

Addis Ababa University
School of Graduate Studies
MBA Program

**Customers' Perception of Service Quality in
Ethiopia banking sector: An Exploratory study**



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**A project paper submitted to the school of graduate studies of
AAU in partial fulfilment of the requirements for the degree
of Masters of Business Administration [MBA]**

June, 2010
Addis Ababa

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Declaration

I, Yonatan Gebre declare that this work entitled “: **Customers’ Perception of Service Quality in Ethiopia banking sector: An exploratory study**”, is outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the Research Advisor.

This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfilment of the degree of MA in Business Administration [MBA]

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Date_____

ACKNOWLEDGEMENTS

First, I would like to express my special gratitude to to my advisor Professor Tigineh Mersha for his countless suggestions, assistance and invaluable advice from the start to the end of the study.

I would like also to thank staff member of CBE, AIB and UB for their support while distributing and collecting the questionnaires.

I am greatly indebted to my mother, W/o Amina Eshete and my relatives who supported and encouraged me to succeed in my academic endeavour.

Lastly but not the least, my warmest appreciation and thanks goes to all my friends for their support and encouragement while doing this paper.

Thank you, all!

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Acronyms

AIB	Awash International Bank
CBE	Commercial Bank of Ethiopia
NBE:	National Bank of Ethiopia
SERVQUAL	Service Quality Measurement Tool
UB	United Bank

Abstract

This exploratory study seeks to assess customers' perception of service quality in the banking sector in Ethiopia. Three banks (Commercial Bank of Ethiopia, Awash International Bank and United Bank) included in the study. The SERVQUAL model was used to determine customers' perception of service quality at each of the three banks. The findings reveal that there the customers' expectations are not meet. Among the five dimensions of service quality Tangible and Responsiveness have higher gap scores at CBE and AIB. The Reliability dimension shows a negative gap score at all three banks showing that the customers do not perceive the banks provides consistent service. Farther, the Empathy dimension has a higher negative gap at AIB and UB suggesting that the banks need to train their staff on proper customers' service techniques. While ranking the five dimensions respondents rated Reliability as the most important service quality indicator at the three banks. The study also indicates that the banks need to become more responsive and assuring to their customers as well as increase their accessibility.

Key words: SERVQUAL, Quality in Ethiopia Banks, CBE, AIB, UB, Service Quality

CHAPTER ONE

Introduction

1.1 Background of the study

The Ethiopian government promulgated the Monetary and Banking proclamation No.83/1994 to liberalize the financial sector through reforms by bestowing banking laws that encourage the entry of private banks into the financial system in order to stimulate competition with the public banks which significantly promoted the development of the banking sector is tremendous. Accordingly, many private banks have already been established and their number is increasing from year to year. Currently there are four (4) government, nine (9) private and around five (5) in the process of formation. Due to this fact a fierce competition among banks has come to exist. Hence, it is vital for banks to improve on their service quality. Provision of high quality of service will result in higher customer satisfaction and enhance customer loyalty. Banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, and higher customer retention and expanded market shares.

One of the determinants of success of a firm is how the customers perceive the resulting service quality, as the perceived service quality is the key driver of perceived value (Collart, 2000). It is the perceived value, which determines customer satisfaction. Many firms including banking industries begin to track their customers' satisfaction through measuring their level of service

quality perceived by their customers. Spreng and Olshavsky (1993) stated that customer satisfaction or dissatisfaction is considered to be the result of a comparison between the pre-use expectations that a customer has about the product or service and the post-use perception of product or service performance. The most widely used model to measure perceived service quality known as SERVQUAL was developed by Parasuraman et al. (1985, 1988).

1.2 Banking history in Ethiopia¹

The establishment of banks in Ethiopia traces its origin to over 100 years. The agreement that was reached in 1905 between Emperor Minelik II and Mr. Mac Gillivray, representative of the British owned National Bank of Egypt, marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated on Feb. 16, 1906 by the Emperor. The Bank was totally managed by the Egyptian National Bank. (Sofia and Seid, 2005)

Within the first fifteen years of its operation, Bank of Abyssinia opened branches in different areas of the country. In 1906 a branch in Harar (Eastern Ethiopia) was opened at the same time of the inauguration of Bank of Abyssinia in Addis Ababa. Another at Dire Dawa was opened two years later and at Gore in 1912 and at Dessie and Djibouti in 1920. Mac Gillivray, the then representative and negotiator of Bank of Egypt, was appointed to be the governor of the new bank and he was succeeded by H Goldie, Miles Backhouse, and CS Collier were in charge from 1919 until the Bank's liquidation in 1931.

Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power. The new Bank, Bank of Ethiopia, was a purely Ethiopian institution and was the first indigenous bank in Africa and established by an official decree on August 29, 1931 with a capital of £750,000. Bank of Egypt was willing to abandon its concessionary rights in return for a payment of Pound Sterling 40,000. The transfer of ownership took place very smoothly and the offices and personnel of the Bank of Abyssinia including its manager, Mr. Collier, were retained by the new Bank. (Giday B. 1987:68-71).

¹ This section discussion is taken from National Bank of Ethiopia Website-<http://www.nbe.gov.et/History/history.htm>.

The National Bank of Ethiopia with more power and duties started its operation in January 1964. Following the incorporation as a share company on December 16, 1963 as per proclamation No.207/1955 of October 1963, Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1,1964 with a capital of Eth. Birr 20 million. In the new Commercial Bank of Ethiopia, in contrast with the former State Bank of Ethiopia, all employees were Ethiopians.

There were two other banks in operation namely Banco di Roma S. and Banco di Napoli S.C. that later reapplied for license according to the new proclamation each having a paid-up capital of Eth. Birr 2 million.

The first privately owned bank, Addis Ababa Bank Share Company, was established by Ethiopians initiative and started operation in 1964 with a capital of Birr 2 million in association with National and Grindlay Bank, London which had 40 percent of the total share. In 1968, the original capital of the Bank rose to 5.0 million and until it ceased operation, it had 300 staff at 26 branches.

Following the declaration of socialism in 1974 the government extended its control over the whole economy and nationalized all large corporations. Organizational setups were taken in order to create stronger institutions by merging those that perform similar functions. Accordingly, the three private owned banks, Addis Ababa Bank, Banco di Roma and Banco di Napoli were Merged in 1976 to form the second largest Bank in Ethiopia called Addis Bank with a capital of Eth. birr 20 million and had a staff of 480 and 34 branches. Before the merger, the foreign participation of these banks was first nationalized in early 1975.

Proclamation No.99 of 1976 brought into existence the Agricultural and Industrial Bank, which was formed in 1970 with a 100 percent state ownership, was brought under the umbrella of the National Bank of Ethiopia. Then it was reestablished by proclamation No. 158 of 1979 as a public finance agency possessing judicial personality and named Agricultural and Industrial Development Bank (AIDB). It was entrusted with the financing of the economic development of the agricultural, industrial and other sectors of the national economy extending credits of medium and long-term nature as well as short-term agricultural production loans. (Belai Giday,1987).

Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector. Consequently

shortly after the proclamation the first private bank, Awash International Bank was established in 1994 and Dashen Bank was established on September 20,1995 as a share company with an authorized and subscribed capital of Birr 50.0 million. Afterward, currently there are four(4) government, nine(9) private and around five(5) in the process of inauguration. Even though there is such a move in flourishing of private banks and branch expansion, Ethiopia remains one of the under-banked economies even by the standard of Sub-Saharan African countries.

1.3 Statement of the Problem

The unique characteristics of service contribute to the complexities involved in assessing and managing service quality. Since Quality can be several things at the same time and may have various meanings, depending on the person. This complicates both the consumer's assessment of service quality and the provider's ability to control it. Most services involve a direct contact between the customers and the service provider (Mersha and Abdlakha, 1990). This means that, in addition to task proficiency, interpersonal skills like courtesy, friendliness, tolerance and pleasantness are important dimensions of quality, particularly in high contact service where front-line employees are the key to customer satisfactions (Mersha and Abdlakha, 1990). The customer is the judge of quality. Understanding customer needs, both current and future, and keeping pace with changing markets requires effective strategies for listening to and learning from customers, measuring their satisfaction relative to competitors, and building relationships, customer needs—particularly differences among key customer groups – must be linked closely to an organization's strategic planning, product design, process improvement, and workforce training activities. Satisfaction and dissatisfaction information are important because understanding them leads to the right improvements that can create satisfied customers who reward the company with loyalty, repeat business, and positive referrals. Creating satisfied customers includes prompt and effective response and solutions to their needs and desires as well as building and maintaining good relationships.

A business can achieve success only by understanding and fulfilling the needs of customers. From a total quality perspective, all strategic decisions a company makes are “customer-driven.” In other words, the company must show constant sensitivity to emerging customer and market requirements. According to the study by Collart (2000), one of the determinants of success of a

firm is how the customers perceive the resulting service quality, as this is the key driver of perceived value. It is the perceived value which determines customer satisfaction. Many firms including banking industries begin to track their customers' satisfaction through measuring their level of service quality perceived by their customers. The most widely used model to measure perceived service quality was developed by Parasuraman et al. (1985, 1988) known as SERVQUAL. According to this model, five dimensions of service quality are: Tangibles, Reliability, Responsiveness, Assurance and Empathy. (A detailed discussion of the SERVQUAL model is done in the literature review section of this paper.)

However, the model developed in the context of one country may not be applicable in other countries as the institutional, economic and socio-cultural factors may differ from region to region or from one sector to another within the same region.

In Ethiopia, many customers voice concerns about inefficiency and lack of quality excellence in the banking sector. However, there are inadequate published studies which demonstrate if indeed the quality of banking service in Ethiopia is poor. This study aims to examine the gap between customers' expectations and perceptions of banking service in Ethiopia using the SERVQUAL model. The banks included at this study are Commercial Bank of Ethiopia, Awash International Bank and United Bank. The following research questions are formulated.

1. Do Ethiopian Banks provide the service that their customers expect? And do they track customers' satisfaction?
2. How do customers' expect and perceive the quality of banking service in Ethiopia at their respective bank?
3. What kind of gap exists between customers' expectations and perceptions at their respective banks?
4. How are the five service quality dimensions ranked by bank customers in Ethiopia?

This paper examines these issues based a survey conducted in the three major Ethiopian banks: CBE, AIB and UB.

1.4 Objectives of the study

The general objective of this exploratory study is to assess the customers' perception toward quality of service in the banking sector and the dimensions of service quality in the level of their importance for good quality. More specifically the study seeks:

1. To measure customers' expectation of each of the five dimensions of service quality using SERVQUAL instrument.
2. To measure customers' perception of each of the five dimensions of service quality using SERVQUAL instrument.
3. To determine the gap in customers perceptions and expectations in each of the five dimensions of service quality for the three banks.
4. To assess the level of importance ranked to each of the five dimensions of service quality by Ethiopian banks customers.

1.5 Significance of the Study

- This paper will provide some insight about customers' perception of service quality in Ethiopian banking sector.
- The paper can also be used as a feedback for operation managers of the banks that considered in the study regarding the perceptions of their customers toward their service quality.
- It can be a good indicator for managers to identify the gap between management's perception of service quality and that of their customers and taking actions to close the gaps.

1.6 Scope of the study

The scope of this study is to focus on customers' perception toward service quality at selected branches of CBE, AIB and UB. Thus, the study examines banking service quality only from customers' perspective. The branches considered in the study are: Temenja yaji, Arada Giorgis and Addis ketema from CBE, Head office branch, Aratkilo branch, and Hayahulet branch from AIB and Mesrake branch, Bole Medhehanialelem branch and Bonbeta branch from UB.

1.7 Limitation of the study

As stated earlier this is an exploratory study that is limited in scope and sample size, but it can contribute to further study on quality of the banking sector in Ethiopia. Thus the findings of this study may not give a general picture of the quality of the banking sector in Ethiopia. In addition the researcher was planning to conduct the study by including Dashen bank as one of the banks to be studied, due to the fact it is assumed to be the leader in Ethiopian's banking sector. However, unwillingness of Dashen's management, forced the researcher to consider another bank.

The researcher also faced financial limitation to conduct comprehensive and detail study of service quality in Ethiopia banking sector by taking large sample.

1.8 Research Methodology

1. Introduction

This is an exploratory study with a primary purpose of assessing customers' perception toward quality banking service at CBE, UB bank and AIB. Data collection is done via a survey method where SERVQUAL instrument is used to record opinions of respondents about the quality of service they receive in their respective bank. In this study the original SERVQUAL model of Parasuraman et al. (1985), (five dimensions, namely Tangibility, Reliability, Responsiveness, Assurance, and Empathy) is used. (Appendix 1).

This instrument which consisted of 22 statements is modified by adding one more statement on the Tangible dimension (the convenience location of branches to customers). This is due to the fact that convenience is one of major concern for bank customers particularly in Ethiopian context. According to Kumar et al., 2009, perception of service "convenience" may affect customers' overall evaluation of the service, including satisfaction with the service and perceived service quality and fairness. Therefore, this study is based on the modified SERVQUAL model which is assumed to contain the five dimensions with 23 statements to assess the gap between customers' expectations and perceptions. The respondents are asked to rate all 23 statements each on expectation and as well as perception and to rate the relative importance of each of the five

dimensions constituting the SERVQUAL scale. Farther the original SERVQUAL question was translated form English to Amharic (Appendix 2). This was necessary since many of bank customers do not understand English.

The questionnaire comprised three Parts; Part one contains demographic questions. Part two has questions related to respondents' expectation of service quality and perception of the services of banks based on their actual experience using the five dimensions of service quality, and the third Part has questions related to level of importance of the five dimensions- Tangibility, Reliability, Responsiveness, Assurance, and Empathy. (See Appendix 1& 2).

