

# Study the Relationship between Service Quality and Customer Satisfaction in Private Commercial Banks of Ethiopia: The Case of Selected Private Commercial Banks at Dire Dawa Administration

<sup>1</sup>Jonathan B. Dawit, <sup>2</sup>Ubah Adem,

College of Business and Economics, Dire Dawa University, Ethiopia

*\*Corresponding Author:* Jonathan B. Dawit, College of Business and Economics, Dire Dawa University, Ethiopia, Email: dd47334@gmail.com

## ABSTRACT

Customer satisfaction is important for the success of banks and financial institutes. The quality of service has become an aspect of customer satisfaction which transforms itself to a better performance. This study pursued to study the relationship between service quality dimensions and customer satisfaction in private commercial banks of Ethiopia. Tangibility, reliability, responsiveness, empathy, and assurance were considered as five dimensions of service quality (Parasuraman, Zeithmal, & Berry, 1985). A self-administered questionnaire with 5 point Likert scale has been used to collect the data from 375 sample customers of private commercial banks. Data has been analyzed by using SPSS-v23 software. The spearman correlation coefficient between service quality dimensions and customer satisfaction was varied between 0.587 and 0.751. Result of the study showed that tangibility, reliability, responsiveness, assurance and empathy had significant relationship with customer satisfaction.

**Keywords:** service quality, customer satisfaction, Private Banks

## INTRODUCTION

All Ethiopian commercial banks, whether private or public, compete on quality service to satisfy the customers to win and sustain in the competition. To realize these, banks need to know whether service quality dimensions had significant relationship with customer satisfaction or not.

Research on service quality has well established that the customer perception of the quality of a service depends on customer's pre purchase expectations. Parasurman and Berry have emphasized that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers (Parasurman V., 1990).

This research aimed to study the relationship between service quality and customer satisfaction in private commercial banks in Ethiopia.

## OBJECTIVE OF THE STUDY

The main objective of this research was to study the relationship between service quality dimensions and customer

satisfaction in private commercial banks in Ethiopian. They also study the internal relationship between service quality dimensions.

## REVIEW OF LITERATURE

Services are economic activities offered by one party to another or an activity to fulfill some one's need in the market place. Service is anything that is intangible in nature that satisfies oneself need that offer by others in the marketplace. A service occurs when anointer action were established between customers and service providers and/or the physical component of the service and/or the systems through which the service is delivered. Before exploring the concept for service, first review the characteristics of service (Kotler P., 2010).

Services have four main characteristics that differentiate them from physical goods: in tangibility, inseparability, variability, and perishability (Kotler P., 2010).

### Intangibility

Refers that unlike physical goods, services cannot be seen, tasted, felt, heard, or smelled

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before they are bought. For this reason, customers try to evaluate the quality of a service by looking at tangible components of the service delivery mechanism such as the place, people, price, equipment, and communications apparent.

### Inseparability

Refers that service produced and consumed simultaneously. Therefore, producing service require the immediate availability of consumers that consume the service.

### Variability

Refers that the quality of services depends on who provides them as well as when, where, and how they are provided. Therefore,

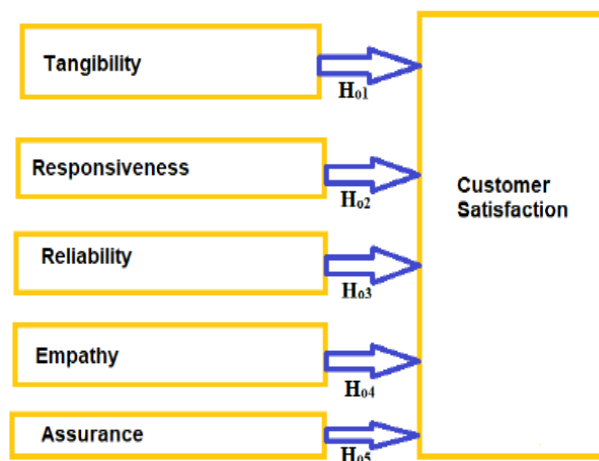
understanding the behavior of service provider is crucial to understand perceptions of service quality.

### Perishability

Refers that service cannot be stored, resold or returned.

Service describes as that are deeds, processes and performance (Zeithmal & Bitner, 2004).Service cannot been inventoried and stored for later use because service and service consumer are inseparable in nature, Providing consistent quality is difficult for service because of the characteristic of variability (Clow & Kutz, 2003).

