

**ADDIS ABABA UNIVERSITY
COLLEGE OF EDUCATION
SCHOOL OF GRADUATE STUDIES**



**COMPARATIVE STUDY OF SERVICE QUALITY OF PUBLIC AND
PRIVATE BANKS FROM CUSTOMERS' PERSPECTIVES:**

THE CASE OF BANKS IN AMBO

**A THESIS PRESENTED TO THE SCHOOL OF
GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY**

**IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF ARTS IN
MANAGEMENT OF MARKETING (EDUCATION)**

BY

MELAKU AMENU

**JANUARY 2010
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Acronym:

1. AIB = Awash International Bank
2. CBE = Commercial Bank of Ethiopia
3. CBO = Cooperative Bank of Oromia
4. TQM = Total Quality Management

Abstract

The major objectives of this study were: (a) to examine the gap between customers' expectations and their actual perceptions of service quality performance of commercial banks operating in Ambo town, (b) to examine and compare the service quality gap scores across these commercial banks, and (c) to identify the service quality dimension (s) that customers of each bank favor most. A questionnaire used for this investigation is limited to a sample of 325 respondents residing in Ambo town. The sampling procedure used was non-probability convenient sampling. The measurements used were based on widely accepted SERVQUAL model. A descriptive statistics analysis (mean and paired t-test) was used to see the gap between customers' perceptions and their actual expectations of their respective banks. The study shows that all banks in Ambo have not met the service expectations of the customers because; there is a significant gap between the perceptions and expectations of banks' customers. Among the five dimensions of service quality, the highest negative gap score belongs to responsiveness, though customers rated responsiveness as the most important service attribute of all the five service quality dimensions. Further, the study also found that the lowest negative gap score is examined in Awash international bank which indicates that the service quality performance of this bank is better than that of other two banks, CBE and CBO. Hence, customers of AIB were relatively satisfied with the overall service quality performance of their bank. Given today's competitive banking marketing environment in the country, the researcher believes that it is appropriate for the management of the all commercial banks to seriously examine their corporate quality programs and customer service system. In addition, they must also consider that their performance measures now have to place a value on better responsiveness to customer needs. These measures and changes can be expensive in terms of employee time and effort, but the management of these banks needs to find ways to overcome these hurdles, otherwise the increasing competition from non-bank financial institution may shrink their market shares. Therefore, all commercial banks need to better understand their customers and continuously measure and evaluate their service quality performance in order to improve their service quality based on customers' perceptions.

CHAPTER ONE

1. Introduction

In this chapter, background of the study, statement of the problem with basic research questions, objectives of the study, significance of the study, scopes, limitation, key terms, and organization of the study are discussed briefly.

1.1 Background of the study

Delivering high quality service has become a strategic approach for satisfying and retaining customers, as well as building and sustaining profitable and long-term relationships with them (Cronin and Taylor 1992). The service industries are mostly customer driven and their survival in competitive environment largely depends on the quality of service they provide. As Zahorik and Rust (1992) depict, quality of service furnished by banking sector is very important and profitability of their business is closely connected to the quality of service they render.

Stafford and Wells (1998) suggested that service quality is a critical issue in the service industry and of particular importance for financial service providers who characteristically offer products that are homogeneous in nature. Banks seeking to improve profitability are, thus, advised to monitor and make improvements to their service quality on an ongoing basis (Parasuraman (1990). Therefore, service quality becomes more critical for banks because they are challenged by many factors such as the pressures of globalization, customers' sophisticated demands and expectations, and competition from non-banking financial institutions (Zeithaml and Parasurmn 1990). By considering these challenging factors, banks should constantly seek new ways to improve their service quality in order to attract new customers, satisfy and retain current customers, and maintain their market shares.

The other important factor that cause banking industry to rethink their strategies for services offered to both commercial and individual customers is the technological changes which take place in global market place. It is within this rapidly changing

marketing environment that customer satisfaction and service quality are compelling the attention of all banking institutions because, perceived quality of services tends to play an important role in high involvement industries like banking services (Dick, 2005).

Even though all banks provide the same types of services, they do not provide the same quality of services. Furthermore, customers, who are living in today competitive marketing environment, are more aware of alternatives which increase their expectations of service they want. Therefore, in banking industry, where it's difficult to differentiate services from each other, service quality can be used as a strategic tool to build a distinctive advantage over competitors. Although quality cannot be improved unless it is measured, it can be defined from several perspectives, like the ability to satisfy the needs and expectations of the customer.

Commercial banks play a significant role in the Ethiopian economy, making up one of the biggest providers of financial services in the country. Hence, providing better service quality has a potential impact on satisfying and retaining customers for a long period of time. This in turn contributes to the increment of the profitability of the organizations. For banking sector to play the roles that is expected of them by owner(s), customers, and governments, its service quality performance must be given a prior and due attention.

In Ethiopia, the financial liberalization of the year 1994 has led to intense competitive pressures in the country and all commercial banks are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. They are pursuing this strategy, in part, because of the difficulty in differentiating based on the service offering (Habtamu 2005). Typically, customers perceive very little difference in the banking products offered by commercial banks as any new offering is quickly matched by competitors.

Currently there are 12 Commercial Banks in Ethiopia including Commercial bank of Ethiopia, and Construction and Business Bank which are owned by the government

and the remaining 10 banks are private banks that are organized as Share Company. Since the banking industry has been changing rapidly in the last few years in the country's economy, all banks need to be in line with the development took place in the banking service industry. Therefore, all of these Commercial Banks, which are currently operating in the economy, are not exempted from the urge to improve their service quality performance in order to compete with each other and other non-bank financial institutions by attracting, satisfying, and retaining customers which in turn increases their market. As explained above there are many government and private banks operating in the economy and this gives customers a chance to have different banking services at different banks.

It is known that in Ethiopia, Commercial banks (Public or private) form the largest and most important group of financial institutions in the country. The current stiffer competition among them, lead the commercial banks operating in Ethiopia to know the importance of improving the quality of their services to attract new customers and retain the current customers for a long period of time. In order for these banks to provide high quality services, they need firstly to investigate the level of customers' perceptions and expectations to their service quality performance from the customers' perspectives.

On the other hand, defining and measuring quality in services might be difficult due to the unique characteristics of services. But the researcher decided to measure service quality performance of Commercial Banks which are currently operating in Ambo town through service quality dimensions from customers' point of view. It is clear that this method is the most relevant approach in defining and measuring service quality in banking and other financial institutions as suggested by (Parasuraman et al (1990)).

1.2 Statement of the problem

In today's competitive banking environment in Ethiopia, banks must be aware of the importance of customer care and its key role in formulating and implementing effective service quality management strategy. Because, lack of proper understanding of their customers' expectations may lead the banking industry to make wrong decisions which in turn result in poor quality perceptions by their customers. With stiffer competition among commercial banks in Ethiopia, it is important for all commercial banks to improve the quality of their services because there are complaints on the service quality performance of their respective banks.

Frequently measuring customers' expectations and perceptions with respect to different service quality dimensions may help the banking industry to understand the difference between expectation and perception (E-P) which in turn enable them to improve their service quality. As we can see from the background of the study, there are many government and private banks operating in Ethiopia to serve customers, even though their services might not be to the best level of customers' satisfaction. It seems that some problems may exist related to service quality performance of all banks currently operating in Ambo town. The researcher frequently hears complaints from bank users or customers. This initiated the researcher to measure and compare service quality performance of government and private banks operating in Ambo town from customers' point of view.

It is clear that the relationship between customer's perception and expectation of service quality performance of service organization reflects the level of their service quality performance. Therefore, the main purpose of this study is to measure and compare the service quality performance of commercial banks located in Ambo town, namely, Commercial Bank of Ethiopia, Awash International Bank, and Cooperative Bank of Oromia from customers' point of view.

1.3 Basic Research Questions

The study attempted to answer the following basic research questions:

1. Is there a significant difference between customers' expectations and perceptions of service quality performance of commercial banks or not?
2. Which of the three bank customers' perceptions most matches with their expectations?
3. Which of the five banks' service quality dimension(s) do customers favor most?

1.4 General Objective of the study

The general objective of the study was to examine the level of service quality performance of commercial banks in Ambo town from the perspective of bank customers and assessing the service quality gap, by comparing customers' expectations and their actual perceptions.

1.5 Specific objectives of the study

The specific objectives of the study were as follows:

- 1.5.1. To examine the gaps or discrepancies between customers' expectations and perceptions of service quality performance of commercial banks.
- 1.5.2 To see and compare the level of service quality gap across commercial banks.
- 1.5.3. To identify the service quality dimension (s) that customers of each bank favor more.

1.6 Significance of the study

It is important to measure and evaluate the service quality performance of both government and private banks and then, compare the findings in order to help the respective bank's professionals in setting effective service quality strategy. This in turn enables them to adjust themselves to changes in marketing environment currently taking place in the banking industry. Measuring service quality performance of banks operating in Ambo town by comparing the customers'

expectations and perceptions may well result in information of value to all banks operating in the country; as banks are more nationally and globally integrated.

This study has the following benefits for both commercial Banks:

1. The study is intended to help Commercial Bank of Ethiopia and the respective private banks become aware of the discrepancies between their customers' expectations and perceptions toward their service quality performance.
2. The study enables the management of Commercial Bank of Ethiopia and respective private banks located in Ambo town to:
 - 2.1 know and identify the significant service quality dimension(s) that matter(s) most to their customers;
 - 2.2 Focus their attention and resources on those dimension(s) to provide quality service perceived by their customers.
3. Finally, the study is expected to serve other researchers as a starting point to make further study in this area.

1.7 Delimitation of the Study

Though there are many government and private banks operating in the country, this study deals with only Awash International Bank, Commercial Bank of Ethiopia, and Cooperative Bank of Oromia that are found in Ambo Town. Though there are basically five different service quality gaps, this study focuses only on gap five, that is the difference between customers' perception and expectation. In this gap, reliability, responsiveness, tangibles, assurance, and empathy dimensions of the SERVQUAL are treated.

1.8 Limitations of the study

The study was challenged with some un forecasted situations such as:

- a) Some bank customers particularly business men were not willing to cooperate as needed by creating some delaying tactics to return the distributed questionnaires,
- b) Few of them failed to return the questionnaire and some of them not return the questionnaire on time.

These challenging conditions made the researcher use more time than previously allocated for data collection.

1.9 Definition of operational Terms

1. **Commercial Banks:** Banks that are currently operating in Ambo Town, namely Awash International Bank, Commercial Bank of Ethiopia, and Cooperative Bank of Oromia.
2. **Gap:** Gap that exists between customers' expectations' and their actual perceptions of service quality performance of Commercial Banks.
3. **Gap 5** The gap between perceived service and expected service (The service gap). The difference between what customers expect to receive and their perceptions of the service that is actually delivered.

1.10 Organization of the study

The study has five chapters. The first chapter deals with the background of the study, statements of the problem, its significances, the delimitation of the study, the second chapter focuses on what was written before under the topic of study. The third chapter deals with research design, procedures, source of data, and research methodology. Analysis and interpretation of data obtained from different sources under study was treated under the forth chapter. The final chapter deals with summary, conclusions and recommendations, reached to the study.

CHAPTER TWO

REVIEW OF RELATED LITRETURES

2.1 The Meaning and concept of service quality

Within the frame work of the task of measuring service quality, basic concepts related to service and service quality should be explained. There is no universally accepted definition of service quality and most writers in this area support customer centred definition because, as suggested by Peters (1998), quality like a beauty is in the eyes of the beholder. Even though a consensus is not reached regarding the common definition of service, most of the definitions given by different scholars overlap largely.

“Services are those economic activities that typically produce an intangible product such as education, entertainment, food and lodging, transportation, financial, medical, and etc.” (Parasuraman 1990).

