Service quality, Customer Satisfaction and Loyalty of Commercial Banks in Ethiopia

Abiyot Tsegaye Kibret and Gemechu Nemera Dinber

Arbaminch University, College of Business and Economics, Department of Management,
P.O. Box 21, Arbamich, Ethiopia

ABSTRACT: Healthiness of financial system of a country depends on the success and competitiveness of financial institutions. The success and competitiveness of financial institutions are primarily realized through banks service quality, customer satisfaction and customer loyalty. Cognizant to these facts, this research was conducted to evaluate service quality, customer satisfaction and customer loyalty of commercial banks in Ethiopia. Two hundred three customers were surveyed with purposive sampling from selected commercial banks in major cities in the country. Further, the study explored the relationship among service quality, customer satisfaction and customer loyalty in Ethiopian Banking industry. The study revealed that customers are not satisfied with all dimensions of service quality of commercial banks in Ethiopia, and customers are not loyal to the banks. The study, further, confirmed that service quality, customer satisfaction and loyalty were found to be significantly correlated. Moreover, the study disclosed the existence of significant difference between private banks and public banks for the variables mentioned. The study recommends that banks in general and commercial bank of Ethiopia in particular have to improve the tangibility, reliability, responsiveness, assurance and empathy dimension of service quality in order to satisfy customers and hence to make customers loyal to banks.

KEYWORDS: service quality, customer satisfaction, customer loyalty, commercial banks, SERVQUAL.

1   BACKGROUND

1.1   INTRODUCTION

Economic growth and development of a country depends on the strength of financial sector of the country(Law & No, 2004). Countries with strong financial institutions enjoy resilient economic growth and less prone to shocks resulting from natural or social disasters(Fonchamnyo, 2013). The strength of financial institutions determines the wellbeing of different economic categories of countries. Countries with strong financial institutions are mainly economically developed while countries with less developed economies have underdeveloped financial institutions despite it is arguable about which one comes first. Leaving the argument aside, the vivid issue in the prevailing condition is that the strength of financial institutions of a country and its development are strongly correlated. One of the financial institutions that offer the financial service is bank which is defined as an organization which provides services on acceptance of deposits and provision of loans.

Since the ancient time banks and banking services have played a vital role in the economic, social and political matters of a country and the world as whole. Even though some literatures trace back the history of banking and banks from 200BC, in a more organized and structured manner it was started in late 14th century. Since then countries have been using banks and banking service in order to manage the financial resource of countries. The development of banking spread from northern Italy throughout the Roman Empire and in the 15th and 16th century to northern Europe. This was followed by a number of important innovations that took place in Netherlands during the Dutch Republic in the 17th century and in London in the 18th century. During the 20th century, developments in science and technology caused major changes to banks' operations and let banks dramatically increase in size and geographic spread.

Nowadays banks are at the centre of all economic aspects of a country and the world at large. Banks attract depositors by introducing attractive deposit schemes and providing rewards or return in the form of interest to create a habit of saving.

Banks increase capital formation by collecting deposits and converting these deposits into loans which expedite industrialization. In similar manner, banks facilitate the development of trade and commerce because customers send to and receive money from anywhere in the world via banks and banking services. Further, banks create job opportunity directly and indirectly because banks hire large manpower and promote investment which creates immense job opportunity locally and internationally. In addition, banks enable governments to implement monitory policies because banks are used as a tool to stabilize financial system of the country and enable the government to manage financial related crisis.

However, the role that banks can play in economic growth and development activity depends on banks and banking sector strength which can be expressed through different variables. Mainly, the availability of the service and the quality of the service are considered as major factors that determine the strength of banks and banking industry of a country. The degree of coverage of banking service in a country is taken as one of the main factors that enable economic growth and development resilient. Despite the growth rate is stagnant, developing countries are increasing the availability and penetration of banks and banking services as part of economic growth and development endeavours. Ethiopia is one of the developing countries which take banking service as one of the tools for resilient economic growth and economic development.

Banking service is about a century old practice in Ethiopia. Banking service was started in early 20th century in Ethiopia when an agreement was reached between Emperor Minilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt,in 1905(Shanka, 2012). The agreement enabled the country to establish the first bank called "Bank of Abyssinia" in 1906. However, because of the societies' being new for the banking service, Bank of Abyssinia had faced difficulty to familiarize to public. As a result, in 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia which was a purely Ethiopian institution and the first indigenous bank in Africa(Shanka, 2012). During the invasion, the Italians established branches of their main Banks and started operation in the main towns of the country. However, they all ceased operation soon after liberation in 1941.

After complete liberation, in 1943, the State Bank of Ethiopia commenced full operation to act as the central Bank of Ethiopia and had a power to issue bank notes and coins as the agent of the Ministry of Finance(Awoke, 2015). The Bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities. After enacting the monetary and banking law in 1963, state bank of Ethiopia was divided into two: National Bank of Ethiopia and Commercial Bank of Ethiopia. Then, many private banks had been established until the military government nationalized all private banks and prohibited any new establishment as of 1974. After the downfall of the military regime in 1991, many private banks have been established in the country. Now the country has a total of 17private banks and two government banks. The banking sector of Ethiopia comprises one central bank (National Bank of Ethiopia), two public banks and sixteen private banks with a total of 1724 branches and 23billion birr capital (National Bank of Ethiopia, 2013). As a result, bank branch to population ratio revolves around 50,000.

