

THE IMPACT OF SERVICE QUALITY ON CUSTOMER SATISFACTION; IN CASE OF COMMERCIAL BANK OF ETHIOPIA, THE DODOLA BRANCH.

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Abstract

The main objective of this study is to analyze the impacts of service quality on customer satisfaction, in seven branches of CBE, East Arsi-Dodola Town. In order to achieve this objective, the Customer Satisfaction Measurement model was used to design and categorize standardized questionnaire under five dimensions. The sample consists of 154 respondents' selected based on stratified random sampling procedure. The Descriptive research design was in use to describe the existing circumstances and regarding a data source, both primary and secondary data were used. With the help of SPSS version 21, the composed data was analyzed. The relationship between dependent and independent variables are examined through descriptive statistical techniques and linear regressions. There is an optimistic correlation between the dimensions of service quality and customer satisfaction. The regression results displayed that rendering quality service had positive impact on customer satisfaction. The reliability and customer satisfaction correlation is the highest positive result and followed by assurance. The discoveries of the study indicate that the CBE performance in rendering service quality is not in a situation to fulfill the expectation of the customer. From the result of this study, in order to improve the performance of the bank, the researcher forwards some recommendations to the banks management and suggestions for other researchers. The findings of the study shows that up on the multiple regression produced among the five SERQUAL dimensions tangibility and the whole dimensions have relationship with customer loyalty that p value is less than 0.05. Based on the findings of the study valid recommendations forwarded; the Bank should make conscious efforts to be reliable and especial emphasis should be on the tangibility of the Bank's service such as uses of modern equipment's, physical facilities and to develop service delivery time procedure manual and introduce different types of products to retain its customers satisfaction and loyalty.

Key Words: *Empathy, Responsiveness, Tangibility, Assurance, Reliability, Customer satisfaction.*

CHAPTER ONE

INTRODUCTION

1.1. Background of study

Globally, the banking sector has become extremely competitive due to the liberalization of financial systems to speed up the process of economic growth (Kinda & Loening, 2010). As competition becomes fiercer, tightening the bonds of loyalty with existing customers has become more important than ever (Narteh & Kuada, 2014). The existence of all human being is related with different services including banking service, food service, communication service, medical service, transportation service, and emergency services to list some. In general, our economy is founded on service (Fitzsimons and James, 2017).

Banking system occupies an important place in a nation's economy. It plays a vital role in accelerating the rate of economic growth by mobilizing the existing or potential savings and by making the disbursement of credit to commercial undertaking and priority areas. In today's World Bank is one of the customer oriented business sectors. It is highly depends upon the customers for their existence in the market (Fitzsimons and James, 2016).

CBE has seven (3) branches in Dodola Town. All are situated in front of the main road and near the market center of the Town. Its locational advantage makes the banks preferable to business men and organizations. The branches have more than 75 employees. The organizational structure of the bank is organized by a manager from the top and a customer service manager in the middle and accountants, auditors, chief cashiers, KYC and other supportive staffs in the bottom. The CBE, branches under the study has about 66,000 customers (ibid).

1.2. Statement of the Problem

Currently, service provider businesses face big challenge in delivering satisfactory services for its customers with minimum cost that increase the benefits of company. In case if customer is not satisfied with the services provided, he/she may not be willing to pay for the services or buy the products. Then he/she will be look for different alternatives which probably provide better services and fulfill customer's needs (Lovelock and Wirtz, 2004). In real world, there is a gap between customer expectation and services provide that leads to customer dissatisfaction. These mismatched service delivery and expectation destroy the relationship between service delivery sectors and customers.

Although the banking service is booming dramatically in Ethiopia, as well as in the study area, East Arsi Zone, Dodola Town the service delivery level and customer satisfaction has not been widely examined. The

growth will be enabled different pockets of the country to get banking service through different approaches. However, the increase in availability and accessibility does not guarantee competitiveness in the globalized business environment. So that, currently customers became a center for all banking activities due to increased competition for greater market share. Focusing on customer satisfaction has been the key to increasing service quality according to customers' expectations in the banking sector (Zairi, 2000).

This study will be tried to examine the effect of service quality on customer satisfaction within CBE Branches of Dodola Town.

1.3. Question

This study was designed to answer the following research questions:

- What are the trends of customer satisfaction in Commercial Bank of Ethiopia Dodola branches?
- What is the level of customer satisfaction in CBE?
- What is the impact of service quality on customer satisfaction in CBE branches of Dodola town?

1.4. Objectives of the study

1.4.1. General Objective

The general objective of the study is to evaluate the impacts of service quality provided by CBE branches of Dodola Town on customer's satisfaction.