On the other hand, quality may refer to different things based on the criteria set by different individuals, groups or organizations. It can be stated and described by customers, manufacturers, designers, service providers, sellers, and others. Like services, there is no an accepted or best definition for service quality. The most popular definition of service quality relates to ‘meeting or exceeding customers’ expectations (Bennington and Cummane, 1998).

“Service quality is the degree and direction of discrepancy between customer’s perceptions and expectations in terms of different but relatively important dimensions of the service quality, which can affect their future purchasing behaviors”, or “A Customer’s assessment of the overall excellence of the service”. Parasurman, Zeithaml and Berry (1988, 1990)

*Bolton and Drew (1991) described **service quality** as: “a form of attitude that results from the comparison of expectations with performance.”*

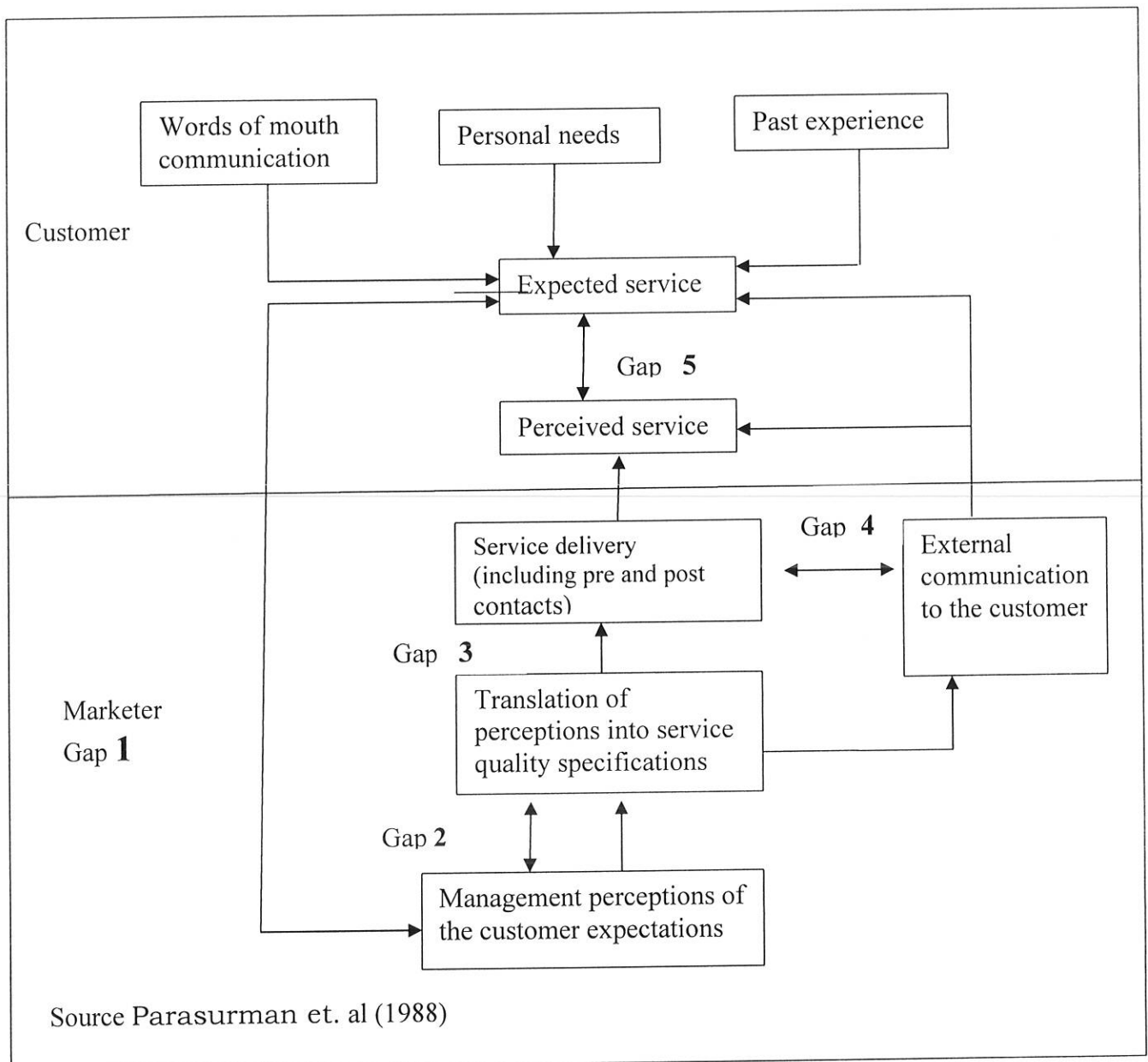
From these different definitions given by different scholars, we can understand that service quality is the result of the discrepancy between customer's expectations and perceptions on the service quality received. Parasuraman et al. (1988, 1990) suggested that services differ from goods in terms of how they are produced, consumed, and evaluated because quality in services often occurs during service delivery, with the interaction between a customer and a service provider. Therefore, service quality performance of any service providers highly depends on the customers' expectations and perceptions of their own service experience.

Given the differences between services and goods, quality of service is more difficult for customers to evaluate than quality of goods. As suggested by Parasuraman et al (1988, 1990) customers evaluate service quality not only on the outcome of the service but also on the process of service delivery, and from how well a service provider actually performs, given their expectations of service performance.

2.2. The Conceptual Model of Service Quality

The conceptual model of service quality serves as a concise frame work for understanding, measuring and improving service quality (Parasurman, Zeithaml, and Berry, 1988, 1990,). They identified five discrepancies in the service delivery process affecting a customer's evaluation of the service experience as shown in the table (1) bellow. This gap analysis model can be used as a management guide to determine the service quality gap and discovering appropriate ways to close the gaps (Parasurman, Zeithaml, and Berry, 1988, 1990).

Figure 1: Conceptual Model of service quality



2. **Gap 2:** The gap between management's perceptions of customer expectations and the firm's service quality specifications (The standard gap). The difference between managements' perceptions of customer expectations and the quality standards established for service delivery. Management might correctly perceive the customers wants but not set quality standards clearly.

3. **Gap 3:** The gap between service quality specifications and service delivery (The delivery gap). The difference between specified delivery standards and the service provider's actual performance on these standards. In general, this gap appears when employees are unable and /or unwilling to perform the service at the desired level. Various reasons are: role ambiguity, role conflict, poor employee-job fit, inappropriate supervisory control systems leading to inappropriate evaluation/compensation system, lack of perceived control on the part of employees, and lack of team work.
4. **Gap 4:** The difference between what a firm promises about a service and what it actually delivers is described as Gap 4. Two main factors contribute to this gap are:
 1. Inadequate communication among operations, marketing, and human resources, as well as across branches; and
 2. Propensity to over-promise in communications.
5. **Gap 5:** The gap between perceived service and expected service (The service gap). The difference between what customers expect to receive and their perceptions of the service that is actually delivered. Gaps 1 through 4 contribute to the emergence of gap 5. It is the most important gap, if perceived service falls short of the customer's expectations, she/he will be disappointed and dissatisfied. Conversely, if the perceived service exceeds the customer's expectations, she will be she/he will be not only satisfied but delighted (Parasurman, Zeithaml, and Berry, 1988).

How to close these gaps? According to Christopher Lovelock, (1994)

1. To close Gap 1, the knowledge gap
 - 1.1 Understand customer expectations through marketing research, complaint analysis, customers panel discussion, and etc.
 - 1.2 Increase direct interactions between managers and customers to improve understanding.
 - 1.3 Improve upward communication from contact personnel to management.

2. To close Gap 2, the standard gap
 - 2.1 Ensure top management displays ongoing commitment to quality as defined by customers.
 - 2.2 Establish clear service quality goal that are challenging, realistic, and explicitly designed to meet customer expectations.
 - 2.3 Communicate and reinforce customer oriented service standards for all works and etc,
3. To close Gap 3, the delivery gap,
 - 3.1 Ensure that all employees understand how their jobs contribute to customer satisfaction.
 - 3.2 Match employees to job by selecting for the abilities and skills needed to perform each job well.
 - 3.3 Provide employees with the technical training needed to perform their assigned tasks effectively.
 - 3.4 Enhance performance by selecting the most appropriate and reliable technology and equipment.
 - 3.5 Measure employee performance frequently.
4. To close Gap 4, The communication gap
 - 4.1 Seek inputs from operations personnel when new advertising programs are being created.
 - 4.2 Allow service providers to preview advertisements before customers are exposed to them.
 - 4.3 Communication specialists in the firm need to pretest all advertising, brochures, telephone scripts, and website content before they are published.
5. To close Gap 5, the service gap

This gap is the most critical and the goal is to narrow it. To close or narrow this gap, the four other gaps must be reduced or closed by identifying causes of each gap and then develop strategies to close or narrow them.

2.3. The Service Quality Dimensions of Service Industry

The service quality gap concept that has received the most attention is the connection between customers' expectations and perceptions of service quality (**Gap 5**). From this gap analysis, (Parasurman, Zeithaml, and Berry 1988, 1990) developed a perceived service quality model (SERVQUAL) which revealed that regardless of the type of service, customers use basically similar criteria in evaluating service quality.

In order to promote financial services effectively, a provider must first identify the dimensions used by customer to evaluate the service quality of service prior to becoming a customer (Parasuraman et al. 1988, 1990). This is because if service quality dimensions can be identified, service managers should be able to improve the delivery of customer perceived quality during the service process and have greater control over the overall out come. Therefore, it is very important to know the key service quality dimensions among the different groups of service organizations in order to formulate effective strategy for future. On the other hand, the service provider should know how far they are discriminated from their competitors and in which aspects, because it is good for future planning.

A number of researchers have provided lists of quality determinants, but the best known determinants emanate from Parasuraman and colleagues from the USA, is the ten dimensions of service quality in their research which contributes a lot to the level of service quality a firm provides to its customers. After refining their research through rigorous field testing, (Parasurman, Zeithaml, and Berry 1988, 1990) recast the 10 service quality dimensions into five principal dimensions through data reduction techniques and used these dimensions as the basis for their service quality measurement instrument.

These scholars reduced these ten service quality dimensions to five principal dimensions as shown in the following table-2

Table 2 Shows how the ten service quality dimensions reduced to five dimensions.

Five Dimensions	Ten dimensions
1. Tangibles	1. Tangibles
2. Reliability	2. Reliability
3. Responsiveness	3. Responsiveness
4. Assurance	4. Competence 5. Courtesy 6. Credibility 7. Security
5. Empathy	8. Access 9. Communication 10. Understanding

As shown in table 2, the reduced five dimensions which are related to the importance of people in the service organization are explained as follows:

1. **Reliability:** The ability to provide the promised service dependably and accurately. Customers expect the services providers to have the ability to perform the desired service dependably, accurately and consistently. This involves keeping the service promise and the reputation.
2. **Responsiveness:** The willingness to help customers and provide prompt service. Keeping customers waiting, particularly for no apparent reason, creates unnecessary negative perceptions of quality. In the event of service failure, the ability to recover quickly with professionalism can create very positive perceptions of quality.
3. **Assurance:** The knowledge and courtesy of employees and their ability to inspire trust and confidence. The assurance dimension includes competence to perform the service, politeness and respect for the customer, and effective communication with the customers.

4. Empathy: the provision of caring, individualized attention the organization provides its customers. Empathy includes approachability, sense of security, and the effort to understand the customer's needs.

5. Tangibles: The appearance of physical facilities, equipments, personnel, and communication materials. The condition of the physical surrounds is tangible evidence of the care and attention to details exhibited by the service providers.

2.4 Measuring Service Quality Using SERVQUAL Model

Measurement of service quality is both the last and the first step in producing superior service quality (Davidow & Uttal 1989). It has been said that what gets measured, gets done. While the importance of service quality to businesses is unequivocal, its measurement and explication have presented problems to researchers and managers. To a large extent, this is due to three unique characteristics of services, namely, intangibility, heterogeneity, and inseparability.

