



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT**

**THE EFFECT OF SERVICE QUALITY ON CUSTOMER LOYALTY
AT COMMERCIAL BANK OF ETHIOPIA: THE MEDIATING ROLE
OF CUSTOMER SATISFACTION**

**By
Henok Shibiru**

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Advisor: Lakew. A (Dr.)

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DECLARATION

I hereby declare the thesis entitled “the effect of service quality on customer loyalty at commercial bank of Ethiopia: the mediating role of customer satisfaction” is done by close supervision of my advisor and I declare that this study is my original work and has not been presented for a degree, a diploma or fellowship to any other University and that all the materials used for this study have been duly acknowledged.

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The project has been presented for examination with my approval as the appointed supervisor.

_____	_____	_____
Name of the Supervisor	Signature	Date

APPROVAL

The undersigned certify that they have read and hereby recommend to Addis Ababa University to accept the thesis submitted by Henok Shibiru, and entitled “the effect of service quality on customer loyalty at commercial bank of Ethiopia: the mediating role of customer satisfaction” in partial fulfillment of the requirements for the award of a Master’s Degree program.

_____	_____	_____
Name of Supervisor	Signature	Date
_____	_____	_____
Name of Internal Examiner	Signature	Date
_____	_____	_____
Name of External Examiner	Signature	Date
_____	_____	_____
Name of Head of Department	Signature	Date

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ABSTRACT

The main objective of this study was to find out the effect of service quality on customer loyalty mediated by customer satisfaction at Commercial Bank of Ethiopia. The study sought to identify the most important attributes in bank settings, which may be used to review the characteristics of the banks as experienced by customers. The study employed quantitative methods. A survey was conducted to collect data from customers using quantitative methods through questionnaire.

Quantitative data was analyzed by going through the patterns and/or subheadings of the questionnaires while comparing with the objective using descriptive & linear regression model.

The target population for this study was customers who bank within twenty branches under Addis Ababa District at Commercial Bank of Ethiopia (CBE), from which a sample size of 100 respondents was conveniently selected but analysis was made based on the data collected from 89 respondents.

All the dimensions of service quality have a significant and positive effect on customer satisfaction. Only reliability and responsiveness have significant and positive effect on customer loyalty. When it comes to mediation, customer satisfaction partially mediates reliability and responsiveness to customer loyalty relationship.

The findings indicate that overall respondents evaluate the bank positively, but still there are rooms for improvements. The results can be of much value to bank managers using these data to keep customers by making them loyal and satisfied in order to maintain their competitive advantage. From the findings of the study, a number of recommendations have been provided so that banks provide quality services and continually engage in improving bank services to attract customer and maintain customers and hence increase their bank's profits.

Keywords: Service quality dimensions, customer satisfaction, customer loyalty

ACRONYMS/ABBREVIATION

ATM	Automated Teller Machine
CBE	Commercial Bank of Ethiopia
CL	Customer loyalty
CS	Customer Satisfaction
POS	Point of Sale
SERVQUAL	Service Quality
WOM	Word of Mouth

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CHAPTER ONE

1. Introduction

1.1 Background of the Study

Marketing researchers have praised the advantages of satisfaction and quality, and have mentioned them as indices of an organization competitive benefit (Ruyter, 1997). On the other hand, customer loyalty is one of the most important structures in service marketing, due to its final effect on customers' repeated purchases, and in fact, those loyal customers who purchase repeatedly are considered as the base of any business (Corunna, 2002).

Service quality hold that the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Gronroos, 1984). Among general instruments, the most popular model used for evaluation of service quality is SERVQUAL, a well-known scale developed by (Parasuraman, Zeithaml, & Berry, 1985). The attributes of Parasuraman et al., (1985), were: tangibles, reliability, responsiveness, competency, courtesy, assurance, credibility, security, access, and understanding. Parasuraman, Zeithaml, & Berry, (1988) later reduced these ten dimensions into five by using a factor analysis. Based on the five dimensions, a 22-item survey instrument for measuring service quality has been developed. These five dimensions are reliability, responsiveness, empathy, assurance & tangibility.

Customer satisfaction is a key factor in formation of customer's desires for future purchase (Anderson and Mettal, 2000). Furthermore, the satisfied customers will probably talk to others about their good experiences. Although satisfaction has been defined as the difference between expectation and performance, but there are differences between quality and satisfaction. For example, Parasuraman et al. (1994) indicate that satisfaction is a decision made after experience while quality is not the same. On the other hand, in satisfaction literature, expectations for goods is "would", while in service quality literature, expectations for goods is "should". Several researches have been done on the relation between service quality and satisfaction: findings of some of these researches show that satisfaction results in service quality Parasuraman et al., (1988).

Perceived service quality is a global judgment or attitude relating to the superiority of the service, whereas satisfaction is related to a specific transaction Parasuraman et al., (1988). On the other hand, customer satisfaction has frequently been suggested to be the leading determinant of loyalty (Lam & Burton, 2006). Ehigie, (2006) suggests that there is a significant positive relationship between customer satisfaction and customer loyalty.

Customer loyalty is developed over a period of time from a consistent record of meeting, and sometimes even exceeding customer expectations (Teich, 1997).Service quality and customer satisfaction were found to be related to customer loyalty through repurchase intentions (Levesque & Dougall, 1993).

On the relationship between customer satisfaction, service quality and service loyalty in banks, (Caruana, 2002) concluded that customer satisfaction plays a mediator role in the effect of service quality on service loyalty. In fact, service quality affects service loyalty through customer satisfaction. The aim of this study is to identify which of the core dimension causes the most significant effect toward overall customer satisfaction and customer loyalty. As such, customer satisfaction in this research is acting as a mediator between service quality and customer loyalty.

1.2 Statement of the Problem

Delivering a high quality of service has become a strategic approach for satisfying and retaining customers as well as building and sustaining profitable and long term relationships with them (Cronin and Taylor , 1992).Those banks with a pool of customers are trying to retain their customers for the longer period of time. In addition attracting new customers and keeping them earning huge profits is still a goal to be achieved. This is only possible when the customers are satisfied by the service offered (Kariru & Aloo , 2014).

The environment of Banking industry have been experiencing a rapid changes reflected by the intense growth of competition between banks and increased expectation of current and potential customers. As a result the quality of service has been a major challenge for various banks especially in developing countries (Sulieman , 2013).

Since the government of Ethiopia opened to the establishment of new private banks starting from 1994s (Messay, 2012), the competition in banking industry in Ethiopia has become high. Such competition decreases the deposit and lending rate difference, these results a decrease in profit, market share and in general financial performance. Considering the factors mentioned above, Commercial bank of Ethiopia (CBE) could no longer survive with the business of deposit and lending rate difference.

Thus, CBE starts to attract new customer & retain existing customers to make loyal by: providing differentiated service quality, implementing one of the best core banking technologies, introducing various new banking products and delivering intensive trainings to its employees etc. to satisfy customer needs and to make the customers loyal to maximize profit, market share and financial performance of the company. However, there are many problems that negatively affect the bank from getting satisfied customer and loyal customers such as managers perception about their customer expectation and fail to fulfilling the needs of the customer, there is also some staffs faced with lack of skills in providing prompt service which increases waiting time, lack of knowledge /profession i.e. some of the employees do not know the contribution of their role to service quality, customer satisfaction, lack of interest to help customer by some staffs that he/she feels annoying and see the customer as wasting his/her time, some are not friendly and approachable.

In addition to this, sometimes the system may not be functional due to weak internet connection and power interruption and customers are also not confident in some aspect of electronic services of the bank such as ATM machines and POS which are occasionally out of service especially on Sunday as a result customers frequently chose to withhold reserve cash in their home. Moreover, in some branches the physical layout and the building that surround the service environment are not spacious enough with the high number of the customers, the layout and environment is not attractive, last but not least it is congested and suffocated.

Therefore, this study tried to discuss the effect of service quality on customer loyalty at commercial bank of Ethiopia: the mediating role of customer satisfaction by taking some selected CBE branches under Addis Ababa District as the research subject.

1.3 Research Questions

The researcher tried to answer the following basic questions:

1. What is the effect of service quality dimensions on customer satisfaction?
2. What effect does customer satisfaction have on Customer loyalty?
3. What is the effect of service quality dimensions on Customer loyalty?
4. Does customer satisfaction mediate the relationship between service quality dimensions and customer loyalty?

1.4. Objectives of the Research

1.4.1 General Objective

The general objective of the research is to investigate effect of service quality dimensions on customer loyalty mediated by customer satisfaction.

1.4.2 Specific Objectives

- To examine the effect of service quality dimensions on customer satisfaction.
- To identify the effect of customer satisfaction on customer loyalty.
- To investigate the effect of service quality dimensions on customer loyalty.
- To examine the effect of service quality dimensions on customer loyalty mediated by customer satisfaction.

1.5 Significance of the Study

The researcher strongly believes that the proposed research helped to maximize customer satisfaction & customer loyalty of the CBE through service quality. In addition it helps as a preliminary study for others who are more interested in this area. Thus the research helps to make the needed adjustment according to the recommendation raised by this study.

The result of this study:

- Enriched and update the knowledge of the employee's insight into the effect of their involvement in service quality and aid in improving customer satisfaction and customer loyalty.
- The organization insights into it the effect of service quality on customer satisfaction and customer loyalty may further address these dimensions in appropriate manner.
- The policy makers will gain more insight from the findings of this study into the effect of service quality on customer satisfaction& customer loyalty in the banking industry. This helps in improving standards and focus on customer satisfaction and policy making.

1.6 Scope and Limitation of the Study

1.6.1 Scope of the study

The study was delimited conceptually, geographically as well as methodologically.

Conceptually; this study only focuses on the effect of service quality dimensions (tangibility, responsiveness, reliability, empathy, and assurance) on customer loyalty mediated by customer satisfaction.

Geographically; there are 19 commercial banks in Ethiopia but this study delimiting itself on the biggest and oldest commercial bank which is commercial bank of Ethiopia (CBE). Furthermore, this study focused on some selected branches which are under south, north, east and west Addis Ababa districts.

Methodologically; this research is a sample survey research i.e. based on the representative sample conclusion for the population will be made. Additionally, the main source of this data

could be questionnaire. The questionnaire distributed and collected to customers who queue in the selected branches of CBE.

1.6.2 Limitation of the Study

The limitations of this study can arise from the scope of the study. This study mainly focus the effect of service quality on customer loyalty mediated by customer satisfaction but there might have various intervening factors beyond service quality that cases the improvement of customer loyalty & customer satisfaction such as outreach, advertisement, environment and the like. Therefore, other factors beyond service quality that affect customer satisfaction and customer loyalty cannot be addressed by this study.

Definition of Terms

Quality

Combined features of a service that is able to bring satisfaction (Akbar and Parvez, 2009)

Service Quality

The difference between customers' expectations and their perception of the service offered to them (Ouyung , 2010)

Customer Satisfaction

Personal feeling either good or bad resulting from the evaluating services provided in relation to customer expectation (Taiwo et al., 2011).

Reliability

Ability to perform the promised service accurately and dependably (Parasuraman, Zeithaml, & Berry,1985).

Responsiveness

Willingness to assist customers and to provide prompt service (Parasuraman et al., 1985)

Empathy

Caring and individualized attention to customers (Parasuraman et al., 1985)

Tangible

Physical facilities, equipment, and the physical appearance of personnel (Parasuraman et al., 1985)

Assurance

Knowledge and courtesy of employees and their ability to convey trust and confidence (Parasuraman et al., 1985)

Grade four branches

CBE has used parameters such as transaction volume, value of deposit, number of staff; date of establishment etc. to be used for grading the branches of the bank using simple average and weighted average approaches. However, for the existing grading purpose, the second approach with a combination of percentage method will be used. This is due to the fact that, this approach can evaluate each branch objectively, consistently and fairly throughout the process. Besides, the approach measures all branches in objective manner without any subjectivity and biasness. Hence, Grade four branches have highest transaction volume, value of deposit, number of staff; date of establishment compared to grade I, II and III.

CHAPTER TWO

2. Literature Review

2.1 Introduction

This chapter examines previous research work and information relating to the research questions of the study which are to determine the effect of reliability, responsiveness, empathy, assurance & tangible on customer satisfaction and customer loyalty.

2.2 Service Quality: Definitions and Concepts

Services are products that are rendered but it is not correspondent to something which is physical. The main difference between the product and services are in service customers get value with no undying ownership of any tangible components. Moreover, service quality which is not like product quality which is determined by its unique characteristics which are intangible, perishable, inseparable, and heterogeneous (Zeithaml, Bitner & Gremler , 2006)

Service quality can mostly be compared to the customer and how he or she expects about the service they acquire. It should be indicated however that, it is not exactly the same as customer satisfaction, but shows similarity. We can therefore say that service quality is concerned with satisfying the needs and requirements of the customer as well as measure in which it succeeds to do so (Janghyeon, Kyungnam & Georgina, 2011). If customer perception is higher than the actual performance level of the service provider, then perceived service quality is below the satisfactory level and that leads to customer dissatisfaction and finally customer might switch other provider. Therefore, Service quality is a multidimensional structure that is very difficult to appraise due to the exceptional features of each of the service provider (Zeithaml et al., 2006).

