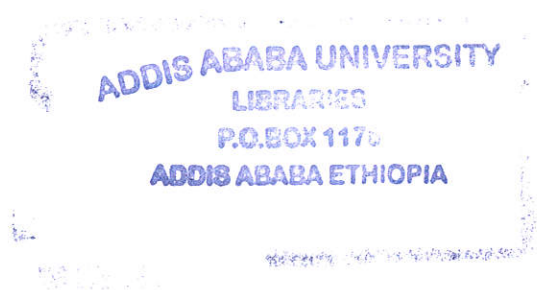


**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**A SURVEY STUDY ON BANK SERVICE QUALITY AND  
CUSTOMER SATISFACTION (THE CASE STUDY OF  
COMMERCIAL BANK OF ETHIOPIA, NORTH ADDIS ABABA  
DISTRICT BRANCHES)**

*HUSSEIN BULLO*



DECEMBER 2009  
ADDIS ABABA

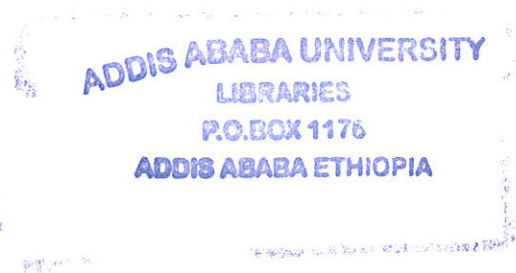
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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
DEGREE OF MASTER OF ARTS IN MARKETING MANAGEMENT  
EDUCATION

*By*

*HUSSEIN BULLO*

ADDIS ABABA UNIVERSITY  
FACULTY OF EDUCATION  
DEPARTMENT OF BUSINESS EDUCATION



DECEMBER 2009  
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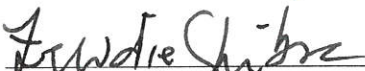
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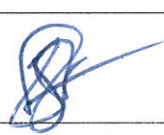


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**Abstract:**

*Service quality is defined as the degree of alignment between customers' expectations and their perceptions of the service received. Measuring of customers' satisfaction is also necessary to the process of serving customers. The purpose of this study is to assess whether the Commercial Bank of Ethiopia, North Addis Ababa District branch Banks customers were satisfied with the service they were provided by the banks and to identify the areas in which the bank has serious drawbacks. To conduct this research, descriptive survey method was used. The questionnaire was designed from the SERVQUAL model which was developed by Parasuraman (1988). From the fourteen branches of Commercial Bank of Ethiopia North Addis Ababa District Branches, four branches were selected purposely. To these selected branches, 300 questionnaires (75 questionnaires to each branch) were distributed. As a result the SERVQUAL scores for the five service quality dimensions and the 22 attributes of service quality dimensions were found negative. The customers of the banks were dissatisfied by the service quality of the bank provided to them. The customers were also ranked first reliability as the most important and responsiveness as the second important attribute of service quality dimension. To close the gap between customers' expectation and perception, the bank managers are suggested to provide training to staff personnel who contact customers in the area of service quality dimensions especially reliability, assurance, responsiveness, empathy and tangibility. In relation to customers' satisfaction, bank managers suggested to evaluate the service they provide to their customers from time to time. In addition to this, they are also recommended to facilitate ways receiving feedback and encouraging customers to provide them feedback. Finally, bank managers are also recommended to undertake investigation with regard to the most important service quality attribute to customers and based on the research result, they are suggested to mobilize financial, material and human resources towards the most relatively important attribute of service quality.*

## Table of Contents

<b>Contents</b>	<b>Pages</b>
Acknowledgment.....	i
Table of contents.....	ii
List of tables and figures.....	iii
List of Acronyms.....	iv
<b>CHAPTER ONE</b>	
Introduction.....	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem.....	
1.3 Purpose of the Study.....	4
1.3.1 General purpose.....	4
1.3.2 Specific purposes.....	5
1.4 Significance of the Study.....	5
1.5 Delimitation of the study.....	5
1.6 Limitations of the study.....	6
1.7 Organization of the Study.....	6
<b>CHAPTER THREE</b>	
<b>Literature Review</b>	
Introduction.....	7
2.1 Definition of Quality .....	7
2.2 Service Quality .....	8

2.3 Service Quality theory .....	11
2.4 Development of Service Quality Model.....	11
2.4.1 Grönroos Perceived Service Quality model.....,	12
2.4.2 Parasuraman et al Gap Model.....	16
2.5 Customer Satisfaction.....	20
2.6 Characteristics of services.....	21
2.6.1 Intangibility of Service.....	22
2.6.2 Inseparability of Service.....	22
2.6.3 Heterogeneity of Service.....	22
2.6.4 Perishability of Service.....	23
2.7 Why Measures Services With Different Measures.....	23
2.8 Instruments for Measuring Customer Satisfaction.....	24
2.8.1 Surveys .....	25
2.8.2 In-depth Interviews.....	27
2.8.3 Focus Group Interviews.....	27
2.8.4 Observations.....	28
2.8.5 Mystery Shopping.....	29
2.8.6 Psychographic Portrait of Customers.....	29

### **CHAPTER THREE: Research Methodology**

Introduction.....	31
3.1 The proposed model.....	31
3.2 The SERVQUAL Instrument.....	32
3.3 Data Gathering.....	33
3.4 Method of Data Collection.....	36
3.5 Data Analysis.....	37

## CHAPTER FOUR

### Analysis of Finding

Introduction.....	38
4.1 Respondents Personal Data Analysis.....	38
4.1.1 Respondents According to their Gender.....	38
4.1.2 Respondents According to the Age.....	38
4.1.3 Respondents Educational Level.....	39
4.1.4 Respondents According to their Employment .....	40
4.1.5 Respondents According to the Service they were provided by the Bank.....	40
4.1.6 Respondents length of time as customer with the Banks.....	41
4.2 Findings of Service Quality.....	41
4.2.1 Service Quality Scores of Tangibility Attributes.....	41
4.2.2 Service Quality Scores of Reliability Attributes.....	42
4.2.3 Service Quality Scores Responsiveness Attributes.....	43
4.2.4 Service Quality Scores of Assurance Attributes.....	44
4.2.5 Service Quality Scores of Empathy Attributes.....	45
4.2.6 Summary of Scores of the five Dimensions of the Service Quality.....	46
4.3 Relative Importance of Service Quality Dimension.....	47
4.4 Overall Customer Satisfaction.....	48

**CHAPTER FIVE**

**Summary, conclusion and Recommendations**

Introduction.....50

5.1 Summary of Major findings.....50

5.2 Conclusion.....54

5.3 Recommendation.....55

Bibliography.....56

Appendices

## List of Tables and Figures

Tables	Pages
Table 3-1: Distributions Research Questions Parallel to the questions of the questionnaire.....	35
Table 4-1: Respondents Gender.....	38
Table 4-2: Respondents Age Group.....	38
Table 4-3: Respondents Educational Level.....	39
Table 4-4: Respondents Employment Condition.....	40
Table 4-5: Service provided to the customers.....	40
Table 4-6: Respondents Duration of Service with the Bank.....	41
Table 4-7: Gaps between Perception and Expectation of Tangibility Attributes.....	41
Table 4-8: Gaps between Perception and Expectation of Reliability Attributes.....	42
Table 4-9: Gaps between Perception and Expectation of Responsiveness Attributes.....	43
Table 4-10: Gaps between Perception and Expectation of Assurance Attributes.....	44
Table 4-11: Gaps between Perception and Expectation of Empathy Attributes.....	45
Table 4-12: Summary of Total Mean Perception total Mean Expectation of Service Quality Dimension.....	46
Table 4-13: Relative of Importance of Service Quality.....	47
Table 4-14: Overall Customer Satisfaction .....	48

<b>Figures</b>	<b>Pages</b>
Figure 1: Service Quality model.....	12
Figure 2: Total Perceived Quality.....	13
Figure 3: How Perception is formed.....	16
Figure 4: Customer's Conceptual model of service quality /the gap analysis model/.....	17
Figure 5: Modified from Parasuraman et al Service Quality model.....	33

## **Acronyms**

The following acronyms are used in the study

CBE: Commercial Bank of Ethiopia

CBENAD: Commercial Bank of Ethiopia North Addis Ababa district

SQ: Service Quality

SPSS: Statistical Package for Social Science

# CHAPTER ONE

## Introduction

This chapter presents background of the study; statement of the problems, significance of the study, purpose of the study; limitation and delimitation of the study.

### 1.1 Background of the study

According to the report of Ministry of Finance and Economic Development, today the service sector contributes a considerable percent to Ethiopian GDP. To contrary six years ago (2003/2004) agricultural annual growth rate was 16.9 percent while the service was growing at 6.3 percent. Now the services sector contributes 45.8 percent to Ethiopian's GDP for the physical year ended June 2009 mean while, agricultural sector, which was dominant in the economy follow the service sector by contributing 42.2 percent to GDP. The contribution of industrial sector to the GDP was 12.1 percent. Although the said economy is good by itself, service sector in reality should not exceed the agricultural sector at this early stage of Ethiopian development. This may be the sign of distorted economy. But, the shift from manufacturing and agriculture to services is being witnessed in countries all over the world. With the increasing prominence of services in the global economy, service marketing has become a subject that needs to be studied separately. Marketing services is different from marketing goods because of the unique characteristics of services namely intangibility, heterogeneity, perishability and inseparability.

These characteristics also require the marketing mix of services to be extended, to include process, people and physical evidence, in addition to the four traditional Ps of Product, Price, Place and Promotion. Service marketing is a people-dependent activity, owing to the fact that there is often no tangible product that is delivered to customers.

The issue of quality management within banking services has drawn considerable attention over the past few years. The move to managed service has increased demands for outcome-based accountability, cost containment, and attention to customer-focused quality in order to remain competitive in a rapidly changing environment. This dual focus on driving down costs while increasing quality has intensified pressures to understand, measure, and manage quality from a customer perspective. The intent of this research is to examine quality of service in

banking industry provided by the Commercial Bank of Ethiopia, North Addis Ababa District Branches.

In banking industry, banking systems provide the same types of services, but they do not provide the same quality of services. Furthermore, customers today are more aware of alternatives and their expectations of service have increased. Service quality can, therefore, be used as a strategic tool to build a distinctive advantage over competitors. Banks are striving for zero defection and retaining every customer that the company can profitably serve in order to achieve service excellence (Reichheld and Sasser, 1998).

The achievements of zero defections require continuous efforts to improve the quality of the service delivery system. Although quality cannot be improved unless it is measured, it can be defined from several perspectives, e.g., the ability to satisfy the needs and expectations of the customer (Bergman and Klefsjo 1988), or the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs (Evans and Lindsay 1982). While there is an increasing recognition of the importance of quality in banking services, its conceptualization and empirical assessment have remained limited.

Quality is still an elusive construct for many human services organizations. This is due to the difficulty in shifting a customer-oriented viewpoint (Selber 2003). Since the central tenet of the quality paradigm is the importance of understanding and utilizing customer data to drive operational and strategic decisions, defining quality from the outside-in based on customer information is critical. This shift in defining quality often necessitates a fundamental change in the way professionals, managers, staff, and policy makers think about and identify those who "buy" or "use" products and services (Brannen and Streeter 1986). The "customer" label is not typically associated with those who use banking services. Instead, organizations in this sector have traditionally referred to service users as "clients" or "customers." This client vs. customer difference is more than semantic. The client label suggests a passive voice in the service delivery process, which is reflected by professionals in the field who question the credibility of client evaluation of services.

On the other hand, customer carries an image of an active participant with more input in determining choices and decisions. Clients of human service organizations who follow directions from professionals and make few demands on the system are labeled as "cooperative."

In contrast, customers in the business sector who are loyal to the service, interact with the staff, and are willing to show their preferences are viewed as "desirable customer" (Walsh 1977). As customers do not easily articulate banking service quality, the recipient of the service can only really assess it, thereby making its measurement more subjective than exact. Hence, the measurement of banking service quality has to be based on perceived quality rather than objective quality because services are intangible, heterogeneous and their consumption and production occur simultaneously.

Lewis and Booms (1989) believed that service quality is a measure of how well the service level matches customers' expectations. Gronroos (2007) perceived service quality as a result of what customers receive it. Parasuraman et al (2004) defined service quality as perceived by customers and items from a comparison on their expectations of the services they will receive with their perceptions of the performance of the service provider. Expectations are the wants of customers, i.e., what they feel a service provider should offer, while perceptions refer to the customers' evaluation of the service provider.

The purpose of this study is to assess the quality of service provided by the Commercial of Ethiopia (CBE) North Addis Ababa District Branches to their customers from customers prospective and to measure the customers' satisfaction. The study also seeks to identify the service quality dimension that customers value more in relation to bank services.

The Commercial Bank of Ethiopia (CBE) is the largest bank in Ethiopia and has about birr 49 billion in assets (end of 2008) accounting for some 63.5% of deposits and 38% or so loans. The bank has about 8000 employees who staff the headquarters and 206 branches positioned in the main cities and regional towns, including Addis Ababa.

Commercial Bank of Ethiopia provides a number of services to its customers. Some of these services are enumerated as follows: Saving account, fixed deposit, checking account, money transfer, foreign trade relation, safe deposit locker, foreign exchange service, loan and other specific services. The bank provides foreign trade relation and foreign exchange service in its limited branches located in Addis Ababa.

## **1.2 Statement of the problem**

Understanding consumers and consumer needs and requirements is the guiding philosophy of marketing. A marketing orientation requires the organization to view its business from the point of view of its customers. Commercial Bank of Ethiopia North Addis Ababa branches has been criticized in the past for its lack of attention to the costumers and has been slow to adopt the marketing philosophy. It is not surprising that with in a rapidly changing environment, banks have been forced to change the way in which they respond to the market place, becoming less focused on products and more focused on customers and relationships, less focused on the short term and more focused on the long term.

Together with five quality dimensions identified from the literature, this study seeks to provide a more holistic comprehension of banking service quality of the Commercial bank of Ethiopia North Addis Ababa District Branches.

The following questions were developed and answered in relation to customer service quality of CBE North Addis Ababa District Branches.

1. Is there a difference between customers' expectations and their perceptions of service tangibility, reliability, responsiveness, assurance, and empathy at Commercial Bank of Ethiopia, North Addis Ababa District Branches?
2. Are the Customers of Commercial Bank of Ethiopia North Addis Ababa District branches satisfied by the Service they received from the Bank?
3. From the service quality dimension, which one do the customers value more for bank service?

