



**THE IMPACT OF SERVICE QUALITY ON CUSTOMER SATISFACTION:
THE CASE OF DEVELOPMENT BANK OF ETHIOPIA**

BY:

Tsehay Hadera

**A Thesis Submitted to the Graduate Studies of Addis Ababa University
School of Commerce in Partial Fulfillment of the Requirements
for the Award of Master of Arts Degree in Marketing Management**

June, 2016
ADDIS ABABA



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ADVISOR: Temesgen Belayneh (phD)

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By: Tsehay Hadera

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DECLARATION

I, Tsehay Hadera declare that this research entitled “**The Impact of Service Quality on Customer Satisfaction: The Case of Development Bank of Ethiopia**”, is the outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the Research Advisor.

This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the degree of MA in Marketing Management.

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Letter of Certification

This is to certify that Tsehay Hadera carried out her thesis on the topic entitled “**The Impact of Service Quality on Customer Satisfaction: The Case of Development Bank of Ethiopia**”. This work is original in nature and is suitable for submission for the award of Master of Marketing Management.

Temesgen Belayneh
(*Research Advisor*)

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Acronyms

DBE: Development Bank of Ethiopia

NBE: National Bank of Ethiopia

SERVQUAL: Service quality measurement scale

SERVPERF: Service quality measurement scale

SPSS: Statistical Package for Social Sciences

ABSTRACT

The main purpose of the study was to examine the effect of service quality on customer satisfaction in the Development Bank of Ethiopia. The study was conducted on manufacturing industries which are users of loan service of Development Bank of Ethiopia. Survey was made to gather primary data from 83 manufacturing industries selected using stratified random sampling method. Structured questionnaire SERVPERF model was used to evaluate customers' perception of service quality and customer satisfaction. The result of this study indicated that customers were satisfied with the assurance dimensions of service quality followed by empathy, responsiveness and reliability while they were less satisfied with tangibles dimension. The finding also indicated that all service quality dimensions (tangibles, reliability, responsiveness, assurance and empathy) have positive and significant effect on customer satisfaction. Among these dimensions empathy is the most important factor which influences overall customer satisfaction. Moreover 76.3% of the variations in customer satisfaction in Development Bank of Ethiopia could be explained by the five dimensions of service quality. Hence the management of the DBE should devote considerable effort on its service quality in order to enhance the level of customer satisfaction.

Key words: Service quality, customer satisfaction, SERVPERF, Credit service

CHAPTER ONE

INTRODUCTION

This chapter presents an overview of the study. It contains background of the study, back ground of the organization, statement of the problem, research questions, objective of the study, hypothesis of the study, operational definition of terms, significance of the study, delimitation/ scope of the study and organization of the study.

1.1 Background of the study

Nowadays service industry is playing an important role in the economy of many countries. It is a portion of a nation's economy which represents services of all kinds, including those offered by public and non-profit organizations. This sector represents major share of GDP of developed countries. For example 73 percent of United States and 67 percent of Canada gross domestic product (GDP) accounts to this sector (Lovelock, 1999). Service sector is becoming dominant in the economy of Ethiopia too. The share of service sector in GDP was about 45.9 percent and its contribution to GTP was about 51.7 percent in 2013/14 (NBE, 2014). Hence this sector has become a major employer of nation's citizens not only in developed countries but also in developing countries (Lovelock, 1999).

Service has been defined by different scholars differently. Kotler (2000) has defined Service as an activity or benefit offered for sale that is essentially intangible and do not result in the ownership of anything. It is also defined as an act or performance offered by one party to another. Services are economic activities that create value and provide benefits for customers that bring about a desired change in the recipient of the service (Lovelock, 1999). A service is an activity or series of activities of more or less intangible in nature that normally, but not necessarily, take place in interactions between customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems (Gronroos, 1984).

In today's competitive environment delivering quality service is considered as an essential strategy for success of service industries. Unlike goods quality which can be clearly measured by durability, features, and easy to repair, service quality is an abstract and illusive construct because of its unique characteristics (Parasuraman, Zeithaml & Berry, 1988). Understanding special characteristics of services is crucial to develop competitive strategies, because services are different to goods in four special characteristics (Kotler, 2000).

Service intangibility: Services cannot be seen, tasted, felt, heard, or smelled as such they are more related to performances rather than objects.

Service variability: Service delivery can vary from provider to provider and customer to customer. Service provider and customer can affect the quality of services.

Service inseparability: Services are produced and consumed at the same time and cannot be separated. Production and consumption of services are inseparable. It is produced and consumed at the same time in the presence of the customer and the service producer.

Service perishability: Services cannot be stored for later sale or use.

As a result of these differences, service quality is more difficult for the customer to evaluate than goods quality. But like product marketers, service providers have to identify their customers and their customers' expectation of service quality.

Quality of service has received more attention and becoming area of research interest as service industry is growing. Gronroos (1984) believes that the quality of service depends on two variable expected and perceived service. Parasuraman, Zeithaml & Berry (1985) defined service quality as the gap between customers' expectations of service and their perceptions of the service experience. It is a discrepancy between customer's expectation and perception of services (Grönroos, 1984; Parasuraman, *et al*; 1988). Customers judge whether an organization provides good quality of service by comparing what they perceive with what they expect. It is a measure of how well the service level delivered matches customer expectations (Parasuraman, *et al*; 1985). Cronin and Taylor (1992) defined service quality, as an attitude reflecting long-term perceptions of a service firm's superiority or excellence, and operationalized as measures of service firm performance.

Customer satisfaction is an essential factor in service business because organizations that provide high quality service which creates customer satisfaction can make their customers loyal. Hence quality has been seen as critical for the success of organizations because of its close link with customer satisfaction (Parasuraman, *et al*; 1985). If expectations are greater than performance, then perceived quality is less than satisfactory hence customer dissatisfaction occurs on the other hand if perceived performance exceed expectation customer will be satisfied (Parasuraman, *et al*; 1985).

Many models have been introduced to measure service quality. SERVQUAL is one of the most commonly used models. The concept of SERVQUAL was first introduced by A. Parasuraman, Valarie A. Zeithaml, & Leonard L. Berry in 1985 as part of the Service Quality Gap model which identified 10 key categories of service quality determinants namely Tangibles, Reliability, Responsiveness, Communication, Credibility, Security, Competence, Courtesy, Understanding/knowing customers and Access. Consumers evaluate service quality by comparing expectations with perceptions on ten dimensions (Parasuraman, *et al*; 1985). Later in 1988, Parasuraman, *et al*;(1988) introduced SERVQUAL as an instrument to measure service quality by refining the 10 determinants of service quality to five dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. SERVQUAL was designed to measure the gap between customers expectations of service and their perceptions of the actual service delivered, based on the five dimensions. It contains two major sections that contain 22 statements each. The first part is used to measure customer's expectations and the second is to assess customer's perceptions of the service firm's performance.

The other scale that measures service quality is SERVPERF which bases on the consumers' perception of service performance. SERVPERF is introduced by Cronin and Taylor in 1992. They argue that current performance best reflects a customer's perception of service quality therefore, perception scores alone can better predict overall service quality than perception-minus-expectation scores as administered by SERVQUAL instrument. SERVPERF uses the 22 items of the perception part of SERVQUAL to measure service quality.

SERVQUAL has been criticized by many scholars from various perspectives such as its focus on functional service quality aspects and its insufficiency to be generic to measure service quality in all service sectors (Bahia & Nantel, 2000). Some researchers also developed sector specific models such as BSQ banking service quality (banking), LSQ lodging service quality (Hotels). However SERVQUAL and SERVPERF are popular models and widely used models to measure service quality.

Competition is very high in banking industry because of the similarity of banking services. Even though customer satisfaction is important for any business, it is crucial for banking businesses in which intense competition takes place. Since customers are the life blood of their business, banks have to give due attention for the satisfaction of their customer. Thus it is important for companies to understand how customers perceive their service quality. Because of intangibility service, it may be difficult for firms to understand how consumers perceive their services and evaluate service quality (Parasuraman, *et al*; 1985). Even Most unhappy customers do not tell the firm about their problems. Therefore, a company should uncover what attribute customers utilize in their assessment of service quality. Although customer satisfaction can be influenced by several factors, high service quality usually leads to high level of customer satisfaction. The key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customers. Therefore, a company should measure customer satisfaction regularly to understand the level of satisfaction (Kotler, 2012).

1.2. Back ground of the Organization

Banking industry is one of service industries that engaged in financial activities. It plays vital role in development of business and economy of any country.

These days banking service in Ethiopia is growing fast. The number of banks has reached 19. Among these 19 banks 17 are commercial banks and the rest 2 banks are specialized banks (NBE, 2014). Development Bank of Ethiopia (DBE) is one of the specialized banks which engaged in providing short, medium and long term development credits. It was established in the era of Menelik II, in 1909 with the name Societe Narionale d' Ethiopie Pour le Development de l' agriculture et de Commerce (The Society for the promotion of

Agriculture and Trade). Although its mission and business purpose has not undergone significant changes except for occasional adjustment, the Bank has taken different names at different times.

- Agricultural Bank of Ethiopia from 1945-1949
- Agricultural and Commercial Bank of Ethiopia from 1949-1951
- Development Bank of Ethiopia Share Company from 1951-1970
- Investment Bank of Ethiopia from 1964-1970
- Agricultural and Industrial Development Bank Share Company from 1970-1979
- Agricultural and Industrial Development Bank from 1979-1994
- Development Bank of Ethiopia from 1994-till now (www.dbe.com.et)

Development Bank of Ethiopia is state owned financial institution established to promote the national development agenda through development financing to feasible projects from the priority areas of the government. It has 15 Branches and 20 Sub-branches throughout the country and its head office located in Addis Ababa (DBE, 2013).

The distinguishing feature Development Bank of Ethiopia is its “project” based lending. The Bank provides Credit Services and Banking services. Although the Bank provides banking services such as deposit facilities in the form of time deposit and current accounts as well as money transfer services to its clients and funding institutions its main service is providing development credit to viable priority projects.

The priority areas of the bank are Commercial Agriculture, Agro-Processing and Manufacturing and Extractive Industries. Among the priority areas manufacturing industry is the main user of the bank’s service. According to the Bank’s report out of the total of 8.15 billion birr loan approved by the Bank in 2012/2013, 5.8 billion was approved for Industry Sector (DBE, 2013).

Development Bank of Ethiopia has to be profitable to sustain its growth as any business organization on the other hand it has to support the national economic development.

1.3 Statement of the problem

The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government. One of the priority areas of government is manufacturing industry. This industry needs huge amount of capital which is difficult to cover only from investors' own resources. Therefore, the Government of Ethiopia has arranged loan facility through Development Bank of Ethiopia to encourage investment in manufacturing industries. Since finance facility is the main requirement of investors, effectiveness and efficiency of financing service is crucial to attract foreign and local investors. Thus quality of the bank's service has an influence in attracting investment, implementation of manufacturing industry projects and creation of new employment opportunity for citizens. Hence the service of the bank should be satisfactory as per customers' perception otherwise they will not be interested to invest and/or expand their business. Especially foreign investors cannot tolerate poor service as they are experienced quality service of other countries and have many other alternatives. They can also talk negative word of mouth to potential investors that could affect foreign direct investment. Therefore measuring the quality of the bank's service and understanding the perception of customers is important for the bank to play its intended role in the development of manufacturing industry and the country's economy as a whole.

As a business enterprise the bank has to deliver high quality service to satisfy its customers so as to be profitable and sustain its growth. The main activity of Development Bank of Ethiopia is project based lending which is its main source of income. Even though the bank has special characteristics, such as project based lending with low lending rate (8.5 percent for priority areas and 9.5 percent for non priority areas) and accepting the project itself or 30% of the total project cost as collateral, this may not guarantee to prevent borrowers from finding alternative loans from other banks. Measuring and understanding customers' perception of the bank's service may possibly reduce competition from other banks. Because delivering quality service leads to higher customer satisfaction and satisfied customers remain loyal and talk favourably.

