A Study on Services Quality of Commercial Banks in Dire Dawa, Ethiopia: A Comparative Study of Public and Private Banks

Ubah Adem[1]   Prof. M. Sarada Devi, PhD[2]

1.Department of Commerce Management Studies, Andhra University, Pin Code 530003,Visakhapatnam, India

2.Department of Commerce and Management Studies, Andhra University, Pin Code 530003, Visakhapatnam, India

Abstract

This study compares the perception of customers' about service quality of the public and private commercial banks in Dire Dawa, Ethiopia. This study is a questionnaire survey based on the combined and modified SERVQUAL by Parasuraman et al. (1988) and Banking Service Quality (BSQ) Scale by Bahia and Nantel (2000). It included nine service quality dimensions, with 35 statements, to measure and compare the wide range of services offered by Ethiopian public and private banks. A total of 500 questionnaires were administered and data was collected by stratified random sampling to customers of the two banking sectors and 488 were used for analysis purpose (243 public and 245 private). Comparison was done by using mean of nine dimensions that were used to measure the customers' perceptions and independent samples t-test was used to explore the differences in the mean values of services quality dimensions between the two groups of customers (public banks' customers and private banks' customers). The mean result reveals that private banks outperform public banks in terms of tangibles, reliability, responsiveness, assurance, empathy, effectiveness and price dimensions. Moreover, the result of hypotheses test shows 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.

Keywords: Public Bank, Private Bank, Services quality, Customers' Perceptions

1. Introduction

Ethiopia has 19 banks, of which 16 are privately owned, and they form the country's main financial institutions. Access to financial services has been improving and the total number of bank branches reached 2208 in 2014 (about 34% of which are located in Addis Ababa, capital city), bringing the ratio of bank branches to the population from 49 675 to 39 834. The total capital of the banking system is ETB[1] 25.6 billion (USD 1.28 billion), of which private banks account for 53.9%. The Commercial Bank of Ethiopia, the biggest state-owned bank, accounted for 34.2% of the total capital of the banking system (Ethiopia 2015, AEO[2]).

The increase in the number of Banks in Ethiopia has led to strong competition between public and private banks. This should lead both Banks and academics to take a closer look at the customer differences as well as the quality of services. Services quality is an issue that needs to be addressed in Ethiopian Banking sector using the most contemporary techniques to strengthen the Banks.

2. Review of Literature

2.1 Service Quality

Services are different from goods because they are intangible as they cannot be seen, touched or felt; perishable as we are unable to store them; inseparable because they are attached with a service provider, and insubstantial due to heterogeneity (Parasuraman *et al. (*1985); Hoffman and Bateson, 2002).

Quality is an ability of any product to meet customers' expectations and requirements. It is a set of features, characteristics or attributes that are required or expected by the customers. There are several studies that found a relationship between the service quality offered by banks and its consequences as satisfaction level among customers. It is reported that quality is observed as a major factor in reference to customer acquisition and retention (Galloway and Ho, 1996).

Morre (1987) identified that concentration on service quality leads to differentiation that enhance the competitive position of the organization for long term benefits. Service quality and customer satisfaction became core issues for the successful survival of any service organization. Service quality is considered very important indicator towards customer satisfaction (Spreng and Machoy, 1996). Service quality got popularity among professionals and academia due to increased competition. It contributes a lot to gain competitive advantage to maintain long-term relationship with customers (Zeithmal *et al.* 2000).

---

[1] ETB Represents Ethiopian Currency that is Birr 1 ETB = 0.048 US Dollar
[2] AEO stands for African Economic Outlook

3.   Objective of the Study

The objective of this paper is to make a comparative study of the Ethiopian public and private banks with respect to quality of services they provide.

4.   Research Question

Are there significant differences in customer perception of service quality with in Ethiopian Private and Public Banks?

5.   Research Methodology

The population of the study was the customers of Public and private Banks in Dire Dawa city, Ethiopia. The total sample size of the study was 500 that is 250 from Public banks and 250 from Private Banks. Stratified random sampling was used in study.

To undertake this study, the data was collected from both primary and secondary sources. The primary data was collected by questionnaire while secondary data was collected from several books, periodicals, newspapers, banks' reports, websites and different journals.

Data was analyzed by using the statistical package SPSS 20 versions. Descriptive statistics such frequency and mean were used to describe the demographic characteristics and compare the mean of services quality dimensions. Moreover, independent sample t-test was applied to test the hypotheses.