Despite the availability and accessibility banks and its service have been burgeoning in the past two decades, its service quality and customer satisfaction has not been demarcated. Availability and accessibility does not guarantee survival and growth in the globalized world. In more recent era, countries are joining the global trade stadium in a willy-nilly context. Cognizant to the fact, Ethiopia is joining the international trade arena in more recent reforms. Such internationalization requires improvement in quality which primarily determinants customer satisfaction and customer loyalty. If the banking sectors' quality and customer satisfaction among other factors are not gauged time after time, it may be feeble to realize resilient economic growth and development as well may retard global competitiveness.

The reason for banking sectors survival, growth and competitiveness is customer satisfaction which is taken as derivative of service quality. Customer satisfaction is at the centre of banks survival and growth in the competitive environment. Examining the banking service quality enables banks to survive, grow and to be competitive in their scope while making the nation to enjoy the banking services with its full packages. Better banking service quality attracts more customers into the industry, stimulate investment, create job opportunity and safeguarded the financial sectors. Similarly, better banking service quality creates satisfied customer which in turn be loyal to the bank. Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. The interrelationships between service quality, customer satisfaction and customer loyalty may provide creative ideas for improving services in order to gain a competitive advantage(Hallowell, 1996)(Caruana, 2016). Many globally dominant and successful banks have achieved their current position by innovating and improving the service provision through meticulous evaluation of service quality and customer satisfaction(Koskosas, 1995). However, banking service quality and customer satisfaction have not been thoroughly investigated in Ethiopia. Therefore, this study examined banking service quality, customer satisfaction and customer loyalty in selected government and private banks. Further, the study evaluateed the relationship between service quality, customer satisfaction, customer loyalty and factors affect the relationship.

1.2 STATEMENT OF THE PROBLEM

Despite the banking service is booming dramatically in Ethiopia, the service quality level and customer satisfaction has not been thoroughly examined. Since 1991, when the Derge regime was overthrown, the banking sector has been growing in many dimensions. The total banks' number has gone up from about four to nineteen and the number of branches has grown up from about less than one hundred to more than two thousand. The growth has enabled different pockets of the country to get banking service through different approaches. The growth improved the penetration rate in more recent times as a branch- population decreased from five hundred thousand a decade ago to about fifty thousand. However, the increase in availability and accessibility does not guarantee competitiveness in the globalized business environment. Nowadays, service quality and customer satisfaction are willy-nilly in the banking sector to survive and grow because the pressure from globalization and multinational banks may pose danger to the domestic banks. In the same token, the growing demand for quality service and growing expectation from the domestic consumers as a result of improving educational background and burgeoning income, it is a must to gauge service quality, customer satisfaction and customer loyalty in order to make possible amendments on the service provision. Hence, this research investigated service quality, customer satisfaction, customer loyalty in commercial banking sector; factors affecting these variables and the relationship between variables mentioned above.

1.3 RESEARCH QUESTIONS

This research addressed the following questions:

- Do commercial banks provide quality service to their customers?
- Are customers of commercial banks satisfied with the service quality?
- Are customers of commercial banks loyal to their banks?
- What is the relationship between service quality, customer satisfaction and customer loyalty?
- What is the effect of service quality on customer satisfaction and customer loyalty?
- Does the ownership matter on the service quality and customer satisfaction in the banking sector?

1.4 RESEARCH OBJECTIVES

The objective of this research is to:

- Assess if commercial banks provide a quality service to their customers
- Identify if customers of commercial banks in Ethiopia are satisfied with the service delivery
- Explore the customers' loyalty of commercial banks
- Study the relationship between service quality, customer satisfaction and customer loyalty
- Explain the effect of service quality on customer satisfaction and customer loyalty

1.5 RESEARCH HYPOTHESES

This research will test the following research Hypotheses

- Commercial banks in Ethiopia provide a quality service to their customers
- Customers of commercial banks in Ethiopia are satisfied with the service delivery
- Customers of commercial banks are loyal
- There is no significant difference between public and private commercial banks regarding
- There is statistical significant relationship among service quality, customer satisfaction and customer loyalty
- Customer satisfaction has significant effect on the relationship between service quality and customer loyalty.
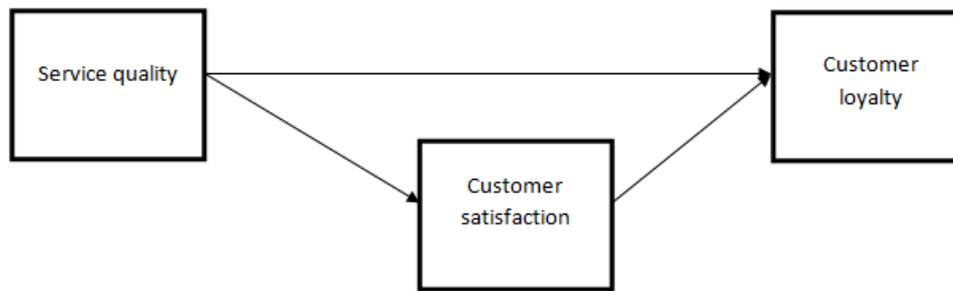
1.6 CONCEPTUAL MODEL

Fig. 1.   Conceptual framework for the study

1.7 SIGNIFICANCE OF THE STUDY

The study assessed service quality, customer satisfaction and customer loyalty in Commercial banks in Ethiopia. Hence, it provides direction to bank managers, owners of banks and policy makers about customers' perception of service quality, customer satisfaction and customer loyalty. It also tests the validity of the SERVQUAL model in banking sectors in Ethiopia. Further, the findings can be a stepping stone for future researches in banking industries and other service sectors.

