ASSESSMENT OF SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY IN THE BANKING SECTOR
A CASE STUDY OF DASHEN BANK S.C.

Prepared By:

Endale G/Selassie

Thesis Advisor:

Matiwos Ensermu (PhD)

Marketing Management Graduate Program
Addis Ababa University School of Commerce

June, 2014

Addis Ababa

ASSESSMENT OF SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY IN THE BANKING SECTOR
A CASE STUDY OF DASHEN BANK S.C.

Prepared By:

Endale G/Selassie

Thesis Advisor:

Matiwos Ensermu (PhD)

Marketing Management Graduate Program
Addis Ababa University School of Commerce

A Research Project Submitted to the Addis Ababa University, School of Commerce, Department of Marketing Management in partial fulfillment of the requirements for The Degree of Master of Arts in Marketing Management.

June, 2014

Addis Ababa

ASSESSMENT OF SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY IN THE BANKING SECTOR
A CASE STUDY OF DASHEN BANK S.C.

Prepared By:

Endale G/Selassie

A Thesis for the Degree
Master of Arts in Marketing Management

APPROVAL BOARD COMMITTEE

______________________________	______________________
Chairman, Graduate Studies	**Signature**
______________________________	______________________
Advisor	**Signature**
______________________________	______________________
Internal Examiner	**Signature**
______________________________	______________________
External Examiner	**Signature**

DECLARATION

I, Endale G/Selassie Tasew, declare that this research study is my own work, presented to the Graduate School of Addis Ababa University School of Commerce, in partial fulfillment of the requirements for Master of Arts degree in Marketing Management.

____

Endale G/Selassie Tasew

ACKNOWLEDGEMENT

The process of this master project study was a wonderfull learning experience on my academic life which was filled with challenges and rewards. The completion of the current study leads a new beginnings and a step forward towards my future. This preface provide a better opportunity and chance to acknowledge the help and assistance of the people who with their intellectual insights or constructive criticism which helped me to develop this research.

First of all, I would like to thank my advisor, **Dr Matiwos Ensermu** , for his intelligent guidance and help full advice during the whole process of the project writing.

Second, the staff of Dashen Bank s.c., especially the four branches (Main, Tana, Megenagna, and Bole) of Dashen Bank for their assistance in the distributing, and collection of the Questionnaire. My gratitude also goes to the respondents at the case company who took their time to provide information.

Last but not least, I wish to take this golden opportunity to express my deepest thanks to my dear families for the love, affection and support they have provided me with on every step of my life, especially this important part of my education.

ABSTRACT

The main objective of the research is to evaluate service quality in banking industry in case of Dashen Bank S.C and to measure the relative importance of the five service quality dimensions towards customer satisfaction and loyalty.

The researcher has employed *explanatory research design* with which service quality was explained using the five service quality dimensions and the relationship between service quality, overall customer satisfaction and loyalty was established. Primary data was collected from selected customers of the bank through self administered questionnaire with 22 items SERVPERF scale and three items of overall service quality, customer satisfaction and loyalty, on a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5). Respondents were selected from four Addis Ababa branches of Dashen Bank using convenience sampling method. In order to analyze the collected data, multiple regression analysis and independent sample t-test were employed.

The regression analysis revealed that the five service quality dimensions explain about 45%, 32% and 25% of the variation in overall service quality, customer satisfaction and loyalty respectively. In addition, it is also found that satisfaction has full and significant mediating effect on the relationships between service quality dimensions (reliability, and empathy) and customer loyalty.

In Dashen Bank, tangible, empathy and reliability are the most important dimensions in predicting overall service quality. Therefore, in order to deliver quality and dependable service the bank should improve its ability of performing the promised service dependably and accurately, give caring, and individualized attention for its customers, and have visually appealing physical facilities, modern looking equipment, and personals with neat appearance.

TABLE OF CONTENT

CONTENTS PAGE NO.

LIST OF TABLES

CHAPTER – 1
INTRODUCTION

1.1 Background Of The Study

In service industries, globally, the subject of service quality remains critical as businesses strive to maintain a comparative advantage in the marketplace. Since financial services, particularly banks compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon. It is true that structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive with non-bank financial institutions (Mohammed H., and Shirley L., 2009). Currently, technological changes are causing banks to rethink their strategies for services offered to both commercial and individual customers. Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention, and expanded market share. Moreover, the banks understand that customers will be loyal if they can produce greater value than competitors**.** In addition, higher profits will be earned by the banks if they can position themselves better than their competitors within a specific market**.** Therefore, banks should focus on service quality as a core competitive strategy (Juan C. et al 2006). Within this background, customer satisfaction and service quality are compelling the attention of all banking institutions around the world and Ethiopia is not an exception.

The emergence of private commercial banks following the liberalization, the adoption of technologies by those banks, service modernization, aggressive market and outreach expansion in pursuit for resources, creates stiff competition in the banking industry.

In a bid to make its service delivery more efficient, Dashen Bank S.C. began with core banking system called Micro-banker and migrated to a more advanced one, Flexcube, in 2005. Recently, the capability of the system is enhanced by upgrading from Flexcube 5.5 to 10.5. Even if, technology become a primary requirement to continue in the ever growing financial sector, in order to be competitive it is important to assess the bank's service delivery system from the customers' point of view. The importance given to the customer by Dashen Bank have been expressed in various forms including making it a focal point of the mission statement, company values, strategies, part of training programs and coaching activities, but according to results from interviewing the employees and customers of the bank, i found out that customer service in Dashen Bank is not up to the standard expected by the customers and to the level of quality that the bank promised to deliver. The researcher has also asked personnel's from the banks corporate planning and business development department regarding whether they are conducted research on the banks service quality or customers satisfaction. But, researches are at a very low stage so far regarding the subject matter.

Considering the research deficit in the area of the bank's service delivery performance and the researcher interconnectedness with the entity under study, the researcher has been motivated to investigate the level of customers' perception towards the bank's service delivery.

The purpose of the research is to investigate whether the differences: in perceptions of service quality; and in the ranking of service quality dimension between the bank customers founds in different literatures, is true in case of Dashen Bank s.c.. And also to examine various researchers' demonstration that service quality has a positive influence on customer satisfaction and loyalty and customer satisfaction has a mediating impact on the relationships between service quality dimensions and customer loyalty in banks service setting in case of Dashen Bank S.C. context. Therefore, the dependent variables of the research consists of overall service quality, customer satisfaction and loyalty. While, the independent variables comprises of tangibles, reliability, responsiveness, assurance and empathy dimensions of service quality. Besides, customer satisfaction is used as an independent variable in one occasion.

1.2 Statement Of The Problem

The banking industry has already been depicted as exhibiting little market orientation and fulfilling services with little regard to customer needs as well as including branches dissimilar in efficiency (Parasuman et al., 1988). Long lines, limited time for customer servicing, transaction errors, excessive bureaucracy, and security and network failures have been said to be the most frequent problems facing banking services. This highly lower customer's perception on the quality of service offered and hence reduces the bank's profitability and credibility.

From the researcher observation and interviewing the employees and customers of the bank, the researcher came to identify the problems Dashen Bank faces that can adversely affect the service quality and overall customer satisfaction and loyalty. In which, waiting in queues, network failures, inefficient functioning, insufficient number of ATMS, not setting customer service standards, failing to measuring customer satisfaction level, assessment of customer needs and expectations being at a very low stage, not establishing system for handling customer complaints, not being cautious and strong in learning the changes taking place in the industry are the most important problems most branches of Dashen bank s.c. faces that can adversely affect the service quality and overall customer satisfaction and loyalty.

The interviewers also indicate that due to the above problems competitors are started taking the banks customers, and the operational and financial results recorded at the close of the financial year 2012/2013 were below the target and the preceding year actual results. It showed a decrease of Br 80.3 million compared to the previous year.(Dashen Bank annual report, 2013).

1.3 Research Questions

RQ1. What is the perceived level of quality of the service provided to customers in Dashen Bank S.C?

RQ2. Does the five SERVQUAL dimensions sufficiently explain overall service quality in Dashen Bank S.C?

RQ3. Which dimensions of banking service quality contributes much towards overall customer satisfaction and loyalty in Dashen Bank S.C. contexts?

RQ4. Does customer satisfaction have mediating impact on the relationships between service quality dimensions and customer loyalty?

1.4 Objectives Of The Study

The main objective of the research is to evaluate service quality in banking industry in case of Dashen Bank S.C and to measure the relative importance of the five service quality dimensions towards customer satisfaction and loyalty. Accordingly, the specific objectives of the research are:

- ❖ To examine the perceived level of quality of the banking service provided to customers in Dashen Bank S.C.
- ❖ To examine the contribution of the five SERVQUAL dimensions towards over all service quality in Dashen Bank S.C.
- ❖ To evaluate the contribution of service quality towards overall customer satisfaction and loyalty.
- ❖ To examine the interrelationship between the five service quality dimensions, customer satisfaction and loyalty.
- ❖ Finally to suggest possible ways of improving the quality of the bank on the basis of the findings.

1.5 Research Theoretical Model

The theoretical model guiding the investigation is depicted in figure below, adapted from Agus et al. 2007 and Caruana, 2002 (cited in OlleStromgren, 2007).

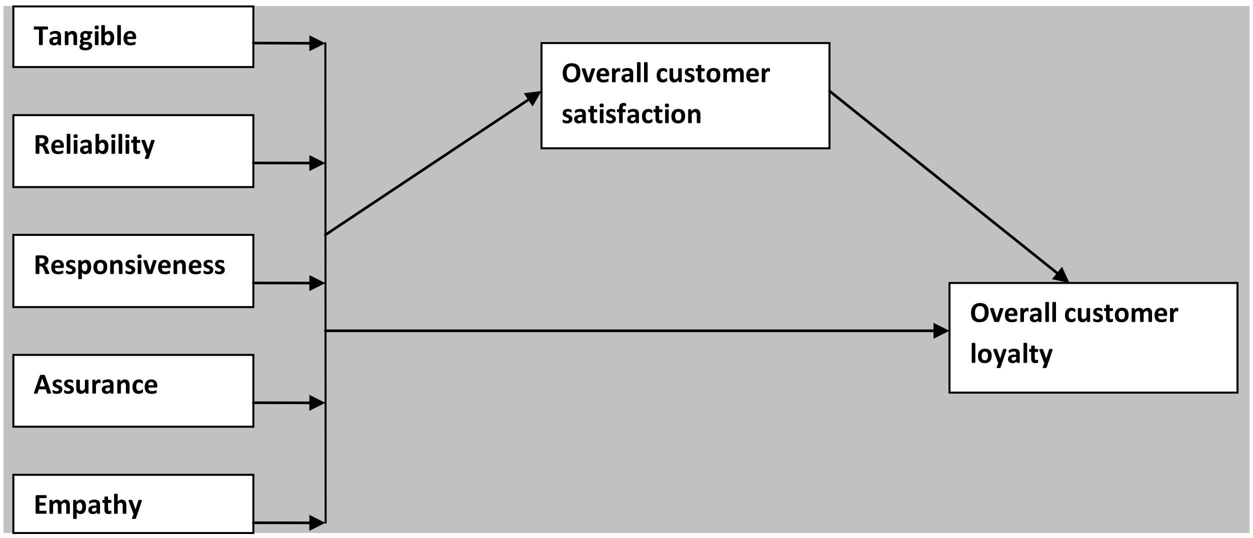

Figure 1.1: Inter-relationship between service quality, satisfaction and loyalty
Source:-Agus et al. 2007 andCaruana, 2002 (cited in OlleStromgren, 2007).

1.6 Research Hypothesis

H1: The five service quality dimensions namely; tangibles, reliability, responsiveness, assurance and empathy sufficiently explain overall service quality in Dashen Bank S.C.

H2: Service quality dimensions are positively correlated with overall customer satisfaction and contribute much towards overall customer satisfaction in Dashen Bank S.C.

H3: Service quality dimensions are positively correlated with overall customer loyalty and contribute much towards customers' loyalty in Dashen Bank S.C.

