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The Effects of Service Quality on Customer Satisfaction: A Study among Private Banks in Mekelle Town

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Abstract
The focus on customer satisfaction in banking industry is becoming extremely prevalent as it is being employed to keep existing customers from switching to other banks and to sell them more services, and to attract customers from non banking community and competitors. The objective of the study is to examine the effects of service quality on customer satisfaction. Primary data were collected from 200 respondents that were selected from customers of privately owned Commercial Banks in Mekelle Town. The respondents were selected through quota sampling techniques. In addition, relevant ideas were collected from secondary sources. To determine the relationship between dependent and independent variables Pearson chi square test was applied. Moreover, to determine the relative importance of variables the econometrics model known as logistic regression was used. The results of the study reveals that having employees who give customers personal attention, providing customers best interest at heart, owning employees who understand customers specific needs are the variables that are statistically significant and have influence on customer satisfaction.
Keywords: Customer satisfaction, service quality

1. Introduction

Every business enterprise including banks exists to serve customers. The customer defines the business. Therefore, to satisfy the customer should be the mission and purpose of every business. Commercial banks that perceive the importance of, and do not undervalue customer satisfaction and retention have a dominant place to begin in achieving competitive advantage and have major profits to gather (Bazan, 1998).

In the highly competitive, complicated and dynamic setting of the banking sector, the extremely small variations that exist in banking product and service along with an increasingly demanding customer have led to an enormous transformation within the sector. The old product-oriented bank is altering into more and more customer-oriented in accordance with the fundamental principle of interpersonal marketing that stresses on customer satisfaction as its principal goal. In this sense, Gilmore (2007) considers that continuous customer-oriented activities could be necessary for amending the implementation of quality in services selling. Indeed, factors like financial service and distribution have acquired comparable levels of development and technology and have so been kicked downstairs to a less important role as baselines for differentiating between one bank and another (Sa´nchez and Parada, 2005).

Customer satisfaction is thought about the essence of success in today's highly competitive world of business. Thus, the significance of customer satisfaction and retention in strategy formulation for a ``market oriented'' and ``customer focused'' firm cannot be undervalued (Kohli and Jaworski, 1990). Consequently, customer satisfaction is all the time more changing into a company goal as a progressively more firms attempt for quality in their product and services (Bitner and Hubbert, 1994).

In 1974, when socialism is declared in Ethiopia, the ruling government spread widely its power over the whole economy and nationalized all privately-owned corporations together with banking sector (proclamation N^{O}.60, 1975). In the subsequent years, the government declared proclamation N^{o}. 184 of August 2, 1980 to establish one and only commercial bank in Ethiopia. Then, the government structured the Banking industry in to three viz., National Bank of Ethiopia (NBE), Commercial Bank of Ethiopia (CBE), and Agricultural and Industrial Development Bank (AIDB). These three banks were getting a monopoly power and enjoy in their particular market. The question how banks attract new customer and protect the prevailing from switching to other banks is not necessary because there is no competition in the banking industry.

Subsequent to the downfall of the military government in 1991 the economic policy was altered including monetary policy reform. The present government established the National Bank of Ethiopia as a judicial entity, separated from the government and sketch out its functions (Monetary and Banking Proclamation of 1994). The government declared monetary and banking proclamation N^{o}. 83/1994 and the licensing and supervision of banking business N^{o}. 84/1994 to grant a legal basis for investment in the banking sector.

Consequently the banking sector of Ethiopia has been reconstructed from a slow moving and state-dominated sector to a way much more active, competitive and profitable business. Several privately-owned banks have come into view that has intensified the competition along with commercial banks. So as to secure competitive advantage and to catch the attention of more and more customers, banks are concentrating in providing superior services to satisfy their customers.

In the sense of the above facts, customer service is a change over time with growing public sector banks has increased. It is, therefore, necessary to continuously assess how the customer perceive bank services, what the new and emerging expectations are and how they may be satisfied on a continuous basis. The purpose of this study is to give indications for the stakeholders of the banking industry to identify the effects of service quality on customer satisfaction to meet their customers' needs and expectations accordingly.

