



**THE EFFECT OF CUSTOMER SERVICE QUALITY ON
CUSTOMER SATISFACTION IN BANKING INDUSTRY: THE
CASE OF COMMERCIAL BANK OF ETHIOPIA.**

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DECLARATION

I, the under signed, declare that this thesis is my original work and has not been presented for a degree in any University, and that all the sources of material used for the thesis have been duly acknowledged.

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ABSTRACT

The quality of service provided to customers' plays a vital role in any service related economic sector including the banking industry. In service providing companies, improving service quality is now regarded as the most significant act in attaining a competitive edge in the market. The general objective of this study was to assess the impact of customer service quality on customers' satisfaction in the case of Commercial Bank of Ethiopia (CBE). The study was set out as an explanatory research involving some branches of commercial bank of Ethiopia found in Addis Ababa which are selected based on convenience sampling. Structured questionnaires were administered to 350 sampled respondents, and 342 participants properly responded to question items which constitutes 97.7% response rate. Data analysis was performed through Statistical Package for Social Scientist (SPSS) version 22.00. The perceptions of customers of commercial bank of Ethiopia were assessed through the five dimensions of service quality. Both descriptive and inferential outputs were generated. Cronbach's alpha, factor analysis Spear's man correlations, and multiple regressions were computed. The results of this study indicate that, all the five service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) have positive and significant relationship with customers' satisfaction. All the five service quality dimensions (tangibility, reliability, assurance, responsiveness and empathy) significantly explain 30.5 % of the variations in the satisfaction of customers. From qualitative findings of the study, the factors most affecting customer satisfaction were sluggish network system, poorly performing ATM machines, long waiting time, not assigning enough number of customer service representatives, low problem solving ability. Therefore, the bank should try to improve its services by solving its connectivity problem, giving customer oriented training to its employees, educating its customers, developing new products, assigning enough number of customer service representatives, implementation of advanced technologies, customizing its service, giving fast response to customers problem.

Keywords: Customer Service quality, Customers' Satisfaction, Tangibility, Reliability, Responsiveness, Empathy, Assurance.

CHAPTER ONE

1. Introduction.

1.1. Background of the study

In today's highly competitive global environment, quality of services is an essential element for enhancing customers' satisfaction. Armstrong (2002) stated that service quality plays an important role in shaping customer satisfaction. The more quality products and services provided by the company, the higher would be in the customer satisfaction. Other researchers also indicated that the success of a service provider depends on the high quality relationship with customers who determine customer satisfaction (Panda, 2003, Lymperopoulos, Chaniotakis and Soureli, 2006). The globalization of competition, saturation of markets, and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product price and qualities. Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service.

Parasuraman *et.al* (1985) defined service quality as the degree and direction of discrepancy between consumer's perceptions and expectations in terms of different but relatively important dimensions of the service quality, which can affect their future purchasing behavior. From customer point of view, quality means fitness for use and meeting customer satisfaction. Banks should increase the quality of service constantly since there is no assurance that the current outstanding service is also suitable for future. Consequently, banks should "develop new strategy" to satisfy their customer and should provide quality service to distinguish themselves from rivalries (Siddiqi; 2011).

Researchers all over the globe claim that offering quality services give a sustainable competitive advantage to any business. It enables them to fulfill not only the present needs of their customers satisfactorily but also to anticipate their future needs. This ability to anticipate the future needs of customers allows them to delight their customers through quality services on consistent basis.

Subsequently it enhances customer satisfaction and customer loyalty level towards these organizations (Naik, Gantasala and Prabhakar, 2010).

Therefore, service-based companies like the banks are compelled to provide excellent services to their customers in order to have sustainable competitive advantage, especially in the current trend of trade liberalization and globalization. High patronage of services depends on the satisfaction of customers from a service. Sales are directly related to customer satisfaction; sales maximization requires improvement in the quality of service delivery to encourage continuous patronage. Customer satisfaction is a measure of how products and services supplied by a company meet or surpass customers' expectation. Parasuraman et. al (1985) proposed that when perceived service quality is high, then it will lead to increase in customer satisfaction.

Customer satisfaction is vital for service firms, particularly banks, because it is an excellent yardstick for assessing services that is built on customer's personal conclusion of service (Cronin and Taylor, 1992; Dabholkar, Shepherd, and Thorpe, 2000, Meron, M., 2015). Customer satisfaction has been recognized as an important aspect to ascertain why clients quit or continue business with a bank.

Customer satisfaction is a term most widely used in the business and commerce industry.

It is a business term that explains a measurement of the kind of products and services provided by a company to meet its customer's expectation. For some people, this may be seen as the company's key performance indicator. According to Khan, (2014), quality services are important factors in improving the performance of banks and in determining their success, i.e. better profitability and a bigger market share.

Service quality issues have long been neglected in developing economies when compared to information available about developed economies (Munusamy, Chelliah & Mun, 2010). Thus, business organizations in particular commercial Banks are required to assess the quality of the services that they provide in order to attract and retain their customers.

Commercial bank of Ethiopia is the country's largest government owned bank that provides a variety of banking services to the community. As it is well known services provided by most of banks in Ethiopia is generic in nature. Hence, there is a need to improve their services in order to create competitive advantage and keep long term customer relationship.

This research paper is done under the context of Ethiopian banking industry especially the case of CBE by consulting written documents, researches, publications and by collecting primary data

through personally administered questionnaire etc done in the area of quality customer service in creating competitive advantage and its contribution to customer satisfaction. The research is also helpful to the bank by giving insight as to how improving customer service quality tools will create a competitive advantage and improve customer satisfaction. In addition the research will be helpful as a bench mark for researchers to make further study on the area.

However, there are some trials done to improve banking products and services through various ways. Now a day's let alone service rendering organizations like banks even manufacturing organizations are trying to position themselves through rendering better quality customer service. Further the effect of advancement in technology, globalization, existence of knowledgeable customer, media fragmentation etc force service organizations to improve their customer service quality, position and customize their offerings in order to get a competitive advantage. Services are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing about a desired change in the recipient of the service (Lovelock, et.al, 2004).

In traditional marketing context where most discussions relates to goods marketing, the concept of the augmented product is often used to illustrate the idea of a product package or bundle of benefits included when a customer buys a physical good. Adaptation of this concept for services takes account of the entire service product, process and experience.

Given that the basic product concept of a service is its intangibility, it can be difficult for a customer to grasp its meaning and context unless the whole interaction between customer and producer is managed carefully and an integrated service is delivered. Characteristics of services like intangibility, variability, perishability, inseparability etc poses extra hard works to maintain service quality and satisfy customers profitably.

Three major activities revolve around making and keeping promises to customers. For services all three types of marketing activities are essential for building and maintaining relationship with customers. These are **external marketing** which involves making promise to its customers regarding what they can expect and how it will be delivered these includes the service employees, the design and décor facility and the service process itself.

Interactive marketing involves keeping promise which is the second type of marketing activity captured by the triangle and it is the most critical from customers' point of view. Service promises are most often kept or broken by the employee of the firm or by third- party providers, most often in real time. Sometimes service promises are even delivered through technology. Interactive marketing occurs in the moment of truth when the customer interacts with the organization and the service is produced and consumed. Interestingly promises are kept or broken and the reliability of service is tested every time the customer interacts with the organization.

Internal marketing: Enabling Promises A third form of marketing, takes place through the enabling of promises. In order for providers and service systems to deliver on promises made, they must have the skills, abilities, tools, and motivation to deliver. Promises are easy to make, but unless providers are recruited, trained, provided with tools and appropriate internal systems, and rewarded for good service, the promises may not be kept.

In economics and marketing differentiation is the process of distinguishing a product or service from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' product /service as well as a firm's own products/service. The concept was proposed by Edward Chamberlin in his 1933 The Theory of Monopolistic Competition.

Definition of Concepts

Service:- Services are not tangible things that can be touched, seen, and felt but rather are intangible in deeds and performances (Zeithaml and Bitner, 2000).

Customer service:- is a series of activities designed to enhance the level of customer satisfaction.

Differentiation: - is a basic business and marketing strategy, by which a company focuses on distinct differences in its offering to customers as the basis for establishing a competitive advantage.

Service intangibility:- services cannot be touched, seen, felt, inventoried, patented, displayed and pricing is also difficult (Zeithaml and Bitner, 2000).

Media fragmentation: - Describes a trend to increasing choice and consumption of a range of media in terms of different channels such as web and mobile and also within channels.

Globalization:-The process by which businesses or other organizations develop international influence or start operates on an international scale.

Competitive advantage: - is the leverage that a business has over its competitors. The two ways in which an organization can achieve competitive advantage over its rivals are cost advantage and differentiation advantage

Switching Costs: - are “the costs associated with switching supplier.” (Thompson and Cats-Baril)

Positioning : - Refers to the place that a brand occupies in the minds of customer and how it is distinguished from products of competitors (Kotler, et.al., 2009).

1.2. Statement of the Problem

Now a days, due to different causes product based competition is becoming no more effective so even manufacturing firms are focusing on service component of their offering to position their service from competitors for the reason that service based differentiation is difficult to copy and better to create competitive advantage. In most service rendering organizations including Banks, there is a problem of rendering quality customer service. Specifically, in the case of Commercial Bank of Ethiopia we observe disappointed customers due to long waiting time, lack of network connectivity, poorly working ATMs, lack of assignment of enough number of Customer service representatives etc which shows a problem in customer service quality. Hence, the research is conducted to assess the impact of customer service quality on customer satisfaction the case of CBE.

If we consider the limitations of the topic it is focused on the effect of customer service quality aspect and it considered commercial Bank of Ethiopia only. The other limitation of the research is that it is intended to study the effect of customer service quality on Customer Satisfaction aspect only .In addition the study was focused on some branches of CBE found in Addis Ababa only.

