

Effect of Service Quality on Customer Satisfaction in Commercial Bank of Ethiopia, Branches in Wolaita Sodo

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Abstract: Nowadays, there is increased demand for higher quality services as consumers throughout the world in all sectors become more concerned with quality. Currently, quality in service is the main issue by which producers differentiate themselves from the competitor. The overall objective of this study was to investigate the effect of service quality on customers' satisfaction in the case of Commercial Bank of Ethiopia branches in Wolaita Sodo town. For this purpose, 383 respondents were selected from target population using simple random sampling method and 22 item likert scaled SERVPERF instrument questionnaires were distributed and 344 valid responses were analyzed. The correlation analysis result indicated that there were positive and significant relationship between all service quality dimensions and customer satisfaction. Regression analysis which was performed to study the effect of service quality on customer satisfaction found that four service quality dimensions: namely, empathy, responsiveness, reliability, and assurance were positively and significantly affect customers' satisfaction and the tangibles dimension was insignificant for analyses. Compared with other quality dimensions in SERVPERF instrument, empathy has high effect on customers' satisfaction. It can be concluded that the service quality has significant effect on customer satisfaction in the bank. The bank is recommended to work hard in all quality aspects and give more personal attention to customers, understand the interest of customers, care for their customers, and give prompt service as these will result in customers' retention, positive word of mouth and increased profitability.

Keywords: Service Quality, Customer Satisfaction, SERVPERF

1. Introduction

Currently, business environment is becoming more competitive and challenging than it was before. With multidimensional difficulties and demand of globalization, the organizations are forced to reengineer their services and products to improve the service quality and remain competitive in marketplace [1, 2]. The issue of service quality has become a global concern that needs continuous improvement to fit the unstable environment and customer needs that change continuously. It is a critical for all service industries worldwide as most of the business organizations attempt to sustain their competitive advantage in the marketplace using different strategies. Financial service providing companies like banks mostly differentiate

themselves by providing quality services as service quality is the most competitive tool for banks [3, 4]. The quality of services offered will determine customer satisfaction and attitudinal loyalty. According to Kotler et al. [4], customer satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's actual performance or outcome in relation to his or her prior expectations about product's performance.

The banking industry, like other financial service industries, is facing a quickly shifting market, novel technologies, uncertainties in economy, stiff competition and more quality conscious customers and the changing environment and these have presented a unique set of challenges to it [5]. According to Shanka [6] and Dawit et al. [7], banks providing their service in Ethiopia are subsequently face lots of challenges resulting from

competition on quality service to satisfy the customers and win and sustain in the market place.

In the past, business success was mainly determined by products. At the time, firms that were able to produce high quality products are considered as the most successful. Indeed, today's quality products are still crucial in business success, however, the quality issues of the past and quality issue in today are quite different. In the past, the definition of quality is mainly based on the perspective of producers or service providers with no or little consideration to the consumers' expectation and perception of the service. Customers were supposed not to know what they want and consequently accept what is available. This time was the era of mass marketing. The mass marketing method was effective as a result of low competition and less knowledgeable consumers [8]. But nowadays, the effectiveness of every business organization depends on how their customers are served and how the customers assess and distinguish such services [9].

One of the benefits of banks resulting from its services delivery is enhancing efficiency and effectiveness of their jobs as a result more transactions can be handled rapidly and simply, which will have an essential effect on the total performance of the banks. On the other hand, customers start to enjoy the benefit of quick service delivery, frequency of going to bank will be reduced and cash in hand also will be reduced, which will result in rise of higher volume of turnover [6, 9]. Nevertheless, these developments in the Commercial Bank of Ethiopia appear not to have attained their goals. Wait in lines (queues), network failure, power interruptions, unavailability of modern equipment and low accessibility of ATM machines, are still seen in the branches of Commercial Bank of Ethiopia (CBE) [10]. Customer complaint is common in CBE branches in Wolaita Sodo town. As indicated in the bank's annual report most customers continuously complain over poor customer service, lack of balanced focus on major target areas, bureaucratic way of getting some products such as loan, import and export letter of credit, international banking service, employees inability to quickly adopt to the new technology, insufficient information on products of the bank, poor parking services at the respective bank branches and so on [11].