2 MATERIAL AND METHODS

2.1 INTRODUCTION

The literature review part focused on relationships among service quality, customer satisfaction, and customer loyalty examine the relationships from two perspectives. The first argument focuses on that customer satisfaction influences customer loyalty while others argue that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship, where value equals perceived service quality relative, and in turn the service quality and customer satisfaction together or independently affect customer loyalty. The later mainly argues that without understanding the service quality it is difficult to grasp the customer loyalty tendency only from customer satisfaction. This literature gives insight on the impact service quality, customer satisfaction and customer loyalty with special focus on the banking. Further, the review incorporates service quality, customer satisfaction customer and customer loyalty findings from Ethiopian banking industry.

2.2 SERVICE QUALITY

The concept service quality is an amalgamation of two words: Service and Quality. Service is process consisting of a series of intangible activities that take place in interface between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems(Du & Tang, 2014; Malik, 2012). Quality in its literal meaning shows consumers expectation and actual perception of the product or the service offered by an organization. Hence, service quality shows consumers attitude or cognitive judgment related to a particular service and customers overall impression about the inferiority or superiority of the service and the service providing organization(Du & Tang, 2014; Oh, 1999).

Service quality in its broader sense shows the comparison that customers make between the expectation about a service and the perception about how the service is performed. However, the definition of service quality in its detail has resulted in many arguments (Du & Tang, 2014; Jacobucci, Ostrom, & Grayson, 2001; Karim, 2014). According to Parasuraman et al.(2010), service quality is the difference between anticipated services (customer expectations) and perceived service (customer perceptions). Similarly, service quality is defined as the outcomes of the customer's overall evaluation of the differences between service expectations and the actual service performance(Khafafa & Shafii, 2013).Mosahab(2010) explained service quality as the act of meeting the desired and / expected needs of the customer.

The variation in the definition and conceptualization resulted in putting service quality from various dimensions. Lehtinen (1982) proposed three-dimensional views of service quality: interaction, physical and corporate quality. Further, from customers' perspective, two new dimensions were promoted by Grönroos(1994) as technical(output) quality and functional

(process) quality. The technical quality refers to what is offered to the customer be it a maintenance, consultancy, dress, or meal while the functional quality indicate show the end result of the produces is transferred to the customer.

In more elaborated and comprehensive approach, Parasuraman et al., (1985) put service quality with five dimensions which were developed from intensive qualitative and quantitative researches. Parasuraman et al (1985) conducted a study to examine the concept of Service Quality through an in-depth interviews and Focus Group discussions. Further, Parasuraman et al(1994) advanced the research to develop a model and an instrument to gauge consumers' perception of Service Quality which is termed as SERVQUAL. Despite SERVQUAL had many dimensions, latter on, five dimensions are purified and remained to measure service quality. These are:

- Tangibles – physical facilities, appearance of personnel and equipment
- Reliability – ability to perform the promised service dependably and accurately
- Responsiveness – willingness to help customers and provide prompt service
- Assurance - ability of the organization's employees to inspire trust and confidence in the organization through their knowledge and courtesy. It is a combination of items designed originally to assess competence, courtesy, credibility, and security).
- Empathy –It is conceptualized as a personalized attention given to customer and it comprises items designed originally to assess access, communication, and understanding the customer).

Optimizing on the above mentioned dimensions, Parasuraman et al (1994) proposed a service quality model termed as GAP model from the view point of customers and owners. The model assumes that service quality is the difference between expectation and performances relating to quality dimensions mentioned above. These differences are referred to as gaps. The first four gaps show the service quality issue from the view point of the owner or the manager but the last indicates the customers' perspective of service quality(Shahin, n.d.).The model conceptualizes five gaps which are:

Gap 1: Gap between consumer expectations and management perception: Management may think that they know what consumers want and proceed to deliver it when in fact consumers may expect something quite different (not identifying what consumers expect).

Gap 2: Gap between management perception and service quality specification: Management may not set quality specifications or may not set them clearly. Alternatively, management may set clear quality specifications, but they may not be achievable (inappropriate service quality standards)

Gap 3: Gap between service quality specifications and service delivery: unforeseen problems or poor management can lead to failure of a service provider to meet service quality specifications. This may be due to human error but also to mechanical breakdown of facilitating or support goods (poor delivery of service quality).

Gap 4: Gap between service delivery and external communications: There may be dissatisfaction with a service because of the excessively heightened expectations developed through the service provider's communications efforts. Dissatisfaction developed through the service provider's communications efforts. Dissatisfaction occurs when actual delivery does not meet up to the expectations held out in a company's communications (promises mismatch delivery).

Gap 5: Gap between perceived service and expected service: This gap occurs as a result of one or more of the previous gaps. The way in which customers perceive actual service delivery does not match up with their initial expectations.

As other service sectors, banking industry has also been measuring service quality in order to evaluate customer satisfaction and customer loyalty. However, the way service quality has been measured in the banking industry is still under argument. The SERVQUAL approach has not escaped from critics(Bahia & Nantel, 2000). Particularly, in terms of banking industry, Bahia and Nantel(2000) conducted a research to develop a valid measurement of perceived service quality in the Banking sector. Hence, they proposed a scale that was called Bank Service Quality (BSQ) which comprises 31 items classified across six dimensions as: effectiveness and assurance, access, price, tangibles, range of services offered and accuracy and reliability. They proved that the dimensions of BSQ are more reliable than the dimensions of SERVQUAL. The seven attributes in assessing BSQ are:

- Bank atmosphere - environment of the bank including the attitude of the staffs.
- Relationship - it indicates the personal relationship with the bank employees.
- Rates and charges - an individual's perception of BSQ is affected by the low cost and high interest rates.
- Available and convenient services - it indicates the full range of available services, convenient and easily accessible.
- ATMs - it indicates the availability of the automatic teller machines.
- Reliability/honesty - it emphasizes on the solid bank ratings and reliable, honest staff.
- Tellers - enough and accessible tellers.