H4: Customer satisfaction has mediating impact on the relationships between service quality dimensions (tangibles, reliability, responsiveness, empathy and assurance) and customer loyalty.

1.7 Significance Of The Study

This research can have paramount importance for bank managers and future researchers. Bank managements (especially management of Dashen Bank S.C.) will be benefited from the current research. Because it provided an important insight in identifying important bank service quality dimensions as rated by customers of the bank and how customers reacted to their present service delivery performance. Besides, the current study would contributes much for future researchers who wish to conduct research on bank service quality in particular and service quality in general.

1.8 Limitation

The limitation for the research is the exclusion of customers of outlying branches from the sample survey which could have a negative impact in inferring conclusion on the bank's service quality throughout the country. The rationale behind the selection of participants is due to constraints of time to survey outlying branch's respondents and limited budget of the researcher.

1.9 Scope Of The Study

The research assesses service quality dimensions of Dashen Bank S.C. using refined version of SERVPERF items, and three statements to capture the level of overall service quality, customers overall satisfaction and loyalty. Moreover, the sample frame was restricted to Addis Ababa branches from which the survey was conducted in four branches of Dashen Bank S.C.

1.10 Organization of the Research

The research report is organized under five chapters in the following manner:

- Chapter 1 – deals with the Introduction
- Chapter 2 – deals with Review of Related Literature and company profile of Dashen Bank s.c.
- Chapter 3 – discusses the Research Methodology
- Chapter 4 – concerned with Results and Discussions
- Chapter 5 – deals with summary of finding, conclusion, recommendation, and limitation and suggestins for future research
- Chapter 6–lists References used
- Chapter7 –deals with Appendices

CHAPTER-2

REVIEW OF RELATED LITERATURE

2.1 Definition Of Service

Service had been studied by multi-academic disciplines including operations management, marketing, human resource management, and organizational behavior. From the economic perspective, Haksever, Render, Russell, and Murdick as cited in Yeamdao Narangajavana (2007) defined service as "economic activity that produces time, place, form, or psychological utilities". They described further that services could save customers' time (e.g. maid service), provide convenient outlets (e.g. department stores), provide more usable form of information (e.g. database service), and provide psychological refreshment (e.g. holiday service).

From an operational perspective, service was viewed as a process where input was processed to output. Morris and Johnston as cited in Lovelock (2001) specified three types of inputs: customers, materials, and information. Lovelock (2001) proposed that services has three components - people processing, possession processing, and information processing - and later added mental stimulus processing.

Service was also perceived as a system which a service organization must provide. The service system comprises service operations system, service marketing system, and service delivery system (Lovelock, 2001). The operations system embraced resources to create services and run the service operations. The resources included personnel, facilities, and equipment. Table 2.1 provides examples of these services.

Table 2.1: Understanding the nature of the service act

What is the Nature of the Service Act?	Who or What is the Direct Recipient of the Service?	
	People	Possessions
Tangible Actions	People processing (service directed at people's bodies): Passenger transportation Health care Lodging Beauty salons Physical therapy Fitness center Restaurant/bars Barbers Funeral services	Possession processing (services directed at physical possessions): Freight transportation Repair and maintenance Warehousing/storage Office cleaning services Retail distribution Laundry and dry cleaning Refueling Landscaping/gardening Disposal/recycling
Intangible Actions	Mental stimulus processing (services directed at people's minds): Advertising/PR Arts and entertainment Broadcasting/cable Management consulting Education Information services Music concerts Psychotherapy Religion Voice telephone	Information processing (services directed at intangible assets): Accounting Banking Data processing Data transmission Insurance Legal services Programming Research Securities investment Software consulting

Source: Lovelock (2001)

Service had been commonly viewed as the opposite side of goods along a continuum. Analyzing the categories of products on a product continuum that was titled 'a tangibility spectrum', Shostack (1977) as cited in Yeamdao Narangajavana (2007) classified services according to the degree of intangibility. He specified from the intangibility perspective that goods were referred to as an object, a device, or a thing, whereas service was a deed, a performance, or an effort. In practice, it was difficult to completely separate service from goods. Goods purchase was almost always accompanied by supporting services.

To distinguish the differences between services and goods, Lovelock (2001) provided seven generic differences between goods and services in a marketing domain which included nature of the product, greater involvement of customers in the process, people as part of the product, greater difficulties in maintaining quality control standards, absence of inventories, relative importance of the time factor, and the structure of distribution channels. Gronroos (1990) cited in Yeamdao Narangajavana (2007) distinguished services into two dimensions: a technical outcome dimension and a functional outcome dimension. The technical outcome dimension was the type (*what)* of service delivered to consumers. The functional outcome dimension was the process (*how)* by which service is delivered. Most of service and service quality literatures examined the later dimension. Service was also perceived as a system which a service organization must provide. The service system comprises service operations system, service marketing system, and service delivery system (Lovelock, 2001).

2.2 Quality

In an attempt to cover quality in all sectors, Garvin (1988) as cited in YeamdaoNarangajavana (2007) brought together the definitions of quality described by scholars from fields as diverse as philosophy, economics, marketing, and operations management. He classified the quality definitions into five categorized perspectives. First, *Transcendent* perspective viewed quality as an innate excellence, which could be recognized only through experience. It could not be defined precisely, and thus it offered little practical guidance. Second, *Product-based* perspective viewed quality as precise and measurable quantities. It was highly effective on an objective nature, but failed in measuring subjective attributes. Third, *User-based* perspective considered quality from an individual customer's perspective which was highly subjective. Fourth, *Manufacturing-based* perspective viewed quality from production process or supply side by setting up a specification and considering product conformance. However, it recognized consumer's interest rather than simplifying the production process. Fifth, *Value-based* perspective viewed quality as the result of a balance between service performance and price or "affordable excellence".

Schneider and White (2004) as cited in YeamdaoNarangajavana (2007) commented that the quality based on philosophical (transcendent) approach was useless for research and practice since it was inexplicable and unquantifiable.

In addition, defining quality from a technical (manufacturing or objective) approach was well-suited to standardized products since it focused on the objective and the readily measurable. Moreover, the user-based approach was more attractive in order to define the quality of services because it was more appropriate to the subjective terms and the characteristics of service. They further suggested that because most services were supplied in a combination with goods, the technical approach should measure the *what*of services whereas the user-based approach was fitted for measuring the quality of the *how* of services.

Garvin (1988) cited in Yeamdao Narangajavana (2007) also identified eight dimensions of quality as a framework for analysis. He stated that these dimensions provided the disaggregating concept of quality for businesses to attain and focus on some harmonizing dimensions because some of them could be achieved with the expense of the other. The eight dimensions were described as the followings:

- Performance refers to the primary operating characteristics of a product or service.
- Features refer to the secondary characteristics that supplement the product’s basic functioning.
- Reliability refers to the probability of a product’s malfunctioning or failing within a specified period of time.
- Conformance refers to the degree to which a product’s design and operating characteristics meet pre-established standards.
- Durability refers to the amount of use one gets from a product before it physically deteriorates or before it breaks down.
- Serviceability refers to the speed, courtesy, competence, and ease of repair.
- Aesthetics refers to how a product looks, feels, sounds, tastes, or smells (most subjective).
- Perceived Quality refers to indirect measures of quality comparison by using perception of quality i.e. images, advertising, and brand names rather than the reality itself (most subjective).

Quality concept emerged far back in human history. In the eighteenth and nineteenth centuries, the importance of quality became apparent to the world, starting with the simple inspection by artisans and skilled craftsmen to more complicated statistical quality control and quality assurance in manufacturing companies (Garvin, 1988). The statistical quality control included process control (using simple statistical techniques) and sampling techniques (checking a limited number of items within an acceptable range of defects).

Beyond the statistical point of view, quality control was extended to quality assurance that engaged quantifying the costs of quality, total quality control, reliability engineering, and zero defects. The costs of quality were controlled based on the premise that failure costs could be reduced significantly by investing in quality improvement). Rather than performance by the manufacturing department only to achieve quality in three main functions – new design control, incoming material control and product or ship floor control – the concept of total quality control necessitated the co-operation of multiple departments (Feigenbaum, 1956 as cited in Mohammed H., and Shirley L., 2009). Reliability engineering was the control of quality that is anchored in probability theory and statistics with the assurance of acceptable product performance over time (the Department of Defense, 1950 as cited by Mohammed H., and Shirley L., 2009). Zero defects introduced by Martin Company as cited in Mohammed H., and Shirley L., 2009, awarded incentives to workers for lowering defects. Then a new approach to quality achievement, a so-called strategic quality management, was developed to respond to the needs of broader quality scope. Strategic quality management was the extension of the preceding quality movements. It was more comprehensive because it incorporated profitability and business strategies that were associated with competitive needs, customer viewpoint, and continuous quality improvement.

2.3 Definition Of Service Quality

According to the previous section, this study reviews the service quality from the user-based approach which focuses on satisfying the customers’ quality need. Scholars have recognized and discussed service quality during the past few decades. Numerous service quality literatures have studied conceptualization, measurement, implementation, and management of the service quality. In this research, only the service quality concept and measurement are examined.

The concept of service quality was established after there had been a growing interest in the quality of goods served. Garvin (1988) was among the first scholars who examined the quality concepts to cover both goods and service as described in the preceding section.

Service quality was originally cultivated in the marketing context in which the customer was the focal point of the movement. As previously mentioned, Garvin (1988) cited in Yeamdao Narangajavana (2007) explained the perceived quality as the subjective perception of quality through indirect measures of quality comparison. Investigating the service quality development, Gronroos (1993) cited in YeamdaoNarangajavana (2007) stated service quality had been developed based on the confirmation/ disconfirmation concept of service quality he introduced in the "perceived service quality" model in 1982. The notion of the model explained that the perceived service quality was the result of comparing the real experience with the expectation of a customer before consuming the service.

Based on the perceived service quality concept Parasuraman et al. (1985) applied premises from other previous studies to form their model of service quality. The ideas included a consumer had difficulty in evaluating service quality rather than goods quality, that a perception of service quality was developed from a comparison of consumer expectation with actual service performance, also quality evaluation involved the evaluation of both the process and outcome of service delivery (Gronroos, 1982; Lehtinen and Lehtinen, 1982; Lewis and Boom, 1983; Sasser, Olsen, and Wyckoff, 1978 as cited in Parasuraman et al., 1985).

Consequently, the conceptual model study of Parasuraman et al. (1985) presented 10 original determinants which included reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles. In their succeeding study, using the SERVQUAL measured some of these determinants were combined and only five dimensions remained (Parasuraman et al., 1988). The five dimensions consisted of reliability, responsiveness, assurance, empathy, and tangibles. The definitions of these five dimensions are as follows (Parasuraman et al., 1988):

- **Reliability** is defined as the ability to perform the promised service dependably and accurately.

- **Responsiveness** is defined as the willingness to help customers and provide prompt service.
- **Assurance** is defined as the knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy** is defined as caring, individualized attention the firm provides its customers.
- **Tangibles** concerns physical facilities, equipment, and appearance of personnel.

In the exploratory research of Parasuraman et al. (1985), a conceptual gap model of service quality was developed based on the difference between expectation and experience or the so-called "perceived service quality." It was derived by comparing customer expectation and perceived service performance. The fundamental notion was that the service quality was perceived as an overall evaluation or attitude toward an entity. The gap model explained the existence of five service quality gaps due to differences between service quality sources. The five gaps included: (Gap 1) Customer expectations versus management perceptions of customer expectations; (Gap 2) Translation of perceptions into service quality specifications versus management perceptions of customer expectations; (Gap 3) Service delivery versus service quality specifications; (Gap 4) External communications to customers versus service delivery; and (Gap 5) Customer service quality expectations versus customer service quality perceptions.

2.4 Service Quality Measurement

Service quality is vital to all organizations. Many service strategies are implemented to achieve customers' service quality expectations. Before each business makes a decision of which strategies are to be used, they have to know their strengths and weaknesses in order to make the right decision. A way to help the organizations determine their own situation is to measure the existing service quality provided to its customers.