6.   Instruments of the Study

The instrument used in the study was based combined and modified SERVQUAL and BSQ (Banking Service Quality) scales to measure customers' perceptions of service quality in Ethiopian public and private banking sectors. This scale formulates the questionnaire used in this research, which was distributed to the banks' customers based on the targeted sample size. Thus, quantitative method and questionnaire survey strategy were adopted in this study to collect the data from respondents.

7.   Variables of the Study

In order to measure the levels of services quality the following nine dimensions were used:

Tangibles

It shows the physical aspects of the services such as physical facilities, appearance of personnel and tools and equipment used for provision of services. It includes five statements such as modern looking equipment, visually appealing physical facilities, neatness of employee, visually appealing and precise materials associated with services and efficacious work environment.

Reliability

It indicates the ability to perform services dependably and accurately in a consistent manner. The reliability dimension includes providing services as promised, performing the service first the right time, error free records, identifying and rectifying any errors in service delivery, and precision of the filling system.

Responsiveness

It is a service quality dimension that reflects the willingness or readiness of employees to provide quick services to customers. It includes telling exactly when the services will be performed, employees that tell you exactly when the services will be performed, employees who are always willing to help you, and employees that are never too busy to respond to your questions.

Assurance

It indicates employees' knowledge, courtesy and their ability to incorporate trust and confidence. It includes items such as employees who instill confidence in customers, making customers feel safe in their transactions, employees who are consistently polite with you, and employees that have the knowledge to answer your questions.

Empathy

It is a dimension that shows the magnitude of caring and individual attention given to customers. It includes four statements of which two are related with banks and two are related with employees that are bank which gives you individual attention, employees who give you personal attention, bank that has your best interest at heart, and employees that understand your specific needs.

Effectiveness

It deals with monitoring and bureaucracy. It includes two items such as Bank that monitors the service performance to avoid interruption of the service and no delays due to bureaucratic factors and procedures in the bank.

Access

Access dimension reflects speed of service delivery and convenience to reach services. It includes the bank has sufficient number of branches at down town, the bank has ATM's per branch, the bank has sufficient number of open tellers, waiting time at the counter is short in this bank and, the queues in this bank move rapidly.

Price

It assesses the service delivery cost and it includes items such as the bank takes reasonable fees for the administration of the accounts, the bank makes balance amount from which service charges begin, the bank provides good explanations of service fees, and the bank keeps customers informed every time that a better solutions appears for the problem.

Services Portfolio

It is a dimension that indicates range, innovation and consistency of services offered by banks. It includes the bank provides complete range of services and the bank offers a range of services that is consistent with the latest innovation in the banking services.

8. Hypothesis of the Study

The researchers aim to test nine hypotheses which are listed below. The hypotheses were developed with reference to different literatures and services quality dimensions used in the questionnaire.

Hypothesis 1: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to tangibles dimension.

Hypothesis 2: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to reliability dimension.

Hypothesis 3: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to responsiveness dimension.

Hypothesis 4: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to assurance dimension.

Hypothesis 5: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to empathy dimension.

Hypothesis 6: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to effectiveness dimension.

Hypothesis 7: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to access dimension.

Hypothesis 8: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to price dimension.

Hypothesis 9: there is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to service portfolio dimension.

9. Data Analysis and Findings

9.1 Demographic Characteristics

Table 1: Demographic Characteristics of Respondents

Demographic Characteristics	Type of Bank Sector				All Respondents	
	Public Bank (*n* = 243)		Private Bank (n= 245)		Total (n=488)	
Sex	No of Respondents	Percent	No of Respondents	Percent	No of Respondents	Percent
Male	178	73.25	165	67.35	343	70.3
Female	65	26.75	80	32.65	145	29.7
Age						
18-24 yrs	80	32.92	61	24.90	141	28.9
25-34	91	37.45	111	45.31	202	41.4
35-44	51	20.99	47	19.18	98	20.1
45-54	15	6.17	16	6.53	31	6.4
55 and above	6	2.47	10	4.08	16	3.3
Education level						
Illiterate	3	1.23	3	1.22	6	1.2
Primary school	11	4.53	41	16.73	52	10.7
Secondary school	48	19.75	85	34.69	133	27.3
College diploma	34	13.99	33	13.47	67	13.7
First degree	111	45.68	71	28.98	182	37.3
Second degree	33	13.58	11	4.49	44	9.0
PhD	3	1.23	1	0.41	4	0.8
Occupation						
Student	62	25.51	49	20	111	22.7
Government Employee	120	49.38	55	22.45	175	35.9
Businessman	40	16.46	67	27.35	107	21.9
House wife	5	2.06	17	6.94	22	4.5
others	16	6.58	57	23.27	73	15.0