2. Selection of the targeted banks

Commercial Bank of Ethiopia is the pioneer in the banking industry of Ethiopia and has around 206 branches in Ethiopia and has 50 branches in the capital city, Addis Ababa. AIB is also the first privet bank after the new proclamation for introduction of privet banks, with a better banking experience in Ethiopia. United Bank is also assumed to be one of the leading banks in Ethiopia banking industry. Based on these facts the researcher has selected these three banks.

3. Sampling Technique

The target samples for the study is all the bank customers regardless of whether they are doing their banking transactions with domestic banks, foreign banks, loan service or other banking services at the selected branches. Since, it is difficult to get the exact number of customers in the banks and the limited scope of the study, 45 customers from each bank are selected as a sample which is a total of 135 respondents. From each bank's three braches 15 respondents are randomly selected at the working hours of the bank.

4. Data Collection Procedure

The study largely depends on primary data, which is collected through survey method by using SERVQUAL instrument. The respondents are asked to rate each statement using Likert scales of 1 to 7 (1 strongly disagree, 7 strongly agree). The respondents are also asked to rank the five dimensions according to how important it is to them, on a 1-10 point scale, while determining the quality of a service. The secondary data are collected from internet; government agencies and the NBE are used to support the primary data analysis.

5. Data Analysis Procedure

The mean and standard deviation of each SERVQUAL statement will be calculated for perception as well as expectation and the average Gap Score for each dimension is obtained. This is done by deducting the mean score expectation for each attributes from the mean score of perception i.e. (E-P). The average dimension SERVQUAL scores (for all five dimensions) is divided by five to obtain the unweighted score of service quality .The necessary analysis and interpretation is made based on the average unweighted gap score of each bank as well as the average gap scores for attributes and dimensions. Finally the five dimensions are ranked by the respondents on the level of importance for determining the quality of banking service. In this study an improvised system of SERVQUAL instrument is used to calculate the average unweighted gap scores and ranking the five dimensions in the level of their importance.

1.9 Organization of the Paper

The paper is organized into four chapters. The first chapter deals with introductory part consisting of introduction/background of the study, banking history in Ethiopia, statement of the problem, theoretical framework, objectives of the study, methodology, scope and limitation of the study, significance of the study.

The second chapter reviews literatures related to the study. In this chapter various theoretical concepts that relates with service quality and its measurement and dimension of service quality and issues related with quality service will be discussed.

Analysis of collected data, interpretation of the analyzed data is presented in the third chapter. And finally, the fourth chapter presents summaries of major findings, the conclusions and the possible recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The primary purpose of this chapter is to get the theoretical understanding of the concept of Quality management. And more specifically, customers' expectations and perceptions toward service quality and measurement of service quality. First, it will discuss the definitions given by different scholars on the term quality management in both manufacturing and service firms. Second, the literature review examined studies on development and Gurus of quality management and the quality concept. Third, the review identified and discussed the customers' perception and expectation on quality service and determents of perceived customers' quality. Fourth, the review of the literature has tried to assess the model to measure service quality, SERVQUAL (Gap analysis=P-E). Finally, guidelines to be followed by managers to improve service quality and summarized outcomes study done on service quality..

2.2 Definitions of Quality management²

Quality is one of the five key objectives of operations along side with cost, flexibility, material management and delivery. While quality management is cross-functional in nature and involves the entire organization, operation has a special responsibility to produce a quality product for the customer. This requires the cooperation of the entire organization, the operation manager has a special responsibility to produce a quality product or deliver a quality service for its customers. (Schroeder, 2006).

The definition of quality depends on the role of the people defining it. Most consumers have a difficult time defining quality, but they know it when they see it. Since quality can be several things at the same time and may have various meanings, according to the person, the measures applied and the context within which it is considered. The difficulty in defining quality exists regardless of product, and this is true for both manufacturing and service organizations.

There is no single universal definition of quality. Some people view quality as “performance to standards.” Others view it as “meeting the customer’s needs” or “satisfying the customer.” Let’s look at some of the more common definitions of quality.

“Quality is the search for excellence”

The ‘search for excellence’ is inbred in a Darwinian philosophy for the survival of the fittest. Quality is thus an expression of this excellence, which leads one firm’s product to dominate another, and to guarantee its survival by image of quality. Over time, excellence creates an image and quality. (Tapiero, 1996).

“Quality is in the eye of the beholder”

Heizer and Render(2002), demonstrated that quality is the ability of a product or service to meet customer needs, or quality may be in the eyes of the beholder, but to create a goods or a service, operation managers must defined what the beholder (the customer) expects. Thus, the characteristics that connote quality must first be defined through research (*user based approach to quality*). Then the characteristics will be translated to specific attributes of a product (*product based approach of quality*). Then, the manufacturing process is organized to ensure that products

² The above discussion is made Roger G. Schroeder 2006 “*Operation Management, Contemporary Concepts and Case*” 3rd ed., p.136 and Chase, Aquilano and Jacobs, 1998,” *Production and Operation Management: Manufacturing and Service*” 8th ed pp.139.

are made precisely to specification (*a manufacturing based approach to quality*). A process that ignores any one of these steps will not result in a quality product.

“Conformance to specifications”

Here quality is defined in terms of how well a product or service meets the targets and tolerances determined by its designers. “Conformance to specifications” measures how well the product or service meets the targets and tolerances determined by its designers. For example, the dimensions of a machine part may be specified by its design engineers as 3.05 inches. This would mean that the target dimension is 3 inches but the dimensions can vary between 2.95 and 3.05 inches. Similarly, the wait for hotel room service may be specified as 20 minutes, but there may be an acceptable delay of an additional 10 minutes. As these examples illustrate, conformance to specification is directly measurable, though it may not be directly related to the consumer’s idea of quality.” (Chase et. al, 1998).

“Value for price paid”

Quality defined in terms of product or service usefulness for the price paid. is a definition of quality that consumers often use for product or service usefulness. This is the only definition that combines economics with consumer criteria; it assumes that the definition of quality is price sensitive. (Chase et al, 2002).

Moreover, G. Schroeder, (2006) point out a more comprehensive definition of Quality can be formulated by defining quality from four dimensions: Quality of Design, Quality of Conformance, the “Abilities” and Field service.

Thus, whether the product is a service or good, quality can be defined by, *Quality of design*(determining specification before the product is produced), *Quality of conformance* (means producing a product to meet the specifications), *Ability*: availability, reliability, and maintainability are another dimensions of quality, and *Field service*,the last dimension, represents warranty and repair or replacement of the product after it has been sold.”(Schroeder,2006)

Accordingly quality management can be defined as ,all management activities and functions involved in determination of quality policy and its implementation through means such as quality planning and quality Assurance (including quality control)

(www.businessdictionary.com/defination/quality-policy)

TOTAL QUALITY MANAGEMENT³

Total quality management (TQM) is different from the old concept of quality because its focus is on serving customers, identifying the causes of quality problems, and building quality into the production process. According to Heizer and Render(2006) TQM stress a commitment by management to have a continuing company wide drive toward excellence in all aspects of products and service that are important to the coustomer. Heizer and Render(2006) have also developed seven concepts for effective Quality Improvement (QI) program by modifying the 14 points developemd by Deming as follow: (1) Continuous Improvement, (2) Six Sigma, (3) Employee empowerment, (4) Benchmarking, (5) Just-in-Time, (6) Taguchi conceot, and (7) Knowledge of TQM.

2.3 Gurus of Quality Management⁴

The concept of quality has existed for many years, though it's meaning has changed and evolved over time. In the early twentieth century, quality management meant inspecting products to ensure that they met specifications. In the 1940s, during World War II, quality became more statistical in nature. Statistical sampling techniques were used to evaluate quality, and quality control charts were used to monitor the production process. In the 1960s, with the help of so-called "quality gurus," the concept took on a broader meaning. Quality began to be viewed as something that encompassed the entire organization, not only the production process. Since all functions were responsible for product quality and all shared the costs of poor quality, quality was seen as a concept that affected the entire organization.

Quality gurus have put forth several approaches to improve company performance. These approaches are embodied in a set of quality management practices, known as total quality

³ The discussion at this section is taken from Heizer J.& Render B.(2006). *Principle of Operation Management* 6th ed., p.198-199

⁴ This presentation is taken from Chase, Aquilano and Jacobs," *Production and Operation Management: Manufacturing and Service*" 8th ed pp.141

management (TQM). Total Quality Management is a philosophy that involves each and every individual in an organization in a continual effort to improve quality and achieve customer satisfaction. The following table depicts leaders in the field of Quality Management.

LEADR	Philosohpy/Contruibution Leaders
W.Edward Deming	Deming insisted management accept responsibility for building good system. The empolyees cannot produce products that on average exceed the quality of what the procee is caplabelof producing. He also made 14 points for implementing quality improvement.
Joseph M. Juran	A pioeer in teaching the Japanese how to impove quality, Juran belives strongly in top-management commitment, support, and involvement in the quality effort. He is also a believer in teams that continually seek to raise quality standards. Juran varies form Deming somewhat in focusing on the customer and defining quality as fitness for use, not necessarily the written specifications.
Armand Feigenbaum	His 1961 book,Total quality control, laid out 40 steps to quality improvement processes. He viewed quality not as a set of tools but as a total field that integrated the processes of a company. His work in how people learn from each other’s successes led to the field of corss-functional teamwork.
Philip B. Crosby	Quality is free was Crosby’s attention-getting book published in 1979. Crosby believed that in the traditional trade-off between cost of improving quality and and the cost of poor qualtiy, the cost of proor quality is understated. Crosby coined the term zero defects and stated, “there is absolutely no reason for having error or defects in amy product or service”

Table 2.1 Gurus of Quality Management: Adapted from Heizer and Brender
”Principle of Operation Management “ p.196. Leaders in the field of Quality management:

2.4 Quality management in manufacturing firms⁵

In recent years organizations are increasingly recognizing the strategic importance of quality and quality management. Many organizations have arrived at the conclusion that effective quality management can enhance their competitive abilities and provide strategic advantages in the marketplace. This belief has led many organization, on the part of many, both large and small, manufacturing and service, profit and non-profit, to shape and evolve their approaches to quality management by taking quality as strategic weapon to organizational success.

Manufacturing quality, unlike the general concept of quality ,as defined above, is well dfined in terms of attributes which are associated to and required by a manufacturing porcess to operate faultlessly. In this, sense quality is a charaterstics and a requirement of the industrial apparatus. Management of operations and quality control are the means used to ‘produce ‘ and control quality in manufacturing. There may be several dimensions along which such manufacturing quality may be defined, incuding (Trapiero,1996)

- A. The propensity to maintain the manufacturing process in control, i.e. operating according to agreed on standards of manufacture.
- B. The propensity of the manufacturing porcess to produce itmes or products faultlessly.
- C. The propensity to maintain(and or reduce) the manufacturing process variability, i.e limit process instabilities by maintainging the process repetitivity.

The following table dipicts the basic differnce between products at manufacturing and sevice giving firms with regard quality and its managment:

Manufacturing Organizations	Service Organizations
Conformance to specifications	Tangible factors
Performance	Consistency
Reliability	Responsiveness to customer needs
Features	Courtesy/friendliness

⁵ The above presentation is made based the discussion by Trapiero C. (1996), On definition of quality ,”*The management of Quality and its control*”, pp.6-8

Durability	Timeliness/promptness
Serviceability	Atmosphere

Table 2.2 dimensions of Quality for manufacturing and Service

2.5 QUALITY MANAGEMENT IN SERVICE FIRMS⁶

The Origins of Service Quality Theory: *The Disconfirmation Paradigm*

The foundation of service quality theory lies in the product quality and customer satisfaction literature. Early conceptualizations (e.g., Gronroos 1982, 1984; Parasuraman, Zeithaml, and 1985) are based on the disconfirmation paradigm employed in the physical goods literature. This suggests that quality results from a comparison of perceived with expected performance as is reflected in Gronroos's (1982, 1984) as cited by Brady and Cronin (2001), similar conceptualization of service quality that "puts the perceived service against the expected service" (Gronroos 1984, p. 37, emphasis in original.) As cited by Brady and Cronin (2001), In addition to adapting the disconfirmation paradigm to the measurement of service quality, Gronroos (1982) identifies two service quality dimensions i.e., Functional quality and Technical quality. *Functional quality* represents how the service is delivered; that is, it defines customers' perceptions of the interactions that take place during service delivery. *Technical quality* reflects the outcome of the service act, or what the customer receives in the service encounter. (Brady and Cronin, 2001)

The disconfirmation paradigm also is the basis for Parasuraman et al (1985) SERVQUAL model, which views service quality as the gap between the expected level of service and customer perceptions of the level received. Parasuraman et al (1988) propose five dimensions of service quality: the reliability, Responsiveness, Assurances, Empathy, and tangibility characteristics of the service experience.

"Rust and Oliver (1994) offer a three-component model: the *service product* (i.e. technical quality), the *service delivery* (i.e. functional quality, and the *service environment*." (Brady and Cronin, 2001)

⁶ This section is based on an article by Brady M.K. & J. Cronin, "Some New Thoughts on Conceptualizing Perceived Service Quality: A Hierarchical Approach", The Journal of Marketing, Vol. 65 No.3, 2001 pp.34-49.

