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**MEASURING SERVICE QUALITY AND CUSTOMER SATISFACTION  
[THE CASE OF ETHIOPIAN INSURANCE CORPORATION]**

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**MEASURING SERVICE QUALITY AND CUSTOMER SATISFACTION**  
**[THE CASE OF ETHIOPIAN INSURANCE CORPORATION]**

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## **LETTER OF CERTIFICATION**

This is to certify that Meseret Tefera carried out her thesis on the topic entitled Measuring service quality and customer satisfaction [the case of Ethiopian Insurance Corporation] .This work is original in nature and is suitable for submission for the award of Master of Marketing Management.

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Dr. GETIE ANDUALEM

(The Project Advisor)

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## LIST OF ABBREVIATIONS /ACRONYMS

ANOVA	Analysis of Variance
ASQ	American society for quality
EIC	Ethiopian Insurance Corporation
GDP	Growth Domestic Product
HH index	Herfindahi-Hirschman index
ISO	International Organization for Standardization
SERVQUAL	Service Quality
NBE	National bank of Ethiopia
WTO	World Trade Organization

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## ABSTRACT

*One of service marketing issues, Service quality, has been an interesting as well as debatable subject matter over the years because of its relationship with variables like profitability, customer satisfaction and customer retention. Its difficulty as a concept and measurement had been the center of focus for researchers. Whereas, in service delivery, there is a gap in expectation of customers and the actual service they obtain which is called customers perception in this context. The aim of this paper is to measure this discrepancy and assess service quality with regard to its dimensions in the Ethiopian Insurance Corporations. Additionally the relationship between service quality and customer satisfaction in the context of Ethiopian Insurance Corporation has been measured. The widely accepted SERVQUAL model for measuring service quality is used, with adjustments to suit the insurance industry. The population of the study comprises of all the individuals who are policy holders and use the claim service of Ethiopian Insurance Corporation in Addis Ababa for the period of the data collection which is from April 1 to April 30. A sample of 285 respondents were taken in a multi stage sampling technique and Methodologies like paired t test, correlation, multiple regression and ANOVA are used in the research. The findings of the study suggest there is a wide gap in terms of service quality dimensions and in how customers perceive the service provided by the organization and their expectations. The highest gaps are registered in tangibility and reliability dimensions. Even if there is a moderate and high relationships between service quality dimensions and customer satisfaction the multiple regression result indicate that responsiveness and empathy have the highest and significant relationship with customer satisfaction in the EIC context. Assurance dimension is found to have no significant influence in customer satisfaction. Lastly customer group difference, retail and corporate, failed to have a significant influence in customers' expectations.*

**Key words:** *service quality, SERVQUAL, Insurance, customer satisfaction*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

The trend in the international economy is highly variable and continuously becoming sophisticated. The order of the day in the economy is tilting towards the service sector time after time. The 2011 world development indicators show that the service sector account for almost 71% of global GDP in 2010 and is expanding at quicker rate than the agriculture and manufacturing sector. Moreover, trade in service is growing at a pace faster than trade in goods since 1980's. Its increasing Vitality is becoming visible even for developing countries. For instance it was in the end of 2009 that for the first time service sector took the leading position from agriculture in the overall GDP contribution to the Ethiopian economy.

There are numerous factors contributing to an important increase of the role of service activities. Fast development and application of modern technology widened the offer of service sector significantly changing the structure of the overall economy (Biserka, 2008). Additional factors contributing to the growth of the service sector are an aging population, longer life expectancies, increased leisure time, higher per capita income, and increased time pressure, more female work force participation, changing social and cultural values (Lee, Donghooon, and Kenneth, 2006). Hence, Service marketing concepts and strategies have developed in response to the tremendous growth of service industries resulting in their increased importance to the world economy.

Service marketing is different from goods marketing in significant ways and it requires different strategies and tactics that traditional marketing do not fully reflect. According to Kotler (1997), it requires using more than just the four Ps (price, product, place, and promotion) in the marketing mix elements. There are additional elements known as people, physical environment and process in service marketing mix. It also requires internal marketing and interactive

marketing. Internal marketing means that the service firm must orient and motivate its customer contact employees where as Interactive marketing implies that service quality depends on heavily on the quality of the buyer seller interaction during the service encounter. Problems commonly encountered in service organization not faced by goods business are the inability to inventory, difficult in controlling demand and supply, and challenges in controlling the performance quality of human interactions need to be articulated and tackled by managers (Zeithanal and Bitner, 2003).

Companies continually search for new ways to gain an edge over their competitors around the globe. Delivering a quality service more than competitors is one strategy in which one firm gets the overhand in the contest. Quality can be company's assurance of customer allegiance and out path to sustained growth. Service quality is widely regarded as a driver of corporate marketing and financial performance. Joseph and Andersa ( 2003) highly stress the importance of creating a good customer relationship to survive in this competitive environment. They further implied the consideration insurance providers should give in developing strategies those encompass needs of the customer. Generally it is very important to pay attention to study of service quality, its dimensions and measuring method in order to improve it continuously. Continuous offer of high quality service is extremely important to reach consumer satisfaction which is reflected positively to competition and to profitable business of service companies.

Customer satisfaction is considered to be one of the most important outcomes of all marketing activities in a market-oriented firm. The obvious need for satisfying the firm's customer is to expand the business, to gain a higher market share, and to acquire repeat and referral business, all of which lead to improved profitability (Barsky, 1992). Most researchers and practitioners accept the notion that customer satisfaction is positively associated with desirable business outcomes (Keinninghan , Perkin , Akosoy and Estrin , 2005). Therefore companies should strive to improve their customer satisfaction level consistently.

Insurance companies, especially because of its intangible products should be able to forecast coherent programs to identify customer need (Sedighyan, 2000). New forms of competition in the insurance industry have been which companies need to consider new ways to build customer satisfaction and loyalty to increase their competitive power (John and Darvies, 2000).

In Ethiopia, the insurance industry is one sector of service that is contributing to the country's economic endeavor. For example, according to a report by NBE (2010) the size of the country's Insurance sector in terms of assets has increased by 47.5% by the end of June 2010. The non-life insurance sector also registered a higher gross written premium of about Birr 1.38 billion, thus showing a 17% increase over the previous year's premium. Moreover, the life insurance written premium has increased by 14%.

Ethiopian insurance corporation (EIC) is the prominent insurance company since it was first established in 1976 by proclamation No.68/1975. It was not long ago the company used to control the Ethiopian market as a monopoly. However after the introduction of the free market economy in the country other privately owned insurance companies began to flourish. Customers began to obtain the chance to choose their insurance provider that intensified the competition in the market. EIC faces challenges in marketing service to its customers. The purpose of this research is to assess the overall quality of service delivered in the organization so as to recommend the appropriate action in terms of correcting dimensions that decrease customer satisfaction in the organization.

## **1.2. STATEMENT OF THE PROBLEM**

There is such a great urgency for every business to improve its operations so as to deal with the ever changing and unpredictable challenges ahead. This is also a major contributing factor in order to stay in business. It is more so particularly in the service industry as meeting the customers' satisfaction has become an uphill task as compared to those before the 1990s with the ever more competitive environment. According to Yasin, Alane, Kunt and Zimmerer (2004) if an organization of a service business is hesitant to go through this type of business operation revamping, it will be bound to be only the second best among its competitors. The failure to provide quality service will result in failure to retain customers, to challenge the competitors and prolong their existence.

Managers in service are under increasing pressure to demonstrate that their services are customer focused and that continuous performance improvement is being delivered. Researches show a strong relationship between improved service quality, customer satisfaction and economic

success (Tsoukatos and Rand, 2007, Parasuraman, Berry and Zeithamal, 1988). Given the financial and resource constraints under which service organization must manage it is essential that customer expectations are properly understood and measured and that from the customer's perspective, any gaps in service quality are identified (Parasuraman et al, 1988). This information then assists a manager in identifying cost effective ways of closing service quality gaps and of prioritizing which gaps to focus on a critical decision given scarce resources. Today as competition and costs increases, as productivity and quality decrease, more service quality sophistication is needed. (Koteler, 1997)

Because customer satisfaction and customer focus are so critical to competitiveness of firms, any company interested in delivering quality service must begin with a clear understanding of its customers (Zeithaml et al, 2003). The primary objective of service providers and marketers is identical that of all marketers: to develop and provide offerings that satisfy consumer needs and expectations, thereby ensuring their own economic survival. In other words, service marketers need to be able to close the customer gap between expectation and perception. To achieve this objective, service providers need to understand how customers choose and evaluate their service offerings.

There is a variation between company's perception of quality and consumer's perception of quality service. Thus, in order for companies to know to what extent their users are satisfied, as well as what elements of their services are unsatisfactory, they have to conduct studies on perceive service quality by users, and not only from time to time, but continuously (Parasuraman, Zeithaml and Berry, 1985). Only based on realistic information gathered in such way company's management can make decisions regarding improvement of service program, so that it could improve its service offer, give satisfaction to a user, and aim at gaining his loyalty.

In the Ethiopian insurance industry a single insurance company had been dominating and only few insurers exist in the market and it cannot be considered as vibrant as it should be. The HH index (Herfindahi-Hirschman index), which measures the extent of market concentration, for the general business for the period 2000/01- 2004/05 indicate high concentration (Hailu, 2007). In addition it exhibits behaviors that jeopardize the level of customer satisfaction through price wars that ignores service quality attributes as a means of competitive advantage. However, the

highly anticipated and expected phenomena that Ethiopia is expected to join the WTO in the near future will change the dynamics of the market and existing insurance companies will be pressured to step up to the game by improving the quality of service they render.

The Ethiopian insurance corporation is thriving to maintain its position in the market. It was this interest that led for the company to implement the business process reengineering before three years in the hope of providing efficient service to its customers. The reengineering process led to the change in the company's functional base structure to a process based entity. It also led for the company to divide its service provision among retail and client customer groups under the proposition that this group's service expectation is different.

Generally there is a need to increase understanding of service quality gaps in Ethiopian Insurance Corporation. Attributes and dimensions customers consider in their assessment of service quality and overall satisfaction should be distinguished. Additionally the paper questions the proposition that the two customer groups, retail and corporate clients, differ in their service expectations from the company. In view of the above, the main problem of this study is how can service quality gap and customer satisfaction in the case of Ethiopian Insurance Corporation be described?

### **1.3. RESEARCH QUESTION**

The research will answer the following questions

1. What is the overall level of customer's expectations on each service quality dimension in EIC?
2. What is the overall level of customer's perception on each service quality dimension in EIC?
3. What is the extent of gap between customer expectation and perception?
4. Does service quality have a significant impact on customer's satisfaction?
5. Is there significant difference between retail and corporate clients in terms of expectation of service quality?

## **1.4. OBJECTIVES OF THE STUDY**

The general objective of the study is to assess the service quality and its implication on customer satisfaction.

### **SPECIFIC OBJECTIVES**

1. To determine the level of customers expectations and perception in EIC
2. To determine the level of customer satisfaction and how the different dimensions affect customer satisfaction
3. To determine whether there is significant difference between retail & corporate clients in terms of service quality expectations.

## **1.5. HYPOTHESIS**

**Hypothesis one:** H<sub>0</sub>: service quality does not have a significant impact on customer satisfaction

H<sub>1</sub>: service quality does have a significant impact on customer satisfaction

**Hypothesis Two:** H<sub>0</sub>: There is no significant difference in customer's expectation of service quality for retail and corporate clients

H<sub>1</sub>: There is significant difference in customer's expectation of service quality for retail and corporate clients

## **1.6. SIGNIFICANCE OF THE STUDY**

Conducting a research in service quality is important as it will determine the success of the organization. Contrary to this there is a statuesque in government owned companies that they can survive regardless of their failure being market oriented. Many state owned organizations fail to recognize the importance of handling their customers in the best way possible. As a state owned company we observe such a trend in Ethiopian Insurance Corporation even if the level is undetermined. In the midst of the uncertainty of government policy in holding state owned financial institutions in the future, the company has no choice but to aligning its strategies with

the current advocacy of service quality and customer satisfaction. To do so the current standing of the organization in terms of service delivery needs to be evaluated to lead us in formulating strategies and showing policy directions. Additionally, this paper contributes to literature in the study of service quality in the context of the insurance industry. Generally the significance of the research can be summarized as:

- An input for the company regarding the service quality it renders to its customers for the formulation of strategies
- Contribution to the service quality literature in the Ethiopian insurance industry

### **1.7. SCOPE OF THE STUDY**

Because of time and resources at hand the research takes districts located only in Addis Ababa that limits the scope of the study. The study does not emphasize on employees of the organization, which is also important in the measurement of service quality for the reasons mentioned above. In other terms the study focuses on the customer gap or Gap five of the model. The company provides both property and life insurance products. However the research focus of this study is the provision of service for property insurance. This is because the provision of service for life insurance policy is undertaken only with a single distinct branch and it has its own specific features that need further investigation.

