



**ASSESSMENT OF SERVICE QUALITY FROM CUSTOMER  
PERSPECTIVE: THE CASE OF COMMERCIAL BANK OF  
ETHIOPIA (CBE)**

**ST.MARY'S UNIVERSTY  
SCHOOL OF GRADUATE STUDIES**

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**JUNE, 2016**

**ADDIS ABABA –ETHIOPIA**



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**BY**

**SEBLEWORK ABATE MEKONNEN (SGS/0519/2007)**

**A Thesis submitted to ST.MARY'S UNIVERSTY School of Graduate  
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## DECLARATION

This thesis Work is dedicated to my beloved mother Emebet Alemie  
Mekonnen

### **Certificate**

This is to certify that Seblework Abate has worked her thesis on the topic assessment of banking service quality from customer perspective in commercial bank of Ethiopia (CBE) under my supervisor.

To my belief, this work undertaken by seblework abates and it is original and qualifies for submission in partial fulfillment of the requirements for the award of Masters Degree in Business Administration.

**Habtamu Berhanu (Phd)**

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**Advisor**

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**Signature**

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### ***Abstract***

*Objective of this study is to analyze the customer evaluation of banking service quality provided by commercial bank of Ethiopia. This research is a descriptive research aimed at assessing and describing customers' expectation and perception of service quality in the banking service of main branch of commercial bank of Ethiopia using SERVEQUAL, and subsequently identifying the gap of service quality dimensions. The target population of the study is customers of commercial bank at the main branch. In all 100 customers of the bank were selected as the sample size of the study. The expectations and perceptions of the respondent were evaluated under the five dimensions of SERVQUAL model of tangibility, reliability, responsiveness, assurance and empathy. The overall analysis for the five dimensions indicates that the customers' perceptions fall short of their expectations. It was found that background characteristics such as age, income level, occupation and qualification of customers of the bank have significant influence on customers' expectation and perception of banking service quality. It is recommended that greater emphasis should be placed on responsiveness and followed by reliability since it was found to be a higher service quality gap among the five dimensions. Generally the conclusion is the overall SERVQUAL score is the result of average perception score minus the average expectation score derived from the SERVQUAL instruments. 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 service quality of the bank falls short of expectations. Policy makers of Commercial Bank of Ethiopia should factor in customers' background characteristics when formulating policies on improving service quality.*

# **CHAPTER ONE**

## **Introduction**

### **1.1 Background of the study**

In the past, products were the determinants of business success. The most successful firms were firms that were able to produce high quality products. Indeed, today quality products are still crucial in business success. However, the quality issues of the past are quite different from the quality issues of today (Spathis and Petridou, 2004). In the past, quality was defined and determined from the producers' or service providers' perspective with little or no condition of the customer expectations and perceptions. Customers were perceived not to know what they want and therefore accept what is available. This was the era of mass marketing. The mass marketing technique was effective because competition was less and consumers were not as sophisticated and informed as today (Spathis and Petridou, 2004).

In today's marketing environment, the customer has become the center of all business decision right from the conception of a product to the delivery of the product. Customer centric marketing policies and processes are really important. The antecedents of the recent status of the customer in marketing and business operations are the intense global competition, emergence of service driven economies, increasing customer awareness and sophistication and advancement in information technology .It is now a common knowledge that the success of every business organization hinges on how their customers are served and how the customers evaluate and perceive such services. The nature of the service may not matter but the value customers place on such service is of significant importance in customer's acquisition and retention.

Customer-centric marketing philosophy has received high level of attention from marketing practitioners and academicians. Business organizations have embraced this philosophy and they are practicing it today. Also, Kotler (2006) observed that business organizations are now striving to understand their customers so that they could build long-term profitable relationship with them. In academia, numerous studies have been conducted on customer satisfaction, customer retention and customer perceived service quality in different settings.

Most of the researchers suggest the incorporation of customers view of what they need, want and dislike (complaints) in the entire process of production (Gronroos, 2000; Kotler and Keller, 2006). This suggestion is laudable because it is better to hear from the customers rather than trying to think for them.

Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service. Service operations worldwide are affected by this new wave of quality awareness and emphasis (Sevensson, 2004). Therefore service-based companies like the banks are compelled to provide excellent services to their customers in order

to have sustainable competitive advantage, especially in the current trend of trade liberalization and globalization.

The ultimate aim of all marketing activities in today's corporate world is to acquire and retain profitable customers. Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer services strategy and many business firms channeling more efforts to retain existing customers rather than to acquire new ones. In practice, it is believed that retaining existing customers is six times cheaper than acquiring new customers in today's intensive competitive business environment (Reichheld, 1996). It is empirically indicated that customer retention is influenced by three interdependent factors: service quality and value influence customer satisfaction or dissatisfaction (Thompson, 2004), customer.

Satisfaction or dissatisfaction influence customer loyalty and customer retention is influenced or determined by the level of customer loyalty. Since retaining existing customers is much cheaper than acquiring new once, perceived services quality, customer satisfaction and customer loyalty are crucial success factors for every business organization.

In the literature of customer-centric marketing, customer perceived quality is the most influential determinant of customer satisfaction (Thompson, 2004 and Stone, 2000). There is no doubt that this view has influenced the practices of customer management and have made customer perceived service quality management the pre-occupation of every business echelon. In academia this view has led to significant number of researches on conducting customer perceived service quality which resulted in the development of many service quality models for different industries including the banking industry. The story of customer retention and its indicators in the case of the banking industry in our country is not different from what is in the literature. The banking industry has become one of the very competitive industries in recent time. The deregulation of the financial sector have led to proliferation of all kinds of financial institutions ranging from savings and loans firms, investment organizations, rural banks to commercial.

The recent level of competition in the industry has increased the need for customer retention since it is quite difficult to acquire new customers. Therefore, the importance of quality service, customer satisfaction, customer loyalty and customer retention to firms in the industry for survival, profitability and growth is paramount. There is no doubt that the increasing level of competition has improved the quality of service to customers of the banking industry. Majority of bank Managers have boosted the quality of their services in term of shorter transaction time, prestigious services, and customers' convenience. This is literally what is termed as blowing your own trumpet (Spathis and Petridou, 2004). Now, based on above discussion what do customers think about the service quality of the banks?

Therefore, the empirical issue of customer perception of service quality in the banking industry of our country is still remains unresolved. There is a need to widen the understanding of service quality in the industry especially regarding the factors that drives customers' perception of service quality. Better understanding of customers' perception of service quality in the banking industry and the drivers of such perceptions will be a sound basis for continuous improvement in the quality of service offered to customers towards customer satisfaction, and customer retention in the industry.

## **1.2 Background of Commercial Bank of Ethiopia**

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.MaGillivray, 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 (Girma, 2011).

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 (Girma, 2011).

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.

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. 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 (Girma, 2011).

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 after the proclamation 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.

As we understand from the historic event Commercial Bank of Ethiopia stands to be the merger of several banks. By virtue of that it is the biggest bank of Ethiopia that was handling the entire commercial banking sector. As noted by the bank management during the primary discussion Commercial Bank of Ethiopia is the pioneer in the banking industry of Ethiopia and currently having around 1000 branches all over the country and 325 branches in Addis Ababa. Commercial Bank of Ethiopia combines a wide capital base with more than 25,000 talented and committed employees. It is also the Pioneer to introduce western union money transfer services in Ethiopia. The bank has reliable and long-standing relationships with many internationally acclaimed banks throughout the world.

Banks play a pivotal role in the uplift of economic realm of any country by providing a financial infrastructure in the services sector. In Ethiopia banking sector has achieved remarkable growth in the recent decade and explored new horizon of services and induction of many new financial products into the Ethiopian market. An escalate increase in the number of banks operating in Ethiopia in the last fifteen years entered banking sector into competitive market in which every bank is trying to get maximum market share. In the race of owing maximum market share banks are facing à serious service quality challenge and trying to provide best quality services from the last few years.

Initially banks were lacking service attitude but due to rapid increase and advancement in the banking services, the concept of customer services has been changed and now customer centered approaches are prevailing in order to retain customers for life. Banks have realized the true value of customer and introducing customer driven services in the Ethiopian market for a longer survival. Banks could compete with rivals in financial products, offering flexible timings, low credit interest rate and high deposit return but offering quality customer services is the competitive advantage to those banks which offered best quality services because now customers are well known about their rights and everyone wants to be provided with best services by their banks.

To meet customers' expectations in exchange to the price they pay and retain competitive edge is merely a real challenge to the Ethiopian bankers because customers learn from their experience and if their level of service expectations decreases it affects customers' satisfaction. Studies also reveal that high customer satisfaction also leads to high profitability of the organization (Czepiel,

1990). Service quality is consequently studied in the studies as a major construct of customer satisfaction and revealed that it is the customer satisfaction that affects the success and performance of any organization. In this perspective services delivered to customers are necessary to be evaluated from their own perspectives rather than the bank management own perspectives.

### **1.3 Statement of the Problem**

Banking industry is consequently put into lot of pressures due towards increase in global competition. Different strategies are formulated to retain the customer and the key of it is to increase the service quality level. Typically, customers perceive very little difference in the banking products offered by banks dealing in services as any new offering is quickly matched by competitors. Parasuraman (1985) and Zeithaml (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. The quality of services offered will determine customer satisfaction and attitudinal loyalty (Ravichandran, 2010).

The trade liberalization and globalization have resulted in keen competition among firms and industries. The Ethiopian banking industry is not exempted especially with the proliferation of banking and financial institutions in the country. With the availability of goods and services, organizations need proactive strategies, the absence of which can lead to a steady decline of market share (Collier, 2006). Researchers recommend making service quality a cornerstone of an organization's making strategy in order to ensure successful business (Asubonteng, 1996; Collier, 1991).

Across all service industries, the issue of service quality remains a critical one as businesses strive to maintain a comparative advantage in the marketplace. Because financial services, particularly banks, compete in the marketplace with generally undifferentiated products, service quality becomes a primary competitive weapon (Stafford, 1996). A banking organization can get a lot of customer by providing high quality services. Structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive with banks financial institutions (Angur, 1999).

Technological advancements are causing banks to revise their strategies for services offered to both individual and commercial customers. Furthermore, banks that excel in quality services can have distinct marketing edge since improved levels of service quality are related to higher revenue, higher customer retention, higher cross-sell ratios (Bennett & Higgins, 1988). In addition, the banks understand that customers will be loyal if they can produce greater value than their competitors (Dawes & Swailes, 1999).

There has been a proliferation of financial institutions in Ethiopia following the deregulation of the banking industry. Consequently, The banking industry has already been depicted (e.g. in Parasuman et al., 1988) as exhibiting little market orientation and fulfilling services with little

regard to customer needs as well as including branches dissimilar in efficiency. Service quality has various dimensions and each customer place different levels of importance on each dimension of service quality. Each bank has identified itself with at least one of the dimensions of service quality that they think it will drive customers' perceived service quality satisfaction, loyalty, and retention (Lewis, 2003). The service providers' perception of service quality may be quite different from what customers perceive as service quality. If the banks are to compute in providing quality service to customers, it is important to understand the customer perception and expectation of quality service.

The leading bank in Ethiopia pioneer to introduce modern banking to the country, in the quest to improve its services, retain and attract customers, the Commercial Bank of Ethiopia (CBE) has been introduced innovative measures like extended business hours, ATM network, internet banking, improve banking hall facilities among others, all in the interest of enhancing customers' comfort. These efforts which aim at bringing satisfaction to the customers seem to be unsatisfactory. Customers' preferences and expectations seem not to match up with the bank's initiatives.

Preliminary interview with the bank management reveal that there are a number of problems hindering the smooth delivery of the commercial banking services. The network problem, for instance, is the major obstacle in the check clearing operations. Besides, in the loan operations the delays of the loan approval is the problem. In the electronic banking services, customers responded that the benefits they obtained are limited as the bank's investment in the modern banking technologies is low. In addition, the temporary failures in the electronic banking services are not corrected immediately. The procedures laid down at the banks are lengthy and also it was not easy to follow by them. The present customer services system lacks motivation and initiatives; these adversely affect the customer service. It is obvious that if customers do not have a trust on the banking services it is meaningless to talk about the good will of the bank. Therefore, the bank should handle its customers so well to achieve its organizational goals.

In Ethiopia, many customers voice concerns about inefficiency and lack of quality excellence in the banking sector. There is a complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines and finally, defection to other banks. Therefore, the emerging situation calls for the assessment of service quality in relation to customer expectation and service performance to help the commercial bank to improve its service quality and enhance satisfaction so as to ensure customer retention. To this ends this study attempt to investigate and answer the following research questions.

What is the customers' attitude towards the service quality of Commercial Bank of Ethiopia?

What kind of gap exists between customers' expectations and perceptions?

What are the factors affecting service quality of Commercial Bank of Ethiopia customers?

What is the customers' expectation and perception ranking sequence for SERVEQUA dimensions toward evaluating the banking service quality?

What relationship exists between demographic characteristics of customers and service quality of CBE?

## **1.4 Objectives of the study**

### **1.4.1 General Objective**

The general objective of this study is to analyze the customer evaluation of banking service quality provided by commercial bank of Ethiopia.

### **1.4.2 Specific objectives**

The specific objectives of the study are:

To measure customers' expectation of each service quality using SERVQUAL instrument.

To measure customers' perception of each of the five dimensions of service quality using SERVQUAL instrument.

To determine the gap in customers perceptions and expectations in each of the five dimensions of service quality (or to identify the attributes of service quality in which customers are more satisfied or dissatisfied).

To identify and compare customers' expectation and perception ranking of the five dimensions of SERVQUAL instrument.

To analyze, the effects of customer background characteristics on customers' expectations and perception of service quality in the commercial banking service.

## **1.5 Significance of the study**

This study provides 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 are 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.

A research like this is essential to evaluate service delivery and improve it for better customer satisfaction because the findings of this study will provide with empirical information on what customers expect in terms of service quality from the banks as well as customers assessment of the quality of service they provide. Thus, the results of this study will be useful for academics; business in the field of marketing and researchers of customer satisfaction and service quality especially in service sector organizations.

The importance of this study lies on the fact that it will provide empirical information to stakeholders of banks, marketing professionals, and policy makers of the banking industry in Ethiopia. The findings will provide them with empirical information on what customers expect in

terms of service quality from the banks as well as customers assessment of the quality of service they provide.

It will also provide empirical information on the heterogeneity of customers perceived service quality in terms of customer background. Thus management will be guided in their strategic decisions on customer acquisition, customer satisfaction management, and customer retention.

To marketing professionals and scholars the findings of this study will be a contribution to the existing literature, and the debates on service quality in banking sectors. The findings of this study will extend the understanding and clarity of customers' expectations and perceptions of service quality in the banking industry of the country. Marketing practitioners in other related service industries could therefore take clues from the findings, and make better meanings of the situation in their industries or firms.

The findings of the study will be important for policy makers of the banks industry. This is because this study will provide an insight to the nature of service quality in the banking industry of Ethiopia. This could have a great help in evaluating and reviewing service quality policies.

## **1.6 Scope of the study**

The scope of the study is confined to the Commercial Bank of Ethiopia in terms of customer evaluation of banking service quality. Thus, the study examines banking service quality only from customers' perspective. The study has been undertaken on the basis of sample survey. Findings are based on sample survey through questionnaire method. The primary data is collected from customers that belong to various professions, occupation, of both genders with varied income and age groups. A questionnaire adopted from literature study was used as a tool and bank customers were requested to complete the questionnaire. The SERVQUAL model is used to study the banking service quality in terms of reliability, responsiveness, assurance, empathy and tangibility.

## **1.7 Limitation of the study**

It is difficult to say that one research study hundred percent accurate and complete without any difficulties. No research study is complete in itself. It is also true of the present investigation. Hence, some of the most important limitations of this research are;

The time frame is very limited which limits in-depth treatment of the research topic which could have been done by increasing the number of samples.

Sampling frame is taken from branches and head office located at the city of Addis Ababa city only, which will have a limitation on the generalizability of the finding to the whole Country's respondents.

## **1.8 Organization of the Thesis**

The report is organized into five chapters. The first chapter deals with introductory part consisting of background of the study, statement of the problem, objectives of the study, significance of the study, scope and limitation of the study. Chapter two covers the literature review that describes the concept of quality service based on the literature from numerous writers. Service quality dimensions/models, the importance of service quality to businesses are also discussed in this chapter. Chapter three presents the methodological perspectives of this study. The chapter presents research design, describes the research methods, sampling techniques, instruments employed in the data gathering, conceptual framework for the study and the data analysis method. Chapter four presents the analysis of data collection, presentation and discussion of the results. Chapter five presents a brief summary of the study and the main findings, conclusions with regards to the new knowledge derived from the research and recommendations for improving service quality.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Theoretical Framework

##### 2.1.1 General Discussion of concepts

Quality is often divided into service quality and product quality (Bergman B. & Klefsjo, B., 2003). The dimensions of service quality are quite different from the quality Product due to the main difference between services and products. Customer satisfaction is one of the topics very related with quality, it is the customer who judges the quality of goods and service and the ultimate measurement of quality is customer satisfaction (Bergman, B. et al.; 2003). The customer wants their needs fulfilled thus; the heart to achieve service quality lays in understanding what the customer expects to get from the service. Thus, knowing the customer-their needs, wants and expectations helps the company to succeed. (Bergman B. et al.; 2003).

Services unlike tangible products are produced and consumed at the same time in the presence of the customer and the service producer. The presence of the human element during the service delivery process greatly increases the probability of error on the part of employees and customers. This error is due to intangible behavioural processes that cannot be easily monitored or controlled (Juran, 1988).

Because service delivery occurs during the interactions between contact employees and customers, attitudes and behaviours of the contact employees can influence customers' perceptions of service quality (Schneider & White.;2004 ). Moreover, (Parasuman et al., 1988) found that perceived employee Satisfaction, perceived employee loyalty, and perceived employee commitment had a sizable impact on perceived product quality and on perceived service quality. According to (Zeithaml&Bitner 1996), contact employees represent the organization and can directly influence customer satisfaction, they perform the role of marketers. Whether acknowledged or not, service employees perform marketing function.

Service quality and customer satisfaction are very important concepts that companies must understand in order to remain competitive in business and hence grow. It is very important for companies to know how to measure these constructs from the consumers' perspective in order to better understand their needs and hence satisfy them.

Service quality is considered very important because it leads to higher customer satisfaction, profitability, reduced cost, customer loyalty and retention (Zeithaml& Berry, 1994). According to (Asubonteng, p., Mcleary K., & Swan, J., 1996), due to intense competition and the hostility of environmental factors, service quality has become a cornerstone marketing strategy for

companies. This highlights how important improving service quality is to face in the competitive markets. This means that service-based companies are compelled to provide excellent services to their customers in order to have a sustainable competitive advantage. There is however, a need for these organizations to understand what service quality is in order to attain their objectives.

Service quality became a key management issue as it became central to organizational competitiveness (Parasuraman et al., 1988), due to its significant relationship with costs, profitability, customer satisfaction, customer retention and its power to guarantee financial performance in the long run (Reichheld and Sasser, 1990). This forced businesses to develop a better understanding of what service quality meant to the customer and how it could best be measured (Parasuraman et al. 1985, 1988). Unlike products, where quality can be easily assessed, service quality is an elusive and abstract concept that is difficult to define and measure (Lee, H., Delene, L., Bunda M. & Kim, C., 2000) et al., 2000). Defined service quality as “conformance to customer specifications”. (Parasuraman et al. 1985) defined service quality as the difference between predicted or expected service (customer expectations) and perceived service (customer perceptions).

According to the definition of (Zeithaml et al. 1990) service quality is customers’ perception of how well a service meets or exceeds their expectations and it is judged by customers, not by organizations. The interactive nature of service process results in the customers’ evaluation of quality immediately after the provision and performance of that service (Dabholkar, 1996). Thus, performance is probably the most important competitive weapon in service business. Performance not only separates one firm from others, it also creates loyal customers who spread favorable “word of mouth” (Youssef, 1996). In their studies (Parasuraman et al. 1988, 1991, and 1994) found a positive and significant relationship between customers’ perception of service quality and their willingness to recommend the company.

After defining the concept of service quality, researchers needed a tool for measuring the quality level of services. The tool was expected to point out the attributes that require improvement in order to enhance quality, identify the degree or amount of improvement required and identify how the impact of service quality improvement efforts can be assessed. With these concerns, (Parasuraman et al. 1985, 1988) developed SERVQUAL, which is the most widely used tool to measure service quality to date.

SERVQUAL was based on Disconfirmation Model (Oliver 1980) which proposes that satisfaction is a function of the disconfirmation of perception from expectation (Lee et al., 2000). Although the model provides good relative indication on how the service levels rate against similar competitors, it lacks a quantitative foundation that can be used universally across industries (Baggs&Kleiner, 1996).