Measuring service quality is quite different from measuring product quality because service is an experience. To date, probably the most significant contribution toward the development of a quantitative yardstick for assessing a firm's service quality is the work conducted by (Parasuraman, Zeithaml, and Berry 1988, 1990).

They developed a measuring instrument, called SERVQUAL, to measure customer perceptions of service quality by using five major dimensions of service quality based on the gap model. It is widely accepted and tested model to measure the quality of services (Bennington and Cummane, 1998).

The central idea in this model is that service quality is a function of the difference scores or gaps between expectations and perceptions. An important advantage of the SERVQUAL methodology is that it has been proven valid and reliable across a large range of service contexts. SERVQUAL has been used to measure service quality by collecting information on both the perceptions and expectations of customers. This

model has been widely adopted by both managers (Parasuraman, Zeithaml and Berry, 1980, 1990) and academics (Babakus and Boller 1992; Cronin and Taylor, 1992) to evaluate customer perceptions of service quality for a variety of services.

SERVQUAL was developed to measure the gap between customers' expectations and perceptions (Parasuraman et al (1985) by using five service quality dimensions to examine service quality performance of any organization. It has been one of the most important contributions to the quality field in the services industry over the last decade and forms the central part of the gap model for measuring customer focused quality (Parasuraman et al 1985. As suggested by this famous scholar in the area, customers routinely use these five dimensions as a way of evaluating service quality and for each dimension of service quality SERVQUAL measures both the expectation and perception of the service.

The gap score obtained by using SERVQUAL model can be a reliable indication of each of the five dimensions of service quality. The gap score for each dimension is calculated by subtracting the expectation score from the perception score. A negative gap score indicates that the actual service is less than what was expected (the expectation score) (Parasuraman et al 1985).

Therefore, the first step in the assessment of service quality is the calculation of the SERVQUAL (SQ) scores of the matching pairs of expectations (E) and perceptions (P) for each respondent k and each statement I as follows:

$$SQ(i)^k = p_i^k - E_i^k \quad (1)$$

The second step is to total up the scores obtained as in (1) for each dimension j and then divide by the number of statements in the corresponding dimension n_j as follows:

$$SQ_j(\text{dimension}) = \sum_{i=1}^{n_j} \left\{ \sum_{k=1}^m SQ(i)^k / m \right\} / n_j \quad (2)$$

Where n represents number of respondents. Finally the overall **SQ** can be obtained by taking the average of **SQ** for each of the five dimensions as follows.

$$SQ \text{ (unweighted)} = \frac{\sum_{j=1}^5 SQ_j \text{ (dimension)}}{5} \quad (3)$$

Therefore, by using SERVQUAL model, service providers can obtain an indication of the level of quality of their service provision, and highlight areas requiring improvement.

Although SERVQUAL has been widely used to measure service quality across industries, no two providers of service are alike. Therefore, we can use SERVQUAL to serve only as a frame work. Despite the criticism of SERVQUAL, no viable measurement techniques or approaches have been put forward as serious alternatives. On the other hand, SERVQUAL remains the most widely applied measure of service quality by academics and practitioners. The fifth Gap, the difference between customers' perceptions of what a service should deliver and how well that service meets idealized expectations is the conceptual basis for SERVQUAL. Zeithaml, Parasuraman, and Berry (1988, 1990) designed SERVQUAL as a generic instrument that could be slightly modified for use in any particular service industry. It is the most popular method for the measurement of the fifth Gap.

2.5 Measuring Customers' Expectations and Perceptions of Service Quality

From the definition given by Gronroos (1982), we can understand that service quality is the result of the comparison that customers make between their expectations about service and their perceptions of the manner in which service has been performed. It involves measuring both customer perceptions and expectations of service along key service quality dimensions. Examining differences or gaps between the desired level of service and that actually delivered reveals where improvements in the service dimensions are required. Therefore, much attention on the issue of service quality as related to customers' attitudes towards services has focused on the relationship between customer expectations of a service and their perceptions of the quality of provision.

As explained above, the issue of service quality as related to customers' attitudes towards services should be focused on the relationship between customer expectations of a service and their perceptions of the quality of provision. This relationship known as perceived service quality which was first introduced by Gronroos (1982). Gronroos suggested that the perceived quality of a given service is the result of an evaluation process since customers makes comparison between the services they expect with perceptions of the services they receive. Hence, this scholar concluded that the quality of service is dependent on two variables: *expected service* and *perceived service*. Parasuraman et. al (1985) considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service.

Thus, the key to managing perceived service quality is to minimize this gap. Berry et. al (1990) pointed out that since customers are the "sole judge of service quality", an organization can build strong reputation for quality service when it can constantly meet customer service expectations. Most marketing practitioners and researchers agree that service quality perceptions result from the comparison of expectations with the actual service performance is critical for service providers to understand in-depth what customers perceive (Gronroos and, Lehtinen et al 1982). In other words, service quality is a measure of how well the delivered service level matches customer expectations. Thus, delivering quality service means conforming to customer expectations on a consistent basis (Lewis and Booms 1983).

So, measuring the quality of a service can be a very difficult exercise unlike a product where there are specific specifications such as length, depth, width, weight, colour etc. can be used but a service can have numerous intangible or qualitative specifications. In addition there is the expectation of the customer with regards to the service, which can vary considerably based on a range of factors such as prior experience, personal needs and what other people may have told them.

Even though, the nature and characteristics of services can have an impact on quality issues and make very difficult for service quality to be measured and assessed, it's subjectivity will be strongly linked it to individual customer's needs and expectations, and customers use their own different criteria for judging the level of service quality performance of their service provider. Therefore, the customer's perception of quality must be taken in to account in setting acceptable quality level. In other words, a product or service is not reliable unless the customer says it is reliable and a service is not fast unless the customer says it is fast.

2.6 Customer Satisfaction and Service Quality in Banking Industry

Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival of any business organization in today's competitive market place. It is known that customer satisfaction is an evaluation by the customer, after buying and using their goods and services. The most popular view of customer satisfaction in academia is that "customer satisfaction is the judgment borne out of the comparison of pre-purchase expectations with post purchase evaluation of the product or service experience (Oliver, 1981)".

Customer satisfaction is widely recognized as a key pressure in the formation of customers' future purchase intentions (Taylor 1992). Service being intangible in nature and their production and consumption take place simultaneously with customers' involvement; much care should be taken to maximize customer satisfaction. As suggested by Fournier and Mick, (1999) customer satisfaction is an important theoretical as well as practical issue for the marketers and marketing researchers. Especially it can be considered as the essence of success in today's highly competitive environment of financial marketing.

In today's world of intense competition, a firm's ability to deliver high quality service that result in satisfied customers is the key to a sustainable competitive advantage because customer satisfaction is considered to be one of the most important competitive factors for the future, and will be the best indicator of a firm's profit

ability (Astrid, 2005). They further suggest that customer satisfaction will drive firms to improve their reputation and image, to reduce customer turnover, and to increase attention to customer needs. Such actions will help firms create barriers to switching, and improve business relationships with their customers.

In today's highly competitive, increasingly consolidated world, offering personalized and differentiating services can be critical to a bank's success. Customer satisfaction is the key to the profitability of banks in any developed or developing countries. It implies the retention of customers for a long term, which is cheaper than attracting new customers. The knowledge of current levels of satisfaction and, in particular, the key determinants of satisfaction benefit those in the industry allowing them to focus and build upon key areas that lead to highly satisfied customers.

As explained by Parasurman (1990) service quality performance of banks is the most significant factors influencing customer satisfaction. Therefore, frequently looking into the factors that would affect customer satisfaction level is very important for the success of banks in today's highly competitive marketing environment of financial industry. As suggested by one extensive study conducted in USA to identify the reason behind of customer switching in banking industry, of customers who switch banks in the USA, 40 % do so because of service quality problems and these problems are also the cause of 25% of closures of bank accounts (Grubbs and Reidenbach, 1991).

Even though, the banking Industry is becoming a good investment opportunity, a highly competitive marketing environment of this Industry forced the Industry to consider its service quality management as the key to gaining competitive advantage over its competitors. Therefore, service quality is a critical issue in the service industry and of particular importance for banking service providers who characteristically offer services that are homogeneous in nature because it directly and indirectly related to bank's' loyalty via satisfaction (Stafford, Stafford and Wells, 1998). Furthermore, it is commonly noted as critical prerequisite for satisfying and retaining valued customers

(Bloemer, De Ruyter and Peters, 1998, AL. Fawzan 2006). It is true that customer retention has a significant impact on bank profitability and customer loyalty, which is a crucial output to a firm's resource allocation strategy and quality improvement efforts.

On the other hand, banking services are almost the same but what matters is the way the service is offered and the quality aspects associated with those services. As proved in other industries and service sectors, the true implementation of Total Quality Management (TQM) principles offers the solution to quality problems in banking sector too. Since financial services are generally undifferentiated products, service quality has been viewed as a significant issue in the banking industry to distinguish them from the competition, and hence it becomes a key to competitive advantage (Stafford 1998).

2.7 Measuring Service Quality in Banking Industry

In fact even the definition of service quality is changing; the concept of service quality is evolving to mean uniformity of the service output around target value determined by the customer. However, as Buzell and Gale (1987) suggested the common element in service quality, whatever the service is, quality is based on the customers' comparison between their expectations and perception, which is one of the most influencing factors in a customer's purchase decision process.

On the other hand, assessing service quality or determining what makes a quality service is not easy, and differences between service organizations mean that there is no single set of factors which can be classified to produce recognizable standards. Services cover such a broad spectrum of activities, ranging from the highly tangible to the highly intangible, that universal regulation of quality standards is impractical.

It is known that the success of any economic system largely depends on the performance of financial institutions operating in the system. Within financial institutions, banks play their own important role, being the back bone of an economic

system and as financial intermediaries involved in channeling funds from those having surplus to those having its shortage (Lockett, 1994). In Ethiopia, all banks are involved in fund channeling, and they earn profits through funds-channeling. In order to reach maximum customers, all banks develop a network of branches in the country. Branches are the points where they offer their products. Therefore, continuous improvement in service quality is becoming the most important requirement in the banking industry in order to effectively and efficiently deliver service quality.

Even though, the banking industry is becoming a good investment opportunity in Ethiopia, a highly competitive marketing environment of this industry forced the Industry to reconsider its service quality management as the key to gaining competitive advantage over its competitors. Therefore, all banks (public or private) have to manage their service quality performance from their customers' point of view when they design their service quality strategic planning.

2.8 Modern Banking System in Ethiopia

The history of modern banking system goes to the Emperor Minilik II in 1905 which marked as the introduction of modern banking and established the first bank called Bank of Abyssinia (Gashewtena 2005). In 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power. The new Bank, Bank of Ethiopia, was a purely Ethiopian institution which was established by an official decree on August 29, 1931 with capital of £750,000. Bank of Ethiopia took over the commercial activities of the Bank of Abysinia and was authorized to issue notes and coins. The bank established its branches in different parts of the country and had a transit office in Djibouti and continued successfully until the Italian invasion in 1935 (National Bank of Ethiopia, 2000).

During the invasion, the Italians established branches of their main Banks and started operation in the main towns of Ethiopia. However, they all ceased operation soon after liberation except Banco di Roma and Banco di Napoli which remained in Asmara (Gashewtena 2005). On 15th April 1943, the State Bank of Ethiopia commenced full

operation after 8 months of preparatory activities. It acted as the central Bank of Ethiopia and had a power to issue bank notes and coins as the agent of the Ministry of Finance until 1963. Then the Ethiopian Monetary and Banking law that came into force in 1963 separated the function of commercial and central banking creating National Bank of Ethiopia and commercial Bank of Ethiopia (Gashew Tena 2005).

