

Addis Ababa University
School of commerce
Graduate Studies Marketing Management Program



The Effect of Service Quality on Customer Loyalty: the case on Commercial Banks in Ethiopia

In Partial Fulfillment of the requirement for Award of Masters of Arts Degree in Marketing Management

By: Yigermal Asmamaw

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Addis Ababa, Ethiopia

ADDIS ABABA UNIVERSITY
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Letter of Declaration

I Yigermal Asmamaw , hereby declare that the thesis entitled "The effect of service quality on customer Loyalty: the case on Commercial Banks in Ethiopia" submitted for the award of Degree of Masters in Marketing Management of Addis Ababa University is my own original work and has not been presented for any other Degree or Diploma in other institution.

Signature _____

Yigermal Asmamaw

Letter of Certification

This is to Certify that Mr Yigermal Asmamaw has completed his thesis work entitled: **The effect of Service quality on Customer loyalty: the case on Commercial Banks in Ethiopia.** As I have evaluated, his research work is original and appropriate to be submitted as a partial requirement for the Award of Degree of Masters in Marketing Management.

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June 2017

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Acronyms

ANOVA- Analysis of Variance

BSQ- Banking Service quality

CBE- Commercial Bank of Ethiopia

SPSS- statistical package for Social Sciences

SERVPERF-Service Performance Model

SERVQUAL- Service Quality Model

VIF- Variance inflation Factor

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Abstract

The major aim of the study was to examine the effect of service quality on customer loyalty on commercial Banks in Ethiopia. Moreover, the study tries to investigate the relationship between service quality and customer loyalty. Bank service quality (BSQ) model of Bahia and Nantel,(2000) was used to evaluate overall level of service quality and its effect on customer loyalty. The model had six factors; effectiveness and assurance, price, Access, Tangibles, Service portfolio and Reliability. Descriptive and explanatory research approaches were used. Four commercial banks namely CBE, Dashen bank, united Bank and Wegagen banks were selected randomly and 384 questionnaires were administered to customers of all banks using convenience-sampling method and 300 responses were analyzed in to SPSS version24. The correlation result indicated that there is a positive and significant relationship between all BSQ dimensions and customer loyalty. Tangible dimension has the highest effect on customer loyalty. Moreover, the regression result indicated that effectiveness and assurance and reliability have a positive but insignificant effect on customer loyalty.

Key words: Banking Service quality, customer loyalty

Chapter one: Introduction

1.1 Background of the study

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

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

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

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

Banking industry in Ethiopia is consequently put into lot of pressures towards increase in competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction, and hence it becomes a key to competitive advantage. For this reason, every banking institution should focus on service quality in order to satisfy customer and retain customer loyalty.

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

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

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

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

1.2 Statement of the problem

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

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

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

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

1.3 Research questions

The research will try to answer the following basic questions:

- What effect does banking service quality have on customer loyalty?
- What effect effectiveness Assurance has on customer loyalty in Ethiopian commercial Banks
- What effect Access has on customer loyalty in Ethiopian commercial Banks
- What effect Price has on customer loyalty in Ethiopian commercial Banks
- What effect Tangibles has on customer loyalty in Ethiopian commercial Banks
- What effect Service portfolio has on customer loyalty in Ethiopian commercial Banks

- What effect reliability has on customer loyalty in Ethiopian commercial Banks
- Is there any significant difference in BSQ dimensions between private and Public banks

1.4 Objectives of the study

The general objective of this study is to examine the effect of service quality on customer loyalty on Commercial banks in Ethiopia. Accordingly, the specific objectives of the research are:

- to determine whether effectiveness and assurance has an effect on customer's loyalty towards their bank
- to determine whether Access has an effect on customer's loyalty towards their bank
- to determine whether Price has an effect on customer's loyalty towards their bank
- to determine whether Tangibles has an effect on customer's loyalty towards their bank
- to determine whether Service portfolio has an effect on customer's loyalty towards their bank
- to determine whether Reliability has an effect on customer's loyalty towards their bank
- to investigate the difference in BSQ dimensions between private and Public Banks

1.5 Significance of the research

This research tries to get insight about what customer think about the quality of the service that they receive from different Commercial Banks in Addis Ababa. Particularly, this research will identify those factors of the service quality that contribute and influence customer loyalty. Besides, the finding of the research can give stakeholders of the different Banks an overall insight on how much the quality of service that they are providing to their customer has a positive or negative effect on the level of satisfaction that customers will expect and in retaining premium customers.

In addition, the research findings also indicate an innovative ways to improve service quality to customers and revise the current services provided by these banks so that they could remain competitive and leader of the industry by offering services that would be in line with or beyond the needs and expectations of their customers.

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

1.6 Scope of the study

The study was confined to Four Commercial Banks in Addis Ababa of selected Public and private Banks which are CBE, Dashen Bank, Wegagen Bank and United Banks to measure the effect of service quality on customer loyalty.

1.7 Limitations of the study

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

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

1.8 Operational definitions

Service quality:

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

Customer Satisfaction

Kotler& Armstrong (2012) conceptualize customer satisfaction as the extent to which a product’s perceived performance matches a buyer’s expectation. Moreover, Thakur (2005) contends that customer satisfaction includes customers’ perception that they are properly served. Therefore,

the customer satisfaction is operationally defined here as customers' perception that their needs have been served and their rating that their expectations are met.

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

1.9 Organization of the study

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

Chapter Two: Literature Review

2.1 Theoretical framework

2.1.1 Service quality

Today, with increased competition, service quality has become a popular area for academic studies and has been recognized as a competitive advantage and supportive relationship with satisfied customers (Zeithmal, 2000). Also, quality of service has become an important tool in the service industry. According to Saghier, and Nathan (2013), service quality is an important concept in the service industry and is more important for financial service providers who have difficulty in showing their customers product differentiation. Moreover, several studies have been pursuing quality of service, and a number of theories and models have been developed to address this issue and highlight the importance of implementation and different dimensions. Furthermore, there are numerous definitions and measures of service quality, but there is no consensus on a single definition. Quality of service has been defined as an overall evaluation done by the customer service (Eshghi et al, 2008), while other researchers have defined the customer service as the extent to which services meet customers' needs or expectations. In addition, quality of service is defined as the degree of discrepancy between customers' normative expectations for service and their perceptions of the performance of the service (Parasuraman et al., 1994).

The definition of service quality was further developed as “the overall evaluation of a specific service firm that results from comparing that firm’s performance with the customer’s general expectations of how firms in that industry should perform (Chidambaram, & Ramachandvan, 2012). More specifically, In order to develop a marketing strategy, services- marketing individuals, particularly bank marketers, need to understand attributes of the services used by customers in choosing a bank. For example, users will use the name of the bank, the reliability of the bank, bank guarantees, bank and physical facilities in selecting the bank services. If marketers can understand the attributes used to assess the service, they will be better able to manage and influence the assessment and perception of customer presentations (Toelle, 2006).

Negi (2009) suggests that customer-perceived service quality has been given increased attention in recent years, due to its specific contribution to business competitiveness, developing satisfied

and loyal customers. This makes service quality a very important construct to understand by firms by knowing how to measure it and making necessary improvements in its dimensions where appropriate especially in areas where gaps between expectations and perceptions are wide.

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

Quality of service is likely observed to play an important role in the high involvement industries such as banking services. Parasuraman (1988) has proposed five principal dimensions, which are reliability, responsiveness, assurance, empathy and tangible. Tangibles are defined as physical facilities, equipment and appearance of personnel. Assurance is defined as knowledge and courtesy of employees and their capability to demonstrate trust and confidence. Empathy is defined as caring employees and ability to give individualized attention. Responsiveness is defined as ability and readiness to assist customers at earliest possible. Reliability is defined as capability to performed the pledged service without fail and correctly.

2.1.2 Customer Satisfaction

Customer satisfaction is a result of the provision of services and goods that either meets or exceeds customer needs. The literature discusses two approaches to operationalise satisfaction, namely transaction-specific and cumulative satisfaction. Transaction-specific satisfaction is identified as a customer's evaluation of his/her experience with a particular service/product transaction (Olsen & Johnson, 2003) whereas cumulative satisfaction is the customer's overall consumption experience with a product/service over time. Many of the previous studies on customer satisfaction use the cumulative satisfaction concept (Gupta & Zeithaml, 2006).

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

2.1.3 Customer loyalty

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

According to Caruana and Malta (2002), a bank customer often develops an attitude towards a purchasing behavior that is based on past experience. It is this past experience that affects customer retention of the purchase or his/her desire to switch. Bearden and Teel (1983) state that customer satisfaction is important as it guarantees purchase repetition and customer loyalty. When a customer is loyal to a bank, he/she will stay with the same bank, continuously using it, making purchase of new services with the bank, and recommending the bank's services to others. On the other hand, when a customer is dissatisfied with the bank's services/products, he/she will react negatively and switch to another bank (Amin et al., 2011).

2.2 Service Quality Measurement Instruments

According to Fabnoun and Chaker (2003), measuring service quality is an important task since it allows the service provider to appraise and compare what things were like prior to changes set in and what they are after changes were made. The SERVQUAL tool has brought an extensive recognition as a best tool to investigate, review and measure the quality of services of several industries like banking, healthcare, hotels, etc. (Akter et al., 2008). As a result, it is an extremely supportive instrument but it cannot be implemented in the same way in all of the various industries. Therefore, It needs modification depends on the situations. For Such a different situation such as in the banking industry, the SERVQUAL instrument tools had to be modified in order to fit the particular requirements of the bank (Mostafa et al., 2005).

