

EFFECT OF SERVICE QUALITY ON CUSTOMER SATISFACTION AND LOYALTY IN PRIVATE BANKS, HAWASSA, ETHIOPIA

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ABSTRACT

The major objectives of the present study were to determine whether customers are satisfied and loyal to the services provided by the private banks and to identify the mediation role of customer satisfaction between service quality and customer loyalty, in private banks operating in Hawassa, Ethiopia. A self-administrated questionnaire was used to collect primary data from conveniently selected 238 (return rate = 81.93%) customers of nine private banks in Hawassa city. The questionnaire included 18 items for the five dimensions (tangibility, reliability, responsiveness assurance and empathy) of SERVPERF model, and five items for each of customer satisfaction, and loyalty. All five dimensions of service quality were significantly correlated with service quality, customer satisfaction, and loyalty. Regression analysis showed that reliability, responsiveness, and assurance had significant effect on both customer satisfaction and loyalty. Customer satisfaction had partial mediation between service quality and customer loyalty. This study suggested that giving more emphasis to reliability, responsiveness, and assurance dimensions of the service quality would increase customers' satisfaction and keep them loyal to the private banks. In addition to customer satisfaction, other factors that influence the relationship between service quality and customer loyalty should be studied in the future.

Keywords: Service Quality, Customer Satisfaction, Loyalty, Servperf, Private Banks.

INTRODUCTION

Service Quality

A service is any act or performance one offers to the other that is essentially intangible and does not result in the ownership of anything. The production of service may or may not involve physical products (Kotler & Keller, 2012). On the other hand, service quality refers to the difference between customers' expectations of service and their perceptions of the performance of actual service offered (Parasuraman et al., 1988). Customers' expectations are influenced by their knowledge of a company's products or services, the marketing strategies employed by the company, the psychological state of the customer at the time the service is provided, as well as their norms, values, background, and relationships with other companies (Kant & Jaiswal, 2017).

The SERVQUAL model, developed by Parasuraman et al. (1988), is frequently used to evaluate the quality of services. This model has five components: tangibility (physical facilities,

equipment, and employee appearance), reliability (ability to deliver the promised service consistently), responsiveness (willingness to assist customers and provide prompt service), assurance (knowledge and courtesy of employees and their capacity to inspire trust and confidence), and empathy (caring, individualized attention the firm provides its customers). These dimensions each consist of four or five questions, giving a total of 22 paired questions to test the expectations and perceptions of customers at the same time.

It has been reported that SERVQUAL model has limited use in determining the quality of services. According to Brady and Cronin (2001), besides there is no evidence that customers evaluate service quality using SERVQUAL gap score resulting from perception minus expectation, administering expectation and perception questions twice which are identical, contribute to respondents' fatigue, confusion, and low response rates. The simultaneous ratings of expectations and perceptions also influence how respondents view the later inquiries (Tourangeau & Rasinski, 1988). In addition, it has been reported that respondents typically give the expectation component a higher score than the perception component (Smith, 1995). Thus, the present study has employed SERVPERF model, a performance-only instrument, or customer's service perception component of SERVQUAL model, because it better captures the variation in customers' overall perceptions of service quality (Cronin and Taylor, 1992; Brady et al., 2002).

Customer Satisfaction

Customer satisfaction is an emotional response that varies in intensity depending on how well a customer's expectations were met during or after using a particular good or service (Giese & Cote, 2000). Positive disconfirmation results from customers' perceptions of product or service performance that exceeds expectations, while negative disconfirmation, or dissatisfaction, results from perceptions of underperformance, and zero disconfirmation results from perceptions of performance that is equal to expectations (Furrer et al., 2000; Sureshchandar et al., 2002). Customer satisfaction influences customers' commitment, customer retention, tolerance for service errors, and positive word-of-mouth (Gounaris et al., 2003).

Customer satisfaction is influenced by service quality dimensions (tangibles, reliability, responsiveness, assurance, and empathy), although the extent of influence of each dimension can vary from one situation to the other (Parasuraman et al., 1988; Arasli et al., 2005; Shanka, 2012; Gnawali, 2016; Kant & Jaiswal, 2017; Supriyanto et al., 2021). For example, the presence of physical equipment, and employees' physical appearance, as well as their communication skills, politeness, and willingness and ability to provide the promised service promptly and accurately influence customers' satisfaction. Due to the intangibility, inseparability, perishability, and heterogeneity of services, however, customer satisfaction is more influenced by the human aspects of service quality than by the tangibles (Parasuraman et al., 1988; Lenka et al., 2009).

