



AN ASSESSMENT OF THE ALLIANCE BETWEEN SERVICE QUALITY AND CUSTOMER SATISFACTION IN BANKING SECTOR –ETHIOPIA

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Abstract

Today competition is not only rife, but growing more intense constantly. However, companies need to start paying keen attention to their competitors; they must understand their customers. Banking sector are suffering from competition. They have to believe customers as core concept of their business; customer satisfaction is what guarantees the future of banking services and it is achievable by taking up their services and customers' needs. In other words, service quality is typically defined in terms of consumer satisfaction. The purpose of this study was assessing the relationship between service quality and customer satisfaction at commercial bank of Ethiopia in Ethiopia using a model that describes various dimensions of service quality. To this purpose the researcher was studied the service quality of the banking using SERVQUAL model. Convenience sampling technique was used in the study.

The methodology was based on primary data collected through a well-structured questionnaire administered on a sample size of 200 respondents randomly selected from commercial bank of Ethiopia. In order to assess the relationship between service quality and customer satisfaction in relation to the quality of service, five attributes was used to create a better understanding of the relationship between the attributes and customer satisfaction, by focusing on the retail banking industry of commercial bank of Ethiopia. The study respondents were accounts holders of the selected banks of commercial banks of Ethiopia. The collected data has been analyzed the help of tools like SPSS, descriptive statistics, correlation and regression Analysis.

The results shows that the most important service quality practice on customer satisfaction is responsiveness as it is perceived as a dominant service quality. The results reveal that the service quality dimensions of tangibles, responsiveness, empathy, reliability and assurance are positively and significantly relationship with the customers overall satisfaction.

This finding reinforces the need for banks managers to place an emphasis on the underlying dimensions of service quality especially on responsiveness and better to start with improving service quality in order to raise overall customer satisfaction.

Introduction

Service Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. Service quality is a recent, decisive issue in the marketing thought. It also helps control the competitive position, and consequently, determines the market share and profits (Abdullah, 2002). Therefore, the ability of banking sector to continue and survive in the market depends on their ability to respond to the requirements of change and interact with the output of it. As the customers' needs and wishes are shaped and formed in the light of their economic, social and civilization conditions, there is a close relationship between the banks' ability to continue and survive and their ability to produce services that fit in with the increasing and changing needs of the customers. So, organizations, especially service ones, work hard to find effective ways to counter external changes in order to survive and they enhance their effectiveness by means of activating their services and creating and developing new ones.

Currently technological changes are causing banks to think their strategies for services offered to both commercial and individual customers (Hossain and Shirely, 2010). Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins, 1988), and expanded market share (Bowen and Hedges, 1993).

Therefore, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004).

Research Questions

- Does service quality have an impact on the satisfaction level of customer?
- What is the level of customer satisfaction?
- Is there any relationship between service quality and customer satisfaction?

Objectives of the Study

The main purpose of this study was to assess relationship between service quality using the five dimensions of SERVQUAL model and customer satisfaction at commercial banks of Ethiopia.



The Specific Objective of the Study Includes

- To examine the relationship between services quality and customer satisfaction.
- To identify the impact of service quality on the satisfaction level of customers.
- To measure the satisfaction level of customers within commercial bank of Ethiopia

Literature Review

Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers (Howcroft et. al., 2002). The banking industry is highly competitive, as banks are competing among each other and also with non-banks and other financial institutions (Kayak and Kucukemiroglu, 1992; Hull, 2002). Banks provide nearly identical services and they can only distinguish themselves on the basis of price and quality of service (Stafford, 1992). The service quality in banks leads to higher profits, credibility, and market share, lowering cost and improving productivity (Raddon 1987; Buzzell and Gale, 1987; Parasuraman and Berry, 1991; Heskett et. al., 1990; Adrian 1995; Bateson, 1995; Berry et.al., 1989; Garvin 1983; Kotler, 2003). Turban et al (2001) state that customer service is a series of activities designed to enhance the level of customer satisfaction a feeling that a product or service has met their expectation. Satisfied generally seem to be positive assessment of service contentment, happiness, relief, achieving aims, and happy with outcome and the fact that they did not encounter any stress.