Most studies conducted in this area are limited to single branch and they used descriptive statics to analyze their data [12, 13]. But this study considered five branches of CBE providing service in Wolaita Sodo town and analyzed the effect of service quality on customer satisfaction by using both descriptive and inferential statistics. Furthermore, no peer reviewed and published research done in this study area is available online. For this purpose, it deemed necessary to conduct the study.

2. Literature Review

2.1. The Concept of Service

The concept of service is used and defined in numerous

perspectives by many researchers. A service is a good with no physical existence, usually created and consumed at the same time [14]. According to Kotler et al. [15], it is any act or performance one party can provide to another which is essentially intangible and do not result in the possession of anything.

Services have a special characteristics compared to products. They are intangible in nature, cannot be mass produced, cannot be inventoried and stored after production, and cannot be produced until the consumer is ready to consume them [15]. According to Gronroos [14], services to be produced and delivered to the end user, service providers integrate their most valuable resources like employees, technologies, physical resources, governing systems and customers as well in the best possible way so that service quality can be assured. He also indicated that unlike a product, customers of service see and perceive a service from its process point of view and how it is delivered to them and this gives service to have a characteristic of process consumption.

2.2. Service Quality

Service quality can be considered as "the difference between customer expectations of service and perceived service performance" [16]. According to them, if customers' expectations are greater than service performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs. As indicated by Gronroos [14] the notion of service quality involves more than the outcome quality; the way by which the service is delivered is of great importance.

There are different models proposed for measuring service by different scholars. The model developed by Gronroos divides customers' perception of the quality of a specific service into two parts, i.e. technical and functional quality [14] and it is also known as Technical/Functional Quality framework. The gap model of the service quality called SERVQUAL was proposed by Parasuraman et al. [17] in which the operationalized service quality is the gap between performance expectation and perceptions of customers. According to them, SERVQUAL has five quality attributes i.e., empathy, responsiveness, tangibles, assurance and reliability.

Customer expectations of service quality are reference points against which service delivery is compared only at beginning. The level of expectation can differ extensively based on the reference point which the customer holds. Customer expectations hold various elements including desired and adequate service which customers hope to receive, predicated services which customers anticipate of receiving and a zone of tolerance which indicates the extent to which customers are willing to agree to take the difference between the desired and adequate service levels [17].

Customer perceived service quality is the customers' actual perception of the service based on various factors contributing to the service which ranges from the process to the final outcome [16]. Perceptions are consumer judgment about the actual service performance by a given company.

According to Parasuraman et al. [17], it is overall assessment of the organization's service based on the complete experience of the service delivery process and they are subjective.

According to Parasuraman et al. [17], consumer examines five dimensions of quality namely; tangibles, reliability, responsiveness, assurance and empathy when evaluating service quality. Tangibles are concerned with physical facilities, equipment and appearance of employees and management team of the organization. Reliability indicates "the ability to perform the promised service dependably and accurately" or "delivering on its promises" [16]. Responsiveness, according to Parasuraman et al. [17], indicates the willingness of the firm's staffs to help customers and to provide them with prompt service. Assurance dimension, as indicated by them, is concerned with the knowledge and good manners or courtesy of employees of an organization. It also indicates the ability of employees to stimulate trust and instill confidence that can strongly increase the level of customer satisfaction. Finally, empathy dimension is concerned with caring, easiness of contact, friendliness, willingness to understand the customers' needs and delivery of individualized attention to customers by employees of the organization [16].