Customer Loyalty

Customer loyalty combines both attitudinal and behavioral loyalty. Attitudinal loyalty refers to the customers' positive propensity toward a good or service based on their overall experiences. If a competitive brand with better quality and a lower price becomes available on the market, these customers are more likely to switch. Contrarily, behavioral loyalty refers to

customers' commitment to buy the good or service in question despite the presence of competitive alternatives on the market (Dick and Basu, 1994; Lenka et al., 2009). In general, the indicators of loyalty include less intention of customers to switch to competitors despite the existence of uniformity in banking goods and services (Chakravarty et al., 2004), and repurchase intents and favorable word-of-mouth to others (Lenka et al., 2009; Supriyanto et al., 2021).

Several studies have shown that service quality affects customer loyalty through customer satisfaction (Siddiqi, 2011; Ngo & Nguyen, 2016; Kasiri et al., 2017; Pakurár et al., 2019; Supriyanto et al., 2021). Although, customer loyalty is positively correlated with service quality and customer satisfaction (Dick & Basu, 1994; Siddiqi, 2011; Shanka, 2012; Gnawali, 2016; Ngo & Nguyen, 2016; Supriyanto et al., 2021), customers satisfied with the service are not always loyal, despite loyal customers are those satisfied with the services offered (Supriyanto et al., 2021).

Objectives of the Study

Even though, banks are constantly introducing new goods and services to their customers, the information with regard to service quality, customer satisfaction, and loyalty is scanty in banking sector in Ethiopia. Thus, the objectives of the present study were to determine whether customers are satisfied and loyal to the services provided by the private banks and to identify the mediation role of customer satisfaction between service quality and customer loyalty, in private banks operating in Hawassa.

Conceptual Model and Hypothesis

Figure 1 illustrates the conceptual model for the study. This model starts with measurement of service quality dimensions: tangibility, reliability, responsiveness, assurance, and empathy. It shows that service quality is an independent variable, customer satisfaction is a mediator and customer loyalty is a dependent variable. In this study, the following hypotheses were examined:

- H₁: Service quality significantly affects customer satisfaction
- H₂: Service quality significantly affects customer loyalty
- H₃: Customer satisfaction significantly affects customer loyalty
- H₄: Service quality significantly affects customer loyalty in the presence of customer satisfaction

Independent variable

Dependent variable

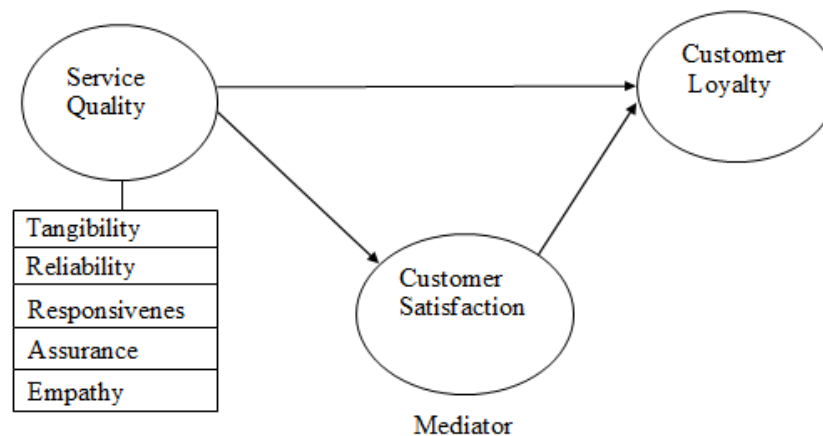


Figure 1
CONCEPTUAL FRAMEWORK FOR THE STUDY

RESEARCH METHODOLOGY

Description of the Study Area

This study was carried out in Hawassa, the capital city of regional state of Sidama, located 275 kilometers south of Addis Ababa, capital city of Ethiopia. The population of Hawassa has been estimated to be 436,992. In the city, there are two public banks (Commercial Bank of Ethiopia, and Development Bank of Ethiopia) and 28 private banks, at the start of this study in February, 2023. This study was based on selected customers from main branches of nine private banks, namely Addis International, Awash International, Bank of Abyssinia, Berhan, Dashen, Debub Global, Hibret, Nib International, and Wogagen banks, which are different in their number of branches, number of years in the market, and financial performance (https://en.wikipedia.org/wiki/List_of_banks_in_Ethiopia). The main branches were chosen due to their high level of activity compared to other branches in Hawassa.