1.4.2 Specific Objective

- To assess the trends of customer satisfaction in Commercial Bank of Ethiopia Dodola branches.
- To examine the level of customer satisfaction in Commercial Bank of Ethiopia.
- To examine the impact of service quality on customer satisfaction in CBE Dodola branches.

1.5. Significance of the Study

This study is very important to understand the impact of service delivery on customer satisfaction. The finding enables the banks to understand the relation between service quality and customer satisfaction and helps them to know the most important dimension used to satisfy customers. Also it indicates the extent of the gap between perceived performance and customers' expectations of service quality.

Finally, this study would be used as a foot step for further studies as a reference for different organization and financial institutions as sources of information.

1.6. Scope of the Study

The study was focused on the effects of service quality on customer satisfaction in banking business in the case of Commercial Bank of Ethiopia, among the seven (3) branches of CBE in Dodola Town of East Arsi Zone.

This study was focused on assessing quality of service and its impact on customer satisfaction by commercial Bank of Ethiopian (CBE) East Arsi Dodola branches. This study was focused only on quality of service and customer satisfaction.

1.7. Delimitation of the Study

Due to time and financial constraints only sample respondents were used only from CBE, branches of Dodola town, as a source of data. The researcher was faced lack of sufficient information from customers, since most of the customers were business men and thus busy. However by having patience the researcher was tried to gather important information for the study.

Literature Reviews

2.1. Theoretical Review

2.1.1. Concepts of Service

On different literature the authors define 'service' in various ways. For example service defined as "any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product" (Kottler, 2000). According to Rao (2007) service is referred to as; "Any intangible actions that are performed by person or machines or both to create good perception within users called service.

.2.3. Conceptual Frame work

The conceptual framework indicates the vital process, which is useful to illustrate the track of the study. The study demonstrations the relationship between the five service quality dimensions (reliability, responsiveness, assurance, empathy and tangible) and customer satisfaction. See the figure 2.1 below.

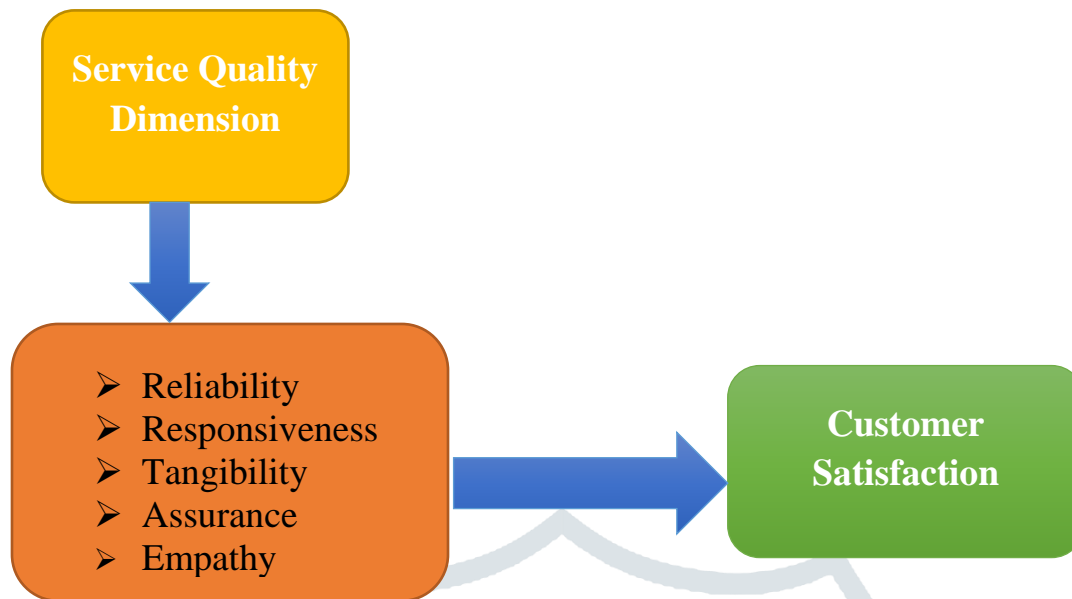


Figure 1: Conceptual Framework of the Study

3. Research Methodology

3.1. Description of the Study Area

The commercial Bank of Ethiopia (CBE) was legally established as a Share Company in 1963 to take over the commercial banking activities of the State Bank of Ethiopia, which was founded in 1942 with twin objectives of performing the duties of both commercial and central banking. During the 1974 revolution, CBE got its strength by merging with the privately owned Addis Ababa Bank. Since then, it has been playing a significant role in the development endeavor of the country (Company Brochure).