2.5.1 Service Quality⁷

Practitioners and writers in the popular press tend to use the term satisfaction and quality interchangeably, but researchers have attempted to be more precise about meanings and measurement of the two concepts, resulting in considerable debate. Although they have something in common, satisfaction is generally viewed as a broader concept; whereas service quality focuses specifically on dimensions of service. Based on this view, perceived service quality is a component of customer satisfaction. Service quality, which is the main issue in this paper, is a focused evaluation that reflects the customer's perception of elements of service such as interaction quality, physical environment quality, and outcome quality. These elements are in turn evaluated based on the specific service quality dimensions: reliability, Assurance, Responsiveness, Empathy and Tangibles. Satisfaction, on the other hand, is more inclusive: it is influenced by perception of service quality, product quality, and price as well as situational factors and personal factors. (Zeithaml and Bitner, 2004).

Quality defined from the customer's viewpoint. The increasingly important role played by services and the inability of researchers to apply traditional manufacturing definitions to service quality led to a new conceptualization of service quality. Only one definition of quality was judged to be appropriate by service scholars (Gronroos, 1983; Parasuraman et al., 1985), and that definition was governed by the extent to which a service met the expectations of customers. *"Only customers judge quality; all other judgments are essentially irrelevant"* (Zeithaml et al., 1990). Service quality affects customer satisfaction. A popular definition of service quality proposed by et al. (1988) is 'conformance to customer specifications'—that is, it is the customer's definition of quality that matters, not that of management.

In the marketplace, quality must ultimately be evaluated from the customer's perspective. Customers can articulate how well a product and/or service meets their expectations, a perceptual judgment they cannot make about how well the product and/or service conforms to specifications. Defining quality as the extent to which a product and/or service meets and/or exceeds expectations allows managers and researchers to include subjective factors (i.e., courtesy, helpfulness,

⁷ This section discussion is highly influenced by the work of Zeithaml A.& Bitner M.(2006),*"Service Marketing -Integrating Customer Focus Across the firms"*pp.85-87

confidence, appearance) that are critical to customers' judgments but difficult to quantify into assessments of quality. (Reeves and Bednar, 1994)

Thus, Service quality can be defined as the collective effect of service performances which determine the degree of satisfaction of a user of the service. In other words, quality is the customer's perception of a delivered service. By service-quality management, we refer to the monitoring and maintenance of end-to-end services for specific customers or classes of customers.

2.5.2 Underlying Principles of Service Quality

According to Clow and Kurtz(2003), Receiving a high level of service is important to consumers but understanding how to evaluate the service quality received is more difficult. Two consumers receiving what appears to be the exact same service e form a company may evaluate the quality of the service differently. One consumer may feel the service was good while the other may feel the service was performed poorly. When discussing service quality the three underlying principles that should be kept in mind are:

1. Service quality is more difficult for the consumer to evaluate that quality of a good.
2. Service quality is based on consumers' perception of the outcome of the service and their evaluation of the process by which the service was performed.
3. Service quality perceptions result form a comparison of what the consumer expected prior to the service and the perceive level of service received.

The process used by consumers in evaluating service differs from the process used for goods. Services tend to be high in experience and credence qualities while goods tend to be high in search qualities. Search qualities are attributes that contributes that consumers can evaluate only during or after the consumption process. Credence qualities are attributes that consumers have difficulty evaluating even after consumption is complete. Experience qualities are qualities of a good or service that will be evaluated only after the service has been consumed or during the process of consumption. (Clow and Kurtz, 2003)

2.5.3 Meaning and types of service expectations⁸

To say that expectations are reference points against which service delivery is compared is only a beginning. The level of expectation can vary widely depending on the reference point the customer holds. Although most everyone has an intuitive sense of what expectations are, service marketers need a far more thorough and clear definition of expectations in order to comprehend, measure, and manage them.

Because the idea of customer expectations is so critical to evaluation of service quality, we start our discussion by talking about the levels of expectations.

Expected service: levels of expectations

Customers hold different types of expectation about service. The highest can be termed desired service: the level the customer hopes to receive- the “*wished for*” level of performance.

Desired service: - is a blend of what the customer believes “can be” and “should be.” The expectation reflects the hopes and wishes of these consumers;. For example, you will engage the services of your college’s placement office when you are ready to graduate. without these hopes and wishes and the belief that they may be fulfilled they would probably not go to this service
What are your expectations of the service? In all likelihood you want the office to find you a job the right job-in the right place for the right salary because that is what you hope and wish for.

However, you probably also see that the economy may constrain the availability of ideal job openings in companies. And not all companies you may be interested in have a relationship with your placement office. In this situation and in general, customers hope to achieve their service desires but recognize that this is not always possible. We call the threshold level of acceptable service **adequate service**-the level of service the customer will accept’. In the economic slowdown, many college graduates trained for high-skilled jobs may accepted entry-level positions at any office or internships for no pay. Their hopes and desires were still high, but they recognized that they could not attain those desires in the market that existed at the time. Their standard of adequate service was lower than their desired service. Adequate service level represents the

⁸This sections discussion is based on Zeithamal and Bitner (2004),*Service Marketing -Integrating Customer Focus Across the firm 3rd* ed. Tata MacGraw-Hill p. 61-74

“*minimum tolerable expectation*” the bottom level of performance acceptable to the customer. (Zeithamal and Bitner 2004)

Figure 2.1 shows these two expectation standard as the upper and lower boundaries for customer expectations. This figure portrays the idea that customers asses service performance on the basis of two standard boundaries: what they desire and what they deem acceptable. The adequate service expectation level, on the hand, may vary for different firms within a categories or subcategory.

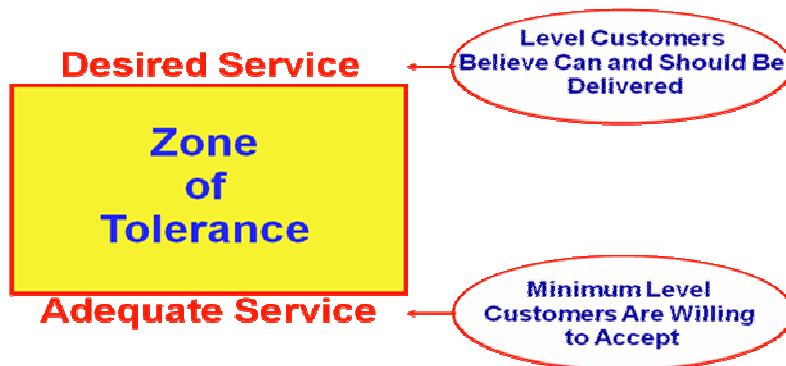


Figure 2.1 dual customer expectations adopted from Clow and Kurtz “Service marketing p.58

The Zone of Tolerance

Zone of Tolerance is extent to which customers recognize and are willing to accept this variation is called the zone of tolerance and is shown in figure 3.If service drops below adequate service the minimum level considered will be undermined. If service performance is higher than the zone of tolerance at the top end where performance exceeds desired service customers will be very pleased and probably quite surprised as well. (Zeithamal and Bitner 2004

Different customers posses different zones of tolerance

Another aspect of variability in the range of reasonable services is that different customers possess different tolerance zones. Some customers have narrow zones of tolerance, requiring a tighter range of service from providers, whereas other customers allow a greater range of service. For example, very busy customers would likely always be pressed for time, desire short wait times in general, and also hold a constrained range for the length of acceptable wait times. When it comes to meeting plumbers or repair personnel at their homes for appliance problems, customers who work outside the home have a more restricted window of acceptable time duration for that appointment than do customers who work in their homes or do not work at all.

In summary, we can express the boundaries of customer expectation of service with two different levels of expectations: desired service and adequate service. The desired service level is less subject to change than the adequate service level. A zone of tolerance separates these two levels. This zone of tolerance varies across customers and expands or contracts with the same customer. Customer expectations are uncontrollable. (Zeithamal and Bitner 2004)

2.5.4 Factors that influence customers peception and expectation⁹

Because expectations play such a critical role in customer evaluation of services, marketers needs to have a control over these factors as well, but many of the forces that influence customer expectation are uncontrollable.

When consumers are interested in purchasing service, they are likely to seek or take in information from several different sources. For example, they may call a store, ask a friend, or deliberately track newspaper advertisements to find the needed service at the lowest price. They may also receive service information by watching television or hearing an unsolicited comment from a colleague about a service that was performed well. In addition to these active and passive types of external search for information, consumers may conduct an internal search by reviewing the information held in memory about the service. Those factors that determine customers' perception and expectation of quality service are:

- A. Explicit service promises
- B. Implicit service promises,
- C. Word-of-mouth communications, and
- D. Past experience.

A. **Explicit service promises:-** are personal and non-personal statement about the service made by the organization to customers. The statements are personal when they are

⁹ Ibid

communicated by salespeople or service or repair personnel; they are non personal When they come from advertising, brochures, and other written publications. Explicit service promises are one of the few influences on expectations that are completely the control of the service provider.

Promising exactly they will ultimately be delivered would seem a logical and appropriate way to manage customer expectations and ensure that reality first the promises. All types of explicit service promises have a direct effect on desired service expectation. If the sales visit portray a banking service that is available 24 hours a day, customer's desires for that service (as well as the service of competitors) will shaped by this promise. Explicit service promises influence the level of both desired service and prediction service. (Zeithamal and Bitner 2004)

- B. **Implicit service promises:** - are service-related cues other than explicit promises the lead to inferences about what the service should and will be like. These quality cues are dominated by price and the Tangibles associated with the service. In general, the higher the price and the more impressive the Tangibles, the more a customers will expect from the service.
- C. **Word-of-mouth communication:-** The importance of word-of-mouth communication in shaping expectations of service is well documented. These personal and sometimes non-personal statements made by parties other than the organization convey to customers what the service will be like and influence both predicted and desired service. Word of mouth tends to be very important in services that are difficult to evaluate before purchase and direct experience of them. Experts (including consumer reports, friends, and family) are also word-of-mouth sources that can affect the levels of desired and predicted service.
- D. **Past experience:** - Past experience, the customer's previous exposure to service that is relevant to the focal service, is another force in shaping predictions and desires. The service relevant for prediction can be previous exposure to the focal firm's service. For example, you probably compare each stay in a particular hotel with all previous stay in that hotel. (Zeithamal and Bitner 2004)

2.5.5 Measurement and dimensions of service Quality

Manufacturing quality measurement can largely be objective and standardized while many service measurements are perceptual or subjective. Parasuraman et al. (1985,1988) argued that the customer's perception of service quality offering is a function of five dimensions categorized as reliability, Assurance, Tangibles, Empathy, and Responsiveness and suggested SERVQUAL (a service quality measurement tool).

Cronin and Taylor (1992) argued for "Performance only" measurement of service quality and proposed a service quality measurement tool called SERVPERF. Parasuraman's SERVQUAL model is widely used to measure perceived service quality. Parasuraman et al. (1985) also found that the customer's perception of service quality depends upon the size and direction of the gap between the service the customer expects to receive and what he or she perceives to have been received. Thus, service quality is defined as the gap between customers' expectation of service and their perception of the service experience. The **gap theory** is the method for calculating the service quality that involves subtracting a customer's perceived level of service received from what was expected. (Clow and Kurtz, 2003). This gap model is one of the best-received and most heuristically valuable contributions to the service literature according to Brown and Bond (1995). The five dimensions of service quality are: tangibility, reliability, Responsiveness, Assurance and Empathy..

The SERVQUAL gaps can be calculated at three levels which are, the overall (unweighted) gap score, average gap scores for each dimension and gap scores for each attribute (Check appendix 1 to see how the calculation can be done)

$$\text{SERVQUAL Gap score} = \frac{\sum_{i=1}^n (PA_i - EA_i)}{[n]}$$

Where, P= Perception score,

E= Expectation score,

A_i= Attribute number and

n= it can be number of respondents/ attributes in a dimension/dimensions depending on the level of gap to be measured.

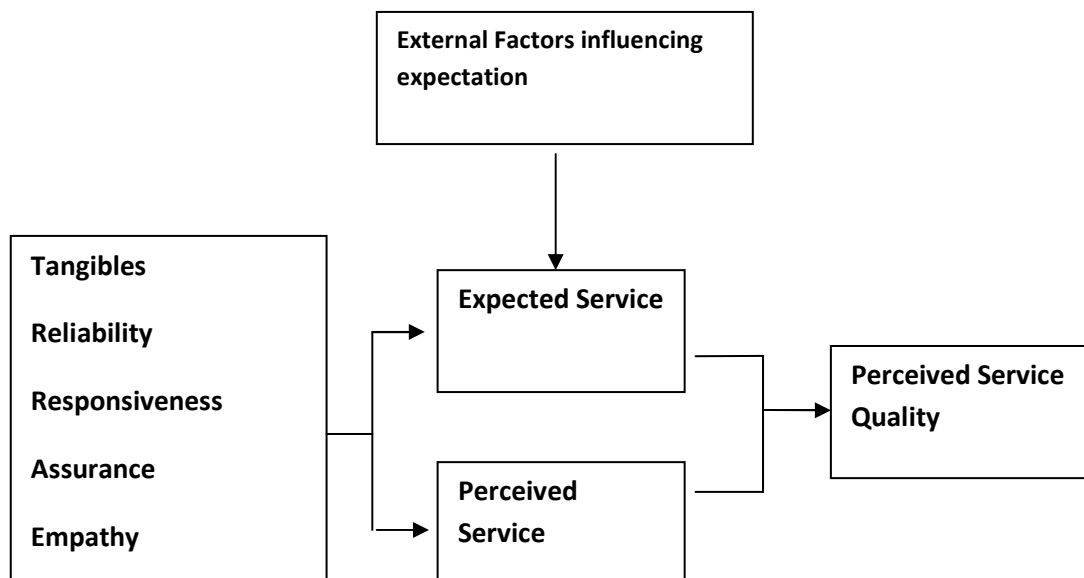


Figure 2.2: the SERVQUAL Model: adopted from the Journal of Marketing, A. A. Parasuraman et al." *A conceptual Model of Service Quality and Its Implication for Future Research*" 1985/49 p.48

Definitions of the *SERVQUAL* Dimensions

1. **Tangibles:** the appearance of the company's physical facilities, equipment, and personnel. If a restaurant, for example, is dirty, not presentable and the employees are disheveled looking the tangible quality will be low.
2. **Reliability:** The ability of the company to perform the promised service dependably and accurately without errors. For example, if a restaurant takes a reservation for 7:00pm and you are not seated promptly or they bring the wrong meal, the Reliability will be low. Note that Reliability for service (which is more accurately called conformance) is defined differently than Reliability for manufacturing.
3. **Responsiveness:** the willingness of the company to provide service the prompt and helpful to the customer. In the restaurant, for example, the meal should be provided in a timely fashion and with help when needed to understand the menu.
4. **Assurance:** The knowledge and courtesy of the company's employees and their ability to convey trust and confidence.