Measuring how the delivered service is perceived by customers and understanding whether it meets the expectations of customers is necessary to identify areas which are not satisfactory

and to improve them. Development Bank of Ethiopia conducts survey quarterly to assess the level its customers' satisfaction. The bank collects data from its customers by developing its own questionnaire. The result of 2014/15 FY survey was reported on its 2014/15 annual performance report. As per the report, the level of external and internal customer satisfaction was 77% and 73% respectively and the Bank's average level of customer satisfaction performance 75% which is 89% of the set target 84%. The result also shows that the level of customer satisfaction declined by 3% as compared to previous year's performance 77.7%. From this report we can understand that the level of customer satisfaction didn't reach 100% even it was less than the target set by the bank and the performance of previous year (2003/14). Measuring the level of service quality and customer satisfaction using worldwide accepted model and structured questionnaire could help to identify the dimensions that are more important for customers and dimensions which need attention and improvement. Hence this study aims to examine customers' perceptions of the services of Development Bank of Ethiopia and customer satisfaction using the SERVPERF model.

1.4 The research questions

Depending on the above research problems three research questions are identified.

1. What is the perception of customers towards the service of the Development Bank of Ethiopia?
2. Which dimension of service quality is more important for customers of DBE in their assessment of service quality?
3. To what extent does service quality affect customer satisfaction?

1.5. Objective of the study

1.5.1. General objective

The general objective of the study is to examine service quality and its effect on customer satisfaction in the Development Bank of Ethiopia.

1.5.2. Specific objectives

Specific objectives of the research are:

- To measure the level of satisfaction of customers.
- To examine which dimension of service quality contributes more for overall customer satisfaction of DBE customers.
- To determine the effect of service quality on customer satisfaction.

1.6. Hypotheses

Literatures suggested that there is relationship between customer satisfaction and service quality. Higher service quality leads to higher customer satisfaction thus service quality is an important antecedent of customer satisfaction (Cronin & Taylor 1992). Since tangibles, reliability, responsiveness, assurance, and empathy are determinants of service quality they could also influence customer satisfaction. Based on review of literatures the following five hypotheses are developed.

- H1 tangibles positively and significantly influences customer satisfaction
- H2 reliability positively and significantly influences customer satisfaction
- H3 responsiveness positively and significantly influences customer satisfaction
- H4 assurance positively and significantly influences customer satisfaction
- H5 empathy positively and significantly influences customer satisfaction

1.7. Definition of terms

- **Tangibles:** includes physical facilities like equipment, and the physical appearance of personnel.
- **Reliability:** refers to the ability to perform the promised service dependably and accurately.
- **Responsiveness:** means willingness to help customers and provide prompt service.
- **Assurance:** refers to knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy:** refers to caring individualized attention the firm provides its customers. (Parasuraman, *et al*; 1988)
- **Manufacturing:** is an industry in which raw materials are transformed into finished goods on a large scale

1.8. Significance of the study

The finding of the study may help bank managers to understand their customers' perception towards the service quality of the Bank. It may also help the Bank to identify the quality dimension that customers utilize in their assessment of service quality so as to focus on the important dimensions. Moreover, it may help as pointer for further research for financial policy makers.

In addition, the study could be used as a reference material for researchers who are interested to conduct research on this area.

1.9. Delimitation/ scope of the study

Development Bank of Ethiopia provides project based lending services to customers of manufacturing industry, mining, service, and commercial agriculture. Out of the total loan approved by the bank the large amount is absorbed by the manufacturing industry sector. Hence the manufacturing industry sector could better represent the major customers of the bank. Due to this reason the scope of the study is delimited to manufacturing industry customers.

The Bank has 15 Branches and 20 Sub-branches throughout Ethiopia. Most of the country's projects are concentrated in Addis Ababa and around Addis Ababa. Moreover, loans more than 25 million have to be processed centrally in the credit process of the bank in the head office, Addis Ababa. Hence most of the bank customers could be included in the study by focusing on Addis Ababa branch and credit process. Therefore the scope of the study is delimited to Addis Ababa branch and credit process.

Many factors such as price, product quality, personal, situational factors and service quality can affect customer satisfaction. But the study is concerned to the influence of service quality on customer satisfaction as per customers' perspective.

1.10. Organization of the Research Report

The report of the study will be organized in five chapters. In the first chapter background of the study, statement of problem, research questions, hypothesis, definition of terms, significant of the study, and delimitation of the study will be stated. In the second chapter review of literatures related to the subject will be presented. Under chapter three research design and research methodology such as type of research, subject or participants of the study, source of data, data collection instrument employed and method of data analysis will be described. In chapter four the results of data analysis will be interpreted and the findings will be presented. Finally in chapter five the findings, conclusions, recommendations, limitations and areas need further research will be included.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter will have theoretical and empirical review of literatures that is related to the research problem. In this chapter the concept of service, service quality, customer satisfaction, relationship between service quality and customer satisfaction, models of service quality, empirical review of previous researches and conceptual framework of the study will be introduced in order to give a clear idea about the research area.

2.1. Concepts and definition of Service

2.1.1 Definition of Service

Several authors have defined service in different ways. Among those definitions, Kotler (2000) has defined Service as an activity or benefit offered for sale that is essentially intangible and do not result in the ownership of anything (Lovelock, 2011) defined service as economic activities offered by one party to another often time based performance that bring about a desired change in the recipient of the service. (Gronroos, 2007: 52) also defined as ‘‘A service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems’’. It is an act or performance offered by one party to another.

2.1.2 Characteristics of service

The key distinguishing feature of service is that customers do not obtain ownership of services rather it is a form of rental. Service customers obtain access to goods, labor professional skills, facilities, networks and systems. It is performance that brings about the desired results for customers (Lovelock, 2011). Due to the intangibility of service, evaluation of service quality is difficult for consumers than tangible products. Unlike goods quality which can be clearly measured by durability, features, and easy to repair, service quality is an abstract and illusive construct because of its unique characteristics (Parasuraman, *et al*; 1988). Hence understanding special characteristics

of services is crucial to develop competitive strategies. Services are different to goods in four special characteristics: intangibility, variability, inseparability and perishability (Kotler, 2000).

Service intangibility: Services cannot be seen, tasted, felt, heard, or smelled as such they are more related to performances rather than objects. Intangibility refers to an elusive and psychological nature of the service. This attribute makes measuring quality of service difficult.

Service heterogeneity/variability: Service delivery can vary from provider to provider and customer to customer because service provider and customer can affect the quality of services. Since standardization and quality are difficult to control, it may be difficult for customers to evaluate quality and for employers to measure and control quality (Gilmore, 2003).

Service inseparability: Services are produced and consumed at the same time and cannot be separated. Production and consumption of services are inseparable. It is produced and consumed at the same time in the presence of the customer and the service producer. Inseparability results from the close link between service production and consumption. Most of the time, customers will have to participate to a certain degree in the production process (Gilmore, 2003).

Service perishability: Services cannot be stored for later sale or use. Unlike to goods services are produced and consumed at the same time in the presence of the customer and the service producer.

As a result of these differences, service quality is more difficult for the customer to evaluate than goods quality. But like product marketers, service providers have to identify their customers and their customers' expectation of service quality.

2.2. Service Quality

In today's competitive environment delivering quality service is an essential strategy for success of service industries. Competitive advantage through high quality service is crucial for success and survival of business organizations. Providing high quality service which leads to customer satisfaction is critical for making customers loyal.

Quality of service has received more attention and becoming area of research interest as service industry is growing. Many researchers defined service quality in different ways. Gronroos (1984); Parasuraman, *et al*; (1985) and Cronin and Taylor (1992) were among those researchers who conceptualization service quality.

Parasuraman, *et al*; (1988) conceptualized service quality based on disconfirmation paradigm. They defined service quality as a form of attitude related but not equivalent to satisfaction and results from comparison of expectations with perceptions of performance and operationalized it as the gap between customers' expectations of service and their perceptions of the service experience. Customers judge whether an organization provides good quality of service by comparing what they perceive with what they expect. The customer's judgment of overall excellence of the service given by service provider is termed as perceived service quality. Perceived service quality is a global consumer judgment or attitude, relating to service and results from consumers' comparisons of expectations of service with their perceptions of actual service performance (Parasuraman, *et al*; 1985). This judgment is based on discrepancy between what a customer expect from his service provider and what the actual service he receives from it (Gronroos 1984; Parasuraman, *et al*; 1988). Gronroos (1984) believes that the quality of service depends on two variable expected and perceived service. The quality gap (Q) is calculated by subtracting the expectation (E) from the perception (P) value i.e. $P-E= Q$ (Parasuraman, *et al*; 1985).

Cronin and Taylor (1992) argue that service quality has to be conceptualized based on attitudinal paradigm. They defined service quality as an attitude reflecting long-term perceptions of a service firm's superiority or excellence and operationalized by measures of service firm performance. They believe that customers make a discrepancy judgment between expectation and perception inside their head when asking to score for performance, so only the performance scores is more appropriate to measure service quality.

2.2.1 Customers Expectations of Service

Since expectations play a major role on customer's evaluation of service quality, understanding consumers' service quality expectations is the key to delivering service quality. When marketers know the consumer's quality expectations, they can develop marketing strategies for service delivery. Zeithaml, Berry & Parasuraman (1993) identified two levels of expectations: desired service and adequate service.

Desired service is the level of service the customer hopes to receive. This expectation reflects the level of performance that the customer wishes to receive from the provider. Desired service is influenced by enduring service intensifiers, personal needs and other four factors (Explicit Service Promises, Implicit Service Promises, Word-of-Mouth Communications and past experience) which influence both desired and predicted service.

Although customers hope to achieve their service desires, they may recognize that this is not always possible. Thus they hold another lower level service that they will accept (Zeithaml, Bitner & Gremler, 2013). **Adequate service** is the minimum tolerable expectation or threshold level of acceptable service that is the level of service the customer will accept. It is the bottom level of performance acceptable to the customer, and reflects the level of service customers believe they will get on the basis of their experience with services. Adequate service are influenced by five factors i.e. Transitory Service Intensifiers, Perceived Service Alternatives, Customer Self-Perceived Service Role, Situational Factors and predicted service.

Services are heterogeneous which can vary from provider to provider or across employees of the same provider. The extent to which customers recognize and are willing to accept service variation is called Zone of tolerance. Zone of tolerance is the range or window in which customers do not particularly notice service performance. When service falls outside the range (either very low or very high), the service gets the customer's attention in either a positive or negative way. If service drops below adequate service, customers will be frustrated and their satisfaction with

the company undermined. If a service performance is outside the zone of tolerance at the top end where performance exceeds desired service-customers will be very pleased and probably quite surprised as well.

Predicted Service is the level of service customers believe they are likely to get. Though predicted service plays a direct role in assessment of satisfaction it indirectly affects assessment of service quality by influencing adequate service. If the consumer has higher level of predicted service his level of adequate service will be higher. Zeithaml, *et al*; (1993) have identified four factors that influence both desired and predicted services: Explicit Service Promises, Implicit Service Promises, Word-of-Mouth Communications and past experience.

Before the actual consumption experience, consumers hold a set of expectations based on previous experiences, communications including advertising and word of mouth. These expectations serve as a benchmark for quality interpretations of the service encounter (Laroche et al, 2004).

Customers use different types of standards of comparison in assessing service quality and customer satisfactions. Satisfaction literature suggests that assessment of customer satisfaction results from comparison between predicted service and perceived service. Whereas assessment of service quality result from comparison between desired service and perceived service which is consistent with service quality literature Gap 5. Customers made two types of service quality assessment by comparing perceived service with desired service which results perceived service superiority and comparing perceived service with adequate service which results perceived service adequacy (Zeithaml, *et al*; 1993).

Services marketers needs to have a control over the factors that influence expectations because expectations are one of the important factors that customers use to evaluate service (Zeithaml, *et al*; 2013). Traditional marketing activities such as advertising, field selling, pricing can be used to give promises to target customers. These promises can influence the expectations of customers. Word of mouth about

service performance is also important for shaping expectation of service. Furthermore previous exposure to service influences expectation of customer (Gronroos, 1984). Hence promises given by traditional marketing activities regarding how the service will be given and communications by word of mouth must not be unrealistic. Service providers have to promote the exact service customers will receive and to provide the service customers expect.

2.2.2 Customers perception

According to disconfirmation theory, customer satisfaction or dissatisfaction is determined by comparing customer's expectations with his perception of actual service performance. If performance exceeds expectation satisfaction will result, but if service performance falls short of what was expected, dissatisfaction will occur (Parasuraman, *et al*; 1985).