2.3. Models of Service Quality

To be successful in current highly volatile market,

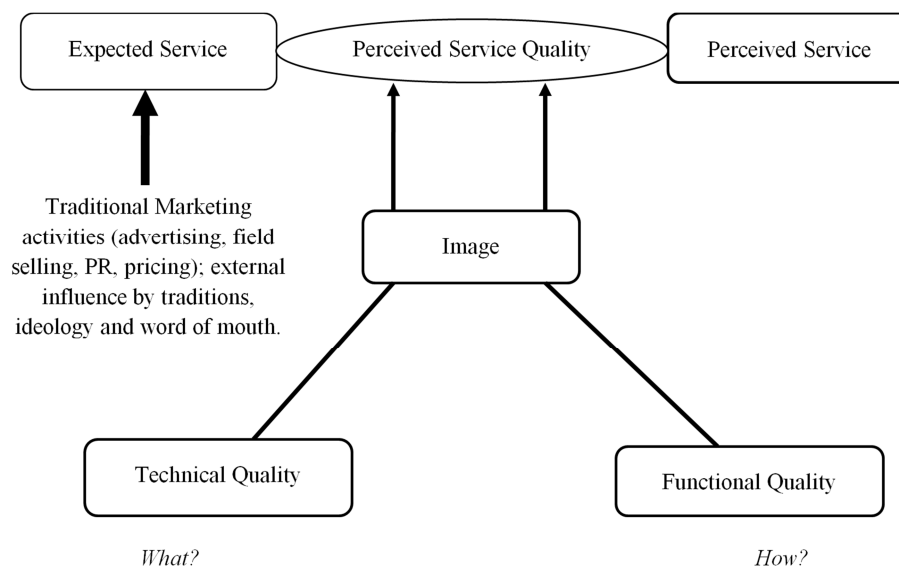


Figure 1. The Gronroos Model of Service Quality (Source: Gronroos, 1984).

2.3.2. Gap Model

Another model was developed by Parasuraman and his associates in 1985 to measure service quality by measuring the gap between perceived service quality and expected service quality. They proposed the gap analysis model for service quality by measuring the difference between customer's expectation of service and actual performance [17]. They found five gaps to be measured in their model as indicated by figure 2 below.

appropriate model to measure quality of service is needed to be competitive and get the competitive advantages over rivals. For this purpose, there are some models developed by researchers for measuring service quality. In recent years, there are high interests to find the best and comprehensive model for measuring customers' perception on the service quality which is essential for performance of the organization [9]. Some of the most used service quality models which are more accepted in field of service quality are:

2.3.1. Gronroos Model

Gronroos formed the early conceptualization of service quality model in 1982. He believed that it is crucial for the business organizations to understand and consider the customers' perception on the service delivered if they want to be successful. Managing service quality means matching the quality perceived by customers with expected and keeping this distance as small as possible in order to reach customers' satisfaction [14]. In the model, he suggested three dimensions of service quality i.e., technical (outcome) which is concerned with what customers received as a result of interaction with a service firm; functional (process), how a technical service received by customer; and corporate image, the customers' view of corporate or brand. According to him, by comparing the first two factors of service quality, expected and received by the customers, one can get the perceived service quality.

2.3.3. SERVQUAL Model

After developing the gap model, Parasuraman and his associates refined their finding and developed a model by reducing the dimensions in to five i.e., reliability, responsiveness, assurance, tangibles, and empathy dimensions. They named the refined model as SERVQUAL [17] model which is indicated in figure 3 below. According to them, this model is used to identify the gaps in organization's service.

SERVQUAL has 22 pairs Likert scaled statements spread around five service quality dimensions for the purpose of measuring service quality. Each statement occurs twice. The

first section measures customer expectations of a particular service organization and the second section measures the perceived level of service provided by that organization.

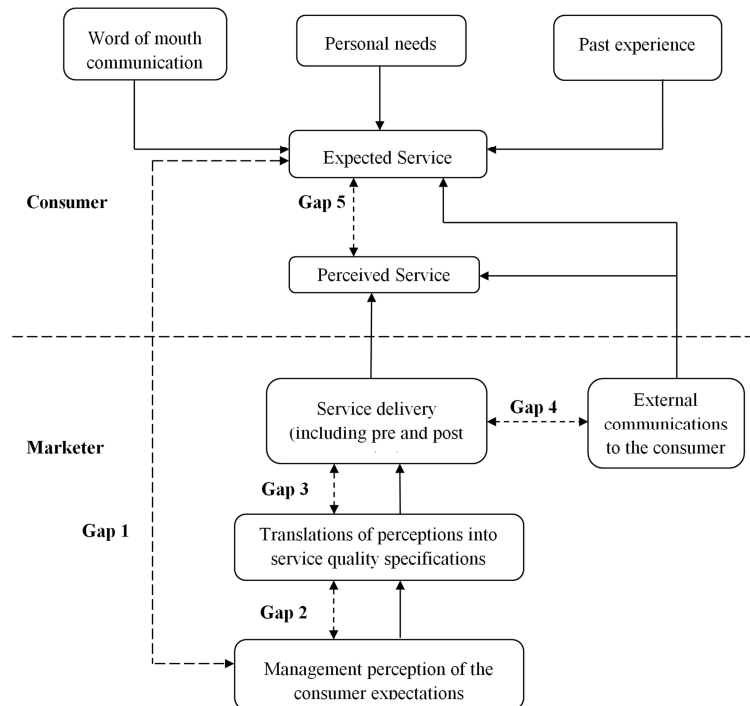


Figure 2. The Gap Model of Service Quality (Source: Parasuraman et al. 1985).