Sampling Size and Data Collection

According to Hair et al. (2019), an acceptable sample size is one that includes at least 50 observations but preferably 100 or more. As an alternative, they recommend a minimum of 5 to 10 respondents for each questionnaire item. Although, a minimum of 140 respondents were needed to complete the current questionnaire, which included 18 items on the dimensions of service quality (Parasuraman et al., 1988), and five items for each of customer satisfaction and customer loyalty obtained from published works (Lenka et al., 2009; Siddiqi, 2011; Bhat et al., 2018; Islam et al., 2020), 238 self-administered questionnaires were conveniently distributed to volunteer customers who were able to complete the questionnaires. The questionnaire also included seven personal profile questions.

Respondents were selected from each main branch bank based on their proportion in the total number of 198 000 customers in main branches of nine private banks considered at the start

of the study in February, 2023. A 5-point Likert scale with the options of 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, and 5=strongly agree, was used to assess how well services were perceived by customers, as well as their satisfaction and loyalty.

Data Analysis

Data were analyzed with Statistical Package for Social Sciences (SPSS) software, version 23. Pearson correlation was done among service quality, service quality dimensions, customer satisfaction and loyalty. In addition, regression analysis was used to estimate the effect of service quality dimensions on customer satisfaction and loyalty. Both three simple and one multiple regression analyses were conducted to investigate the mediation effect of customer satisfaction in the relationship between service quality and customer loyalty (Baron & Kenny, 1986).

RESULTS AND DISCUSSION

Response Rates

For two hundred thirty eight self-administered questionnaires, after discarding incomplete responses, the valid response rate was 195(81.93%). Due to their extensive customer bases, Awash International (15.15%), Bank of Abyssinia (12.63%), and Dashen (20.20%) banks contributed the majority of respondents in the sample (Table 1).

Table 1 NUMBER OF CUSTOMERS, SAMPLE SIZE, FREQUENCY OF RESPONSES AND RESPONSE RATE FOR MAIN BRANCHES OF NINE PRIVATE BANKS IN HAWASSA, 2023					
Bank	Number of customers	Percent	Frequency in the sample	Frequency of responses	% Response rate
Addis International	15000	7.58	18	13	7.56
Awash International	30000	15.15	36	32	15.13
Bank of Abyssinia	25000	12.63	30	28	12.61
Berhan	20000	10.1	24	17	10.08
Dashen	40000	20.2	48	44	20.17
Debab Global	15000	7.58	18	12	7.56
Hibret	17000	8.59	21	14	8.82
Nib International	16000	8.08	19	17	7.98
Wogagen	20000	10.1	24	18	10.08
Total	198000	100	238	195	100

Profiles of Respondents

Gender, age, occupation, experience with the bank, type of account owned, and marital status were items included in the respondents' profile information (Table 4.2). Male respondents made up 64.1% of the sample, while female respondents were 34.9%. Age groups 20-29 (17.9%), 30-39 (37.2%), and 40-49 years (22.1%) represented 77.20% of the respondents. Government employees made up 54.4% of the respondents, followed by self-employed respondents (26.7%) and business owners (17.4%), whereas majority of the respondents had 1-5(51.8%), and 6-10(25.6%) years of experience in using private bank services. Regarding education, the majority of respondents were bachelor's (46.7%) and master's (29.7%) degree holders, while 10.8% had diploma level qualifications. Saving account (52.8%) and current account (44.6%) were held by the majority of respondents, while fixed account (3.6%) was the least common. Among the respondents, 25.6% were single, 70.8% were married, and 3.6% had divorced.