The National Bank of Ethiopia with more power and duties started its operation in January 1964. Following the incorporation as a share company on December 16, 1963 as per proclamation No.207/1955 of October 1963, Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1,1964 with a capital of Eth. Birr 20 million. In the new Commercial Bank of Ethiopia, in contrast with the former State Bank of Ethiopia, all employees were Ethiopians. In 1974 the military government nationalized all private banks and insurance companies, leaving retail banking in the hands of the Commercial Bank of Ethiopia. The financial sector, which the socialist oriented government left behind only three banks and each enjoying monopoly in its respective market (Habtamu 2004). The following was the structure of the sector at the end of the era.

1. The National Bank of Ethiopia (NBE)
2. The Commercial Bank of Ethiopia (CBE)
3. Agricultural and Industrial Development Bank (AIDB)

When we observe from the historical development of the banking industry in Ethiopia, it is traditionally conservative because of its traditional management methods and legal restrictions. The banking industry in Ethiopia has been a witness for the last decade to several regulatory changes that have resulted in a heightened level of competition among the banks. Following the change in the economic policy, financial sector reform also took place. Monetary and Banking Proclamation of 1994 established the National Bank of Ethiopia as a judicial entity, separated from the government and outlined its main functions and the National Bank of Ethiopia is remaining as a regulatory body that oversees the private sector and also foreign-exchange mechanisms.

Since the mid-1994s, Ethiopians have been permitted to establish private banks and insurance companies once more; by the Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 which laid down the legal basis for investment in the banking sector. (Habtamu 2004). Until to the end of 2008, there are nine private banks operating in the country and their entry has increased the expectations of the customers in all areas relating to customer service. Those private banks established consequently shortly after the proclamation according to (Mersea Hazen and Gashewtena, 2005) are:

1. Awash International Bank S.C. was established in November 1994 as the 1st private commercial bank in the new era of private banking in Ethiopia. Shortly after the proclamation, it started operation in February 1995 by 486 shareholders and the authorized capital of the Bank reached Birr 50.0 million.
 2. Dashen Bank was established on September 20, 1995 as a share company with an authorized and subscribed capital of Birr 50.0 million.
 3. Bank of Abyssinia, another private bank was founded by 131 shareholders with subscribed and authorized capital of 25.0 million and 50 million, respectively.
 4. Wegagen Bank with an authorized capital of Birr 60.0 million started operation in 1997.
 5. The fifth private bank, United Bank was established on 10th September 1998 by 335 shareholders.
 6. The 6th private bank established on May 26, 1999 is Nib International Bank with an authorized capital of Birr 150.0 million.
 7. The 7th bank is Cooperative Bank of Oromia which established and started its operation on March 2005 with authorized capital of birr 300 million.
 8. The 8th banks Anbessa Bank, was established in 2006 , (Birritu bulletin, 2007)
 9. The last bank is Oromia International Bank, which was established in 2008.
- Other banks like Buna Bank and Brehian Bank are on the way to be

As noted above:

1. Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia in October 1963 and started full operation on

January 1, 1964 with a capital of Eth. Birr 20 million. This bank currently has 208 branches those stretched across the country with more than 8,000 employees. It is the bank with assets of birr 49 billion at the year ended June 2008.

2. Awash International bank established and started operation in 1994 by 486 shareholders with the authorized capital of Birr 50.0 million. Currently it has 52 branches spread over different parts of the country.
3. Cooperative bank of Oromia which was registered on 29 October 2004 in accordance with Article 304 of the commercial code of Ethiopia and was licensed by National Bank of Ethiopia as per proclamation No. 84/1994 that provides for licensing and supervision of banking businesses. The bank commenced operation on 8th March 2005. It was started operation with 7 branches in 2005 and at present the bank has 38 branches spread over different parts of Oromia including Addis Ababa. The authorized capital of CBO is 3 million shares worth of Birr 300 million. Its paid up capital was Birr 112 million when established (Mersea Hazen, 2005). Currently the paid up capital of the bank reached nearly Birr 133 million. Shareholders of CBO are:- Cooperatives, Development Organizations, Board of Directors ,Top Managers, Individuals/residents and Pvt. Ltd. Companies (Gashew Tena, 2005).

It is known that commercial banks form the largest and are the country's most important group of financial institutions and play a significant role by channeling funds from those having surplus to those having its shortage. The present competitive situation which is characterized by rapid change and increasingly sophisticated customers' need forced all commercial banks in the country to determine the service quality factors, which are pertinent to the customers' selection process.

With the entry of private banks in Ethiopian banking industry and innovations in the marketplace, the customers have greater difficulty in selecting one institution (bank) from another. Therefore, the current urgent issue for the commercial banks operating in Ethiopia is to determine or identifying the dimensionality of customer-perceived service quality from the customers' perspectives. Moreover, investigating the influence of the dimensions of service quality on customers' behavioral intentions also provide a better understanding of the drivers of customer satisfaction and also help the banks specify, measure, control and improve customer perceived service quality. Based on this, the study is designed to measure customer perceptions of the services they received from their respective banks and rank the importance of the five dimensions of service quality as they perceive.

CHAPTER THREE

3. Research design and methodology

This chapter is devoted to the description of the design and methods employed in carrying out the study.

3.1 Research design

As it has already been mentioned in Chapter One, the main purpose of the study was to determine the gap between customers' expectations and perceptions, and compare service quality performance of commercial banks from customer point of view. This research was tried its best to examine the proposed basic questions based on the data collected from the representative sample, and therefore categorized as survey research.

3.2 Source of data

Data for this study was gathered from primary sources as well as secondary sources. The primary data were collected through questionnaires that were filled and returned by commercial bank customers. Secondary sources were obtained from policy documents and annual reports of the respective commercial banks.

3.3 Sampling procedures

The sampling procedure used in the study was non-probability convenient sampling. In the study, as obtained from each bank documents, commercial banks currently operating in Ambo town have about 5,726 active customers. Of these, 1,850 are customers of AIB, 2,114 are customers of CBE, and 1,762 are customers of CBO. According to Krejcie and Morgan (1970), a sample of 361 would represent 6,000 populations.

Based on this, respondents from each bank were selected proportionally. Sample customers of the respective banks were 117 from AIB, 135 from CBE, and 112 from CBO. Every other customer entering the branch of each bank during the chosen time intervals (from November 3, 2009 to 18, November, 2009 for 15 days) was asked to

complete the questionnaire. This helped to eliminate the sampling errors and ensure the representation of the population under study in the sample area. A total of 364 copies of questionnaire were distributed among customers of CBE (135 copies), AIB (117 copies), and CBO(112 copies). From distributed copies of questionnaires, 120 copies from customers of CBE, 105 copies from customers of AIB, and 100 copies from CBO were properly completed and returned. For each customer in each bank, SERVQUAL scores were generated.

3.4 Data collection instruments

One possible method for collecting information on customers' perceptions and expectations is SERVQUAL model which is a relatively generic, multi-dimensional Likert type scale. Though some scholars criticize SERVQUAL model for generality application, no other viable measurement techniques or approaches have been put forward as alternatives. The questionnaire for the measurement of customer-perceived service quality followed the basic structure of the SERVQUAL instrument as developed by Parasuraman (1990), and consisted of two sections: *an expectation section* and *a perception section*. However, all the questions in the model were not found to be appropriate in Ethiopian context. Besides, there are some issues that are not considered by the model but essential in our county context. To fill this gap, some adaptation has been made to the model by discarding the irrelevant ones and adding those felt to be very essential in this country's context.

The expectation section required the respondent to indicate on a five-point Likert scale (strongly disagree to strongly agree) the extent to which the ideal service providing organization (in this case a bank) possesses the characteristic desired in each statement. In the perception section the statements required the respondent to indicate the extent to which the particular bank possesses the characteristic described, again on a five-point Likert scale (strongly disagree to strongly agree).

3.5 Method of data analysis

For data analysis, descriptive statistics was used to describe the general properties of the samples, variables, and indicators. Statistical Package for Social Science (SPSS V. 15) was used to analyze the data set. A frequency distribution was used to describe the sample. The mean of the attributes of each dimension were also computed. Finally, paired *t*-test was used to test the significance of the differences between customers' expectations and perceptions means. Based on the data gathered from customers, each of the five dimensions was weighted as per customers' rating of their importance. This helped to identify which service quality dimension is the most important from customers' perspective.

Paired *t*-test was performed to compare the means of expectations and perceptions for each of the 5 service quality dimension's attributes. In computing the paired-*t* test, the 23 adopted statements of the SERVQUAL in the questionnaire were grouped and linked according to the five dimensions as mentioned earlier. Based on the paired *t*-test result, the degree of statistical difference between perceived performance and expectations was determined. Then, the gap score for each dimension with respect to each bank was calculated by subtracting the expectation score from the perception score.

A negative service gap indicates that respondents' expectations are greater than their perceptions. A comparative study among the three banks was conducted by subtracting the expectations mean score from the perception mean score with respect to the five-service quality dimensions. Based on the obtained mean score differences for each dimension, the level of service quality performance of each bank was compared.

CHAPTER FOUR

4. PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

This chapter consists of two parts. The first part discusses the demographic findings of the respondents while the second part deals with the analysis and interpretation of data relevant to the problem. The presentation, analysis, and interpretation of data was based on the data collected from the questionnaire filled and returned by sample customers of commercial banks currently operating in Ambo town. The questionnaire for the measurement of customer-perceived service quality followed the basic structure of the SERVQUAL instrument as developed by Parasuraman (1990), and consisted of two sections: *an expectation section* and *a perception section*. Hence, the data obtained from 325 banks' customers were presented and analyzed as follows.

4.1. Analysis of Demographic Profiles of Respondents

Table 3: Demographic Profile

Factor	Category	BANKS						Total	
		CBO		CBE		AIB			
		n	%	n	%	n	%	n	%
Gender	Male	68	68	88	73.3	85	81.0	241	74.2
	Female	32	32	32	26.7	20	19.0	84	25.8
	Total	100	100	120	100	105	100.0	325	100.0
Education	Below Grade 12	20	20	22	18.3	33	31.4	75	23.1
	Certificate	10	10	14	11.7	13	12.4	36	11.1
	Diploma	30	30	19	15.8	15	14.3	64	19.7
	Bachelors Degree	25	25	47	39.2	30	28.6	101	31.1
	Masters degree & above	15	15	18	15	14	13.3	49	15.1
	Total	100	100	120	100	105	100.0	325	100.0
Occupation	Business men	40	40	56	46.67	47	44.8	143	44.0
	Government Employees	38	38	39	32.50	49	46.7	126	38.8
	NGO, Self employed, and Private Org. Employees	22	22	25	20.83	9	8.6	56	17.2
	Total	100	100	120	100	105	100.0	325	100.0

As it can be seen from Table 3, the sample respondents consisted of 241 (74.2%) males and 84 (25.8%) females. This indicates that male customers more frequently visit the bank than female customers. Concerning educational level, 214 (65.85%) of the respondents had a university or college education which reveals that the majority of the respondents were educated. With regard to occupation of the respondents, 143 (44%) of respondents were business men (merchant or investor). This indicates that business men visit the bank more frequently than government employees and others. This might be due to the nature of their job or business.

4.2 Analysis of Service Quality Gap (Gap 5)

One of the objectives of this study was to find out whether there exist a significant difference between service quality expectations and perceptions of commercial bank customers or not. The analyses were done in order to measure the gap between the customers' expectations and their perceptions of the commercial banks currently operating in Ambo town. To this effect, 23 items or attributes were adopted from Parasuraman SERVQUAL Model pertaining to five service quality dimensions. Paired t-test was used to compare the mean of expectations and perceptions for the five service quality dimensions. In computing the mean of gap score and corresponding paired t-test, the 23 adopted attributes or statements of the SERVQUAL in the questionnaire were grouped in meaningful way.

The service quality gaps were calculated as in the form of equations which described in the methodology section. Negative service quality gaps were recorded in all of the five dimensions across all banks, which depicted that the service quality rendered by all of the commercial banks were lower than customers' expectations. In addition, this indicates that customers perceived that the level of service provided by their respective bank did not meet their expectations. The results of the three commercial banks studied are presented in the following tables. For each customer in each bank, SERVQUAL scores were generated.