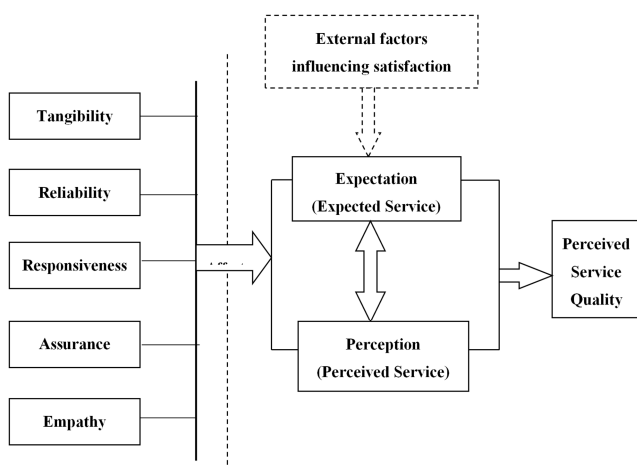


Figure 3. SERVQUAL model (Source: Parasuraman et al., 1988).

2.3.4. SERVPERF Model

The SERVPERF scale, also known as “performance only” model, was carved out of SERVQUAL by Cronin and Taylor in 1992 to address the issue with the measurability and definition challenges of the SERVQUAL scale by eliminating the expectation part of the SERVQUAL scale and using performance scale only. According to Cronin et al. [18], it measures the customer’s perception of service performance and assumes that respondents automatically compare their perceptions of the service quality levels with their expectations. They argued that only perception was adequate for measuring service quality and therefore expectations

should not be included in the measurement scale as suggested by SERVQUAL. SERVPERF is operationalized on the perceived service performance to measure the quality of service without assessing the gap score [19]. Different scholars have suggested that SERPERF model is usually used and accepted model to measure service quality in current times [18]. The model is indicated in figure 4 below.

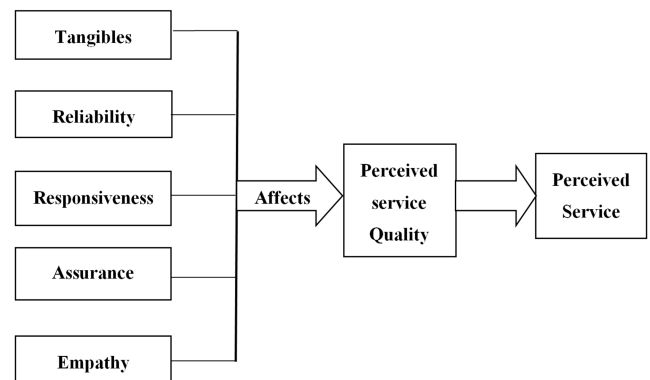


Figure 4. SERVPERF Model (Source: Cronin and Taylor, 1992).

2.4. Customer Satisfaction

Customer satisfaction is connected with all products and can be experienced in a variety of situations. Expectation of the customer regarding the product or service can highly affect it. As indicated by Zeithaml et al. [20], it is the customers’ assessment of a product in terms of whether that product has met their expectations or not. It can also be defined as “the

customer's reaction to the evaluation of the observed discrepancy between their expectation and the actual performance of the product after its consumption" [21].

Customer satisfaction is affected by specific product or service features, customer's emotional responses, perception of quality, their attributions and their perception [20].

The exact relationship between customer satisfaction and service quality has been indicated as a complex issue, characterized by debate regarding the distinction between the two concepts and the casual direction of their relationship [18]. Cronin and Taylor [19] found empirical support for the notion that perceived service quality lead to satisfaction and claimed that service quality was actually an antecedent of customer satisfaction. Looy et al. [22] also indicated that customers' comparison of expected service quality with perceived quality of service will indicate customers' level of satisfaction with provided service.

To provide excellent services, organizations need to continuously improve their culture. Developing service

quality improvement strategy, managing the work force, closing gaps between firm's perception and customers' perceptions of quality are some of the ways to improve service quality in the organization [16].