Several methods are used including customer satisfaction measurement, measurement by the critical incident technique, performance measurement, and attribute-based measurement.

As the study focused on the attribute-based measurement, therefore expectation-perception approach (SERVQUAL) and only-performance approach (SERVPERF) were described.

2.4.1 The SERVQUAL Measurement

Although the measurement of service quality was hard to pin down due to the service characteristics involving intangibility, perishability, inseparability, and heterogeneity, researchers had continuously investigated and contributed to this area. Among others, Parasuraman, Zeithaml, and Berry have been widely recognized for their service quality battery. Their significant contribution was the development of a service quality measurement, called "SERVQUAL", based on the original conceptual gap model of service quality (Parasuraman et al., 1985; Parasuraman et al., 1988: Parasuraman, et al, 1991). The SERVQUAL was seen as a generic service-quality measurement tool for services industries (Lovelock, 2001). Each containing 22 items in two parts, the SERVQUAL was a questionnaire that examined customers' perceived service quality by measuring customer expectation in the first portion, and their perceived service performance in the second portion. The last section of point allocation weighed the five proposed attributes. Customer expectation and perception were measured on a 7-point scale ranging from 1=Strongly Disagree to 7=Strongly Agree. The SERVQUAL instrument had been primarily developed to measure service quality in general; therefore, the developers recommended minor changes for a specific organization or industry.

The SERVQUAL was criticized for its validity, predictive power, and length. The validity of some dimensions was doubted but the original developers argued their dimensions were conceptually distinguished, but somewhat interrelated. The empirical research by Carmen (1990) cited in Cronin and Taylor (1992) commented on the validity and applicability of the SERVQUAL instrument. Its dimensions were criticized for not being generic enough that they could be used without adding new items or factors which were considered potentially important to the quality of given service firms. The empirical findings of Cronin and Taylor (1992) found the inconsistency of item scales defining service quality in different industries. In fact, Parasuraman and colleagues had recognized this limitation and suggested other researchers to consider minor modifications of their instrument to a particular service industry.

Additionally, service organizations with multiple service functions were recommended to use the instrument separately to evaluate the service quality of each function (Carmen, 1990) cited in Cronin and Taylor (1992). Concerns over handling the expectations were also noted because the expectation responses were not practically effective. The method of asking respondents was questionable. Specifically, a problem might occur from some respondents who might be unable to establish the expectation due to a new experience or no communication with other sources.

The extension of arguments over the SERVQUAL provided more insights into the evaluation of service quality. Cronin and Taylor (1992 & 1994) further argued that the SERVQUAL was an inappropriate instrument due to its inadequate conceptualization and operationalization of service quality. They pointed out conceptual and operational flaws of the SERVQUAL, particularly its validity. Parasuraman et al. (1994) argued that the concerns of Cronin and Taylor, and Teas over the validity and other suspected deficiencies of the SERVQUAL were not warranted. Despite these debates, more studies were conducted and made the measure more well-established.

Hoffman and Bateson (1997) as cited in Juan C. et al (2006) mentioned the critique about the predictive power of the SERVQUAL (measuring both expectation and perception): that its ability to predict customer purchase intention was less than the modified instrument that measured only the perception of service performance. Service quality required customer satisfaction as a mediating variable that affected purchase intention. Cronin & Taylor (1992) stated, “Service quality is an antecedent of consumer satisfaction and that consumer satisfaction exerts a stronger influence on purchase intentions than does service quality.” They suggested for managerial purpose the customer satisfaction program should be more emphasized than strategies that focused exclusively on service quality.

Because of the length of the questionnaire, the SERVQUAL made service managers reluctant to adopt it for their firms. Because of the 44-item instrument formed by two parallel parts creating unnecessary repetition, Cronin (1992: 1994) preferred the use of only perception of service performance to measure service quality. However, Parasuraman et al. (1994) argued that measuring both sides could provide more valuable diagnostic tools for management to discover which dimensions should be improved by considering the gap scores.

2.4.2 The SERVPERF Measurement

Although many studies supported the SERVQUAL, the use of gap scores was opposed. The empirical research of Cronin and Taylor (1992) suggested measuring service quality only perceptions of the service experience. For more consistent results of the analysis of a structural model, they recommended using “SERVPERF” -a modified SERVQUAL instrument to measure service quality. Instead of measuring both customer expectations and perceptions as in the SERVQUAL, the SERVPERF was operationalized by only one part of the perceived performance on the differently labeled 7-point scale. It did not assess the gap scores between expectation and perception as the expectation does not exist in the SERVPERF. Therefore, by excluding the measurement of customer expectation, a total of only 22 items remained in the new measure. Cronin and Taylor concluded that the SERVPERF was a superior service quality measurement in comparison to the SERVQUAL. In addition, the results demonstrated that the new measure had more predictive power on the overall service quality judgment than the original instrument.

In response to Cronin and Taylor (1992), the SERVQUAL developers insisted on the superiority of their measurement and criticized the use of the SERVPERF for practical issues. The claim made by Cronin and Taylor about the practitioners preferring simpler measurement of overall satisfaction/perceived quality through solely the performance of the business was countered by the contention that a widespread preference did not necessarily support their claim of superiority (Parasuraman et al., 1994). They also stressed the practical values of the SERVQUAL for providing rich information and as a diagnostic tool to isolate the weak points of service quality. Moreover, they asserted that superior diagnostic value made up for the loss in predictive power.

Cronin and Taylor (1994) defended that the SERVPERF also provided practical values to managers. They alleged that the performance-based measure of service quality could offer a longitudinal index of the service quality perceptions, relative to time and customer subgroups. Their final thoughts did not commit them to remain supportive to the SERVQUAL, yet remained confident of their SERVPERF.

However, both measures were found to have insignificant differences in their performance of prediction in the study conducted by Quester and Romaniuk (1997) and Angur, Nataraajan, and Jahera (1999) as cited in Yeamdao Narangajavana (2007).

2.5 Service Quality In Banking

Service quality is gaining more importance in the banking industry and the value of improving service quality should be determined. Riadh et al., (2013) suggest that developing strong relationships between customers and financial institutions serve as incentives for customers to remain loyal and thus provide financial institutions with a source of differential advantage. Similarly, Kazi Omar Siddiqi (2012) finds that a centrally important aspect of a commercial customer's dealing with a bank is the quality of the long-term relationship that develops with the bank.

The results of their research indicate four potentially important aspects of the retail bank service delivery systems, general bank personal service, teller personal service, reaction capacity, and location convenience. The research results support the hypotheses that retail bank customer's perceptions of these issues may be related to customer satisfaction and intentions to do business with the bank in future. These include intentions to purchase additional products and intentions to give the bank a larger percentage of the customer business. LeBlanc, & Nguyen (1988) as cited in Kazi Omar Siddiqi (2012) focused on service quality in financial institutions and discussed 6 factors that explain perceived service quality, (a) degree of customer satisfaction, (b) contract personnel, (c) internal organization, (d) physical environment and instruments, (e) corporate image, and (f) personnel-customer interaction during the service encounter, contribute to service quality.

2.6 Customer Satisfaction

Customer Satisfaction is one of the most important outcomes in the marketing literature. It serves to link processes culminating purchase and consumption with post purchase phenomena such as attitude change, repeat purchase, and brand loyalty (Surprenant and Churchill, 1982). This definition is supported by Jamal and Naser (2003) and Mishra (2009).

According to Oliver (1980) as cited in Kazi Omar Siddiqi (2012), the customer satisfaction model explains that when the customers compare their perceptions of actual products/services performance with the expectations, then the feelings of satisfaction have arisen. Any discrepancies between the expectations and the performance create the disconfirmation.

Zaim*et al* (2010) as cited in Riadh L. et al (2013) find out that tangibility, reliability and empathy are important factor for customer satisfaction. Kumar *et al*. (2010) and Lai (2004) as cited in Kazi Omar Siddiqi (2012) found that assurance, empathy and tangibles are the important factor, and on the other hand, Baumann *et al*. (2007) as cited in Kazi Omar Siddiqi (2012) found that tangibles are not related to customer satisfaction and Ahmed *et al.* (2010) as cited in Riadh L. et al (2013) find out that empathy is negatively related to customer satisfaction. Researchers have identified various determinants of customer satisfaction in the retail banking sector. Arasli*et al* (2005) as cited in Riadh L. et al (2013) pointed out that reliability dimension of service quality has the highest impact on customer satisfaction in Greek Cypriot banking industry.

In marketing literature, Service Quality and Customer Satisfaction have been conceptualized as a distinct, but closely related constructs. There is a positive relationship between the two constructs (Beerli et al., 2004)as cited in Kazi Omar Siddiqi (2012). The relationship between customer satisfaction and service quality is debatable. Some researchers argued that service quality is the antecedent of customer satisfaction, while others argued the opposite relationship. Parasuraman et al (1988) defined service quality and customer satisfaction as “service quality is a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction”.

Jamal and Naser (2003) stated that service quality is the antecedent of customer satisfaction. However, they found that there is no important relationship between customer satisfaction and tangible aspects of service environment. This finding is contrasted with previous research by Blodgett and Wakefield (1999), but supported by Parasuraman et al (1991).

Most of the researchers found that service quality is the antecedent of customer satisfaction (Bedi, 2010; Kassim and Abdullah, 2010; Kumar et al., 2010; Naeem and Saif 2009; Balaji, 2009; Lee and Hwan, 2005; Athanassopoulos and Iliakopoulos, 2003; Parasuraman et al 1988)as cited in Kazi Omar Siddiqi (2012). Yee et al (2013) found that service quality has a positive influence on customer satisfaction. On the other hand, Bitner (1990) and Bolton and Drew (1991) as cited in Riadh L. et al (2013) pointed out that customer satisfaction is the antecedent of service quality. In 2004, Beerli et al supported this finding. Beerli et al mentioned a possible explanation is that the satisfaction construct supposes an evaluative judgment of the value received by the customer. This finding is contrasted with most of the researchers.

2.7 Customer Loyalty

Singh and Sirdeshmukh (2000) as cited in Ahmed, J. and Kamal, N. (2002) suggested the customer loyalty as "the market place currency of the twenty-first century". They pointed out that the cost of serving a loyal customer is five or six times less than a new customer. This statement shows the importance of customer loyalty. Walsh et al. (2005) as cited in Kazi Omar Siddiqi (2012) mentioned that it is better to look after the existing customer before acquiring new customers. He stated the advantages of customer loyalty are as:

- The service cost of a loyal customer is less than new customers
- They will pay higher costs for a set of products; and
- For a company, a loyal customer will act as a word-of-mouth marketing agent.

According to Foss and Stone (2001) as cited in Ahmed, J. and Kamal, N. (2002), customer loyalty relates to what customers think and do (or try to do). Most customer loyalty experts would agree that loyalty is best defined as a state of mind, a set of attitudes, beliefs, desires etc. Loyalty is developed by approaches which reinforce and develop a positive state of mind and the associated behaviors. The exchange of information is one of the keys of loyalty, and provides a critical bridge between state of mind and behavior. Loyal customers are more likely to give information to the service provider (because they trust the service provider and expect from the service provider to use the information with discretion and to their benefits). Managing loyalty is important because it means not only managing behaviors but also managing a state of mind.

Dick and Basu (1994) and Bloemer et al (1998) as cited in Kazi Omar Siddiqi (2012) stated that most research on customer loyalty has focused on brand loyalty; on the other hand, a limited number of researches on customer loyalty have focused on service loyalty. They argued that the findings in the field of brand loyalty did not generalize to service loyalty for the following reasons:

- Service loyalty is dependent on the development of interpersonal relationships as opposed to loyalty with tangible products.
- In case of services, the influence of perceived risk is greater.
- Intangible attributes such as confidence and reliability are the important factors to maintain the customer loyalty in the service context.

