

**ADDIS ABABA UNIVERSITY  
SCHOOL OF COMMERCE GRADUATE STUDIES  
GRADUATE PROGRAM**



**ASSESSMENT OF CUSTOMER SERVICE QUALITY AND ITS EFFECT  
ON CUSTOMER SATISFACTION: CASE STUDY ON ETHIOPIAN  
SHIPPING & LOGISTICS SERVICES ENTERPRISE (ESLSE)**

**A THESIS SUBMITTED TO THE GRADUATE STUDIES OF ADDIS  
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MANAGEMENT**

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Addis Ababa**

## **DECLARATION**

I, Rediet Shiferaw Asfaw, declare that the thesis entitled “Assessment Of Customer Service Quality And Its Effect On Customer Satisfaction: Case Study On Ethiopian Shipping & Logistics Services Enterprise (ESL)”, submitted for the award of Degree of Masters of Business Administration (MBA) with specialization in Marketing Management, is my own original work and all sources of materials used for the study have been duly acknowledged. This study has not been submitted for the award of any other degree in this University or any other University.

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Signature \_\_\_\_\_

Place: Addis Ababa, Ethiopia

Date \_\_\_\_\_

## CERTIFICATION

This is to certify that this thesis work entitled, “Assessment Of Customer Service Quality And Its Effect On Customer Satisfaction: Case Study On Ethiopian Shipping & Logistics Services Enterprise (ESL)” submitted in partial fulfillment of the requirements for the award of the degree of Masters of Business Administration (MBA) with specialization in Marketing Management to the School of Commerce, Addis Ababa University, through the Department of Management, done by Rediet Shiferaw Asfaw, ID No. GSE/0772/05 is an authentic work carried out by her under our guidance. The matter embodied in this thesis has not been submitted earlier for award of any degree or diploma to the best of our knowledge and belief.

### Approved by Board of Examiners:

Chairman, Department Graduate Committee	Signature	Date
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Examiner	Signature	Date

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## **Abstract**

*Service quality and customer satisfaction are very important concepts that companies must understand in order to remain competitive in business and hence grow. It is very important for companies to know how to measure these constructs from the consumers' perspective in order to better understand their needs and be able to satisfy them and customer satisfaction is based on the overall service experience. The main purpose of the study was to assess customer service quality through evaluating the relative importance of service quality dimensions on customer satisfaction. A self administered questionnaire with five point Likert scale was developed from the SERVQUAL instrument and distributed to the selected five regional branches of the company using a convenience sampling technique to determine their expectation and perceptions of the overall service quality. The most important aspect of the relationship between service providers and customers is that the service providers lack an in-depth insight into customer preferences. If customers are not satisfied they will not provide repeated purchase and also tell others about their experiences. The same is proved in the findings of this research, that there exists a significant gap in service quality expected and perceived by the customers of Ethiopian shipping Lines. Result of the study also showed that Tangibility, Reliability, Responsiveness, Assurance and Empathy significantly and positively influenced customer attitudes in terms of satisfaction that is service quality dimensions are crucial for customer satisfaction in Ethiopian shipping Lines.*

**Keywords:** Service Quality, Service Quality dimensions, Shipping Line, Gap Analysis

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# CHAPTER ONE

## I. INTRODUCTION

### 1.1 Background of the Study

In today's fast-paced and increasingly competitive market, the bottom line of a firm's marketing strategies and tactics is to make profits and contribute to the growth of the company. The service quality has become a highly instrumental co-efficient in the aggressive competitive marketing. For success and survival in today's competitive environment, delivering quality service is of paramount importance for any economic enterprise (Sandhu and Bala, 2011). Service quality can be concisely defined as the personal experience of the customer with the service provider. Service is playing an increasingly important role in the present environment where there is no further scope for companies to differentiate themselves from the quality of service provided by other firms. Delivering superior service than the competitor is the key for success in any organization (Gautam, 2011).

Ethiopian economy has expanded at unprecedented pace and has outperformed average annual growth rates of all nations throughout the continent. The economy's development has become more broad-based with the service sector driving the growth of the economy by contributing 46.1 percent of GDP, while the agriculture sector contributed 42 percent of GDP for fiscal year 2009/10. Although the economy's base will, continue to originate from the agricultural sector, the service sector has been a major source of growth. The import and export services are some of the service sub-sectors that have registered as the back bone of the economic growth over the past five years. As the state monopoly over the shipping industry which started operations in the early 1960s, its main objective was to ensure Ethiopia continues to get enough services & tonnage capacity for its imports as well as exports, it also aimed to make sure the importers, exporters as well as Ethiopia's economic interests are protected from unfair trade practices & ensure sea freight remains competitive.

According to the Ethiopian import regulation, all Ethiopia imports have to be carried under ESLSE bills of lading, with few exemptions made for shipments that are regarded as foreign direct investments, projects financed by international organization or other countries, relief & aid cargo, or if no ESL office/agents are present in country of origin. This is controlled through the bank, documentation & customs channels, which requires all import goods to go through before they are allowed entry to Ethiopia.

Currently ESL owns & operates around twelve multi-purpose vessels, and two tankers for carrying liquid cargo, ESL multi-purpose vessels are designed to carry containerized as well as break bulk cargo. Ethiopian shipping line plays important role in the growth & development of Ethiopia as its vessels carry & deliver most of the giant & heavy machineries & equipment's required for the rail, road, dam & sugar projects. It's vessels are mostly deployed in the Middle East, Far East as well as the Baltic trades.

According to the annual report, the total containerised imports to Ethiopia via Djibouti port is estimated to be around 250,000TEU (twenty foot equivalent units) and ESL transported above 35,000TEU or around 15% of Ethiopia's imports, ESL caters for their remaining space demand through slot agreements with 5-6 major global carriers.

ESL handle the slot agreement with other carriers by discussing freight, terms, transit time, as well as service capability & space allocations every 6 months through their head office in Addis, once these negotiations are completed they nominate lead carrier from each origin port as well as nominate two back up carriers to ensure service is delivered if the lead carrier face equipment & space shortages.

ESL have assigned booking agents in all the major origin countries/ports, these agents work on commission, and are responsible to receive booking from suppliers at origin, process for space with lead carrier nominated and ensure cargo loads & process necessary documentation including bills of lading as instructed by supplier.

The main focus & driver for ESL is to procure the lowest slot cost for Ethiopia's imports and in parallel ensure the service provided is as per the requirement & acceptable standards of global shipping.

The proclamation (Proclamation No. 99/1998) introduced in May 2000, FOB directive was issued by the National Bank of Ethiopia. The Directive states that, sea transport for every import should be done by the country's flag carrier, Ethiopian Shipping Lines Share Company, as long as the carrier has a service from the Port of Loading mentioned on the Proforma invoice or the sales contract which will be used to open letter of credit (L/C). In other words, the deal should be done according to Incoterms FOB. It's the buyer - not the seller - that pays the freight. The freight will be paid in local currency at ESL's head quarter in Addis Ababa. But this directive applies to those imports for which the foreign currency is paid by Ethiopian banks through letter of credit or cash against document. For those imports where the foreign currency is not paid by Ethiopian banks, the importer is free to use any Shipping Line.

If the Port of Loading mentioned on the proforma invoice is not called by ESL, importers can get a waiver from ESL's marketing department so that the banks could open the LC on CFR/CNF terms. But all imports should use Ethiopian Insurance Companies to cover marine insurance.

The FOB directive is believed to help save foreign currency that will be used to pay the freight. Some, however, say that it's used to protect ESL from foreign competition. Even though Ethiopia Shipping Lines has not more than ten ships, it charters ships sometimes on time charter basis or usually on slot charter basis to transport the cargoes to Djibouti. The majority of the containers are carried by companies such as Maersk, PIL, APL, etc but under ESL's bill of lading. ESL has agreement with these companies on slot charter basis.

## **1.2 Statement of the problem**

Nowadays, the needs and wants of consumers have become more sophisticated and customers are educated now, which in turn prompts the need for providing quality service in any service rendering industry. In a world of full confusion, they search for companies that address their

deepest needs for social, economic, and environmental justice in their mission, vision, and values. They look for not only functional and emotional fulfillment but also human spirit fulfillment in the products and services they choose (Kotler et. al 2010). What is arguably not in dispute is that many service organizations fall short, for a variety of reasons, in pursuit of service quality excellence. Coupled with rising expectations and increased scrutiny (from consumers and a range of organizations), closing the gap between what is received and what is desired remains a challenge. For consumers and providers alike, knowledge of how quality has been defined and framed should be an indispensable first step in addressing this issue (Mudie and Pirrie, 2006).