Table 2		
PROFILES OF RESPONDENTS OF NINE PRIVATE BANKS CUSTOMERS IN HAWASSA, 2023		
Items	Frequency(n=195)	Percent
Gender		
Male	127	65.1
Female	68	34.9
Age		
Below 20 years	4	2.1
20-29 years	35	17.9
30-39 years	92	37.2
40-49 years	43	22.1
50 years and above	21	10.8
Occupation		
Government employee	106	54.4
Student	3	1.5
Business owner	34	17.4
Self employed	52	26.7
Education		
Primary school	11	5.6
High school complete	14	7.2
Diploma	21	10.8
Bachelor's degree	91	46.7
Master's degree	58	29.7
Experience with the Bank		
Less than one year	22	11.3
1- 5 years	101	51.8

6-10 years	50	25.6
10-15 years	17	8.7
More than 15 years	5	2.6
Type of Account		
Saving account	103	52.8
Current account	86	44.1
Fixed account	6	3.1
Marital Status		
Single	50	25.6
Married	138	70.8
Divorced	7	3.6

Validity and Reliability Tests

Validity Test

When a measurement accurately captures the underlying construct that it is intended to measure, that measurement is said to be valid (Hair et al., 2019). The questionnaire was pre-tested with 20 selected private bank customers who were able to offer pertinent suggestions for the refinement of the questionnaire. With the suggestion of those respondents, one item from each of reliability, responsiveness, assurance, and empathy dimensions was discarded because of ambiguity of their meanings, reducing the total number of items of service quality (Parasuraman et al., 1988) from 22 to 18.

Reliability Test

Reliability refers to the consistency of a variable or group of variables with respect to the construct they are supposed to measure, after several trials. The internal consistency of items which measure the same construct should be highly inter-correlated, and is commonly evaluated with the minimum Cronbach's alpha value of 0.70 (Hair et al., 2019). All dimensions of service quality as well as customer satisfaction and customer loyalty had Cronbach's alpha values greater than 0.70, confirming the internal consistency of items employed to measure these concepts (Table.3, and Table.4). The Cronbach's alpha value ranged from 0.777 for tangibility to 0.878 of customer satisfaction. The cause of low reliability of an instrument includes confusing questions and the respondent's unfamiliarity with or doesn't care about the questions (Marczyk et al., 2005).

Service Quality Dimensions

Table 4 showed that the mean scores for tangibility items ranged from 3.74 (the appearance of the physical facilities of the bank is keeping with the type of services provided) to 4.19 (bank's employees are well dressed and appear neat) with the tangibility mean score of 4.01, whereas the mean scores for reliability items ranged from 3.51 (when the bank promises to

do something by a certain time, it does so) to 4.08 (the bank is dependable) with the mean of 3.78. Similarly, the mean scores of responsiveness items ranged from 3.71 (employees of bank are never too busy to respond to customer requests promptly) to 4.06 (employees of bank are always willing to help customers) with the mean of 3.94. The mean scores for the assurance items were 3.78 (you can trust employees of the bank), 3.91 (you feel safe in your transactions with the bank's employees), and 3.83 (employees of the bank are polite) with the assurance mean of 3.84, whereas that of empathy items ranged from 3.35 (the bank has your best interests at heart) to 3.65 (employees of the bank understand what your needs are) with the mean score for the empathy dimension of 3.53.

Using the criteria of strongly disagree (1.00 -1.80), disagree (1.81- 2.60), neutral (2.61- 3.40), agree (3.41-4.20), and strongly agree (4.21-5.00) (Nyutu et al., 20021), the respondents agreed with the presence of tangibility, provision of accurate and dependable services at promised times, less waiting to obtain services, employees are trustworthy and polite in handling customers, and banks and their employees give individual attentions and understand customer needs, in private banks, except that their response was neutral for the item: The bank has your best interests at heart.