Despite the BSQ showed some reliability and validity in some circumstances, its applicability has been with challenges. Hence, nowadays, many service quality examination in the banking sectors rely on the SERVIQUAL(Sakhaei & Afshari, 2014; Shaikh, 2014; Shanka, 2012). The applicability of the SERVQUAL measure is well established in the banking industry(Asubonteng, Mccleary, & Swan, 1996). SERVQUAL is the best measure of service quality in the banking industry in both developed and developing country(Malik, 2012). Different findings witnessed the applicability of SERVQUAL in the Banking industry (Malik, 2012; Shanka, 2012). However, it was found that all the dimensions are not equally important in explaining variance in overall service quality. Findings indicated that responsiveness and reliability seem to be the most important dimensions followed by the empathy and tangible dimensions; whereas, assurance appears to be the least important dimension(Siddiqi, 2011). Most of the studies concluded that SERVQUAL is the best measure of service quality in banking industry.

2.3 CUSTOMER SATISFACTION

Concept of customer satisfaction is a fundamental issue in marketing as it is a major outcome of marketing activity and it links the processes of purchase and consumption or use of the product or service to attitude change, repeat purchase and finally loyalty. Primarily, the concept is related to the marketing concept that profit is generated through satisfaction of customer needs and wants. Concept of customer satisfaction is new to many companies, who have been focused on price and availability of products.

Customer satisfaction is defined and explained in different ways and different perspectives. Customer satisfaction is in broader sense defined as consumers feeling and happiness after complete meeting of one's expectations(Du & Tang, 2014). Similarly, Jacobucci et al.,(2001) define customer satisfaction as the feeling or attitude of a customer towards a product or service after it has been used. For example, if customers got satisfied with a particular service, they are likely to repurchase the product itself or other lines of the product. Customer satisfaction is a state of mind that customers have about a product or services after using that product and service offered by a company in return of customer expectations about the products.

Customer Satisfaction helps to connect purchase processes and consumption with post purchase perception such as attitude change, repurchase, and customer loyalty(Mosahab et al., 2010; Oliver, 1980). There are many models which are designed to gauge customer satisfaction. However, a model developed by Oliver(1980) has been used applied in different conditions and settings. The model explains that when the customers compare their perceptions of actual products/services performance with the expectations, then the feelings of satisfaction arise. Any gap between the expectations and the actual performance create the disconfirmation. Oliver (1980) identified three types of disconfirmation:

- Positive disconfirmation occurs when Product/service actual performance is greater than expectations. In this case, the customers are highly satisfied.
- Negative disconfirmation occurs when Product/service actual performance is less than expectations. In this case, the customers are highly dissatisfied.
- Zero disconfirmation occurs when Product/service actual performance is equal to expectations.

Empirically, models developed by different scholars on customer satisfaction, have been tested in different industrial sectors. As it is explained in service quality part, in the competitive business market, many firms are focusing on their efforts on maintaining a loyal customer base. In the same token, most of the banks set their strategies towards increasing customer satisfaction and loyalty the quality of service. Researches pointed out that customers perceive quite little difference in the services given by banks and changes in the services are mimicked by competitors(Karim, 2014; Khafafa & Shafii, 2013). It is found out that tangibility, reliability, responsiveness, assurance and empathy are important factor for customer satisfaction(Karim, 2014; Ragavan & R.Mageh, 2013). Ragavan & R.Mageh(2013) found that assurance, empathy and tangibles are very important dimension in the banking industry.

2.4 CUSTOMER LOYALTY

Customer loyalty is about what customers think and do (or try to do). In its literal meaning loyalty is best defined as a state of mind, a set of attitudes, beliefs, desires etc. Loyalty is developed by approaches which reinforce and develop a positive state of mind and the associated behaviours (Malik, 2012). Predominately, customer loyalty depends on the service offered and the degree of satisfaction that the customer gets from the service provision. Despite other factors affect(Shimp & Sharma, 1987), the loyalty is strongly connected service quality and customer satisfaction(A. Parasuraman, Valaries A Zeitmal, 1994). If the quality of the service fails short of the customers' expectation, it is unthinkable to have loyal customer. Mosahab et al.(2010) developed a conceptual model that correlates Service Quality, Customer Satisfaction and Customer

Loyalty in one frame. The conceptual model has been tested empirically and the findings indicate that customer satisfaction is influenced by the quality of service and both service quality and customer satisfaction affect customer loyalty.