Parasuraman et. al (1985) and Zeithaml et., al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. Thus organizations regard quality as a source of competitive advantage which they always strive to achieve. Moreover, excellent service increases customer retention and leads to repeat customer purchase behavior (Cronin and Taylor, 1992) which ultimately increases the market share of the companies and generates high revenues. As the players of the industry increase, the competition to have the larger piece of the market share increases. Thus having the competitive advantage of delivering the finest service from the rivalry is the way to go. In today's competitive environment service companies must earn customers trust by meeting expectations or exceeding it. If companies fall short in delivering quality service and the promises they have made to customers they will in due course lose customers to competitors. As Lovelock (1991) suggested, as competition intensifies in the service sector, the need for meaningful competitive differentiation is sharpened and, to an increasing degree, this differentiation stems from the quality of services to customers. One of the principal ways in which a service firm can differentiate itself is by delivering consistently higher quality than its competitors (Kotler et.al, 1999). Furthermore, if a service organization has the objective to outperform its competitors and thus gain competitive advantages, then it is crucial to offer relatively greater perceived qualities and particularly those important to customers (Plumb and Zamfir, 2009).

We often hear that the service quality of the shipping sector in Ethiopia is very substandard. But there aren't enough studies to back up these observations. This allegation seems to be true when

it comes to Ethiopian Shipping Line case. By performing pilot survey on few customers of ESL, the researcher has observed that the customers of the company are not fully satisfied with the service they are receiving. This calls for deep investigation for the problems behind the customer's dissatisfaction. The study aims to examine the gap between customers' expectation and perception of the service quality dimensions of the Ethiopian Shipping Line(ESL), using the SERVQUAL model.

### **1.3 Research question**

The study is guided by the following research questions.

- What are the major service quality dimensions that are vital to customers?
- What is the customer's expectation of the service quality in the Ethiopian Shipping Line?
- What is the customer's perception of the service quality in the Ethiopian Shipping Line?
- How much is the effect of service quality dimensions upon customers' satisfaction?
- Are the customers satisfied with the service being provided?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

The general objective of the study is to assess customer service quality through evaluating the relative importance of service quality dimensions on customer satisfaction.

#### **1.4.2 Specific Objective**

- To identify the main service quality dimension that affects customer satisfaction
- To investigate the gap between customer expectations and perception with effect
- To explore the level of customer satisfaction



- To examine the level of customer expectation and perception

### **1.5 Significance of the Study**

Although numerous researchers have made theoretical and empirical contributions to the study of service quality in various industries, the area of shipping industry is not adequately researched. Particularly, there is an inadequate study conducted in the overall shipping industry in Ethiopia, let alone on the service quality dimensions. For that reason the research will contribute a small amount of knowledge on service quality dimensions effect on customer satisfaction. It can also be used as a reference for researchers who are interested in conducting studies in the area.

The study will help ESL in constructing and employing strategies that help in offering the service quality customers expect and the company promises to deliver. The study hopes to give short term solutions to the demanding issue of delivering quality service.

### **1.6 Scope and limitation of the Study**

The place in which the research was conducted is Addis Ababa. The main office of the Ethiopian shipping line which is found at old Train Station or La Gare areawas selected for the research. Since there is time and budget constraint it is difficult and unmanageable to include all the regional branches of the company. Quantitative methodology was used for the purpose of research. Questionnaires were distributed and filled by respondents through email and in person. While most respondents comprehend and answered each question with consideration, some questionnaires were answered quickly because the respondents thought that the questionnaire was too apparent. This study is based on gap 5 in the SERVQUAL model that is about the difference between customers expected and perceived service quality. The SERVQUAL model consists of totally 5 different gaps that can occur within the service business, however, the sample of population doesn't focus on an explicit target groups thus it is difficult to make any kind of generalization about different groups.

# CHAPTER TWO

## II. LITERATURE REVIEW

This part of the research tries to show the theoretical and empirical literature about service quality and customer satisfaction and the conceptual framework of the study.

### 2.1 Theoretical Framework

#### 2.1.1 Service

A service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, takes place in interaction between the customer and the service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems. Services are more or less subjectively experienced process where production and consumption activities take place simultaneously. Interactions, including a series of moments of truth between the customer and the service provider, occur (Gronroos, 2006).

A service is any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything (Kotler, et.al, 1999). Manufactures supply service alongside their products and in turn service providers use products in delivering their services so it is has been said that there are no pure services. Services are deeds, processes, and performances provided or coproduced by one entity or person for another entity or person. Services can also involve high customer contact, where the service is directed at people, as in the case of hairdressing and healthcare. Or there is low customer contact, as in dry cleaning and automated car-washes, where the services arc directed at objects. Services can be people-based (e.g. consultancies, education) or equipment-bound (e.g. vending machines, bank cash dispensers). People-based services can be further distinguished according to whether they rely on highly professional staff, such as legal advisers and medical practitioners, or unskilled labor, such as porters and caretakers.

Services are processes where a set of firm resources interacts with the customers so that value is generated in the customers' activities and processes. Hence, unlike goods that are value supporting resources, services are value supporting processes, i.e. processes that support customers' value generation (Gronroos, 2006).

The services literature highlights differences in the nature of services versus products which are believed to create special challenges for services marketers and for consumers buying services. To help understand these differences a number of characteristics that describe the unique nature of services have been proposed (Wolak et.al 1998).

### **2.1.2 Nature and Characteristics of Services**

Services have the following four key distinguishing characteristics.

***Intangibility:-*** Because services are non-physical it is hard to determine, record, calculate or to test the service prior to the sale in order to protect the quality on its delivery (Zeithaml, et.al, 2009).

***Inseparability:-*** Production and consumption of services are inseparable. Services are not manufactured remotely and then delivered intact to the customer. Service requires the involvement and commitment of employee and customer.

***Variability:-*** Due to heterogeneity services performance often varies from producer to producer, from customer to customer and from day to day.

***Perishability:-*** Services are performances rather than objects. Most services cannot be counted, measured, inventoried, tested and verified in advance of sale to assure quality.

## 2.1.3 The service marketing mix

### The traditional marketing mix elements

Marketing mix is defined as the elements an organization controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four Ps: product, place (distribution), promotion and price.

**Product:** The product component of the marketing mix is the outcome of the service. It consists of two components: the technical and the functional outcomes. The technical aspect is the result of the service, which is what is provided. The functional aspect is how the service is how the service was provided.

**Price:** Because services are intangible and experiential in nature, the price becomes more important to consumers as a cue of what to expect. The higher price consumers pay the higher their expectation and the lower the price consumers expect inferior quality.

**Place (Distribution):** Distribution is the availability and accessibility of a service to consumers. Availability refers to the presence of the service in a time of need and the accessibility refers to the convenience of the service vendor to conduct a transaction.

**Promotion:** Service firms have several means of promoting their firm. Advertizing, sales promotions, and personal selling are the major components. Since services are experiential in nature, promoting a service is more complex than promoting a good (Kenneth & David, 2003).

### The extended mix of services

Because services are usually produced and consumed simultaneously, customers are often present in the firm's factory, interact with the firms personnel, and are actually are parts of the service production process. Also because of the intangibility characteristics of services, customers are frequently searching for tangible cues. As a result in addition to the traditional four Ps, the service marketing mix includes people, physical evidence and process (Valarie et. al, 2009).

To capture the distinctive nature of service performances three more elements associated with service delivery are considered physical environment, process, and people (Lovelock and Wirtz, 2007). Thus, for effective marketing strategies of services all the seven P's (product, price, place, promotion, physical environment, process and people) play an important role (Saaty and Ansari, 2011).

**People:** All human actors who play a part in service delivery and thus influence the Buyer's perception: namely the Firms' personnel, the customer, and other customers in the service environment. All human actors provide cues to the customer regarding the service and what should they expect and gain from the provider. The grooming of the personnel delivering the service shapes the consumers' perception of the service and the service firm.

**Physical evidence:** The physical evidence in the service sector is the environment of which the service is being delivered and where the firm and the customer interact, and any intangible components that facilitate performance or communication of the service. Physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organizations purpose, the intended market segments, and the nature of the service.

**Process:** The actual procedures, mechanisms and flow of activities by which the service is provided, the service delivery and operating system. When a service is complicated and extensive the process provides evidence to the customer to judge the service.

#### **2.1.4 Service quality**

Service quality is an approach to manage business processes in order to ensure full satisfaction of the customers which will help to increase competitiveness and effectiveness of the industry. Quality in service is very important especially for the growth and development of service sector business enterprises (Powell, 1995) as cited by (Rahaman, et.al. 2011). Service quality has been a vital issue of discussion and research over the past three decades. Research on service quality has well established that the customer perception of the quality of a service depends on customer's pre-service expectations. Studies by Parasuraman et al. (1985), Zeithmal et al. (1990), noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers.