Table 4 (a): SERVQUAL Gap Mean Score on Tangibles, Reliability, and Responsiveness Dimensions of Commercial Bank of Ethiopia (n=120)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Tangibility	1. Modern-looking equipments	-0.77	7.47
	2. Visually appealing physical activities	-0.86	8.55
	3. Neat appearance of staff (well dressing)	-0.57	5.91
	4. Materials associated with the service are visually appealing	-0.55	6.31
	Mean of Tangibility Dimension	-0.69	9.70
Reliability	1. Provide services at the time they promise to do so	-1.08	8.82
	2. Sincere interest in solving customers' problems	-1.61	12.64
	3. Staff performing services right the first time	-1.71	13.07
	4. Insist on error-free records	-1.52	10.95
	Mean of Reliability Dimension	-1.48	12.50
Responsiveness	1. Staff telling customers exactly when services will be performed	-1.40	12.32
	2. Providing Prompt service to customers	-1.98	15.13
	3. Staff willingness to help customers	-1.33	10.94
	4. Prompt response from staff to customers' request without any delay.	-1.64	12.49
	5. Ability to handle customers' transactions in a short and reasonable time.	-1.85	13.91
	6. Ability to handle customers' complaints in a proper manner	-1.77	14.14
	Mean of Responsiveness	-1.67	16.07
Overall combined scale of 23 attributes		-1.30	14.21

*E = Expectation, P = Perception

4.2.1 SERVQUAL Gap Score analysis for Tangibles, Reliability, and Responsiveness Dimensions of Commercial bank of Ethiopia as shown in Table 4 (a)

A comparison of Commercial bank of Ethiopia, Ambo branch customers' actual perceptions of service quality with their expectations, using paired t-test, showed that a statistically significant difference exists on all the attributes examined in tangibility, reliability, and responsiveness dimensions. Big discrepancies were found in responsiveness and reliability dimensions and attributes. In responsiveness dimension, the largest service gap (-1.98) was found in item no. 2 "providing prompt service to customers".

The overall responsiveness dimension mean gap score for Commercial Bank of Ethiopia, Ambo branch was -1.67. The paired t-test for customers' expectations and perception regarding responsiveness dimension was 14.21 which is statistically significant.

The largest service gap mean score which is obtained in this dimension indicates that there was serious defect on the willingness of employees of CBE to help customers and providing prompt service to them. In addition, it reveals that there was some sort of delay in performing customers' transactions as perceived by customers of this bank. From this, it is possible to infer that the responsiveness dimension was the most serious shortfalls and requires serious attention by the bank in terms of making improvements.

The second largest negative gap (-1.48) was found in reliability dimension. As shown in reliability dimension's items, item no. 3 "*Staff performing services right the first time*" was found as the largest negative gap (-1.71) in the dimension. The overall reliability dimension gap score for Commercial Bank of Ethiopia, Ambo branch, was statistically significant. Therefore, the overall service quality performance related to tangibility, reliability and responsiveness dimensions is below customers' expectations. The Commercial Bank of Ethiopia, Ambo branch seems relatively good at tangibility dimension, even though, the overall gap score found in this dimension (-0.69) was statistically significant and it is the smallest service quality gap score found for the bank.

Table 4 (b): SERVQUAL Gap Mean Score on Assurance and Empathy Dimensions of Commercial Bank of Ethiopia (n=120)

SRVQUAL Dimensions	Attributes	Gap (P-E)	t-value
Assurance	1. Behaviors of staff instill confidence in customers	-1.19	10.47
	2. Customers feel safe in their transactions	-0.94	7.91
	3. Friendliness and courtesy of staff	-1.39	11.39
	4. Staff having knowledge to answer Customers' questions	-1.41	12.18
	Mean of Assurance	-1.23	11.06
Empathy	1. Individual attention given by the bank staff	-1.07	8.19
	2. Convenient operating hours to all customers	-1.94	14.07
	3. Staff giving customers best interest at heart	-1.67	12.78
	4. Advice and guidance given by the bank staff on how to use the banks' services	-0.69	6.24
	5. Easy of moving inside the bank and having enough seats for customers at weighting place	-0.98	6.63
	6. Opening enough number of service windows and have sufficient number of staff behind the counter during the busy ours of the day and week end	-2.26	19.51
	Mean of Empathy	-1.44	12.16
Overall combined scale of 23 attributes		-1.30	11.21

4.2.2 SERVQUAL Gap Score analysis for Assurance and Empathy Dimensions of Commercial bank of Ethiopia as shown in Table 4 (b)

A comparison of Commercial bank of Ethiopia, Ambo branch customers' actual perceptions of service quality with their expectations, using paired t-test, showed that a statistically significant difference exists on all the attributes examined in assurance and empathy dimensions.

The third widest gap (-1.41) was found in assurance dimension's items, item no. 4 "*Bank employees have enough knowledge to answer customers' questions*". The overall assurance dimension average service gap score for this bank is -1.23 and the

paired t-test for customers' expectations and perception is 11.06, which is statistically significant. This indicates that employees of CBE were not seemed polite when talking to customers. The reason might be the lack of enough knowledge to answer customers' questions. Therefore, this might indicate that customers of CBE may not feel confident that their transactions are complete and safe.

In empathy dimension, the widest gap (-2.26) was found in the item no. 6 "*Opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours*". Surprisingly, this gap was not only the largest gap in empathy dimension but also it was found that the biggest gap examined in all of the five service quality dimensions across all banks. Therefore, this item was the most serious shortfalls and requires serious attention by all banks in order to improve it, because the bigger the gap, the serious the level of service quality is from the customers' point of view. The next big gap examined in this dimension is (-1.94) in item no. 2 "*convenient operating hours to all customers*"

The overall Gap 5 score of all dimensions of Commercial Bank of Ethiopia Ambo branch is -1.30, the paired t-test for customers' expectations and perception is 11.21, which is statistically significant. This shows that, the overall service quality provided by this bank is below customers' expectations. As shown in the Table 4 (a) and (b), SERVQUAL scores for all items bear negative signs meaning that expectations are greater than performance, then perceived quality is less than satisfactory and a service quality gap materializes. When the researcher ranked the gap founded in all dimensions according to gap scores, it is clear that the biggest gap (-1.67) was pertaining to responsiveness followed by reliability dimension (-1.48), empathy (-1.3), assurance (-1.23), and tangibility (-0.69) as shown from the table 4 (a) and (b). In general, an effort is needed to raise the level of service quality in all dimensions to match with customers' aspirations.

Table 5 (a): SERVQUAL Gap Mean Score on Tangibles, Reliability, and Responsiveness Dimensions of Awash International Bank (n=105)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Tangibility	1..Modern-looking equipments	-0.45	4.69
	2.Visually appealing physical activities	-0.50	5.96
	3.Neat appearance of staff (well dressing)	-0.52	4.54
	4.Materials associated with the service (such as pamphlets, pass books, cheques, & statements) are visually appealing	-0.33	4.73
	Mean of Tangibility Dimension	-0.45	7.03
Reliability	1. Provide services at the time they promise to do so	-0.43	6.69
	2. Sincere interest in solving customers' problems	-0.64	7.49
	3. Staff performing services right the first time	-0.50	5.35
	4. Insist on error-free records	-0.71	6.97
	Mean of Reliability Dimension	-0.57	8.77
Responsiveness	1.Staff telling customers exactly when services will be performed	-0.97	9.67
	2. Providing Prompt service to customers	-0.48	4.55
	3. Staff willingness to help customers	-0.52	6.52
	4. Prompt response from staff to customers' request without any delay.	-0.63	6.16
	5. Ability to handle customers' transactions in a short and reasonable time.	-0.45	6.23
	6. Ability to handle customers' complaints in a proper manner	-0.71	8.02
	Mean of Responsiveness	-0.63	8.64

*E = Expectation, P = Perception

4.2.3 SERVQUAL Gap Score analysis for Tangibles, Reliability, and Responsiveness Dimensions of AIB as shown in Table 4 (a)

A gap score examined in Awash International Bank, Ambo branch customers' actual perceptions of service quality with their expectations, using paired t-test, showed a statistically significant difference on all attributes of the tangibility, reliability and responsiveness dimensions.

The biggest gap was found in responsiveness dimension. In this dimension, the biggest gap (-0.74) was found in item no. 6 "*Employees' ability to handle customers' complaints in a proper manner*". The overall responsiveness dimension gap score for Awash International Bank, Ambo branch was -0.62 and the paired t-test for customers' expectations and perception was 8.64 which is statistically significant. The most serious discrepancies of the Awash International Bank, Ambo branch is observed in the responsiveness dimension.

In reliability dimension, the biggest negative gap was found in item no. 4 (-0.71) "*Insist on error-free records*". The overall reliability items gap score for Awash International Bank, Ambo branch is -0.57 and the paired t-test for this dimension is 7.03, which indicated that, the overall reliability attributes scores of this bank were below customers' expectations and the gap is statistically significant. Regarding tangibility dimension, Awash International bank is relatively better when compared to the gap found in other dimensions. The overall gap score found in this dimension is -0.45 which is the lowest gap score and too small to be statistically significant.

Table 5 (b): SERVQUAL Gap Mean Score on Assurance and Empathy Dimensions of Awash International Bank (n=105)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Assurance	1. Behaviors of staff instill confidence in customers	-0.71	7.17
	2. Customers feel safe in their transactions	-0.39	5.53
	3. Friendliness and courtesy of staff	-0.40	5.35
	4. Staff having knowledge to answer Customers' questions	-0.71	7.63
	Mean of Assurance	-0.55	8.28
Empathy	1. Individual attention given by the bank staff	-0.39	5.10
	2. Convenient operating hours to all customers	-0.72	8.52
	3. Staff giving customers best interest at heart	-0.49	6.52
	4. Advice and guidance given by the bank staff on how to use the banks' services	-0.38	5.01
	5. Easy of moving inside the bank and having enough seats for customers at weighting place	-0.39	5.64
	6. Opening enough number of service windows and have sufficient number of staff behind the counter during the busy ours of the day and week end	-1.22	12.01
	Mean of Empathy	-0.60	8.27
	Overall combined scale of 23 attributes	-0.56	8.01

*E = Expectation, P = Perception

4.2.4 SERVQUAL Gap Score analysis for Assurance and Empathy Dimensions of AIB as shown in Table 4 (b)

In assurance service quality dimension, the biggest gaps (-0.71) were found in two items no. 1 and 4 "*Behaviors of bank staff instill confidence in customers*" and "*Bank employees have enough knowledge to answer customers' questions*" respectively. The overall assurance dimension gap score for Awash International Bank, Ambo branch was -0.60 and the paired t-test for customers' expectations and perception was 8.27 which was statistically significant.

In empathy dimension, the biggest gap (-1.24) was found in the item no. 6 “*Opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours*” and the 2nd widest gap (-0.72) found in this dimension was in item no. 2 “*convenient operating hours to all customers*”. Unfortunately, similar to Commercial Bank of Ethiopia, this gap is also the largest gap in all 23 items of all service quality dimensions. In addition, in this study this item (item 6 in Empathy) is the most serious defect in all banks which requires serious attention by all commercial banks.

The overall Gap 5 score for Awash International Bank, Ambo branch is -0.56, and the paired t-test for customers’ expectations and perception is 8.01 which is statistically significant. This indicates that the overall service quality provided by this bank is below customers’ expectations.

As can be seen in Table 5 (a) and (b), gap comparison among dimensions shows that responsiveness (-0.62) gap score is the first in rank, then followed by empathy (-0.60), reliability (-0.57), assurance (-0.56), and tangibility (-0.45). From this it is possible to infer that even though the overall service quality provided by this bank was below customers’ expectations the gap between Awash international bank customers perceptions and expectations is relatively lower than Commercial Bank of Ethiopia. The difference is significant in all dimensions except tangibility where the difference is too small to be statistically significant.