## **1.3 Purpose of the study**

### **1.3.1 General purpose**

The general purpose of this research is to assess the bank service quality provided by the Commercial Bank of Ethiopia, North Addis Ababa District Branches from customers prospective and the level of customer satisfaction.

### **1.3.2 Specific purposes**

The specific purposes of this study are:

1. To determine key areas of service quality gap of Commercial Bank of Ethiopia North Addis Ababa District Branches.
2. To identify the service quality dimension that customers value more in relation to bank service.

### **1.4 Significance of the study**

This study has the following significances:

1. The study result would enable the commercial banks, in particular the commercial bank of Ethiopia to identify and improve its service quality gap in providing quality service to its customers.
2. The study results can assist policy makers in the area of banking industry in designing policies which best fit with customers' requirement.
3. The study result will also serve as a base for other researchers who would like to conduct further research in the area of bank service quality.

### **1.5 Delimitation of the Study**

Now days there are a number of banks that are engaged in providing banking service in Ethiopia. One can group them into two broad categories. These are private banks and state (government owned) banks. From government banks, Commercial Bank of Ethiopia has the largest share in terms of number of customers, number of branches all over the nations and outside the nation and also it is the first bank in the banking industry of the nation. But, because of shortage of time, money and people this study is delimited to the study of Commercial Bank of Ethiopia North Addis Ababa District (14 branches). The remaining 237 branches of the CBE were excluded from the study. The study results also applied to only these branches.

## **1.6 Limitations of the study**

One of the major limitations of this research was absence of statistics and research papers conducted in the bank service quality in the past in Ethiopian context. This is because of absence of serious study in the service sector. The other limitations are:

1. the statistical population of this research is limited to customers who walk-into the banks under study during two weeks of the data gathering period;
2. Obtaining exact figure of the population of the study is also another limitation. This is because of registration of new customers and withdrawal of existing customers every day;
3. The study is limited to only one district of CBE; and other branches out of the selected district were not considered; and
4. Some respondents start to fill the questionnaire and suddenly stop when their name is called by the bank clerk for the service and leave the bank before completing the questionnaire.

All the above mentioned limitations and other specific restraint affect my work to some extent. Even with all these limitations, the researcher successfully completed the research within a given period of time and good result.

## **1.7 Organization of the Study**

This study is divided into five chapters. By now the contents of the first chapter has been presented. Consequently the contents of the following chapters will be briefly discussed below. The first chapter deals with background of the study; statement of the problem; purpose and significance of the study, limitations and delimitation of the study. The second chapter illustrates research methodology, research limitation and delimitations, data collection and method of data analysis used in the study. The third chapter present literature review related to the study. The fourth chapter depicts data analysis and finding. Finally, the fifth chapter portrays summary conclusions and recommendations of the study.

# CHAPTER TWO

## LITERATURE REVIEW

### **Introduction**

This chapter discusses what service quality means from different academic points of view, why it is important for organizations to understand services, how customers evaluate it and the linkage between high perceived service quality and customers satisfaction.

Furthermore, it also discusses why service quality needs to be measured to understand the customers' expectations and perceptions in order to gain numerous advantages. In addition to that, it discusses service quality conceptual modes and issuers around those models.

Finally, this chapter will lead to an understanding of how service quality measurement instruments evolve especially the SERVQUAL instrument and the concept of customers' satisfaction and the instrument used to gather data about customer satisfaction.

### **2.1 Definition of Quality**

The term "Quality" has many definitions and interpretations, but the general definition having been applied is as follows:

David Gravin (1987) has classified as follows:

#### **Product based quality**

In this respect certain features and specifications of product are taken into account which are measured and at the same time are representing a higher quality as well.

#### **Goods specifications based quality**

In this view point, the experts introduce specific features of a product or service and the closer the manufactured product to these features, the higher quality is considered.

#### **Consumer based quality**

According to this, the consumer is the determinant of the quality of goods and services, based upon his vision, the types of goods and services that satisfy his/her needs are in higher quality. More truly in this point of view customer satisfaction and the quality of service are to be known as a unity. In this research the researcher will follow this view point.

### **Cost based quality**

This view point mainly emphasizes the element of price, in other words, on the basis of this view point, the quality of a product or service would be its accepted price and logical cost. With regard to the fact that in today's competitive world, consideration of customer's needs and expectations and subsequently fulfillment of customer satisfaction is one of the most important organizations' success factors.

### **2.2 Service Quality**

Service quality is a concept that has aroused considerable interest and debate in the literature. Relationship between satisfaction and service quality is the key to measure user satisfaction (Pitt et al, 1995).

In addition to this the definitions of service quality revolve around the idea that it is the result of comparison that customers make between their expectations about a service and their perceptions of the way the service has been performed (Lewis and Booms, 1983; Lehtinen and Lehtinen, 1982; Gronroos, 2000; Parasuraman et al, 1985, 1988, 1991, 1994).

Furthermore, Service quality (SQ) has become an important research topic because of its apparent relationship to costs (Crosby, 1987), profitability (Buzz and Gale, 1987); (Rust and Zahorik 1993); (Zahorik and Rust 1992), customer satisfaction (Bolton and Drew, 1991) and customer retention (Reicheld and Sasser, 1990).

Services have been studied extensively since 1980's. The idea of linking service value and customer satisfaction has existed for a long time. Studies indicate that there are links among customer satisfaction, customer loyalty and profitability. During recent years, there have been studies that have established mechanisms that attempt to establish connection between service quality, customer satisfaction, customer loyalty and profitability (Gronroos, 1978, Gronroos, 1980, Gronroos, 1982, Parasuraman et al. 1985, Sewell and Brown, 1990, Jones and Sasser, 1995, Heskett, 1997, Anderson and Mittal, 2000). This research also assesses the relationship between service quality and customers' satisfaction by using bank customers of Commercial Bank of Ethiopia North Addis Ababa District Branches.

In businesses where services are part of the business, the services are visible to the customer. Therefore it would be quite natural that such services would have a major impact on the customer satisfaction. In the context of bank service, this is more important. Service quality can be explained as perceived performance from customer prospective.

Some studies have been undertaken to identify quality dimensions and detailed aspects of services and their relationship with customer satisfaction. The SERVQUAL approach is the most common method for measuring service quality developed by Zeithaml et al (1988). In this study, as mentioned earlier, different influencers of customer satisfaction are going to be addressed based on previous studies, in which perceived performance would be one of them.

Most of the products available in the market are made up of a combination of tangible goods and intangible services. In some businesses, service is the essential part of business activity; in other businesses service simply supporting the tangible goods Dale, (1999).

Zeithaml and Bitner (2000) identify the services as accomplishment, processes and performances. Therefore, services have their own intrinsic qualities which distinguish them from goods. Parasuraman, Zeithaml and Berry (1988) emphasizes that knowledge about goods quality is insufficient to understand service quality due to three intrinsic characteristics of services namely intangibility, heterogeneity, and inseparability.

Parasuraman et al (1988) further explains that services are performances or experiences and therefore intangible. The personal qualities of service provider often lead to variable levels of services and therefore heterogeneity. Quality in service mostly occurs during the service deliver and therefore services are inseparable from its production and consumption.

In addition to the above characteristics of services, Zeithaml and Bitner (2000) introduced perishability to the list by arguing that services cannot be saved, stored, resoled or returned.

Berry and parasuraman (1991) emphasis that in a service business the four P's marketing strategy (product, place, promotion and price) have no use without a quality. In the total quality management literature, Deming (1998) and Crosby (1980) emphasizes the advantage of quality in two different ways.

Deming (1998) advocates that organizations need to create consistency of purpose towards improvement of product and services with an emphasis on improvement in quality to become

competitive, stay in business and provide jobs. Deming (1998) argues that quality pays off in the form of increased profit and reduced cost.

Conversely, Crosby (1980) states that quality is 'free' by arguing that the benefits of supplying quality products and services payoff in the form of business profits which are worth more than the money spent on quality improvement programs. However, Dale (1999) suggests that quality is not a competitive weapon it once was as it is now expected as a given requirement of any product or service.

Bearden and Teel (1983); Buzzel and Gale (1987) found a positive relationship existing between high perceived service quality and customer satisfaction. Positive relationship between perceived service quality and customer satisfaction creates true customers, increases efficiency and benefits from increased market share and profit, heavy sales volume, high revenue and reduces costs by economies of scale (Anderson and Sullivan 1993, Zeithaml, parasuraman and Berry, 1996).

Satisfied customers do not switch their service provider and therefore cost of retaining existing customers are significantly lower than attracting new customers. These customers spread their satisfaction by positive word of mouth which influences non-existent customers' desires to engage with the organization and work as free promotional agents (Gronroos 2007, Zeithaml and Bitner, 2000).

Low perceived service quality leads to loss of sales and profits as customers switch to competitors (Zeithaml et al, 1996; Yang, 2003). This dissatisfaction is spread by negative word of mouth resulting in loss of sales and profit (Kumer and George, 2007).

During the last two decades, academic, (Gronroos (1984)); Parasuraman, Zeithaml and Berry, (1985); Crompton and Taylor, (1992); Teas, (1993) have explained the key attributes of service quality, and how to measure them and stressed that for any organization to compete successfully, it needs to understand the customers' expectation and perception of service quality as this influences the customers' choice of service provider.

### **2.3 Service Quality theory**

Service quality is defined as the result of the comparison that customers make between expectations about a service and perception of the way the service was delivered (Lehtinen and Lehtinen, 1982; Gronroos 1984; Parasuraman, Zeithaml and Berry 1985). On the other hand, Brady and Cronin (2001) identified that the foundation of service quality theory has some connection with the quality and customer satisfaction literature based on the disconfirmation paradigm identified in physical goods literature (Cardozo 1965 cited by Brady and Cronin, 2001).

The disconfirmation paradigm indicates the size and direction of person initial expectations in relation to the experience received (Parasuraman et al, 1985). Therefore, the disconfirmation is the size of the gap between prior expectation and the actual performance received. Directions are; positive, negative and zero disconfirmation. When a service is performed better than expectation, a positive disconfirmation occurs resulting in satisfaction and when a service is below the expectation, a negative disconfirmation occurs resulting in dissatisfaction. When a service is performed as expected zero disconfirmation occurs (Parasuraman 1985).

By building on this theory, Gronroos (2000) states that, customers compare the service they expect with the perception of service they receive when evaluating the service quality. In an explanatory research of service quality Parasuraman et al (1985) state that a perceived service quality is the result of a comparison between what consumers consider the service should be and their perceptions about the actual performance delivered by the service provider. Parasuraman et al (1988) defined perception as customers' beliefs concerning the service received and the expectation as desires or wants of customers perceived. Parasuraman et al, (1990) have mentioned four key factors in shaping customers expectation. These are; words of mouth heard from other customers, personal need, prior experience and advertisement and external communication.

### **2.4 Development of service quality models**

Understanding the key ingredients of service quality and the best way to measure and fulfill it is a keenly debated area in service marketing and as a result there are some service quality models especially the 'perceived service quality models' (Gronroos 1984) and the Gaps model (Parasuraman 1985) which have emerged and evolved in service marketing.

### 2.4.1 Gronroos Perceived Service Quality Model

According to Gronroos (1984), the service quality experienced by a customer has two dimensions; namely technical quality and functional quality. Functional quality describes how the service is delivered and technical quality describes what the customers received during a service delivery. In this research, the functional quality which describes how the service is delivered was used in assessing CBE, North Addis Ababa District Branch customers.

According to Grönroos (1982), the quality of a service perceived by customers will differ depending on what strategy the company chooses to deliver and promote that service. The service quality model by Grönroos holds that the quality of a service, as it is perceived by the customer, can be divided into technical quality and functional quality dimensions. The former denotes what the customer receives as the output of a service production process and the latter how the technical quality is produced and transferred to the customer during buyer-seller interactions

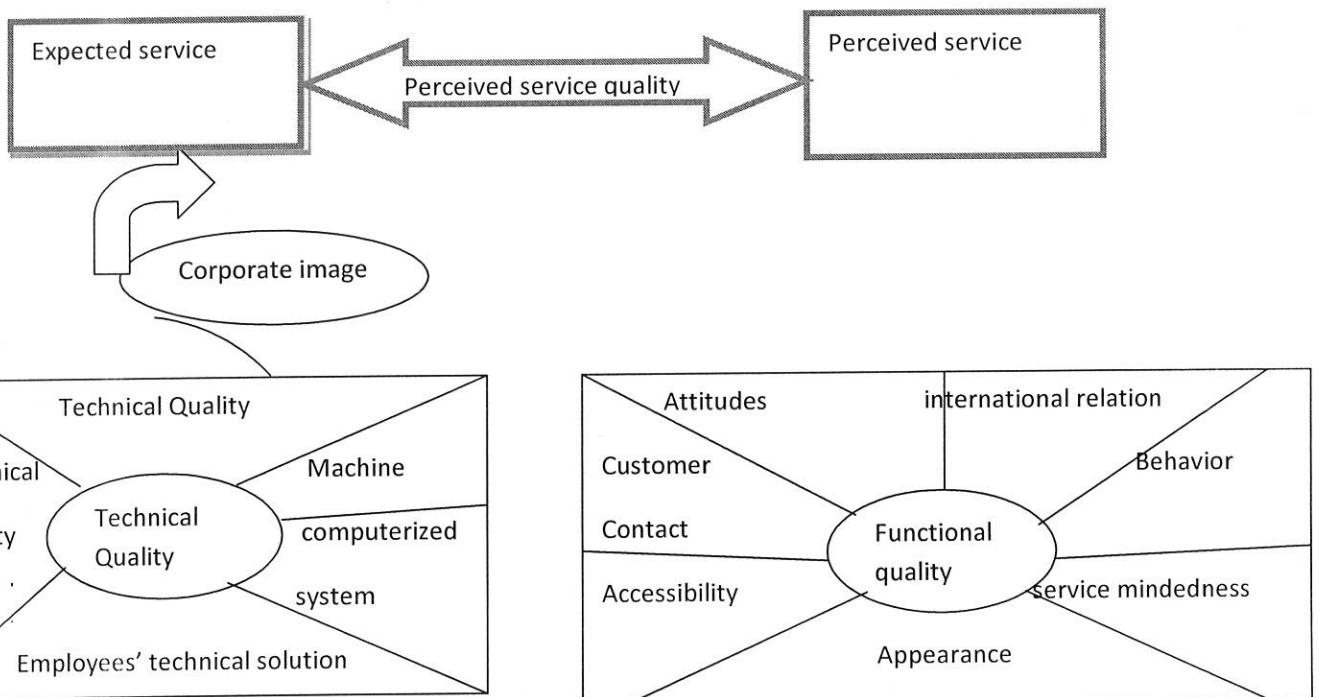


Figure 1: The Service Quality Model (Grönroos 1982 p.30)

Grönroos posits that the technical quality is the “basic condition for a positively perceived total quality, but the functional quality is the one that adds competitive edge” (Gummesson and Grönroos 1987). Furthermore, in the relationship marketing, the growth of the importance of functional quality in comparison to technical quality becomes a strategic one (Grönroos 1993). The distinction is also made in the model between perceived and expected service quality and it is suggested that the quality is perceived subjectively. Grönroos (1988) further develops the model by positing that in the case of a company, which extends product offer with services, it is more appropriate to talk about total perceived quality. According to him, a high perceived quality is obtained when the experienced quality meets customer expectations, *i.e.* the expected quality. However, if the expectations are unrealistic, the total perceived quality will be low, even if high quality was experienced (Grönroos 1988).