SERVQUAL was founded on the view that customer’s assessment of service quality is paramount. This assessment was conceptualized as a gap between what customer expects from a class of service providers and their evaluations of the performance of a particular service provider (Buttle, 1996). SERVQUAL measures service quality based on five generic dimensions; reliability, tangibles, responsiveness, assurance and empathy by 22 items. Each item

is written twice; first to determine customer's expectations from service providers in the service category being investigated, second to measure perceptions of performance of a particular firm (Llosas&orinsinger, 1998).

### **2.1.2 What is Banking Service?**

It is important to distinguish between a service and goods. Goods are most tangibles (an object) while services are more of an act (a deed or performance). There are many definitions of services in the literature which focus on different characteristics of service and depends on the author and focus of the research ( Gronoors, 2001). However, one of the most important and unique characteristics of services which has to be raised is that services are process, not things.

Put in the simplest terms, "services are deeds, processes and performances", (Zeithaml and Berry, 2003). Berry define service as "Service is an activity or benefit that one party can offer to another that are essentially intangible and does not result in the ownership of anything and its production may or may not be tied to a physical product".(Palmer and Cole 1995).

A service is an intangible product involving a deed, a performance or an effort that cannot be physically possessed (Zeithaml and Berry, 2003). Services are a form of product that consist of activities, benefits, or satisfactions offered for sale that are intangible and do not result in ownership of anything (Kotler& Armstrong, 2004). Services are bought on the basis of promises of satisfaction (Dibb, S., Simkin, L., Pride, W. &Ferrel, O., 2001) Promises with the images and appearances of symbols help consumers make judgments about tangible and intangible products (Voss, G.B., Parasuraman, A., Grewal, D., 1988). One of the comprehensive definitions of services is:

*"Services are all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms such as convenience, amusement, timeliness, comfort or health. That is essentially intangible concerns of its first purchaser". ( Zeithaml&Bitner ,2003)*

*Banking service is any activities involved in accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit.(Definition of Banking-Services by kottler).*

### **2.1.3 Characteristics of Services**

Service marketing is distinct from goods marketing (Dibbet. al, 2001). To understand the nature of services marketing, it is necessary to appreciate the particular characteristics of services (Dibbet. al., 2001). Service have four intrinsic characteristics that leads to different consumer perceptions and behavior ,makes it more difficult to evaluate quality and in turn making it more challenging and complicated to achieve customer satisfaction and establishing competitive advantage. Thus, services managers must deeply understand them to survive in the complex service environment. The four basic characteristics of service are:

- A. Intangibility**
- B. Inseparability**
- C. Perishability and**
- D. Heterogeneity**

#### **A. Intangibility**

Services differ from goods most strongly in their intangibility (Dibbet. al., 2001). Intangibility stems from the fact that services are performances. They cannot be seen, touched or smelled, nor can they be possessed. Intangibility also relates to the difficulty that consumers may have in understanding service offerings (Dibbet. al., 2001).

Services have a few tangible attributes, called search qualities that can be viewed prior to purchase, such as neatness of nurses and Doctors, cleanliness of the facilities such as waiting stations, toilets and the like.

When consumers cannot view a service product in advance and examine its properties, they may not understand exactly what is being offered (Dibbet. al., 2001). On the other hand, services are high in experience and credence qualities.

Experience qualities are those qualities that can be assessed only after purchase and consumption these include characteristics such as taste or duration of well-being. Credence qualities are those qualities that cannot be assessed even after purchase and consumption for examples results of medical procedures. Few customers possess medical skills sufficient to evaluate whether the service is or was necessary and performed in a proper manner.(Zeithaml, et. al, 1994).

#### **B. Inseparability**

Inseparability refers to the notion that, in many service operations, production and consumption cannot be separated; that is a service is to a greater extent consumed at the same time as it produced (Oliver, 1980). According to (Zeithaml and Bitner 2003) unlike most goods that are produced first then sold and consumed, most services are sold first and then produced and consumed simultaneously. E.g. the doctor cannot possibly perform the service without the patient's presence, and the consumer is actually involved in the production process (Dibbet. al., 2001).These characteristics of service makes it difficult to achieve standardization and economies of scale through centralized production.

#### **C. Perish-ability**

Perishability refers to the fact that unlike physical goods, services cannot be saved, stored, resold, or returned (Zeithaml and Bitner2003). Unused capacity on one occasion cannot be stock piled or inventoried for future occasions, because production and consumption are simultaneous.

#### **D. Heterogeneity**

Heterogeneity refers to the variability in the quality of service, since most services are labor intensive, they are susceptible to heterogeneity. For the service to be provided and consumed the client physically meets and deals directly with the service providers personnel. Direct contact

and interaction are distinguishing features of services. People typically perform services, and people do not always perform consistently.

It is also true that the characteristics of services themselves make it possible for marketer to customize their offerings to consumers. In such cases, services marketers often face a dilemma; how to provide efficient, standardized service at some acceptable level of quality while simultaneously treating each customer as a unique person (Dibbet. al., 2001).

#### **2.1.4 Quality**

Researchers have concluded that quality has become the key to competitive success and long-term survival. Empirical research has demonstrated a positive relationship between service quality and organizational performance (Parasumanet. al., 1988). Further, quality can be used as an effective strategy for raising return on investment, increasing market share, improving productivity, lowering costs, and achieving customer satisfaction (Tse and Wilton, 1988; Anderson and Sullivan, 1993).

Quality is extremely difficult to define in a few words. At its most basic, quality has been defined as “*conforming to requirements*”. This implies that organizations must establish requirements and specifications; once these specifications are established, the quality goal of the various functions of an organization is to comply strictly with them. However, the questions remain: whose requirements and whose specifications? (Grönroos, C. 2001).

Thus, a second series of definitions states that quality is all about fitness for use. Such definitions are based primarily on satisfying customers` needs .These two definitions are in the concept of customer perceived quality: quality can be defined only by customers and occurs when an organization supplies goods or services to a specification that satisfies customer needs.

#### **2.1.5 Service Quality Concept**

Service quality is considered as an important tool for a firm`s struggle to differentiate itself from its competitors. The relevance of service quality to companies is emphasized especially from the fact that it offers a competitive advantage to companies that strive to improve it and hence bring customer satisfaction. Service quality has received a great deal of attention from both academicians and practitioners (Negi, 2009) and in service marketing literatures service quality is defined as the overall assessment of a service by the customer.

Oliver (1980) points out that, by defining service quality, companies will be able to deliver services with higher quality level presumably resulting in increased customer satisfaction.

Understanding service quality must involve acknowledging the characteristics of service which are intangibility, heterogeneity, inseparability and perishability (Parasuraman et al., 1985) in that way service quality would be easily measured.

The ultimate goal of producing quality service and product is to achieve customer satisfaction or as (Dodwell and Simmons, 1994) put it, people retention, customer acquisition and retention, and profitability.

In order to turn service quality into a powerful competitive weapon, hospitality managers must diligently strive for service superiority, consistently performing above adequate quest service levels while consistently striving for continuous improvements (Juran, 1992).

Quality is abstract characteristic that encompasses a variety of more or less physical attributes (Brown & Swartz, 1989). Because a service is usually made up of both tangible and intangible components, many attempts at defining service quality have made the distinction between objective measurement of quality and those which are based on the more subjective perceptions of customers. Thus, the customers' perceptions of the service process are divided into two dimensions: the process dimension, or how the service process functions, and the outcome dimension, of what the process leads to for the customer as a result of the process. According to (Brown & Swartz, 1989), the two quality dimensions are termed as technical quality (what service process leads to for the customer in a 'technical' sense) and functional quality (how the process functions). Customers perceive the quality of service in these two dimensions, what they get and how they get it.

Technical quality is prerequisite for good perceived quality, but it is seldom enough. In addition, functional-quality aspects of a service must be on an acceptable level. (Brown & Swartz, 1989).

The disconfirmation concept of the model indicates not only that the perceived service quality is a function of the experiences of the customer, but also that the expectations of customers have an impact on the perception of the quality. Hence, the quality perception of a service is the result of a comparison between expectations and perceptions of a customer (Brown & Swartz, 1989).

It is, however, difficult to measure how expectations influence experiences and quality perceptions, so there are clear indications that perceived service quality can perhaps best be accessed through direct measurements of quality experiences (Cronin and Taylor, 1994; Liljander, 1995).

However, the expectations do have impact on the perceived service quality, although it is difficult to measure how their impact works. Hence, service marketers have to be careful when giving promises to the market, so that unrealistic expectations are not created in the minds of customers. Expectations are mainly created through external marketing. However, word of mouth and the image of the service provider, needs of the customers, as well as past experience also influence the level of expectations. (Cronin and Taylor, 1994)

### **2.1.6. Measurement of Service Quality**

Parasuman (1995), points out that the dominant mode of thinking in measurement of quality in services rest on disconfirmation view, which links the expectations of consumer with their experience of service. (Parasuman, 1985), states that; early writings on the topic of service quality (Grönroos, 1982; voss 1988) have suggested that service quality results from a comparison of what customer feel a service provider should offer i.e. their expectations with provider's actual performance.

This has been the driving force behind attempts to measure service quality (Oliver.1980). The subject of service quality is very rich in context and definitions, models and measurement issue.

Several researchers explored the subjects with varying perspectives and using different methodologies. It is also conceptualized by a number of models. (Winston W.,1988).

Among numerous approaches to measuring service quality, “SERVQUAL” scale or “Gap Model”, the “SERVPERF” and the “HIERARCHICAL MODEL” of service quality are the most important once.

## **I. Service Quality Model (SERVQUAL)**

During the past few decades service quality has become a major area of attention to practitioners, managers and researchers owing to its strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability (Leonard and Sasser, 1982).

Given the growth of services in the last decades, many researchers have recognized the need to develop measures of service quality. One of the most frequently used measures is the SERVQUAL (the name stands for Service Quality).Which emerges from extensive research in generic determinants of perceived service quality (Parasuraman, Berry et al. 1985; Parasuraman, Berry et al. 1988; Zeithaml, Parasuraman et al. 1990; Parasuraman, Berry et al. 1991; Parasuraman, Berry et al. 1993; Parasuraman, Berry et al. 1994).

The model measures the difference between customers’ expectations about general quality of a certain group of service providers and their perceptions about the actual performance of a service provider from that group. It uses a set of service quality determinants measured by a 22- item scale. The model defines customer satisfaction as perceived service quality, which is the gap between expected service and perception of service actually received.

The SERVQUAL scale was developed based on a marketing perspective with the support of the Marketing Science Institute (Parasuraman, Zeithaml, and Berry 1986). Its purpose was to provide an instrument for measuring service quality that would apply across a broad range of services with minor modifications in the scale. SERVQUAL provides a foundation for a growing body of research that pertains to the creation of quality among service industries. The original SERVQUAL scale had ten service quality dimensions:

However after extensive research into these measurements of service quality, it was pointed out that there is some overlap between them and these ten determinants are not necessarily independent of each other .Then the ten dimensions were collapsed into five dimensions of quality (Cronin, J.J. & Taylor, 1992).

The dimensions of Tangibles, reliability and responsiveness remain unchanged.

`Assurance` encompasses *competence, courtesy, credibility* and *security*, and

`Empathy` includes *access, communication and understanding the customer*. (Baron and Harris 2003)

The developers of the scale contend that, while each service industry is unique in some aspects, there are five finalized dimensions of service quality that are applicable to service-providing organizations in general.

These dimensions are;

- (1) **Tangibles**- physical facilities, equipment, and appearance of personnel.
- (2) **Reliability** - ability to perform the promised service dependably and accurately.
- (3) **Responsiveness**- willingness to help customers and provide prompt service.
- (4) **Assurance**- knowledge and courtesy of employees and their ability to inspire trust and confidence; and
- (5) **Empathy**—caring and individualized attention the firm provides to its customers (Parasuraman, Zeithaml, and Berry 1988).

## II, Critiques of SERVQUAL

Although SERVQUAL has been widely used in business-to-business and business-to-customer settings, this does not mean the scale has not been subject to constant re-examination and criticism Ograjenšek, I. (1999). The main objections to SERVQUAL are as follows:

**Object of measurement.** It is not clear whether the scale measures service quality or customer satisfaction.

**Length of the questionnaire.** The SERVQUAL questionnaire is too long. It could be shortened by elimination of expectation scores, elimination of certain items (those without the clear mode) and/or fusion of the interrelated dimensions of *reliability*, *responsiveness* and *assurance* into one dimension called *task-related receptiveness*.

**Timing of questionnaire administration.** The main issue here is whether to distribute the questionnaire before or after the service experience. In other words, should expectations be solicited before the service experience or away from the actual point of service delivery and unrelated to an encounter? Some researchers compromise by collecting their data after the service experience at the actual point of service delivery.

Consequently, they fear that this might have loaded their results towards performance, while those of other researchers might have been loaded towards expectations.

**Use of the Likert scale.** The issues such as the number and labeling of points or the inclusion of a middle alternative in the scale are very important. SERVQUAL authors use a seven-point scale, while in many replication studies a five-point scale is adopted to increase response rate and response quality.

Another problem is the equality of distances between points on the Likert scale as perceived by the respondent. It should be noted that one person's 'complete satisfaction' might be less than another's 'partial satisfaction'. (Duffy, J. A. and A. A. Ketchard, 1998).

Furthermore, once the respondents have marked the extreme point and want to express an even stronger opinion on the next item, this can no longer be reflected in the answer, since the maximum score has already been given.

While some authors argue that none of these problems matter as long as the answers are normally distributed, others point out that in practice the majority of service quality surveys tend to result in highly skewed customer responses.

This is why an average rating based on the arithmetic mean of the customer responses is likely to be a poor measure of central tendency, and may not be the best indicator of service quality.

***Use of  $P_i - E_i$  difference scores.*** Ambiguous definition of expectations in the SERVQUAL model seems to be a major problem. Increasing  $P_i - E_i$  scores may not always correspond to increasing levels of perceived quality which impugns the theoretical validity of the SERVQUAL's perceived quality framework. Also it is questioned about the value and purpose of two separate data sets (perceptions and expectations).

Some researchers suggest that it might be better not to use difference scores since the factor structure of the answers given to the questions about expectations and perceptions, and the resulting difference scores, are not always identical. Additionally, research shows that performance perception scores alone give a good quality indication.

Therefore a modified SERVQUAL scale using only performance perceptions to measure servicequality (called SERVicePERFormance or SERVPERF) has been proposed. (Cronin & Taylor 1994).

A three-component measurement model including perceptions, expectations and perceived importance ratings or weights of service attributes was also suggested.

A rationale for this model is the following: while customers might expect excellent service on each attribute, all of the attributes involved may not be equally important to them.

***Generalization of service quality dimensions.*** The empirically identified five factor structure cannot be found in all service industries. Only the existence of the *tangibles* dimension is confirmed in all replication studies, in which the number of distinct service quality dimensions otherwise varies from one to nine. It seems that the dimensionality of service quality might be determined by the type of service a researcher deals with.

That is why many versions of the questionnaire have been suggested for instance, (Parasuraman et al 1988, 1991) used a 22-item version for banks, credit card companies, repair and maintenance companies and telephone companies. Carman (1990) used a 16-item questionnaire for a dental clinic, a 32-item one for a placement centre, a 21-item one for a tyre store and a 26-item one for a hospital.

***The static nature of the model.*** There exist a number of long-term service processes (such as education) where both perceptions and expectations (and consequently quality evaluations) change in time. For these service processes, a dynamic model of service quality should be developed.

***Inclusion of price*** While being widely applied, the SERVQUAL model has also received criticism for not including prices in the assessment. (Brown, S.W. and Swartz, T.A. 1989).

***Lack of a clear link between satisfaction and perceived service quality*** Perhaps the most often heard criticism pertains to the lack of a clear link between satisfaction and perceived service quality identified by some research (Duffy and Ketchard 1998).

### **III. SERVPREF Model**

SERVPREF, developed by Cronin and Taylor (1992), is an instrument to measure service quality and customer satisfaction. It contains the same domains used in the SERVQUAL model. (Cronin & Taylor 1992) developed this model to study four service sectors: banking, pest control, dry cleaning, and fast food.

Its framework is based upon the performance theory and is a modification of the SERVQUAL model. The only difference between SERVQUAL and SERVPREF is that the SERVPREF does not take into account customer expectations. It brings into play only customer perceptions of service performance.

Therefore, this model does not have a disconfirmation scale, which is the gap between expectations and perceived performance of service. It has only one part, which is the perceived performance of service. In this instrument, customers rate their perceptions of performance of the same attributes that are covered in the SERVQUAL model.

The five domains—tangibles, reliability, responsiveness, assurance and empathy—identified in the SERVQUAL model are equally applicable to the SERVPREF model.

According to Cronin and Taylor (1994), SERVPREF can provide managers with a summary of overall service quality score, which can then be plotted in relation to time and specific customer segmentations related to consumer characteristics, for example, demographic subcategories and individual constituencies. The SERVPREF scale thus provides a useful tool for measuring the overall service quality attitudes of service managers. However, they suggest that great care should be exercised by managers of service organizations in attempting to derive more specific information from data captured by the SERVPREF scale for strategic decision making (Cronin & Taylor 1994).

SERVPREF is less complicated, more concise, more precise and easier to administer than SERVQUAL. However, (White, Abels & Nitecki, 1994) argue that the SERVQUAL model is the more attractive model because it is more comprehensive and provides better diagnostic information. Nevertheless, SERVPREF explains more of the variation in customer perceptions of service quality than SERVQUAL, as measured by R<sup>2</sup> statistics. R<sup>2</sup> can be obtained by regression analysis, wherein the single item overall service quality measure is the dependent attribute, and the deduced five domains are the independent attributes.

#### **IV. Perception and Factors Affecting Perception**

According to (Kotler & Kevin, 2006), perception can be defined as “*the process by which people select, organize and interpret information to form a meaningful picture of the world*”.

Perceptions have been described as an individual’s formed opinion of the experienced service (Teas, 1993). Perceptions would be formed only after experiencing the service in question. Perceptions were compared to the users’ original expectations of service performance.

If expectations are set too high, then perceptions would be significantly lower than expected for most, if not all, aspects of the service product.

A further review of literature reveals that perceived service quality has been described by various researchers as a form of attitude, but not equivalent to satisfaction, that results from a consumer

comparing expectations of service with their perceptions of actual service performance. Perception is fundamentally linked with the post purchase experience.

In the service marketing literature, perception is defined as a customer's belief concerning the service received or service consumed during a service encounter. In other words the perception of service is generated through an actual service experience and is shaped during or after the act of purchase and consumption. (Teas, 1993).

It has been argued that good perceived quality is obtained when perception of customers meets their expectation, i.e. the expected quality. In measuring perceived service quality, a comparison is made with what a consumer should expect. Whereas in measures of satisfaction, the comparison is made with what a customer actually expects.

Some other researchers believe that when there is a close interaction between a service employee and a customer, the perception of what is being delivered is as important as what is actually delivered. Therefore, the employee's behavior and attitude can influence a customer's perception of quality for that service being offered. (Bergman, B. & Klefsjö, B., 2003).

Perception is built on subjective aspects and, for that reason, can differ between persons. Nevertheless, a service company strongly influences how its own service is perceived by the customer. From the model of (Parasuraman et al.; 1985) it can be extrapolated that the process of service delivery and communication are the crucial factors for the perception of a service. At this stage, the assumption can be formulated that service perception and service expectation correlate significantly with satisfactory service quality. As described by (Doyle, 2002), an augmenting number of companies realize that profitability and customer loyalty can be achieved through higher customer satisfaction.

## **V. Service Quality Hierarchical Approach**

### **A. The Service Environment Hierarchical Model**

(Brady & Cronin 2001) proposed a hierarchical model to conceptualize service quality perceived by customers in service environment. In the process of developing their model, the authors adopted (Dabholkar et al.'s 1996) view that service quality perceptions are multilevel and multidimensional in nature. (Brady and Cronin 2001) also include (Rust and Oliver's 1994) view of service quality perception that is based on interaction quality (service delivery/ fictional quality), outcome quality (service product/technical quality), and physical environment quality (service environment).

Brady and Cronin (2001) found that the service quality construct conformed to the structure of a third-order factor model that consisted of three primary dimensions: interaction quality, environmental quality, and outcome quality. Each of the primary dimensions consisted of three corresponding sub dimensions:

Interaction quality: attitude, behavior, and expertise;

(b) Physical environment quality: ambient conditions, design, and social factors; and

(c) Outcome quality: waiting time, tangibles, and valence. (Brady and Cronin 2001) tested this conceptualization of service quality in four service industries. The empirical result confirmed use the hierarchical structure to conceptualize service quality.

