

**The Effect of Customer Service Quality on
Customer Satisfaction in Selected Private Banks
(Addis Ababa)**

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This is to certify that the thesis prepared by Tizazu Kassa, entitled: The effect of Customer Service Quality on Customer Satisfaction in selected Private Banks in Addis Ababa and submitted in partial fulfillment of the requirements for the Degree of Masters of Business Administration in Management complies with the regulations of the university and meets the accepted standard with respect to originality and quality.

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Abstract

This research examined the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa. Service quality has been defined as a degree and direction of discrepancy between customers' service perception and expectations. Customer satisfaction is defined as the customer's subjective evaluation of a consumption experience, based on some relationship between the customer's perceptions and objective attributes of the product.

To achieve the objectives of this study, data was collected through questionnaire from a sample of 342 bank customer. These respondents were selected using simple random sampling method. The data collected from the questionnaire were analyzed using Statistical tools such as mean, standard deviation, correlation, and multiple regression analysis.

The results of this study indicate that, except responsiveness the four service quality dimensions (tangibility, assurance, empathy and reliability) have positive and significant relationship with customer satisfaction. The finding of this study also indicates that customers were most satisfied with the assurance dimensions of service quality. On the contrary, customers were less satisfied with reliability and empathy dimensions of service quality.

The results also indicate that unlike responsiveness the four service quality dimensions (tangibility, empathy, assurance and reliability) have positive and significant effect on customer satisfaction. Furthermore, the service quality dimensions (tangibility, reliability, assurance and empathy) significantly explain 80% of the variations in customer satisfaction in private banks in Addis Ababa. Based on the findings of the study, the researcher forwards some recommendations to the banks management and suggestions for other researchers.

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Acronyms

CSQ: Customer Satisfaction Questionnaire

SERVQUAL: Service Quality

SQQ: Service Quality Questionnaire

SPSS: Statistical Package for Social Sciences

CHAPTER ONE

1. Introduction

1.1. Background of the study

Service quality “has become as one of the key driving forces for business sustainability and is vital for firms’ accomplishment” (Rust and Oliver, 1994). “Customer service quality is a crucial source of distinctive competence and often considered a key success factor in sustaining competitive advantage in service industries” (Palmer, 2001). “Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers” (Howcrof 1991). Parasuraman et al., (1985) and Zeithaml et al., (1990) “noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers.”

Gefan (2002) “defined Service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get.”

Bolton and Drew (1991) “described service quality as a form of attitude that results from the comparison of expectations with performance.” Berry et al., (1990) “pointed out that since customers are the “sole judge of service quality”, an organization can build strong reputation for quality service when it can constantly meet customer service expectations.”

Similarly, “customer satisfaction is crucial in the banking sector because of the special nature of the financial services which are characterized by intensive contacts with customers who have different needs and require customized solutions” (Molina et al., 2007). “Customer satisfaction is known to be one of the most important and serious

issues towards success in today's competitive business environment, as it affects company market shares and customer retention" (Ooi, et al., 2011).

According to Hansemark and Albinson (2004) "satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some needs, goals or desire". "Customer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service" (Yi, 1990). "Customer satisfaction leads to repeat purchases, loyalty and to customer retention" (Zairi, 2000). However, "dissatisfied customers may try to reduce the dissonance by abandoning or returning the product, or they may try to reduce the dissonance by seeking information that might confirm its high value" (Kotler, 2000).

Many empirical and conceptual studies have been done on customer service quality and customer satisfaction.

The finding of Mohammad and Alhamadani (2011) indicated that service quality is an important antecedent of customer satisfaction.

Parasuraman et al., (1985) "found that service quality is significant predictor of customer satisfaction by using SERVQUAL instrument." Service quality and customer satisfaction "have been identified as key elements of the service-profit chain" (Heskett et al., 1997).

The successfulness of organization is, therefore, determined partly by the customer satisfaction.

Accordingly, Newman and Cowling (1996) "believes that excellent service quality is vital to business profitability and survival." Thus, from the finding of Newman and

Cowling, the researcher understands that if service quality is going down in the organization, it will have negative effects on the organization's profitability.

This study, therefore, investigated the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa.

1.2. Statement of the problem

The banking industry can make an economy strong and they are just in economy as there is backbone in human body. Modern banks are playing lots of new roles and making life of common consumer as well as business men easy.

In the past decade, the banking sector has undergone radical changes, resulting in a market place, which is characterized by intense competition, little growth in primary demand and increased deregulation. The government of Ethiopia increased deregulation, in order to encourage the investors to participate in the banking sectors, as a result the number of bank has been increased which further raises the competition and difficulty among the banks. In this competitive environment, each bank wants to attract the customers. This can be achieved through providing quality services to its customers.

Several studies have been done on service quality and customer satisfaction in service organization in Ethiopia. However, most of these studies were conducted on non-banking service organization (Electric Power Corporation, insurance, hotels). Only a few studies have been done on banks, but the studies were conducted in only one bank. It is not sufficient to give generalization about banks with one bank. So, the researcher wanted to see the impact of customer service quality on customer satisfaction in four private banks.

For example, Workashe (2006) conducted research on the assessment of customer satisfaction and loyalty in banking sector: The case of Abyssinia bank. The results indicate that the service quality positively affects customer satisfaction.

Levesque and McDougall (1996) “confirmed and reinforced the idea that unsatisfactory customer service leads to a drop in customer satisfaction and willingness to recommend the service to a friend.” This would in turn lead to an increase the number of customers shifts to competitors. As such, this study examined the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa.

The questions being raised in this study are: what influence do the five service quality dimensions have on customer satisfaction? What is the customers’ level of satisfaction with the service quality dimensions?

1.3. Objectives of the study

1.3.1 . General Objectives

The main objective of this study was to examine the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa.

1.3.2. Specific Objectives

- ❖ To identify the effect of tangibility on customer satisfaction of the banks
- ❖ To determine the effect of reliability on customer satisfaction of the banks
- ❖ To determine the effect of responsiveness on customer satisfaction of the banks
- ❖ To identify the effect of assurance on customer satisfaction of the banks
- ❖ To determine the effect of empathy on customer satisfaction of the banks
- ❖ To identify the customers' level of satisfaction

1.4. Hypothesis of the study

In light of the objectives articulated above, the following hypotheses were investigated:

Hypothesis 1

Ho1: Tangible will not have a positive and significant effect on customer satisfaction.

Hypothesis 2

Ho2: Reliability will not have a positive and significant effect on customer satisfaction.

Hypothesis 3

Ho3: Responsiveness will not have a positive and significant effect on customer satisfaction.

Hypothesis 4

Ho4: Assurance will not have a positive and significant effect on customer satisfaction.

Hypothesis 5

Ho5: Empathy will not have a positive and significant effect on customer satisfaction.

1.5. Significance of the Study

The ultimate goal of any business establishment is to remain in business profitably through production and sale of products or services. Without optimal profit, a business firm cannot survive. One of the core activities in a business organization is providing quality service to its customers.

The ultimate success or failure of a company depends on its ability to sell what it produces and continues offering quality services for relatively a longer period. This study is therefore intended to help the company management to direct their attention to this highly essential function of business.

The study has also the following importance:

- ❖ The findings of this research will help banks to understand the role of good customer service on customer satisfaction.
- ❖ It provides literature for the bank industry under customer service quality.
- ❖ It helps to other researchers who want to conduct further study on the subject in the future.
- ❖ It provides solution for bank industry service quality problems and it may give them an idea of where they are presently in terms of their service quality and what they should do in the future.

1.6. Justification for the study

Today the banking industry is expanding rapidly in Ethiopia, in order to win and maintain the market share of bank industry; the bank must give attention to the existing and potential customers need, want and preferences to maximize their satisfaction and loyalty. Bank must made continues customer service quality improvement program. The importance of making continuous customer service quality improvement program is to make profit, build good images, lead market, and retain customers and so on.

While having the potential to improve the quality of bank services to improve customer satisfaction and thereby economically contribute to higher benefits, this study will also serves as a useful instrument to demonstrate the impact of customer service quality on customer satisfaction through quality services in banking industries.

These quality indicators may also serve as tools of reference to bank management, giving them the basis by which to measure the levels of overall customer satisfaction in different

service quality domains. The indicators will also provide the means by which internal bank operations may be test on their functional efficiency and allow the application of appropriate corrective or regulatory measures.

1.7. Limitations of the study

All the customer of the banks were not taken as the subject of the study. Not only this but also, the fact that the study is only conducted in four private banks which limits the generalizability of the research findings.

1.8. Scope of the study

The study is limited to a section of the impact of customer service quality on customer satisfaction measures in four private banks (namely, Awash International, United, Nib international and Lion international bank). The findings of this study would have had paramount importance if more banks had been included in the research. However, it was practically unattainable to assess more than four banks due to lack of time and financial resources.