Dick and Basu (1994) as cited in Kazi Omar Siddiqi (2012) identified the two dimensions of loyalty (relative attitude and repeat patronage behavior) and four categories of loyalty: loyalty (positive relative attitude, high repeat patronage), latent loyalty (positive relative attitude, but low repeat patronage), spurious loyalty (low relative attitude, high repeat patronage), and no loyalty (low on both dimensions). Salegna and Goodwin (2005) as cited in Kazi Omar Siddiqi (2012) mentioned that if the attitude of a customer is poor within the industry, then an organization which has just better than “poor” could elicit a positive customer “relative attitude” score and high repeat patronage.

Zeithaml et al (2008) as cited in Ahmed, J. and Kamal, N. (2002)developed a conceptual model that correlates Service Quality, Customer Satisfaction and Customer Loyalty in one frame. According to the model, service quality is the outcome of reliability, assurance, responsiveness, empathy and tangibles. Customer satisfaction is influenced by the quality of service & product and price as well as the situational and personal factors.

2.8 Interrelationships Between Service Quality, Customer Satisfaction And Customer Loyalty In Retail Banking Sector

Several researchers attempt to find the interrelationships between service quality, customer satisfaction and customer loyalty in the retail banking sector. Researchers argue that service quality and customer satisfaction are the predictors of customer loyalty (Tariq and Moussaoui, 2009; Han et al., 2008; Ehigie, 2006) as cited in Kazi Omar Siddiqi (2012). Veloutsou et al. (2004) as cited in Kazi Omar Siddiqi (2012) found the positive relationship among service quality, customer satisfaction and customer loyalty in the banking sector in Greece.

From the above discussion it can be concluded that there is a positive relationships between each of the study constructs. Most of the researchers pointed out that there is a positive relation between the service quality attributes, customer satisfaction and customer loyalty. This study attempts to test this relationship in the case of Dashen Bank S.C.

2.9 Brief Profile Of Dashen Bank S.C.

Dashen Bank coined its name from the highest peak in the Country, mount Dashen, and aspires to be unparalleled in banking.

Headquartered in Addis Ababa, it operates through a network of 122 Area Banks, five dedicated Foreign Exchange Bureaus, 105 ATMs and 782 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationship with 454 banks covering 70 countries and 166 cities across the world.

The Bank also works in partnership with leading brands in the electronic payments industry (VISA, MasterCard &Union Pay) and prominent money transfer operators (Western Union, MoneyGram, Express Money and Dahabshiil).

2.9.1 Current Status

The Bank, which was established with a paid up capital of Birr 14.9 million, has grown in the past 17 years. The following figures indicate the recent position of the Bank.

Total assets……………………….ETB 20.4 billion

Deposits………………………….ETB 16.0 billion

Loans & advances……………….ETB 8.8 billion

Profit before tax (as at June 30, 2013)……. ETB 814.4 million

Number of Area Banks……………………122

Number of Foreign Exchange Offices…….5

2.9.2 Products And Services

Major types of Deposit Accounts includes the following:-

Savings Account:-allows customers to save and grow by gaining very competitive interest rate on their money.

Current Account: - allows customers to access their money on demand with additional interest.

Fixed Time Deposit:-it is a special type of account where by customers deposit a certain amount of money for a specific period of time and it attracts higher interest rate than the prevailing saving interest rate. The interest rates applied vary depending on the amount and duration of the deposit.

Hybrid Account: - a type of saving account operated through Cheque.

Saving Plus Account: - saving account which makes depositors eligible for consumer loan.

Student Account: -a saving account meant for students of higher education allowing them to obtain loan for education.

Modified Youth Savings Account: -a saving account opened by parents or legal guardians for their children which generates bonus.

Interest Plus Bonus Account: -is a privilege for high value and stable deposits where by customers with yearly minimum deposit balance of Br. 500,000 will enjoy additional bonus.

Current Account Protection Scheme: - is an account linked with savings account of customers so that Cheques would not be bounced whenever the current account balance is not found adequate to cover payments.

Dashen grants loans and advances to businesses and individuals engaged in various Sectors of the economy (agriculture, manufacturing, import/export, trade & services, building& construction and transport) to meet the working capital and investment need subject to fulfillments of requirements stipulated in the credit policy of the Bank.

Major types of credit facilities include: Term loans, Overdraft (for working capital), Revolving overdraft (for export bills), Letter of Credit facility,Advance on import bills, Merchandise loan, Trade bills discounted, Export credit guarantee scheme, Letter of guarantee (Advance, Performance and Bid Bond) and Personal Loan.

Local Money Transfer Services includes:- Electronic Fund Transfer:-a speedy local fund transfer service that Dashen Bank provides making use of its banking technology, Mail Transfer, Telegraphic Transfer, Local Draft and Cashiers Payment Order (CPO)

International Banking Services: -Dashen provides the following international banking services:-

Trade Services, Foreign exchange permit, Import - methods of payment include letter of credit, cash against document and advance payment, Export -methods of payment can be advance payment, letter of credit, cash against document and consignments, Guarantee, Letter of Guarantee (foreign), Foreign Currency Depository Account, Non-resident foreign currency account, Non-Resident Transferable Birr Account (NRT), Non-Resident Non-transferable Birr Account (NRNT), Foreign currency accounts for Ethiopians in the Diaspora and Retention account for exporters

Moreover, Abay Bank and Buna International Bank have concluded agreement with the Bank as Merchant Banks to use the Bank's POS terminals to provide cash encashment services.

Dashen also provides Salary Card for staff of institutions who would like the bank to handle salary payment service on their behalf.

In addition, the Bank offers mobile banking service, dubbed ModBirr, which operates on SMS technology using mobile phones. The services currently available include; Cash transfer Balance enquiry, and other account information.

2.9.3 Technology

Dashen has been introducing modern technologies in the banking industry. It deployed state-of-the-art CORE (Centralized Online Real-time Environment) banking technology. The Bank began with core banking system called Micro-banker and migrated to a more advanced one, Flexcube, in 2005. Recently, the capability of the system is enhanced by upgrading from Flexcube 5.5 to 10.5. In addition, the bank Introduced a full-fledged payment card service for the first time in Ethiopia's century old banking history.

As part of its payment card service, the banks' services and channels including:- ATM Banking, E-Commerce- made possible by placing POS at merchant locations, where customers pay using Visa and MasterCard cards for goods and services purchased and Mobile Banking.

2.9.4 Human Capital

Dashen Bank has put together a team of more than 3,710 work force for delivering banking services. Upholding its convection for "growing own trees", the Bank strives to nurture its human capital through continuous human resource development programs.

2.9.5 Investment

Dashen Bank invests on its human capital and technologies in its continuous pursuit to deliver services to its customers. Apart from that the Bank also invests on government bond to support the country's endeavor to improve the living standard of its people. Furthermore, Dashen invest on own building construction. The endeavor in this regard has enabled the Bank to provide secure and convenient services in its custom designed offices while contributing its due share to improve the urban landscape of the Capital and several regional towns (including BahirDar, Dire Dawa, Bonga, Adama, Awassa, Jimma, Woldia, WolaitaSodo, Bedelle, Gonder, Dilla, DebreBerhan, Kombolcha and Harar).

2.9.6 Corporate Social Responsibility (CSR)

Dashen Bank's Corporate Social Responsibility (CSR) is fully integrated into the Bank's core values, one of them is Non-stop Openness to Community Access, enriching it through key CSR initiatives. The Bank extends generous support to national and local development initiatives.

2.9.7 International And National Recognitions And Awards

Here are some of the accolades Dashen Bank received for its operational and financial achievements in the last seventeen years.
International Awards Received including "Bank of the Year" Award from the Banker Magazine for 10 times almost in a raw, Rated as "The Clear Leader and Best Bank of all Private Banks in Ethiopia for the year 2005" by the globally known Euromoney Magazine, Rated as "Ethiopia's Best Bank of the Year 2005" by Global Finance Magazine and Listed among Africa's top 100 Banks by African Business Magazine.

National Awards Received include:-Dashen Bank is the only Bank to receive award by the Addis Ababa Chamber of Commerce's as Outstanding Enterprise.

CHAPTER - 3
RESEARCH METHODS

3.1 Research Design

The researcher employed explanatory research design with which service quality was explained using the five service quality dimensions and the relationship between service quality, overall customer satisfaction and loyalty was established. Moreover, the contribution of the five service quality dimensions towards the three independent variables was clearly examined.

3.2 Research Strategy

There are several strategies to approach research where as Holme and Solvang (1997) as cited in OlleStromgren, 2007 present two approaches, inductive and deductive methods. These mentioned methods of reasoning are different, while an inductive reasoning, by its very nature, is more open-ended and exploratory; a deductive reasoning is narrow and is concerned with testing or confirming hypotheses. Accordingly, the researcher employed Deductive research strategy.

3.3 Research Approach

The researcher employed multiple regression analysis, independent sample t-test, theories and hypotheses in order to establish relationship between the research variables, examine the impact of predictor variables on dependent. As a result, quantitative research approach werefollowed.

3.4 Population Definition

The population in the case of this research is defined as customers of Dashen Bank in Addis Ababa. According to the bank's annual report for the year ended June 30, 2013; Dashen Bank has a total of 615,396 customers in Addis Ababa branches. The monthly report for the month ended January 31, 2014 revealed that the bank have a total of 122 branches throughout the country of which 60 branches are found in Addis Ababa.

3.5 Sample Size And Sampling Procedure

Given a population of 615,396 customers of Addis Ababa branches, a sample of 384 customers was chosen for the study. The researcher followed the strategies of using published tables. Using published tables save time for the researcher because calculating a number of sample sizes for different given set of criteria was made available. According to sample size table taken from the website, http://research-advisors.com , at 95% confidence interval with 5% error margin, the sample size for the total population of between 100,001 and 300,000,000 is 384.

The sampled respondents selected using non-probability technique called convenience sampling method. The method involves selection of sample members who can provide required information and are more available to participate in the study. Nonetheless, because of the Bank's policy on confidentiality of customers' information and the presumed challenges associated with executing the data collection using probability approaches, convenience sampling was chosen on the ground of practicability.

The survey was administered at four branches of Dashen Bank in Addis Ababa selected randomly using lottery method. The data collection instrument was administered to 96 individual customers of each four branches (Main, Tana, Megenagna, and Bole) of Dashen Bank considered for the survey, giving a total sample size of 384 customers. Among the distributed questionnaire 227 accurate questionnaires were collected and employed for the analysis purpose.

Regarding the issue of generalizability problem due to sample size; different authors tend to give different guidelines concerning the number of cases required for multiple regressions. Stevens (1996) as cited in Julie Pallant (2005)recommends that 'for social science research, about 15 subjects per predictor are needed for a reliable equation'. Moreover, Tabachnick and Fidell (2001, p. 117) as cited in Julie Pallant (2005) give a formula for calculating sample size requirements, taking into account the number of independent variables that the researcher wish to use: $N > 50 + 8m$ (where m = number of independent variables). Therefore, current study is far from the problem of generalizability due to sample size as the researcher had employed multiple regression analysis and five independent variables in order to achieve objectives of the study.

3.6 Source Of Data

Throughout the study, the researcher used both primary and secondary data sources. Primary data, directly related to the purpose, collected through an empirical study. The empirical study made through conducting a questionnaire regarding service quality. Secondary data, indirectly relating to the purpose, collected through a theoretical study comprised of books, research thesis, articles, internet, manuals and annual reports.

3.7 Instruments

Self-administered questionnaire with 22 items SERVPERF scale, on a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5), representing the five SERVQUAL dimensions as follows was employed:

- Tangibles: measured using four items
- Reliability: measured using five items
- Responsiveness: measured using four items
- Assurance: measured using four items and
- Empathy: measured using five items.

In order to capture the level of overall customers’ satisfaction, respondents was asked to rate on one statement which states “Overall, I am satisfied with the services provided by Dashen bank” on a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5). Similarly, loyalty was captured through one statement of “Dashen bank is always my first choice” on a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5). In addition, one statement was be added to capture the customers over all perception of service quality of Dashen Bank S.C. that is “Taking everything into consideration, Dashen Bank is an excellent bank”. All instruments/items were adopted from previous researches conducted on service quality.