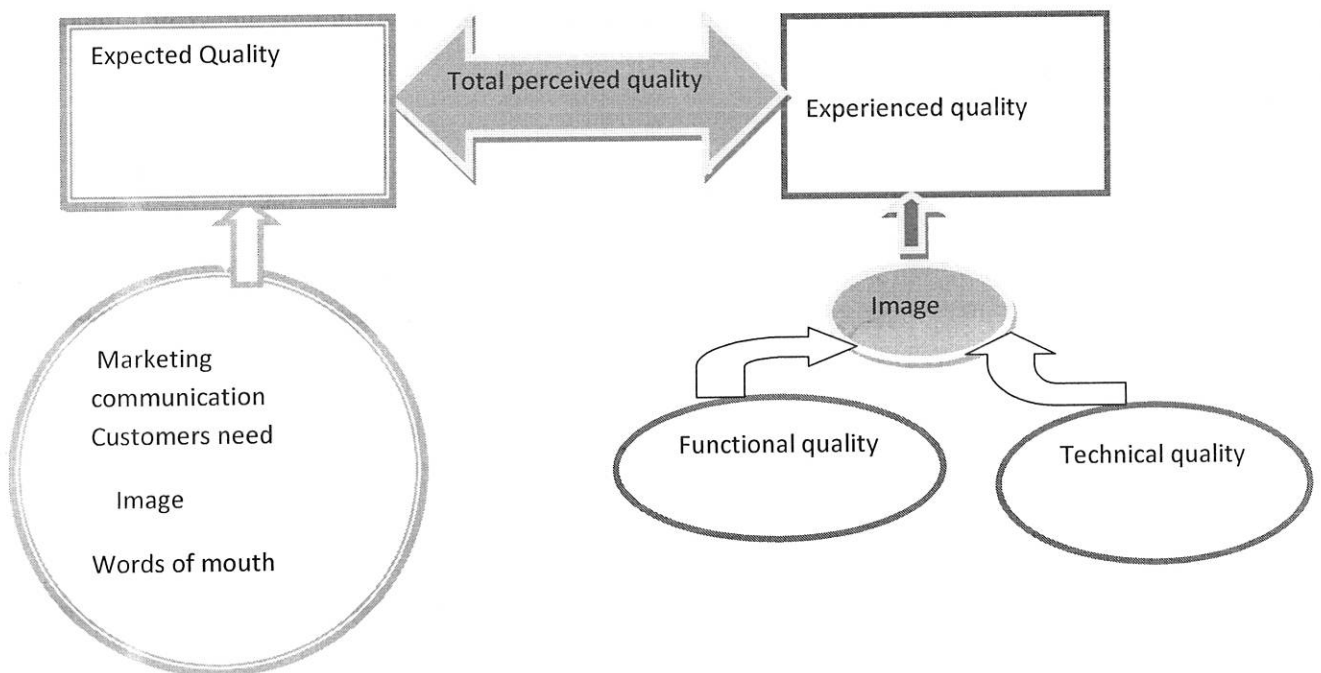


Figure 2: the Total Perceived Quality (Grönroos 1988, p.31)

The expected quality is heavily influenced by market communication (advertising, sales campaigns, PR and direct mail), word-of-mouth, company image, and customers' needs. While a company directly controls market communication, the word-of-mouth and company image are outside its immediate reach. Grönroos conclusion is that the total perceived quality is not only defined by the level of technical and functional dimensions, but also by the gap between the expected and the experienced quality.

The organizations image works as a filter and can thus positively or negatively modify the customer perception of service quality. Gronroos (2007) acknowledged that the model was intended to offer a conceptual frame work to understand the features of service and is not a measurement model. Gronroos (2001) identifies a list of determinants of good service quality and argues that the list needs to be short but comprehensively for it to be useful for managerial purposes. By expanding the argument Gronroos (2007) emphasizes that the following seven criteria of goods perceived service quality are the determinants that need to be considered when evaluating the service quality of any organization:

1. professionalism and skills
2. attitude and behavior
3. accessibility and flexibility
4. reliability and trust worthiness
5. service recovery
6. service cape
7. reputation and credibility

However the above seven criteria of good service quality have very similar characteristics to parasuraman et al (1985) ten determinants of service quality.

1. **Tangibles: Appearance** of physical facilities, equipment, personnel, and communication materials.
2. **Reliability:** Ability to perform the promised service dependably and accurately.
3. **Responsiveness:** Willingness to help customers and provide prompt service.
4. **Competence:** Possession of required skill and knowledge to perform service.
5. **Courtesy:** Politeness, respect, consideration and friendliness of contact personnel.
6. **Credibility:** Trustworthiness, believability, honesty of the service provider.

7. **Feel secure:** Freedom from danger, risk, or doubt.

8. **Access:** Approachable and easy of contact.

9. **Communication:** Listens to its customers and acknowledges their comments. Keeps customers informed in a language which they can understand.

10. **Understanding the customer:** Making the effort to know customers and their needs.

### **How are expectations formed?**

Given the central importance of expectations, it is important to understand how they are formed (Quality Accounts Commission, 1999). The basic key factors most commonly seen to influence expectations are described as:

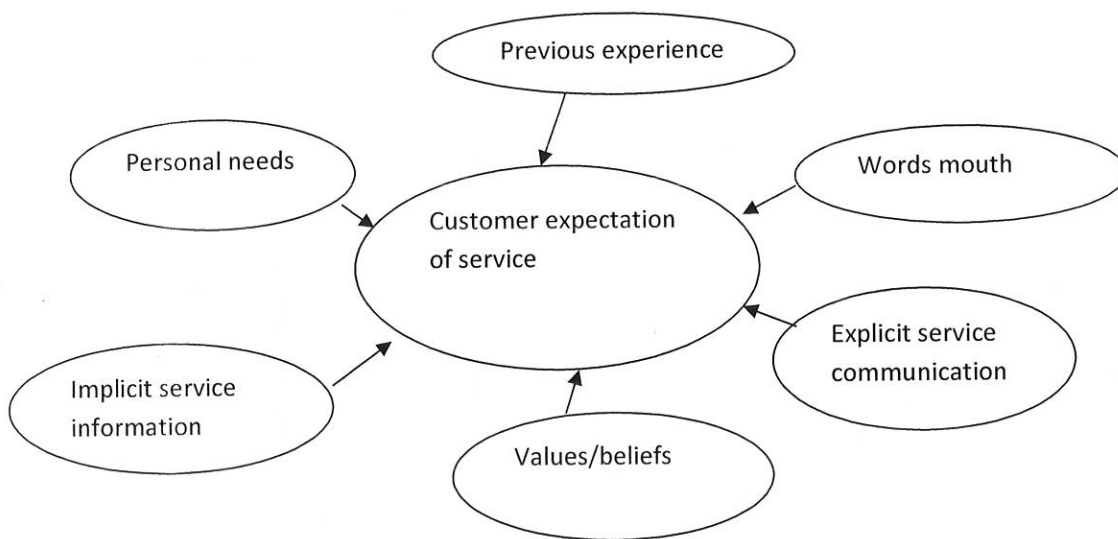
*Personal needs:* any customer or user of a service will have what they regard as a set of key personal needs that they expect the service to address. These will vary from service to service and from customer to customer. A clear understanding of these needs is necessary to design an appropriate service.

*Previous experience:* many will have had service encounters before. Their previous experience will in part influence their future expectations of the service. This can include their past experience of the service in question, but also of other services – for public services, expectations will be influenced by experience of similar private services.

*Word of mouth communications:* expectations will be shaped by communications from sources other than the service provider itself. This can include family, friends and colleagues, but more widely the media and other organizations, such as audit agencies.

*Explicit service communications:* statements from staff or from leaflets or other publicity material can have a direct impact on expectations.

*Implicit service communication:* this includes factors such as the physical appearance of buildings e.g. renovation may lead the customer to expect other service aspects to be of higher quality. The impact of brand image or service reputation (covered by word of mouth communications above) on expectations is seen as central in a number of public and private sector studies. This would seem to be a particularly important concern for public services, for two key reasons. Firstly, it is argued that in the absence of detailed information about competitor services or alternatives, the importance of image is increased. This is likely to make this factor a central aspect of views of many public services, given the generally more constrained choice and limited benchmarks available to customers. Furthermore, the range of impacts on the image of public services is likely to be somewhat wider than for private services.



*Figure 3: how perception is formed (Dinsdale and Marsden 1999, p.43)*

2.4.2 Parasuraman et al (1985) Gaps model (Base of the SERVQUAL)

Parasuraman et al (1985) view perceived service quality as gap between the

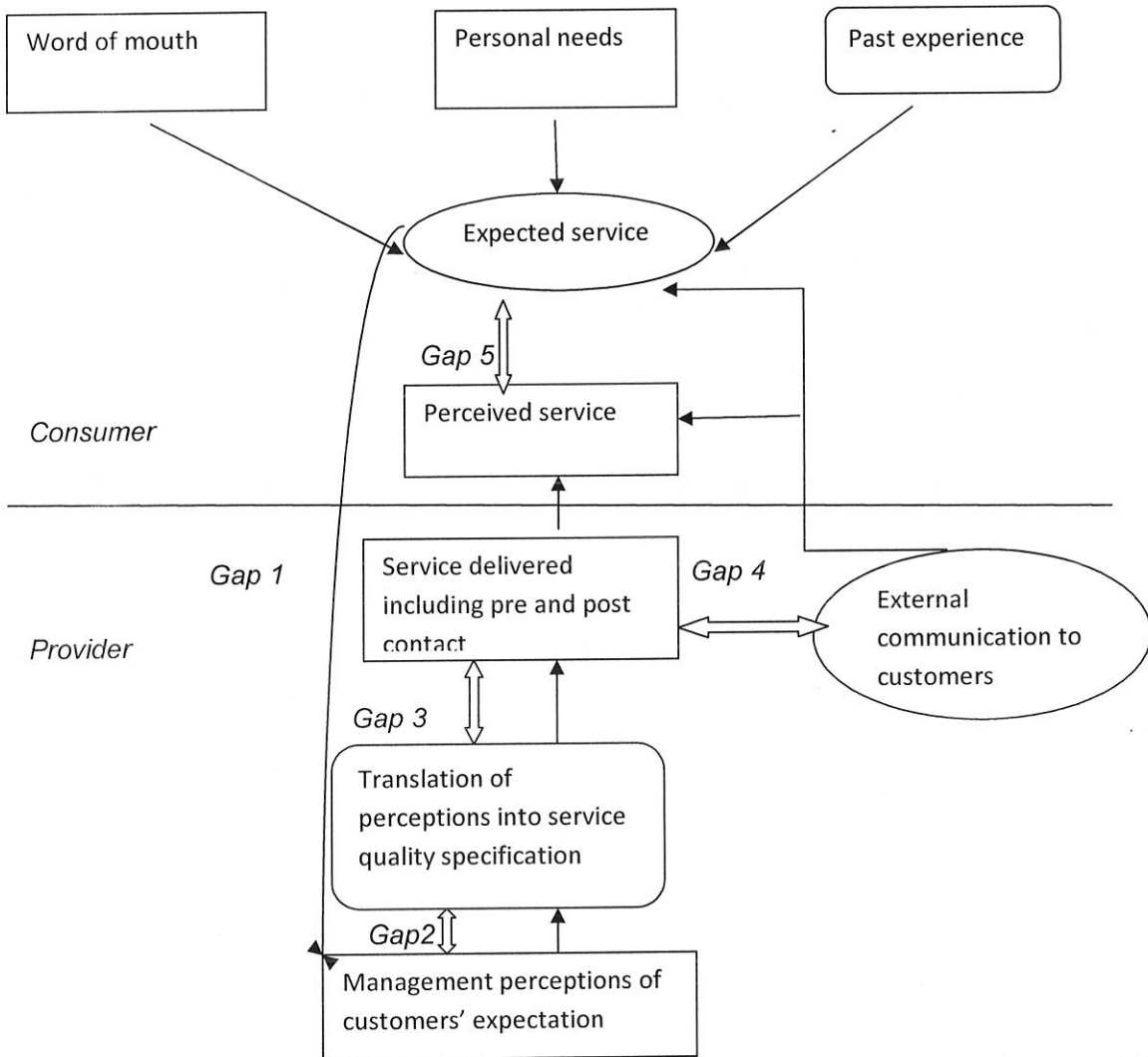


Figure 4: Customer's Conceptual model of service quality /the gap analysis model/.  
 Published by the American Marketing Association, Zeithaml, Berry and Parasuraman 1988

perception of the received service quality and the customers' expected level of service quality (service quality = perception - expectation). The central focus of the gap model is the customer's gap. Zeithaml and Bitner (2000) and Parasuraman et al (1988) have devised an instrument known as the SERVQUAL instrument (a questionnaire) to measure it. The instrument consists of twenty two questions of twenty two attributes to measure the customer gap or the gap between the customers' expected and perceived service. The five gaps and the reason why they occur are discussed by Zeithaml et al 1985 and cited by Gronroos (2000) are:

### **Managing perception Gap (Gap1)**

This Gap means that management perceives the quality expectations inaccurately. This gap is due to:

- Inaccurate information from market research and demand analysis;
- Inaccurately interpreted information about expectations;
- Nonexistent demand analysis
- Bad or nonexistent upward information from the firm's interface with its customers to management; and
- Too many organizational layers stop or change the pieces of information that may flow upward from those involved in customer contacts.