Table 6 (a): SERVQUAL Gap Mean Score on Tangibles, Reliability, and Responsiveness Dimensions of Cooperative Bank of Oromia (n=100)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Tangibility	1. Modern-looking equipments	-0.75	8.06
	2. Visually appealing physical activities	-1.05	12.11
	3. Neat appearance of staff (well dressing)	-0.78	9.49
	4. Materials associated with the service (such as pamphlets, pass books, cheques, & statements) are visually appealing	-0.62	5.60
	Mean of Tangibility Dimension	-0.80	10.52
Reliability	1. Provide services at the time they promise to do so	-0.57	6.63
	2. Sincere interest in solving customers' problems	-0.63	5.46
	3. Staff performing services right the first time	-0.75	6.39
	4. Insist on error-free records	-0.98	8.36
	Mean of Reliability Dimension	-0.73	8.86
Responsiveness	1. Staff telling customers exactly when services will be performed	-0.60	5.50
	2. Providing Prompt service to customers	-0.99	7.84
	3. Staff willingness to help customers	-0.65	6.56
	4. Prompt response from staff to customers' request without any delay.	-1.08	11.02
	5. Ability to handle customers' transactions in a short and reasonable time.	-0.90	5.40
	6. Ability to handle customers' complaints in a proper manner	-0.79	6.30
	Mean of Responsiveness	-0.84	8.87

*E = Expectation, P = Perception

4.2.5 SERVQUAL Gap Score analysis for Tangibles, Reliability, and Responsiveness Dimensions of CBO as shown in Table 6 (a)

A comparison of Cooperative Bank of Oromia, Ambo branch customers' actual perceptions of service quality with their expectations, using paired t-test, showed a statistically significant difference on all attributes of tangibility, reliability, and responsiveness dimensions as examined in the table 6 (a).

The biggest gap was found in responsiveness dimension. In this dimension, the biggest gap (-1.08) was found in item no. 4 *"prompt response from staff to customers' request without any delay"* followed by the gap score examined in item no. 2 (-0.99) *"providing prompt service to customers"*. The overall responsiveness dimension gap score for Oromia Cooperative bank, Ambo branch was -0.84 and the paired t-test for this dimension was 8.67 which is statistically significant, and it is the most serious discrepancies of this bank. The second big mean gap score (-0.80) was found in tangibility dimension. In this dimension, the biggest gap (-1.30) was examined item no. 2 *"visually appealing physical activities"*.

In reliability dimension, the biggest negative gap was found in item no. 4 (-0.98) *"Insist on error-free records"*. The overall reliability items gap score for Cooperative Bank of Oromia, Ambo branch is -0.73 and the paired t-test for this dimension is 8.86, which indicated that, the overall reliability attributes scores of this bank were below customers' expectations and the gap is statistically significant.

Table 6 (b): SERVQUAL Gap Mean Score on Assurance and Empathy Dimensions of Cooperative Bank of Oromia (n=100)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Assurance	1. Behaviors of staff instill confidence in customers	-0.96	7.39
	2. Customers feel safe in their transactions	-0.87	7.22
	3. Friendliness and courtesy of staff	-0.53	5.79
	4. Staff having knowledge to answer Customers' questions	-0.80	8.16
	Mean of Assurance	-0.79	9.52
Empathy	1. Individual attention given by the bank staff	-0.65	6.17
	2. Convenient operating hours to all customers	-1.43	9.46
	3. Staff giving customers best interest at heart	-1.20	8.68
	4. Advice and guidance given by the bank staff on how to use the banks' services	-0.68	5.80
	5. Easy of moving inside the bank and having enough seats for customers at weighting place	-0.75	6.39
	6. Opening enough number of service windows and have sufficient number of staff behind the counter during the busy ours of the day and week end	-1.85	12.51
	Mean of Empathy	-1.09	12.68
Overall combined scale of 23 attributes		-0.85	11.01

*E = Expectation, P = Perception

4.2.6 SERVQUAL Gap Score analysis for Assurance and Empathy Dimensions of CBO as shown in Table 6 (b)

A comparison of Cooperative Bank of Oromia, Ambo branch customers' actual perceptions of service quality with their expectations, using paired t-test, showed a statistically significant difference on all attributes of assurance and empathy dimensions as examined in the table 6 (b).

In assurance service quality dimension, the wide gap (-0.96) was found in item no. 1 “Behaviors of staff instill confidence in customers” and the second one is (-.87) found in item no. 2 “Customers feel safe in their transactions”. The overall assurance dimension gap score for Cooperative Bank of Oromia, Ambo branch was -0.79 and the paired t-test for customers’ expectations and perception was 9.52 which is statistically significant.

Regarding empathy dimension, from all five dimensions, the biggest service gap score -1.09 was found in this bank. In general, in this dimension the big gaps are examined in the following items or attributes.

1. The biggest gap score (-1.85) is examined in item no. 6 “Opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours”.
2. The next big gap score (-1.43) is recorded in the item no. 2 “convenient operating hours to all customers”.
3. The third big gap score (-1.20) is examined in item no. 3 “Staff giving customers best interest at heart”.

From the overall gap scores examined in this bank, the two dimensions (Empathy (-1.09) and Responsiveness (-0.84)) are the most serious shortfalls which require serious attention by the bank. Particularly, regarding the empathy dimension, it is known that banking service entails direct contact between customers and employees delivering the service and there is almost a significant personal involvement between employees and customers. In addition, customers would be very upset if they would not informed if their services are completed or if they were not treated with respect.

When the researcher evaluated and ranked the overall Gap 5 score based on the obtained gap scores, for Cooperative Bank of Oromia, Ambo branch it was found that the biggest gap (-1.09) is pertaining to empathy followed by responsiveness dimension (-0.84), tangibility (-0.80), Assurance (-0.79) and the least one was pertaining to reliability (-0.73). In general, the overall service quality provided by this bank was below customers’ expectations as perceived by them as shown in table 6 (a) and (b) above.

Table 7 (a):- Overall SERVQUAL Gap Mean Score on Tangibles, Reliability, and Responsiveness Dimensions of all Commercial Banks (n=325)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value
Tangibility	1. Modern-looking equipments	-0.72	11.64
	2. Visually appealing physical activities	-0.80	12.71
	3. Neat appearance of staff (well dressing)	-0.56	11.16
	4. Materials associated with the service (such as pamphlets, pass books, cheques, & statements) are visually appealing	-0.50	9.56
	Mean of Tangibility Dimension	-0.65	9.13
Reliability	1. Provide services at the time they promise to do so	-0.72	12.11
	2. Sincere interest in solving customers' problems	-0.95	14.10
	3. Staff performing services right the first time	-1.02	13.66
	4. Insist on error-free records	-1.03	14.82
	Mean of Reliability Dimension	-0.93	11.10
Responsiveness	1. Staff telling customers exactly when services will be performed	-1.12	13.58
	2. Providing Prompt service to customers	-1.13	13.50
	3. Staff willingness to help customers	-0.90	13.43
	4. Prompt response from staff to customers' request without any delay.	-1.02	13.97
	5. Ability to handle customers' transactions in a short and reasonable time.	-1.04	13.42
	6. Ability to handle customers' complaints in a proper manner	-1.09	15.30
	Mean of Responsiveness	-1.05	18.10

*E = Expectation, P = Perception

4.2.7 SERVQUAL Gap Score analysis for Tangibles, Reliability, and Responsiveness Dimensions of all Commercial Banks (n=325)

These analyses were done in order to measure the gap between the customers' expectations and their perceptions of all of the commercial banks currently operating in Ambo town, based on the gaps examined in items or attributes in the tangibility, reliability, and responsiveness dimensions as shown below. The overall results of the three commercial banks regarding to the three dimensions was presented in the Table 7 (a).

The biggest gap score (-1.05) was examined in responsiveness dimension. In this dimension, the wide gap (-1.13) was found in item no.2 "*Providing Prompt service to customers*" followed by the gap score (-1.12) found in item no. 1 "*Staff telling customers exactly when services will be performed*" The most serious discrepancies of the commercial banks currently operating in Ambo town was observed in the responsiveness dimension.

In reliability dimension, the big negative gap was found in item no. 4 (-1.03) "*Insist on error-free records*" followed by gap score (-1.02) found in item no. 3 "*staff performing services right the first time*" The overall reliability items gap score for all commercial banks currently operating in Ambo town was is -0.93 and the paired t-test for this dimension is 11.10, which indicates that the overall reliability attributes scores of all banks were below customers' expectations and the gap is statistically significant.

Regarding tangibility dimension, the wide gap (-0.80) examined in this dimension was in item no. 2 "*visually appealing physical activities*" followed by gap score (-0.72) found in item no. 1 "*modern -looking equipments*" The overall gap score examined in the tangibility dimension was -0.65 with corresponding paired t-test 9.13.

Table 7 (b):- Overall SERVQUAL Gap Mean Score on Assurance and Empathy Dimensions of Commercial Banks (n=325)

SRVQUAL Dimensions	Attributes	Gap (P-E)*	t-value Paired
Assurance	1. Behaviors of staff instill confidence in customers	-0.85	11.97
	2. Customers feel safe in their transactions	-0.78	11.89
	3. Friendliness and courtesy of staff	-0.84	11.62
	4. Staff having knowledge to answer Customers' questions	-0.95	12.23
	Mean of Assurance	-0.86	12.05
Empathy	1. Individual attention given by the bank staff	-0.83	14.09
	2. Convenient operating hours to all customers	-1.21	12.26
	3. Staff giving customers best interest at heart	-1.09	11.29
	4. Advice and guidance given by the bank staff on how to use the banks' services	-0.73	11.13
	5. Easy of moving inside the bank and having enough seats for customers at weighting place	-0.99	12.13
	6. Opening enough number of service windows and have sufficient number of staff behind the counter during the busy ours of the day and week end	-1.37	13.16
	Mean of Empathy	-1.04	14.15
Overall combined scale of 23 attributes		-0.90	11.87

*E = Expectation, P = Perception

4.2.8 SERVQUAL Gap Score analysis for Assurance and Empathy Dimensions of all Commercial Banks as shown in Table 7 (b)

The big discrepancies were found in the customers' actual perceptions of service quality provided by all commercial banks with their expectations regarding the attributes examined in assurance and empathy dimensions as follows. The big gap score (-1.37) was found in empathy dimension, item no. 6 "*Opening enough number of service windows and have sufficient number of staff behind the counter during the busy ours of the day and week end*" followed by the gap score (-1.21) found in the item no. 2 "*convenient operating hours to all customers*". The overall empathy dimension gap score is -0.90 with corresponding paired t-test 11.87.

Regarding the assurance dimension, the big gap score (-0.95) was found in items no. 4 “*Staff having knowledge to answer customers’ questions*” followed by gap score (-0.85) which was found in item no. 1 “*Behaviors of staff instill confidence in customers*” The overall gap score found in assurance dimension was -0.86 with corresponding paired t-test 12.05. As overall negative gap score -1.05 was examined in responsiveness dimension followed by the gap score -1.04 in the empathy dimension and the third big gap score -0.93 was examined in reliability dimension.

When we evaluate the results based on the attributes or items, the biggest gap -1.37 is found in item no. 6 empathy dimension, “*Opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours*”, followed by the gap score -1.21 examined in empathy dimension item *no. 2*, “*convenient operating hours to all customers*”, the gap score -1.13 examined in item 2 responsiveness dimension “*Providing Prompt service to customers*”, and the next gap score -1.12 was found in the responsiveness dimension item *no. 1*, “*staff telling customers exactly when services will be performed*” These four attributes or items are examined in all banks as the most serious shortfalls and requires serious attention.