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

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

2.2.1 SERVQUAL model

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

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

- **Responsiveness:** the willingness to support and/help the customer and provide prompt service. It emphasizes special treatment and promptness in dealing with customer query, complaints and problems. It is communicated to customers according to the length of time they have to stay in order to get support, answer their questions, or special attention to their problems.
- **Tangibility:** referring to the appearance of physical facilities, equipment and appearance of personnel or staffs. It represents the physical image of the service that the customer will use to evaluate service quality.
- **Assurance:** referring to the knowledge and courteousness of the staff and their ability to entertain trust and confidence. Assurance is significant for services that customers perceive as high risk or where they feel doubtful about their ability to measure outcomes. This is especially significant to banking services and healthcare.
- **Empathy:** providing individualized attention provided to customers. The essence of Empathy is conveying, through personalized, customized, or individualized services that customers are unique and special and their needs are specified.

2.2.2 SERVPERF model

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

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

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

perceptions with performance expectations. As a result, SERVPERF uses only the performance items of the SERVQUAL scale (Brady et al., 2002). Arguments in favor of SERVPERF are based on the notion that performance perceptions are already the result of customers' comparison of the expected and actual service (Babakus and Boller, 1992).

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

2.2.3 Bahia and Nantel's Scale (BSQ)

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

After modification, the dimensional structure of the scale was based on six dimensions, related to specific banking services, broken down into 31 items. The scale is a seven-point Likert scale starting at (1) = strongly disagree to (7) = strongly agree. The first dimension is effectiveness and assurance. Effectiveness refers to the delivery of service, (especially the courtesy and friendliness

of the employees), and the ability of staff to inspire a feeling of security, while assurance refers to the staff's ability to exhibit their communication skills and to deal with customers' needs in a confidential manner. The second dimension is access, which measures the speed of service delivery. The third dimension, price, assesses the service delivery cost. The fourth dimension is tangibles, which refer to the personal appearance of staff and the existence and cleanliness level of the bank's physical facilities. The fifth dimension is services portfolio, which measures the range, innovation and consistency of services offered by banks. The sixth dimension is reliability, which assesses the ability of bank employees to deliver the promised service accurately and without error. Figure: Description BSQ model (6 Dimension- 31 items)

Effectiveness and assurance

1. Confidence
2. Recognition of a regular client
3. Confidentiality
4. Valorisation of the personnel
5. Interruption of the service
6. Well-trained personnel
7. Knowledge of the client on a personal basis
8. No contradictions in decision between personnel and management
9. Delivering when promised
10. Good reputation
11. Feeling of security
12. No delays due to bureaucratic factors and procedures
13. Indications (communications) of quality

Access

14. Sufficient number of ATMs per branch
15. Modern equipment
16. Sufficient number of open tellers
17. Waiting is not too long
18. Queues that move rapidly

Price

19. The bank contacts me every time it is useful
20. Good explanations of service fees
21. Balance amount from which service charges begin
22. Reasonable fees for the administration of the accounts
23. Keeping the client informed every time that a better solution appears for a problem

Tangibles

24. Precision on account statements
25. Cleanliness of facilities
26. Decoration of facilities

27. Efficacious work environment

Services portfolio

28. Complete gamut of services

29. The range of services is consistent with the latest innovation in banking services

Reliability

30. Absence of errors in service delivery

31. Precision of filing system

Source: Bahia and Nantel (2000)

2.3 Service Quality in Banking Services

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

2.3.1 Relationship between Service quality and customer satisfaction

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

Studies suggest that there is a positive relationship between service quality and the satisfaction of customers (parasurman and berry, 1988). Moreover, other researchers suggested that there is a positive relationship between service quality, retention and future intention of customers (Ahmad

et al., 2011; Jajae and Ahmad, 2012). Naeem and Saift (2009) found that customer satisfaction is the outcome of high service quality within the banking sector.

Parasuraman *et al* (1988) defined service quality and customer satisfaction, as “service quality is a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction”. Jamal and Naser (2003) stated that service quality is the antecedent of customer satisfaction. However, they found that there is no important relationship between customer satisfaction and tangible aspects of service environment.

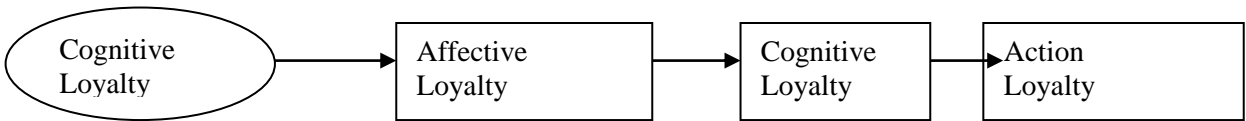
2.3.2 Relationship between service quality and customer loyalty

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

2.3.3 Relationship between service quality, customer satisfaction and customer loyalty

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

Many researchers have investigated the topic of customer loyalty and its relation to service quality and customer satisfaction in depth. Oliver (1997), for example, has suggested the Four-Stage Loyalty Model shown in Figure below. Each stage represents a greater degree of loyalty. The first stage proposed by this model is „cognitive loyalty“, indicating that customers may continue to patronize one store rather than other stores because of the better service provided.



Source: Oliver (1997, p. 394)

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

2.4 Empirical framework

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

Mesfin W. (2014) has examined the importance of Bank Service Quality (BSQ) dimensions in predicting and explaining the outcome variable of overall service quality, customer satisfaction and customer loyalty. Accordingly, he has concluded that Assurance and effectiveness, reliability and tangibles respectively were found to be the most important BSQ dimensions in predicting customer satisfaction and loyalty.

Bank service quality, customer satisfaction and loyalty in Ethiopian banking Sector were investigated by Shanka (2012). The major aim of the research paper was to measure the quality of service offered by private banks operating in Ethiopia. The research proves that empathy and responsiveness plays the most important role in customer satisfaction level followed by tangibility, assurance, and finally the bank reliability. The research findings also indicate

offering high quality service increase customer satisfaction, which in turn leads to high level of customer commitment and loyalty.

Yonatan.G(2012) has also conducted a research on Customers' Perception of Service Quality in Ethiopia banking sector, in which its objective was to evaluate the level of perceived service quality in the banking sector and to prioritize the service quality dimensions in terms of their importance to customers using SERVQUAL instrument. And the research has find out that the banking sector is falling behind in meeting customer expectations as evidenced from the higher gap score in most of the SERVQUAL dimensions. Moreover, while ranking the five dimensions respondents rated Reliability as the most important service quality indicator at the three banks.

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

Leninkumar (2016), has also conducted a research on the effect of service quality on customer loyalty. The study attempted o find the relationship between service quality dimensions and customer loyalty in the Commercial Banks of Sri Lanka. The data was collected from 300 customers of four leading commercial banks through questionnaire. The finding of the research revealed that three dimensions of service quality namely, tangibles, reliability and empathy have significant and positive effect on customer loyalty.

Dubey and Srivastava(2016) studied the impact of service quality on customer loyalty on telecom sector in India. Five antecedents of Service quality have been considered in this study viz, empathy, assurance, responsiveness, tangibility and reliability based on SERVQUAL model of parasuraman et al (1988).Results depicted that service quality has significant and positive impact on customer loyalty and out of four antecedent of service quality tangibility has significant impact on customer loyalty.

Sarvankumar and Jayakrishnan (2014) studied the effect of Service quality on Customer loyalty empirical evidence from co-operative bank in India. 415 customers were involved in the research process and the research was analyzed through correlation and regression method. The findings

of the research indicated that, service quality has the impact on customer loyalty. however, empathy and reliability were service quality dimensions which influenced customer loyalty significantly

2.5 Conceptual framework and hypothesis

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

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

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

BSQ dimensions

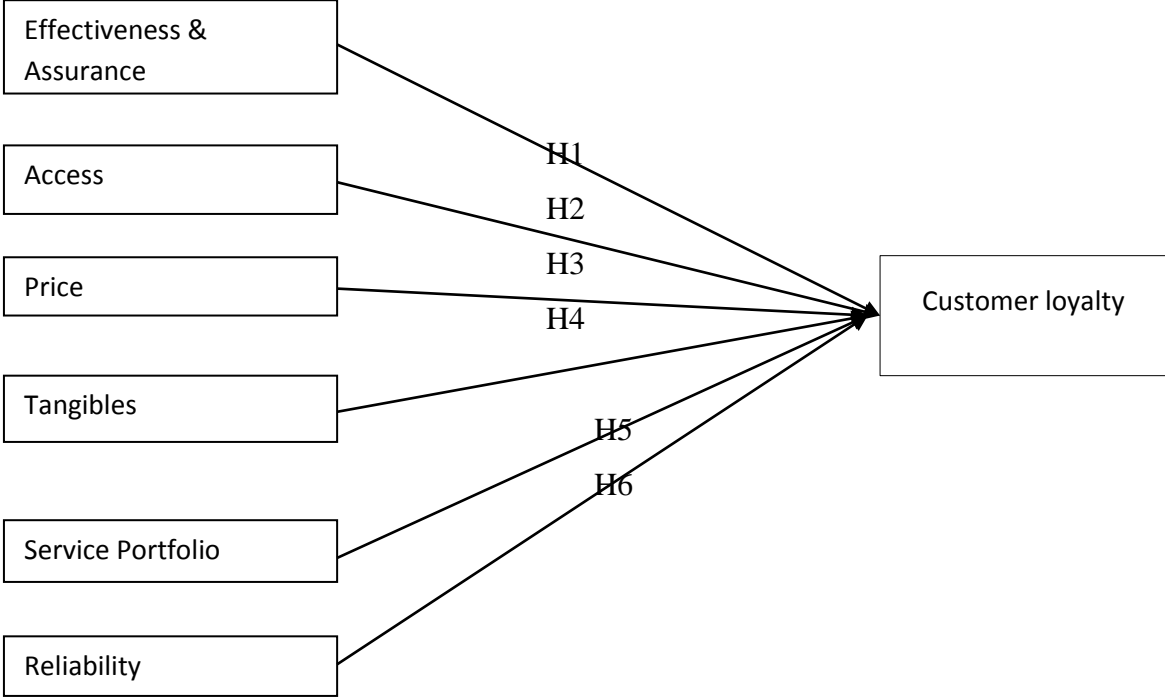


Figure 1: Conceptual framework

2.6 Hypothesis

H1: Effectiveness and assurance has a positive and significant effect on customer loyalty in Ethiopian commercial banks.

