and relax on the surrounding. They need differentiated products and services that give them experience they cannot get anywhere. Attention should be put on customer complaints so as to retain the existing customers and attract new ones.

Customer satisfaction is another important aspect for service organizations and is highly related with service quality (Bolton and Drew, 1991; Cronin and Taylor, 1992; Taylor and Baker, 1994; Spreng and MacKoy, 1996). In today's world of intense competition, the key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customers (Shemwell et al., 1998). As service quality improves, the probability of customer satisfaction increases. In this way, the association between service quality and customer satisfaction has emerged as a topic of significant and strategic concern (e.g. Bolton and Drew, 1991; Cronin and Taylor, 1992; Taylor and Baker, 1994). Customers' evaluations of the service quality are critical to service firms that aim to improve their marketing strategies (Cronin and Taylor, 1992; Jain and Gupta, 2004; Ofir and Simonson, 2001). Oliver (1997, p. 13) defines satisfaction as "the consumer's fulfillment response", a post consumption judgment by the consumer that a service provides a pleasing level of consumption-related fulfillment, including under- or over-fulfillment.

Customer satisfaction is viewed as influencing repurchase intentions and behavior, which, in turn, leads to an organization's future revenue and profits. As a result of the direct link with profits, the issue of service quality and customer satisfaction has become a focus of the banking industries. More and more companies are compelled to assess and improve their service quality in an effort to attract customers (Gilbert and Veloutsou, 2006). Service quality is an antecedent of the broader concept of customer satisfaction (Gotlieb et al., 1994; Buttle, 1996; Zeithaml and Bitner, 1996; Lee et al., 2000) and the relationship between service quality and loyalty is mediated by satisfaction (Caruana, 2002; Fullerton and Taylor (2002).

The relationship among service quality and customer satisfaction has received considerable attention in the marketing literature (Brady et al., 2001, 2002; Cronin and Taylor, 1992; Meuter et al., 2000; Oliva et al., 1992; Olorunniwo et al., 2006; Zeithaml et al., 1996). Many empirical studies have investigated the relationships among the constructs of service quality and customer satisfaction in a variety of industries and cultures. Within this research area, numerous empirical studies have reported the positive relationship between customer satisfaction and service quality (Andaleeb and Conway, 2006).

## **2.11 Customer's Loyalty**

According to a model presented by Zeithaml et al., (1996), behavioral intention can be captured by such measures as repurchase intentions, words of mouth, loyalty, complaining behavior, and price sensitivity. High service quality often leads to favorable behavioral intention (Burton et al., 2003). Loyal customers are important, because they contribute to the bank's profitability by passing positive words of mouth and also retain their customer ship. (Anderson and Mittal, 2000; Storbacka et al., 1994).

Loyalty is predominantly satisfaction driven (Rust et al., 1995) and therefore customers satisfaction measurements are believed to give a better indication of future performance of service firms (Anderson and Fornell, 1999) than, for instance financial and accounting based measures (Kaplan and Norton, 1996). Customer loyalty is a feeling of commitment on the part of the consumer to a product, brand, marketer, or services above and beyond that for the competitors in the market place, which results in repeat purchase (Szymigin and Carrigan, 2001). A loyal customer to a bank is thus, one who will stay with the same service provider, is likely to take out new products with the bank and is likely to recommend the bank services (Fisher, 2001).



# CHAPTER THREE

## RESEARCH METHODOLOGY AND DESIGN

### Research Methodology

The purpose of this study was to assess the relationship between service quality dimensions and customer satisfaction from the customer viewpoints. Service dimensions (tangibles, reliability, responsiveness, assurance and empathy) were thoroughly examined. Assessments was based on a Five-point Likert scale ranging from “strongly disagree (1) to “strongly agree (5) was used to measure the items.

### 3.1 Research Design

On this study the researcher used descriptive and exploratory research design. Descriptive method was used to describe the dimensions of the research variables and exploratory research design was used for generating ideas, insights, or hypothesis. In order to answer the problem statement and pertaining research objectives carefully, the research design was reflected on and discussed in each step below. In answering the research objectives, this study proposes an integrated conceptual framework for measuring customers’ Service Quality perception and derived Satisfaction as a point of saving. The SERVQUAL framework models and analyzes the customers’ gap between expected and perceived Service with respective to banking service attributes as indicator of the perceived Service Quality and Satisfaction. In this study the five dimensions and their respective attributes of the model was expressed using a five point Likert scale in the following manner: Assessments was based on A Five-point Likert scale ranging from “strongly disagree (1) to “strongly agree (5) was used to measure the items.

### 3.2 Target Population and Sample

The study was undertaken to assess the relationship between service quality and customer satisfaction by the customers of the Commercial Bank of Ethiopia. The bank has more than 1200 branches in Ethiopia with total population of more than 7000000 customers’ in which 5009 of them are found at Mehal Ketema branch. Customers of the branch were selected by using convenient sampling expecting that the researcher would get the necessary data. To obtain representative samples, simple random sampling technique was used to select customers who

were willing to complete the questionnaire. Simple random sampling technique was used in this research because it provides an equal and nonzero chance of being selected for each customers of the bank (Abiyet *al.*, 2009).

