# Addis Ababa University

## College of Business and Economics

## Department of Business Administration


# The Effect of Service Quality on Customer Satisfaction: The Case of Commercial Bank of Ethiopia in Addis Ababa

**A Thesis submitted to the Department of Business Administration in Partial Fulfillment of the Requirements for the Degree of Master of MBA in Finance.**


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**Addis Ababa, Ethiopia**

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| 3. | External Examiner's | | July 05, 2024 |

# DECLARATION

I so confirm that my thesis, "The Effect of Service Quality on Customer Satisfaction: The Case of Commercial Bank of Ethiopia in Addis Ababa," is completely original, with no earlier presentations in either a public or commercial institution.

| **Name** | **Signature** | **Date** |
|---|---|---|
| **Kidist Haligeorgis** | ______________ | July 08, 2024 |

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## Table of Contents

# List of Tables

# *ABSTRACT*

*The study investigates the influence of service quality on customer satisfaction within five district neighborhoods of Addis Ababa served by the Commercial Bank of Ethiopia. Utilizing quantitative research methods, a combination of primary and secondary data collection techniques was employed. A survey designed using the SERVQUAL model, which covers five aspects of service quality, was utilized to fulfill the research objectives. A total of 384 participants were chosen for the study through convenience sampling. The data collected was analysis through the utilization of SPSS version 27. The study employed multiple regression analysis and correlation tests to assess the relationship between independent and dependent variables. Findings from the correlation analysis indicate a positive correlation between customer satisfaction and attributes associated with high-quality service delivery. This study contributes valuable insights into the dynamics of service quality and its impact on customer satisfaction within the context of the Commercial Bank of Ethiopia in Addis Ababa. Regression analysis indicated that superior customer service positively influences overall customer satisfaction. Specifically, responsiveness showed the strongest correlation with customer satisfaction, closely followed by dependability. The study revealed that the Commercial Bank of Ethiopia's performance in delivering excellent service did not meet customer expectations, resulting in decreased customer satisfaction. Consequently, it is recommended that the bank establish a robust complaint management mechanism and provide frontline employees with adequate training. By ensuring consistently high service standards across all touchpoints, banks can enhance customer satisfaction, foster loyalty, and sustain their competitiveness within the banking sector.*



***Keywords:*** *Dimensions of service quality (Tangibility, Responsiveness, Reliability, Empathy, Assurance), SERVEQUAL model.*

# Chapter - One

# Introduction

## 1.1 Background of the study

Currently, there is a notable transformation occurring in the organizational landscape concerning the quality of services provided and level of industrial competitiveness. This could result from severe competition and increasing pressure from globalization, forcing businesses to reconsider the quality and scope of the products and services they provide to clients. With this regard, service quality is becoming increasingly important in all business sectors, including the banking sector (Sandhu and Bala, 2011; Marić et al., 2016).

For instance, Sandhu and Bala (2011), stated that the primary goals of a company's marketing approaches and tactics are to generate income and aid in the expansion of the business, and quality of service has evolved into a crucial factor in the highly competitive industry. Offering superior quality service, particularly through direct client interactions with service providers, is paramount for any business venture. In the banking sector, customer service stands out as a critical aspect. However, the banking industry faces challenges due to intense competition, evolving markets, risk factors, environmental changes, and discerning customer preferences. These dynamics have significantly influenced the organizational structure of the industry and the competitive landscape among banks. The ability to navigate these challenges while maintaining excellent customer service is essential for banks to thrive in the evolving marketplace. According to some reports, service quality is now a crucial component of the banking sector's survival and success, so it's important to understand how bank customers view service quality (Yidnekachew, Deogaonkar, and Zaveri, 2021).

In most cases due to the intangibility of most services, it can be difficult for service organizations to define and standardize the qualities of high-quality service, making it difficult for them to provide superior quality and satisfy their customers(Wilson, Zeithaml, Bitner, and Gremier, 2008; Metasebia, Rong and Tekle, 2019); yet, In today's environment, when there is little opportunity for groups to set themselves apart from the superior service offered by employing other businesses, service is playing an increasingly vital role. Likewise, Gautam (2011) said that the key to success in every firm is to deliver better service than competitors. According to several publications, customer service is regarded as a crucial component of any business and decides the future of every organization. The fast evolution of internet-based technologies is transforming fundamental aspects of how various businesses communicate. Because of the intangibility of services, determining the contact between carrier quality and customer happiness has proven difficult in a variety of service businesses (Nguyen and Leblanc, 2002).

For instance, following Kapoor, Paul, and Halder (2011), service quality in the context of carriers related to the level of service provided by the issuer to consumers, resulting in their overall satisfaction. Similarly, Parasuraman et al. (1985) suggested that the gap between perceived service (customer perceptions) and expected or anticipated service (customer expectations) is what defines excellent service. When customer expectations surpass actual performance, perceived quality falls short of anticipated quality, resulting in a perceived service gap. This does not necessarily indicate poor service quality; rather, it reflects unmet customer expectations, which can lead to dissatisfaction and opportunities for better alignment with customer needs. (Agarwal and Sudhakar, 2017).

Customer satisfaction is a fundamental concept emphasized in banking and financial literature and remains a central objective across all business sectors. The attainment of increased market share and higher profits is closely linked to customer satisfaction. Positive customer experiences directly influence a company's profitability, as satisfied customers tend to become repeat purchasers and advocate for the business to others, thus driving its success. Such satisfied customers often share their positive experiences with friends and family, bolstering the company's reputation and expanding its customer base.

Furthermore, (Spreng and Mackoy, 1996) it is undeniable that the core concepts underpinning business theory and practices revolve around service quality and customer satisfaction. Currently, providing high-quality service is key to satisfying customers and staying competitive in the industry. Good customer service for customers who are taken for granted has become the norm as a result of increased competition and the dynamism of the environmental issue. This is true for both the business sector and the consumer market. All business customers, according to Douglas and Basto (2002), want better service, better pricing than competitors, good customer service, and a process that accepts complaints and feedback.

Based on research by Tewdros (2011), banking in Ethiopia started in 1905 with the founding of the Abyssinia Bank, which ceased operations in 1931 and was succeeded by the Bank of Ethiopia up to the arrival of the Italian forces in 1936. But, in 1963, those features were officially separated and the NBE and the Economic Bank of Ethiopia have been fashioned. Within 1974, several other economic establishments emerged together with the privately-owned banks. Currently, diverse private banks are competing with every different and the issue of first-class and consumer pleasure stays a chief issue in all banks inclusive of the Economic Bank.

The banking industry including the Economic Bank of Ethiopia is many of the surprisingly dynamic industries as clients and consumers often demand alternatives. Those changes similarly power the carrier provision and transport forward with increasing demand for satisfaction. can't always be success or failure since customer service is intangible. Any company that supplies carriers can determine its success by examining how closely its customers adhere to the provider's shipping standards; this indicates that the provider's quality has become the most significant aspect in their evaluations of a specific carrier. Consumers contact service providers in the hopes of receiving excellent treatment, and each has unique expectations. The study aims to investigate the effects of customer service quality on customer satisfaction within the Commercial Bank of Ethiopia (CBE), expanding upon existing research. The objective is to analyze customer satisfaction and service quality within a commercial banking context in Addis Ababa, Ethiopia, addressing gaps identified in previous studies regarding Ethiopian customer experiences and service standards. Thus, besides existing literature, this paper aims at examining the service quality effect on customer satisfaction in the case of the Commercial Bank of Ethiopia.

## 1.2 Statement of the Problem

Nowadays, competitive commercial market, a company's ability to sustain a competitive advantage heavily relies on the quality of its customer service, particularly within the service industry, where consistent customer interactions emphasize the importance of outstanding performance and exceptional service delivery. Customer satisfaction plays a pivotal role in achieving success in this competitive landscape, directly influenced by the service quality offered by competing firms (Chau and Kao, 2009; Mohsan et al., 2011; Yidnekachew, Deogaonkar, and Zaveri, 2021).

Commercial banks face the challenge of retaining existing customers who might be tempted to switch to banks offering more services, while also attracting new business from competitors and the local community. The ability of a bank to retain its current customer base is often more crucial than its capacity to attract new clients (Metasebia, Rong, and Tekle, 2019).

Despite Ethiopia's extensive history with money and coins, modern banking was introduced relatively recently, and the country's financial system has not progressed significantly compared to other parts of Africa. Among the major reasons services quality and customer satisfaction are major factors. With this regard, as stated by Parasuraman et al. (1988), provider niceness and consumer delight are two different notions but both are intently associated principles in the provider sector.

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Commercial banks face the challenge of retaining existing customers who might be tempted to switch to banks offering more services, while also attracting new business from competitors and the local community. The ability of a bank to retain its current customer base is often more crucial than its capacity to attract new clients (Metasebia, Rong, and Tekle, 2019).

As mentioned above, Currently, different authors have examined the relationship between these two common ideas in banking sectors and have found a positive and analytical relationship between service quality and customer satisfaction (Choudhury, 2014; Selvakumar, 2016). With this regard, Commercial Bank of Ethiopia is one of the major banks that provide financial services for customers in Ethiopia for decades. Although there are many research works conducted worldwide, there are very few or limited works that investigated how services quality affect customer satisfaction. Furthermore, Peng and Moghavvemi (2015) with the same argument with Kant and Jaiswal (2017) asserted that service quality dimensions like, reliability, tangibility, assurance, responsiveness, and empathy are not used to assess the effect of the quality of the banking service on customer satisfaction in the Ethiopian banking sector in detail.