### **The Quality specification Gap (Gap 2)**

This gap means that service quality specifications are not consistent with management perceptions. This gap is a result of

- Planning mistakes or insufficient planning procedures
- Bad management of planning
- Lack of clear goal setting in the organization
- Insufficient support for planning for service quality from top management

### **The service delivery gap (gap 3)**

This gap means that quality specifications are not met by performance in the service production and delivery process. This gap is due to:

- Specifications which are too complicated and /or too rigid;
- Employees not agreeing with the specifications and therefore not fulfilling them;
- Specifications not being in line with the existing corporate culture;
- Bad management or service corporation;
- Lacking or insufficient internal marketing; and
- Technology and systems not facilitating performance according to specifications.

### **The Marketing Communication Gap (Gap 4)**

This gap means that the promises given by Market communication activities are not consistent with the service delivered. This gap is due to:

- Market communication planning not being integrated with service operations;
- Lack or insufficient coordination between traditional external marketing and operation;
- The organization failing to perform according to specification, whereas market communication campaigns follow these specification; and
- An inherent propensity to exaggerate and, thus, promises too much

### **The perceived service quality gap (gap 5)**

This gap means that the perceived or experienced service is not consistent with the expected service. This gap results in:

- Negatively confirmed quality (bad quality) and a quality problem;
- Bad word of mouth;
- A negative impact on corporate or local image; and
- Lost business

The Bank service quality gap in the banks under study may happen due to one or more the above mentioned gaps. Therefore managers should be able to manage these gaps in order to minimize the dissatisfaction of the customers and to increase bank service quality.

Parasuraman et al (1988) cited that the nature of the characteristics customers use to evaluate the quality of goods is different when they evaluate the expected service and perceived service quality and stress the necessity of identifying the characteristics that represent the evaluative criteria customers use to assess service quality.

Therefore, in earlier research Parasuraman et al (1985) identified ten characteristics (determinants) which customers use to evaluate service quality based on a series of focus group sessions. Later Parasuraman et al (1988) reduced the ten determinants into five specific dimensions (table 1) after discovering that there was a considerable correlation among the original ten determinants.

Parasuraman et al (1990) claimed that those five are distinct dimensions of service quality which the SERVQUAL instrument is based on. To assess the service quality of CBE North Addis Ababa district branches the revised five dimensions were used.

## **2.5 Customer Satisfaction**

Understanding and measuring satisfaction is a central concern. Satisfaction is a widely accepted concept despite real difficulties in measuring and interpreting typical approaches to its assessment. The most common approach is the use of general satisfaction surveys undertaken every few years and designed to track changes over time, but we will describe others in part four. There are however, a number of difficulties with the concept of satisfaction (Communities Scotland, 2006:20).

- It is not static, but changes over time; new experiences and levels of awareness will alter the potential levels of satisfaction that could be achieved.
- It is likely to be complex and the result of a mix of experiences before, during and after the point at which it is measured.

- It occurs in social contexts which are varied and changing and may be unpredictable or inexpressible to the service user.
- It may be difficult to express the reasons for satisfaction; particularly where less tangible aspects of services are being considered.
- It may be easier to express the reasons for dissatisfaction, particularly if this is the exceptional state.
- Without understanding the causes of satisfaction, there is a danger that we might treat a “good result” as a reason not to change anything, seeing it largely as a PR tool.

In order to get a better view on satisfaction, we describe some key elements in this part. The model that has underpinned the satisfaction approach is the disconfirmation theory, which suggests that customer satisfaction with a service is related to the size of the disconfirmation experience; where disconfirmation is related to the person’s initial expectations. If experience of the service greatly exceeds the expectations clients had of the service, then satisfaction will be high, and vice versa. In the service quality literature, perceptions of service delivery are measured separately from customer expectations, and the gap between the two,  $P$  (perceptions) –  $E$  (expectations), provides a measure of service quality and determines the level of satisfaction.

Berry and Parasuraman (1991) have found that reliability has repeatedly emerged as the most critical dimension when measuring the relative importance of the five dimensions using the SERVQUAL questionnaire in ten studies and claim that the reliability dimension is the essence of service quality of the very core of service marketing excellence. However, there are some concerns for this claim Babakus and Boller, (1992) argues that the most critical dimension is and the number of dimensions is dependents on the industry in which service quality is being measured. This study is also to test whether this is true or false in a banking service context.

## **2.6 Characteristics of Services**

Bitner, Fisk and Brown (1993) suggest that the major output from the service marketing literature up to 1980 was the delineation of four service characteristics: intangibility, inseparability, heterogeneity and perishability. These characteristics underpinned the case for

service marketing and made services marketing a field of marketing that was distinct from the marketing of product.

### **2.6.1 Intangibility of services**

The literature highlights intangibility as one of the key characteristics of services. Regan (1963) introduced the idea of services being “activities, benefits or are satisfactions” which are offered for sale, or are provided in connection with the sale of goods.

The degree of intangibility has been proposed as a means of distinguishing between products-services (Levitt, 1981). Darby and Karin (1973) and Zeithaml (1981) highlight the fact that the degree of tangibility has implications for easy with which consumers can evaluate services and products. Other studies suggest that intangibility cannot be distinguished clearly between all products and services.

Onkvisit and Shaw (1991) feel that the importance of intangibility is over emphasized. They believe that the service provider’s offer is their “productive capacity” and not the intangible nature of the offer.

### **2.6.2 Inseparability of services**

Inseparability is taken to reflect the simultaneous delivery and consumption of services (Zeithaml 1981; Brown 1990 and Onkvisit and Shaw 1991) and it is believed to enable consumers to affect or shape the performance and quality of the service (Gronroos, 1978; Zeithaml, 1981).

### **2.6.3 Heterogeneity of Services**

Heterogeneity reflects the potential for high variability in services delivery (Zeithaml et al 1985). This particular problem for services with a high labour content as the service performance of people can vary from day to day (Zeithaml, 1985; Onkvisit and Shaw, 1991).

Onkvisit and Shaw (1991) consider heterogeneity to offer the opportunity to provide a degree of flexibility and customization of the services. Wyckham et al (1975) suggest that heterogeneity can be introduced as a benefit and point of differentiation.

#### **2.6.4 Perishability of services**

The fourth characteristic of services highlighted in the literature is perishability. Perishability is the inability of a service to be inventoried or stored (Kurtz and Clew, 1988). In general, services cannot be stored and carried forward to a future time period (Zaithaml et al, 1985).

Onkvisit and Shaw (1985) suggest that the services are time dependent and time important which make it very perishable. Hartman and Lindgren claim that the “issue of perishability is primarily the concern the service producer” and that the consumer only become aware of the issue when there is insufficient supply and they have to wait for the service.

#### **2.7 Why measure services with different measures?**

Many studies suggest that there is a fundamental difference between products and services namely it is the way they are produced and consumed (Grönroos 1990; Grönroos 1998),(Edvardsson 1997; Edvardsson 2000) (Bateson and Hoffman 1999). The time period between service production and consumption is considerably shorter than for products. Most of the services are produced “on a spot” in an interactive process, in which customers and company employees meet.

Satisfaction with service quality depends on a large number of dimensions - both tangible and intangible attributes of the product-service offer. The impact of intangible dimensions on consumer satisfaction is of particular interest at this point.

Many psychological studies even show that non-verbal behaviour by the service provider greatly affects service evaluation (Gabbott Mark 2000). For example, the quality of interaction between customer and service provider influences customers’ perception of service quality. In services, a single employee may affect service efficiency and consequent customer satisfaction with the service (Barnard 2002). Even customers own involvement and participation in the service delivery affect customer satisfaction (Kelly, Skinner et al. 1982).

Due to the differences in production and provision of products and services, customers evaluate quality and attributes of material goods and services in different ways (Mathe and Shapiro 1993). This realization has initiated a discussion on the need for special tools for evaluating more diverse and less tangible services (de Brentani 1989). Responding to the growing demands for developing specific and reliable ways to measure customer satisfaction

in service industries, a number of studies have been conducted that suggested methodological frameworks for measuring customer satisfaction (Markovic and Horvat 1999).

Other studies looked at what measures are used by service companies for measuring customer satisfaction. Studying how financial sector measures customer satisfaction Edgett and Snow (1997) showed that even though it is mostly traditional (financial) measures that are being used by the sector, they do not provide a sufficient basis for innovation in services and multidimensional approaches need to be devised. The two most often used types of measures in service companies are the increase in the number of customers and increase in portfolio dollars. However, the most useful types were direct personal interviews with customers and measure of customer expectations and perceptions. Surprisingly, companies use traditional quantitative measures, but perceive qualitative measures as the most useful. Authors concluded that financial institutions are not satisfied that the traditional accounting-type measures are presenting the full performance picture for new products (Edgett and Snow 1997).

## **2.8 Instruments for measuring customer satisfaction**

In spite of various standpoints and theories of consumerism, different disciplines generally employ similar sets of approaches and tools for studying consumer satisfaction. The approaches can be exploratory, descriptive, comparative or interpretative, and the most common tools are consumer surveys/polls, interviews and focus group discussions.

Exploratory and descriptive approaches are usually employed for evaluating attitudes, opinions, and public understanding of various issues, i.e. health and environment, consumer attitudes towards specific instruments or coercive measures.

Comparative and explanatory approaches are involved in studying particular consumer behaviors, i.e. recycling; and for development of predictions of specific factors that may affect values and attitudes, which in their turn may lead to changes in behavior. Interpretative methods and envisioning are used for predicting the consequences of particular consumption patterns, i.e. dematerialized lifestyles.

### 2.8.1 Surveys

Customer satisfaction surveys are a questionnaire based information collection tool to determine the level of satisfaction with various product or service features. Developing a good questionnaire is the key to collecting good quality information. Questions must be short and concise, well formulated, easy to interpret and answer, and facilitate unbiased responses. Survey techniques and questionnaire designs are well known to research community and multiple guidance from different disciplines exist (Hayes 1998), (Kessler 1996), (Chakrapani 1998), (Gerson 1994), (Hill, Brierley et al. 1999), (Reidenbach and McClung 1998)).

Many methods are being used for gathering survey information. Telephone surveys are generally used to collect data from a large group of customers and to target segment markets. They are more effective in obtaining data than mail or e-mail questionnaires and can potentially provide a higher depth of data (Fetz 1996). *Online surveys* offer an economical and fast alternative form of surveying. They can be utilized with current customers, or the entire on-line population to provide fast feedback on satisfaction and allow quick automatic information processing.

*Mail surveys* are the least expensive approach, but they often have a low response rate (20-30%), this becomes problematic for the statistical reliability of the data. These surveys also do not permit follow-up questions and do not offer the depth of a telephone survey (Dickey 1998). *Return cards* allow getting customer response and certain possibility for measuring customer satisfaction. They proved to be especially useful if they are used in after-sale interaction with consumers, e.g. repair or service activity or warranty registration (Dickey 1998).

*Customer intercepts* and exit surveys are two types of in-store information collection methods. They are especially useful in probing customer in their shopping environment.

These surveys aim to intercept consumers in retail places and deliver a short structured questionnaire on their satisfaction with the delivered service, preferences, or behavior. The intercept surveys can also incorporate limited product testing, which provides opportunity to appraise consumer opinion immediately after sampling a product.

Consumer intercepts are usually employed to gain a fast or first overview of the phenomena studied. They are relatively cheap and can result in a considerable sample. Their major disadvantage is that samples may not randomly chosen leading to stratified sampling and reducing the representativeness of the results. In this study the type of survey used was the consumers intercept survey. Questionnaires were distributed to those bank customers who walk into the bank for bank service.

Along with the development of consumer research, the number of measurement scales used in customer satisfaction surveys is growing (Devlin, Dong et al. 1993), which complicate data analysis. Some studies, for example, may list over 40 different scales (Haddrell 1994). Two broad types of scales, however, could be distinguished: *single-* and *multi-item* scales. The single-item scales are simple, for example, many studies have used simple single-item scales such as “very dissatisfied” to “very satisfied” responses. The problem is that these scales are hardly able to capture different nuances related to products and services, which reduces their reliability and the only possibility for assessment is a test-retest format (Yi 1989).

The multi- item measures in this case a much offer a better capture of customer satisfaction. Here survey respondents are asked not only to provide an overall evaluation of their satisfaction with the product or service, but are also required evaluating the key components or dimensions of the offer. The reliability of the result, therefore, is higher than when using single-item scales. The multi-item scales can be presented in a number of different ways: Likert, verbal, graphic, semantic differential and inferential scales. Some authors suggest that the semantic differentia I scale is probably most reliable (Westbrook and Oliver 1981). Even though the survey techniques are well developed and have a long history, they have benefits and drawbacks. The main ones are outlined below:

**Benefits:**

- Access to many customers - broad sample;
- Opportunity to see and describe variations and distributions of variables in population;
- Possibility to gain general information about consumers’ attitudes, intentions, and perceptions;
- Amount of collected data allows use of statistical analysis for explaining and predicting certain behaviors.

**Drawbacks:**

- Problematic to make consumers understand and interpret questions in the same way;
- People tend to provide socially acceptable answers;
- Reliance on consumer self-reporting and some argue that it is inconsistent with actual behavior of people (Zelezny 1999);
- Time consuming and difficult to develop good questionnaire;
- Difficult to get access to needed population/sample;
- Questionnaires require testing, but once at use corrections are difficult to make.

**2.8.2 In-depth interviews**

Sometimes, companies complement surveys with in-depth personal interviews. Such interviews can serve as a test bed for questionnaires and be an effective when the number of respondent is small. Personal interviews are often used when companies are creating specific “customer profiles” or “satisfaction improvement plans” (Dickey 1998). The participants in The Likert technique present a set of attitude statements. Respondents are asked to express agreement or disagreement on a multi-point scale. Thus, a total numerical value can be calculated from all the responses. In-depth interviews are chosen based on their willingness to participate, their value as a customer, and their ability to articulate issues (Kessler 1996).

The strength of in-depth interviews is that they provide possibilities to get access to consumer perceptions of the offer discover new variables and new needs of consumers and test and correct instrument. However, several weaknesses could be noted. For example, when interviewees are not randomly chosen, the conclusions need be confirmed with a broad, stratified random sampling. It is also difficult to have a large number of interviews and thus the sample is rarely representative. The personal interviews also require certain flexibility and interpersonal communication skills, which may not be always at hand.