As it is known the more difficult to copy the better will be the competitive advantage of differentiated services. As it is discussed in our country most of the banks including CBE are rendering generic banking services. Thus, there is a need to enhance their services to satisfy their customers based on some customer service quality dimensions like reliability, responsiveness, tangibility, empathy & assurance.

So, I want conduct the research in Ethiopian context on government owned bank by considering the five service quality dimensions.

1.3. Research Question

Thus, the following general research questions are posed.

1. Does quality customer service contribute to customer satisfaction in Commercial Bank of Ethiopia?

Therefore based on the above literature & variables of reliability, responsiveness, tangibility, empathy and assurance, the following specific research questions are posed.

1. How do customer service quality dimensions (reliability, responsiveness, tangibility, Assurance and Empathy) affect customer satisfaction?
2. What is the relationship between reliability and customer satisfaction?
3. What is the relationship between responsiveness and customer satisfaction?
4. What is the relationship between tangibility and customer satisfaction?
5. What is the relationship between empathy and customer satisfaction?
6. What is the relationship between Assurance and customer satisfaction?

1.4 Research Objectives

The **General objective** of the study is to assess the effect of quality customer service based differentiation on customer satisfaction the case of Commercial bank of Ethiopia.

The **specific objectives** are:-

1. To assess the relationship among service quality dimensions and customer satisfaction.
2. To assess the effect of reliability on customer satisfaction.
3. To assess the effect of responsiveness on customer satisfaction.
4. To assess the effect of tangibility on customer satisfaction.
5. To assess the effect of empathy on customer satisfaction.
6. To assess the effect of assurance on customer satisfaction.

1.5. Research Hypothesis

From the above paragraph the relationship among service quality dimensions and customer satisfaction is hypothesized as follows.

- Reliability results in customer Satisfaction
- Responsiveness results in customer Satisfaction
- Tangibility results in customer Satisfaction
- Empathy result in customer Satisfaction
- Assurance result in customer Satisfaction

1.6. Significance of the Study

The study is important to CBE in assessing how quality customer service based differentiation enable the bank to have competitive position and to stand out in the market and attract loyal customers by creating switching cost & will enable the bank to know the impact of quality customer service on customer satisfaction of the bank.

Further it will help the bank to find weak loop that should be improved on the area of customer service. It will also give insight to researchers to conduct further research on related issues. In addition it will help marketing organizations, government and the general public in general as a reference.

1.7. Scope and limitations of the Study

The research paper have focused to assess the effect of customer service quality on customer satisfaction the case of CBE by especially focusing on dimensions of Service reliability, responsiveness, tangibility, empathy & assurance aspects and the research have covered only some selected branches of the bank found in Addis Ababa.

The geographical scope of the study is branches of the bank found Addis Ababa. The conceptual scope of the research is the impact of customer service quality on customer satisfaction and the methodological scope is both qualitative and quantitative methods are employed.

The variables to be studied include customer service reliability, service responsiveness, service tangibility, service empathy and service assurances. Due to financial and time constraints the

research is limited to focus on the impact of customer service quality on customer satisfaction aspect only and will not include any other resulting dependent variables of customer service quality. It is also limited to CBE especially branches found in Addis Ababa.

1.8 Organization of the Paper

The research paper is divided into five chapters. The first chapter deals with introductory part consisting of background of the study, statement of the problem, objectives of the study, significance of the study, research hypothesis, scope and limitation of the study. The second chapter deals with the review of literature that consists of theoretical, empirical, conceptual framework that is related to customer service quality dimensions and customer satisfaction. The third chapter presents details of the research design, sample size determination, sampling technique, data source and collection method, procedure of data collection and the method of data analysis. The fourth chapter deals with data presentations and interpretations of the outputs. The last chapter presents summaries of the findings, conclusions and possible recommendations.

CHAPTER TWO. LITERATURE REVIEW

2.1. Theoretical framework

It was in 1905 that the first bank, the “Bank of Abyssinia”, was established based on the agreement signed between the Ethiopian government and the National Bank of Egypt, which was owned by the British. Its capital was 1 million shillings. According to the agreement, the bank was allowed to engage in commercial banking (selling shares, accepting deposits and effecting payments in cheques) and to issue currency notes. The agreement prevented the establishment of any other bank in Ethiopia, thus giving monopoly right to the bank of Abyssinia.

The bank, which started operation a year after its establishment agreement was signed, opened branches in Harar, Dire Dawa, Gore and Dembi-Dolo as well as an agency office in Gambela and transit office in Djibouti. Apart from serving foreigners residing in Ethiopia and holding government accounts, it could not attract deposits from Ethiopian nationals who were not familiar with banking services.

Ethiopian Government, under Emperor Haile Sellasie, closed bank of Abyssinia, paid compensation to its shareholders and established the Bank of Ethiopia which was fully owned by Ethiopians, with a capital of pound Sterling 750,000 & the bank started operation in 1932. The history of commercial Bank of Ethiopia dates back to the establishment of the state Bank of Ethiopia in 1942. CBE was legally established as a share company in 1963. In 1974, CBE merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the development of the country.

The bank is pioneer to introduce modern banking to the country. The bank has more than 1280 branches stretched across the country. It is the first bank to introduce ATM service for local users. Currently CBE has more than 20 million account holders and the number of mobile and Internet Banking users also reached more than 1, 736,768 as of June 30th 2018. Active ATM card holders reached more than 4.4 million. As of June 30, 2018 1708 ATM Machine and 11, 796 POS machines were available.

It has strong correspondents’ relationship with more than 50 renowned foreign banks like Commerz Bank A.G, Royal Bank of Canada, City Bank, HSBC Bank. CBE has a SWIFT

bilateral arrangement with more than 700 other banks across the world. CBE combines a wide capital base with more than 33,000 talented and committed employees.

Pioneer to introduce Western Union Money Transfer Service in Ethiopia early 1990s and currently working with other 20 money transfer agents like Money Gram, Atlantic International (Bole), Xpress money etc. CBE has opened four branches in South Sudan and has been in business since June 2009 (Website of commercial Bank of Ethiopia).

Service differentiation and positioning strategies are great areas of interest to service marketers. Hence it is very important that marketers must be aware of the need to create and implement durable service differentiation strategies. There is a need to identify strategies resistant to competitive imitation, based on the isolating mechanisms. Mechanisms will be more likely to adopt a long-term, proactive view of service differentiation (Fisher, 2009).

As the banking industry is working to increase its efficiency, banks are becoming dehumanized and the service component is decreasing. At the same time, customers are demanding more humanized banking. Thus the gap between the supply and demand is widening in global market. Banks can narrow this gap by understanding their marketing deficiencies and by using a proactive marketing strategy. Implementation of this model will help to optimize a bank's effectiveness and thereby enhance its customers' satisfaction, providing a competitive edge.

Employees who have a high commitment to service quality will be influenced to customer's satisfaction and loyalty (Heskett et al., 1997). Similarly, in banking, the significant role of banking to the national economy makes banking efforts to improve performance as well as its competitiveness. As profit oriented financial institutions resting their activities on service quality delivery and consumer satisfaction (Anderson, et.al., 2004), they must have the readiness to constantly learn and cultivate a learning culture among members of the organization (Harris, 2002).

An organizational learning culture is expected to be a much needed banking character at this time. As a service oriented organization, to anticipate the possibility of changing the external environment, banking organization needs to transform itself to become a learner.

The market in banking industry requires a more humanized banking face with service as a competitive advantage (Mishra, *et.al.*, 2010).

Various researchers in retail banking institutions prove the same thing, that service is the main contributor of banking performance (Al-Azzam, D., 2015). Service is the competitive edge in banking. Customer service plays a pivotal role in the development of service quality (Anderson, et.al., 2004). While the quality of external service value is determined by employee satisfaction differentiated Organizations will have higher aggregate level of perceived performance and subsequent customer satisfaction, and that a large portion of variance in customer satisfaction across industries can be explained by the impact of differentiation(via perceived performance).

Service differentiation is quite challenging and needs out of the box thinking. Services may be offered individually to customer or they may be bundled with a product. Nonetheless, there are some common service characteristics which make each service unique. Service differentiation can be achieved on the basis of these characteristics. There are seven ways to differentiate your services from competition these are:-

1. Ordering ease

This is a differentiator on which many internet businesses are based nowadays. Have you noticed an increase in overall purchase because of the penetration of E-commerce? People used to do window shopping when they had time.

Now they just have to browse their smart phones whenever they are free. No doubt, this has resulted in more impulse purchases than the history of mankind. That is why E-commerce services are on the rise. And this is also the reason that most businesses prefer online marketing as the mode of selling their products.

2. Delivery

Delivery is a major marketing tactic to differentiate your services. Just look at the popularity of pizza Hut or Dominos and the only reason these two brands are popular because of their claim of “30 minutes delivery for free”. On the other hand look at services like Laundromat. They don't give you clean clothes with delivery, they ask you to come to the store and get your cloths cleaned. Both are examples which are convenient and more importantly cost effective to the customer.

In terms of E-commerce, look at Amazon prime where normal E-commerce companies commit 4-6 days delivery in 24 to 48 hours max. Moreover, if you are an Amazon prime customer, you get free delivery too. This immediately attracts the customer towards Amazon. Be a restaurant, a travel operator, an E-commerce company, whatever products or services you have to deliver, should be delivered fast and accurate. And this delivery time should be incorporated in your marketing communications. It will help you a lot to differentiate your services.

3. Installation

Companies which sell Air conditioner or technical equipment like cold rooms, Ducting equipment etc, have to differentiate themselves through their services. Are you likely to install a cold room when you know that the brand provides poor service? At any time, a restaurant's cold room has very high priced material and food items stored within the cold room. If timely installation and services are not given on site, all food items will get spoilt and the customer will suffer a huge loss. It is not only monetary affect. Due to the breakdown of the cold room, the restaurant will not be able to serve customers on that day and might have to ask customers to leave. This affects the reputation of the restaurant, and severely affects your brand image.