### **1.8. ORGANIZATION OF THE PAPER**

The paper is organized into five chapters. The first chapter covers the background of the study, statement of the problem, objective of the study, research question, hypothesis and significance of the study. Chapter two provides an overall literature review that includes the Ethiopian insurance sector review and theoretical framework. The research design & methodology of the study is explained in the third chapter. The output for the analysis is presented in the result and discussion part which represent the fourth chapter. Finally the paper is concluded by forwarding conclusion and recommendation for the company in chapter five of the paper.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. INTRODUCTION**

This chapter describes the general overview for the concept of service quality and customer satisfaction by summarizing and examining the accumulated literature in the area. It begins by defining the basic concepts in service quality theory and customer satisfaction and gives a detail description for the SERVQUAL instrument that will be used in measuring service quality for the Ethiopian insurance corporation. It is then concluded by giving a highlight for the Ethiopian insurance industry

#### **2.2. SERVICE QUALITY THEORY**

##### **2.2.1. QUALITY**

The definition of quality depends on the role of the people defining it. The difficulty in defining quality exists regardless of product or service, and this is true for both manufacturing and service organizations. Further complicating the issue is that the meaning of quality has changed over time. Today, there is no single universal definition of quality. Some people view quality as “performance to standards.” Others view it as “meeting the customer’s needs” or “satisfying the customer”.

According to the American society for quality (ASQ), quality is a subjective term for which a person has his or her own definition, and in terms of technical usage, “quality” carries two

meaning; the distinctiveness of a product or service that is able to satisfy the stated need of a customer and a product or service that is free from any deficiency.

ISO 8402-1986 standard defines quality as the totality of features and characteristics of a product or service that bears its ability to satisfy standard or implied needs. The quality of something can be determined by comparing a set of inherent characteristics with a set of requirements. If those inherent characteristics meet all requirements, high or excellent quality is achieved. If those characteristics do not meet all requirements, a low or poor level of quality is achieved.

### **2.2.2. SERVICE**

Services are needs, process and performance. It includes all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value in forms (such as convenience, amusement, timelines, comfort or health) that are essentially intangible concerns of its first purchaser (Zeithamal et al, 2003).

Kotler (1997) defines service as follows:

*“Service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”.*

### **2.2.3. CHARACTERISTICS OF SERVICE**

Inherent differences between goods and services exist and that they result in unique or at least different management challenges for service businesses and for manufacturers. A company must consider five main service characteristics when designing marketing programs: intangibility, inseparability, variability, perishability and lack of ownership (Kotler, 1997).

1. Intangibility :-because service are performances or actions rather than objects they cannot be seen, felt, tasted or touched in the same manner that we sense tangible goods.

- ❖ Service cannot be inventoried

- ❖ Service cannot be patented
  - ❖ Service cannot be readily displayed or recommended
  - ❖ Pricing is difficult
2. Heterogeneity:-no two services will be precisely alike and no two customers are precisely alike and each will have a unique demand.
- ❖ Service delivery and customer satisfaction depend on employee action
  - ❖ Service quality depend on many uncontrollable factors
  - ❖ There is no sure knowledge that the service delivered matches what was planned and promoted
3. Inseparability:-because services often are produced and consumed at the same time, mass production is difficult if not impossible.
- ❖ Simultaneous production and consumption
  - ❖ Customers participate in and affect the transaction
  - ❖ Customers affect each other
  - ❖ Employees affect the service outcome
  - ❖ Decentralization may be essential mass production is difficult
4. Perishability : - refers to the fact that service cannot be saved, stored, resold or returned.
- ❖ Decentralization may be essential mass production is difficult
  - ❖ Service cannot be returned or resold
5. Lack of ownership: - Service products lack that quality of ownership. The service consumer often has access to the service for a limited time.

#### **2.2.4. SERVICE QUALITY**

Service quality can have many different meaning in different context. Parasuraman et al. (1985) define service quality as:-

*“The difference between customer’s expectation of services and their perceived service. If the expectation is greater than the service performance, perceived quality is less than satisfactory and hence customer dissatisfaction occurs”.*

Zeithaml & Bitner (2003), states that service quality is a focused evaluation that reflects the customer's perception of Specific dimensions of service: reliability, responsiveness, assurance, empathy, tangibles. Expectation is viewed in service quality literature as desires or wants of consumer i.e. what they feel a service provider should offer rather than would offer (Parasuraman et al, 1988). Perceived service is the outcome of the customer's view of the service dimensions, which are both technical and functional in nature (Gro'nroos, 1984)

Gro'nroos (1982) developed a service quality model that has three components of service namely; technical quality; functional quality and image. He maintains that the customer evaluation of perceived performance of service against his /her perceived service quality result in a measure of service quality. For both, technical and functional quality, you compare what you perceive you received to what you expected to receive. If your expectations were meet or exceeded, you will believe you received a high quality service. If your expectations were not meet, you will feel the quality of service was poor. If the customer perceives they receive poor service, then the decision about future patronage will be based on that perception.

Hernon and Nitechki (2001), summarized the definition of service quality in four perspectives

1. Excellence:- The quality of excelling; possessing good qualities in high degree
2. Value:- it stress the benefit to the recipient
3. Conformance to specification it facilitates precise measurement , but users of a service may not know or care about internal specifications
4. Meeting and /or exceeding expectation: this definition is all encompassing and applies across service industries, but expectations change and may be shaped by experiences with other service providers. The Gap model of service quality reflects the last perspective.

Generally, Service firms must understand the concept of service quality from the view point of the customer, not from the viewpoint of their stand point. Understanding the literatures in service quality led us to the underlined the facts about service quality as:-

- Service quality is more difficult for consumer to evaluate than goods quality.

- Service quality perceptions result from a comparison of consumer expectation with actual service performance
- Quality evaluations are not made solely on the outcome of service; they also involve evaluation of the process of service delivery

### **2.3. SERVICE QUALITY MEASUREMENT**

Even if there is no consensus in the conceptualization and measurement of service quality the following are the major developments in the literature of service quality measurement. The GAP model, SERVQUAL instrument and SERVPERF instrument has been explained.

#### **2.3.1. THE GAP MODEL**

According to Brown and Bond (1995) the gap model is one of the best received and most heuristically valuable contributions to the service literature. Parasuraman et al. (1985) proposed that service quality is a function of the differences between expectation and perception along the quality dimensions. Set of key discrepancies or gaps exists regarding execute perceptions of service quality and the tasks associated with service delivery to consumers. These gaps can be major hurdle in attempting to deliver a service which consumers would perceive as being of high quality. The gap model positions the key concepts, strategies, and decisions in services marketing in a manner that begins with the customers and builds the organization's tasks around what is needed to close the gap between customer expectations and customer perceptions.

The central focus of the gaps model is the customer gap, the difference between customer expectations and perceptions. Firms need to close this gap-between what customers expect and receive-in order to satisfy their customers and build long-term relationships with them. To close this all-impact customer gap, the model suggests that four other gaps that need to be closed (Zaithamal and Bitner, 2003).

The gaps on the service marketer sides are:-

Gap 1:-Consumer expectations and management perception gap or not knowing what customers expect. This gap addresses the difference between consumers' expectations and management's perceptions of service quality. Customers' expectations versus management perceptions are the result of the lack of a marketing research orientation, inadequate upward communication and too many layers of management.

Gap 2:-Management perception-service quality specification gap or the wrong service quality standards. This gap addresses the difference between management's perceptions of consumer's expectations and service quality specifications, i.e. improper service-quality standards. This gap may occur when management is aware of customers' expectations but may occur when management is aware of customers' expectations but may not be willing or able to put systems in place that meet or exceed these expectations.

Gap 3:-Service quality specifications-service delivery gap. This gap addresses the difference between services quality specifications and service actually delivered by the provider, i.e. the service performance gap

Gap 4:- Service delivery-external communications gap. This gap addresses the difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery.

Gap in the Service quality perceptions of consumers

Gap 5:- Expected service –perceived service gap. This gap addresses the difference between consumer's expectation and perceived service. It is the sum of gaps one through four and is the overall comparison of what consumers expect from the service provider and their perception of service they received from the service provider. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side.

Customer perceptions are subjective assessments of actual service experience. Customers' expectations are the standards or reference points for performance against which service experiences are compared and are often formulated in terms of what a customer believes should or will happen. The source of customer expectations consists of marketer controlled factors (such

as pricing, advertising and sales promotion) as well as factors that the marketer has limited ability to affect (innate personal needs, word of mouth communications and competitive offerings) (Zaithamal et al, 2003).

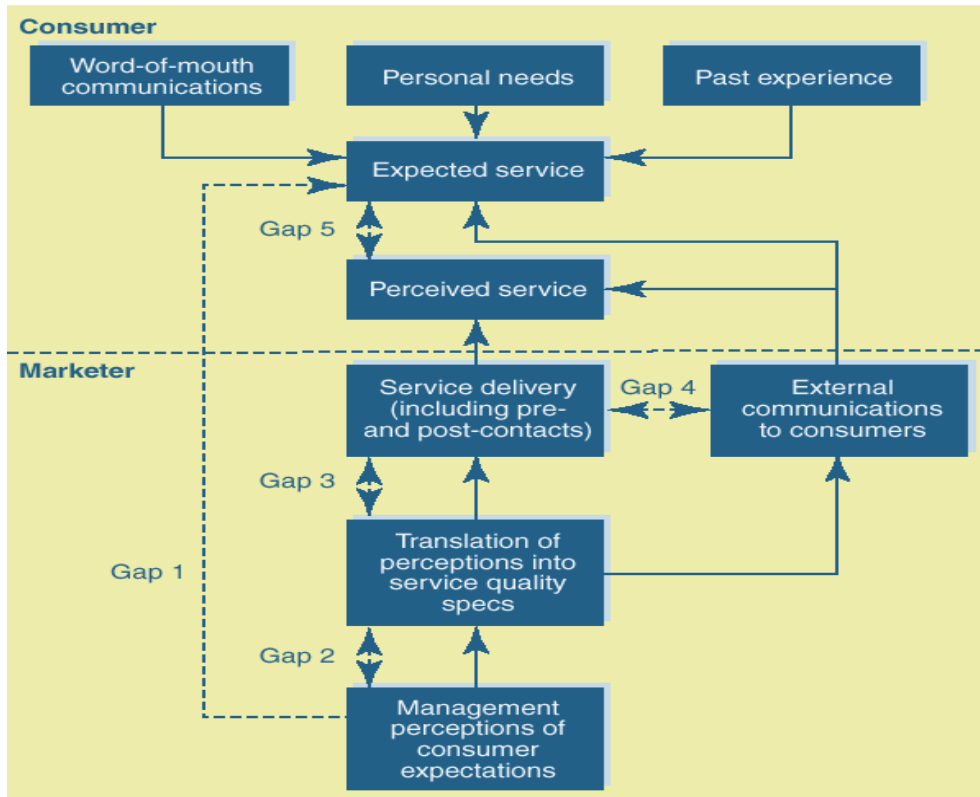


Figure 1: The Gaps Model (Source: Parasuraman et al, 1988)

Firstly, the model demonstrates how service emerges. The upper portion of the model includes phenomena related to customers, while the lower portion includes phenomena related to the service provider. The expected service is a function of the customer’s past experience and personal needs and of word of mouth communication. It is also influenced by the market communication activities of the firm. The service experienced, which in this model is termed as perceived service, is the outcome of a series of internal decisions and activities. Management perceptions of customer expectations guide decisions regarding service quality specifications to be followed by the company when service delivery (i.e. the execution of the service express) occurs.