2.5 RELATIONSHIP BETWEEN SERVICE QUALITY, CUSTOMER SATISFACTION AND LOYALTY

The relationship between customer satisfaction and service quality has been under argument for long time(Jacobucci et al., 2001). These constructs, in business and marketing literatures, have been perceived as a distinct, but closely related constructs(Jacobucci et al., 2001). Studies indicate that positive relationship between the two constructs(Suki & Suki, 2013). Some researchers argued that service quality is the antecedent of customer satisfaction, while others argued the opposite relationship(A. Parasuraman, Valaries A Zeitmal, 1994; Oh, 1999). Parasuraman et al(1985) indicate the relationship between service quality and customer satisfaction as "service quality is a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction". In addition to the arguments between the two constructs, many arguments have been made to show the relation among service quality, customer satisfaction and customer loyalty. Findings indicate positive relationship among these constructs through the intensity varies from industry to industry. Numerous studies have attempted to find the interrelationships among service quality, customer satisfaction and customer loyalty in the banking industry(Karim, 2014). Almost all researches confirm that service quality and customer satisfaction are predictors of customer loyalty(Jacobucci et al., 2001; Kamariah et al., 2013; Karim, 2014). Studies indicate positive relationship among service quality, customer satisfaction and customer loyalty in the banking sector in(Ibrahim, 2015; Kamariah et al., 2013).

2.6 SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY IN ETHIOPIAN BANKING INDUSTRY

Despite the burgeoning of banking industry, there are few researches conducted on service quality, customer satisfaction and customer loyalty. The dearth of researches in the industry has made banks to offer the services intuitively. A few researches conducted in different parts of the country have been examined to have over view about the service quality, customer satisfaction and customer loyalty in the banking industry of the country

Table 1. summary of Empirical literatures

	Author/s	Banks	Findings	Model
1	Habtamu Mekonnen	Dashen Bank, Mekelle Area Bank	The findings indicate that customers were satisfied with tangibility and assurance dimensions of service quality; however, they were dissatisfied with reliability, responsiveness and empathy service quality dimensions of the bank.	SERVQUAL
2	Ubah Adem	Commercial Bank of Ethiopia and all private banks in Diredawa	The mean result reveals that private banks outperform public banks in terms of tangibles, reliability, responsiveness, assurance, empathy, effectiveness and price dimensions of service quality. Moreover, there are significant differences in perception between customers of the Ethiopian public and private banks regarding the responsiveness, assurance, empathy, effectiveness, and price dimensions as indicators of service quality.	BSQ
3	Dr. Yassin Ibrahim et al	Abyssinia bank Mekele Branch	The findings from the overall service quality (Tangibility, Reliability, Responsiveness, Assurance, and Empathy) shows that the majority of respondents were dissatisfied	SERVQUAL
4	Mesay Sata	Private banks in Hawassa	The study indicates that private banks scored better result in three dimensions (Tangible, Assurance and Reliability) of service quality but below average for responsiveness and empathy. Further, it is observed that strong relation among service quality, customer satisfaction and customer loyalty.	SERVPERF
5	Mersh et al	Three private banks and commercial bank of Ethiopia in Addis Ababa	For all banks, service expectations were not matched by perceived performance. While there were only a few differences in service expectations between public and private banks, private banks were perceived to be relatively better in delivering service. The findings also indicate that perceived service quality falls short of customer expectations in all the five dimensions of service quality—tangibles, reliability, responsiveness, assurance and empathy—with the largest perception-expectation gap observed for the empathy dimension.	SERVQUAL

Source: Authors' own review

The findings in the table above indicate that the banking industry is not satisfying customers. Particularly, the responsiveness and empathy dimensions of service quality are below customers' expectation irrespective of ownership of the banks. However, in other dimensions of service quality, private banks surpass the public banks, mainly Commercial Bank of

Ethiopia. Further, it is observed that service quality, customer satisfaction and customer loyalty have strong correlation among themselves.

2.7 RESEARCH METHODOLOGY

This research is dominated by positivist view; it tests hypotheses developed with regard to service delivery, customer satisfaction and customer loyalty. Hence, it is predominantly quantitative in nature. Primary data were collected from customers of commercial banks using different parameters of service quality, customer satisfaction and customer loyalty models. Data were collected from customers of selected commercial banks in Ethiopia (Commercial Bank of Ethiopia, Dashen Bank, Awash International Bank, Oromia International Bank, Anbessa Bank). Customers were selected from some judgmentally selected branches of commercial banks from Arbaminch, Sodo, Shashemene, Hawassa, Adama, D/zeit and Addis Ababa.

A total of 330 were questionnaires with a quota of 90 respondents from Addis Ababa, 60 from Hawasa, 60 from Adama, 30 from Arba Minch, 30 from Soddo, 30 from Shashamene and 30 from D/Zeit. However, at the end a total of 248 questionnaires were returned back and finally after data edit a total 2003 samples were used for the analysis. Data were collected using survey. Service quality and customer satisfaction were measured using the SERVQUAL model (5 dimensions) and customer loyalty was measured using 5 items Likert Scale questions adopted from Mohasan et al. (2011) and Dehghan and Shahin (2011) where 1 means strongly disagree and 5 means strongly agree. Both the English and Amharic (translated version of the questionnaire) were used for data collection in order to address language differences among regions and to expatriates such as Indian teachers and tourists.

The data were analyzed with the help of SPSS version 20. Both descriptive and inferential statistics were applied to analyze the data. Depending on the nature and the distribution of the data, t- test, ANOVA, regression and correlations were used to examine various dimensions of the construct.