SERVQUAL: The initial instrument used to measure service quality was designed by Parasuraman et al., (1985). According to Parasuraman et al, (1988) service quality is a function of pre purchase customer expectation, perceived process quality and perceived output quality. They define quality as a gap between customers' expectation of service and their perception of the service experience (moments of truth) ultimately deriving the standard SERVQUAL multiple survey instrument (Parasuraman et al., 1988). The "SERVQUAL" instrument included two 22-item sections that are intended to measure customer expectations for various aspects of service quality and customer perceptions of the service they actually receive from the focal service organization (Parasuraman et al., 1988).

SERVQUAL scale developed for evaluating satisfaction for a variety of services (Banks, credit card companies, repair and maintenance companies), contains five dimensions, i.e. tangibles, reliability, responsiveness, empathy and assurance (Parasuraman, 1988). Tangible is appearance of physical facilities, equipment, personnel and communication materials. Reliability is ability to perform promised service dependably and accurately (Zeithaml et al, 1988). Empathy is the ability to identify, understand and respond appropriately to customer's emotional state before, during and after the transaction (Shaffer, 2008). Assurance is knowledge and courtesy of employees and their ability to convey trust and confidence (Zeithaml et al, 1988).

SERVQUAL instrument by Parasuraman (1985, 1988, and 1994)[19,20,21] It has provided researchers with the possibility of measuring the performance expectations gaps composed by five determinants knows, reliability, responsiveness, empathy, assurance and tangibility.

Since the development of SERVQUAL by Parasuraman, Zeithaml, and Berry (1985), service quality has been widely researched and applied in different types of industries. SERVQUAL is a 'diagnostic tool that uncovers a firm's broad weaknesses and strengths' in service quality (Hoffman and Bateson, 2006). The SERVQUAL model (performance minus expectation) focuses on the five 'gaps' affecting the delivery of excellent service quality.

The five dimensions of the SERVQUAL scale include (see Parasuraman, Zeithaml, and Berry, 1988).

Research Methodology

The purpose of this study was to assess the relationship between service quality dimensions and customer satisfaction from the customer viewpoints. Service dimensions (tangibles, reliability, responsiveness, assurance and empathy) were thoroughly examined. Assessments was based on a Five-point Likert scale ranging from "strongly disagree (1) to "strongly agree (5) was used to measure the items.

3.1 Research Design

The study was used descriptive and exploratory research design. Descriptive method was used to describe the dimensions of the research variables and exploratory research design was used for generating ideas, insights, or hypothesis. In order to answer the problem statement and pertaining research objectives carefully, the research design was reflected on and discussed in each step below.



Source of Data

The main source of primary data was through a standard questionnaire. Secondary data was obtained from already existing literature that was from textbooks, journals, brochures, and internet and bank reports.

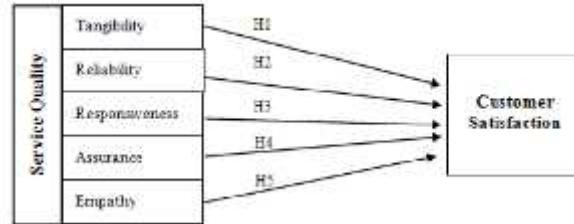


Fig. 1: Research Framework

The five hypotheses are as follows:

- H1: IS tangibility has a significant relationship on customer satisfaction?
- H2: IS reliability has a significant relationship on customer satisfaction?
- H3: IS responsiveness has a significant relationship on customer satisfaction?
- H4: IS assurance has a significant relationship on customer satisfaction?
- H5: IS empathy has a significant relationship on customer satisfaction?