3.2. Research Design

The research method for this study was descriptive and explanatory in type. It helps the researcher to follow a descriptive inquiry and Explanatory along with causal research design to see the influence of one variable over the other.

3.4. Sources of Data

In this study primary and secondary data sources were used. Primary data was from the selected sample respondents. Secondary data was collected from journals, web sources, directories, and reports of CBE, Dodola Branch. The question was asked according to all service quality dimensions.

3.5. Data collection Tools

Questionnaires and Observations were used as information gathering tools. An organized questionnaires were conducted with the close-ended questions to customers of Commercial Bank of Ethiopia, Dodola Branch in Dodola town.

3.6. Method of Data Collection

In order to make sure most of the respondents can read and understand the questionnaire, it was designed in English, Afan Oromo and Amharic version. The content of the questionnaire was divided into four different parts.

3.7. Population

CBE has 3 (Three) branches in Robe town. The total population (customers), at least having one account from CBE up to June 30, 2022 in Dodola Branches are 66,000 in number. To establish facts that can provide reliable information about a wider population on the grounds of the results of the research, the researcher will use sample from these population.

3.8. Sampling Technique

The population frame of the study was customers of CBE, Dodola branches who have at least one account. Probability sampling method were used; from this systematic random sampling technique were employed in the study. Because choosing people from the large group as a representative were reasonably be reliable anytime retested.

3.8.1. Sample Size Determination

The primary concern of this part is including sufficient representatives sample size in order to perform a meaning full analysis. The study area has about 66,000 bank customers. So that, the researcher will take sample from these customers.

Formula developed by C. M. Kothari (2004), has been used to determine the total sample size required for this study. The formula is given as:

$$n = \frac{z^2 pq}{ME^2}$$

Where: n = the required sample size,

Z = the standard normal deviation at the required confidence level,

P = the proportion in the target population estimated to have characteristics being measured,

$$q = 1-p = 0.5$$

ME = the level of statistical significance set or confidence level

Since, the characteristic of the study does not vary from household to household, the confidence level of the study were 93% with the level of risk 0.07%. Then $z = 1.81$. The expected margin of error or accuracy of estimating the population parameter (ME) were 0.07, and the population distributed on the variable of interest were $p=50\%$. Then the required sample size was computed as follow:

$$n = \frac{(1.81)^2(0.5)(0.5)}{(0.07)^2} = 167$$

This number can be minimized using correction method provided by C.M. Kothari (2004) as follows:

$$n(f) = \frac{n}{(1 + (n/N))} = \frac{167}{(1 + (167/66,000))} = 166$$

The customers in the seven branches of CBE, Dodola branch will be taken proportionally as follows.

Table 3.1. Customer sample size selected by Quota Methods based on the number of customer they have.

No.	Branches	Number of Customers	Sample Size	Proportion (%)
1	Dodola	48200	74	48.05
2	Al-Nasri	12800	38	24.7
3	Barisa	5000	42	27.25

Source: CBE, Dodola branch 2018

Accordingly, the required total sample size for this study will be 154 customers

3.9. Data Analysis Techniques

The data was analyzed with the help of SPSS V-19. Descriptive statistics was applied to analyze the data. Depending on the nature and the distribution of the data, correlations and regration analysis were used to examine various dimensions of the concept. In this case mean and standard deviation were used to describe the findings of the study.

The descriptive statistical results were presented by tables, frequency distributions and percentages to give a condensed picture of the data. Additionally, in this study Pearson’s correlation coefficient was used to determine the relationships between service quality dimension (Tangible, reliability, responsiveness, assurance, empathy) and customer satisfaction

4. DATA ANALYSIS AND PRESENTATION

4.1. Description of Response Rate

The respondents of this study were the sample taken from the customers of CBE, Branches of Dodola town. Accordingly 166 questionnaires were distributed to the randomly selected households, out of these 154, (92.77%) questionnaires were properly filled and returned. The remaining 12, (7.23%) respondents were not gave their response due to social and other problems.

Accordingly, all personal information of respondents as well as questions included in each questionnaire were carefully collected and properly coded and recorded in to SPSS 21.

4.2. Demographic Description of the Bank Customers

The demographic characteristics of respondents considered in this study were consisting of sex composition, age profile, educational level, marital status, family size and income distribution of the respondents

Table 2: Demographic Characteristic of the respondent

		N	Percent
SEX	Male	81	52.6
	Female	73	47.4
AGE	18-29	42	27.3
	30-40	44	28.6
	41-49	39	25.3
	50 and above	29	18.8
EDUCATION	High School level	37	24.0
	Diploma	44	28.6
	Degree	36	23.4
	masters and above	22	14.3
	Other	15	9.7
OCCUPATION	Government	28	18.2
	Private	30	19.5
	self employed	43	27.9
	Unemployed	18	11.7
	Other	35	22.7

INCOME IN ETHIOPIAN BIRR	1001-3000	35	22.7
	3001-5000	42	27.3
	5001-10000	39	25.3
	10001 and above	38	24.7
MARITAL STATUS	Married	64	41.6
	Unmarried	41	26.6
	Divorced	24	15.6
	Widow	25	16.2

Source: Survey data, 2018

Regarding Sex; the above table describes that 52.6% of the respondents are Male, and 47.4% of the respondents are Female.