H2: Access has a positive and significant effect on customer loyalty in Ethiopian commercial banks.

H3: Price has a positive and significant effect on customer loyalty in Ethiopian commercial banks.

H4: Tangibles has a positive and significant effect on customer loyalty in Ethiopian commercial banks.

Daniel, (2013) in his study perceived service quality and customer loyalty in retail banking in Kenya states that tangibility and customer loyalty are positively correlated each other and customers can assess the premise of banks r perhaps the appearance of bank's staff.

H5: Service portfolio has a positive and significant effect on customer loyalty in Ethiopian commercial banks.

H6: Reliability has a positive and significant effect on customer loyalty in Ethiopian commercial Banks.

H7 There is significant difference in BSQ dimensions between Public and private Banks

Parasuraman et al. (1988) defined reliability as the ability to perform the promised service dependably and accurately .Daniel, (2013) studied perceived service quality and customer loyalty in retail banking in Kenya. According to his finding, there is a positive and significant reliability and customer loyalty. the result shows that customers were satisfied with the service provided by the banks as promised and handling of solving the problem. Customers were confident that banks would fulfill the promised terms and conditions, which will not be against their interest. Thus, it was concluded that reliability was one of the important factors of service quality dimensions that contributes to customer loyalty.

Chapter Three: Research methodology

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

3.1 Research approach

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

3.2 Research design and methodology

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

In light of that, the current research has descriptive and explanatory futures. Explanatory because it tries to explain and predict the interrelationship between BSQ scale dimensions and overall service quality, customer satisfaction and loyalty. At the same time, the design of the research

could be labeled as descriptive, since it attempts to describe the customer perception of service quality on commercial banks in Ethiopia.

3.3. Sample size and sampling technique

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

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

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

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

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

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

e- is the level of precision or sampling error.

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

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

Therefore,

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

Simple random sampling was used to select sample Commercial Banks based on the assumption that the selected Banks would be representative of all commercial Banks. Thus, CBE, Dashen Bank, Wegagen Bank and United Banks were the selected sample representative Banks.

In addition, the total sample size for this research has been divided for each Banks proportionally based on the number of branches that each Bank has in Addis Ababa with referring National Annual Report of 2014/2015.

Table 3.1 Branch Network Table

Banks	Branch network as at 2014/2015	
	Region	Addis Ababa
Commercial Bank of Ethiopia	785	192
Dashen Bank	76	88
Wegagen Bank	63	56
United Bank	62	66
Total	986	402

Source: NBE Report 2014/2015

Accordingly, below table 3.2 shows the proportional allocation of sample respondents for each bank.

Table 3.2 Proportional Allocation of samples

Banks	Branch network in Addis Ababa	Allocation of sample in (%)	Number of samples
Commercial Bank of Ethiopia	192	47.7	183
Dashen Bank	88	22.1	84
Wegagen Bank	56	13.9	54
United Bank	66	16.3	63
Total	402	100	384

Non-probability sampling procedure was used for data collection. Under this sampling procedure, convenience sampling procedure was appropriate in selecting customers who will be a respondent through the process of collecting and gathering data for this study. In the questionnaire administering process, (Arada Giorgis branch, Addisu Gebeya ,Gulele branch and 4kilo branches of CBE, Tana akababi, Legehar Akababi, Piasa Akababi Branches of Dashen Bank, Demebel head office barch,5kilo Branch and Legehar Braches of Wegagen bank and 6kilo branch,Wesen akababi branch and Addisu gebya branches of united bank were selected conviniently. Convenience sampling was used for collecting large number of completed surveys quickly and economically. The non-probability sampling method was used due to the lack of

finance and time constraints. In non-probability sampling, convenience sampling is the best choice and most frequently used method due to its time and cost advantages (Lym et al., 2010). Therefore, the researcher will appeal to customers who will be available in different branches of the selected banks.

3.4 Sources and Method of Data collection

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

The questionnaire was developed using BSQ model developed by Bahia and Nantel (2000) which consists six dimensions of reliability, responsiveness, assurance, empathy and tangible to measure the level of service quality that customers perceive in the bank and it will be tested using a seven-point Likert scale starting at (1) = strongly disagree to (7) = strongly agree and the other two parts that measured satisfaction and loyalty of customers each containing 1 and 3 items consecutively under each category will be prepared and distributed so that respondents can rate the service quality and their satisfaction level accompanied by their loyalty to the banks service level.

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

3.5 Data analysis techniques

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

- **Frequency and Descriptive statistics:** Were used to profile and describe the survey respondents' characteristics.
- Measure of central tendency (Means) and dispersion standard deviations were used to measure and identify the perception evaluation of service quality of customers based on the score of each dimensions items.

- **Independent sample T-Test:** was used to compare the relative mean score of each BSQ dimensions in between the private and public Banks
- **.Pearson correlation;** In order to assess the association between the BSQ dimensions, overall service quality, customer satisfaction and customer loyalty Pearson correlation was employed. When there are two variables, the analysis concerning relationship is known as bivariate analysis. Bivariate analysis in order to assess correlation on modern statistical packages could utilize three alternative correlation techniques; Pearson correlation, Spearman rho and Kendall's tau-b. The latter two are suitable for ordinal and non-parametric data set. Hence, to test the above hypothesis bivariate correlation of Pearson product-moment and its coefficient(r) was used or this research.
- **Multiple Regression analysis:** Regression analysis is a way of predicting an outcome variable from one predictor variable or several predictor variables (Field, 2009). The former is called simple regression and the latter is multiple regression analysis. In general, Regression analysis works toward generalizing the data set in straight line that best fit the observed data. In the regression model used in this research the six BSQ dimensions were the independent/predictor variables that were hypothesized to predict customer loyalty. At each regression procedure the predictor were entered simultaneously to predict the outcome variables i.e. the enter method was used. This is because there was no theoretical precedence/importance that is agreed upon with respect to the BSQ dimensions in explaining the outcome variables.

3.6 Validity and Reliability of Instruments

3.6.1 Validity

The validity analysis of the measurement instrument was based on pilot study on twenty respondents that are representative of the sample population and also are in a position to provide relevant inputs in the improvement and revision of the data collection instrument, so as to make it more customized to Ethiopian banking environment. The respondents of the pilot study were provided with the original questionnaire and have rated their extent of agreement/disagreement on the statements of the questionnaire. And as to the content validity which is an assessment of how well a set of scale items matches with the relevant content domain of the construct that it is trying to measure, respondents had raised their idea to make correction especially on the content domains of 'Access' dimension as it lacks content wise and was suggested to include items regarding the distribution of the retail branches and opening hours. And some of items were perceived to be somehow redundant and vague. The pilot participants had also supported combining some of the items too.

3.6.2 Reliability Analysis

The reliability measurements were calculated on each BSQ dimension applying internal consistency measurement (Cronbach Alpha). Cronbach alpha ranged from 0.7 to 0.9 is believed to be an indication of excellent reliable scale of measurement. Therefore, based on Cronbach alpha results shown below on table 4.1 all the BSQ measurements were reliable.

Table 3.3 Reliability Table

	Cronbach's Alpha	N items
Effectiveness & assurance	.859	13
Access	.839	5
Price	.934	5
Tangibles	.920	4
Service portfolio	.942	2
Reliability	.834	2

Source: own survey 2017

The overall Cronbach Alpha for All dimensions is depicted as follows:

Table 3.4 Cronbach's Alpha result of all items of BSQ dimension

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.941	.946	31

Source: own survey 2017

3.7 Ethical considerations

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

Chapter Four: Results and discussions

4.1 Overview of the chapter

In this chapter the researcher has attempted to address the research questions and test the hypothesis, raised back in chapter one by thoroughly analyzing and interpreting the quantitative data collected from Four commercial banks; Viz, Commercial Bank of Ethiopia, Wegagen Bank, United Bank and Dashen Bank. The data was collected based on BSQ model of Bahia and Nantel (2000) and it was piloted, refined, and customized to accommodate with the context of Ethiopian retail banking system. Three Hundred eighty four (384) questionnaires were administered to the customers of all the four banks and from which, branches, which have high transaction per day, were selected conveniently. Out of all questionnaires administered 300 (78%) were returned and entered in to SPSS version 24 for the statistical analysis.

4.2 Profiles of the respondents

The questionnaire administered to the respondents has six general information questions with respect to the sex of the respondent, his/her job, type of Bank that he/she is patronizing, type of bank service usage, frequency of visit to the bank and duration of relationship with bank.

Table 4.1 Frequency Table of Sex of the Respondents

Sex of The Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	181	60.3	60.3	60.3
	female	119	39.7	39.7	100.0
	Total	300	100.0	100.0	

Source: own survey 2017

As shown in the above SPSS statistics frequency table, from 300 cases or respondents 181 of them were male, which accounts 60.3 % and 119 of them were female respondents accounting 39.7% of the total respondents. This shows majority of the respondents are male.