1.9. Organization of the study

This research is organized into five chapters. Chapter one contains background of the study, statement of the problem, research objectives, hypothesis of the study, significance of the study, justification of the study, limitations and scope of the study. Chapter two provides a literature review informing the reader of what is already known in this area of study. Chapter three discusses the methodology employed in the study, including, research design, sample size and sampling technique, data source and collection method, procedure of data collection and method of data analysis. Chapter four is about data analysis and discussion of results. Finally, chapter five contains summary, conclusions and recommendations.

CHAPTER TWO

2. Literature Review

2.1. Introduction

This chapter is based on the introduction given lately and the research problem presented in the introduction and the previous studies that have been done within these constructs. It provides the reader with a literature review concerning the research area. Large number of studies has been conducted in the field of service quality and customer satisfaction. There are useful contributions expressed by so many authors about service quality dimensions, tangibles, reliability, responsiveness, assurance, and empathy as important factors of quality service delivery. The definitions of customer service, service quality, characteristics of service, dimensions of service quality, multiple customer listening tools, customer satisfaction, and distinction between service quality and customer satisfaction literature will be discussed. At the end the previous studies on the area were presented. In this study, the contribution will be reviewed to show the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa.

2.2. Definitions of customer service

According to Robert W.L. (2005) “customer service is defined as the ability of knowledgeable, capable and enthusiastic employees to deliver products and services to their internal and external customers in a manner that satisfies identified and unidentified needs and ultimately result in positive word-of-mouth publicity and return business.”

“Customer service is concerned establishing, maintaining and enhancing relationships between and/or among relevant business parties in order to achieve the objective of the relevant parties” Osuagwu (2002).

According to Davidow and Uttal (1989) “customer service means all features, acts and information that augment the customer’s ability to realize the potential value of a core product or service.”

2.2.1. Service Quality

“Quality research in the goods sector was established long before it was established in the service sector” (Gummesson, 1991). Bandyopadhyay (2003, pp. 187-188) claimed that quality in goods sectors is “commonly defined as the product’s fitness for its intended use, which means how well the product meet the needs and the expectations of its customer”. Garvin (1983) referred to “the product oriented quality approach as ‘objective quality.’” (Clemes, Gan, and Kao, 2007). However, “understanding quality in the goods sector is inadequate for understanding service quality because of the fundamental difference between the two terms” (Parasuraman, et al., 1985). (Parasuraman, et al., 1985, pp. 42) “Suggest that service quality is performance based rather than objects, therefore precise manufacturing specifications concerning uniform quality can rarely be set”.

Service quality is “more difficult for consumers to evaluate than product quality; this is due to a lack of tangible evidence associated with the service” (Hong and Goo, 2004). In the past decades, researchers (Carman 1990; Garvin 1983; Parasuraman et al, 1985, 1988) have defined and measured service quality by examining the attributes of service

quality, while others (Bitner and Hubbert 1994; Iacobucci, Grayson, and Ostrom, 1994; Oliver, 1993; Oliver and DeSarbo, 1988; Parasuraman, Zeithaml, and Berry, 1994 as cited in Wei 2010) focused on the application in services to conceptualize the relationship between service quality and customer satisfaction. Therefore, a combination of the service quality and customer satisfaction literature has formed the foundation of service quality theory (Clemes et al., 2007; Parasuraman et al., 1985, 1988 as cited in Wei 2010).

“The conceptualization and measurement of service quality is one of the most debated topics in service marketing literature” (Brady and Cronin, 2001). Several researchers pointed out that service quality is difficult to measure as it is an elusive and abstract construct (Carman 1990; Garvin 1983; Parasuraman et al., 1985, 1988 as cited in Wei 2010). Shostack (1977) “described the intangibility of service that can only be rendered or experienced but not change the physical ownership after consumption.”

Parasuraman et al., (1985) “argue that service quality involves not only the outcome but also the delivery process. “And also, service quality relates to satisfaction but the two are not the same” (Cronin and Taylor, 1992; Parasuraman et al., 1985).

In addition, other researchers defined service quality in different ways. Lovelock and Wright (1999) “define quality as the degree to which a service satisfies customers by meeting their needs, wants and expectations.”

Bitner and Hubbert (1994) “define service quality as the customers’ overall impression of the relative inferiority or superiority of the organization and its services.” Gronroos (1984) “identified service quality as the evaluation process outcome, in which customers are involved and where a certain experience is always compared to the perceived service

received.” “Service quality is not objectively measured according to some technical standards but is subjectively felt by customers and measured relative to customer-determined standards” (Kwortnik, 2005). Berry et al., (1990) also “defined service quality as the discrepancy between customers’ expectations or desire and their perceptions.”

“The previous literature suggests that the evaluation of quality in services is more difficult than goods (Parasuraman et al., 1985) and that delivering quality services is increasingly recognized as the key to success for service providers” (Cronin and Taylor, 1992 as cited in Wei 2010). But, “perceived service quality has confirmed to be a complex concept to understand” (Brady and Cronin, 2001, pp.34). Therefore, Rust and Oliver (1994) propose that it is essential for companies to develop the awareness of customers’ perceptions of service quality.

2.2.2. Characteristics of Services

According to Bitner et al., (1993) service has four characteristics: intangibility, inseparability, heterogeneity and perishability.

Intangibility of Services

Regan (1963) “introduced the idea of services being activities, benefits or satisfactions which are offered for sale, or are provided in connection with the sale of goods”. The degree of intangibility has been suggested as a means of differentiating tangible products with services (Levitt, 1981). Most of the time, services are explained as being intangible since their outcome is considered to be an action rather than a physical product (Johns,

1999). (Darby and Karni 1973 and Zeithaml 1981 as cited in Wolak et al., 1998) highlight the fact that the degree of tangibility has implications for the ease with which consumers can evaluate services and products. Other researchers propose that intangibility cannot be used to differentiate clearly services with all products. (Bowen 1990 and Wyckham, Fitzroy and Mandry 1975 as cited in Wolak et al., 1998) suggest that the intangible-tangible concept is difficult for people to grasp. Bowen (1990) “provides empirical evidence to support this view.” Onkvisit and Shaw (1991) “feel that the importance of intangibility is over- emphasized”.

Inseparability of Services

Inseparability is taken to reflect the simultaneous delivery and consumption of services (Regan 1963; Wyckham et al 1975; Donnelly 1976; Grönroos 1978; Zeithaml 1981; Carman and Langeard 1980; Zeithaml et al., 1985; Bowen 1990 and Onkvisit and Shaw 1991) and it is believed to enable consumers to affect or shape the performance and quality of the service (Grönroos, 1978; Zeithaml, 1981 as cited in Wolak et al., 1998).

Heterogeneity of Services

Heterogeneity “reflects the potential for high variability in service delivery” (Zeithaml *et al.*, 1985). This is a particular problem for services with high labor content, as the service performance is delivered by different people and the performance of people can vary from day to day (Rathmell, 1966; Carman and Langeard, 1980; Zeithaml, 1985; Onkvisit and Shaw, 1991 as cited in Wolak et al., 1998). Onkvisit and Shaw (1991) consider “heterogeneity to offer the opportunity to provide a degree of flexibility and

customization of the service.” Wyckham et al., (1975) suggest that “heterogeneity can be introduced as a benefit and point of differentiation.”

Perishability of Services

In general, services cannot be stored and carried forward to a future time period (Rathmell, 1966; Donnelly, 1976; and Zeithaml et al., 1985 as cited in Wolak et al., 1998). Onkvisit and Shaw (1991) suggest that “services are “time dependent” and “time important” which make them very perishable.” Hartman and Lindgren (1993) claim that the “issue of perishability is primarily the concern of the service producer” and that the consumer only becomes aware of the issue when there is insufficient supply and they have to wait for the service.”

2.2.3. Service quality Dimensions

“Service's unique characteristics of intangibility, heterogeneity, and inseparability lead them to possess high levels of experience and credence properties, which, in turn, make them more difficult to evaluate than tangible goods” (Bitner 1990; Zeithaml 1981).

“Identification of the determinants of service quality is necessary in order to be able to specify measure, control and improve customer perceived service quality” (Johnston 1995).

The SERVQUAL “is a concise multiple-item scale with good reliability and validity that researcher can use to better understand the service expectations and perceptions of

consumers and, as a result, improve service” (Parasuraman et al., 1988). SERVQUAL was also selected since it is important when it is used occasionally to track the service quality trends, and when it is used in combination with other forms of service quality instrument (Parasuraman et al., 1985).