5. Empathy: The caring, individualized attention the company provides to its customers.¹⁰

As discussed above, these dimensions of service are very different from manufacturing and reflect the close interaction that the employees have with the customer in service delivery.

Some researchers have used SERVQUAL entirely to investigate bank service while others have chosen to use a smaller number of attributes to represent each of the five dimensions. According to Brown and Bond (1995), their GAP model is one of the best received and most heuristically valuable contributions to the service literature.

The pioneer study of Parasuraman et al. (1985) has been a major driving force in developing an increased understanding of and knowledge about service quality

They defined service quality as the gap between customers' expectation of service and their perception of the service experience. The various gaps visualized in gap model are:

- (1) **Gap 1:** Difference between consumers' expectation and management's perceptions of those expectations, i.e. not knowing what consumers expect.
- (2) **Gap 2:** Difference between management's perceptions of consumers' expectations and service quality specifications, i.e. improper service-quality standards.
- (3) **Gap 3:** Difference between service quality specifications and service actually delivered i.e. the service performance gap.
- (4) **Gap 4:** Difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery.
- (5) **Gap 5:** Difference between consumers' expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side. (Kumar and Charles, 2009).

“The full conceptual model shown in figure 2.3 conveys a clear message to managers wishing to improve the quality service: the key to close the customers gap is to close provider gap 1 through 4 and keep them closed. To the extent that one or more of provider gaps 1 through 4 exist, customers perceive service quality shortfalls. The model, called the gap model of service quality, serve as the

¹⁰ This discussion is made based on G. Schroeder, (2007) *Operation Management, Contemporary Concepts and Case* (3rd ed.) McGraw-Hill/Irwin p.140)

framework for service organization improve quality service and services marketing.” (Zeithamal and Bitner 2004:539)

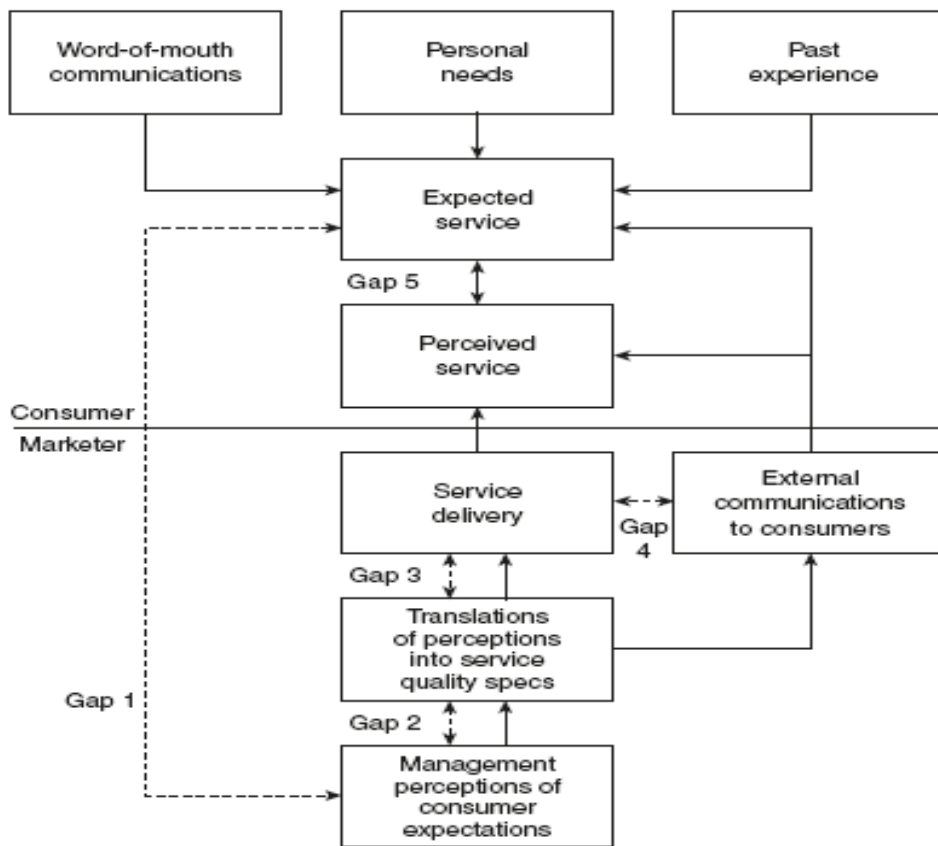


Figure 2.2 Service Quality Gaps adopted from Parasuraman et al “A conceptual Model of Service Quality and Its Implication for Future Research” 1985 p.44

2.6 What Managers can do to Improve Service Quality?¹¹

Delivering excellent service is a winning strategy. Quality service sustains customers' confidence and is essential for a competitive advantage of any company. Yet many companies are struggling to improve service, wasting money on ill-conceived service programs and undermining credibility with management rhetoric not backed up with action. Are there guidelines to help managers chart a

¹¹ The discussion at this section is highly influenced by LL. Berry et al(1994), “Improving Service Quality in America: Lessons Learned [and Executive Commentary] The Academy of Management Executive Vol. 8, No. 2 (May, 1994), pp. 32- 52

service-improvement strategy for their organizations? Yes, this section will discuss ten guidelines that can be implemented to the service quality improvement program. (Berry et al, 1994)

1. Listening to Customers.

Quality is defined by the customer. Conformance to company specifications is not quality; conformance to the customer's specifications is. Spending wisely to improve service comes from continuous learning about the expectations and perceptions of customers and noncustomers. Customer research reveals the strengths and weaknesses of a company's service from the perspective of those who have experienced it. Noncustomer research reveals how competitors perform on service and provides a basis for comparison. Important expectations for the service that competitors fulfill better offer an agenda for action. Companies need to install an ongoing service research process that provides timely, relevant trend data that managers become accustomed to using in decision making. Companies need to build a service quality information system, not just do a study. Conducting a service quality study is analogous to taking a snapshot. Deeper insight and a sense for the pattern of change come from a continuing series of snapshots taken from many angles. (Berry et al, 1994)

2. Reliability

Reliability is the ability of the company to perform the promised service dependably and accurately without errors (Schroeder, 2007). Also Reliability is the core of quality service. Little else matters to customers when a service is unreliable. When a firm makes frequent mistakes in delivery, when it doesn't keep its promises, customers lose confidence in the firm's ability to do what it promises dependably and accurately. Friendliness from the staff and sincere apologies do not compensate for unreliable service. Although most customers appreciate an apology, the apology does not erase the memory of that service. If a pattern of service failure develops, customers conclude the firm cannot be counted on, friendly and apologetic or not. (Barry et al, 1994)

3. Basic Service

In addition to Reliability, service customers want the basics—they expect fundamentals, not fanciness; performance, not empty promises. The services delivery should at least be above their acceptable services. Basic services are the minimum requirements a service provides should deliver to meet the customers' desired service level. (Berry et al, 1994)

4. Service Design

Reliably delivering the basic service customers expect depends in part on how well various elements function together in a service system. These elements include the people who perform the specific services in the service chain, the equipment that supports these performances, and the physical environment in which the services are performed. Design flaws in any part of a service system can reduce quality. It is tempting to blame poor quality on the people delivering service but frequently the real culprit is poor service system design.

Service mapping is one way to improve service system design. A service map is a visual definition of a service system, displaying each sub-process in the system in the sequence in which it appears. In effect, the service map depicts the chronology and pattern of performances that make up a service. If drawn explicitly, it answers the questions: "What is the service?" and "How does it work?" (Berry et al, 1994)

5. Recovery

Service encounters are moment of truth or interaction between a customer or potential customers and an organization (Zelthmal et al., 2006). While these moments of interaction provide an opportunity for firms to satisfy and even to delight the customers, there likewise is an opportunity to disappoint the customer. This happens when customers perception of initial service delivery behaviour falling below the customer's expectation, or "Zone of tolerance"

(Zelthmal et al., 2006). The impact of active recovery strategies on a company's revenue and profitability is dramatic (Bamford & Xystouri,2005). Service recovery involves the actions taken by an organization in response to a service failure presenting another and perhaps even more critical moment of truth, in which the company can not only satisfy and retain its customers, but it can even delight them with its effort. In this sense service recovery involves a wider set of activities than mere complaint handling (Holloway et al., 2009). In such cases, the consumer may

be unable or unwilling to complain, the service personnel may acknowledge the failure before the customer initiates (Zelthmal et al., 2006).

Many dissatisfied customers do not complain directly to the company-to avoid a confrontation, or because they perceive no convenient way to complain, or do not believe complaining will do much good. Companies can overcome some of this reluctance and improve recovery service in three ways:

- A. ***Encourage customers to complain and make it easy for them to do so.*** Managers who wish to improve problem-resolution service must overcome the common customer perception that companies don't really care when things go wrong. Many firms rely exclusively on reactive recovery strategies in which customers must initiate contact. Comment cards available in the service facility and toll-free telephone numbers are examples of reactive systems. These approaches are useful but they preclude customers unwilling to take the first step. Thus, proactive strategies, in which the company makes the first contact, should be considered.

- B. ***Respond quickly and personally.*** Companies often take too long to respond to unhappy customers, and then respond impersonally. By responding quickly, a firm conveys a sense of urgency. Quick response demonstrates that the customer's concern is the company's concern. By responding personally, with a telephone call or a visit, the firm creates an opportunity for dialogue with the customer-an opportunity to listen, ask questions, explain, apologize, and provide an appropriate remedy.

- C. ***Develop a problem resolution system.*** Service employees need specific training on how to deal with angry customers and how to help customers solve service problems. In some cases, they need access to information systems that will tell them more about the customer, the situation causing the problem, and possible solutions. (Berry et al, 1994)

6. Surprising Customers.

Customers judge the dimensions of Responsiveness, Assurance, Empathy and Tangibles during the service delivery process; hence, these are process dimensions (A., Zelthmal et al., 2006). Reliability, judged following the service, is an outcome dimension. Although Reliability is the most important dimension in meeting customers' service expectations, the process dimensions-especially

Assurance, Responsiveness, and Empathy-are most important in exceeding them. Companies are supposed to be reliable; they are supposed to provide the service they promise to provide. Thus, it is difficult for firms to exceed customers' expectations by being reliable. The process dimensions of service, however, provide the opportunity to surprise customers with uncommon swiftness, grace, courtesy, competence, commitment, or understanding. The opportunity is present to go beyond what is expected. In effect, exceeding customers' expectations requires the element of surprise, and the best opportunity for surprising customers is when service providers and customers interact. (Berry et al, 1994)

7. Fair Play

Customers expect service companies to treat them fairly and become resentful and mistrustful when they perceive otherwise. Fairness underlies all the customers' expectations. Customers expect service companies to keep their promises (reliability), to offer honest communication materials and clean, comfortable facilities (Tangibles), to provide prompt service (Responsiveness), to be competent and courteous (Assurance), and to provide caring, individualized attention (Empathy). Fairness is not a separate dimension of service but, rather, touches the very essence of what customers expect.

The intangibility of services heightens customers' sensitivity to fairness issues. Because services are performances rather than objects, they are difficult for customers to evaluate prior to purchase. Customers cannot try on services for fit and feel; there are no tires to kick such as in buying an automobile. Customers usually must buy the service to actually experience it. Thus, they must trust a service company to deliver on its promises and conduct itself honourably. (Berry et al, 1994)

8. Team work

Teamwork is often seen in the academic literature as a means of supporting willingness of deliver service quality (Berry and Parasuraman, 1992). Having many customers to serve, like on a full airline flight or in a busy bank office, can be mentally and physically exhausting. Control over the service is often dispersed among different organizational units that function without cooperation, frustrating contact employees' ability to effectively serve their customers. It is common for employees to be so stressed by the service role that they become less caring, less sensitive, and less eager to please. The presence of service "teammates" is an important dynamic in sustaining servers' motivation to serve. Thus, effective team work tends to develop capabilities for delivering

a high level of service quality (Ueno, 2008) Coworkers who support each other and achieve together can be an antidote to service burnout. Team involvement can be rejuvenating, inspirational, and fun.