### **Interaction Quality**

Bank services are highly involved in personal interactions, and therefore, researchers have suggested that the interactions involved between staff and bank customers during service delivery is an important factor when bank customers' evaluated service quality (Ennew and Binks, 1999; LeBlanc and Nguyen, 1988; McDougall, Gordon, Levesque, and Terrence, 1994). (Ojasalo 2003) showed that the consumer interactions during the service process would affect a customer's perceptions of service quality. Moreover, (Ko, and Pastore 2005) demonstrated the importance of interaction quality during the production and consumption of services due to the high levels of face-to-face communication. Therefore, this study uses interaction quality as one of the primary dimensions to evaluate service quality.

### **Physical Environment Quality**

In the marketing literature, researchers were concerned about the physical environment or non-human factors that affected the customers' perception of service quality (Brady & Cronin, 2001). (Bitner 1992) referred to such non-human factors as the services cape, which represented the service environment that customers experienced during the service delivery process. The author demonstrated that the service environment had a significant impact on customers' perceptions of overall service quality.

In the banking sector, (LeBlanc and Nguyen's 1988) study showed that the physical environment quality had a large impact on perceived service quality.

(Howcroft 1993) identified five important service quality dimensions for banks, the result indicated the surrounding environment was one of the important dimensions used to measure overall service quality.

### **Outcome Quality**

(McDougall et al. 1994) described the performance related aspects of service quality as an outcome quality. It was determined by the skills and know-how of the employees, the ability of the organization and its employees to keep their promises with customers, and to solve problems when they appeared (McDougall et al., 1994).

Therefore, outcome quality was the result of the service transaction that was delivered by the service provider (Gronroos, 1982, 1990). In the context of the banking industry, the outcome quality was considered as a crucial aspect for bank service quality evaluation (LeBlanc & Nguyen, 1988; Lewis, 1991). (McDougall and Levesque,1994) found bank service quality was comprised of three underlying dimensions: processes, outcomes and the tangibles. The outcome aspects of service quality were also identified in (Blanchard's,1994) study on the United Kingdom retail banking industry. (Blanchard, 1994) conceptualized service quality using three criteria related to the process/outcome perspective, subjective/objective perspective and soft/hard perspective of service quality.

## **Network Quality**

The rapid growths in the information technology and network systems during the past decade have introduced major changes in the global economy and business environment (Qureshi et al, 2008).

In the banking industry, the information technology development has increased the communications and transactions between banks and their clients (Booz and Hamilton, 1997). The technological innovations leading to time saving, and service quality has improved for bank customers (Qureshi et al., 2008). In order to remain competitive, banks are increasing the technology based service options to deliver dependable services to their consumers (Al-hawari et al., 2005).

### **2.1.7 Customer Satisfaction Concept**

Customer satisfaction can be defined as when the customer's expectation of the service provided matches his perception of the actual service received (Parasuraman et al. 1985).

Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality.

The current stiff competition and sophisticated marketing environment has urged service organizations to shift focus from profitability to customer satisfaction. Better service will assure customer satisfaction. Delighted customers will stay loyal and in return it will increase revenue. Thus, the service quality impacts customer satisfaction in many organizations (Glaveli & Kufidu, 2005; Allred, 2001) and maintaining customer satisfaction is the key to retaining customers and profitability.

#### **2.1.7.1 Definition of Customer Satisfaction**

The rapidly increasing amount of literature on customer satisfaction straddles many academic disciplines. The review given below initially defines the term customer satisfaction in reference to concepts derived from the prevailing literature, before examining the nature of satisfaction. In this connection, it discusses the theories that are considered as the antecedents and consequences of the construct of customer satisfaction. The concept of customer satisfaction has been defined in various ways. (Zeithaml, Berry and Parasuraman 1993: 7) suggest that customer satisfaction is a function of the customer's assessment of service quality, product quality and price.

(Woodruff, Cadotte and Jenkins 1983: 297) consider satisfaction to be an emotional reaction by customers in response to an experience with a product or service. However, (Iacobucci, Ostrom & Grayson, 1995) examine a number of definitions derived from well-developed research studies and distinguish between the concepts of consumer value and customer satisfaction.

They state that customer satisfaction, best judged after purchase, is experiential and takes into account the qualities and benefits, as well as the costs and efforts associated with a particular purchase. However, (Garson, 1996) suggests that a customer is satisfied whenever his or her needs, real or perceived, are met or exceeded. From the existing definitions of customer satisfaction, two generic means of definitions can be identified: customer satisfaction as an outcome, and customer satisfaction as a process. Some definitions assume that customer

satisfaction is simply an outcome resulting from the consumption experience. In this line of thought, (Oliver, 1981) argues that it is the summary of the psychological state, resulting when the emotions surrounding disconfirmed expectations are coupled with the customer's prior feeling on consumption experience. To support the notion that customer satisfaction is a process, some researchers (Gupta & Zeithaml 2006; Rust & Chung 2006; Tse & Wilton, 1988) state that it is the process connected to the response of customers towards the assessment of the perceived discrepancy between prior expectations and actual performance of the product/service, as perceived after its consumption.

*Customer satisfaction* is defined as a result of a cognitive and effective evaluation, where some comparison standard is compared to the actually perceived performance.

If perceived performance is less than expected, customers will be dissatisfied, and on the other hand, if perceived performance meets or exceeds a customer's expectations, the customer will be satisfied. *Customer satisfaction* means that the customer's needs are met, product and services are satisfactory, and the customer's experience is positive (Friday & Cotts, 1995; Gitomer, 1998). Furthermore, the fact that attracting new customers is much more expensive than keeping old ones explains the corporate drive toward increased customer satisfaction (Winston, 1988). It is believed that customer satisfaction is a good, if not the best, indicator of a firm's future profits (Kotler, 1991; Reichheld & Sasser, 1990). Therefore, a clear importance of customer satisfaction drives various companies to conduct customer's satisfaction surveys from time to time and report to what extent their customers are satisfied. There is also a growing managerial interest in using customer satisfaction as a criterion for diagnosing product performance and then linking customer satisfaction to executive and employee compensation (Anderson & Sullivan, 1993).

Customer satisfaction has been defined as the result achieved when service or product features respond to customer needs and when the company meets or exceeds customers' expectations over the lifetime of a product or service (Juran, 1991; Kelsey and Bond, 2001).

As satisfaction is defined from the customers' perspective, all satisfaction improvement projects must start by defining what customers want and need from a company (Oliver, 1981). Satisfaction is the customer's fulfillment response. Customer satisfaction generally means customer reaction to the state of fulfillment and customer judgment of the fulfilled state (Oliver, 1997).

(Kotler, 1997) defines *customer satisfaction* as follows "satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance or outcome in relation to his or her expectations."

(Brown, 1992) defines *customer satisfaction* as "the state in which customer needs, wants and expectation throughout the product or service's life are met or exceeded resulting in repeat purchase, loyalty and favorable word of mouth.

Customer satisfaction is the outcome felt by customers who have experienced a company performance that has fulfilled expectations. Customers are satisfied when their expectations are met and delighted when their expectations are exceeded.

Satisfied customers remain loyal longer, buy more, are less sensitive and talk favorably about the company (Kotler, 1991).

### **2.1.7.2 Nature of Customer Satisfaction**

Understanding the nature of satisfaction is essential for the possible conceptualization of the customer satisfaction construct. (Johnson, Anderson & Fornell, 1995) stated that “the modeling of customer satisfaction depends critically on how satisfaction is conceptualized.” (Padgett & Allen, 1997), & Mano & Oliver 1993) have identified satisfaction as a cognitive, affective and behavioral reaction connected with a specific service event. Thus, it brings into play the conceptualization of customer satisfaction, based on the nature of satisfaction founded on the theories that underpin the construct of satisfaction.

Patient satisfaction is considered as the centre of business strategy for healthcare organizations. Patient satisfaction is not only the intrinsically worthy goal of hospitals, but also it has important influences on patient retentions and hospital financial ability (Boudreaux & O’Hea, 2004). Patients with higher satisfaction level are more likely to compliant with physician advice and to recommend the healthcare providers to their friends and relatives.

Customer satisfaction is conceptualized as been transaction-specific meaning it is based on the customer’s experience on a particular service encounter, (Cronin & Taylor, 1992) and also some think customer satisfaction is cumulative based on the overall evaluation of service experience (Jones & Suh, 2000). These highlight the fact that customer satisfaction is based on experience with service provider and also the outcome of service.

Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceived performance. Expectations are formed on the basis of past experiences with the same or similar situations, statements made by friends and other associates, and statements made by the supplying organization. Customer satisfaction can be defined as when the customer’s expectation of the service provided matches his/her perception of the actual service received.

Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality. The current stiff competition and sophisticated marketing environment has urged service organizations to shift focus from profitability to customer satisfaction. Better service will assure customer satisfaction. Delighted customers will stay loyal and in return it will increase revenue.

Thus, the service quality impacts customer satisfaction in many organizations and maintaining customer satisfaction is the key to retaining customers and profitability. (Palmer, A., & Cole, C. 1995).

To satisfy the customer is the best business strategy of all businesses at all times. In many countries, health care services are not considered as a business, but a "welfare" service offered by the public sector. Even though not a business, this sector needs extreme concentration on

improvement in customer needs. On the contrary, in many countries, the health care services are provided by the private sector. (Boudreaux & O'Hea, 2004)

Therefore, the service has become highly competitive in many countries of the world. Urging the factors associated with patient satisfaction is a significant issue for health care providers.

It is also important to understand what is valued by patients to know where and how service changes can be made. The importance of customers' satisfaction is further delineated by established marketing theories. (Boudreaux & O'Hea, 2004).

According to social marketing theory, service organizations that deliver products which maintain and improve consumer and societal wellbeing, successfully target their consumers and better fulfill their consumers' needs; will have greater customer satisfaction and organizational success. (Linder-Pelz 1982) defines patient satisfaction as "patient evaluations of distinct dimensions of health care". (Brennan 1995) defines satisfaction as, "the appraisal, by an individual, of the extent to which the care provided has met that individual's expectation and preferences".

### ***2.1.7.3 Relationship between Customer Satisfaction and Service Qualities***

Customer satisfaction is conceptualized has been transaction-specific meaning, it is based on the customer's experience on a particular service encounter, (Cronin & Taylor, 1992) and also some think customer satisfaction is cumulative based on the overall evaluation of service experience (Jones & Suh, 2000).

These highlight the fact that customer satisfaction is based on experience with service provider and also the outcome of service. Parasuraman et al., (1985) suggested that when perceived service quality is high, then it will lead to increase in customer satisfaction.

He supports the fact that service quality leads to customer satisfaction and this is in line with (Saravana & Rao, 2007, p.436) and (Lee et al., 2000, p.226) who acknowledge that customer satisfaction is based upon the level of service quality provided by the service provider.

The causal order of relationship between service quality and consumer satisfaction has been a matter of considerable debate within the marketing literature. Different positions have been advanced. First, service quality has been identified as an antecedent to satisfaction.

Within this causal ordering, satisfaction is described as a "post consumption evaluation of perceived quality" (Anderson and Fornell, 1994). (Rust and Oliver 1994) offer support for this position in their suggestion that quality is "one of the service dimensions factored into the consumers' satisfaction judgment" as do Parasuman who specifically suggest that service quality is an antecedent of customer satisfaction (Brady et al., 2001).

However, some researchers argue that satisfaction is antecedent to service quality. Bitner (1990), borrowing from Oliver's (1980) conceptualization of the relationship between satisfaction, service quality, and consumer behavior toward the firm, suggests that service encounter is an antecedent of service quality.

Finally, Bitner and Hubert (1994) advocate this satisfaction service quality causal order based on the premise that service quality is akin to a global attitude and therefore encompasses the more transient satisfaction assessment. The other conceptualization of service quality-satisfaction relationship suggests that neither satisfaction nor service quality may be antecedent to other (Dabholkar and Mc Alexander). Cronin and Taylor (1992) propose a structural model that empirically supports a non-recursive relationship between two constructs.

#### **2.1.7.4 Customer Satisfaction Measurement**

Customer Satisfaction is one of the most important outcomes in the marketing literature and a core business challenge which has attracted considerable research attention. . One of the most comprehensive reviews of the nature of customer satisfaction was produced by Oliver (1997), and noted that satisfaction is generally recognized as a pleasurable outcome, ‘a desirable end state of consumption or patronization’ (Oliver, 1997, p 10). On the other hand, precise definitions of satisfaction vary, but common themes emphasize that it is a customer’s judgment of the consumption experience formed through some kind of psychological process that involves some form of comparison of what was expected with what was received.

As per the International Trade & Academic Research Conference (ITARC) - London 2010, it serves to link processes culminating purchase and consumption with post purchase phenomena such as attitude change, repeat purchase, and brand loyalty (Surprenant and Churchill, 1982). This definition is supported by Jamal and Naser (2003) and Mishra (2009). On the other hand, the customer’s overall satisfaction with the services of the organization is based on (or a function of) all the encounters/ experience of the customer satisfaction can occur at multiple levels in an organization, for instance, satisfaction with the contact person, satisfaction with the core service and satisfaction with the organization as a whole.

Previous research in services acknowledges a strong positive correlation between service quality and satisfaction. However, the directionality of the relationship has been a source of much debate (Bahia et al., 2000). Most of the researchers found that service quality is the antecedent of customer satisfaction (Bedi, 2010; Kassim and Abdullah, 2010; Kumar *et al.*, 2010; Naeem and Saif 2009; Balaji, 2009; Lee and Hwan, 2005; Athanassopoulos and Iliakopoulos, 2003; Parasuraman *et al* 1988). Yee *et al* (2010) found that service quality has a positive influence on customer satisfaction.

On the other hand, Bitner (1990) and Bolton and Drew (1991) pointed out that customer satisfaction is the antecedent of service quality. Beerliet *al.* (2004) supported this finding and mentioned a possible explanation is that the satisfaction construct supposes an evaluative judgment of the value received by the customer. Moreover, some early works depicted service quality perceptions as an outcome of satisfaction (cf Bitner, 1990; Oliver, 1981; Parasuraman *et al.*, 1988). As per the International Trade & Academic Research Conference (ITARC) - London 2010, this finding is contrasted with most of the researchers.

As cited by Kazi, (2010), Zami et al (2010) find out that tangibility, reliability and empathy are important factor for customer satisfaction, whereas, responsiveness and assurance are important factor, founded by Mengi (2009). Kumar et al (2010) and Lai (2004) found that assurance, empathy and tangibility are the important factor, and on the other hand, Baumann et al. (2007) found that tangible are not related to customer satisfaction.

Researchers have identified various determinates of customer satisfaction in the retail banking sector. Arsil et al (2005) pointed out that reliability dimension of SEVQUAL has the highest impact on customer satisfaction in Geek Cypriot banking industry, whereas reliability is not related to customer satisfaction , founded by Chantakis and lymperopoulos (2009).

In general, the existing customer satisfaction (CS) literature is dominated by two theoretical perspectives: the service profit chain (Heskett et al., 1994) and SERVQUAL (Parasuraman et al., 1985). In brief, the service profit chain posits a positive relationship between staff satisfaction, service quality and customer satisfaction leading, ultimately, to profitability. SERVQUAL also recognizes the significance of staff satisfaction and service quality as drivers of customer satisfaction. However, SERVQUAL differentiates the service quality construct distinguishing between functional service quality (doing things nicely) and technical service quality (doing things right). Priority is afforded to functional service quality.

Yet, later works, however, have characterized service quality as an antecedent of satisfaction (Anderson and Sullivan, 1993; Drew and Bolton, 1991; Oliver, 1993; Parker and Mathews, 2001). There is now a convergence of opinion that service quality is a primarily cognitive construct while satisfaction is a complex concept with a healthy dose of both cognitive and affective components (Dabholkar, 1995) and that favorable service quality perceptions lead to improved satisfaction (Cronin et al., 2000).

Therefore, it is evident that quality, value and satisfaction are all influenced by the customer's expectations and perceptions in some form or another. While perceptions are effectively a product of the service encounter and should be managed by careful management of service delivery, expectations (whether ideal or predicted) are formed in advance of experiencing the service.

## **2.1.8 Overview of Banking**

### **2.1.8.1 Banking and the Nature of Service**

Economic development is being pursued by governments throughout the world, with varying degrees of success. Access to investment capital facilitates economic development, and a vibrant banking sector has a pivotal role to play in this regard. Increasingly, across the world, these institutional boundaries have begun to break down, and while organizations continue to be defined by their type (bank, insurance company) they increasingly offer a much broader range of financial services.

Financial services are provided by many different organizations, and traditionally, specific organizations such as banks specialized in the provision of specific services (i.e. banking services).

Banks are growing in response to the need for services such as loans, safe deposit and financing of consignments of exported and imported goods (Christine, 2007). Banking services worldwide can broadly be classified into investment banking and commercial banking. Investment banking is primarily concerned with helping corporate bodies raise funds at the best possible rates from various markets. Commercial banking is concerned with channeling savings to productive uses. In general, banks have to understand the changing needs of customers, their aspirations and expectations to create value (Ugur, et al, 2003). Among these, deposit mobilization is one of the most effective means for intermediaries to mobilize resources. It is one of the main functions of banking business and an important source of working fund for the bank (Mohn). The establishment and extension of a banking system can create new opportunities and incentives for households and firms to save part of their income for the future.

Saving and investing represents the reciprocal of lending and credit. Whereas the latter concerns the allocation of elements of future income in order to finance current consumption, the former concerns sacrificing present consumption in order to provide for some future consumption event or requirement. It is interesting to note that disagreements exist between various groups of practitioners regarding the exact definition of these terms. However, with respect to the banking context, it is the process of making a regular contribution that is deemed to be saving rather than the characteristics of the asset class into which the contributions are made. This group of practitioners regards investment as the process by which lump sums, which have already been accumulated, are deployed to achieve one of two goals: generation of income or further capital growth. Again, the nature of the underlying asset class is not the issue, as it could be anything from cash to equities. By contrast, there is another group, typically found in the banking community, that uses saving not as a verb but rather to describe a certain class of asset – namely, those that are cash-based. Investment, on the other hand, concerns the accumulation and deployment of funds into non-cash asset classes such as bonds, equities and property (Jay, 2009). In related to this, developing countries are characterized by very low domestic investment in these economies. In sub-Saharan African (SSA) countries, average saving rate was around 15% of GDP during the 1990s which is not commensurate with the investment needs of 25% of GDP required to achieve the millennium development goals, these countries are expected to grow at 8% per annum on average which calls for an investment of 25% of GDP. The number of factors associated with low domestic saving rate in these countries is the absence of a diverse, well-functioning, and competitive financial system that promotes the economy.

The existing financial system with slow speed of business transaction and a low level of intermediaries will not be able to attract substantial saving to allow them to provide the required loans (Thisen, 2009). Hence, increased availability of financial resources is a pre-requisite for accelerating the capacity of the financing institution as well as the rate of economic growth (Shender, 2010.)

Absence of saving is felt at the individual, financial institution and national level (Elser et al, 1999). Lack of saving facilities for the individual means absence of security of funds, ready

access or liquidity and connivance in order to meet his/her various needs. At the level of the financial institute, lack of saving facilities will create undue dependence on external sources of financing. Accordingly, the total deposit from the banking system has reached birr 78.2 billion in 2008/09. On the other hand, the total resources mobilized by the banking system in the form of deposit has reached 15.19 billion in 2008/09, whereas, the number of bank branches has reached 636 at the end of June 2009, which means roughly one bank branch for 121,000 peoples in Ethiopia.

Coming to other African countries, there remains a huge task of reaching the unbanked populations at a relatively fast speed to achieve the goals of increasing the share of domestic saving to 17.4% by the end of 2007 e.c.

Channeling more and more of these funds to the bank will increase the volume of funds which could be utilized through the banking system, such as credit and others, in support of the countries' development. The provision of loans is one of the oldest financial services, dating back thousands of years. In a sense, it performs a key role as a facilitator of income smoothing by enabling consumers to enjoy current consumption from future earnings.

Such a process seems entirely defensible under circumstances where there is an expectation of future income surpluses to fund prior income deficits. Equally, it makes eminent sense in respect of purchases of a magnitude well beyond current income, such as residential property mortgages. The difficulties arise when there is a mismatch between current consumption expectations and future income surpluses

For this significant policy measure by the Ethiopian government have allowed financial institution including banks to increase their deposit base and extend huge amount of loan to the various economic sectors. Hence, channeling more and more of these funds to the bank will increase the volume of funds which could be utilized through the banking system, such as credit and others, is support of the countries development.