2.5. Hypothesis Development

Customers evaluate the product or service that was provided by any organization in terms of whether that product has met their prior expectations or not [20]. The idea that actual service quality may lead to customer satisfaction has been empirically supported [19].

Based on empirical review of researches in the area, the following hypotheses have been developed:

H₁: Tangibles have significant effect on customer satisfaction

H₂: Reliability has significant effect on customer satisfaction

H₃: Responsiveness has significant effect on customer satisfaction

H₄: Assurance has significant effect on customer satisfaction

H₅: Empathy has significant effect on customer satisfaction

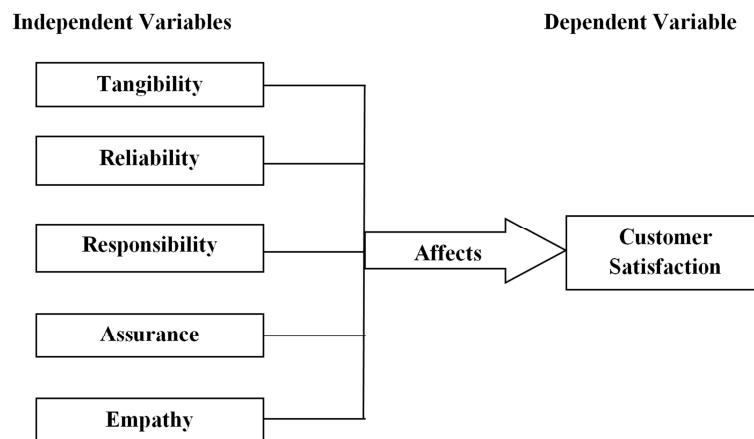


Figure 5. Conceptual Framework (Source: Parasuraman et al., (1985)).

3. Methodology

The core aim of current study was to investigate the effect of service quality on customers' satisfaction, in the case of Commercial Bank of Ethiopia (CBE), branches in Wolaita Sodo town. Service quality is independent variable (IV) and customer satisfaction is dependent variable (DV). There are five dimensions for service quality; namely Tangibles, Reliability, Responsiveness, Assurance and Empathy and the effect of these dimensions on customer satisfaction was assessed. Explanatory research design has been used to show the relationship between service quality and customer satisfaction.

There are five CBE branches at Wolaita Sodo town at the time the study was conducted. In these five branches, 97,600 customers have opened their account and get provide from branches. As the population of the study was finite, sample size was determined using Kothari method. Accordingly, the sample size of the study was 383. The number of samples selected from each branch has been proportionately determined.

The study was depended on primary data, which was collected through survey method by using a structured questionnaire developed based on SERPERF instrument. The questionnaire that was composed of four parts in which the first part was about the demographic data, the second was about perception, the third was about overall satisfaction and the fourth part was about the suggestions of respondents prepared and distributed to the selected sample respondents. The respondents were requested to rate each statement using Likert scales of 1 to 5 (1 strongly disagree, 5 strongly agree).

Both descriptive and inferential statistics were used to analyze and interpret the findings. Inferential statistics was applied to find out the relationship between service quality dimensions and customer satisfaction and their effect on customer satisfaction using Pearson coefficient of correlation and multiple regression analysis respectively.

$$CS = \alpha + \beta_1 TA + \beta_2 RL + \beta_3 RS + \beta_4 AS + \beta_5 EM$$

Where: CS=Customer Satisfaction, α =Constant, β =Regression Coefficient, TA=Tangibles, RL=Reliability, RS=Responsiveness, AS=Assurance and EM=Empathy

4. Results

Pearson correlation analysis has been conducted to investigate the relationship between service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance, and Empathy) and customer satisfaction. The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates no association between

the two variables, a value greater than 0 indicates a positive association, and a value of less than 0 indicates a negative association between variables.

As indicated in table below, all service quality dimensions have positive and significant correlation with customer satisfaction. Empathy dimension has highest correlation and tangibles dimension has lowest correlation compared to other service quality dimensions.

Table 1. Relationship between service quality and customer satisfaction.