2. Statement of the Problem

In a hyper-competitive market all commercial banks are confronted with challenges of keeping the prevailing customers from switching to other banks and selling them more services and attracting new customers from the non-banking community and competitors. The maintaining bank's existing customer base is even more essential than the power to capture new customers. One of the justifications is that the cost of appealing a new customer is far over the cost of keeping existing one. In study by Bazan (1998) the cost of attracting a new customer from non-banking community and competitors is five times higher than maintaining an existing customer. With the exception of this monitory facet, the impact of negative word-of-mouth will a lot times be harsh. Customer satisfaction and retention may be a major contribution to sustainable profit growth. Bazan further indicated that a business will have no purpose of existing without its customers and also the money losses and loss in reputation will be destructive for it when losing customers.

Muffato and Panizzolo (1995) argued that customer satisfaction is considered to be one of the principal essential competitive factors for the longer term, and can be the most effective indicator of a firm's profitability. They further propose that customer satisfaction can drive companies to boost their reputation and image, to keep down customer turnover, and to enhance attention to customer needs. Such actions can facilitate companies produce barriers to switching, and improve business relationships with their customers. Although several businesses have an attention in maximizing customer satisfaction, it is not as a result of customer satisfaction is that the final objective in itself. The underlying reason is that satisfied customers yield superior profits. Banks with more satisfied customers are more profitable and more successful. According to Hansemark and Albinsson (2004) customer satisfaction can result in a range of benefits. As an example, satisfied customers tend to be less price-sensitive, willing to buy more products, and fewer influenced by rivals.

Thus, the researcher will examine the effects of explanatory variables on the response probability of customers satisfied in light of such explanatory variables namely; tangibles, empathy, assurance, responsiveness and reliability.

3. Objective of the Study

The objective of this study is to examine the effects of service quality dimensions on customer satisfaction.

4. Review of Related Literature

4.1. Customer Satisfaction

Customer satisfaction can be defined in different ways, for example Oliver (1980) expressed customer satisfaction as "customer satisfaction is generally described as the full meeting of one's expectations."

Kotler (1991) described customer satisfaction as "the level of a person's felt state resulting from comparing a product's perceived performance or outcome in violation to his/her own expectations". So, customer satisfaction might be regard as a relative behavior among inputs before hand and post obtainments.

Customer satisfaction is defined as a customer's general assessment of the performance of an offering to date. This overall satisfaction has a sturdy positive impact on customer loyalty plans across a broad range of product and service groups (Gustafsson, 2005).

The satisfaction decision is related to all the experiences made with a certain business concerning its specified services, the transactions process, and the post-sale service. Whether the customer is satisfied after acquisition also rely on the offer's outcome in relation to the customer's expectation. Customers form their expectation from past purchasing experience, friends' and associates' recommendation, and sellers' and competitors' information and promises (Kotler, 2003).

There is general agreement that: 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 expectations (Kotler, 2003). Based on this review customer satisfaction is a function of perceived performance and expectation. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches or exceeds expectations, customer is satisfied. Different researchers defined customer satisfaction in different ways, but for this study the above definition by Kotler will be taken as a operational definition and go in line with the intended study.

4.2. Importance of Customer Satisfaction

In fact, customer satisfaction has for many years been supposed as key in determining why customers switch or retain a bank. Commercial banks need to know how to retain their customers, even though they become to be satisfied. Reichheld (1996) recommends that discontented customers may decide not to switch to other banks, because they do not expect to obtain of good quality service in other banks. In the same way, satisfied customers may find for other banks because they think they might obtain of good quality service in other banks. However, maintaining customers is also reliant on several other factors. These include a broader variety of product choices, higher convenience, best prices, and improved income (Storbacka et al., 1994).