Table 4.2 Frequency Table of Employment Status of respondents

Employment Status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	student	56	18.7	18.7	18.7
	private employee	71	23.7	23.7	42.3
	government employee	97	32.3	32.3	74.7
	merchant	47	15.7	15.7	90.3
	other	29	9.7	9.7	100.0
	Total	300	100.0	100.0	

Source: own survey 2017

From the total sample respondents government employees constitute the largest size of 32.3% followed by students' private employees which accounts 23.7% and students 18.7%, merchants 15.7% and others with 9.7% coming next in their respective order.

Table 4.3 Frequency Table of Banking Service type used by respondents

Banking Service type used					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	saving account	221	73.7	73.7	73.7
	current account	56	18.7	18.7	92.3
	money transfer	23	7.7	7.7	100.0
	Total	300	100.0	100.0	

Source: own survey2017

As indicated on the frequency table of the SPSS statics' result, most of the respondents were saving Account holder of their respective Bank, which is 73.7% of the total respondents. The other category is current account service and its number of users was 56 or 18.7% followed by money transfer services including CPO and the like which accounts 7.7% of the total respondents.

Table 4.4 Frequency Table of respondents Frequency of visit to The Bank

Frequency of visit to The Bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	once a day	79	26.3	26.3	26.3
	once a week	98	32.7	32.7	59.0
	once a month and more	123	41.0	41.0	100.0
	Total	300	100.0	100.0	

Source: own survey 2017

Most of the respondents make their visit once a month and more which is 41% of the total respondents followed by respondents who make their visit once a week and once a day accounting 32.7% and 26.3% respectively.

Table 4.5 Frequency Table of respondents Age of relationship with The Bank

Age of relationship with The Bank					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 6month	22	7.3	7.3	7.3
	6month -1year	62	20.7	20.7	28.0
	1-2year	24	8.0	8.0	36.0
	2-3 year	58	19.3	19.3	55.3
	3 year and above	134	44.7	44.7	100.0
	Total	300	100.0	100.0	

Source: own survey 2017

More than the 70% percent of the respondents of the survey have 1 year and beyond duration of relationship with their banks, which signals they have significant level of exposure to evaluate the quality of service delivery.

4.3. Descriptive Analysis of Banking Service Quality (BSQ) Dimensions

Effectiveness and Assurance Dimension Descriptive Analysis

Below table 4.7 shows, the evaluation of assurance and effectiveness dimension is based on the average respondents rating of the first thirteen items. Based the descriptive statistics points that overall mean of the dimension was computed to be 4.79 with a standard deviation of 1.49. The standard deviation shows that how diverse are the responses of customers for a given item or constructs in proportion to the mean value. The deviations in this case are relatively low in comparison with the average point, indicating the accurate representation of the observed data by the mean values at item and dimension level.

In all four banks high mean score has recorded in items *of* The bank has good reputation (m=5.57), You feel secured in your transactions with the bank (m=5.26), The bank communicates and indicates high quality indications (m= 5.15), The bank places great importance on Customers' confidentiality (m=5.01), Bank employees have the knowledge to answer your questions on personal basis(m=4.84), The behaviors of employees in the bank instill confidence (m=4.73), Bank employees valorize customers to the company by handling them well (m=4.71), The bank has well-trained employees (m=4.66), No delays due to bureaucratic factors and procedures in this bank (m=4.65), Bank employees give recognition to regular customers with special service(m=4.64). In addition, the mean scores of the bank provides its services at the time it promises to do so (m=4.56), No contradictions in decision between employees and management in this bank (m=4.47) and the bank has no interruption of service with m (4.03) has relatively low mean score.

Table 4.6 Descriptive Statistics of Effectiveness and Assurance dimension

Descriptive Statistics Effectiveness and Assurance: Source: own source 2017					
	N	Minimu m	Maximu m	Mean	Std. Deviation
The behaviors of employees in the bank instill confidence.	300	1	7	4.73	1.457
Bank employees give recognition to regular customers with special service.	300	1	7	4.64	1.478
The bank places great importance on Customers' confidentiality	300	1	7	5.01	1.569

Bank employees valorize customers to the company by handling them well	300	1	7	4.71	1.577
The bank has no interruption of service.	300	1	7	4.03	1.566
The bank has well-trained employees	300	1	7	4.66	1.421
Bank employees have the knowledge to answer your questions on personal basis	300	1	7	4.84	1.477
No contradictions in decision between employees and management in this bank	300	1	7	4.47	1.415
The bank provides its services at the time it promises to do so	300	1	7	4.56	1.461
The bank has good reputation.	300	1	7	5.57	1.510
You feel secured in your transactions with the bank	300	1	7	5.26	1.524
No delays due to bureaucratic factors and procedures in this bank	300	1	7	4.65	1.618
The bank communicates and indicates high quality indications	300	1	7	5.15	1.340
Valid N (list wise)	300	Average of all		4.79	1.49

Source: own source 2017

Access dimension Descriptive Analysis

The overall mean value of the access dimension was computed from the composite mean of five items; the bank has good level of branch coverage, the banks has sufficient number of ATMs, the banks has modern equipments, the bank has sufficient number of open tellers and waiting time and queues are short and quick in this bank. The average mean value of the overall dimension was computed to be 5.08 with standard deviation 1.49, which is satisfactory.

In Access dimension the mean rating score of the item for the bank has sufficient number of ATMs has relatively high mean score of 5.54 followed by the bank has good level of branch coverage 5.45 and the bank has modern equipments 5.26 and the remaining two which are the

banks has sufficient number of open teller and waiting time queues are short and quick in this bank has below 5 mean score.

Table 4.7 Descriptive Statistics of Access dimension

Descriptive Statistics Access					
	N	Minimum	Maximum	Mean	Std. Deviation
The bank has good level of branch coverage	300	1	7	5.45	1.550
The bank has sufficient number of ATMs	300	1	7	5.54	1.319
The bank has modern equipments	300	1	7	5.26	1.590
The bank has sufficient number of Open tellers	300	1	7	4.72	1.338
Waiting time and queues are short and quick in this bank	300	1	7	4.43	1.637
Valid N (list wise)	300	Average of all		5.08	1.49

Source: own survey 2017

Price dimension Descriptive Analysis

The under table shows the price dimension of banking service quality and its average mean score of the dimension was computed to be (m= 4.81) with a standard deviation of sd= 1.45 which is almost near on the average point of the scale measurement. In this dimension only one item, which is the bank explicitly states the service fee based on the balance/service type has a mean score above 5 where as the remaining items have below 5.

Table 4.8 Descriptive Statistics of Price dimension

Descriptive Statistics Price dimension Source: own survey2017					
	N	Minimum	Maximum	Mean	Std. Deviation
The bank contacts me every time it is useful.	300	1	7	4.70	1.533
The bank provides good explanations of service fees.	300	1	7	4.70	1.509
The bank explicitly states the service fee based on the balance/service type	300	1	7	5.06	1.434
The bank takes reasonable fees for the services it provides	300	1	7	4.94	1.341
The bank keeps customers informed every time that a better solution appears for problems	300	1	7	4.63	1.447
Valid N (list wise)	300	Average of all		4.81	1.45

Tangibles dimension Descriptive Analysis

As indicate below in table 4.8, Tangibles dimension has an overall high perception of service quality with a mean score of 5.08 and the descriptive statistics result shows there is small variation among the values entered to each items with in this dimension. The bank uses high standard service receipts, forms and the bank has good level of cleanliness of facilities items have high mean score above the mean score of the total dimension.

Table 4.9 Descriptive Statistics of Tangibles dimension

Descriptive Statistics Tangibles dimension					
	N	Minimu m	Maximu m	Mean	Std. Deviation
The bank uses high standard service receipts, forms	300	1	7	5.26	1.413
The bank has good level Of cleanliness of facilities	300	1	7	5.14	1.343
The bank facilities are well-decorated	300	1	7	4.98	1.451
The bank has efficacious work environment	300	1	7	4.95	1.439
Valid N (listwise)	300	Average of all		5.08	1.41

Source: own survey 2017

Service portfolio dimension Descriptive Analysis

Service portfolio dimension has two items of scale measurement, which are the bank offers complete gamut of services, and the bank offers services that are consistent with the latest innovation in banking industry.

As shown in the table, below the mean score of the two items and the overall service portfolio dimension is (m=5.17, 4.89 and 5.03) respectively and this indicates most banks offer variety of bank services but it is not as such technologically advanced and the industry is sluggish to update itself with the latest innovations in the banking industry.

Table 4.10 Descriptive Statistics of service portfolio dimension

Descriptive Statistics service portfolio dimension					
	N	Minimum	Maximum	Mean	Std. Deviation
The bank offers complete gamut of Services.	300	1	7	5.17	1.411
The bank offers services that are consistent with the latest innovation in banking service	300	1	7	4.89	1.431
Valid N (list wise)	300	Average of all		5.03	1.42

Source: own survey 2017

Reliability dimension Descriptive Analysis

This dimension has two items; absence of error and precision in filing and documentation system. In this dimension, all Banks have low level of mean score below and the overall mean score of the dimension is around the average score of the scale measurement.

Table 4.11 Descriptive Statistics of reliability dimension

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
service delivery errors are absent in this bank	300	1	7	3.54	1.638
The bank has precision of filing/documentation systems.	300	1	7	4.47	1.410
Valid N (listwise)	300	Average of all		4.05	1.52

Source: own survey 2017

Customer loyalty Descriptive Analysis

Customer's loyalty toward their respective bank was measured through three items indicated in the table below 4.13 and such as I will go on using this bank, I often recommend the bank to others and this bank is always be my first choice. Accordingly, the mean score of respondents towards all items was said to be an excellent and satisfactory and the bank will always be my first choice and I will go on using this bank have the highest score of mean (m= 5.55, 5.50)respectively which is above the average mean score of the overall loyalty.