9. Employees Research

Employee research is as important to service improvement as customer research, for three reasons. First, employees are themselves customers of internal service, and thus are the only people who can assess internal service quality. Because internal service quality affects external service quality, measuring internal service quality is essential. Second, employees can offer insight into conditions that reduce service quality in the organization. Employees experience the company's service delivery system day after day. They see more than customers see and they see it from a different angle. Employee research helps reveal why service problems occur, and what companies might do to solve these problems.⁸ Third, employee research serves as an early-warning system. Because of employees' more intensive exposure to the service delivery system, they often see the system breaking down before customers do. (Berry et al, 1994)

10. Management Commitment/Servant Leadership

Delivering excellent service requires a special form of leadership/management commitment which is also referred as "servant leadership" by Parasuraman et al, (1994). According to the authors, Servant leaders serve the servers, inspiring and enabling them to achieve. Such leaders fundamentally believe in the capacity of people to achieve, viewing their own role as setting a direction and a standard of excellence, and giving people the tools and freedom to perform their task. Empowerment of front-line staff could be fundamental to achieving and improving the level of service quality. Nevertheless, empowerment of front-line staff has both positive and negative outcomes (Ueno, 2008). But still it is possible to achieve a high level of service quality form medium degree of empowerment.

The ten guidelines discussed above are not mutually exclusive and that they must be viewed in a holistic manner. In figure 2.3 service qualities ring to capture these interrelationships. Listening is positioned on the outer ring because listening has an impact on all the other lessons. Identifying the basics of service, improving service system design, recovering from service shortfalls-these and

other essentials of service quality involve listening behaviour. Reliability is pictured in the centre, because Reliability is the core of service quality. Little else matters to customers when the service is unreliable. The sequence of the lessons is purposeful. The service system should be designed to deliver the basic service excellently. Recovery service usually provides an opportunity to surprise customers and to demonstrate fair play. Teamwork, employee research, and servant leadership are critical factors in an organization's emotional readiness to deliver quality service. (Berry et al, 1994

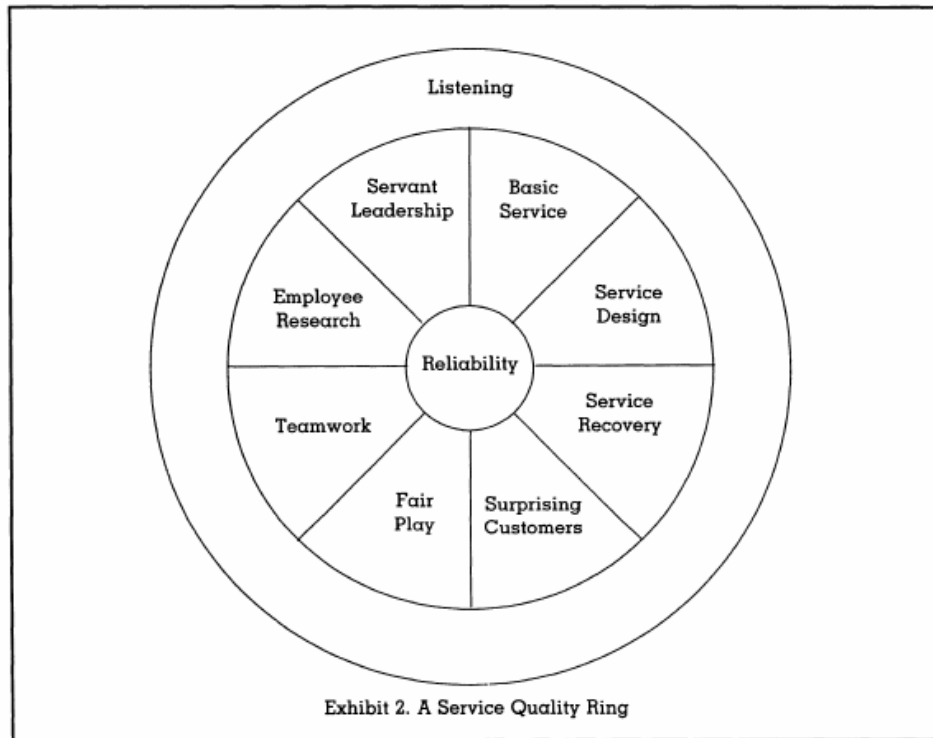


Figure 2.3 **Service Quality Ring** adopted from L.L Berry et al (1994), "Improving Service Quality in America: Lessons Learned [and Executive Commentary]" The Academy of Management Executive Vol. 8, No. 2 (May, 1994), pp. 32- 52

2.7. Summary of Past research works on Quality Service (in Banks and related areas)

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

3. Introduction

The primary focus of this study is to assess the customers' perception toward quality banking services at selected three branches of Commercial Bank of Ethiopia, Awash International Bank and United Bank, in Addis Ababa. Out of 135 questionnaires distributed to customers 115 (85%) complete responses were returned from the three banks. The presentation, analysis and interpretation of the questionnaire for the three banks will be done for CBE, AIB and UB respectively. And finally a summarized analysis is done to compare the three banks with regard to the quality of their banking service. The first part of the questionnaire consists of demographic information of the respondents are presented at subsequent tables and diagrams for each bank. The second part of the questionnaire presents the average score for each of the 23 Expectation statements, and then the score for each of the 23 Perception statements this information is used to calculate the Gap Score for each of the statements where the Gap Score = Perception – Expectation. The last part of the questionnaire deals with importance ranking of the five dimensions of service quality. It is determined by obtaining the average score of a rating scale with a maximum of 10 point for each SERVQUAL dimension. In this analyses SPSS v.17.0 and excel spreadsheets are used to make the necessary calculations.

3.1 Commercial Bank of Ethiopia.

The commercial Bank of Ethiopia was incorporated as a share company on December 16, 1963 per proclamation no 207-1955 to take over the commercial banking activities of the former state Bank of Ethiopia. Under this name, it began operation on January 1, 1964, with a capital of Ethiopian Birr 20,000,000 and served for about 16 years. The bank was wholly owned by the state and operated as an autonomous institution under the commercial code of Ethiopia. Under the socialist regime in Ethiopia (1974-1991).

The Commercial Bank of Ethiopia Share Company and Addis Bank had identical objectives power and duties. Hence, the socialist regime saw it necessary to merge them in order to eliminate the duplication of efforts and bring them under a centralized banking structure; consequently, the

present day commercial Bank of Ethiopia was established under proclamation No.184 of August 2, 1980. (Giday B. 1987).

VISION

“To become a world-class commercial bank.”

MISSION

We are committed to maximizing shareholder value through enhanced financial intermediation and unparalleled customer satisfaction. We deploy highly motivated, skilled and disciplined employees capable of providing banking products and services that meet international best practices and standards. We strongly believe that Reliability and public confidence are the bases of our success.

VALUES:

We stand for quality;

We are a learning organization;

We are committed to unparalleled customer satisfaction;

Our employees are our valuable assets;

We are committed to maximizing shareholder value;

We uphold transparency, accountability and professionalism;

We are an equal-opportunity employer; and

We are corporate citizens.

3.1. 1. Demographic Information of the Respondents

Forty five (45) questionnaire were distributed to three branches of CBE namely, Temenja yaji, Arada Giorgis and Addis ketema branches with 15 questionnaires in each branches. A total of 40 questionnaires were returned i.e. 88.8% of the total distributed questionnaires used for the analysis. Table 3.1.1 A: depicts the gender distribution of the respondents. Accordingly about 12.5% of the respondents are females and the rest are males (87.5%). This shows that majority of the respondents are male.

Sex	Frequency	%
Female	5	12.5
Male	35	87.5
Total	40	100.0

Table 3.1.1 A: Gender distribution of the respondents

As can be observed from Table 3.1.1.B below, 6 respondents (17.5%) have completed grade 12th, 8(20%) are college diploma holder, whereas 19(47.5%) respondents are first degree holders and 6(15%) have masters and above. This indicates that most of the banks customers are educated and have a good understanding of quality banking service.

Respondents educational level gender

Respondents educational level	Respondents sex		Total
	Female	Male	
12th Complete	1	6	7(17.5%)
Diploma	1	7	8(20%)
Degree	2	17	19(47.5%)
Masters and above	1	5	6(15%)
Total	5	35	40(100%)

Table 3.1.1 B: Respondents educational level and gender

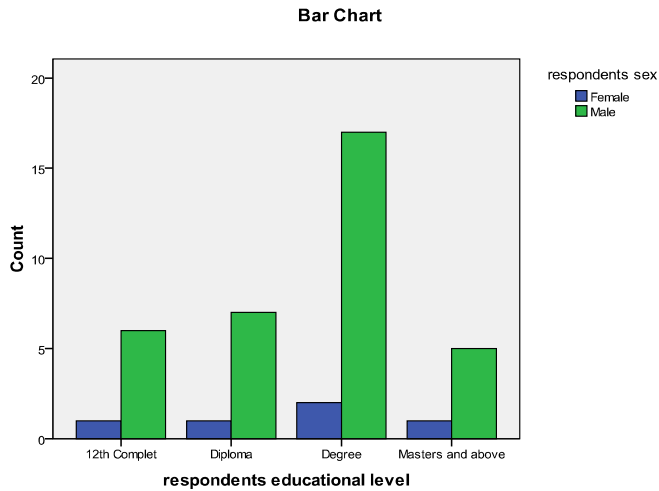


Figure 3.1.1 A: Educational level of Respondents by Gender

In order to understand the Customers' experience with the banking service the responses collected and presented figure 3.1.1.B. It can be noted that 21 (52.5%) of the respondents have used the bank for more than 5 years and 12 (30%) & 7 (17.5%) have used the branch between 1 to five years, and less than one year respectively. Thus from the above data is can be seen that the respondents have a good experience in using the bank.

Table 3.1.1 C: Respondents' service experience at CBE

customer service experience

Year	No	%
0-1 year	7	17.5
1-5 years	12	30.0
above 5 years	21	52.5
Total	40	100.0

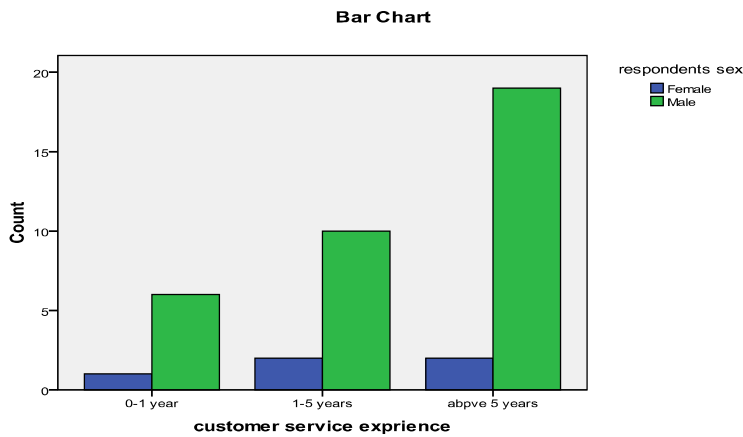


Figure 3.1.1 B: Respondents banking service experience by gender.

3.1.2. Service Quality gap at CBE

The overall SERVQUAL score is the result of average perception score minus the average expectation score derived from the SERVQUAL instruments. Table 3.1.2 shows the service quality gap on each individual item under respective dimensions for CBE. When we take a closer look at the individual items, it is found that the individual statements under each dimension have a negative service quality gap implying that the overall expectation of bank’s service quality at CBE falls short of expectations.

Accordingly the average unweighted score of CBE is -0.8387 (Table 3.1.2). All the five dimensions recorded a negative service quality gap. This indicates the banks’ service cannot meet customers’ expectation.

Tangible has a gap score of -0.798 (Table 3.1.2). Among all the attribute the convenience of the location of branches has comparatively high gap score of -1.2 (Table 3.1.2). However the bank has a relatively low gap in relation to “modern looking equipments” and “Materials associated with the service are visually appealing” with a score of -0.5 and -0.52 respectively showing the appearance of the bank’s physical facilities and equipment, although not good, are perceived to be better than the other dimensions.

The dimension, Reliability has a score of -0.91 (Table 3.1.2) which indicates that the branches fail to meet customers’ expectation on this dimension. A bank, ideally, should provide its service as promised. But the gap score for this attribute is -1.117 (Table 3.1.2) indicating that the costumers do not have a faith (confidence) in the service promised by the bank. But the attribute “Sincere

interest in solving customers' problems" has a very low score gap of -0.33 (Table 3.1.2) which shows a positive side of the bank's staff to solve the customers problem. This can be associated with the BPR implementation of the bank.

Responsiveness has a gap score of -0.965 (Table 3.1.2). With regard to this dimension "Staff are never too busy to respond to customers' request." have a gap score of -1.73, demonstrating the bank's staff are not able to provide prompt service to customers and are too busy to respond to customers request especially at peak hours. Assurance is another service quality dimension with an average gap score of -0.733 (Table 3.1.2).

The "friendliness and courtesy of staff" attribute has score of -1.5 (Table 3.1.2). Customers expect banks' staff to be polite and friendly with customers but that is not the case at CBE to some extent. Attributes like: "Behaviors of staff install confidence in customers" and "Customers feel safe in their transactions" have a score of -0.68 and -0.580 (Table 3.1.2) Also" Staff having knowledge to answer your request "has a gap score of -0.62 (Table 3.1.2). These scores support that while the bank's staff have a failed to convey trust and confidence in the customers and also not answer customer's request fully, these are not as bad as some other elements.

The last dimension Empathy has average gap score of -0.789 (Table 3.1.2) indicating the bank's deficiency at this dimension. Specifically, 'understanding the specific needs of customers' attribute has a gap score of -1.15, which shows the bank doesn't consider the specific need of customers and individual attention.