The researcher's focus was on customers of the bank. In order to get access, it is important to have list of existing customers of the bank. The total numbers of customers listed by the branch are 5,009. In order to answer the research questions of this study a sample of 200 customers were selected randomly from the branch to fill the questionnaire.

The 200 customers' selected were considered to be representative of the target population. This is based on preparatory module which is prepared by Graduate Studies and Research Office. According to this module, in designing a study; the researcher chooses the size of effect that is considered important (Abiyetal., 2009).

### **3.3 Instruments**

The aim of this study was to assess the relationship between service quality and customer satisfaction by customers of Commercial Bank of Ethiopia Mehal Ketemabranh and its impact on customer satisfaction. The questionnaire survey was the main form of data collection. The survey instrument which was developed in this study consisted of three major sections. The first section was containing questions about personal profiles of the respondents including gender, educational level, age, and occupation. The second section were comprises five constructs measuring of SERVQUAL as proposed by Parasuraman et al. (1988). And the third section were comprises ten items that measure Customer satisfaction adapted from Wilfred et al. (2000). The instrument used a five-point Likert scales, representing a range of attitudes from 1 – strongly disagree to 5 – strongly agree to measure service quality and a five-point Likert scales, representing a range of attitudes from very dissatisfied(1) and very satisfied (5) to measure Customer satisfaction .

### **3.4 Data Collection /Data Source**

To measure the customers' evaluation of banking services at Commercial Bank of Ethiopian Mehal Ketema branch, a survey was conducted; using a questionnaire. During the study, a list of critical variables that influenced customers' evaluation of banking services were prepared, which was largely based on the following literatures. Parasuraman et al. (1991) undertook a significant work to measure service quality across a broad range of services and they come up with a framework known as SERVQUAL. The SERVQUAL is a five-dimensional construct of service

quality consisting of tangibles, reliability, responsiveness, assurance, and empathy. It has a 21-item instrument that captures customers' expectations of service and their perceptions of the received service. The SERVQUAL model constitutes the basis for analyzing of customers' perception of service quality and derived satisfaction. To develop the SERVQUAL scale, Parasuraman et al. (1991) gathered data from five different service categories.

And the data was collected from both primary and secondary source. The main source of primary data was through a standard questionnaire. Secondary data was obtained from already existing literature that was from textbooks, journals, brochures, and internet and bank reports.

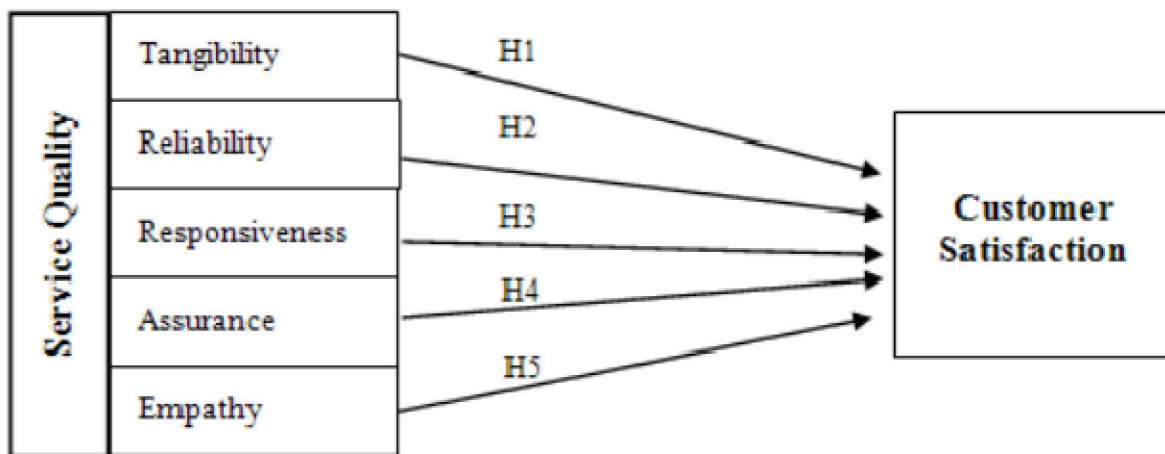


Fig. 1: Research Framework 33

The five hypotheses are as follows:

H1: Tangibility has a significant relationship with customer satisfaction.

H2: Reliability has a significant relationship with customer satisfaction.

H3: Responsiveness has a significant relationship with customer satisfaction.

H4: Assurance has a significant relationship with customer satisfaction.

H5: Empathy has a significant relationship with customer satisfaction.

### 3.5 Data Analysis Method

In order to meet the objectives of the research analysis of data in this research was done based on the nature of the study, by using statistical tools like regression and correlation models. Regression analysis was used to know by how much the independent variable i.e. service quality

explains or influences the dependent variable which is Customer Satisfaction. Correlation analysis was conducted to measure the strength of the association between Service Quality dimensions and Customer Satisfaction. Also descriptive analysis was used analyze the demographic factors such as gender, age, education, occupation, monthly income and for how many times the customers are using the bank's services.