Table 4.12 Descriptive Statistics of customer loyalty dimension

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
I will go on using this bank	300	1	7	5.50	1.247
I often recommend the bank to others	300	1	7	5.26	1.590
This bank will always be my first choice	300	1	7	5.55	1.398
Valid N (list wise)	300	Average of all		5.43	1.41

Source: own survey 2017

Correlation Analysis

Like the demographic factors, the scale typed questionnaire entered to the SPSS software version, to process correlation analysis. Based on the questionnaire, which was filled by the customers of CBE, Dashen bank, united Bank and Wegagen Bank.

Pearson's coefficient of correlation is also known as the product moment correlation coefficient. The value of 'r' lies between ± 1 . Positive values of r indicate positive correlation between the two variables (i.e., changes in both variables take place in the statement direction), whereas negative values of 'r' indicate negative correlation i.e., changes in the two variables taking place in the opposite directions. A zero value of 'r' indicates that there is no association between the two variables.

As indicated in the table 4.14 below, the Pearson bivariate correlation(r) of the six banking service quality dimensions and customer loyalty are positively associated at $p < 0.01$. Thus, Customer loyalty has the highest correlation coefficient with price dimension ($r = .661^{**}$) and the lowest correlation coefficient with reliability dimension $r = .457^{**}$.

Table 4.13 correlation table between BSQ dimensions and Customer loyalty

N=300		Effectiveness and Assurance	Access	Price	Tangibles	Service Portfolio	Reliability	customer loyalty
Effectiveness and Assurance	Pearson Correlation	1						
	Sig. (2-tailed)							
Access	Pearson Correlation	.554**	1					
	Sig. (2-tailed)	.000						
Price	Pearson Correlation	.726**	.530**	1				
	Sig. (2-tailed)	.000	.000					
Tangibles	Pearson Correlation	.664**	.517**	.703**	1			
	Sig. (2-tailed)	.000	.000	.000				
Service Portfolio	Pearson Correlation	.628**	.513**	.617**	.517**	1		
	Sig. (2-tailed)	.000	.000	.000	.000			
Reliability	Pearson Correlation	.512**	.351**	.586**	.460**	.459**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000		
customer loyalty	Pearson Correlation	.622**	.528**	.661**	.646**	.611**	.457**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	

Source: own survey 2017

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

Hence, it can be concluded that the banking service quality dimensions have significant and positive relationship with customer loyalty in Ethiopian commercial Banks.

4.4 Testing Regression Analysis Assumptions

In the regression model used in this research the six BSQ dimensions were the independent variables that are hypothesized to predict dependent variables; customer satisfaction and customer loyalty. Multicollinearity, homoscedasticity, linearity and normality assumption test and Auto correlation or Durbin-watson test were done to satisfy the common regression analysis assumptions.

Multicollinearity test

Multicollinearity exists if there is strong correlation between two or more independent variables or predictors (Field, 2005). He also states that, perfect collinearity exists when at least one predictor variable is a perfect linear combination of the other. If there is perfect collinearity between predictors, it becomes impossible to obtain unique estimate of the regression coefficients because there are an infinite number of combination of coefficients that would work equally well.

The correlation coefficient above 0.8/0.9 is the cut-off point for regression analysis (Andy Field, 2005). The Pearson correlation matrix has indicated that, the inter-correlation between the BSQ dimensions is below the cut off points. As it can be seen from the new correlation matrix on the above table 4.13 the inter-correlation between the predictor variable(multicollinearity) is kept at minimum since all the correlation are below the cut-off point, 0.8/0.9

Moreover, collinearity statistics of tolerance and Variance Inflation Factor (VIF) were undertaken in order to identify multicollinearity problems that might not be obvious on correlation matrix. Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula $1-R^2$ for each variable. If this value is very small (less than .10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The other value given is the VIF (Variance inflation factor), indicated that whether a predictor has a linear relationship with the other predictor(s). Although there are no fast and hard rules, what value of VIF should be cause for concern, as Field, (2005) cited on Meyer, (1990) VIF value of 10 is a good value at which to worry.

Table 4.14 Collienarity table

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Effectiveness and Assurance	.372	2.688
Access	.617	1.622
Price	.329	3.043
Tangibles	.443	2.258
Service Portfolio	.522	1.916
Reliability	.633	1.580

Source: own survey 2017

Homoscedasticity

Homoscedasticity is an assumption in regression analysis that the residuals at each level of the predictor variables(s) have similar variances or the spreads should be constant. This just means that the residuals at each level of the predictor(s) should have the same variance (homoscedasticity). When the variances are very unequal there is said to be heteroscedasticity.

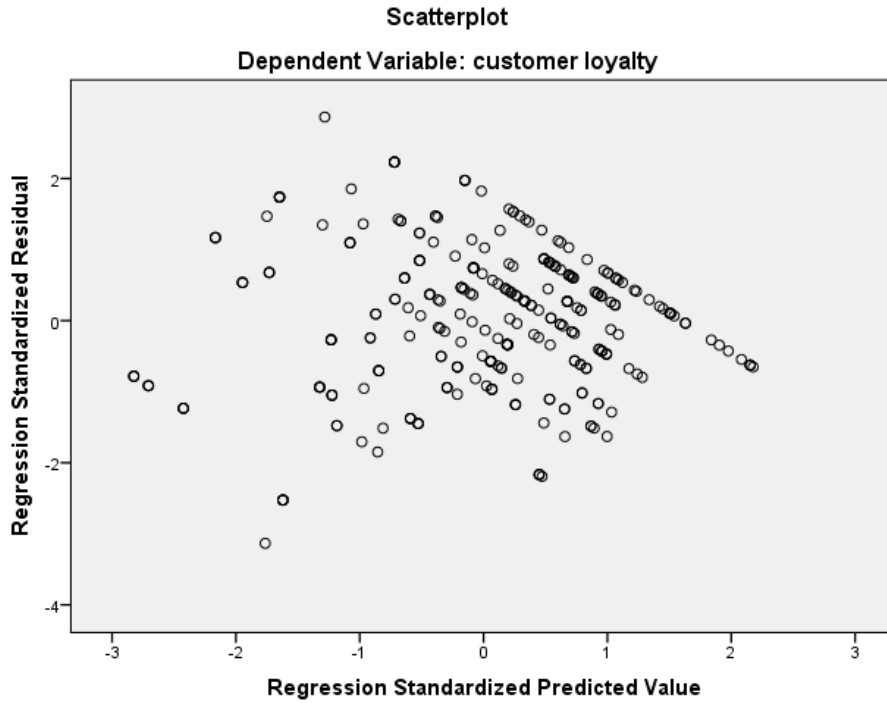


Figure 2 scatter plot graph

Normally Distributed :

It is assumed that residuals in the model are random, normally distributed variables with a mean of zero. This assumption simply means that the difference between the model and the observed data are most frequently Zero or very close to Zero and that differences much greater than Zero happen only occasionally.

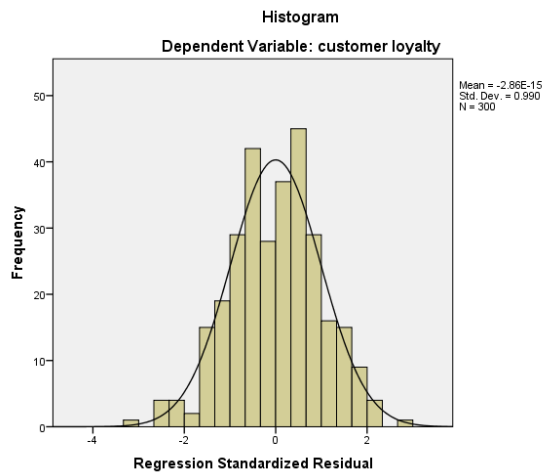


Figure 3: Histogram to show Normality

Here the histogram is fairly bell shaped which lead to infer that the residuals are normally distributed. Thus, there is no violation of the assumption of normally distributed error term.

Linearity Assumption

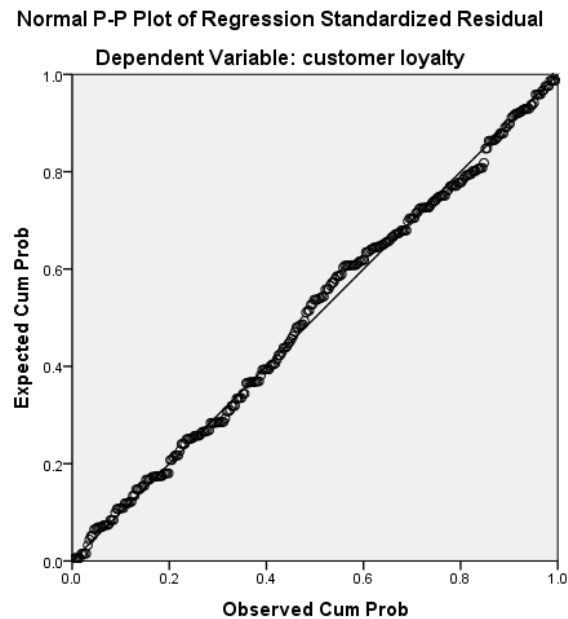


Figure -4 Normal P-P plot graph

Durbin-watson

It is a test for correlation error or a test for correlation between variables residuals. In short, this option is important for testing whether the assumption of independent error is tenable. The test statistics can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated. A value greater than 2 indicated a negative correlation between adjacent residuals and a value below 2 indicates positive correlation. The size of Durbin-Watson statistics depends on the number of predictors in the model and the number of observations. Field (2009) suggests that the value less than 1 or greater than 3 are definitely cause for concern; however, values closer to 2 may still be problematic depending on your sample and model. In addition, Garson, (2012) Durbin Watson should be between 1.5 and 2.5 for independent observations.