In an attempt to give a clearer picture of service quality, (Grönroos C, 1984)

Categorized service quality into two dimensions, namely:

2.2.1 Technical Quantifiable Aspects

These are dimensions that are relatively quantifiable aspects of a service which customers receive in their interactions with a service firm. They can be measured by both customers and suppliers and this often forms a significant basis for the judgment of the quality of services. For

example, the time spent in waiting to be attended to by a bank cashier, supervisor, restaurant waiter, or the reliability of an ATM device. These all form an important basis for measuring or judging service quality provided by service firms.

2.2.2 Functional Aspects of Service Quality.

These aspects cannot be measured quite objectively as those of the technical dimensions of service quality. Examples include attitude of staff, appearance of staff and atmosphere / environment of supplier's practice.

The determination of service quality may be represented by the quantitative formulation:

$$\text{Service Quality} = \frac{\text{Perceived Performance}}{\text{Desired Expectations}} \times 100$$

Customers have quite a varied means of forming service expectations. They could be formed via word of mouth or advertising messages. It means, they are able to compare perceived service with expected service, and where the latter falls below the former, they are disappointed. However, where perceived service meets or exceeds expected service they are satisfied or delighted and are prone to using the provider again. There are a number of perspectives on quality as identified by (Lovelock, 1983).

2.3 Service Quality in Banking Services

According to Suleiman, (2013) the service quality of banking services provided to customers have been enhanced and it can be used as a foundation for realizing service excellence to meet competition, where distinguished service has become the basis for differentiation between the banks. The concept quality of service is to match and adapt to the requirements which means that service institutions such as banks, must have certain requirements and specifications of the services it provides to customers.

2.4 Customer Satisfaction

Customer satisfaction refers to a measure of how products and services delivered by an organization satisfy the expected conditions of a customer or consumer (Anderson and Mittal, 2000). According to Giese and Cote , (1999).Customer satisfaction is the number of customers, or a percentage of total customers whose testified involvement with a firm, its products or

service exceeds specified satisfaction objectives. The customer becomes satisfied with a good or service delivered when the resultant effect of the satisfaction derived equates or even exceeds expectation. By taking satisfaction as a process these definitions do not focus on satisfaction itself but things that cause satisfaction, the antecedents to satisfaction, which occur primarily during the service delivery process (Vavra, 1997).

Studying into satisfaction, business organizations are much interested to find out whether goods and services provided exceeded the expectations of customers. Thus, expectations are significant elements in getting the customer satisfied. If the expectations of customers are high and their expectations are not met, they get disappointed and shall in no doubt rate their satisfaction experience as insignificant (Parker and Mathews, 2001).

2.5 Customer Loyalty

Loyalty is developed over a period of time from a consistent record of meeting, and sometimes even exceeding customer expectations (Teich, 1997). Kotler, Leong and Tan, (1999) states the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Gremler and Brown, (1996) offers one definition of customer loyalty that is related to our purpose in this study: the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists.

According to Bloemer and Kasper, (1995) loyalty is interpreted as true loyalty rather than repeat purchasing behavior, which is the actual re-buying of a brand, regardless of commitment. Zeithaml, Berry and Parasuraman, (1996) states loyalty is a multi-dimensional construct and includes both positive and negative responses. However, a loyal customer may not necessarily be a satisfied customer. Colgate, Stewart and Kinsella, (1996) also noted that it is not always the case that customer defection is the inverse to loyalty, while (Levesque and McDougall, 1993) suggested that, “even a problem is not solved, approximately half of the customers would remain with the firm”. This may be due to switching costs, lack of perceived differentiation of alternatives, location constraints on choice, time or money constraints, habit or inertia which are not related to loyalty (Bitner, 1990).

2.6 Effect of Service Quality on Customer satisfaction

Consumers are now demanding higher quality in products than ever before (Leonard and Sasser , 1982). The search for quality is arguably the most important consumer trend of the 1980s (Rabin , 1983).The important feature of service firms is to focus on quality, the way it is produced and being offered to the final customer. It is seen that continuous improvements in the quality of services perceived according to the consumer expectations positively affects the satisfaction level and customer's perceptions about the company.

Service quality is a determinant of whether a customer ultimately remains with or defects from a company Zeithaml et al., (1996). In marketing management literature service quality takes a prominent position. It is usually defined as customer's impression of relative inferiority or superiority of service provide and its service. Also it is often considered similar to overall attitude of customer towards company

2.6.1 Effect of Reliability on Customer Satisfaction

Safwan, Rehman and Ali, (2010), argued that reliability shows the service provider's ability to perform services in a dependable and accurate manner. Furthermore, it involves doing it right the first time and it is a crucial service component of customers (Messay, 2012). Reliability improvement is key in service quality enhancement efforts. This is because when a firm is unreliable, they communicate less concern to what customers care about. Customers may form a negative perception about the firm and will switch to a competitor without second thoughts (Sakhaei, Afshari & Esmaili, 2014).

2.6.1.1 Providing Service as Promised

Ramzi, (2010) pointed out that providing services as promised is one of the important factors of customer satisfaction. A good way of impressing customers is by doing what you promised and doing it right at the first time experience. This will enhance repeat business.

According to Lau, Cheung, Lam & Chu, (2013) providing services as promised is also important at the bank because if a customer is expecting the bank to do something for them, they should be able to rely on them to do it on the day that they want it done. Consequently, if they don't then

the reputation of the bank may be affected and that customer will not believe that they are reliable.

A reliable service may not drastically affect customer satisfaction in a good manner. However a company that is seen to offer unreliable product or service will highly be viewed incompetent hence a negative effect on customer satisfaction. Reliability is viewed as one of the prerequisite for customer satisfaction (Chau& Kao, 2009).

2.6.1.2 Dependability in Handling Customer Service Problems

Customer satisfaction should be a major goal of any business. A management aspect that demonstrates this is a company should try to adjust its rules and regulations and understand the customers instead of deafening its ears to customers' complaints. This enables front line employees to use their discretion while handling customers' problems as they occur (Dharmalingam, Ramesh & Kannan, 2011).

2.6.1.3 Performing Services Right at the First Time

Ghost and Gnanadhas,(2011) go further to add that measuring the first time right performance of service personnel might be a change for many firms. Bank managers may be used to judging their staff by the time it takes them to resolve a customer query. However, staff may not always provide complete information to customers, which can result in repeat complaints. Thus it is essential to link an employee's performance with the tasks that are completed correctly the first time (Abdullah & Arokiasamy, 2013).

2.6.1.4 Maintaining Error Free Records

According to Atalik & Arslan, (2009) proper record keeping enables a firm runs more efficiently. This in return may lead to profitability. Having records that are accurate allow business to have complete updated list of its income, expenses, assets and liabilities. Providing accurate records of contact with the customer will help in continuity of relationship between firm and the customers (Ouyung, 2010).

2.6.2 Effect of Responsiveness on Customer Satisfaction

Providing service in a timely manner is highly appreciated by customers. Good service providers understand this aspect (Iqbal,Nawaz, Usman, Shaukat& Ahmad , 2010). Furthermore, firms that value efficiency pay attention to the services that they offer so that they can have an advantage and use this to keep off competitors (Karim, et al., 2014).

2.6.2.1 Keeping Customers Informed as to When Services will be Performed

Letting customers know as to when services will be performed increases a firms' chance of retaining current customers as well as gaining new ones (Armstrong, 2012).Moreover it should be able to link the employee's performance with the firms' goals so that they can offer services that will satisfy customers (Ojo, 2010)

2.6.2.2 Prompt Service to Customers

Mudassar, Talib,Cheema and Raza, (2013), argued that however skilled you are at workplace; always provide customers with exceptional service as desired. These includes providing timely responses to customer questions and inquiries, and informing your clients promptly. Greeting them warmly, involving them to determine what they have come for, and responding promptly and accurately to inquiries show customers' quick understanding of the firm. The key to generating loyal customers are to provide them with efficient service by the required time frame. The employees should have adequate knowledge to enable them quickly respond to customer (Mudassar et al., 2013).

2.6.2.3 Willingness to Help Customers

First impressions have a great impact. Specifically, how firms respond to and treat customers for the first time determines whether they will come back. If well served they may recommend the firm to others (Messay, 2012). Warm Greetings, asking probing questions to understand what they need, and responding promptly and accurately to inquiries demonstrates dedication and willingness to help. For customers to have a tip of satisfaction, willingness should always be maximized (Jayanthi and Umarani, 2012). Geetika & Nandan, (2010) further explain that to deliver the quality of service that a firm expects hiring and recruiting staff that are willing to assist customers is a prerequisite. In the recruitment environment, a firm has to compete with

similar firms to get the best people with this kind of attitude. Demonstrating that you are listening through body language and making eye contact shows a customer that you are willing to assist them. Taiwo et al. (2011) state that many customers have problems that needs to be solved. It is important for firms to have creative problem solvers as the employees. They should always make sure they understand the problem clearly, and offer them possible solutions.

2.6.2.4 Readiness to Respond to Customers' Request

Banks can instill feelings of readiness in its customers if they handle their customers in a professional and competent way (Kadir, Rahmani & Masinaei, 2011). Customers trust the readiness of firms to respond to their request based on historical reference. If a firm consistently responds readily to customers queries, customers feel reasonably assured that their next request will be responded to as well. According to Toosi & Kohanali, (2011) customers expect timely responses to requests. Therefore, they should not be disregarded or delayed simply because there are underlying issues.

2.6.3 Effect of Empathy on Customer Satisfaction

The basis of empathy is rooted in understanding the needs of customers and giving them individual attention. Employee and customer interactions are reflected through the empathy dimension (Armstrong, 2012).

2.6.3.1 Giving Customers' Individual Attention

Saghier and Nathan, (2013), argued that customer satisfaction increases if customers feel that they have been served in a way that considers their own personal needs. When delivering customer service, firms frequently deal with a large number of customers who seem to be the same, but it is important to remember that each customer is an individual. A customer may be convinced to select a certain bank, but without a strong relationship marketing strategy brought about by understanding the state of the market, the customer may easily select another bank that render similar services. While banks combine elements of both relationship and transactional marketing, customer relationship marketing that involves giving customer attention is starting to play a more important role (Onditi, Oginda, Ochieng and Oso, 2012).

2.6.3.2 Employees who Deal with Customers in a Caring Fashion

Gbadeyan and Gbonda ,(2011) pointed out those employees are the frontline of a business, communicating with the customers and representing the firm on a day to day basis. Customers if mistreated or neglected by the employees, they don't always complain about what they feel as impersonal service. Instead, they will never return and this is something that definitely no business wants (Klemz & Boshoff, 2011).A good approach in determining how to show care is to mentally or physically take the customer role. Knowing what is expected and demanded from customer service personnel from customers' point of view reveal unnoticed information (Iqbal et al., 2010).

2.6.3.3 Employees who Understand the Needs of their Customers

According to Gbadeyan et al, (2011) when dealing with a customer, a true professional should always respond in a way that will show they understand customers' needs. The most successful business relationships also have that idea reciprocated in their operations. (Mudassar, Talib, Cheema and Raza, 2013), argued that the customers who are satisfied tell others about their experiences. Consequently this will increase positive WOM advertising. Existing customers are often an untapped source of wealth that can produce savings of time and money for businesses through referrals. It makes sense to keep them around as long as possible. To win in today's competitive market; a company must ensure that more of its customers are loyal. Employees in firms should have flexible, stress free workplaces that will enable them deal with customers to provide services in a cost-effective way and without harming the firm reputation or chasing away the customer (Hossan, 2012).Banks' commitment of understanding the needs of their customer is important, as customers may save a large sum of money in banks. For complicated products such as insurance, funds, and margins, employees must really understand its clients' needs and provide a clear explanation of each product to customers. When these customers are offered with the services that they want, they will have a sense of belonging that can result in them being loyal to a particular firm (Chau, et al., 2009).

2.6.4 Effect of Assurance on Customer Satisfaction

The knowledge and courtesy of the organization's personnel and their ability to convey trust and confidence (Parasuraman et al., 1985)

2.6.5. Effect of Tangible on Customer Satisfaction

The physical evidence of the service; physical facilities, appearance of personnel, tools or equipment used to provide the service, physical representations of the service, other customers, service facilitates (Parasuraman et al., 1985)

2.7 The Gaps in Service Quality

In order to improve and manage the process of delivering value services, firm's needs to identify those areas where these gaps exist and then should try to eliminate or close these gaps. The gaps are discussed below in detail.

2.7.1 Service Quality Management Gap

According to Parasuraman et al, (1985) this gap develops due to the difference between managers perceptions about what customers are expecting. There are different factors that produce management gap in service quality. Findings depicts that such gap also occurs when the customer is not perceived correctly and feedback process is delayed. It might be caused when the company does not concentrate on marketing research and customer analysis is not done before introducing any product/ service.

2.7.2 Service Delivery and External Communications Gap

According to Parasuraman et al. (1985) that this gap occur because of the difference between external communication channels (Marketing, advertising) and actual service delivered by the firm. It happens when firm give false statement through exaggerating promises.

2.7.3 Service Performance Gap

According to Parasuraman et al. (1985) this gap occurs when service personals failed to perform services up to the level as management expect them to perform. Facts from the findings say that the employees involved in service providing job act like a bridge between management vision and customer satisfaction. These persons are representing the image of company.

2.8 Developing Service Improvement Strategy in the Organization

A firm can improve the quality of its services by developing the service improvement strategy in the organization which requires several steps and measures to trigger improvements in the internal environment. Parasuraman et al., (1994) has explained some steps for managers through which company can improve the service quality such as Listening, Reliability, Service Design, and Service recovery, Surprise Customers, Fair Play and Servant Leadership.