Service quality has been seen as critical for the success of organizations because of its close link with customer satisfaction (Parasuraman, Zeithaml and Berry, 1985; Gilbert and Veloutsou, 2006) especially in the service industry. There is a general agreement by researchers that the concepts of customer satisfaction and service quality are extremely interrelated. Although satisfaction and service quality are close in meaning; they are distinct. Perceived service quality was explained as a form of attitude and a long-run overall evaluation of a product or service, while customer satisfaction was considered as a transaction-specific evaluation (Bitner, Booms and Tetreault, 1990; Cronin and Taylor, 1992; Oliver, 1981; Parasuraman, Zeithaml and Berry, 1988) as mentioned by (Qingqing, et. al, 2014).

### **2.1.5 Customer Satisfaction**

Satisfaction is the customers' fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption related fulfillment (Valarie, et.al, 2009). Customer satisfaction is conceptualized as been transaction-specific meaning it is based on the customer's experience on a particular service encounter, (Cronin & Taylor, 1992).

Many researchers (Oliver, 1981; Brady and Robertson, 2001; Lovelock, Patterson and Walker, 2001) conceptualize customer satisfaction as an individual's feeling of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations as cited by (Yap, Fen and Lian).

According to (Kotler, et.al, 1999) Customer satisfaction with a purchase depends upon the product's performance relative to a buyer's expectations, A customer might experience various degrees of satisfaction. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. The ultimate goal of the organizations efforts is customer satisfaction. Customer interests are expected to be put first in all situations, even (in some views, especially) where these appear to conflict with other business opportunities (Mudie&Pirrie, 2006) state that is perhaps more important to understand the underlying cause of the satisfaction/dissatisfaction. In general, the response to a

satisfactory experience will contain both emotional and behavioral elements. So customer satisfaction will result in positive emotional states. These, in turn, mediate the response between customer satisfaction and behavioral responses – positive word of mouth, no complaint behavior and repeat purchase.

### **2.1.6 Customer Perception and Expectation**

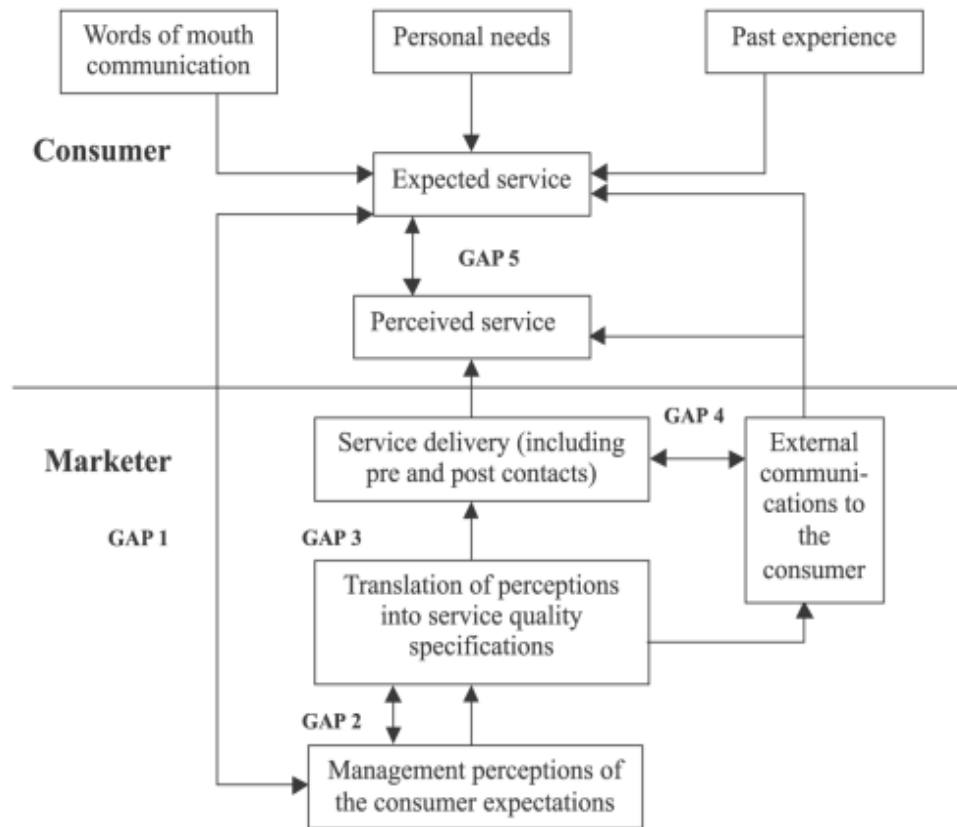
Often differences exist between the level of quality the customers actually received and what they perceive they received. To customers who are evaluating the quality of the service, it is their perception that counts, not what the service provider thinks. If the customer perceived he or she received poor service, then the decision about future patronage will be based on that perception. Therefore, service firms must understand the concept of service quality from the view point of the customer, not from the viewpoint of the service firm or service provider (Kenneth & David, 2003).

Perceptions are always considered relative to expectations. Because expectations are dynamic, evaluations may also shift over time from person to person and from culture to culture (Valarie et. al, 2009). Quality is perceived subjectively. Good perceived quality is obtained when the experience quality meets the expectation of customer that is the expected quality. If expectations are unrealistic, the total perceived quality will be low; even if the experience quality measured in an objective way is good.

### **2.1.7 A model of service quality (The Gaps Model)**

Customers evaluate the service quality by comparing the service they have received with their expectation of the service. Researchers have identified five potential gaps between what customers expect and what they receive.

**Figure 1: GAP model**



Source: Parasuraman *et al.* (1985)

**Figure 2.1 The GAPs Model (Source: Parasuraman et al., 1985)**

### Gap 1: The Listening Gap

Is the difference between what customers expect from a service and what management believes customers expect from the service. A primary cause in many firms for not meeting customers expectation is that the firm lacks accurate understanding of exactly what consumers expect (Valarie et. al, 2009). This gap can be minimized by understanding customers through multiple research strategies, building strong relationships and understand consumer needs through time and by implementing recovery strategies when things go wrong.



## **Gap 2: The Service Design and Standards Gap**

This gap deals with the difference between management perception of consumer expectations of a service and the service quality specifications. A recurring theme in service companies is the difficulty experienced in translating customer expectation into service quality specification that employees can understand and execute. The quality of service delivered by customer contact personnel is critically influenced by the standards against which they are evaluated and compensated. This gap can be expected to be minimized by developing appropriate customer defined service standards and the design of the servicescape to meet customer expectation.

## **Gap 3: The Service Performance Gap**

Gap three is the difference between the service quality specification for a service and the delivery of those specifications by the service provider. Even when guidelines exist for performing services well and treating customers correctly, high quality service performance is not a certainty. Standards must be backed by appropriate resources (people, systems and technology) and also must be enforced to be effective that is, employees must be measured and compensated on the basis of performance along those standards.

Important elements in the Gap 3 include employees who do not exactly understand the roles they are to play in the company, the uncontrollable variables of customers that do not perform their duties as a co-producer and difficulty with intermediaries involved in the delivery of the service.

## **Gap 4: The Communication Gap**

Is the discrepancy between the service that was delivered and the external communication of the firm. Communicating to consumers involve issues that cross organizational boundaries. Advertising promises service that people do and unlike machines what people do cannot be controlled. Hysterical promises may elevate customers' expectations. The other issue in this gap is pricing services. With services consumers have no point of reference as to how to compare prices before purchase.

## Gap 5: Closing the Gap

Is the overall comparison of what consumers expected from the service provider and their perception of the service they received from the service provider.

### THE CUSTOMER GAP

The customer gap is the heart of the gaps model. It represents the difference between customer expectations and perceptions of service performance. The model suggests that closing this gap by matching or exceeding customer expectations will result in the achievement of service quality from the customer's perspective (Valarie et. al, 2009).

In the mid-1980s Berry, and his colleagues, Parasuraman and Zeithaml, studied service quality determinants and came up with 10 service quality determinants. As a result of later studies the 10 determinants were decreased to the following five (Gronroos, 2006).

- 1. Assurance:** - This means that the employees' behavior will give customers' confidence in the firm and that the firm makes customers feel safe. It also means that the employees are always courteous and have the necessary knowledge to respond to customers questions.
- 2. Empathy:** - This means that the firm understands customers' problems and performs in their best interest as well as giving customers individual personal attention and having convenient operating hours.
- 3. Reliability:** - Means that the service that the firm provides its customers' with accurate service the first time without making any mistakes and delivers what it has promised to do by the time that has been agreed upon.
- 4. Responsiveness:** - This means the employees of the service firm are willing to help customers and respond to their requests as well as to inform customers when service will be provided, and then give prompt service.