Besides the above heavy equipment example, even normal products require installation and it should be simple. A fridge delivered at home has an easy installation and so does a television. People have gotten so used to the plug and play system, that they don't mind the installation service taking up half an hour of their time. But it better be a fast installation, because customers will not be ready to accept a lot of installation time for an item which is practically a day to day usage thing.

4. Customer training

Customer training is necessary and an important aspect of differentiating your service. When you are selling products which are new in the market, you have to impart proper customer training so that the customer does not misuse the product. Remember- the customer is more likely to blame your company than he is to blame himself. If he does not understand the handling of the product, that is your fault too.

Many companies understand that customer training is necessary and hence they have imparted the training as a norm in their installation procedures. When you order a stove at home, the mechanic explains you the process of using it personally. When you order a washing machine, you can have a demo call along with the delivery of the washing machine. These are ways to instruct the customer on using the machine properly so that he is happy with the service.

McDonalds, Pizza hut and Dominos, all these fast expanding franchises always have training centers to train the employees of their customers. Remember, in these cases, the distributor or the person who has taken a franchise is also the internal customer of the fast food chains. These fast food chains then train the managers on how to handle their franchise and how to teach franchise management to their employees going forward. This establishes a complete chain of understanding, there by resulting in very few customer complaints.

Firms like IBM and Accenture have made big bucks through their consultation offers. Customer consulting includes numerous infrastructures or operation related consulting which can be offered in the form of data management, information systems and service advisory. FMCG companies via their product managers consult their product managers consult their business by installing software and infrastructure which directly notifies the company when the dealer does not have stock or about the stocks that he needs.

A key factor in differentiating your service when it comes to consultation is expected to have a holistic view of the complete industry and then the company he or she is consulting. Hence, knowledge and street smarts are two things differentiating a consultation company.

5. Maintenance and repair.

Repair services need to differentiate themselves with the response time. Many tech products like IPod and printer have online knowledge bases which users can refer to, so as to solve their problems immediately. Other times, Companies like Hewlett Packard and others offer fast services to their corporate and enterprise customers.

Companies like Dell and IBM have onsite engineers who take care of all customers needs. They also ensure that the network is working properly and they take care of regular infrastructure maintenance and repair in their hand. These top companies know that breakdown of network or

improper working of servers can affect a lot in the overall productivity of their employees. Hence, maintenance and repairs are handled with care.

The faster your response time, and the more quality work you do, the more easily you will differentiate your services when it is maintenance or repair service. There is good revenue generated through maintenance and repairs as well. Look at the service centers of Automobiles. They will remind you periodically of what service or maintenance is due. And these services earn a good amount through replacement or spare parts and by keeping spare parts in stock.

6. Returns

Returns are the major hurdle to E-commerce sales as well as retail sales. Ever bought a product which just didn't work? It happens to everyone, even if you have bought a top of the line brand. The nuisance is even worse in E-commerce, where E-commerce portals are actively advertizing easy returns, to the disappointment of the sellers selling products online.

There are majorly two types of returns and two ways to manage them. How you manage them helps you with service differentiation. Controllable returns are the ones where there is a genuine problem in the product, is broken on transportation or the product quality is not up to mark. If there is a high percentage of controllable return, then you know what you need to improve on.

Uncontrollable returns are returns which happen because the customer didn't understand the product or his experience was not good. Changing uncontrollable thing is difficult and as long as uncontrollable returns are small portion of your returned products you are fine.

Many automobile companies give test rides so as to manage customer expectations and the best way to differentiate your service is to have less return rates, be it a product service or a restaurant.

Factors to be considered for differentiation.

A difference is worth establishing when it meets at least one of the following criteria:

Valuable: the perceived benefit exceeds the cost

Important: delivers a benefit critical to success

Distinctive: unique or offered in a distinctive way

Superior: better technology, faster

Emotional: ties to a core emotion love, hate, desire

Communicates: understood and visible

Preemptive: cannot be easily copied

Affordable: customers can pay higher price

Profitable; Contribution (margin times volume) exceeds cost of difference

Horizontal Product Differentiation: When products can't be ordered in an objective way and are different in one or all of its features, then there is horizontal differentiation. For example, different color versions of the same iPhone or Mac Book. A lemon ice-cream is not superior than a chocolate ice-cream, is completely based on the user's preference. A restaurant may price all of its desserts at the same price and lets the consumer freely choose its preferences since all the alternatives cost the same.

Substitute goods and product Differentiation: - According to a research conducted by combining mathematics and economics, decisions of pricing depends on the substitutability between the products depends to the degree of how much differentiated the firm's products are. No firm can charge a higher price if the products are good substitutes and vice versa. For these reason, firms might jointly raise prices above the equilibrium or competitive level by coordination between themselves.

They have written or verbal collusion agreement between them. Firms operating in a market of low product differentiation might not coordinate with others, which increase the incentive to cheat the collusion agreement. On the contrast, even by slightly lowering the prices, a firm can capture large fraction of the market and obtain short term profits with highly substitutable products.

Service differentiation: - is the design and delivery of a service to have unique and valuable characteristics relative to other services in the market. It is one the mechanisms for implementing flexibility in Service-Oriented architecture involving information quality, security and consumer segmentation. It is the development and incorporation of attributes such as quality, reliability etc., that a service's intended customers perceives to be different and desirable. It is classifying different application. It determines the priorities of requesting network resources for different applications.

Positioning:- is the process of arranging for a product or a service to occupy a clear distinctive and desirable place relative to competing products or services in the minds of target customers and it depends on the differentiation, and vice versa.

Proactive marketing strategy: -is a form of marketing that allows for marketers to be agile real-time, data-driven, and adaptable to the ever –changing space of what their customers could be seeking.

Organizational learning culture: -A learning culture is a set of organizational values, conventions, processes, and practices that encourage individuals- and the organization as whole- to increase knowledge, competence, and performance. An organization with a learning culture encourages continuous learning and believes that systems influence each other.

In the past, expenditures on quality have not been explicitly linked to profits because costs and savings were the only variables on which information was available. More recently, evidence about the profit consequences of service quality stemming from other sources has been found. Evidences identify that relationships between service quality and profit that have been and need to be examined (Valarie A. Zeithaml, 2000)

Due to fierce competition in the banking sector, where the competitive struggle to win larger market share and attract the largest possible number of customers is constantly being led, and taking in to account the provision of quality customer service and consequently adequate customer relationship management as fundamental tool for achieving better business results.

Contemporary financial service industry has become highly dynamic and turbulent with many changes in form of new regulations, changed consumer behavior, increased usage of information and communication technology and intense competition (Lymperopouloset al., 2013; Heinonen, 2014).

Banks have to invest great efforts to create added value and one way to do that is to generate and support the development of long-term customer relationships that provide greater value than the value provided by the banking product itself. Building of any added value is hard to achieve nowadays since competitors activities which are often very similar, erode added value of any business (Zineldin, 2005).

Service quality plays a significant role in conventional and service industries. Customer satisfaction in the service industry depends on the quality of service and overall experience. Firms with a satisfied customer base have a competitive edge over others (Arokiasamy & Huam, 2014). Banks are key institution in the financial system and an economy significantly depends on

the efficiency of the banking sector. In the corporate world, service quality plays an important role in creating differentiation and a satisfied customer base (Kainat Y., 2017).

Customer satisfaction is a psychological state. Customers are highly satisfied when service quality exceeds their expectations (Paul, Mittal & Srivastav, 2016a). It is believed that satisfied customers keep a sustainable relationship with the company by regularly purchasing its products and services which in turn will contribute to profitability (Kashif, Suzana, Shukran, and Rehman 2015).

Customer Satisfaction.

Customer satisfaction is a basic concept as it helps organizations achieve excellence and profitability. Firms give a high priority to customer satisfaction as it is less expensive to retain existing customers than attracting new ones (Hussain, Nasser, and Hussain, 2014).

Profitability and survival of firms depend on satisfied customers. Customer satisfaction is very important in service industry such as banking. Thus, banks are not only diversifying their operations for satisfying customers but they are also incorporating quality dimensions in their strategic plans.

By providing high quality services, banks can satisfy their customers which can lead them towards a sustainable competitive advantage. Satisfied customers will not only lead to sustainable growth but will also enhance profitability and market share (Kumar, S., & Gulati, R. (2010). According to American Customer Satisfaction Index, “customer satisfaction is greater quality-pull than price-pull and value-pull”. Research suggests that satisfaction results in a positive consumer attitude towards goods and services.

Additionally, it also positively affects perceived quality and enhances the customer-organizational relationship.

Thus both product and service quality helps in attracting and retaining customers (Kumar, S., & Gulati, R. (2010). Customer satisfaction positively affects firm profitability and it is the foundation of customer loyalty, repeat purchase and word of mouth communication. Earlier studies examining the effect of quality on satisfaction found that dissatisfied customers not only stop purchasing the service but also creates negative publicity. On the contrary, satisfied

customers are likely to become strong advocates of products and help in creating a positive image (Zekiri, 2011).

Service experience.

In some cases, businesses provide the tools and means by which customers apply or use service on their own. Internet service providers provide the technology and means for customers to access the Web, for instance (Neil Kokemuller, 2014).

When it comes to customer experience and profitability, loyalty is a key. There is a significant and growing body of evidence to suggest that meeting customer expectations consistently can have a significant effect on customer loyalty, and in turn, revenue. As much as superior customer experiences are expected to be the norm, banks are falling short in regards to customer satisfaction. Nobody is ever inspired to advocate your bank after receiving a neutral experience and poor experience can even initiate a bank change. The fluid nature of today's market encourages change, and people are not afraid to leave a bank that is not providing a service they deserve and require.

In fact, customers with positive experience are three times more likely to refer others and purchase additional products than customers with negative experiences (Capgemini's Customer Experience Index (CEI), 2014).

According to Capgemini Financial Services Analysis, customers still want banks to deliver on the basics: fair pricing, broad product sets, and dependable service.