**2.8.3 Focus group interviews**

Focus groups interviews is a direct questioning of a group of usually 8-12 people that provides fast feedback on service issues and customer satisfaction. It is a qualitative data gathering technique, in which the interviewer directs the interaction and inquiry in a very structured or unstructured manner, depending on the interview’s purpose (Denzin and Lincoln 1994). In consumer research, this method is used extensively for eliciting opinions, which explain consumer behavior in shopping centers. It is also applied to pre-test and post-

test advertisements and commercials. Focus groups may be the most cost-effective means of measuring product acceptance and may help define how the product should be adapted to a particular market or group of customers.

Depending on the researched area, groups are recruited based on specified and varied criteria, such as age, gender, or other important characteristics. The respondents are recruited among the customers of a given shopping centre or supermarket. The strengths of the focus groups interviews are the possibility to assess how peoples themselves perceive or conceptualize issues and the possibility to test new issues or new dimensions of customer satisfaction. The weakness is that it is difficult to distinguish between personal and group perceptions. Group dynamics can also prevent certain issues or perceptions from being tackled. In addition, the size of a sample is rarely representative.

#### **2.8.4 Observations**

Participant observation is “research that involves social interaction between the researcher and informants in the milieu of the latter, during which data are systematically and unobtrusively collected” (Taylor and Bogdan 1984). Observations provide the possibility to observe product or service at a system level – during interaction with the user and during interaction with the environment.

A source of data in the observation is everything that goes around the setting. This includes the physical environment and activities as well as social environment, such as patterns of interaction, frequency of interactions, direction of communication patterns, decision-making patterns, and verbal and non-verbal communication patterns.

Observations are unobtrusive and do not require direct interaction with participants, thus, observation can be conducted inconspicuously. It will always have an advantage whenever it is necessary to observe behavior in their natural context. However, observations are topically limited to a small sample of activities with the focus on only external behavior. The danger for the ‘complete observer’ is to fail to understand the perspective of participants. Conclusions have to be inferred from what can be observed without any possibility of checking these interpretations against what participants say in response. Hence, with a less engaged research role there is a greater risk of missing out on an important aspect, or more seriously completely misunderstanding the behavior (Hammersley and Atkinson 1995).

One of the main criticisms of observation research is that it lacks reliability. Since data is collected in a non-standardized way, it is not generally useful for statistical treatment. Without a statistical analysis to confirm the significance of observation patterns or trends, researchers often find it hard to ensure that their findings are real and not merely the effects of chance.

### **2.8.5 Mystery shopping**

This type of research is based on the information collected at points-of sale. Mystery shopping consists of natural observation conducted by specially trained persons sent by a company, who pretend to be customers or business partners. These persons visit selected retail points to gather information and observations about staff responsiveness, attitudes towards customers or products, staff quality and competence, their appearance (and other related behavioral attributes), the aesthetics and functionality of inspected site, *i.e.* overall perception of the shopping experience.

Some researchers use SERVQUAL model for identifying attributes of the service to be evaluated by mystery shopping (Lowndes 2000). Mystery shopping helps to raise customer service standards and identify weak points from the customer perspective. It allows evaluation of services from the customer side and unbiased representation of the weak point of the service. The direct involvement in the process allows a better understanding of customer and service provider behavior and the important moments of their interaction that in the end might affect customers' perception of the service. Mystery shopping is, however, a time consuming procedure and requires significant effort to find and train mystery shoppers. Hiring professional mystery shoppers can be also costly.

### **2.8.6 Psychographic portrait of customers**

A psychographic portrait of customers is part of psychographic research, which analyses the consumer's activities, interests, and opinions about products, services, and shopping experiences. The method is a descriptive research method identifying the detailed characteristics of potential or existing clients. It combines sociological methods of gathering consumer information (social and demographic characteristic, information on consumption patterns, etc.) with the methods originating from personality psychology. The development of an exhaustive and accurate customer portrait requires extensive quantitative research. For

example, the portrait of the shopping centre's customer will entail a description of the "lifestyle" of the surveyed population. The typical variables included here are: type of work, income, size of family, place of residence, interests and hobbies, identification with cultural or behavioral patterns, expectations and requirements regarding the quality/brand of merchandise, quality of service, etc.

Customers' purchasing habits would include such issues as: who do they usually go shopping with, how often, how long do they spend in a shop, etc. Psychographic portraits of many customers allow customer segmentation in terms of purchase frequency, respondents' experience of various shopping centers or service organizations, as well as benchmarking against competitors.

The strength of a psychographic portrait is that by collecting information about consumption patterns and perceptions it combines both qualitative and quantitative data and thus provides extensive background information for market segmentation and potential customization of products or services.

The weaknesses are that the method is time consuming and relies on very extensive information. The reliability is likely to be medium as it relies on self-reporting of customers. An extensive experience is required to create a reliable psychographic portrait of customers.

# CHAPTER THREE

## RESEARCH METHODOLOGY

### **Introduction**

This chapter will present the principles and procedures used to answer the research questions and the justification for the selected methodology based on the research question and literature review.

### **3.1 The proposed model**

The purpose of this research is to assess the quality of service provided by CBE, North Addis Ababa district from customers prospective and to measure customer satisfaction. One possible method for collecting information on bank service quality is a method called SERVQUAL which was developed to measure the differences between customers' expectation and their perceptions (Parasuraman et al, 1988). The SERVQUAL forms the central part of the gap model for measuring customers focused quality (Parasuraman et al 1995).

The SERVQUAL instrument identifies five dimensions of service quality that customers routinely use as a way of evaluating services. These are:

- Tangibles: the appearance of facilities, equipment, material and personnel;
- Reliability: the performance of a service in a dependable and accurate manner;
- Responsiveness: the willingness of staff's to help customers and provide prompt service;
- Assurance: the staff's ability to provide courteous and knowledgeable service; and
- Empathy: the staff's ability to understand the need of customer.

Based on the above dimension the instrument poses a set of structured, paired questions designed to assess both customers' expectations and customers' perceptions. A seven point Likert scale was used for the scoring system with number '7' representing strongly agree and '1' representing strongly disagree. The SERVQUAL instrument is based on the premise that customers who rate expectation higher than perceived services will experience service quality that is less than the adequate. Conversely, customers who perceived performance as higher

than their expectations will rate the service as higher quality. Likewise, customers who rate the expectations and perceptions with similar score are satisfied.

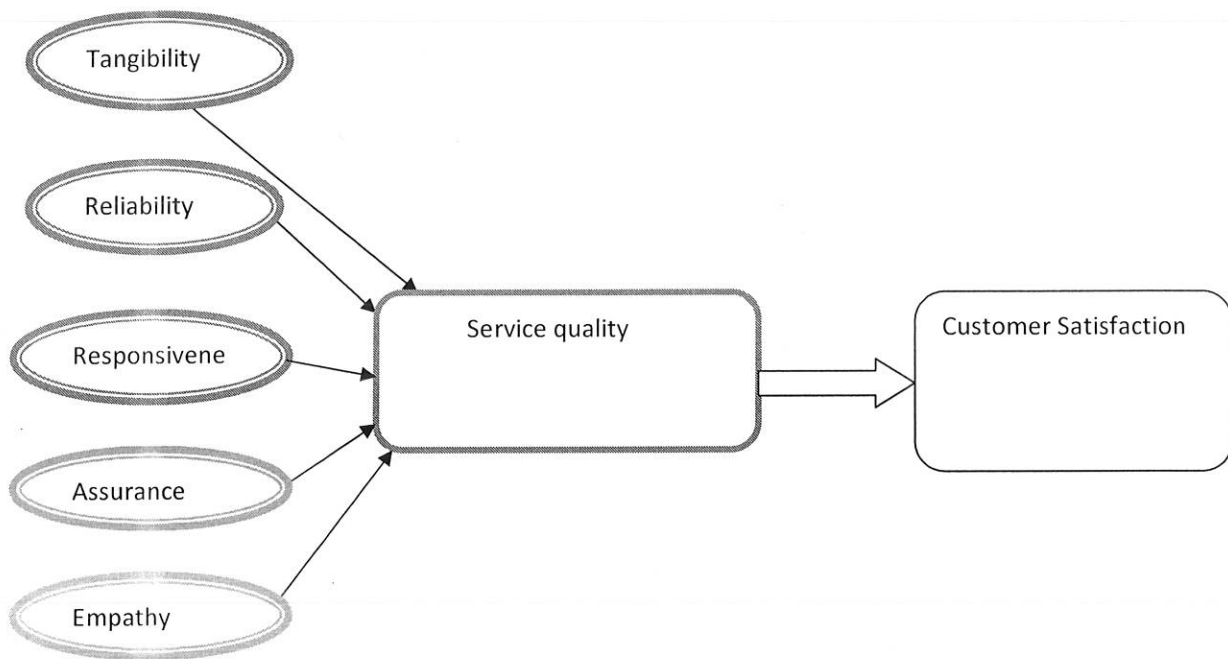
### **3.2 The SERVQUAL instrument (Questionnaire)**

The SERVQUAL instrument has been widely used in measuring service quality in many research studies (Babakus and Mangold, 1992; Cronin and Taylor 1992; as cited by Parasuraman et al, 1993).

According to Brown, Churchill, and Peter (1993) also the SERVQUAL is the most popular measure of service quality which involves the calculation of the difference between expectations and perceptions on a number of specified determinants.

Parasuraman et al (1994) acknowledged that the SERVQUAL instrument has been used productively and widely for measuring service quality in many published studies examining service quality in a variety of context including Banking, Pest control, Dry cleaning and fast food.

Taylor and Miyazaki (1995) argue that some measures of perceived performance is important in assessing service quality; but it is difficult to obtain accurate data especially for services where the customers are unable to evaluate the key attributes of the service. Another argument concerns the difficulties of measuring service quality because it is inherently subjective, due to its intangibility, heterogeneity, inseparability (Parasuraman et al 1985) and perishability (Zeithaml and Bitner 2000). However, Deeming (1998) argues that accuracy, speed, dependability and care in handling are important characteristics service quality and are easy to quantify and to measure as a quality of manufactured goods.



*Figure 5: Modified from Parasuraman et al Service Quality model 1985, p 48*

The SERVQUAL instrument has been utilized to assess the quality of service provided by the CBE, North Addis Ababa District. It includes an examination of customers' expectations and perceptions of CBE, North Addis Ababa district service quality. This assessment results will enable the management of the bank to better direct their resources to improve banking operations in those areas that have the most impact on customers perception of service quality.

### **3.3 Data Gathering**

In conducting this research data was collected from both secondary and primary sources. Secondary data were gathered from books, articles and magazines. To collect primary data two forms of questionnaires with predetermined sets of questions were developed. The first form is used to measure customers' expectations and the second one is used to measure customers' perceptions.

The items used in both questionnaires are from those in the revised version of SERVQUAL. Each form includes five dimensions to be measured. These are: tangibles, reliability, responsiveness, assurance and empathy. Each dimension includes some statements and every respondent is asked to express his/her expectations and perceptions of service quality provided by the CBE, North Addis Ababa District. To make sure that all respondents participate in the survey, the questionnaire was translated into Amharic language. Before distributing the questionnaire a pilot survey was conducted on target population of the study. Twenty respondents (five respondents from each branch) were contacted for pilot test from the selected branches (Sellassie, Mahatma Gandhi, Addis Ababa and Arada Georgis Branches) during the bank working hours in order to discover any drawbacks of the questionnaire and if any modification has to be made.

Table 3.1: The distribution of research questions parallel to the questions of the questionnaire

Research questions	Question of the questionnaire
Is there a difference between customers' expectations and their perceptions of service tangibility at CBE, North Addis Ababa District?	Q1.The bank will have modern looking equipment.
	Q2. The physical facilities at bank will be visually appealing.
	Q3. Employees of the bank will be neat appearing.
	Q4. Materials associated with the service (such as pamphlets or statements) will be visually appealing at bank.
Is there a difference between customers' expectations and their perceptions of reliability at CBE, North Addis Ababa District?	Q5. When the bank promises to do something by a certain time, they do.
	Q6. When a customer has a problem, the bank will show a sincere interest in solving it.
	Q7.The bank will perform the service right the first time.
	Q8.The bank will provide the service at the time they promise to do so.
	Q9. The banks will insist on error free records
Is there a difference between customers' expectations and their perceptions of responsiveness at CBE, North Addis Ababa District?	Q10.Employees of the bank will tell customers exactly when services will be performed.
	Q11. Employees of the bank will give prompt service to customers.
	Q12. Employees of the bank will always be willing to help customers.
	Q13. Employees of, the bank will never be too busy to respond to customers' requests.
Is there a difference between customers' expectations and their perception of assurance at CBE, North Addis Ababa District?	Q14. The behavior of employees in the bank will insist confidence in customers.
	Q15. Customers of the bank will feel safe in transactions.
	Q16. Employees of the bank will be consistently courteous with customers.
	Q17. Employees of the bank will have the knowledge to answer customers' questions.
Is there a difference between customers' expectations and their perceptions of empathy at CBE, North Addis Ababa District?	Q18.The bank Will give customers individual attention.
	Q19. The bank will have operating hours convenient to all their customers.
	Q20. The bank will have employees who give customers personal attention.
	Q21. The bank Will have their customer's best interests at heart.

	Q22. Employees of the bank will understand the specific needs of their customers.
Are the Customers of Commercial Bank of Ethiopia North Addis Ababa District satisfied by the Service they received from the Bank?	Q23. How satisfied are you overall with the service you received from the Commercial Bank of Ethiopia North Addis Ababa district Branches?
From the service quality dimension, which one do the customers value more for bank service?	Q24. Listed below are five features pertaining to banks and the services they offer. We would like to know how much each of these features is important to the customer. Please allocate 100 points among the five features according to how important it is to you. Make sure the points add up to 100.

### 3.4 Method of Data collection

Population of the study was Bank customers of CBE, North Addis Ababa District Branches. Commercial Bank of Ethiopia North Addis Ababa district includes 14 branches such as Addis Ababa Branch, Mehal Ketema Branch, Tewodros Branch, Arat Kilo Branch, Fitcha Branch, Mehteme Ghandi Branch, Gullele Branch, Arada Ghiorgis Branch, Selassie Branch, Alem Ketema Branch, Sheger Branch, Holota Branch and Ghinchi Branch. At the time this survey was conducted, the total number of customers was around 236,357. However it is practically impossible to examine the whole population of interest due to constraints of resources such as time, money and people. Consequently, of the 14 branches of CBE, North Addis Ababa district, four branches (Addis Ababa Branch, Arada Geiorgis Branch, Mahatma Gandhi Branch and Sellassie Branch) were selected purposely. The researcher selected these branches for the study because the banks are located on the same line. This enables the researcher to manage the data collection process efficiently and effectively. Again to the selected branches, a total 300 questionnaires (75 questionnaires for each branch) have been distributed from November 16 to 26, 2009. Data was collected by utilizing a convenience from walk-in customers at the bank premises across four branches for a consecutive two weeks.