Ioanna (2002) further suggested that product differentiation is impracticable in a competitive market like the banking industry. Banks all over the place are providing the similar products. For instance, there is usually only smallest difference in interest rates charged or the variety of products accessible to customers. Bank prices are fixed and determined by the market force. Therefore, bank management tends to differentiate their firm from rivals by providing better quality services to their customers. Service quality is a very important factor affecting customers' satisfaction intensity in the banking industry. In banking, quality is a multi-variable concept, which contains differing kinds of convenience, reliability, services portfolio, and critically, the staff delivering the service.

Although several businesses have an attention in maximizing customer satisfaction, it is not as a result of customer satisfaction is that the final objective in itself. The underlying reason is that satisfied customers yield bigger profits. Banks with more satisfied customers are more profitable and more successful. According to Hansemark and Albinsson (2004) customer satisfaction can result in a range of benefits. As an example, satisfied customers tend to be less price-sensitive, willing to buy more products, and fewer influenced by rivals.

Kotler (1991) identified that a satisfied customer: buys repetitively, tells positively to relatives concerning the company, pays less interest to rival brands and advertising, and purchase other products that the company adds to its line. Customer satisfaction is a main result of marketing action (East, 1997) whereby it serves as a tie between the different phases of consumer buying behavior. For example, if customers are satisfied with a particular service offering after its utilization, subsequently they are expected to engage in repeat purchase and attempt line extensions. Customer satisfaction is generally accepted as a key impact in the development of customers' future purchase plans (Taylor and Baker, 1994). Satisfied customers (Richens, 1983) are also expected to tell others regarding their good experiences and thus involves in positive word of mouth advertising.

Customer satisfaction affects loyalty, how much rely on the level of customer satisfaction. If customer highly satisfied, their level of loyalty also increase. A customer who is "very satisfied" is six times more expected to buy repetitively a product than a customer who is "satisfied" (Matzler & Hinterhuber, 1998).

4.3. Service Quality

Many researchers defined service quality in different ways. For example, Bitner et al. (1994) defined service quality as the customer's overall feeling of the comparative inferiority or superiority of the company and its services. Although other researchers (Cronin and Taylor, 1994) view service quality as a form of thoughts representing a long-run general evaluation. The quality of a service or product is determined by the user's perception. It is the degree to which the bundle of service attributes as a whole satisfies the user. This is called expectation to perception match. Quality, therefore, comprises the degree to which attributes of the service desires by the users are identified and in corporate levels of these attributes are perceived by the users to be achieved (Murdick, 1990).

According to Juran (1988) quality comprises two principal components: (1) to what degree a product or service meets the expectations of the customers, and (2) to what degree a product or service is free from errors.

Parasuraman et al. (1985) defined service quality as a comparison between expectation and outcome (performance) along the quality dimensions. This has appeared to be in line with Roest and Pieters' (1997) explanation that service quality is a relativistic and cognitive inconsistency between experience-based standards and performances regarding service benefits.

For the purpose of analysis the definition of service quality by Parasuraman et al. (1985) will be taken as operational definition of service quality. And also the bank services quality in this study will be measured by means of service quality dimensions.

4.4. Service Quality and Customer Satisfaction

The relationship between service quality and customer satisfaction has received considerable academic attention in the past few years. Many researchers have operationalized customer satisfaction by using a single term scale and many others have used multiple item scales. Service quality and customer satisfaction has been investigated, and results have shown that the two constructs are indeed independent, but are closely related, implying that an increase in one is likely to lead to an increase in the other (Sureshchandar et al., 2003).

According to Zeithaml and Bitner (2003), satisfaction and service quality are fundamentally different in terms of their underlying causes and outcomes. Although they have certain things in common, satisfaction is generally viewed as a broader concept, whereas service quality assessment focuses specifically on dimensions of service. Service quality is a component of customer satisfaction.

Sureshchandar et al, (2003) identified that strong relationships exist between service quality and customer satisfaction while emphasizing that these two are conceptually distinct constructs from the customers' point of view. Customer satisfaction in marketing context has specific meanings: Gustafson et al. (2005) brought customer satisfaction definition as customer's overall evaluation of the date. This satisfaction has positive influences on retaining customers among different variety of services and products. In service based enterprises; service quality directly affects customer satisfaction.