With a targeted customer service campaign and powerful customer relationship management software, banks can easily improve the number of positive experiences. A great CRM program delivers unmatched functionality and convenience, and ease of use anyone can master, and mainly, superior customer service. Practitioners like Amazon and Apple have demonstrated, real value resides not only in the products and services a company provides but also in the way that it delivers them.

A customer's banking relationship includes key Journeys that range from on boarding and transacting to maintenance and problem resolution. Depending on a bank's customer-experience goals, transformations can vary in regard to the time and resources required.

In our experience, a handful of elements are necessary to execute any program that will deliver durable impact. These include, among other things, a consistent focus on value, ensuring the customer's central role in any transformation, and the ability to scale a program.

Service Challenges

Banks are facing challenges in several areas, but there are four major challenges that stand out in today's market. These are:-

Not making enough money. Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require.

Consumer expectations. These days it's all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology.

Increasing competition from financial technology companies

Financial technology companies are usually started up companies based on using software to provide financial services. The increasing popularity of Financial Technology, disrupts the way traditional banking has been done. This creates a big challenge for traditional banks because they are not able to adjust quickly to the changes not just in technology, but also in operations, culture, and other facet of the industry.

Regulatory Pressure. Regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements (Kumar, S., & Gulati, R. (2010).

The major challenges facing the banking industry in Ethiopia are persistent inflation, the unavailability of trained man power in the market, lack of dependable infrastructure such as telecommunications and power, and the introduction and implementation of new banking technology owing to the lack of skilled man power. Other challenges include government involvement in giving lending priorities to export and manufacturing sectors.

Service Performance

In today's banking environment, bank's profitability levels have been compressed due to increased competition and spread reductions. Banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines,

but today banks are driven by customers who demand service quality (Anderson, et.al., 2004)). Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking.

Banks seeking to maximize profitability have come to realize that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank. It is well and good to recognize this need for implementing the practice of service by all of its employees. (Lewis, 1993) found that service quality was one of the most effective means of establishing a competitive position and improving profit performance.

Service Resolution

Service resolution is critical to success in service quality differentiation. Any type of business, whether product-or-service oriented, can differentiate itself with elite performance in service resolution. This involves carrying out the steps necessary to resolve customer problems or fix product or service errors. Companies that succeed in service differentiation typically have well – trained service employees who follow basic steps to listen to customer problems, work toward a satisfactory resolution and follow up to ensure the customer is happy with the outcome.

In this research both dependent and independent variables are incorporated. The dependent variable to be considered is customer satisfaction of CBE customers while the independent variables under consideration are service reliability, service responsiveness, service tangibility, service assurance & service empathy.

Customer satisfaction is a function of different factors internal and external to the organization such as employees, the service design, process, experience, government rules and regulation culture of the society etc. However in any instance service quality is the result of the difference between perceptions of customers against expectation. In my research paper I am going to measure the impact of customer service quality based service differentiation (by using SERVQUAL) on customer satisfaction of commercial bank of Ethiopia.

As it is well known nowadays let alone service industries even manufacturing firms is using quality customer service as a base to create competitive advantage and increase customer satisfaction of an organization for the reason that other product and service differentiation bases are easier to be copied and will become less attractive in a short period of time. Hence my

research will be focused to measure the Impact of quality service based differentiation on Customer satisfaction of Commercial bank of Ethiopia using SERVQUAL model of service quality dimensions.

The independent variables that are considered to have impact on service quality and customer satisfaction are reliability, Responsiveness, Tangibility, Empathy and Assurance.

Poor service quality is will put the firm at a disadvantage to the rest of the competition, potentially driving away dissatisfied customers (Lovelock & Wirtz, 2011) Service organizations are working in extremely tough environments, and service managers now realize that improving service quality is crucial for gaining a competitive advantage (Baron et al., 2009).Service quality can give high returns to the service organization when it is done correctly.

Prakash and Mohanty (2013) concluded that the higher the levels of the produced service quality, the higher will be level of customer satisfaction which leads to customer loyalty.

The term service quality as the measurement of the standards of service rendered to the customer by the service provider to the best satisfaction of the recipient. Jayaraman et al. (2010) define it as “the customer’s overall impression and cognitive judgment of the relative inferiority or superiority of the organization and its services” or as “the difference between customer expectations for the service and the perception of service received.

Service quality is not only a continuous interaction between customers and organizations but it also provides better solutions to customer problems. Thus, companies can only have a competitive advantage if they provide high quality services. Besides the quality of actual service, consumer perception on the service quality is also important.

If there is a gap between the two, companies may be required to revisit their strategy. Satisfied customers will not only give positive inputs to firms but will communicate the same to others. Customer satisfaction mainly depends upon; (1) reliability (2) security (3) responsiveness (4) Competence (5) Tangibility (6) Credibility (7) Communication (8) Courtesy (9) Understanding the customer (10) Service accessibility (Parasuraman & Zeithaml, 1988).

The service measuring model of SERVQUAL scale is a commonly used tool for measuring the quality of services. Factors including reliability, responsiveness, assurance, empathy and tangibility tend to be highly correlated. Although other models for measuring service quality are

available, researchers tend to prefer the SERVQUAL model because of its simplicity in measuring service quality (Paul .et al., 2016b).

As banking service has become highly competitive, banks are focusing on building long term relationships, enhancing satisfaction and loyalty through the provision of premium services (Mubbsher Munawar Khan & Fasih, 2014). Service quality depends on the gap between performance and expectation. This study has used five factors for measuring customer satisfaction. Service providers want to know what customers (internal or external) care about. Service quality is a good guess. Price, and to a minor degree product quality, also count. But for service providers, customers care most about service quality. After extensive research, Zeithaml, Parasuraman and Berry found five dimensions customers use when evaluating service quality. If providers get these dimensions right, customers will hand over the keys to their loyalty. Because they will have received service excellence. All dimensions are important to customers but some are more important.

Tangibility

In service organization, customers often rely on tangible evidence that surrounds the service to form their own evaluation of the service (Sulieman, R. , 2011)). Customers often look for tangible indications which considered as indicators of service quality.

Reliability

Reliability is the extent to which the service is delivered to the standards expected and promise (Siddiqi, 2011) and it represents the customer getting what they feel they have paid for.

Responsiveness

Responsiveness dimension is concerned in dealing with the customer's requests, questions and complaints promptly and attentively (Siddiqi, 2011). Companies should understand the concerns rising from the customers rather than their individual's perspective (Zeithaml,et.al, 2000).

Empathy:-Empathy is regarding the way to serve the customer whether the customers are able to feel the uniqueness or special care from the banks refers to how firms understand and solve customer problems and issues (Parasuraman &Zeithaml, 1988).

Assurance

Assurance is the degree of trust and confidence of customers to feel that the service providers are competent to provide the services (Siddiqi, 2011). The customers will not be satisfied if he or she did not feel assured about the competence of the service provider.

All these service quality dimensions will result in customer satisfaction which will contribute for customer attraction and retention.

As it is known doing business with a well established relationship is by far less costly than attracting a new customer. Therefore, all these service dimensions will help an organization to build a strong customer relationship. Hence, effective CRM is becoming very important in banking industry as it has been to any other industry to build strong relationship and improve business performance.

2.2 Empirical Framework

Research finding show that focuses on service quality is found to significantly drive global competitiveness. Specifically, its impact is stronger for large service firms and when the global environment is characterized as low kindness, high dynamism, or high complexity (Wenbin Sun, Jing Pang, 2017).

While service quality, trust and commitment are frequently cited as critical to achieving important firm outcomes, the role of service differentiation is by far largely unknown. Yet differentiation is important because a firm's distinctiveness is linked to client- perceived value, competitive advantage, and a target market focus.

Some research result indicated that service quality had an impact on trust, differentiation and relationship outcomes. Trust was found to drive service differentiation. Differentiation, in turn, drove commitment which ultimately had an impact on both satisfaction and word-of-mouth. Importantly, it was found that service differentiation is a full mediator of the impact that service quality and trust have on client commitment towards the firm (Pierre, et.al, 2010)

Some other researches suggests that an increase in channel differentiation strategy such as use of market trends to determine most appropriate channel strategy, use of different channels with the aim of minimizing cost of distribution, selling some of the products and services through intermediary and complimentary firms and applying different distribution channels so as to satisfy unique customer needs would result in an increase in performance through market share,

revenue, sales and customer satisfaction . The study sought to provide an empirical evaluation of the relationship between differentiation strategy and organizational performance (Anthony AchayoAdimo, et.al., 2017).

Service differentiation and positioning strategies are great areas of interest to service marketers. . Hence it is very important to identify strategies resistant to competitive imitation, based on the isolating mechanisms. Mechanisms will be more likely to adopt a long –term, proactive view of service differentiation (Fisher, 2009).

Other research finding shows that there is positive interrelation between all the service quality dimensions of reliability, responsiveness, tangibility, Empathy and Assurance and customer satisfaction which in turn positively correlates to profitability. Further research finding shows that SERVQUAL is the most suitable instrument to measure the banks services quality and it suggests managers to use this instrument to access the banks service quality. All dimensions of service quality are positively correlated with customer satisfaction (Tan Lay Hong, Maran Marimuthu, 2014).

The other research results show that bank performances are affected by key customer focus, CRM organization, knowledge management and technology based management. Customer relationship management is the strongest and the most efficient approach in maintaining and creating relationships with customers. In 21th century CRM is becoming very important in banking industry as it has been to any other industry. So there is a positive correlation between CRM and banks performance (Alemu Muleta Kebede & Zewdu Lake Tegegne, 2018).

Most researches show that now a day's even manufacturing firms are considering service based differentiation than product based differentiation for the reason that service based differentiation is difficult to copy and it will help to create better competitive position and provide better financial returns.

Most of the literatures reviewed shows a trend that firms are giving due attention on improving service quality to create competitive advantage. In addition, most of them agree on the concept that rendering quality service will result in customer satisfaction which in turn will result in customer loyalty, improved sales and profitability.