In Addis Ababa and Mahatma Gandhi Branches, the researcher managed collection of data from the respondents. In the remaining two branches (Selassie and Arada Georgis branches), data was collected from the respondents with the assistant of bank tailors and facilitators. Orientation was given for the tailors and facilitators about the questions on the questionnaire. In addition, the researcher visit each branches at least once a day to check if there is any problem in completing the questionnaire and to collect completed questionnaires from the banks. On average 6 questionnaires were completed by the respondents in each branches per day during the data collection period. In all the banks selected as sample, respondents were contacted in the bank at the time they come to the bank for the service. Consequently a total of 205 questionnaires were usable showing a response rate of 68.3%. The responses of the respondents tested for reliability of the instrument using Cronbach's alpha and the result was 0.902.

### **3.5 Data Analysis**

Two programs (SPSS and Excel) were used to analyze the data. The results and participants demographic detail were entered into a computer (SPSS 14 version) to analyze the findings. By using descriptive statistics the data have been analyzed using statistical indexes such as frequencies, percentages and mean.

# CHAPTER FOUR

## ANALYSIS OF FINDINGS

### Introduction

This chapter presents the results of the questionnaire, the patterns of the results and analysis of their relevance to the research questions and aims. In the first part, the results were analyzed to identify the sample demographics to get a broad idea of the sample. Then the findings were analyzed to identify the customers' expectation and perception of service quality at the surveyed branches of Commercial Bank of Ethiopia North Addis Ababa District. Finally, the overall customers' satisfaction and the relative importance of the service quality dimensions were analyzed.

### 4.1 Respondents Personal Data Analysis

#### 4.1.1 Respondents according to their gender

Table: (4-1): Respondents Gender

Gender	Frequency	Percent
male	138	67.3
Female	67	32.7
<b>Total</b>	205	100

*Source: questionnaire*

Table 4-1 indicates that there were 138 male respondents (67.3%) and 67 female respondents (32.3%). Male respondents are over represented in the sample. This is because the numbers of female customers who walk into the bank during the data collection period were not as large as that of male customers. However, respondent's gender was not used for analysis.

#### 4.1.2 Respondents according to their age group

Table (4-2): Respondents Age Group

Age Group	Frequency	Percent
20-30	100	48.8
31-40	68	33.2
41-50	22	10.7
Above 50 years	15	7.3
<b>Total</b>	205	100

*Source: questionnaire*

Table 4-2 indicates that four age groups (20-30, 31-40, 41-50 and above 50 years). The age group of 20-30 is over represented. Age group 20-30 is 100 (48.8%) and this age group is the largest in the sample followed by 31-40 (33.2%). Then age group 41-50 is 22 (10.7%) and finally, age group above 50 is the least represented age group which is 15 (7.3%). As age group increases the numbers of respondents were decreased. Sekaran (2003) stated that mature respondents are more likely to respond to the surveys than the younger respondents. Denscombe (1998) support this argument and stated that retired people are more inclined than others to spare the time and make the effort to comply with request to help with research. But, the situation here is different. This might be because of the following reasons: Retired people may not go to banks as frequently as younger ones; the other reason might be as people get retired they forward the responsibility of running business to their younger ascendants as a result they might not go to banks. Even those who visit the bank were not voluntary to complete the survey.

#### 4.1.3 Respondents Educational Level

Table (4-3): Respondents Educational Level

<b>Educational level</b>	<b>Frequency</b>	<b>Percent</b>
Grade 10 or 12 complete	31	15.1
Diploma	79	38.5
University student	13	6.3
First degree	67	32.7
Second degree and above	11	5.4
<b>Others</b>	4	2.0
<b>Total</b>	205	100

Source: questionnaire

Table 4-3 above indicates that there were 79 respondents (38.5%) who were qualified with diploma in different areas of occupation. The next is first degree holders 67 respondents (32.7%). Those who complete their high school education (grade 10 or 12) are 31 respondents (15.1%). Second degree and above is 11 respondents (5.4%). The remaining 4 respondents were those whose educational level is below grade 10 or 12. Therefore the majority of the respondents are well educated.

#### 4.1.4 Respondents according to their employment

Table (4-4): Respondents' Employment Condition

Types of employment	Frequency	Percent
Government employees	66	32.2
Running own business	66	32.2
Non-government organizations	44	21.5
Unemployed	15	7.3
Students	14	6.8
<b>Total</b>		

Source: questionnaire

Table 4-4 indicates that there are 66 respondents (32.2%) who were employed in government organizations. The number of respondents who run their own business is equal to the number of respondents employed in government organizations 66 respondents (32.2). The number of respondents employed in non government organization is 44 (21.5). Unemployed respondents were 15 (7.3%). And the remaining 14 respondents were university students (6.8%).

#### 4.1.5 Respondents according to the service they were provided by the Banks

Table (4-5): Services Provided to Respondents

Types of service	Frequency	Percent
Saving	83	40.5
Loan	3	1.5
Checking Account	47	22.9
Money transfer	22	10.7
Foreign trade relation	8	3.9
Foreign exchange	2	1.0
Fixed deposit	2	1.0
Safe deposit	2	1.0
Two or more than two services	34	16.6
others	2	1
<b>Total</b>	205	100

Source: questionnaire

Table 4-5: summarizes types of services provided to customers (sample respondents) in the four selected branches of Commercial Bank of Ethiopia North Addis Ababa District during the survey time. As indicated in the table 83 respondents (40.5%) get saving service. They were highly represented in the survey. Checking account is represented by 47 respondents (22.9%) followed by those who get a combination of two or more services which were 34

respondents (16.6%). Those who provided with money transfer service by the selected branches were 22 respondents (10.7%). Foreign trade relation service is represented by 8 respondents (3.9%). The remaining types of services such as foreign exchange, safe deposit, fixed deposit and others each represented by two respondents (1%). Their number is very few because the bank provides such type of services in a limited number of its branches.

#### 4.1.6 Respondents length of time as customers with the Banks selected

Table (4-6): respondents' duration of service with the bank

Length of time	Frequency	Percent
More than a year	172	83.9
In months	25	12.2
For a weeks	1	0.5
For a single day	7	3.4
total	205	100

Source: questionnaire

Table 4-6 indicates duration of time the respondents had transaction with the selected branches of the Bank. As shown in the table 4-6 above 172 respondents (83.9) had relationship with the bank's branch for more than a year. As a result they can better evaluate the service quality provided by the bank than those customers who had shorter period business relationship. 25 respondents (12.2%) stayed as a customer for a months. 1 respondent (.5%) stayed as customer of the selected branches of the bank for weeks. The remaining 7 respondents had get the selected banks service for a single day.

## 4.2 Findings of Service Quality

### 4.2.1 Service Quality Scores of Tangibility Attribute

Table (4-7): Gaps between Perception and Expectations of Tangibility Attribute

Service quality attributes	Mean perception	Mean expectation	Servqual scores
The bank will have modern looking equipment.	5.30	6.16	-0.86
The physical facilities at bank will be visually appealing.	4.85	5.87	-1.02
Employees of the bank will be neat appearing.	5.57	6.33	-0.76
Materials associated with the service (such as pamphlets or statements) will be visually appealing at bank.	4.43	5.58	-1.75
<b>Total</b>	20.15	23.94	-3.79

Source: questionnaire

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Materials associated with the service (such as pamphlets or statements) will be visually appealing at bank.	4.43	5.58	-1.75
<b>Total</b>	20.15	23.94	-3.79

Source: questionnaire

According to the results in table 4-7, the highest mean expectation referred to employees of the bank will be neat appearing which are 6.33. The next highest mean expectation referred to modern looking equipment (6.16). The highest mean perception is referred to employees neat appearance (5.57) followed by modern looking equipment which was 5.30. The highest servqual score gap is on materials associated with the service is visually appealing which was -1.75. The overall servqual gap (i.e., total mean perception minus total mean expectation) is -3.79. From the service quality dimensions used in this research, the tangibility dimension is the one with least servqual score gap is observed. This may be in view of the fact that of the proper management of tangibility attribute by the Bank managements. The other rationale is Bank customers do not expect that much from the bank in relation to tangibility attribute of service quality.

#### 4.2.2 Service Quality Scores of Reliability Attribute

Table (4-8): Gaps between perception and expectation of reliability attributes

Service quality attributes	Mean perception	Mean expectation	Servqual scores
<b>When the bank promises to do something by a certain time, they do.</b>	4.77	5.80	-1.03
<b>When a customer has a problem, the bank will show a sincere interest in solving it.</b>	4.82	5.80	-0.98
<b>The bank will perform the service right the first time.</b>	4.63	5.78	-1.15
<b>The bank will provide the service at the time they promise to do so.</b>	4.84	5.80	-0.96
<b>The banks will insist on error free records</b>	5.28	6.16	-0.88
<b>Total</b>	24.34	29.34	-5.00

Source: questionnaire

According to the results in table 4-8, the highest mean expectation is referred to (the bank will insist on error free records) which was 6.16. Mean expectations of three attributes (when the bank promises to do something by a certain time, they do; the bank will show sincere interest in solving customers problem; and the bank will provide the service at the time they promise to do so) reliability dimension are equal (5.80). The least mean expectation of reliability attribute is referred to the bank will perform the service right the first time (5.78).

The mean perception of reliability dimension is highest for (the bank will insist on error free records) which was 5.28. The servqual score is also lowest for this attribute of service quality which was -0.88. The highest gap is referred to (the bank will perform the service right the

first time) which was -1.15 followed by (when the bank promises to do something by a certain time, they do) which was -1.03. The overall servqual gap (total mean perception minus total mean expectation) is -5.

In this dimension of service quality, the respondents almost perceive what they expect on the attribute the bank will insist on error free records. Yet again, respondents' perception is lowest for the attribute the bank will perform the service right the first time. Here they expect more but, what they perceive at the time of service is less as compared to other attributes. This indicates that there are underperformance from the bank in providing services right the first time to its customers'. This is also the dimension which customers gave more weight from the five service quality dimensions used in this survey. Respondents mean expectations are equal for three attributes of reliability dimension such as when the bank promises to do something by a certain time, they do; the bank will show sincere interest in solving customers' problem; and the bank will provide the service at the time they promise to do so. Although respondents expectation are the same for the above attributes, what they experience what they experience is different. This is due to good performance in one area and underperformance in another area by the banks under study. From the above three attributes in which customers' expectations are equal but with difference in perception, respondents experienced better in attribute the bank will provide the service at the time they promise to do so follow by when a customer has a problem, the bank will show a sincere interest in solving it.

#### 4.2.3 Service Quality Scores Responsiveness Attributes

Table (4-9): Gap between the perception and expectation responsiveness attribute

Service quality attributes	Mean perception	Mean expectation	Servqual score
Employees of the bank will tell customers exactly when services will be performed.	5.03	6.13	-1.1
Employees of the bank will give prompt service to customers.	5.26	6.19	-0.93
Employees of the bank will always be willing to help customers.	5.00	6.06	-1.06
Employees of, the bank will never be too busy to respond to customers' requests.	4.46	5.60	-1.14
<b>TOTAL</b>	19.75	23.98	-4.15

Source: questionnaire

Table 4-9 above indicates that mean perception of three attributes of responsiveness (employees of the bank will give prompt service to customers; Employees of the bank will tell customers exactly when services will be performed; and employees of the bank will always be willing to help customers) is highest (6.19, 6.13 and 6.06) respectively. The highest perception of responsiveness dimension of service quality is referred to (employees of the bank will give prompt service to customers) which was 5.26. The highest gap is referred to (employees of, the bank will never be too busy to respond to customers' requests) which was -1.14. The least gap is referred to (employees of the bank will give prompt service to customers) which was -0.93. The overall servqual gap of responsiveness dimension of service quality is -4.15.

Based on the above outcome, the bank performance was good for the service quality attribute employees of the bank will gives prompt service to customers follow by employees of the bank will always be willing to help customers. These are the areas in which the bank provides better services which near to rally customers' expectation even if it is negative under responsiveness quality dimensions. The banks have also drawbacks in the attributes; employees of the bank will never be too busy to respond to customers' requests and employees of the bank will tell customers exactly when services will be performed. In these attributes highest gap is observed between customers' expectation and perception.

#### 4.2.4 Service Quality Scores of Assurance Attributes

Table (4-10): Gaps between the Perception and Expectation of Assurance Attributes

Service Quality Attributes	Mean perception	Mean expectation	Servqual scores
The behavior of employees in the bank will insist confidence in customers.	4.75	5.82	-1.07
Customers of the bank will feel safe in transactions.	4.86	5.86	-1.00
Employees of the bank will be consistently courteous with customers.	5.08	6.06	-0.88
Employees of the bank will have the knowledge to answer customers' questions.	5.02	5.99	-0.97
<b>Total</b>	19.71	23.73	-4.02

Source: questionnaire

As indicated in table 4-10, the highest mean expectation of assurance attribute of service quality is referred to (employees of the bank will be consistently courteous with customers) which was 6.06. The next highest mean expectation of assurance attribute is referred to (Employees of the bank will have the knowledge to answer customers' questions) which was

5.99. The lowest mean perception is referred to (The behavior of employees in the bank will insist confidence in customers) which was 4.75. The highest mean perception of reliability attribute is referred to (employees of the bank will be consistently courteous with customers) which was 5.08. The overall gap of assurance attribute of service quality (total mean perception less total mean expectation) is -4.02.

In all the above attributes of assurance dimension, the customers' expectations does not equal to their perceptions. Their perception is lower than their experienced. The condition is serious for the attribute; the behavior of employees in the bank will insist confidence in customers. This is the feature of assurance dimension in which highest gap was observed. In other words, this is the area in which bank customers expect more though perceive less.

The SERVQUAL score is minimal for the attribute; employees of the bank will be consistently courteous with customers. This means respondents expectations are more or less meet their perception. This is also the area in which the bank struggle to fit customers' expectation.