Parasuraman et al., (1985)” identify ten determinants for measuring service quality which are tangibility, reliability, responsiveness, communication, access, competence, courtesy, credibility, security, and understanding/knowledge of customers.” Later “these ten dimensions were further purified and developed into five dimensions i.e. tangibility, reliability, responsiveness, assurance and empathy to measure service quality, SERVQUAL” (Parasuraman et al., 1988). These five dimensions identified as follows:

Tangibility refers to physical facilities, equipment, and appearance of personnel. Jabnoun and Al-Tamimi, (2003) indicated that customers choose tangibility factor of service quality in the banking industry “Bank could build customer relationships by delivering added tangible and intangibility elements of the core products” (Zineldin, 2005).

Reliability means ability to perform the promised service dependency and accurately.

Reliability is a significant factor of product quality in addition to good personal service, staff attitude, knowledge and skills (Walker, 1990). “It is found that service reliability is the service “core” to most customers and managers should use every opportunity to build a “do-it-right-first” attitude” (Berry et al., 1990).

Responsiveness means willingness to help customers and provide prompt service. “Customers are very sensitive to employees' working environment in service organizations” (Brown and Mitchell, 1993). (Gollway and Ho, 1996) reported that proper balance between staff skills and customers' expectation resulted in superior service quality towards customers.

Assurance indicates knowledge and courtesy of employees and their ability to inspire trust and confidence. (Parasuraman et al., 1988) found that assurance is an important factor of service quality next to reliability and responsiveness towards customer satisfaction.

Assurance has “the strongest impact on customer satisfaction that leads to positive word of mouth outcome” (Arasli et al., 2005).

Empathy refers to caring, individualized attention the firm provides its customers (ibid). Jabnoun and Al-Tamimi, (2003) found that bank customers believed empathy as an essential factor of service quality. “It is suggested that employees' commitment to deliver quality services, skillfully handling of conflicts and efficient delivery of services resulted in satisfied customers for long term benefits” (Nelson and Chan, 2005).

2.3. Multiple Customer Listening Tools

There are different customer listening tools; these are: relationship surveys, transaction surveys, customer complaints, total market and life cycle surveys, in-depth interviews, focus groups and observation.

Relationship vs. Transaction Surveys

“The literature has long debated the most appropriate conceptualization of customer satisfaction” (Oliver 1997). “Some researchers argue that satisfaction is a transaction specific emotion resulting from the disconfirmation of expectations model” (Oliver 1980). On the contrary, other researchers have conceptualized and evaluated satisfaction as a universal construct, being the outcome of various past relationships with a particular seller (Oliver 1997). As of late, researchers have accepted both views of satisfaction and have modeled satisfaction with interactions and the impact on global satisfaction (Boulding, Kalra, Staelin, and Zeithaml 1993). “Following this lead, practitioners often use two satisfaction surveys a transaction survey and an overall relationship survey” (Rust, Zahorik, and Keiningham 1995).

Customer Complaints

Research has indicated that appropriately managing customer objection has a dramatic influence on customer retention and loyalty (Singh and Wilkes 1996). Research has focused on processes to handle complaints (Tax, Brown, and Chandrashekar 1998; Fornell and Westbrook 1984; Resnick and Harmon 1983), the customer’s experience (Smith, Bolton, and Wagner 1999; Hansen, Powers, Swan 1997), analysis of complaint data (Schibrowsky and Lapidus 1994), and the relationship to important business outcomes (Richins 1983 as cited in Garver S. M. 2006).

Total Market and Life Cycle Surveys

Total market surveys are used to gather perceptions of the entire market, not just company's current, regular customers. "Researchers have noted the importance of gathering perceptions of the marketplace because regular customers are often satisfied with the vendor and supply relatively high performance scores" (Gale 1994). "Inflated performance scores are a problem with satisfaction data (Oliver 1997), one that is overcome with market surveys."

"Research findings suggest that satisfaction often varies throughout the life cycle and that the importance of service/product attributes change over time" (Mittal and Tsiros 1999). Woodruff and Gardial (1996) "found that customers may devalue certain products over time, expressing declining levels of satisfaction as product usage evolves". Furthermore, Gardial et al. (1994) "found that customer expectations and the importance placed on certain attributes often change throughout the life cycle."

In-depth interviews, Focus Groups and Observation

In-depth interviews and focus groups are commonly used in practice and have received a considerable amount of attention (Greenbaum 1998; Holstein and Gubrium 1995 as cited in Garver S. M. 2006). "More advanced users will employ them on the back end of surveys to add insight into quantitative results as well (Woodruff and Gardial 1996)."

"With more complex offerings, focus groups are also used to gain an in-depth evaluation of the offering" (Krueger 1994).

“Observation instead relies upon actual behaviors and actions, inferring the participants thought processes and motivations” (Taylor 1994).

2.4. Customer satisfaction

According to Drucker (1954), “the principle purpose of a business is to create satisfied customers”. Increasing customer satisfaction has been found to lead to higher future profitability (Anderson, Fornell, and Lehmann 1994), lower costs related to defective goods and services (Anderson, Fornell, and Rust 1997), increased buyer willingness to pay price premiums, provide referrals, and use more of the product (Reichheld 1996; Anderson and Mittal 2000), and higher levels of customer retention and loyalty (Fornell 1992; Anderson and Sullivan 1993; Bolton 1998 as cited in Malthouse et al., 2003).

Increasing loyalty, in turn, has been found to lead to increases in future revenue (Fornell 1992; Anderson, Fornell, and Lehmann 1994) and reductions in the cost of future transactions (Reichheld 1996; Srivastava, Shervani, and Fahey 1998 as cited in Malthouse et al., 2003). A firm’s future profitability depends on satisfying customers in the present – retained customers should be viewed as revenue producing assets for the firm (Anderson and Sullivan 1993; Reichheld 1996; Anderson and Mittal 2000 as cited in Malthouse et al., 2003). Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. (Fornell 1992; Anderson, Fornell, and Rust 1997 as cited in Malthouse et al., 2003). “Customer satisfaction and retention that are bought through price promotions, rebates, switching barriers, and other such means are unlikely to have the same long-run impact on

profitability as when such attitudes and behaviors are won through superior products and services” (Anderson and Mittal 2000).

Several authors, on the other hand, have defined satisfaction in different way. Some definitions are given below:

Rust and Oliver (1994) defined satisfaction as “the customer’s fulfillment response which is an evaluation as well as an emotion-based response to a service.” Customer satisfaction is “a collective outcome of perception, evaluation, and psychological reaction to the consumption expectation with a product or services” (Yi, 1990). Kotler (2000) defined satisfaction as “a person’s feelings of pleasure or disappointment resulting from comparing product’s perceived performance or outcome in relation to his or her expectations.”

According to Hansemark and Albinson (2004) satisfaction is “an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some needs, goals or desire.” Satisfaction is “merely the result of things not going wrong; satisfying the needs and desires of consumers” (Besterfield, 1994). Satisfaction refers to “the buyer’s state of being adequately rewarded in a buying situation for the sacrifice he or she has made” (Al-alak, 2009).

Furthermore, Lin (2003) defined customer satisfaction as “the outcome of a cognitive and affective evaluation of the comparison between expected and actually perceived performance, which is based on how customers appraise delivery of goods or services.”

Jamal and Kamal (2002) describes customer satisfaction as “a feeling or attitude of a customer towards a product or service after it has been used.”

2.5. Distinction Between Service quality and Customer satisfaction

The literature on services has made a distinction between service quality and customer satisfaction (Bitner, 1990; Bolton & Drew, 1991; Parasuraman et al., 1988 as cited in Harr, 2008). This differentiation is important for firms to concentrate on enhancing their capability to satisfy customers through providing high service quality.

The position of scholars characterized by Parasuraman et al., (1988), is that “service quality involves an attitude and is an evaluation over several service encounters over time”. It is also “thought to be an overall assessment about a service category or an organization” (Parasuraman et al., 1988). “In support of this, respondents in Parasuraman et al., (1988)’s study demonstrated satisfaction with specific service encounters but were not happy with the service quality of the firm.”

conversely, recent thoughts on customer satisfaction is summarized in the following definition of satisfaction by Oliver (1981) as “a psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer’s prior feelings about the consumption experience”. Furthermore, definitions by other scholars (Howard & Sheth 1969; Hunt, 1979 as cited in Harr, 2008) Support the thinking that it relates to a specific service encounter. Moreover, Oliver (1981) distinguished customer satisfaction from service quality in his definition of attitude as “the consumer’s relatively enduring affective orientation for a product, store, or process while satisfaction is the

emotional reaction following a disconfirmation experience which acts on the base attitude level and is consumption-specific” (Oliver, 1981, p. 42). Therefore, service quality is “more stable and is situationally oriented” (Oliver, 1981, p. 42). The two constructs are related in that service encounters of customer satisfaction over time result in perceptions of service quality (Oliver, 1981; Parasuraman et al., 1988 as cited in Harr, 2008).