- 5. Tangibles:** - This determinant is related to the appeal of facilities, equipment and material used by a service firm as well as to the appearance of the service employees.

### **2.1.8 Using SERVQUAL to measure service quality**

The SERVQUAL instrument was based on the premise that service quality is the difference between customers' expectation and their evaluation of the service they receive.

#### **Problems with SERVQUAL**

The SERVQUAL instrument has three potential problems (Kenneth & David, 2003). First, SERVQUAL measures customers' expectations of the ideal firm in a particular service industry. This may or may not be relevant to the capabilities of a particular service firm or a set of service firms available to a consumer.

The second problem with SERVQUAL is its generic nature. Since SERVQUAL is not industry specific, it does not measure variables that may be important to a particular industry.

The third problem with SERVQUAL deals with the gap theory methodology used for measuring the level of service quality. It is believed that measuring consumer expectations after a service have been provided will bias consumers' responses.

Some researchers have, however, suggested that SERVQUAL model also has weak points both theoretically and operationally. SERVQUAL's five dimensions may not cover all service aspects of the organization and are not universals. The number of dimensions comprising service quality is contextually determined; Babakus and Boller (1992) suggested that the number of service quality dimensions is dependent on the particular service being offered. Andersson (1992) pointed to SERVQUAL's failure to draw on previous social research, particularly economic theory, statistics, and psychological theory as cited by (Krisana, 2004).

Whilst SERVQUAL remains a significant contributor in the literature, a number of criticisms have been made. A brief summary some of the major criticisms is set out below (Mudie&Pirrie, 2006.)

- ✓ It focuses on the functional aspects of the process neglecting the outcome.
- ✓ Its application across the service sector has been called into question.
- ✓ It is not clear how the evaluation of expectations and perceptions occurs
- ✓ Customers will evaluate a service favorably as long as their expectations are met or exceeded, regardless of whether their prior expectations were high or low,

## **2.2 Review of Empirical Studies**

The findings of Sandhu&Bala, (2011) show that seven factors play a vital role in influencing the perception of customers toward service quality of container shipping line of India. Proficiency is the key factor having impact on customer's perception towards shipping line service quality. Performance of agents and employees, physical and ethical excellence and functionality are the concerns of customers.

According to Krishna, et. al, (2010) findings customers have highest expectations on the promptness of service, accuracy of transactions, security issues and concerns; the customer's lowest expectations are cleanliness, ambience, etc. Customers reported highest satisfaction for promptness and speed of service along with accuracy of transportation at each ports. They were also satisfied with the processing of transactions and efforts to expedite processing whenever the traffic at the ports increased. The lowest satisfaction levels were reported at the willingness of staff to assist customers in accessing facilities, assortments, information on process, providing invoices etc.

In the investigation of Singh, (2012) it was found that problem solving, physical aspects, reliability and personal interaction were showing a significant influence on the recommending behavior. Problem solving was the most important dimension for recommending behavior of the outlet. Hence managers need to put extra efforts on the solutions of the problems and it will be helpful in providing high level of customer satisfaction. Also it was found that policy has a significant impact on customer retention. As customer retention is very important

for any business managers should strategize their business by strengthening the policy they could reduce complaints. Reliability also has shown significant impact on consumers switching intentions which calls for error free services to the customers.

The results found by Dejalalie, (2011) indicate that perceived service quality is related to repurchase intention and word of mouth dimensions of loyalty. The findings suggest that service providers need to satisfy their customers in order to improve their loyalty levels. The research indicated that the main gap in satisfying the customers of the three shipping lines companies' problem solving dimension needs more work. This implies that customers are not satisfied with how personnel address complaints and solve problems. The politeness, respect and consideration for customer of the contact personnel and of the entire organization are not as expected by the customer.

Findings of Siddiqui&Sharma, (2010) study suggested six quality dimensional instruments consisting of assurance, personalized financial planning, competence corporate image, tangibles and technology. The customers (importers / exporters) have primarily defined assurance in terms of well trained and informed agents, who understand intimately specific needs, approach from customer's point of view show clarity in explaining policy's terms and conditions and thereby inspire trust and confidence. Therefore, it is imperative for the service providers to provide adequate training to their agents to improve their customer interaction skills and knowledge. Additionally, competence factor represent that frequent customers should be accorded the highest priority to transport their consignment. Beyond this, the service providers need to focus on promptness in providing transport documents, that too by efficient and dependable staff that can take prompt actions.

According to Lau, Cheung, Lam and Chu, (2013) the five SERVQUAL dimensions, empathy, tangibility, responsiveness, reliability, and assurance were found to be significant predictors of customer satisfaction. The willingness of service providers to assist and provide prompt services to customers is very important to customer evaluation, which shows the responsiveness of the employees. Customers are satisfied with the personal services provided and service personnel who understand their needs. Data demonstrate that customers are quite

satisfied with the services provided by shipping lines as promised and the security level of the transaction process.

According to Dambush (2014) findings the five relationship marketing dimensions namely empathy, trust, communication, responsiveness and commitment have positive and strong relationship with customer retention and customer satisfaction.

According to Qadeer, (2013) results the need and word of mouth affect the level of customer expectations and perception about the quality of service which leads to overall customer satisfaction/ dissatisfaction. A need drive the customer to buy whereas word of mouth has the power to change customer perception and expectations regarding the service. It was found that Service performance and (negative) word of mouth has the strongest impact on customer decision regarding continue (repurchase intension) or discontinue (switching intension) the relationship with the particular service provider

### 2.3 Conceptual Framework

The conceptual framework (Figure 2.2) explains the underlying process, which is applied to guide this study. Based on the findings in the literature review, the following conceptual model can be drawn. The conceptual framework of factors affecting quality of customer service will be examined as illustrated below. As discussed above, the SERVQUAL model is suitable for measuring service quality and customer satisfaction in shipping industry using the service quality dimensions. The same dimensions are used to measure both service quality and customer satisfaction because the assumption is that both are related (Parasuraman et al., 1985).

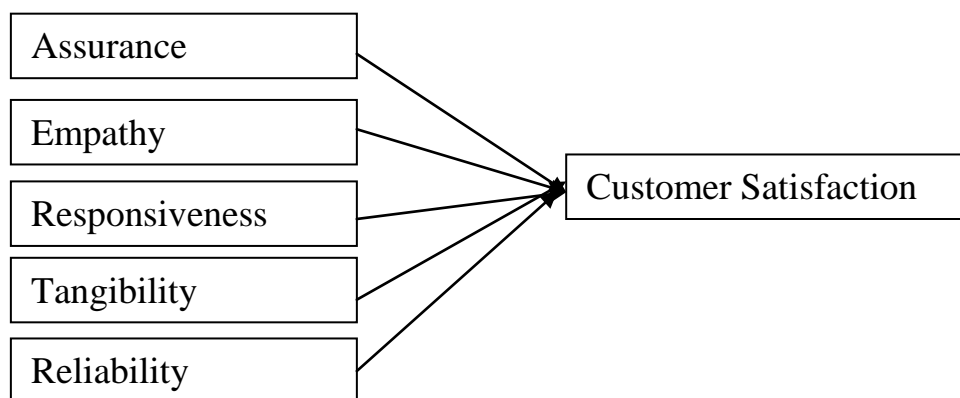


Figure 2.2 Factors contributing to customer satisfaction (Own construction, June 2016)

The SERVQUAL approach integrates the two constructs and suggests that perceived service quality is an antecedent to satisfaction (Negi, 2009) as cited by (Daniel&Berinyuy, 2010). Therefore, 22 items of SERVQUAL model are used measure the perceived and expected service quality and customer satisfaction. Customer Quality evaluations are not made solely on the outcome of a service; they also involve evaluations of the process of service delivery (Parasuraman et al., 1985). This research is to identify the gap between customers perceptions and expectations service delivered by ESL, and the influence of each service quality dimensions on the quality of the service and the level of customers satisfaction.

## **CHAPTER THREE**

### **III. RESEARCH METHODOLOGY**

This chapter is concerned with the research strategy and design adopted, the data gathering tools employed, the sampling technique and analysis and presentation of the research.

#### **3.1 Research Strategy and Design**

The research design is a descriptive research type as the objective undertaking the research is to depict the state of nature (i.e. the gap between customer expectation and perception and service quality dimensions relative importance) as it exists at present. Descriptive research involves field survey where the researcher goes to the population of interest ask certain issues about the problem under the study. Descriptive research aims to gather data without any manipulation of the research context and deals with naturally occurring phenomena where the researcher has got no control over the variables (Mugenda&Mugenda, 1999). The purpose of this research is to determine the importance of five service quality dimensions from the customer viewpoints. Service dimensions (tangibles, reliability, responsiveness, assurance and empathy) as independent variables and service quality as dependent variable. This research is to identify the gap between perceptions and expectations of external customer on service dimensions.