3.7.1 Validity And Reliability Of Instruments

3.7.1.1 Validity

Hair *et al*. (2007) as cited in Kazi Omar Siddiqi (2012) defined the validity as "the degree to which a measure accurately represents what it is supposed to". Validity is concerned with how well the concept is defined by the measure(s).

He also mentioned about three types of validity: content validity, Predictive validity, and Construct validity. Duggirala*et al*. (2008) as cited in Kazi Omar Siddiqi (2012) defined the content validity as the assessment of the correspondence between the individual items and concept. This study addresses content validity through the review of literature and adapting instruments used in previous research.

3.7.1.2 Reliability

Extents to which a variable or set of variables is consistent in what it is intended to measure (Hair *et al.*, 2007). It differs from validity in that it relates not to what should be measured, but instead to how it is measured. Several measures have been used to establish the reliability of the instrument, for example, split-halves, test-retest, equivalent forms and internal consistency method. The current study uses multiple items in all constructs except customer satisfaction and loyalty. So the internal consistency method should be applied in the current study. Hair *et al*. (2007) mentioned that the rationale for internal consistency is that the individual items or indicators of the scale should all be measuring the same construct and thus be highly inter-correlated. Fujun*et al.* (2007) pointed out (cited in Kazi Omar Siddiqi, 2012) that the Cronbach alpha with acceptable cut off point 0.70 demonstrates that all attributes are internally consistent.

The customer satisfaction and loyalty measurement scales is adapted from Riadh L et al (2013). A five point Likert scale ranging from "1 – Strongly disagree" to "5 – Strongly" has been used to measure the customer satisfaction and loyalty. The internal consistency method will not be applied due to single item instrument.

Reliability statistics table (refer appendix.c) shows that the Alpha value is 0.930. The column (Cronbach's Alpha if Item deleted) reveals that the Cronbach's Alpha of Customer satisfaction and loyalty are 0.927 and 0.928 respectively which are less than the original alpha value; therefore the Alpha value of Customer satisfaction and loyalty are reliable. Since, Cronbach Alpha is 0.930 which is more than the acceptable cut of point 0.70 all attributes are internally consistent.

3.8 Data Preparation

Once the data was collected, data encoding, tabulation and editing works were conducted so that the data was readily available for subsequent activities, analysis and interpretation.

3.9 Methods Of Data Analysis

A number of data analysis techniques were used in this study including frequencies, percentages, Pearson's chi-square, independent sample t-test, and correlation analysis. The data was coded and analyzed by using statistical software program, Statistical Package for Social Science (SPSS).The researcher also employed linear multiple regression analysis in order to test the hypothesis. In addition, it was employed to examine the overall predictive ability of the research model.

Multiple regression is a statistical technique that allows researchers to predict someone's score on one variable on the basis of their scores on several other variables (Julie Pallant, 2005). In the current study the researcher was interested in predicting how much the five service quality dimensions explained Dashen Bank's customers' satisfaction and loyalty.

The researcher collected data on five service quality dimensions using the refined version of SERVPERF items and two single items on customer satisfaction and loyalty, by surveying 384 customers of Dashen Bank. The researcher was able to see which of these variables gave rise to the most accurate prediction of customers' satisfaction, loyalty and hence overall service quality.

In the study, the five service quality dimensions of tangible, reliability, responsiveness, assurance and empathy was used as independent/predictor variables, which allows estimating the dependent/criterion variables – how satisfied and loyal customers are likely to be with the service delivery of Dashen Bank.

CHAPTER-4
RESULTS AND DISCUSSIONS

4.1 Sample Description

4.1.1 Characteristics Of Respondents.

	Frequency	Percentage
Gender		
Male	140	62
Female	87	38
Total	227	100
Age		
18-30	42	19
31-50	136	60
above 50	49	21
Total	227	100
Educational Background		
Diploma and Below	106	47
Undergraduate	91	40
Postgraduate and Above	30	13
Total	227	100
Frequency of use		
Daily	26	11
Weekly	72	32
Monthly	83	37
Other	46	20
Total	227	100

Table 4.1 Characteristics of the respondents.

Source: Own survey (2014)

The results of Table 4.1 provide data on demographic characteristics of the respondents. It includes variables like age, gender, educational qualifications, and frequency of use. The sample includes 227 customers of Dashen bank. Females make 38% of the customers on the other hand males respondents represented (62%) of the survey population. The largest group of respondents (60%) is aged between 31 and 50. The next largest group (21%) is aged above 50. Smaller groups of respondents are aged between 18 and 30 (19%). With regard to educational level; respondents with diploma and below make 47% of the customers, while first degree holders comprising 40% of the respondents. Finally, holders of postgraduate and above make 13% ofthe customers. Regarding the frequency of use, majority of the respondent are not frequent users (37% and 20%); they use the service at most once in a month.

4.1.2 Descriptive Statistics

Table 4.2: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tangible	227	1	5	3.5705	.76785
Reliability	227	1	5	3.7850	.79842
Responsiveness	227	1	5	4.2786	.76984
Assurance	227	1	5	4.2731	.74539
Empathy	227	1	5	3.9524	.72712
Customer satisfaction	227	1	5	4.12	1.008
Customer loyalty	227	1	5	4.17	1.038
Service quality	227	1	5	4.07	1.043
1 'strongly disagree'; 5 'strongly agree'					

The maximum and minimum responses are 1 and 5 respectively, for all variables stated in the above table. The mean value shows the average of all customers' response on a certain dimension. While, standard deviation shows that how diverse are the responses of customers for a given construct. For instance, high Standard Deviation means that the data are wide spread, which means that customers give variety of opinion and the low standard deviation means that customers express close opinion.

4.2 Importance Of Dimensions In Predicting Overall Service Quality In Dashen Bank S.C

Table 4.3: Pearson Correlation between variables in SERVPERF model

	Overall service quality	Tangible	Reliability	Responsiv e-ness	Assurance	Empathy
Overall service quality	1.000	.533	.544	.498	.487	.564
Tangible	.533	1.000	.439	.510	.528	.494
reliability	.544	.439	1.000	.640	.632	.572
Responsiveness	.498	.510	.640	1.000	.777	.640
Assurance	.487	.528	.632	.777	1.000	.624
Empathy	.564	.494	.572	.640	.624	1.000
N = 227; Sig.(1-tailed) = 0.000						

The correlations between the variables are provided in the above Correlations table. The five service quality dimensions shows positive and significant correlation with overall service quality, with higher correlation value of 0.564 with empathy and lower value of 0.487 with assurance.Tabachnick and Fidell (2001) cited in (Julie Pallant, 2005) suggest that the researcher should think carefully before including two variables with a bivariate correlation of, say, 0.7 or more in the same analyses. If such situation occurs, the researcher needs to consider omitting one of the variables or forming a composite variable from the scores of the two highly correlated variables. In the current model the correlation between responsiveness and assurance is 0.777 which is higher than the acceptable cut of point but the correlation between the remaining independent variables are lower than 0.777. In order to mitigate the possible problem in using assurance and responsiveness with in the model, the researcher had undertaken two multiple regression. First, the five service quality dimensions regressed against overall service quality and second, tangibles, reliability, empathy and one composite variable (Re-Assurance) formed by merging responsiveness and assurance regressed against overall service quality. For the rest of the analysis the three dimensions and the composite variable were used.

To identify the service-quality dimensions that make the greatest contributions to overall banking service quality, multiple regression analyses were conducted with overall service quality as the dependent variable and the five dimensions of service quality (tangibles, reliability, responsiveness, assurance, and empathy) as the independent variables.

Table 4.4 show the results for the first regression with overall service quality as the dependent variable; the R-square was 0.448, which indicates that the five SERVQUAL dimensions explained about 45 percent of the variation in service quality. Of the five SERVQUAL dimensions, three showed a significant effect on service quality; in order of importance these were:

- Tangibles (Beta = 0.279)
- Empathy (Beta = 0.269)
- Reliability (Beta = 0.258)

Table 4.4: *Regression analysis with overall service quality as dependent variable*

Model	Unstandardized coefficient	Standard error	Standardized coefficient	t	Sig.
Constant	-.175	.339		-.515	.607
Tangible	.379	.083	.279	4.548	.000
Reliability	.337	.091	.258	3.709	.000
Responsive-ness	.037	.117	.027	.312	.755
Assurance	-.016	.120	-.011	-.131	.896
Empathy	.385	.101	.269	3.825	.000
R-square = 0.448; F = 35.918					

But, it is difficult to infer conclusion from the results of the above regression due to the existence of higher correlation between responsiveness and assurance dimensions of service quality. As a result the researcher has merged these two dimensions in to one composite independent variable called “Re-Assurance”.

Table 4.5: Pearson correlation between overall service quality and the four dimensions					
	Overall service quality	Tangible	Reliability	Empathy	Re-Assurance
Overall service quality	1.000	.533	.544	.564	.523
Tangible	.533	1.000	.439	.494	.550
Reliability	.544	.439	1.000	.572	.675
Empathy	.564	.494	.572	1.000	.671
Re-Assurance	.523	.550	.675	.671	1.000
N = 227; Sig.(1-tailed) = 0.000					

As it has seen in table 4.5, the correlation coefficient for all variables are below the acceptable cut of point of 0.7. Hence, the four dimensions can be regressed against overall service quality.

Table 4.6: ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	110.250	4	27.562	45.071	.000a
Residual	135.759	222	.612		
Total	246.009	226			
a. Predictors: (Constant), Overall reassurance scores, Overall tangible scores, Overall reliability scores, Overall empathy scores					
b. Dependent Variable: overall service quality					

The above ANOVA tests table shows the acceptability of the model from statistical perspective. The regression row indicates information about the variation accounted by the model. While, the residual row indicates information about the variation that is not accounted for the model or show the variation as a result of extraneous variables. The regression and residual sum of squares are approximately 45/55, which indicates that about 45% of the dimension variation is explained by the model. The significance value of the F statistic is less than 0.05, which indicates that the variation explained by the model is not due to chance. While the ANOVA table is useful test of model's ability to explain any variation in the dependent variable, it does not directly address the strength of that relationship.

Table 4.7: Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.669a	.448	.438	.782
a. Predictors: (Constant), Overall reassurance scores, Overall tangible scores, Overall reliability scores, Overall empathy scores				
b. Dependent Variable: overall service quality				

The above model summary table shows the strength of relationship between the model and the dependent variable, overall service quality. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its large value indicates the strength of the relationship. R square, the coefficient of determination, shows that about forty five percent of the variation in overall service quality is explained by the model.

Table 4.8:Regression analysis result with overall service quality as dependent variable					
Model	Unstandardized coefficient	Standard error	Standardized coefficient	t	Sig.
Constant	-.179	.338		-.529	.598
Tangible	.378	.083	.278	4.551	.000
Reliability	.337	.091	.258	3.719	.000
Empathy	.386	.101	.269	3.843	.000
Re-Assurance	.022	.116	.015	.186	.853
R-square = 0.448; F = 45.071; Sig.000					

As the above table revealed, similar to the previous regression result (indicated in table 4.4) tangibles, reliability and empathy are statistically significant ($p<0.01$) and their respective standardized coefficient (beta value) indicates the relative importance of the variable. But the composite variable Re-Assurance is not statistical significant and did not contribute much towards overall service quality.

Tangible has the highest standardized coefficient, which means that it is the best predictor of overall service quality. Analyzing the whole table results, the order of significance for predictors of overall service quality is tangible, empathy, reliability and the composite re-assurance.

Table 4.9: Collinearity Statistics

Model	Tolerance	Variance Inflation Factor (VIF)
Constant		
Tangible	.665	1.503
Reliability	.516	1.937
Empathy	.507	1.974
Re-Assurance	.392	2.549

Dependent Variable: overall service quality

Collinearity diagnostics' was performed on the variables as part of the multiple regression procedure. This can pick up on problems with multicollinearity that may not be evident in the correlation matrix. The results are presented in the above table of Collinearity Statistics. Two values are given: Tolerance and VIF. Tolerance is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variables in the model and is calculated using the formula 1–R2 for each variable. If this value is very small (less than 0.10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The other value given is the VIF (Variance inflation factor), which is just the inverse of the Tolerance value (1 divided by Tolerance). VIF values above 10 would be a concern here, indicating multicollinearity(Julie Pallant, 2005).