In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. This is well documented in a study by Leeds (1992), who documented that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality/sales and professional behaviors (such as formal greetings) improved customer satisfaction and reduced customer attrition. From the above facts one can understand that service quality and customer satisfaction have positive relationship. This means if the service quality of the bank improved, the levels of their customers' satisfaction become increase and vice versa.

4.5. Dimensions of Service Quality

Service quality literature frequently tries to classify the factors that impact attitudes towards the service at numerous different levels. At the maximum level this engages some service quality dimensions. These can be disaggregated into a better set of service quality factors or determinants, which are subsequently established into questions for evaluating throughout a structured questionnaire. In the original model of the SERVQUAL items, 10 determinants of service quality were illustrated. These are access, communication, competence, courtesy, credibility, reliability, responsiveness, security, tangibles, and understanding the customer (Accounts Commission, 1999). However, following extensive study these 10 were advanced to five; subsequent to further investigation demonstrated that some were very strongly connected. The five major dimensions that customers apply to evaluate service quality contain (Parasuraman et al., 1988), reliability, responsiveness, assurance, empathy, and tangibles as revealed below;.

- ***Reliability:*** the capacity to carry out the promised services both dependably and precisely. Reliable service presented is a customer anticipation and means that the service is delivered on time, in the similar manner, and without defects consistently.
- ***Responsiveness:*** the willingness to assist customers and to offer prompt service. Maintaining customers waiting mainly for no obvious reason makes needless harmful perceptions of quality. If a service failure happens, the capability to improve rapidly and with expertise can make very constructive perceptions of quality.
- ***Assurance:*** the knowledge and politeness of employees so well so their capability to express trust and confidence. The assurance dimension contains the following characteristics: ability to provide the service, courtesy and value for the customer, successful communication with the customer, and the general approach that the service provider has the customer‘s best interests at heart.
- ***Empathy:*** the provision of kind, individualized concentration to customers. Empathy incorporates the following characteristics: approachability, sensitivity and endeavor to recognize the customer‘s wants.
- ***Tangibles**:* the emergence of physical facilities, equipment, staff, and communication equipments. The provision of the physical environment is tangible indication of the concern and attentions to detail that are displayed by the service provider. This evaluation dimension also can expand to the manner of other customers in the service.

5. Research Methodology

Primary data were collected from customers on service quality dimensions. Secondary data were collected from different journals and articles. Quantitative approach was used to examine, through statistical procedures, the primary data which was collected from sample customers by means of structured questionnaire. Qualitative approach was used to analyze the data that was collected from banks' management using unstructured interview. The research design that was used in this study is explanatory design. In Mekelle Town, there are seven privately-owned banks with the total branches of ten in different part of the city. The data were collected from all branches of privately owned commercial Banks in the town. The sampling technique that was applied in this study is quota sampling. The sample size that was considered for the study is 200 subjects. In this study, closed ended questionnaire design was formulated. The questionnaire evaluated the variables on a 5 point likert scale ranging from 1= strongly disagree to 5= strongly agree. The researcher used statistical and econometric analysis methods to analyze the collected and processed data. A statistical technique of Pearson chi square test for association was used to test the relationship between dependent and independent variables and logistic regression model was applied to determine the relative importance of variables.

6. Result and Discussion

This section of the study is concerned on the analysis and interpretation that shows and explains hypotheses test and econometrics analysis based on the data obtained from 200 respondents.

6.1. Tangible

Statistical test results of tangibles service quality dimension are presented in Table 1 below.