#### **3.2 Data Type and Data Source**

The researcher have used both primary and secondary source of data. The primary source of data is collected using structured questionnaire.

Secondary data comprise different literatures which include books, previous researches, articles, bid documents, internet, Ethiopian proclamations and regulations of the shipping industry and company profiles, annual reports of the company and publications. Literature review is a secondary study of collected primary studies that aims to improve, understand and establish reliability and validity of the proportions and claims (Kitchenham et al., 2009). The researcher has also referred to various websites that have previous research studies and empirical investigations.



### 3.3 Sample Size and Sampling Method

The main target population of the research will be corporate and individual clients of Ethiopian shipping line (ESL) located in Ethiopia. The company currently operates with 29 branches located in different parts of the country. Due to the constraints of time and resources the researcher cannot include all country branches; therefore the researcher has picked five branches. Convenience sampling is used to select these branches. According to the head office branch managers the number of clients in the five branches is 4,530.

Applying the Slovin's formula as it was recommended by Ghazali (2006) for such studies that the sample size can be computed as follows:

$$n = N / (1 + N \times e^2)$$

Where;

n = Sample size

N= population size

e = margin of error

The sample size is determined to be 368 corporate and individual clients. And by adopting proportional allocation the sample from each of the region branches considered is, **Addis Ababa** branch  $(815/4530)368=66$ , **Adama Branch**  $(1,142/4530)368=93$ , **Gelan** Branch  $(710/4530)368=58$  **Modjo** Branch  $(1,027/4530)368=83$ , and **Semera** Branch  $(836/4530)368=68$  a total of 368 respondents.

### 3.4 Data Collection Method and Instruments

The research is conducted using the SERVQUAL instrument. The primary data have been collected using a well-developed, structured and verified scale questionnaire. A structured questionnaire was constructed taking into account SERVQUAL dimensions such as Tangibles, Reliability, Responsiveness, Assurance and Empathy, The structured questionnaire

and divided in three categories. Part 1, is about the personal information of the respondents. Part 2, is about questions in relation to assessment of customer expectation, Part 3, is about the customer's perception. The questionnaire has been distributed through email to the five regional branches. The respondents have been asked to give their degree of satisfaction on the predetermined attributes of service quality on a 5-point Likert scale ranging from 1=strongly disagree to 5=strongly agree(Hartley and MacLean, 2006). Then by conducting a Correlation analysis the study identifies how the service quality dimensions influence customer satisfaction.

### **3.5 Data Analysis**

The researcher analyzed the data to assess customer service quality through evaluating the relative importance of service quality dimensions on customer satisfaction. Each alternative answer was given a score on five point Likert Scale, and the score for each attribute relating expectation and perception was summarized. The difference between scores of expectation and perception is evaluated and judgment about the service quality was given. The method of analysis used in the research includes descriptive statistics, which refers to a set of concepts and methods used in organizing, summarizing, tabulating and description and data. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual or group. It provides a picture of what happened in the study (Kothari, 2004).

Pearson's correlation coefficient was used to establish if there is relationship among the independent and dependent variables and Regression analysis was employed to study if the independent variables (Reliability, Assurance, Responsiveness, Empathy and Tangibility) significantly predicted and explained the dependent variable (Customer Satisfaction). The data collected through questionnaire will be analyzed by Statistical Package for Social Science (SPSS) version 21. After doing so, the analyzed data were interpreted quantitatively. The demographic characteristics of the respondents were summarized using frequencies and percentages. The mean score of each dimension and the overall service quality was computed to measure the degree of customer perception and expectation. Frequency and percentages were

also used to identify the satisfaction level of the customers. Bivariate Pearson correlation was used to examine the relationship between each of the independent variables and the dependent variable using a two tailed test of statistical significance at the level of 95% significance  $<0.05$ .

### **3.6 Variables**

The SERVQUAL model measures service quality based on the gap exhibited between customer's expectation and customer's perception with regards to service quality dimensions. The five dimensions, (reliability, responsiveness, empathy, tangibility and assurance) from the SERVQUAL model are used as a variable and are adopted to determine the service quality in The Ethiopian Shipping Line (ESL).

### **3.7 Reliability and Validity**

Countless studies have been conducted using the SERVQUAL model over the past years. The publication of the first results of the SERVQUAL instrument provoked a debate on how best to measure service quality and in the subsequent decade there have been many attempts to demonstrate the efficacy of the SERVQUAL instrument. It is generally agreed, however, that SERVQUAL instrument is suitable for measurement of service quality because it measures key aspects of service quality (Asubonteng, 1996), moreover, claims that SERVQUAL is popular with managers because it combines ease of application and flexibility as cited by (Krisana, 2004).

The strengths of the Gaps Model certainly lie in its relative simplicity, in the linearity of its outline and in the rationality of the firm actions, which determine its intelligibility and its communicative force (Asubonteng, et al, 1996).

## CHAPTER FOUR

### IV.RESULTS AND DISCUSSION

#### 4.1 Demographic Profile of Respondents

A demographic profile of the respondents consisted of age, gender, level of education and type of customer. A total of 368 questionnaires were distributed through email of which 259 were returned completed and met the screening requirements, representing a net response rate of 70% out of which 30% was excluded from further analysis due to missing data, which means 229 correctly filled questionnaires were used in the analysis of the data.

The percentage of females (46 %) and male (54 %) is	Characteristics	Frequency	Percentage
<b>Gender</b>	Male	124	54 %
	Female	105	46 %
<b>Age Group</b>	18-25	23	10 %
	26-35	50	22 %
	36-42	81	35 %
	43-55	57	25 %
	Over 55	18	8 %
<b>Educational Background</b>	12 Complete	71	31 %
	Diploma/Degree	147	64 %
	Masters/PHD	11	5 %
<b>Customer Type</b>	Individual	131	57 %
	Corporate	98	43 %

(Source: Computation from own survey, June 2016)

**Table 1.1 Demographic Profiles of Respondents**

## 4.2 Reliability Analysis

In order to test the reliability of the SERVQUAL scale and the internal consistency of the five dimensions as suggested by (Parasuraman *et al.* 1988), Cronbach's coefficient alpha was computed for each of the five dimensions using data on perceptions, expectations, and gap (the differences between the perceptions and expectations) scores. The total reliability scale for the study is 0.91, indicating an overall reliability factor slightly same to that of Parasuraman *et al.*, (1988) study which was 0.92. This reliability value for this study is substantial considering the fact that the highest reliability that can be obtained is 1.0 and this is an indication that the items of the five dimensions of SERVQUAL model are accepted for analysis. All five dimensions (Reliability, Assurance, Empathy, Responsiveness and Tangibility) showed coefficients higher than 0.7, meaning these dimensions comprising of various items show a true measure of service quality.

<b>Dimensions</b>	<b>No. of Items</b>	<b>Cronbach's Alpha for dimensions</b>
<b>Tangibles</b>	4	0.874
<b>Reliability</b>	5	0.898
<b>Responsiveness</b>	5	0.844
<b>Assurance</b>	4	0.789
<b>Empathy</b>	4	0.842

(Source: Computation from own survey, June 2016)

**Table 1.2 Reliability Coefficients (Cronbach's Alpha)**

### Descriptive Statistics

The research was done using descriptive statistics or thorough using central tendency. The researcher used the mean score of every variable. Reason for using this measurement was to

demonstrate the average responses of respondents for each question that was included under each dimension of the independent variable and to each the grand mean of each dimension.

### 4.3 Expectation and Perception of Service Quality

To measure perceived and expected service quality by the customer of ESL, all respondents were simply asked to show the extent to what they felt or have experienced about the shipping company. And further, it is clearly stated to the respondents that the researcher is keenly interested in knowing the ranking of their perception and expectation about their shipping company on the same selected dimensions of service quality on five point Likert scale on given in the questionnaire. The research and analysis at ESL in this thesis is based on gap 5 in the SERVQUAL model and the service quality is assessed by counting scores that are given by the SERVQUAL model. The method is used for all 22 features with the purpose of measuring different customer expectations and perceptions.