2.8.1 Listening

Listening, understanding and spending wisely on customer's expectations and perceptions can bring improvements in the services of the company as the way customers required and expect. The most common mistake in service improvement that companies do is to spend money in a way that does not improve the services at all.

2.8.2 Reliability

The five dimensions of services reliability, responsiveness, assurance, empathy, tangibles are used as criteria to judge the quality of the services. Also these dimensions help service providers to understand about customers' expectations regarding service offerings. Research reveals that among these five dimensions Reliability is the most important one to judge the quality of the service. When firms are failed to deliver the promise and make frequent mistakes in service delivery, customer loses its confidence on the firm's ability to provide timely and accurate service at the first end.

2.8.3 Service Design

Reliability in service delivery as expected by the customers depends on how the various elements in the service system work well together. These elements include people who perform the service, equipment's that required performing the particular service and the physical environment in which service is actually performed or delivered. Flaws in any part of this service system affect the quality level. Usually people who are delivering the services are blamed for poor quality however the real problem lies in the service system design. Service mapping is considered a way to improve the quality of services. Service mapping is the pattern of performances that makes a service system design.

2.8.4 Service Recovery

When a customer face a service problem, either service firms makes things better with the customer or make it worse sometimes. Three things happen when a customer experience any problem, they remain dissatisfied and do not voice their complain, they complain and become satisfied or become dissatisfied if company does not response well.

Generally customers are reluctant to complain and company should take following steps in such situations,

- Encourage customers to voice their complaints and make it easy for them by providing toll free numbers or comment cards.
- Problem resolution system needs to be developed very effectively in the service firms.
- Response quickly to customer complaints because quick response makes a customer feel that company is concerned about his/her interests.

2.8.5 Surprise Customers

Customers evaluate the service dimension during the delivery process and it is very difficult to go beyond customer's expectations by providing the reliable services only. Therefore managers must consider the "WOW" factor in their service offerings. To go beyond expectations and delight the customer demands, firms should offer some surprising elements in their service offerings like grace, courtesy, uncommon swiftness, understanding and commitment.

2.8.6 Fair Play

The customer expectation lies under the concept of fairness. As customers expect from the service providers to treat them fairly, fulfill the promises made and be trustworthy. Mainly customer's expect companies to provide quick services(responsiveness), to offer comfortable service facilities and communication channels (Tangibles), to fulfill the commitments (Reliability) to offer personal attention and polite dealing (Empathy) and should provide considerable and competent services(Assurance). Also should provide the guarantee demonstrate fairness towards service offerings. It gives the customer a right to evoke the service and charge the compensation if he becomes dissatisfied.

2.8.7 Servant Leadership

Delivering high service quality demands an excellent leadership often known as “Servant Leadership”. These leaders believe in people capacity to view their own roles as standard of excellence and a direction to achieve their goals by providing necessary equipment’s, tools and proper freedom to achieve their tasks. These Leaders believe in investing people by listening to their concerns, providing those trainings, coaching, and teach them how to inspire and compete in order to boost company’s productivity and quality standards.

2.9 Empirical review, Theoretical Framework, and Hypothesis Development

This section of the chapter discusses theoretical perspectives and empirical reviews on the relationship between concepts understudied. The section also presents the relevant hypothesis concerning the relationship between the concepts.

2.9.1 The Relationship between Service Quality and Customer Satisfaction

It has been established that providing a quality service to a client automatically leads to customer satisfaction (Abdullah and Kassim , 2010). Many acknowledge the fact that in the banking environment where competition is keen, there are no laid down standards to appraise the perceived quality of bank’s service provided. Thus, competitive advantage through high quality service is an increasingly relevant tool to ensure sustainability (Wang and Yang , 2004).

2.9.2 Relationships between Service Quality and Customer Loyalty

It has been argued that the presence of customers’ input distinguishes a production process from a service process (Fen and Lian, 2007). During this service process, the live help technology relies on customers to explain exactly what they want. Conversely, the customer is dependent on the live help to execute his or her requests to create a successful exchange (Parasuraman and Grewal, 2000). If an unnecessarily high quality of service is encountered by customers during the service process, customer loyalty will be negatively affected. If business can help customers reduce their service quality perceptions, we believe that customers are more likely to be loyal. On one hand, shortcomings in service quality (such as lack of care) may be offset by a perceived reduction in loyalty. On the other hand, some customers might not desire the highest service quality if it requires them to sacrifice more time and effort to achieve it. This is consistent with

the cost – benefit paradigm that customer’s tradeoff between the service quality they receive and their perceptions of customer loyalty. Previous research showed that service quality leads to customer loyalty and attraction of new customers (Dehghan, 2006; Yang and Fang, 2004;Zeithaml, Berry, and Parasuraman,1996). In an online context, (Gefen, 2002) found that service quality leads to customer loyalty. In contrast, customers who experience low service quality tend to have unfavorable behavioral intentions (Oliver, 1997).

2.9.3 Relationship between Customer Satisfaction and Customer Loyalty

Customer satisfaction with an experience does lead to customer loyalty. (Barden and Teel, 1983) argue that customer satisfaction is important to the marketer because it is generally assumed to be a significant determinant of repeat sales, positive word of mouth and consumer loyalty. Similarly, Bloemer,Ruyter, and Peeters, (1998) have argued that satisfaction can be thought of as an important determinant of brand loyalty. Anderson and Fornell, (1994) point out that customer loyalty is determined to a large extent by customer satisfaction. Boulding et al. (1993) found a positive relationship between service qualities; repurchase intentions and willingness to recommend. Bloemer et al. (1998) also found a positive relationship between perceived service quality, preference loyalty and price indifference loyalty. Based on Cohen, Gan, Yong, & Chong, (2007), there are two critical thresholds affecting the link between satisfaction and loyalty. On the high side, when satisfaction reaches a certain level, loyalty increases dramatically; at the same time, when satisfaction declines to a certain point, loyalty drops equally dramatically (Bowen & Chen, 2001). Fornell, (1992) argues that high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition. However, the ability of customer satisfaction scores to predict such loyalty has not been adequately demonstrated (Higgins, 1997). Fornell et al, (1994) also offer some evidence of the linkage between customer satisfaction and loyalty.

2.9.4 The Relationship between Service Qualities, Customer Satisfaction, and Customer loyalty

Loveman , (1998) Proposed that high quality service is required for customer satisfaction and satisfied customers tend to be loyal customers. Companies can become profitable by having

more loyal customers as the loyal customers will decrease the operating cost and overall expenses.

Conceptual Frame work

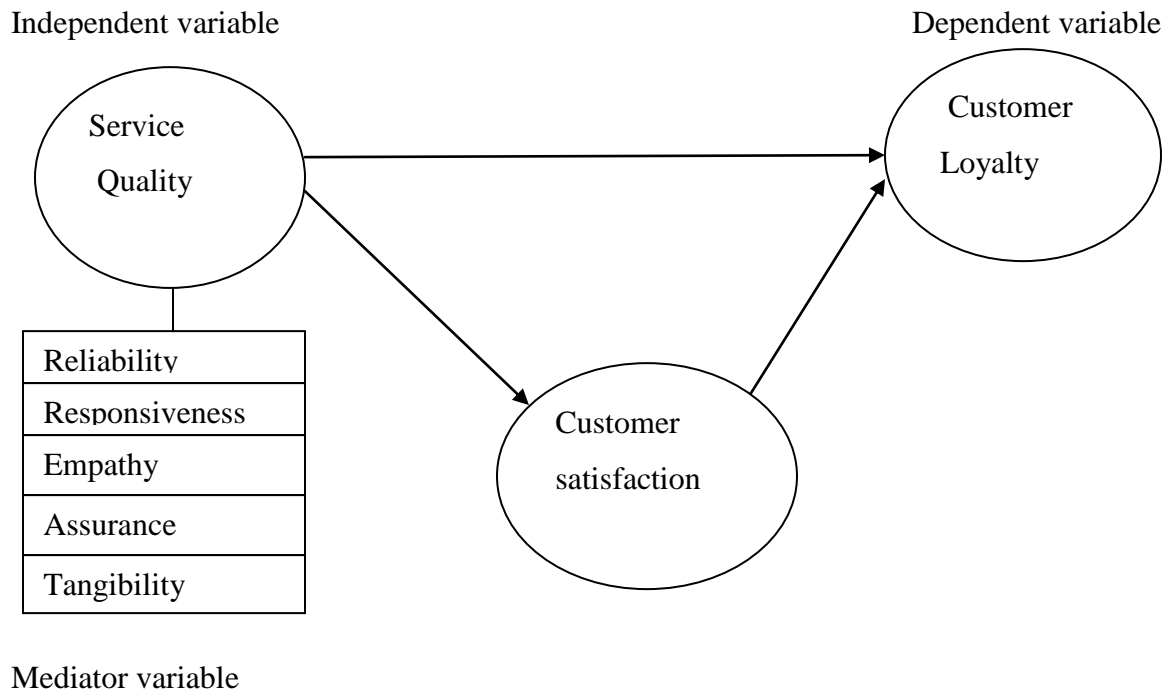


Figure 1: Proposed model

2.10. Hypothesis Development

This section examines and hypothesizes for the interrelationship between Service Quality (SERVQUAL), Customer Satisfaction (CS) and Customer loyalty (CL). Many researchers make the effort to find the interrelationships between service quality, customer satisfaction and customer loyalty in the retail banking environment. In order to respond to the research questions, the research hypotheses will be proposed as follows:

H1: Service quality has a significant and positive relationship on customer satisfaction of CBE.

H1a: Reliability has a significant and positive relationship on customer satisfaction.

H1b: Responsiveness has a significant and positive relationship on customer satisfaction.

H1c: Empathy has a significant and positive relationship on customer satisfaction.

H1d: Assurance has a significant and positive relationship on customer satisfaction.

H1e: Tangibility has a significant and positive relationship on customer satisfaction.

H2: Service quality has a significant and positive relationship on customer loyalty of CBE.

H2a: Reliability has a significant and positive relationship on customer loyalty.

H2b: Responsiveness has a significant and positive relationship on customer loyalty

H2c: Empathy has a significant and positive relationship on customer loyalty.

H2d: Assurance has a significant and positive relationship on customer loyalty.

H2e: Tangibility has a significant and positive relationship on customer loyalty.

H3: Customer satisfaction has significant and positive relationship on customer loyalty of CBE

H4: The service quality dimensions have a significant and positive relationship on Customer loyalty mediated by customer's satisfaction of CBE.

CHAPTER THREE

3. Research Methodology

The main focus of this chapter is to discuss the research design, population and sampling techniques, data collection, research procedures and the data analysis methods.

The research conducted using explanatory research method. In conducting these study primary sources of data used. The researcher tried to obtain information from primary sources through administering questionnaire from customers.

3.1 Research Design

The research design for this study was the Cross-sectional field survey method. In cross-sectional field surveys, independent and dependent variables were measured at a similar point using a single questionnaire. Along with the cross-sectional nature of this study, explanatory research design and correlation between dependent and independent variable employed for detail description of the findings displayed and develop inferences on the relationship among service quality, customer satisfaction and customer loyalty.

Regarding the research method, the researcher followed quantitative approaches. Quantitative approaches have been used for the data that was collected from respondents through a questionnaire.

3.2. Population and Sampling

Population states to the entire group of people that the objects of interest that a researcher wishes to investigate. It is a complete set of elements that possess some conjoint characteristic defined by the sampling criteria established by the researcher. It forms the basis from which the sample or subjects are drawn (Bryman & Bell , 2011).The total population of CBE customers within Addis Ababa District of selected 20 grade four branches over 861,000 this particular study used a sample size of 100. This is supported by Walliman, (2011) when the population (N) is beyond 5000; the population size is almost irrelevant meaning a researcher get an exact response from many respondents. In addition according to Glenn, (2013), a population of over 100,000 the appropriate sample size with a precision level of 10% and a confidence level of 95% the sample size can be 100. This study selected 5 respondents from every 20 grade four branches using convenient method making the sample size 100.The study used the convenient sampling method in

selecting the customer respondents. As noted by Saunders et al. (2007), convenient sampling technique is suitable where there is high homogeneity among the cases in the population. In this study, the researcher narrowed the population/participants to only grade four branches of CBE who were perceived to have more similar characteristics. Therefore from the target population of 861,000, the sample size selection is provided below

$$n = \frac{N}{1 + Ne^2}$$

Where: n = Sample size N = Population size e = (10% at 95% confidence level)

$$n = 861,000 / (1 + 861,000 * 0.1^2) = 100$$

3.3. Data Collection and Instrument

The researcher collected the relevant data from primary sources. The primary data gathered through structured questionnaire comprised of close ended questions. The questionnaire was the main method of gathering the relevant data in this study and distributed to customers who queuing in CBE branches for deposit, transfer and/or withdrawal of money from the branches and the questionnaire presented to customers in two languages (i.e. English & Amharic). And, the design of the close-ended question comprised of 5 point Likert scale.

3.4 Data Analysis and Interpretation

Quantitative analysis techniques were employed to demonstrate processed data in absolute terms through the use of descriptive statistical tools such as frequency and valid percentages and mediation analysis through regression was used to examine the magnitude to which mediator variable (customer satisfaction) mediates the connection between service quality and customer loyalty with the help of statistical Package for Social Sciences (SPSS Version 21) by employing descriptive and inferential analysis techniques.