Table 3.1.2: SERVQUAL attributes score of Perception, Expectation and Gap at CBE

Commercial Bank of Ethiopia

Dimensions	Q	Attributes	Perception	Expectation	SERVQUAL Gap
Tangibility	1	Modern looking equipment	5.25	5.75	-.500
	2	Visually Appealing physical facilities	5.07	5.9	-.830
	3	Neat appearance of staff	5.38	6.32	-.940
	4	Materials associated with the service are visually appealing	5.08	5.6	-.520
	5	Convenience Location of Branches	5.15	6.35	-1.200
		Average score of dimension	5.186	5.984	-0.798
Reliability	6	Staff keeping promise	5	6.45	-1.450
	7	Sincere interest in solving customers' problems	5.32	5.65	-.330
	8	Staff performing service right the first time	4.73	5.8	-1.070
	9	Provide services at the time they promise to do so	5.08	6.25	-1.170
	10	Insists on error free records	5.4	5.93	-.530
		Average score of dimension	5.106	6.016	-0.91
Responsiveness	11	Staff telling customers exactly when services will be performed	5.3	5.78	-.480
	12	Prompt service to Customers	5.25	6.2	-.950
	13	Staff willingness to help	5.2	5.9	-.700
	14	Staff are never be too busy to respond to customers' requests.	5.27	7	-1.73
		Average score of dimension	5.255	6.22	-0.965
Assurance	15	Behaviors of staff instill confidence in customers	5.4	6.08	-.680
	16	Customers feel safe in their transactions	4.9	5.48	-.580
	17	Friendliness and courtesy of staff	5.3	5.93	-1.05
	18	Staff having knowledge to answer questions	5.03	5.65	-.620
		Average score of dimension	5.3025	5.785	-0.733
Empathy	19	Individual attention given by staff	5.38	5.93	-.550
	20	Convenient operating hours	5.13	6.03	-.900
	21	Staff giving customers personal attention	5.07	5.75	-.680
	22	Staff giving customers best interest at heart	4.97	5.63	-.660
	23	Understand the specific needs of customers	4.93	6.08	-1.150
		Average score of dimension	5.096	5.884	-0.788
		Unweighted Average SERVQUAL score-0.8387			

The unweighted SERVQUAL gap has a negative score of -0.8387 (Table 3.1.2). Also Table 3.1.2 depicts the summarized SERVQUAL gap score for the five dimensions where, the largest service quality gap is found for the dimension Responsiveness with the gap score of -0.965 followed by Reliability- 0.965 . However, the other three dimensions have more or less similar quality gap still indicating there is a negative gap between customers' expectation and perception of CBE banking service quality.

All the above analysis for the five dimensions indicates that the customers' perceptions fall short of their expectations. In other words, the levels of service quality that the customers receive are lower than their minimum tolerable expectation, i.e. there is a certain degree of dissatisfaction among customers.

3.2 Awash International Bank

Awash international Bank (AIB) was established as the first private commercial bank (post 1991) on November 10, 1994 by 486 founder shareholders with a paid up capital of Birr 24.2 million and started banking operations on February 13, 1995. Over a period of years, the earnings per share, the number of branches and types of service provided by the bank increased. Currently the bank has more than 53 branches all around Ethiopia, (www.awashbank.com).

Vision:

“To be the most preferred Bank of the people”

Mission:

“To provide efficient, competitive, diversified and profitable banking services to a continuously growing number of customers in a socially responsible manner supported by Appropriate modern banking technology as well as qualified , trained and motivated team of management and employees imbued with high professional and ethical standards”

3.2.1 Demographic Information of the Respondents

Forty five (45) questionnaires were distributed to three branches of AIB namely, Head office branch, Aratkilo branch, and Hayahulet branch with 15 questionnaires in each branch of which 37 questionnaires (82.22%) are returned for analysis.

Table 3.2.1A depicts the experience of the respondents with the bank’s service and their gender distribution. Accordingly about 40.5% of the respondents are female and the rest are male and 57% of the respondents have banking relationship with AIB branch not less than five years while 43. % of them has more than five years of banking experience. This shows that the respondents have adequate experience for judging the bank’s service.

Table 3.2.1 A: Respondents service experience and gender at AIB

Customer service experience	Respondents Gender		Total
	Female	Male	
0-1 year	2	2	4(10.81%)
1-5 year	7	10	17(45.24%)
above 5 years	6	10	16(43.95%)
	15(40.54%)	22(59.46%)	37(100%)

Table 3.2.1 B show the educational background of respondents by gender. Among the respondents about 45.59% have diploma, 16.2% have completed 12th grade, 27% are degree holders and 10% have masters and above. Therefore, from the above data, one can infer that the respondent have a good educational background to evaluate banking service quality.

Table 3.2.1 B: Respondents educational level and Gender

Respondents educational level	Respondents Gender		Total
	Female	Male	
12th complete	4	2	6(16.2%)
Diploma	7	10	17(45.59%)
BA	3	7	10(27%)
masters and above	1	3	4(10.08%)
Total	15	22	37(100%)

3.2.2 Service Quality gap at AIB

The original five dimensions: Tangibles, Reliability, Responsiveness, Assurance and Empathy with additional item at Tangibles (.i.e. Convenience) that consists of 23 statements were taken from the SERVQUAL model developed by Parasuraman et al, (1985). Table 3.2.2 depicted the service quality gap score on individual items under each dimension. The SERVQUAL unweighted score has a negative value of -0.8656. All of the five dimensions showed a negative service quality gap which indicates a shortfall the overall perception of customers on service quality fell short of expectation.

While discussing the gap related to each specific dimension, Tangibles has a gap score of -1.276 (Table 3.2.2), Among all the attributes convenience of location of branches has the comparatively higher negative gap score of -1.43 (Table 3.2.2) indicating that the banks' branches are not at easy access to the customers. Also the other attributes in Tangible are having a gap score of more than -1 showing customers' expectations are not being met. Therefore the bank should strive for improvement of these attributes.

With regard to Reliability the dimension the bank has a score of -0.982 which indicates some problem to the bank since the customers perceived the bank to be low on reliability. The attribute "Provide services at the time they promise to do so" has the largest negative score of -1.3 among the Reliability dimension (Table 3.2.2). From this one can infer that the customers do not have a faith in the service promised by the bank.

Responsiveness is the third dimension in the SERVQUAL model. At AIB the gap score of this dimension is -0.9725 (Table 3.2.2). The attribute "staff willing to help customers" has the largest negative gap value of -1.3 (Table 3.2.2) among all the attributes in this dimension indicating that the bank's staff may not show willingness to help customers.

Assurance as a dimension of service quality at AIB has a gap score of -.0795 (Table 3.2.2). The "staff having knowledge to answer questions" attribute has the largest negative gap score among the attributes in this dimension i.e. -1.02 (Table 3.2.2) which shows the staff are not able to answer all customers questions. The other attributes have a relatively lower value and more specifically "customers feel safe in their transactions" attribute indicates that customers are less concerned with safety of their transactions.

The average gap score for Empathy dimension is -1.284 (Table 3.2.2). All the attributes in this dimension has a high negative gap score showing the behavior of staff in this dimension is low. Theoretically all bank's staff are expected to be highly professional since Empathy is a cornerstone in service marketing. But that is not the case at AIB according to this study.

Finally if a comparison is made among the five dimensions, the largest service quality gap is found for the Tangibles (-1.43) dimension. Empathy and Reliability also have a gap score of -1.284 and -0.982, respectively also indicating that the bank should also strive to improve these dimensions. Identifying any existing service quality gaps will help the banks sector to develop necessary

strategies to narrow and close them. Therefore, the above discussions portray that the banking service of AIB does not provide a ‘banking service desired by the customers.

Table 3.2.2: SERVQUAL attributes score of Perception, Expectation and Gap at AIB

Dimensions	Q	Attributes	Perception	Expectation	SERVQUAL Gap
Tangibility	1	Modern looking equipment	4.43	6.03	-1.6
	2	Visually Appealing physical facilities	4.65	5.81	-1.16
	3	Neat appearance of staff	4.78	5.97	-1.19
	4	Materials associated with the service are visually appealing	4.54	5.54	-1
	5	Convenience Location of Branches	4.49	5.92	-1.43
		Average score of dimension	4.578	5.854	-1.276
Reliability	6	Staff keeping promise	4.57	5.43	-0.86
	7	Sincere interest in solving customers’ problems	4.68	5.27	-0.59
	8	Staff performing service right the first time	3.95	5.22	-1.27
	9	Provide services at the time they promise to do so	4.54	5.84	-1.3
	10	Insists on error free records	4.89	5.78	-0.89
		Average score of dimension	4.526	5.508	-0.982
Responsiveness	11	Staff telling customers exactly when services will be performed	4.97	5.78	-0.81
	12	Prompt service to Customers	4.81	5.62	-0.81
	13	Staff willingness to help	4.51	5.81	-1.3
	14	Never be too busy to respond to customers’ requests.	4.84	5.81	-0.97
			Average score of dimension	4.7825	5.755
Assurance	15	Behaviors of staff install confidence in customers	5.03	5.92	-0.89
	16	Customers feel safe in their transactions	5.27	5.78	-0.51
	17	Friendliness and courtesy of staff	4.78	5.54	-0.76
	18	Staff having knowledge to answer questions	4.76	5.78	-1.02
		Average score of dimension	4.96	5.755	-0.795
Empathy	19	Individual attention given by staff	4.38	5.81	-1.43
	20	Convenient operating hours	4.62	5.68	-1.06
	21	Staff giving customers personal attention	4.46	5.59	-1.13
	22	Staff giving customers best interest at heart	4.41	5.86	-1.45
	23	Understand the specific needs of customers	4.35	5.7	-1.35
		Average score of dimension	4.444	5.728	-1.284
		Unweighted Average SERVQUAL score -0.8656			

3.3 United Bank S.C

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration. Over the years United Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customer base and correspondent banks. At the end of June 2008, United Bank reported a return on equity of 29.51%. Today, United Bank is a full service Bank that offers its customers a full range of commercial banking services with a network that includes 40 branches.

United Bank's priority in the coming years is to strengthen its capital base, maximizing return on equity and benefit from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry.

The **vision** of United Bank is to be "**The Preferred Bank**" in the banking industry of Ethiopia.

Mission

UB's mission is to render Quality Commercial Banking Services to the best satisfaction of its Customers; to enhance Shareholder value; to be one of, if not the best, employers in the industry; and, to discharge its corporate responsibilities to both the community in which it operates and the environment which it shares with the world.

Value Statement

- The customer is United Bank's lifeline
- United Bank invests in its employees and dignifies them
- United Bank is committed to quality
- United Bank is a responsible corporate citizen
- United Bank works towards profitability and growth.
- United Bank values honesty, integrity and loyalty
- United Bank lives its values (<http://www.hibretbank.com>)

3.3.1 Demographic information of Respondents

Forty five (45) questionnaires were distributed to three branches of UB namely, Mesrake branch, Bole Medhehanialem branch and Bonbetera branch 15 questionnaires to each branch. And a total of 38 (84.4%) complete questionnaires were returned for analysis.

Of the 38 respondents 30 (78.9%) are male and the remaining 8(21.1%) are female. This indicates that majority of the respondents in this study are male shown on Table 3.3.1.A.

Table 3.3.1 A. Gender distribution of respondents at UB

Gender	No.	Percentage
Female	8	21.1
Male	30	78.9
Total	38	100

Regarding the educational level of the respondents, as it is showed in Table 4.3.1 B table and figure 4.3.1 below, 44% are 1st degree holders, 39.47% have diploma, 7.89% have completed 12th grade and 7.89% have master's and above are only. From the above data we can infer that the customers of UB have a good educational background to evaluate the quality of bank services.

Table 3.3.1 B. Respondents educational level at UB

Educational level	No.	Percentage
12th complete	3	7.89
Diploma	15	39.47
1st degree	17	44.75
Master and above	3	7.89
Total	38	100

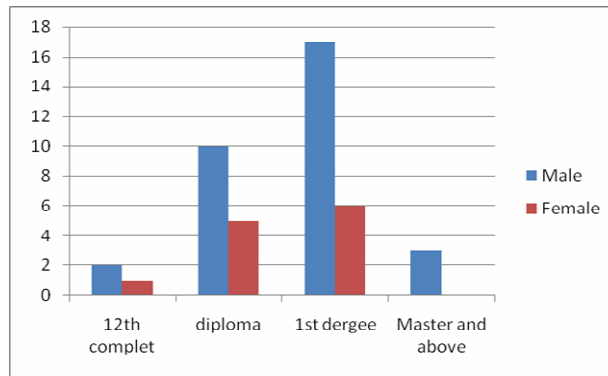


Figure 3.3.1 Respondents educational level and gender

With regarding the respondents' banking relationship with UB 60.52% of them have a banking relationship between one and five years, 23.68% and 15.78% of them have more than five year and less than one year of banking experience, respectively. Also figure 3.3.2 depicts the respondents banking experience by gender. From the above facts we can infer that customers at UB have a good banking experience to judge the banking service quality.

Table 3.3.1 C: Customers Service Experience at UB

Year	No	Percentage
0-1 year	6	15.78
1-5 year	23	60.52
5 years and above	9	23.68
Total	38	100

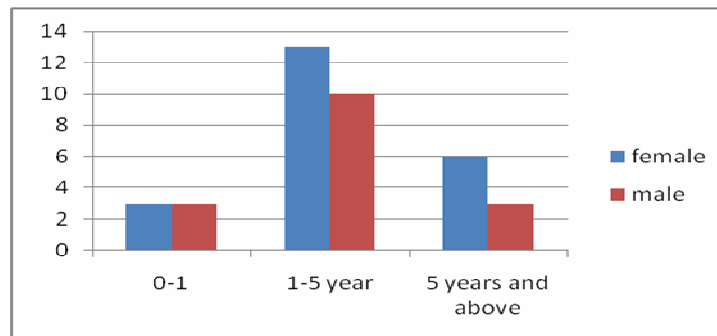


Figure 3.3.2 Customers banking service experience and gender distribution

3.3.2. Service Quality gap at United Bank

The gap analysis for UB is conducted based on the same procedure used for the above two banks by using a SERVQUAL instrument. Table3.3.2 shows that all the values are negative indicating that the bank fail to meet customers overall expectations. While discussing each dimensions separately Tangibles has an average gap score of -0.864 (Table3.3.2). Attribute “Materials associated with the service are visually appealing” has the largest negative gap -1.62 (Table3.3.2) showing the materials are not visually appealing.