As it was quoted above, the commonly used cut-off points for determining the presence of multicollinearity is tolerance value of less than 0.10, or a VIF value of above 10. In this model the tolerance value for all of the independent variables are greater than 0.10; therefore, multicollinearity assumption have not violated. This is also supported by the VIF values which are well below the cut-off point of 10. These results are not surprising, given that the Pearson's correlation coefficients between these independent variables were less than 0.7 (see Correlations table 4.7).

4.3 Relationship Between Service Quality And Customer Satisfaction

Table 4.10 shows that there is a positive and significant correlation between customer satisfaction and service quality dimensions (as $P<0.05$). From which satisfaction has higher correlation with reliability (0.503) and lower correlation with tangible (0.329) dimensions of service quality. The higher inter-correlation among the independent variables is between empathy and reliability dimensions (correlation coefficient of 0.675). But the inter-correlation coefficients of the four dimensions are less than 0.7. This helps to avoid multi-collinearity problem while conducting regression analysis.

Table 4.10: Pearson correlation between customer satisfaction and service quality dimensions

	Overall customer satisfaction	Tangible	Reliability	Empathy	Re-Assurance
Overall customer satisfaction	1.000	.329	.503	.499	.472
Tangible	.329	1.000	.439	.494	.550
Reliability	.503	.439	1.000	.572	.675
Empathy	.499	.494	.572	1.000	.671
Re-Assurance	.472	.550	.675	.671	1.000
N = 227; Sig.(1-tailed) = 0.000					

The model summary table shows that service quality dimensions contributes 32.4% for overall customer satisfaction in Dashen Bank S.C. Since the value of R square, the coefficient of determination is 32.40. This lower R-square value indicated that besides the service quality dimensions, there are other important variables which lead to overall customer satisfaction in the bank's service delivery.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.570a	.324	.312	.836
a. Predictors: (Constant), Overall reassurance scores, Overall tangible scores, Overall reliability scores, Overall empathy scores				
b. Dependent Variable: overall customer satisfaction				

Pearson correlation result of table 4.10 revealed a significant and positive correlation between overall customer satisfaction and all of service quality dimensions, but the regression result in table 4.12 shows that only reliability and empathy contributes much toward the achievement of overall customer satisfaction. This was indicated by standardized coefficient (Beta) value of 0.278 and 0.266 for reliability and empathy respectively, which are significant at 1% & 5% level of significance.

Table 4.12: Regression analysis result with customer satisfaction as dependent variable

Model	Unstandardized coefficient	Standard error	Standardized coefficient	t	Sig.
Constant	.658	.362		1.819	.070
Tangible	.033	.089	.025	.367	.714
Reliability	.352	.097	.278	3.627	.000
Empathy	.369	.107	.266	3.430	.001
Re-Assurance	.130	.124	.092	1.047	.296
R-square = 0.324; F = 26.658; Sig.000					

Even if the contribution of tangibles and re-assurance dimension towards overall customer satisfaction are not statistically supported, they have small contribution. The contribution of service quality dimensions towards customers' satisfaction can be listed in their order of importance as follows:

1. Reliability (Beta value of 0.278)
2. Empathy (Beta value of 0.266)
3. Re-Assurance (Beta value of 0.092)
4. Tangible (Beta value of 0.025)

The Beta value (standardized coefficient) indicates the effect of change in the independent variables on dependent variables. For instance, a unit increases in reliability dimensions results in an increase of overall customer satisfaction by 0.278, vice-versa, keeping other factors constant. In other word, a 100% change in reliability dimension causes a 27.80% change in overall customer satisfaction.

Table 4.13: Collinearity Statistics		
Model	Tolerance	Variance Inflation Factor (VIF)
Constant		
Tangible	.665	1.503
Reliability	.516	1.937
Empathy	.507	1.974
Re-Assurance	.392	2.549
Dependent Variable: overall customer satisfaction		

The multi-collinearity statistics revealed the Tolerance value greater than 0.1 and VIF value significantly below 10. This shows that there was no multi-collinearity problem with in the model.

4.4 Interrelationships Between Service Quality, Customer Satisfaction And Loyalty

In order to examine the inter-relationship between service quality dimensions, customer satisfaction and loyalty, the regression tests were conducted as suggested by Baron & Kenny (1986) cited from Lo Liang K et al (2010), by running three steps of analysis separately:

Step 1- Customer loyalty as dependent variable and dimensions of service quality as independent variables,

Step 2- Customer satisfaction as dependent variable and dimensions of service quality as independent variables, and

Step 3 - Customer loyalty as dependent variable and customer satisfaction together with dimensions of service quality as independent variables.

4.4.1 The Relationship Between Service Quality Dimensions And Customer Loyalty

Table 4.14: Pearson correlation of overall customer loyalty and service quality dimensions

	Overall customer loyalty	Tangible	Reliability	Empathy	Re-Assurance
Overall customer loyalty	1.000	.410	.324	.420	.444
Tangible	.410	1.000	.439	.494	.550
Reliability	.324	.439	1.000	.572	.675
Empathy	.420	.494	.572	1.000	.671
Re-Assurance	.444	.550	.675	.671	1.000

N = 227; Sig.(1-tailed) = 0.000

Table 4.14 shows the existence of positive and significant correlation between overall customer loyalty and service quality dimensions. Moreover, the inter-correlation among the service quality dimensions (the independent variables) is less than the acceptable cut-off point of 0.7. Hence, all of the above service quality dimensions were included in the regression analysis as independent variables and overall customer loyalty as a dependent variable.

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.503a	.253	.239	.906

a. Predictors: (Constant), Overall reassurance scores, Overall tangible scores, Overall reliability scores, Overall empathy scores

b. Dependent Variable: overall customer loyalty

In above model summary table R-Square value is 0.253 which means that 25.3% overall customer loyalty in Dashen Bank S.C was explained by the variation in the five service quality dimensions. The contribution of each service quality dimension can be seen from the results of multiple regressions in the coefficient table below.

Table 4.16: Regression analysis result with customer loyalty as dependent variable					
Model	Unstandardized coefficient	Standard error	Standardized coefficient	t	Sig.
Constant	.867	.392		2.211	.028
Tangible	.280	.096	.207	2.910	.004
Reliability	.201	.096	.155	2.093	.037
Empathy	.255	.116	.179	2.194	.029
Re-Assurance	.325	.135	.223	2.410	.017
R-square = 0.253; F = 18.764; Sig.000					

The above regression result shows that all of the service quality dimensions are positively and significantly ($p<0.05$) contributed towards overall customers' loyalty in Dashen Bank S.C. Standardized coefficient (Beta value) indicates the degree of importance of each service quality dimensions towards customer loyalty and accordingly, the dimensions can be ranked in the following manners on the basis of their contribution: re-assurance, tangibles, empathy and reliability

4.4.2 Service Quality Dimensions, Customer Satisfaction And Loyalty

Table 4.17:Pearson correlation of overall customer loyalty, satisfaction and service quality dimensions						
	Overall customer loyalty	overall customer satisfaction	Tangible	Reliability	Empathy	Reassurance
overall customer loyalty	1.000	.581	.410	.324	.420	.444
overall customer satisfaction	.581	1.000	.329	.503	.499	.472
Tangible	.410	.329	1.000	.439	.494	.550
Reliability	.324	.503	.439	1.000	.572	.675
Empathy	.420	.499	.494	.572	1.000	.671
Reassurance	.444	.472	.550	.675	.671	1.000
N = 227; Sig.(1-tailed) = 0.000						

The above Pearson correlation result revealed the existence of positive and significant correlation ($p<0.01$) among overall customer satisfaction, loyalty and service quality dimensions.

Table 4.18: Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642a	.412	.399	.805
a. Predictors: (Constant), Overall reassurance scores, overall customer satisfaction, Overall tangible scores, Overall reliability scores, Overall empathy scores				
b. Dependent Variable: overall customer loyalty				

As we have seen in table 4.15, the five service quality dimensions explained about 25.3% of customer loyalty. But, the addition of customer satisfaction in the model raised the value of coefficient of determination to 0.412. Hence, customer satisfaction together with the service quality dimensions explained 41.2% of the variation in customer loyalty.

Table 4.19: Regression analysis result with customer loyalty as dependent variable					
Model	Unstandardized coefficient	Standard error	Standardized coefficient	t	Sig.
Constant	.537	.351		1.531	.127
Overall customer satisfaction	.500	.065	.486	7.739	.000
Tangible	.264	.086	.195	3.082	.002
Reliability	.025	.105	.019	.240	.810
Empathy	.071	.106	.050	.669	.504
Re-Assurance	.260	.120	.178	2.162	.032
R-square = 0.412; F = 30.972; Sig. 0.000					

In the previous regression result (table 4.16) all of the service quality dimensions have significant impact on overall customer loyalty. But, the above model revealed that only tangible and Re-Assurance dimensions have significant ($p<0.05$) contribution. This is due to the fact that reliability and empathy has a mediation impact on customer loyalty through satisfaction. Both variables are fully mediated by customer satisfaction and their contribution is through satisfaction, this is shown by the significant reduction in their respective standardized coefficient. Whereas, Re-Assurance and tangible dimensions are slightly mediated by customer satisfaction, as their respective Beta coefficient registered slight reduction. The rationale behind lower level of customers' satisfaction mediation impact is that the insignificant contribution of the two dimensions towards customer satisfaction. Therefore, the contribution of the above independent variables towards customer loyalty can be listed as follow:

- overall customer satisfaction
- Tangible
- Re-Assurance
- Empathy
- Reliability

Table 4.20: Collinearity Statistics		
Model	Tolerance	Variance Inflation Factor (VIF)
Constant		
Overall customer satisfaction	.676	1.480
Tangible	.665	1.504
Reliability	.225	1.105
Empathy	.481	2.078
Re-Assurance	.390	2.562
Dependent Variable: overall customer loyalty		

The multi-collinearity statistics revealed the Tolerance value greater than 0.1 and VIF value significantly below 10. This shows that the assumption of multi-collinearity is not violated.

Below shows the summary of three regression analysis results which take:

Step-1: Overall customer loyalty as dependent variable and the four service quality dimensions as independent variable.

Step-2: Overall customer satisfaction as dependent variable and the four service quality dimensions as independent variables. And,

Step-3: Overall customer loyalty as dependent variable and overall customer satisfaction and the four service quality dimensions as independent variable.

Table 4.21: Summary of regression analysis regarding the inter-relationship between customer loyalty, customer satisfaction and service quality dimensions.

Step of regression	Step-1	Step-2	Step-3
Dependent variable	Loyalty	Satisfaction	Loyalty
Independent variables	Standardized coefficient		
Tangibles	.207**	.025	.195** Slightly mediated
Reliability	.155**	.278**	.019 Fully mediated
Empathy	.179**	.266**	.050 Fully mediated
Re-Assurance	.223**	.092	.178** Slightly mediated
Overall satisfaction		.	.486*
R square	0.253	0.324	0.412
Adjusted R square	0.239	0.312	0.399
F value	18.764	26.658	30.792

$^*p<0.01$, $^{**}p<0.05$

CHAPTER-5

SUMMARY OF FINDING, CONCLUSION, RECOMMENDATION, AND LIMITATION AND SUGGESTINS FOR FUTURE RESEARCH

5.1 Summary Of Finding

The first regression analysis results with overall service quality as the dependent variable; revealed that the five SERVQUAL dimensions explained about 45 percent of the variation in overall service quality of Dashen Bank S.C. Of the five SERVQUAL dimensions, tangibles, empathy and reliability have a significant effect on overall service quality. Due to the existence of higher correlation (0.777) between responsiveness and assurance dimensions, researcher has merged the two dimensions together and formed one composite variable called “Re-Assurance” and the regression was undertaken accordingly. But, the re-assurance dimension has no significant contribution towards overall service quality. Among the dimensions tangible has the highest standardized coefficient, which means that it is the best predictor of overall service quality. On the basis of their respective standardized coefficient the order of significance (which indicates the level of importance) for predictors of overall service quality is tangible, empathy, reliability and the composite re-assurance.