## THEORETICAL FRAMEWORK



Service quality defined as the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received (Asubonteng, 1996).Service quality also defined as the result of the comparison made by customers about what they feel service firms should offer, and perceptions of the performance of firms providing the services (Akroush, 2008).

Satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome)in relation to his or her expectation (kotler P., 2009).Customer satisfaction defined as the customers' evaluation of a product or service in terms of whether that product or service has met the irneeds and expectations (Zeithaml & Bitner, 2000).

## RESEARCH METHODOLOGY

### Research Design

The study is quantitative type in nature that includes both descriptive and explanatory

design. Describing the existing situation under the study was descriptive where explaining, understanding and predicting the relationship between variables was explanatory design.

### Target Sample Size

The target population for the study was the customers of 10 private commercial banks functioning in Dire Dawa administration, Ethiopia. One hundred forty five thousand five hundred seventy eight (145,578) customers of private commercial banks taken as sample population.

### Data Collection Instruments

Self-administered questionnaires were the main instrument of data collection. The questionnaires were issued randomly to respondent based on stratified sampling techniques to customers of 10 private commercial banks at the banking hall. The questionnaire designed into three parts to explore the required information. A five point Likert scale was used to measure each

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question, with 1- Strongly Disagree, 2- Disagree 3- Neutral, 4-Agree, and 5- strongly agree.

### Data Processing and Analysis

The data collected from the respondents was coded into SPSS V23 for data analysis. Normality test checked before the data analyzed. Descriptive statistics was done to characterize the demographic information of respondents while inference statistics was done for the purpose of Correlation i.e. identify the relationship between the service quality dimensions and customer satisfaction.

### VARIABLES OF THE STUDY

The study was concentrated on five dimensions of service quality and customer satisfaction. The variables described as:

#### Tangibles

The appearance of physical facilities, equipment, personnel and communication materials .The customer perceives that all the tangible aspects of the service are fit for the task and customer friendly.

#### Reliability

The ability to perform the promised service dependably and accurately.

#### Responsiveness

The willingness to help customers and provide prompt service. The customer's perception that the service provider responds quickly and accurately to his or her specific needs and demands.

#### Assurance

The knowledge and courtesy of employees and the ability to convey trust and confidence so that the customer feels he or she is in courteous, able and competent hands.

#### Empathy

Providing caring and individualized attention for customers to make them feel they are receiving caring services and individualized attention.

#### Customer satisfaction

Defined as the consumer's sense that consumption provides outcomes against a standard of pleasure versus displeasure

### HYPOTHESIS OF THE STUDY

The researcher proposed five hypotheses that relate with research objectives. The research null and alternative hypothesis presented as follow:

- Hypothesis1 ( $H_{o1}$ ):Tangibles does not have relationship with customer satisfaction in private commercial banks.
- Hypothesis1( $H_{a1}$ ):Tangibles does have relationship with customer satisfaction in private commercial banks.
- Hypothesis2 ( $H_{o2}$ ):Reliability does not have relationship with customer satisfaction in private commercial banks.
- Hypothesis2( $H_{a2}$ ):Reliability does have relationship with customer satisfaction in private commercial banks.
- Hypothesis3 ( $H_{o3}$ ): Responsiveness does not have relationship with customer satisfaction in private commercial banks.
- Hypothesis3( $H_{a3}$ ):Responsiveness does have relationship with customer satisfaction in private commercial banks.
- Hypothesis4 ( $H_{o4}$ ):Assurance does not have relationship with customer satisfaction in private commercial banks.
- Hypothesis4 ( $H_{a4}$ ):Assurance does have relationship with customer satisfaction in private commercial banks.
- Hypothesis5 ( $H_{o5}$ ):Empathy does not have relationship with customer satisfaction in private commercial banks.
- Hypothesis5 ( $H_{a5}$ ):Empathy does have relationship with customer satisfaction in private commercial banks.

### DATA ANALYSIS AND FINDING

#### Demographic information description

This research was bounded on the main demographic characteristics of Gender, age, educational levels and years of customer-ship with bank. Table 1 revealed that the majority of the respondent was male, age between 18-28 years and customer for their respective bank of 1-5 years.

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### Analysis of service quality dimension and customer satisfaction

Service quality dimensions and customer satisfaction mean score are presented in table 2. From the five attributes of service quality dimension, assurance score highest mean (4.04) followed by Empathy (4.02), Responsiveness

(3.98), Tangibility (3.88) and reliability (3.84). Customer satisfaction mean score was 3.99. This revealed that customer was agreed by the level of service quality delivered by private commercial banks. Customers of private commercial banks was satisfied by the service delivered by their respective banks.