<b>Dimensions</b>	<b>Average Score of Expectation (E)</b>	<b>Average Score of Perception (P)</b>	<b>Gap = P-E</b>
<b>Tangibles</b>	4.37 (0.744*)	3.34 (0.822*)	-1.03
<b>Reliability</b>	4.60 (0.885*)	3.24 (0.783*)	-1.35
<b>Responsiveness</b>	4.70 (0.775*)	3.29 (0.796*)	-1.41
<b>Assurance</b>	4.55 (0.917*)	3.22 (0.991*)	-1.33
<b>Empathy</b>	4.45 (0.971*)	3.40 (0.835*)	-1.05
<b>Total</b>	<b>4.53 (0.826*)</b>	<b>3.33 (0.889*)</b>	<b>-1.20</b>

\*Standard Deviation (Source: Computation from own survey, June 2016)

**Table 1.3 Summary of Means of Customer Expectations and Perceptions and Gap Scores**

The result shows that the average score of total expectations are 4.53 with standard deviation of 0.826 and the overall perception score is 3.33 with standard deviation of 0.889. The score shows a -1, 20 differences. That means that the expectations are higher than the perceived service

quality. The customers have the highest expectations about prompt service, the willingness to help and giving good information (responsiveness) at 4, 70 mean score and the ability to provide good service at the time it is promised (reliability) at 4, 60 mean score. Knowledge and behavior of the personnel (assurances) follow at an average point of 4, 55 and assurances are followed by individualized attention (Empathy) at an average point of 4, 45 and at last physical aspects (tangibles) at an average score of 4.37. Responsiveness is therefore considered the most important dimension of service quality and tangibles and empathy are considered the least important dimensions. When it comes to perceptions the empathy dimension has the highest score with an average score of 3, 40, followed by tangibility 3, 34 responsiveness 3, 29, reliability 3.24 and the dimension that has the lowest perceptions is assurance with an average score of 3, 22. The big difference that can be seen is that empathy does not have big importance when it comes to expectations of customers but empathy is the dimension that received the highest perceived service quality.

#### **4.4 Ranking of Expectations and Perceptions**

Table 1.4 shows the difference between expectations and perceptions, showing the rank of each feature from 1-5 (rank 1 means the highest priority and rank 5 means the lowest priority). On the basis of our empirical data in table 1.4 we can see that the customers are mostly concerned about the willingness of employees to help customers, provide prompt service according to their expectations (Responsiveness) and dependability in customer handling (Reliability). They care less about physical appearance of facilities (Tangibles) and about individualized attention (Empathy). When it comes to perceptions we can see that people mostly perceived individualized attention and good ability to convey trust and confidence. The customers perceived employees who have less interest in solving problems, willingness to help customers and provide a prompt service and courteous employees. The result shows that there is negative service quality gap, which is certainly not a good sign for the company's ambitions, denoting customers of the company do not perceive the expected service quality levels. The findings support for the findings of Bodla & Chaudhary, (2012) that service quality gap is comparatively high on human element referring to (reliability, responsiveness, assurance

empathy and the non-human element in the service delivery processes that is not standardized, streamlines and simplified so that customers can receive the service without any hassle.

<b>Dimension</b>	<b>Customer Expectation</b>	<b>Customer Perception</b>
Tangibility	5 <sup>th</sup>	2 <sup>nd</sup>
Responsiveness	1 <sup>st</sup>	3 <sup>rd</sup>
Reliability	2 <sup>nd</sup>	4 <sup>th</sup>
Assurance	3 <sup>rd</sup>	5 <sup>th</sup>
Empathy	4 <sup>th</sup>	1 <sup>st</sup>

(Source: Computation from own survey, June 2016)

**Table 1.4 Ranking of Customers Expectations and Perceptions**

The descriptive statistics computed under every dimension is presented below.

### **Tangibles Dimension**

<b>Dimensions</b>	<b>Statement</b>	<b>Mean Score of Expected Service (E)</b>	<b>Mean Score of Perceived Service (P)</b>	<b>GAP= P-E</b>
<b>Tangibility</b>	Equipments used by ESL are technologically up to date	4.62	3.31	-0.31
	ESL physical facilities are visually appealing	4.34	3.15	-1.19
	The staff are well dressed and	4.01	3.52	-0.49



	neat			
	Materials associated with the service are visually appealing	4.50	3.37	-1.13
<b>Total Score</b>		<b>4.37</b>	<b>3.34</b>	<b>-1.03</b>

(Source: Computation from own survey, June 2016)

### Table 1.5 Reliability Dimension Statistics

Here we can see the expectations and perceptions about the specific features and also the difference between the expectations and perceptions. Tangibles are about physical facilities, equipment, personnel and communication material and if the personnel appear neat. Customers of ESL showed overall expectations in this dimension at mean 4, 37. At the same time their perception about this dimension is at mean 3, 34. That means that the customers do not think that ESL fulfill their expectations about physical appearance, modern looking equipment, the appearance of the employees. The difference between expectations and perceptions in this dimension is calculated to -1, 03.

### Reliability Dimension

Dimensions	Statement	Mean Score of Expected Service (E)	Mean Score of Perceived Service (P)	GAP= P-E
<b>Reliability</b>	When ESL employees promises to do something by a certain time, they do so	4.77	3.52	-1.25
	ESL employees show sincere interest when a customer has a problem	4.79	3.33	-1.46

	ESL employees perform the service right at the first time	4.39	2.99	-1.40
	ESL employees complete required task within the time frame stated	4.77	2.79	-1.98
	Accurate and secure customer accounts are maintained	4.29	3.55	-0.74
<b>Total Score</b>		<b>4.60</b>	<b>3.24</b>	<b>-1.35</b>

(Source: Computation from own survey, June 2016)

### Table 1.6 Reliability Dimension Statistics

Reliability is connected to the consistency of performance and dependability. This dimension includes keeping promises, showing a sincere interest in solving problem, give right service the first time, providing the service at the time the company promise to do so and trying to keep an error free record. Customers show overall expectations in this dimension at mean 4, 60. Their perceptions show mean at 3, 24. The customers do not think that their overall expectations are fulfilled within this dimension. The difference is calculated to -1, 35.

### Assurance Dimension

Dimensions	Statement	Mean Score of Expected Service (E)	Mean Score of Perceived Service (P)	GAP= P-E
<b>Assurance</b>	Employees inspire confidence in you	4.44	3.11	-1.33
	You feel safe in transactions	4.47	3.39	-1.08

	Employees are always considerate with customers	4.51	3.21	-1.30
	Employees have the required knowledge to correctly answer customer questions	4.79	3.15	-1.36
<b>Total Score</b>		<b>4.55</b>	<b>3.22</b>	<b>-1.33</b>

(Source: Computation from own survey, June 2016)

**Table 1.7 Assurance Dimension Statistics**

Assurance is about competence, courtesy, credibility, and security. Courtesy is about politeness, respect, consideration, friendliness of contact personnel. The customers show overall expectations in this dimension at mean 4, 55. Their perceptions show mean at 3, 22. The customers do not think that their overall expectations are fulfilled within this dimension. The difference is calculated to -1, 33.

### Empathy Dimension

Dimensions	Statement	Mean Score of Expected Service (E)	Mean Score of Perceived Service (P)	GAP= P-E
<b>Empathy</b>	ESL gives customers individual attention	4.51	3.22	-1.29
	Flexible service is being provided to meet customers individual needs	4.39	3.89	-0.50

	ESL has your best interest at heart	4.35	3.33	-1.02
	The employees are able to understand your specific needs	4.54	3.15	-1.39
<b>Total Score</b>		<b>4.454</b>	<b>3.40</b>	<b>-1.05</b>

(Source: Computation from own survey, June 2016)

### Table 1.8 Empathy Dimension Statistics

According to Zeithaml, Berry and Parasuraman (1990) empathy is about easy access, good communication and understanding the customer. Easy access and good communication is connected to the approachability, convenience of location waiting times, listening and keeping customer informed, attention and recognizing regular customers. The customers show overall expectations in this dimension at mean 4, 45 while their perceptions show mean at 3, 40. The customers do not think that their overall expectations are fulfilled within this dimension. The difference is calculated to -1, 05.

### Responsiveness Dimension

Dimensions	Statement	Mean Score of Expected Service (E)	Mean Score of Perceived Service (P)	GAP= P-E
<b>Responsiveness</b>	Employees tell customers when exactly the service will be performed	4.71	3.41	-1.30
	Employees give prompt service to customer	4.80	3.18	-1.62

	The employees are always willing to help customers	4.55	3.36	-1.19
	Employees are never too busy to respond to customers' requests promptly	4.75	3.29	-1.46
	ESL has hours convenient to all their customers within the time frame stated	4.67	3.21	-1.46
<b>Total Score</b>		<b>4.70</b>	<b>3.29</b>	<b>-1.41</b>

(Source: Computation from own survey, June 2016)

### **Table 1.9 Responsiveness Dimension Statistics**

This factor concerns to what extent the employees are prepared to provide service. This dimension touch subjects as information about the service, giving prompt service, employees willingness to help the customers and that the employees never are too busy to respond to requests from customers. The customers show overall expectations in this dimension at mean 4, 70 while their perceptions show mean at 3, 29. In this case customers do not think that their overall expectations are fulfilled within this dimension. The difference is calculated to -1, 41.