Most of the researches indicate that service quality is positively correlated with customer satisfaction, trust & customer loyalty and service quality is measured based on five dimensions of SERVQUAL models of reliability, responsiveness, tangibility, empathy and assurance. Some other researches show positive correlation between differentiation on service distribution channels and reduction on channel cost which results in an increase performance.

This research is going to fill the gap by assessing the impact of customer service quality on customer satisfaction of CBE through primary data collected through structured questionnaire from customers of the bank.

2.3 Conceptual frame work

Based on my literature review, the nature of relationship expected to exist is that service quality is to be evaluated based on independent variables of better service reliability, better service responsiveness; better service tangibility, assurance and empathy will result in an improved customer satisfaction.

Some research results indicated that service quality had an impact on trust, loyalty and relationship outcomes. In this research it is believed that customer satisfaction is dependent on quality service and quality is providing solutions to customers problem better than their competitors to create a competitive advantage i.e. enhancing service quality dimensions such as reliability, responsiveness, tangibility, assurance and empathy will result in improved customer satisfaction which is hypothesized as follows:-

- H1 : Service quality enhances customer satisfaction
- H₁a : Reliability enhances customer satisfaction
- H₁b: Responsiveness enhances customer satisfaction
- H₁c: Tangibility enhances customer satisfaction
- H₁d: Empathy enhances customer satisfaction
- H₁e: Assurance enhances customer satisfaction

The following graphic representation shows the hypothesized concept.

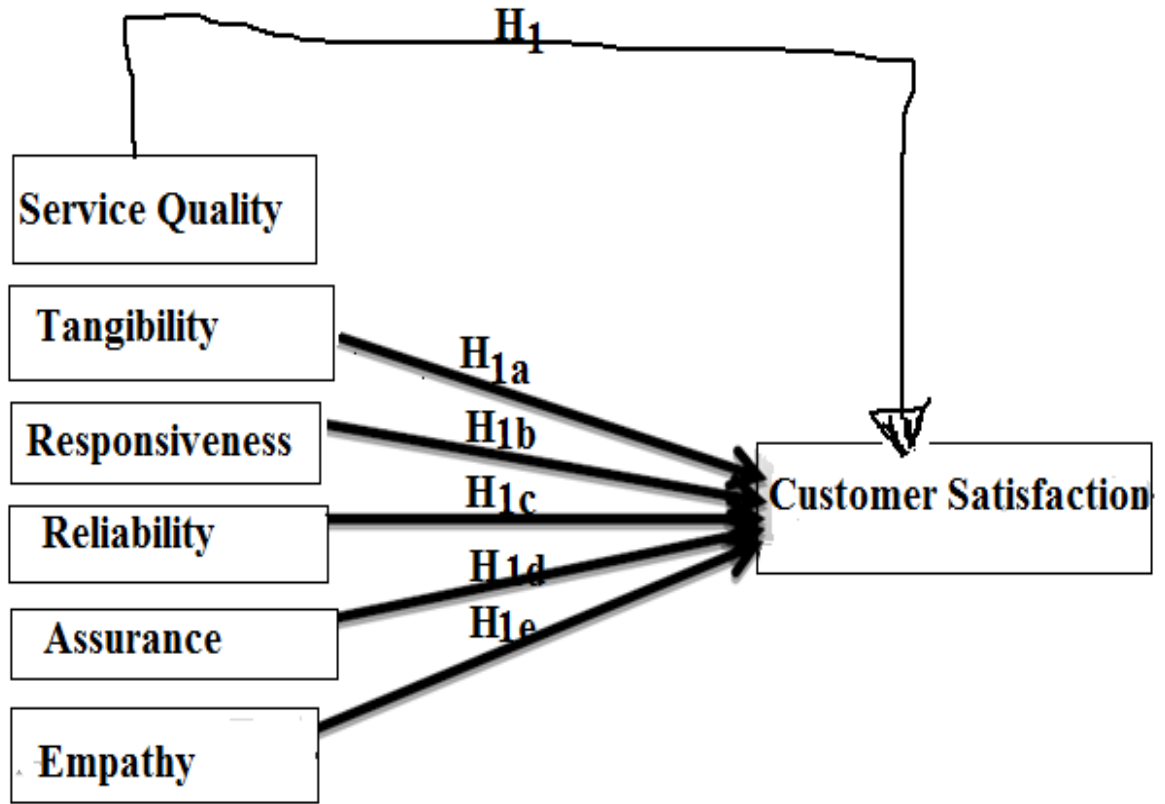


Figure 1. Conceptual Framework: Source: Zeithaml and Berry (1990).

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1. Research designs

The design used was explanatory to explain the relationship among the research variables and it was focused to assess the relationship between Customer service quality and Customer satisfaction in the case of CBE. Further, it has focused to assess the relationship between service quality dimensions with customer satisfaction.

3.2 Research Approach

In this research, both deductive and inductive approaches were used. Deductive approach works from the more general to specific whereas inductive approach works by moving from specific observations to more generalization.

3.3. Research Methods

In this study, both quantitative and qualitative approaches were used.

3.4. Population of the study

In this research, the study subjects to be considered are deemed to be customers of Commercial bank of Ethiopia. The sampling units are customers of some of CBE branches found in Addis Ababa. The data utilized in this study was obtained from annual reports of CBE from 2014-2018, website of CBE and primary data collected from customers. Convenience sampling system is used to draw the samples of branches of the bank & shopping mall intercept sampling is used to draw sample for the convenience of the researcher by keeping that the population is homogenous.

3.5. Sample size Determination and Sample Size

According to Yamane (1967), a formula to calculate sample size for a large population where a 95% confidence level and P=.5 is shown below.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size,

N is the population size,

e is the level of precision.

By applying the above formula, a total of 350 subjects from bank customers were sampled.

Pre-testing of Instruments

Pre-testing of instruments was a pre-requisite to check the validity and reliability of the items.

The validity of a measurement tool such as a questionnaire is said to be the degree to which that tool measures what it claims to measure. Brains and Manheim (2011) asserted that validity is the extent to which a concept, conclusion, or measurement is well-founded and corresponds precisely to the real world. Thus, in order to check the validity and internal consistency of the instruments, the pilot study was conducted on 35 customers of one branch of the commercial banks of Ethiopia in Addis Ababa. To check on face validity, questionnaire items were given to the customers who were selected for pilot study to obtain their suggestions. Moreover, the opinion of my advisor on the content/items of the questionnaires was sought.

Thus, to get inferential statistical values for reliability and validity of the instrument, questionnaires were administered to the pilot group. The Reliability of instrument was computed for Cronbach's α values, and the validity of instrument was analyzed by Factor analysis to assess convergent validity. The results of the factor analysis and reliability are presented in Table (3).

A composite reliability co-efficient (Cronbach's alpha) was 0.85 which indicates a good reliability to use the instrument for the study.

By computing factor analysis for convergent validity, it was found that all individual loadings were above the minimum of 0.5 recommended by Hair, et al. (1998). Thus, it can be concluded that the measures used in this study are valid and reliable.

3.6. Data Collection

The researcher collected data from primary sources through questionnaire which was administered personally and also from secondary sources by consulting different documents, Journals, annual reports of the bank, website etc. A structured questioner consisting of close ended questions complemented with open ended questions are used to collect data.

The data was collected the whole month of March, 2019 from the ten branches of CBE in Addis Ababa. Almost, equal numbers of customers were asked to fill out the questionnaires for each chosen branch. The study subjects were asked to assess their perceptions on various items representing service quality and customer satisfaction. Assessments were based on a Five-point Likert-scale ranging from "strongly disagree (1) to "strongly agree (5). Also, the level of satisfaction was ranging from highly dissatisfied (1) to highly satisfied (5).

The research instruments/ questionnaires were issued to customers as they visited the service halls first by seeking their consent. The customers were required to fill out and the questionnaire retrieved before they left the hall.

3.7. Data analysis

The data was captured, screened and coded & data analysis was done using Statistical Package for Social Sciences (SPSS) version 22. Both descriptive and inferential statistical outputs were obtained from the analysis. In the descriptive part, frequencies and percentages for demographic data of the respondents were presented. In the inferential part, correlation and multiple regression analyses were employed.

Correlation analysis was used to measure the direction and strength of the relationship between Independent variables, that is, service quality dimensions: Reliability, Tangibles, Empathy, Responsiveness & Assurance. Regression analysis was employed to establish the relative significance of each of the variables on customer satisfaction. The study used the F-test to test the hypotheses at 95% level of Confidence ($\alpha=0.05$). In addition coefficient of determination (R^2) was used to test the contribution of each independent variable on the dependent variable.

3.8 Ethical considerations

The research was designed so that the respondents do not suffer physical harm, discomfort, pain, embarrassment, or privacy. Ethical considerations of the right to choose, right to safety, right to be informed, right to privacy and confidentiality concerns of those to be involved are considered in the study. To safeguard against these, the researcher has followed guidelines by explaining study benefits, explain respondent right and protections, and obtain informed consent. Further, the research is deemed to be free of plagiarism.

CHAPTER FOUR . DATA PROCESSING AND ANALYSIS

4.1. Introduction

This chapter deals with the analysis of the data collected and the research findings. From the study subjects of 350 customers of commercial bank of Ethiopia, 342 customers responded to the questionnaires which constitutes 97% response rate. Branches of the bank involved in this study were selected according to their convenience and participant customers were selected based on shopping mall intercept sampling method. The data collected has been analyzed by using factor analysis, Cronbach's alpha and descriptive analytical tools to test the validity, reliability & explain the behavior of variables in line with the research objectives respectively.

4.2 Descriptive and Inferential Statistical outputs

4.2.1 Descriptive Analysis Results

Of the total sampled 350 customers who received questionnaires, 342 respondents fully completed the questionnaires. This constitutes 97.7% response rate. This shows that the response rate for this study was excellent and therefore enough for data analysis and interpretation.