Second, regression analysis was conducted on customer satisfaction as a dependent variable and the four service quality dimensions (tangibles, reliability, empathy and re-assurance) as independent variables. The Pearson correlation results of the regression analysis indicates that there is a positive and significant correlation between customer satisfaction and service quality dimensions ($P<0.05$). From which satisfaction has higher correlation with reliability (0.503) and lower correlation with tangible (0.329) dimensions of service quality. On the other hand, the regression model revealed that service quality dimensions contribute 32.4% for overall customer satisfaction in Dashen Bank S.C. This shows that besides these service quality dimensions, there are other important variables which lead to overall customer satisfaction in the bank’s service delivery. Among the dimensions, reliability and empathy have statistically significant contribution towards overall customer satisfaction.

On the basis of their level of significance, the order of importance of the dimensions for customer satisfaction is reliability, empathy, re-assurance and tangibles.

Third, 25.3% of the variation in overall customer loyalty in Dashen Bank S.C was explained by the variation in the four service quality dimensions. The results also shows that all of the service quality dimensions are positively and significantly ($p<0.05$) contributed towards overall customers' loyalty in Dashen Bank S.C.

Finally, it is also found that satisfaction has full and significant mediating effect on the relationships between service quality dimensions (reliability, and empathy) and customer loyalty. While, the relationships between loyalty, and tangibles and re-assurance dimensions are slightly and insignificantly mediated by customer satisfaction.

5.2 Conclusion

The purpose of the research is to investigate whether the differences: in perceptions of service quality; and in the ranking of service quality dimension between the bank customers founds in different literatures, is true in case of Dashen Bank s.c.. And also to examine various researchers' demonstration that service quality has a positive influence on customer satisfaction and loyalty and, customer satisfaction has a mediating impact on the relationships between service quality dimensions and customer loyalty in banks service setting in case of Dashen Bank S.C context.

The researcher has employed explanatory research design with which service quality was explained using the five service quality dimensions and the relationship between service quality, overall customer satisfaction and loyalty was established. Primary data was collected from selected customers of the bank through self-administered questionnaire with 22 items SERVPERF scale and three items of overall service quality, customer satisfaction and loyalty, on a five-point Likert-type scale ranging from "strongly disagree" (1) to "strongly agree" (5). Respondents were selected from four Addis Ababa branches of Dashen Bank using convenience sampling method. In order to analyze the collected data, multiple regression analysis and independent sample t-test were employed.

The study revealed that the five SERVQUAL dimensions explained about 45 percent of the variation in overall service quality of Dashen Bank S.C. Of the five SERVQUAL dimensions, tangibles, empathy and reliability have a significant effect on overall service quality. It also indicates that there is a positive and significant correlation between customer satisfaction and service quality dimensions. The results also shows that all of the service quality dimensions are positively and significantly contributed towards overall customers' loyalty in Dashen Bank S.C.

In general, the study revealed that the five service quality dimensions explain about 45%, 32% and 25% of the variation in overall service quality, customer satisfaction and loyalty respectively. In addition, it is also found that satisfaction has full and significant mediating effect on the relationships between service quality dimensions (reliability, and empathy) and customer loyalty.

Since, this study found a positive relationship between all service quality dimensions and customer satisfaction and loyalty, the results of this research paper confirmed the theory of literatures regarding the relationship between service quality dimensions, customer satisfaction and loyalty.

5.3 Recommendation

Bank service managers need to understand how their customers rate service quality and what critical dimensions contribute to improving service quality.

Executives of banks in general and Dashen Bank in particular can use the findings of this study to identify the most important dimensions which contribute much in delivering quality services to their customers. In Dashen Bank, tangible, empathy and reliability are the most important dimensions in predicting overall service quality.

Therefore, in order to deliver quality and dependable service the bank should:

- Improve its ability of performing the promised service dependably and accurately.It can be achieved by providing services as promised, by performing the service right the first time, by maintaining error-free records, and by showing sincere interest in solving the problem the customer faces.

- Ensure efficiency in its operations to overcome long time waiting of customer for the bank's service.

- Give caring, and individualized attention for its customers. The bank can attain this by having operating hours convenient to all its customers, by having the customer's best interests at heart, by giving the customer personal attention and by understanding the customer's specific needs.

- Give attention to its frontline employees. They should be motivated and trained to be courteous with the customer and generally demonstrating caring behavior in all of their interaction and interpersonal dealings with the banks customers.

- Work more on technology-based banking service including both ATM and Internet banking services, which brings service standardization and greater convenience to customers.

- Have visually appealing physical facilities associated with the service, modern looking equipment, and personals with neat and professional appearance.

Implementing the first five recommendations of the above can also increase satisfaction of customers' of the bank. Since, reliability and empathy are the significant predictors of overall customer satisfaction and loyalty.

Besides, the bank should work on the five service quality dimensions and customer satisfaction to insure customers' loyalty to the bank by setting customer service standards, by continuously measuring customer satisfaction level, by assessing customer needs and expectations, by establishing system for handling customer complaints and by being cautious and strong in learning the changes taking place in the industry.

Moreover, the researcher strongly recommends the bank to conduct extensive research to identify other variables, besides the current model, which will have significant impact on the bank's service quality, customer satisfaction and loyalty. Because, models employed in the current study contribute below fifty percent of the variation in overall service quality, customer satisfaction and loyalty.

5.4 Limitation andSuggestionFor Future Research

Since, the current research was conducted in Dashen Bank's Addis Ababa Branches; it is difficult to generalize for service performance of banking sectors in Ethiopia. Therefore, future researchers can replicate insights of the current study in to overall financial services provider in Ethiopia. Future researcherscan also study whether there exists significant difference in perceptions of service quality between borrower and non-borrower customers. Moreover, the models employed in the current research accounts less than fifty percent of the variation in overall service quality, customer satisfaction and loyalty. Hence, future researchers can consider other generic model in order to measure service quality, customer satisfaction and loyalty in the banking sector.

Although this research provides some insights into service quality in Ethiopian banking industry, there is still a chance to extend the findings to gain a more comprehensive understanding of the nature of banking services. The future research may highlight the service quality in banking in total, comparative analysis on SERVPERF scores in different types of banks and comparative analysis on SERVQUAL and SERVPERF scores in banking industry. The future research may be directed to analyze the application of SERVPERF to other service industries by incorporating other dimensions of service quality.

6. REFERENCES

Abiy Z., Alemayehu W., Daniel T., Melese G., and Yilma S. (2009), "Introduction to Research Methods".*Preparatory module for Addis AbabaUniversity graduate programs*.pp 24-39.

Ahmed, J. and Kamal, N. (2002) Customer satisfaction and retail banking: an assessment of some of the key antecedents of customer satisfaction in retail banking. *International Journal of Bank Marketing*, 20/4 (2002).

Annual reports of Dashen Bank S.C. June 30, 2013

Cronin, J. J. Jr. & Taylor, S. A. (1992).Measuring service quality: A reexamination and extension.*Journal of Marketing*.56(July)

Cronin, J. J. Jr. & Taylor, S. A. (1994). SERVPERF versus SERVQUAL: Reconciling performance-based and perceptions-minus-expectations measurement of service quality. *Journal of Marketing*, 58(January).

Garvin, D A 1988 quality on the line, *Harvard Business Review*, 61(sept. Oct.), 65-73

Gronroos, C. (1984). *A Service Quality Model and Its Marketing Implications*. European Journal of Marketing, 18(4), pp. 36-44.

Gronroos (1993). "A Service-Orientated Approach to Marketing of Services", European. J. Mark. 12(8): 588 – 601.

Jamal, A. and Naser, K. (2003) Factors influencing customer satisfaction in the retail banking sector in Pakistan. *International Journal of Commerce and Management*.13(2), 29.

Juan, C. Fandos, R. Javier, S. Miguel, A. and Jaume, L. (2006) Customer perceived value in banking services. *International Journal of Bank Marketing* Vol. 24 No. 5, 2006.

Julie Pallant (2005) SPSS survival manual: A step by step guide to data analysis using

SPSS for Windows. Allen & Unwin, Australia.

Kazi Omar Siddiqi (2012) Interrelations between service quality attributes, customer satisfaction and customer loyalty in the retail banking sector in Bangladesh.*International Trade & Academic Research Conference (ITARC)* - London 2012.

Lo, L. Osman, M. and T. Ramayah (2010) The Impact of Service Quality on Customer Loyalty: A Study of Banks in Penang, Malaysia. *"International Journal of Marketing Studies"*.Vol (2), 2010.

Lovelock, C. (2001).*Services Marketing: People, Technology, Strategy* (4th ed.). Upper Saddle River, New Jersey: Prentice Hall.

Mishra, A. A. (2009) *A study on Customer Satisfaction in Indian Retail Banking*. *IUP* Journal of Managemen Research. **8**(11), 45-61.

Mohammed, H., and Shirley, L (2009) Customer perception on service quality in retail banking in Middle East: the case of Qatar. *International Journal of Islamic and Middle Eastern Finance and Management* Vol. 2 No. 4, 2009.

Oliver, R.L. (1993), "A conceptual model of service quality and service satisfaction: compatible goals, different concepts", in Swartz, A.T., Bowen D.E. and Brown, S.W. (Eds), *Advances in Services Marketing Management, Vol. 2, JAI Press, Greenwich, CT, pp. 68-85.*

OlleStromgren (2007) Analyzing service quality; a study among Peruvian resort hotel. *"Master thesis"* Lulea University of Technology. Department of Business Administration and Social Science.

Parasuraman, A., Berry, L. L. and Zeithaml, V. A. (1985) A conceptual model of service quality and its implications for future reseacrh. *Journal of Marketing*.Vol 49(Fall 1985).

Parasuraman, A., Berry, L. L. and Zeithaml, V. A. (1988) SERVQUAL: A multiple-item scale formeasuring consumer perceptions of service quality. *Journal of Retailing*.64(1).

Parasuraman, A., Zeithaml, V. A., &Berry, L.L. (1994). Reassessment of expectations as a comparison standard in measuring service quality: Implications for further research. *Journal of Marketing*, 58(January).

Riadh, L., Ines, L., and Miguel, M., (2013) Bank service quality: comparing Canadian and Tunisian customer perceptions. *International Journal of Bank Marketing* Vol. 29 No. 3, 2013.

www.nbe.gov.et

http://www.research-advisors.com

Terrence, L. and Gordon, H. (1996) Determinants of customer satisfaction in retail banking.*International Journal of Bank Marketing*, 14/7 (1996).

Walfried, M. Chris, M. and Robert, D. (2000) Service quality perspectives and satisfaction in private banking.*Journal of Services Marketing*, Vol. 14 No. 3 2000.

YeamdaoNarangajavana (2007). The relationship of the hotel rating system and service quality a case study of the *'Thailand hotels standard'*GraduateCollege of the OklahomaStateUniversity.

Zeithaml, V. A. &Bitner, M. J. (1996).*Services Marketing*.New York: McGraw-Hill

7. APPENDICES

7.1 APPENDIX A

English Questionnaire

Addis Ababa University, School of Commerce

MA Program in Marketing Management

Dear Respondents,

I am Endale G/selassie, a graduate student at Addis Ababa University School of Commerce. Currently, I am conducting a research study on "Assessment of Service Quality, Customer Satisfaction and Loyalty in the banking sector. A case study of Dashen Bank S.C." in partial fulfillment of Master of Arts Degree in Marketing Management at Addis Ababa University School of Commerce (AAUSC). I request your help to spend some minutes of your time by filing the provided questionnaire.