Therefore a business organization has to find out how its offerings are perceived by the customers. Problems during a single transaction can damage favorable customer perception. Hence it is important to identify what customers are actually buying and which features are most important to them in order to develop appropriate strategy accordingly. Nowadays it is perceived experience a customer makes in his various interactions with a company (e.g. how fast, easy, efficient and reliable the process is) that can make or break the relationship (Lovelock, 1999).

In order for consumer to willingly purchase and consume a particular product or service, his perception has to be positive towards it. Perceptions of performance play a key role in the development of service value perceptions which are particularly important in the development of consumers' purchase intention (Cronin and Taylor, 1992).

The way customer perceives services are highly subjective. Different customers may perceive one and the same product or service in different ways as every customer has different beliefs towards certain services or products. It may sometimes deviate from what the producer or service provider had intended. Customer perception is also

dynamic and may change in different situation. It can be Influenced by actual experience and shared experiences with other customers (Gilmore 2003). The more experience the customer accumulates, the more his perceptions will shift from fact-based judgments to a more general meaning the whole relationship gains for him. Consumers' service quality judgments change over time based on the summed effects of the levels of satisfaction a consumer enjoys relative to repeated service encounters with a specific provider of services (Taylor, 1993).

The service encounter plays an important role in customer evaluations of service quality. It is from service encounters the customers build their perceptions based on their experiences interacting with service employees. Service encounter is a real-time marketing where promises are kept or broken. Each encounter presents an opportunity to prove its potential as a quality service provider and to increase customer loyalty. Service encounters or the moment of truth are the building blocks of satisfaction and service quality (Zeithamal, Bitner & Gremler, 2009). Current performance adequately captures consumers' perceptions of the service quality offered by a specific service provider and judgments of service quality and satisfaction appear to follow the evaluation of a service provider's performance (Taylor, 1993).

2.3. Customer Satisfaction

Kotler (2000: 36) defined satisfaction as “a person’s feelings of pleasure or disappointment resulting from comparing product’s perceived performance or outcome in relation to his or her expectations.” Oliver (1997) also defined customer satisfaction as consumer's fulfillment response which is a judgment that product or service provides a pleasurable level of consumption-related fulfillment. It is the customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations. If expectations are greater than performance, then perceived quality is less than satisfactory hence customer dissatisfaction occurs. When expectations are equal to the performance, perceived quality is satisfactory; as perceived performance exceed the customer expectation customer will be delighted (Parasuraman, *et al*; 1985)

In service industry, customer satisfaction is considered as the fundamental source of success. Because satisfied customers remain loyal, buy more, are less price sensitive and talk favorably about the company (Kotler, 2012). Satisfying customers is one of the main objectives of any business organization as it leads to greater customer loyalty, which in turn results in better company performance. Increasing customer satisfaction which leads to customer retention will result improved profits, positive word-of-mouth, and lower marketing expenditures since retaining current customers is more profitable than attracting new ones to replace those lost.

2.5. Relationship between Service Quality and Customer Satisfaction

Terms customer satisfaction and service quality are often used interchangeably by practitioners and press (Parasuraman, Zeithmal & Berry, 1994). Although they have something in common, there are some important differences between perceived service quality and customer satisfaction. Perceived service quality is defined as the customer's attitude or overall judgment of a service over time while satisfaction is considered to be connected to a specific transaction (Parasuraman, *et al*; 1988). Satisfaction is generally viewed as a broader concept; whereas service quality focuses specifically on dimensions of service quality. Service quality is a focused evaluation that reflects the customer's perception of service quality dimensions: reliability, assurance, responsiveness, empathy and tangibles while satisfaction is more inclusive which is influenced by perceptions of service quality, product quality, price, situational factors and personal factors (Zeithaml, *et al*; 2013).

Cronin and Taylor's (1992) conceptualize and operationalized service quality and customer satisfaction differently. They conceptualize service quality as an attitude reflecting long-term perceptions of a service firm's superiority or excellence, and operationalized by measures of service firm performance. Whereas they operationalized consumer satisfaction, as expectancy disconfirmation in line with satisfaction literature which compares perceived quality with expected quality. Regarding the relationship between the two constructs, they proposed that consumer satisfaction serves as a transitory mediator of

long-term service quality attitude. They further added that consumers' service quality judgments change over time based on the summed effects of the levels of satisfaction a consumer enjoys related to repeated service encounters with a specific services provider. Based on the result of their study, they stated that higher perceived service quality leads to satisfaction hence; service quality is an antecedent of consumer satisfaction.

Although customer satisfaction is influenced by several other factors such as price, personal and situational factors, service quality is one of the main drivers of customer satisfaction. Thus perceived service quality is a component of customer satisfaction. High service quality usually leads to high level of customer satisfaction. Therefore service quality has been considered as critical for the success of organizations because of its close link with customer satisfaction (Parasuraman, *et al*; 1985).

2.6 Models of measuring Service Quality

Understanding how customers perceive the service quality and being able to measure service quality can benefit service organizations. The measurement of service quality can provide specific data that could be used in quality management; hence, service organizations would be able to monitor and maintain quality service. Assessing service quality and better understanding how various dimensions affect overall service quality would enable organizations to identify strengths and weaknesses, to efficiently design the service delivery process and allocate resources to provide better service.

Service quality is a multi-dimensional concept (Gilmore Audrey, 2003). It is not viewed as separate construct rather as aggregate of several dimensions or components. Thus identification of dimensions of service quality is necessary to measure, control and improve service quality. Different researches have been made to identify and describe dimensions of service quality for specific and general service contexts.

Gronroos (1984) suggested that service quality consists of three dimensions, namely technical quality, functional quality and corporate image. Technical quality is the outcome of the service act or what the customer receives as a result of his interactions with a service

firm which answers the question of what the customer gets. Functional quality refers to process how the service is delivered which answers the question of how the customer gets the service. Image is the result of how the customers view the service firm. It influences the customers' expectation. Perceived service quality is a result of customer's evaluation process where the customer compare his expectation with what he receives as a result of his interaction with service firm (Gronroos, 1984).

Parasuraman, *et al*; (1985) identified five Gaps that may cause customers to experience poor service quality.

Gap 1: The gap between consumer expectation and management perception

This gap occurs when service companies do not correctly perceive what customers expect from them. For instance, hospital administrators may think patients want better food, but patients may be more concerned with the responsiveness of the nurse. This gap may occur due to insufficient marketing research, poorly interpreted information about customer's expectations, inadequate upward communication and too many layers of management. Therefore the gap can be closed or narrowed by making market research and encouraging interactive communication among different parties in the service firm as well as the customers.

Gap 2: The gap between management perception and service quality specification.

Management may correctly perceive what the customer wants but they may not set an appropriate performance standard. For instance a hospital administrator may instruct nurses to respond to a request fast, without specifying how fast. This gap may occur due to inadequate task standardization, unclear or ambiguous service design insufficient planning procedures and lack of management commitment. This gap can be narrowed by increasing managements' commitment to service quality, standardizing service through technology and setting service-quality goals.

Gap 3: The gap between service quality specification and service delivery

This gap relates to the service performance of service employees. It may arise through lack of well trained service personnel, incapable or unwilling to meet the set service standard, lack of team work, poor human resource management such as ineffective recruitment, role

ambiguity, role conflict, improper evaluation and compensation system. It can be closed or narrowed by implementing good human resource management and by training employees.

Gap 4: The gap between service delivery and external communication

This gap arises when discrepancy occurs between service delivery and external communications due to lack of horizontal communication and over-promising in external communication campaign such as advertisements and failure to manage customer expectations. Consumer expectations are highly influenced by statements made by company representatives and advertisements. Hence this gap can be narrowed by providing interactive communications between companies and customers as well as avoiding overpromising.

Gap 5: The gap between expected service and experienced service

Gap 5 refers to customers gap which is the discrepancy between customer expectations and customer perceptions of the provided service. Gaps 1-4 (understanding, service standard, service performance and communication) are shortfalls within the service organization that have contribution to gap 5. Hence this gap can be narrowed by closing Gaps 1 – 4. Based on gap analysis Parasuraman, *et al*; (1985) developed a service quality model by identifying 10 quality dimensions: Tangibles, Reliability, Responsiveness, Communication, Credibility, Security, Competence, Courtesy, Understanding/knowing customers and Access. They proposed that service quality as a function of the differences between expectation and performance along the quality dimensions.

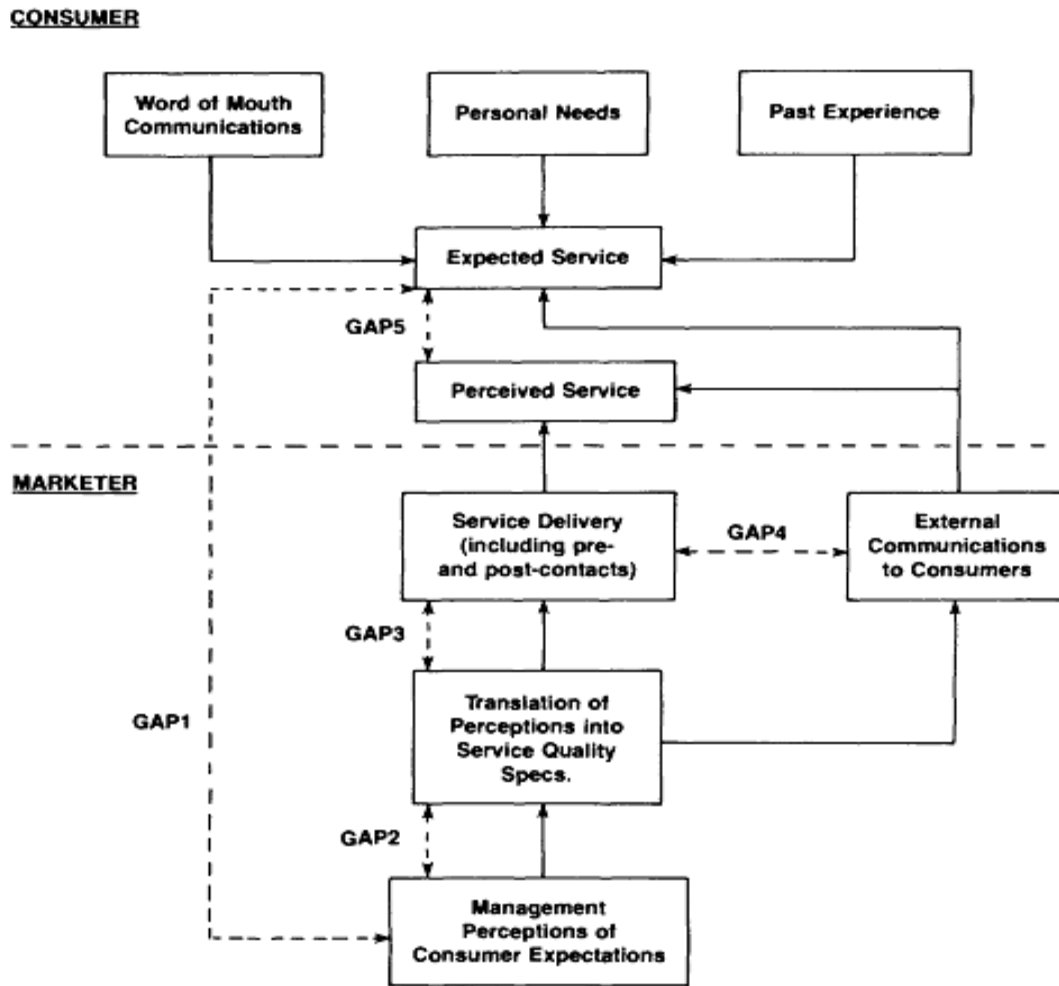


Figure 2.1: Gap Model (Parasuraman, *et al*; 1985: 44)

2.5.1 SERVQUAL

SERVQUAL is one of the most widely used models of service quality. The concept of SERVQUAL was first introduced by A. Parasuraman, Valarie A. Zeithaml, & Leonard L. Berry in 1985 as part of the Service Quality Gap model which identified 10 key categories of service quality determinants namely Tangibles, Reliability, Responsiveness, Communication, Credibility, Security, Competence, Courtesy, Understanding/knowing customers and Access. They suggested that consumers evaluate service quality by comparing expectations with perceptions through the ten dimensions (Parasuraman, *et al*; 1985). Later in 1988, Parasuraman, *et al*; (1988) introduced SERVQUAL as an instrument to measure service quality by refining the 10

determinants of service quality to five dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. SERVQUAL was designed to measure the gap between customers expectations of service and their perceptions of the actual service delivered, based on the five dimensions.