Tools like table and percentage are used. Data analysis was performed by using SPSS software version 16. In order to reduce the possibility of getting wrong answers, different actions were taken to ensure the soundness of this study:

1. Data was collected from reliable sources, from respondents who are customers of the bank.
2. The questionnaire was based on literature review to ensure the soundness of the results.
3. SPSS software version 16.0 used to analyze the data and special emphasis was given during data coding.

### **3.6 Reliability test result**

Alpha reliability is regarded as a measure of internal consistency of the mean of the items at the time of administration of the questionnaire. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively related to one another. It is computed in terms of the average inter correlations among the items measuring the concept. Reliability is calculated in such a way that it represents the reliability of the mean of the items, not the reliability of any single item. So, the alpha reliability of 10 items would be higher than that of 5 similar items. This coefficient can hold a value of 0 to 1.

The result of 0.7 and above implies an acceptable level of internal reliability. The result of reliability test for the questionnaire is shown in the following table. As it is indicated in the table, the test result is between 0.77 and 0.93. Therefore, based on the test, the results for the items are reliable and acceptable

TABLE 3.1: Reliability test result for questionnaire

Item	Number of item	Cronbach's alpha
Tangibility	4	0.78
Reliability	4	0.77
Empathy	5	0.77
Assurance	4	0.81
Responsiveness	4	0.81
Customer satisfaction	10	0.93

# CHAPTER FOUR

## DATA ANALYSIS AND INTERPRETATION

To analyze the collected data in line with the overall objective of the research undertaking, statistical procedures were carried using SPSS 16.00. In this part to identify the major issues and to provide workable recommendations for the problems concerning service quality and customer satisfaction, the researcher has collected data through self-administered questionnaire. In this chapter the findings of the study are presented.

During the survey a total of 200 questionnaires were distributed to customers. All 200 distributed questionnaires were returned. So the analysis was made based on 200 responded questionnaires. The questionnaire were developed in five scales ranging from five to one; where 5 represents strongly agree, 4 agree, 3 no opinion, 2 disagree, and 1 strongly disagree. All questionnaires were filled by the customers of CBE Mehal Ketema branch. Customers were selected based on random sampling and efforts have been made to have representative sample and the results are considered as representative of the population. Descriptive statistics were used for demographic factors and correlation and regression analysis were conducted for scale typed questionnaires. You can refer to the appendix at the end to find the questionnaire used in this study.

### 4.1 Descriptive analysis

Descriptive analysis is used to analyze the data collected and to describe that information. This analysis method is used to describe the demographic factors for more clarification. It is mainly important to make some general observations about the data gathered for general or demographic questions. The demographics factors used in this research are gender, age, education qualification, occupation, monthly income, and length of time the respondents uses the banks services. For the scale typed questionnaires for all variables mean or average response of respondents was used. The mean response for all independent variables and dependent variable is 4 and above which was stated as agree. This average response shows that most of the respondents agreed that the bank service quality is good and there was moderate level of satisfaction.

Table 4.1 reveals the demographic information of the respondents. From the gender variable, it can be observed that majority of the respondents were males, i.e. 68% representing a bigger part of the sample group. However, 32% percent of the respondents were females. This study was only aimed at those customers that have saving account at CBE in Mehal Ketema branch.

Table 4.1: Gender of respondents

	Gender	Frequency	Percent	Valid Percent
Valid	Female	64	32.0	32.0
	Male	136	68.0	68.0
	Total	200	100	100

(Source: Own survey)

#### 4.1.2 Age of respondents

The respondent's age is shown in the following table 4.2. The table shows that 50.5% are the age of 20-39 years old, followed by respondent at the age between 40-59 years old with 38%, 9% were at the age below 60 and above years old. The remaining of the respondents 2.5% were 18 years old.

Table 4.2: Age of respondents

		Frequency	Percent	Valid Percent
Valid	18 years	5	2.5	2.5
	20-39 years	101	50.5	50.5
	40-59 years	76	38	38
	60 and above years	18	9	9
	Total	200	100	100

(Source: Own survey),

#### 4.1.3 Education qualification of the respondents

The education qualifications of respondents are shown in table 4.3. As it is indicated in the table 41% hold a first degree. In the other way, 41% were diploma holder, while 9% of the respondents achieved secondary education. 4.5% hold a postgraduate degree and 3% respondents show that they had other qualification 1.5% achieved primary education.

Table 4.3: Education qualification of respondents

		Frequency	Percent	Valid Percent
Valid	primary	3	1.5	1.5
	secondary	18	9.0	9.0
	diploma	82	41.0	41.0
	degree	82	41.0	41.0
	postgraduate	9	4.5	4.5
	others	6	3.0	3.0
	Total	200	100.0	100.0

(Source: Own survey)

#### 4.1.4 Monthly income of respondents

The results of monthly income of respondents are shown in table 4.5. The table shows that 51% of the respondents had income of 1000-2999 birr and 28.5% had income of between birr 3000-4999 monthly. On the other hand, 17% had income of below birr 1000 and the remaining respondents 3.5% had income of 5000 birr and above.