Regarding age; the following table describes that 28.6% of the respondents have the age of 30-40 years These implies that the majority of the respondents/customers of the CBE, dodola Branches are found with in young and productive age group.

Regarding age; Educational level 28.6% has college diploma. These implies that the majority of the respondents/customers of the CBE, dodola Branches.

4.2.1. Practice of Using CBE Branches

The following table are describes the frequency of the respondents’ usage of CBE branches in the study area Dodola Town.

Table 3. Frequency of customers using CBE East Arsi -Dodola Branches

		Frequency	Percent	Valid Percent	Cumulative Percent
	Daily	17	11.0	11.0	11.0
	twice a week	15	9.7	9.7	20.8
	once a week	24	15.6	15.6	36.4
	at list one monthly	46	29.9	29.9	66.2
	Randomly	52	33.8	33.8	100.0
	Total	154	100.0	100.0	

Source: Survey data, 2018

Regarding Frequency of using bank; generally more than 66% of the CBE customers used the service within a range of daily to monthly basis. So that, the majority of the customers' frequently used the bank service and the remaining, 33.8% of the customers visited the bank irregularly.

4.3. Descriptive Statistics on customer satisfaction

As explained in the literature review, customer satisfaction involves the fulfilment of customers' anticipation of the goods and services. Customers become satisfied if the performance of the good or service is equivalent to, or even surpasses, the original expectation

Table 4. Descriptive Statistics on customer satisfaction

Descriptive Statistics			
Issues of Satisfaction	N	Mean	Std. Deviation
1.3 How satisfied are you with the service provided by your debit, checking/ saving account?	154	3.71	1.164
How satisfied are you with the loan service provided by your financial institution?	154	3.70	1.172
How satisfied are you with the customer service of your financial institution?	154	3.71	1.060
In general, how satisfied are you with your financial institution?	154	3.88	1.096
Valid N (list wise)	154		

Source: Survey data, 2018

The table implies the general satisfaction level of customers in the study area based on four points that how satisfied are the customers with the service provided by debit, checking/ saving account, with the loan service provided by CBE/financial institutions/ with the customer service of the financial institution and the general satisfaction of customers on the service of CBE branches under the study.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The general objective of the study is assessing the impacts of service quality on customer satisfaction in banking business of CBE Branches of East Arsi-Dodola Town. The assessment of service quality and customer satisfaction was made in view of SERVQUAL model, a model widely used to measure perceived service quality. Both quantitative and qualitative methods were employed to undertake this research project. Data was obtained from a questionnaire given to 166 sampled customers at CBE East Arsi-Dodola Branches. Data collected from the survey questionnaire was analyzed using descriptive analysis & correlation by the help of Statistical Package for Social Scientists (SPSS v. 21). A gap score analysis was used to highlight the gap between the actual service qualities that satisfy customers.

Accordingly, the findings on customer satisfaction indicated that generally, CBE branches of Dodola town have a gap from the dimensions expected by its customers and failure to meet or exceed customers' expectations which may necessitate the bank to rethink about its services quality.

The study also tried to test the relationship that exists between customer satisfactions. The mean score values for service quality dimensions was 74% satisfied. This indicates that improvements of service quality should be conducted on all the five service quality dimensions and customer satisfaction, especially the dimensions of tangibility and empathy.

On the other hand, the fact that the bank keeps its promise to answer customer queries at a certain period of time and its sincere interest to solve customers' problems are accomplishments that positively boost the reliability of the bank. The result of the study also pinpointed that the bank's employees to be less responsive to customer service as staff are fairly able to provide prompt service and willing to help customers when the need arises.

RECOMMENDATIONS

There are a number of problems hindering the smooth delivery of the 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. 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. Finally, it is worthy to affirm that customers are the key for any business organizations. Therefore, the bank should handle its customers so well to achieve its organizational aims.

- ✚ It is recommended that Commercial banks in the study area have to improve the service quality by improving the tangibility, reliability, responsiveness, assurance and empathy dimensions of the service they provide.
- ✚ It requires attention to individual interest and it is better to move from mass marketing to customer-oriented marketing which favors 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.

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