3.5 Validity

Validity is concerned with whether the instrument (in this case surveys) measures what it is supposed to measure (Leedy and Ormrod, 2001) and whether it will lead to valid conclusions about service expectations in retail banking. Since quantitative survey research was conducted, the following issues around validity are evident. To ensure the issue of validity is considered the researcher used the specific instrument on this survey.

CHAPTER FOUR

4. Results and Discussions

4.1 Introduction

This chapter presents the analysis and findings of the research based on the data collected. The results are presented on the assessment of service quality, customer satisfaction and customer loyalty at Commercial Bank of Ethiopia (CBE) 20 selected branches under Addis Ababa District.

4.2. Background Information

This section offers general information about the study. It shows a number of responses by category that includes gender, age, level of education, years banked with CBE. Data were collected from 89 respondents from out of the targeted population 100.

Table 1: Respond Rate

Response	Frequency	Percentage
Responded	89	89
Not Responded	11	11
Total	100	100

Source: own survey

4.3. Demographic Characteristics of Respondents

This research was enclosed the main demographic characteristics such as gender, age groups, marital status, educational levels, the experience of customers with CBE, and type of job customer involved. Gender was considered to find out whether male or female customers have been highly involved in a bank transaction. The age group of respondents was considered to find out the age groups that were dominant in banking service specially CBE. Educational level was considered to find out the customers level of educations that were most engaged. Whereas, marital status was considered to uncover which marital status was more involved as a customer of CBE.

Likewise, a year of customer contact with CBE and the job of the customer were considered to consider the longevity of relationship existed with CBE and the job mostly involved by customer respectively. The findings were indicated below:

Table 2:Demographic profile of respondents

ITEMS	OPTIONS	FREQUENC Y	VALID PERCENT	CUMULATIV E PERCENT
Gender of Respondents	Male	49	55.10%	55.10%
	Female	40	44.90%	100.00%
	Total	89	100.00%	
Age in Years	? 20	1	1.10%	1.10%
	21-30	45	50.60%	51.70%
	31-40	27	30.30%	82.00%
	41-50	6	6.70%	88.80%
	> 50	10	11.20%	100.00%
	Total	89	100.00%	
Educational level	High school and below	23	25.80%	25.80%
	Diploma	15	16.90%	42.70%
	Bachelor degree	38	42.70%	85.40%
	Masters and above	13	14.60%	100.00%
	Total	89	100.00%	
Marital Status	Single	37	41.60%	41.60%
	Married	49	55.10%	96.6
	Divorced	1	1.10%	97.80%
	Widowed	2	2.20%	100.00%
	Total	89	100.00%	
How many years did you have banked with CBE?	< 1 Year	9	10.10%	10.10%
	1-5 years	24	27.00%	37.10%
	6-10 years	34	38.20%	75.30%
	11-15 years	10	11.20%	86.50%
	>15 years	12	13.50%	100.00%
	Total	89	100.00%	
The type of jobs that respondents participated	Student	5	5.60%	5.60%
	Employee	77	86.50%	92.10%
	Business Owner	6	6.70%	98.90%
	Others	1	1.10%	100.00%
	Total	89	100.00%	

Source: own survey

From the data presented in the table above, the majority (55.1%) of the customer was male and the remaining 44.9% of the customer was female. This indicates that out of 89 customers around 49 customers were male and the remaining 40 customers were female. Therefore, with insignificant variation both male and female customer visit CBE and obtain banking services.

From the data presented in table 2 above, the majority (50.6%) of the respondents were between the age group of 21-30 years old; 30.3% of the respondents were between the age group of 31-40 years old; 11.2% of the respondents were above the age group of 50 and the remaining 6.7% and 1.1% were between 41-50 years old and less than or equal to 20 years respectively. Therefore, the majority of the customers who visit CBE are youngsters and according to manager of Paulos branch justified that CBE is pioneer to expand banking products such as youth- teen account,

youth account, and women account, special deposit accounts and the like so this increases the customer bases of the bank especially young customers.

Regarding the educational level of the respondents, the above table portrays that, the majority (42.7%) of the respondents were BA/BSC holders; 25.8% were high school & below, and the remaining 16.9% & 14.6% were Diploma & Masters holders respectively. Therefore, the educational background of most customers is BA/BSC holders and/or high school & below. Interview results conducted from manager of Arada Giorgis branch and Finfine branch indicated that most educated peoples especially government employees are customers of CBE because different organizations and institutions have been insisted to handle and /or post their salary payment to various account of their employees and CBE as government bank play its role enhance saving habits of the society.

Regarding marital status, (55.1%) of the respondents was married; 41.6% of the respondents were single and the remaining 2.2 % & 1.1% were widowed & divorced respectively. Therefore, the majority of customers are married customers due to this CBE is aggressively advertised and cross-selling its products such as minor account and women account. From the table above, most (38.2%) of the respondents have an experience of 6-10 years as a customer of CBE; 27% had an experience of 1-5 years; 13.5% had greater than fifteen years; 11.2% had an experience of between 11-15 years and the remaining 10.1% had an experience of below one year with CBE. Therefore, the finding indicates that the customer base of CBE has been improving especially starting from recent time. This is an indicator of the bank that enhances the banking services of CBE. Regarding the job that the respondents participated; 86.5% of the respondents were employees; 6.7% were business owners; 5.6% were students; 1.1% was others. Therefore the majority of the customers are employees of different organizations and institutions both in the public & private sectors and business owners in micro, small, medium and large enterprises are

Table 3: Response on Reliability

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree
CBE promises to do something, they do	14.60%	7.90%	22.50%	39.30%	15.70%
When you have a problem, CBE show a sincere interest in solving it	12.40%	16.90%	15.70%	44.90%	10.10%
CBE performs the service right the first time	9.00%	10.10%	12.40%	52.80%	15.70%
CBE provides the service at the time they promise to do so	12.40%	16.90%	21.30%	37.10%	12.40%

Source: own survey

From the table above 55 percent of the respondents agreed that when CBE promise to do something by a certain time, they do, and again 55 percent of the respondents agreed that when a customer has a problem, CBE will show a sincere interest in solving it, as well 68.5 percent agreed the bank will perform the service right the first time. Also, 49.5 percent agreed that the banks will provide the service at the time they promise to do so.

According to the selected branch manager of CBE, the findings testify that customers are satisfied with the services provided by the bank as promised and handling (speed) of solving the problem. Customers are confident that banks will fulfill the promised terms and conditions which will not go against their (customers) interests. They further pointed out that reliability is one of the important factors of customer satisfaction.

Table 4: Response on Responsiveness

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree
An employee of CBE will tell customers exactly when services will be performed	9.00%	12.40%	14.60%	50.60%	13.50%
Employee of CBE will give prompt services to customers	9.00%	11.20%	7.90%	47.20%	24.70%
Employees of CBE will recommend appropriate products or services to customers	4.50%	12.40%	19.10%	33.70%	30.30%
Employees of CBE will inform customers about any change in their service	7.90%	7.90%	13.50%	44.90%	25.80%

Source: own survey

The study further sought to examine how responsiveness affects customer satisfaction at the commercial bank of Ethiopia (CBE). Table 4 presents descriptive statistics on how the respondents regarded various elements of bank responsiveness. The findings reveal that 64.10 percent of the respondents agree that employees of the bank will tell customers exactly when services will be performed. Additionally, 71.9 percent of the respondents agreed that employees of CBE will give prompt services to customers. In the same regard, 64 percent of the respondents agreed that indeed employees of the bank will recommend appropriate products or services to customers. On the other hand, 70.7 percent of the respondents agreed that employees of the bank inform customers about any change in their service.

According to the branch managers of CBE, the customers prefer a friendly bank, which is willing to help in their banking operations. Willingness to help customers is likely to have an important and positive effect on customer satisfaction in the retail banking sector in Ethiopia. Furthermore, they said that Responsiveness is a timely reaction towards the customers' needs. Responsiveness is positively related to customer satisfaction. Once again, bank officials said that the banks' customers are preferred to deal with the machines rather than human beings. Machines are made to have a shorter responding time compared to human beings, and their efficiency is being improved with a period. Human responsiveness sometimes can be affected by emotion, which results in low productivity.

Table 5: Response on Empathy

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree
CBE gives you individual attention	18.00%	20.20%	18.00%	28.10%	15.70%
CBE has operating hours convenient to all its customers	6.70%	6.70%	19.10%	40.40%	27.00%
Employee of CBE understand your needs	12.40%	15.70%	10.10%	43.80%	18.00%
CBE have effective communication with its customer	12.40%	11.20%	9.00%	46.10%	21.30%

Source: own survey

The study further sought to examine how empathy affects customer satisfaction at CBE. From the table above descriptive statistics on how the respondents regarded various elements of bank empathy. As seen in the table 43.8% of the respondents agreed that the bank will give customers

individual attention, 67.4% of the respondents agreed that CBE has operating hours convenient to the customers, 61.8% of the respondent responds that the bank have staffs that understand customers' needs, and the same result like operating hours 67.4% of respondent agree that employees of CBE have effective communication with their customers.

The bank managers said that they understood that Service customers often have expectations with regard to the extent to which the service provider appears to understand and be concerned about their individual needs and wants.

Table 6: Response on Assurance

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree
CBE gives you Confidentiality and privacy on transactions	10.10%	3.40%	19.10%	32.60%	34.80%
CBE has Well-trained employees who have the knowledge to answer customer questions	6.70%	11.20%	14.60%	40.40%	27.00%
Employee of CBE has Courtesy and competence	6.70%	5.60%	13.50%	44.90%	29.20%
Employees of CBE Providing banking services quality that gives value for your money	6.70%	9.00%	14.60%	41.60%	28.10%

Source: own survey

The study further sought to examine how Assurance affects customer satisfaction at CBE. Table 6 presents descriptive statistics on how the respondents regarded various elements of bank assurance. As seen in the table 67.4% of the respondents agreed that the bank will give customers confidentiality and privacy on various transaction, on the same percentage that is 67.4% of the respondents also agreed that CBE has well-trained employees who have the knowledge to answer customer questions, 74.1% of the respondent responds that the bank has employee with courtesy and competence, and 69.7% of the respondent agree that employee of CBE providing banking services quality that gives value for your money.

According to the bank managers, the customer will not be satisfied if he/she does not feel assured about the competence of the service provider. The bank managers also said that for them the Assurance is the degree of trust and confidence that the customer feels that the service provider is competent to supply the service. They contended that mostly this stems from the degree of confidence that the customer has in the service provider's staff.

Table 7: Response on Tangibility

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree
CBE gives you the cleanliness and appearance of bank's facilities	12.40%	19.10%	18.00%	38.20%	12.40%
CBE Use up to date equipment	12.40%	12.40%	15.70%	42.70%	16.90%
CBE staffs has a good appearance	7.90%	7.90%	14.60%	44.90%	24.70%
CBE has a good décor and atmosphere	11.20%	12.40%	7.90%	48.30%	20.20%

Source: own survey

The study sought to examine how tangibles affect customer satisfaction at the commercial bank of Ethiopia (CBE). Table 7 presents descriptive statistics on how the respondents regarded various elements of bank tangibles. The findings reveal that 50.6 percent of the respondents agree that CBE gives the cleanliness and appearance of the bank's facilities.

Additionally, 59.6 percent of the respondents agreed that CBE uses up to date equipment to customers. In the same regard, 69.6 percent of the respondents agreed that CBE staffs have a good appearance to customers. In addition to this 68.5 percent of customer's respondent that CBE has good decor and atmosphere.

The managers of the bank added that for effectiveness, machines are used to help the banks to provide faster and better services to their customers and the location of the branches also facilitate the transaction for those who are not using the machine. They asserted that mobile banking is spread all over the like bank, it promises 24 hours, 7 days non-stop service, customers are able to settle many manners without leaving their home or office, including check account balance, inter-bank transferred and loan settlement and others.

Many machines such as ATM machines, POS machines, and its functions also have been improved to serve a walk-in customer. These machines are being built in a way with less error, more accurate and less time to spend and they can work in an extended hour.

Table 8: Response on customer satisfaction

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly agree
I satisfied with the safety of bank transaction.	10.10%	11.20%	19.10%	44.90%	14.60%
I satisfied with the bank employees' attitude.	6.70%	12.40%	18.00%	44.90%	18.00%
I satisfied with the accuracy of information provided.	6.70%	11.20%	15.70%	48.30%	18.00%
I satisfied with the bank's facilities.	14.60%	14.60%	15.70%	41.60%	13.50%

Source: own survey

The study further sought to examine how overall service quality affects customer satisfaction at CBE. Table 8 descriptive statistics on how the respondents regarded their satisfaction on the commercial bank of Ethiopia As seen in the table 59.5% of the respondents agreed that satisfied with the safety of their transaction with the bank, 62.9% of the respondents agreed that their satisfaction with employee attitude with the bank, 66.3% of the customer agreed that with the accuracy of information from the bank and finally 55.1% of the customers satisfied with the banks facilities

Table 9: Response on customer loyalty

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly agree
I encourage friends and relatives to do business CBE	11.20%	9.00%	7.90%	44.90%	27%
I Intent to continue doing business with CBE	7.90%	10.10%	12.40%	46.10%	23.60%
I believe my present service supplier is a good service provider	7.90%	9.00%	11.20%	49.40%	22.50%
I doubt that I would switch to another banking service provider	23.60%	20.20%	19.10%	22.50%	14.60%

Source: own survey

The study further sought to examine how overall service quality affects customer loyalty at CBE. Table 9 descriptive statistics on how the respondents regarded their loyalty on the commercial bank of Ethiopia. As seen in the table 71.9% of the respondents agreed that they encourage friends and relatives to do business with the bank, 69.7% of the respondents agreed that they

intend to continue doing business with the bank, 71.9% of the customer agreed that the bank is a good service provider finally 37.10% of the customers have doubt in switching to other banks.