#### 4.2.5 Service Quality Scores of Empathy Attributes

Table (4-11): Gaps between Perception and Expectation of Empathy Attributes

Service quality attributes	Mean expectation	Mean perception	Servqual score
The bank Will give customers individual attention.	4.59	5.82	-1.23
The bank will have operating hours convenient to all their customers.	4.85	5.83	-0.98
The bank will have employees who give customers personal attention.	4.80	5.90	-1.10
The bank Will have their customer's best interests at heart.	4.70	5.84	-1.14
Employees of the bank will understand the specific needs of their customers.	4.54	5.80	-1.26
<b>Total</b>	23.48	29.19	-5.71

Source: questionnaire

As indicated in table 4-11, mean expectation of (the bank will have employees who will give customers personal attention) is greater than other attributes of empathy dimension of service quality (5.90). The highest mean perception is referred to (the bank will have operating hours convenient to all their customers) which was 4.83. The lowest servqual score gap is also indicated in this attribute (-0.98). The servqual score (gap) is highest for (employees of the

bank will understand the specific needs of their customers) which was -1.26. The overall servqual score of empathy attributes of service quality (total mean perception minus total mean expectation) is -5.71. This is the highest gap as compared to other service quality dimensions included in this research.

As indicated in the above end result, with regard to empathy dimension, the gap between respondents' expectation and perception is highest for the attribute; employees of the bank will understand the specific needs of their customers follow by the bank will give customers individual attention. In both cases, respondents' expectation is highest though their perception is less. Which means; the bank has some weakness in meeting customers expectation in relation to the above two attributes of assurance dimension. On the other hand, the attribute; the bank has operating hours convenient to all its customers, is the attribute in which the gap between respondents expectation and perception is lowest. This means, customers expectations are nearly meet their perceptions though it is negative. In the other words, this the area in which the bank performance was good in providing service to its customers.

#### 4.2.6 Summary of scores of the five dimensions of service quality used in this research

Table (4-12): Summary of total mean perception and total mean expectation of five dimensions of service quality

<b>Service quality dimensions</b>	<b>Total mean perception</b>	<b>Total mean expectation</b>	<b>Gap</b>
Tangibility	20.15	23.94	-3.79
Reliability	24.34	29.34	-5.00
Responsiveness	19.75	23.98	-4.15
Assurance	19.71	23.73	-4.02
<b>Empathy</b>	<b>23.48</b>	<b>29.19</b>	<b>-5.71</b>

*Source: questionnaire*

Table 4-12 summarizes the five service quality dimensions used in this research. The results in the table are total mean perceptions, total mean expectations and the gap between total mean expectation and total mean perception of the five service quality dimensions used in this research. As indicated in the table, service quality gap is highest for empathy dimension of service quality (-5.71). The next highest gap is in reliability dimension of service quality (-5.00). The service quality gaps for responsiveness and assurance dimension are -4.15 and -

4.02 respectively. The least gap was recorded in tangibility dimension of service quality (-3.79).

Based on the above results, the gap between mean perceptions and mean expectation is lowest for tangibility dimension. This means respondents nearly get what they expect from the bank. The performance of the bank was better in managing the tangibility attributes of service quality dimension, provide that expectations still exceeds perceptions. On other hand, the gap between mean perceptions and mean expectations is highest for empathy dimension follow by reliability dimension. In these dimensions, customers expect more but they experience less. Despite the fact that all the servqual scores are negative (what the customers expect from the bank exceed what they actually experience), empathy and assurance dimensions are the attributes in which the highest gap was observed. This implies that, the banks under study have rigorous problem with regard to these two dimensions.

### 4.3 Relative importance of service quality dimensions

Table (4-13): Relative importance of Service Quality dimensions to the respondents

Service quality dimensions	Mean Value
Tangibility	15.99
Reliability	22.59
Responsiveness	20.98
Assurance	18.21
Empathy	22.00

Source: questionnaire

Respondents were asked to allocate 100 points among five dimensions according to their importance to them. The above table indicates that reliability is the most important service quality dimension (mean 22.59) followed by responsiveness dimension (mean 22.00). The difference of mean value of the two dimensions is minimal (mean 0.59%) and therefore responsiveness dimension has an almost equal importance with reliability dimension in a bank service context. The least importance weight was given to the tangibility attributes of service quality dimension follow by assurance dimension of service quality. Based on these results, reliability is the most important quality dimension and tangibility is the least important attribute.

The finding is consistent with Berry and Parasuraman (1991) findings. According to Berry and Parasuraman, reliability is the most important dimension in 10 studies with in different industries and claim that reliability is the core service quality in any industry.

### 3.4 Overall customer Satisfaction

Respondents were asked to rate their perception of overall quality of the Banks service on a five point Likert scale with 1= extremely dissatisfied, 5= extremely satisfied.

**Table (4-14): Overall Customer Satisfaction of Service Quality**

Scale Value	Frequency	Percent
1	75	36.58
2	65	31.70
3	35	17.07
4	30	14.63
5	0	00
total	205	100

*Source: questionnaire*

Table 4-14, indicates that the overall satisfaction of bank service quality that customer get from banks under study. Based on the result of the above table, 75 respondents (36.58%) were extremely dissatisfied with the service they get from the banks under study. 65 respondents (31.70%) were dissatisfied by the service they were provided by the selected branches CBE included in this survey. 35 respondents (17.07%) were to some extent satisfied by the bank service. 30 respondents (14.63) were satisfied with the bank service quality. There were no respondent who were extremely satisfied by the quality of service provided by the CBE, North Addis Ababa District Branches. In view of the fact that customers' expectation is greater than customers' perception, overall dissatisfaction of respondents by the bank service quality is the result of inability to meet customers' expectation by the banks under study.

This is supported by Bearden and Teel (1983); Buzzel and Gale (1987) found a positive relationship existing between high perceived service quality and customer satisfaction. Positive relationship between perceived service quality and customer satisfaction creates true customers, increases efficiency and benefits from increased market share and profit, heavy sales volume, high revenue and reduces costs by economies of scale (Anderson and Sullivan 1993, Zeithaml, Parasuraman and Berry, 1996).

Satisfied customers do not switch their service provider and therefore cost of retaining existing customers are significantly lower than attracting new customers. These customers spread their satisfaction by positive word of mouth which influences non-existent customers' desires to engage with the organization and work as free promotional agents (Gronroos 2007, Zeithaml and Bitner, 2000).

Finally, the dissatisfaction of bank customers emanates from poor performance of service quality by the bank. This implies that there is a positive relationship between SERVQUAL and customers satisfaction.

## CHAPTER FIVE

### Summary of findings, Conclusion and Recommendation

#### Introduction

Information analysis is a fundamental basis for any research. It is important to state that the analysis of data is not enough to answer research questions and it is important to interoperate data.

Interpretation of data means the explanation and finding the meaning of data. Since the explanation of data without analysis is very difficult or impossible, therefore it is necessary to interpret the results achieved after analysis, enabling us to reach truths and use of the results.

#### 5.1 Summary of Major Findings

In all the service quality dimensions used in this study, SERVQUAL scores are negative. This means that total mean expectations is greater than total mean perceptions. In other words, the banks under study do not meet customers' expectation. The gap is serious for empathy attribute of service quality dimension. The least gap between customers' expectation and customers perception achieved in tangibility attribute of service quality.

In relation to overall satisfaction of customers, almost all respondents were dissatisfied by the service they were provided by the banks. From 205 total numbers of respondents, only 30 respondents were satisfied with the service they were provided by the banks under study. This indicates the present performance of the banks in providing service is by below the level that bank customers' expect from the bank.

Finally, respondents were also asked to give weight to the service quality dimensions such as tangibility, reliability, responsiveness, assurance and empathy based on relative importance to them. As indicated in table number 4- 13, respondents gives highest weight to reliability dimension of service quality follow by empathy and responsiveness. The respondents gave least weight to tangibility follow by assurance dimension service quality. This means, reliability, responsiveness and assurance are the most important attribute them respectively. On the other hand tangibility and assurance are relatively the least important attribute. Tangibility is relatively the most important service quality dimension and reliability is relatively the most important dimension of service quality.

According to the results in table number (4-8), (4-9), (4-10), (4-11) and (4-12)

Concerning the tangibility dimension, is there a significant difference between customers' expectations and their perceptions of tangibles at CBE North Addis Ababa Districts Branches? The total mean perception is 20.15 and total mean expectation is 23.94. The gap between expectation and perception is -3.79. Since the gap is -3.79, therefore there is a difference between customers' expectations and perception in view of tangibles. For this reason, according to the SERVQUAL model, service quality in this dimension is -3.79. It shows that the customers' perceptions are lower than that of the customers' expectations and this index has not met their expectation. Even if the SERVQUAL score is negative, this is the service quality dimension in which least gap was observed in this study.

Relating to reliability, is there a significant difference between customers' expectations and their perceptions of reliability at CBE North Addis Ababa Districts Branches? The total mean perception is 24.34 and total mean expectation is 29.34. The gap between expectation and perception is -5.00. Since the calculated gap is -5.00, therefore there is a difference between customers' expectations and perceptions in view of reliability. For this reason, according to the SERVQUAL model, service quality in this dimension is -5.00. It shows that the customers' perceptions are lower than that of the customers' expectations and this index has not met their expectation.

As to responsiveness dimension, is there a significant difference between customers' expectations and their perceptions of responsiveness at CBE North Addis Ababa Districts Branches? The total mean perception is 19.75 and total mean expectation is 23.98. The gap between expectation and perception is -4.15. Since the gap is -4.15, therefore there is a difference between customers' expectations and in view of responsiveness. For this reason, according to the SERVQUAL model, service quality in this dimension is -4.15. It shows that the customers' perception is lower than that of the customers' expectation and this index has not met their expectation.

With reference to assurance dimension, is there a significant difference between customers' expectations and their perceptions of assurance at CBE North Addis Ababa Districts Branches? The total mean perception is 19.71 and total mean expectation is 23.73. The gap between expectation and perception is -4.02. Since the gap is -4.02, therefore there is a difference between customers' expectations and perception in view of assurance. For this reason, according to the SERVQUAL model, service quality in this dimension is -4.02. It shows that the customers' perceptions are lower than that of the customers' expectations and this index has not met their expectation.

Pertaining to the empathy dimension, is there a significant difference between customers' expectations and their perceptions of empathy at CBE North Addis Ababa Districts Branches? The total mean perception is 23.48 and total mean expectation is 29.19. The gap between expectation and perception is -5.71. Since the gap is -5.71, therefore there is a difference between customers' expectations and perceptions in view of empathy. The highest gap was observed in this dimension of the service quality followed by reliability dimension. For this reason, according to the SERVQUAL model, service quality in this dimension is -5.71. It shows that the customers' perceptions are lower than that of the customers' expectations and this index has not met their expectation.

In all the research questions related to service quality dimensions, the gaps found between 'expectations' and 'perceptions' of the 22 attributes. According to Parasuraman et al, (1985)  $SERVQUAL\ score = perception - expectation$ . The higher the positive score, the better the service quality. Table (4-11) to table (4-15) indicates that all the 22 service quality attributes scores are negative scores. Therefore, all the 22 service quality attributes do not exceed the customers' expectation levels. In other words, the customers' expectations levels are higher than perceptions levels on all the 22 attributes.

Bearden and Teel (1983); Buzzel and Gale (1987) found a positive relationship existing between high perceived service quality and customer satisfaction. Positive relationship between perceived service quality and customer satisfaction creates true customers, increases efficiency and benefits from increased market share and profit, heavy sales volume, high revenue and reduces costs by economies of scale (Anderson and Sullivan 1993, Zeithaml, Parasuraman and Berry, 1996).

Satisfied customers do not switch their service provider and therefore cost of retaining existing customers are significantly lower than attracting new customers. These customers spread their satisfaction by positive word of mouth which influences non-existent customers' desires to engage with the organization and work as free promotional agents (Gronroos 2007, Zeithaml and Bitner, 2000).

Regarding the second research question, how satisfied are you overall with the service you received from the Commercial Bank of Ethiopia North Addis Ababa district? According to the results in table number 4-1, of the total respondents, 75 (36.58 percent) were extremely dissatisfied with the service they get from the bank. 112 respondents (54.63 percent) were dissatisfied with the service they get from the selected branches of Commercial bank of Ethiopia North Addis Ababa District branches. Only 18 respondents (8.78 percent) were satisfied with the service they get from Commercial Bank of Ethiopia North Addis Ababa District Branches. According to the disconfirmation paradigm indicates the size and direction of person initial expectations in relation to the experience received (Parasuraman et al, 1985). Therefore, the disconfirmation is the size of the gap between prior expectation and the actual performance received. Directions are; positive, negative and zero disconfirmation. When a service is performed better than expectation, a positive disconfirmation occurs resulting in satisfaction and when a service is below the expectation, a negative disconfirmation occurs resulting in dissatisfaction. When a service is performed as expected zero disconfirmation occurs Parasuraman (1985). According the research results, almost all the customers of CBE North Addis Ababa District were dissatisfied with the service quality of the bank. A dissatisfied customer will tell 7 to 20 people about their negative experience. A satisfied customer will only tell three to five people about their positive experience (Kan 1995).

Concerning the third question, from the service quality dimension, which one does the customers value more for bank service? According to the result in table number 4-13, reliability is the most important service quality dimension (mean 22.59) followed by responsiveness dimension (mean 22.00). The difference of mean value of the two dimensions is minimal (mean 0.59%) and therefore responsiveness dimension has an almost equal importance with reliability dimension in a bank service context. Tangibility and assurance attributes are the least important service quality dimensions.

The finding is consistent with Berry and Parasuraman (1991) findings. According to Berry and Parasuraman, reliability is the most important dimension in 10 studies with in different industries and claim that reliability is the core service quality in any industry.

## **5.2 Conclusion**

In this paper, it is shown that it is important in the analysis of service quality to use the SERVQUAL as a technique necessary to explore the most important strength and weaknesses in a service provider. The application in this paper was on a Commercial Bank of Ethiopia North Addis Ababa District Branches. Many gaps in CBE North Addis Ababa District Banks service quality have been discovered. Of these gaps, the most serious one is related with empathy follow by reliability. CBE North Addis Ababa District Branches has to devote their efforts to cover these gaps. CBE North Addis Ababa District Branches customers considered the level of services are below their expectations. This means that CBE, North Addis Ababa District Branches has to do the maximum efforts that it can afford to raise the level of services in these dimensions to the level of customers' expectations.

In the reliability dimension, the bank will perform the service right the first time seems to be the most serious problem. Therefore, Commercial Bank of Ethiopia North Addis Ababa District Branches management has to solve this problem as soon as possible. In empathy dimension, the most serious service gap is in employees of the bank will understand the specific needs of their customers follow by the bank Will give customers individual attention. CBE North Addis Ababa District Branches should exert maximum effort to minimize these gaps.