When the researcher ranked, the overall Gap 5 score for all commercial banks, the widest gap (-1.05) was pertaining to *responsiveness* followed by *empathy* dimension (-1.04), *reliability* (-0.93), *assurance* (-0.86) and the least one was pertaining to *tangibility* dimension (-0.65) as shown in the above Table 7(a) and (b).

4.3 Overall Service Quality gap mean Scores for all commercial banks

The gap scores for the expected and perceived level of service quality for each commercial bank for a number of service attributes considered of importance to the respondents presented by grouping all attributes into five service quality dimensions, and for each of the service dimensions the average difference (gap) between E and P ($SQ = P - E$) measures the service quality for all banks.

Table 8: The Overall Assessment of Service Quality Gap for all Commercial Banks

Service Quality Dimensions	CBE Service quality Gap (P-E)	AIB Service quality Gap (P-E)	CBO Service quality Gap (P-E)	Overall Service quality Gap (P-E)
1. Tangibility	-0.69	-0.45	-0.80	-0.65
2. Reliability	-1.48	-0.57	-0.73	-0.93
3. Responsiveness	-1.67	-0.63	-0.84	-1.05
4. Assurance	-1.23	-0.55	-0.79	-0.86
5. Empathy	-1.44	-0.60	-1.09	-1.04
Average	-1.30	-0.56	-0.85	-0.90

*E = Expectation, P = Perception

4.3.1 Service Quality Scores for each commercial banks currently operating in Ambo town.

Overall performance as perceived by customers (P) was below their expectations (E) across all service quality dimensions and banks. It is worthwhile to note that the gap score for all commercial banks on the average were -0.90 which indicates that all banks customers generally rated banks' performance below their expectation and it shows that there is a significant gap between customer perceptions and their expectations.

The overall picture of service quality of all commercial banks can be briefly summarized as follows:

1. The first widest gap between perceived performance and expectations is in the dimension of *responsiveness* (-1.05). From this study it is possible to infer that bank employees' willingness to help customers and provide prompt service does not seem good in all commercial banks which are included under study.

Every organization in the world has its own success factor (criteria) for instance; some depends on their scarce natural resources, while others depend on their employees. Responsiveness of employees of the organization indicates the responsiveness of the organization itself. Therefore, it is necessary to train and encourage employees with the convictions of the bank as its success highly depends on them. It is clear that the success fullness of a bank could be measured by the performance of its employees.

2. The second widest gap (**-1.04**) between perceived performance and expectations is in the dimension of empathy. Banks in Ambo do not seem to be good in giving and caring individualized attention to their customers by considering their individual needs. It might be the culture of the country or lack of experience how other banks operate in other countries. For instance, city bank provides a 24 hrs, service to its customers. It provides its service to all its customers according to their available time. On the contrary, no pioneer bank in Ethiopia that can provide service even out of the normal operating time in the country. It is known that, all banks which are currently operating in the country are providing their services at the same working hours for all customers. This may not equally suitable for some customers from other organization. This means that banks do not consider their other organizations employees' customers.
3. The lowest gap score among the five service quality dimensions of all banks (**-0.65**) was found in tangibility dimensions. It reveals that, from the viewpoint of commercial bank customers, all banks are relatively good at the physical elements that make up a banks physical attributes (tangibles) as perceived by them. Service by its nature is intangible, because it can not be touched, sensed, tasted or smelled. However; no service is 100% intangible as it is seen from the real world situation. It some what includes a tangible feature in it. It's tangibility seen through the available physical resources such as

equipment, building machinery, employees, furniture and fixtures etc. perceived by their customers.

4.3.2 The comparison of service quality performance of the three banks based on customers' point of view.

As you can observe from the above Table 9, overall, AIB is comparatively rated highest in service quality performance, followed by CBO, and CBE in descending rank order. However, the differences between the AIB and CBO were small to be statistically significant. This indicates that the overall service quality of these two banks were perceived to be very similar by their customers but regarding CBE the difference is too large and statistically significant.

Overall results may show important trends in each of the service quality dimension. Therefore, each of the five service quality dimension was examined separately as follows. Gap examined in Responsiveness dimension is the highest for all commercial banks currently operating in Ambo town. Regarding the tangibility dimension, even though, CBO was rated highest (-0.80), while AIB was rated the lowest (-0.45), the difference among banks is statistically insignificant which implies customers do not perceived any significant differences on the tangibles dimension because the difference is too small to be statistically significant.

In the four areas of Reliability, Responsiveness, Assurance, and Empathy, the differences among the banks were significant. The gap scores for Reliability, responsiveness, assurance and Empathy were perceived to be highest at CBE. Gap examined in Responsiveness dimension was the highest for all commercial banks currently operating in Ambo town followed by the empathy dimension. Thus, while the overall service quality across all service quality dimensions is significantly different among the three banks, on the dimension of tangibles, customers do not perceived any significant differences among them.

4.3.3 Analysis of the relative importance of five service quality Dimensions.

One of the valuable elements of the study is to analyze the relative importance of the 5 Service quality Dimensions to improve service quality performance from commercial banks customers' perspectives as determined by them. The purpose of analyzing was run to determine the relative contributions of each dimension in influencing the overall service quality perceptions of the customers and to identify the critical dimensions influencing overall service quality, recommend bank managers to prioritize their efforts and resources, and organize them to improve the dimensions that matter most.

Table 9: The relative importance of each of the five dimensions.

No	Service Quality Dimensions	Weighted Score	Rank
1	Tangibility	766	5 th
2	Reliability	1,264	2 nd
3	Responsiveness	1,383	1 st
4	Assurance	1,093	3 rd
5	Empathy	956	4 th

This table provides a summary of the rankings for the five dimensions across the three banks as perceived by their customers. In regards to the quality improvement, the most important dimension to which highest weighted score (1,383) was assigned to **Responsiveness** dimension which has the highest negative SERVQUAL score in this study as perceived by customers. This suggests that willingness to help customers and provide prompt service (responsiveness) is the most important dimension customers expect of all banks; however, as you can observe from Table 9, the negative gap rated for the responsiveness dimension by customers of all banks is the largest one of all service quality dimensions. Therefore, all commercial banks' managers should probably consider the value or contribution to customer satisfaction of this dimension of the total service offering and allocate resources accordingly.

This dimension is followed by the **Reliability** dimension for which the 2nd highest weighted score (1,264) was assigned by customers. This indicates that the ability of bank employees to provide the promised service dependably and accurately. Besides, it shows that customers expect the services providers to have the ability to perform the desired service dependably, accurately and consistently by keeping the service promise and the reputation. Assurance is the third important dimension, followed by Empathy as the fourth important dimension as perceived by all customers. In this paper, it appears that tangibility is the least important service quality dimension from the banks customers' viewpoint. This may imply that the physical elements that make up a banks physical attributes (tangibles) are perceived to be least important of the five dimensions.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This part of the thesis is devoted to the summary of the findings, the conclusions drawn there from, and the possible recommendations forwarded.

5.1 Summary

5.1.1 The service quality gap score for all Commercial banks

- a) *When quality dimensions are considered*, the responsiveness and empathy dimensions are found to be the service elements that all commercial banks are lacking. The largest SERVQUAL gap is observed in the responsiveness (-1.05) with the paired t-test 16.07 and empathy (-1.04) dimensions with the paired t-test 14.15. This implies that customers of all commercial banks are not getting satisfying level of banking service with respect to responsiveness and empathy dimensions.
- b) *When items in each dimension is considered*, the most serious defect (-1.37 gap score) found in opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours, and convenient operating hours to all customers (-1.21 gap score) are found to be the most serious SERVQUAL gap score in all banks.

5.1.2 The service quality gap score for each commercial banks

- a) In the Commercial Bank of Ethiopia, the overall SRVQUAL mean gap score is -1.30 with the paired t-test 14.21. The widest gap score of this bank is in responsiveness dimension (-1.67) followed by reliability dimension (-1.48), Empathy dimension (-1.44), Assurance dimension (-1.23), and finally the least gap score is in tangibility dimension (-0.69).

- b) In the Awash International Bank, the overall SERVQUAL gap score examined is **-0.56** with the paired t-test **8.01**. The widest negative service gap score **-0.63** is found in responsiveness dimension followed by Empathy **-0.60**, in reliability **-0.57**, in Assurance **-0.55**, and the least gap score **-0.45** was found in tangibility dimension.
- c) In Cooperative Bank of Oromia, the empathy and tangibles dimensions of this bank are found to be the widest negative service quality mean gap scores **-1.09** with the paired t-test for customers' expectations and perception **12.68** and **-0.80** with the paired t-test **12.60** respectively. The overall service quality gap score examined in the Cooperative bank of Oromia was **-0.85** with the paired t-test **11.01**.

5.1.3 The comparison of the service quality gap score among banks

When the SERVQUAL gap score obtained in all commercial Banks is compared, Awash International Bank is comparatively rated lowest gap score that means highest in service quality performance. Next to AIB, CBO has a lower gap score that means moderately better in service quality performance. However, the difference between SERVQUAL gap score obtained in AIB and CBO is found to be statistically insignificant. The bank rated as the last one based on gap score recorded in this study is Commercial bank of Ethiopia. It is found to be the poorest service quality performance with the highest SERVQUAL gap score,

5.1.4 A relative importance of five SERVQUAL dimensions

Though customers rated responsiveness as the most important service attribute of all the five service quality dimensions, this dimension is found to be the most neglected element of the SERVQUAL. Then, customers rated reliability, assurance, empathy, and tangibility as the 2nd, 3rd, 4th, and 5th, respectively.

5.2. Conclusion

The banking sector in Ethiopia has made remarkable progress since the economic reforms in 1994. New private sector banks have brought the necessary competition into the industry and lead the changes towards improved customer service and innovative service quality delivering process. On the other hand, due to increasing competition in commercial banking industry, bank customers are now becoming increasingly conscious of their rights and are demanding more quality services than ever before. Therefore, because of high customer involvement in the delivery of the banking service itself, recognizing customers' perceptions and expectations are very important or understanding the customer perception about service quality is becoming indispensable in commercial banking industry. In this context, frequently examining the level of their service quality performance from customers' perspective and investigating the service quality gap through comparing customers' expectations and actual perceptions have become essential for all commercial banks.

Keeping these in mind, an attempt has been made in this study to find out whether there exists a significant difference between service quality perceptions and expectations of commercial banks' customers or not. In addition, to compare the level of the service quality performance of the three commercial banks based on the SERVQUAL gap score , and identify the most important service quality dimension for them. For this purpose, SERVQUAL model, which is the most appropriate multidimensional technique, has been used to measure the gap between customers expectations and their actual perceptions.

Based on the findings, the following conclusion is forwarded.

1. In this study, the result of SERVQUAL gap score analyses of all commercial banks showed that customers' perceptions were consistently lower than their expectations. The research results revealed that the expectations of bank customers in the Ambo were not met. The largest gap between expectations and perceptions was found in the Responsiveness dimension. That is, customers expect their banks employees to be competent, courteous, to provide prompt service and to be always willing to help them.

2. Now a day, the private sector banks are posing a very stiff competition to the public sector banks through their initiatives for meeting customer expectations and gaining a cutting edge. Therefore, this study compares the service quality performance of public sector banks to private sector banks in terms of user perception of their commercial banking services. When compared the service quality performances of the three banks based on the SERVQUAL gap score examined, many serious negative gap scores in services quality of Commercial Bank of Ethiopia have been discovered and all of these gaps are serious. This indicated that customers of CBE were not satisfied with current level of service quality performance of this bank. From this we can conclude that banks employees lack interest or knowledge to serve customers by giving individual attentions and efforts to understand their customers' specific needs.

Awash International bank is rated as the 1st bank in performing service quality, because the SERVQUAL gap score obtained in this bank is comparatively less than that of other banks. From this its possible to conclude that, customers of Awash International bank are slightly satisfied with the service quality performance of this bank, however, AIB should not be happy with these findings because all the attributes had negative scores and these need to be improved otherwise the gaps will widen and therefore cause serious shortfalls.