- **Tangibles:** The appearance of physical facilities, equipment, personnel and communications material. It is the service environment which refers to appearance of the service personnel, the equipment and facilities used to carry out the service. For example the equipment and facilities available in a bank will have an impact on a consumer's overall perception of the service encounter.
- **Reliability:** the ability to perform the promised service dependably and accurately. It includes the requirement of a firm to perform the service right first time and to live up to its promises to customers. For example, it will include providing accurate bills and performing the service at the designated time.
- **Responsiveness:** means willingness to help customers and provide prompt service. It refers to the willingness and readiness of staff to deliver the service and respond to customers' requirements.
- **Assurance:** knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy:** caring individualized attention the firm provides its customers. It involves understanding individual customer needs and requirements and responding in an appropriate manner (Parasuraman, *et al*; 1988).

SERVQUAL model has two major sections which contain 22 statements each. The first part is used to measure expectations about firms in general within an industry and the second is used to measure customer's perceptions of the service of particular company whose service is being assessed. According to the SERVQUAL model, customer assessments of service quality result from a comparison of service expectations with actual performance. The quality gap (Q) is calculated by subtracting the expectation (E) from the perception (P) value i.e. $P - E = Q$.

SERVQUAL has been criticized by various scholars in theoretical and operational perspectives. As identified by Buttle (1996) some of the critiques are listed below.

Theoretical:

- **Paradigmatic objections:** SERVQUAL is based on a disconfirmation paradigm rather than an attitudinal paradigm; and it does not build on existing knowledge in economics, statistics and psychology.
- **Gaps model:** there is little evidence that customers assess service quality in terms of P – E gaps.
- **Process orientation:** SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter.
- **Dimensionality:** SERVQUAL's five dimensions may not be universal across all services; the number of dimensions comprising service quality are contextualized; and there is a high degree of intercorrelation between the five dimensions.

Operational:

- **Expectations:** measuring expectations is unnecessary as consumers use standards other than expectations to evaluate service quality; and SERVQUAL fails to measure absolute service quality expectations.
- **Item composition:** four or five items cannot capture the variability within each service quality dimension.
- **Moments of truth (MOT):** customers' assessments of service quality may vary from MOT to MOT.
- **Polarity:** the reversed polarity of items in the scale causes respondent error. In the SERVQUAL instrument some items are reversed to ensure that respondents do not fall into the habit of marking the same scale point for each question; however this can cause confusion.
- **Scale points:** the seven-point Likert scale is flawed. The mid-range numbers can only be vaguely related to varying degrees of opinions and many respondents may rate these differently.
- **Two administrations:** two administrations of the instrument causes boredom and confusion.

- **Variance extracted:** the over SERVQUAL score accounts for a disappointing proportion of item variances (Buttle 1996).

In response to criticisms on SERVQUAL instrument, Parasuraman and his colleagues reassessed and refined SERVQUAL in 1991 and 1994. They changed the negatively worded items to a positive format; added two new items and refined six original items to better capture the five dimensions, changed the verb “should” to “will” to ask what the customer would expect from the service firms and, added another part to SERVQUAL (Parasuraman, Berry & Zeithaml 1991). This new part ask customers to allocate a total of 100 points across the five dimensions according to how relative important they consider each to be. They also responded to criticism regarding validity and operationalized expectation (Parasuraman, *et al*; 1994).

Parasuraman, *et al*; (1988) suggested, SERVQUAL is adaptable to a variety of industries simply by modifying terminology used in the survey instrument. Many researchers have used the SERVQUAL dimensions as the basis to develop alternative models. Based on the critiques concerning insufficiency of SERVQUAL model to be generic to measure service quality in all service sectors, different researchers developed sector specific models in order to include important sector specific factors. For example, BSQ banking service quality for banking (Bahia & Nantel 2000), LSQ lodging service quality (Hotels), Internet banking model (Broderick & Vachirapornpuk, 2002), Model of e-service quality (Santos, 2003) etc. Moreover Cronin and Taylor’(1992) developed SERVPERF model to provide an alternative method of measuring perceived quality to overcome the ‘perceptions-minus expectations’ measurement focus of SERVQUAL.

2.5.2 SERVPERF

Cronin and Taylor (1992) questioned the conceptualization of service quality by Parasuraman, *et al*; (1988) as a form of attitude related but not equivalent to satisfaction and operationalization as different between customers’ expectation and perceptions the actual service delivered. They thought the conceptualization of service quality by Parasuraman, Zeithaml & Berry is confusing with customer satisfaction. They argued SERVQUAL is inappropriately based on an expectations disconfirmation paradigm

rather than an attitudinal model. They, therefore, suggested that the adequacy-importance model of attitude measurement should be adopted for Service Quality. They conceptualized service quality as an attitude reflecting long-term perceptions of a service firm's superiority or excellence and operationalized as consumers' perceptions of service firm performance.

Cronin and Taylor (1992) also questioned the need to measure expectations or calculate a gap score. They think that measuring expectations is unnecessary since measuring service performance or customer's perceptions is enough to measure service quality. Consumers rate their perception of a particular service by comparing their expectations with their actual experience by making the calculation in their mind (Philip & Hazlett, 1997).

Cronin and Taylor (1992) developed SERVPERF model to provide an alternative method of measuring perceived quality. They argue that current performance best reflects a customer's perception of service quality therefore perception scores alone can better predict overall service quality than perception — expectation scores as administered by SERVQUAL instrument. The result of a study by Churchill and Surprenant (1982) which suggested the performance alone determines the satisfaction of subject supports the efficacy of using only performance to measure service quality.

SERVQUAL scale employs a lengthy questionnaire to collect data about consumers' expectations as well as perceptions of a firm's performance using a total of 44 questions which is time consuming to answer. SERVPERF is efficient in comparison with the SERVQUAL scale; it reduces the number of items by 50% (44 items to 22 items) (Tyler, 1992). It also reduces the difficulty of administration of expectation and perception versions of SERVQUAL. SERVPERF model bases on the consumers' perception of service performance. It is the performance component of the Service Quality scale (SERVQUAL) that comprises 22 perception items of SERVQUAL scale by discarding the expectation component. Expectations are not part of SERVPERF as it does not give any consideration to expectation.

In addition to their theoretical arguments, Cronin and Taylor (1992) have tested the performance-based measure of service quality, SERVPERF, in four industries (banking, pest control, dry cleaning and fast food). Based on the result of their study, they claimed the superiority of ‘performance-only’ instrument, SERVPERF, over disconfirmation-based SERVQUAL scale. They also suggested the performance-based measures provide a more construct-valid explanation of service quality because of its content validity. SERVPERF scale provides more convergent as well as discriminant valid explanation of service quality (Jain and Gupta, 2004). SERVPERF service quality can be expressed in equation form, as:

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

Where

SQ_i = perceived service quality of individual ‘i’

K = Number of attributes/items

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

2.6. Empirical Review

Previous researchers have proven that five dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy have significant influence on customer satisfaction. The most frequently used methods for measuring and assessing service quality are SERVQUAL and SERVPERF. Empirical studies based on these models have reported the positive relationship between customer satisfaction and service quality dimensions.

Mohammad & Alhamadani (2011) examined the level of service quality as perceived by customers of commercial bank working in Jordan using SERVQUAL model. In their conclusion they stated that SERVQUAL is consistent and reliable scale to measure banking service quality and service quality is an important antecedent of customer

satisfaction. They also declared that five dimensions of service quality have significant influence on customer satisfaction.

Rahaman M. , Abdullah & Rahman A. (2011) in their study to measure service quality of Private Commercial Banks in Bangladesh using SERVQUAL Model, they considered SERVQUAL as an effective approach to measure the quality of provided services and to analyze the gaps between customer expectations and perceptions of the service organization. They identified reliability, responsiveness, and assurance dimension as crucial factors in Private Commercial Banks in Bangladesh to determine service quality gaps.

Mistry (2013) in his study to measure customer satisfaction in Banks of Surat City, has indicated that the SERVQUAL dimensions are useful tool to predict over all service performance of banks. He also identified that relative importance given by customers to reliability, responsiveness and assurance.

Liên and Ngoc Anh (2014) examined perceived service quality of Vietnamese organization to study the relationship between organization's service quality and customer satisfaction by using SERVPERF model as proposed by Cronin & Taylor (1992). Based on the result of their study, they identified five components - TA-EM (tangible-empathy factor), RESPONSIVENESS (the willingness or readiness of employees to help customers and provide services), RELIABILITY, ASSURANCE and IMAGE - which explain customer perception of service quality. They also found that these five components of service quality have a positive relationship with customer satisfaction in which TA-EM has the most significant impact on level of customer satisfaction.

Theerthaana (2015) conducted study aimed to develop and test a conceptual model of antecedents of customer satisfaction and customer retention in mobile service sector. He indicated that service quality is an antecedent and it positively affects customer satisfaction and customer retention. He also suggested service quality factors (except

Tangibility) Assurance, Responsiveness, Reliability and Empathy are the antecedents of both customer satisfaction and customer retention. The result of his study revealed that Assurance show the highest mean score but Tangibility needs concentration as it shows least mean score. He also proposed a 31-item SERVPERF Model which is an extension of 22-item SERVPERF Scale by adding extra five variables.

Ushantha, Wijeratne & Samantha (2014) have made a study to measure consumers' perceived service quality in state banks and its impact on customer satisfaction in Sri Lanka. The results of their study revealed that consumers have higher level of positive perception of SERVPERF dimensions. All dimensions: reliability, assurance, empathy, tangibles and responsiveness contributed significantly towards the service quality in state banks in Sri Lanka. Further it revealed that there is a strong positive linear relationship between overall service quality and customer satisfaction in state banks in Sri Lanka. Their study confirmed that SERVPERF scale is applicable for measuring service quality of the banking sector in Sri Lanka.

2.7. Conceptual Framework

Many models have been developed in the service quality area. Even though there is no generally accepted model and operational definition of how to measure service quality, the most widely used models to measure service quality are SERVQUAL and SERPERF. There are debates on Performance-Expectation measurement of service quality. Cronin and Taylor (1992); Teas (1993) argue that service quality is a form of consumer attitude and the performance only can measure service quality better than Performance-Expectation.

Results of different studies revealed that SERVPERF is better in providing a more convergent as well as discriminant valid explanation of service quality. Empirical studies have also proved the validity, reliability, and methodological soundness of SERVPERF (Jain and Gupta, 2004). However the scale is found poor in diagnosing power. SERVQUAL scale has better diagnosing power than SERVPERF because of the usefulness of gap scores to identify areas of weakness and strength of the service and to diagnose areas that need improvement.

Respondents may appear to be bored, and sometimes confused by the administration of Expectation and Perception versions of SERVQUAL. There is agreement among researchers that expectations serve as reference points in a customers' assessment of service performance. However there is no agreement on how to use it in service quality measurement. Developers of SERVPERF assumed that measuring expectations directly from customers is unnecessary as they automatically provide their ratings of perceptions by comparing performance perceptions with expectations in their mind. Therefore, using only performance perceptions to measure service quality is efficient than perception-expectation gap.

SERVPERF excludes subtractions between customer expectations and perceptions. Because of its simplicity and ease of use, as well as a higher degree of validity, reliability and practicality, the researcher chooses SERVPERF over SERVQUAL. Moreover banking service is one of the service categories where data were collected for testing the alternative measurement scale, SERVPERF. Hence SERVPERF model is appropriate to assess quality of banking service.

Bahia & Nantel (2000) have developed Banking Service Quality Model (BSQ) which comprises 31 items. However some items of BSQ such as sufficient No. of ATM per branch, sufficient number of open tellers, queues that move rapidly may not be appropriate as Development Bank of Ethiopia is more focused on project loan assessment, approval and disbursement. Moreover the Banking Service Quality Model is not widely used as SERVPERF model.