		Tangibility	Reliability	Responsive-ness	Assurance	Empathy
Tangibility	Pearson Correlation	1				
Reliability	Pearson Correlation	.671**	1			
Responsiveness	Pearson Correlation	.506**	.664**	1		
Assurance	Pearson Correlation	.480**	.557**	.635**	1	
Empathy	Pearson Correlation	.453**	.626**	.722**	.696**	1
Customer Satisfaction	Pearson Correlation	.416**	.603**	.702**	.632**	.777**

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

The study by Melese [13] indicated that empathy has comparatively high relationship with customer satisfaction than other service quality dimensions.

Regression analysis helps to understand to what extent the change of the value of the independent variable causes the change in the value of the dependent variables, while other

independent variables are held constant. Before analyzing the data through regression model, the data has been checked for assumptions of multiple regression i.e., normality, linearity, and absence of multicollinearity with in independent variables. The collected data fulfills all the assumptions and the regression model can be applied.

Table 2. Regression model summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811	.657	.652	.58531

Table 2 above shows the regression model summary which includes R, R-square, adjusted R-square and the standard error of the estimate. R value represents the correlation between all independent variables namely, tangibles, reliability, responsiveness, assurance and empathy and dependent variable i.e., customer satisfaction and is 0.811. As

indicated in R^2 , 65.7% of total variation in the dependent variable (Customer Satisfaction) is explained or caused by the independent variables under consideration. The adjusted R^2 value shows that 65.2% of the variance in Customer Satisfaction has been significantly explained by 1% change in all independent variables.

Table 3. Regression model for coefficients.

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.244	.220		-1.111	.268
Tangibility	-.089	.070	-.056	-1.269	.205
Reliability	.155	.064	.126	2.442	.015
Responsiveness	.280	.062	.230	4.490	.000
Assurance	.145	.064	.106	2.258	.025
Empathy	.599	.065	.484	9.209	.000

Dependent Variable: Customer Satisfaction.

Table 3 above shows the coefficients for each dimension. All dimensions, except tangibility, are statistically significant with p-value of less than 5 percent ($p < 0.05$). But tangibility has a p-value of 0.205 which is greater than 0.05 and is statistically insignificant. Negative un-standardized coefficients of constant for the regression model, -0.244,

indicates that independent variables are highly necessary for explaining customer satisfaction level in the bank. That means, if there is no independent variable present at all, there will be customer dissatisfaction. The regression equation for model which can explain the relationship between independent variables and dependent variable was indicated as:

$$CS = -0.244 - 0.056TA + 0.126RL + 0.230RS + 0.106AS + 0.484EM$$

From this equation, we can see that empathy has high beta coefficient. This indicates that a one-standard deviation

increment in empathy, keeping all other independent variables constant, can cause 0.484 standard deviations

increment in customer satisfaction. Similarly, a one-standard deviation increment in responsiveness, keeping all other variables constant, can cause 0.23 standard deviations increment in customer satisfaction. In the same way, a one-standard deviation increment in reliability, keeping all other independent variables constant, can cause 0.126 standard deviations increments in customer satisfaction and a one-standard deviation increment in assurance, keeping all other independent variables constant, can cause 0.106 standard deviations increments in customer satisfaction. On the other hand, customers of the branches showed negative relation with tangibles dimension of service quality and satisfaction. But tangibility dimension has been considered insignificant as its sig. value is out of the study's alpha level which is 0.05. So, branches have to focus more on empathy because customers need more on this dimension and will be satisfied highly if little increase had been done on it. In the same way, the branches had to focus on responsiveness, reliability, and assurance to satisfy customers.

Hypothesis Testing

The decision criterion to accept or reject the hypothesis in this study was: Accept H_a if $p < 0.05$ and Reject H_a if $p > 0.05$. The decision has made based on the significance value of the variables.

H₁: Tangibles have significant effect on customer satisfaction.

As shown in the table 3 above, tangibles have a negative effect on the customer satisfaction as it is shown by its negative beta coefficient which is -0.056. But, as it is statistically insignificant, as shown in its p-value which is 0.205 and greater than the study's level of significance i.e., 0.05, the variable has no significant effect on customer satisfaction. Therefore, the first hypothesis (H_1) stating that "tangibles have significant effect on customer satisfaction" is rejected.

H₂: Reliability has significant effect on customer satisfaction.

As it was clearly depicted in above table, reliability has a beta coefficient of 0.126 which means that it has positive effect on customer satisfaction with significance value of 0.015. As its significance value is less than the significant level of the study ($0.015 < 0.05$), it has significant effect on customer satisfaction. Therefore, the second hypothesis (H_2) stating that "reliability has significant effect on customer satisfaction" is accepted.