There is also a lot of argument regarding whether customer satisfaction is the antecedent of service quality or the outcome of service quality. “Initially, scholars take the position that satisfaction is an antecedent of service quality since to reach an overall attitude (service quality) implies an accumulation of satisfactory encounters” (Bitner, 1990; Bolton & Drew, 1991). However, other scholars take the opposite view that service quality is the antecedent of customer satisfaction (Cronin & Taylor, 1992; Ekinici, 2004; Rust & Oliver, 1994; Swan & Bowers, 1998 as cited in Harr, 2008).

Empirical research by Cronin & Taylor (1992) “showed that service quality has a significant effect on customer satisfaction.” Similarly, recent studies by (González & Brea, 2005; & Ekinici 2004 as cited in Harr, 2008) using recursive structural models provided empirical support that service quality results in customer satisfaction. According to Zeithaml et al., (2006), customer satisfaction “is a broader concept than service quality which focuses specifically on dimensions of service”.

2.6. Previous Studies

Research on quality of service currently has received special attention from marketing researchers. Below is a summary of results of previous studies regarding the service quality and its influence on satisfaction, published in various scientific journals.

Table 2.1: A summary of previous studies

| Authors | Antecedents | Result |
|-------------------------|--|---|
| Munusamy et al., (2010) | Five dimensions of service quality (tangibility, reliability, responsiveness, assurance and empathy) | The three service quality dimensions (assurance, empathy, and responsiveness) have positive and insignificant effect on customer satisfaction. Tangibility has a positive and significant impact on customer satisfaction. However, reliability has a negative and insignificant effect on customer satisfaction. |

| | | |
|---------------------------------------|--|---|
| <p>Mohammad and Alhamadani (2011)</p> | <p>Five dimensions of Service quality(tangibility, reliability, responsiveness, assurance and empathy)</p> | <p>The five service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) have a positive and significant effect on customer satisfaction.</p> |
| <p>Al-Hawary et al., (2011)</p> | <p>5 dimensions of SERVQUAL (tangibility, reliability, responsiveness, assurance and empathy)</p> | <p>The four service quality dimensions (tangibility, reliability, assurance, and responsiveness) have a positive and significant effect on customer satisfaction. Empathy has a negative and significant effect on customer satisfaction.</p> |
| <p>Malik et al., (2011)</p> | <p>5 dimensions of SERVQUAL(tangibility ,reliability, responsiveness, assurance and empathy)</p> | <p>The two dimensions of service quality (reliability, assurance) have a significant and positive effect on customer satisfaction. However, the rest three service quality dimensions (tangibility and responsiveness and empathy) have no contribution to customer satisfaction.</p> |

Source: Own compilation

2.7. Conceptual Framework

Service Quality is a vital antecedent of customer's satisfaction (Cronin and Taylor, 1992). In turn customer satisfaction is believed to affect post-purchase and perception and future decisions. Following from the literature review done above, the relationship between service quality variables and customer satisfaction can be shown as following. In this conceptual model the five Service quality dimensions have been selected form the study conducted by Parasuraman et al., (1988).

Parasuraman et al., (1985) conducted research on different service organization (Bank, Hotel, Electrical Corporation, Hospital, Transportation) by using ten service quality dimensions (tangibility, reliability, responsiveness, communication, access, competence, courtesy, credibility, security, and knowledge). Later Parasuraman et al., (1985) conducted research and then the ten dimensions were further purified and developed into five dimensions (tangibility, reliability, responsiveness, assurance and empathy). The reason behind purified the ten dimensions into five dimensions was the appropriateness of each service quality dimensions to different service organizations for example security dimension is appropriate for transportation, credibility dimension is appropriate for hotel. Therefore, this convinced me to use Parasuraman et al., (1988)'s model.

Service Quality Dimensions

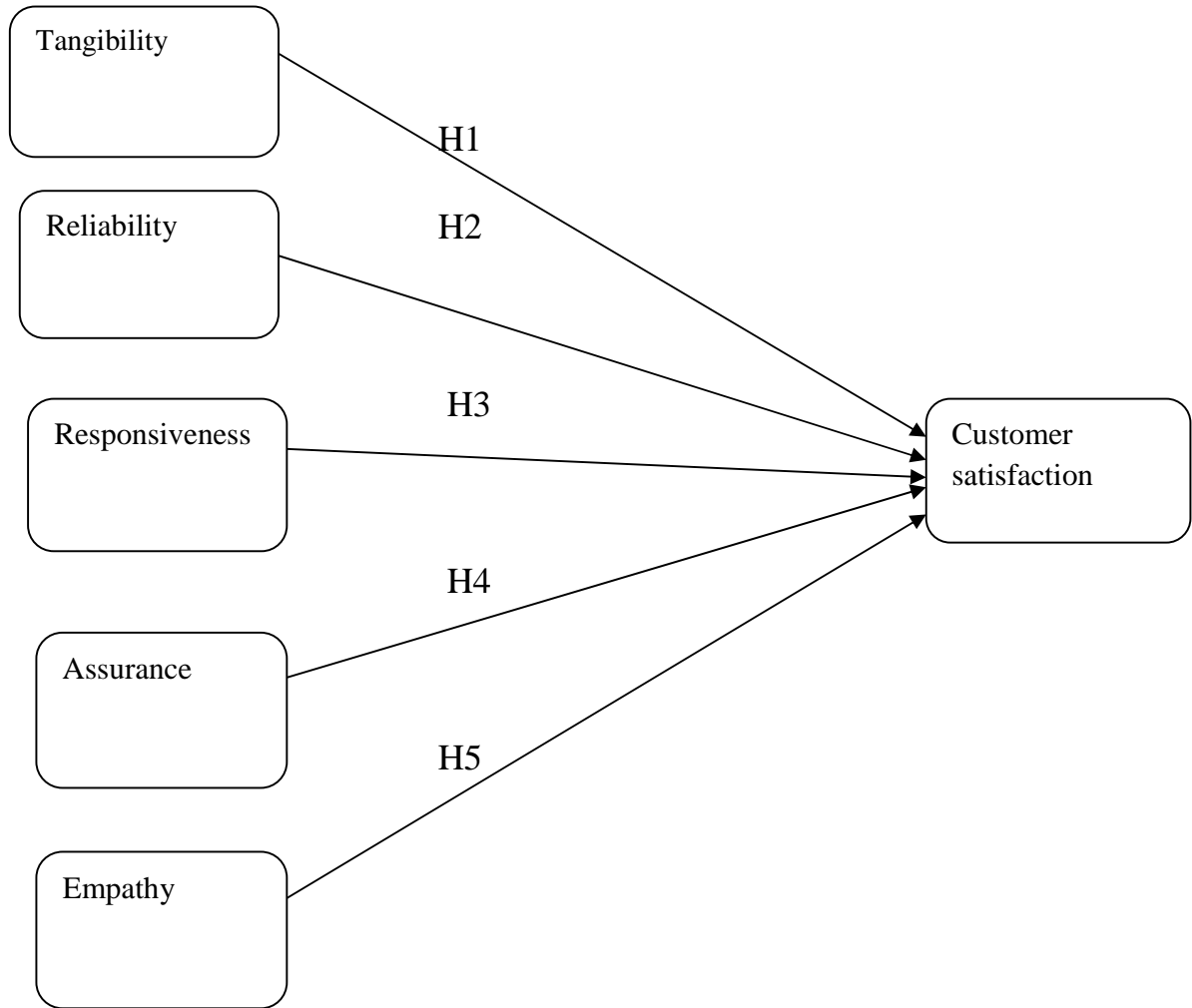


Figure 2.1. Conceptual framework of the effect of customer service quality on customer satisfaction

Source: Parasuraman et al., (1988).

CHAPTER THREE

3. Research Design and Methodology

3.1. Introduction

This chapter presents details of the research design and methodology. This includes the research design, sample size and sampling technique, data source and collection method, procedure of data collection, questionnaire and reliability test. At the end the method of data analysis was presented.

3.2. Research Design

Both descriptive and explanatory study design using quantitative method was used to analyze for data collected from customers. The reason behind using descriptive study design is because the researcher is interested in describing the existing situation under study. This study used descriptive analysis that describes the service quality dimensions that lead to customer satisfaction. This study also used explanatory study design, to explaining, understanding, predicting and controlling the relationship between variables. The study is cross-sectional in the sense that relevant data was collected at one point in time.

3.3. Sample size and Sampling technique

The sample size of banks has been determined by using simple random sampling method. Out of 12 private banks, 30 percent (4 banks) were selected as a sample. The four banks were selected on the assumption that they could represent the 12 private banks. After the

samples of banks have been determined, the researcher used the following sample size determination formula to determine the sample size of the population in four banks. The formula was developed by Taro Yamane (1967). It is calculated as follows:

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

Where **n** is the sample size,

N is the population size, and

e is the level of precision or sampling error = (0.05)

$$n = \frac{4178}{1+4178(0.05)^2} = 365$$

Hence, the total sample size is 365. Since the number of people in each bank is not the same, the number of samples for each bank was calculated by the following formula:

$$n1 = \frac{nN1}{N}$$

Where n= total number of samples

N= total number of population

N1= total number of population in each bank

n1= number of samples in each bank

The study was conducted on 4 private bank's head offices (Awash International bank, United, Nib international and Lion international bank and the total population of the study was 4178.