Demographic characteristics of respondents reflect that there was more number of male customers (70.3%) than female customers (30.7%). It is in line with the literature that most of Ethiopian customers were male (Mesay,

2012). In case of public banks 73.25% were male and 26.75% were female while private banks had 67.35% male and 32.65% female customers. Female customers are more inclined to private banks than public banks. Regarding age most of bank users 41.45% were in the age group of 25-34 and both sectors had more numbers customers who were in this age group. The education level result shows that majority 37.3% of bank customers were first degree holders and professionals were more inclined to public banks. It is consistent with the literature that the largest groups of Ethiopian Banks customers were first degree holders (Mesay, 2012; Endalkachew, 2013). Occupation of the respondents shows that majority 35.9% of the respondents were government employee while housewives were the least in numbers. Besides students and government employees opt for public banks while businessmen, housewives and other occupation categories opt for private banks. In general the outcomes on demographic characteristic will give new insight and an adequate amount of information for bankers in order to design and implement market segmentation based on the findings of this study.

9.2 Data Analysis on Comparison of Service Quality Level between Public and Private Banks

Table 2: Mean of service quality dimensions at public and private Banks

Dimensions	Type of Bank	N	Mean	Std. Deviation	Std. Error Mean
Tangibles	Public	243	5.7547	1.00318	1.00318
	Private	245	5.8566	.89088	.89088
Reliability	Public	243	5.6337	1.25323	.08039
	Private	245	5.7543	.88162	.05632
Responsiveness	Public	243	5.3066	1.20353	.07721
	Private	245	6.1194	.81594	.05213
Assurance	Public	243	5.7819	1.41010	.09046
	Private	245	6.3378	1.34646	.08602
Empathy	Public	243	4.8889	1.26274	.08101
	Private	245	5.8755	.95052	.06073
Effectiveness	Public	243	5.1358	1.27276	.08165
	Private	245	5.4959	1.20959	.07728
Access	Public	243	4.8593	1.04357	.06694
	Private	245	4.6947	1.06810	.06824
Price	Public	243	5.3611	1.25062	.08023
	Private	245	5.5704	.89161	.05696
Service portfolio	Public	243	5.2469	1.22758	.07875
	Private	245	5.1004	1.14358	.07321

Figure 5.1 Perceived Levels of Service Quality at Public and Private Banks
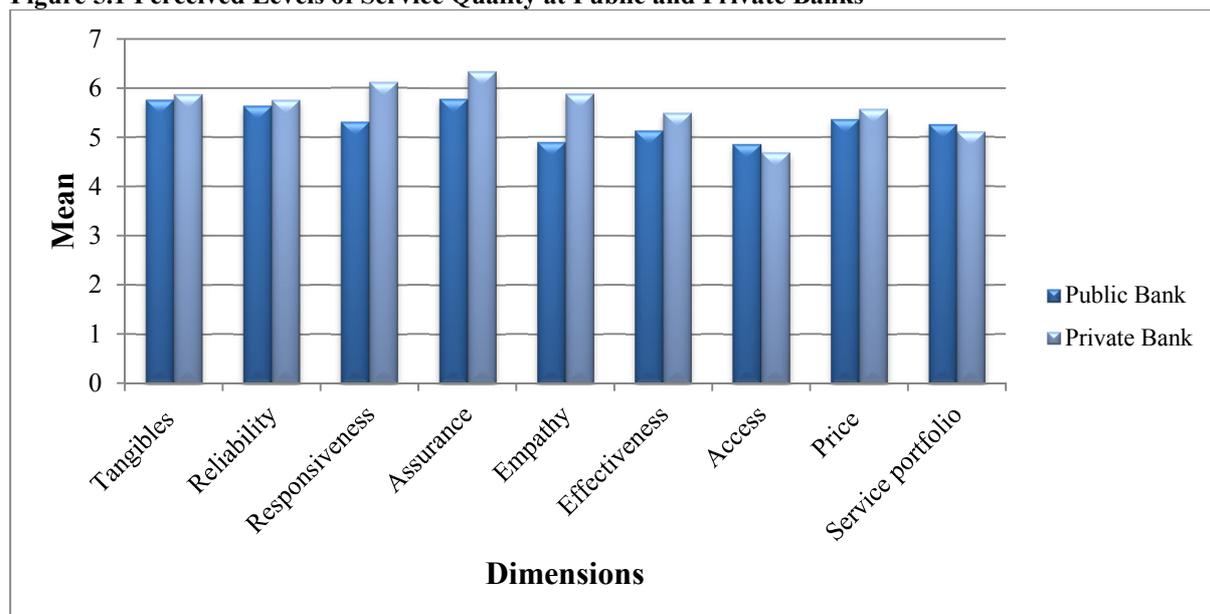
The analysis of comparison was done by using mean of nine dimensions that were used to measure the customers' perceptions. Thus, Table 2 and Figure 1 show the comparison between public and private banks.