The customer experiences the service delivery and production process as a process-related quality component and the technical solution received by the process as an outcome-related quality component. As illustrated, marketing communication can influence the perceived service and also the expected service. This basic model demonstrates the steps that have to be considered during analyzing and planning service quality. The five discrepancies (so-called quality gaps) between the various elements of the structure are a result of inconsistencies in the quality management process. The ultimate gap (Gap 5) i.e. the gap between expected and perceived (experienced) service is a function of other gaps that possibly occurred in the process.

According to this model, the service quality is a function of perception and expectations and can be modeled as:  $SQ = \sum_{j=1}^k (P_{ij} - E_{ij})$

Where: SQ = Overall service quality (perceived service quality)

k = number of attributes.

$P_{ij}$  = Perception of stimulus i with respect to attribute j.

$E_{ij}$  = Service quality expectation for attribute j that is the relevant norm for Stimulus i.

### **2.3.2. SERVQUAL MODEL**

It is apparent that there is little consensus of opinion and much disagreement about how to measure service quality. SERVQUAL is the most often used approach for measuring service quality that has been to compare customers' expectation before a service encounter and their perceptions of the actual service delivered (Gronroos (1982), Parasuraman et al (1985)).

The SERVQUAL model is constructed based on Gap model in terms of the difference between perception and expectation. These differences are measured from the evaluation by customers from their perspective of pre consumption and post consumption of service. SERVQUAL scale has proposed by Parasuraman et al (1988) for measuring Gap 5 in the Gap model in the Gap model.

Exploratory research of Parasuraman et al (1985) revealed that the criteria used by customers in assessing service quality fit 10 potentially overlapping dimensions. These dimensions were tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding /knowing the customer and access. These 10 dimensions and their descriptions served as the basic structure of the service quality domain from which items were derived for the SERVQUAL scale.

In subsequent research (Parasuraman et al 1988, 1991, 1994a), the service dimensions are collapsed into five categories: tangibles, reliability, responsiveness, assurance and empathy. They are assessed using a 22-item scale with customers providing performance & expectation or important scores using Likert scales. Its standard five-dimensional structure serves as a meaningful framework for tracking a firm's service quality performance over time and comparing it against the performance of competitors (Parasuraman et al, 1991). The following dimensions were used to construct the 22-item SERVQUAL scale (Zeithaml et al., 1990).

1. Tangibles (4 items): -

- i. The appearance of physical facilities
- ii. The company has a modern looking equipment
- iii. Employees who have a neat and professional appearance
- iv. Visually appealing materials associated with the service

2. Reliability(5 items):-

- i. When the company promises to do something by a certain time, it does so
- ii. Sincere interest in solving customer problems
- iii. Performing the service right the first time
- iv. Providing services at the time it promised to do so
- v. Insisting on error free records

3. Responsiveness (4 items):-

- i. Employees tell you exactly when service will be performed
- ii. Employees give you prompt service
- iii. Employees are always willing to help you
- iv. Employees are never too busy to respond to your requests

4. Assurance (4 items):-

- i. The behavior of employees instills confidence in customers
  - ii. You feel safe in your transaction
  - iii. Employees are consistently courteous with you
  - iv. Employees have the knowledge to answer your questions
5. Empathy (5 items):-
- i. The company gives you individual attention
  - ii. The company has operating hours convenient to all its customers
  - iii. The company has employees who give you personal attention
  - iv. The company has your best interests at heart
  - v. Employees understand your specific needs

The purpose of SERVQUAL is to serve as a diagnostic methodology for uncovering broad areas of a company's service quality shortfalls and strength. SERVQUAL's dimensions and items represent core evaluation criteria that transcend specific companies and industries (Parasuraman et al. 1991).

Parasuraman, et al. (1988) held that when perceived or experienced service is less than expected service, it implies less than satisfactory service quality. But, when perceived service is less than expected service, the obvious inference is that service quality is more than satisfactory. He further suggested that SERVQUAL may be used to

- ❖ Track service quality trends over time
- ❖ Compare an organization with its competitors and
- ❖ Categorize customers into perceived quality segments based on their individual SERVQUAL scores.

### **2.3.2.1 SERVQUAL IN THE INSURANCE INDUSTRY**

Insurance is a contract between the policy holder and the insurer such that the insurer company guarantees any event in the insurance range and in return, the policy holder should continuously pay a fee for the so-called insurance (Darooneh, 2007). Insurance services are in definition intangible and according to the declarations; they are promises and contracts held by a selling median to the customer which requires making trust between the seller

and the customer from the initial point of the contract (Sedighyan, 2000). Insurance is a potential compensation for particular losses in future in exchange for a periodic payment. Agreement to the terms of the insurance policy makes a mutual contract between individuals and another party who is the insurer. The insurance service can be described as a product in the form of a written legal contract (the insurance document) plus a bundle of service associated with it.

Insurance service is different from other services, as it is complex and future contingent service involves substantial legal characteristics. There are three most important stakeholders in the insurance process being the insured (customer), insurer (provider of the service) and regulator (being the government or independent authority) others in the sector includes actuaries and auditors. Awareness of the important role insurance service play is of meaning to many business professionals. It promotes financial and social stability, mobilizes saving, support and promote the trade, commerce and also improve the quality of life's of individuals.

The SERVQUAL model needs to be modified with respect to different industries as it might not give meaning to ask the same set of questions in two industries. Studies have tried to apply the concept of service quality to many specific industry contexts by building on existing models of service quality, notably the SERVQUAL model by Parasuraman et al. (1988) and the Functional and Technical quality model of Gro'nroos (1984). In insurance industry, Ahmad & Sungip (2008) in a study of service quality in Malaysian insurance industry found reliability and responsiveness were the main driving forces of service quality problems since their study showed that the gap between customers' expectation and perception was widest for reliability, followed by responsiveness. Their study shed some light on the service quality dimensions that are critical to the insurance industry in Malaysian insurance industry and provided managerial implications for managing service quality with country-specific strategies.

Graham K. et al (2004) also researched into service quality in insurance service context in Greek and Kenya using the SERVQUAL instrument and found that the SERVQUAL metric requires substantial modification (customization) prior to its application. They reported that only 55% of items within the two scales used had universal application within the two industries is reason enough to be wary when applying SERVQUAL. In adopting the SERVQUAL instrument to the context of the Greek insurance industry the researchers included

four additional items in addition to the existing standard 22 items from the revised SERVQUAL scale (parasurman et al., 1991). The added four items were the result of extensive interview conducted with a group of area and branch managers of three leading Greek insurers. These additional items were

1. Price of insurance policies
2. Product quality
3. Ambiguity of insurance contracts terms
4. Delay in claims settlement

Price was considered as a tangible item and product quality, ambiguity of contract terms and settlement delays as a reliability items. They further found that, in the insurance industry context of Kenya and Greece, quality gaps that obtained were largely similar, that reliability and empathy were the most deficient.

As far as the researcher's knowledge there was no published literature with the SERVQUAL instrument for the Ethiopian insurance industry, however certain traits exhibited in the market are explored. Ethiopia's insurance industry is relatively underdeveloped which is exemplified by the sectors low penetration levels. It is characterized as young industry at early stage of development with limited skills, capacity and incentive to push market extension (Fekeru, 2013).The insurance sector is dependent on the banking sector for much of its new business. Most Ethiopian insurance companies have sister banks and its common for these banks to refer their clients to their sister insurance companies, but this is largely restricted to credit life insurance products. Moreover, insurance companies tend to derive a large portion of their income from investment in banks.

Fekeru (2013) identified problems and challenges of insurance products being transacted in the Ethiopian insurance industry, which will likely affect the level of customer satisfaction of customers. Some of the problems are

- ❖ Less policy explanation of underwriters and middlemen in the areas of policy coverage, term and conditions and expectations
- ❖ Policies of insurance are less understandable by customers,

- ❖ Products are not translated in Ethiopian language, to mitigate legal issues from insurer's side and reinsurance related matters.
- ❖ Although at most good faith principle compels both parties to disclose material facts, parties to the insurance contract usually do not respect
- ❖ Unfair price competition

Abreham (2009) explained the unhealthy practice of the industry by pointing out how competition is mainly focused on waging price war and granting excessive credit facility. Risks are being underwritten at unreasonably low premium that doesn't match with the level of risk and the increase in operating costs. Even some times risks are being insured without proper risk assessment and without arranging adequate reinsurance cover. He further concluded from his research that customers easily shift from one insurer to the other mainly due to dissatisfaction at times of claim and being attracted by a lower premium they offer by companies.

#### **2.3.2.2. CRITICS OF THE SERVQUAL MODEL**

Although SERVQUAL is an excellent instrument for measuring service quality, managers must be aware of potential problems with the instrument, as well as with the GAP theory methodology on which it is based. Cronin and Taylor (1994) identified the following problems

1<sup>st</sup> SERVQUAL measures customers' expectations of the ideal firm in a particular service industry. This may or may not be relevant to the capabilities of a particular service firm or the set of service firms available to a consumer.

2<sup>nd</sup> Its generic nature since it is not industry specific. It does not measure variables that may be important to a particular industry.

3<sup>rd</sup> this deals with the gap theory methodology used for measuring the level of service quality. Measuring customer expectations after a service has been provided will bias consumers' response.

Therefore SERVQUAL should be modified to apply to the specific industry for which it is being used. Additional variables should be added that are relevant and important to customers. To

prevent biases from interfering with the gap scores, consumers are affected by advertising and word of mouth communications, the time between measuring expectations and measuring the quality of service received should be relatively close.

### **2.3.3 SERVICE PERFORMANCE MEASURE (SERVPERF)**

An alternative to using gap theory methodology for measuring service quality is to obtain service performance measures. Cronin and Taylor (1992) propounded a performance based measure of service quality called SERVPERF illustrating that service quality is a form of consumer attitude. They compared computed difference scores with perception to conclude that perceptions only are better predictor of service quality. They further state that service quality can be conceptualized as “similar to attitude”, and can be conceptualized by the adequacy importance model. In particular they maintain that performance instead of performance-expectation” determines service quality. In equation form, it can be expressed as:

$$SQ = P \sum_{j=1}^k P_{ij}$$

Where, SQ<sub>i</sub>= perceived service quality of individual ‘i’.

k = Number of attributes / items

P = Perception of individual ‘i’ with respect to performance of a service firm on attribute ‘j’.

Even if there is high competition in terms of which model is superior in the literature of service quality (Francois, Fernando and Jay ,2007), have done a meta analysis to determine the validity of SERVQUAL and SERVPERF taking 42 researches done for 17 years and concluded that both instruments are equally valid predictors of overall service quality.

## **2.4. CUSTOMER SATISFACTION**

Kotler and Keller (2006) state satisfaction as a person’s feeling of pleasure or disappointment resulting from comparing a product performance (outcome) in relation to his or her expectation. Oliver (1981) summarizes current thinking on satisfaction as a summary of psychological state

resulting when the emotion surrounding disconfirmed expectation is coupled with the consumers' prior feelings about the consumption experience'. Customer satisfaction is a measurement or indicator of the degree to which customers or users of an organization's products or services are pleased with those products or services. While satisfaction is sometimes equated with performance, it implies compensation or substitution whereas performance denotes doing what was actually promised. In this study customer satisfaction is defined in relation to only dimensions connected to the service quality delivered by the Ethiopian insurance corporation.

Customer satisfaction is the result of the buyer's perception of service quality and this satisfaction further lead to customer retention, which leads to repeat purchase and increased the extent for relationship building and word of mouth cementation. In 2001, Newman describes Customer retention is a direct result of customer satisfaction and satisfaction is significantly influenced by the assessment of service delivered to the customers.