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

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

PART I. GENERAL INFORMATION

Please put a tick (√) mark corresponding to your response

1. Sex: Male ( ) Female ( )

2. Age: 18 to 30 ( ) 31 – 50 ( ) 51 and above ( )

3. Educational level: Diploma and below ( ) Undergraduate ( )
   Postgraduate and above ( )

4. Frequency of using the bank: Daily ( ) Weekly ( ) Monthly ( ) Other: ___

PART II. SERVICE QUALITY ATTRIBUTES

The following statements relate to your feelings about Dashen Bank S.C. For each statement, please show the extent to which you believe Dashen Bank S.C has the feature described by the statement. Indicating or Circling a "1" means that you strongly disagree, "2" disagree, "3" neutral, "4" agree, and "5" strongly agree. There are no right or wrong answers; all I am interested in is a number that best shows your perception about Dashen Bank S.C.

No	Measurement items	Measurement scales				
		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
1	Dashen bank has modern-looking equipment	1	2	3	4	5
2	Dashen bank's physical facilities are visually appealing	1	2	3	4	5
3	Dashen bank's employees are neat-appearing	1	2	3	4	5
4	Materials associated with the service (such as pamphlets or statements) are visually appealing at Dashen bank	1	2	3	4	5
5	When Dashen bank promises to do something by a certain time, it does so.	1	2	3	4	5
6	When you have a problem, Dashen bank shows a sincere interest in solving it	1	2	3	4	5
7	Dashen bank performs the service right the first time	1	2	3	4	5
8	Dashen bank provides its services at the time it promises to do so	1	2	3	4	5
9	Dashen bank insists on error-free records	1	2	3	4	5
10	Employees of Dashen bank tell you exactly when services will be performed	1	2	3	4	5
11	Employees of Dashen bank give you prompt service	1	2	3	4	5
12	Employees of Dashen bank are always willing to help you	1	2	3	4	5
13	Employees of Dashen bank are never too busy to respond to your requests	1	2	3	4	5

14	The behaviour of employees of Dashen bank instils confidence in customers	1	2	3	4	5
15	You feel safe in your transactions with Dashen bank	1	2	3	4	5
16	Employees of Dashen bank are consistently courteous with you	1	2	3	4	5
17	Employees of Dashen bank have the knowledge to answer your questions	1	2	3	4	5
18	Dashen bank gives you individual attention	1	2	3	4	5
19	Dashen bank has operating hours convenient to all its customers	1	2	3	4	5
20	Dashen bank has employees who give you personal attention	1	2	3	4	5
21	Dashen bank has your best interests at heart	1	2	3	4	5
22	Employees of Dashen bank understand your specific needs	1	2	3	4	5
23	Overall, I am satisfied with the services provided by Dashen bank	1	2	3	4	5
24	Dashen bank is always my first choice	1	2	3	4	5
25	Taking every thing into consideration, Dashen Bank is an excellent bank	1	2	3	4	5

7.2 APPENDIX B
Amharic Questionnaire

አዲስአበባ ዩኒቨርስቲ

ንግድ ስራ ትምህርት ቤት

የገበያ አመራር ድህረ ምረቃ ክፍል

ይህ መጠይቅ የተዘጋጀው ለገበያ አመራር ድህረ ምረቃ ትምህርት (Master of Arts in MarketingManagement) ከፊል ማሟያነት በዳሽን ባንክ አ.ማ የአገልግሎት ጥራት ልኬትና ምርመራ ጥናት ላይ ያተኮረ ነው፡፡

ስለዚህም የተከበራችሁ ደንበኞች በዕርስዎ አመለካከት የባንኩ አገልግሎት ጥራት እና ተዛማች ነገሮች ላይ ያሎዎትን አስተያየት በመስጠት ለጥናቱ ስኬታማነት የበኩልዎን ሚና ይጫወቱ ዘንድ በአክብሮት እየጠየኩ ከዚሁ ጋር በተያያዘ ማንኛውም የምትሰጡት ምላሽ በተገቢው ሁኔታበሚስጥር ተጠብቆ የሚቀመጥ ከመሆኑ ባሻገር ለጥናቱ አገልግሎት ብቻ የሚሆን መሆኑን ላረጋግጥሎ እወዳለሁ፡፡

ለምታደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ፡፡

እባክዎ ለጥያቄዎቹ በመልስነት ከቀረቡት አማራጮች ውስጥ ምልክት (√) በማድረግ ምላሽዎትን ይስጡ፡፡

ክፍልአንድ

ሀ፡ፆታ ወንድ ☐ ሴት ☐

ለ፡እድሜ ከ30 በታች ☐ 1 እስከ 50 ☐ ና ከዛ በላይ ☐

ሐ፡የትምህርት ደረጃ ዲፕሎማ እና ከዛ በታች ☐ መጀመሪያዲግሪ ☐

ድህረምረቃ እና ከዛ በላይ ☐

መ፡ባንኩን በምን ያህል ጊዜ ይጠቀማሉ በየቀኑ ☐ ምንቱ ☐ ሩ ☐

ሌላ ☐

ክፍልሁለት

ከዚህ በመቀጠል የቀረቡ ዓርፍተ ነገሮች በዳሽን ባንክ አ.ማ የአገልግሎት ጥራት ላይ ያለዎትን ስሜት ያመለክታሉ፡፡ ስለዚህ ስለባንኩ አገልግሎት ጥራት በርስዎ አመለካከት ትክክለኛ ብለው የሚያስቡትን ከ1-5 ከቀረቡት አማራጮች መካከል በማክበብ ምላሽ ይስጡ፡፡ '1' በጣምአልስማማም' '2' አልስማማም' '3' ገለልተኛ' '4' እስማማለሁእና '5' በጣምእስማማለሁ::

ተ.ቁ	ዓረፍተነገሮች	በጣም አልስማማም	አልስማማም	ገለልተኛ	እስማማለሁ	በጣም እስማማለሁ
1.	ዳሽን ባንክ አ.ማ. ዘመናዊ እይታ ያለው መሣሪያ አለው	1	2	3	4	5
2.	የዳሽንባንክ አ.ማ. የመገልገያ ቁሳቁሶች ሲታዩ የሚስቡ ናቸው	1	2	3	4	5
3.	የዳሽንባንክአ.ማ. ሠራተኞች ፕሮቶኮላቸውን የጠበቁናቸው ናቸው	1	2	3	4	5
4.	ከአገልግሎት ጋር በተያያዙ ቁሳቁሶች /እንደ በራሪ ወረቀቶች ወይም ማብራሪያዎች የመሳሰሉ/ የዳሽን ባንክ አ.ማ. በአይን ሲታዩ ሰው ይስባሉ	1	2	3	4	5
5.	ዳሽን ባንክ አ.ማ. በተወሰነ ጊዜ ውስጥ የሆነ ነገር ለመስራት ቃል ከገባ ይህንን ቃልኪዳኑን ይፈፅማል	1	2	3	4	5
6.	እርስዎ ችግር ሲኖርዎት ዳሽን ባንክ አ.ማ. ችግሩን ለመፍታት ከፍተኛ ፍላጎት ያሳያል	1	2	3	4	5
7.	ዳሽን ባንክ አ.ማ. አገልግሎቱን ገና ከመጀመሪያው ይፈጽማል	1	2	3	4	5
8.	ዳሽን ባንክ አ.ማ. እፈጽማለሁ ብሎ ቃል በገባው ጊዜ ውስጥ አገልግሎቶቹን ያቀርባል	1	2	3	4	5
9.	ዳሽን ባንክ አ.ማ. ከስህተት የጸዱ መዝገቦች እንዲኖሩ ያበረታታል	1	2	3	4	5
10.	የዳሽን ባንክ አ.ማ. ሠራተኞች አገልግሎቶች በትክክል መቼ እንደሚከናወኑ ይነግሩዎታል	1	2	3	4	5
11.	የዳሽን ባንክ አ.ማ. ሰራተኞች ቀልጣፋ አገልግሎት ይሰጥዎታል	1	2	3	4	5

12.	የዳሽን ባንክ አ.ማ. ሰራተኞች እርስዎን ለመርዳት ሁልጊዜ ፈቃደኛ ናቸው	1	2	3	4	5
13.	የዳሽን ባንክ አ.ማ. ሰራተኞች ለእርስዎ ጥያቄዎች ምላሽ ለመስጠት ፈቃደኛ ናቸው	1	2	3	4	5
14.	የዳሽን ባንክ አ.ማ. ሰራተኞች ደንበኞች በእነሱ እንዲተማመኑ ያደርጋሉ	1	2	3	4	5
15.	ከዳሽን ባንክ አ.ማ. ጋር በሚያደርጉት ግብይትዎችዎ ላይ ደህንነት ይሰማዎታል	1	2	3	4	5
16.	የዳሽን ባንክ አ.ማ. ሰራተኞች በወጥነት ለእርስዎ ትህትናን ያሳያሉ	1	2	3	4	5
17.	የዳሽን ባንክ አ.ማ. ሰራተኞች ለእርስዎ ጥያቄዎች ምላሽ ለመስጠት የሚያስችል እውቀት አላቸው	1	2	3	4	5
18.	ዳሽን ባንክ አ.ማ. ለእርስዎ በግል ትኩረት ይሰጥዎታል	1	2	3	4	5
19.	ዳሽን ባንክ አ.ማ. ለሁሉም ደንበኞቹ አመቺ የሆነ የሥራ ሰዓት አለው	1	2	3	4	5
20.	ዳሽን ባንክ አ.ማ. ለእርስዎ የግል ትኩረት የሚሰጡ ሰራተኞች አሉት	1	2	3	4	5
21.	ዳሽን ባንክ አ.ማ. የእርስዎን ምርጥ የልብ ፍላጎቶች አሉት	1	2	3	4	5
22.	የዳሽን ባንክ አ.ማ. ሰራተኞች የእርስዎን የተለዩ ፍላጎቶች ይገነዘባሉ	1	2	3	4	5
23	በአጠቃላይ በዳሽንባንክ አ.ማ. በሚሰጡት አገልግሎቶች እረክቻለሁ	1	2	3	4	5
24	ዳሽን ባንክ አ.ማ. ሁልጊዜ የእኔ የመጀመሪያ ምርጫ ነው	1	2	3	4	5
25	እያንዳንዱን ነገር ከግምት ውስጥ በማስገባት ዳሽን ባንክ አ.ማ. እጅግ በጣም ጥሩ ባንክ ነው	1	2	3	4	5

7.3 APPENDIX C

Reliability Results

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	227	100.0
	Excluded[a]	0	.0
	Total	227	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.930	25

Item Statistics

	Mean	Std. Deviation	N
Modern looking equipment	2.97	1.283	227
physical facilities are visually appealing	3.23	1.070	227
Employees are neat appearing	4.24	.866	227
material associated with the service	3.83	1.096	227
The banks promise to do something	3.55	1.061	227
The banks sincere interest to solve customers problem	3.91	1.210	227
Performing the service right the first time	3.74	1.009	227

Providing at the time promises to do	3.73	1.015	227
Insisting error free records	4.00	.910	227
employees tell exactly when the service delivered	4.07	.991	227
employees provide prompt service	4.37	.957	227
employees are always willing to help	4.41	.919	227
employees are never too busy to respond	4.27	.970	227
employees instil confidence in customers	4.23	.947	227
you feel safe in transacting with Dashen	4.17	1.055	227
employees are consistently courteous	4.37	.957	227
employees have sufficient knowledge	4.32	.819	227
The bank gives individual attention	3.85	.995	227
Convenient operating hours	4.19	.969	227
employees individual attentions for customers	4.04	1.001	227
the bank is your best interest at heart	3.66	1.111	227
the bank has customers specific needs	4.03	1.053	227
overall customer satisfaction	4.12	1.008	227
overall customer loyalty	4.17	1.038	227
overall service quality	4.07	1.043	227

LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
CORE	Centralized Online Real-time Environment
CSR	Corporate Social Responsibility
E-Commerce	Electronics Commerce
POS	Point of Sale
SPSS	Statistical Package for Social Science
SERVQUAL	Service Quality
SERFPERF	Service Performance
S.C	Share Company
VIF	Variance inflation factor