Table 4.5: Monthly income of respondents



		Frequency	Percent	Valid Percent
Valid	below birr 1000	34	17.0	17.0
	birr 1000-2999	102	51.0	51.0
	birr 3000-4999	57	28.5	28.5
	Birr5000andabove	7	3.5	3.5
	Total	200	100.0	100.0

(Source: Own survey)

#### 4.1.5 Length of time the respondents uses the banks services

The results of length of time the customers uses the banks services are indicated in table 4.6. As it is shown in the table, 41% of the respondents have used for 3-5 years, 28% have used for 1-3 years and 22.5% have used the banks services for 5-7 years. On the other hand 4.5%and 4% of the respondents have used the banks services for above7 years and below 1 year respectively.

Table 4.6: Length of time the respondents uses the banks services

		Frequency	Percent	Valid Percent
Valid	Below1years	8	4.0	4.0
	1-3 years	56	28.0	28.0
	3-5 years	82	41.0	41.0
	5-7 years	45	22.5	22.5
	above7years	9	4.5	4.5
	Total	200	100.0	100.0

(Source: Own survey)

#### 4.1.6 Means and Standard deviations of variables.

Table 4.7: Means and Standard Deviations of Variables

		Tangibility	Reliability	Empathy	Assurance	Responsiveness	Customer satisfaction
N	Valid	200	200	200	200	200	200
	Missing	0	0	0	0	0	0
Mean		2.7738	3.2739	2.9670	3.2062	3.0325	2.9015
Std. Deviation		.88596	.92646	.92270	1.05366	1.04884	1.04336

(Source: Own survey)

Table 4.7 above has shown the statistical description of service quality, customer satisfaction of 200 respondents, banks customers perceived Reliability (with the highest mean scores, i.e.  $M = 3.27$ ,  $SD = 0.93$ ) to be the most dominant service quality and evident to a considerable extent, followed by Assurance ( $M = 3.21$ ,  $SD = 1.05$ ), Responsiveness ( $M = 3.03$ ,  $SD = 1.05$ ), and Empathy ( $M = 2.96$ ,  $SD = 0.922$ ), which was rated as moderate practices of their bank. Tangibility ( $M = 2.77$ ,  $SD = 0.88$ ), with the lowest mean score was perceived on the overall as least dimension of service quality.

The standard deviations were quite high, indicating the dispersion in a widely-spread distribution. This means that the effects of service quality on customer satisfaction are an approximation to a normal distribution. This also indicates that respondents were in favor of customer satisfaction.

## 4.2 Correlation analysis

Like the demographic factors, the scale typed questionnaire entered to the SPSS software version 16.00, to process correlation analysis. Based on the questionnaire which was filled by the customers of CBE at Mehal Ketema branch, the following correlation analysis was made.

Table: 4.8 Correlations between service quality and customer satisfaction

		Customer satisfaction	Service quality
Customer satisfaction	Pearson Correlation	1	.835**
	Sig. (2-tailed)		.000
	N	200	200
Service quality	Pearson Correlation	.835**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

Pearson correlation test was conducted to know the degree of relationship between the independent variable i.e. service quality and the dependent variable i.e. customer satisfaction. The results of the correlation between these variables are shown in table.

As it is indicated in the table 4.8 there is significant correlation between service quality and customer satisfaction. In other words service quality and customer satisfaction have high relationship ( $r=0.835$  with  $p<0.01$ ).

#### **4.2.1 Correlation analysis between tangibility and customer satisfaction**

Pearson correlation test was also conducted for these variables and the results are shown in table 4.9. As it is indicated in the table, there is significant positive correlation between tangibility dimension and customer satisfaction. In other words tangibility dimension and customer satisfaction are correlated in a moderate relationship ( $r=0.596$ ).

Table: 4.9 correlations between tangibility and customer satisfaction

		Customer satisfaction	Tangibility dimension
Customer satisfaction	Pearson Correlation	1	.595**
	Sig. (2-tailed)		.000
	N	200	200
Tangibility dimension	Pearson Correlation	.595**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

#### 4.2.2 Correlation analysis between reliability and customer satisfaction

For these variables Pearson correlation test was conducted and the results are shown in table 4.10. As it is shown in the table, there is significant correlation between reliability dimension and Customer satisfaction. In other words reliability dimension and customer satisfaction have moderate relationship ( $r=0.692$ ).

Table: 4.10 Correlation analyses between reliability customers' satisfaction.

		customer satisfaction	reliability dimension
customer satisfaction	Pearson Correlation	1	.692**
	Sig. (2-tailed)		.000
	N	200	200
reliability dimension	Pearson Correlation	.692**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

#### 4.2.3 Correlation analysis between empathy and customer satisfaction

For these variables Pearson correlation test was conducted and the results are shown in table 4.11. As it is shown in the table, there is significant correlation between empathy dimension and customer satisfaction. In other words empathy dimension and customer satisfaction have high relationship ( $r=0.731$ ).