In another context, in Debre Markos town in Amhara region of Ethiopia a study by Lemma (2017) on the effect of ATM service quality on customer satisfaction in Ethiopian commercial Banks from 190 customers of Ethiopian commercial banks showed that except assurance, tangibility, reliability, responsiveness and empathy have positive and significant effect on customer satisfaction and the customers were mostly satisfied with the responsiveness dimensions of ATM service quality. Furthermore, the tangibility, reliability, responsiveness and empathy significantly explained 79.2% of the variations on customer's satisfaction level. Similar study also assures that Customer satisfaction is the major issue for the business that is operating in technology-based services and related services. Good customer service quality is the main factor that will determine; in the future whether the business will survive or fail (Thompson and Bokma, 2000), and due to rapid technology change and market competition service quality becomes an increasingly important issue.

In view of that, the aim of this research is to assess the effect of services quality on customer satisfaction, the case of commercial bank of Ethiopia in Addis Ababa. This is because the aforementioned empirical studies indicated that in Ethiopia customer satisfaction and quality of services required further studies. So, this study is viable to have broad understanding of the effect of services quality on customer satisfaction in banking industry in Ethiopia context in Addis Ababa.

## Research Questions

The research questions are outlined in accordance with the research problem.

1. What is the current level of customer service quality of the branches of the CBE (Commercial Bank of Ethiopia) selected in the research paper?
2. What is the effect of the five service quality dimensions on customer satisfaction in the selected branches of the Commercial Bank Ethiopian in the research paper?
3. Is there a significant relationship between the five service quality dimensions and customer satisfaction?

## 1.3 Objective of the Study

### 1.3.1 General objective

The primary objective of this paper is to evaluate the effect of service quality on customer satisfaction within five districts situated within the operational area of the Commercial Bank of Ethiopia in Addis Ababa.

### 1.3.2 Specific objectives

1. To evaluate the service quality offered by the chosen branches of the Commercial Bank of Ethiopia.
2. To assess the overall of customer satisfaction level with the services provided at the selected branches of the Commercial Bank of Ethiopia.

3. To investigate whether a relationship exists between the five service quality dimensions and customer satisfaction.

## 1.4. Significance of the Study

The research delves into explores the correlation between customer satisfaction and service quality across Commercial Bank of Ethiopia branches. It seeks to uncover influential factors affecting customer happiness and service quality, offering insights to support banks in crafting customer-centric strategies. The research enhances banks' comprehension of customer perceptions, interactions, satisfaction levels, and essential service quality aspects that impact customer satisfaction.

Furthermore, understanding factors influencing quality and customer satisfaction will help to improve their service performance, it also strengthens the relationship between banks and customers in order provide better services, and contribute in future developments. This study also enables commercial bank of Ethiopia to strategically plan their products and service offerings. Moreover, the outcome of the study will add some insights to the existing gap in literature on banking industry.

Finally, this study will have significant contribution to instigate more researches that was conducted in Ethiopia related to this topic and to the banking industry in the future.

## 1.5 Delimitation/ Scope of the Study

The study investigates Ethiopian commercial bank customers' perceptions of service quality and client treatment, examining the correlation between customer satisfaction and different service quality attributes. It employs the SERVQUAL implement created by Parasuraman et al. in 1985 as a framework, specifically evaluating the service quality offered by the Commercial Bank of Ethiopia. The research aims to analyze customer attitudes and experiences to gain insights into improving service release and enhancing customer satisfaction within the banking industry sector.

## 1.6 Limitations of the Study

The researcher faced numerous hurdles while collecting critical data. One example was the difficulty of locating reliable data. The research was conducted at a few branches in Addis Ababa. Consequently, the findings are rarely applicable to the research population.

## 1.7 Organization of the Paper

This research project is structured into five chapters. The first chapter covers the main topic, purpose, primary objectives, problem statement, background, introduction, research objectives, significance of the study and scope of investigation. The second chapter delves into the literature associated with e-banking, including empirical research on the topic, especially focusing on experiences from developing nations and the Ethiopian banking system, as well as frameworks and models guiding the study.

The third chapter outlines the study methodology, detailing sampling techniques, research design related aspects. The fourth chapter predominantly focuses on data presentation, analysis, and interpretation and the final chapter concludes with discussions and implications drawn from the research find.

# Chapter - Two

# Review of Related Literature

## 2.1 Introduction

This section examines existing and prior research on customer satisfaction and service quality within the banking sector, evaluates relevant models, discusses theoretical frameworks, and identifies factors influencing satisfaction and service quality specifically within Ethiopia's commercial banks.

## 2.2 Concepts of Quality of Services

The concept of service quality is extensively defined and discussed in the literature. For example, Lewis and Booms (1983) Service quality defined by meeting or exceeding customer expectations. Similarly, Parasuraman et al. (1985) described service quality as the gap between consumers expectations and their perceptions of specific service attributes that could impact their future purchasing decisions. This underscores the importance of customers' expectations in shaping their perceived service quality.

Quality is often assessed based on value for money, which applies to service quality as well. Quality is sensitive to price, incorporating economic factors and customer needs. Customers' perceptions of service firms and their performance significantly impact service quality.

Other scholars offer differing definitions of service quality. For instance, Kotler (2003) explain a service as any intangible offering or activity provided from one party to another without resulting in ownership. Services often involve intangible actions performed by individuals, machinery, or a combination of both to create a positive impression on service recipients. Gronroos (2004) underscores the service process as an ongoing interaction between customers and service providers that encompasses various intangible activities, including prompt responses and efficient utilization of financial and physical resources.

In the competitive business landscape, service quality is crucial for industry success and competitiveness. Defining "quality" can be challenging due to its subjectivity, varying based on personal experiences, interests, and scholarly discussions (Wisniewski, 2001). Bitner, Booms, and

Mohr (1994) characterize service quality as the general customer perception of an organization's comparative excellence or inferiority and its offerings. Similarly, Roest and Pieters (1997) The service quality can be defined as the difference between what customers expect from a service and what they actually receive.

Al-Jazzes and Sultan (2017) define service quality as how companies fulfill or surpass customer expectations, reflecting the overall customer evaluation of a specific service. Kumbhar (2012) notes that a negative gap between perceived service quality and customer expectations leads to dissatisfaction, while a positive gap results in customer satisfaction. Based on Bateson and Hoffman's (1999) perspective, services are the efforts or performances of particular organizations, and quality is assessed based on meeting or surpassing customer needs and expectations. Therefore, ultimately, the customer judges the quality of a product (Shen et al., 2000). Mualla (2011) and Sultan (2017) emphasize that service quality is the comprehensive customer assessment of a particular service and its alignment with expectations, highlighting the need for banks to adapt and develop effective strategies to identify and address various factors influencing service quality to expand their customer base in competitive markets

### 2.2.1 Customers' Perception of Service Quality

In the banking industry, customers' perceptions of service quality are influenced by how well their expectations match their actual experiences. Parasuraman et al. (1985) emphasize that the core of quality service lies in the gap between customers' expectations and the real service delivery. Furthermore, providing high-quality service entails assessing customers' perceptions and expectations across different service attributes and characteristics (Parasuraman et al., 1988). Customers' perception of service quality in the banking sector is shaped by their evaluation of how their expectations match their actual experiences. Parasuraman et al. (1985) emphasize that the core of quality service lies in the gap between customers' expectations and the actual service delivery. Furthermore, providing high-quality service entails assessing customers' perceptions and expectations across different service attributes and characteristics (Parasuraman et al., 1988).

Asubonteng et al. (1996) emphasize that a company can be considered to provide high-quality service within a specific sector when it effectively meets customer needs. Conversely, failing to meet customer expectations not only leads to dissatisfaction but also increases the likelihood of customers switching to competitors offering better service. Customer expectations play a critical role in evaluating service quality, where satisfaction is high satisfaction occurs when performance surpasses expectations, while low satisfaction arises when performance fails to meet expectations (Parasuraman et al., 1988).

The establishment of service quality occurs throughout the service delivery process, with each customer interaction representing an opportunity to fulfill their needs. Customer satisfaction with a service is determined by comparing their perception of the service against their expectations or desired standards. Exceeding expectations leads to exceptional service, contributing to perceived service quality and overall satisfaction (Powell, 1995). and service quality is made at some process in the service/carrier delivery process. Every work relationship with a customer is known as a relation of reality, a possibility to fulfill. Purchaser delight with a carrier can be defined with the aid of comparing the perception of the carrier with the expectations of the service favored.

Service providers prioritize customer satisfaction and positive perceptions due to their impact on customer loyalty, repeat business, and favorable word-of-mouth recommendations (Bearden and Teel, 1983). Research conducted by Sudhahar and Selvam (2007) in India and Selvakumar (2016) in Coimbatore, using the SERVQUAL model, emphasizes how much service dimensions affect customer satisfaction. Similarly, studies by Buell et al. (2010) in the USA, all dimensions of service quality show that they significantly affect customer satisfaction, improving service quality as a critical driver of overall customer satisfaction in the banking sector.

### 2.2.2 Service Quality Dimensions and Customer Satisfaction

Delineated that service quality and customer satisfaction are distinct yet closely interconnected concepts within the service sector, according to Parasuraman et al. (1988). Many authors, such as Choudhury (2014) and Selvakumar (2016), have explored the connection between these concepts in the banking sector, finding a strong analytical link between service quality and customer satisfaction.

Similarly, according to Peng and Moghavvemi (2015) and Kant and Jaiswal (2017), service quality are a few examples of instance reliability, objectivity, assurance, responsiveness, and empathy play a crucial role in evaluating banking service quality. Their research highlights a significant association between service quality and customer satisfaction, indicating that higher service quality is associated with increased customer satisfaction, particularly within the banking industry.

Moreover, the overall service concept significantly impacts customer satisfaction. Studies suggest that each independent variable (elements of service quality) collectively explain 54.6% of the variability in customer satisfaction, with service quality alone (including tangibility, reliability, responsiveness, assurance, and empathy) accounting for 50.6% of the variability in customer satisfaction (Agarwal and Josh, 2016). This underscores the primary objective of any business—customer satisfaction—as satisfied customers lead to increased revenue, profits, and market share.