3 RESULTS

3.1 RESULT

Three hundred thirty questionnaires were distributed and 203were filled effectively and returned back; that makes the response rate 61.5 %. The respondents' composition was in tally with the market share of commercial banks in the country: 97(47.8%) were from CBE, 27(13.3%) were from AIB, 31(15.3%) respondents were from OIB, 24 (11.8%) were from Dashan Bank and 24(11.8%) were from LIB. In terms of marital status 111(55% were single, 86(42.8%) were married, 3(1.5%) were divorced and 1(0.5%) was widowed. In terms of education, 30(15%) were below high school, 30 (15%) were TVET/Diploma, 122 (61%) were first degree, 17 (8.5%) were masters degree, and 1 (0.5%) was PhD graduate. When it comes to type of employment 98(53.6%) were private employees, 50(27.3%) were government employees, 31(16.9%) were self-employed, and 4(2%) were working in different other organizations. Regarding the religion of the respondents, 101(50.8%) were Orthodox, 20(10.1%) were Catholic, 60(30.2%) were protestant and 14(7%) were Muslim.

3.2 RELIABILITY OF THE INSTRUMENTS

The instrument used for measuring the expected dimension, perceived dimensions and customer loyalty have reliabilities of 0.93, 0.935 and 0.7 respectively; which is acceptable when compared to standard Cronbach alpha coefficient (0.7).

3.3 SERVICE QUALITY

Service quality was measured using gaps in the five SERVQUAL dimensions. For this research, a threshold of 80% (4 and more out of 5) of the maximum was used to measure satisfaction and loyalty (Ferdous 2008 & Hasker, Sasser and Schlesinger, 1997). Accordingly, the perceived dimensions of the service fall slightly short of the expectations. The following table shows the gaps.

Table 2. service quality gap

Dimensions	Expectations	Perception	Gap score	Weightings	Weighted average
Tangibility	3.8239	3.6416	-0.182	20.12	-0.037
Reliability	3.8320	3.6012	-0.231	20.82	-0.048
Responsiveness	3.8933	3.6429	-0.250	21.00	-0.053
Assurance	3.9142	3.7303	-0.184	20.66	-0.038
Empathy	3.8163	3.5399	-0.276	18.08	-0.050
				Total	**-0.225**

The table shows that Commercial banks in Ethiopia were performing slightly below the expectations of their customers in all the five dimensions. All dimensions of quality have negative gap which shows banks have drawbacks in all dimensions of service quality. The examination of the value for each dimension indicates that the highest gap for empathy followed by responsiveness and reliability.

3.4   CUSTOMER SATISFACTION

The t-test indicates that customers are not satisfied in the services provided by both public and private banks (t=-7.99; P= 0.000). The binomial test shows that 25% of customers are satisfied and 75% are not satisfied (p-value = 0.000) with tangibility dimension; 27 % of customers are satisfied and 73% not satisfied (P-value= 0.000) with reliability dimension; 29% of customers are satisfied and 71% are not satisfied (p-value = 0.000) with responsiveness; 33 % are satisfied and 67 % are not satisfied (P-value= 0.000) with assurance; and 23% are satisfied and 77% unsatisfied (P-value= 0.000) with empathy.

Table 3. satisfaction with service quality dimensions

Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
SATISFACTION WITH TANGIBILITY	Group 1	DISSATISFIED	153	.75	.50	.000
	Group 2	SATISFIED	50	.25		
	Total		203	1.00		
SATISFACTION WITH RELIABILITY	Group 1	DISSATISFIED	148	.73	.50	.000
	Group 2	SATISFIED	55	.27		
	Total		203	1.00		
SATISFACTION WITH RESPONSIVENESS	Group 1	SATISFIED	58	.29	.50	.000
	Group 2	DISSATISFIED	145	.71		
	Total		203	1.00		
SATISFACTION WITH ASSURANCE	Group 1	DISSATISFIED	137	.67	.50	.000
	Group 2	SATISFIED	66	.33		
	Total		203	1.00		
SATISFACTION WITH EMPATHY	Group 1	SATISFIED	46	.23	.50	.000
	Group 2	DISSATISFIED	157	.77		
	Total		203	1.00		

Source: own Survey, 2016

Despite customers of both categories are not satisfied with the service provision, the two independent sample t-test indicates that private commercial banks are better than public bank(CBE) in terms of all the five dimensions of service quality(t= -2.702, P-value= 0.007 for tangibility; t= -3.148 P-Value= 0.002 for reliability; t= -2.681, P-value = 0.08 for responsiveness; t= -3.057, P-Value= 0.003 for assurance; and t = -3.303; P-Value = 0.001 for Empathy).

Table 4. Public and private bank comparison of satisfaction with the various dimensions of service quality

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Overall Customer Satisfaction	Equal variances assumed	.006	.941	-3.541	201	.000	-.31835	.08989	-.49561	-.14110
	Equal variances not assumed			-3.546	200.320	.000	-.31835	.08977	-.49537	-.14134
Satisfaction with Tangibility	Equal variances assumed	.003	.954	-2.702	201	.007	-.28603	.10586	-.49478	-.07729
	Equal variances not assumed			-2.698	197.894	.008	-.28603	.10603	-.49514	-.07693
Satisfaction with Reliability	Equal variances assumed	.005	.945	-3.148	201	.002	-.31825	.10110	-.51760	-.11890
	Equal variances not assumed			-3.149	199.606	.002	-.31825	.10107	-.51756	-.11894
Satisfaction with Responsiveness	Equal variances assumed	.675	.412	-2.681	201	.008	-.30320	.11309	-.52619	-.08021
	Equal variances not assumed			-2.689	200.918	.008	-.30320	.11274	-.52551	-.08089
Satisfaction with Assurance	Equal variances assumed	.634	.427	-3.057	201	.003	-.33739	.11038	-.55503	-.11974
	Equal variances not assumed			-3.056	199.244	.003	-.33739	.11040	-.55509	-.11968
Satisfaction with Empathy	Equal variances assumed	.375	.541	-3.303	201	.001	-.34690	.10501	-.55397	-.13983
	Equal variances not assumed			-3.315	200.973	.001	-.34690	.10465	-.55325	-.14054

Source: own survey 2016

3.5 CUSTOMER LOYALTY

Binomial test shows that 74% of the customers are not loyal and 26 % are loyal (P-value= 0.000). Two sample t-test indicates that the customer loyalty of private banks in Ethiopia is greater than that of CBE (t= -2.19; P-Value= 0.030).