Table 1. Result of tangibles service quality dimension

Attributes	Statistical Results
Have modern-looking equipment	Pearson chi2(4) = 11.7442 Pr = 0.019
Physical facilities are visually appealing	Pearson chi2(3) = 3.8824 Pr = 0.274
Employees are neat looking	Pearson chi2(4) = 12.6762 Pr = 0.013
Materials associated with the services are visually appealing	Pearson chi2(4) = 9.0854 Pr = 0.059

Pearson chi square test for association results reveal that possessing modern-looking equipment and employees are neat looking are associated significantly with customer satisfaction at 5% level. These results show that customers expect modern looking equipment and neat looking employees from their bank. As per the result, any additional investment on the above two variables of tangibles dimensions may well increase customer satisfaction. Therefore, banks have to stress on the two significant variables to attract new customers and to keep the existing customers from switching to another banks.

6.2. Reliability

Statistical test results of reliability service quality dimension are presented in Table 2 below.

Table 2. Result of reliability service quality dimension

Attributes	Statistical Results
Keeping promises of doing something by a certain time	Pearson chi2(4) = 13.4654 Pr = 0.009
Showing sincere interest in solving customers' problem	Pearson chi2(4) = 19.9552 Pr = 0.001
Performing the service right the first time	Pearson chi2(4) = 22.6587 Pr = 0.000
Providing the services at the time it promises to do so,	Pearson chi2(4) = 25.9655 Pr = 0.000
Insisting on error-free records	Pearson chi2(4) = 2.4865 Pr = 0.647

Pearson chi square test for association results show that keeping promises of doing something by a certain time, showing sincere interest in solving customers' problem, performing the service right the first time and providing the services at the time it promises to do so are associated significantly with customer satisfaction at 5% level. This indicates that if banks perform the promised services dependably and accurately satisfy customers.

6.3. Responsiveness

Statistical test results of responsiveness service quality dimension are presented in Table 3 below.

Table 3. Result of responsiveness service quality dimension

Attributes	Statistical Results
Tell customers exactly when the service will be performed, give prompt service to customers	Pearson chi2(4)=8.6308 Pr = 0.071
Give quick service to customers	Pearson chi2(4)=17.1332 Pr = 0.002
Willing to help customers	Pearson chi2(4) =16.6756 Pr = 0.002
Never too busy to respond to customers requests	Pearson chi2(4) = 7.3019 Pr = 0.121

Pearson chi square test for association results show that giving quick service to customers and willingness to help customers are associated significantly with customer satisfaction at 5 % level. If banks give more emphasis on significant variables of responsiveness; and the employees deliver service quickly and show willingness to help customers, customers might be satisfied. This result shows that any improvement in the two significant variables by bank increase customer satisfaction.

6.4. Assurance

Statistical test results of assurance service quality dimension are presented in Table 4 below.

Table 4. Result of assurance service quality dimension

Attributes	Statistical Results
Employees' behaviors instill confidence in customers	Pearson chi2(4)=14.0394 Pr = 0.007
Customers feeling of safety in transaction with the bank	Pearson chi2(4)= 8.5126 Pr = 0.075
Consistently courteous with customers	Pearson chi2(4)=17.0010 Pr = 0.002
Employees knowledge to answer customers' questions	Pearson chi2(4)=6.0380 Pr = 0.196

Pearson chi square test for association results show that employees' behaviors in instilling confidence in customers and employees consistently courteous with customers are associated significantly with customer satisfaction at 5 % level. Since assurance is the knowledge and courtesy of employees so their ability to convey trust and confidence, customers are more sensitive on this dimension of service quality. Therefore, banks should give more attention in the two statistically significant attributes of assurance to convey trust and confident on customers.

6.5. Empathy

Statistical test results of empathy service quality dimension are presented in Table 5 below.

Table 5. Result of empathy service quality dimension

Attributes	Statistical Results
giving customers individual attention	Pearson chi2(4)=26.1891 Pr = 0.000
operating hours convenient to customers	Pearson chi2(4)= 1.3148 Pr = 0.859
having employees who give customers personal attention	Pearson chi2(4)=25.6315 Pr = 0.000
Providing services at customers best interests at heart	Pearson chi2(4)=56.7023 Pr = 0.000
understanding customers specific needs	Pearson chi2(4)=37.9995 Pr = 0.000

Pearson chi square test for association results show that giving customers individual attention, having employees who give customers personal attention, providing services at customers' best interests at heart and understanding customers' specific needs are associated significantly with customer satisfaction at 5 % level. This finding indicates that individual customers need the provision of caring and individualized attention from their bank. For this reason, stress in empathy by the bank increase customer satisfaction.