Table 3.1: number of customers and proportion of samples taken from each bank

| Banks | Total number of population | Total number of sample |
|--------------------------|----------------------------|------------------------|
| Awash International Bank | 1248 | 109 |
| United Bank | 1066 | 93 |
| Nib International Bank | 985 | 86 |
| Lion International Bank | 879 | 77 |
| Total | 4178 | 365 |

Source: Developed for this research

After each bank sample size was determined, the researcher used simple random sampling method to select the target customers. The rationale behind using simple random sampling technique is because each member of the population will have equal chance of being selected. For primary data collection, from the total number of population (4178) the number of samples taken was 365.

3.4. Data Source and Collection Method

For the proper achievement of the objectives of the study; the researcher was used primary data source. Primary data was collected using questionnaires. Questionnaires were distributed to the customers of the banks. The variables were attitudinal and measured using Likert scale with five response categories (strongly disagree, disagree, neither agree nor disagree, and agree strongly agree). “The Likert scale method was preferred to make questions interesting to respondents and thereby enhance their cooperation, ultimately to ensure maximum response rate” (Robson Colin, 2002).

3.5. Procedure of Data Collection

The researcher sought permission from all four private banks in Addis Ababa, permission for the survey was granted by four bank managers. After permission was granted, the questionnaires were distributed to the respondents. The survey pack included a copy of the cover letter, and the questionnaire. Collection of responded questionnaire was started after a week from date of administration and continued for a month.

3.6. Questionnaire

The questionnaire has two parts. These are: - Service Quality Questionnaire (SQQ) and Customer Satisfaction Questionnaire (CSQ)

1. Service Quality Questionnaire (SQQ)

The first part of the questionnaire measures the banks service quality by using a five – point Likert response scale which includes strongly disagree (1), disagree(2), neither agree nor disagree (3), agree (4) and strongly agree (5). After a review of the literature, 23 service quality attributes were developed in the questionnaire. SERVQUAL instrument served as a foundation for development of questionnaire.

2. Customer Satisfaction Questionnaire (CSQ)

The second part of the questionnaire measures customer satisfaction level by using a five -point Likert response scale which includes strongly disagree (1), disagree(2), neither agree nor disagree (3), agree (4) and strongly agree (5). 6 customer satisfaction items were developed in the questionnaire.

3.7. Reliability test

Reliability is defined as be fundamentally concerned with issues of consistency of measures. (Bryman and Bell, 2003).

According to Hair, et al., (2006), if α is greater than 0.7, it means that it has high reliability and if α is smaller than 0.3, then it implies that there is low reliability. To meet consistency reliability of the instrument, the questionnaire was distributed to 26 customers of Awash international Bank and Cronbach's alpha was found to be 0.745 and 0.815 for service quality questionnaire and customer satisfaction questionnaire, respectively; which is above 0.7.

3.8. Method of Data Analysis

Statistical Package for Social Science (SPSS) software for version 19.0 was employed to analyze and present the data through the statistical tools used for this study, namely descriptive analysis, correlation and multiple regression analysis.

Descriptive analysis

The descriptive statistical results were presented by tables, frequency distributions and percentages to give a condensed picture of the data. This was achieved through summary statistics, which includes the means, standard deviations values which are computed for each variable in this study.

Pearson Correlation analysis

In this study Pearson's correlation coefficient was used to determine the relationships between service quality dimensions (Tangibility, reliability, responsiveness, assurance and empathy) and customer satisfaction.

Multiple Regression Analysis

Multiple regression analysis was used to investigate the effect of service quality dimensions (Tangibility, reliability, responsiveness, assurance, and empathy) on customer satisfaction.

Regression functions

The equation of multiple regression on this study is generally built around two sets of variable, namely dependent variables (customer satisfaction) and independent variables (Tangibility, reliability, responsiveness, assurance, and empathy). The basic objective of

using regression equation on this study is to make the researcher more effective at describing, understanding, predicting, and controlling the stated variables.

Independent variables

dependent variables

Tangibility

Reliability

Responsiveness

Assurance

Empathy

Customer satisfaction

Regress customer satisfaction on the service quality dimensions

$$Y_i = \beta_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

Where Y is the dependent variable- customer satisfaction

X2, X3, X4, X5, and X6 are the explanatory variables (or the regressors)

β_1 is the intercept term- it gives the mean or average effect on Y of all the variables excluded from the equation, although its mechanical interpretation is the average value of Y when the stated independent variables are set equal to zero.

$\beta_2, \beta_3, \beta_4, \beta_5,$ and β_6 refers to the coefficient of their respective independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

CHAPTER FOUR

4. Data Analysis and Discussion of Results

4.1. Introduction

This chapter will present a discussion of the final results and the process through which the results were obtained. In addition to this, background information of respondents will be presented. Finally, the statistical methods of analysis were discussed, which included a descriptive analysis, a correlation analysis, and a multiple regression analysis through SPSS version 19.

4.2. Data Analysis

4.2.1. Background information of Respondents

Three hundred sixty five questionnaires were distributed to the respondents and out of the 365 questionnaires 348 of them were collected with a response rate of 95%. However, only 342 responses were valid with complete answers. The demographic characteristics include: gender, age, level of education, and occupation. This aspect of the analysis deals with the personal data on the respondents of the questionnaires given to them. The table below shows the details of background information of the respondents.

Table 4.1 Background information of Respondents

| Characteristics | Frequency | Percentage (%) |
|-------------------|-----------|----------------|
| Gender | | |
| Male | 183 | 53.5% |
| Female | 159 | 46.5% |
| Total | 342 | 100.0% |
| Age | | |
| 18-25 | 31 | 9.1% |
| 26-35 | 104 | 30.4% |
| 36-45 | 145 | 42.4% |
| 46-55 | 56 | 16.4% |
| >55 | 6 | 1.8% |
| Total | 342 | 100.0% |
| Educational level | | |
| High school | 42 | 12.3% |
| Certificate | 67 | 19.6% |
| Diploma | 105 | 30.7% |
| Degree | 123 | 36 % |
| Masters and above | 5 | 1.5% |
| Total | 342 | 100.0% |

| Occupation | | |
|-----------------------|-----|--------|
| Government- employees | 164 | 48% |
| Private- employees | 83 | 24.3% |
| Self-employed | 53 | 15.5% |
| Student | 32 | 9.4% |
| Others | 10 | 2.9% |
| Total | 342 | 100.0% |

Source: Own survey, 2012

The sample includes 342 customers of private banks in Addis Ababa. Table 4.1 presents the background information of the respondents for this study. The survey showed that there were more males as compared to females. Male respondents represented 53.5%, on the other hand 46.5% were females.

As far as age of respondents is concerned, 9.1% of the respondents are in the range of 18-25 years, 30.4% of the respondents are in the range of 26-35 years, 42.4% are in the range of 36-45 years, 16.8% are in the range of 46-55 and 1.8% are above 55 years. With regard to educational level of respondents, certificate holders represented 19.6% of the customer, Diploma holders represented 30.7% of the customers, and degree holders represented 36%. Masters holders represented 1.5% of the customers; finally, 12.3% of the respondents were high school graduates. It can be said from the survey that, most of the banks customers were degree holders. The lowest respondents were master holders. In the types of occupation of respondents, government employees were represented

48% of the respondents. 24.3% of the respondents were engaged in private sector, while 15.5% of them were self employed and 9.4% were students. The rest respondents were the others occupation with only 2.9%.