## **4.5 Overall Customer Satisfaction towards Service Quality**

According to (Churchill and Surprenant, 1982) “customer satisfaction is an outcome of purchase and use resulting from the buyers' comparison of the rewards and costs of the purchase in relation to the anticipated consequences”. Customer satisfaction facilitates the measure of how service and products provided by company meet customer expectation. To protect and gain market shares, organizations need to outperform competitors by offering high

quality product or service to ensure satisfaction of customers (Tsoukatos and Rand, 2006). Descriptive statistics analysis of customer satisfaction depicted below in table 1.10 shows that (7.6%) of ESL customers are highly satisfied, (21.5%) of customers are satisfied, (23.2%) of customers replied neutral, (39.7%) of customers are dissatisfied and (13.2 %) of customers are highly dissatisfied. From this descriptive statistics about the level of customer satisfaction it can be deducted that the customers of ESL are not entirely satisfied with the service being delivered by the company.

	<b>Frequency</b>	<b>Percentage %</b>
<b>Highly Satisfied</b>	17	7.6
<b>Satisfied</b>	49	21.5
<b>Neutral</b>	53	23.2
<b>Dissatisfied</b>	90	39.7
<b>Highly Dissatisfied</b>	30	13.2
<b>Total</b>	<b>229</b>	<b>100 %</b>

(Source: Computation from own survey, June 2016)

**Table 1.10 Level Customer Satisfactions**

## **4.6 Correlation Analysis**

Correlation analysis was conducted to investigate the relationship between SERVQUAL dimensions with customer satisfaction. The relevance of various dimensions of service quality, which have been measured in the present study, was determined by calculating the correlation coefficient ‘r’ values. The values for correlation coefficient ‘r’ of all the dimensions of service quality namely; Tangibility, Reliability, Responsiveness, Assurance, and Empathy precisely indicate the relationship between the SERVQUAL dimensions and customer satisfaction. The

Pearson's Correlation Coefficient determines the strength of the linear relationship between two variables. The correlation coefficient will be between -1.0 and +1.0

		Tangibility	Customer Satisfaction
Tangibility	Pearson Correlation	1	.625**
	Sig. (2-tailed)		.000
	N	229	229
Customer Satisfaction	Pearson Correlation	0.625**	1
	Sig. (2-tailed)	.000	
	N	229	229

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

(Source: Computation from own survey, June 2016)

**Table 1.11 Correlations between Tangibility and Customer Satisfaction**

Based on the result from table 1.11 there is a significant strong and positive relationship between tangibility dimension and customer satisfaction with value of  $r = .625^{**}$ .

		Assurance	Customer Satisfaction
Assurance	Pearson Correlation	1	.693**
	Sig. (2-tailed)		.000
	N	229	229

Customer Satisfaction	Pearson Correlation	0.693**	1
	Sig. (2-tailed)	.000	
	N	229	229

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

(Source: Computation from own survey, June 2016)

**Table 1.12 Correlations between Assurance and Customer Satisfaction**

According to Table 1.12 Pearson's Correlation Matrix shows assurance has strong association with customer satisfaction with value of  $r = .693$ . Therefore, assurance has positive relationship with customer satisfaction.

		Responsiveness	Customer Satisfaction
Responsiveness	Pearson Correlation	1	.649**
	Sig. (2-tailed)		.000
	N	229	229
Customer Satisfaction	Pearson Correlation	0.649**	1
	Sig. (2-tailed)	.000	
	N	229	229

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

(Source: Computation from own survey, June 2016)

**Table 1.13 Correlations between Responsiveness and Customer Satisfaction**

Based on the result from Table 1.13 Pearson's correlation exhibits that there is a significant strong and positive relationship between responsiveness and customer satisfaction with value of  $r = .649$  which shows responsiveness has positive relation with the underlying construct.



		Reliability	Customer Satisfaction
Reliability	Pearson Correlation	1	.633**
	Sig. (2-tailed)		.000
	N	229	229
Customer Satisfaction	Pearson Correlation	.633**	1
	Sig. (2-tailed)	.000	
	N	229	229

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

(Source: Computation from own survey, June 2016)

**Table 1.14 Correlations between Reliability and Customer Satisfaction**

Based on the result from Table 1.14 Pearson's correlation exhibits that there is a significant strong and positive relationship between reliability and customer satisfaction with value of  $r = .633$  which shows responsiveness has positive relation with customer satisfaction.

		Empathy	Customer Satisfaction
Empathy	Pearson Correlation	1	.703**
	Sig. (2-tailed)		.000
	N	229	229
Customer Satisfaction	Pearson Correlation	.703**	1
	Sig. (2-tailed)	.000	
	N	229	229

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

(Source: Computation from own survey, June 2016)

**Table 1.15 Correlations between Empathy and Customer Satisfaction**

According to Table 1.15 Pearson's Correlation Matrix shows empathy has strong association with customer satisfaction with value of  $r = .703$ . Therefore, empathy has positive and strong relationship with customer satisfaction.

Based on the result of each table a conclusion can be made that SERVQUAL dimensions have significant impact on overall customer satisfaction of Ethiopian shipping line (ESL) customers. The highest correlation is between Empathy dimension and customer satisfaction at  $r = .703$  followed by Assurance and customer satisfaction at  $r = 0.693$ , Responsiveness and customer satisfaction at  $r = .649$  and Reliability and customer satisfaction at  $r = .633$ . The least correlation is seen between tangibility and customer satisfaction at  $r = .625$ . The correlation between all the independent variables and dependent variable is proved to be positive and significant, which means the improvement in any or all of the independent variables results in improvement in customer satisfaction.

## **4.7 Multiple Regression Analysis**

In this part of the analysis includes a regression model to test the hypotheses. Five extracted dimensions were taken as independent variables against overall satisfaction of the customers as dependent variable in a multiple regression model. For all the hypotheses of the study below hypothesis test was used at 95% confidence interval.

### **4.7.1 Impact of Service Quality Dimensions on Overall Customer Satisfaction:**

Multiple regression equations were developed to relate the customer overall satisfaction with the values of the SERVQUAL dimensions collected. For the purpose of developing the regression equations, the five service quality dimensions were taken as the independent variables and the customer overall satisfaction as the dependent variable. Regression analysis, used to assess how much do each independent variable (Responsiveness, Reliability, Assurance, Empathy and Tangibility) affect the dependent variable (Customer Satisfaction). It also gives an indication of the relative contribution of each independent variable. Linear regression estimates the coefficients of the linear equation, involving one or more independent variable that best

predict the value of the dependent variable. A significance level of 0.05 was used with 95% confidence interval. The dependent variable was customer satisfaction and the independent variables include SERVQUAL dimensions, (Reliability, Tangibility, Responsiveness, Assurance and Empathy). The following tables show the results revealed from the regression analysis.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	Df1	DF2	Sig. F Change
1	.741(a)	.543	.522	.14770	.543	23.111	5	112	.000

(Source: Computation from own survey, June 2016)

a. Predictors: (Constant), Responsiveness, Reliability, Tangible, Assurance, Empathy

**Table 1.16 Model Summary**

From table 1.16 it is illustrated that R value is 0.741. Therefore, R value 0.741 for the overall service quality dimensions namely tangibility, reliability, responsiveness, assurance and empathy suggested that there is a strong effect of these five independent variables on customer satisfaction.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	.622	.323		1.926	.047
Tangibility	.178	.042	.284	4.226	.000
Responsiveness	.184	.038	.329	4.835	.027
Reliability	.208	.036	.382	5.752	.000
Assurance	.075	.033	.149	2.246	.000
Empathy	.202	.038	.358	5.352	.000
Correlation is significant at 0.05** level					

(Source: Computation from own survey, June 2016)

**Table 1.17 Coefficients**

The result from the above table shows that all independent variables (Tangibility, Responsiveness, Reliability, Assurance and Empathy) have impact on the dependent variable (customer Satisfaction). The beta coefficients indicated that how and to what extent SERVQUAL dimensions such as tangibility, reliability, responsiveness, assurance and empathy influence customer's satisfaction of the shipping Line. It has been found that, Reliability, Beta = .382, Empathy, Beta = .358, and Responsiveness Beta = .329 have the highest influence or significant impact on customer's satisfaction, whereas, Tangibility, Beta = .284, and Assurance, Beta = .149 at 95% confidence interval have a relatively lower impact on customers satisfaction of ESL customers. The result also indicated that reliability was the most important factor influencing customer satisfaction of the shipping service, followed by empathy and responsiveness. The established Linear Regression Model is:

$$CS = 0.622 + 0.358(EM) + 0.149(AS) + 0.382(RL) + 0.284(TA) + 0.329(RN)$$

Where: - 0.622 = Constant

CS = Customer Satisfaction

AS = Assurance

RN = Responsiveness

EM = Empathy

TA = Tangibility

It can also be seen that the coefficient of determination that is R Square value is 0.543, which represents that 54.3% variation of the dependent variable i.e. customer satisfaction is due to the independent variables (SERVQUAL dimensions) thus, the other 45.7 % variation in customer satisfaction is due to other factors. Hence, it can be concluded that service quality dimensions have significant impact on customer satisfaction of The Ethiopian Shipping Line.