Cronin and Taylor (1992), tried to explain the relationship that exists between this constructs and stated that service quality as antecedent and further they explained that behavioral intentions of customers is affected by service value and customer satisfaction. Additionally, Theory of reasoned action proposed by (Ajzen, 1971) provides a conceptual frame as to how the behavior of customers, might be guided by marketers through effective delivery of service quality that can create customer satisfaction and directed by rational thinking and more reason they have to behave in a certain manner the more likely they would be behaving in the same way. Parasurman et al, 1988 found that satisfaction results in service quality whereas Surshchanda et al, 2002 shows that there are a two way relation between satisfaction and service quality. There are also that say there is a non- recursive relationship between service quality and satisfaction (Taylor and Cronin, 1994).

The challenge for companies in recent years has been to measure these perceptions. But the ultimate aim of measuring customer satisfaction must be to act on the information gathered to close the gaps between the customer's perception of service and the actual service provided. Data on customer satisfaction regarding the service quality dimensions is important for strategic decision making.

## **2.5. INSURANCE IN ETHIOPIA**

The emergence of insurance business in Ethiopia was closely linked to expatriates and foreign insurance companies. In addition, expatriates and foreign companies operating in Ethiopia participated actively in the establishment of the first domestic insurance company acting as agents. The first domestic insurance company was established in 1951 which was called imperial insurance company of Ethiopia ltd.

The 1960's witnessed the establishment of local insurance companies. Domestic private insurance companies started to increase in number during this period. They were not fully owned by Ethiopians; however, foreigners had ownership interest in those insurance companies and were participating in the boards of management positions.

During the 1970's the provisional military government passed decision on January 1, 1975 to transfer the ownership of banks and insurance companies to the government, which was four years after the issuance of the first insurance proclamation (proclamation 281/1970). In December 1975, the provisional military administration council issued proclamation number 68/1975 to establish the Ethiopian insurance corporation (EIC). As per the provision of the proclamation the assets, liabilities & capital of all the nationalized insurance companies were transferred to the EIC.

EIC had been a monopoly in the Ethiopians insurance industry for 19 years (1976 up to 1994) until the issuance of proclamation number 86 86/1994 which permitted the establishment of private insurance companies in the country. EIC had to undergo a restructuring process to realign its operation to the new economic policy. After 1994 the insurance sector exhibiting competition among different privately owned establishments and the public insurance company side by side.

The Ethiopian financial services sector is currently completely closed to foreign investment: that is the banking, insurance and microfinance sub sector; Ethiopian insurance companies buy reinsurance service from foreigner insurers. According to the national bank of Ethiopia there are 14 private and 1 government owned insurance companies as may 2012 operating in the industry. African insurance company, Awash insurance company, Global insurance company, Lion insurance comp, national insurance, Nib Insurance, Nyala Insurance, united insurance, etc. are some of the privately owned insurance companies that run in the industry.

## 2.6. CONCEPTUAL FRAMEWORK

The conceptual framework (Figure 2) explains the underlying process, which is applied to guide this study. As discussed above, the SERVQUAL model is suitable for measuring service quality and customer satisfaction in the insurance industry using the service quality dimensions which are modified in the context of the industry. The SERVQUAL approach integrates both service quality and Customer satisfaction and suggests that service quality is an antecedent to satisfaction (Negi, 2009). Therefore, in this research, the initial 22 items of SERVQUAL model are modified and additional items are included to measure perceived service quality and customer satisfaction in Ethiopian insurance corporation.

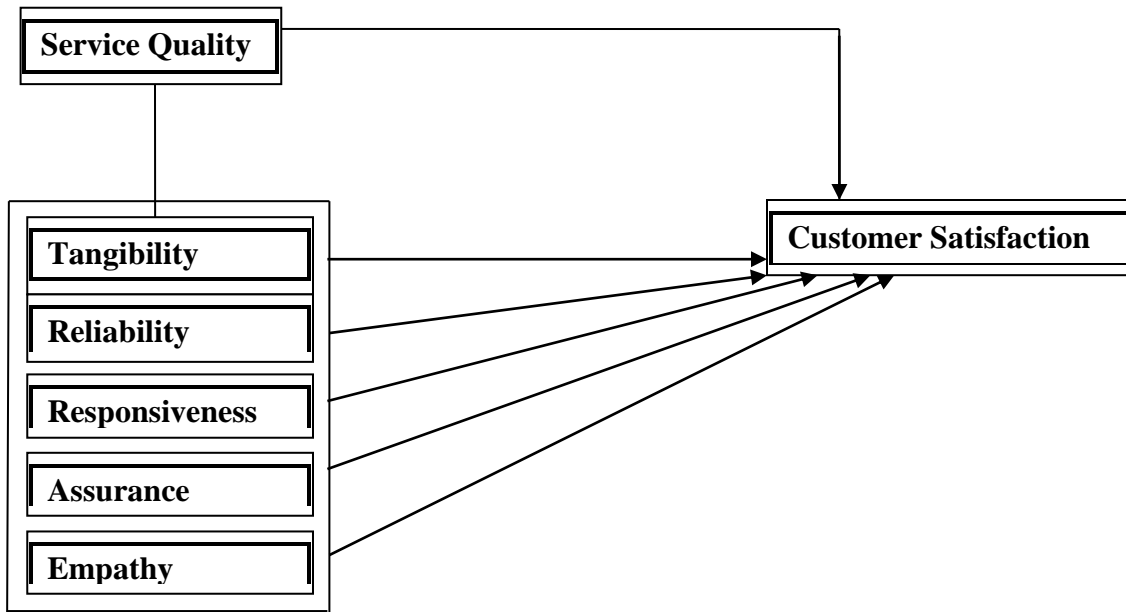


Figure 2. *The conceptual framework of the st*

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. INTRODUCTION**

This chapter comprises of topics related to how the research is carried out with respect to research design and methodological arenas. It begins by laying out the research design and approach for the research and follows in topics of sampling technique, tools used to collect the data, the procedure used to collect the data and methods of analysis. The reliability and validity of the research and ethical considerations are also addressed in this chapter.

#### **3.2. RESEARCH DESIGN AND APPROACH**

The names of the three types of research design, exploratory, Descriptive and causal research, describe their purpose very well. The goal of exploratory research is to discover ideas and insights. Descriptive research is usually concerned with describing a population with respect to important variables. Causal research is used to establish cause-and-effect relationships between variables. Causal analysis is concerned with the study of how one or more variables affect changes in another variable. It is thus a study of functional relationships existing between two or more variables (Kothari, 2004). This paper follows both the descriptive and causal research design as it will describe the variables of interest in the service quality and customer satisfaction measurement and measures the relationship between the constructs.

There are two basic approaches to research, viz., quantitative approach and the qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected

to rigorous quantitative analysis (Kothari, 2004). This research follows a quantitative approach to examine its objectives as it will describe the relationship between the service quality variables and customer satisfaction and how these dimensions affect customer satisfaction by using the adjusted SERVQUAL instrument of service quality.

### **3.3. SAMPLE AND SAMPLING TECHNIQUE**

There are six districts A and 15 branches, eight districts Bs and 31 outlying branches and four contact branches in the EIC scattered in the country. The company considers factors like proximity from Addis Ababa, Premium income, number of policies, underwriting results, and sustainable growth of net profit (three years growth average) to determine the levels of districts and branches. All the six districts and 15 branches are located in Addis Ababa where as the rest are out of Addis Ababa. The district A's in Addis are located within near proximity where as the branches are scattered through in Addis Ababa.

As Insurance is a yearly renewable contract the period of renewal varies for customers and reaching all is a cumbersome task. Therefore the sampling procedure used is a multi stage sampling technique. The population of the study comprises of all the individuals who are policy holders and use the claim service of Ethiopian Insurance Corporation in Addis Ababa for the period of the data collection which is from April 1 to April 30. By means of a 95% confidence level if the population is between 1000 and 5000 a sample size of 285 is considered to be representative for the population (Corbetta, 2003). The estimated population size is of 4732 and a sample of 285 is considered to represent the population size.

Area sampling has been used to distribute the sample among the districts. As all the districts A's are located in one area one district is taken to be representative. Other four branches were chosen from the four angle of Addis Ababa for each to represent its area as north, south, east and west. Subsequently, the total sample is distributed proportionally for each district as follow.

**Table 3.1 Sampling distribution**

	population	Proportion	Sample
Branch one	801	17	48
Branch Two	913	19	55
Branch three	920	19	55
Branch four	1,200	25	72
Branch Five	898	19	54
	4,732	100%	285

Source: own Survey (2014)

In each district the questionnaire was administered through the customer care personnel's who are the contact persons in the company. They were given numbers randomly and those with even number helped in the administration of the questionnaires to customers from the opening hour to the closing time of the companies working hours.

### **3.4 TYPE OF DATA AND TOOLS**

In this study both primary and secondary data are used. Secondary sources like journals, books, and articles were used to refer about customer satisfaction and service quality from different researches previously done. The primary data is collected through questionnaires prepared for the company's customers. The standard SERVQUAL instrument is modified to fit the context of the insurance sector based on the literature collected in the area. For understanding the importance and satisfaction of each service quality dimensions a 5 likert scale questionnaire is used. Questions for the customer service perception is answered with in a scale of 1.Strongly Disagree 2- Disagree 3- Neutral 4- Agree 5- Strongly Agree. Expectation from an excellent insurer for the service dimensions is acquired in the scale of 1-Strongly Disagree 2- Disagree 3- Neutral 4- Agree 5- Strongly Agree. The variables of interest are tangibility, responsiveness, reliability, assurance and empathy as measurements of service quality and its relationship with customer satisfaction.

### **3.5. PROCEDURES OF DATA COLLECTION**

The research is carried out at the service counter of the selected districts from April 1, 2014 to April 30, 2014 to distribute the standard questionnaire and respondents are assured the confidentiality of their responses. In conducting the study customer care personnel in the chosen branches assists respondents in explaining difficulties faced by the respondents and for this the researcher creates good relationship and rapport.

### **3.6. METHODS OF DATA ANALYSIS**

The study uses both descriptive statistics (mean and standard deviation) to analyze the demographic nature and characteristics and inferential statistic to look in to how service quality affects customer satisfaction. The collected questionnaire from the respondents was analyzed using SPSS 21 version software. First the mean score of expectation and perception was determined to measure the discrepancy or the customer gap. The paired t-test is applied to compare the mean score values for customer's expectations and perception of each service quality dimension. A one way ANOVA was used to test whether there is a significant difference among the different type of customer groups in terms of expectation of service quality attributes. Then by conducting a multiple regression analysis the study identifies how much the service quality dimensions contributes to customer satisfaction by taking customer satisfaction as a dependent variable and service quality dimensions as independent variables.

### **3.7. RELIABILITY AND VALIDITY**

Validity is an important term in research that refers to the conceptual and scientific soundness of a research study. It is a very important and useful concept in all forms of research methodology. Its primary purpose is to increase the accuracy and usefulness of findings by eliminating or controlling as many confounding variables as possible, which allows for greater confidence in the findings of a given study (Marczyk et al, 2005). As the SERVEQUAL instrument had been subjected to verification and analysis and used as a very useful instrument in different settings in the research world it holds good instrument validity.

Reliability refers to the consistency or dependability of a measurement technique, and it is concerned with the consistency or stability of the score obtained from a measure or assessment over time and across settings or conditions. If the measurement is reliable, then there is less

chance that the obtained score is due to random factors and measurement error (Marczyk , Matto and Festinger , 2005).

Reliability could be estimated mathematically or through pre-testing of the instruments. In this study, since the questionnaire items were adopted from previous studies in the SERVQUAL literature but modified to the insurance service context, it was practical to discuss with experts in the industry to refine the instrument. As a result, the questionnaire items were adjusted by removing confusing words and to improve upon the clarity of the questions items to strengthen its reliability.