Table 1. Demographic Characteristics of respondents

Respondents		Frequency	Percentage
Gender of customers	Female	175	51.2
	Male	167	48.8
	Total	342	100.0
Age of customers	21- 30 yrs	203	59.4
	31-40 yrs	92	26.9
	41-50 yrs	45	13.2
	51 yrs and above	2	.6
	Total	342	100.0
Educational level	Primary school	2	.6
	Secondary school	7	2.0
	Certificate	9	2.6
	Diploma	56	16.4
	First Degree and above	268	78.4
	Total	342	100.0

Source: Survey, 2019

As for age group in this research, the highest frequency and percentage are age of respondents between 21–30 years old which consist of 203 respondents (59.4%). The second highest frequency of age group was between 31–40 years old, this covers a total of 92 respondents (26.9%). Next, the age group of 41-50 years old was 45 respondents (13.2%) and age group of 51-60 years old was 2 respondents (.6%).

With regard to educational level attained, the highest frequency and percentage was first degree holders and above which constituted 268 respondents (78.4%), followed by diploma holders which comprises 56 respondents (16.4%), and the least is primary education which constituted only 2 respondents(0.6%).

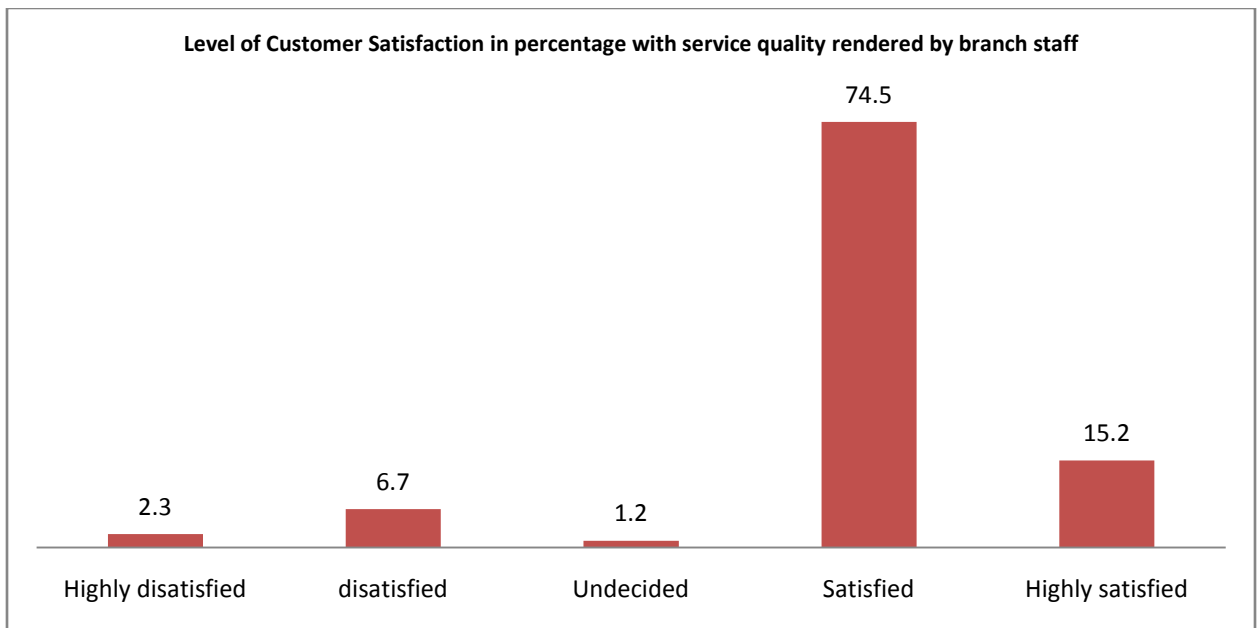


Figure 2. Level of customer satisfaction (%) with service quality rendered by branch staff.

Source: Survey, 2019

As it is seen from the above figure (2), a large proportion of customers (74.5% agreed & 15.2% strongly agreed) showed their satisfaction with services provided by branch staff. On the other hand, there are customers who disagreed (6.7%) and strongly disagreed (2.3%) with services provided by branch staff.

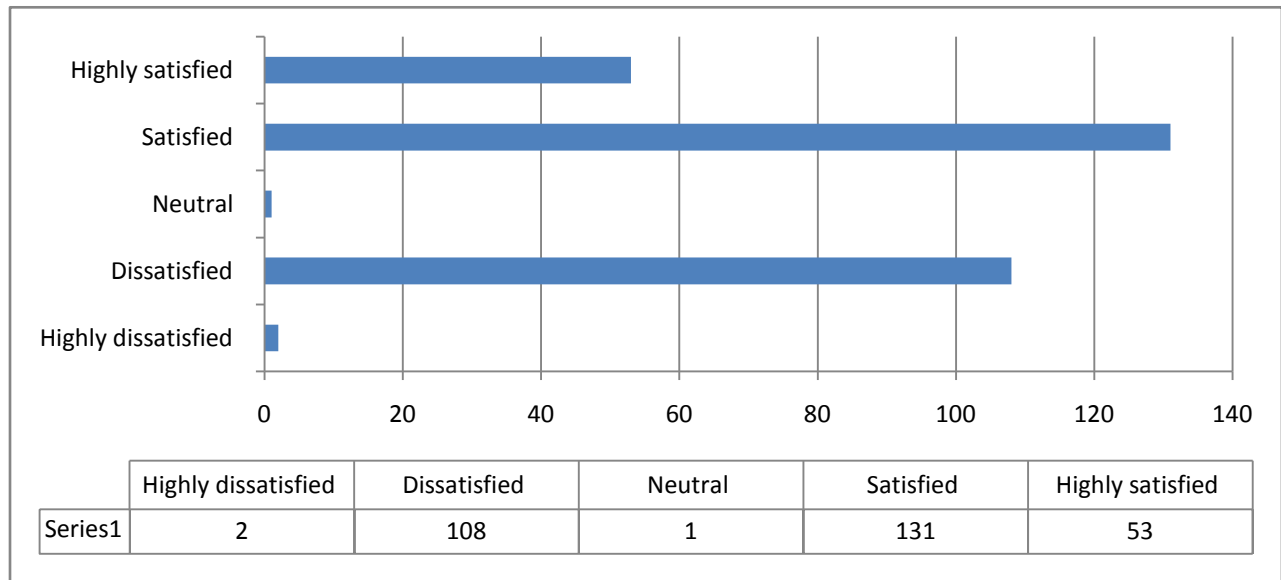


Figure 3. Customer satisfaction (frequency) with the types of services offered via CBE

Source: Survey, 2019

Overall Customer Satisfaction with Service quality provided by CBE

In order to find out the level of satisfaction of customers, the respondents were asked to express their overall satisfaction with service quality provided with CBE. As the findings are shown in Figure (3), a large proportion of the respondents (63%) indicated that they are satisfied and 22.5% highly satisfied with service quality of CBE. On the other hand, a considerable number of respondents (13.6%) expressed their dissatisfaction by rating dissatisfied and highly dissatisfied on service quality provided with CBE.



Figure 4. Overall Customer Satisfaction (%) with service quality provided by CBE
Source: Survey, 2019

4.2.2 Inferential Statistical outputs

Cronbach's alpha reliability analysis was computed in order to determine the reliability of the instrument used. Reliability means the quality of the measurements to be error-free, thus consistent result is collected (Feldt. et.al, 1989). Nunnally, J.C (1978) has suggested 0.70 as the acceptable level for reliability measure. In the current study, the alpha value **.870** indicating an acceptable & good level of reliability. To check the validity of the instrument, Factor loading was computed and the result was found above 0.6 for all service quality dimensions: As it can be seen from table(3), the factor loading values for tangibility, reliability, empathy, responsiveness, assurance are 0.70, 0.65, 0.68, 0.62, & 0.77 respectively. Thus, the convergent validity for the instrument is acceptable.

Table 2. Reliability Test Using Cronbach's Alpha

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.868	.870	20

Table 3. Factor Analysis of variables

Construct	Factor loading	KMO	% Variance	Eigen value	Reliability
Tangibility	0.70	0.86	53.4	2.82	0.92
Reliability	0.65				0.87
Empathy	0.68				0.89
Responsiveness	0.62				0.83
Assurance	0.74				0.82
Customer satisfaction	0.77	0.78	44.6	2.71	0.87

Source: Survey, 2019

Spearman's rho correlation coefficients

In order to test the relationship among variables, the Spearman's rho correlation coefficients were computed. As it is shown in table (4), all the predictor variables were shown to have a positive association with each other and also with dependent variable. The associations were found significant at the 0.05 level (2-tailed). The greatest correlation is found between tangibility and responsiveness (.427**), followed by the correlation between responsiveness and assurance (.426**). Moreover, all of the independent variables showed a positive correlation with dependent variables and were found significant at the 0.05 level (2-tailed). As it can be seen from the table (4), assurance (.459**) is the strongest followed by responsiveness (.421**) and tangibility (.398**).

Table 4. Spearman's rho.

Spearman's rho Correlations

			Reliability	Empathy	Tangibility	Responsiveness	Assurance	Customer Satisfaction
Spearman's rho	Reliability	Correlation Coefficient	1.000	.392**	.208**	.265**	.366**	.266**
		Sig. (2-tailed)		.000	.000	.000	.000	.000
		N		342	342	341	341	341
	Empathy	Correlation Coefficient		1.000	.287**	.415**	.320**	.312**
		Sig. (2-tailed)			.000	.000	.000	.000
		N			342	341	341	341
	Tangibility	Correlation Coefficient			1.000	.427**	.399**	.398**
		Sig. (2-tailed)				.000	.000	.000
		N				341	341	341
	Responsiveness	Correlation Coefficient				1.000	.426**	.421**
		Sig. (2-tailed)					.000	.000
		N					341	341
	Assurance	Correlation Coefficient					1.000	.459**
		Sig. (2-tailed)						.000
		N						341

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

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Survey , 2019

Regression Analysis

Regression analysis is a statistical measure that attempts to determine the strength of the relationship between one dependent variable and a series of other changing variables (known as independent variables). More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables remain constant. In other words, regression test provide more information about the variables relationship whereby the multiple regression can provide it so that it allows calculating a partial correlation, which is the correlation between a predictor variable and a dependent variable when holding constant another variable or variables.