Table 4.11: correlations between empathy and customer satisfaction

		Customer satisfaction	Empathy dimension
Customer satisfaction	Pearson Correlation	1	.731**
	Sig. (2-tailed)		.000
	N	200	200
Empathy dimension	Pearson Correlation	.731**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

#### 4.2.4 Correlation analysis between assurance and customer satisfaction

For these variables Pearson correlation test was also conducted and the results are shown in table 4.12. As it is clearly indicated in the table, there is significant positive correlation between Assurance and customer satisfaction. In other words assurance dimension and Customer satisfaction have high relationship or correlation ( $r=0.731$ ).

Table 4.12: correlations between assurance and customer satisfaction

		Customer satisfaction	Assurance dimension
Customer satisfaction	Pearson Correlation	1	.731**
	Sig. (2-tailed)		.000
	N	200	200
Assurance dimension	Pearson Correlation	.731**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

### 4.2.5 Correlation analysis between responsiveness and customer satisfaction

Pearson correlation test was conducted to know whether there is significant correlation or not between responsiveness and customer satisfaction and the results are shown in table 4.13. As it is clearly indicated on the table, there is positive correlation between responsiveness and customer satisfaction. The result of correlation analysis prove that responsiveness dimension and customer satisfaction are correlated with high relationship ( $r=0.779$ ).

Table 4.13: correlations between responsiveness and customer satisfaction

		Customer satisfaction	Responsiveness dimension
Customer satisfaction	Pearson Correlation	1	.779**
	Sig. (2-tailed)		.000
	N	200	200
Responsiveness dimension	Pearson Correlation	.779**	1
	Sig. (2-tailed)	.000	
	N	200	200

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

### 4.3. Regression analysis

This regression analysis was conducted to know by how much the independent variable explains the dependent variable. It is also used to understand by how much each independent variable (tangibility, reliability, empathy, assurance, responsiveness) explains the dependent variable that is customer satisfaction. The results of the regression analysis are the following.

Table: 4.14 regression analysis

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 <sup>a</sup>	.709	.702	56819

a. Predictors: (Constant), responsiveness dimension, tangibility dimension, reliability dimension, assurance dimension, empathy dimension

b. Dependent Variable: customer satisfaction

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.292	.162		-1.797	.074
	tangibility dimension	.193	.057	.164	3.387	.001
	reliability dimension	.193	.066	.172	2.903	.004
	empathy dimension	.195	.061	.184	3.165	.002
	assurance dimension	.193	.064	.195	2.993	.003
	Responsiveness dimension	.371	.065	.373	5.712	.000

a. Dependent Variable: customer satisfaction

**The results are as follows:** Estimated Y = 0.164\*Tangibility + 0.172\*Reliability + 0.184\*Empathy + 0.195\*Assurance + 0.373\*Responsiveness

**Where:**

Tangibility coefficient=0.164

Reliability Coefficient = 0.172

Empathy Coefficient = 0.184

Assurance Coefficient = 0.195

Responsiveness Coefficient = 0.373



The above result illustrates that the highest impact of the responsiveness on customer satisfaction, where an increase in responsiveness by 0.373 caused an increase in the Customer Satisfaction in bank. Similarly, the Customer Satisfaction of the bank is directly affected by the Assurance where an increase in Assurance 0.195 caused a direct increase in the customer satisfaction. Also, the customer satisfaction was strongly affected by empathy where an increase in empathy 0.184 causes a direct increase in the customer satisfaction. The moderate and positive impact of the reliability on customer satisfaction where an increase in reliability by 0.172 caused an increase in the customer satisfaction. Further the lower impact of the tangibility was on customer satisfaction, where an increase in tangibility by 0.164 causes an increase in the customer satisfaction.

#### 4.4. Presentation of Findings

This presentation is very important to provide more clarification on the above results. This research is the assessment of the relationship between service quality and customer satisfaction in banking industry, specifically in CBE Mehal Ketema branch. The objective of this study is to assess the relationship between service quality and customer satisfaction with in CBE Mehal Ketema branch, by analyzing the relationship of every construct in the theoretical framework.

Demographic factors such as gender, age, occupation, education qualification, monthly income and length of time the customers' uses the bank's services have been used to know the general characteristics of the respondents.

Based on the results from this research, service quality is correlated with customer satisfaction. The research used 68% male and 32% female respondents. In terms of age, the majority of respondents are in between 20-39 years old which was accounted 50.5% and followed by 40- 59 which constituted 38%. With regard to the education qualification of respondents, the majority are both first degree and diploma holder with 41%. When researcher seen the occupation of the respondents, most of them are working in government sector which accounted 44% and followed by 27.6% are working in private sector. In terms of the monthly income of the respondents, the majority had income of Birr 1000-2999 which accounted 51% and followed by 28.5% having income in between birr 3000-4999. When researcher observed the length of time customers' uses of the bank's services, most of the customers used the bank's services for 3-5 years which accounted 41% followed by 28% used the bank's services for 1-3 years.