**Table 1.** demographic information of respondent

Demographic characteristics		Frequency	Percent
Gender	Male	241	64.3
	Female	134	35.7
Age	18-28	228	60.8
	29-38	117	31.2
	39-48	25	6.7
	49-58	5	1.3
Highest educational level	Elementary school and below	24	6.4
	High school	70	18.7
	Certificate	22	5.9
	Diploma	89	23.7
	Bachelor degree	153	40.8
	Master degree and above	17	4.5
Year of customership	Less than one year	88	23.5
	1-5 years	180	48.0
	6-10 years	65	17.3
total		375	100.0

When Ravethi & Saranya (2016), Yoseph (2015), Ubah (2015), Munawar and Fasih (2014), and Abraheem and Yaseen (2011) on their research finding revealed that tangibility and reliability scored less mean values compared to other dimensions, which is supported by this research. Contrary, Empathy

and assurance scored highest mean, which is supported by, Abiyou and Gemechu (2016), Munawar and Fasih (2014), Shanka (2012). The result consistent with a research result studied by Abraheem and Yaseen (2011) at Jordan commercial banks, for customer satisfaction.

**Table 2.** Mean score of service quality and customer satisfaction

Service Quality dimensions	Mean	Std. Deviation	N
Tangibility	3.880	0.776	375
Reliability	3.840	0.805	375
Responsiveness	3.980	0.817	375
Assurance	4.040	0.777	375
Empathy	4.020	0.793	375
Customer satisfaction	3.990	0.833	375

### Spearman correlation coefficient

Correlation analysis was conducted to measure the strength of the relationship between service quality dimension and customer satisfaction. Spearman correlation test conducted to know the degree of relationship between the service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) and customer satisfaction. The result of Spearman correlation showed that empathy were correlated to customer satisfaction ( $r = 0.751$ ) followed by responsiveness ( $r = 0.687$ )

,reliability ( $r = 0.682$ ),assurance( $r = 0.678$ )and tangibility( $r = 0.587$ ). This reveals that service quality dimension had positive significant relationship with customer satisfaction. This result also highly consistent with Tizazu (2012) those found that all service quality dimensions are highly correlated with customer satisfaction. In addition, the result also consistent with Revathi and Saranya (2016) and Luka, Andrew & Flish man (2015).

The internal correlation between the service quality dimensions showed that there were

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positive and significant relationship, which implies that a change made in one of the service quality dimension would positively motivate the other service quality dimension. The highest intercorrelation were between empathy and assurance ( $r = 0.776$ ) followed by empathy and responsiveness ( $r = 0.724$ ), responsiveness and assurance ( $r = 0.703$ ), Assurance and reliability ( $r = 0.666$ ), Empathy and reliability ( $r = 0.666$ ), responsiveness and reliability ( $r =$

$0.662$ ), reliability and tangibility ( $r = 0.617$ ), assurance and tangibility ( $r = 0.604$ ), Empathy and tangibility ( $r = 0.593$ ), and Responsiveness and tangibility ( $r = 0.581$ ). This was consistent with Shanka who studied bank service quality, customer satisfaction and loyalty in Ethiopian banking sector; found that all service quality dimensions are positively correlated with customer satisfaction (Shanka, 2012).

**Table 3.** Spearman correlation

	Tangibility	Reliability	Responsiveness	Assurance	Empathy	Customer satisfaction
	Correlation Coefficient	Correlation Coefficient	Correlation Coefficient	Correlation Coefficient	Correlation Coefficient	Correlation Coefficient
Tangibility	1					
Reliability	.617**	1				
Responsiveness	.581**	.662**	1			
Assurance	.604**	.666**	.703**	1		
Empathy	.593**	.666**	.724**	.776**	1	
Customer satisfaction	.587**	.682**	.687**	.678**	.751**	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

### CONCLUSION

The objective of this study was to assess the relationship of service quality dimensions with customer satisfaction in private commercial banks of Ethiopia. From the result revealed that all service quality dimensions had significant relationship with customer satisfaction. Also, service quality dimensions had significant relationship between them.

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**Citation:** Jonathan B. Dawit ,Ubah Adem,.” Study the Relationship between Service Quality and Customer Satisfaction in Private Commercial Banks of Ethiopia: The Case of Selected Private Commercial Banks at Dire Dawa Administration”. (2018). *Journal of Banking and Finance Management*, 1(3), pp.5-10.

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