In contemporary times, customer demands have shifted from mere transactional security to expecting efficient, prompt, and convenient services from banks (Kwashie, 2012). Meeting these evolving customer needs is essential for banks to maintain customer satisfaction and competitiveness in the market.

## 2.3 The Concept of Customer Satisfaction

Customer satisfaction lacks a universally accepted definition, yet according to Oliver (1997), it reflects a customer's successful judgment on whether a product or service meets, exceeds, or falls short of their expectations. Oliver also characterizes customer satisfaction as an overall emotional response stemming from a complete service experience encountered post-purchase.

Similarly, Lovelock (2004) and other scholars define customer satisfaction as an individual's contentment or outcomes with their expectations. Regarding to Sharmin et al. (2016), customer satisfaction involves the customer's evaluation process comparing the received service or product with their expectations.

In the fiercely competitive banking sector, ensuring customer satisfaction is of utmost importance, with many businesses prioritizing it as a key objective. Retaining existing customers is recognized as more profitable than acquiring new ones, and customer satisfaction significantly influences business profitability (Kennedy and Schneider, 2000). According to Anderson and Zemke (1998) highlight that satisfied or happy customers contribute to company growth, while dissatisfied or unhappy customers can negatively impact business sustainability, underscoring the importance of prioritizing customer satisfaction for sustainable growth and retention.

Churchill and Surprenant (1982) define customer satisfaction as the result of purchase and usage, involving a comparison of purchase costs with expected outcomes, and influenced by the emotional state resulting from service evaluation (Woodruff et al., 1991). Customer satisfaction is a critical aspect of organizational operations, instrumental in achieving goals for future success and market positioning (Perng, 2007). Based on the information provided by Armstrong (2010) and Kotler satisfaction is the emotional response resulting from comparing perceived product or service performance with expectations. As competition intensifies, customer satisfaction becomes increasingly crucial, serving as a key determinant of a bank competitiveness (Berry et al., 2002).

### 2.3.1 The Impact of Service Quality on Customer Satisfaction

According to Bolton and Drew (1994) and Parasuraman et al. (1988), Several studies have been conducted in the literature on the connection between customer satisfaction and service quality. Service quality represents a global or international judgment and attitude towards the excellence of service, while satisfaction is specific to a transactional experience. Satisfaction, as described by these authors, involves a post-consumption evaluation comparing perceived quality versus expected quality, while service quality encompasses an overall assessment of a company's service delivery mechanism and system.

Yarimoglu (2014) suggests a reciprocal relationship between customer satisfaction and perceived service quality, some stating that perceived service quality was a function of client satisfaction, while others posit that service quality drives customer satisfaction. This client-centric approach emphasizes meeting customer preferences to optimize satisfaction.

The prevailing research confirms a robust association between customer contentment and the quality of service, suggesting that high-quality services enhance customer loyalty and satisfaction (Kumar et al., 2009; Parasuraman et al., 1988). Conversely, poor customer service can erode satisfaction and lead to customer attrition (Negi, 2009), while organizations that retain more customers through superior service can realize substantial profit gains (Siddiqui, 2011; Prakash and Mohanty, 2013).

Studies within the Ethiopian banking context support these findings, demonstrating that service quality dimensions such as assurance, responsiveness, empathy, and reliability significantly influence customer satisfaction (Dawit, 2018). Shanka (2007) further underscores the importance of empathy, responsiveness, and assurance in driving customer satisfaction within the Ethiopian banking sector, highlighting their positive impact on customer loyalty and retention.

In addition, Shanka (2012) in his article titled "Banking Service Quality, Customer Satisfaction and Loyalty" in the Ethiopian banking sector showed that 260 customers of 13 private banks (in Hawassa city administration) were covered by using the SERVPERF model integrated questionnaire. result showed that all service quality dimensions are positively correlate with customer satisfaction but empathy score lowest mean value. The research findings also indicate that empathy, responsiveness and assurance alone have significant and positive effects on customer satisfaction. Conversely, reliability and objectivity dimensions have no significant effect on customer satisfaction.

## 2.4 Service Quality Measurement: Debates and Consensus

For decades, scholars have extensively discussed methods to measure service quality, with the SERVQUAL and SERVPERF models emerging as prominent tools, particularly in the banking sector. These models rely on five fundamental dimensions that customers consistently deem critical across various service industries, including banking.

The SERVQUAL model was formulated in 1985 by Parasuraman, Zeithaml, and Berry and refined in subsequent publications, serves as a standardized method to assess service quality from the customer's viewpoint (Parasuraman et al., 1988). Initially comprising ten service quality attributes, the model was later condensed to five dimensions: tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988).

These dimensions encompass tangible aspects of service delivery (e.g., physical appearance, equipment), consistency in service provision, promptness in addressing customer needs, employee competence and courtesy, and personalized attention and care towards customers (Buttle, 1996; Curry and Sinclair, 2002).

In academic research, these SERVQUAL dimensions are commonly utilized to gauge the gap between customers' expectations and their perceptions of actual service delivery. By employing SERVQUAL tools, service providers can gain insights into customer expectations, identify areas for improvement, and tailor training efforts to enhance service quality and customer satisfaction across various industries.

To this end the SERVQUAL and the SERVPERF models have been the most widely used models in measuring quality in the service industry in general and in the banking sector in particular. Both models use five service quality dimensions. Most empirical studies shows that service quality dimensions have relations with service quality. It is evident that service quality dimensions have impact on customer satisfaction. SERVPERF model is an improvised model of Parasurman's SERVQUAL. While SERVPERF main focus is perceived service quality; however, SERVQUAL approach integrates the service quality and satisfaction. Accordingly, in this theory SERVQUAL is the prominent theory that will guide the study.

## 2.5 Empirical Works on the Effect of services quality on customer satisfaction in the Ethiopian Context and Beyond

In contemporary business environments, organizations face intense competition, prompting a shift from sales-centric approaches to marketing strategies that prioritize customer satisfaction and national development (Kotler, 2000). The literature highlights the symbiotic association between service excellence and customer satisfaction, particularly emphasizing the positive correlation between customer satisfaction and service quality within the banking sector (Stafford, 1996).

Customer satisfaction is crucial for any organization, as contented customers contribute to sustained profitability and market growth through repeat purchases and positive word-of-mouth referrals (Metasebia, Rong, and Tekle, 2019). Conversely, dissatisfied customers may defect to competitors and spread negative feedback. Therefore, organizations must prioritize customer satisfaction by delivering exceptional service and meeting evolving customer expectations (Metasebia, Rong, and Tekle, 2019).

Studies conducted within the banking sector underscore the significance of service quality dimensions in shaping customer satisfaction levels. For example, research on Oromia International Bank identified a negative gap in tangibility, indicating unmet service expectations (Negash, 2021). Similarly, Zeithaml et al. (2000) emphasized service quality as a critical determinant of competitive advantage and customer satisfaction, highlighting the need for sustainable service excellence in banking (cited in Negash, 2021).

The influence of service quality on customer satisfaction is further highlighted in studies conducted by organizations like Awash Insurance Company, where service quality significantly impacts customer satisfaction levels (Machias, 2015). Studies consistently demonstrate positive relationships between service quality dimensions—such as reliability, responsiveness, empathy, and assurance—and customer satisfaction levels (Yeshitila, 2018).

In the Ethiopian context, the research emphasizes the importance of service quality dimensions—such as tangibles, reliability, responsiveness, empathy, and assurance—in influencing customer satisfaction within the banking sector (Kassa, 2013; Abebe, 2014).

Overall, research within the banking sector highlights the crucial importance of service quality in fostering customer satisfaction and sustaining competitive advantage. By high priority service excellence across key dimensions, banks can enhance customer satisfaction levels and achieve long-term sustainability in dynamic market environments.

## 2.6 Knowledge gap

In the banking sector, banks play a crucial role in fostering national resource development by Promoting savings and enabling capital accumulation for business and other industry. Satisfied customers are vital for organizations to ensure long-term profitability, as they contribute to repeat business and referrals, thus expanding the customer base. The service industry is dynamic, with evolving customer preferences driving demand for higher quality standards. The success of any service provider is contingent upon customers' perceptions of service delivery, where service quality a pivotal responsibility in evaluating customer satisfaction.

As mentioned above, currently, different authors have examined the relationship between these two common ideas in banking sectors and have found a positive and analytical relationship between service quality and customer satisfaction (Choudhury, 2014; Selvakumar, 2016). Although there are many research works conducted worldwide, there are very few or limited works that investigated how services quality affect customer satisfaction.

In view of that, the aim of this research is to assess the effect of services quality on customer satisfaction, the case of commercial bank of Ethiopia in Addis Ababa. This is because the aforementioned empirical studies indicated that in Ethiopia customer satisfaction and quality of services required further studies. So, this study is viable to have broad understanding of the effect of services quality on customer satisfaction in banking industry in Ethiopia context in Addis Ababa.

Overall, customers' perceptions of service quality often indicate a gap between their expectations and actual experiences, with expectations often exceeding perceptions. In conclusion, service quality significantly influences customer satisfaction, particularly within the banking sector, emphasizing the importance of delivering exceptional services that meet or exceed customer expectations.

## 2.7 Model and Conceptual Framework of the Study

The main target of this study is to explore how service quality effects the satisfaction of bank customers. A conceptual framework acts as a guide for the research, assisting the researcher in planning the study, defining variables, assessing outcomes, and structuring the analysis and interpretation of data in a clear and substantial way. Customer satisfaction is thought to affect customers' attitudes after purchase and their future decisions, with quality customer service identified as a critical factor leading to customer satisfaction (Cronin and Taylor, 1992).