Reliability dimension has an average gap score of -1.048 (Table3.3.2). This illustrates customers do not perceive the bank’s service to be consistent. More specifically the attribute “Provide services at the time they promise to do so” has a gap score of -1.82 demonstrating the bank fails to meet its explicit or implicit service promise. Also “Staff performing service right the first time” and “Sincere interest in solving customers’ problems” have a negative score of -1.48 and -1.05 respectively which shows that according to this study the bank’s Reliability in general is in doubt.

Responsiveness has an average gap score of -0.7276(Table3.3.2). All the attributes in this dimension have a low gap score except the attribute ‘Never too busy to respond to customers’ requests’ which has a score of -1.46 showing a deficiency at this attribute. The average gap score of Assurance dimension is -0.475(Table3.3.2). Attributes under this dimension have relatively low gap scores supporting that the banks has a better prospect of meeting or exceeding customer expectation in this dimension compared to other dimensions.

Empathy at UB has an average score of -1.42(Table3.3.2). The bank appear to be particularly weak in the attributes ‘Understand the specific needs of customers” and “Staff giving customers personal attention’ since they have a higher gap score of -2.27 and -1.82(Table3.3.2).All the scores indicates the bank is insufficient on this dimension.

Overall, the largest quality gap found in the Empathy and Reliability dimensions with a negative value of -1.42 and -1.048, respectively. While the other dimensions show lower perception-expectation gap indicating the customers’ expectations are not met. It should be underscored that all of them show negative gaps indicating that bank has lots of work to do in its service and to meet or exceed customer expectation.

Table 3.3.2: SERVQUAL attributes score of Perception, Expectation and the gap at UB

Dimensions	Q	Attributes	Perceptio n	Expectati on	SERVQU AL Gap
Tangibility	1	Modern looking equipment	5.27	5.89	-0.62
	2	Visually Appealing physical facilities	4.9	5.44	-0.54
	3	Neat appearance of staff	5.45	6	-0.55
	4	Materials associated with the service are visually appealing	4.45	6.07	-1.62
	5	Convenience on Location of Branches	5.18	6.17	-0.99
		Average score of dimension	5.05	5.914	-0.864
Reliability	6	Staff keeping promise	4.9	4.98	-0.08
	7	Sincere interest in solving customers' problems	4.55	5.6	-1.05
	8	Staff performing service right the first time	3.27	4.75	-1.48
	9	Provide services at the time they promise to do so	3.81	5.63	-1.82
	10	Insists on error free records	4.63	5.44	-0.81
		Average score of dimension	4.232	5.28	-1.048
Responsiveness	11	Staff telling customers exactly when services will be performed	5.54	5.61	-0.07
	12	Prompt service to Customers	5.55	5.7	-0.15
	13	Staff willingness to help	5.45	6.36	-0.91
	14	Staff are never be too busy to respond to customers' requests.	4.9	6.36	-1.46
			Average score of dimension	5.1344	5.862
Assurance	15	Behaviors of staff instill confidence in customers	4.81	5.45	-0.64
	16	Customers feel safe in their transactions	4.81	4.9	-0.09
	17	Friendliness and courtesy of staff	5.27	5.54	-0.27
	18	Staff having knowledge to answer questions	5.55	6.45	-0.9
			Average score of dimension	5.11	5.585
Empathy	19	Individual attention given by staff	4.63	5.09	-0.46
	20	Convenient operating hours	4.63	6.27	-1.64
	21	Staff giving customers personal attention	4.27	6.09	-1.82
	22	Staff giving customers best interest at heart	4.27	5.18	-0.91
	23	Understand the specific needs of customers	3.45	5.72	-2.27
		Average score of dimension	4.25	5.67	-1.42
		Unweighted Average SERVQUAL score	-0.907		

3.4 SERVQUAL Importance Ranking

The third part of the questionnaire dealt with assessing the ranking of the five dimensions of service quality. The respondents were asked to rate each on a scale of 10 point. The following table depicts the points given for each dimension at the three banks.

Table 3.4.1: SERVQUAL importance level of dimensions at CBE, AIB and UB with a point score

Dimensions	CBE	AIB	UB	Overall Average score	Ranking
	Average point	Average point	Average Score		
Tangibles	8.42	8.38	7.89	8.23	4
Reliability	9.2	9.3	9	9.17	1
Responsiveness	8.95	8.41	7.79	8.38	3
Assurance	8.33	8.89	8.47	8.56	2
Empathy	8.15	8.05	7.39	7.86	5

Table 3.4.1: SERVQUAL importance level with a point score at CBE, AIB and UB

As shown on Table 3.4.1 to measure a service quality by rating the level of importance on five dimension of service quality customers of CBE gives first priority to Reliability(9.2) followed by Responsiveness (8.95) and Tangibles(8.42). Empathy (8.15) is given low point to evaluate a quality service less than Assurance (8.33).

By referring the same table, the customers of AIB believe Reliability(9.3) and Assurance (8.89) are more important. Also Responsiveness (8.41) and Tangibles (8.8) will take third and fourth respectively. Empathy received the least score of the five dimensions.

In the case of UB, respondents ranked Reliability(9.0), Assurance (8.47) Tangibles (7.89) and Responsiveness (7.79) in that order. Again Empathy (7.39) was ranked last. Therefore, in determining the importance level of the dimensions Reliabilityis ranked first followed by Assurance.

Responsiveness and Tangibles are ranked second and third. Empathy is assumed to be least important dimension (see Table 3.4.1 last column).

3.5. Comparative analysis of the three bank service quality

The basic objective of this study is to assess customers' perception of quality service in the banking sector by using the SERVQUAL model at selected banks in Addis Ababa. This part of the paper presents a comparative analysis of perception-expectation gap among the three banks based on customers survey. Table 3.5.1 depicts the overall perception-expectation. A negative value of unweighted scores value for all bank indicates shortfall in service quality. However, the weighted gap score of UB (-0.907) is higher than the other two banks. As it can be observed from table 3.5.1 AIB has the highest gap for the dimension Tangibles (-1.276), indicating the customers didn't get what they expect in this dimension at AIB. Reliability dimension has the highest gap at UB (-1.048) illustrating UB is less reliable as compared to CBE and AIB by customers.

On the other hand, Responsiveness has high gap score at AIB (-0.972), which shows CBE and UB are more responsive for customer request with a gap score of -0.065 and -0.727 respectively. UB has better ability to convey trust and confidence with its employee's knowledge and courtesy with a low gap score in Assurance dimension (-0.474). But AIB has higher value in this dimension (-0,795) than CBE (-0.733). All the three banks have a higher negative score gap for Empathy dimension. With this fact in mind UB has the highest negative gap this dimension (-1.42) followed by AIB (-1.284) and CBE(-.0788). Form these values of Empathy; one can infer that the three banks lack caring, individualized attention for their customers.

Also Table 3.5.2 reports the standard deviation of each dimension. Standard deviations are significant since all the coefficients of the standard deviations are greater than 5%. This indicates that the negative score for each dimension could potentially be even higher than the mean score shown.

Table 3.5 1: A Comparison on quality Service gap at CBE, AIB and UB

			CBE	AIB	UB
Dimensions	Q	Attributes	Gap score	Gap score	Gap score
Tangibility	1	Modern looking equipment	-0.5	-1.6	-0.62
	2	Visually Appealing physical facilities	-0.83	-1.16	-0.54
	3	Neat appearance of staff	-0.94	-1.19	-0.55
	4	Materials associated with the service are visually appealing	-0.52	-1	-1.62
	5	Convenience Location of Branches	-1.2	-1.43	-0.99
			Average score of dimension	-0.798	-1.276
Reliability	6	Staff keeping promise	-1.45	-0.86	-0.08
	7	Sincere interest in solving customers' problems	-0.33	-0.59	-1.05
	8	Staff performing service right the first time	-1.07	-1.27	-1.48
	9	Provide services at the time they promise to do so	-1.17	-1.3	-1.82
	10	Insists on error free records	-0.53	-0.89	-0.81
			Average score of dimension	-0.91	-0.982
Responsiveness	11	Staff telling customers exactly when services will be performed	-0.48	-0.81	-0.07
	12	Prompt service to Customers	-0.95	-0.81	-0.15
	13	Staff willingness to help	-0.7	-1.3	-0.91
	14	Never be too busy to respond to customers' requests.	-1.73	-0.97	-1.46
			Average score of dimension	-0.965	-0.973
Assurance	15	Behaviours of staff instil confidence in customers	-0.68	-0.89	-0.64
	16	Customers feel safe in their transactions	-0.58	-0.51	-0.09
	17	Friendliness and courtesy of staff	-1.05	-0.76	-0.27
	18	Staff having knowledge to answer questions	-0.62	-1.02	-0.9
			Average score of dimension	-0.733	-0.795
Empathy	19	Individual attention given by staff	-0.55	-1.43	-0.46
	20	Convenient operating hours	-0.9	-1.06	-1.64
	21	Staff giving customers personal attention	-0.68	-1.13	-1.82
	22	Staff giving customers best interest at heart	-0.66	-1.45	-0.91
	23	Understand the specific needs of customers	-1.15	-1.35	-2.27
			Average score of dimension	-0.788	-1.284

Table 3.5.2: Quality Service gap at CBE, AIB and UB with Standard deviation of the dimensions

Dimensions	CBE Unweighted score - 0.838		AIB Unweighted score - 0.865		UB Unweighted score - 0.907	
	Gap(P-E)	Stand Devi.	Gap(P-E)	Stand Devi.	Gap(P-E)	Stand Devi.
Tangibility	-0.798	0.29533	-1.276	0.23755	-0.864	0.461118
Reliability	-0.91	0.46381	-0.98	0.30045	-1.048	0.666386
Responsiveness	-0.065	0.544946	-0.972	0.230994	-0.7276	0.660827
Assurance	-0.733	0.215619	-0.795	0.217639	-0.475	0.36428
Empathy	-0.788	0.238893	-1.284	0.178269	-1.42	0.726739

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study revealed the customers' perception toward service quality banking at the three banks. This is an exploratory study that is limited in scope and sample size, but it can contribute to further study on quality of the banking sector in Ethiopia context. Therefore, based on the analysis and interpretations made at the pervious chapter the following summaries, conclusions and recommendation are made.

4.1. Summary of Major Findings

The following findings are derived from the analysis and interpretations made in the previous chapter.

- ↳ The demographic characteristics of respondents at the three banks show that the majority of their respondents are male--CBE (87.5%), AIB (59.46%), & UB (78.9%). Also most of the respondents are relatively well educated with all of them having at least a diploma. Moreover, the results of the study reveal that the respondents have an average banking relationship of 5 years.
- ↳ At CBE the unweighted average score is -0.8388. The dimension Tangibles has a gap score of -0.789. 'The convince location of branches' has the highest negative score (-1.2). The study also reveals that CBE has relatively worrisome Reliability score as judged by the respondents' average score of -0.91 the attribute "provide service at the time they promised to do so" has a gap score of -1.170.
- ↳ Responsiveness has a gap score of -0.965 among the attributes "Staff are never be too busy to respond customers' request" has a higher gap score -1.73. The Assurance dimension at CBE has a score of -1.5, and the attribute 'friendly and courtesy of staff' has a gap score of -1.5. And the last dimension Empathy has a gap score of -0.788. And the highest service quality gap is found for Responsiveness (9-.965) followed by Reliability (-0.91). The other dimension more or less has a lower gap scores.
- ↳ The analysis at AIB reveals an unweighted Average SERVQUAL score of -0.8656. Tangible has a gap score of -1.27, all the attributes in this dimension has a gap score more

than -1.00. Specifically the location of the branches is not convenience (-1.43) and the bank is lagging behind on certain infrastructures, especially on ATM which has been ranked the most important banking service.

- ↳ Reliability has a gap score of -0.982. The attribute 'provide service at the time promised to do so' has the largest gap score (-1.3). On the other hand, Responsiveness has a gap score of -0.972. Specifically "staff willing to help customers" has a score of -1.3. Assurance dimension has a score of -0.79 and the attribute "staff having knowledge to answer questions" has the highest negative score of -1.2.
- ↳ Among all the five dimensions, Empathy has the highest negative score with the specific attributes "giving individual attention to customers" (-1.43) and "understanding specific need of customers" (-1.35) to this dimension.
- ↳ While comparing the dimensions at AIB the largest negative gap score is obtained by Empathy (-1.284). Next to Empathy Tangibles and Reliability have a gap score of -1.27 and -0.982 respectively.
- ↳ The unweighted SERVQUAL score at UB is -0.907. Tangible as one dimensions of service quality has a gap score of -0.864, expect for the attribute "materials associated with the service are visually appealing" which has a score of -1.62, the other attributes have lower gap scores.
- ↳ Reliability has a gap score of -1.04, the attribute in this dimension "provide services at the time they promise to do so" has score of -1.82. Also the "staff performing service right at first time" attribute scored -1.48.
- ↳ Responsiveness has a gap score of -0.727 and the attribute "Staff never be too busy to respond to customers' request" has a higher score of -1.46. Empathy has the highest gap score of -1.42 of the entire dimension.
- ↳ According to the analysis, while comparing the five dimensions at UB, the highest negative gap of customers' perception-expectation is scored by Empathy (-1.42) followed by Reliability (-1.0480) and Tangibles (-0.864). Responsiveness (0.728) and Assurance (-0.475) have lower scores respectively.
- ↳ Respondents have ranked the overall importance level of the five dimensions in determining a quality banking service. Thus, according to the point score by each dimensions Reliability

is rated the most important dimension at the three banks in determining a quality banking service. Also Assurance and Responsiveness will take the second and third position. Tangibles and Empathy are assumed to be least important in determining quality banking service.