As we can see from the Table 2 below, public banks outperform private banks in terms of Access and Service portfolio while in others seven dimensions the mean of private banks found to be better than public banks. Therefore, the study reveals that private banks outperform public banks. These results were in line with findings of studies by Elmayar (2011), Sureshchandar, Rajendran and Anantharaman (2003), Kangis and Vouklatos (1997). These researchers used different service quality instruments to compare the private banks with public banks in terms of service quality levels and their findings demonstrated the superiority of the private banks.

9.2 Analysis of Independent Sample T-Test

Analysis of independent samples t-test was used to explore the differences in the mean values of services quality dimensions between the two groups of customers (public banks customers and private banks' customers). The testing of the hypotheses is based on the assumption that the confidence level is 0.05, which is generally accepted by social science researchers.

Hypothesis 1: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to tangibles dimension.

There was no significant difference in tangibles score of Public Banks (M= 5.75, SD= 1.00) and private banks (M=5.85, SD=0.89) where (f) value is equal to 2.697 and is significant at the level of 0.237, which is greater than the acceptable confidence level (0.05). Therefore, Hypothesis 1 is rejected.

Hypothesis 2: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to reliability dimension.

There was no significant difference in reliability score of Public Banks (M= 5.634, SD= 1.253) and private banks (M=5.754, SD=0.882) where (f) value is equal to 1.692 and is significant at the level of 0.219, which is greater than the acceptable confidence level (0.05). Therefore Hypothesis 2 is rejected.

Hypothesis 3: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to responsiveness dimension.

There was significant difference in responsiveness score of Public Banks (M= 5.307, SD= 1.203) and private banks (M=6.119, SD=0.816) where (f) value is equal to 36.279 and is significant at the level of 0.000, which is lower than the acceptable confidence level (0.05). Therefore, Hypothesis 3 is accepted.

Hypothesis 4: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to assurance dimension.

There was significant difference in assurance score of Public Banks (M= 5.782, SD= 1.410) and private banks (M=6.338, SD=1.346) where (f) value is equal to 3.709 and is significant at the level of 0.000, which is lower than the acceptable confidence level (0.05). Therefore, Hypothesis 4 is accepted.

Hypothesis 5: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to empathy dimension.

There was significant difference in empathy score of Public Banks (M= 4.889, SD= 1.263) and private banks (M=5.875, SD=0.950) where (f) value is equal to 19.938 and is significant at the level of 0.000, which is lower than the acceptable confidence level (0.05). Therefore, Hypothesis 5 is accepted.

Hypothesis 6: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to effectiveness dimension.

There was significant difference in effectiveness score of Public Banks (M= 5.136, SD= 1.273) and private banks (M=5.496, SD=1.210) where (f) value is equal to 1.620 and is significant at the level of 0.001, which is lower than the acceptable confidence level (0.05). Therefore, Hypothesis 6 is accepted.

Hypothesis 7: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to access dimension.

There was no significant difference in access score of Public Banks (M= 4.859, SD= 1.043) and private banks (M=5.694, SD=1.068) where (f) value is equal to 0.064 and is significant at the level of 0.086, which is greater than the acceptable confidence level (0.05). Therefore, Hypothesis 7 is rejected.

Hypothesis 8: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to price dimension.

There was significant difference in price score of Public Banks (M= 5.361, SD= 1.251) and private banks (M=5.570, SD=0.892) where (f) value is equal to 11.647 and is significant at the level of 0.034, which is lower than the acceptable confidence level (0.05). Therefore, Hypothesis 8 is accepted.

Hypothesis 9: There is a significant difference between the Ethiopian public and private banks in terms of service quality with respect to service portfolio dimension.