Reliability Test Result

Alpha reliability is regarded as a measure of internal consistency of the mean of the items at the time of administration of the questionnaire. Cronbach’s alpha is a reliability coefficient that indicates how well the items in a set are positively related to one another. It is computed in terms of the average inter correlations among the items measuring the concept. Reliability is calculated in such a way that it represents the reliability of the mean of the items, not the reliability of any single item. So, the alpha reliability of 10 items would be higher than that of 5 similar items. This coefficient can hold a value of 0 to 1.

The result of 0.7 and above implies an acceptable level of internal reliability. The result of reliability test for the questionnaire is shown in the following table. As it is indicated in the table, the test result is between 0.77 and 0.93. Therefore, based on the test, the results for the items are reliable and acceptable.

Descriptive Analysis

This descriptive analysis is used to look at the data collected and to describe that information. It is used to describe the demographic factors for more clarification. It is mainly important to make some general observations about the data gathered for general or demographics questions. The demographics factors used in this research are gender, age, education qualification, occupation, monthly income, and length of time the respondents uses the banks services. For the scale typed questionnaires for all variables mean or average response of respondents was used. The mean response for all independent variables and dependent variable is 4 and above which was stated as agree. This average response shows that most of the respondents agreed that the bank service.

4.1. Age of Respondents

Table 4: Age of respondents

		Frequency	Percent	Valid Percent
Valid	18 years	5	2.5	2.5
	20-39 years	101	50.5	50.5
	40-59 years	76	38.0	38.0
	60 and above years	18	9.0	9.0
	Total	200	100.0	100.0

4.2 Occupation of the Respondents

The results of respondents’ occupation are indicated in table 4.4.

		Frequency	Percent	Valid Percent
Valid	Government sector	60	30.0	30.0
	Private sector	52	26.0	26.0
	Own business	46	23.0	23.0
	Student	42	21.0	21.0
	Total	200	100.0	100.0



4.3 Length of Time the Respondents Uses the Banks Services

The results of length of time the customers uses the banks services are indicated in table 4.6. As it is shown in the table.

Table 4.3: Length of Time the Respondents Uses the Banks Services

		Frequency	Percent	Valid Percent
Valid	Below1years	8	4.0	4.0
	1-3 years	56	28.0	28.0
	3-5 years	82	41.0	41.0
	5-7 years	45	22.5	22.5
	above7years	9	4.5	4.5
	Total		200	100.0

4.4 Means and Standard Deviations of Variables.

Table 4.7: Means and Standard Deviations of Variables

		Tangibility	Reliability	Empathy	Assurance	Responsiveness	Customer Satisfaction
N	Valid	200	200	200	200	200	200
	Missing	0	0	0	0	0	0
Mean		2.7738	3.2739	2.9670	3.2062	3.0325	2.9015
Std. Deviation		.88596	.92646	.92270	1.05366	1.04884	1.04336

Table 4.4 above has shown the statistical description of service quality, customer satisfaction of 200 respondents, banks customers perceived Reliability (with the highest mean scores, i.e. $M = 3.27$, $SD = 0.93$) to be the most dominant service quality and evident to a considerable extent, followed by Assurance ($M = 3.21$, $SD = 1.05$), Responsiveness ($M = 3.03$, $SD = 1.05$), and Empathy ($M = 2.96$, $SD = 0.922$), which was rated as moderate practices of their bank. Tangibility ($M = 2.77$, $SD = 0.88$), with the lowest mean score was perceived on the overall as least dimension of service quality. The standard deviations were quite high, indicating the dispersion in a widely-spread distribution. This means that the effects of service quality on customer satisfaction are an approximation to a normal distribution. This also indicates that respondents were in favor of customer satisfaction.

4.2 Correlation Analysis

Like the demographic factors, the scale typed questionnaire entered to the SPSS software version 16.00, to process correlation analysis. Based on the questionnaire which was filled by the customers of CBE in Gondar town, the following correlation analysis was made.