4.2.1. Descriptive Statistics Analysis

Table 4.2 Mean and standard deviation for united international bank’s Service quality dimension and Customer Satisfaction

| | N | Mean | Std. Deviation |
|-----------------------|-----|--------|----------------|
| Tangibility | 102 | 2.8251 | .54851 |
| Reliability | 102 | 2.2147 | .58742 |
| Responsiveness | 102 | 3.7675 | .45865 |
| Assurance | 102 | 3.9371 | .42430 |
| Empathy | 102 | 2.1286 | .59789 |
| Customer Satisfaction | 102 | 3.1582 | .53938 |
| Valid N (listwise) | 102 | | |

Source: own survey, 2012

Table 4.3 Mean and standard deviation for Awash international bank’s Service quality dimension and Customer Satisfaction

| | N | Mean | Std. Deviation |
|-----------------------|----|--------|----------------|
| Tangibility | 87 | 3.4140 | .51836 |
| Reliability | 87 | 3.2430 | .58872 |
| Responsiveness | 87 | 3.8568 | .46328 |
| Assurance | 87 | 3.9324 | .45456 |
| Empathy | 87 | 3.2564 | .58975 |
| Customer Satisfaction | 87 | 3.7487 | .47574 |
| Valid N (listwise) | 87 | | |

Source: own survey, 2012

Table 4.4 Mean and standard deviation for Nib international bank's Service quality dimension and Customer Satisfaction

| | N | Mean | Std. Deviation |
|-----------------------|----|--------|----------------|
| Tangibility | 81 | 3.6586 | .47958 |
| Reliability | 81 | 2.9862 | .58647 |
| Responsiveness | 81 | 3.4943 | .49694 |
| Assurance | 81 | 3.8435 | .45764 |
| Empathy | 81 | 3.1324 | .52546 |
| Customer Satisfaction | 81 | 3.4546 | .51325 |
| Valid N (listwise) | 81 | | |

Source: own survey, 2012

Table 4.5 Mean and standard deviation for Lion international bank's Service quality dimension and Customer Satisfaction

| | N | Mean | Std. Deviation |
|-----------------------|----|--------|----------------|
| Tangibility | 72 | 3.1425 | .56842 |
| Reliability | 72 | 2.3423 | .53974 |
| Responsiveness | 72 | 3.2549 | .54791 |
| Assurance | 72 | 3.4132 | .51435 |
| Empathy | 72 | 2.1324 | .58641 |
| Customer Satisfaction | 72 | 3.5246 | .49826 |
| Valid N (listwise) | 72 | | |

Source: own survey, 2012

As indicated in Table 4.3 customer's of Awash international bank were satisfied by the five service quality dimensions with a mean and standard deviation (tangibility 3.4140 and .51836, reliability 3.2430 and .58872, responsiveness 3.8568 and .46328, assurance

3.9324 and .45456, empathy 3.2564 and .58975) respectively. The highest number of mean indicated that the customers are more satisfied by service quality dimensions and the highest number of standard deviation indicated that the customers are less satisfied by service quality dimensions of the banks. However, table 4.2, 4.4 and 4.5 indicated that customer's of United, Nib international bank and Lion international bank were satisfied by only three service quality dimensions (tangibility, responsiveness and Assurance). Therefore, Nib international, United and Lion international banks must adopt the service quality strategies of Awash international bank.

Table 4.6 Mean and standard deviation for the four bank's Service quality dimensions and Customer Satisfaction

| | N | Mean | Std. Deviation |
|-----------------------|-----|--------|----------------|
| Tangibility | 342 | 3.7696 | .53951 |
| Reliability | 342 | 2.9364 | .58520 |
| Responsiveness | 342 | 3.7146 | .56009 |
| Assurance | 342 | 3.8492 | .55097 |
| Empathy | 342 | 2.8242 | .51837 |
| Customer Satisfaction | 342 | 3.6143 | .62141 |
| Valid N (listwise) | 342 | | |

Table 4.6 indicates that assurance has the highest mean value and reliability and empathy have least mean value. Therefore, it may be concluded from table 4.6 that respondents are most satisfied with assurance dimensions with a mean and standard deviation of 3.8492

and 0.55097 respectively. This is followed by tangibility and responsiveness. However, customers are less satisfied with reliability and empathy at a mean of 2.9364, 2.8242 respectively. The satisfaction has a mean score 3.6143 which indicates that overall customers are slightly satisfied with the service quality of banks.

4.2.2. Pearson Correlation analysis

To determine the relationship between service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) and customer satisfaction, Pearson correlation was computed. Table 4.7 below presents the results of Pearson correlation on the relationship between service quality dimension and customer satisfaction.

Table 4.7. The relationship between service quality dimensions and customer satisfaction

| | | Customer Satisfaction |
|----------------|---------------------|-----------------------|
| Tangibility | Pearson correlation | |
| | Sig.(2-tailed) | .832** |
| | N | .000 342 |
| Reliability | Pearson correlation | .756** |
| | Sig.(2-tailed) | .000 |
| | N | 342 |
| Responsiveness | Pearson correlation | -.596 |
| | Sig.(2-tailed) | .080 |
| | N | 342 |
| Assurance | Pearson correlation | .669** |
| | Sig.(2-tailed) | .000 |
| | N | 342 |
| Empathy | Pearson correlation | .786** |
| | Sig.(2-tailed) | .000 |
| | N | 342 |

Source, Own survey, 2012

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

The results in table 4.7 indicate that, there is positive and significant relationship between tangibility and customer satisfaction ($r = 0.832, p < 0.01$), reliability and customer satisfaction ($r = 0.756, P < 0.01$), assurance and customer satisfaction ($r = 0.669, P < 0.01$), empathy and customer satisfaction ($r = 0.786, < 0.01$).

However, the results also indicate that, there is a negative and insignificant relationship between responsiveness and customer satisfaction ($r = -0.596, p > 0.01$). The finding on table 4.7 above further indicates that the highest relationship is found between tangibility and customer satisfaction ($r = 0.832, p < 0.01$).

Unlike responsiveness four service quality dimensions (tangibility, reliability, assurance and empathy) has a positive relationship with customer satisfaction.

4.2.3. Multiple Regression Analysis

Multiple regression analysis was employed to examine the effect of customer service quality dimensions on customer satisfaction.

Multicollinearity Test: in multiple regression analysis, multicollinearity refers to the correlation among the independent variables.

According to (Kline, 1998) multicollinearity is not a threat if a correlation value is less than 80%. Before conducting the multiple regression analysis, the researcher examined the result of multiple correlations among the independent variables and found that, the pair wise correlation between the independent variables is less than 80%, as shown in appendices A. The following subsections present the results of multiple regression analysis.

Table 4.8 Regress Customer satisfaction on service quality dimensions

| Variable | Unstandardized Coefficients | | Standardized Coefficients | | |
|----------------|-----------------------------|------------|---------------------------|--------|--------|
| | B | Std. error | Beta | t | Sig. |
| (Constant) | -.713 | .236 | | -3.002 | .003 |
| Tangibility | .347 | .082 | .379 | 5.375 | .000** |
| Reliability | .315 | .098 | .312 | 4.352 | .000** |
| Responsiveness | -.096 | .113 | -.078 | -.851 | .376 |
| Assurance | .362 | .074 | .287 | 4.262 | .000** |
| Empathy | .416 | .103 | .326 | 3.908 | .000** |

R square .804

** P < 0.01

Source, own survey, 2012

Hypothesis testing is based on standardized coefficients beta and P-value to test whether the hypotheses are rejected or not.

Hypothesis 1

Ho1: Tangibility will not have a positive and significant effect on customer satisfaction.

Ha1: Tangibility will have a positive and significant effect on customer satisfaction.

The results of multiple regressions, as presented in table 4.8 above, revealed that tangibility has a positive and significant effect on customer satisfaction with a beta value (beta = 0.379), at 99% confidence level ($p < 0.01$). Therefore, the researcher may reject the null hypothesis and it is accepted that, tangibility has a positive and significant effect on customer satisfaction.

Hypothesis 2

Ho2: Reliability will not have a positive and significant effect on customer satisfaction.

Ha2: Reliability will have a positive and significant effect on customer satisfaction.

The results of table 4.8 showed that the standardized coefficient beta and p value of reliability were positive and significant (beta = 0.312, $p < 0.01$). Thus, the researcher may reject the null hypothesis and it is accepted that, reliability has a positive and significant effect on customer satisfaction.

Hypothesis 3

Ho3: Responsiveness will not have a positive and significant effect on customer satisfaction.

Ha3: Responsiveness will have a positive and significant effect on customer satisfaction.

As shown in table 4.8, p-value is not significant ($p > 0.01$), and the beta value of responsiveness was negative (beta = -0.078). Therefore, the researcher fails to reject the null hypothesis and responsiveness has a negative and insignificant effect on customer satisfaction.

Hypothesis 4

Ho4: Assurance will not have a positive and significant effect on customer satisfaction.

Ha4: Assurance will have a positive and significant effect on customer satisfaction.

Table 4.8 further shows that, assurance has a positive and significant effect on customer satisfaction with a beta value (beta = 0.287), at 99% confidence level ($p < 0.01$). Therefore, the researcher may reject the null hypothesis and assurance has a positive and significant effect on customer satisfaction.

Hypothesis 5

Ho5: Empathy will not have a positive and significant effect on customer satisfaction.

Ha5: Empathy will have a positive and significant effect on customer satisfaction.

Furthermore, table 4.8 also indicates that, the standardized beta and p - value of empathy were positive (beta = 0.326), and significant at 99% confidence level ($P < 0.01$). As a result, the researcher may reject the null hypothesis. So empathy has a positive and significant effect on customer satisfaction.

In overall, the results revealed that all independent variables accounted for 80% of the variance in customer satisfaction ($R^2 = 0.804$). Thus, 80% of the variation in customer satisfaction can be explained by the five service quality dimensions and other unexplored variables may explain the variation in customer satisfaction which accounts for about 20%, shown in table 4.8.