4.4 Reliability Test

Validity and reliability are the two important characteristics of every measure of materials such as a questionnaire. So before analyzing the collected data, the reliability of the main items of the questionnaire was tested by using Cronbach's alpha.

Table 10: Factor Loading

	Loading	Cronbach's Alpha	No of Items
Reliability	0.881	0.875	4
Responsiveness	0.853	0.868	4
Empathy	0.870	0.848	4
Assurance	0.820	0.849	4
Tangibility	0.813	0.878	4
customer satisfaction	0.895	0.932	4
customer loyalty	0.837	0.727	4

Source: own survey

4.4.1 Reliability

Cronbach alfa is used to measure the consistency of the scale. Cronbach alfa value of greater than 0.7 is acceptable (Hair, Black, Babin, & Anderson, 2010). From the Table 10, it can be seen that cronbach alfa values were greater than 0.7 for all the constructs. Therefore, reliability 28 items that are critical to determining the effect of service quality and customer loyalty mediated by customer satisfaction was reliable.

4.4.2 Validity

Convergent validity can be identified with the help of factor loading. If factor loading is greater than or =.07, then sufficient convergent validity is demonstrated (Hair, Black, Babin, & Anderson, 2010). All factor loading was higher than .7 signifying sufficient convergent validity

4.5 Correlation Analysis

Correlation between service quality dimensions, customer satisfaction and customer loyalty has been analyzed using Pearson measure. The relationship is indicated in the table below.

Table 11: Correlation results

Variable	1	2	3	4	5	6
1 Reliability						
2 Responsiveness	.765**					
3 Empathy	.737**	.680**				
4 Assurance	.625**	.696**	.758**			
5 Tangibility	.622**	.565**	.687**	.643**		
6 Customer Satisfaction	.768**	.693**	.753**	.619**	.706**	
7 Customer Loyalty	.728**	.692**	.572**	.570**	.647**	.788**

** . Correlation is significant at the 0.01 level.

Source: own survey

As shown in the objective and conceptual framework of this study, to test the relationship between service quality dimensions, customer satisfaction and customer loyalty the following correlation analysis is performed. From the above table all the service quality dimensions have a positive relationship with customer satisfaction and customer loyalty. The results indicate that, there is positive and strong relationship between reliability and customer satisfaction ($r = 0.768$, $p < 0.01$), empathy and customer satisfaction ($r = 0.753$, $P < 0.01$), tangibility and customer satisfaction ($r = 0.706$, $p < 0.01$) and there is a substantial and positive correlation among responsiveness and customer satisfaction ($r = 0.693$, $p < 0.01$) and assurance and customer satisfaction ($r = 0.619$, $p < 0.01$). From the same table there is a positive and strong relationship between reliability and customer loyalty ($r = 0.728$, $p < 0.01$) and there is a positive and substantial correlation between responsiveness, tangibility, empathy and assurance with customer loyalty. Finally there is a strong positive correlation among customer satisfaction and customer loyalty ($r = 0.788$, $P < 0.01$). Reliability has a very strong positive correlation with customer satisfaction ($r = 0.768$) and customer loyalty with ($r = 0.728$) among the service quality dimensions assurance the one which have the least correlation with customer satisfaction ($r = 0.619$) and loyalty ($r = 0.570$).

Table 12: Hierarchal linear regression results

Model 1				Model 2			Model 3		
	Beta	t	Sig.	beta	t	sig	beta	t	sig
(Constant)		5.010	0.000		1.919	0.059		1.838	0.070
gender	0.086	0.783	0.436	-0.059	-0.813	0.419	-0.048	-0.733	0.466
age	0.084	0.448	0.655	-0.060	-0.495	0.622	-0.067	-0.618	0.538
education	-0.072	-0.603	0.548	-0.027	-0.361	0.719	-0.018	-0.271	0.787
marital	-0.167	-1.237	0.220	-0.088	-1.031	0.306	-0.069	-0.902	0.370
years	-0.032	-0.179	0.858	0.027	0.235	0.815	0.054	0.509	0.612
jobs	0.142	1.318	0.191	0.107	1.525	0.131	0.081	1.285	0.203
Reliability				0.431	3.527	0.001	0.270	2.336	0.022
Responsiveness				0.263	2.222	0.029	0.192	1.785	0.078
Empathy				-0.172	-1.346	0.182	-0.316	-2.650	0.010
Assurance				0.026	0.204	0.839	0.060	0.531	0.597
Tangibility				0.341	3.336	0.001	0.206	2.132	0.036
Customer Satisfaction							0.501	4.432	0.000
R²	0.061			0.657			0.727		
ΔR²	0.061			0.595			0.071		
Adjusted R²	-0.07			0.608			0.684		
sig f change	0.502			0.000			0.000		

Source: own survey

To estimate the proposed theoretical framework, hierarchal linear regression modeling employed. Given the outcome variables (customer loyalty) in the framework, The first model 1 predicated by the six control variables, that is, gender, age, education, marital status, years of being a customer and the type of job. Model 1 accounted for 6.1% of the variance in customer loyalty.

The second model of analysis (Model 2) had customer loyalty as the dependent variable and predicted by service quality dimensions (reliability, responsiveness, empathy, assurance and tangibility) and the control variables. Adding up service quality dimensions to Model 1 significantly increased the R² by 65.7%. The variance in the dependent variable loyalty is explained by 65.7% of the predicted variables including the control variables; the change in R² (ΔR²) in model 2 describes when controlling the demographic characteristics 59.5% of the dependent variable loyalty explained by service quality attributes.

The third model of analysis (Model 3) had customer loyalty as the dependent variable and predicted by customer satisfaction, service quality dimensions (reliability, responsiveness, empathy, assurance and tangibility) and the control variables. Adding up customer satisfaction, service quality dimensions and control variables to Model 3 significantly increased the R² by

72.7% and the variance in the dependent variable loyalty is explained by 72.7% of the predicted variables including the control variables; the change in R^2 (ΔR^2) in model 3 describes when controlling the demographic characteristics 7.1% of the dependent variable loyalty explained by service quality attributes and customer satisfaction.

4.6 Regression Analysis

Basically, regression analysis was carried out in order to test the extent of the impact of independent variables on dependent variable. But before regression analysis is formulated it is better to take regression assumption test.

4.6.1 Regression Analysis Assumption Test

The first assumption, the regression model can be expressed in a linear way, implied that the regression model linearly as $y = \alpha + \beta_1x_1 + \beta_2x_2 + e$

The linearity of the relationships between the service quality dimensions and customer loyalty checked using scattered plot of service quality dimensions & customer loyalty.

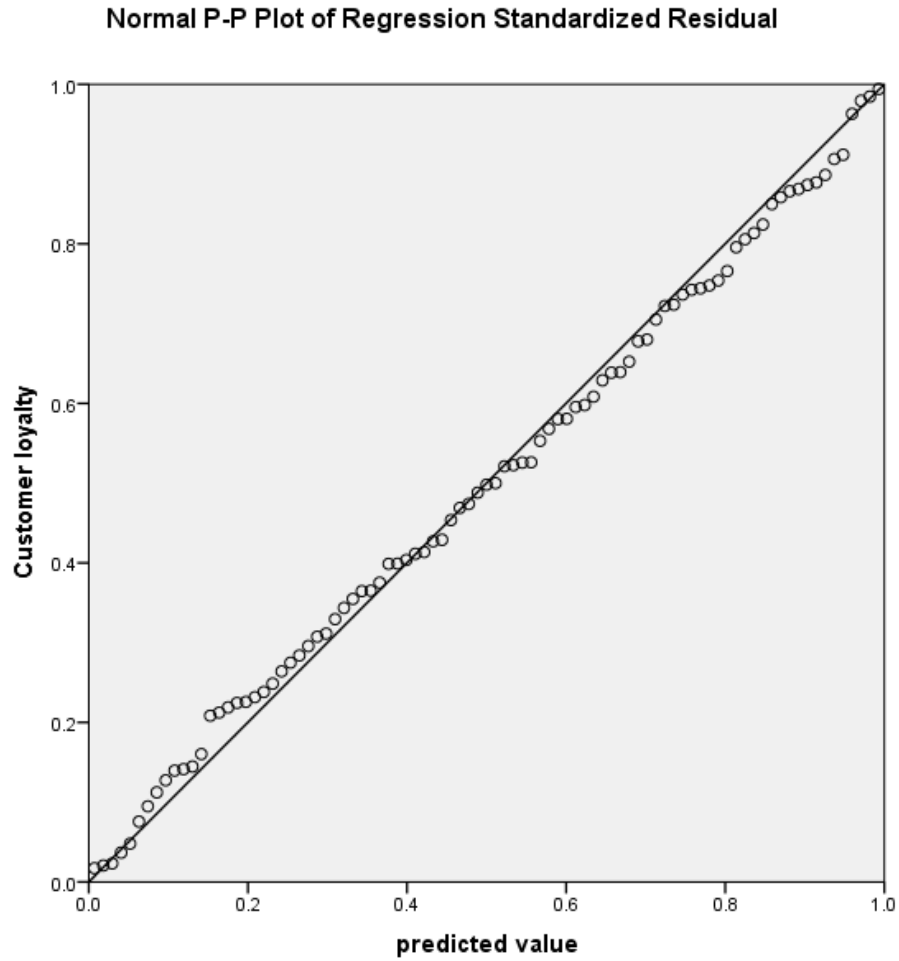


Figure 2: Scattered plot of predicted value and customer loyalty

The above scattered plot shows that all the values almost lies on the straight line. From this plot can be infer that the data comes from a normal distribution is straight and can be concluded there is a linearity between the values.

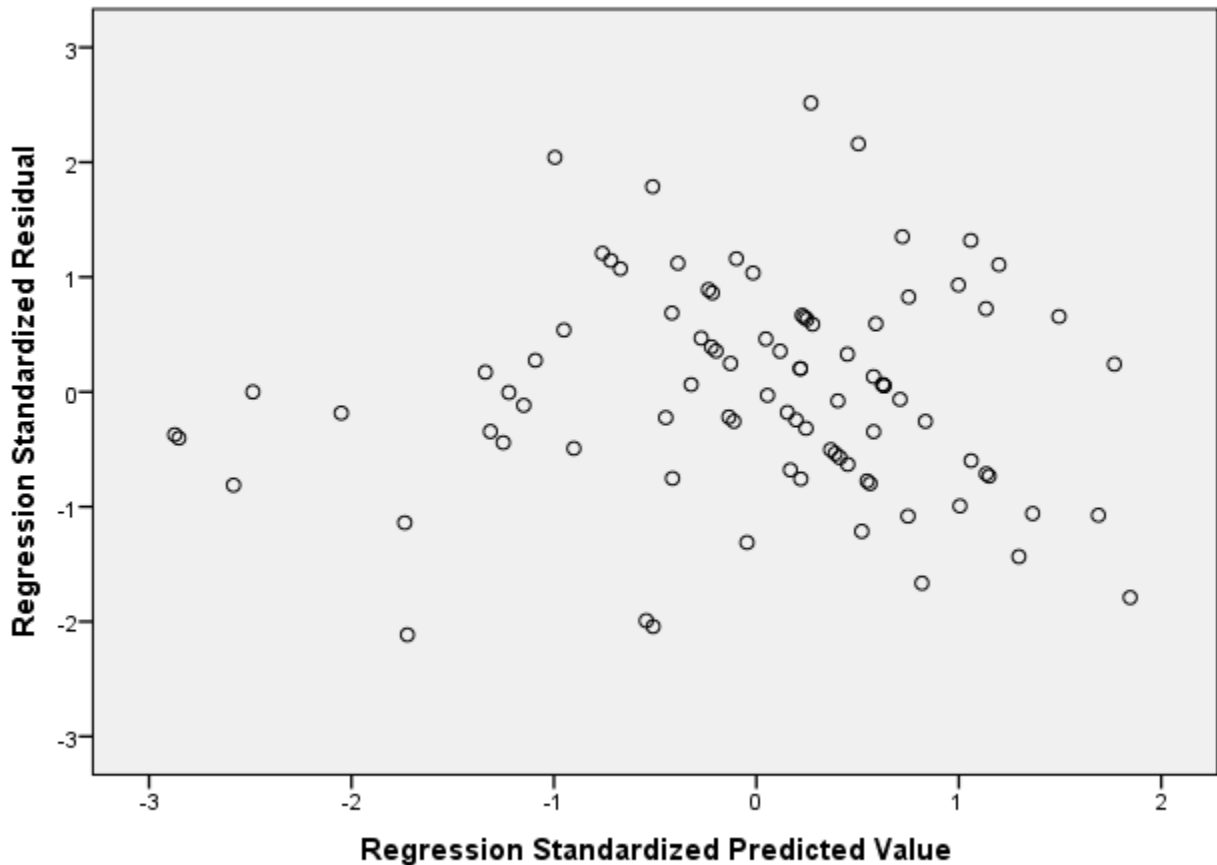


Figure 3: Regression standardized predicted value and residual

The second assumption homoscedasticity, the figure above shows a random displacement of score that take on a rectangular shape with no cluster or systematic pattern or the values falls on the x -axis and y-axis is between -3 and 3.This indicate that there is assumption of equal variance or homoscedasticity occurred.