A correlation coefficient is a statistical tool used to summarize the relationship between two variables with a single number that falls between -1.00 and +1.00 (Welkowitz et al., 2006). Morgan et al. (2004) stated that: -1.0 indicates perfect negative correlation, 0.0 indicate no correlation, and + 1.00 shows perfect positive correlation. The Pearson correlation analysis obtained from the five intervals scaled variables is shown in Table. The sample size (n) is 200 and the significant level is 0.01 ( $p \leq 0.001$ ). Hypothesis H1: Tangibles, In the Table 4.9, it can be seen that the correlation (r) of tangibles is 0.596 and the significant level is 0.01. It can be seen from Table 4.9 that the p-value is 0.000, which is less

than 0.01.

Therefore, we accept the null hypothesis, and concluded that there is moderate but positive ( $r = 0.596$ ) relationship between tangibles and customer satisfaction in the CBE Mehal Ketema branch. The study of Lai (2004) also found that tangibility is positively related to customer satisfaction. For hypothesis, H2: Reliability, table 4.10, shows that the correlation ( $r$ ) is 0.692 for reliability and the p-value is 0.000, which is less than the significant level 0.01. Hence, the null hypothesis is accepted and concluded that there is large positive correlation between reliability and customer satisfaction in the CBE Mehal Ketema branch. Zim et al. (2010) stated that reliability is one of the significant factors of customer satisfaction.

In the case of hypothesis H3, it is clear from Table 4.13, that responsiveness is the strongest predictor of customer satisfaction. The result indicates that the correlation ( $r$ ) of responsiveness is 0.779 and p-value is 0.000, which is less than 0.01. Therefore, the null hypothesis is accepted and concluded that there is strong positive correlation between responsiveness and customer satisfaction in the CBE Mehal Ketema branch. Mengi (2009) also pointed out that responsiveness is positively related to customer satisfaction.

From Table 4.12, hypothesis H4: Assurance is the second strongest predictor of customer satisfaction (Leeds, 1992). The result indicates that the correlation ( $r$ ) of assurance is 0.731 and p-value is 0.000, which is less than 0.01. Therefore, the null hypothesis is accepted and concluded that there is strong positive correlation between assurance and customer satisfaction in the CBE Mehal Ketema branch. Mengi (2009) also pointed out that assurance is positively related to customer satisfaction.

With regard to hypothesis H5: Empathy, Table 4.11, shows that the correlation ( $r$ ) for empathy is 0.731 and p-value is 0.000. Hence, the null hypothesis is accepted and it can be concluded that empathy is positively (strongest) related to customer satisfaction in the CBE Mehal Ketema branch. Ladhari (2009) also found that empathy is positively related to customer satisfaction. In table 4.14 the results of the regression analysis are the following.

Estimated  $Y = 0.164 * \text{Tangibility} + 0.172 * \text{Reliability} + 0.184 * \text{Empathy} + 0.195 * \text{Assurance} + 0.373 * \text{Responsiveness}$

**Where:**

Tangibility coefficient=0.164

Reliability Coefficient = 0.172

Empathy Coefficient = 0.184

Assurance Coefficient = 0.195

Responsiveness Coefficient = 0.373

The above results illustrate the highest impact of the responsiveness on customer satisfaction, where an increase in responsiveness by 0.373 caused an increase in the customer satisfaction. Similarly, the customer satisfaction in Mehal Ketema branch is directly affected by the Assurance where an increase in Assurance 0.195 caused a direct increase in the customer satisfaction. Also, the customer satisfaction at Mehal Ketema is strongly affected by empathy where an increase in empathy 0.184 caused a direct increase in the customer satisfaction.

The moderate and positive impact of the reliability on customer satisfaction; where an increase in reliability by 0.172 caused an increase in the customer satisfaction. Further the lowest impact of the tangibility on customer satisfaction, where an increase in tangibility by 0.173 caused an increase in the customer satisfaction Mehal Ketema branch.

#### **4.5 Discussion of Findings**

This research attempts to enhance our understanding in the area of the relationship between customer satisfaction and service quality in the CBE Mehal Ketema branch. Table 4.7 describes the ranges, means and standard deviations of quality constructs. Almost all the means are similar. High standard deviation indicates that data is wide spread and shows that customer gave a variety of opinion, whereas, low standard deviation means that the respondents expressed close opinions. The hypothesis test confirms that all service quality dimensions (Reliability, Responsiveness, Empathy, Tangibles and Assurance) are positively related with customer satisfaction. Responsiveness shows the highest positive correlation ( $r = 0.779$ ), with satisfaction, Assurance and Empathy showing the second strongest positive correlation ( $r = 0.731$ ) and reliability shows the third highly positive correlation ( $r = 0.692$ ) with customer satisfaction. A moderate but positive relationship between customer satisfaction and tangibility, ( $r = 0.596$ ) was established in the hypotheses test. This study

shows that responsiveness and customer satisfaction are highly and positively correlated. The study shows there is a positive relation between reliability and customer satisfaction. Data shows that customers are satisfied with customer support services, hospitality services and handling of customer's grievances. Consequently, customers are confident that their banks are fulfilling the promised terms and conditions which will enhance their expectations.

Again, the study indicates strong positive relationship between empathy and customer satisfaction. This means that customers of banks are somehow satisfied with banking hours, personal attention given to them by bank staff, and information provided to customers. The hypothesis test of this study establishes that there is positive correlation between tangibles and customer satisfaction. Analysis of data shows that customers are satisfied with infrastructure facilities, modern equipment, staff's appearance, and interior decoration of banks.