The general idea from literature review reveals that there is a relationship between customer satisfaction and service quality and service quality is an important antecedent of customer satisfaction (Cronin & Taylor 1992). One of the most widely used models to measure service quality is SERVPERF. Thus we can draw assumption that the five dimensions of SERVPERF model: Tangibles, Reliability, Responsiveness, Assurance, and Empathy could influence customer satisfaction.

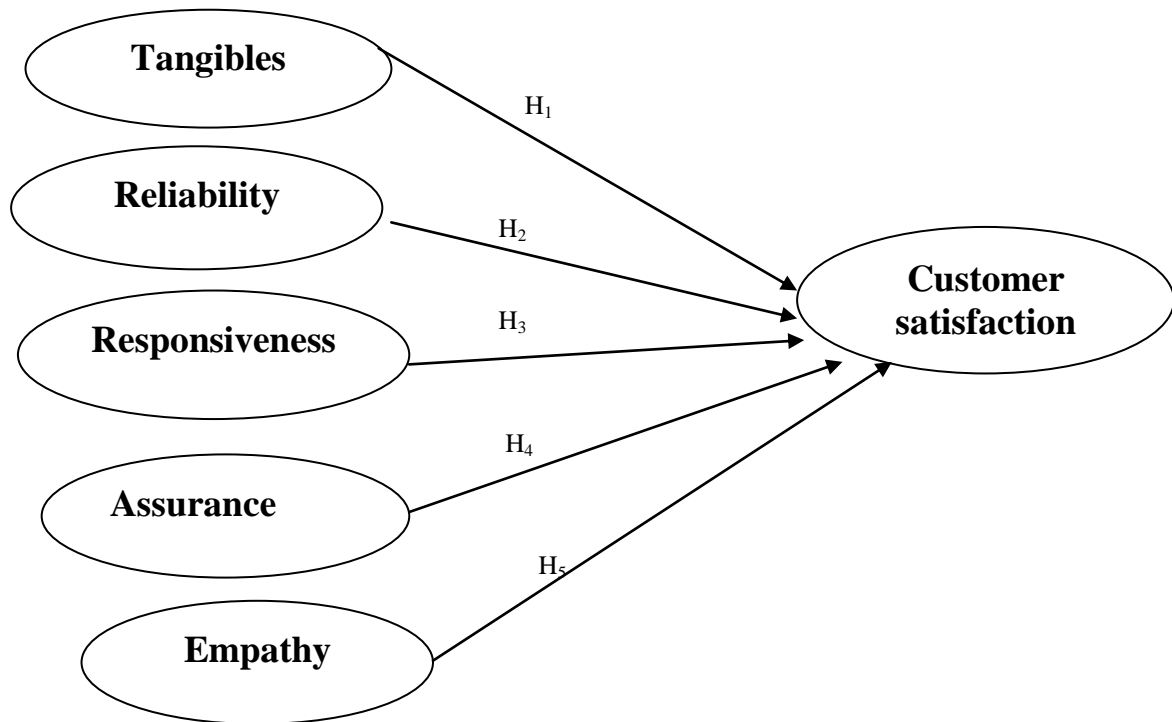


Figure 2.2 Frame work of the research

Source: Parasuraman et al., (1988).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter explains how the research was conducted. It includes research design, target population, Sampling Method and Sample Size, source of data, instruments of data collection, and method of data analysis. It also includes validity, reliability and ethical issues to insure the quality standard of the research.

3.1 Research design

The aim of this research is to examine the level of service quality as perceived by customers of Development Bank of Ethiopia and its influence on customer satisfaction. Explanatory research method was employed in the study. The reason behind using the explanatory research method is that the researcher needs to explain the effect of independent variables, five dimensions of service quality: tangibles, reliability, responsiveness, assurance and empathy on dependent variable, customer satisfaction, and to identify dimensions of service quality that contribute more to overall customer satisfaction.

Primary data was collected from respondents at one point in time, hence the study is cross-sectional. Quantitative research method was employed and survey study was made by using standard questionnaire, 22 items of SERVPERF scale, as a research technique. An instrument, five-point Likert scales representing a range of attitudes from 1–strongly disagree to 5–strongly agree was used to measure customers’ perceptions of service quality.

3.2 Target Population

The target population of the study was manufacturing industries which are beneficiaries of project loan financing service of Development Bank of Ethiopia. Since the study is limited to Addis Ababa Branch and Credit Process in the head office of DBE, manufacturing industries which are customers of these branches were considered to be

target population. The list of 225 customers of Addis Ababa Branch and Credit Process was taken from Credit Process in the head office of DBE. The list was categorized into four sectors, agriculture, service, mining and manufacturing which contain 71, 15, 2 and 137 companies respectively. Thus list of manufacturing industries (sample frame) was extracted from this list. Therefore the population of the study is 137 manufacturing industries which are users of loan service of DBE, Addis Ababa Branch and Credit Process as of December 31, 2015.

3.3 Sampling Method and Sample Size

From the total population of 137 manufacturing companies who borrowed from DBE, sample size was determined to be 102 by using simplified formula developed by Taro Yamane (1967) assuming 95% confidence level.

$$n = \frac{N}{1 + N(e)^2}$$

where

n is the sample size

N is the population size, and

e is the level of precision or sampling error = (0.05)

$$n = \frac{137}{1 + 137(0.05)^2} = 102$$

One of the probability sampling methods, stratified random sampling was employed to draw sample respondents. The reason behind deciding to use stratified random sampling method is to ensure proportional representation of each sector and to give equal chance of being included in the sample. Stratified random sampling is a method of sampling that involves the division of a population into smaller groups known as strata. Strata are formed based on members' shared characteristics. Development Bank of Ethiopia has classified manufacturing industry borrowers into 15 (fifteen) sectors based on their production. Thus these sectors were considered as stratum in the study. A random sample was drawn from each strata using fishbowl draw method in a number proportional to the stratum's size when compared to the population.

Table 3.1: Target population, proportion and of number of samples taken from each sector

No	sector	Target population	proportion (P)	number of elements (P×Sample size)
1	Textile & garments	27	20%	20
2	Chemical & plastic products	21	15%	16
3	Integrated agro-processing	19	14%	14
4	Food processing	16	12%	12
5	Leather & leather products	12	9%	9
6	Metal products	10	7%	7
7	Non-metal products	8	6%	6
8	Household appliances	6	4%	4
9	Paper & paper products	6	4%	4
10	Liquor & beverage	4	3%	3
11	Vehicles & machinery	3	2%	2
12	Comm. Equip. & apparatus	2	1%	1
13	Tobacco products	1	1%	1
14	Wood & wood products	1	1%	1
15	Rubber products	1	1%	1
	Total	137	100%	102

Source: DBE data base

3.4 Sources of Data

In order to answer the research questions and to meet the research objectives, both primary and secondary data were used to obtain adequate data. Primary data were collected from respondents through questionnaires. Secondary data was collected from documents and reports related to the study and from web site.

3.5 Instruments of data collection

The research methodology is mainly quantitative method; hence survey study was used as a research technique. Questionnaire is the best survey instrument to collect quantitative data as it is relatively cheap and easy to administer. Hence survey was carried out to collect primary data from sample organizations through structured questionnaire. The survey instrument of this study consists of three major sections. The first section contains questions about profiles of the organizations such as their sector, duration in the manufacturing sector, length of time experiencing loan service of the bank, type of loan received and service provider branch

bank. The second section consists of 22 items of SERVPERF instrument as proposed by Cronin & Taylor (1992) designed to measure customers' perception of service quality. A five-point Likert scales, representing a range of attitudes from 1 – strongly disagree to 5 – strongly agree was used to evaluate the level of satisfaction towards the service quality of Development Bank of Ethiopia. The third section contains single scale items adopted from Cronin and Taylor (1992) which is general statement about customers over all feeling in order to measure customers' overall level of satisfaction towards the Bank's service.

A total of 102 questionnaires were distributed to randomly selected manufacturing industries by giving to respondents at the bank when they are coming for the bank's service and by going to the respondents' place. One week time was given to allow the respondents' time to read, understand and give accurate response then questionnaires were collected after completed by the respondents.

3.6 Data analysis

Descriptive statistics like mean, standard deviation and frequency distribution were computed and correlation, regression and statistical tests were carried out by using Statistical Package for the Social Sciences (SPSS) version 16.

- Descriptive statistics like mean, standard deviation, frequency distribution were summarized in tabular form. Mean of each service quality dimensions were calculated to identify the strong and weak dimensions of the service quality.
- Correlation between five service quality dimensions: (Tangibles, reliability, responsiveness, assurance and empathy) and customer satisfaction was also calculated to find out the relationship between service quality and customer satisfaction.
- Multiple regression analysis was carried out to examine the effect of service quality dimensions (Tangibles, reliability, responsiveness, assurance, and empathy) on customer satisfaction. The five dimensions of service quality (tangibles, reliability, responsiveness, assurance, and empathy) are independent variables and customer satisfaction is dependent variable.

- A multiple regression model of linear equation with more than two explanatory variables (independent) and one explained variable (dependent) was used in the study to regress customer satisfaction on the service quality dimensions.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where **Y** is the dependent variable- customer satisfaction

a is the constant or y-intercept of the equation. It represents the value of Y if the independent variables are set equal to zero

b is the regression coefficient or slope of independent variable X_i or the change in dependent variable for one unit change in independent variable, controlling for other independent variables.

X1, X2, X3, X4, and X5 are independent variables (Tangibles, reliability, responsiveness, assurance, and empathy)

e represents the division of actual observations from their estimated value

3.8 Validity

Validity is concerned with how well the instrument measures what it is intended to measure. A valid instrument has to be reliable but an instrument can be reliable without being valid. Even if the instrument is consistent we do not use the instrument if it does not measure accurately what it is intended to measure (Adams et al 2007).

Based on literature review the five dimensions of service quality can better measure perceived service quality and customer satisfaction. In order to ensure the validity of the survey instrument, SERVPERF instrument as proposed by Cronin and Taylor (1992) was adopted and data was collected using this structured questionnaire.

To balance the result of the survey the researcher has tried to include borrowers of high and low loan amounts and three types of loan services in the study.

3.9 Ethical considerations

Ethics is very important in doing any research. Moreover researchers have responsibility to conduct their study in ethical manner. Ethics must be applied in all stages of the research cycle: at the time of literature review, data collection, data analysis and reporting. Researches

must be conducted honestly and reliably, hence deception must be avoided in conducting research.

To avoid ethical problems, researchers have to carefully plan on how to collect data, population, sample size, how to draw sample, how to analyze data etc. Hence the researcher had already planned on how to conduct the research in the research design section and the research was conducted as per the plan.

The purpose of the research was clearly indicated in the first page of the questionnaire to get informed consent of respondents. Hence data was collected from respondents based on their willingness to participate. Since questionnaire used in the study is self administered, respondents gave their own responses without any interference. Responses of respondents were analyzed without making any change and the result was reported directly. Moreover, responses of respondents will not be used for any purposes other than the academic purpose (this study) and will be kept confidential.

The researcher respects works of other studies. Thus every resources (journals, books, reports etc.) used for the research were cited properly.

CHAPTER FOUR
DATA PRESENTATION ANALYSIS AND DISCUSSION

This chapter presents analysis and the interpretation of data that has been collected through structured questionnaire. It contains reliability analysis, background information of respondents, perception of service quality analysis, overall customer satisfaction analysis, and the influence of service quality dimensions on customer satisfaction.

4.1 Reliability Analysis

Reliability refers to consistency of measurement. It is an estimate of the degree to which an instrument yields the same result when measuring something many times under the same conditions (Adams, *et al*; 2007). Cronbach coefficient α , is the most widely used method of estimating internal consistency reliability in social science. Nunnally (1978: as cited by Drost E. A,) suggests that for predictor tests or hypothesised measures of a construct, reliabilities of 0.70 or higher alpha coefficients are considered sufficient.

To test the reliability of SERVPERF instrument, internal consistency was estimated by computing Cronbach coefficients (alpha). The result of the test is presented in table 4.1 below.