There was no significant difference in service portfolio score of Public Banks (M= 5.247, SD= 1.227) and private banks (M=5.100, SD=1.143) where (f) value is equal to 4.302 and is significant at the level of 0.174, which is greater than the acceptable confidence level (0.05). Therefore, Hypothesis 9 is rejected.

It can be inferred from the results that there are significant differences between public and private banks with respect to five service quality dimensions (responsiveness, assurance, empathy, effectiveness, and price) and

H3, H4, H5, H6, and H8 were accepted while there are no significant differences between public and private banks with respect to four service quality dimensions (tangibles, reliability, access, and services portfolio) and H1, H2, H6, and H8 were rejected. Here since there are significant differences in five services quality dimensions out of nine dimensions that represents more than 50% of service quality dimensions we can conclude that there are significant differences between public and private banks.

Once we have established empirically that there are significant differences between the two sectors of banks, previous research in this field has also reported similar findings. For instance, Sureshchandar, Rajendram and Anantharaman (2003) compared the private, public and foreign banks in India in terms of service quality and their findings revealed that there are significant differences between private and public banks with respect to all factors of service quality used in the measurement.

Kangis and Voukelatos (1997) have compared private banks with public banks in Greece and when they applied independent sample t-test on the differences between the mean scores of the two groups of banks, it was noted that in eight out of the twelve service quality items, the differences were statistically significant.

Elmayar (2011) have compared private banks with public banks in Libya and applied independent sample t-test on the differences between the mean scores of the two banking sectors, the results revealed that there are significant differences between private and public banks with respect to all the six service quality dimensions, the difference were statistically significant.

10. Conclusion

This study was conducted to compare the levels of services quality at Ethiopian public and private banks as perceived by their customers. Evidence arising from this research survey verifies and supports the view that private banks outperform public banks. Moreover, there are significant differences between the private and public banking sectors in terms of customers' perceptions of service quality.

References

- Bahia, K. and Nantel, J. (2000) A reliable and valid measurement scale for the perceived service quality of banks, *International Journal of Bank Marketing*, 18 (2), pp. 84-91.
- Elmayar, A. (2011) *assessing the perceived service quality levels in Libyan private and public banking sector: a customer perspective.* PhD Dissertation. University of Northumbria.
- Endalkachew, A. (2013) Assessing the impact of core banking and service quality on customer satisfaction in commercial Bank of Ethiopia :a case of Bishofftu branch. MBA Dissertation. Hawassa University.
- Ethiopia 2015, http://www.africaneconomicoutlook.org
- Galloway, L. & Ho, S. (1996). The model of service quality for training, *Training for Quality,* 4 (1), 20-26.
- Hoffman, K.D. & Bateson, J.E.G. (2002). Essentials of Services Marketing: Concepts Strategies, and Cases, 2nd ed. Harcourt College Publishers.
- Kangis, P. and Voukelatos, V. (1997) Private and public banks: a comparison of customer expectations and perceptions, *International Journal of Bank Marketing*, 15 (7), pp. 279-87.
- Mesay S. (2012). Bank Service Quality, Customer Satisfaction and Loyalty in Ethiopian Banking Sector. Journal of Business Administration and Management Sciences Research Vol.1(1), pp. 001-009, December, 2012 Available online at http://www.apexjournal.org/JBAMSR
- Moore, C. D. (1987) Outclass the Competition with Service Distinction. *Mortgage Banking*, 47 (11).
- Parasuraman, A., Zeithaml, V. and Berry, L. (1988) SERVQUAL: A Multi-Item Scale for Measuring Consumer Perceptions of Service Quality, *Journal of Retailing,* 64 (1), pp. 12-40.
- Parasuraman, A., Zeithaml, V.A. & Berry, L.L. (1985). A conceptual model of service quality and its implications for future research, *Journal of Marketing*, 49, 41-50.
- Spreng, R. A. and R. D. Mackoy (1996) An empirical examination of a model of perceived service quality and satisfaction, *Elsevier*. 72. pp. 201-14.
- Sureshchandar, G. S., Rajendran, C. and Anantharaman, R. N. (2003) Customer perceptions of service quality in the banking sector of a developing economy: a critical analysis, *International Journal of Bank Marketing,* 21 (5), pp. 233-42.
- Zeithmal, V.A., Parasuraman, A. & Malhotra, A. (2000). Service quality delivery through websites: a critical review of extant knowledge, *Journal of the Academy of Marketing Science*, 30 (4), 362-375.