Moreover, from the findings of this study, researcher found out that not all of the service quality dimensions have positive effects on customer satisfaction. Out of the five service quality dimensions four dimensions (tangibility, reliability, assurance, and empathy) have positive and significant effects on customer satisfaction. On the other hand, responsiveness has a negative and insignificant influence on customer satisfaction.

The findings of this study also indicated that tangibility is the most important factor to have positive and significant effect on customer satisfaction, followed by empathy, assurance and reliability.

4.3. Discussion of Results

This section discusses the findings of the statistical analysis in relation to the previous research and literature.

4.3.1. Descriptive statistics (mean, and standard deviation) and correlation analysis for the service quality dimensions and customer satisfaction.

The finding of this study indicates that customers were most satisfied with the assurance dimensions of service quality. However, customers were less satisfied with reliability and empathy dimensions of service quality.

The correlation result show that there is positive and significant relationship between tangibility and customer satisfaction, reliability and customer satisfaction, assurance and customer satisfaction, empathy and customer satisfaction. However, the results indicate that, responsiveness has a negative and insignificant relationship with customer satisfaction. The finding further indicates that the highest relationship is found between tangibility and customer satisfaction.

4.3.2. Regressing customer satisfaction on the service quality dimensions

The result of this study indicates that tangibility has a positive and significant effect on customer satisfaction. This finding is supported by Munusamy et al., (2010), found that tangibility has a positive and significant effect on customer satisfaction. This finding is also supported by Al-Hawary et al., (2011) reported that tangibility has a positive and significant effect on customer satisfaction. On the contrary, Malik et al., (2011) reported that tangibility has no contribution to customer satisfaction.

The finding of this study also indicates that reliability has a positive and significant effect on customer satisfaction. This finding is supported by Al-Hawary et al., (2011) reported that reliability has a positive and significant effect on customer satisfaction. This result also supported by Malik et al., (2011), found that reliability has a significant and positive effect on customer satisfaction. On the other hand, Munusamy et al., (2010) reported that reliability has a negative and insignificant effect on customer satisfaction.

However, the finding of this study indicates that responsiveness has a negative and insignificant effect on customer satisfaction. This result is different with the study by Mohammad and Alhamadani (2011), found that responsiveness has a positive and insignificant effect on customer satisfaction. This finding is also different with the study by Al-Hawary et al., (2011) reported that responsiveness has a positive and significant effect on customer satisfaction.

Moreover, the result of this study also indicates that assurance has a positive and significant effect on customer satisfaction. This finding is supported by Malik et al., (2011), reported that assurance has a positive and significant effect on customer satisfaction. This result is also supported by Al-Hawary et al., (2011) found that assurance a positive and significant effect on customer satisfaction.

The finding of this study further indicates that empathy has a positive and significant effect on customer satisfaction. This finding is supported by Mohammad and Alhamadani (2011), reported that empathy has a positive and significant effect on

customer satisfaction. On the contrary Munusamy et al., (2010) found that empathy has a negative effect on customer satisfaction.

In overall, the results revealed that all independent variables accounted for 80% of the variance in customer satisfaction ($R^2 = 0.804$). Thus, 80% of the variation in customer satisfaction can be explained by the five service quality dimensions and other unexplored variables may explain the variation in customer satisfaction which accounts for about 20%.

Moreover, from the findings of this study, researcher found out that not all of the service quality dimensions have positive effects on customer satisfaction. Out of the five service quality dimensions four dimensions (tangibility, reliability, assurance, and empathy) have positive and significant effects on customer satisfaction. On the other hand, responsiveness has a negative and insignificant effect on customer satisfaction. The results of this study further indicate that tangibility is the most important factor to have a positive and significant effect on customer satisfaction.

CHAPTER FIVE

5. Summary, Conclusion and Recommendations

5.1. Summary

The study was intended to investigate the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa based on the questionnaire consisting of 342 randomly selected customers of four banks.

The results of background information of respondents indicated that majority of the total respondents (53.5%) are male, (42.4%) aged in the range of 36-45 years, (36%) are degree holders, and (48%) of the respondents are government employees. The results of the descriptive statistical analysis also indicated that, customers were most satisfied with the assurance dimensions of service quality followed by tangibility, responsiveness. However, customers were less satisfied with reliability and empathy dimensions of service quality.

The correlation result show that there is a positive and significant relationship between tangibility and customer satisfaction, reliability and customer satisfaction, assurance and customer satisfaction, empathy and customer satisfaction. However, the results indicate that, there is negative and insignificant relationship between responsiveness and customer satisfaction. The finding also indicates that the highest relationship was found between tangibility and customer satisfaction, while the lowest relationship was found between responsiveness and customer satisfaction.

Furthermore, the multiple regression results showed that except responsiveness the four service quality dimensions (tangibility, reliability, assurance and empathy) have positive and significant effect on customer satisfaction.

The R square value of 0.804, demonstrates that 80.4% of variation in customer satisfaction can be accounted by the service quality dimensions. The findings of this study also indicated that tangibility is the most important factor to have positive effect on customer satisfaction, followed by empathy, assurance and reliability.

5.2. Conclusion

The study was conducted to examine the effect of customer service quality on customer satisfaction in selected private banks in Addis Ababa.

The finding of the study indicates that customer's of Awash international bank were satisfied by the five service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy). However, customer's of United, Nib international bank and Lion international bank were satisfied by only three service quality dimensions (tangibility, responsiveness and Assurance).

The finding of the study also indicates that, customers were most satisfied with the assurance dimensions of service quality. However, customers were less satisfied with reliability and empathy dimensions of service quality. The correlation result shows that, unlike responsiveness the four service quality dimensions (tangibility, assurance, empathy and reliability) are positively and significantly related with customer satisfaction.

In terms of the stated research hypotheses the following specific empirical findings emerged from the investigation: The four service quality dimensions including tangibility, reliability, assurance and empathy have positive and significant effect on customer satisfaction. The findings of this study also indicated that tangibility is the most important factor to have a positive and significant effect on customer satisfaction. In addition to this, except responsiveness the four service quality dimensions significantly explain the variations in customer satisfaction.

5.3. Recommendations

Based on the findings and conclusions of the study, the researcher forwards the following recommendations to the management of the banks and suggestion for other researchers.

Empathy dimension was considered as one of the most important factors influencing customer satisfaction. However, the customers of private banks in Addis Ababa were found less satisfied in terms of the empathy dimensions. One way of addressing this could be by treating customer with great respect, giving individual attention to customers, serving customers based on their specific needs and treating customers in a friendly manner. This is to say, the bank management should focus on this factor to maximize customer satisfaction.

Furthermore, reliability dimension was considered as one of the most important factors influencing customer satisfaction. However, the customers of private banks in Addis Ababa were found less satisfied in this regard. One way of handling this problem is by delivering its services at promised times, and handling customer's complaints effectively.

The finding of the study also indicates that customer's of Awash international bank were satisfied by the five service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy). However, customer's of United, Nib international bank and Lion international bank were satisfied by only three service quality dimensions (tangibility, responsiveness and Assurance). Therefore, Nib international, United and Lion international banks must adopt the service quality strategies of Awash international bank.

Direction for Future Research

This study was conducted to examine the effect of customer service quality on customer satisfaction in selected private bank in Addis Ababa. The sample was drawn from only four private banks, thus this study may be limited in its generalisability of the findings to others private banks. So, future research should have to draw sample of respondents on more number of private banks for the sake generalizing the results of the study.

This study included only five factors, there could be some other relevant factors that may be perceived as important by customers, but those were excluded from this study. Future researches, therefore, may consider more factors, like corporate image, location, price, staff attitude and other variables which can influence customer satisfaction.

Moreover, including moderator factors and looking forward to direct or indirect relationship towards customer loyalty can also be made in the research models of the new research by the other scholars in future. Furthermore, conducting a replication study in other service industries is also needed; for example in the hotel service, telecommunication service, post office service and so on.

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APPENDICES

The following table shows correlation matrix test for multicollinearity.

Appendix A

Correlation matrix for the service quality dimensions

| | Tangible | Reliability | Responsiveness | Assurance | Empathy |
|----------------|----------|-------------|----------------|-----------|---------|
| Tangible | 1 | | | | |
| Reliability | .764** | 1 | | | |
| Responsiveness | .647** | .726** | 1 | | |
| Assurance | .632** | .753** | .627** | 1 | |
| Empathy | .769** | .634** | .546** | .674** | 1 |

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

Note that: A pair wise correlation below 80% indicates the absence of series problem of multicollinearity in the regression equation as indicated in the above correlation matrix.

Appendix B

QUESTIONNAIRE

INTRODUCTION: I am currently doing thesis on “The Impact of Customer Service Quality on Customer Satisfaction in private Banks at Addis Ababa.