Table 3 CRONBACH'S ALPHA VALUES, MEAN, STANDARD DEVIATIONS OF SERVICE QUALITY DIMENSIONS, AND SERVICE QUALITY FOR RESPONDENTS (N = 195) OF NINE PRIVATE BANKS CUSTOMERS IN HAWASSA, 2023				
Dimension	Cronbach's alpha for dimensions	Cronbach's alpha if item deleted	Mean	SD
Tangibility	0.777		4.01	0.698
The bank has up-to-date equipment		0.735	4.09	0.844
Bank's physical facilities are visually appealing		0.718	4.02	0.905
Bank's employees are well dressed and appear neat		0.727	4.19	0.908
The appearance of the physical facilities of the bank is keeping with the type of services provided		0.712	3.74	0.945
Reliability	0.79		3.78	0.749
When the bank promises to do something by a certain time, it does so		0.737	3.51	1.012
The bank is dependable		0.736	4.08	0.87
The bank provides its service at the time it promises to do so.		0.719	3.59	0.987
The bank keeps its records accurately		0.76	3.92	0.949
Responsiveness	0.834		3.94	0.807
You receive prompt service from bank's employees		0.769	4.04	0.946
Employees of bank are always willing to help customers		0.741	4.06	0.871
Employees of bank are never too busy to respond to customer requests promptly		0.802	3.71	0.974
Assurance	0.85		3.84	0.818
You can trust employees of the bank		0.761	3.78	0.966
You feel safe in your transactions with the bank's		0.795	3.91	0.895

employees				
Employees of the bank are polite		0.813	3.83	0.936
Empathy	0.873		3.53	0.819
The bank give you individual attention		0.825	3.62	0.979
Employees of the bank give you personal attention		0.825	3.49	0.981
Employees of the bank understand what your needs are		0.846	3.65	0.98
The bank has your best interests at heart		0.855	3.35	0.904
Service quality	0.842			

Customer Satisfaction and Customer Loyalty

Table 4 showed that the mean scores for the customer satisfaction items ranged from 3.71(I am satisfied with individual attention and complaint handling of the bank, and I am satisfied with products and services offered by my bank) to 4.05 (Overall, I am satisfied with the physical setting of the bank) with the customer satisfaction mean score of 3.87, whereas the mean scores for the customer loyalty items ranged from 3.35(I have no intention to switch over to other) to 3.77 (I will continue to use this banking service in the future) with the customer loyalty mean score of 3.59. This showed that customers were generally satisfied with the private banks' service offerings and loyalty to them, except that their response to the item: I have no intention to switch over to other, was neutral (3.35).

Table 4 CRONBACH'S ALPHA VALUES, MEAN, AND STANDARD DEVIATIONS OF RESPONDENTS (N = 195) OF NINE PRIVATE BANKS CUSTOMERS TO THE CUSTOMER SATISFACTION AND LOYALTY ITEMS, HAWASSA, 2023				
Dimension	Cronbach's alpha for dimensions	Cronbach's alpha if item deleted	Mean	SD
Customer satisfaction	0.878		3.87	0.741
Overall, I am satisfied with the physical setting of the bank		0.843	4.05	0.817
I am satisfied with the banking skills, courtesy and friendliness of bank employees		0.842	4.02	0.861
I am satisfied with individual attention and complaint handling of the bank		0.859	3.71	0.832
I am satisfied with employees' response and prompt services provided by my bank		0.847	3.88	1.023
I am satisfied with products and services offered by my bank		0.867	3.71	0.969
Customer loyalty	0.857		3.59	0.807
I recommend this bank to families, relatives and friends		0.83	3.68	0.931
I will continue to use this banking service in the future		0.812	3.77	0.947
I often tell positive things about my bank to other people		0.819	3.59	1.043

I have no intention to switch over to other		0.852	3.35	1.056
I prefer this bank over other banks		0.82	3.54	1.075

Correlation Analysis

The Pearson correlation coefficients for service quality dimensions, service quality, customer satisfaction, and loyalty were shown in Table 5. The five service quality dimensions were positively correlated with service quality ($r = 0.738$ to 0.807 , $p < 0.01$), customer satisfaction ($r = 0.545$ to 0.743 , $p < 0.01$), and customer loyalty ($r = 0.513$ to 0.649 , $p < 0.01$). The within-service dimensions correlation coefficients were also positive ($r = 0.365$ to 0.596 , $p < 0.01$), indicating that the improvement in one dimension would have a positive influence on the other.