Table 5. Customer loyalty

Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Customer Loyalty	Group 1	NOT LOYAL	151	.74	.50	.000
	Group 2	LOYAL	52	.26		
	Total		203	1.00		

Source: own survey

3.6 SERVICE QUALITY, CUSTOMER SATISFACTION, CUSTOMER LOYALTY AND DEMOGRAPHICS

The background of customers has effect on the service quality perception. Though service quality perception is not affect by the gender of customers (T= 0.825; p, 0.410), customer loyalty is not affected by gender (T= -0.208; P, 0.835), customer satisfaction is not affected by gender (T= 1.232; P, 0.219).   In terms of marital status there is no significant difference in

service quality among categories (F=0.424; P, 0.736), there is no significant difference in customer satisfaction among categories (F= 2.071; p, 0.105), there is no significant difference in customer loyalty among categories (F=1.88; P, 0.135). In terms of education, there is significant different in customer satisfaction among groups (F= 7.24; P, 0.000); the post-hoc analysis indicated that customer satisfaction of customers with high school education background is significantly lower than satisfaction of customers with bachelor degree education background (Mean difference= -0.499; P, 0.01); customers with high school education background are less satisfied than those with masters and above (Mean difference = -0.736; P, 0.01). However, there is no sufficient evidence that education background affects service quality perception (F=2.7; p, 0.05). In addition, the analysis indicates that there is significant difference among customers with different education background in terms of customer loyalty (F= 3.25; P, 0.023); post-hoc analysis indicates that customers with high school education background are less loyal than customers with masters and above education background. In addition, it is found that type of employment has no effect on service quality perception (F=0.602; P, 0.615), customer satisfaction (F=0.37; P, 0.775) and customer loyalty (F= 0.5; P, 0.680).

3.7 RELATIONSHIP AMONG SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

Service quality and customer satisfaction are statistically significantly related (r = 0.710; P-value = 0.000); service quality and customer loyalty are statistically significantly correlated (r=0.398; p-value = 0.000) and satisfaction and customer loyalty are statistically significantly (r= 0.597; P-value = 0.000).

Table 6. the relationship among service quality, customer satisfaction and customer loyalty

Correlations

		Customer Satisfaction	Customer Loyalty	Service quality
Customer Satisfaction	Pearson Correlation	1	.597**	.379**
	Sig. (2-tailed)		.000	.000
	N	203	203	203
Customer Loyalty	Pearson Correlation	.597**	1	.244**
	Sig. (2-tailed)	.000		.000
	N	203	203	203
Service quality	Pearson Correlation	.379**	.244**	1
	Sig. (2-tailed)	.000	.000	
	N	203	203	203

**. Correlation is significant at the 0.01 level (2-tailed).
Source: own survey

3.8 EFFECT OF SERVICE QUALITY ON CUSTOMER LOYALTY

Regressing customer loyalty on service quality indicated that Reliability (β= 0.216; P-value = 0.004); and Empathy (β= 0.150; P-Value= 0.024) are predictors of customer loyalty. The other three dimensions turned out to be poor predictors of customer loyalty.

Table 7. effect of service quality dimensions on customer loyalty

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.680	.051		72.579	.000		
	Reliability	.265	.072	.250	3.660	.000	1.000	1.000
2	(Constant)	3.710	.052		71.462	.000		
	Reliability	.216	.075	.204	2.885	.004	.917	1.091
	Empathy	.150	.066	.160	2.272	.024	.917	1.091

a. Dependent Variable: Customer Loyalty
Source: Own survey

3.9 EFFECT OF CUSTOMER SATISFACTION ON CUSTOMER LOYALTY

Regression analysis indicated that satisfaction with tangibility (β=0.186; P-Value= 0.012); satisfaction with reliability (β= 0.221; P-Value= 0.017); and satisfaction with responsiveness (β=0.231; P-Value = 0.017) significantly predict customer loyalty.

Table 8. effect of satisfaction with service quality on customer loyalty

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.757	.208		8.431	.000		
	Satisfaction with reliability	.517	.057	.541	9.118	.000	1.000	1.000
2	(Constant)	1.504	.211		7.144	.000		
	Satisfaction with reliability	.316	.074	.331	4.265	.000	.545	1.835
	Satisfaction with responsiveness	.268	.067	.312	4.024	.000	.545	1.835
3	(Constant)	1.305	.220		5.941	.000		
	Satisfaction with Reliability	.221	.081	.231	2.731	.007	.443	2.258
	Satisfaction with Responsiveness	.231	.067	.268	3.438	.001	.522	1.917
	Satisfaction with Tangibility	.186	.069	.203	2.717	.007	.570	1.756

a. Dependent Variable: Customer Loyalty
Source: own survey

3.10 THE MEDIATION EFFECT OF CUSTOMER SATISFACTION ON THE RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY

The mediation effect of customer satisfaction on the relationship between service quality and customer loyalty examined and the finding indicate that customer satisfaction mediates the relationship between service quality and customer loyalty. Despite there is positive correlation between service quality dimensions and customer loyalty, it is absolutely mediated by customer satisfaction with the respective dimensions (β-value= 0.223: p, 0.010 for tangibility; β-value =0.241: P, 0.001 for reliability; β-value=0.296: p, 0.002 for responsiveness; β-value=0.253: p, 0.002 for Assurance; and β-value=0.206: p, 0.002 for empathy). Further, the effects of all dimension of service quality on customer loyalty are mediated by customer satisfaction. This indicates that customer satisfaction plays paramount role in realizing customer loyalty.