Among the various frameworks available, the SERVQUAL model by Parasuraman (1985; 1988) is widely used to evaluate the quality of service in the service sectors. This conceptual framework or model defines service quality across five dimensions (Tangibility, Reliability, Responsiveness, Assurance, and Empathy), where overall service quality acts as an independent variable and customer satisfaction as a dependent variable.

The conceptual framework (Figure 1.1) outlines the key steps employed in this study. Drawing from the literature review, the conceptual model is constructed based on service quality dimensions. The SERVQUAL model is selected to measure customer satisfaction and service quality in banking due to its assertion of a conceptual link between customer satisfaction and quality of service, suggesting that satisfaction contingent upon perceived quality of service (Negi, 2009)

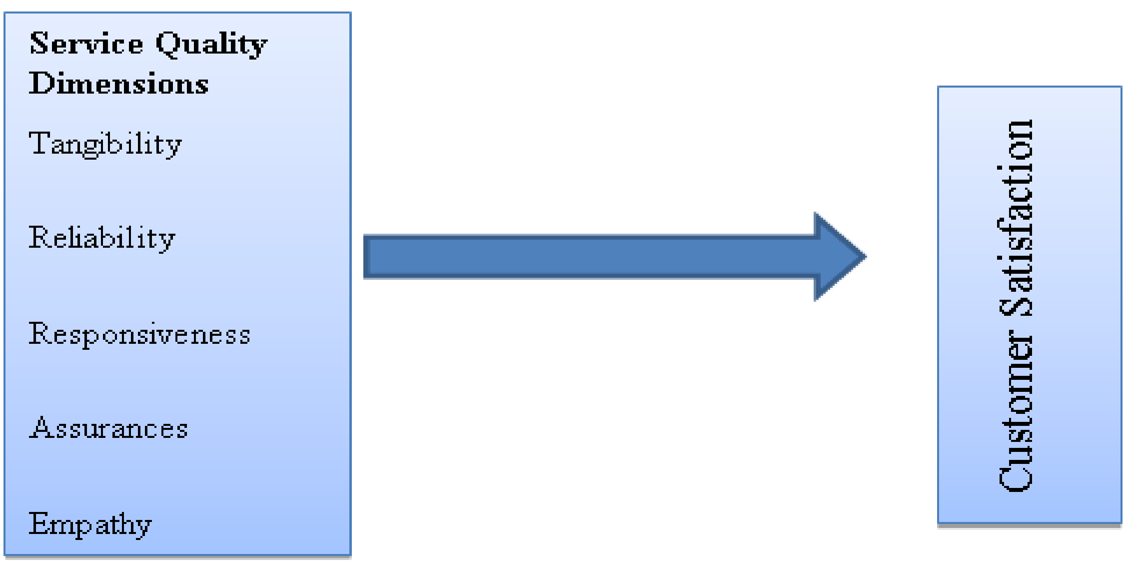



*Figure 1.1: Independent and dependent variables model*

## 2.8 Hypothesis

To analyze the effect of service quality on customer satisfaction at the (CBE) Commercial Bank of Ethiopia, the following hypotheses are proposed based on theoretical and empirical evaluation:

Hypothesis 1: Customer satisfaction has a significant effect on intangibility.

Hypothesis 2: Customer satisfaction has a significant effect on reliability.

Hypothesis 3: Customer satisfaction has a significant effect on responsiveness.

Hypothesis 4: Customer satisfaction has a significant effect on assurance.

Hypothesis 5: Customer satisfaction has a significant effect on empathy.

These hypotheses will be tested to assess the effect of service quality dimensions (intangibility, reliability, responsiveness, assurance, empathy) on customer satisfaction in the context of the Commercial Bank of Ethiopia.

# Chapter - Three

# Research Designs and Methodology

The methodology section of the study covers several essential components, including the study area, research approaches, study design, data collection methods and instruments, sampling strategy, data sources, data analysis methods, quality assurance plan for data, and ethical considerations. Each of these elements will be thoroughly explained and discussed in subsequent sections to offer a comprehensive overview of the methodology used in this study.

## 3.1 Research Design

The study utilizes a research design framework that combines descriptive and explanatory methods in order to accomplish the intended goals. Creswell (1994) states that descriptive research is a methodology used to gain insights into the existing state of affairs. This study's research design is focused on gathering factual information and accurately interpreting the results.

Additionally, an explanatory research methodology was utilized to enhance understanding, prediction, and control of the connection between variables. The study used a cross-sectional study methodology, enabling data collection at a specific point in time while also incorporating historical information, as described by Abramson (1985). This approach facilitated comprehensive data gathering and analysis within a defined timeframe.

## 3.2 Sampling Method and Sample Size

In this research, a blend of non-probability sampling techniques was utilized. Quantitative data collection involves the use of statistical formulas. More precisely, non-probability sampling was employed to select branches based on higher customer visitation rates. In order to ascertain the appropriate sample size, The formula for single proportions was utilized by the researcher, incorporating a 95% confidence level and a 5% standard error, following the guidelines from Kothari (2004). This method was chosen to achieve a sample size that accurately represents the study's objectives.

$$n = \frac{z2 * p * q}{e2}$$

- The formula used to calculate the maximum sample size (n) for the study is based on several components:
- **n**: Represents the maximum sample size required.
- **Z**: Denotes the value of the standard deviation corresponding to the desired confidence level, obtained from a standard normal distribution table.
- **p**: Represents the estimated prevalence rate or proportion of the population having a specific characteristic.
- **q**: Computed as \ (1 - p\), representing the complement of the prevalence rate.
- **e**: Stands for the margin of sampling error tolerated, reflecting the desired precision level in the estimation.
- Combining these elements in the formula \ (n = \frac {Z^2 \times p \times q} {e^2} \) allows for the determination of an appropriate sample size to achieve the study's objectives with the desired confidence level and margin of error.

Therefore= $n = \frac{z2 * p * q}{e2} = \frac{1.962 * 0.50(1 - 0.50)}{0.05}$

$= \underline{\underline{\mathbf{384}}}$

Table 3.1. List of Selected Branch Name &Number Sample Respondents

| Nos. | Selected branch name | Selected district | Number of selected respondent |
|---|---|---|---|
| 1 | Saris Abo Kelebet Branch | Bole | 24 |
| 2 | Saris Branch | | 24 |
| 3 | Yoseph Branch | | 24 |
| 4 | Torhailoch | Kolfe | 24 |
| 5 | 18 Adebabay | | 24 |
| 6 | Finfine Branch | Kirkos | 24 |
| 7 | Lancha Branch | | 24 |
| 8 | Meskel Square Branch | | 24 |
| 9 | Gara Duba Branch | Nifa Silk | 24 |
| 10 | Lafto Atikilit Tera Branch | | 24 |
| 11 | Nifas Silk Branch | | 24 |
| 12 | Hana Sefera Branch | | 24 |
| 13 | Salo Goro Branch | | 24 |
| 14 | Kaliti Branch | | 24 |
| 15 | Abware Branch | Yeka | 24 |
| 16 | Megenagna Branch | | 24 |
| **Total selected respondents** | | | **384** |

**Source:** Own survey (2023)

These branches were chosen because most of the branch locations are in the market area and there is not enough research on the locations of most of the branches. As a result, Ethiopian Commercial Bank can be considered a good representation of many customer segments.

Accordingly, in this study, a total of 384 respondents filled out the survey questionnaire. This sample size formula was chosen so that it is not possible to identify the elements in the sample frame in advance (currently it is difficult to find active customers) because there is no list corresponding to the required elements. To get more reliable and relevant information about customer satisfaction the researcher focused on collecting the appropriate data from the customers of the bank.

## 3.3 Source of Data

### 3.3.1 Primary Source of Data

Primary data refers to information collected directly from the research subjects or observation units specifically for the current research project. In this research, questionnaires were gathered to collect primary data from bank customers. The variables were assessed using a Likert scale, The survey consists of five response categories that span from strongly disagree to strongly agree. According to Robson and Collins (2002), the Likert scale technique is favored for crafting engaging questions that enhance respondents' cooperation.

### 3.3.2 Secondary sources of data

Secondary data is data that has been gathered by a different source before or individual and has undergone prior statistical analysis. For this research project, a comprehensive review of relevant literature served as the primary source of secondary data. This approach facilitated a deeper understanding of the study's subject matter and helped identify gaps in existing knowledge. To conduct the research, obtain a thorough understanding of the study's subject, identify gaps in the body of existing literature other research work, were used. In addition, reports and data from various stakeholders within the banks will be included to support primary data. A study's validity, reliability, and comprehensiveness are all increased when it uses both primary and secondary data (Kothari, 2004).

## 3.4 Data analysis

Data analysis entails examining the data gathered in a survey to conclude. This process involves calculating various metrics and identifying patterns or relationships within the data sets. The findings were evaluated and interpreted using inferential statistics and descriptive. Descriptive statistics were employed to analyze respondents' demographic variables and service quality dimensions. Additionally, inferential statistics such as regression analysis and correlation were utilized to assess the association between customer satisfaction and service quality dimensions can be examined using SPSS version 27.

| Dependent variables | Independent variables |
|---|---|
| Customer satisfaction | Tangibility |
| | Reliability, |
| | Responsiveness, |
| | Assurance |
| | Empathy |

Yi = β0 + β1X1 + β2 X2 + β3X3 + β4X4 + β5X5. Where Y represents customer satisfaction the independent variables are X1, X2, X3, X4, and X5(or Tangibility, Responsiveness, Reliability, Assurance, and Empathy)

It defines the Y mean value when all independent variables are assigned a value of zero. (although it could also be interpreted mechanistically as an increase in the mean of Y when all independent variables are assigned to zero).