4.5 Multiple Regression Analysis

In order to test this hypothesis multiple linear regression analysis was performed. The predictor variables; Effectiveness and assurance, access, price, tangibles and service portfolio were entered into the SPSS simultaneously using enter/simultaneous method and the outcome variable, overall service quality in this case, was entered separately. Below are multiple regression outputs of the statistical package.

4.5.1 Regression analysis of Banking service quality dimensions and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.752. The value of R² represents the coefficient of determination or the variation explained by the independent variables BSQ dimensions out of the total variation in the dependent variable(customer loyalty).According to the SPSS result shown below on the table 4.15, the model explain about 56.5% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable

Table 4.15 Regression analysis result for Banking service quality dimensions and customer loyalty

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.752 ^a	.565	.556	.866	2.078

a. Predictors: (Constant), Reliability , Access, Service Portfolio , Tangibles , Effectiveness and Assurance , Price

b. Dependent Variable: customer loyalty

Table 4.16 ANOVA result for Banking service quality dimensions and customer loyalty

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	285.573	6	47.596	63.440	.000 ^b
	Residual	219.821	293	.750		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Reliability , Access, Service Portfolio , Tangibles , Effectiveness and Assurance , Price

Table 4.17 Coefficient of Banking service quality dimensions and customer loyalty

		Coefficients ^a						Collinearity Statistics	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF	
Model		B	Std. Error	Beta					
1	(Constant)	.233	.290		.805	.422			
	Effectiveness and Assurance	.100	.078	.081	1.284	.200	.372	2.688	
	Access	.151	.064	.115	2.338	.020	.617	1.622	
	Price	.230	.079	.196	2.915	.004	.329	3.043	
	Tangibles	.299	.067	.259	4.478	.000	.443	2.258	
	Service Portfolio	.237	.055	.230	4.317	.000	.522	1.916	
	Reliability	.034	.046	.036	.741	.459	.633	1.580	

a. Dependent Variable: customer loyalty

In the regression table above, we can see the contribution of each predictor or B value. This B value means that, the variation in outcome variable due to a unit change in the independent variable. Thus, the table provides the result of the model predicting customer loyalty through the variables of Reliability, Access, Service Portfolio, Tangibles, Effectiveness and Assurance, Price. Accordingly, as it can be seen on table 4.17, effectiveness and assurance has a positive but insignificant effect on customer loyalty with coefficient of (Beta =0.81 and $p>0.05$),Tangibles has a positive and significant effect on customer loyalty with coefficient of (Beta= 0.259, $p<0.001$), Service portfolio has a positive and significant effect on customer loyalty with coefficient of (Beta=0.230, $p<0.001$) Price and Access have also a positive and significant effect on customer loyalty with coefficient of(Beta= 0.196 and 0.115, $p<0.001$). Whereas, reliability has a positive but insignificant effect on customer loyalty with a coefficient of (Beta=0.036, $p>0.05$) Based on the regression result of the above table 4.17, it can be possible to accept H2, H3, H4, and H5 and rejecting H1 and H6 which have insignificant effect.

4.5.2 Regression analysis of effectiveness and assurance and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.622. The value of R² represents the coefficient of determination or the variation explained by the independent variables effectiveness and assurance out of the total variation in the dependent variable(customer loyalty).According to the SPSS result shown below on the table 4.18, the

model explain about 38.7% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.18 Regression analysis result for effectiveness and assurance and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.622 ^a	.387	.385	1.020	1.892

a. Predictors: (Constant), Effectiveness and Assurance

b. Dependent Variable: customer loyalty

Table 4.19 ANOVA result for effectiveness and assurance and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	195.500	1	195.500	187.996	.000 ^b
	Residual	309.894	298	1.040		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Effectiveness and Assurance

4.5.3 Regression analysis of Access and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.528. The value of R² represents the coefficient of determination or the variation explained by the independent variables Access out of the total variation in the dependent variable(customer loyalty).According to the SPSS result shown below on the table 4.20, the model explain about 27.9% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.20 Regression analysis result for Access and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.528 ^a	.279	.276	1.106	1.583

a. Predictors: (Constant), Access

b. Dependent Variable: customer loyalty

Table 4.21 ANOVA result for Access and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	140.865	1	140.865	115.156	.000 ^b
	Residual	364.529	298	1.223		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Access

4.5.4 Regression analysis of Price and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.661. The value of R² represents the coefficient of determination or the variation explained by the independent variables Price out of the total variation in the dependent variable(customer loyalty).According to the SPSS result shown below on the table 4.22, the model explain about 43.7% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.22 Regression analysis result for Price and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.661 ^a	.437	.435	.977	1.845

a. Predictors: (Constant), Price

b. Dependent Variable: customer loyalty

Table 4.23 ANOVA result for Price and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	220.822	1	220.822	231.242	.000 ^b
	Residual	284.572	298	.955		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Price

4.5.5 Regression analysis of Tangibles and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.646. The value of R² represents the coefficient of determination or the variation explained by the independent variables Tangibles out of the total variation in the dependent variable (customer loyalty). According to the SPSS result shown below on the table 4.24, the model explain about 41.7% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.24 Regression analysis result for Tangibles and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.646 ^a	.417	.415	.995	1.683

a. Predictors: (Constant), Tangibles

b. Dependent Variable: customer loyalty

Table 4.25 ANOVA result for Tangibles and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	210.644	1	210.644	212.967	.000 ^b
	Residual	294.750	298	.989		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Tangibles

4.5.6 Regression analysis of Service portfolio and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.611. The value of R² represents the coefficient of determination or the variation explained by the independent variables Service portfolio out of the total variation in the dependent variable (customer loyalty). According to the SPSS result shown below on the table 4.26, the model explain about 37.4% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.26 Regression analysis result for Service portfolio and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.611 ^a	.374	.372	1.031	1.951

a. Predictors: (Constant), Service Portfolio

b. Dependent Variable: customer loyalty

Table 4.27 ANOVA result for Service portfolio and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	188.884	1	188.884	177.838	.000 ^b
	Residual	316.510	298	1.062		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Service Portfolio

4.5.7 Regression analysis of Reliability and customers' loyalty

The model summary provides the summary of the best-fit regression model. For this analysis the R (multiple R), which is the overall correlation between the predictor variables shows 0.457. The value of R² represents the coefficient of determination or the variation explained by the independent variables Reliability out of the total variation in the dependent variable (customer loyalty). According to the SPSS result shown below on the table 4.28, the model explain about 20.9% of variation on customer loyalty. ANOVA tells the overall goodness of fit of the model. The mean square, which is residual sums of square divided by the degree of freedom, is somewhat good. The most important part of this table is F-ratio and it is significance. The F-ratio is high and statistically significant ($p < 0.001$), signaling significantly good degree of prediction of the outcome variable.

Table 4.28 Regression analysis result for Reliability and customer loyalty

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.457 ^a	.209	.206	1.158	1.440

a. Predictors: (Constant), Reliability

b. Dependent Variable: customer loyalty

Table 4.29 ANOVA result for Reliability and customer loyalty

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	105.667	1	105.667	78.776	.000 ^b
	Residual	399.727	298	1.341		
	Total	505.394	299			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), Reliability

4.6 Independent Sample T test

Table 4.30 Independent sample t test between private and Public Banks

Independent sample t test Group Statistics (source: own survey 2017)					
	which bank customer are you	N	Mean	t	Sig. (2-tailed)
Effectiveness and Assurance	public banks	138	5.17	5.995	.000
	private banks	162	4.47		
Access	public banks	138	5.34	4.344	.000
	private banks	162	4.86		
Price	public banks	138	5.06	3.781	.000
	private banks	162	4.59		
Tangibles	public banks	138	5.34	3.663	.000
	private banks	162	4.87		
Service Portfolio	public banks	138	5.51	6.534	.000
	private banks	162	4.62		
Reliability	public banks	138	4.19	2.180	.030
	private banks	162	3.85		

In the above Levene's Test for Equality of Variances assumed for t value and in which $\text{sig} > 0.05$ is taken. Therefore, if we check also the equal variance not assumed t value of each dimensions where sig value of the statistics is .001, it is sure less than 0.05, 0.01 and 0.001 significance levels. Thus, it can be concluded that there is statistically significant difference in all BSQ dimensions between public and private banks. Therefore, the study found that respondents' evaluation of all BSQ dimensions have higher mean value in public banks than private banks.

4.7 Summary of Hypothesis

Table 4.30 Summary of hypothesis result

Hypothesis	Decision
Effectiveness and assurance has a positive and significant effect on customer loyalty in Ethiopian commercial banks.	Rejected
Access has a positive and significant effect on customer loyalty in Ethiopian commercial banks.	Accepted
Price has a positive and significant effect on customer loyalty in Ethiopian commercial banks	Accepted
Tangibles has a positive and significant effect on customer loyalty in Ethiopian commercial banks	Accepted
Service portfolio has a positive and significant effect on customer loyalty in Ethiopian commercial banks.	Accepted
Reliability has a positive and significant effect on customer loyalty in Ethiopian commercial Banks	Rejected
There is significant difference in BSQ dimensions between public and private Banks	Accepted

Chapter Five: Summary conclusion and Recommendation

5.1. Summary of findings

Evidences entail that service quality is an excellent technique for enhancing customers' satisfaction level and loyalty to the organization in today's competitive environment. The study was intended to examine the effect of service quality on customer loyalty on commercial banks in Ethiopia. In addition, the study was conducted on four selected banks from both private and public banks that operate in Addis Ababa by administering a questionnaire based on banking service quality (BSQ) model with a 31-item scale measurement to 384 sample respondents.