Table 9. mediation effect of customer satisfaction on the relationship between service quality and customer loyalty

Independent variable	Mediator	Dependent variable	Standardized direct effect (β)	P-Values	Standardized indirect effect	P-value
Tangibility	Satisfaction with tangibility	Customer loyalty	-0.120	0.070	0.223	0.001
Reliability	Satisfaction with Reliability	Customer loyalty	-0.080	0.203	0.241	0.001
Responsiveness	Satisfaction with Responsiveness	Customer loyalty	-0.145	0.030	0.296	0.002
Assurance	Satisfaction with Assurance	Customer loyalty	-0.129	0.091	0.253	0.002
Empathy	Satisfaction with Empathy	Customer loyalty	0.081	0.313	0.206	0.002

Source: own survey

4   DISCUSSION, CONCLUSION, AND RECOMMENDATION

4.1   DISCUSSION AND CONCLUSION

The research concludes that all commercial banks under investigation marginally fall short of the expectation of their customers in all service quality dimensions assessed. Moreover, the study revealed that customers are not satisfied with the following dimension of service delivery: tangibility, reliability, responsiveness, assurance, and empathy. A careful inspection indicated that customers of private banks reported higher satisfaction level as compared to commercial bank of Ethiopia. The findings are in agreement with the latest findings from researches on commercial banks in Ethiopia by Ubah (2015) and Mersha et al (2012). However, against the findings of Habtamu(2015), this research identified that none of the service quality and customer satisfaction dimensions scored positive gap. Despite various models including SERVQUAL were applied in the previous studies, all findings unanimously indicate the better performance of private banks compared to public banks (Commercial Bank of Ethiopia). In the same way, in line with this research, previous researches indicated that both private and public banks perform below the expectation of customers.

This research identified significant difference among different education categories though other demographic backgrounds have no significant difference regarding service quality perception, customer satisfaction and customer loyalty. However, the finding regarding different education categories went against the previous findings. People with lower educational background are found to be less satisfied with service quality and less loyal. This findings is also against the logic which conceptualizes educated people have higher expectation of service quality than less educated; and hence less satisfaction is expected from more educated people.

With regard to customer loyalty, the study concludes that the customers of Commercial banks in Ethiopia are not loyal. The study further reveals that the defection probability of CBE is greater than that of private commercial banks.

Reliability and empathy are found to have significant effect on customer loyalty while the other dimensions of the service quality are not good predictors of customer loyalty. When it comes to satisfaction, tangibility, reliability, and responsiveness dimensions are good predictors of customers' loyalty but the remaining dimension lack significant prediction power.

Even though there is positive correlation between service quality and customer loyalty, customer satisfaction mediates the relation significantly. Hence, the customer satisfaction is the main factor that affects customer loyalty when the relation among the constructs comes into curiosity. The relationships between all service quality dimensions and customer loyalty are also mediated by customer satisfaction. This finding is in tally with previous researches by Lee(2013), Mosahab et al.(2010) and by Caruana(2002).

4.2   RECOMMENDATIONS

It is recommended that Commercial banks in Ethiopia have to improve the customer satisfaction and customer loyalty by improving the tangibility, reliability, responsiveness, assurance and empathy dimensions of the service they provide. It requires giving attention to individual interest and it is better to move from mass marketing to customer-oriented marketing which favours individualized treatment. Further, it is better to give due attention to less educated people because, through it requires further investigations, people with lower education are disappointed with the banks' service which shows banks give more attention to educated people than less educated people. Improving the service quality can be done by increasing the perceived service performance. Particularly it is better to improve the empathy and responsiveness dimensions of service quality. Such improvements can be done by giving training to customer service officers and tellers. Further, it possible to change the current marketing technique which afflicted with mass marketing to differentiated marketing technique. In addition, the current marketing technique unnecessary inflates customers' expectation which resulted in negative service quality gap.

4.3   FUTURE RESEARCH DIRECTION

The role banks in development of a country though saving mobilization and credit provision is not questionable. Banks in general and commercial banks in particular are responsible to mobilize the money required for investment in an economy. To raise the saving amount, banks need to attract and retain customers. Providing quality service attracts and retains customers.

It is better to conduct this type of research in other parts of the country. This study used only few commercial banks in selected towns in southern and the central part of the country to explore the opinion of customers about service quality, customer satisfaction and customer loyalty. Further, because of financial and time constraints, this research took only few branches of commercial bank of Ethiopia and selected private commercials. However, to formulate a policy framework for

the industry in general, it would have been good to conduct such an assessment in the entire country. Further, it is better to conduct research using the bank employees' opinion to triangulate the findings as some of the constructs directly deal with the employees. Moreover, different model other than ServQual can be used to assess the service quality, customer satisfaction and loyalty. In addition some findings in this research require further investigation because the findings are contradictory to previous findings and the logic behind education and customer expectation.

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