Table: 4.2.1 Correlations between Service Quality and Customer Satisfaction

		Customer Satisfaction	Service Quality
Customer satisfaction	Pearson Correlation	1	.835**
	Sig. (2-tailed)		.000
	N	200	200
Service quality	Pearson Correlation	.835**	1
	Sig. (2-tailed)	.000	
	N	200	200
**. Correlation is significant at the 0.01 level (2-tailed).			

Pearson correlation test was conducted to know the degree of relationship between the independent variable i.e. service quality and the dependent variable i.e. customer satisfaction. The results of the correlation between these variables are shown in table. As it is indicated in the table 4.8 there is significant correlation between service quality and customer satisfaction. In other words service quality and customer satisfaction have high relationship ($r=0.835$ with $p<0.01$).

Regression Analysis

This regression analysis was conducted to know by how much the independent variable explains the dependent variable. It is also used to understand by how much each independent variable (tangibility, reliability, empathy, assurance, responsiveness) explains the dependent variable that is customer satisfaction. The results of the regression analysis are the following.



Table: 4.14 Regression Analysis Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 ^a	.709	.702	.56819
a. Predictors: (Constant), responsiveness dimension, tangibility dimension, reliability dimension, assurance dimension, empathy dimension				
b. Dependent Variable: customer satisfaction				

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.292	.162		-1.797	.074
	tangibility dimension	.193	.057	.164	3.387	.001
	reliability dimension	.193	.066	.172	2.903	.004
	empathy dimension	.195	.061	.184	3.165	.002
	assurance dimension	.193	.064	.195	2.993	.003
	Responsiveness dimension	.371	.065	.373	5.712	.000
a. Dependent Variable: customer satisfaction						

The above results illustrate the highest impact of the responsiveness on customer satisfaction, where an increase in responsiveness by 0.373 was cause an increase in the customer satisfaction in banking sector. Similarly, the customer satisfaction in banks in Gondar town is directly affected by the Assurance where an increase in Assurance 0.195 was cause a direct increase in the customer satisfaction in banks. Also, the customer satisfaction in Gondar town banking was strongly affected by empathy where an increase in empathy 0.184 was causes a direct increase in the customer satisfaction within Gondar town banking. The moderate and positive impact of the reliability on customer satisfaction where an increase in reliability by 0.172 was cause an increase in the customer satisfaction in banking sector. Further the lowest impact of the tangibility on customer satisfaction, where an increase in tangibility by 0.164 was cause an increase in the customer satisfaction in Gondar town banking sector.

Conclusion

The nature of banking services encourages customers to demand the highest possible quality. In order to achieve this, it is essential to be very close to customers to capture information on customer current and future needs, expectations and perceptions. The main objective of this study was to assess the relationship between service quality and customer satisfaction. This study posits and develops an instrument of service quality, and examines the relationship between perceived service quality and customer satisfaction from various studies, SERVQUAL appears to be a consistent and reliable scale to measure banking service quality, and provide a useful diagnostic role to play in assessing and monitoring service quality in banks. The measurement of Banks' service quality has to be based on perceived quality. It is because service quality is intangible, heterogeneous and its consumption and production occur in tandem (Lim and Tang, 2000). This research also drew conclusions and gave suggestions. The research results are expected to provide guidance and reference for the management of commercial banks in Gondar town. The results of this study indicated that service quality is an important antecedent of customer satisfaction this result consistent with results drawn (Andaleeb and Conway, 2006; Gotlieb et al., 1994; Buttle, 1996; Zeithaml and Bitner, 1996; Lee et al., 2000; Zeithaml and Bitner, 2003). Five dimensions of service quality have significant influence on customer satisfaction. These dimensions include tangibles, reliability, responsiveness, assurance, and empathy. Moreover, our findings show that service quality is an important antecedent of customer satisfaction. This finding reinforces the need for banks managers to place an emphasis on the five dimensions of service quality.

The importance of study findings for managerial decision-making processes is evident. Banks managers seeking to improve their customers' satisfaction levels, in their effort to increase loyalty, retention rates and attract new customers, may benefit by information about the effect of individual dimensions of service quality on customer satisfaction.



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