## 3.5 Data Quality Assurance

The validity of research findings, as defined by Ritchie and Lewis (2003), the accuracy of the data is referred. In this study, the adviser ensured the content organization of the quantitative instrument to enhance data quality. Each questionnaire question was meticulously reviewed, and adjustments were made to refine the targeted measurements. Additionally, conducting a pilot study allowed for improvements in data quality by refining the format, organization, scales, and language of the questions.

For qualitative data, various strategies were employed to ensure data quality. These included building rapport with respondents, clarifying research objectives, approaching respondents in a friendly and trustworthy manner, respecting cultural values, and spending sufficient time with interviewees. Furthermore, colleagues were engaged to review the data presented and verify its interpretation, thereby enhancing data reliability across different data collection techniques. These measures collectively contribute to the trustworthiness and reliability of quantitative data in the study.

The original questionnaire, which was written in the English language, was translated into the Amharic language to determine the content validity of the tool. A thorough review of the translation was then conducted to prevent any misinterpretation.

## 3.6 Ethical consideration

Researchers must respect both the research sites and the individuals involved in the progress of research (Creswell, 2003).

The researcher and trained data collectors provided a concise explanation of the study's objectives and confidentiality measures to participants. Consent was facilitated by assuring respondents that their answers would not cause harm and that personally identifiable information would not be required on the questionnaire. Participants were notified that they had the option to discontinue their participation in the study at any time if they experienced discomfort. Oral consent was obtained, and clear verbal permission was sought from all sources and respondents. Participants were encouraged to provide truthful responses with their permission. To minimize disruption, the data collectors and researcher conducted the study in open, non-intrusive settings.

Generally, the information was collected in a way that compromised the privacy and security of the participants.

# Chapter - Four

# Data Analysis and Presentations of Results

## 4.1 Introduction

In this chapter, the final research results are thoroughly discussed, along with the methods used for interpreting these results. Additionally, historical statistics of the respondents are presented upon request. The statistical evaluation techniques and methods employed include normality tests, correlation analysis, and two regression analyses using SPSS version 27. Each summary of the results is followed by an interpretation of the data.

A total of 384 questionnaires were distributed across five selected branch districts primarily serving corporate customers. Among these, 357 questionnaires were completed and returned. The researcher examined and discussed only the correctly completed and returned questionnaires. The remaining 27 questionnaires were either incomplete (21) or returned with no answers (6).

## 4.2 Background information of respondents

The examination of respondents' characteristics includes gender, age, education level, customer type, the purpose of visit, and type of account. This segment of the data analysis involves reviewing the individual information provided by respondents in the questionnaires. The data in the table illustrates the number of responses and corresponding percentages for each characteristic.

Table 4. 1 Respondents profile (Characteristics of Respondents)

| **Characteristics** | **Frequency** | **Percentage** |
|---|---|---|
| **Gender** | | |
| Male | 189 | 52.9 |
| Female | 168 | 47.1 |
| **Total** | **357** | **100** |
| **Age groups** | | |
| 19-24 | 52 | 14.6 |
| 25-36 | 171 | 47.9 |
| 37-46 | 84 | 23.5 |
| Above 45 years | 50 | 14.0 |
| **Total** | **357** | **100** |
| **Educational level** | | |
| Below that 10+2 | 28 | 7.8 |

| | | |
|---|---|---|
| Diploma | 75 | 21.0 |
| First Degree | 196 | 54.9 |
| MA & above | 58 | 16.2 |
| **Total** | **357** | **100** |
| **Type of Customer** | | |
| Personal | 104 | 29.1 |
| Company | 153 | 42.9 |
| Employee | 100 | 28.0 |
| **Total** | **357** | **100** |
| **Purpose of Visit** | | |
| To deposit money | 106 | 29.7 |
| To transfer money | 100 | 28.0 |
| To withdraw money | 73 | 20.4 |
| To open a new account | 78 | 21.8 |
| **Total** | **357** | **100** |
| **Account Type** Saving Account | 228 | 63.9 |
| Fixed Account | 91 | 25.5 |
| Current Account | 30 | 8.4 |
| Others | 8 | 2.2 |
| **Total** | **357** | **100** |

Table 4.1 presents data from 357 respondents, where 189 (52.9%) were male and 168 (47.1%) were female. The age distribution shows that the majority, accounting for 47.9% of respondents, were in the 25-36 age group, followed by 23.5% in the 37-46 age group, 14.6% in the 19-24 age group, and 14.0% aged over 45.

In terms of educational attainment, 196 (54.9%) respondents held bachelor's degrees, 75 (21.0%) had certificates, 58 (16.2%) had master's degrees or higher, and 28 (7.8%) had less than a 10+2 qualification.

Regarding account types, the majority of respondents (63.9%) used savings accounts, while 25.5% and 8.4% used current and fixed deposit accounts, respectively. This distribution suggests that most customers were interested in earning interest on their accounts.

The purpose of visiting the bank varied among respondents, with 29.7% visiting to deposit money, 28.0% to transfer funds, and others visiting for account opening or withdrawals.

## 4.3 Assumptions and tests for regression analysis

All parametric tests used in statistical analysis make certain assumptions about the sample data drawn from the population. Inaccuracies in these premises may have negative effects or result in changes in the analysis of the research's findings and conclusion. The following section discusses the fundamental presumptions underpinning the statistical analysis model used in this study.

### 4.3.1 Normality test

Since population attributes and traits are often normally distributed, if population attributes are to be estimated from a sample representation with any degree of accuracy, the sample must likewise reflect normal distribution in the same way (Sekaran & Bougie, 2009). Authors like Matore and Khairani (Matore &Khairani, 2020) have hypothesized that failing to assess a data set's normalcy may have a major impact on the possibility of error in the choice of statistical tests ultimately the studies' conclusions.

However, when it comes to measurement, there has been a protracted discussion on whether or not Likert scale data should be subjected to parametric tests such as normality tests because it is difficult to classify them as continuous or scale data (Rinker, 2014). So, let's see if the data was skewed toward or away from a normal distribution. Data were subjected to a normality test using Shapiro-Wilk if the dataset is below 100 and Kolmogorov-Smirnov if it is over 100. The Kolmogorov-Smirnov was used in this investigation because the dataset was larger than 100. The variables are anticipated to be statistically significant to confirm that the dataset is regularly distributed. According to table 4.2 below all of the variables in this study are not statistically significant and the researcher concluded that the dataset is not normally distributed.

**Table 4. 2 Test of Normality**

**Tests of Normality**

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Customer Satisfaction | .131 | 353 | .000 | .958 | 353 | .000 |
| Tangiability | .130 | 353 | .000 | .961 | 353 | .000 |
| Reliability | .114 | 353 | .000 | .969 | 353 | .000 |
| Responsibility | .090 | 353 | .000 | .972 | 353 | .000 |
| Assurance | .106 | 353 | .000 | .959 | 353 | .000 |
| Empathy | .089 | 353 | .000 | .987 | 353 | .003 |

a. Lilliefors Significance Correction

Source: Own survey, 2023 and SPSS

### 4.3.2 Spearman's Correlation Analysis

The researcher can employ parametric analysis methods, such as Pearson correlations and linear regression if the dataset exhibits a normal distribution. Conversely, if the dataset is not normally distributed, non-parametric methods like ordinal regression and Spearman rank correlations should be used.

Correlation analysis is a fundamental and practical measure of association between variables, providing insight into the direction and strength of their relationship (Marczyk, Dematteo, & Festinger, 2005). This involves calculating correlation coefficients to quantify the extent to which changes in one variable correspond to changes in another.

Table 4. 3 Spearman's rank correlations

| | **Customer Satisfaction** | **Tangibility** | **Reliability** | **Responsibility** | **Assurance** | **Empathy** |
|---|---|---|---|---|---|---|
| **Customer Satisfaction** | 1 | 0.505 | 0.569 | 0.526 | 0.519 | 0.003 |
| **Tangibility** | 0.505 | 1 | 0.521 | 0.268 | 0.414 | 0.075 |
| **Reliability** | 0.569 | 0.521 | 1 | 0.608 | 0.624 | 0.009 |
| **Responsiveness** | 0.526 | 0.268 | 0.608 | 1 | 0.527 | 0.003 |
| **Assurance** | 0.519 | 0.414 | 0.624 | 0.527 | 1 | 0.042 |
| **Empathy** | 0.003 | 0.075 | 0.009 | 0.003 | 0.042 | 1 |

Source: Own survey, 2023

The analysis findings reveal correlation coefficients between the customer satisfaction (dependent variable) and independent variables ranging from 0.003 to 0.569, with a significant level of $p < 0.01$, indicating positive correlations among these variables. Specifically, reliability ($r = 0.569$) demonstrates a strong positive correlation with customer satisfaction, followed by responsiveness ($r = 0.526$), assurance ($r = 0.519$), tangibility ($r = 0.505$), and empathy ($r = 0.003$).

### 4.3.3 Multicollinearity Test

The analysis of multicollinearity using (VIF) variance inflation factor values for the five independent variables showed values ranging from 1 to 10. This range suggests that there are no indications of multicollinearity among the independent variables.