The purpose of the questionnaire is to gather adequate information in Addis Ababa private bank’s customer service and customer satisfaction. In order to make the study more fruitful, your response to the given question would be necessarily. All of your response to the given question would be used for the research and will be kept confidential work.

To the end, I would like to forward my deepest gratitude for your unreserved co-cooperation in filling the questioner.

Bank -----

Part I: Background information of respondents

Directions: Please circle from the alternatives that are most applicable answer to you in respect of each of the following items.

- | | | | | | |
|---------|-----------|----------|----------|-----------|-------------------------|
| 1. Sex: | | 1. Male | | 2. Female | |
| 2. Age | 1. 18- 25 | 2. 26-35 | 3. 36-45 | 4. 46-55 | 5. Over 55 years old |

3. Educational level 1. High school 2. Certificate 3. Diploma 4. Degree 5. Masters and above

4. Occupation 1. Government employee 2. Private-employee 3. Self-employee 4. Student 5. Others please specify.....

Part II: SERVICE QUALITY QUESTIONNAIRE (SQQ)

Instructions: Please tick the number that you feel most appropriate, using the scale from 1 to 5 (Where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree).

| | Strongly Disagree | Disagree | neither agree nor disagree | Agree | Strongly agree |
|--|-------------------|----------|----------------------------|-------|----------------|
| | 1 | 2 | 3 | 4 | 5 |
| Tangible | | | | | |
| 1. The Bank has modern-looking equipment. | | | | | |
| 2. The bank has neat and disciplined employees. | | | | | |
| 3. Room is clean and provides adequate of space. | | | | | |
| 4. Employees' uniforms are attractive. | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| 5. Printed materials (forms, brochures, bank cards, etc) look attractive. | | | | | |
| Reliability | | | | | |
| 6. The bank provides its services at promised times. | | | | | |
| 7. Employees are consistently courteous. | | | | | |
| 8. The employees handled customer's complaints effectively. | | | | | |
| 9. Employees provide accurate information to customers. | | | | | |
| 10. Employees show dependability in handling service problem. | | | | | |
| Responsiveness | | | | | |
| 11. Employees are happy and willing to serve the customer. | | | | | |
| 12. The bank provides diversified service to the customers. | | | | | |
| 13. The bank gives prompt service. | | | | | |
| 14. The bank gives quick response to customer requests. | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| Assurance | | | | | |
| 15. The employee has the required skill in providing services. | | | | | |
| 16. Bank employees are trustworthy. | | | | | |
| 17. The employees have sufficient knowledge of service information | | | | | |
| 18. The employees make customers feel safe in their transactions. | | | | | |
| 19. Employee instills confidence in customers. | | | | | |
| Empathy | | | | | |
| 20. Employees always treat customers in a friendly manner. | | | | | |
| 21. Employees understand customers' specific needs. | | | | | |
| 22. Employees treat customer with great respect. | | | | | |
| 23. Employees give individual attention to customers. | | | | | |

III. CUSTOMER SATISFACTION QUESTIONNAIRE (CSQ)

| | strongly disagree | disagree | neither agree nor disagree | Agree | Strongly agree |
|--|-------------------|----------|----------------------------|-------|----------------|
| Customer satisfaction | | | | | |
| 24. I am satisfied with the bank's complete range of services. | | | | | |
| 25. I am satisfied with the performance of the employees of this bank. | | | | | |
| 26. I am satisfied of being a client of this bank. | | | | | |
| 27. I am satisfied with the bank employees' professional competence | | | | | |
| 28. I am satisfied with the quick service of this bank. | | | | | |
| 29. I am satisfied with the respectful behavior of employees. | | | | | |

መጠይቅ

እኔ የአዲስ አበባ ዩኒቨርሲቲ የMBA ንግድ ተምሪ ስሆን በአሁኑ ሰዓት የመመረቄያ ጥናቴን የማድረገው በአዲስ አበባ የግል ባንኮች የሚሰጡት የደንበኞች አገልግሎት

መመሪያ፡- እባክዎን ከተሰጡት አማራጮች የተሰማሙበት ላይ (✓) ምልክት ያድርጉ።

የሚስማሙበትን የሚለኩበት የሚከተሉት ናቸው።

1. በጣም አልስማማም 2. አልስማማም
 3. ምንም አይመስለኝም 4. እስማማለሁ 5. በጣም
 እስማማለሁ

| ተ.ቁ | ታንጅብል | በጣም አልስማማም | አልስማማም | ምንም አይመስለኝም | እስማማለሁ | በጣም እስማማለሁ |
|-----|--|---------------|--------|----------------|--------|---------------|
| 1 | ባንኩ ዘመናዊ መሳሪዎች አሉት | | | | | |
| 2 | ባንኩ ፅዱና ስነምግባር ያላቸው ሰራተኞች አሉት | | | | | |
| 3 | ባንኩ ንፁህና ሰፊ ወለል አለው | | | | | |
| 4 | የባንኩ ሰራተኞች የደንብ ልብስ ማራኪ ነው | | | | | |
| 5 | የባንክ አገልግሎት መስጫ ፎርም፣ ብሮሽሮችና ባንክ ካርዶች ለይታ ማራኪ ናቸው | | | | | |
| 6 | ባንኩ በሚሰጠው ቀጠሮ መሰረት አገልግሎቱን ይሰጣል | | | | | |
| 7 | የባንኩ ሰራተኞች ትሁት ናቸው | | | | | |
| 8 | የባንኩ ሰራተኞች የደንበኞችን ቅሬታ በአግባቡ ይፈታሉ | | | | | |

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| 9 | ሰራተኞቹ ለደንበኞች ትክክለኛ መረጃ ይሰጣሉ | | | | | |
| 10 | ሰራተኞቹ የአገልግሎት ችግር ፈችነታቸውን ያሳያሉ | | | | | |
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| 11 | የባንኩ ሰራተኞች ደንበኛን ለማገልገል ደስተኛና ፍቃደኞች ናቸው | | | | | |
| 12 | ባንኩ የተለያዩ ዘርፈ ብዙ አገልግሎት ይሰጣል | | | | | |
| 13 | ባንኩ ፈጣን አገልግሎት ይሰጣል | | | | | |
| 14 | የባንኩ ሰራተኞች ለደንበኞች ጥያቄ ፈጣን ምላሽ ይሰጣሉ | | | | | |
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| 15 | ሰራተኞቹ አገልግሎቱን ለመስጠት የሚያስችል ክህሎት አላቸው | | | | | |
| 16 | የባንኩ ሰራተኞች ታማኝ ናቸው | | | | | |
| 17 | ሰራተኞቹ ስለአገልግሎታቸው መረጃ በቂ የሆነ እውቀት አላቸው | | | | | |
| 18 | ሰራተኞቹ ደንበኞች አገልግሎት በሚያገኙበት ጊዜ የደህንነት ስሜት እንዲሰማቸው ያደርጋሉ | | | | | |
| 19 | ሰራተኞቹ ደንበኞች በራስ መተማመን እንዲኖቸው ያደርጋሉ | | | | | |
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| 20 | ሰራተኞቹ ደንበኞችን የሚያገለግሉት ጓደኛዎ በሆነ | | | | | |

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| | መልኩ ነው | | | | | |
| 21 | ሰራተኞች የደንበኞችን የግል ፍላጎት ይረዳሉ | | | | | |
| 22 | ሰራተኞቹ ደንበኞችን የሚያገለግሉት ከታላቅ አክብሮት ጋር ነው | | | | | |
| 23 | ሰራተኞቹ ግለሰባዊ ትኩረት ለደንበኞች ይሰጣሉ | | | | | |

III. የደንበኛ እርካታ መጠይቅ

| ተ.ቁ | የደንበኛ እርካታ | በጣም አልሰማማም | አልሰማማም | ምንም አይመስለኝም | እስማማለሁ | በጣም እስማማለሁ |
|-----|----------------------------|------------|--------|-------------|--------|------------|
| 24 | በባንኩ የተሟላ አገልግሎት እረክቻለሁ | | | | | |
| 25 | በባንኩ ሰራተኞች ብቃት እረክቻለሁ | | | | | |
| 26 | የባንኩ ደንበኛ በመሆኔ እረክቻለሁ | | | | | |
| 27 | በባንኩ ሰራተኞች ሙያዊ ክህሎት እረክቻለሁ | | | | | |
| 28 | በባንኩ ፈጣን አገልግሎት እረክቻለሁ | | | | | |
| 29 | በሰራተኞቹ የደንበኛ አክብሮት እረክቻለሁ | | | | | |

Appendix C

Response rate of customers

| Banks | Frequency | Response rate |
|--------------------------|-----------|---------------|
| Awash International Bank | 103 | 28.21 |
| United Bank | 89 | 24.38 |
| Nib International Bank | 82 | 22.46 |
| Lion International Bank | 74 | 20.27 |
| Total | 348 | 95.32 |