The result of background information of the respondents indicated that majority of the respondents i.e. 60.3% of them were males and 39.7 were females. In addition, majority of the respondents were government employees 32.3% followed by private employee or workers with 23.7%, students 18.7%, merchants 15.7% and other 9.7%.

The result of the descriptive statistical analysis also indicated that customers have given high mean score evaluation to tangibles, access and service portfolio dimensions. However, reliability, effectiveness and assurance, and price dimensions respectively were given mean score below average.

Dubey and Srivastava(2016) studied the impact of service quality on customer loyalty on telecom sector in India. Five antecedents of Service quality have been considered in this study viz, empathy, assurance, responsiveness, tangibility and reliability based on SERVQUAL model of Parasuraman et al (1988).Results depicted that service quality has significant and positive impact on customer loyalty and out of four antecedent of service quality tangibility has significant impact on customer loyalty. Therefore, the finding of this research is consistent with the findings of Dubey and Srivastava(2016)

Gebremedihn,(2014) conducted a comparative study on banks service quality and customer satisfaction between public and private banks taking CBE and Awash International Bank as a Sample. The finding of paired sample t-test shows that there is a significant difference in perception of customers' of CBE and AIB S.C. therefore, the findings of this research is

consistent with the findings of Gebremedihn.(2014) that there is significant difference in mean score of customers evaluation of service quality dimensions in public and private banks.

The correlation result shows that there is a positive and significant relationship between BSQ dimensions and customer loyalty. In addition, the finding indicated that customer loyalty has the highest correlation between Price, tangibles and Effectiveness and assurance respectively. Whereas, the lowest correlation of customer loyalty is with reliability.

5.2. Conclusion

In this study, explanatory research design with which service quality was explained using the six BSQ dimensions and the relationship between service quality and customer loyalty was established.

The study revealed that all BSQ dimension explained about 56.5% of the variation in customer loyalty in Ethiopian commercial banks. In addition, the variation in customer loyalty explained by the price dimension accounts 43.7% which is the highest predictor of customer loyalty followed by tangibles and effectiveness and assurance 41.7% and 38.7% respectively.

The main objective of this study was to determine the effect of various service quality dimensions on customer loyalty in Ethiopian commercial banking sector. Findings indicate that service quality and all its dimensions such as tangibles, Price, Service portfolio, access, reliability and effectiveness and assurance have significant and positive association with customer's loyalty towards their respective bank.

The research findings also indicated that there is still a big technological gap within all commercial Banks in Ethiopia, and that was the primary reason why customers were giving lower evaluation the bank uses latest innovative technology item in service portfolio dimension, which had been given low mean score in the descriptive result analysis. Thus, having high standard of technology will bring a win-win advantage both to the banks and customers.

In conclusion, the results demonstrate the importance of improving the quality of service delivery, which in turn enhances customer loyalty. It gives implications for differentiated

marketing strategies according to the perceived value for customer satisfaction and service loyalty.

5.3 Implications and Recommendations

The processes and system strategy of service marketing mixes have indicator level representation in many of the dimensions including assurance and effectiveness, access and reliability. Seamless and standardized process and system is at the heart of banking operation. Commercial banks, according to the survey have some difficulties in building a process based organizational system that address the needs of their customers. Continuous process improvement is required in meeting service standards, accuracy and speed of service delivery since organizational process and system have counterproductive effect in quality perception of most of the dimensions and satisfaction and loyalty, if managed poorly. This is because; delays in offering services due to bureaucratic and procedural factors of the bank might have a negative effect in customer's perception of service quality.

More importantly, the study finds that customers in the banking industry are more concerned with tangibles, price and service portfolio dimensions when it comes to the correlation that each BSQ dimension has with customer loyalty.

It is accordingly suggested that:

- Commercial banks should focus more on making customers feel exited and attract through creating efficacious work environment, providing services that are compatible with the latest banking industry innovations. Banks Manager should also maintain relationships with customers through frequently communicating with them availing what customers need immediately. Moreover, it is advised that managements in the industry should frequently communicate to their customers the long-term directions of their business since in doing the customer will develop trust in the continual existence of the banks.
- Similarly, the study depicts that enhancing quality of service is key for improving customer loyalty. The managerial implication of these finding is that any commercial bank that would be either private or public, which seeks to remain competitive in the

industry through enhancing customer satisfaction and loyalty should focus on improving service quality in the area of Tangibles (i.e. creating attractive comfortable working environment), Service portfolio (i.e. through providing complete gamut of services and availing services that are consistent with the latest banking service innovations), price (i.e. the bank should inform its service based fees to the customers regularly).

5.4. Direction for future research

The study was conducted to examine the effect of service quality on customer satisfaction and loyalty on commercial banks in Ethiopia. The sample was drawn only from commercial banks from both private, and public, thus this study may be limited in its generalizability of the findings to all commercial banks in Ethiopia. Therefore, future research should have to draw sample of respondents on more number of commercial banks from both public and private for the sake of general and refined findings.

Moreover, retail banking has many facets and wide ranges of services offered even in Ethiopian retail banking standard. From the common saving, time and current deposits to credit extension and letter of credits and foreign, exchange buying/selling. Going ahead, analyzing the customers' perception/evaluation of service quality in definite service offering, say, credit service could give a better picture and powerful diagnostic tool in improving quality of services in the eyes of the customers. It would be better for any other research to include customers of all banking service types to get more generalized findings.

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APPENDIX 1

**Addis Ababa University, School of Commerce
MA Program in Marketing Management**

Dear Respondents,

I am YigermalAsmamaw, a graduate student at Addis Ababa University School of Commerce. Currently, I am conducting a research study on “the effect of Service Quality on Customer Loyalty : A case study on selected commercial banks in Addis Ababa .” in partial fulfillment of Master of Arts Degree in Marketing Management at Addis Ababa University School of Commerce (AAUSC). I request your help to spend some minutes of your time by filling the provided questionnaire.

Dear respondents, this questionnaire is intended to gather information about service quality perceptions of your Bank. I can assure you that any information that you provide in this questionnaire will be kept confidential. Your genuine response is of high importance for the outcome of the project.

Thank you in advance for your cooperation in filling the questionnaire.

Section one:

Part I: general information

1. Gender Male Female

2. Job

Student Private Employee Government employee

Merchant Other

3. Service type that you use in the Bank

Saving current Money Transfer

4. How often you would come to the Bank

once a day once a week once a month and more

5. Number of years being a customer of the Bank

Less than 6 month 6 month-1 year 1-2 years

2-3 years more than 3 years

6. Which bank customer are you? _____

Directions :

The following statements relate to your perception (view/opinion/observation) about this bank. For each statement, please show the extent to which you believe the bank has the feature described by the statement after reading carefully. Use the response from “1” to “7” to answer your level of agreement or disagreement, where indicating or circling “1” means that you very strongly disagree, “2” strongly disagree, “3” disagree, “4” neither agree nor disagree/don’t know, and “5” agree, “6” strongly agree and “7” very strongly agree.

Service quality dimensions	No	Service quality dimension statements	Your perceptions						
			<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Effectiveness and Assurance	<u>1</u>	The behavior of employees in the bank instill confidence.							
	<u>2</u>	Bank employees give recognition to regular customers with special service.							
	<u>3</u>	The bank places great importance on Customers’ confidentiality.							
	<u>4</u>	Bank employees valorize customers to the company by handling them well							
	<u>5</u>	The bank has no interruption of service.							
	<u>6</u>	The bank has well-trained employees							
	<u>7</u>	Bank employees have the knowledge to answer your questions on personal basis							
	<u>8</u>	No contradictions in decision between employees and management in this bank							
	<u>9</u>	The bank provides its services at the time it promises to do so							
	<u>10</u>	The bank has good reputation.							
	<u>11</u>	You feel secured in your transactions with the bank							
	<u>12</u>	No delays due to bureaucratic factors and procedures in this bank							
	<u>13</u>	The bank communicates and indicates high quality indications							
Access	<u>14</u>	The bank has good level of branch coverage							
	<u>15</u>	The bank has sufficient number of ATMs							
	<u>16</u>	The bank has modern equipments							
	<u>17</u>	The bank has sufficient number of Open tellers							
	<u>18</u>	Waiting time and queues are short and quick in this bank							
Price	<u>19</u>	The bank contacts me every time it is useful.							
	<u>20</u>	The bank provides good explanations of servic							

		fees.							
	<u>21</u>	The bank explicitly states the service fee based on the balance/service type							
	<u>22</u>	The bank takes reasonable fees for the services it provides							
	<u>23</u>	The bank keeps customers informed every time that a better solution appears for problems.							
Tangibles	<u>24</u>	The bank uses high standard service receipts, forms documents and pamphlets							
	<u>25</u>	The bank has good level Of cleanliness of facilities.							
	<u>26</u>	The bank facilities are well-decorated							
	<u>27</u>	The bank has efficacious work environment							
Service portfolio	<u>28</u>	The bank offers complete gamut of Services.							
	<u>29</u>	The bank offers services that are consistent with the latest innovation in banking services.							
Reliability	<u>30</u>	service delivery errors are absent in this bank							
	<u>31</u>	The bank has precision of filing/documentation systems.							
overall		Taking everything into consideration, this bank is an excellent bank							

Customer loyalty

Customer loyalty	<u>35</u>	I will go on using this bank							
	<u>36</u>	I often recommend the bank to others							
	<u>37</u>	This bank will always be my first choice							