Table 4.1: Reliability Test

SERVPERF Dimension	No of Items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
Tangibles	4	0.686	0.706
Reliability	5	0.853	0.860
Responsiveness	4	0.760	0.763
Assurance	4	0.852	0.858
Empathy	5	0.937	0.937
all scales	23	0.961	0.962

Source: Own survey, 2016

As indicated in table 4.1 above Cronbach's alpha result of the five dimensions ranges from 0.686 (Cronbach's Alpha Based on Standardized Items 0.706) to 0.937. Cronbach's alpha result of overall scale was also found to be 0.961, which is greater than the minimum value 0.7. Therefore the values of the Cronbach's alpha have proved the reliability of the instrument.

4.2. Characteristics of Respondents

A total of 102 questionnaires were distributed to manufacturing industries which are borrowers of Development Bank of Ethiopia Addis Ababa branch and Credit process. Out of the 102 distributed questionnaires 83 of them were collected with a response rate of 81%. All returned questionnaires were completely filled and used for the analysis.

Respondents profile were collected using variables such as duration in manufacturing industry, duration of using loan service, sector of the organization, loan type and service provider. Table 4.2 below shows background information of the respondents.

Table 4.2: Background information of respondents

variables		Frequency	Percent	Cumulative Percent
duration in manufacturing industry	Less than 1 year	4	4.8	4.8
	1–5 years	24	28.9	33.7
	5–10 years	31	37.3	71.1
	10–15 years	10	12.0	83.1
	15–20 years	5	6.0	89.2
	More than 20 years	9	10.8	100.0
	Total	83	100.0	
duration of using loan service	Less than 1 year	8	9.6	9.6
	1–5 years	49	59.0	68.7
	5–10 years	20	24.1	92.8
	10–15 years	5	6.0	98.8
	15–20 years	1	1.2	100.0
	Total	83	100.0	
sector of the organization	Textile & garments	20	24.1	24.1
	Chemical & plastic products	13	15.7	39.8

variables		Frequency	Percent	Cumulative Percent
	Integrated agro-processing	10	12	51.8
	Food processing	8	9.6	61.4
	Leather & leather products	7	8.4	69.8
	Metal products	6	7.2	77
	Non-metal products	5	6	83
	Household appliances	4	4.8	87.8
	Paper & paper products	3	3.6	91.4
	Vehicles & machinery	2	2.4	93.8
	Liquor & beverage	2	2.4	96.2
	Tobacco products	1	1.2	97.4
	Wood & wood products	1	1.2	98.6
	Comm. Equip. & apparatus	1	1.2	100
	Total	83	100.0	
	loan type	Long term priority loans	55	66.3
medium term priority loan		5	6.0	72.3
priority working capital loan		3	3.6	75.9
Long term priority loans & medium term priority loan		1	1.2	77.1
Long term priority loans & priority working capital loan		17	20.5	97.6
medium term priority loan & priority working capital loan		1	1.2	98.8
Long term priority loans, medium term priority loan & priority working capital loan		1	1.2	100.0
Total		83	100.0	
service provider branch	Addis Ababa Branch	28	33.7	33.7
	Credit process in the head office	55	66.3	100.0
	Total	83	100.0	

Source: Own survey, 2016

The sample includes industries which are engaged in manufacturing for many years and recently established manufacturing industries. The range of the length of time that the organizations are engaged in manufacturing industry shows that 4.8% (4) respondents are engaged in manufacturing for less than 1 year, 28.9% (24) respondents for 1–5 years, 37.3% (31) respondents for 5–10 years, 12% (10) respondents for 10–15 years, 5% (6) 15–20 years and 10.8% (9) respondents for more than 20 years. This shows that majority 66.3% (55) of borrowers are those engaged in the manufacturing sector for more than 5 years.

With regard to the length of time respondents' experience of loan service of Development Bank of Ethiopia, the survey revealed that the range of length of time that the respondents have relationship with the bank as borrower are 1 (1.2%) respondent 15–20 years, 6% (5) respondents 10–15 years, 24.1% (20) respondents 5–10 years, 59% (49) respondents 1–5 years and 9.6% (8) respondents less than 1 year. The large number of respondents 49 (59%) have 1–5 years experience with the bank's service. A total of 31% (26) respondents have experienced the bank's service for more than 5 years.

When we consider the sector distribution of respondents the large number of respondents are from textile & garments sector which is 24.1% (20) followed by 15.7% (13) respondents from chemical & plastic products sector, 12% (10) respondents from integrated agro-processing sector and 9.6% (8) respondents are from food processing sector, 8.4% (7) respondents from leather & leather products, 7.2% (6) respondents from metal products sector, 6% (5) respondents from non-metal products sector 4.8% (4) respondents from household appliances, 3.6% (3) respondents from Paper & paper products sector. The smallest numbers of respondents are from Communication Equipment & apparatus, Tobacco products, and Wood & wood products which have 1% (1) respondent each followed by Vehicles & machinery and liquor & beverage sector which have 2.4% (2) respondents each.

Development Bank of Ethiopia provides three types of loans namely long term priority loans, medium term priority loan and priority working capital loan to its customers. Customers can take one type of loan or two or three types of loans at the same time. Most of the respondents 66.3% (55) took only long term priority loans, 20.5% (17) took both long

term priority loans and priority working capital loan, 45% (86) respondents took both long term priority loans and medium term priority loan and postpaid. 3.6% (3) respondents took only priority working capital loan, 6% (5) respondents took only medium term priority loan. Both medium term priority loan & priority working capital loan, both Long term priority loans & medium term priority loan and all the three loan types: long term priority loans, medium term priority loan & priority working capital loan have 1.2% (1) users each. From this data we can understand that manufacturing industry needs long term loan as 89%(74) respondents used only long term priority loans or by combining long term priority loans with medium term priority loan & priority working capital loan.

As indicated in chapter three the study is focused on two branches of DBE, Addis Ababa branch and credit process. Borrowers which need more than 25 million birr have to process their loan requirements in the credit process in the head office. 66.3% (55) respondents are customers of credit process in the head office and 33.7% (28) respondents are customers of Addis Ababa branch. This indicates that most of respondents are customers of credit process, which is provider of more than 25 million birr loan, as manufacturing industry needs large amount of money.

4.3 Customers Perception of Service Quality

Table 4.3 shows mean and Standard deviation of the five dimensions of SERVPERF scale: Tangibles, Reliability, Responsiveness, Assurance, and Empathy.

Table 4.3 Mean and Standard Deviation on service quality dimensions

Item	No	Mean	Standard Deviation
Tangibles	83	3.3886	0.57680
Reliability	83	3.4024	0.61802
Responsiveness	83	3.4639	0.65231
Assurance	83	3.7199	0.59135
Empathy	83	3.4699	0.65028
Overall Customer Satisfaction	83	3.45	0.667

Source: Own survey, 2016

As indicated in table 4.3 assurance has the highest mean value followed by Empathy, responsiveness and reliability, with a mean value of 3.7199, 3.4699, 3.4639 and 3.4024 respectively. However it is observed that tangibles scored the lowest mean value 3.3886. Highest mean value indicates that the customers are more satisfied by service quality dimensions while the lowest mean value indicates that the customers are unsatisfied with regard to the dimension. Poonlar Btawee (1987 as cited by Teklegiorgis 2014) classified mean score 4.51-5.00 as excellent or very good, 3.51-4.5 good, 2.51-3.5 average or moderate, 1.51-2.5 fair and 1.00-1.5 poor. Hence, the mean value of the dimensions indicates that customers perceived that DBE is performing at good level in assurance dimension: conveying trust and confidence to customers, courteousness towards consumers, and having knowledge to answer consumers' questions. Whereas DBE is performing at average or moderate level in Empathy, responsiveness, reliability and tangibility dimensions: in providing individual attention for its customers, understanding its customers' interest and needs, providing prompt service to customers and willingness to help, performing the promised service at promised time and performing it right the first time. The mean score also shows that tangibility dimension needs attention and requires more resources as it is having lowest performance score.

The value of overall service quality 3.5 was calculated by averaging the mean score of five dimensions of service quality. The perception of customers towards service quality of Development Bank of Ethiopia is at satisfactory level as the mean values of all dimensions are above 3.

4.4 Relationship between Service Quality and Customer Satisfaction

Pearson correlation was computed in order to observe the relationship between service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance, and Empathy) and customer satisfaction. Table 4 below shows that the result of Pearson correlation.

Table 4.4. Correlation analysis

Dimensions		Customer Satisfaction
Assurance	Pearson Correlation	0.784**
	Sig. (2-tailed)	.000
	N	83

Dimensions		Customer Satisfaction
Responsiveness	Pearson Correlation	0.759**
	Sig. (2-tailed)	.000
	N	83
Reliability	Pearson Correlation	0.743**
	Sig. (2-tailed)	.000
	N	83
Empathy	Pearson Correlation	0.714**
	Sig. (2-tailed)	.000
	N	83
Tangibles	Pearson Correlation	0.574**
	Sig. (2-tailed)	.000
	N	83

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

Source: Own survey, 2016

As indicated in table 4, there are positive correlations between all dimensions of service quality and customer satisfaction with P-values < 0.01. The highest correlation is observed between assurance and customer satisfaction (0.784) followed by responsiveness (0.759), reliability (0.743), and empathy (0.714) respectively. The lowest correlation is observed between tangibility and customer satisfaction (0.574). Field (2005 as cited by Deborah Mammo, 2014) classified correlation coefficient as 0.10-0.29 weak, 0.30-0.49 moderate and ≥ 0.50 strong. The results of correlation analysis indicated that there is a strong positive correlation between all service quality dimensions with customer satisfaction. Hence it can be concluded that better service quality leads to higher customer satisfaction.

4.5 Overall Customer Satisfaction

Respondents were asked to rate their level of satisfaction toward loan service of Development Bank of Ethiopia ranging from highly dissatisfied to highly satisfied using a single question. The result of descriptive statistics (frequency distribution) is presented in table 4.5 below.

Table 4.5 Overall customer satisfaction frequency distribution

Level of satisfaction	Frequency	Percent	Cumulative Percent
Dissatisfied	7	8.4	8.4
Somewhat satisfied	33	39.8	48.2
Satisfied	42	50.6	98.8
Highly satisfied	1	1.2	100.0
Total	83	100.0	

Source: Own survey, 2016

As shown in table 5 frequency of respondents' overall satisfaction level towards Development Bank of Ethiopia's Loan services shows that no respondent chose the highly dissatisfied option, 8.4% (7) respondents are dissatisfied, 39.8% (33) respondents are somewhat satisfied, 50.6% (42) respondents are satisfied and 1.2% (1) respondent is very satisfied. The result shows that cumulatively 52%(43) respondents are satisfied and 39.8% (33) respondents have moderate satisfaction whereas 8.4% (7) respondents are dissatisfied with Development Bank of Ethiopia's Loan services. Since customers who have moderate satisfaction are considered as satisfied customers, 92%(76) respondents are considered as satisfied customers.

4.6 The impact of service quality dimensions on customer satisfaction

In order to investigate the impact of service quality dimensions on customer satisfaction, multiple regression was performed by regressing overall customer satisfaction score against five dimensions of service quality.

Before conducting multiple regression analysis, the researcher performed multicollinearity test. The result of correlations between all independent variables were found less than 80% as shown in appendix I. Multicollinearity was also tested by using VIF (variance inflation factor) and tolerance. A CIF value <10 is acceptable whereas tolerance values below 0.1 indicates serious problem. As indicated in appendix II, CIF values of all predictor variables are <10 and tolerance for all predictor variables were >0.1. Hence multicollinearity is not threat to perform regression analysis.

The result of regression analysis, five dimensions of service quality as independent variables and customer satisfaction as dependent variable is shown in table 4.6 below.

Table 4.6 Regression analysis customer satisfaction on service quality dimensions

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R Square	Overall sig
	B	Std. error	Beta				
(Constant)	-.557	.269		-2.072	.042		
Tangibles	0.205	0.077	0.177	2.666	0.009	0.763	0.000a
Reliability	0.212	0.106	0.196	2.003	0.049		
Responsiveness	0.215	0.108	0.210	1.994	0.050		
Assurance	0.262	0.116	0.232	2.264	0.026		
Empathy	0.252	0.081	0.245	3.118	0.003		

Source: Own survey, 2016

In order to test the hypotheses regression analysis was performed and hypotheses were tested based on standardized coefficients beta and P-value.