Moreover, performing services as customers want is another service gap in this dimension and it should also be tackled. The most important service quality dimension to CBE North Addis Ababa Dissect Branches customers is reliability. The widest gap was found in the bank will perform the service right the first time. In this respect, CBE North Addis Ababa District Branches management has to increase the knowledge of the employees by providing training to employees to provide customers service right the first time.

Finally, concerning customers overall satisfaction with the banks service, almost all the customers who get service from the bank were responded that they were dissatisfied with the service quality they get from the bank. This is also another area that management of the bank must work hard to tackle.

### **5.3 Recommendations**

In view of the theoretical studies of the service quality and customers' satisfaction and the conclusion of this research, the following suggestions are presented:

According the results stated in table number 4-7 to 4-11 concerning service quality score gaps, the bank providing service to meet customers' satisfaction is recommended to:

1. Manage the physical evidence used to provide bank service such as modern equipments, facilities, formats and appearance of service providing personnel from time to time properly;
2. Provide adequate training to staff personnel who contact the customers in the area of service quality especially bank service quality dimensions such as reliability, responsiveness, assurance, tangible and empathy; and
3. Properly manage its external marketing communication

According to the results stated in table number 4-14, concerning overall satisfaction of customers about the service they get from the bank, the bank managers are recommended to:

1. Evaluate their service quality from season to season and identify their shortfalls;
2. Receive suggestions from their customers about their service quality and degree of customers satisfaction and making improvement based on the feedback; and
3. Position suggestion box in a very visible location and encouraging customers to provide them a feedback.

Finally, according to the results in table number 4-13 concerning the most dimension of service quality in relation to bank service, the bank managers are recommended to use this research result as an input and conduct their own study to identify the most important service attribute which is relatively important to the customers from time to time. Based on the identified attributes, bank managers are suggested to mobilize their resources and effort towards the most relatively important attribute of service quality.

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# Appendixes

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

A questionnaire to be filled out by the customers' of Commercial Bank of Ethiopia North Addis Ababa District Branches. The purpose of this questionnaire is to prepare a research paper for the requirement of Masters of Art in Marketing Management Education. Your response for the questions is confidential. In addition your response enables to assess the bank service quality provided by the Commercial Bank of Ethiopia North Addis Ababa District Branches. Therefore, your response is necessary for the attainment of the objective of the study.

**Note:**

1. No need of writing your name
2. Mark "x" sign corresponding to the right alternative in side the box

**Thank you for filling out the questionnaire in time!**

**PART ONE: BACKGROUND OF RESPONDENTS**

1. Sex:      A. Male       B. Female
2. Age in years  
A. 20-30       B. 31-40   
C. 31-40       D. 50 years and above
3. Educational background  
A. 12<sup>th</sup> or 10<sup>th</sup> complete       D. First Degree   
B. University student       E. Second degree and above   
C. Diploma       F. Second degree and above
4. Types of Service you get from CBE Sellasie Branch  
A. Saving       F. Foreign Trade Relation   
B. Loan       G. Foreign Exchange   
C. Checking       H. Safe deposit locker   
D. Money transfer       I. Others   
E. Fixed deposit
5. Types of Job  
A. Government Employee       C. Employee in NGO   
B. Running own business       D. Unemployed
6. For how long you are a customer of the bank  
A. More than one year       B. In months       C. In weeks       D. One day



Statement	Score
17. Employees of the bank will have the knowledge to answer customers' questions.	
18. The bank will give customers individual attention.	
19. The bank will have operating hours convenient to all their customers.	
20. The bank will have employees who give customers personal service.	
21. The bank will have their customers' best interest at heart.	
22. The employees of the bank will understand the specific needs of their customers.	

**Part two: Perceptions** The following statements relate to your feelings about the CBE Sellasie branch. Please show the extent to which you believe this bank has the feature described in the statement. Here, we are interested in a number from 1 to 7 that shows your perceptions about the bank.

You should rank each statement as follows:

Strongly  
Disagree

Strongly  
Agree

1      2      3      4      5      6      7

Statement	Score
1. The bank has modern looking equipment.	
2. The bank's physical features are visually appealing.	
3. The bank's reception desk employees are neat appearing.	
4. Materials associated with the service (such as pamphlets or statements) are visually appealing at the bank.	
5. When the bank promises to do something by a certain time, it does so.	
6. When you have a problem, the bank shows a sincere interest in solving it.	
7. The bank performs the service right the first time.	
8. The bank provides its service at the time it promises to do so.	
9. The bank insists on error free records.	
10. Employees in the bank tell you exactly when the services will be performed.	

Statement	Score
11. Employees in the bank give you prompt service.	
12. Employees in the bank are always willing to help you.	
13. Employees in the bank are never too busy to respond to your request.	
14. The behaviour of employees in the bank insist confidence in you.	
15. You feel safe in your transactions with the bank.	
16. Employees in the bank are consistently courteous with you.	
17. Employees in the bank have the knowledge to answer your questions.	
18. The bank gives you individual attention.	
19. The bank has operating hours convenient to all its customers.	
20. The bank has employees who give you personal attention.	
21. The bank has your best interests at heart.	
22. The employees of the bank understand your specific needs.	

3. How satisfied are you overall with the service you received from the Commercial Bank of Ethiopia North Addis Ababa district?

- A. Highly satisfied       C. Neutral   
 B. Satisfied       D. Dissatisfied   
 E. Highly dissatisfied

4. Listed below are five features pertaining to banks and the services they offer. We would like to know how much each of these features is important to the customer. Please allocate 100 points among the five features according to how important it is to you. Make sure the points add up to 100.

No	Dimensions	Points
1	Appearance of the banks physical facilities, equipment, personnel, and communication materials	
2	The bank's ability to perform the promised service dependably and accurately.	
3	The bank's willingness to help customers and provide prompt service	
4	The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence.	
5	The caring, individual attention the bank provides its customers.	

**አዲስ አበባ ዩኒቨርሲቲ**  
**ድህረ ምረቃ ትምህርት ክፍል**  
**በሥነ ትምህርት ፋኩሊቲ**  
**የቢዝነስ ኢኮኖሚ ትምህርት ክፍል**

ይህ መጠይቅ የሚሞላው በኢትዮጵያ ንግድ ባንክ ሰሜን አዲስ አበባ ዲስትሪክት ቅርንጫፍ የባንኩ ደንበኞች ነው።

ጊዜዎትን መስዋዕት በማድረግ ይህን መጠይቅ ለመሙላት ፈቃደኛ ስለሆኑልኝ ልባዊ ምስጋናዬን ለማቅረብ እወዳለሁ።

የዚህ መጠይቅ ዋና ዓላማ በአዲስ አበባ ዩኒቨርሲቲ በሥነ ትምህርት ፋኩሊቲ የቢዝነስ ትምህርት ክፍል ለድህረ- ምረቃ ትምህርት የሁለተኛ ዲግሪ ማሟያ ፅሁፍ ለማዘጋጀት ስለሆነ የምትሰጡት መረጃ ምስጢራዊነቱ የተጠበቀ መሆኑን አረጋግጣለሁ።

እግረ መንገዱንም በሰሜን አዲስ አበባ ዩኒትዮጵያ ንግድ ባንክ ቅርንጫፎች የሚሰጡትን የባንክ አገልግሎት ጥራትና የደንበኞቻቸውን እርካታን በተመለከተም ጥናቱ የመፍትሔ ሀሳብ ይጠቁማል።

**ማሳሰቢያ፦**

1. ስምዎን መጻፍ አያስፈልግም።
2. በጥያቄዎቹ ፊት ለፊት ባለው ሳፕን X ምልክት ያስቀምጡ።  
ለሚያደርጉልን ትብብር በቅድሚያ እናመሰግናለን።

**ክፍል አንድ የግለሰቦች ግለ ታሪክ**

1. የታ ወንድ  ሴት

2. ዕድሜ በዓመት  
 ሀ. ከ20 እስከ 30  ለ. ከ31 እስከ 40   
 ሐ. ከ41 እስከ 50  መ. ከ50 ዓመት በላይ

3. የትምህርት ደረጃ  
 ሀ. ዲፕሎማ  ለ. መጀመሪያ ዲግሪ  መ. አስራ ሁለተኛ ክፍል   
 ሐ. የዩኒቨርሲቲ ተማሪ  ወይም አስረኛ ክፍል ያጠናቀቀ   
 ሠ. የሁለተኛ ዲግሪና ከዚያ በላይ  ሌላ -----

4. የስራ አይነት  
 የመንግስት   
 መንግሥታዊ ያለሁኑ ድርጅት   
 የግል   
 ሥራ የሌለው   
 ተማሪ

5. በባንኩ ከሚሠጡት አገልግሎቶች እርስዎ የሚጠቀሙት የትኛውን ነው  
 ሀ. የቁጠባ  መ. የሀዋላ   
 ለ. የብድር  ሠ. የውጭ ንግድ ግንኙነት   
 ሐ. የተንቀሳቃሽ ሒሳብ  ሰ. ቋሚ ተቀማጭ ገንዘብ



ባንክ ሠራተኞች ለደንበኞቻቸው ሁል ጊዜ ትሁት ይሆናሉ (አክብሮትን ያሳያሉ)።		
ባንክ ሰራተኞች የደንበኞችን ጥያቄ ለመመለስ በቂ እውቀት አላቸው።		
ንክ ለእያንዳንዱ ደንበኛ ትኩረት ይሰጣል።		
ባንክ የሥራ ሰዓት ለሁሉም ደንበኞች ምቹ ነው።		
ንክ ለእያንዳንዱ ደንበኛ አገልግሎት ሊሰጡ የሚችሉ ሰራተኞች ይኖሩታል።		
ንክ ለደንበኞቹ የተለየ (በጣም የተሻለ) ፍላጎት አለው።		
ባንክ ሠራተኞች የእያንዳንዱን ደንበኛ ፍላጎት የመረዳት አቅም አላቸው።		

23 በአጠቃላይ በባንክ በተሰጡት አገልግሎት ምን ህል ረክተዋል?

የሚከተሉት በአንዱ ላይ (✓) ምልክት ያድርጉ

- በጣም ረክቻለሁ
- ረክቻለሁ
- አስተያየት የለኝም
- አልረካሁም
- በጣም አልረካሁም

ዚህ ቀጥለው የተዘረዘሩ ከባንክ አገልግሎት አሰጣጥ ጋር የተያያዙ አምስት ባህሪያቶች አሉ። እነዚህ ህሪያቶች ምን ያህል ለደንበኞች ጠቃሚ እደሆኑ ማወቅ እንፈልጋለን። እባክዎትን 100 ነጥቦችን ለአምስቱ ህሪያቶች ለእርሶ ካላቸው ጠቀሜታ አኳያ ያካፍሏቸው። ነጥቦቹ ሰደመሩ ከ100 የማይበልጡ መሆናቸውን ርግጠኛ ይሁኑ።

የባንክ አገልግሎት መስጫ መሳሪያዎች፣ ሠራተኞች ግላዊ አሰባስቦች እና ንጽህና ለመግባቢያ የሚያገለግሉ መሳሪያዎች ፣ በራሪ ጽሑፎች ቅጾች በተመለከተ -----ነጥብ።

ባንክ ቃል የገባውን አገልግሎት በጥራትና በአስተማማኝነት የመፈጸም ብቃት በተመለከተ -----ነጥብ።

ባንክ ደንበኞችን ለመርዳት ያለው ፍላጎትና ፈጣን አገልግሎት መስጠት በተመለከተ -----ነጥብ።

የባንክ ሠራተኞች ዕውቀትና ትህትና ደንበኞች ላይ በራስ መተማመንን ማሳደር በተመለከተ -----ነጥብ።

የባንክ እንክብካቤ እና የግል አትኩሮት ለደንበኞች መስጠት በተመለከተ -----ነጥብ።

ድምር

100 ነጥብ

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የኢትዮጵያ ንግድ ባንክ  
**COMMERCIAL BANK OF ETHIOPIA**  
*INTER DEPARTMENTAL MEMORANDUM*

DATE:	November 19, 2009
TO:	Manager - Addis Ababa Br. Manager - Ambo Br. Manager - Arada Giorgis Br. Manager - Holota Br. Manager - M/Ghandi Br. Manager - Selassie Br. ✓
FROM:	Manager - North Addis District

The Addis Ababa University College of Education Department of Business Education has requested us for getting data from your branch for Ato Hussein Bullo for his research purpose in his Marketing Management Education of MA thesis on "*A Survey Study on Bank Service Quality and Customer Satisfaction the case Study of Commercial Bank of Ethiopia North Addis Ababa District.*"

Therefore, his research is mainly focuses on academic purpose and please extend your assistance in this regard.

  
Abate W/Giorgis

አዲስ አበባ ዩኒቨርሲቲ  
ሰነ ፎካል ኮሌጅ  
ቢዝነስ ፎካል ኮሌጅ



ADDIS ABABA UNIVERSITY  
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DEPARTMENT OF  
BUSINESS EDUCATION

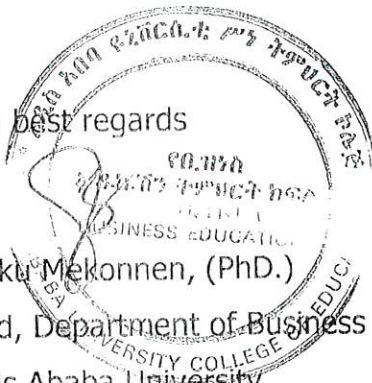
Date: November 17, 2009  
Ref:No. BE/260/01-09

### To Whom It May Concern

**Hussein Bullo** is a Postgraduate second year student in our Department specializing in **Marketing Management Education**. He is currently conducting a MA Thesis on **"A survey Study on Bank Service Quality and Customer Satisfaction The Case Study of Commercial Bank of Ethiopia North A.A. Districts."** In order to get data for his research, he now needs to visit various organizations, which include your organization. Considering the purpose of his visit, therefore, may I request you to be of assistance to him.

With best regards

Worku Mekonnen, (PhD.)  
Head, Department of Business Education  
Addis Ababa University



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ADDIS ABABA ETHIOPIA

## Submission Approval Sheet

I, the undersigned declare that this thesis is my original work and has not been presented for a degree in any university and that all of materials used for the thesis has been duly acknowledged.

Name: Hussein Bullo

Sign:  \_\_\_\_\_

Date of submission: 2 February 2010

This thesis has been submitted for examination by my approval as a university advisor.

Name: Dr. Worku Makonnen

Sign: \_\_\_\_\_

Date of approval