Statistically, Cronbach's alpha is commonly used test of internal reliability and essentially calculates the average of all possible split half reliability coefficients. A computed alpha coefficient will vary between 1 (denoting perfect internal consistency) and 0 (denoting no internal reliability). The figure 0.80 is typically employed as a rule of thumb to denote an acceptable level of internal reliability (Jonker and Pennink, 2010). The researcher uses this test to confirm the reliability of the instrument.

### **3.8. ETHICAL CONSIDERATIONS**

Ethics is defined by Webster's dictionary as conformance to the standards of conducts of a given profession or group. Researchers are expected to be aware of and abide by general agreements shared by the scientific community on what constitutes acceptable and non-acceptable behaviors on the part of the researcher in the professional conduct of science. For instance, one should not manipulate their data collection, analysis, and interpretation procedures in a way that contradicts the principles of science or the scientific method or advances their personal agenda ( Bhattacharjee, 2012).

In this research the researcher tried her best to follow an ethical path in the collection, analysis and interpretation of the data. A letter from Addis Ababa university school of commerce had been acquired and presented to the human resource department of EIC and permission was granted to conduct the research in the organization. During the collection of data customer cares of the selected branches were approached and helped the researcher in the collection of data as they are the contact point for every customer. Some of the basic tenants of the ethical behavior in

research like voluntary participation and harmlessness, informed consent, anonymity and confidentiality and disclosure were kept in the research. In giving response to the questionnaire participants were informed why the research was conducted and how their response is confidential. Additionally they were aware they had the right to withdraw from answering the questionnaire at any moment they prefer.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1. INTRODUCTION

This chapter represents the outputs from the analysis of this research. It begins by explain the demographic characteristics of the study, the reliability test of the instrument, mean scores of both expectation and perception and the GAP analysis for this constructs. It then follows the paired sample t-test and descriptive analysis for the overall satisfaction level. Finally the analysis of correlation, multiple regressions and one way ANOVA is conducted to evaluate our hypothesis.

#### 4.2. DEMOGRAPHICS OF RESPONDENTS

A total of 285 questionnaires were distributes for customers of EIC in different branches out of which 205 were collected. However, only 183 questionnaires were usable to the research which made the response rate drop from 71.93 % to 64.21 %. The demographics feature of the respondents is illustrated in the following table.

**Table 4.1 Demographics distributions for respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>	<b>Educational level</b>	<b>Frequency</b>	<b>Percent</b>
Male	141	77	Primary	2	1.1
Female	42	23	Secondary	23	12.6
<b>Age of respondents</b>			Certificate	10	5.5
18-24	9	4.9	Diploma	52	28.4
25-34	58	31.7	First degree	86	47
35-44	67	36.6	Other	10	5.5
45-54	39	21.3	<b>Type of customer groups</b>		
55-65	5	2.7	Retail	90	49.2 %
65 and above	5	2.7	Corporate	93	50.8 %

Source: own Survey (2014)

As observed from the table 4.1, the highest proportions of customers are male which comprise 77% of the respondents. The rest of customers who filled up the questionnaires are female who takes the share of 42%. The second component of the table represents the age distribution of respondents. It has six categories and the highest accounted is the age group between 35-44 years which scores 36.6%. The second largest group is respondents between the age of 25 and 34 and is 37.1% of the total population. The third in the rank are age group between 45-54 years old respondents and they represent 21.3% of the population. The lowest score in terms of the rank is shared by the two categories of age group 55-65 and 65 and above years old and they each represent 2.7% of respondents. Additionally we can observe respondents from the age group of 18-24 years to rank in fourth position and reports 4.9 % of the population.

It also demonstrates the educational level of respondent and the type of customer group they represent. It also has six layers of categories which represent primary, secondary, certificate, diploma, first degree and other educational levels. Most of the respondents (47%) are first degree owners where as the primary level education level is almost insignificant which represent only 1.1%. The other low score is for educational level labeled other and is only 5.5 %. The second and the third highest points in the educational level category represent customers with diploma and secondary level education and they account for 28.4% and 12.6% of respondents respectively.

In terms of the type of customer groups the company serves it is divided in two major groups and service provision to this groups is delivered in two different settings in every major branch. The corporate clients represent 50.8 % of the respondents and the rest 49.2 % belong to the retail clients group. A corporate client includes public organizations, governmental organizations, non-profit organizations, financial organizations, private organizations that seeks service in the organization. In this study respondents of such kind were represented by the answers given through their legal representatives and liaison officers who have a day to day interaction with the service provided by EIC. Retail clients represent individual clients that come to the doors of EIC to get services for their individual interest.

### 4.3. RELIABILITY

#### 4.3.1. RELIABILITY OF THE GENERAL INSTRUMENT

**Table 4.2 Reliability statistics for the general instrument**

Cronbach's Alpha	N of Items
.924	55

Source: own Survey (2014)

Reliability test was conducted to make sure the instrument used in the study was reliable. The elements under analysis are the twenty seven expectation and perception elements with the additional one customer satisfaction measurement instrument. The cronbach alpha for the general instrument is found to be 0.924 which is more than the acceptable range (Saunders, Lewis and Thornhill 2012).

#### 4.3.2. RELIABILITY OF THE SERVQUAL DIMENSIONS

**Table 4.3 Reliability statistics for the SERVQUAL dimensions**

ITEMS	Cronbach's Alpha	NUMBER OF ITEMS
Tangibility	0.702	12
Reliability	0.789	12
Responsiveness	0.842	10
Assurance	0.828	10
Empathy	0.809	10

Source: own Survey (2014)

It was also important to test the reliability of each dimension and make sure that they possess the reliability requirement. As observed from the table each dimension was run with its expectation and perception elements and its Cronbach alpha is greater than 0.7, greater than the acceptable range (Saunders et al, 2012). The result shows the Cronbach alpha for responsiveness and assurance is higher and they rank first and second respectively. Additionally, the analysis with regards to reliability is finished through the analysis of reliability of Cronbach alpha for both parts of the instruments that are expectation (0.951) and (0.959) perception.

**Table 4.4 Reliability statistics for expectation and perception**

ITEM	Cronbach's Alpha Based on Standardized Items	N of Items
EXPECTATION	.951	27
PERCEPTION	.959	27

Source: Survey SPSS output (2014)

#### 4.4. MEAN SCORE FOR EXPECTATION OF CUSTOMERS

**Table 4.5 Mean Score on Expectation for each Service Quality dimensions**

	N	Mean	RANKING
Tangibility	183	4.7441	3
Reliability	183	4.7573	2
Responsiveness	183	4.7902	1
Assurance	183	4.7421	4
Empathy	183	4.7399	5
Valid N (listwise)	183		

Source: Survey SPSS output (2014)

The analysis of the mean scores for each dimension was computed to address the first objective of the research by adding each attributes value and dividing it by the number of attributes in the dimension. Table 4.5 depicts the mean score of customer's expectation from an excellent

insurance company. Accordingly the result of the mean scores is ranks as one being the highest mean score while five being the least score. Customers have the highest expectation for the responsiveness dimension being the first highest mean score of (4.79). Secondly customers expect more in the reliability (4.75) of the service quality dimensions. The third and fourth dimensions with respect to expectation of customers are tangibility (4.744) and assurance (4.742) respectively.

#### 4.5. MEAN SCORE FOR PERCEPTION OF CUSTOMERS

**Table 4.6 Mean Score on Perception for each Service Quality dimensions**

	N	Mean	RANK
Tangibility	183	3.4444	4
Reliability	183	3.5128	3
Responsiveness	183	3.7692	1
Assurance	183	3.7213	2
Empathy	183	2.9148	5
Valid N (listwise)	183		

Source: Survey SPSS output (2014)

The second objective of the study was addressed through the measurement of the actual encounter customers has in the company. The mean score of perception of customers towards the service of Ethiopian insurance corporation shows the responsibility dimension to rank first (3.76). Assurance and reliability dimensions are ranked in the second and third level in terms of perception scoring (3.72) and (3.51) respectively. Unfortunately customers of EIC perceive the empathy and tangibility dimensions to be the two least scores in the organization. Conducting the mean scores of perception addresses the issue on how a customer really sees the services provided by the company. The highest ranks compared to the other dimensions show that with respect to the dimensions of responsiveness and assurance customers have a better perception toward the service provision of the company where as the lowest scores reflect the dimensions in which customers of the company are disappointed.

## 4.6. GAP ANALYSIS (PERCEPTION- EXPECTATION)

### 4.6.1. GAP ANALYSIS FOR SERVICE QUALITY DIMENSIONS

**Table 4.7 The Service quality gap for each service quality Dimension**

	<b>N</b>	<b>Mean(P)</b>	<b>Mean(E)</b>	<b>GAP SCORE</b>	<b>RANK</b>
Tangibility	183	3.4444	4.7441	-1.2997	2
Reliability	183	3.5128	4.7573	-1.2445	3
Responsiveness	183	3.7692	4.7902	-1.0210	4
Assurance	183	3.7213	4.7421	-1.0208	5
Empathy	183	2.9148	4.7399	-1.8251	1
Valid N (listwise)	183				

Source: Survey SPSS output (2014)

The gap analysis is conducted by subtracting the perception of customers to EIC to their actual expectation from an excellent insurance company. As evident from the table the result for the gap scores for all dimensions is negative. The widest gap in the analysis is observed in the empathy dimension (-1.8251). The second and the third gaps are the tangibility and reliability dimensions respectively and the score is -1.2997 and -1.2445. These three are the dimensions that the customers of EIC consider to be lacking mostly. The least gap is from the dimensions of responsiveness and assurance dimensions of service quality.

### 4.6.2. GAP ANALYSIS FOR ATTRIBUTES OF SERVICE QUALITY DIMENSIONS

Observation of the service attributes of each dimension in the above table led us to the conclusion that almost all attributes, with the exception of the fourth reliability dimension, the service quality measurement instrument poses a negative outcome. That implies the expectation of customers is not fulfilled in all attributes. Even if it doesn't confirm any positive result the expectation and perception for using customer focused and easy to understand underwriting policy is found to be equal.

The results in table 4.10 Shows the result for the first six least gap scores in the analysis that shows a better position for the company compared to the other attributes and the worst or the widest gaps in the perception expectation framework. The two attributes in the responsiveness

and assurance dimensions show gap scores in the first six least gap scores. Customer's expectations for the willingness of the staff and their professional knowledge are not far from their actual encounters. The staffs courtesy and commitment to ethical behavior is also observed not to vary highly from customer's expectation. Having courteous, knowledgeable and skilled human resource is important and can be exploited to the advantage of the organization in becoming competitive.