Thus, the 2006/07 annual report of National Bank of Ethiopia indicates the volume of outstanding loans and advance by banks in Ethiopia to various sectors of the economy stand at 48.06 billion (NBE annual report 2007/06). These figures are indicators of the high magnitude of financial resources mobilized to various sectors of the economy. Nevertheless the volume of financial accelerated socio-economic development is obviously much higher than the figure indicated. Because for the past six years the economy has enjoyed strong growth, largely owing to government-led development polices with an emphasis on public investment, commercialization of agriculture and non-firm private sector investment.

Therefore, customer service is the primary end of any bank. A customer always wants something and expects that the bank should come up to the level to fulfill those needs. Again, the more you provide, still more the consumer needs. The banking industry as a service industry, directed towards the customer's money and its management. A membership relationship is entailed in this industry due to its continuous nature (Daniel, 1990).

In the changing banking scenario of 21st century, the banks have to have a strong identity to provide world-class services. The banks are now have to be of world-class standard, committed

to excellence in customers, shareholders and employees' satisfaction, and to play a leading role in the expanding and diversifying financial sector (Balachandran, 2005). There has been a tremendous change in the way of banking in the last few years. Customers have also rightly demanded world class quality services from the banks. With multiple choices available, customers are not willing to put up with anything less than the best. Banks have recognized the need to meet customers' aspirations (Uma et al., 2003).

## **2.2 Empirical Evidence**

Nowadays, delivering quality service has become a very important factor for successful companies. Companies have the difficult task of fulfilling all the needs and expectations from their customers. According to (Ishikawa, 1985) quality must be built into each design and process, because quality cannot be created afterwards through inspections. Poor quality creates losses of sales in a competitive market and increases the costs of production through customer complaints and remanufacturing. Such unnecessary costs can be avoided by controlling and assuring quality in the design of product or service and avoiding errors through the entire process, (Juran, 1988).

Banking is an intermediary function but one that is very essential for sustained economic growth (Christine, 2007). In related to this, as cited by UgurYaves, during the past two decades or so, regulatory, structural and technological factors have significantly changed the banking environment throughout the world (Angur et al., 1999). Banks are in the process of moving into a more competitive financial atmosphere, with a wide variety of financial products/services. For this, they are forced to develop a differentiated strategy in order to find a new basis for competition. There are a number of ways in which distinctive competitive positions can be developed and maintained. A key way to building a strong competitive position is through product/ service differentiation which creates a clear image of the bank and its products/services in the eyes and minds of customers. Strong competitive positions can be maintained by building barriers to competitive action by various means (Mosad, 1996).

Lovelock and Wirtz (2007) classified services along two axes, namely: "relative involvement of goods" ranging from pure services that are low on goods (consulting, insurance), services with some goods or delivered through goods (air travel, retailing, couriers, hotels, banking, maintenance) to services embodied in goods (music, books) and "degree of consumer-producer interaction", from lower to higher. The same author suggested that banking was in the sector featuring medium goods and higher customer producer interactions, since in banking, consumers and service providers interact personally and the use of goods is at a medium level. Hence, in banking, where there are high customer-producer interactions, the quality of service is determined to a large extent by the skills and attitudes of people producing the service.

This study is concerned with one area of financial service sector-commercial banking. Commercial banking falls within Lovelock and Wirtz (2007) classification of "medium goods and high customer –producer interactions". We use such category to distinguish service work that

requires workers to interact directly with customers or clients from service work that does not have this immediate interplay between customer and worker.

The banking industry as a service industry, directed toward the customer moony and its management (Danie, 1990). For this, as cited by MosadZindldin in bank strategic position and some determinates of bank selection that the growth and finical strength of commercial bank are measured in terms of the increasing in asset financed by funds or deposits available from customers. Hence, customers despite generate funds and reserve for the bank.

These indicators are of further interest in that they are considered reliable measure of confidence in the banking system due to this, market share on deposit and loans can be used as a more and sensible tool in evaluating bank's relative performance with competition facing similar external conditions (Mosad, 1996).

Theoretical and empirical evidence suggests that firms that provide higher levels of service reap higher profits than those do not (Comen, 1989). Better sales associated with better service and an effective service quality assurance program.

Service quality is defined as customers' perception of how well a service meets or exceeds their expectations (Zeithamlet. al., 1990). Service quality is judged by customers not by organizations. This distinction forces service marketers to examine their quality from customers' viewpoint. Thus, it is important for service organization to determine what customers expect and then develop service products that meet or exceed those expectations (Zeithamlet. al., 1990).

Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceived performance. Expectations are formed on the basis of past experiences with the same or similar situations, statements made by friends and other associates, and statements made by the supplying organization (Kotler&Keven, 2006).

In the competitive banking industry, customer satisfaction is considered as the essence of success. File and Prince (1992) argued that the customers who are satisfied tell others about their experiences and this increases WOM advertising. In this way, banks can increase customers. Prabhakaran (2003) mentioned that the customer is the king. High customer satisfaction is important in maintaining a loyal customer base.

According to (Sureshchandar et al., 2002), customer satisfaction should be seen as a multi-dimensional construct, just as service quality it can occur at multi levels in an organization and it should be operationalized along the same factors on which service quality is operationalized.

Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceived performance. Expectations are formed on the basis of past experiences with the same or similar situations, statements made by friends and other associates, and statements made by the supplying organization. Customer satisfaction can be defined as when the customer's expectation of the service provided matches his perception of the actual service received. Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality (source).

It is widely accepted that quality products and services product benefits not only by lowering costs through reduced waste and decreased deficiencies in product and service, but also by increasing competitiveness through the establishment of a good reputation and the attraction and retention of customers. Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski, 2001). Furthermore, much of this focus on services quality and product quality in services industries has been conducted in developed countries (Herbig and Genestre, 199; Yaves et al., 1997) even though services are among the fastest-growing sectors in emerging countries. This rapid growth makes any attempt to generalize such research finding from developed countries to emerging countries problematical (Yonggue et. al, 2001).

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These highlight the fact that customer satisfaction is based on experience with service provider and also the outcome of service. Parasuraman et al., (1985) suggested that when perceived service quality is high, then it will lead to increase in customer satisfaction.

In the banking industry, the information technology development has increased the communications and transactions between banks and their clients (Booz and Hamilton, 1997). The technological innovations leading to time saving, and service quality has improved for bank customers (Qureshi et al., 2008). In order to remain competitive, banks are increasing the technology based service options to deliver dependable services to their consumers (Al-hawari et al., 2005).

## **2.2 Research Gap**

In this research study as any researcher expecting, there are a few critical research gaps. Some of those research gaps which can formulate basic questions that need for further investigation are:

The gap that can compare and contrast the mixed previous empirical results whether positively/negatively or significantly/insignificantly.

The gap also pointing out the literature may not absolutely show that the researcher looked thoroughly at the area of study on the ways of interpretation and suggestion on the research. Also, the study did not relating, comparing and contrasting with local conducted research findings.

Finally, the research gaps of this study are highly pointing on the challenges of the existing variable(s), environmental constrains (network failures, power interruptions, inefficient functioning and insufficient number of ATMS, POS and Mobile Banking), relating theories and assumptions.

## **CHAPTER THREE**

### **METHODOLOGY**

Research is a systematic investigation that is used to find the answers for questions raised whereas methodology is a system of rules that are explicit and built upon which the research is based and against which the claims for knowledge are usually evaluated (Nachamias, 1996). Research is conducted based on theory which is extracted from deep literature study and it helps to interpret and collect the data. The theory basically serves as a foundation to conduct the research.

Research methodology defines the systematic and scientific procedures used to arrive at the results and findings for a study against which claims for knowledge are evaluated (Cooper & Schindler, 2006; Saunders, 2000). A methodology is therefore shaped by the perspectives the researcher chooses to approach a study.

### **3.1 The Research Design**

Research design is an outline of the systematic and scientific procedures adopted in conducting a study (Saunders, 2007). According to Saunders (2007) there are two ways to undertake a research, qualitative and/or quantitative. In this research quantitative research design is followed because more reliable and objective, can use statistics to generalize a finding, often reduces and restructures a complex problem to a limited number of variables, assumes sample is representative of the population and finally, subjectivity of researcher in methodology is recognized less.

The purpose of every research may be classified as exploratory/descriptive or explanatory (Saunders, 2007). Qualitative research is more of explanatory with the aim of seeking new insights, or assessing phenomena in a new light (Robson 2002). The methods applicable in exploratory research include document analysis, expert's opinion, and focus group interviews. On the other hand quantitative research is descriptive research one is concerned with portraying an accurate profile of persons, events or situations (Saunders, 2007). It involves formalizing the study with definite structures in order to better describe or present facts about a phenomenon as it is perceived or as it is in reality (Nimako and Azumah, 2009). Explanatory studies aim at establishing relationships between variables. On the other hand explanatory research is concerned with cause and effects analysis. The purpose of this study is to describe customer's expectation and perception of service quality in commercial banking industry, and subsequently identifying the dimensions of service quality that drives customers perceived service quality based on customer ranking the five SERVEQUAL.

### **3.2 Study Population**

According to Keller (2009), “a population is the group of all items of interest to a statistics practitioner”. According to McDaniel (2001) target population is a total group of people from whom the researcher may obtain information to meet the research objectives. In conducting a study, it is not possible, practical and sometimes expensive to gather data by considering entire population. Therefore, smaller chunks of a unit sample are chosen to represent the relevant attributes of the whole of the units (Graziano and Raulin, 1997). The total population or customers of the main branch is about 58,000 but based on the availability of time to cover the proposed plan of research and financial expense required for the study the researcher was decided to concentrate the primary data collection on systematically selected 50 bank customers.

The population of the study consists of customers of the main branch of Commercial Bank of Ethiopia. The sample drawn from the population is a composition of varied background characteristics in terms of gender, age, income, level of education and occupation.

### **3.3 Sampling Method**

One of the pivotal aspects of evaluating banking service quality from customer perspective requires the calculation of sample size. It is naturally neither practical nor feasible to study the whole population in any study. Hence, a set of participants is selected from the population, which is less in number (size) but adequately represents the population from which it is drawn so that true inferences about the population can be made from the results obtained.

A sample is a set drawn from the population” (Keller, 2009). As the non-probability sampling is applied, there is no specific method in determining sample size. “But, it is not practical to collect data from the entire target population, so the researcher uses a sample instead” (Field, 2005). “A sample size of 100 is selected based on convenient and judgmental sampling techniques because of financial and time constraints. After deciding the number of customers to be selected the bank customers was requested on volunteer base by the researcher to complete the questionnaires at the main branch of commercial bank of Ethiopia.

A combination of convenient and judgmental sampling technique was employed in selecting the sample size of the study. The researchers are much familiar with the capital city of Addis Ababa and the selected bank customers which would be an advantage for data collection.

### **3.4 Data Collection Tools and Procedures**

The study made use of primary and secondary data sources in order to gather relevant information for the study. The primary data were collected from the selected customers of the bank under study. The study employed mainly questionnaire in collecting the primary data and the analysis was substantially based on primary data. The secondary data which were collected from existing literature formed the literature review of this study. The sources of the secondary

data included books, journals, articles, thesis report and the internet.

One of the most interesting characteristics of banking halls in Ethiopia is long queues of customers waiting for services especially in the cities where commercial banks are more dominant. We took advantage of this situation in collecting data from the customers. Data was collected by visiting the banks during business hours and pleading with customers who are waiting for service to complete the questionnaires. In any case permission is sort from the bank customers to administer the questionnaire. With this procedure we approached as many Customers as possible to meet the target sample for the proposed plan.

### **3.5 Conceptual Framework for the Study**

Several conceptual models have been developed by different researchers for measuring service quality. It is envisaged that conceptual models in service quality enable management to identify quality problems and thus help in planning for the launch of a quality improvement program, thereby improving the efficiency, profitability and overall performance (Seth and Deshmukh, 2005). Some of the most influential models in the service management literature focus on the concept of service quality gap. Service quality gap is defined as the difference between customer expectations and perceptions of service. If expectations are greater than performance, then perceived quality is less than satisfactory and customer dissatisfactions occurs (Parasuraman, 1985).

Implementing and evaluating service quality is a very complex process, because of the intangible nature of service and the difficulty in measuring customers' expectations and perception. Zeithaml and Bitner (1996) believe that content and delivery of a service are essential factors for evaluating service quality. While customers evaluate the quality of delivery, service providers determine the content of the service.

Parasuraman (1988, 1999, and 1993) developed the most widely used measuring instruments of service quality under this approach of measuring service quality. They termed their instruments SERVQUAL. The SERVQUAL scale contained items tapping five different components of service quality construct. The SERVQUAL consist of 22 items for measuring customers' expectations of service quality and 22 items for measuring customers' perception of service. The items of SERVQUAL are ranked on a Likert scale and customers respond to the items by choosing a number between 1 to 7 scales that reflect their expectation and perception of a service. The customers' responds about their expectations and perception of the service are compared to obtain a gap score which indicates the level of customers' perceived service quality (Jain and Gupta, 2004).

Overall service quality is computed as the sum of all the gap scores of each of the 22 items tapped from five dimensions. According to Suuroja (2002), the SERVQUAL instruments have attracted much attention than all the other instruments for measuring service quality. It is the most widely applied instrument in various service settings (Jain and Gupta, 2004).

According to Suuroja (2003), Cronin and Taylor (1992) were the first to justify discarding the

expectation aspect of SERVQUAL in favor of the performance only measures. They raised a number of arguments against the validity of SERVQUAL scale. They argued that SERVQUAL neither measures customer satisfaction nor does it measure service quality. In response to the critics of the SERVQUAL instruments, Parasuraman (1993) affirmed that even though their scale has problems with validity and reliability and several empirical evidence points to that fact, the expectation aspect of their instrument provide a diagnostic advantage over the other service quality instruments.

The second category of service quality measurement is based on the conception that expectation of service quality influence customers perception of service quality but service quality is not a gap between expectations and perception of service quality. Under this category, service quality is measured as customers' evaluation of the performance of a service and this is popular known as the performance only measures of service quality. The most popular and widely used measurement instruments under this category are the SERVPERF scale developed by the famous critics of the SERVQUAL scale, Cronin and Taylor (1992). SERVPERF is a variant of SERVQUAL that contains only the perceived performance component of SERVQUAL. Cronin and Taylor opined that the expectation components of the SERVQUAL be discarded because the gaps scores of the SERVQUAL lacks conceptual basis and is found confusing with measurement of service satisfaction. The SERVPERF instruments are the performance aspect of the SERVQUAL and are referred to as performance-only instruments (Jain and Gupta, 2004). With the performance-only instruments overall service quality is measured as the sum of the customer perceived performance of the component of service quality which higher perceived performance mean higher service quality and vice versa.

In conceptualizing overall service quality proposed five SERVEQUAL dimensions, such as Tangibility, Reliability, Responsiveness, Assurance and Empathy that influence customer expectation and perception (see figure 3.1).In this study the factors are considered to measure banking service quality.

The SERVQUAL Model (adapted from Parasuraman, 1985).

The pivot to the concept of service quality is gap model, which stipulates that service quality is a function of the difference in scores or gap between expectations and perceptions.. The gap between expectation and performance can be positive (satisfactory), when performance exceeds expectations or negative (dissatisfaction), when performance falls short of expectations (Anderson, 1973). Service quality is low, if what is perceived is below expectation, and is high if what is perceived meets or exceeds expectation. The result of this comparison is perceived service quality (Gronroos, 1982, 1984; Takeuchi and Quelch, 1983; parasuraman, 1985, 1988). As depicted in figure 3.2 the various gaps visualized in gap model (Zeithamal and Bitner 2004):  
Figure 3.2 Service Quality Gaps (adopted form Parasuraman, 1985).

(1) Gap 1: The first gap is between consumer expectations and management perceptions consumer expectations. This gap addresses the difference between consumers' expectations and

management's perceptions of service quality.

(2) Gap 2: The second gap is between management perceptions of customer expectation and service quality specifications. This gap addresses the difference between management's perceptions of consumer's expectations and service quality specifications.

(3) Gap 3: The third gap is between service quality specifications and service actually delivered. This gap addresses the difference between service quality specifications and service actually delivered i.e. the service performance gap.

(4) Gap 4: The fourth gap is between service delivery and what is communicated to customers about the service. This gap addresses the difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery.

(5) Gap 5: The fifth gap is between the customer's perceptions of service quality and their expectations of service quality. This gap addresses the difference between consumer's expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the provider side.

The full conceptual model shown in figure 3.2 conveys a clear message to managers wishing to improve the service quality: the key to close the customers' gap is to close provider gap 1 through 4 and keep them closed. Gap 5 is the product of gap 1, 2, 3 and 4. If these four gaps, all of which are located below the line that separates the customer from the company are closed the gap 5 will also closed. In this case expected service is a function of word of mouth communication, personal need and past experience, and perceived service is a product of service delivery and external communications to consumers.

SERVQUAL as the most often used approach for measuring service quality to compare customers' expectations before a service encounter and their perceptions of the actual service delivered with five dimensions of tangibility, reliability, responsiveness, assurance and empathy.

The relative importance of these variables is also measured. This enables to compute the relative importance of any gaps between expectation and perceptions. Management can then focus on strategies and tactics to close the important gaps.

From the literature reviewed above, under each category of measurement of service quality, service quality is computed as the sum of either the gap scores or perceived performance scores of the attributes and factors that are deemed relevant to service quality. In this study, overall service quality is conceptualized to be the simple average of the gap scores of the factors that influence service quality.

The model is extensive and widely used to measure service quality in the literature. Therefore this study adopts the SERVQUAL dimensions to measure service quality in the Commercial Bank of Ethiopia. The SERVQUAL dimensions: tangibles, reliability, responsiveness, assurance and empathy are the basis for service quality measurement (parasuraman, 1988; Zeithamlet, 1990).

The tangibles encompass the appearance of the company representatives, facilities, materials, and equipment as well as communication materials. The condition of the physical surroundings is seen as tangible evidence of care and attention to detail exhibited by the service provider (Fitzsimmons & Fitzsimmons, 2001). Davis (2003) summarizes tangibles as the physical evidence of the service.

The reliability and consistency of performance of service facilities, goods and staff is seen as important (Johnston, 1997). This includes punctual service delivery and ability to keep to agreements made with the customer. According to Fitzsimmons and Fitzsimmons (2001), reliability is the ability to perform the promised service both dependably and accurately with error free. 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 (Berry, 1994).

Johnston (1997) describes responsiveness as the speed and timeliness of service delivery. This includes the speed and the ability of the service to respond promptly to customer service requests, with minimal waiting and queuing time. Fitzsimmons and Fitzsimmons (2001) argue that when the customer is kept waiting for no apparent reason creates unnecessary negative perceptions of quality. Conversely, the ability for the bank to recover quickly when service fails and exhibit professionalism will also create very positive perceptions of quality.

Assurance dimension considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the customer, effective communication with the customer and the general attitude that the server has the customer's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).

According to Chase (2002), empathy is the provision of individualized attention to customers. Fitzsimmons and Fitzsimmons (2001) posit that empathy includes approachability, sensitivity, and effort to understand the customer's needs. Johnston (1997) describes empathy as the ability to make the customer feel welcome, particularly by the contact staff.

### **3.6 Questionnaire Design**

In order to motivate respondents to take the time to respond to surveys, researchers have found that questioners must be objective, unambiguous, easy to complete, interesting and generally not burdensome. To enhance the analysis and classification of responses into meaningful categories, questioners include both substantive questions that are relevant to the purposes of the study and pertinent demographic questions.

For an easy understanding and reading, the questionnaire was designed into three parts. The first part of the questionnaire sought information on demographic characteristics of the respondents. The second and third parts of the questionnaire sought information on customers' expectations and perceived service quality of the customers respectively. The respondents were required to rate their expectations and perception of banking quality services on level of importance on a predefined five-point Scale: 1 –strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, and 5 – Strongly Agree. The services of the bank were assessed on the SERVQUAL variables: Tangibles, Assurance, Responsiveness, Empathy and Reliability, to determine the level of expectation and perception of the banking service quality. All the items measuring service quality dimensions were standard questions developed by Parasuraman (1988) to measure service performance.

### **3.7 Questionnaire Administration**

The primary data collection instrument is the questioner, which can be distributed to selected respondents for self-administration and it can be administered by the researcher. The initial questionnaire developed were pilot tested to verify that the questions were clear and not ambiguous, such that responses would be consistent with the purpose of the study. Few questions were reviewed as a result of non-response from the respondents of the pilot study. This was done to improve the reliability and validity of the questionnaire. The questionnaires were self-administered by a researcher at the bank to customers present at the banking hall and transacting business with the bank. The filled questionnaires were taken from the respondents on the same day by the researcher.

Validity refers to whether the statistical instrument measures the purpose it is intended to measure or its accuracy of measurement. One of the easiest ways to determine the validity of data collected through questionnaires is cross checking method in which the validity of data is rechecked by the researcher before using the data during administration of the questionnaires.