Multiple Linear Regression Analysis

Multiple linear regressions make several key assumptions: Linear relationship, Multivariate normality, No or little multicollinearity, No auto-correlation, Homoscedasticity.

Firstly, linear regression needs the relationship between the independent and dependent variables to be linear. It is also important to check for outliers since linear regression is sensitive to outlier effects. Secondly, the linear regression analysis requires all variables to be multivariate normal. This assumption can best be checked with a histogram and a fitted normal curve or a Q-Q-Plot. Normality can be checked with a goodness of fit test, e.g., the Kolmogorov-Smirnov test. When the data is not normally distributed a non-linear transformation, e.g., log-transformation might fix this issue, however it can introduce effects of multicollinearity.

Thirdly, linear regression assumes that there is little or no multicollinearity in the data. Multicollinearity occurs when the independent variables are not independent from each other. A second important independence assumption is that the error of the mean has to be independent from the independent variables.

Multicollinearity might be tested with 4 central criteria:

- i. Correlation matrix– when computing the matrix of Pearson's Bivariate Correlation among all independent variables the correlation coefficients need to be smaller than 1.
- ii. Tolerance: the tolerance measures the influence of one independent variable on all other Independent variables; the tolerance is calculated with an initial linear regression analysis. Tolerance is defined as $T = 1 - R^2$ for these first step regression analysis.
- iii. Variance Inflation Factor (VIF) – the variance inflation factor of the linear regression is defined as $VIF = 1/T$. Similarly with $VIF > 10$ there is an indication for multicollinearity to be present; with $VIF > 100$ there is certainly multicollinearity in the sample.
- iv. Condition Index: the condition index is calculated using a factor analysis on the independent variables. Values of 10-30 indicate a mediocre multicollinearity in the linear b regression variables, values > 30 indicate strong multicollinearity.

Fourthly, linear regression analysis requires that there is little or no autocorrelation in the data. Autocorrelation occurs when the residuals are not independent from each other. In other words, when the value of $y(x+1)$ is not independent from the value of $y(x)$. This for instance typically occurs in stock prices, where the price is not independent from the previous price.

While a scatter plot allows you to check for autocorrelations, you can test the linear regression model for autocorrelation with the Durbin-Watson test. Durbin-Watson's *d* tests the null hypothesis that the residuals are not linearly auto-correlated. While *d* can assume values between 0 and 4, values around 2 indicate no autocorrelation. As a rule of thumb values of 1.5

The last assumption the linear regression analysis makes is homoscedasticity. The scatter plot is good way to check whether homoscedasticity (that is the error terms along the regression are equal) is given.

In multiple regressions a common goal is to determine which independent variables contribute significantly to explaining the variability in the dependent variable. A goal in determining the best model is to minimize the residual mean square, which would intern maximize the multiple correlation value, R^2 . The model that contains all independent variables will give the maximum R^2 value, but not all variables may contribute significantly to explaining the variability in the dependent variable.

In order to test the effect of independent variables (customer service quality dimensions) on dependent variable (customer satisfaction), a stepwise regression model was applied. Five extracted customer service quality dimensions such as reliability, tangibility, empathy, responsiveness and assurance were taken as independent variables against dependent variable. For all the hypotheses of the study, 95% confidence interval was used.

All the five service quality dimensions: tangibility, reliability, empathy, assurance and responsiveness showed a significant effect on dependent variable (customer satisfaction). I.e. the P- value of 0.000 (<0.05) implies significance.

As indicated in table (5), the R value is 0.419, 0.502, 0.538, 0.543 and 0.553 for model one, two, three, four and five respectively. Therefore, R values for the overall service quality dimensions namely reliability, empathy, tangibility, assurance and responsiveness suggested that there is a strong effect of the independent variables on customer satisfaction of the bank. The R- Value increased from 0.419 (reliability) to 0.553 (responsiveness). As it can be observed from the table, the coefficient of determination i.e. the R-square (R^2) value is 0.305, which representing that **30.5%** the variation of the dependent variable (Customer Satisfaction) is due to the independent variables. This result is supported by other research evidences in that service quality is an important tool for measuring customer satisfaction (Pitt, Watson, & Kavan, 1995) and a

prerequisite for establishing a satisfactory relationship with customers. As service quality improves, the probability of customer satisfaction increases.

Table 5. Model summary of regression

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.419 ^a	.175	.171	.922	
2	.502 ^b	.252	.244	.880	
3	.538 ^c	.290	.278	.860	
4	.543 ^d	.298	.286	.856	
5	.553 ^e	.305	.291	.853	1.884
<i>a. Predictors: (Constant), Reliability</i>					
<i>b. Predictors: Reliability, Empathy</i>					
<i>c. Predictors: (Constant), Reliability, Empathy, Tangibility</i>					
<i>d. Predictors: (Constant), Reliability, Empathy, Tangibility, Assurance</i>					
<i>e. Predictors: (Constant), Reliability, Empathy, Tangibility, Assurance, responsiveness</i>					

Source: Survey, 2019

Table 6. Unstandardized & Standardized Coefficients^a

Model	Un standardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	2.245	.250		8.979	.000	1.753	2.737
Tangibility	.429	.062	.380	6.961	.000	.308	.550
Reliability	.255	.050	.279	5.061	.000	.156	.355
Empathy	.257	.071	.239	3.596	.000	.116	.398
Assurance	.174	.061	.163	2.860	.004	.054	.295
Responsiveness	.124	.058	.128	2.122	.003	.009	.239

a. *Dependent Variable: : Customer Satisfaction*

Source: Survey, 2019

Based on the regression results, Hypotheses H_{1a} to H_{1e} were accepted. This finding has confirmed that there is a significant positive relationship between service quality dimensions and customer satisfaction.

Tangibility and Customer satisfaction

Tangibility is the evidence of facilities, personnel, and communication materials used by the organization while offering services to customers. The appearance of persons, physical facilities and equipment are known as tangibles (Parasuraman et al., 1998). From table (4), the correlation between tangibility and customer satisfaction was positive (0.390) and a p-value of 0.000 (Sig. 2-tailed). The regression analysis result also showed that tangibility as one dimension of service quality had a beta value of ($\beta=0.380$), with a p-value 0.000. This result indicates that about 38% customer satisfaction was explained by tangibility alone. Therefore, it is evident that tangibility has a positive impact on customer satisfaction. Thus, the hypothesis which says tangibility has a significant effect on customer satisfaction is accepted.

Reliability and Customer satisfaction

From table (4) above, the correlation between reliability and customer satisfaction was 0.282 and a p-value of 0.000 (Sig. 2-tailed). This means that the relationship between the two variables is positive and statistically significant at ($p < 0.05$). The implication of this is that reliability is a determinant of customer satisfaction. Thus, when customers perceive the bank's services to be reliable, they will be satisfied with its services. Moreover, reliability as one dimension of service quality had a beta value of ($\beta = 0.279$), at p -value 0.000. This indicates that reliability alone explains about 27.9% of customer satisfaction. The findings are in agreement with the findings of other researchers that service reliability significantly affects customer satisfaction. As it was evidently documented in Stromgren (2007), the best predictor of overall customer satisfaction was identified as the dimension of reliability. He found that customer satisfaction had a positive influence on customer satisfaction. Thus, the hypothesis which says reliability has a significant effect on customer satisfaction is accepted.

Responsiveness and Customer Satisfaction

One of the key quality determinants of service quality that significantly affect customer Satisfaction is responsiveness. According to Abdullah, et.al (2011) responsiveness reflects willingness to assist customers and offer timely service. For examples, employees are assisting them patiently and quick to respond to their needs. In this case, the behavior of employees towards customers should be pleasant and friendly. The current study indicates that responsiveness has a significant effect on customer satisfaction with ($\beta = 0.128$) at a p -value 0.003. The p -value was significant at $p < .05$ level of significance. The responsiveness alone accounts for 12.8% of customer satisfaction.

Thus, the hypothesis which says responsiveness has a significant effect on customer satisfaction is accepted.

Empathy and Customer Satisfaction

The importance of empathy in influencing satisfaction suggested that customer relationship management strategy should focus on improving in-depth understanding of customer motivation. From the findings, empathy had a significant effect on customer satisfaction with ($\beta = 0.239$) at a p -value.0.000. The p -value was significant at $p < .05$ level of significance. The empathy alone accounts for 23.9% of customer satisfaction. Therefore, the hypothesis was accepted.

Assurance and Customer satisfaction

The importance of assurance in influencing satisfaction suggested that customer relationship management strategy should work on improving trust and confidence of customers to feel that the service providers are competent to provide the services. The customers will not be satisfied if he or she did not feel assured about the competence of the service provider.

From the findings, assurance had a significant effect on customer satisfaction with ($\beta=0.163$) at a p-value.0.004. The p-value was significant at $p<.05$ level of significance and assurance accounts for 16.3% customer satisfaction. The hypothesis which says assurance has significant effect on customer satisfaction is accepted.

Therefore, the service quality dimensions namely; reliability, tangibility, empathy, assurance and responsiveness significantly affect customer satisfaction. The current findings are consistent with findings of other researchers in that there is positive relationship between service quality dimensions and customer satisfaction. A study by Lucas (2005) viewed those employees' knowledge, capability and enthusiasm to deliver products and services to their customers by satisfying identified and unidentified needs leads to customer satisfaction.

CHAPTER FIVE: SUMMARY, FINDINGS, RECOMMENDATIONS AND CONCLUSIONS.