# CHAPTER FIVE

## CONCLUSION AND RECOMMENDATIONS

### 5.1. Conclusion

The nature of banking services encourages customers to demand the highest possible quality. In order to achieve this, it is essential to be very close to customers to capture information on customers' current and future needs, expectations and perceptions. The main objective of this study was to assess the relationship between service quality and customer satisfaction. This study posits and develops an instrument of service quality, and examines the relationship between perceived service quality and customer satisfaction from various studies, SERVQUAL appears to be a consistent and reliable scale to measure banking service quality, and provide a useful diagnostic role to play in assessing and monitoring service quality in banks. The measurement of Banks' service quality has to be based on perceived quality. This is because service quality is intangible, heterogeneous and its consumption and production occur in tandem (Lim and Tang, 2000). From the data collected the researcher drew conclusions and gave suggestions. The research results are expected to provide guidance and reference for the management of Commercial Bank of Ethiopia, Mehal Ketema branch. The results of this study indicated that Service Quality is an important antecedent of Customer Satisfaction this result consistent with results drawn (Andaleeb and Conway, 2006; Gotlieb et al., 1994; Buttle, 1996; Zeithaml and Bitner, 1996; Lee et al., 2000; Zeithaml and Bitner, 2003). Five dimensions of service quality have significant influence on customer satisfaction. These dimensions include tangibles, reliability, responsiveness, assurance, and empathy. Moreover, our findings show that service quality is an important antecedent of customer satisfaction. This finding reinforces the need for banks managers to place an emphasis on the five dimensions of Service Quality.

As observed from the survey, there are some of the problems that surface in the effort of evaluating customers' satisfaction hence customer satisfaction vary according to the nature of the service. The highest customer satisfaction is revealed in the responsiveness area such as bank staff's tell customers' exact time of service will be performed; prompt service, bank staff's willingness to help customers, bank staff's respond to queries of customers, friendly attitude of staff, followed by the reliability area such as customer guidance, customer support to deliver promised service, banks insist

on error free records, keen in solving problems, perform services exactly as the first time, customer support services, hospitality services and handling of customer's grievances. Representative, satisfactions are in the assurance and tangibles area, such as infrastructure facilities, interior decoration, banks staff's behavior instills confidence and inspire trust, staffs are courteous, staffs are knowledgeable, customers feel safe in dealing with the banks followed by empathy area such as banks business timing, individual attention, caring, bank location and return on investment. Due to the wide variation of the responses, the selected private banks need to consider the weak areas in order to meet customer requirements.

Hence, to be successful in banking sector, banks must provide service to their customer that at least meets or better, if exceeds their expectations. The bank should take appropriate decision to improve the quality of services in CBE Mehal Ketema branch. To achieve higher levels of service quality, the bank should redesign their strategies in light of customer satisfaction with respect to service quality by identifying and improving s Service Quality issues which could have effect on the satisfaction level of customers. The quality dimension assessed by the customer satisfaction study is important to customers and therefore it is beneficial for the bank to understand which of these quality dimensions are highly linked with overall customer satisfaction to enable management direct resources to these areas. The benefits of customer satisfaction surveys represent a clearer picture of the customers and also an overview of the areas the bank needs to improve, so that the bank will have the chance to accede to a higher customer satisfaction level and maintain a strong relationship with its customers and prevent customers from diverting to other banks.

The importance of study findings for managerial decision-making processes is evident. The Bank's managers seeking to improve their customers' satisfaction levels, in their effort to increase loyalty, retention rates and attract new customers, may benefit by information about the effect of individual dimensions of service quality on customer satisfaction. The correlation value between service quality and customer satisfaction is 0.835. It is significant at 0.01 levels. There is positive linear relationship between the service quality and customer satisfaction.

With regard to the Pearson correlation analysis, it can be clearly seen as that the five service quality dimensions namely tangibility, reliability, empathy, assurance, and responsiveness are positively related to customer satisfaction at CBE Mehal Ketema branch. The relationship looks like the following.

- Service quality and customer satisfaction have high relationship.
- Tangibility dimension and customer satisfaction have moderate relationship.
- Reliability dimension and customer satisfaction have moderate relationship.
- Empathy dimension and customer satisfaction have high relationship.
- Assurance dimension and customer satisfaction have high relationship.
- Responsiveness dimension and customer satisfaction has high relationship

According to the Regression analysis, customer satisfaction is influenced by service quality by 70% which leads us to conclude that service quality influences the customer satisfaction; therefore the researcher has come to the conclusion that service quality has an impact on customer satisfaction.

Based on the findings, the following tips can be provided to boost the service quality in the banking sector. Management of the bank or administrative body needs to consider identifying the primary quality determinants, clearly managing the customer expectation, educating the knowledge to employees regarding service quality.