## Table 4. 4. Multicollinearity test

**Coefficients** [a]

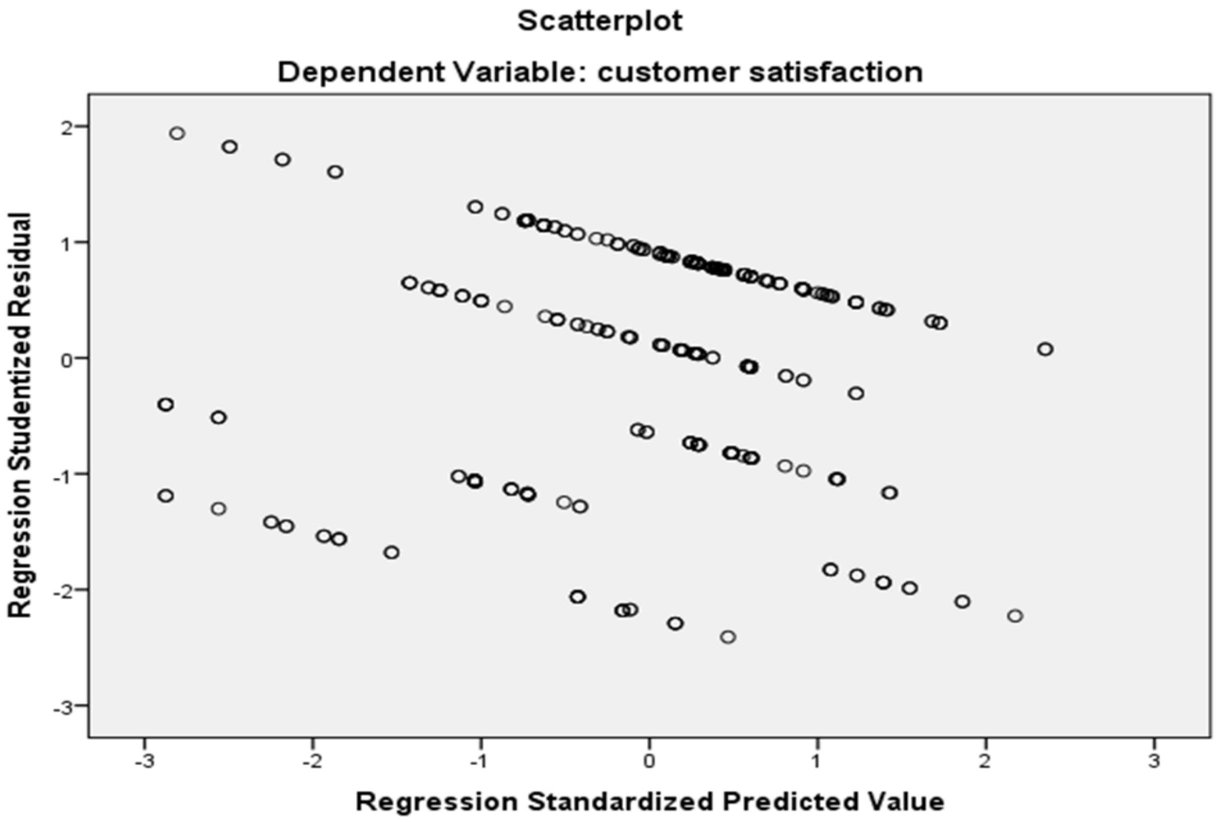
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | 2.390 | .362 | | 6.597 | .000 | | |
| Tangibility | .051 | .055 | .048 | .926 | .355 | .928 | 1.078 |
| Reliability | .082 | .045 | .095 | 1.821 | .069 | .926 | 1.080 |
| Responsiveness | -.129 | .045 | -.148 | -2.853 | .005 | .935 | 1.070 |
| Assurance | .280 | .053 | .276 | 5.288 | .000 | .928 | 1.078 |
| Empathy | .144 | .071 | .102 | 2.023 | .044 | .997 | 1.003 |

a. Dependent Variable: customer satisfaction

### 4.3.4 Heteroscedasticity Test

According to the scatterplot n model the output does not occur below, the points are spread out and do not form a clear definite pattern. Therefore, it can be stated the regression model does not have the problem of heteroscedasticity.

Figure 4. 4.4 Heteroscedasticity test




Source: Own survey, 2023 and SPSS

### 4.3.5 Autocorrelation Test

The Durbin-Watson statistic ranges from 0 to 4, with a value near 2 indicating the absence of first-order autocorrelation. Ideally, values between 1.50 and 2.50 are considered appropriate, as small differences between successive errors suggest no significant autocorrelation. In this case, the Durbin-Watson statistic is 2.072, which falls within an acceptable range, indicating no serious issues with autocorrelation.

### Table 4. 5. Model Summary

Model Summary

| Model | R | R Square | Adjusted R Square | Std. The error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .338[a] | .114 | .102 | 1.286 | 2.072 |

a. Predictors: (Constant), empathy, responsiveness, reliability, Tangibility, assurance
b. Dependent Variable: customer satisfaction

## 4.4 Regression Analysis

Regression analysis enables the prediction of dependent variable values based on one or more independent variables (Saunders et al., 2009). In this study, ordinal regression was chosen because the dataset does not meet the assumptions of normal distribution, making it suitable for predicting a dependent variable's value using multiple independent variables. Ordinal regression allows for assessing overall model fit (variance explained) and understanding the relative contributions of predictors to the explained variance (Kothari, 2004).

Therefore, ordinal regression analysis was employed in this study to examine the factors influencing customer satisfaction (the dependent variable), and the findings of this analysis will be presented and discussed in this section of the study.

### 4.4.1 Model Summary

The goodness of fit of the estimated Ordinal regression equation in this model is assessed using the coefficient of determination ($R^2$), indicating the likelihood of the ordinal regression equation being a reliable predictor (Saunders et al., 2009).

The adjusted R-squared value, which is presented in Table 4.6, signifies the (%) percentage of the Customer Satisfaction or dependent variable's variance described by the predictors (Field, 2013). The model summary reveals an adjusted R-squared value of 0.438, indicating that the independent variables (dimensions) considered in the study can explain 43.8% of the variance in the Customer Satisfaction or dependent variable (customer satisfaction). Other variables not included in this study account for the remaining 56.2% of the variance.

Table 4. 6 Pseudo R-Square

| Pseudo R-Square | |
|---|---|
| Cox and Snell | .436 |
| Nagelkerke | .438 |
| McFadden | .113 |

a. Tangibility- Reliability- Responsiveness- Assurance -Empathy.
b. Dependent Variable- Customer Satisfaction

The Pseudo R-Square test an indicator of the dependent variable shows a 43.8% change as a result of the independent variable.

### 4.4.2 Model Fitting Information

Information on model fitting explains how well the model fits the data. There should be statistical significance. Another test to determine whether the model is a quality of fit table indicates if the model fits the data well. A lack of a significant test result is a sign that the model fits the data well. We may conclude that the model matches our data well based on the model fitting information and the first and the second row Pearson and Deviance shows that there is a poor fit between the model and the data. On the second table above P-value is 1.00 from sig column, therefore, not statistically significant (P<0.05).

Table 4. 7 Model Fitting Information and Goodness of Fit

**Model Fitting Information**

| **Model** | -2 Log Likelihood | Chi-Square | df | Sig. |
|---|---|---|---|---|
| **Intercept Only** | 1782.219 | | | |
| **Final** | 1580.322 | 201.897 | 5 | .000 |

**Goodness of Fit**

| | Chi-Square | df | Sig. |
|---|---|---|---|
| **Pearson** | 5119.8290 | 5683 | 1.000 |
| **Deviance** | 1574.541 | 5683 | 1.000 |

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

b. Dependent Variable: customer satisfaction

Source: Own survey, 2023 and SPSS

### 4.4.3 Coefficients of Regression

To better understand the connection between independent and dependent variables, it is important to examine the coefficients of the regression line (Hair et al., 2004). The coefficient's sign determines whether the anticipated response will rise or decreases with an increase in the predictor variable, while the magnitude of the coefficient (beta value) reflects each predictor's unique contribution to the model (Field, 2013).

Regarding customer satisfaction at Commercial Bank of Ethiopia, the standardized coefficients or beta values associated with each dimension of the independent variables (tangibility, reliability, responsiveness, assurance, and empathy) indicate the relative impact of these factors on customer satisfaction.

Table 4. 8 Coefficients of regression

| | Estimate | Standard Error | Wald | df | Sig. |
|---|---|---|---|---|---|
| **Constant** | 2.040 | .864 | 5.577 | 1 | .018 |
| **Tangibility** | .989 | .193 | 26.250 | 1 | .000 |
| **Reliability** | .533 | .216 | 6.081 | 1 | .014 |
| **Responsiveness** | .768 | .163 | 22.118 | 1 | .000 |
| **Assurance** | .393 | .157 | 6.265 | 1 | .012 |
| **Empathy** | .083 | 130 | .405 | 1 | .524 |

Source: Own survey, 2023 and SPSS

Table 4.8 shows regression results demonstrating that Tangibility, Reliability, Responsiveness, and Assurance are the four factors that have the most predictive power for customer satisfaction (ß=0.989, ß=0.533, ß=0.768, and ß=0.393, respectively). This is translated as independent variables increase dependent variables by 0.989 units. while holding other variables in the model constant. The data also demonstrate that Empathy, with ß=0.083, is the relatively least positive influence on customer satisfaction in CBE.

Tangibility, reliability, Responsiveness, and Assurance dimensions are therefore statistically significant positive contributors to the outcome variable's Customer Satisfaction in CBE, whereas Empathy dimensions are statistically insignificant positive contributors. Therefore, it can be said that the majority of the suggested dimensions have a favorable impact on CBE's ability to ensure Customer Satisfaction.

Where Y= Customer Satisfaction in CBE

ßo= Constant; ß1, ß2, ß3, and ß4 are coefficients of independent variables;

X1= Tangibility

X2= Reliability

X3= Responsiveness

X4= Assurance

X5= Empathy

Y= ßo + ß1X1 + ß2X2 + ß3X3 + ß4X4 + ß5X5

Y= 2.040 + 0.989X1 + 0.533X2 + 0.768X3 + 0.393X4 + 0.083X5

Customer Satisfaction in CBE = 2.040 + (0.989*Tangibility + 0.533*Reliability + 0.768*Responsiveness + 0.393*Assurance + 0.083*Empathy)

### 4.4.4 Hypothesis testing and discussion of results

Five hypotheses were formulated to investigate the impacts of service quality on customer satisfaction. These hypotheses have been tested depending on the completed analysis, and the outcomes are elaborated below.