↳ UB has the highest unweighted gap score of -0.907 when compared with the other two banks. Also AIB has the second largest average SERVQUAL unweighted score of -0.8656 as compared to CBE which has a gap score of -0.8387. Standard deviations are significant since all the coefficients of the standard deviations are greater than 5%.

4.2. Conclusions

Based on analysis of the data and findings the following conclusions are drawn:

- ↳ At CBE the unweighted SERVQUAL average score is -0.8388 indicating that the customers' expectations are not met. The Reliability dimension is worrisome with a gap score of -0.91 indicating that the bank is not able to provide consistent service. Tangibles dimension has a gap score of -0.789 in which the attribute "the convenience location of branches" has the highest negative score (-1.2) suggesting that the location of the branches are not convenient to customers. The other dimension with large negative score is Assurance (-1.5) which indicates that staff may not be friendly and knowledgeable.
- ↳ At AIB the overall unweighted score is -0.8656 indicating that the customers are not satisfied with the banking service. Empathy has the highest negative score at AIB which suggests that the staffs are not perceived as providing caring, individual attention to customers and understanding specific need of customers. The Tangibles with the score of -1.276 indicates that the customers are not impressed with the physical facilities of the bank. Also the Reliability of the bank is low with a gap score of -0.982.
- ↳ The unweighted average SERVQUAL score at UB is -0.907 showing the bank is not providing a "wished for" banking service to the customers. Empathy has the highest negative gap score of -1.42 demonstrating that UB has some deficiencies in this dimension. The Reliability dimension also has a gap score of -1.048 showing that the customers do not perceive the bank's service to be consistent. Compared to the other dimensions the assurance dimension at UB is considered to be relatively better, even though it has a negative score.
- ↳ The study demonstrates that the unweighted SERVQUAL scores of the three banks are negative and the high standard deviation for each dimension/ attributes indicates that the

negative scores for each dimension/attributes could potentially be even higher. All these indicate that the banks are not able to meet customers' expectation or the customers are not satisfied with the banks service at the banks.

- ↳ Reliability is rated to be the most important dimension in determining a quality banking service, while comparing the relative importance of dimensions. Assurance and Responsiveness will take second and third rank. Tangibles being the fourth and Empathy is assumed to be least important in determining quality banking service.
- ↳ While comparing the unweighted scores of the three banks, UB has the highest gap score of -0.907 showing relatively poorer performance. AIB has the second highest gap score indicating that the customers' expectations are not met. Even though it has a negative gap score for the all dimensions, CBE has a better service quality as compared to the other two banks in this study.
- ↳ It is interesting to note that customers rated empathy dimension as the least important. At the same time, empathy has received the highest negative gap score. This could to due to the fact that management do not pay much attention to this dimension realizing that this is not very important to customers.

4.3 Recommendations

With the recent establishment of several new banks in Ethiopia, the banking industry in the country is undergoing dynamic expansion. It is, therefore, imperative for private banks to continuously monitor their level of service delivery, changing customer profiles and the drivers of satisfaction in order to retain their current customers and also to attract new ones. Based on this fact and the findings of this study the following recommendations are proposed to help improve service quality at the three banks.

A. Recommendations for three banks

Since the unweighted SERVQUAL scores for the three banks show a negative gap in all dimensions implying that the customers' perceptions falls short of their expectations the banks should strive promptly to close these gaps by identifying the caus.

In order to close these gaps the banks should consider the following steps with regard to their staff and management:

- a. Recruitment and selection** of qualified staff is vital in order to deliver quality service. Thus, the banks should make the process by considering not only the technical qualification of the applicant but also his/her soft skills like personality and attitude in interacting with customers. Training is considered to be essential for improving quality and. Therefore, the banks should develop training programs to improve the Staff' skill, friendliness and courtesy.
- b.** Also effective **teamwork** tends to develop capabilities for delivering a high level of service quality, since working as a mutually reinforcing team creates an environment where customer satisfaction can be increased and employee motivation sustained.
- c. Empowerment** of front-line staff could be fundamental to achieving and improving the level of service quality. Therefore, the banks should empower front-line workers to address customers concerns.
- d.** Introducing improved **communication flow** would enable staff to deliver what customers expect more promptly and to provide information to management about customers' expectations so that necessary changes would be made.
- e. Management's commitment** to quality improvement is crucial since management is primary driver for quality improvement initiatives.

In addition to the recommendations forwarded above, the banks should also consider the following points to improve the quality of their banking service.

- ↳ One way to increase competency and customer retention is through maintaining a good management information system by gathering as much pertinent information as necessary about the customers and their expectations.
- ↳ The banks must strive to acquire technological capacity that will enable them to provide a wide array of banking service promptly and efficiently to their customers.
- ↳ Banks may reconsider their banking service hours and install ATMs at various locations To provide round the clock access to customers.

B. Recommendations for CBE

- ↳ Based on the survey result, the CBE should work to improve the Tangibles. A special emphasis should be given to convenience of bank location (i.e. close to customers' home/work) to enhance overall accessibility.

- ↪ In order to close the gap on the Reliability dimension the bank must clearly state what customers will actually receive and when. Then they must make sure that the promised services are delivered. Also training employees to identify and improve their attitudes towards meeting customers' expectation is paramount. These training programs must emphasis meeting customer expectations.
- ↪ The willingness to help customers and to provide prompt service should be improved by giving continuous training to staff with relation to Responsiveness dimension. The bank should minimize the gap in this area by improving Responsiveness to customer requests, questions, complaints and problems and by recruiting qualified staff.
- ↪ The bank should work hard on relationship marketing to improve the customer service skill of employees including, caring for the customers and giving individualized attention to customers. Providing proper training in this area is critical as well.

C. Recommendations for AIB

- ↪ AIB should make the necessary investments to improve its Tangibles such as, the appearance of the company's physical facilities and updating its equipment. The bank should also locate its branches at sites that are convenient to customers.
- ↪ To close the gap of the most important dimension in service operation i.e. Reliability, the bank should train its employees to be consistent in providing service.
- ↪ To improve the Responsiveness dimension of AIB's service quality and to narrow the gap between perceptions and expectations, a training initiative should be made focusing on fast response from employees to customers' requests, fast redressal of complaints, prompt service from the employees, and willingness of the employees to help customers.
- ↪ The banks should attempt to remain competitive by providing attractive and prompt banking service that earns by customers' confidence and trust.

D. Recommendations for UB

- ↪ UB should improve the Tangible dimension of its service by improving the bank's physical appearance, acquiring modem equipments like computers communication materials, good waiting facility inside the bank, neatly dressed and good appearance of the employees and convenient location of the branches for customers.

- ↳ UB should work hard at Empathy dimension. This can be done by improving the skill of staff related to; understanding the specific needs of customers and giving individual attention to customers by giving trainings in this area. Also UB should improve convenient operating hours to customers by considering lunch hours.
- ↳ As compared to the three banks UB has the lower SERVQUAL gap. But the banks should strive to keep its position by improving its service quality since the banking sector in Ethiopia is becoming full competition with introduction of new banks.
- ↳ As noted in the conclusion section above, it is interesting to note that customers rated empathy dimension as the least important. At the same time, empathy has received the highest negative gap score at the three banks. This could be due to the fact that management do not pay much attention to this dimension realizing that this is not very important to customers. Thus, this issue needs further and detail study to discover the real causes for this contradiction.

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Table 2.1 Summary of Past research works on Quality Service (in Banks and related areas)

Research Title and Author(s)	Research Objective	Methods used	Result
<p>Comparative evaluation of critical factors in delivering service quality of banks: An application of dominance analysis in modified SERVQUAL model Authors M. Kumar, T. Kee & S. Peru (2009) International Journal of Quality & Reliability Management Vol. 27 No. 3, 2010 pp. 351-377</p>	<p>This study aims to find the differences in the service quality (if any) between two types of banks, namely conventional and Islamic, in terms of common critical factors after re-examining the SERVQUAL model, originally pioneered by Parasuraman. Further, the technique of dominance analysis is used to examine the relative importance of the critical factors in closing up the overall service quality gap in these two types of banks.</p>	<p>The sample is made up of 308 bank customers, consisting of the customers from both Islamic and conventional banks from different parts of Malaysia. The data have been collected by using the structured questionnaire, which consists of three parts. Part 1 deals with consumers' usage of banking channels and their banking behavior. Part 2 contains 26 statements related to service quality dimensions based on SERVQUAL model. Finally, Part 3 contains the questions related to the socio-demographic profiles of respondents.</p>	<p>The result indicates that the service quality of Islamic banks, which is more convenient than conventional banks, indicates that the service quality of Islamic banks is relatively higher than conventional banks. This study helps to reduce the service quality gap between Islamic banks and conventional banks.</p>
<p>Service quality: implications for management development Authors Atul Gupta and Injazz Chen, International Journal of Quality & Reliability Management, Vol. 12 No. 7, 1995, pp. 28-35,</p>	<p>This study attempts to define perceived service quality, relate the concepts of perceived service quality and its five dimensions in service operations, and the implications of the relation between service quality and its dimensions on management development.</p>	<p>SERVQUAL was used to collect data for all the three types of services: a fast food restaurant for pure service, an airline for mixed service, and a long distance telephone company for quasi-manufacturing service. A SERVQUAL questionnaire was given to 110 consumers for each of the three services. Of the 110 questionnaires distributed, In addition to the 22 items on SERVQUAL, the respondents were asked to rate the overall quality of service operations on a seven-point Likert scale. We used a seven-point Likert scale instead of a four-point one as used by Parasuraman <i>et al.</i> because it will give a better normal spread of observations.</p>	<p>A striking finding is that the service quality dimensions: relationship, reliability, and empathy are the most important determinants of service quality. Empathy is a significant variable for service quality. Empathy is a significant variable for service quality. Empathy is a significant variable for service quality.</p>
<p>Service quality measurement in the banking sector in south Korea Authors Charles Chi Cui, Barbara R. Lewis & Won Park International Journal of Bank Marketing Vol. 24 No. 4(2003),p191-201</p>	<p>The purpose of this study is to test the applicability of alternative measurement approaches i.e SERVQUAL (Parasuraman <i>et al.</i>,1985,1991), SERVPERF, weighted SERVQUAL, and weighted SERVPERF(Cronin and Taylor 1992) in the context of the banking sector in South Korea.</p>	<p>A convenience sample was used to the study. From the potential respondents, total of 153 useable questionnaires were returned from banking customers. In order to measure the service quality in South Korea the SERVQUAL and SERVPERF (Cronin and Taylor 1992, Parasuraman <i>et al.</i>,1985,199) is used.</p>	<p>The first finding is that the original SERVQUAL scales cannot be customized for the banking sector. The second finding suggests that the SERVQUAL scales are more applicable than the other scales. The third finding indicates that the SERVQUAL scales are more applicable than the other scales. The third finding indicates that the SERVQUAL scales are more applicable than the other scales.</p>

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<p>Determining the relative importance of critical factors in delivering service quality of banks</p> <p>Author : An application of dominance analysis in SERVQUAL model</p> <p>-Authors Mukesh Kumar, Fong Tat Kee and Amat Taap Manshor journal of Managing Service Quality ,Vol.19 No.2,2009.pp 211-228</p>	<p>The purpose of this paper is to determine the critical factors to accessing the level of service quality of banks by re-examining the SERVQUAL model, originally pioneered by Parasuraman. Further, the technique of dominance analysis is used to measure the relative importance of each critical factor in closing up overall service quality gap of banks.</p>	<p>The sample consists of 308 bank customers from different parts of Malaysia and data were collected by using a structured questionnaire, which consists of three parts. Part 1 deals with consumers' usage of banking channels and their banking behavior. Part 2 contains 26 statements related to service quality dimensions based on SERVQUAL model. Finally, Part 3 part deals socio-demographic profiles.. The descriptive statistics have been used to find out the mean and standard deviation of each SERVQUAL statement on both perception as well as expectation. On the other hand, the factor analysis technique has been used to extract relevant dimensions from the 26 statements on service-quality.</p>	<p>The result differences and their p Among the the smaller largest gap indicates together ca as much as to become responsive customers more conv</p>

<p>Attributes of Service Quality: Consumers' Perspective</p> <p>Author: Tigineh Mersha and Veena Abdalkha International Journal of Service Industry Management, Vol. 3 No3,1992,pp3425.</p>	<p>The purpose of the study is to identify and rank attributes of good and poor quality from customers perspective.</p>	<p>A list of quality attributes was first obtained using a modified Delphi method with 25 MBA students enrolled in a graduate Service Operation Management class as Delphi "experts". And the final survey questionnaire including 12 attributes' of good and poor quality service. The questionnaires were distributed to around 316 for university graduate students of a university located in a large metropolitan area. The participants were asked to list attributes they considered important for good and poor quality of service, and also to add any other attributes which did not appear in the list. Five service sectors were selected for this purpose namely -Physician services, retail banking, auto maintenance, colleges/universities.</p>	<p>The finding good servi 2)through 3)consister willingness service. Ar service qua the service care" attitu service inc high cost. have well- Attributes good qual ranking f Willingnes correct erro the study is between c underscore determinin service.</p>
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