The highest impact of the responsiveness was observed on customer satisfaction; where an increase in responsiveness by 0.373 caused an increase in the customer satisfaction. Similarly, the customer satisfaction is directly affected by the Assurance where an increase in Assurance 0.195 caused a direct increase in the customer satisfaction. Moreover, the customer satisfaction at Mehal Ketema branch is strongly affected by empathy where an increase in empathy 0.184 caused a direct increase in the customer satisfaction with. The moderate and positive impact of the reliability on customer satisfaction; where an increase in reliability by 0.172 causes an increase in the customer satisfaction in banking sector. Further the lowest impact of the tangibility on customer satisfaction, where an increase in tangibility by 0.173 causes an increase in the customer satisfaction.

## 5.2 Recommendations

The findings of this research are also important evidence for managers who are in charge of service quality. It is helpful for employees to understand the effectiveness of service quality from consumer's perspective.



In light of the findings and conclusions made above, the following possible recommendations are suggested as being valuable to the CBE Mehal Ketema branch for improving service quality activities to assure customer satisfaction.

Tangibility of banking service better continue to be a priority of CBE in particular Mehal Ketema branch. Banking service is not seen, felt or touched before it is purchased. To make it attractive to customers, the benefits and features should be well communicated and packaged in a way that could be appealing to the market.

Mehal Ketema branch should make its services tangible by packaging them attractively in order to make them acceptable to their target markets. Putting in place up-to-date equipment potentially adds to the tangibility of service. The use of Automated Teller Machine by bank has helped in this regard, so the researcher recommends that the bank plants these machines everywhere to improve the Tangible dimension of its service by improving the branch's physical appearance, acquiring modern equipment's like computers communication materials, good waiting facility inside the branch, neatly dressed employees.

Tangibility was shown to be the weakest dimension of satisfaction. Therefore, bank management better maintain the attributes of tangible service quality at the bank. To close the gap of the most important dimension in service operation i.e. Reliability, the branch better train its employees to be consistent in providing service. Empathy (including access, communication, understanding the customer) which is caring and personalized attention that the firm provides to its customers has also been found to be important to customers of CBE Mehal Ketema branch. It is therefore recommended that Mehal Ketema which has not integrated this into their service strategies should do so, since it will help them in their service delivery.

CBE Mehal Ketema branch better work hard on empathy dimension, this can be done by improving the skill of staff related to; understanding the specific needs of customers and giving individual attention to customers by giving trainings in this area.

The banks advised to attempt to remain competitive by providing attractive and prompt banking service that earns by customers' confidence and trust. Empathy was shown to be the moderate

dimension of satisfaction. Therefore, bank management advisable to arrange special courses to improve effective communication.

The willingness of the employees to help customers and to provide prompt service should be improved by giving continuous training regarding Responsiveness dimension. The bank can minimize the gap in this area by improving Responsiveness to customer requests, questions, complaints and problems and by recruiting qualified staff.

The bank should also strive to acquire technological capacity that will enable them to provide a wide array of banking service promptly and efficiently to their customers.

Banks may reconsider their banking service hours and install ATMs at various locations to provide around the clock access to customers.

Branch managers should better focus on high quality services, and improve service quality effectively.

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# Appendix

## St Mary University

### Department Of MBA Management

#### Questionnaire prepared to assess the relationship between SERVICE QUALITY AND CUSTOEMER SATISFACTION, the case of Commercial Bank of Ethiopia, Mehal Ketema

Dear Sir/Madam

The study will be conducted on the title- The relationship between service quality and customer satisfaction. The purpose of this study is to gather information on order to assess the service quality of Commercial Bank of Ethiopia and its relationship with customer satisfaction. Your genuine response for the questions is extremely important for the success of this study. The information you provide will only be used for the purpose of conducting this study and will be kept confidential. Thank you in advance for your genuine responses and for your invaluable time.

#### Part I: Demographic or General information

##### Section One: Demographic Information

Please put a thick mark in the box provided. For the open ended questions, put your answer on the space provided.

1. Gender: Male   
Female
2. Educational Background:  
Below Diploma  Degree  Masters and Above   
Diploma  No formal education
3. Years since being a customer:  
Less than a year   
1-3 years  3-5 years  5-10 years   
above 10 years

4. What services are you using:

Saving account

Current account

Money transfer

Borrower

Other .....

5. Were you a customer in another bank?

YES  NO

6. If your answer to the above question is yes, why did you choose this bank?

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7. What makes you stay at Commercial Bank of Ethiopia?

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**Section Two: Questions regarding Benefit Package**

Please mark “X” the relevant column showing your opinion from “*Strongly Disagree*” to “*Strongly*

*Agree*

No	Opinion	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The bank caters all my banking needs					
2	The bank conducts recreational facilities					
3	The bank have core banking facility for the customers					
4	The bank offers competitive service charges					
5	I would recommend the bank to my family, relatives and work associates					
6	The fact that the bank is government organization influenced my loyalty					
7	I have defined a good service quality in my mind					



8	I choose a bank based on the service quality they offer					
9	I notice efforts in the bank to provide a quality service					
10	I believe the service I get is the best I could get in the country's banking industry					

8. If there is anything you would like to add which you think was not addressed by the above questions feel free to share it

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**Your due attentions in answering these questions will contribute a lot to the paper.**

**Thank You for your cooperation.**