**Table 4. 9 Hypotheses Tested**

| Hypothesis | Beta | P-value | Results | Reasons |
|---|---|---|---|---|
| **H1**: The result shows a significant positive relationship between tangibility and customer satisfaction in CBE. | 0.989 | 0.000 | Supported | ß=0.989 **P<0.05** |
| **H2**: The result shows a significant positive correlation between Reliability and customer satisfaction in CBE. | 0.533 | 0.014 | Supported | ß=0.533 **P<0.05** |

| | | | | |
|---|---|---|---|---|
| **H3**: A positive effect on customer satisfaction in CBE has a significant positive effect on factors related to responsiveness. | 0.768 | 0.000 | Supported | ß=0.768 **P value is <0.05** |
| **H4**: Assurance has a significant positive association with Customer Satisfaction in CBE. | 0.393 | 0.012 | Supported | ß=0.393 **P<0.05** |
| **H5**: The result shows in CBE, empathy not statistically significant relationship with customer satisfaction. | 0.083 | 0.524 | Not Supported | ß=0.083 **P value is >0.05** |

### 4.4.5 Data analysis and Discussion

The findings of this study suggest that dependability has a positive and significant impact on customer satisfaction, according to the regression model for beta coefficients. Endalkachew (2013) backs up this conclusion. He discovered that dependability significantly and favorably affects customer happiness. Kassa (2012) and other researchers have also corroborated this conclusion. They claimed that dependability significantly and favorably affects consumer satisfaction.

This study's findings also show that assurance has a favorable and noteworthy impact on consumer satisfaction. Endalkachew (2013) and Kassa (2012) all lend credence to this conclusion. They claimed that assurance significantly and favorably affects consumer happiness. Based on the findings of this study, customers expressed satisfaction with the responsiveness and tangibility aspects of service quality. However, there was dissatisfaction noted with the dependability, assurance, and empathy aspects. Specifically, customers were unhappy with the bank's capacity and ability to deliver services as promised within expected timelines, often citing issues like inadequate network coverage and frequent power outages as sources of frustration. These findings indicate a general dissatisfaction among customers with the current performance of the CBE and the quality of services provided.

Abebe (2014) suggests that reliability, assurance, and empathy are critical dimensions of service quality that significantly influence customer satisfaction in financial institutions. However, customer satisfaction with core banking is not affected by the criteria of tangibility and responsiveness. This study finds that tangibility and responsiveness do not significantly influence customer satisfaction. This contrasts with other studies where regression analyses showed that, apart from empathy, the four components of good service—tangibility, assurance, responsiveness, and reliability—have a significant and it continuously affecting customer satisfaction.

# Chapter - Five
# Conclusion and Recommendations

## 5.1 Introduction

The final chapter of this thesis study comprises four main sections. Initially, an overview of the key findings is presented. This is followed by a discussion of the conclusions drawn from these findings, which then leads to recommendations based on these conclusions. Lastly, suggestions for further research are provided.

## 5.2 Summary of Findings

This study investigates the impact of customer satisfaction on service quality within selected branches of the Commercial Bank of Ethiopia, utilizing a questionnaire completed by 384 respondents from these branch banks.

Descriptive statistical analysis revealed:

- Customers expressed satisfaction with responsiveness and tangibility but showed dissatisfaction with dependability, assurance, and empathy.

- Issues like inadequate network coverage and frequent power outages led to customer complaints, reflecting dissatisfaction with service delivery.

Correlation analysis showed positive correlations between service quality dimensions or independent variables and customer satisfaction or dependent variables:

- Reliability ($r=0.569$) showed the highest correlation with customer satisfaction, followed by responsiveness ($r=0.526$), assurance ($r=0.519$), tangibility ($r=0.505$), and empathy ($r=0.003$).

Predictive factors for customer satisfaction identified in the study:

Tangibility, reliability, responsiveness, and assurance were found to be the most significant predictors of customer satisfaction.

Customer satisfaction increased by 0.989 units for every unit increase in tangibility, while empathy had the least positive influence ($ß=0.083$).

Model performance:

The adjusted R2 value of 0.438 suggests that the independent variables explain 43.8% of the variance in customer satisfaction, with other variables outside the study accounting for the remaining 56.2%.

- VIF values between 1 and 10 indicated no symptoms of multicollinearity among the independent variables.

## 5.3 Conclusions

The study was to assess the impact of service quality on customer satisfaction within the context of a bank. Based on the analysis conducted in the preceding chapter, the following conclusions are drawn:

The study revealed that the bank's services were generally satisfactory, with professional staff, visually appealing branches, and safe transactions.

Enhancing and improving service quality is recommended to improve customer satisfaction and foster loyalty, ultimately enhancing competitiveness in the retail banking sector.

In order to gain a thorough comprehension of the service quality at the Commercial Bank of Ethiopia, future research should to expand its scope and encompass a wider range of locations, including not only Addis Ababa but also various large and small regional cities.

Continuous improvement across all dimensions of service quality is essential for enhancing customer satisfaction and fostering customer loyalty. These efforts are crucial for maintaining competitiveness and distinguishing the bank from others in the sector, necessitating diligent efforts from bank employees to achieve these objectives.

Overall, customer satisfaction is significantly and positively impacted by tangibility, reliability, assurance, responsiveness, and empathy the five dimensions of service quality. This underscores the importance of focusing on these aspects to enhance overall customer experience and satisfaction.

## 5.4 Recommendations

According to the study's findings and conclusions, the researcher proposes the subsequent recommendations to enhance the service quality at the Commercial Bank of Ethiopia:

- Continuously assess and aim for ongoing improvement of bank services, despite the current satisfactory state, to ensure sustained quality and customer satisfaction.

- Implement robust mechanisms to monitor and measure customer satisfaction, with a particular focus on technology security to alleviate customer concerns.

- Strengthen measures to protect customers from various fraudulent activities.

- In order to enhance customer satisfaction and create more customer loyalty, banks must enhance their performance across all service quality dimensions, as customers have higher expectations than what other banks are willing to provide.

- Designate a customer relations officer to facilitate easier communication of customer complaints, fostering customer loyalty through effective grievance redressal.

- Develop an efficient service delivery system that caters to specific customer needs and preferences.

- The bank should improve employee knowledge, skills, performance, professionalism, and reliability or introduce new service products. They should also provide Empathy or customer handling training, customize services, assurance and build trust, responsiveness or provide fast service resolution and tangibility.

- As the competition is gaining momentum, the bank must act; Improving the scope of service and creating a better service culture, which is key retention and customer attraction is possible.

The study recommends the implementation of robust complaint-handling systems and effective resolution of customer grievances, along with targeted training for frontline staff to enhance overall bank performance.

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# Appendixes

# Addis Ababa University
# College of Business and Economics
# Department of Business Administration

## Questionnaire

**Dear respondent,**

I am currently working on my MBA dissertation on "Service Quality on Customer Satisfaction in Selected Commercial Bank of Ethiopia Branches Addis Ababa".

The purpose of this survey is to gather data on service quality and customer satisfaction specifically related to Addis Ababa Commercial Bank. This research is solely conducted for academic purposes. Does not impact you or anyone else. Your answers to the survey's confidentiality will be maintained and used for research only.

Your information must be clear for the accomplishment of the study. Hence, I respectfully request that you carefully contemplate your reply to every inquiry.

Thank you so much for your support!

Note: -

1. No need to write your name or identity.
2. Circle or tick your choice where alternate answers are provided.
3. Please return it in time the completed questionnaire.

Name: - Kidist Haligeorgis
Phone: - +251-910-25-90-05
E-Mail: - kidist.halegiorges@aau.edu.et

**Background of respondents**

Instructions: -

Please select the appropriate response by circling the appropriate option against each question.

1. Gender

   A) Male

   B) Female

2. Age

   A) 19-24 B) 25-36 C) 37-46 D) 47-54 E) More than 55

3. Educational background

   A) 10+2

   B) Diploma

   C) Degree

   D) More than

4. Customer Type

   A) Personal B) Company C) Employee

**Questions related to the topic**

Please tick (√) according to the given dash for the following.

1. For how many years have you used CBE bank as a customer? ________

2. Your bank account's type

   A) ______ a savings account B) ______a fixed account

   C)_____ a current account D) ______Other types of account

3. To what was the matter that brought you to the bank today?

   A) ______ To depositing money B) ______ To transfer money

   C) ______ To withdraw money D) ________To open a new bank account

4. How frequently did you go the bank to avail the aforementioned service initially?

   A) _______First-time B) ________Four times

C) _______Three times D)________Six times

5. How long does it take to receive the above service from the time you arrive at the bank?

A) ________ Less than 10 minutes B) _________30 to 1 Hour

C) ________10 to 30 minutes D)________ Over 1 hour

6. In your opinion, how important are efficient service and high-quality service to satisfy customers?

A) _________Very- important B) _________ Less- important

C) _________Fairly- important D) ________Not importance

## SERVICE QUALITY QUESTIONNAIRE

Instructions: -

Please rate point A up to point E (use the scale to indicate the word you believe is most appropriate.