6.6. Logistic Regression

In this section an econometric analysis is performed to identify the effects of service quality on customer satisfaction. Logistic regression model is run to find out the effects of service quality on customer satisfaction. Classical model specification test for multicolliniarity (correlation), heteroskedesticity (robust standard error) and normality were made so that the data meets the assumption underlying the logistic regression model.

The dependent variable, customer satisfaction, is a dichotomous variable with only two possible outcomes: 1 if a customer satisfied and 0 if a customer dissatisfied. Customers are considered satisfied if they feel absolutely satisfied with the overall banking services and dissatisfied if otherwise.

The model summary result shows that -2 Log likelihood= 84.656, Cox & Snell R Square=0.423, Nagelkerke R Square= 0.680.

The logistic regression analysis revealed that having employees who give customers personal attention, providing services at customers best interest at heart, owning employees who understand customers specific needs are the variables that are statistically significant and have influence on customer satisfaction .

The logistic regression result in Table 6 shows that having employees who give customers personal attention has a positive effect, at a significant level of 5 %, on customer satisfaction. This seems reasonable because banks sell service through their employees. Therefore, the behavior of bank staff towards customers is very significant. Such behavior determines customers' feelings and opinion about the bank. The minimum that a customer expects is that he/she will be properly heard and extended normal courtesies. The treatment given to customers by bank employees is therefore, an important determinant of customer satisfaction.

The banks' providing services at customers' best interest at heart is another important variables having significant positive impact on customer satisfaction. It is statistically significant at 5 % level indicating that banks which have customers' best interest at heart to satisfy customers than banks that do not have customers' best interest at heart.

The logistic estimation also reveals that owning employees who understand customers' specific needs has a statistically significant at 5 % level and positive influence on customer satisfaction. This could be due to all customers are not well informed about banking. Many of them look to their banker for support. They expect professional advice from the banker to serve their interests in the best possible manner. Customers' needs and motivations are complex and they can choose better with professional support. Bank managers and staff should take initiative in giving advice on choice of deposit plan, choice of borrowing scheme, and mode of operating accounts. Therefore, customers require employees who understand their specific needs and support them.

7. Conclusions

A bank can serve its customers better by providing proper materials associated with the service like pamphlets, statements, vouchers, pen, and other necessary materials and place in appropriate location where it is visually appealing to customers. These are minor thing but they have an important impact on customer services. Therefore, banks have to provide necessary materials associated with the services in the service time; and place it in visually attractive place for every customer. By doing this the bank can minimize the service time and then customers will be served with in short period of time.

While selling a bank services, banks essentially sell a promise of future performance. A person opens an account with a bank with the hope of efficient services in the future. It is only after becoming a customer of the bank that he can test the promised quality of services. The extent to which that promise is fulfilled will affect not only the future sales to the same customer but the ability to attract new customers through words-of-mouth publicity.

Customers come to bank having the hope to receive efficient and prompt handling of their transactions from the bank. They will have another business in other place and they will arrange their program accordingly. So as to accomplish their business based on the arranged plan customers will need to know the exact time when the bank transactions will be performed. These customers are willing to wait for a reasonable and exactly known time but not be let for extended time. For this reason, employees should aware of this problem and estimate the time when the services will be performed and tell customers exactly when the services will accomplished.

Banks sell service through their employees. Therefore, the behavior of bank staff towards customers is very significant. Such behavior determines customers' feelings and opinion about the bank. The minimum that a customer expects is that he/she will be properly heard and extended normal courtesies. The treatment given to customers by bank employees is therefore, an important determinant of customer satisfaction. To resolve the problem of not having employees who give customers personal attention, management should motivate their employees by providing necessary incentives. Because of only motivated employees can provide prompt and efficient services to customers.

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