### **3.8 Data Analysis**

The data quantitatively presented in tables. Descriptive statistics of mean and standard deviations are employed to analyze the collected data.

In this study, overall service quality is conceptualized to be dependent on the dimensions of service quality and is an average of the gap scores of the dimensions.

The SERVQUAL gaps can be calculated at three levels which are the overall gap score, average gap scores for each dimension and gap scores for each attributes. The average scores of expectations and perceptions related to each attributes of questionnaires were computed.

The SERVQUAL score along each dimension is obtained by adding the SERVQUAL scores on the statements pertaining to the dimension and then dividing the sum by the number of statements making up the dimension. Hence, overall service quality is computed as follows:

Indicator of Overall Service Quality

Average Tangible SERVQUAL score

Average Reliability SERVQUAL score

Average Responsiveness SERVQUAL score

Average Assurance SERVQUAL score

Average Empathy SERVQUAL score

TOTALAVERAGE (= Total/5) UNWEIGHTED SERVQUAL SCORE

## CHAPTER FOUR DATA ANALYSIS AND INTERPRETATION

Based on SERVEQUAL, a questionnaire was prepared and fieldwork was conducted by the researcher. The result is mainly the responses of the questionnaire administered to the customers of the main branches of Commercial Bank of Ethiopia. Microsoft Excel 2007 was used to record and explain the results on charts and graphs.

The questionnaire was administered to selected volunteer customers at ten working days of the bank until reach to the level of 100 sample size and all the questioners are filled and returned back to the researcher because all the questioners are administered and filled by the customer in direct contact and under the technical guidance of the researcher and the bank workers who are assigned by the bank management to assist the researcher so that the response rate is 100%.

The SERVQUAL gaps can be calculated at three levels which are the overall gap score, average gap scores for each dimension and gap scores for each attributes.

### 4.1 Demography of Respondents

In order to achieve the objectives of the study data was collected on the background characteristics of the respondent such as gender, age, occupation, income and academics. The overall demographic data of the respondents is presented in Table 4.1.

The findings of the survey revealed that a total of 68 respondents representing 68% are male and the remaining 32% are female. The Majority of the respondents is in the age group of 20-29 years old and followed by the age group of 40-49 years and those between 30-49 years old. The rest 2 % of the respondents is in the age group of 50 and above years old.

Table 4.1: Background of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Sex</b>	Male	68	68.0	68.0	68.0
	Female	32	32.0	32.0	100.0
	Total	100	100.0	100.0	
	<b>Total</b>				
<b>Age</b>	Bellow 20	2	2.0	2.0	2.0

	20-29	35	35.0	35.0	37.0
	30-39	30	30.0	30.0	67.0
	40-49	31	31.0	31.0	98.0
	Above 50	2	2.0	2.0	100.0
	Total	100	100.0	100.0	
<b>Occupation</b>					
	Civil Servant	24	24.0	24.0	24.0
	Student	2	2.0	2.0	26.0
	Business	28	28.0	28.0	54.0
	Public	46	46.0	46.0	100.0
	Total	100	100.0	100.0	
<b>Income</b>					
	Below 2000	16	16.0	16.0	16.0
	2001-4000	47	47.0	47.0	63.0
	4001-6000	19	19.0	19.0	82.0
	Above 6000	18	18.0	18.0	100.0
	Total	100	100.0	100.0	
<b>Academic status</b>					
	Bellow Dip.	25	25.0	25.0	25.0
	Diploma	30	30.0	30.0	55.0
	Degree	22	22.0	22.0	77.0
	Second Degree	20	20.0	20.0	97.0
	PHD	3	3.0	3.0	100.0
	Total	100	100.0	100.0	

In terms of occupational distribution, 2% are students, 24% are civil servants, 46% are public servants and the remaining 28% are business persons. This implies, majority of the respondents are employed. As majority of the respondents are employed, the income distribution shows that

more than half (56%) of the respondents earn monthly income between birr 2000 and birr 6000. 24% of the respondents earn below birr 2000 and 18 % of the respondents earn above birr 6000

We can see bellow. All the respondents are regularly visit the commercial bank and can really give good assessment of the level of quality services delivered by the commercial bank.

The educational level of the sampled population ranged between high level of education (PhD) to High school educational level: 3% of respondents hold PhD degrees, 20% holds second degree, 22% holds first degrees, 30% of the respondents have Higher National Diploma, Advance and Ordinary Level category whilst the remaining 25 % of the respondents are Senior High School Certificate and Basic Education Certificate holders. The majorities of the respondents are well educated and holds minimum of Diploma making the proportion 75% of the total number of respondents.

#### 4.2 Service Quality Dimension Measurement of the Bank

In order to measure the level of service quality delivery, the SERVEQUAL five dimensions: tangibles, empathy, responsiveness, reliability and assurance developed by Parasuraman (1988) is used. The performance of the services delivered was measured by the customers' expectation and perception of the SERVQUAL dimensions, a descriptive statistics on the responds from the customers is used to undertake the needed measurements.

The quality gap according to Parasuraman (1988) is the difference between perception (P) and expectation (E). ( $Q = P - E$ ). When Q is positive it implies customers are satisfied, otherwise Q is negative which shows customer dissatisfaction.

##### 4.2.1 Tangibility Dimension

Tangibility deals with the appearance of physical facilities, equipment, appearance of personnel and communication materials. Table 4.2 indicates descriptive statistics of tangibility measure taken based on the expectation and the perception of the customers of the bank.

As shown in Table 4.2, the average scores (mean) are so high. This means that customers consider visually appealing physical facilities, efficient equipment and good-looking workers. Out of the items, customers are very much interested in the equipment used to deliver the services such as booklet, cheque book and statements that are appealing at the bank because the mean result of the perception for materials associated with the services is highest and the gap is lowest (0.04). This indicates, customers agree that the booklet, cheque book and statements are appealing at the bank to perform the banking services.

Table 4.2: Descriptive Statistics on Tangibility Dimension

<i>Items</i>	TNR= 100	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		N. of Respo	%	N.of Respo	%	N. of Respo	%	N. of Respo	%	N. of Respo	%
The bank has modern looking equipment	Mean=4.85 SD=0.479					5	0.05	5	5	90	90
The banks physical facilities are visually appearing	Mean=4.73 SD=0.509					3	3	21	21	76	76
The employees at the bank are neat appearing	Mean=4.64 SD=0.594928					6	6	24	24	70	70
Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank	Mean=4.88 SD=0.383					2	2	8	8	90	90
Convenience location of the branch	Mean=4.59 SD=0.60465					6	6	29	29	65	65

Convenience location of the ATM	Mean=4.6 SD=0.49236							40	40	60	60
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1. The bank has modern looking equipment.

Expectation			Perception			service Quality Gap
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.85	Mean		4.54	-0.31
Median		5	Median		5	0
Std. Deviation		0.479372	Std. Deviation		0.558135	

.2.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.73	Mean		4.37	-0.36
Median		5	Median		4	
Std. Deviation		0.509604719	Std. Deviation		0.544115	

3 The employees at the bank are neat appearing

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.64	Mean		4.44	-0.2
Median		5	Median		5	
Std. Deviation		0.594928058	Std. Deviation		0.640707	

4.

Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.88	Mean		4.84	-0.04
Median		5	Median		5	
Std. Deviation		0.383497988	Std. Deviation		0.506922	

#### 5 Convenience location of the branch

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.59	Mean		4.26	-0.33
Median		5	Median		4	
Std. Deviation		0.604611905	Std. Deviation		0.484507	

#### 6 Convenience location of the ATM

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.6	Mean		4.27	-0.33
Median		5	Median		4	
Std. Deviation		0.492365964	Std. Deviation		0.679498	

\*Average Score Of tangibility 4.45-4.72=-0.27

Source: Field Survey Data

Among the tangibles, the item ‘materials and equipment for service delivery are modern and efficient’ produced the second highest mean (M=4.54). This is consistent with the quality service practices of the bank where constantly checked for efficiency. The perceived grand mean 4.45 is also on the high level, indicating that customers agree that tangibles of commercial bank are modern, efficient and aesthetically appealing.

Irrespective of the various means of the factors for both expectation and perception, mean score for the expectation were found to be relatively higher than its perception for each of the factors considered but in the case of attributes ‘convenience location of ATM and the bank’ the gap

score is higher (-0.33) because there is unfavorable condition for the movement of customers to use ATM machines and to entrance of the bank to get bank services due to high traffic jam and unavailability of enough car parking area.

Finally, it has been shown from Figure 4.2 that, in terms of tangibility, as the customers were expecting the bank to provide a service quality level of 4.72 representing 94.4%, the bank are rather providing a service quality level of 4.45 representing 89.0% with a gap of -0.27(5.4%) lower than customers expectation. This was in agreement with Rubinstein (2010), who found out that because corporate world is moving across borders, tangibility of corporation has increase dramatically across all service delivery.

This finding may be attributed to that fact since banks are in a competition for customers and items on tangibility were expected to be higher. However this was not so, since perception falls short of the expectation of the customers, which also can be attributed to the fact that, respondents were having a higher expectation thereby leaving it in such underscore for its perception on the tangibles.

The standard deviation result as indicated in table 4.2 describes how far the individual responses to a question vary or "deviate" from the mean value. It tells us about the shape of our distribution, how close the individual data values are from the mean value. They concentrated around the mean or scattered far from the mean. Therefore, a low standard deviation indicates that the data points tends to be very close to the mean and a high standard deviation indicates that the data points are spread out over a large range of values.

#### **4.2.2 Reliability Dimension**

Reliability is the ability of the bank to perform the promised service dependably and accurately without errors (Schroeder, 2007). When a bank 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.

Moreover, in this study, the researcher deals with the promise of executing a task, solving customer's problems and taking sincere interest in the problems solving. Table 4.3 provides summary of descriptive statistics of customers' response on reliability of banking service.

On the issue of reliability of the services delivered by the bank, five items are measured. The mean scores of the items in Table 4.3 for both expectation and perception indicate that the services of the bank are reliable. Out of the five items measuring service reliability, the attribute "the bank keeps its record accurately and error free " yielded highest score of 4.92 for perception

with minimum score of -0.03 for the gap. This implies that the commercial bank keeps proper records of transactions and provides as accurate as possible financial statements and other data on transactions of its customers.

On the contrary, the attribute “When a customer has a problem, the bank shows a sincere interest in solving it’ scores the highest gap of -0.70. This indicates that the bank is not keen to solve when the problem arises.

Table 4.3: Descriptive Statistics on Reliability Dimension

<i>Items</i>	TNR= 100	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		N. of Respo	%	N.of Respo	%	N. of Respo	%	N. of Respo	%	N. of Respo	%
When the bank promises to do something by ascertain time they do.	Mean=4.9 SD=0.301511345							10	10	90	
When a customer has a problem the bank shows a sincere interest in solving it.	Mean=4.94 SD=0.2777					1	1	4	4	95	95
The bank performs its service right the customer perception	Mean=4.73 SD=0.583528106					7	7	13	13	80	80
The bank provide its service at the time it promises to do so	Mean=4.81 SD=0.464823199					3	3	13	13	84	84
The bank keeps its record accordingly free from error	Mean=4.95 SD=0.261116484					1	1	3	3	96	96

1. When the bank promises to do something by ascertain time they do.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.9	Mean		4.33	-0.57
Median		5	Median		4	
Std. Deviation		0.301511345	Std. Deviation		0.603943	

2. When a customer has a problem the bank shows a sincere interest in solving it.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.94	Mean		4.24	-0.7
Median		5	Median		4	
Std. Deviation		0.277797979	Std. Deviation		0.552679	

3. The bank performs its service right the customer perception.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.73	Mean		4.4	-0.33
Median		5	Median		4.5	
Std. Deviation		0.583528106	Std. Deviation		0.666667	

4. The bank provide its service at the time it promises to do so

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.81	Mean		4.3	-0.51
Median		5	Median		4	
Std. Deviation		0.464823199	Std. Deviation		0.643538	

5. The bank keeps its record accordingly free from error

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.95	Mean		4.92	-0.03
Median		5	Median		5	
Std. Deviation		0.261116484	Std. Deviation		0.307482	

\*Average score of reliability dimension=4.43-4.86=-0.43

Source: Field Survey Data

Cumulatively, as shown in table 4.3 above, as customers were expecting a service quality level of 4.86 (97.20%), the bank was rather delivering a service quality level of 4.43 (88.60%) with a service gap of -0.43 (8.60%) falling short of the expectations of the customers. This indicates that, service delivery was unsatisfactory to the customers in terms of service quality dimension on reliability. This finding is in total agreement with Hussar (2000) who stated that the increasing rate of technology growth, has affected the expectations of customers from their service providers thereby affecting service quality.

### 4.2.3 Responsiveness Dimension

Responsiveness is the willingness to help customers and provide prompt service and others such as making information available to customers and not appearing too busy to respond to request of customer. Table 4.4 provides summary of descriptive statistics of customers' response on responsiveness of banking service.

Table 4.4: Descriptive Statistics on Responsiveness Dimension

<i>Items</i>		<b>Strongly Disagree</b>		<b>Disagree</b>		<b>Nutral</b>		<b>Agree</b>		<b>Strongly Agree</b>	
		<b>N. of Respo</b>	<b>%</b>	<b>N.of Respo</b>	<b>%</b>	<b>N. of Respo</b>	<b>%</b>	<b>N. of Respo</b>	<b>%</b>	<b>N. of Respo</b>	<b>%</b>
Employees of the bank give prompt service	Mean=4.94 SD=0.277797979					1	1	4	4	95	95
Employees of the bank make	Mean=4.87					3	3	7	7	90	90

information easily obtainable	SD=0.418148879										
Employees of the bank are always willing to help customer	Mean=4.78 SD=0.439926532					1	1	20	20	79	79
Employees of the bank are not too busy to respond to customer request	Mean=4.72 SD=0.514045158					3	3	22	22	75	75

1 Employees of the bank give prompt service

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.94	Mean		4.48	-0.46
Median		5	Median		4.5	
Std. Deviation		0.277797979	Std. Deviation		0.540856	

2. Employees of the bank make information easily obtainable

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.87	Mean		4.14	-0.73
Median		5	Median		4	
Std. Deviation		0.418148879	Std. Deviation		0.505625	

3 Employees of the bank are always willing to help customer.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.78	Mean		4.41	-0.37
Median		5	Median		4	
Std. Deviation		0.439926532	Std. Deviation		0.570221	

4. Employees of the bank are not too busy to respond to customer request.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.72	Mean		4.24	-0.48
Median		5	Median		4	
Std. Deviation		0.514045158	Std. Deviation		0.552679	

Average= total Mean perception-Total mean expectation=4.31-4.82=-0.51

Source: Field Survey Data

Responsiveness of the bank is evaluated based on four items, out of the four items, the item ‘employees give prompt service’ gave the highest mean score of 4.48 for its perception, and however it was relatively lower than customers’ expectation. This implies that customers waiting time is too long at the banking hall. The attribute “employees of the bank information easily obtainable” scores the highest gap of -0.73. This indicates that customers are in problem of getting information easily. With regard to the attribute “Staff are never too busy to respond to customers’ request” have a gap score of -0.48 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.

Evidently, all the mean score for the expectation and perception are recorded with a mean indicating 4.82 and 4.31 respectively, which indicates the seriousness of the bank to deals with its responsiveness dimension because the gap is -0.51 which is the highest among the five dimensions.

By and large, the total service quality level of the responsiveness fails to meet the expectation of the customers of the bank. As shown in table 4.5 as they were expecting a service quality level of 4.82 (96.40%), the bank was delivering a service quality level of 4.31 (86.20%) which falls short

of 0.51 (10.20%) on the expectation of the customers and represents an unsatisfactory level of service delivery for the dimension of descriptive analysis.

#### 4.2.4 Assurance Dimension

This includes employees having knowledge to answer questions, inspiring confidence, providing prompt service, willing to respond to customer's requests, giving customers individual attention. It also concerns how knowledgeable and courteous employees are to inspire confidence and trust from their customers. The assurance attributes are all very much about the extent to which a customer trusts a provider and whether or not they have the confidence in the bank to provide a service securely and competently. There is a substantial level of trust in the bank and its abilities were necessary to make the consumer comfortable enough to establish a banking relationship. Table 4.5 shows summary of statistical description of assurance aspects of commercial banking service.

Table 4.5: Descriptive Statistics on Assurance Dimension.

<i>Items</i>	TNR= 100	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		N. of Respo	%	N.of Respo	%	N. of Respo	%	N. of Respo	%	N. of Respo	%
The behavior of employees of the banks inspires confidence in customer	Mean=4.75 SD=0.53889149	4.75 0.53889149				5	5	15	15	80	80
Customer feel safe in doing business or transactions with the bank	Mean=4.9 SD=0.30151134							10	10	90	90
Employees of the bank are knowledgably to answer customer question	Mean=4.74 SD=0.48450745					2	2	22	22	76	76

Bank Employees are polite and kind	Mean=4.91 SD=0.35090071					2	2	5	5	93	93
Bank employees are trust worthy	Mean=4.89 SD=0.408989					3	3	6	6	91	91
Information provided by the bank employees are clear and understandable	Mean=4.73 SD=0.54781475					5	5	17	17	78	78

1. The behavior of employees of the banks inspires confidence in customer

Execration			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.75	Mean		4.65	-0.1
Median		5	Median		5	
Std. Deviation		0.538891492	Std. Deviation		0.657129	

2. Customer feel safe in doing business or transactions with the bank

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.9	Mean		4.95	0.05
Median		5	Median		5	
Std. Deviation		0.301511345	Std. Deviation		0.22	

3. Employees of the bank are knowledgably to answer customer question

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	

Mean		4.74	Mean		4.43	-0.31
Median		5	Median		4	
Std. Deviation		0.484507456	Std. Deviation		0.536637	

4. Bank Employees are polite and kind

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.91	Mean		4.85	-0.06
Median		5	Median		5	
Std. Deviation		0.350900717	Std. Deviation		0.479372	

5. Bank employees are trust worthy

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.89	Mean		4.7	-0.19
Median		5	Median		5	
Std. Deviation		0.408989887	Std. Deviation		0.643538	

6 Information provided by the bank employees are clear and understandable

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.73	Mean		4.52	-0.21
Median		5	Median		5	
Std. Deviation		0.547814759	Std. Deviation		0.540389	

Average= total Mean perception-Total mean expectation=4.68-4.81=-0.13

Source: Field Survey Data

The descriptive statistics on the assurance shows that, the expectation of the customers as well as its perception recorded a higher mean. This shows that customers agree that there is an assurance

to transact banking business with the commercial bank. An item “the behavior of employees in inspires confidence in customers” yielded the mean score of 4.65 for the perception factor and - 0.10 gap score. Meaning, employees of commercial bank exhibit professionalism in their dealings with customers, because they know their work.

On the other side

, the attribute “employees of the bank are knowledgeable to answer customer questions” and “information provided by the bank employees is clear and understandable” yielded relatively higher gap of -0.31 and -0.21, respectively. This is an indicator of future improvement for the bank management. Surprisingly, the only attribute that have got a positive gap score (+0.05) is “customers feel safe in doing business or transaction with the bank.” This implies that all customers are having full confidence in dealing business or transaction with commercial bank.

On the gap analysis respondents were expecting a service quality level of 4.81 (96.20%), they were receiving a service quality of 4.68 (93.60%), a service quality gap of -0.13 (2.60%) slightly lower than their expectation. This shows that there is dissatisfaction but its level of dissatisfaction is less as compared to the rest dimensions.

#### 4.2.5 Empathy Dimension

The last dimension of the SERVQUAL model is empathy. Empathy is the caring and personalized attention the bank provides to its customers. It is reflected in the service provider’s provision of access, communication and understanding the customer. Individual attention, convenient operating hours, understanding of the staff when a problem occurs and the knowledge the employees have of the customers’ needs were the primary elements included in the evaluation of empathy. This dimension captures aspects of service quality that are directly influenced by service provider’s policy such as good customer service and operating hours. The degree to which the customer feels the empathy will cause the customer to either accept or reject the service encounter. Summary of customers response on the empathy dimension of bank service quality presented in table 4.6.