The third assumption has to take the multi- co linearity test and check the VIF (variance inflation factor) and degree of tolerance. Thus, multi- co linearity analysis is performed to address the problem. Multi-Co linearity is a data issue that arises if two independent variables are highly correlated. Multi-co linearity occurs if more than two independent variables are highly correlated. Perfect multi-co linearity occurs if we enter two (or more) independent variables with exactly the same information in them (i.e., they are perfectly correlated).

Table 13: collinearity results

	Collinearity Statistics	
	Tolerance	VIF
Reliability	0.314	3.180
Responsiveness	0.336	2.978
Empathy	0.290	3.452
Assurance	0.345	2.900
Tangibility	0.471	2.121

Source: own survey

Multi-co-linearity is the situation in which the independent variables are highly correlated. According to (Ho,et.,al,2006), if tolerance values are above 0.1 and variance inflation factor, which is $1/\text{tolerance}$ is less than 10, thus it's possible to construct a regression model. As we can see it from table the tolerance value for all service quality dimensions are above 0.1 and the VIF is less than 10, thus the study conclude that there is no multi-co-linearity problem so that regression can be run.

4.7 Baron and Kenny's (1986) Three-Step Mediating Analysis

A variable may be considered a mediator to the extent to which it carries the influence of a given independent variable to a given dependent variable. Hence, a mediator accounts for the relationship between an independent variable and the dependent variable. Mediation can be said to occur when...

1. The independent variable significantly affects the mediator,
2. The independent variable significantly affects the dependent variable in the absence of them mediator,
3. The effect of the independent variable on the dependent variable shrinks upon the addition of the mediator to the model.

The central consideration of mediation analysis is that there is a significant relationship between the independent variable (X) and outcome (Y) through the mediator (M). The researcher follows Preacher and Hayes's (2004) approach and bootstrap the sampling distribution of the indirect effect.

Table 14: Regression analysis of reliability on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	0.80007	0.2485	3.2217	0.0018
Reliability	0.7961	0.0712	11.1768	0.000

Source: own survey

Table 14 indicates the beta value for the predictor variable (reliability) is 0.7961 for customer satisfaction with the p-value of 0.000 the direct path from reliability to customer satisfaction is positive & statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.7961) implies a unit increase with reliability results a 79.61 % increase in customer satisfaction.

Table 15: Regression analysis of reliability and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	0.9034	0.2091	4.3213	0.0000
Reliability	0.2690	0.0884	3.0435	0.0031
Customer satisfaction	0.4838	0.0852	5.6756	0.0000

Source: own survey

Table 15 indicates the beta value for the reliability is 0.2690 for customer loyalty with the p-value of 0.0031 the direct effect of reliability to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.2690) implies a unit increase with reliability results a 26.90 % increase in customer loyalty. The beta value for customer satisfaction is 0.4838 with p-value of 0.000 the direct effect of customer satisfaction to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, a unit increase with customer satisfaction results a 48.38% increase in customer loyalty.

Table 16: Mediation analysis of reliability, customer satisfaction & customer loyalty

Direct effect of reliability & customer loyalty				
	effect	se	t	p
	0.2690	0.0884	3.0435	0.0031
Indirect Effect of reliability & customer loyalty				
	effect	BootSE	BootLLCI	BootULCI
Customer satisfaction	0.3851	0.0736	0.2484	0.5373
Total effect Model				
	effect	se	t	p
constant	1.2908	0.2303	5.6039	0.0000
Reliability	0.6541	0.066	9.9095	0.0000

Source: own survey

Direct correlation between reliability and customer loyalty is at a beta coefficient of 0.2690 and p value 0.0031 which is positive and significant. A positive & significant relationship exists between reliability and satisfaction with beta 0.7961 and p value 0.000. A notable association between satisfaction and loyalty is observed at beta coefficient of 0.4838 and p value 0.000 meaning that a significant and positive direct relationship exists without customer satisfaction. The mediation occurs at the path with 0.7961 and 0.4838 are multiplied and result to 0.3851. This shows that the indirect effect (mediation) has a strong relationship than the direct relationship of reliability and loyalty. And when 0 falls outside the confidence interval, then the indirect effect is inferred to be non-zero, in this case the indirect effect (IE=0.3851) is statically significant at 95% confidence interval (0.2484, 0.5373). Customer satisfaction partially mediates the link that exists between reliability and customer loyalty using non-parametric boot strapping.

Table 17: Regression analysis of responsiveness on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	0.7221	0.3159	2.2857	0.0247
Responsiveness	0.7484	0.0835	8.9612	0.0000

Source: own survey

Table 17 advanced that the beta value for the predictor variable (responsiveness) is 0.7484 for customer satisfaction with the p-value of 0.000 the direct path from responsiveness to customer satisfaction is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.7484) implies a unit increase with responsiveness results a 74.84 % increase in customer satisfaction.

Table 18: Regression analysis of responsiveness and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	0.7346	0.2284	3.2169	0.0018
Responsiveness	0.2630	0.0813	3.2341	0.0017
Customer satisfaction	0.5143	0.0753	6.8334	0.0000

Source: own survey

From the table above beta value of responsiveness is 0.2630 for customer loyalty with the p-value of 0.0017 the direct effect of responsiveness to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.2630) implies a unit increase with responsiveness results a 26.30 % increase in customer loyalty. The beta value for customer satisfaction is 0.5143 with p-value of 0.000 the direct effect of customer satisfaction to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, a unit increase with customer satisfaction results a 51.43% increase in customer loyalty.

Table 19: Mediation analysis of responsiveness, customer satisfaction and customer loyalty

Direct effect of responsiveness & customer loyalty				
	effect	se	t	p
	0.2630	0.0813	3.2341	0.0017
Indirect Effect of responsiveness & customer loyalty				
	effect	BootSE	BootLLC	BootULCI
Customer satisfaction	0.3849	0.0792	0.2338	0.5443
Total effect Model				
	effect	se	t	p
constant	1.106	0.2739	4.0377	0.0000
Responsiveness	0.6479	0.0724	8.9473	0.0000

Source: own survey

Direct relationship between responsiveness and customer loyalty is at a beta coefficient of 0.2630 and p value 0.0017 which is positive and significant. A positive and significant correlation exists between responsiveness and customer satisfaction with beta 0.7484 and p value 0.000. A notable association between satisfaction and loyalty is observed at a coefficient of 0.5143 and p value 0.000 meaning that a direct relationship exists without customer satisfaction. The mediation or the indirect effect occur at the path with 0.7484 and 0.5143 are multiplied and result to 0.3849. This shows that the indirect relation has a strong relationship than the direct relationship of responsiveness and loyalty. And when 0 falls outside the confidence interval, then the indirect effect is inferred to be non-zero, in this case the indirect effect (IE=0.3849) is statically significant at 95% confidence interval (0.2338, 0.5443). Customer satisfaction partially mediates the link that exists between responsiveness and customer loyalty using non-parametric boot strapping.

Table 20: Regression analysis of empathy on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	0.8299	0.2574	3.2241	0.0018
Empathy	0.7667	0.0719	10.6654	0.0000

Source: own survey

Table 20 advanced that the beta value for the predictor variable (Empathy) is 0.7667 for customer satisfaction with the p-value of 0.000 the direct path from empathy to customer satisfaction is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.7667) implies a unit increase with empathy results a 76.67 % increase in customer satisfaction.

Table 21: Regression analysis of empathy and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	1.1499	0.2215	5.1912	0.0000
Empathy	-0.0433	0.0888	-0.4879	0.6268
Customer satisfaction	0.7150	0.0872	8.1998	0.0000

Source: own survey

From the table above beta value of empathy is -0.0433 for customer loyalty with the p-value of 0.6268 the direct effect of empathy to customer loyalty is negative and statistically insignificant at $p < 0.01$. Therefore, the beta coefficient (Beta= -0.0433) implies a unit increase with reliability results a 4.33 % decrease in customer loyalty.

Table 22: Regression analysis of assurance on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	0.8906	0.3602	2.4727	0.0154
Assurance	0.6803	0.0925	7.3526	0.0000

Source: own survey

Table 22 indicates that the beta value for the predictor variable (Assurance) is 0.6803 for customer satisfaction with the p-value of 0.000 the direct path from assurance to customer satisfaction is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.6803) implies a unit increase with assurance results a 68.03 % increase in customer satisfaction.

Table 23: Regression analysis of assurance and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	0.8808	0.2507	3.5138	0.0007
Assurance	0.1269	0.0793	1.6007	0.1131
Customer satisfaction	0.6115	0.0721	8.4781	0.0000

Source: own survey

From the table above beta value of assurance is 0.1269 for customer loyalty with the p-value of 0.1131 the direct effect of assurance to customer loyalty is positive but statistically insignificant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.1269) implies a unit increase with assurance results a 12.69 % increase in customer loyalty. The beta value for customer satisfaction is 0.6115 with p-value of 0.000 the direct effect of customer satisfaction to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, a unit increase with customer satisfaction results a 61.15% increase in customer loyalty.

Table 24: Regression analysis of tangibility on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	1.0593	0.2698	3.9262	0.0002
Tangibility	0.6873	0.0738	9.3093	0.0000

Source: own survey

Table 24 advanced that the beta value for the predictor variable (Tangibility) is 0.6873 for customer satisfaction with the p-value of 0.000 the direct path from tangibility to customer satisfaction is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.6873) implies a unit increase with reliability results a 68.73 % increase in customer satisfaction.

Table 25: Regression analysis of tangibility and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	0.9635	0.2169	4.4421	0.0000
Tangibility	0.1521	0.0773	1.9677	0.0523
Customer satisfaction	0.5726	0.0794	7.2068	0.0000

Source: own survey

From the table above beta value of tangibility is 0.1521 for customer loyalty with the p-value of 0.0523 the direct effect of tangibility to customer loyalty is positive and statistically insignificant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.1521) implies a unit increase with tangibility results a 15.21 % increase in customer loyalty. The beta value of customer satisfaction is 0.5726

for customer loyalty with p-value of 0.000 the direct effect of customer satisfaction to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, a unit increase with customer satisfaction results a 57.26% increase in customer loyalty.

Table 26: Regression analysis of service quality on customer satisfaction

Outcome variable				
Customer satisfaction				
	B	se	t	p
constant	-0.0566	0.2675	-0.2117	0.8328
Service quality	0.9939	0.0734	13.5325	0.0000

Source: own survey

Table 26 indicates that the beta value for the predictor variable (service quality) is 0.9939 for customer satisfaction with the p-value of 0.000 the direct path from service quality to customer satisfaction is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.9939) implies a unit increase with reliability results a 99.39 % increase in customer satisfaction.

Table 27: Regression analysis of service quality and customer satisfaction on customer loyalty

Outcome variable				
Customer loyalty				
	B	se	t	p
constant	0.7426	0.2429	3.0573	0.0030
Service quality	0.3141	0.1175	2.6733	0.0090
Customer satisfaction	0.4688	0.0973	4.8163	0.0000

Source: own survey

From the table above beta value of service quality is 0.3141 for customer loyalty with the p-value of 0.0090 the direct effect of service quality to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, the beta coefficient (Beta=0.3141) implies a unit increase with service quality results a 31.41 % increase in customer loyalty. The beta value for customer satisfaction is 0.4688 with p-value of 0.000 the direct effect of customer satisfaction to customer loyalty is positive and statistically significant at $p < 0.01$. Therefore, a unit increase with customer satisfaction results a 46.88% increase in customer loyalty.

Table 28: Mediation analysis of Service Quality, customer satisfaction and customer loyalty

Direct effect of Service quality & customer loyalty				
	coeffi	se	t	p
	0.3141	0.1175	2.6733	0.0090
Indirect Effect of Service quality & customer loyalty				
	coeff	BootS E	BootLLCI	BootULCI
Customer Satisfaction	0.4659	0.1099	0.2721	0.7056
	coeff	se	t	p
Service quality	0.7800	0.0747	10.4419	0.0000

Source: own survey

Direct relationship between service quality and customer loyalty is at a beta coefficient of 0.3141 and $p=0.0090$ which is positive and significant. A positive and significant correlation exists between service quality and satisfaction with beta 0.9939 and p value 0.000. A notable association between satisfaction and loyalty is observed at a coefficient of 0.4688 and $p=0.000$ meaning that a direct relationship exists without customer satisfaction. The mediation occur at the path with 0.9939 and 0.4688 are multiplied and result to 0.4659. This shows that the indirect relation has a strong relationship than the direct relationship of service quality and loyalty. And when 0 falls outside the confidence interval, then the indirect effect is inferred to be non-zero, in this case the indirect effect (IE=0.4659) is statically significant at 95% confidence interval (0.2634, 0.7028). Customer satisfaction partially mediates the link that exists between service quality and customer loyalty using non-parametric boot strapping.