H1 tangibles positively and significantly influences customer satisfaction

The result of regression analysis as shown in table 4.6 revealed that tangibility has a positive and significant effect on customer satisfaction with a beta value 0.177 at 95% confidence level and P-value 0.009 ($p < 0.05$). Therefore hypothesis one (H1) tangibles positively and significantly influences customer satisfaction is supported.

H2 reliability positively and significantly influences customer satisfaction

As shown in table 4.6 reliability has beta value 0.196 at 95% confidence level and P-value 0.049 ($p < 0.05$). Hence reliability positively and significantly influences customer satisfaction. Therefore the result supports that hypothesis two (H2) reliability positively and significantly influences customer satisfaction.

H3 responsiveness positively and significantly influences customer satisfaction

Table 4.6 above shows that there is positive and statistically significant ($p= 0.05$, $\beta= 0.210$) relationship between responsiveness and customer satisfaction. Thus, hypothesis three (H3), that responsiveness positively and significantly influences customer satisfaction is supported. Responsiveness is the third higher predictor of customer satisfaction. This implies that employees' willingness to help customers and to provide prompt service may contribute to increase overall customer satisfaction.

H4 assurance positively and significantly influences customer satisfaction

The result of regression analysis also shows that assurance has positive and significant influence on the overall customer satisfaction with beta value 0.232 and p-values 0.026 ($P < 0.05$). Hence hypothesis 4 (H4) that assurance positively and significantly influences customer satisfaction is supported. Assurance is the second higher predictor of overall customer satisfaction. Increase in courteousness of employees towards consumers, knowledge of employees to answer consumers' questions and their ability to convey trust and confidence can increase overall customer satisfaction.

H5 empathy positively and significantly influences customer satisfaction

The result of regression analysis revealed that empathy has positive and significant influence on overall customer satisfaction with beta value 0.245 and p-values 0.003 ($P < 0.05$). Thus hypothesis five (H5) that empathy positively and significantly influences customer satisfaction is supported. Empathy has the most significant influence on overall customer satisfaction. This means providing individual attention for customers and understanding their interest and needs may increase overall customer satisfaction.

All hypotheses of the study were supported as the five service quality dimensions had positive and significant impact on overall customer satisfaction. It is found that Empathy is the most predictor of customer satisfaction followed by Responsiveness and Assurance.

The value of R square 0.763, indicated that 76.3 % of the overall customer satisfaction was explained by the five service quality factors (Tangibles, Reliability, Responsiveness, Assurance and Empathy). The remaining 23.7 percent can be explained by other factors.

Therefore the relationship between service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy) and customer satisfaction can be expressed by model which is linear equation with more than two explanatory variables (independent) and one explained variable (dependent).

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

$$CS = -0.557 + 0.177Tan + 0.196Rel + 0.210Res + 0.232Ass + 0.245Emp$$

Where CS is customer satisfaction

Tan is Tangibles

Rel is Reliability

Res is Responsiveness

Ass is Assurance

Emp is Empathy

4.7. Discussion of Results

The mean score values of the five service quality dimensions ranges from 3.3886 to 3.7199. Assurance has the highest mean value followed by empathy and responsiveness. This result shows customers perceived that DBE is performing at good level in assurance dimension whereas at average level in empathy, responsiveness, reliability and tangibles dimensions. Thus customers are satisfied by the knowledge and courteousness of the employees of the bank which can instill trust and confidence to them, whereas customers are less satisfied by the facilities and equipments of the bank. This finding is supported by Theerthaana (2015), reported that assurance show the highest mean score but tangibility needs concentration as it shows least mean score.

The result of this study also indicated that all five service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) have positive and significant effect on customer satisfaction which means service quality is an important antecedent of customer satisfaction. This result is in line with the literature that service quality is predictor of

customer satisfaction (Cronin and Taylor, 1992). The result is also supported by findings of previous studies Ushantha, *et al*; (2014) and Mohammad & Alhamadani (2011), found that five dimensions of service quality: tangibles, reliability, responsiveness, assurance and empathy have positive and significant influence on customer satisfaction.

With regard to the relative importance of the five dimensions of service quality, the finding shows that the most important factors which have higher effect on customer satisfaction are empathy, assurance and responsiveness.

The result of this study indicates that empathy has positive and significant effect on customer satisfaction. The finding also shows that empathy is the most important dimension which has highest effect on customer satisfaction as compared to other dimensions. This finding is supported by Ushantha, *et al*; (2014), reported that reliability, assurance, empathy, tangibles and responsiveness contributed significantly to customer satisfaction. With regard to the relative importance, the finding is different from Mistry (2013) finding that identified the relative importance of reliability, followed by responsiveness and assurance. In order to support different projects, the Development Bank of Ethiopia has to understand specific needs and interests of its customers and to give individualized attention to its customers. This might be the reason behind the emphasis given to empathy dimension by customers of DBE.

It was found that customers gave second importance to assurance dimension that assurance has positive and significant effect on customer satisfaction. This finding is supported by Ushantha, Wijeratne & Samantha (2014) found that reliability, assurance, empathy, tangibles and responsiveness contributed significantly to customer satisfaction.

The finding of this study shows that the third important factor, responsiveness has positive and significant effect on customer satisfaction. This finding is supported by Rahaman, Abdullah & Rahman (2011), identified that reliability, responsiveness, and assurance dimension as crucial factors to customer satisfaction.

The result of this study also shows that reliability has positive and significant effect on customer satisfaction. This finding is supported by Ushantha, *et al*; (2014), found that reliability, assurance, empathy, tangibles and responsiveness contributed significantly to customer satisfaction. But this finding is different from Mistry (2013) finding that identified reliability as most impotent dimension followed by responsiveness and assurance.

The finding of this study shows that tangibles has positive and significant effect on customer satisfaction. This finding is supported by Ushantha, *et al*; (2014), found that reliability, assurance, empathy, tangibles and responsiveness contributed significantly to customer satisfaction. But the finding is different from Theerthaana (2015) finding that service quality factors (except Tangibility) assurance, responsiveness, reliability and empathy are the antecedents of both customer satisfaction and customer retention.

The finding of this study shows that service quality is an important antecedent of customer satisfaction. The perception of customers towards the quality of the bank's service does not yet reach excellent, hence the bank need to improve its performance of all dimensions of service quality in order to enhance customer satisfaction. Moreover the bank has to focus on the most important dimensions empathy, assurance and responsiveness.

CHAPTER FIVE

Summary, Conclusion and Recommendations

5.1. Summary of the major findings

The objective of this study was to examine the effect of service quality on customer satisfaction in Development Bank of Ethiopia. 102 questionnaires were distributed to customers of DBE which are engaged in manufacturing industry sector and 83(81%) of them were collected and analyzed.

- The result of descriptive statistics analysis revealed that the mean score values for service quality dimensions were between 3.7199 and 3.3886. This indicates that the quality of service provided by DBE was perceived as good and average level by respondents. It was noted that assurance has the highest mean value followed by empathy and responsiveness. Respondents perceive that DBE is performing well in assurance dimension as compared with other dimensions but performing less in tangibles dimension. Hence DBE has to improve customer perception of tangibles as it scored the lowest mean value.
- In order to test the relationship between service quality dimensions and customer satisfaction Pearson correlation analysis was performed. The result of the analysis showed that there is a positive and significant relationship between tangibility and customer satisfaction, reliability and customer satisfaction, responsiveness and customer satisfaction, assurance and customer satisfaction, empathy and customer satisfaction. It was also observed highest correlation between assurance and customer satisfaction, while the lowest correlation between tangibles and customer satisfaction.
- The impact of service quality dimensions on customer satisfaction was examined using multiple regression analysis. The result of multiple regression analysis showed that all service quality dimensions (tangibles, reliability, responsiveness, assurance and empathy) have positive and significant effect on customer satisfaction. The finding indicated that empathy has a highest significant influence on customer satisfaction followed by responsiveness and assurance. Moreover the value of R square 0.763, indicated that 76.3 % of the overall customer satisfaction was explained by the five service quality factors (Tangibles, Reliability, Responsiveness, Assurance and Empathy).

5.2 Conclusion

The finding of the study indicated that the perception of customers towards service quality of Development bank of Ethiopia is at satisfactory level as respondents perceive the quality of service being provided by DBE as good and average level. Assurance has the highest mean followed by empathy and responsiveness. Hence, the mean value of the dimensions indicates that Development Bank of Ethiopia is performing at satisfactory level in trustworthiness of its employees as the employees of the bank are courteous towards consumers, and have knowledge to answer consumers' questions, willing to help customers as well as providing individual attention for its customers and understanding their interest and needs. But tangibles scored the lowest which indicates that customers are less satisfied by this dimension. Hence this dimension needs attention and requires more resources as it is having lowest performance score.

The result of overall satisfaction analysis indicated that although majority of respondents are considered as satisfied customers, a large number of respondents have moderate satisfaction level (rate on somewhat satisfied) and significant number of respondents are dissatisfied with Development Bank of Ethiopia's loan services. Hence DBE has to improve its customer's satisfaction.

The results of this study indicated that there is a strong and positive correlation between each service quality dimensions with the customer satisfaction. The finding also indicated that the five service quality dimensions (tangibles, reliability, responsiveness, assurance and empathy) have positive and significant impact on customer satisfaction. High perceived service quality leads to increase in customer satisfaction (Parasuraman et al.,1985). Hence the bank has to devote considerable efforts towards the quality of its service in order to improve overall customer satisfaction.

5.3. Recommendations

Based on the above findings and conclusions, the researcher has forwarded the following recommendations.

The result of regression analysis showed that empathy dimension is the most determinant factor of customer satisfaction. However empathy scores the second mean value as perceived by customers. Hence Development Bank of Ethiopia has to give individual attention for its customers and understand their specific needs and interests by giving trainings related to this area and improving the skill of its staff.

The result of descriptive analysis showed that tangibles dimension scored the lowest mean value. This means customers are less satisfied with the physical facilities like having up-to-date equipments and materials, having visual appealed physical facilities, well dressed and neat employees. Hence Development Bank of Ethiopia has to give attention to this dimension and commit resources so as to make its physical facilities up-to-date and appealing.

The result of the study also indicated that customers are not fully satisfied as a large number of respondents have moderate satisfaction level (chose the somewhat satisfied option) and significant numbers of respondents are dissatisfied. The finding also shows that the five service quality dimensions have positive and significant impact on customer satisfaction. Hence service quality is an important antecedent of customer satisfaction which means high perceived service quality leads to increase in customer satisfaction. Therefore the bank managers have to emphasize on the five service quality dimensions and improve performance of all the dimensions of service quality in order to enhance their customers' satisfaction.

5.4 Limitations and implications for further research

Development Bank of Ethiopia has 15 Branches and 20 Sub-branches throughout the country. This study was focused only on customers of Addis Ababa branch and credit process. Hence this study may not be generalized to other branches of the bank.

Development Bank of Ethiopia provides loan services to customers from different sectors such as manufacturing industry, mining, service, and commercial agriculture. The sample respondents were drawn from customers of DBE which are engaged in manufacturing industry. Since customers from different sectors may have different interests, the study may not be generalized to all customers.

The study was conducted only on two branches of the bank and customers which are engaged in manufacturing industry. However it would have been more fruitful if it considers all branches of the bank and customers from other sectors. Therefore the researcher suggests further researches to be made by incorporating all branches of the bank and by drawing sample customers from all sectors.