**Table 4.8 The Service quality gap for attributes of service quality dimensions**

ATTRIBUTES	N	Mean(P)	Mean(E)	GAP (P-E)
<b>TANGIABILITY</b>				
1.Usually uses appealing materials associated with service	183	3.84	4.85	-1.01
2.Uses visually appealing physical facilities	183	3.02	4.63	-1.61
3.Uses modern equipment & technology	183	3.39	4.7	-1.32
4.Use neat appearing employees & agents	183	3.58	4.77	-1.19
5.Establishes its branches at convenient location	183	3.63	4.79	-1.16
6.Charges a fair premium	183	3.34	4.75	-1.41
<b>RELIABILITY</b>				
7.Issues contracts with clear, transparent and non ambiguous terms	183	3.5	4.79	-1.29
8.Settles customers claims with no unnecessary delays	183	3.2	4.68	-1.48
9.perform the service right at the first time	183	3.56	4.74	-1.17
10.Uses consistent customer focused easy to understand underwriting policies	183	3.48	3.48	0
11.Issues error free bills, statements receipts, contracts, claims and other documents	183	3.65	4.77	-1.13
12.Offers products and services of utmost quality	183	3.7	4.74	-1.03
<b>RESPONSIVENESS</b>				
13.The staff keeps promises when to do something by a certain time	183	3.54	4.74	-1.2
14. The staff tells you exactly when services will be provided	183	3.67	4.77	-1.09
15.The staff give you prompt service	183	3.7	4.8	-1.09
16.The staffs are willing to help you	183	4.01	4.83	-0.81
17.The staff is not too busy to respond to customers request	183	3.91	4.82	-0.91
<b>ASSURANCE</b>				

18.The staff has the necessary knowledge to give professional service	183	3.92	4.81	-0.89
19.Employs are Committed to be consistently courteous with customers	183	3.84	4.79	-0.95
20.Regularly instilling confidence in customers	183	3.7	4.78	-1.08
21.claimants are assured of best possible attention	183	3.5	4.68	-1.19
22.The staff makes you feel safe in your transactions	183	3.64	4.66	-1.01
<b>EMPATHY</b>				
23.The staffs have the customers best interest at heart	183	3.68	4.75	-1.07
24.The staff shows personal attention to you	183	3.68	4.76	-1.08
25.The staff knows your specific needs	183	3.49	4.67	-1.17
26.Operating hours are convenient to all customers	183	3.72	4.7	-0.98
27.Committed to ethics and promote ethical behavior	183	3.85	4.81	-0.96

Source: own Survey (2014)

**Table 4.9 Lowest gap score service attributes for EIC customers**

ATTRIBUTES	DIMENSION	N	GAP(P-E)
Uses consistent customer focused easy to understand underwriting policies	Reliability	183	0
The staffs are willing to help you	Responsiveness	183	-0.81
The staff has the necessary knowledge to give professional service	Assurance	183	-0.89
The staff is not too busy to respond to customers request	Responsiveness	183	-0.91
Employs are Committed to be consistently courteous with customers	Assurance	183	-0.95
Committed to ethics and promote ethical behavior	Empathy	183	-0.96

Source: own Survey (2014)

Table 4.11 also represents the highest gap score service attributes for EIC customers. When a company sells any insurance product to its customers it is promising to compensate him/her when the risk materialize or during the time of claim. Therefore whether the insurance company

delivers its promise or not is evaluated during this time of claim. This makes the claims process important in the satisfaction and service quality assessment of customers. EIC claims settlement process are considered slow as implied by the second largest gap score. Additionally the Gap scores for the other two tangibility dimensions presented in the first six highest scores. Customers of EIC have issues related to the type of technology, equipments and the physical facility is using to deliver its service. Additionally the premium the company is charging for its services is greater than what customers expect.

**Table 4.10 Highest gap score service attributes for EIC customers**

ATTRIBUTES	Dimensions	N	GAP(P-E)
Uses visually appealing physical facilities	Tangibility	183	-1.61
Settles customers claims with no unnecessary delays	Reliability	183	-1.48
Charges a fair premium	Tangibility	183	-1.41
Uses modern equipment & technology	Tangibility	183	-1.32
Issues contracts with clear, transparent and non ambiguous terms	Reliability	183	-1.29

Source: own Survey (2014)

#### 4.7. PAIRED SAMPLES T -TEST

Paired-samples t-test (also referred to as repeated measures) is used to test customer's response under the expectation and perception of customers which has been rated on the same scale.

**Table 4.11 Paired Samples Test for each dimension**

		Paired Differences			t	Df	Sig. (2-tailed)
		Mean	95% Confidence Interval of the Difference				
			Lower	Upper			
Pair 1	TANPER - TANEXP	-1.29964	-1.41393	-1.18534	-22.435	182	.000
Pair 2	RELPER - RELEXP	-1.24451	-1.38566	-1.10335	-17.396	182	.000
Pair 3	RESPER - RESEXPE	-1.02527	-1.15339	-.89716	-15.790	182	.000
Pair 4	ASSUPER - ASSUEXP	-1.02077	-1.14720	-.89433	-15.930	182	.000
Pair 5	EMPAPER - EMPAEXP	-1.82514	-1.93295	-1.71732	-33.402	182	.000

Source: Survey SPSS output (2014)

The probability value (PV) for the above paired t-test is  $P < 0.05$  (less than 0.05) for all dimensions. This value is substantially smaller than our specified alpha value of 0.05 that enable us to conclude there is a significance difference between the two samples, expectation and perception. The t-value ( $t(df)=182$ ) for each dimension shows there is a significant difference between the expectations of customers from an excellent insurance company and their perception towards EIC. The t values of the paired t statistics illustrates empathy is with the highest paired difference ( $t=-33.402$ ) followed by tangibility ( $t=-22.435$ ) and reliability ( $t=-17.39$ ) dimensions. The following two tables elaborate the paired statistics for the general perception and expectation for the sample and the difference between the means. The fourth and fifth paired differences are assurance and responsiveness with t value of  $t=-15.930$  and  $t=-15.790$  respectively. Generally the paired statistics shows a wider gap between what customers expect and what they actually receive from the company's service.

**Paired Samples T-Test for grand Expectation & perception**

**Table 4.12 Paired Samples Statistics**

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 perception	3.4718	183	.69372	.05142
1 expectation	4.7575	183	.34588	.02564

**Table 4.13 Perception/ Expectation paired difference**

	Paired Differences			df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean		
<b>Pair 1 perception - expectation</b>	-1.28564	.74386	.05514	182	.000

Source: Survey SPSS output (2014)

Although the results presented above tell us that the difference we obtained in the two sets of scores was unlikely to occur by chance, it does not tell us much about the magnitude. One way to do this is to calculate an effect size statistic. Eta squared test is one of the most commonly used effect size statistics. While statistical hypothesis testing provides a way to tell the odds that differences are real, effect sizes provide a way to judge the relative importance of those differences. That is, they tell us the size of the difference or relationship (Cronk, 2008)

One of the simplest and most popular measures of effect size is Cohen's d. Cohen's d is a member of a class of measurements called "standardized mean differences." In essence, d is the difference between the two means divided by the overall standard deviation. Cohen's d suggested that effect sizes of 0.2 are small, 0.5 are medium, and 0.8 are large. (Cronk, 2008)

**Table 4.14 Cohen's d Interpretation**

	<b>Small size</b>	<b>Medium size</b>	<b>Large size</b>
<b>Cohen's <i>d</i></b>	0.2	0.5	0.8

Source: Cronk, 2008

The procedure for calculating Cohen's d is:

$$d = \frac{D}{sd}$$

Where **d** = Cohen's d

**D** = the means score for the means

**sd** = standard deviation for the means

$$d = \frac{-1.285}{0.74386} = -1.74$$

We represent the effect size *d*; as a positive number even though it is negative because Effect sizes are always positive number. Using Cohen's guidelines for the interpretation of *d*, we have found a very large effect size. This implies there is a large difference between the two means that is expectation and perception of customers in terms of service quality dimensions.

#### 4.8. OVERALL SATISFACTION LEVEL

Customer's response to the level of satisfaction they encounter is presented in table 4.16. Most of the respondents are satisfied by the overall service EIC is giving that is represented in the satisfied (52.5%) and highly satisfied (17.5%) responses. The mean of the overall satisfaction level (3.69) is also evident that customers of EIC are slightly satisfied. Nevertheless the 13.1% and 2.7% of respondents are dissatisfied and highly dissatisfied respectively. This is not a result one should ignore as the company should work hard to decrease this number. Finally 14.2% of the respondents replied neutral for their level of customer satisfaction.

**Table 4.15 Descriptive statistics for overall satisfaction**

	N	Minimum	Maximum	Mean	Std. Deviation
OVERALL SATISFACTION	183	1	5	3.69	.998
Valid N (listwise)	183				

**Table 4.16 Overall satisfaction level**

		Frequency	Percent
Valid	Highly Dissatisfied	5	2.7
	Dissatisfied	24	13.1
	Neutral	26	14.2
	Satisfied	96	52.5
	Highly satisfied	32	17.5
	Total	183	100.0

Source: own Survey (2014)

## 4.9. CORRELATION

The Pearson correlation coefficient (sometimes called the Pearson product-moment correlation coefficient or simply the Pearson  $r$ ) determines the strength of the linear relationship between two variables. The correlation coefficient will be between -1.0 and +1.0. Coefficients close to 0.0 represent a weak relationship. Coefficients close to 1.0 or -1.0 represent a strong relationship. Correlation results that is greater than 0.7 are considered strong. Additionally, Correlations less than 0.3 are considered weak. Correlations between 0.3 and 0.7 are considered moderate (Cronk, 2008)

A Pearson correlation coefficient was calculated for the relationship between service quality dimensions and customer satisfaction. A strong positive correlation and a significant linear relationship are obtained between all service quality dimensions and overall satisfaction level. The correlation coefficients ( $r$ ) for all variables range from 0.569 to .746, which show a moderate and high correlation. The most correlated dimension with overall satisfaction is responsiveness  $r(181) = 0.746$  followed by reliability ( $r(181) = 0.717$ ), Assurance ( $r(181) = 0.7$ ), Empathy ( $r(181) = 0.692$ ), and tangibility ( $r(181) = 0.569$ ).

The correlation between the service quality dimensions shows that there is a higher correlation between tangibility and reliability with persons correlation of ( $r(181) = 0.616$ ). The second highly correlated items are reliability and assurance ( $r(181) = 0.588$ ) with a moderate level of correlation. The third and fourth correlated items also fall in the range of medium correlation which are tangibility with responsiveness ( $r(181) = 0.586$ ) and tangibility with empathy ( $r(181) = 0.551$ ) respectively. Generally through the analysis of the correlation coefficients the relevance of various dimensions of service quality namely tangibility, reliability, responsiveness, assurance and empathy precisely indicate the relationship between the dimensions and customer satisfaction.

**Table 4.17 Correlation between Service quality dimensions and over all customers' satisfaction**

Correlations							
		Tangibility	Reliability	Responsiveness	Assurance	empathy	Satisfaction
<b>Tangibility</b>	Pcr	1	<b>.616**</b>	<b>.586**</b>	<b>.588**</b>	<b>.551**</b>	<b>.569**</b>
	Sig. (2-tailed)		.000	.000	.000	.000	.000
<b>Reliability</b>	Pcr	.616**	1	<b>.837**</b>	<b>.741**</b>	<b>.713**</b>	<b>.717**</b>
	Sig. (2-tailed)	.000		.000	.000	.000	.000
<b>Responsiveness</b>	Pcr	.586**	.837**	1	<b>.841**</b>	<b>.771**</b>	<b>.746**</b>
	Sig. (2-tailed)	.000	.000		.000	.000	.000
<b>Assurance</b>	Pcr	.588**	.741**	.841**	1	<b>.867**</b>	<b>.700**</b>
	Sig. (2-tailed)	.000	.000	.000		.000	.000
<b>Empathy</b>	Pcr	.551**	.713**	.771**	.867**	1	<b>.692**</b>
	Sig. (2-tailed)	.000	.000	.000	.000		.000
<b>Satisfaction</b>	Pcr	<b>.569**</b>	<b>.717**</b>	<b>.746**</b>	<b>.700**</b>	<b>.692**</b>	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	183	183	183	183	183	183

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

Source: Survey SPSS output (2014)

#### 4.10. MULTIPLE LINEAR REGRESSION ANALYSIS

A multiple linear analysis was conducted to see the predictive power of service quality for customer satisfaction by talking customer satisfaction as a dependent variable. One of the SPSS outputs of the regression analysis is the model summary that includes the R square and the standard of the error term for the model. R Square (called the coefficient of determination) tells you the proportion of the variance in the dependent variable (overall customer satisfaction in our case) that can be explained by variation in the independent variables (service quality

dimensions). The Standard Error of the Estimate gives you a margin of error for the prediction equation.

The second part of the output that we are interested in is the ANOVA summary table. For now, the important number is the significance in the rightmost column. If that value is less than .05, we have a significant linear regression. If it is larger than 0.05, we do not. The final section of output we are interested in is the table of coefficients. This is where the actual prediction equation can be found.

### **Hypothesis One**

H<sub>0</sub>: service quality does not have a significant impact on customer satisfaction

H<sub>1</sub>: service quality does have a significant impact on customer satisfaction

The result of the regression illustrates that there is a strong association between the overall service quality and customer satisfaction. The values of correlation coefficient between overall service quality and customer satisfaction is 0.787 which indicates significant positive correlation between the constructs. It further explains correlation between independent variable (tangibility, reliability, responsiveness, assurance and empathy) with overall satisfaction is 0.619. This implies 61.9% of the variation in customers overall satisfaction can be explained by variation in the independent variables (the service quality dimensions). The dependent variable customer satisfaction was taken as the 28rd item mentioned in the questionnaire considered for the study. Generally the analysis provides that the overall service quality has a strong effect on customer satisfaction and the increase of service quality will lead to a further increase in customer satisfaction.