Table 4.6: Descriptive Statistics on Empathy Dimension

<i>Items</i>	TNR= 100	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
		N. of Respo	%	N.of Respo	%	N. of Respo	%	N. of Respo	%	N. of Respo	%
The bank gives	Mean=4.68					2	2	2	28	70	70

individual customers attention	SD=0.5101000 1										
The employees offer a customer personal attention	Mean=4.51 SD=0.5730478 5					4	4	35	35	60	60
The bank hars are convenient to most customers.	Mean=4.87 SD=0.4181488	4.87 0.41814887 9				3	3	7	7	90	90
Employees understand the specific need of customers.	Mean=4.6 SD=0.5860327 1					5	5	30	30	65	65
The bank has customers best interest at heart.	Mean=4.59 SD=0.5522223					3	3	35	35	62	62
It is very Easy to get in and out the bank quickly	Mean=4.72 SD=0.4893822					3	3	22	22	75	75

1 The bank gives individual customers attention

expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.68	Mean		4.46	-0.22
Median		5	Median		4.5	
Std. Deviation		0.51010001	Std. Deviation		0.575949	

2. The employees offer a customer personal attention

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.51	Mean		4.44	-0.07
Median		5	Median		4	
Std. Deviation		0.57304785	Std. Deviation		0.570221	

3. The bank has convenient services for most customers.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.87	Mean		4.37	-0.5
Median		5	Median		4	
Std. Deviation		0.418148879	Std. Deviation		0.544115	

4. Employees understand the specific needs of customers.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.6	Mean		4.35	-0.25
Median		5	Median		4	
Std. Deviation		0.586032715	Std. Deviation		0.575159	

5. The bank has customers' best interests at heart.

Expectation			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.59	Mean		4.52	-0.07
Median		5	Median		5	
Std. Deviation		0.552222324	Std. Deviation		0.558768	

Deviation			Deviation			
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6. It is very Easy to get in and out the bank quickly

Execration			Perception			SERVELQUAL GAP
N	Valid	100	N	Valid	100	
	Missing	0		Missing	0	
Mean		4.72	Mean		4.32	-0.4
Median		5	Median		4	
Std. Deviation		0.489382212	Std. Deviation		0.468826	

\*Average score of empathy = total Mean perception-Total mean expectation=4.41-4.66=-0.25

\*Average SERVELQUAL GAP=4.45-4.78=-0.33

Source: Field Survey Data

For empathy dimension, six items were used. Generally, the results shows a high mean score for perception and expectation which indicate that customers are treated as “king”. The bank understands the needs of its customers and tries all effort to give equal attention to all customers without any partiality as shown by the item “employees offer customers personal service” and “the bank has customers’ best interest at heart’ with the highest mean score of 4.46 and 4.52 for its perception respectively.

The attribute “banking hours are convenient to most customers” scores the highest gap of -0.40 among the six empathy dimension items. This implies that the customers of the banks expect to extend the working hours by the bank management for their convenience. In the same situation that the attribute “It is very easy to get in and out of the bank quickly” scores the second highest gap of 0.40. The reason is that the bank is located at the center where there is a high traffic jam and movement of peoples. Therefore, for entrance and exit there is a narrow gate which hinders the movement of customers in and out of the bank freely.

The result in Table 4.6 shows that as customers were expecting a service quality level of 4.66 (93.20%), they were rather giving a service quality level of 4.41 (88.20%), falling short of 0.25 (5.00%) of their expectations.

### 4.3 Overall Service Quality Delivery Gaps

To obtain one of the objectives of the study, it is crucial to find out the service delivery of both the expectations and perceptions of the respondents in order to establish the trend of the gap analysis for each of the service quality dimensions. However, the overall service quality is

conceptualized to be dependent on the dimensions of service quality and is an average of the gap scores of the dimensions. Hence overall service quality is computed and presented in table 4.7.

Table 4.7: A.Overall Service Quality perceptionmean.sav.

**Statistics**

		The bank has modern looking equipment	The banks physical facilities are visually appearing	The employees at the bank are neat appearing	Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank.	Convenience location of the branch	Convenience location of the ATM
N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		4.54	4.37	4.44	4.84	4.26	4.27

Expected mean.sav

**Statistics**

		The bank has modern looking equipment	The banks physical facilities are visually appearing	The employees at the bank are neat appearing	Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank.	Convenience location of the branch	Convenience location of the ATM

N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		4.85	4.73	4.64	4.88	4.59	4.60

So.

Dimension	Average Tangible Score
Expected Mean	4.72
Perceived Mean	4.45
Gap Score	-0.27

### B. Average Reliability Score

Perception means sa.

#### Statistics

		When the bank promises to do something by ascertain time they do.	When a customer has a problem the bank shows a sincere interest in solving it.	The bank performs its service right the customer perception.	The bank provide its service at the time it promises to do so	The bank keeps its record accordingly free from error
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
Mean		4.33	4.24	4.40	4.30	4.92

Expected mean.

#### Statistics

		When the bank promises to do something by ascertain time they do.	When a customer has a problem the bank shows a sincere interest in solving it.	The bank performs its service right the customer perception.	The bank provide its service at the time it promises to do so	The bank keeps its record accordingly free from error
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N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
Mean		4.90	4.94	4.73	4.81	4.95

So.

Dimension	Average Reliability Score
Expected Mean	4.43
Perceived Mean	4.86
Gap Score	-0.43

C.Average Responsiveness Score.

Perception Mean

**Statistics**

		Employees of the bank give prompt service	Employees of the bank make information easily obtainable	Employees of the bank are always willing to help customer.	Employees of the bank are not too busy to respond to customer request.
N	Valid	100	100	100	100
	Missing	0	0	0	0
Mean		4.48	4.13	4.41	4.24

Expected mean.

**Statistics**

		Employees of the bank give prompt service	Employees of the bank make information easily obtainable	Employees of the bank are always willing to help customer.	Employees of the bank are not too busy to respond to customer request.
N	Valid	100	100	100	100
	Missing	0	0	0	0
Mean		4.94	4.87	4.78	4.72

Dimension	Average Responsiveness Score
Expected Mean	4.31
Perceived Mean	4.82
Gap Score	-0.51

D. Average Assurance Score.  
Perception Mean

**Statistics**

		The behavior of employees of the banks inspires confidence in customer	Customer feel safe in doing business or transactions with the bank	Employees of the bank are knowledgably to answer customer question	Bank Employees are polite and kind	Bank employees are trust worthy	Information provided by the bank employees are clear and understandable
N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		4.75	4.90	4.74	4.91	4.88	4.73

Expected Mean.

**Statistics**

		The behavior of employees of the banks inspires confidence in customer	Customer feel safe in doing business or transactions with the bank	Employees of the bank are knowledgably to answer customer question	Bank Employees are polite and kind	Bank employees are trust worthy	Information provided by the bank employees are clear and understandable
N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		4.75	4.90	4.74	4.91	4.88	4.73

E. Average Empathy Score  
Perception Mean.

**Statistics**

		The bank gives individual customers attention	The employees offer a customer personal attention	The bank hars are convenient to most customers.	Employees understand the specific need of customers.	The bank has customer's best interest at heart.	It is very Easy to get in and out the bank quickly
N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Mean		4.68	4.57	4.87	4.60	4.59	4.72

Dimension	Average Assurance Score
Expected Mean	4.41
Perceived Mean	4.66
Gap Score	-0.25

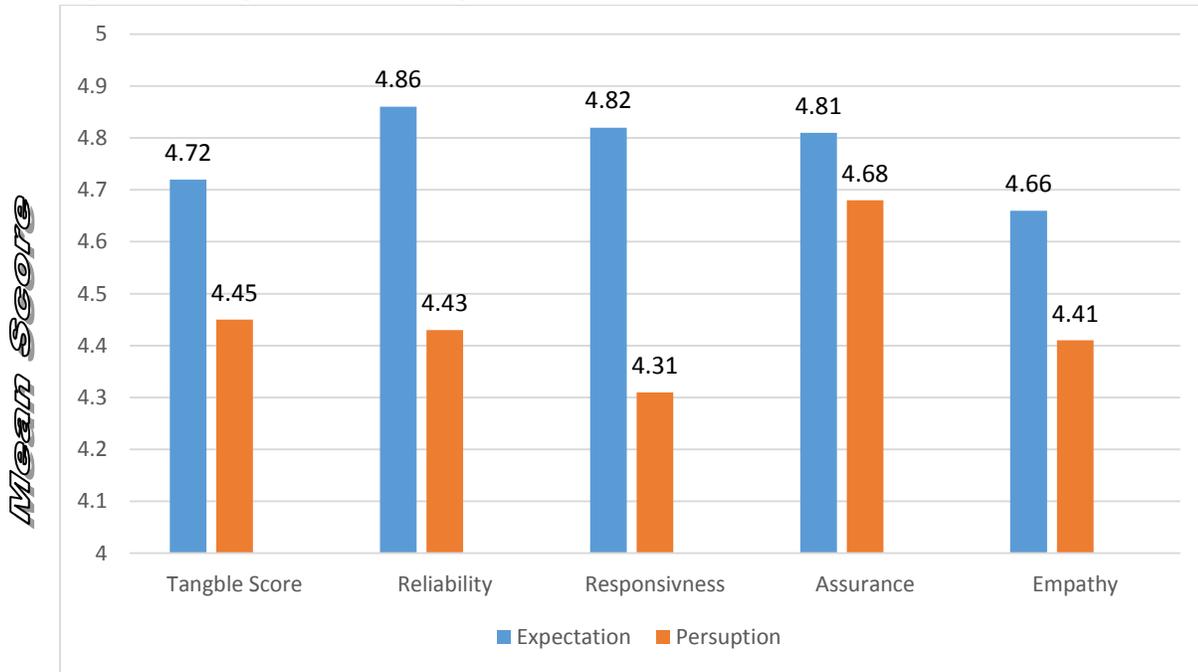
Average= Total mean/5=

Dimension	Average Assurance Score
Average Expected Mean	4.45
Average Perceived Mean	4.78
Gap Score	-0.33

Source: Field Survey Data

In the summarized SERVQUAL gap score for the five dimensions, the largest service quality gap is found for the dimension responsiveness with the gap score of -0.51 followed by reliability and tangibility with the gap score of -0.43 and -0.27 respectively. However, the other two dimensions of empathy and assurance have the gap score of -0.25 and -0.13 respectively. The overall SERVQUAL cumulative gap is -0.33. This score helps us to see the performance of the bank with respect to each factor. More negative scores indicate that the bank is less successful in meeting expectations, whereas more positive scores imply that the bank exceeds expectations. This finding reinforces the need for bank management to place an emphasis on the underlying dimensions of service quality especially on responsiveness, reliability, tangibility, empathy and assurance should start with improving service quality in order to raise overall customer satisfaction. The Gap score percentage of the five SERVEQUAL dimensions of this research finding is presented in figure 4.1.

Figure 4.1: Gap Score Percentage of the five SERVEQUAL Dimensions



Source: Field Survey Data. March, 2016.

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 irrespective of the attribute “customers feel safe in doing business or transactions with the bank” that is the only positive gap scored by the respondents.

Thus, customers’ perception of the level of the service quality of the main branch of Commercial Bank of Ethiopia is generally below expectations. These findings have answered research question one ‘what is the customers’ attitude towards the service quality of the banking service of the main branch’. As already discussed customers perceived the service quality of the banks to be below expectation.

These findings also confirm the findings of Hinson, Mohammed and Mensah (2006). They studied the service quality of some selected banks in Ghana and found that the overall service quality of the banks fall short of customers’ expectations.

The implication of these findings is that there is still a great room for improvement in service quality of the commercial bank. Besides, it could also be deduced from the findings that, improvement in service quality is still a major competitive factor in the banking sector so far as customers’ satisfaction, loyalty and retention is concerned. Consequently, banks which will

invest in improving service quality stand to gain competitive advantage.

#### 4.4 Ranking Customers Expectation and Perception of the five Dimensions

After analyzing the differences in mean values in customer expectation and perception on service quality, comparing the ranking of the mean value is also important, as it provides an understanding how the customer priorities the items. The descriptive statistics of mean (M) of the overall service quality dimensions of customer expectation and perception ranking were worked out and the results are presented in Table 4.8.

Table 4.8: Ranking order of Expectation and Perception

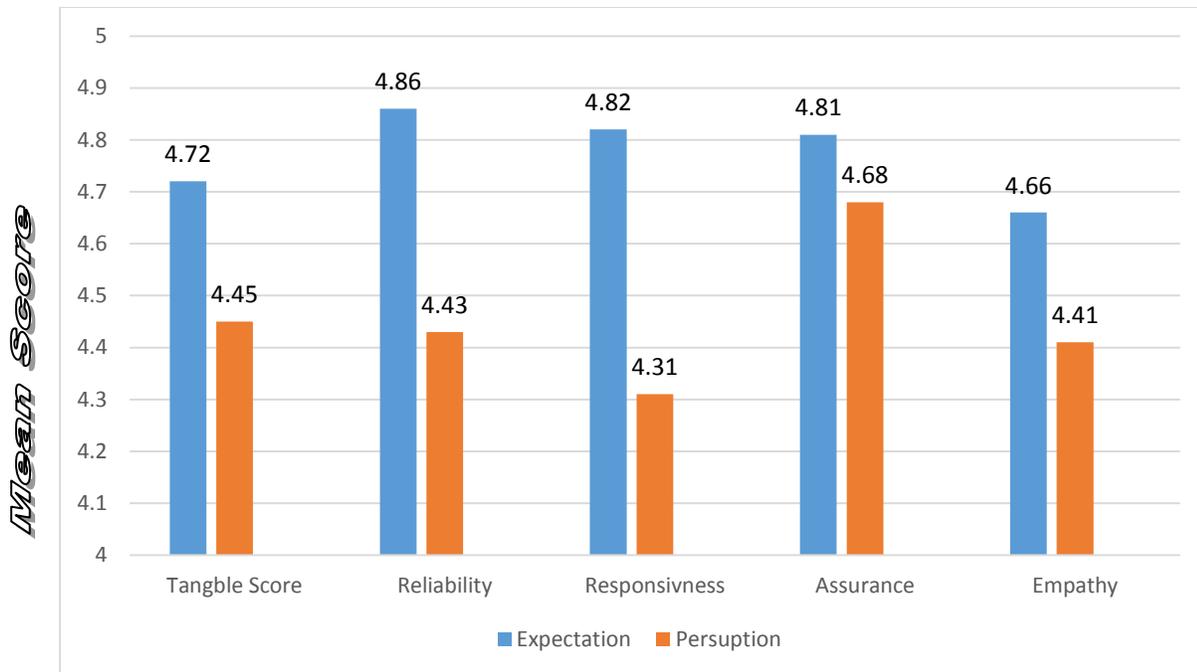
Dimension	Tangible Score	Reliability Score	Responsiveness Score	Assurance Score	Empathy Score
Expected Mean	4.72	4.86	4.82	4.81	4.66
Rank	4	1	2	3	5
Perceived Mean	4.45	4.43	4.31	4.68	4.41
Rank	2	3	5	1	4

Source: Field Survey Data.

The customers of the bank expects average service quality of reliability (M=4.86) which is the most dominant service quality followed by responsiveness (M=4.82), assurance (M=4.81), tangibility (M=4.72) and empathy (4.66) in order of their importance based on the mean values of each service quality dimension measurement. Meanwhile, from this research the customers perceived banking service quality of assurance (M=4.68), tangibility (M=4.45), reliability (M=4.43), empathy (M=4.41), and lastly the responsiveness (M=4.31) in order of customer ranking. Therefore, from the above analysis we can understand that the ranking sequence for the five dimensions in relation to expectation and perception of customers is completely different. The ranking sequence of customer's expectation and perception of banking service quality is depicted in Figure. 4.2.

EMBED Excel.Chart.8 \s

Figure 4.2: Ranking Customers Expectation and Perception of Service Quality



Source: Field Survey Data. March, 2016.

Fig.4.2 shows that the highest mean value concerning perceptions emerged in the dimension of assurance (M=4.68), which is followed by tangibility (M=4.45) and reliability (M=4.43) respectively. On the other hand, empathy and responsiveness are the factors that ranked last with respect to perceived service quality with (M=4.41) and (M=4.31) respectively. While these values are of importance for determining how the service provided by the bank is perceived by its customers, it is wrong to consider them alone. For example, the dimension of assurance, which ranked the highest in terms of perceptions, does not rank first in terms of customers' expectations. Calculation of SERVQUAL scores is important for this reason. This score helps us to see the performance of the bank with respect to each factor. More negative scores indicate that the bank is less successful in meeting expectations, whereas more positive scores imply that the bank exceeds expectations.

#### 4.5 Impact of Background Characteristics on the Overall Service Quality

The last part of discussion is the impact of background characteristics of customers on the perception of overall service quality of the bank. This discussion part tries to identify the perception of customers of banks through the relationship of the five service quality dimension along with the demographic characteristics of customers.

According to Webster (1989), there is a need to examine the demographic characteristics of customers when evaluating service quality in commercial banking. Therefore, the demographic data were adopted to examine their association with various dimensions.

Service quality is perceived differently by consumers according to their demographic

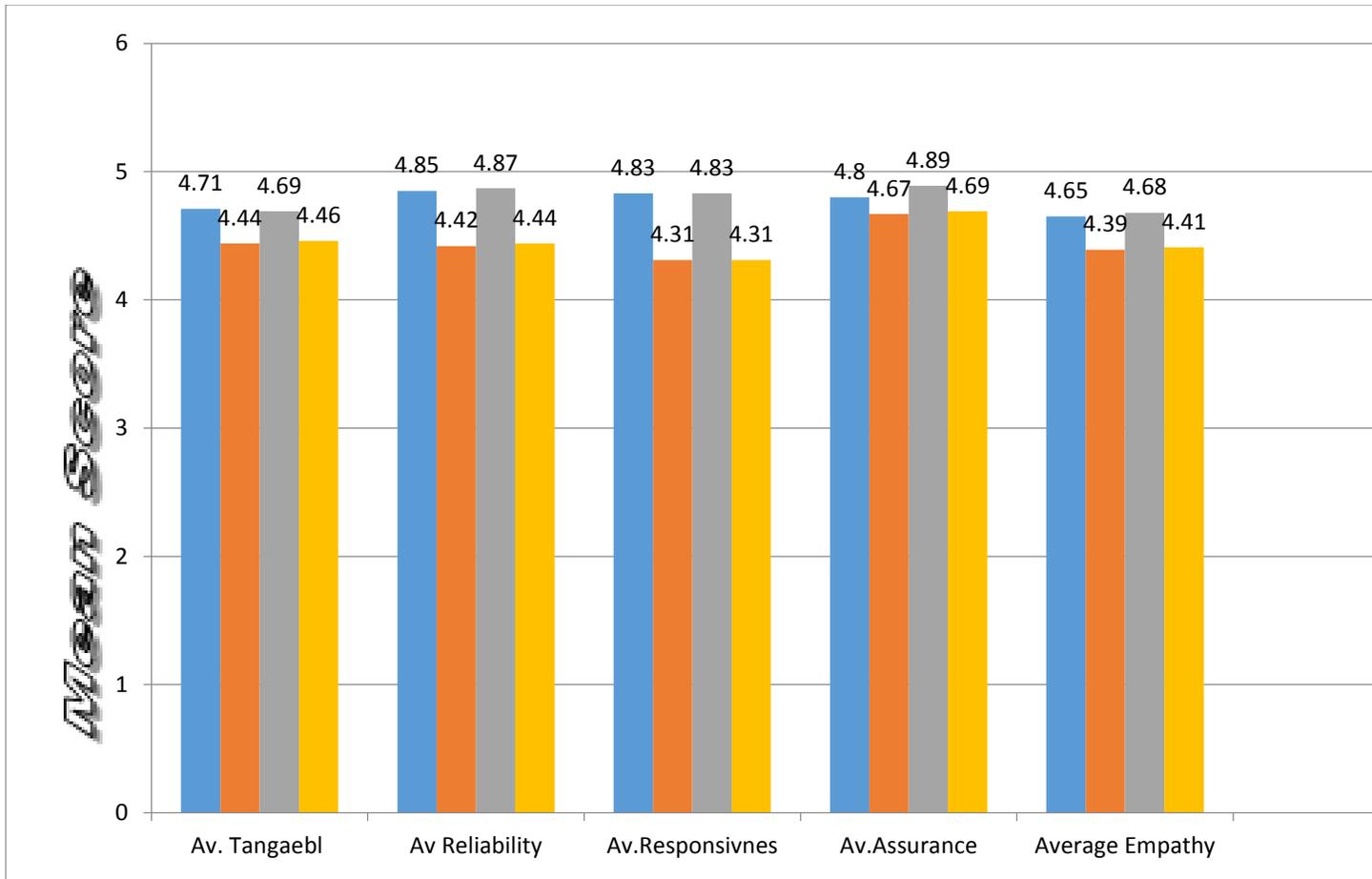
background, although there were also findings that did not confirm the crucial role of demographic factors; for example, Ramez (2011) studying the service quality of commercial banks did not find any significant differences overall between the demographics variables in the perception of service quality of the banks.