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Appendixes

Appendix- I – Correlation analysis

Correlations

		Overall customer satisfaction	Tangibles	Reliability	Responsiveness	Assurance	Empathy
Overall customer satisfaction	Pearson Correlation	1					
	Sig. (2-tailed)						
Tangibles	Pearson Correlation	.574**	1				
	Sig. (2-tailed)	.000					
Reliability	Pearson Correlation	.743**	.440**	1			
	Sig. (2-tailed)	.000	.000				
Responsiveness	Pearson Correlation	.759**	.392**	.797**	1		
	Sig. (2-tailed)	.000	.000	.000			
Assurance	Pearson Correlation	.784**	.450**	.739**	.784**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
Empathy	Pearson Correlation	.714**	.507**	.530**	.578**	.665**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	83	83	83	83	83	83

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

Appendix- II – Multiple linear regression analysis

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
1	Empathy, Tangibles, Reliability, Assurance, Responsiveness ^a		. Enter

a. All requested variables entered

b. Dependent Variable: Overall customer satisfaction

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874 ^a	.763	.748	.335

a. Predictors: (Constant), Empathy, Tangibles, Reliability, Assurance, Responsiveness

b. Dependent Variable: Overall customer satisfaction

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.866	5	5.573	49.671	.000 ^a
	Residual	8.640	77	.112		
	Total	36.506	82			

a. Predictors: (Constant), Empathy, Tangibles, Reliability, Assurance, Responsiveness

b. Dependent Variable: Overall customer satisfaction

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	
1	Constant)	-.557	.269		-2.072	.042	-1.093	-.022					
	Tangibles	.205	.077	.177	2.666	.009	.052	.357	.574	.291	.148	.698	1.432
	Reliability	.212	.106	.196	2.003	.049	.001	.422	.743	.223	.111	.321	3.119
	Responsiveness	.215	.108	.210	1.994	.050	.000	.429	.759	.222	.111	.278	3.603
	Assurance	.262	.116	.232	2.264	.026	.032	.492	.784	.250	.126	.293	3.410
	Empathy	.252	.081	.245	3.118	.003	.091	.412	.714	.335	.173	.497	2.012

a. Dependent Variable: Overall customer satisfaction

Appendix - III Questionnaire in English

QUESTIONNAIRE

ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
GRADUATE STUDIES MA PROGRAM

Dear Respondent,

My name is Tsehay Hadera. I am post graduate student in Addis Ababa University, School of Commerce. I am conducting a research on the topic “Assessment of Service Quality and Customer Satisfaction – The Case of Development Bank of Ethiopia” for partial fulfillment of the requirement of Master of Arts in Marketing Management. Hence, the purpose of this questionnaire is to collect primary data from customers of Development Bank of Ethiopia. As your valuable information is crucial for the success of the study, I kindly request you to take a few minutes to fill the questionnaire. Your response for all questions will be used only for academic purpose and will be kept confidential. If you have any question, please call me at 0911-73-97-10.

Thank you for your cooperation.

Part I: Background information

Please put tick () mark in the box of your response for the following questions

1. How long your company has been in the manufacturing sector

Less than 1 year 1–5 years 5–10 years 10–15 years 15–20 years
More than 20 years

2. For how long your company has been using Development Bank of Ethiopia’s credit services?

Less than 1 year 1–5 years 5–10 years 10–15 years 15–20 years

3. To which manufacturing sector is your company belongs?

Vehicles & machinery <input type="checkbox"/>	Metal products <input type="checkbox"/>	Food processing <input type="checkbox"/>
Textile & garments <input type="checkbox"/>	Chemical & plastic products <input type="checkbox"/>	Integrated agro-processing <input type="checkbox"/>
Leather & leather products <input type="checkbox"/>	Household appliances <input type="checkbox"/>	Paper & paper products <input type="checkbox"/>
Liquor & beverage <input type="checkbox"/>	Non-metal products <input type="checkbox"/>	Comm. Equip. & apparatus <input type="checkbox"/>
Tobacco products <input type="checkbox"/>	Wood & wood products <input type="checkbox"/>	Rubber products <input type="checkbox"/>

4. What type of Development Bank of Ethiopia’s loan service has your company enjoyed? (Multiple answers are possible).

Long term priority loans medium term priority loan priority working capital loan

5. Which branch of Development Bank of Ethiopia is your company’s service provider?

Addis Ababa Branch Credit process in the head office

Part II

Customers Perceptions

The following set of statements relate to your feelings about Development Bank of Ethiopia's loan service. For each statement, please show the extent to which you believe Development Bank of Ethiopia has the feature described by the statement and circle the number that you feel most appropriate using the scale from 1 to 5 (Where 1=strongly disagree, 2=disagree, 3=No Comment, 4=agree and 5=strongly agree). There is no right or wrong answers – all I am interested in is a number that best shows your perceptions about Development Bank of Ethiopia's loan service.

		Strongly agree	disagree	No Commen	Agree	Strongly Agree
	Tangibles					
1.	Development Bank of Ethiopia has modern-looking equipment.	1	2	3	4	5
2.	Development Bank of Ethiopia's physical facilities are visually appealing.	1	2	3	4	5
3.	Development Bank of Ethiopia's employees are well dressed and appear neat.	1	2	3	4	5
4	Materials associated with the service (such as pamphlets or statements) are clear and visually appealing at Development Bank of Ethiopia.	1	2	3	4	5
	Reliability					
5.	When Development Bank of Ethiopia promises to do something by a certain time, it does so	1	2	3	4	5
6.	When you have a problem, Development Bank of Ethiopia shows a sincere interest in solving it.	1	2	3	4	5
7.	Development Bank of Ethiopia performs its service right first time	1	2	3	4	5
8.	Development Bank of Ethiopia provides its services at the time it promises to do so.	1	2	3	4	5
9	Development Bank of Ethiopia insists on error-free records	1	2	3	4	5

		Strongly agree	disagree	No Commen	Agree	Strongly Agree
	Responsiveness					
10.	Employees of Development Bank of Ethiopia tell you exactly when the service will be performed.	1	2	3	4	5
11.	Employees of Development Bank of Ethiopia give you prompt service	1	2	3	4	5
12.	Employees of Development Bank of Ethiopia are always willing to help you.	1	2	3	4	5
13.	Employees of Development Bank of Ethiopia are never too busy to respond to your requests.	1	2	3	4	5
	Assurance					
14.	The behavior of employees of Development Bank of Ethiopia instills confidence in you.	1	2	3	4	5
15.	You feel safe in your transactions with Development Bank of Ethiopia.	1	2	3	4	5
16.	Employees of Development Bank of Ethiopia are consistently courteous with you.	1	2	3	4	5
17.	Employees of Development Bank of Ethiopia have the knowledge to answer your questions.	1	2	3	4	5
	Empathy					
18.	Development Bank of Ethiopia gives you individual attention	1	2	3	4	5
19.	Development Bank of Ethiopia has operating hours convenient to you.	1	2	3	4	5
20.	Development Bank of Ethiopia has employees who give you personal attention	1	2	3	4	5
21.	Development Bank of Ethiopia has your best interests at heart.	1	2	3	4	5
22.	Employees of Development Bank of Ethiopia understand your specific needs	1	2	3	4	5

Part III. Customer Satisfaction

The following statement relates to your level of satisfaction. Please put a tick (✓) mark on the level of satisfaction that best reflects your feelings.

Overall, my satisfaction level towards Development Bank of Ethiopia's Loan services can best be described as

1. Highly dissatisfied 2. Dissatisfied 3. Somewhat satisfied
4. Satisfied 5. Highly satisfied

ክፍል ሁለት፡- የአገልግሎት ጥራት ገጽታዎች

የሚቀጥሉት አረፍተኛዎች የኢትዮጵያ ልማት ባንክ የብድር አገልግሎት ላይ ያለዎትን አመለካከት የሚመለከቱ ናቸው። ባንኩ በአረፍተኛዎቹ የተጠቀሱት ነገሮች እንዳሉት በምን ያህል ደረጃ እንደሚያምኑ ከ1—5 የቀረቡትን ቁጥሮች በመክበብ እባኩን ይግለጹ።

ቁጥሮቹ የሚያመለክቱት 1=በጭራሽ አልስማማም፣ 2=አልስማማም፣ 3=ሃሳብ የለኝም፣
4=እስማማለሁ፣ 5=በጣም እስማማለሁ

		በጭራሽ አልስማማም	አልስማማም	ሃሳብ የለኝም	እስማማለሁ	በጣም እስማማለሁ
	ተጨባጭ ሁኔታዎች (Tangibles)					
1.	የኢትዮጵያ ልማት ባንክ ዘመናዊ መሳሪያዎች አሉት።	1	2	3	4	5
2.	የኢትዮጵያ ልማት ባንክ መገልገያ እቃዎች ለአይን ሳቢ ናቸው።	1	2	3	4	5
3.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ጥሩ አለባቸው ያለቸውና ፅዱ ናቸው።	1	2	3	4	5
4.	የኢትዮጵያ ልማት ባንክ አገልግሎት መስጫ ሠነዶች (ብሮሽሮች ፎርምዎችና መግለጫዎች የመሳሰሉት) ግልጽና ለአይን ማራኪ ናቸው።	1	2	3	4	5
	አስተማማኝነት (Reliability)					
5.	የኢትዮጵያ ልማት ባንክ አንድ ነገር በተወሰነ ጊዜ ውስጥ ለማድረግ ቃል ከገባ የገባውን ቃል ይፈፅማል።	1	2	3	4	5
6.	የኢትዮጵያ ልማት ባንክ ችግር በሚገጥም ጊዜ ችግርዎን ለመፍታት ያለውን ፍላጎት በቅንነት ያሳያል።	1	2	3	4	5
7.	የኢትዮጵያ ልማት ባንክ አገልግሎቱን ከመጀመሪያ ጀምሮ በትክክል ይተገብራል።	1	2	3	4	5
8.	የኢትዮጵያ ልማት ባንክ አገልግሎቱን ቃል በገባበት ሰዓት ይፈፅማል።	1	2	3	4	5
9.	የኢትዮጵያ ልማት ባንክ አገልግሎት ከስዕተት በፀዳ ሪከርድ ላይ የተመሰረተ ነው።	1	2	3	4	5
	ምላሽ ሰጪነት (Responsiveness)					
10.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ጉዳይዎ በምን ጊዜ እንደሚያልቅ ይገልፁሉታል።	1	2	3	4	5
11.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ፈጣን አገልግሎት ይሰጡታል።	1	2	3	4	5
12.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ሁልጊዜ እርሶን	1	2	3	4	5

		በጭራሽ አልሰማማም	አልሰማማም	ሃሳብ የሌለኝም	አሰማማለሁ	በባለሙያ አሰማማለሁ
	ለመርዳት ፈቃደኞች ናቸው።					
13.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ጥያቄዎን ለመመለስ ጊዜ አያጡም።	1	2	3	4	5
	መተማመኛ (Assurance)					
14.	የኢትዮጵያ ልማት ባንክ ሠራተኞች በሀርይ በእርሶ ላይ መተማመንን ይፈጥራል።	1	2	3	4	5
15.	ከኢትዮጵያ ልማት ባንክ በሚያገኙት አገልግሎት ላይ የመተማመን ስሜት ይሰማዎታል።	1	2	3	4	5
16.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ሁልጊዜ ለእርሶ ትሁት ናቸው።	1	2	3	4	5
17.	የኢትዮጵያ ልማት ባንክ ሠራተኞች ጥያቄዎን ለመመለስ የሚያስችል ዕውቀት አላቸው።	1	2	3	4	5
	ግለሰባዊ ትኩረት (Empathy)					
18.	የኢትዮጵያ ልማት ባንክ ግለሰባዊ ትኩረት ይሰጣታል።	1	2	3	4	5
19.	የኢትዮጵያ ልማት ባንክ የስራ ሰዓት ለእርሶ ምቹ ነው።	1	2	3	4	5
20.	የኢትዮጵያ ልማት ባንክ ግለሰባዊ ትኩረት ሊሰጥዎት የሚችሉ ሠራተኞች አሉት።	1	2	3	4	5
21.	የኢትዮጵያ ልማት ባንክ የእርሶን የውስጥ ፍላጎት ያውቃል።	1	2	3	4	5
22.	የኢትዮጵያ ልማት ባንክ ሠራተኞች የተለየ ፍላጎትዎን ይረዳሉ።	1	2	3	4	5

ክፍል ሦስት

የሚቀጥለው አረፍተነገር በኢትዮጵያ ልማት ባንክ የብድር አገልግሎት ላይ ያለዎትን አጠቃላይ አመለካከት (በአገልግሎቱ ያልዎትን የእርካታ ደረጃ) የሚያለክት ነው። እባክዎትን በባንኩ አገልግሎት ላይ ያልዎትን የእርካታ ደረጃ ይገልጽልኛል በሚሉት ሳጥን ላይ (J) ምልክት በማድረግ ይግለጹ።

በኢትዮጵያ ልማት ባንክ የብድር አገልግሎት

- 1 በጭራሽ አልተደሰትኩም
- 2 አልተደሰትኩም
- 3 በመጠኑ ተደስቻለሁ
- 4 ተደስቻለሁ
- 5 በጣም ተደስቻለሁ