The ANOVA summary table for the regression analysis is observed that the significance level is less than 0.05 ( $p < 0.05$ ) that illustrate we have significant linear regression. Our decision for the hypothesis testing is going to be rejecting the null hypothesis and accepting the alternative hypothesis. Therefore we accept that service quality has an impact on the overall customer's satisfaction of EIC customers.

**Table 4.18 Service Quality dimensions customers' Satisfaction**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.787 <sup>a</sup>	.619	.608	.626	.619	57.206	5	176	.000

a. Predictors: (Constant), Tangibility, reliability, responsiveness, assurance and empathy

Source: Survey SPSS output (2014)

**Table 4.19 ANOVA result for service quality and customers satisfaction**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	112.144	5	22.429	57.206	.000 <sup>b</sup>
	Residual	69.004	176	.392		
	Total	181.148	181			
a. Dependent Variable: SATISFACTION						
b. Predictors: (Constant), Tangibility, reliability, responsiveness, assurance and empathy						

Source: Survey SPSS output (2014)

The last output in the analysis of the multiple regression models represents the output for the beta coefficients of each service quality dimensions. The regression equation for this research is presented below.

$$CS = B_0 + (B_1) TAN + (B_2) REL + (B_3) RES + (B_4) ASU + (B_5) EMPA + e$$

Where, CS= customer satisfaction, TAN= tangibility, REL= reliability, RES=responsiveness, ASSU=assurance, EMPA= empathy, B<sub>0</sub>= Constant, B<sub>1</sub> to B<sub>5</sub>= beta coefficients, and e=the error term

**Table 4.20 Multiple regression result of service quality dimensions and customers' satisfaction**

Model	Coefficients <sup>a</sup>						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	5.087	.160		31.835	.000		
<b>Tangibility</b>	.158	.078	<b>.124</b>	2.037	<b>.043</b>	.581	1.721
<b>Reliability</b>	.211	.093	<b>.204</b>	2.274	<b>.024</b>	.269	3.714
<b>Responsiveness</b>	.360	.122	<b>.315</b>	2.964	<b>.003</b>	.191	5.231
<b>Assurance</b>	.031	.129	.027	.243	.808	.174	5.744
<b>Empathy</b>	.289	.129	<b>.213</b>	2.239	<b>.026</b>	.239	4.192

Dependent Variable: SATISFACTION

Source: Survey SPSS output (2014)

Substituting the results in the model gives us:-

$$CS=5.087 + 0.158TAN + 0.211REL + 0.360RES + 0.031ASSU + 0.289 EMP + e$$

Before we begin the interpretation for the beta coefficients it is important to evaluate the model in terms of the issue of multicollinearity which is the concern in the multiple regression analysis. The issue has been addressed through the results of variance inflation factor (VIF) and the tolerance level in the model output. The tolerance Values that are less than 0.10 may merit further investigation where as the VIF result suggested that predictor variables whose VIF values are greater than 10 may merit further investigation. As it can be seen from the table this requirements are not invalidated in our results and there is no issue of multicollinearity.

The results in the table illustrates responsiveness (B=0.360) , Empathy (B=0.289),reliability (B=0.211) and tangibility ( B=0.158) service quality dimensions have a significant influence on over all customers satisfaction at 95% confidence level ( $p < 0.05$ ), indicating that for customers of EIC these factors are important in assessing overall satisfaction. However, one service quality dimension which is assurance does not have a significance influence in customer satisfaction as  $p > 0.05$ .

Generally the following path diagram shows the correlation between the independent variables (tangibility, reliability, responsiveness, assurance and empathy) as well as their power in predicting the dependent variable which is customer satisfaction.

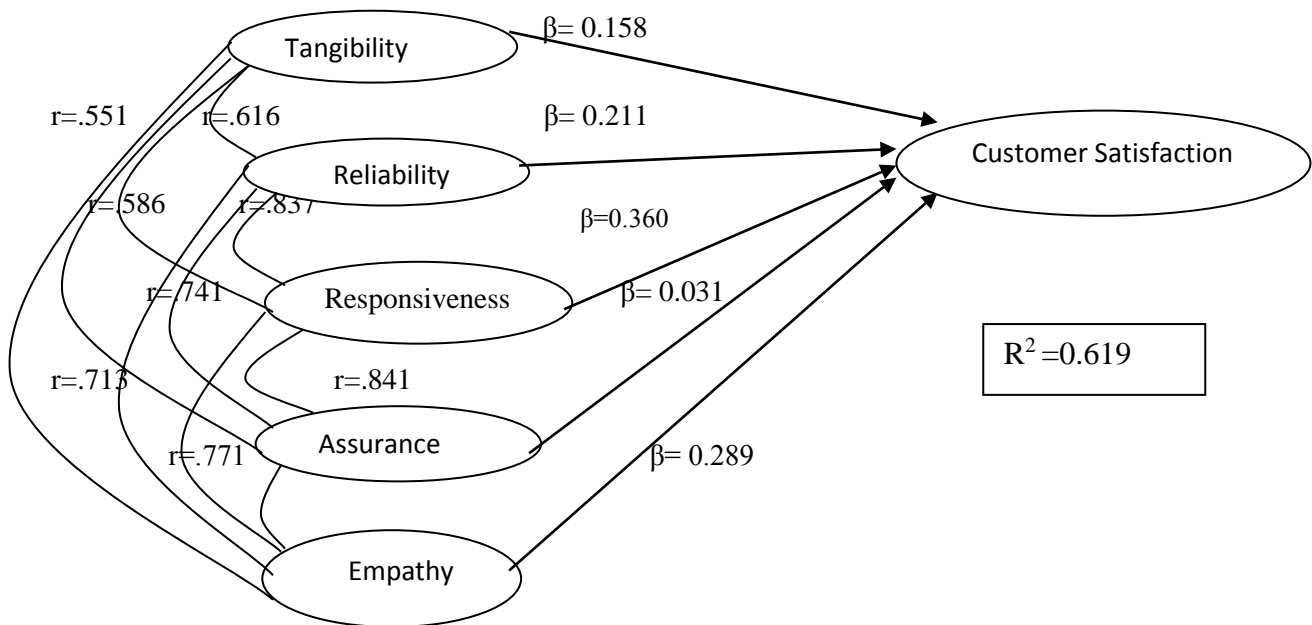


Figure 3 Path diagram for service quality dimensions and customer satisfaction.

#### **4.11. ONE WAY ANOVA**

EIC uses a categorization of retail and corporate clients to render its service to its clients. The position for such division is the proposition that the retail and corporate clients differ in their requirement to the type of service they require. The researcher of this paper is going to test this proposition by hypothesizing customer's expectation of service quality differ between this two groups.

##### **Hypothesis 2**

**H<sub>0</sub>:** *There is no significant difference in customer's expectation of service quality for retail and corporate clients*

**H<sub>1</sub>:** *There is significant difference in customer's expectation of service quality for retail and corporate clients*

Analysis of variance (ANOVA) is used to determine the proportion of variability attributed to each of several components. It is one of the most useful and adaptable statistical techniques available. The one-way ANOVA compares the means of two or more groups of participants that vary on a single independent variable (thus, the one-way designation).

**Table 4.21 Customers' expectation difference depending on the type of customer group**

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
<b>Tangibility</b>	Between Groups	1.767	4	.442	3.461	.144
	Within Groups	22.720	178	.128		
	Total	24.487	182			
<b>Reliability</b>	Between Groups	.983	4	.246	1.483	.209
	Within Groups	29.327	177	.166		
	Total	30.310	181			
<b>Responsiveness</b>	Between Groups	.546	4	.137	.877	.479
	Within Groups	27.716	178	.156		
	Total	28.262	182			
<b>Assurance</b>	Between Groups	.949	4	.237	1.192	.316
	Within Groups	35.437	178	.199		
	Total	36.386	182			
<b>Empathy</b>	Between Groups	.955	4	.239	1.341	.257
	Within Groups	31.703	178	.178		
	Total	32.659	182			

Source: Survey SPSS output (2014)

The means of customer's expectation in service quality of two different groups (retail and corporate) were compared using a one-way ANOVA. No significant difference was found for all dimensions as  $p > 0.05$ . Customers of EIC didn't vary significantly on their expectation of service quality in all dimensions. Therefore we accept the null hypothesis and reject the alternative hypothesis. As the customer groups of retail and corporate clients have no different expectations in terms of the five dimensions dividing them with such factor does not hold ground. This implies the company should evaluate its proposition that these customer groups have different expectation and find other variables that can distinguish this customer groups in the service delivery process.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1. INTRODUCTION**

The result of the analysis of this study has been discussed in the earlier chapter. The focus of this chapter is going to be in the summaries of the findings, conclusion, recommendation and areas for further researches.

#### **5.2. SUMMARY OF FINDINGS**

The initial result of the analysis presents the outcomes for the demographic nature of the respondents and the reliability test for the instrument and its dimensions. The descriptive statistics and the Cronbach alpha were used to illustrate and test the variables of interest.

The result for the mean score of expectation of customers from an excellent insurance company shows responsiveness to be the most important service quality dimension with a mean score of 4.79. This implies that customers of EIC expect the staff of the company to keep their promises, tell the exact time they can render the service and their willingness to help and respond for their requests. The second ranked dimension in the expectation of customers is reliability with a mean score of 4.79. The score shows the expectation of customers with regard to the underwriting and claims process, the main process of the insurance business. There is a high expectation for the contract terms and the underwriting policies to be clear and precise. There is also the need for the claims process to be prompt and free of unnecessary delays, which explains the high expectation in the reliability dimension. The tangibility (4.744) and assurance (4.742) dimensions in the service quality dimensions are the third and fourth in their expectation scores. The final score is registered in the empathy service quality dimension with a mean score of 4.73. Even if the score is the least of all there is no significant difference with the others and is more than the average for a five level Likert scale.

The mean scores for perception of customers toward the actual service encounter results for the empathy and tangibility dimension to lack the most. The mean score for the two dimensions is 2.91 and 3.44 respectively. On the contrary the perception of EIC customers register a better

result for the responsiveness and assurance dimension with a mean score of 3.76 and 3.72. Reliability lies in the middle of the rank for its mean score of 0.86. In respect to gap scores for the dimensions of service quality empathy, tangibility and reliability were found to be at the top of the rank. Even if tangibility was established to have the least gap scores reliability and empathy were registered with the highest Gap scores for Kenya and Greece insurance industry (Graham et al., 2004)

A Gap score analysis is conducted both in terms of each attributes and dimension individually. Accordingly EIC possess lowest gap scores in terms of the staff's willingness to help and their swiftness in responding to customers request and acquiring the skill to deliver professional service. It is clear that the role employs play in the process of service delivery is paramount. Therefore the company can exploit the opportunity of having perceived professional and knowledgeable and skilled employees as a competitive advantage.

Converse to this the highest gap scores are from the tangibility and reliability dimensions in terms of individual attributes. Now day's customers expect their service provider to cope up with the technological innovation of the time. This appear with EIC as customers expectation and perception fails to meet for attributes of using modern equipments and technology and making its physical facility appealing to its customers. There is also the issue of delays in the claims settlement process that can be inferred from the Gap mean score of -1.48. The opportunity to deliver its promise comes in the time of claim for every insurance company. Failure to do so can jeopardize the customer relationship the company has been building up with its customers in the underwriting process. EIC customers perceive the settlement of claim to fail to meet their expectation . In terms of the premium the company charges it is the belief of the respondents that it is inflated and there is a need adjustment to their gap score -1.41. The industries reputation for the lack of clear, transparent and non ambiguous terms is also true for EIC. The contract terms for many of the policies are difficult to read and understandable for a layman.