Figure 4 Indirect effect of service quality on customer loyalty through customer satisfaction

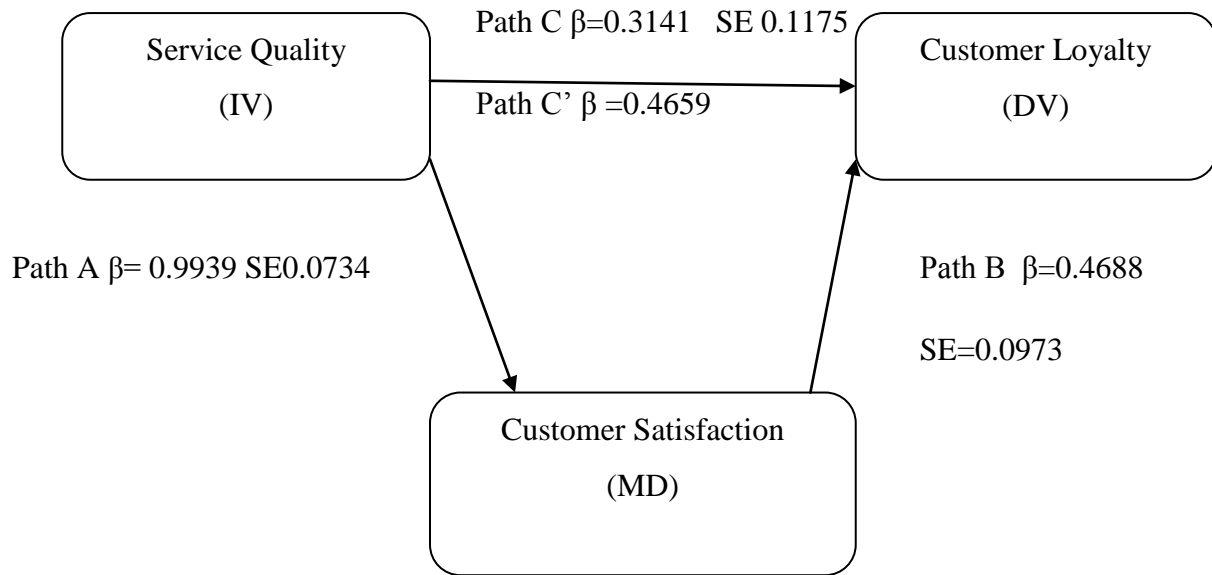


Table 29: Hypothesis Testing

Hypothesis	Evidence	Conclusion
H1: Service quality has a significant and positive relationship on customer satisfaction	Beta=0.9939 P= 0.0000	Support
H1a:Reliability has a significant and positive relationship on customer satisfaction	Beta=0.7961 P=0.000	Support
H1b:Responsiveness has a significant and positive relationship on customer satisfaction	Beta=0.7484 P=0.000	Support
H1c:Empathy has a significant and positive relationship on customer satisfaction	Beta=0.7667 P=0.000	Support
H1d:Assurance has a significant and positive relationship on customer satisfaction	Beta=0.6803 P=0.000	Support
H1e:Tangibility has a significant and positive relationship on customer satisfaction	Beta=0.6873 P=0.000	Support
H2: Service quality has a significant and positive relationship on customer loyalty	Beta=0.3141 P=0.0090	Support
H2a:Reliability has a significant and positive relationship on customer loyalty	Beta=0.2690 P=0.000	Support
H2b:Responsiveness has a significant and positive relationship on customer loyalty	Beta=0.2630 P=0.0017	Support
H2c:Empathy has a significant and positive relationship on customer loyalty	Beta=-0.0433 P=0.6268	Not Support
H2d:Assurance has a significant and positive relationship on customer loyalty	Beta=0.1269 P=0.1131	Not Support
H2e:Tangibility has a significant and positive relationship on customer loyalty	Beta=0.1521 P=0.0523	Not Support
H3: Customer satisfaction has significant and positive relationship effect on customer loyalty of CBE	Beta=0.4688 p=0.000	Support

Source: own survey

4.8 Chapter Summary

The first hypothesis of the study (H₁) advanced that there is a positive and significant relationship between service quality dimensions and customer satisfaction in CBE. The study produced results statistically support this hypothesis, given $\beta = .9939$; $p = 0.000$ $p < .01$. A one unit increase in service quality results a 0.99 increase in customer satisfaction. This finding indicates that an average customer of CBE would significantly be more satisfied with a service provided by its banker when he/she perceives the bank's service quality of services/operations is relatively higher.

Although focusing on the variables dimensions of service quality is necessary to improving customer satisfaction. All the dimensions of service quality: reliability, responsiveness, empathy, assurance and tangibility have significant effect on customer satisfaction.

Hypothesis two (H2) stated there is a positive and significant relationship between service quality and customer loyalty at CBE. The study's results: $\beta = 0.3141$; $p = 0.0090$, $p < .01$ statistically supported this hypothesis. A one unit increase in service quality results a 0.3141 increase in customer loyalty. This finding of the study means that customers of CBE were more likely to be loyal by their bankers.

Further analysis of the data collected revealed that among the five dimensions of service quality, reliability ($\beta = .2690$; $p = 0.000$, $p < .01$) and responsiveness ($\beta = .2630$; $P = 0.0017$, $p < .01$) have a significant and positive effect on customer loyalty in the CBE within the research context. These results thus indicate that if management of the bank should focus on improving these dimensions of service quality, then, would stand a better chance of retaining most of their customers.

The third hypothesis (H3) stated the positive connection between customer satisfaction and customer loyalty in CBE. The results provided by the study statistically supported this hypothesis, given $\beta = .4688$; $t = 4.8163$, $p < .01$. A one unit increase in customer service results a 0.4688 increase in customer loyalty.

The last hypothesis of the study (H4) states that there is a mediation effect of customer satisfaction between customer loyalty and service quality at CBE. The findings of the study partially support this hypothesis, given that there was also a statistically significant relationship between the predictor variable (i.e. service quality) and the outcome variable (i.e. customer loyalty). The outcome obtained from the research work indicates that, within the research context, satisfaction of the customer partially mediates the link that exists between service quality and customer loyalty through service quality dimensions (reliability and responsiveness). Computations done on the direct and the indirect effects of service quality on customer loyalty revealed that the indirect effect is tested using non-parametric boot strapping. If the null of 0 falls between the lower and upper bound of the 95% confidence interval and 0 falls outside the confidence interval, then the indirect effect is inferred to be non-zero in this case the indirect effect ($IE = 0.4659$) is statically significant at 95% confidence interval (0.2634, 0.7028) and there is a partial mediation in the study.

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1 Introduction

This chapter provides a summary of the findings of the study and the implications of these findings. It also provides summary, conclusion followed by recommendations for improving bank services, customer satisfaction and customer loyalty at Commercial Bank of Ethiopia.

5.2 Summary

In summary, this research is to investigate the relationship between bank service quality dimensions and customer loyalty mediated by customers' satisfaction.

The main purpose of the study was to assess the service quality, customer loyalty and customer satisfaction at Commercial Bank of Ethiopia. The study was guided by the following research questions: What is the effect of SERVQUAL Dimensions on customer satisfaction? What effect does customer satisfaction have on Customer loyalty? What is the effect of service quality dimensions on Customer loyalty? Does customer satisfaction mediate the relationship between service quality and customer loyalty.

The study adopted a survey research design targeting customers of CBE in Ababa Districts from which a sample size of 100 respondents was selected. Convenient sampling technique was used to select the sample size. Primary data was collected using a questionnaire where only 89 of the questionnaires were returned.

The results of the study show that the majority of respondents are male (55.1%) while 44.9% are female; 50.6% of respondents are within the age bracket 21–30years and 30.3% of the respondents were under the age group of 31-40 years old. Therefore, the majority of the customers who visit CBE are youngsters the managers justified that CBE is pioneer to expand banking products such as youth- teen account, youth account, and women account, special deposit accounts and the like so this increases the customer bases of the bank especially young customers. Regarding the educational level of the respondents, the majority (42.7%) of the respondents were BA/BSC holders.

The study revealed that there was a positive and significant relationship between customer satisfaction & the SERVQUAL dimensions at CBE. The study further revealed that there was a positive and significant relationship between reliability and loyalty with (beta, 0.2690 and p-value 0.000 which was less than 0.01 it leads that reliability significantly influences loyalty. At the same time there is also a positive and significant relationship between responsiveness & customer loyalty with (beta 0.2630 and p-value 0.000 which is less than 0.01. So, responsiveness influence customer loyalty significantly. Moreover there was also a positive connection between customer satisfaction and customer loyalty in CBE. The results provided by the study statistically supported, given $\beta = .4688$; $t = 4.8163$, $p < .01$. The study advanced there is a positive relationship between service quality and customer loyalty with $\beta = 0.3141$; $t = 2.673$, $p < .01$ which is 0.0090. Finally the outcome obtained from the research work indicates that, within the research context, satisfaction of the customer partially mediates the link that exists between service quality and customer loyalty through reliability and responsiveness using non-parametric bootstrapping. If 0 falls outside the confidence interval, then the indirect effect is inferred to be non-zero in this case the indirect effect (IE=0.4659) is statically significant at 95% confidence interval (0.1311, 0.8349) and there is a partial mediation in the study.

5.3 Conclusion

The findings of the study are very vital for management and employees of the bank. The study concluded that customer loyalty is dependent on both service quality and customer satisfaction. Customer satisfaction mediates the relationship between service quality and loyalty. It is very significant to note that all the service quality attributes namely reliability, responsiveness, empathy, assurance and tangibility, have an impact on customer satisfaction and reliability and responsiveness have a positive and significant effect on customer loyalty, when it comes to mediation, Customer Satisfaction partially mediates between reliability and responsiveness, to Customer loyalty. The positive relationship between reliability, customer satisfaction and loyalty means that as bank employees' performance and reliability increase, customer satisfaction and customer loyalty also increase. At the same time as the willingness and ability of bank employees' increase, customer satisfaction and loyalty also increases.

The study concluded that bank management needs to identify this and formulate their strategies accordingly. It is quite essential to aware the employees regarding findings and it is also quite good to conduct awareness and training programmers for bank employees based on the findings.

On the other hand, customer satisfaction works as a mediator and having direct influence on customer loyalty as well. The satisfied customers are always asserts to a company thus, it is highly required to make a customer friendly environment. It is a requirement to keep on communicating with existing customers to make sure them to be continuously loyal.

5.4 Recommendation

Based on the findings the researcher here by recommends the following suggestions that should be implemented.

- ❖ It is to keep up quality services rendered to customers upon its request promptly and provide promised service to the views of customers, their needs and problems they may encounter to reach the higher level of service.
- ❖ It is to innovate new ways of enhancing the way they respond to customer needs so as to avoid service breakdowns. This can well be achieved through the new communication channels such as the Internet or mobile telecommunication. This will go a long way in enhancing customer satisfaction and the customers become loyal to their product.
- ❖ It is better to improve the number and quality of employees through hiring and training employees regarding how to delight customer, how to handle challenging customers and courteousness, protocol and communication skills and other technical related skills could be done through continuous training of the staff that should be designed according to the area of responsibility/ assigned tasks to improve all rounded achievements.
- ❖ It is better to continually improve the standard of confidentiality/secretcy of information through information security systems and the need to build strong customer confidence on the Bank.
- ❖ It is better to review suggestions and comments customers provide on suggestion box and act accordingly.
- ❖ It is better to improve the way of professionally assessing branch's operational situation with respect to customer waiting time, approaches of front line and back office staffs

towards customer handling and informally discuss with customers and staffs about the problem and propose to resolve it.

- ❖ It is better to keep up its assessment on the functionality of the ATM, POS, and card activation rate, improvements in the atmosphere of the branches, better shelves and space management, clear clean walkways and present strategies to satisfy keep customers loyal.
- ❖ Commercial Bank of Ethiopia managers better to emphasize to reliability(i.e. being dependable in their service delivery and offer uninterrupted services) and responsiveness(i.e. promptly responding to customers' request) of the service quality dimensions in maintaining and keeping the customers to satisfied & become loyal to the bank.

5.5 Areas for Further Research

Several issues, associated with the limitations inherent in this study, require further research considerations. Future researches should concentrate on a bigger sample size of CBE and all private banks in Ethiopia. In addition, more decision making variables should also be considered in the research model.

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APPENDICES

Appendix.1

Dear Sir/Madam

This questionnaire is intended to be used as primary data for master's thesis of my MBA in financial service at Addis Ababa University on "The effect of service quality on customer loyalty mediated by customer satisfaction at Commercial Bank of Ethiopia". As a customer of these banks, your participation in this study will be valuable and greatly appreciated. Information gathered will be treated with the utmost confidentiality and will not be used for any other purpose.

Instruction for filling the questionnaire

Please read each statement carefully and put the tick () mark under the choice, write your opinion on the blank space and encircle your choice for the questions indicated in the table (encircle your best indicated from 1 to 5 alternative in the Likert scale part.

Thank you in advance for your cooperation, dedication and sparing your time and energy in filling this questionnaire.

Part I: Demographic or personal information (please tick () mark)

1. Gender: Male Female

2. Age

Less than 20

21-30

31-40

41-50

More than 50

3. Educational level

High school & below

Diploma

Bachelor degree

Master or higher

4. Marital status

Single

Married

Divorced

Widowed

5. How many years did you have contact with CBE

Less than one year

1-5 years

6-10 years

11-15 years

More than 15 years

6. The type of jobs that respondents participated

Student

Employee

Agriculture and related

Business owner

If others, specify _____

Part II: Respondents perception about Service quality of CBE

Respondent's level of agreement on the issues below: This part is kindly requires you to express your view on the issue being asked appropriately; 1 = strongly disagree - SD, 2 =disagree –DA, 3=Not sure- NS, 4 =agree – A, 5=strongly agree –SA.