H₃: Responsiveness has significant effect on customer satisfaction.

Responsiveness has a positive beta of coefficient (0.230) and significance value of 0.000. This indicates that the significance value of the variable is less than that of the study's significance level ($0.00 < 0.05$). Therefore, responsiveness has significant effect on customer satisfaction and the third hypothesis stating that "responsiveness has significant effect on customer satisfaction" is accepted.

H₄: Assurance has significant effect on customer satisfaction.

Table 3 indicated that assurance has a positive beta

coefficient of 0.106 and significance value of 0.025. This indicates that assurance has positive and significant effect on customer satisfaction, as its significance value is less than that of the study's level of significance. Therefore, the fourth hypothesis stating "assurance has significant effect on customer satisfaction" is accepted.

H₅: Empathy has significant effect on customer satisfaction.

As it is clearly depicted in table 3 above, the service quality dimension 'empathy' has comparatively high positive beta coefficient of 0.484 and significance value of 0.000. This indicates that the variable 'empathy' does highly affect customer satisfaction when compared to other service quality dimensions. Therefore, the fifth hypothesis stating that "empathy has significant effect on customer satisfaction" was accepted.

5. Discussions

As indicated in Pearson correlation table, all service quality dimensions i.e., tangibles, reliability, responsiveness, assurance and empathy have positive correlation with customer satisfaction in CBE. Comparatively, the highest positive correlation value is found in empathy dimension with 'r' value of 0.777 and the lowest is for tangibles with 'r' value of 0.416. In the same way, the regression result indicated that the service quality dimension 'empathy' has highest beta value of 0.484 with significant effect on customer satisfaction and tangibles dimension has negative beta value of 0.056 with non-significant effect on customer satisfaction.

The study by Parasuraman et al. [17] indicated that all the service quality dimensions are positively related with customer satisfaction. Another study by Melese [13] indicated that the service quality dimensions i.e., tangibles, reliability, responsiveness, assurance and empathy has positive and significant relation with customer satisfaction. Accordingly, the current study supports the finding of previous studies.

As indicated by regression report, four service quality dimensions i.e., reliability, responsiveness, assurance and empathy have positive and significant effect on customer satisfaction and tangibles has non-significant effect on customer satisfaction at 5% level of significance. The finding was consistent with that of Dawit and Adem [7] and Melese [13].

6. Conclusions and Recommendations

The study was conducted to investigate the effect of service quality on customer satisfaction in CBE branches in Wolaita Sodo town. There were five branches in the town when the study was conducted.

The correlation analysis has indicated that there is significant and positive relationship between service quality dimensions and customer satisfaction. Empathy dimension of service quality and customer satisfaction have comparatively highest positive relationship and tangibles

dimension of service quality and customer satisfaction have lowest positive relationship. As indicated by regression model summary, all service quality dimensions together and customer satisfaction have positive and strong relation, i.e. 0.811. Therefore, improvements in all service quality dimensions not only bring the level of service quality to the extent of customers' expectations but also increase customers' satisfactions, which will result in customers' retention, positive word of mouth, repeated visit, and increased profitability for the organization.

Empathy has comparatively high standardized beta coefficient of 0.484, which means that a one-standard deviation increment in empathy will bring 0.488 standard deviations increments in customer satisfaction followed by responsiveness for which a one-standard deviation increment will bring 0.23 standard deviations increment in customer satisfaction and reliability for which a one-standard deviations increment will bring 0.126 standard deviations increment in customer satisfaction. Comparatively, lowest effect is found with assurance dimension for which a one-standard deviation increment will bring 0.106 standard deviations increment in customer satisfaction. On the other hand, the tangibles dimension have no statistically significant effect on the customer satisfaction as its significance value is greater than 0.05. This indicates that there is no statistically significant linear dependence of customer satisfaction on the tangibles dimension of service quality. From these all, one can conclude that service quality affects the level of customer satisfaction in CBE branches in Wolaita Sodo town.

The branches need to work hard in all quality aspects as there is positive relationship between service quality dimensions and customer satisfaction. Empathy dimension has high effect on customer satisfaction compared to others. Therefore, bank needs to give more personal attention to customers, understand the interest of customers, care for their customers, and give prompt service.

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