(A) strongly disagree, (B) disagree, (C) neither agree nor disagree, (D) agree and (E) strongly agree.

| **The Quality Dimensions** | **strongly disagree** (a) | **Disagree** (b) | **Neutral** (c) | **Agree** (d) | **Strongl yagree** (e) |
|---|---|---|---|---|---|
| **Tangibility** | | | | | |
| 1. The branch has cutting-edge office furniture. | | | | | |
| 2. The branch facilities are visually appealing. | | | | | |
| 3. The branch have an office in a suitable area for the customer. | | | | | |
| 4. The branch staff in the Customer Service Officer are well dressed and clean. | | | | | |
| **Reliability** | | | | | |
| 1. The branch has a quality network and speed service | | | | | |
| 2. The branch maintains customer records properly | | | | | |

| The Quality Dimensions | **strongly disagree** (a) | **Disagree** (b) | **Neutral** (c) | **Agree** (d) | **Strongly agree** (e) |
|---|---|---|---|---|---|
| 3. The branch delivers excellent service within the agreed-upon timeframe | | | | | |
| 4. The branch promptly alerts about any issue. | | | | | |
| **Responsiveness** | | | | | |
| 1. The staff of the branch provides services on time | | | | | |
| 2. The branch employees are always willing to help customers | | | | | |
| 3 . Employees are not busy with other work to respond to customer requests. | | | | | |
| 4. The employees respond immediately when a problem occurs | | | | | |
| **Assurance** | | | | | |
| 1. The bank's behavior of the staff is very important so that the customer has confidence in the bank. | | | | | |
| 2. The bank branch staff are professional and polite. | | | | | |
| 3. The bank branch employees have enough knowledge to serve customers. | | | | | |
| **Empathy** | | | | | |
| 1. Bank branch employees are aware of the want of the customer. | | | | | |
| 2. Bank branch employees give assistance and attention to customers. | | | | | |
| 3. The bank branch and its staff take customers' property carefully. | | | | | |
| 4. Employees provide information regarding new services and the costs associated related with the service. | | | | | |
| 5. The bank has suitable and convenient operating hours for all of its clients. | | | | | |

## Customer satisfaction questioner

| Customer Satisfaction | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|
| | a | b | c | d | e |
| 1. I pleased with the safety provided by the bank's services. | | | | | |
| 2. I pleased the courteous behavior of the bank staff. | | | | | |
| 3. I pleased with my communication skills at the bank. | | | | | |
| 4. I pleased with the good job of by the bank staff. | | | | | |
| 5. I pleased with the different services of the Commercial Bank of Ethiopia. | | | | | |

**Thank you!**

# Data Analysis Results

**Tests of Normality**

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| logCustom | .155 | 353 | .000 | .856 | 353 | .000 |
| logTangiability | .187 | 353 | .000 | .868 | 353 | .000 |
| logReliability | .172 | 353 | .000 | .882 | 353 | .000 |
| logResponsibility | .147 | 353 | .000 | .923 | 353 | .000 |
| logAssurance | .171 | 353 | .000 | .847 | 353 | .000 |
| logEmpathy | .128 | 353 | .000 | .937 | 353 | .000 |

a. Lilliefors Significance Correction

**Model Fitting Information**

| Model | -2 Log Likelihood | Chi-Square | df | Sig. |
|---|---|---|---|---|
| Intercept Only | 1782.219 | | | |
| Final | 1580.322 | 201.897 | 5 | .000 |

Link function: Logit.

**Goodness-of-Fit**

| | Chi-Square | df | Sig. |
|---|---|---|---|
| Pearson | 5119.829 | 5683 | 1.000 |
| Deviance | 1574.541 | 5683 | 1.000 |

Link function: Logit.

**Correlations**

| | | | Customer Satisfaction | Tangiability | Reliability | Responsibility | Assurance | Empathy |
|---|---|---|---|---|---|---|---|---|
| Spearman's rho | Customer Satisfaction | Correlation Coefficient | 1.000 | .505** | .569** | .526** | .519** | .003 |
| | | Sig. (2-tailed) | . | .000 | .000 | .000 | .000 | .962 |
| | | N | 355 | 353 | 353 | 353 | 353 | 355 |
| | Tangiability | Correlation Coefficient | .505** | 1.000 | .521** | .268** | .414** | .075 |
| | | Sig. (2-tailed) | .000 | . | .000 | .000 | .000 | .159 |
| | | N | 353 | 353 | 353 | 353 | 353 | 353 |
| | Reliability | Correlation Coefficient | .569** | .521** | 1.000 | .608** | .624** | .009 |
| | | Sig. (2-tailed) | .000 | .000 | . | .000 | .000 | .862 |
| | | N | 353 | 353 | 353 | 353 | 353 | 353 |
| | Responsibility | Correlation Coefficient | .526** | .268** | .608** | 1.000 | .527** | .003 |
| | | Sig. (2-tailed) | .000 | .000 | .000 | . | .000 | .962 |
| | | N | 353 | 353 | 353 | 353 | 353 | 353 |
| | Assurance | Correlation Coefficient | .519** | .414** | .624** | .527** | 1.000 | .042 |
| | | Sig. (2-tailed) | .000 | .000 | .000 | .000 | . | .427 |
| | | N | 353 | 353 | 353 | 353 | 353 | 353 |
| | Empathy | Correlation Coefficient | .003 | .075 | .009 | .003 | .042 | 1.000 |
| | | Sig. (2-tailed) | .962 | .159 | .862 | .962 | .427 | . |
| | | N | 355 | 353 | 353 | 353 | 353 | 357 |

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



**Pseudo R-Square**

| | |
|---|---|
| Cox and Snell | .436 |
| Nagelkerke | .438 |
| McFadden | .113 |

Link function: Logit.

**Parameter Estimates**

| | | Estimate | Std. Error | Wald | df | Sig. | 95% Confidence Interval | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Lower Bound | Upper Bound |
| Threshold | [CustomerSatisfaction = 1.00] | 2.040 | .864 | 5.577 | 1 | .018 | .347 | 3.734 |
| | [CustomerSatisfaction = 1.40] | 2.771 | .765 | 13.119 | 1 | .000 | 1.272 | 4.271 |
| | [CustomerSatisfaction = 2.00] | 3.750 | .710 | 27.925 | 1 | .000 | 2.359 | 5.141 |
| | [CustomerSatisfaction = 2.20] | 4.121 | .702 | 34.474 | 1 | .000 | 2.745 | 5.496 |
| | [CustomerSatisfaction = 2.40] | 4.520 | .699 | 41.839 | 1 | .000 | 3.150 | 5.889 |
| | [CustomerSatisfaction = 2.60] | 5.366 | .705 | 57.990 | 1 | .000 | 3.985 | 6.747 |
| | [CustomerSatisfaction = 2.80] | 5.534 | .707 | 61.281 | 1 | .000 | 4.148 | 6.920 |
| | [CustomerSatisfaction = 3.00] | 6.772 | .731 | 85.804 | 1 | .000 | 5.339 | 8.205 |
| | [CustomerSatisfaction = 3.20] | 7.264 | .741 | 96.061 | 1 | .000 | 5.811 | 8.716 |
| | [CustomerSatisfaction = 3.40] | 7.740 | .751 | 106.197 | 1 | .000 | 6.268 | 9.212 |
| | [CustomerSatisfaction = 3.50] | 7.848 | .753 | 108.524 | 1 | .000 | 6.371 | 9.324 |
| | [CustomerSatisfaction = 3.60] | 8.449 | .766 | 121.542 | 1 | .000 | 6.947 | 9.951 |
| | [CustomerSatisfaction = 3.80] | 9.388 | .788 | 141.947 | 1 | .000 | 7.844 | 10.933 |
| | [CustomerSatisfaction = 4.00] | 10.427 | .814 | 164.238 | 1 | .000 | 8.832 | 12.021 |
| | [CustomerSatisfaction = 4.20] | 11.240 | .836 | 180.673 | 1 | .000 | 9.601 | 12.879 |
| | [CustomerSatisfaction = 4.40] | 11.923 | .859 | 192.557 | 1 | .000 | 10.239 | 13.607 |
| | [CustomerSatisfaction = 4.60] | 13.206 | .927 | 203.097 | 1 | .000 | 11.389 | 15.022 |
| | [CustomerSatisfaction = 4.80] | 14.625 | 1.113 | 172.516 | 1 | .000 | 12.443 | 16.807 |
| Location | Tangiability | .989 | .193 | 26.250 | 1 | .000 | .611 | 1.368 |
| | Reliability | .533 | .216 | 6.081 | 1 | .014 | .109 | .957 |
| | Responsiveness | .768 | .163 | 22.118 | 1 | .000 | .448 | 1.087 |
| | Assurance | .393 | .157 | 6.265 | 1 | .012 | .085 | .701 |
| | Empathy | -.083 | .130 | .405 | 1 | .524 | -.339 | .173 |

Link function: Logit.

**Continuous Variable Information**

| | | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|---|
| Covariate | Tangiability | 353 | 1.00 | 5.00 | 3.2214 | .67264 |
| | Reliability | 353 | 1.00 | 5.00 | 3.2446 | .72927 |
| | Responsibility | 353 | 1.00 | 4.75 | 3.1331 | .78560 |
| | Assurance | 353 | 1.00 | 5.00 | 3.3720 | .83253 |
| | Empathy | 353 | 1.00 | 5.00 | 3.3232 | .72561 |

**Goodness of Fit**[a]

| | Value | df | Value/df |
|---|---|---|---|
| Deviance | 1574.541 | 5683 | .277 |
| Scaled Deviance | 1574.541 | 5683 | |
| Pearson Chi-Square | 5119.829 | 5683 | .901 |
| Scaled Pearson Chi-Square | 5119.829 | 5683 | |
| Log Likelihood[b] | -790.161 | | |
| Akaike's Information Criterion (AIC) | 1626.322 | | |
| Finite Sample Corrected AIC (AICC) | 1629.678 | | |
| Bayesian Information Criterion (BIC) | 1715.251 | | |
| Consistent AIC (CAIC) | 1738.251 | | |

Dependent Variable: Customer Satisfaction
Model: (Threshold), Tangiability, Reliability, Responsiveness, Assurance, Empathy

a. Information criteria are in small-is-better form.

b. The full log likelihood function is displayed and used in computing information criteria.