To compare the perception of customers towards service quality of commercial banks, their personal characteristics such as, gender, age, occupation, monthly income and educational qualification are categorized and analyzed as follows:

#### **4.5.1 Overall Service Quality and Gender**

It was hypothesized in the study that there is a significant difference between overall service quality reported by categories of gender, ages, income level and academic qualification. In terms of gender, Fig. 4.3 indicates that the mean gap score of overall service quality of males is -0.32 and that of females is -0.33 and these service quality gaps are not that much significantly different. Accordingly, the females perceive the service quality slightly more positively than males do but not that much on the significant level. The implication of this finding is that gender has no influence on customers' overall perceived service quality. Figure 4.3 indicates the overall service quality in relation to the gender of customers.

Figure 4.3: Overall Service Quality and Gender of customers



Source: Field Survey Data. March, 2016

Regarding gender of respondents and the overall service quality, it was found that both males and females reported significantly negative perception and expectation gap. The mean gap score of overall service quality of males is -0.32 and that of females is -0.33. This indicates that there is no significance difference between the male and female scores. This implies that though both males and females perceived the overall service quality to be below expectation, the males and females perception of the level of the overall service quality of the bank is similar. The implication of this finding is that gender has no role on customers' perceived service quality.

#### 4.5.2 Overall Service Quality and Age of customers

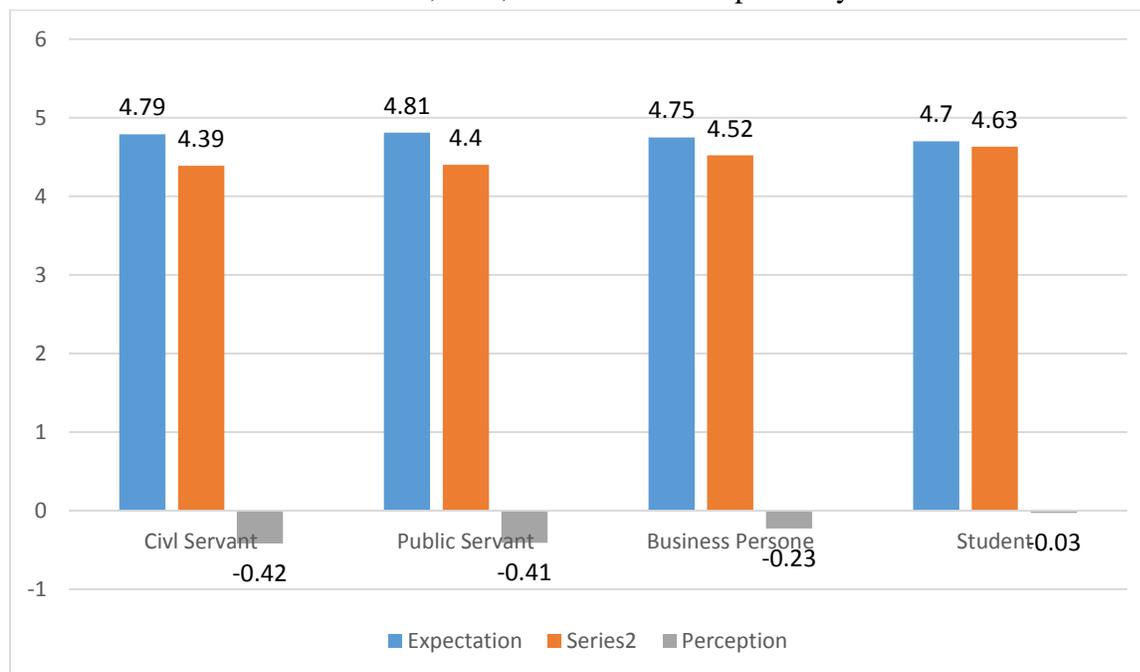
The customers are categorized into five age categories such as 'below 20 years', '20-29 years', '30-39 years', '40-49 years' and '50 and above years' and their perceived mean scores towards

service quality of the banks are found to be 4.50, 4.52, 4.44, 4.43 and 4.41 respectively. The mean scores show that customers belong to the age group ‘below 20 and 20-29 years’ have obtained higher mean scores than others. Hence, the means scores indicate that young age group customers have higher level of perception towards service quality of the banks. Figure 4.4: shows the overall service quality in relation to age of customers

There is significant difference among various age groups of customers on their perception towards the overall service quality of the banks. Based on the results of the study it can be concluded that age of the consumer exerts a significant impact on evaluations of service quality of the customers.

#### 4.5.3 Overall Service Quality and Occupation of Customers

The respondents are categorized into four on the basis of their occupation such as ‘civil servant’, ‘Public servant’, ‘Business person’ and “students” and their mean scores towards service quality of the banks are found to be 4.37, 4.40, 4.52 and 4.63 respectively.



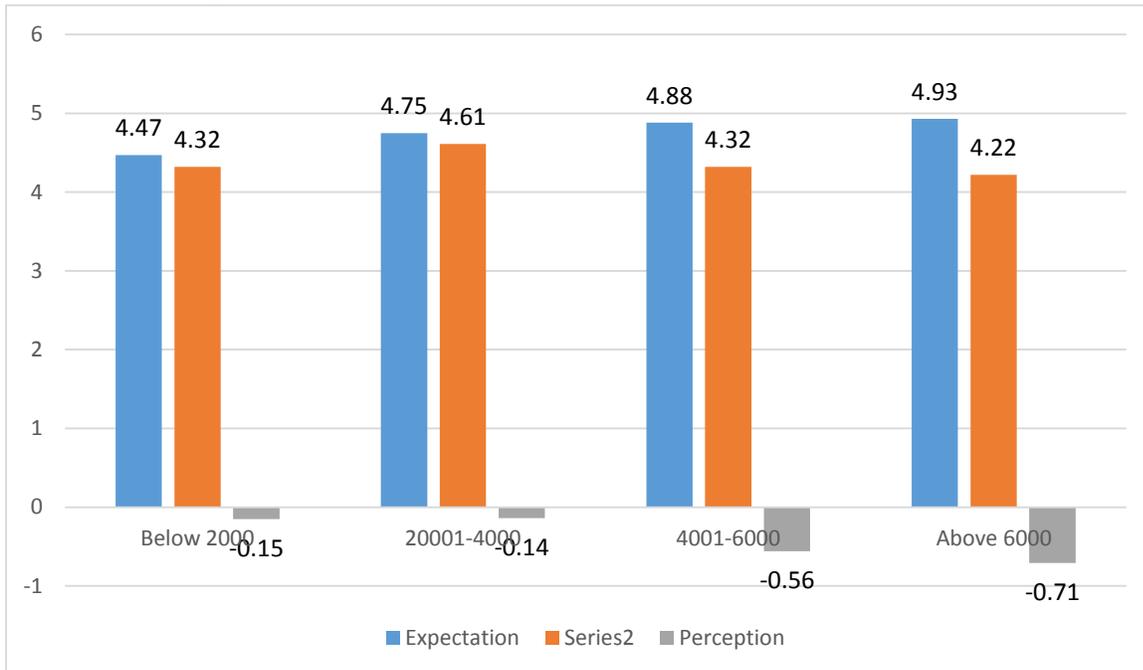
Source: Field Survey Data. March, 2016

The mean scores show that customers who are students and business person have higher mean scores than others. Hence, the means scores indicate that students and business person have higher level of perception towards service quality of the banks. The civil servant and public servant have more or less equal mean score towards overall service quality.

#### 4.5.4 Overall Service Quality and Income of Customers

It was inferred from Table 4.1 that 16% of the respondents belong to the income group of below

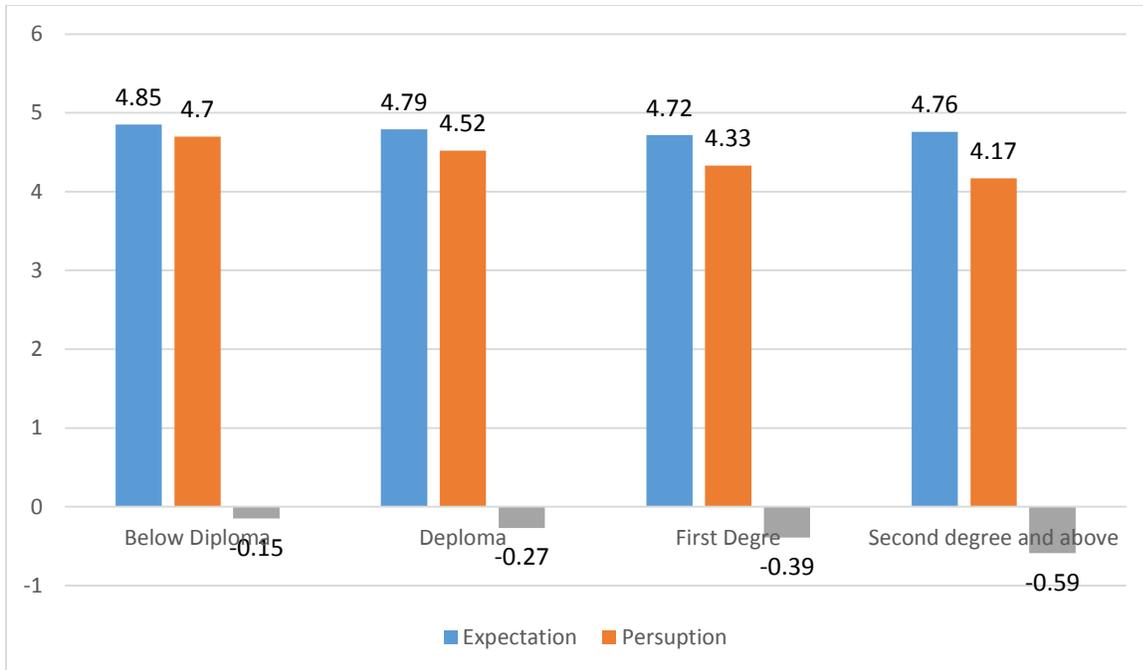
2000 followed by 47% of the respondents belong to the income group of Birr 2001 – 4000, followed by 19% of the respondents belong to the income group of Birr 4001–6000 and finally, 18% of the respondents belong to the income group of above Birr 6000. Their mean scores towards service quality of the banks are found to be 4.32, 4.61, 4.32 and 4.22, respectively. The mean scores show that customers at different level of income perceive the overall banking servicedifferently.



Source: Field Survey Data. March, 2016

#### 4.5.5 Overall Service Quality and Academics of Customers

The last issue under this part of data analysis and discussions of results is whether there is significant difference between the overall service quality scores of respondents of different academic qualification. Figure 4.7 shows the relationship between the overall service quality and academics of customers.



Source: Field Survey Data. March, 2016

The customers are categorized into four based on academics or educational level such as ‘below Diploma’, ‘Diploma’, First degree (BA/BSc)’, and Second degree and above ( MSc/MA and PhD). Their perceived mean scores towards service quality of the banks are found to be 4.70, 4.52, 4.33 and 4.17 respectively. The higher gap score (-0.59) is registered for the higher level of education and the lower gap (-0.15) is registered for the lower level of education.

The trend of the gap scores of the categories of academic qualifications indicate that the higher the level of academic qualifications of customers, the higher (more negative) the service quality gap reported. Thus, customers with higher academic qualifications perceived the service quality to be much more below expectation and those with lower academic qualification perceived the service quality to be approaching near to their expectation. From the analysis we understand that as the level of education increase the service quality gap also increase. This implies that the level of education have an influence on the overall banking service quality.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

The study revealed that the customers' evaluation toward banking service quality at the main branch of Commercial Bank of Ethiopia. The aim of this section is to check if the research questions were answered, the objective was met and if the study has contributions. It is totally a descriptive study that is limited in scope and sample size, but it can contribute to further study on quality of the banking sector in our country context. Therefore, based on the analysis and interpretations made at the previous chapter the following summaries, conclusions and recommendation are made.

#### **5.1 Summary of Major Findings**

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

Tangible has a gap score of -0.27. Among the entire attribute the convenience of the location of branch and ATM has comparatively high gap score of -0.33. However the bank has a relatively low gap in relation to "modern looking equipment's", "neat-appealing of employees" and "materials associated with the service are visually appealing" with a score of -0.31, -0.20 and -0.04 respectively.

The dimension reliability has a score of -0.43 which indicates that the branch fail to meet customers' expectation on this dimension. Out of the five items measuring service reliability, the attribute "the bank keeps its record accurately and error free " yielded highest score for perception and minimum score for the gap. This implies that the commercial bank of Ethiopia keeps proper records of transactions and provides as accurate as possible financial statements and other data on transactions of its customers. On the contrary, the attribute "When a customer has a problem the bank shows a sincere interest in solving it" scores the highest gap of -0.70 that requires improvement by the bank management.

Responsiveness has a highest gap score of -0.51 among the five dimensions. Out of the four items, the item 'employees give prompt service' gave the highest mean score for its perception. However, it was relatively lower than customers' expectation. This implies that customers waiting time is too long at the banking hall. The attribute "employees of the bank information easily obtainable" scores the highest gap. This indicates that customers are in problem of getting information easily. With regard to the attribute "staff are never too busy to respond to customers' request" have a high gap score demonstrating that 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 -0.13. An item “the behavior of employees inspires confidence in customers” yielded the mean score of 4.65 for the perception factor and -0.10 for the gap score. Meaning employees of commercial bank exhibit professionalism in their dealings with customers, because they know their work. Attributes like “behaviors of staff install confidence in customers” and “customers feel safe in their transactions” have a score of have a score of -0.10 and +0.05 respectively.

The last dimension of empathy has average gap score of -0.25 indicating the bank’s deficiency at this dimension. Specifically, ‘understanding the specific needs of customers’ attribute has a gap score of -0.25, which shows the bank doesn’t consider the specific need of customers and individual attention. The attribute “banking hours are convenient to most customers” scores the highest gap of -0.50 among the six empathy dimension items. This implies that the customers of the banks expect an extending of the working hours by the bank management for their convenience. In the same situation that the attribute “it is very easy to get in and out of the bank quickly” scores the second highest gap of -0.40. The reason is that the bank is located at the center of Addis Ababa. Therefore, for the entrance and exit of customers the front side of the bank is not comfortable for free movement because of high traffic jam.

The overall SERVQUAL score is the result of average perception score minus the average expectation score derived from the SERVQUAL instruments. 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 service quality of the bank falls short of expectations. Accordingly, the average gap score of the bank is -0.33. All the five dimensions recorded a negative service quality gap. This indicates that the bank service do not meet customers’ expectation.

In general, the five dimensions of services quality; reliability, responsiveness, assurance, empathy and tangibles are used as criteria to judge the quality of the services. Also these dimensions help service providers to understand about customers’ expectations regarding service offerings. This research reveals that among the five dimensions reliability is the most important one to judge the quality of the banking service. When firms are failed to deliver the promise and make frequent mistakes in service delivery, customer loses its confidence on the firm’s ability to provide timely and accurate service at the first end.

The customers of the bank expects reliability (M=4.86) is to be the most dominant service quality followed by responsiveness (M=4.82), assurance (M=4.81), tangibility (M=4.72) and empathy (4.66) in order of their importance based on the mean values of each service quality dimension measurement. Meanwhile, from this research the customers perceived banking service quality of assurance (M=4.68), tangibility (4.45), reliability (4.43), empathy (4.41), and lastly the

responsiveness (M=4.31) in order of customer ranking. The customers ranking sequence for the five dimensions are completely different in customers' expectation and perception of banking service quality.

Ranking of perceived service quality dimensions shows the most utilized service quality dimension of the bank. The factors of the dimension were aggregated and the grand mean score computed. By comparing the responses of the customers to the service delivered, the grand average scores established that the most utilize dimension of the bank is the assurance which had the highest mean score of 4.68 relative to the rest of the SERVEQUAL dimensions. Responsiveness which measures the willingness of bank employees to help customers and provide prompt service yielded the least average grand score of 4.31.

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.

Regarding background characteristics of respondents and overall service quality, it was confirmed that in terms of gender, both males and females reported significantly negative perception and expectation gap without any significance difference. The implication of this finding is that gender has no influence on customers' perceived service quality.

The findings revealed that there is significant difference among various age groups of customers on their perception towards the overall service quality. The trend of the perception gap scores for the age group of below 20 years old, 20-29 years old, 30-39 years old, 40-49 years old and 50 and above years old was identified as -0.20, -0.27, -0.44, -0.35 and -0.42 respectively. This indicates that age could have an influence on customer expectation and perception of overall service quality. Identifying the significance of age categories of customers on the evaluation of service quality in the commercial banking industry is very important because they perceived the banking overall service quality differently.

In terms of income group respondents are categorized under the monthly income of 2000 Birr and below, 2001-4000 Birr, 4001-6000 Birr and above 6000 Birr. The perceived gap score for each category is -0.15, -0.14, -0.56 and -0.71 respectively. The finding indicated that there is a significant differences between the overall service quality scores of different income groups. This implies that income level of customers have an influence on their expectation and perception of banking service quality differently.

Regarding academic qualifications, the findings indicates that there is a significant difference between the overall service quality scores of customers of different academic qualification. The

trend of the gap scores of the categories of academic qualifications indicate that the higher the level of academic qualifications of customers, the higher (more negative) the service quality gap reported (-0.59) and those with lower academic qualification perceived low service quality gap (-0.15). This finding indicates that as the level of education increase the dissatisfaction level of customers with currently existing bank service quality is also increased.

The respondents are categorized into four on the basis of their occupation such as ‘civil servant’, ‘Public servant’, ‘Business person’ and “Students” and their mean scores towards service quality of the bank were found to be 4.37, 4.40, 4.52 and 4.63 respectively. The perceived gap scores for the four category as identified is -0.42, -0.41, -0.23 and -0.03 respectively. From this we understand that the dissatisfaction level of civil and public servant is relatively higher than the business person and students.

In summarizing the impact of customers’ background characteristics on overall service quality: Based on the results of the study it can be concluded that background characteristics of the bank customers excluding gender of customers exerts a significant impact on evaluations of service quality of the bank. Furthermore the findings imply that overall service quality and also service quality with respect to the dimensions of responsiveness, reliability, tangibles, empathy and assurance are differentiated on the basis of background characteristics of the customers. Hence the bank managers should identify carefully the relation between the background characteristics and the way that they evaluate service quality and also relate to the dimensions of service quality. Therefore, identifying the significance of the background categories of the customers on the evaluation of service quality in the commercial banking industry is very important.

## 5.2 Conclusions

From the findings of the study the following conclusions were drawn. In the first place, the 27 scale items used for the study are significantly important in measuring service quality and its dimensions. Secondly, the overall service quality of the bank is a construct of five dimensions namely, tangibility, reliability, responsive, assurance and empathy. Thirdly, the overall service quality of the bank does not meet customers’ expectations.

Survey results indicate that “the reliability” dimension takes the highest expected value by ranking of respondents. It is very important for people that their transactions are correctly made at the first attempt. Customers continue to be the customers of that bank which operates correctly and on time. The role of the bank’s staff is tremendous at increasing the service quality since the institution’s staff offers the service and connects with the customers. The effort and the attention that the bank staff performs in solving customers’ problems will enable the responsiveness factor to be positively perceived.

The “assurance” dimension has also the high expected value next to responsiveness. There are

many banks in our country and in the world. The operations that these banks perform are similar to each other. Therefore, creating differences in the services offered and having wise bank staff in every related subject are the main reasons for being the customers' preference. Customers choose credible banks that have wise bank staff who can meet their expectations, offer different investment opportunities, value privacy, and that are easily accessible.

Once in an environment where a service is going to be taken the first impression is quite important for the customer. Customers come across with the physical environment once they are in a bank where they are going to take service. Easily accessible services, the neat and tidy bank and the staff can lead the customers to a positive idea about the service before they take it.

It is seen that the factor of "empathy, compared to the other factors, is ranked at the lowest position of the banking services expectation. Being the last factor does not mean that the impact of empathy is low. Though lower compared to the other factors, it is certain that it creates a significant expectation. Customers may sometimes have difficulties while trying to explain themselves. Thus they may need the bank staff to listen to their questions attentively and reply in an apprehensible manner. Consequently, in a world where customers' expectations increase and change continuously it is necessary to follow these expectations closely and promptly take the essential steps to meet them. Banks that target customers' dependency should always increase their service quality.

By comparing the average scores of the respondents regarding the performance and expectation of customers of the banking services provided by the bank, customer expectation responses yielded higher scores than the performance of the services provided by commercial bank. The average scores of customers' expectations exceeded that of the perception of the SERVQUAL dimensions. It can be concluded from the analysis that customers are not satisfied with the services of the bank.

To conclude, the research findings suggest that service quality referring to customers' judgment about bank superiority should be regarded as the best feedback mechanism to improve service quality for competitive advantage in the commercial banking industry.

### **5.3 Recommendations**

As much as possible it is important to maintain the strengths of the bank and even more important to work on the weakness. Therefore, the following recommendation is proposed by the researcher based on the finding of the study to improve the service quality of the bank, which will enable to cope with the challenges faced by the commercial banking industry.