3. Moreover, investigating the influence of each dimensions of service quality on customers' behavioral intentions should provide a better understanding of the drivers of customer satisfaction and also help to specify measure, control and improve customer perceived service quality. Hence, to gain and sustain competitive advantages in the fast changing commercial banking industry in Ethiopia, it is crucial for banks to understand in-depth what customers perceive to be the key dimensions of service quality and what impacts the identified dimensions have on customers' intentions? In this study, among the service quality dimensions highest weighted score is rated to responsiveness which implies that this dimension is found to be the most important element of the SERVQUAL.

5.3 Recommendation:

At any time, commercial banks should have to strive to satisfy customers and retaining every customer that they can profitably serve in order to achieve service excellences which require continuous efforts to improve the quality of the service delivery system. Because, delivering high quality services that met customers' expectations is vital for banks to compete effectively with their competitors. *Based on the analysis and conclusion, the following recommendation is made.*

1. When quality dimensions are considered, the largest gaps are obtained in responsiveness and empathy dimensions of all commercial banks. This indicates that customers' complaints are not properly handled, delayed banking service, lack of individualized attention, delayed reply to customers' requests, employees lack of interest to give reliable information on how to use bank services, inconvenient operating hours, and insufficient number staff.

To minimize or eliminate the gap:

- a) Provide training to employees on how to handle customers' complaints,
 - b) Motivate employees to serve customers without any delay or hesitation,
 - c) increasing the number of staff behind counter and service windows especially during busy hours,
 - d) increasing working hours,
 - e) providing incentives to employees,
 - f) Aware employees on how to reply and provide reliable information timely.
2. The largest service quality gap score examined in the responsiveness dimension across all commercial banks has to be recognized by the top management of the banks in order to take remedy actions to match their service quality performance pertaining to this dimension with the level to meet customers' expectations. Commercial banks have to understand their customers' needs and offering excellent service that can match or exceeds their

expectations in order to narrow the service quality gap observed in this service quality dimension.

To improve service quality performance particularly pertaining to responsiveness dimension, all Commercial banks top managements should:

- a) increase the knowledge of their employees by providing training in their deficiency areas
- b) improve employees' and branch managers' motivation and commitment through different incentive mechanisms.
- c) understand customers' needs, having superior customer relationships, positive word of mouth, excellent reputation, and superior customer service.
- d) frequently train the frontline staff to make more responsive and sensitive to customer needs, and empower them so that they can handle and maintain the confidence of their customers easily. In other words, staff must be well trained for keeping good relationship with customers and for addressing customers' enquires in a proper manner.

3. The second widest gap score examined in the Empathy dimension, item number 6, "*Opening enough number of service windows and have sufficient number of staff behind the counter during the busy hours*". All banks have to:

- devote their energy to open additional service windows and increase the number of bank staff behind the counter during the busy hours or days to serve their customers promptly.

4. Regarding providing service by arranging convenient operating hours, all banks operating in the economy are providing services at the same working hours to all of their customers by ignoring the need of their customers from other organizations like government and non-government employees. Therefore, it would be better if all banks provide services to their different customers at different time based on their needs and convenient time. Banks should be pioneer in this area to provide service out of the normal operating time and working day by diversifying its operating hours and days based on their customers' needs and wants.

In general the empathy dimension of service quality is related to the provision of caring and individualized attention banks' employees provide to their customers, and their efforts to understand the customer's needs. It is known that, banks perform their customers' services through their employees and updating the competencies and skills of their employees is one of the most important factors in order to meet customers' expectations pertaining to this dimension.

4. Regarding the relative importance of service quality dimensions, the most perceived service quality components or dimensions are responsiveness and reliability as ranked by banks customers. These components might have the most impact on customer's satisfaction in commercial banking industry. Banks must be aware these potential impacts and design appropriate strategy to maintain service quality that related to responsiveness and reliability dimensions. Therefore, all commercial banks have to concentrate their resources and efforts on the dimensions which customers rated highest weighted score and considered comparatively most important to them.

In general, all commercial banks currently operating in the town need to better understand their customers' needs and wants, and continuously measure and evaluate their service quality performance in order to improve their service quality based on customers, perceptions. Finally, the current study examines the views of the base of commercial banks customers as a whole. It requires farther investigation of the data in the future to examine the service needs and requirements as well as drivers of satisfaction for specific customer type, which is an important way of segmenting the overall banking market.

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Addis Ababa University
School of Graduate study

Questionnaire to be filled by ----- bank customers'

Dear participants,

You are being asked to participate in a survey that intends to measure service quality performance of commercial banks (private & public) from customers' perspectives and recommend solutions to help the respective commercial banks. The research result is believed to solve the existing Service quality gap by identifying the area that needs improvement.

Therefore, I respectfully request your kind cooperation in answering the questions clearly and frankly as possible. The researcher would like to assure you that the information you provided would be used for research purpose only and all responses will be treated in strict confidentiality.

Thank you in advance for your kind cooperation!

Section I:- Classification/ Identification questions

Note: You do not need to write your name!

Answer by placing a thick mark (✓) in one of the blank spaces corresponding to each item.

1. Sex. Male = Female =

2. Level of education

Below Grade 12 = Certificate = Diploma =

Bachelor Degree = Masters Degree & above =

3. Occupation:-

Business men (merchant and Investor) = Government employee =

NGO, Self employed and Private organization employee =

section II Survey questions

Survey question A :

Questions used to measure the relative importance of the five service quality dimensions in improving banks' service quality from customers perspective.

4. Listed below (“a” to “e”) are five service quality dimensions pertaining to banks and the services they offer. Please rank all the five service quality dimensions by giving the 1st rank for the most important service quality dimension to you and the last (5th) rank for the service quality dimension that is least important for you. *Please give a rank (1st, 2nd, 3rd, 4th, and 5th) in the rank column.*

No.	Service Quality Dimension	Definitions of the Service quality Dimensions	Rank
a	Tangible	The appearance of the banks physical facilities, equipment, personnel, and communication materials.	
b	Reliability	The banks ability to perform the promised service dependably and accurately.	
c	Responsiveness	The bank's Employees willingness to help customers and provide prompt service.	
d	Assurance	The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence.	
e	Empathy	The caring, individual attention the bank provides its customers.	

Survey question B.

Select an appropriate answer from the five (1-5) given alternatives and put a thick mark (✓) in spaces corresponding to each item. Each question number has two questions. Under (a) you are asked to indicate your opinions that show the extent to which you think the features commercial banks should possess (Your expectation) and under (b) you are asked to respond your feelings or experiences of your particular bank's performance (your Perception).

<i>SERVQUL Dimensions</i>	<i>SERVQUL Items</i>	Strongly Agree	Agree	Neutral	Dis Agree	Strongly Dis Agree
		5	4	3	2	1
1.Tangi bles 5.	a). Strong and competent bank should have modern looking equipment.					
	b). My bank has modern looking equipment.					
6.	a). The physical facilities of strong and competent banks are visually appealing.					
	b). My Bank's physical facilities are visually appealing.					
7.	a). Employees of strong and competent banks should be well-dressed and neat appearing.					
	b). My Bank's reception desk employees are well-dressed and neat appearing.					
8.	a). A strong and competent banks' materials associated with the service, such as pamphlets or statements should be visually appealing.					
	b). My bank's materials which associated with the service, such as pamphlets or statements are visually appealing.					

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<i>SERVQUL Dimensions</i>	<i>SERVQUL Items</i>	Strongly Agree	Agree	Neutral	Dis Agree	Strongly Disagree
		5	4	3	2	1
2. Reliability 9.	a). Strong and competent banks do what they promise to do in a definite time.					
	b). My bank do what it promises to do with in a time it promises to do.					
10.	a). When a customer has a problem, strong and competent banks should have a sincere interest in solving it.					
	b). When I have a problem, my bank shows a sincere interest in solving it.					
11.	a). Strong and competent banks should perform the service right the first time.					
	b). My bank performs the service right the first time.					
12.	a). Strong and competent banks should insist on error free records					
	b). My bank insists on error free records					

<i>SERVQUL Dimensions</i>	<i>SERVQUL Items</i>	Strongly Agree	Agree	Neutral	Dis Agree	Strongly Disagree
		5	4	3	2	1
3.Responsiveness 13.	a). Employees of strong and competent banks tell customers exactly when service is performed.					
	b).Employees in my bank tell to their customers exactly when service is performed.					
14.	a). Employees of strong and competent banks should give prompt service to customers.					
	b).Employees in my bank gives me prompt service.					
15.	a). Employees of strong and competent banks should always be willing to help customers.					
	b).Employees in my bank is always willing to help me.					
16.	a). Employees of strong and competent banks should never be too busy to respond to customers' requests.					
	b).Employees in my bank are never too busy to respond to my request.					
17	a). Strong and competent banks should have the ability to handling customers' transactions in a short & reasonable time.					
	b). My bank has the ability of handling my transactions in short & reasonable time.					
18	a). Strong and competent banks should have the ability of handling customers' complaints in a proper manner					
	b). My bank has the ability of handling my complaints in a proper manner.					

<i>SERVQUL Dimensions</i>	<i>SERVQUL Items</i>	Strongly Agree	Agree	Neutral	Dis Agree	Strongly Disagree
		5	4	3	2	1
4.Assurance 19.	a). The behavior of employees in Strong and competent banks should instill confidence in customers.					
	b).The behavior of employees in my bank instills confidence in their customers.					
20.	a). Customers of Strong and competent banks should feel safe in their transactions.					
	b).You feel safe in your transactions with your bank.					
21.	a). Employees of Strong and competent banks should be consistently courteous with customers.					
	b).Employees in my bank are consistently courteous with me.					
22.	a). Employees of Strong and competent banks should have the knowledge to answer customers' questions.					
	b).Employees in my bank have the knowledge to answer my questions.					

<i>SERVQUL Dimension s</i>	<i>SERVQUL Items</i>	Strongly Agree	Agree	Neu tral	Dis Agree	Strongly Disagree
		5	4	3	2	1
5. Empathy 23.	a). Strong and competent banks should give customers individual attention.					
	b). My bank gives me individual attention.					
24.	a). Strong and competent banks should have operating hours convenient to all their customers.					
	b). My bank has operating hours convenient to me.					
25.	a). Strong and competent banks should have employees who give customers personal attention and who can offer advice and guidance to them.					
	b). My bank has employees who give customers personal attention and who offer advice and guidance to them.					
26.	a). Strong and competent banks should have the location that suitable or convenient for its customers.					
	b). My bank has the location that suitable or convenient for its customers.					
27.	a). Strong and competent banks should have enough seats for its customers and moving inside should be easy					
	b). My bank has enough seats for its customers and moving inside the bank is easy					
28.	Strong and competent banks should open enough number of tellers and have sufficient number of staff behind the counter during the busy hours of the day to serve its customers promptly.					
	My bank opens enough number of tellers and has sufficient number of staff behind the counter during the busy hours of the day to serve its customers promptly.					

Thank you!

```

GET
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Frequencies

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Statistics

	Sex of the Respondents	Education level of the Respondents	Occupation of the Respondents
N	Valid 325	Valid 325	Valid 325
	Missing 0	Missing 0	Missing 0

Frequency Table

Sex of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	241	74.2	74.2	74.2
Female	84	25.8	25.8	100.0
Total	325	100.0	100.0	

Education level of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below Grade 12	75	23.1	23.1	23.1
Certificate	36	11.1	11.1	34.2
Diploma	64	19.7	19.7	53.8
Bachelor Degree	101	31.1	31.1	84.9
Masters degree & above	49	15.1	15.1	100.0
Total	325	100.0	100.0	

Occupation of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Business men	143	44.0	44.0	44.0
Gov't Employees	126	38.8	38.8	82.8
NGO and Private Org. Employees	56	17.2	17.2	100.0
Total	325	100.0	100.0	