5.1. Summary & findings

The objective of this study was to assess the effect of customer service quality on customer satisfaction in the banking sector specifically the commercial bank of Ethiopia. The study was intended to assess the degree to which service quality dimensions of reliability; responsiveness, tangibility, empathy and assurance affect customer satisfaction.

As highlighted in the problem statement, the study was deemed to assess how the service quality dimensions affect customer satisfaction. It was also intended to measure the extent to which each service quality dimension showed relationship among themselves as well as with dependent variable (customer satisfaction).

Further, the researcher was motivated by the fact that the area of service quality is under researched and the concept of service quality is poorly understood in the country. So, this research can contribute to help other researchers to conduct further study in the area.

From the research findings, all service quality dimensions: reliability, tangibility, responsiveness, empathy and assurance are positively correlated with customer satisfaction in a sense that an improvement in service dimensions will improve customer satisfaction which will lead to customer loyalty and retention. As it is well known, serving loyal customers is less costly than acquiring new customers.

The multiple regression analysis shows that all the five service quality dimensions namely: tangibility, reliability, empathy, assurance and responsiveness showed a significant effect on dependent variable (customer satisfaction). I.e. the P- value of 0.000 (<0.05) implies that the regression model is significant.

Furthermore the study shows that all the predictor variables were shown to have a positive association between them and significant at the 0.05 level (2-tailed). The greatest correlation is

found between tangibility and responsiveness (0.447), followed by the correlation between reliability and empathy (0.446).

As the findings are shown in Figure (3), a large proportion of the respondents (63%) indicated that they are satisfied and 22.5% highly satisfied with service quality of CBE. On the other hand, a considerable number of respondents (13.6%) expressed their dissatisfaction by rating dissatisfied and highly dissatisfied on service quality provided with CBE.

Qualitative suggestions given by the respondents shows that most of the clients even those who responded their satisfaction on the other aspect of the bank's service, they expressed their disappointment in poor network connectivity which make them by long waiting time. Further poorly working ATMs are also area of dissatisfaction. Even those properly working ATMs are very busy in holy days and weekends and even they become out of cash.

Another complain that comes from customers is the way loan is given to individuals i.e. They asked the bank to consider other options (non- collateral options) in order to make the mass customers beneficiary.

In addition, customers in some branches complain that lack of enough number of customer service representatives especially during lunch time contributed to low satisfaction by increasing their waiting time. Other area of dissatisfaction is poor service quality offered by the CSR such as closing windows even in working hours, lack of smile and friendly approach. (Sample questioner with suggestion will be attached)

Some other customers feel disappointment when they are asked to use all the available and newly started services & some other customers are suggesting that the bank to extend its working hour during night time just like other private banks.

From the observation of the researcher in most branches of the bank customers wait for longer time due to different reasons including lack of assigning enough number of CSRs especially during lunch time, poor net work connectivity etc. As per my observation in some branches

even though, there are ready for service windows, they are not giving the required service (no CRSs).

Further in some branches there is shortage of seats and problem of serving customer by arranging the way to serve first come first served way like other branches there is no way of arranging waiting lines which makes rendering the service in good manner.

5.2. Conclusions

- As this study is conducted with limited resource, time and scope, further research is needed in the area to contribute for service quality.
- Although the research result shows that 63% of the customers are satisfied and 22.5% are highly satisfied with overall banking services, still there is a limited knowledge and understanding of quality service by most customers. So I believe that even those which are reported as satisfied have measured their satisfaction based on narrow limited service product, process and experience knowledge so I conclude further research is needed to get conclusive results and better image of service quality.
- Further, there is a need to conduct comparative study with private banks service to get service quality gap that exists between private and government banks.
- Since the study is conducted in Addis Ababa more service quality oriented research should be done outside of Addis Ababa to get clear picture of the service quality of CBE.

5.3 Recommendation from the research result and suggestion for further research.

- I recommend the bank to work on improving its network connectivity as this is the major area of dissatisfaction further the bank have improve its ATM services especially maintaining those non- functioning ATMs quickly, replenishing them soon , increasing their number etc.

- The bank should assign enough number of customer service representatives in order to shorten waiting time of customers further the bank should evaluate and design best way of waiting for customers to get the services.
- The bank should have to set ways to serve customers offline when network connection is down because as per my assessment some customers are disappointed by the rigidity of the bank by not serving them offline.
- The bank should evaluate and redesign its service blueprint and improve those areas which are bottle neck and areas of dissatisfaction.
- The bank should educate its customers about its products and service as it is observed there is a gap of understanding on the customer side which will contribute to service failure.
- As we can see service quality is one of the best and durable differentiation strategies which is hard to copy, so as the competition is becoming fierce the bank should work and improve its service dimensions and create best service culture which is a key for customer attraction and retention.
- As per the recent information I got from the website of commercial bank of Ethiopia, out of 20,000,000 customers of the bank only 1, 736, 768 customers use internet banking and mobile banking which is about 0.086% of the total customers which is very low. Therefore, the bank have to work hard to improve the reach of this service and educate its customers and find ways to make this services easily accessible.
- From the personal observation of the researcher, the way the bank handles elders, disabled individuals and illiterate customers is exemplary so the bank should continue this good work in the future also.
- Most of the customers are satisfied with accessibility of the bank (getting the bank in their nearby), so the bank should continue to do this to reach its potential customers including areas found out of Addis Ababa.
- Regarding the call center service, most of the customers are unaware and are not using the service so, the bank should educate its customers to use the service to get service maintenance on time.
- Although most branches of the bank have relaxed lobby and good sitting arrangement, in some branches the lobby area is confined with poor sitting arrangement and neatness

which needs improvement. Further, as I have observed, in some branches customers are obliged to wait for long time which increases the number of customers waiting for the service which will expose them for theft because of poor waiting place and by not ordering customers to sit until they get the service.

- As the bank is one of the largest government owned bank much is expected in educating the society to use banking service those which are not using and to educate its customers about service products & service quality related issues. Because as I have observed there is knowledge gap, poor understanding and will on the customers side to participate on this issue.
- The bank is required to enhance the knowledge, skills, performance, professionalism of employees & introduce new service products (reliability), give customer handling trainings (both on the job and off the job), service customization (Empathy) , build trust and confidence on customers by building brand image and credibility of the bank (assurance), provide fast service resolution to customers problems(responsiveness) & improve convenience of customer lobby area, ATM functioning, professional attire of employees, neatness and lay out of setting arrangements(tangibility) to improve service quality and customer satisfaction which will in turn contribute for customer loyalty and profitability.

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Annex

Addis Ababa University College of Commerce

College of Business and Economics

School of Commerce

I am MA student at Addis Ababa University, Commercial College. I am doing my research on the effect of customer service quality on customer satisfaction: the case of Commercial Bank of Ethiopia (CBE). This research is intended to improve customer service quality you currently receive from commercial bank of Ethiopia and your response for the following questions is highly appreciated. All information provided will be treated with highest level of discretion.

Show your response by putting "√" or circling the number for the closed ended items. For open ended items, use the space provided to put your opinion/ suggestions.

Back ground Information

1. Sex. 1. Female 2. Male

2. Age: 1. 21-----30 2. 31-----40 3. 41-----50 4. 51 and above

3. Educational level: 1. Primary School 2. Secondary school 3. Certificate
4. Diploma 5. First degree and above

4. BRANCH STAFF

4.1. The branch staff has the required skills and knowledge about the bank's products and services;

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

4.2. The branch staff are friendly and behave in a courteous manner when dealing with you;

Strongly agree (5) Agree (4) Undecided (3) Disagree (2) strongly disagree (1)

4.3. The branch staff are professional and have a pleasing and presentable appearance;
Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

4.4. The branch staffs are willing to listen and respond to your needs on time;
Strongly agree (5) Agree (4) Undecided(3) Disagree(2) Strongly disagree(1)

4.5. Overall, I am satisfied with the branch staff
Highly satisfied (5) Satisfied (4) Neutral (3) dissatisfied (2) highly dissatisfied (1)

Comments if you have any

5. BRANCH APPEARANCE

5.1. The branch overall appearance is neat and orderly;
Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

5.2. The branch has sufficient and comfortable seating arrangements;
Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

5.3 The branch has sufficient staff-customer representatives and tellers for your
needs;

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

5.4 The branches have convenient working hours and are located at convenient

locations to serve you.

Strongly agree (5) Agree(4) Undecided(3) Disagree(2)Strongly disagree(1)

Comments(if any)-----

6. DIGITAL BANKING

6.1. How would you rate ease of access and the usefulness of our online banking /channels?

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

6.2. Are you satisfied with the number of services offered on our online banking platforms;

Highly satisfied (5) Satisfied (4) Neutral (3) dissatisfied(2) Highly dissatisfied(1)

6.3. Do you have any suggestions or services you would like to see offered at this bank;

COMMENTS (If any)-----

7. CALL CENTER

7.1 Are the calls answered promptly by the call center agent?

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

7.2 Are the call center staff knowledgeable and have a friendly and professional attitude?

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

7.3 The agent is genuinely interested in assisting me and resolving my complaint;

Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

7.4. Are you satisfied with the resolution provided by the assisting agent?

Highly satisfied (5) Satisfied (4) Neutral (3) dissatisfied(2) Highly dissatisfied(1)

7.5. Are you recommend CBE as preferred banking choice to your colleagues/Friends/
Family/ members?

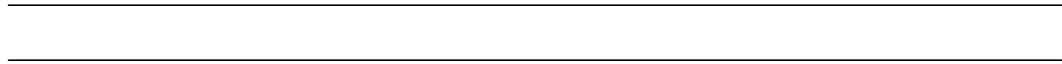
Strongly agree (5) Agree(4) Undecided(3) Disagree(2) Strongly disagree(1)

7.6 Overall, I am very satisfied with the service quality provided by CBE?

Highly satisfied (5) Satisfied (4) Neutral (3) dissatisfied(2) Highly dissatisfied(1)

7.7. Do you have any suggestions or services you would like to see offered at this bank;

COMMENTS (If any)-----



Thank You for your genuine responses!