APPENDIX 2

አዲስ አበባ ዩኒቨርሲቲ ንግድ ሥራ ትምህርት ቤት

የገበያ አመራር ድህረ-ምረቃ ፕሮግራም

የባንኮች አገልግሎት ጥራት መለኪያ መጠይቅ

ውድ መላሾች

ይህ ጥናት ከንግድ ስራ ኮሌጅ የድህረ ምረቃ ትምህርት ክፍል በገበያ አመራር ትምህርት (Masters of Art in Marketing Management) ከፊል ማሟያነት፤ በአዲስ አበባ የሚገኙ የንግድ ባንኮች የአገልግሎት ጥራት በደንበኞች እርካታ እና ታማኝነት ላይ ያለው ዉጤት ለማወቅ ያተኮረ ነው። የምርምር ጥናቱ ተወዳዳሪ እና ጥራት ተኮር የሆኑ ባንኮችን ለመፍጠር የሚደረገውን ጥረት ያግዛል ተብሎ ይታመንበታል። እርሶም ይህንን በመገንዘብ መጠይቁን በአግባቡ በመሙላት የበኩሎን ትብብር እንዲያደርጉ በትህትና እየጠየቅሁ ከዚህ ጋር በተያያዘ ማንኛውም የምትሰጡት ምላሽ በተገቢው ሁኔታ በሚስጥር ተጠብቆ የሚቀመጥ ከመሆኑም ባሻገር ለጥናቱ አገልግሎት ብቻ የሚውል መሆኑን ላረጋግጥሎት እወዳለሁ። ለምታደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ።

ከሰላምታ ጋር

ክፍል አንድ: የግል መረጃ

መመሪያ: እባክዎ ለጥያቄዎቹ በመልስነት ከቀረቡት አማራጮች እርሶን እና ከባንኩ ጋር ያሎትን ግንኙነት የሚገልፀውን ምላሽ ይህን

ምልክት (✓) በማድረግ ምላሽዎትን ይሰጡ።

1. ጾታ : ወንድ ሴት
2. የስራ መስክ: ተማሪ የግል ድርጅት ሠራተኛ የመንግስት ሠራተኛ ነጋዴ ሌላ
3. በባንኩ የሚጠቀሟቸው የአገልግሎት አይነት/ቶች:

የተቀማጭ ሂሳብ ሀዋላ(ገንዘብ ማስተላለፍ)

ተንቀሳቃሽ ሂሳብ
4. ወደ ባንኩ ምን ያህል ጊዜ ይመጣሉ?

በአማካይ በቀን አንድ ጊዜ በአማካይ በሳምንት አንድ ጊዜ በ ወር አንድ ጊዜ እና ከዛ በላይ
5. ከባንኩ ጋር ያሎት ግንኙነት ምን ያህል ጊዜ ሆነው?

ከ6 ወር በታች ከ 6 ወር - 1 አመት ከ 1-2 አመት

ከ 2-3 አመት ከ 3 አመት በላይ
6. የየት ባንክ ደንበኛ ነዎት _____

ክፍል ሁለት፡ የአገልግሎት ጥራት አመለካከት

መመሪያ፡ ከታች የተቀመጡት የአገልግሎት ጥራት መገለጫ ዝርዝር አረፍተ ነገሮች ከባንክ የአገልግሎት ጥራት ጋር የተያያዙ ናቸው። ስለዚህም እያንዳንዱን የአገልግሎት ጥራት መገለጫ ዝርዝር አረፍተ ነገሮች በትኩረት ካነበቡ በኋላ ስለባንኩ ያለዎትን አመለካከት/ግምገማ/እይታ ከተጠቀሱት አረፍተ ነገሮች ጋር በማወዳደር ከ 1-7 በተቀመጡት ቁጥሮች ይህን ምልክት (✓) እንዲያሰፍሩ እጠይቃለሁ።

- 1= እጅግ በጣም አልስማማም 4= ገለልተኛ/አላውቅም
- 2 =በጣም አልስማማም' 5= እስማማለሁ
- 3 =አልስማማም 6= በጣም እስማማለሁ 7= እጅግ በጣም እስማማለሁ የሚሉትን ይወክላሉ።

የአገልግሎት ጥራት መገለጫዎች	ተ.ቁ	የአገልግሎት ጥራት መገለጫ ዝርዝር አረፍተ ነገሮች	የእርስዎ ግምገማ							
			1	2	3	4	5	6	7	
ውጤታማነት እና ዋስትና/መተማመኛ	1	የባንኩ ሰራተኞች ፀባይ/ባህሪ መተማመንን ይፈጥራል								
	2	የባንኩ ሰራተኞች ለቋሚ ደንበኞች የተለየ እና ጥሩ አገልግሎት በማቅረብ እውቅና ይሰጣሉ								
	3	ባንኩ ለደንበኞች መረጃ ሚስጥራዊነት ትልቅ ቦታ ይሰጣል								
	4	የባንኩ ሰራተኞች ደንበኛን በአግባቡ በመያዝ ለባንኩ ያላቸውን እሴት/ዋጋ ይጨምራሉ								
	5	ባንኩ የአገልግሎት መቆራረጥ አያጋጥመውም								
	6	የባንኩ ሰራተኞች በአግባቡ የሰለጠኑ ናቸው								
	7	የባንኩ ሰራተኞች የእርሶን ጥያቄዎች ምላሽ ለመስጠት በቂ እውቀት አላቸው								
	8	በባንኩ ሰራተኞች እና በስራ አመራሮች መካከል የውሳኔ ልዩነት/ተቃርኖ አይታይም								
	9	ባንኩ እፈጽማለሁ ብሎ ቃል በገባው ጊዜ ውስጥ አገልግሎቶቹን ያቀርባል(ለምሳሌ የቁጠባ ወይም የሌሎች ሂሳብ ገቢ/ወጪ ፣ የብድር ጥያቄዎችን እና የመሳሰሉትን በተቀመጠላቸው የጊዜ ገደብ ፕሮሰስ ያደርጋል፤ ይፈፅማልም)								
	10	ባንኩ ጥሩ ስም/እውቅና አለው								
	11	ከባንኩ ጋር በማደርገው ግብይቶች ፍፁም ደህንነት ይሰማኛል								
	12	የባንኩ አገልግሎቶች በአስተዳደራዊ ችግሮች ምክንያት አይዘገዩም								
	13	ባንኩ በማስታወቂያ እና በተለያዩ መልዕክት ማስተላለፊያዎች ከፍተኛ ጥራትን ያመለክታል/ያስተላልፋል								
	14	ባንኩ በቂ የቅርንጫፍ ሽፋን አለው								
	15	ባንኩ ዘመናዊ ቴክኖሎጂ ና መሣሪያዎች አሉት(ኤ.ቲ.ኤም ማሸን፣ ገንዘብ መቁጠሪያ እና መመርመሪያ ማሸን፣የወረፋ ማስተናበሪያ ሲስተም፣ ዘመናዊ ኮምፒውተሮች እና የመሳሰሉት)								

ተደራሽነት	16	ባንኩ በቂ የገንዘብ መክፈያ ማሸናፊያ(ኤ.ቲ.ኤም)አሉት								
	17	በባንኩ በቂ ክፍት የአገልግሎት መስጫ መስኮቶች አሉ								
	18	በባንኩ የአገልግሎት መጠበቂያ ጊዜ/ወረፋ አጭር እና ፈጣን ነው								
ዋጋ	19	ባንኩ አስፈላጊ በሆነበት ጊዜ እኔን ለማናገር ይሞክራል								
	20	ባንኩ በአገልግሎት ክፍያ ዙሪያ ጥሩ ማብራሪያ ይሰጣል								
	21	ባንኩ የአገልግሎት ክፍያ መጠኑን በሂሳብ/በአገልግሎቱ መሠረት ያስቀምጣል/ያሳውቃል								
	22	ባንኩ ለሚሰጠው አገልግሎት ተመጣጣኝ ክፍያ ይጠይቃል								
	23	ባንኩ ችግሮችን የሚፈቱ አዳዲስ መፍትሄዎች ሲገኙ ለደንበኞች ያሳውቃል								
ተጨማሪ ሁኔታዎች	24	ባንኩ ደረጃቸውን የጠበቁ የግብይት ደረሰኞችን፣ ሰነዶችን እና የመረጃ ጽሁፎችን ይጠቀማል/ይሰጣል (ወጪ/ገቢ/ሃዋላ ደረሰኞች ፣ የባንክ ደብተር ፣ የደንበኛ ሰነዶች፣ መረጃ የያዙ ጽሁፎችን እና የመሳሰሉትን ይመለከታል)								
	25	ባንኩ ንፁህ የአገልግሎት መስጫ ቦታና ቁሳቁሶች አለው								
	26	ባንኩ የተዋቡ የአገልግሎት መስጫ ቦታና ቁሳቁሶች አለው								
	27	ባንኩ ውጤታማ የስራ መንፈስ አለው								
የአገልግሎት ስፋት እና አይነቶች	28	ባንኩ ሰፊ የባንክ አገልግሎቶችን ያቀርባል								
	29	ባንኩ የዘመኑ ደረጃ የደረሰበትን የባንክ አገልግሎቶች ይሰጣል								
አስተማማኝነት	30	ባንኩ ስህተቶችን አይሰራም								
	31	ባንኩ በጣም ጥሩ የሰነድ/መረጃ አያያዝ አለው								
አጠቃላይ የአገልግሎት ጥራት		ያንዳንዱ ነገር ከግምት ውስጥ በማስገባት ይህ ባንክ እጅግ በጣም ጥሩ ባንክ ነው								

ክፍል ሶስት: የደንበኞች ታማኝነት ምዘና

የደንበኞች ታማኝነት		በባንኩ መጠቀሚያን እቀጥላለሁ								
		ብዙ ጊዜ ባንኩን ሌሎች ሰዎች እንዲጠቀሙ እጠቁማለሁ/እመክራለሁ								
		ባንኩ ምን ጊዜም ቢሆን የመጀመሪያ ምርጫዬ ነው								