#### **4.8 Normality Test Analysis**

In this part of the analysis includes a normality test model to test the hypotheses. Five extracted dimensions were taken as independent variables against overall satisfaction of the customers as dependent variable in a normality test model. For all the hypotheses of the study below hypothesis test was used at 95% confidence interval.

For Testing Normality, the researcher has used Shapiro-Wilk Test using SPSS version 21. Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples) but can also handle sample sizes as large as 2000. For this reason, have uses the Shapiro-Wilk test as numerical means of assessing normality.

When Sig. value of the Shapiro-Wilk Test is greater the 0.05 then the data is normal. If it is below 0.05 then the data significantly deviate from a normal distribution.

For the purpose of developing the normality test, the five service quality dimensions, (Reliability, Tangibility, Responsiveness, Assurance and Empathy) were taken as the independent variables and the customer overall satisfaction as the dependent variable. The following tables show the results revealed from the Normality Testing analysis.

Dependent variable	Independent Variable	Shapiro-Wilk		
		Statistics	df	Sig.
Customer Satisfaction	Tangibility	.964	368	.827
	Responsiveness	.969	368	.882
	Reliability	.963	368	.817
	Assurance	.965	368	.837
	Empathy	.962	368	.807
		Correlation is significant at 0.05** level		

(Source: Computation from own survey, June 2016)

**Table 1.18 Shapiro-Wilk Test of Normality**

We can see from the above table that for the independent variables (Reliability, Assurance, Responsiveness, Empathy and Tangibility) the dependent variable (Customer Satisfaction) was normally distributed. The Sig. value of the Shapiro-Wilk Test is greater the 0.05 for all the independent variables then the data is normal. If it was below 0.05 then the data significantly do not assume normality.

#### 4.9 Multicollinearity Test Analysis

After the normality of the data in the regression model are met, the next step to determine whether there is similarity b/n the independent variables (Reliability, Assurance, Responsiveness, Empathy and Tangibility) in a model it is necessary to Multicollinearity test. Similarities between the independent variables will result in a very strong correlation. In addition, Multicollinearity test is done to avoid habits in the decision making process regarding the partial effect of independent variables on the dependent variable. Good regression model should not be ensue correlation between the independent variables or not ensue Multicollinearity. Test Multicollinearity as a basis the VIF value of Multicollinearity test results using SPSS.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.622	.323		1.926	.047		
Tangibility	.178	.042	.284	4.226	.000	.552	1.812
Responsiveness	.184	.038	.329	4.835	.027	.552	1.812
Reliability	.208	.036	.382	5.752	.000	.536	1.741
Assurance	.075	.033	.149	2.246	.000	.536	1.741
Empathy	.202	.038	.358	5.352	.000	.345	1.442
Correlation is significant at 0.05** level							

(Source: Computation from own survey, June 2016)

**Table 1.19 Collinearity Statistics**

We can see from the above table based on the coefficients output- collinearity statistics, obtained VIF value of 1,812 for Tangibility and Responsiveness, 1.741 for Responsiveness and assurance and 1.442 for Empathy, meaning that the VIF value obtained is between 1 to 10. As a result, it can be concluded that there is no Multicollinearity symptom. The predictor variables in a multiple regression model are not correlated, meaning that one cannot be linearly predicted from the others with a substantial degree of accuracy.

## CHAPTER FIVE

### V. CONCLUSION AND RECOMMENDATION

#### 5.1 Conclusion

The main objective of the research was to assess customer service quality through evaluating the relative importance of service quality dimensions on customer satisfaction. From the findings, the research objectives were achieved by, identifying the overall level of customer expectations and perception and the underlining gap between them, by analyzing the level of customer satisfaction and identify the impact of service quality dimensions on Customer satisfaction of Ethiopian shipping line (ESL).

Based on the descriptive statistic it is observed that there is a wider gap between customer's expectation and perception of service quality in the shipping company. Out of the five service quality dimensions, the expectation of customers towards the responsibility and reliability dimension having scored the highest mean scores should be given due attention. Though the two dimensions i.e. responsiveness and reliability have great deal of importance to the customers the average perceived mean scores was the lowest in both dimensions and the highest Gap scores. Which shows that the company failed to deliver timely service and the employees does not have genuine interest in helping customers with requests, questions, complaints and problems.

The result of correlation analysis explained that the independent variables of service quality dimensions were positively and significantly related with customer satisfaction. The highest correlation is between Empathy and customer satisfaction (0.703\*\*), followed by Assurance and customer satisfaction (0.693\*\*) and Responsiveness and customer satisfaction (0.649\*\*). The weakest correlation can be seen in the relationship between Tangibility (0.625\*\*) and Reliability (0.633\*\*). All the dimensions have shown positive and significant relationship with customer satisfaction. The implication of highest positive correlation between Empathy dimension and customer satisfaction is that the more individualized attention and consideration the customer receives the better the customer satisfaction.



## 5.2 Recommendation

- The result of the correlation analysis revealed that all the service quality dimensions have a strong and positive relationship with customer satisfaction. Accordingly, ESL should modify the service to satisfy customer needs and wants.
- By delivering improved services ESL can develop satisfactory services to its customers. This will enable to maintain high customer care and to maximize the market share of the shipping industry.
- It is evident from the gap scores that customers have high expectation of responsiveness and reliability dimensions; nonetheless their expectations were not met by the shipping line. Therefore, ESL must develop a plan to deliver timely service within the timeframe promised. Even though the counties poor infrastructure contribute to frequent power interruptions and system failures that have grave importance to on time delivery of service, ESL must work out a plan of action for consistent quality service delivery. For example manually carrying out tasks when there is problem with internet connection or internal system. Customers regularly demand speed and reliability because of a deadline they have to meet and delivering the necessary service dependably goes a long way in satisfying the customers.
- Time is a very sensitive matter these days and so the ample of time customers spend when receiving service must be very short and very effective. Hence, checking documents very carefully and keeping error free records must be given due attention.
- The result of the research showed that Assurance is the least perceived dimension which entails that the employees of the company lack knowledge about the shipping business and are not able to instill confidence in customers. Customers expect complete, consistent, accurate answers to their entire question, whether they are inquiring about the status of their cargo or the cost of sea transportation from one place to other (freight cost). If the employee doesn't show confidence and competence through his/her personal character while showing respect for the customer, the customer-service provider relationship can quickly be spoiled. Since shipping is a very complex industry that only a

handful of people understand the communication of the service to the customers must be carried out by a well knowledgeable employee of the company. It is the belief of the researcher that particularly the front line customer officers and underwriters who often commune with the customers and they must go through the necessary training when they first join the company and ongoing training must be given through time as inaccurate information or communication will lead the customer to a very enormous loss.

- The findings of the research revealed that the dominant service quality dimensions that affect customer satisfaction are reliability and empathy. Reliability depends on handling customers' service problems. Accurate or fixed time of arrival & departure of vessel, equipment availability, requested space availability, filling documents correctly, and keeping accurate records of transit time is crucial in shipping industry, consequently the company should provide an efficient, fair and accessible mechanism for resolving problems if it occurs.
- The shipping line can position itself as a market leader in customer service by going beyond the conventional way of dealing with customers, such as, having customized working hour for customers, providing shipping documents at convenient location and time of customers, offering regular customers extended credit facility, accepting payment as per the convenience of the customer, which hardly other competitors provide. This will help the company to retain the existing customer and attract new ones.

The study also established that the combination of tangibility, reliability, responsiveness, assurance and empathy together have significant effect on customer satisfaction. Therefore, service quality has positive effect on customer satisfaction. These two variables; service quality dimensions and customer satisfaction should work hand in hand to ensure success and survival of the shipping company.

As service industries continue to expand in importance throughout the global economy, measuring service quality quickly, reliably, and accurately will mature as an increasingly important task for service providers. The shipping company must begin realizing the importance of building an excellent customer experience in order also to attract investors in our country.

Superior service quality on basic customer-service transactions provides a competitive edge for shippers. It is necessary, therefore, to insure that employees are well prepared, knowledgeable and have superior skills to meet customer expectations.

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