The paired t-test result shows the paired difference between expectation and perception and the significance value  $p < 0.05$  indicate the two scores are different. The mean score for the perception of customers 3.47(sd=0.69) and the mean score for the grand expectation is

registered to be 4.75 (sd=34). A significance difference was obtained from perception and expectation scores that are evident in Cohen's d result of 2.33 which shows a large effect size.

The descriptive statistics concludes that in terms of overall customer satisfaction level 52.5% of EIC customers are satisfied and 17.5% are highly satisfied with the service provision of the company. However the 2.7% and 13.1% of respondents are highly dissatisfied and dissatisfied respectively. The rest of the respondents (14.2%) reply they maintain a neutral position towards the service rendered by the company.

The relationship between service quality dimensions and overall satisfaction shows moderate and high Pearson correlation coefficients. The most correlated dimensions with the overall satisfaction level is responsiveness ( $r=0.746$ ) followed by reliability( $r=0.717$ ), whereas Reliability and tangibility dimensions show the highest correlation with in dimensions followed by reliability and assurance.

The multiple regression result highlights that service quality has an impact on customer satisfaction and the  $R^2$  value shows that 61.9 % of the variation in the customers overall satisfaction level can be explained by the variation in the service quality dimensions. The result also conclude that responsiveness ( $B=0.360$ ), empathy ( $B=0.289$ ), reliability ( $B=0.211$ ) and tangibility ( $B=0.158$ ) have a significant influence on the overall satisfaction at 95% confidence interval ( $P<0.05$ ). In the same token the study conducted in the Ghana insurance industry shows reliability and responsiveness to have the biggest effect in the determination of customer satisfaction (Frank and Theresa, 2011).

However assurance dimension failed to have any significant influence in customer satisfaction. Finally, to validate the hypothesis that there is no difference between retail and corporate clients in their service expectation a One way ANOVA result confirm that there is no significant difference between this groups of customer.

### **5.3. CONCLUSION**

The main purpose of this study is to measure customers' general expectation and perception towards the current performance of EIC. Additionally the relationship between service quality dimensions and customer satisfaction constructs is established in the case of EIC. In order to address this issue in the Ethiopian insurance corporation this study adopted the standardized SERVQUAL measure and took adjustments to align it with the context of the Ethiopian insurance industry. A twenty seven item SERVQUAL instrument with a five point Likert scale one being strongly disagree and five strongly agree was used to put the objectives to test. A single question was also raised to measure the general level of customer satisfaction and measure its relationship with the SERVQUAL service quality dimensions.

The results of the analysis in this research show the wider gap between the service quality expectations and perceptions to the company. Special considerations can be drawn to elements of tangibility and reliability attributes. The uses of appealing facility and modern or advance technologies should be considered deficient in the case of EIC. With respect to reliability dimension the underwriting and claims process failed to fulfill customer's expectation that is evident in the lowest scores registered in attributes like Settlement of claims with unnecessary delays and providing clear and understandable policy terms. Even though the empathy dimension registered the lowest expectation it surprising is the first dimension with the highest GAP score. This entails the fact that regardless of the lowest expectation of customers with empathetic behavior the company fails to deliver its promise in this arena.

According to the results of the regression it is safe to say that the responsiveness plays a dominant role in predicting customer satisfaction level in the case of EIC. Time is becoming an expensive commodity and it is important for customer service personnel to promptly deliver their service. EIC customers believe there is a lack of responsiveness in the part of the company's staff to their request. The dimension Empathy is also with a high beta coefficient that enables us to conclude there is a significant relationship between this dimension and customer satisfaction.

Additionally the other two dimensions reliability and tangibility found to have a significant influence in the customer satisfaction level. The final service quality dimension which is assurance fails to have a significant influence in the customer satisfaction level even if it had a correlation with the construct.

The one way ANOVA results indicate in terms of service quality expectation whether the customers are retail clients or corporate clients there is no distinction whatsoever. This concludes that the companies' stand in dividing the customer group and providing service in two different settings is questionable and needs further investigation.

#### **5.4. RECOMMENDATIONS**

The purpose of measuring service quality and the level of customer satisfaction is to take corrective actions. The insurance industry faces numbers of challenge and a unique roadblock to build loyal and quality customer relationships. The biggest challenge the insurance industry face is meeting customer expectations for faster, better service in the face of rising loss cost and increasing price competition. Based up on the analysis conducted the following possible recommendations can help the company in improving its customer satisfaction level.

Based on the diagnosis that there is a high gap score in the attributes of tangibility and reliability dimensions the management could take the following corrective actions.

- Investing in the right technology will result in improving service and building a better customer relationship. Therefore the company should incorporate improvement of its technological innovations in its strategic plan. For instance online claims registration, building and upgrading its IT infrastructure, increase the broad band capacity and using fiber optics for its branches and so on can be considered as improvements.
- Additionally the use of appealing physical facility is important in maintaining the companies brand image that it tries to build as being the financially strongest insurance firm in the country as it can shape the attitude and perception of customers in building their brand image. Therefore the company should consider in changing its old buildings to a modern and luxuries settings, improve in choosing its furniture's and decorative designs, and make sure its employees respect the dressing code the company have in place.

The reliability dimension attribute with the highest gap scores present problem in the underwriting and claims process. As insurance is a contract agreement it is important for both parties to enter the agreement after they understood the contract terms and provisions.

- The insurance company should not take advantage in the ignorance of its customers or it will lose the confidence of its customers. Therefore it is the believe of the researcher for

EIC to come up with contracts that customers can understand easily and avoid ambiguous terms that can raise issues in the time of claim.

- Both the staffs and the insurance agents the company uses to acquire business should impose this believe in their underwriting of any business.
- In the claims process most customers of EIC hold the position that the process is slow moving as compared to their expectation. The issue of the service encounter sequence can be raised in this case the customers of EIC deal with other stack holders in their time of claims like the traffic police, towing services, garages, hospitals and so. The customers overall service quality evaluation is then the accumulated evaluation of multiple service experiences. Therefore it is advisable for EIC to control such relationships and make its claim services prompt by avoiding red tape and unnecessary delays as today's claimant is tomorrows lucrative premium payer.

The findings of this research prevails that the most important service quality dimensions in affecting the customers level of satisfaction are responsiveness and Empathy. The following considerations can be taken in creating and strengthening these dimensions.

- Customers expect complete, consistent, accurate answers to their questions, whether they are inquiring about the status of claim or the cost of new insurance. Special concern should be given to customers during the time of claim considering the state of mind customers likely will be. Listening to customer's grievance and providing speedy service as long as the claim lodged is acceptable should be the main purpose of staffs in their interaction with customers.
- The company should come up with strategies that will ensure that customers are informed of exactly when services will be performed and employees attend to their needs/problems promptly and give services consistently.
- Finally in the introspect to the effect of empathy in customer satisfaction the company should train its employees, especially with those that have high customer contact to identify and attain customers specific needs as well as to put customers best interest at heart.

## **5.5. LIMITATIONS & IMPLICATIONS FOR FUTURE RESEARCH**

The focus of the study is in the determination of the GAP between expectation and perception of customers and the analysis to how the service quality dimensions determine customer satisfaction. A future study can be conducted in areas of service quality for non life products and expand its horizon in determining service quality for areas outside Addis and with a larger sample size as the study is confined to Addis Ababa branches. As employees are important in the area of service quality it also will be a potential issue to research service quality from the employee's perspective in the organization. Future research shall also be conducted by exploring other variables which might have a higher potential in explaining the variation in customer satisfaction.

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# **APPENDICES**

**Appendix 1**  
**A QUESTIONNAIRE ON THE EFFECT OF SERVICE DELIVERY SYSTEM ON CUSTOMER**  
**SATISFACTION**  
**(To be filled by customers)**

*Dear respondents,*

This questionnaire is designed to collect data on the expectation and perception levels of customers in relation to service quality delivered by the Ethiopian Insurance Corporation.

This questionnaire is organized under three parts: General information, SERVQUAL questions, and level of customer satisfaction. The information you provide will be kept confidential & cannot be transferred to a third party. The result of the study is expected to benefit the insurance marketers to design and deliver a better service to customers.

The researcher is kindly requesting you to provide the necessary information to the best of your knowledge and be part of the noble effort to be made in measuring the quality of service delivered By EIC and its effect on the level of customer satisfaction. Completing this questionnaire will take you only 20 minutes. Thank you in advance for spending your precious time to answer the questions

*Thanking you,*  
*The researcher*

**Part I. General information**

1. Gender?

1. Male

2. Female

2. Age?

1. 18-24

4. 45-54

2. 25-34

5. 55-64

3. 35-44

6. 65 and over

3. Level of education

1. Primary education

2. Secondary level education

3. Certificate

4. Diploma

5. Degree

6. Others

4. Type of customers

1. Retail

2. Corporate

**Part II: Survey of your expectations and perceptions towards service quality of EIC.**

**Direction:** This survey deals with your opinion about **EIC Service Delivery System**. Please rate the extent to which you expect and perceive the services offered by the organization by encircling the appropriate number against each statement. There is no right or wrong answers. What is expected from you is to select the best choice among given alternatives in order to show your expectations and perceptions about the Services Delivered by EIC.

- Level of EXPECTATION AND PERCEPTION towards service quality of EIC (**Where, the score levels are described as:** 1.Strongly Disagree 2- Disagree 3- Neutral 4- Agree 5- Strongly Agree

	Dimensions	Your expectation for an excellent insurance company					Your Level of perception for Ethiopian insurance corporation				
		5	4	3	2	1	5	4	3	2	1
1	usually uses appealing materials associated with service										

2	Uses visually appealing physical facilities	5	4	3	2	1	5	4	3	2	1
3	Uses modern equipment & technology	5	4	3	2	1	5	4	3	2	1
4	Use neat appearing employees & agents	5	4	3	2	1	5	4	3	2	1
5	Establishes its branches at convenient location	5	4	3	2	1	5	4	3	2	1
6	Charges a fair premium	5	4	3	2	1	5	4	3	2	1
7	Issues contracts with clear, transparent and non ambiguous terms	5	4	3	2	1	5	4	3	2	1
8	Settles customers claims with no unnecessary delays	5	4	3	2	1	5	4	3	2	1
9	perform the service right at the first time	5	4	3	2	1	5	4	3	2	1
10	Uses consistent customer focused easy to understand underwriting policies	5	4	3	2	1	5	4	3	2	1
11	Issues error free bills, statements receipts, contracts, claims and other documents	5	4	3	2	1	5	4	3	2	1
12	Offers products and services of utmost quality	5	4	3	2	1	5	4	3	2	1
13	The staff keeps promises when to do something by a certain time	5	4	3	2	1	5	4	3	2	1
14	The staff tells you exactly when services will be provided	5	4	3	2	1	5	4	3	2	1
15	The staff give you prompt service	5	4	3	2	1	5	4	3	2	1
16	The staffs are willing to help you	5	4	3	2	1	5	4	3	2	1
17	The staff is not too busy to respond to customers request	5	4	3	2	1	5	4	3	2	1
18	The staff has the necessary knowledge to give professional service	5	4	3	2	1	5	4	3	2	1
19	Employs are Committed to be consistently courteous with customers	5	4	3	2	1	5	4	3	2	1
20	Regularly instilling confidence in customers	5	4	3	2	1	5	4	3	2	1
21	claimants are assured of best possible attention	5	4	3	2	1	5	4	3	2	1
22	The staff makes you feel safe in your transactions	5	4	3	2	1	5	4	3	2	1
23	The staffs have the customers best interest at heart	5	4	3	2	1	5	4	3	2	1

24	The staff shows personal attention to you	5	4	3	2	1	5	4	3	2	1
25	The staff knows your specific needs	5	4	3	2	1	5	4	3	2	1
26	Operating hours are convenient to all customers	5	4	3	2	1	5	4	3	2	1
27	Committed to ethics and promote ethical behavior	5	4	3	2	1	5	4	3	2	1

### Part III: Customer Satisfaction Level

Customers overall satisfaction	Highly dissatisfied	Dissatisfied	Neutral	Satisfied	Highly satisfied
satisfaction level with EIC's service	5	4	3	2	1