No.	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Reliability Statement					
1	CBE promises to do something, they do					
2	When you have a problem, CBE shows a sincere interest in solving it.					
3	CBE performs the service right the first time					
4	CBE provides the service at the time they promise to do so					

No.	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Responsiveness Statement					
1	Employee of CBE will tell customers exactly when services will be performed					
2	Employee of CBE will give prompt services to customers					
4	Employees of CBE will recommend appropriate products or services to customers					

	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Empathy Statement					
1	CBE gives you individual attention					
2	CBE has operating hours convenient to all its customer					
3	Employee of CBE understand your needs					
4	CBE have effective communication with its customer					

No	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Assurance Statement					
1	CBE gives you Confidentiality and privacy on transactions					
2	CBE has Well-trained employees who have the knowledge to answer customer questions					
3	Employee of CBE has Courtesy and competence					
4	Employees of CBE Providing banking services quality that gives value for your money					

No.	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Tangibility Statement					
1	CBE gives you the cleanliness and appearance of bank's facilities					
2	CBE Use up to date equipment					
3	CBE staffs have a good appearance					
4	CBE has a good décor and atmosphere					

No.	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Satisfaction Statement					
1	I satisfied with the safety of bank transaction.					
2	I satisfied with the bank employees' attitude.					
3	I satisfied with the accuracy of information provided.					
4	I satisfied with the bank's facilities.					

No.	Items	SD (1)	DA (2)	N (3)	A (4)	SA (5)
	Loyalty Statement					
1	I encourage friends and relatives to do business CBE					
2	I Intent to continue doing business with CBE					
3	I believe my present service supplier is a good service provider					
4	I doubt that I would switch to another banking service provider					

ለደንበኞች የተዘጋጀ መጠይቅ
አዲስ አበባ ዩኒቨርሲቲ
የቢዝነስ እና ኢኮኖሚክስ ኮሌጅ
የፋይናንሻል አገልግሎት የትምህርት ክፍል
ኤምቢኤ ፕሮግራም

ውድ አቶ/ወ/ሮ

ይህ መጠይቅ በአዲስ አበባ ዩኒቨርሲቲ ውስጥ በፋይናንሻል አገልግሎት “ በኢትዮጵያ ንግድ ባንክ የአገልግሎት ጥራት እና የደንበኛ ታማኝነት መካከል ባለው ዝምድና የደንበኛ እርካታ ሚና” በሚል ርዕስ የተዘጋጀ የኤምቢኤ የማስተርስ መመሪያ ጽሁፍ የመጀመሪያ መረጃ ሆኖ እንዲያገለግል የታሰበ ነው። የዚህ ባንክ ደንበኛ እንደመሆንዎት መጠን፣ በዚህ ጥናት ውስጥ የሚያደርጉት ተሳትፎ ዋጋ የሚሰጠው ሲሆን ትልቅ ምስጋና እቀርባለሁ። የተሰበሰበው መረጃ ተገቢ በሆነው የሚስጥራዊ መረጃ አያያዝ የሚጠበቅ ሲሆን ለሌላ ለማንኛውም አላማ አገልግሎት ላይ አይውልም።

መጠይቁን መሙያ ትዕዛዝ

ስለትብብርዎ፣ ለስራ ስላሳዩን ፍላጎት እና ጊዜዎትን እና ጉልበትዎትን ይህንን መጠይቅ ለመሙላት ስላዋሉ በቅድሚያ አመሰግናለሁ።

የእርስዎ አክባሪ
ሄናክ ሽብሩ

ክፍል 1- የህዝብ መረጃ ወይም የግለሰብ መረጃ ጥያቄዎች (አባክዎን የ (✓) ምልክት ያድርጉ)

1. ጾታ: ወንድ ሴት

2. እድሜ

ከ 20 በታች

21-30

31-40

41-50

ከ 50 በላይ

3. የትምህርት ደረጃ

ሁለተኛ ደረጃ እና በታች

ዲፕሎማ

ባችለር ድግሪ

ማስተርስ ወይም ከዚያ በላይ

4. የጋብቻ ሁኔታ

ያላገባ

ያገባ

የተፋታ

የሞተበት

5. ከኢትዮጵያ ንግድ ባንክ ጋር ለምን ያህል ዓመታት የቆየ ግንኙነት አልዎት ?

ከአንድ አመት በታች

1-5 አመታት

6-10አመታት

11-15 አመታት

ከ 15 አመታት በላይ

6. የመጠይቅ መላሾች የስራ አይነት

ተማሪ

ሰራተኛ

ግብርና እና ተያያዥ

የንግድ ባለቤ

ሌላ ካለ ግለጽ _____

ክፍል 2: ስለ ኢትዮጵያ ንግድ ባንክ የአገልግሎት ጥራት ተጠያቂዎች ያላቸው አመለካከት
 የተጠያቂዎች የስምምነት ደረጃ ከታች በተሰጡት ጉዳዮች ላይ፡ ይህ ክፍል በተገቢው ሁኔታ በሚጠየቀው ጉዳይ ላይ ያሉትን አመለካከት እንዲገልፁ የሚደረግበት ነው። ስለዚህ 1፡ በጣም አልስማማም - በአ 2 =አልስማማም —አ 3=እርግጠኛ አይደለሁም- እአ, 4 =እስማማለሁ —እ, 5=በጣም እስማማለሁ—በእ.

ቁጥር	ዝርዝሮች	በአ	አ	እአ	እ	በእ
		(1)	(2)	(3)	(4)	(5)
	የአስተማማኝነት መግለጫዎች					
1	የኢትዮጵያ ንግድ ባንክ የሆነ ነገር ለመስራት ቃል ከገባ ያደርገዋል፤					
2	ችግር በሚያጋጥሞት ጊዜ፣ የኢትዮጵያ ንግድ ባንክ ችግሩን ለመፍታት ትሁት የሆነ ፍላጎት ያሳያል					
3	በኢትዮጵያ ንግድ ባንክ አገልግሎቱን የሚያከናውነው በመጀመሪያ ጊዜ ነው					
4	የኢትዮጵያ ንግድ ባንክ አገልግሎት የሚያቀርበው ለማቅረብ ቃል በገቡበት ሰአት ነው።					

ቁጥር	ዝርዝሮች	በአ	አ	እአ	እ	በእ
		(1)	(2)	(3)	(4)	(5)
	የመልስ አሰጣጥ መግለጫዎች					
1	የኢትዮጵያ ንግድ ባንክ ሰራተኛ አገልግሎቶች መቼ በትክክል ሊከናወኑ እንደሚችሉ ለደንበኞች ይነግራል።					
2	የኢትዮጵያ ንግድ ባንክ ሰራተኛ ለደንበኞች ወዲያውኑ አገልግሎት ይሰጣል ።					
3	የኢትዮጵያ ንግድ ባንክ ሰራተኛ ተገቢ የሆኑትን ምርቶች እና አገልግሎቶች ለደንበኞች ይጠቁማል።					
4	የኢትዮጵያ ንግድ ባንክ ሰራተኞች በአገልግሎታቸው ውስጥ ስለተደረገ ማንኛውም ለውጥ ለደንበኞች ያሳውቃል					

ቁጥር	ዝርዝሮች	በአ	አ	እአ	እ	በእ
		(1)	(2)	(3)	(4)	(5)
	የሰው ችግር እንደራስ የማየት መግለጫ					
1	የኢትዮጵያ ንግድ ባንክ ለእርስዎ በግልጽ ትኩረት ይሰጣል					
2	የኢትዮጵያ ንግድ ባንክ ሁሉንም ደንበኞች ያማከለ የስራ ሰአታት አሉት					
3	የኢትዮጵያ ንግድ ባንክ ሰራተኛ የእርስዎን ፍላጎት ይረዳል።					
4	የኢትዮጵያ ንግድ ባንክ ሰራተኞች ለደንበኞች የሚሆነውን ተገቢ ምርቶች እና አገልግሎቶች ይጠቁማሉ።					

ቁጥር	ዝርዝሮች	በአ (1)	አ (2)	እአ (3)	እ (4)	በእ (5)
	የማረጋገጫ መግለጫዎች					
1	የኢትዮጵያ ንግድ ባንክ ልውውጥ ጊዜ ሚስጥራዊነት እና ግለሰባዊነት ይጠብቃል					
2	የኢትዮጵያ ንግድ ባንክ የደንበኞችን ጥያቄ ለመመለስ እውቀቱ ያላቸው በጥሩ ሁኔታ የሰለጠኑ ሰራተኞች አሉት					
3	የኢትዮጵያ ንግድ ባንክ ሰራተኛ መልካም እርዳታ ለማድረግ እና ብቃት አለው።					
4	የኢትዮጵያ ንግድ ባንክ ሰራተኛ ለእርስዎ ገንዘብ ግብር የሚሰጥ ጥራት ያለው የባንክ አገልግሎት ያቀርባል					

ቁጥር	ዝርዝሮች	በአ (1)	አ (2)	እአ (3)	እ (4)	በእ (5)
1	የኢትዮጵያ ንግድ ባንክ የባንኩ ፋሲሊቲዎች የንጽህና ሁኔታ እና ገጽታ ለእርስዎ ያቀርባል።					
2	የኢትዮጵያ ንግድ ባንክ የባንክ ወቅታዊ የሆነ መሳሪያ ይጠቀማል።					
3	የኢትዮጵያ ንግድ ባንክ ሰራተኞች ጥሩ የሆነ አቀራረብ አላቸው					
4	የኢትዮጵያ ንግድ ባንክ ጥሩ የሆነ ዲኮር እና የስራ አካባቢ አለው					

ቁጥር	ዝርዝሮች	በአ (1)	አ (2)	እአ (3)	እ (4)	በእ (5)
	ተጨማሪ መግለጫዎች					
1	በባንክ ልውውጥ ደህንነት ላይ ረክቻለሁ፤					
2	በባንኩ ሰራተኞች ዝንባሌ ላይ ረክቻለሁ ፤					
3	በሚቀርበው መረጃ ትክክለኛነት ረክቻለሁ፤					
4	በባንኩ ፋሲሊቲዎች ረክቻለሁ፤					

ቁጥር	ዝርዝሮች	በአ (1)	አ (2)	እአ (3)	እ (4)	በእ (5)
	የደንበኛ እርካታ መግለጫዎች					
1	ጓደኞቼን እና ዘመዶቼን ከኢትዮጵያ ንግድ ባንክ ጋር ስራ እንዲሰሩ አበረታታለሁ፤					
2	ከኢትዮጵያ ንግድ ባንክ ጋር ስራ መስራት ለመቀጠል ሀሳብ አለኝ					
3	በአሁኑ ጊዜ ያለኝ የአገልግሎት አቅራቢ ጥሩ የሆነ አገልግሎት ሰጪ እንደሆነ አምናለሁ፤					
4	ወደ ሌላ የባንክ አገልግሎት ሰጪ እዞራለሁ ብዬ እጠራጠራለሁ፤					

Appendix 2: Determining Sample Size

Sample size for $\pm 3\%$, $\pm 5\%$, $\pm 7\%$, $\pm 10\%$ Precision Level where Confidence Level is 95% and $P=5$.

Size of Population	Sample Size(n) for Precision(e)of:			
	$\pm 3\%$	$\pm 5\%$	$\pm 7\%$	$\pm 10\%$
500	a	222	145	83
600	a	240	152	86
700	a	255	158	88
800	a	267	163	89
900	a	277	166	90
1,000	a	286	169	91
2,000	714	333	185	95
3,000	811	353	191	97
4,000	870	364	194	98
5,000	909	370	196	98
6,000	938	375	197	98
7,000	959	378	198	99
8,000	976	381	199	99
9,000	989	383	200	99
1,000	1,000	385	200	99
15,000	1,034	390	201	99
20,000	1,053	392	204	99
25,000	1,064	394	204	100
50,000	1,087	397	204	100
100,000	1,099	398	204	100
>100,000	1,111	400	204	100

a= Assumption of normal population is poor (Yamane1967).The entire population should be sampled.

Source:

Glenn,D.Israel.(2013)Determining Sample Size.Agricultural Education and Communication Department, UF/IFAS Extension. Retrieved March 3rd 2015 from <http://edis.ifas.ufl.edu>.

Appendix 3 Branches of CBE for questionnaire

No	Names Of Branches	Districts
1	Africa Avenue	East Addis District
2	Andinet	East Addis District
3	Bole	East Addis District
4	Megenagna	East Addis District
5	Meskel Square	East Addis District
6	AradaGiorgis	North Addis District
7	Arat Kilo	North Addis District
8	MehalKetema	North Addis District
9	MehatemeGhandi	North Addis District
10	Silasie	North Addis District
11	Finfine	South Addis Ababa
12	Lideta	South Addis Ababa
13	MinasieLema	South Addis Ababa
14	Saris	South Addis Ababa
15	Sengatera	South Addis Ababa
16	Abakoran	West Addis Ababa
17	Addis Ketma	West Addis Ababa
18	Paulos	West Addis Ababa
19	Teklehaimanot	West Addis Ababa
20	Ayer Tena	West Addis Ababa