Banking sector today has a compelling demand for improvement, to survive the substantial

completion in today's scenario. 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 the commercial bank of Ethiopia 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 on the findings of this study the following recommendations are proposed to help for improvement of service quality at the main branch. Since the SERVQUAL scores for the main branch shows 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. Thus, management of commercial bank should be aware of this information and take concrete steps to improve on overall service quality of the bank. To achieve this, the bank should consider the following steps with regard to their staff and management:

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.

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. Teamwork is often seen in the academic literature as a means of supporting willingness to deliver service quality

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. Employee's empowerment facilitates the creation of an integrated quality environment, where superior products and services become practical. In order to increase effectiveness in the banking industry, management must become active in empowering their employees. This is done by sharing information, creating autonomy, and establishing self-directed teams. Tellers are considered a "front line" in the banking business. This is because they are the first people that a customer sees at the bank and are also the people most likely to detect and stop fraudulent transactions in order to prevent losses at a bank. The position also requires tellers to be friendly and interact with the customers, providing them with information about customers' accounts and bank services.

Efficient and knowledgeable employees are always a big boom for commercial banking activities. Employees should be trained on technical and behavioral aspects, so that the banks can deliver quick and prompt services. In order to bridge the gap between customers' perceptions of service delivery it requires providing continuous training to the front line employees to enhance their customer service skills. The training should focus on front line employees' ability to help customers resolve their queries and problems quickly. In the process of resolving such problems,

they should show a caring, courteous attitude and a sincere interest in helping customers. Furthermore, front line employees should improve their knowledge and skills so that they can provide a fast and reliable service to their customers. When they promise to do something for the customer within a certain time, they must fulfill that promise. The frontline is the touch point of the company; therefore, the service that frontline employees provide is critical in developing customer relationships, gathering customer information, and in creating customer satisfaction, loyalty, and brand commitment.

In addition, training of other bank employees rather than front line employees to identify and improve their attitudes towards meeting customers' expectation is also paramount. 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, complaints and problems.

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.

Professionalism not only speaks about the way of doing things but also takes into account, the way you present yourself as a part of the organization. To maintain a standard, it is very essential the bank to follows a dress code with its employees like Ethiopian Airlines.

Manage Customer complaints: Customers are more knowledgeable, sophisticated, informed and assertive. They demand higher levels of customer service and more inclined to switch to a competitor. If a customer expects a certain level of service, and perceives the service received to be higher, he is a satisfied client. If he perceives the same level as before, but expected higher, he is a disappointed and, accordingly, a dissatisfied client. At the heart of any successful strategy to manage customer satisfaction is ability to 'listen to the customer' so the bank management has to establish continuous assessment of customer feedback and market research strategic activities. The bank should work on its complaint handling process so that complaints are handled efficiently and effectively. Service failures are inevitable and this needs to be understood and managed by the bank to ensure greater customer satisfaction. Service failures should be backed by strong recovery techniques to offset the negative impact of the failures.

The gap analysis shows that responsiveness is having more gaps between customer expectation and perception of service quality. The bank has to reduce this gap by showing willingness to help customers, provide prompt service, making information easily available to customers and not appearing too busy to respond to request of customers.

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.

The bank should take steps to ensure that the employees deliver the services at promised time as time is very important factor in the purchase of services. In fact time and effort costs are very high in purchase of banking services.

Banks may reconsider their banking service hours and install additional ATMs at various convenient locations and making the ATMs to be operational all the time including Sunday.

Based on the survey result, the commercial bank of Ethiopia should work to improve the tangibles. A special emphasis should be given to convenience of bank location by making the surrounding more comfortable for parking and entrance of customers 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.

The aspects that are critical in empathy include employees' knowledge to respond to customer requests or needs. Bank invests heavily on staff training so as to equip them with the necessary knowledge and skills to deal with their customers. On the employees' personal attention to their customers, marketing literature indicates that service providers that provide individualized attention to their customers increase their level of perceived service quality. Employees must be skilled enough to be able to immediately recognize the needs of the customers and this is critical in improving service quality.

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. Addressing to the individual customer needs is one crucial aspect to be considered, as the customer would find himself as a part of the organization. This would build a good relationship between the bank and the customer. Therefore, customer relationship is one another aspect the banks need to be given par importance. Managing customer relation efficiently is an advantage that the banks should concentrate to win the situation.

Furthermore, knowledge of the cost and benefits of keeping existing customers relative to attracting new ones draws companies' attentions to looking after present customers, responding to their needs and problem developing long-term relationships.

The bank must improve a waiting line strategy to satisfy their customers: Waiting is frustrating because one has to do many things during that time. In a business, a customer hates waiting. To try to overcome this, the bank must properly design the service to minimize the waiting time. The waiting time of the customers at the time of obtaining service has a major impact on their behavior. This is the first stage where the customers judge the quality of service provided to them.

A comparison between expectation and perception indicate a gap. Thus, customer expectations scores are higher than the scores of customer perceptions. The commercial bank is required by this revelation to consider repackaging and redesigning of its service operations to match up with customer expectation. This can be done by finding out from customers what they expect from the bank and provide accordingly. By this customers will be compelled by virtue of superior service to stay than switching to a competitor.

The present study direct that, there was no difference in expectation and perception of service quality of male and female. However, the expectation and perceived value was different based on age group, educational level, academic wise and income level of the respondents. Therefore, the researcher recommends to the bankers and bank policy makers to develop their service and service features according to the demographic profile of the existing as well as the expected new customers. Policy makers of Commercial Bank of Ethiopia should factor in customers' background characteristics when formulating policies on improving service quality.

The efficiency of the Commercial Bank of Ethiopia depends upon how best it can deliver services to its target customer. In order to service in this competitive environment and provide continual customer satisfaction the banking service providers are required to frequently increase the quality of service. Service process performance of a bank should be measured continuously to achieve competitive advantage and this is possible through providing quality service by the bank.

Management's commitment to quality improvement is crucial since management is primary driver for quality improvement initiatives. Top management leadership is the degree of which top management sets up quality management objectives and strategies, provides and allocates necessary resources, contributes in quality improvement efforts, and assesses quality management implementation and performance.

Developing Quality-based service strategy: As practice has shown that not all competitors can

achieve the expected service quality. As a rule, service companies basing their marketing strategies on quality have a recognizable image on the service market, which competitors cannot appropriate or copy. Such a service marketing strategy therefore poses a barrier to developing competitive copycat marketing strategies. To survive in the competitive banking industry, the commercial bank has to develop new strategies which will satisfy their customers. Since it is impossible to have product differentiation in a competitive environment like the banking industry as all banks are delivering the same products, bank management should try to differentiate their firm from competitors through service quality. Service quality is an imperative factor impacting customers' satisfaction level in the banking industry.

#### **5.4 Future Research**

Several issues associated with the limited time frame and cost in this study require further research considerations. Future research should concentrate on a larger sample size and systematically selected representative branch of commercial bank. Moreover, e-business is a major trend in the world. Banks have to utilize Internet technologies to improve productivity or profitability. To be more successful, banks should prepare for changes in technological advances. Therefore, e-business or technology should be incorporated as a factor to measure service quality in future research. In addition, more decision making variables should also be considered in the research model.

Quality has come to be recognized as a strategic tool for attaining operational efficiency and improved business performance. This is true for both the goods and services sectors. However, the problem with management of service quality in service firms is that quality is not easily identifiable and measurable due to inherent characteristics of services which make them different from goods. Various definitions of the term 'service quality' have been proposed in the past and, based on different definitions different scales for measuring service quality have been put forward. SERVQUAL and SERVPERF constitute two major service quality measurement scales. The consensus, however, continues to elude till date as to which one is superior. An ideal service quality scale is one that provides insights to the managers for corrective actions in the event of quality shortfalls. Therefore, the future study should incorporate SERVPERF service quality measurement scales.

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APPENDICES-A



ST.MARS UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA PROGRAM

Questionnaire to be filled by Commercial bank of Ethiopia customer.

Dear Respondent:

I would like to express my sincere appreciation for your generous time and honest prompt responses.

**Objective:** This questionnaire is designed to collect information about the existing practices **BANKING SERVICE QUALITY FROM CUSTOMER PERSPECTIVE: THE CASE OF COMMERCIAL BANK OF ETHIOPIA.** The information that you respond shall be used as a primary data in my case research which I am conducting as partial requirements of master degree at St. Mary's university under business administration.

Therefore, the information gathered will be used fully and with due attention for academic purpose only and I would like to assure you that data collected will not be misused any ways.

Thank You!

Researcher: Seblework Abate Mekonnen

For your entire enquiry: ([Sebleworkabate1@gmail.com](mailto:Sebleworkabate1@gmail.com)& +251934573177)

General instructions,

There is no need of writing your name.

In all cases where answer options are available please tick ( ) in the appropriate box. For questions that demand your opinion, please try to honestly describe as per the questions on the space provided.

If the space provided is not enough for your opinions, please use the back side of the paper by writing the question number.

Personal Information

1. Your Age

18-25

26-30

31-40

41-50

2. Sex

Female

Male

3. Your Occupation

Business Men

Public

Servant

civil servant

Student

4. Your Monthly Income (in Birr)

Birr 4000-6000

Above 6000

2000-4000

Below birr 2000

5. Your Academic Qualification

Below Diploma

Diploma

Bachelor Degree

Post Graduate master

PHD

Your Comments: If you want to, please use this space below to provide your own comments and options on the questions asked in this survey.

Strength-----  
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Weakness-----  
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Over All Suggestion about the above question-----  
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Section Two

Customer Expectation Of service Quality of commercial bank of Ethiopia (Main Branch)

**Expectation:** It means what you require what you hope to see and what you should get.

In your opinion what is your expectation (anticipation) of the service quality of your in terms of the following factors? Use the following response from 1 to 5 to answer where.

- ( 1 )                      ( 2 )                      ( 3 )                      ( 4 )                      ( 5 )  
 Strongly Dis agree    Dis agree                  Neutral                  Agree                      Strongly Agree

Factors/Antecedents

Tick( ) Only one option

	Tangibility	1	2	3	4	5
1	The bank has modern looking equipment					
2	The banks physical facilities are visually appearing					
3	The employees at the bank are neat appearing					
4	Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank.					
5	Convenience location of the branch					
6	Convenience location of the ATM					

	Reliability	1	2	3	4	5
1	When the bank promises to do something by ascertain time they do.					
2	When a customer has a problem the bank shows a sincere interest in solving it.					
3	The bank performs its service right the customer perception.					

	Responsibilities	1	2	3	4	5
1	Employees of the bank give prompt service					

2	Employees of the bank make information easily obtainable					
3	Employees of the bank are always willing to help customer.					
4	Employees of the bank are not too busy to respond to customer request.					

	Assurance	1	2	3	4	5
1	The behavior of employees of the banks inspires confidence in customer					
2	Customer feel safe in doing business or transactions with the bank					
3	Employees of the bank are knowledgably to answer customer question					
4	Bank Employees are polite and kind					
5	Bank employees are trust worthy					
6	Information provided by the bank employees are clear and understandable.					

	Empathy	1	2	3	4	5
1	The bank gives individual customers attention					
2	The employees offer a customer personal attention					
3	The bank hares are convenient to most customers.					
4	Employees understand the specific need of customers.					
5	The bank has customer's best interest at heart.					
6	It is very Easy to get in and out the bank quickly					

Section Three

Customer perception of service quality of commercial bank (Main branch)

Perception: It means observation, view or opinion

In your opinion what is your perception (It means observation, view or opinion) of the service quality of your bank in terms of the following factors? Use the following responses from 1 to 5 to answer where.

(1)                      (2)                      (3)                      ( 4 )                      ( 5 )

Strongly Dis agree    Dis agree            Neutral                Agree                    Strongly Agree

Factors/Antecedent

	Tangibility	1	2	3	4	5
1	The bank has modern looking equipment					
2	The bank physical facilities are visually appealing					
3	The employees at the bank should be neat appearing					
4	Materials associated with the service such as booklet, cheque book and statement are appearing in the bank.					
5	Convenience location of the bank					
6	Convenience location of the ATM					

	Reliability	1	2	3	4	5
1	When the bank promises to do something by ascertain time they do.					
2	When a customer has a problem the bank shows a sincere interest in solving it.					
3	The bank performs its service right the first time					
4	The bank provides its service at the time of promise to do so.					
5	The bank keeps its record accurately and free from errors.					

APPENDICES-B

Score and Frequency of Respondents

Dimension	Q	Item	Expectation					Perception						
			1	2	3	4	5	Total	1	2	3	4	5	Total
	1	The bank has modern looking equipment	-	-	5	5	9	100			3	4	5	
	2	The banks physical facilities are visually appealing			3	2	7				3	5	4	
	3	The employees at the bank are neat appearing			6	2	7				8	4	5	
	4	Materials Associated with the			2	8	9				6	4	9	

		service such as booklet, cheque book and statements are appealing in the bank					0						0
5		Convenience location of the branch			6	2	6				2	7	2
6		Convenience location of the ATM				4	6				1	4	4
						0	0				3	7	0
7		When the bank promises to do something by ascertain time they do.				1	9				7	5	4
						0	0					3	0
8		When a customer has a problem the bank shows a sincere interest in solving it.			1	4	9				6	6	3
							5					4	0
9		The bank performs its service right the customer perception			7	1	8				1	4	5
						3	0				0	0	0
10		The bank provide its service at the time it promises to do so			3	1	8				1	5	4
						3	4				0	0	0
11		11The bank keeps its record accordingly free from error			1	3	9				1	6	9
							6						3
12		Employees of the bank give prompt service			1	4	9				2	4	5
							5					8	0
13		Employees of the bank make information easily obtainable			3	7	9				6	7	2
							0					4	0
14		Employees of the bank are always willing to help customer			1	2	7				4	5	4
							9					1	5
15		Employees of the bank are not too busy to respond to customer request			3	2	7				6	6	3
							5					4	0
16		The behavior of employees of the banks inspires confidence in customer			5	1	8				1	1	7
							0				0	5	5
17		Customer feel safe in doing business or transactions with the bank				1	9					5	9
							0						5
18		Employees of the bank are knowledgably to answer customer question			2	2	7				2	5	4
							6					3	5
19		Bank Employees are polite and kind			2	5	9				5	5	9
							3						0
20		Bank employees are trust worthy			3	6	9				1	1	8

							1				0	0	0	
	21	Information provided by the bank employees are clear and understandable			5	1	7				3	4	5	
						7	8					2	5	
	22	The bank gives individual customers attention			2	2	7				1	4	5	
						8	0					6	0	
	23	The employees offer a customer personal attention			4	3	6				5	5	4	
						5	1					0	5	
	24	The bank hars are convenient to most customers			3	7	9				3	5	4	
							0					7	0	
	25	Employees understand the specific need of customers.			5	3	6				5	5	4	
						0	5					5	0	
	26	The bank has customer's best interest at heart.			3	3	6				5	5	4	
						5	2					5	0	
	27	It is very easy to get in and out the bank quickly			3	2	7				3	4	5	
						2	5					2	5	

## APPENDICES-C

Service Quality Gap Score of All Attribute Of specific Dimension.

Dimensions	Q	Items	Expectation	Perception	ServaqualGap
Tangibility	1	The bank has modern looking equipment	4.85	4.54	-0.31
	2	The banks physical facilities are visually appearing	4.73	4.37	-0.36
	3	The employees at the bank are neat appearing	4.64	4.44	-0.20
	4	Materials Associated with the service such as booklet, cheque book and statements are appealing in the bank	4.88	4.84	-0.04
	5	Convenience location of	4.59	4.26	-0.33

		the branch			
	6	Convenience location of the ATM	4.6	4.27	-0.33
		Average score of tangibility dimension	4.72	4.45	-0.27
Reliability	7	When the bank promises to do something by ascertain time they do.	4.9	4.33	-0.57
	8	When a customer has a problem the bank shows a sincere interest in solving it.	4.94	4.24	-0.7
	9	9The bank performs its service right the customer perception	4.73	4.4	-0.33
	10	10The bank provide its service at the time it promises to do so	4.81	4.3	-0.51
	11	11The bank keeps its record accordingly free from error	4.95	4.92	-0.03
			Average score of Reliability dimension	4.86	4.43
Responsbelness	12	Employees of the bank give prompt service	4.94	4.48	-0.36
	13	Employees of the bank make information easily obtainable	4.87	4.14	-0.63
	14	Employees of the bank are always willing to help customer	4.78	4.40	-0.18
	15	Employees of the bank are not too busy to respond to customer request	4.72	4.24	-0.31
			Average score of Reliability dimension	4.82	4.31
Assurance	16	The behavior of employees of the banks inspires confidence in customer	4.78	4.65	-0.10
	17	Customer feel safe in doing	4.9	4.95	0.05

		business or transactions with the bank			
	18	Employees of the bank are knowledgeable to answer customer question	4.74	4.43	-0.31
	19	Bank Employees are polite and kind	4.91	4.85	-0.06
	20	Bank employees are trust worthy	4.84	4.7	-0.19
	21	Information provided by the bank employees are clear and understandable	4.73	4.52	-0.21
		Average score of Assurance dimension	4.81	4.68	-0.13
Empathy	22	The bank gives individual customers attention	4.68	4.46	-0.22
	23	The employees offer a customer personal attention	4.51	4.44	-0.07
	24	The bank hars are convenient to most customers	4.87	4.37	-0.5
	25	Employees understand the specific need of customers.	4.6	4.35	-0.25
	26	The bank has customer's best interest at heart.	4.59	4.52	-0.07
	27	It is very easy to get in and out the bank quickly	4.72	4.32	-0.40
			Average score of Empathy dimension	4.66	4.41
		Average ServQUAL Gap	4.78	4.45	-0.33

APPENDICES-D Over all Service quality and gender

Dimension	Male Respondents			Female Respondent		
	Expected Mean	Perceived Mean	Gap score	Expected Mean	Perceived Mean	Gap score
Average Tangible Score	4.71	4.44	-0.27	4.69	4.46	-0.23
Average Reliability	4.85	4.42	-0.43	4.87	4.44	-0.43

Score						
Average Responsible Score	4.83	4.31	-0.52	4.83	4.31	-0.52
Average Assurance Score	4.8	4.67	-0.13	4.89	4.69	-0.2
Average Empathy Score	4.65	4.39	-0.26	4.68	4.41	-0.27
Average=Total/5	4.67	4.44	0.32	4.79	4.46	-0.33

APPENDICES-E Over all service quality and age of customer.

Dimension	Bellow 20 Years old			20-29 years old			30-39 years old			40-50 years old			Above 50		
	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score
Average Tangible Score	4.5	4.5	0.0	4.7	4.43	-0.27	4.73	4.45	-0.28	4.7	4.43	-0.27	4.83	4.33	-0.5
Average Reliability Score	4.8	4.5	-0.3	4.9	4.54	-0.36	4.84	4.33	-0.51	4.88	4.26	-0.62	4.9	4.4	-0.5
Average Responsible Score	4.87	4.62	-0.25	4.8	4.5	-0.3	4.88	4.74	-0.14	4.83	4.27	-0.56	4.87	4.62	-0.25
Average Assurance Score	4.58	4.5	-0.08	4.82	4.7	-0.12	4.83	4.58	-0.25	4.79	4.75	-0.04	4.91	4.58	-0.33
Average Empathy	4.75	4.41	-0.34	4.66	4.43	-0.23	4.72	4.3	-0.42	4.71	4.46	-0.25	4.66	4.16	-0.5

thy Score															
Average=Total/5	4.7	4.50	-0.2	4.79	4.52	-0.27	4.8	4.36	-0.44	4.78	4.43	-0.35	4.83	4.41	-0.42

APPENDICES-F over all service quality and Academic of customer

Dimension	Below Diploma			Diploma			First Degree			Second Degree and Above		
	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Gap Score	Expected Mean	Perceived Mean	Expected Mean
Average Tangible Score	4.81	4.74	-0.07	4.71	4.52	-0.19	4.66	4.35	-0.35	4.74	4.11	-0.63
Average Reliability Score	4.93	4.76	-0.17	4.94	4.59	-0.35	4.8	4.11	-0.69	4.85	4.14	-0.71
Average Responsible Score	4.88	4.58	-0.3	4.79	4.32	-0.47	4.82	4.18	-0.64	4.74	4.03	-0.71
Average Assurance Score	4.88	4.86	-0.02	4.84	4.74	-0.1	4.68	4.65	-0.03	4.84	4.38	-0.46
Average Empathy Score	4.76	4.6	-0.16	4.69	4.41	-0.28	4.62	4.34	-0.28	4.66	4.21	-0.45
Average=Total/5	4.85	4.7	-0.15	4.79	4.52	-0.27	4.72	4.33	-0.39	4.76	4.17	-0.59