Using the criteria for the interpretation of correlation coefficient (r) as $r = 0.1$ is small, $r = 0.3$ is medium, and $r = 0.5$ or more is large (Gravetter et al., 2020), the correlation coefficient of service quality with customer satisfaction ($r = 0.813$, $p = 0.01$) and customer loyalty ($r = 0.727$, $p < 0.01$), and that between customer satisfaction and customer loyalty ($r = 0.821$, $p < 0.01$) were strong. Correlation analysis also demonstrated that improving overall service quality and its dimensions will result in satisfied and more devoted customers (Lenka et al., 2009; Siddiqi, 2011; Shanka, 2012; Ali & Raza, 2015; Slack & Singh, 2020; Supriyanto et al., 2021).

Table 5 PEARSON CORRELATION COEFFICIENTS AMONG SERVICE QUALITY DIMENSIONS, SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASA, 2023							
Items	REL	RES	ASS	EMP	SQ	CS	CL
TAN	0.596**	0.529**	0.466**	0.365**	0.738**	0.545**	0.513**
REL		0.559**	0.556**	0.469**	0.805**	0.651**	0.578**
RES			0.510**	0.548**	0.807**	0.743**	0.649**
ASS				0.575**	0.800**	0.638**	0.581**
EMP					0.766**	0.601**	0.522**
SQ						0.813**	0.727**
CS							0.821**
TAN = tangibility; REL = reliability; RES = responsiveness; ASS = assurance; EMP = empathy; SQ = service quality; CS = customer satisfaction; CL = customer loyalty; ** = significant at $p < 0.01$ probability level.							

Regression Analysis

F-test showed that the effects of tangibility, reliability, responsiveness, assurance and empathy explained 68.9% of the variation in customer satisfaction and was significant ($p = 0.000$) (Table 6). The coefficient of determination (R^2) value was moderate according to the criteria of R^2 values of 0.75, 0.50, and 0.25 are substantial, moderate, and weak, respectively (Hair et al., 2019). These service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) have also been used to predict customer satisfaction in service industry

(Parasuraman et al., 1988; Cronin & Taylor, 1992; Arasli et al., 2005; Awan et al., 2011; Islam et al., 2020).

Table 6 SIGNIFICANCE OF REGRESSION MODEL OF SERVICE QUALITY DIMENSIONS ON CUSTOMER SATISFACTION ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023					
Source of variationa	Sum of Squares	df	Mean Square	F	P
Regression	73.359	5	14.672	83.606	0
Residual	33.167	189	0.175		
Total	106.526	194			
aDependent variable = customer satisfaction (CS); independent variables: tangibility, reliability, responsiveness, assurance, empathy; df = degree of freedom; R ² = 0.689, standard error of the estimate (SE) = 0.419.					

Table 7 demonstrated that, with the exception of tangibility, each dimension of service quality had a statistically significant effect on customer satisfaction. This agrees with the correlation analysis except for tangibility. The unit change in reliability, responsiveness, assurance and empathy would increase customer satisfaction by 0.203, 0.385, 0.187 and 0.123 units, respectively. The standardized regression coefficients, or beta coefficients (β) use standardized data and show the direct effect of independent variables on dependent variable (Hair et al., 2019). The direct effects of reliability, responsiveness, and assurance and empathy dimensions on customer satisfaction were 0.205, 0.420, 0.206 and 0.132, respectively, suggesting that any improvement in these dimensions would increase customer satisfaction. The significant impact of reliability (Ali & Raza, 2015; Gnawali, 2016), and that of responsiveness, assurance and empathy (Shanka, 2012; Ali & Raza, 2015; Gnawali, 2016; Kant & Jaiswal, 2017) on customer satisfaction have also been reported in previous studies.

Despite the fact that poor tangibles would lead to customer disappointment (Parasuraman et al., 1988; Arasli et al., 2005), the insignificant effect of tangibility on customer satisfaction could be because private banks might have similar offers in terms of up to-date equipment, visually appealing facilities, and neat and well-dressed employees. The insignificant effect of tangibility on customer satisfaction has also been reported by other studies (Arasli et al., 2005; Shanka, 2012).

Table 7 REGRESSION COEFFICIENTS FOR RELATIONSHIP BETWEEN SERVICE QUALITY DIMENSIONS AND CUSTOMER SATISFACTION ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023					
Model	Unstandardized coefficients		Standardized coefficients		
	B	SE	β	t	P
(Constant)	0.202	0.197		1.022	0.308
Tangibility	0.059	0.057	0.056	1.04	0.3
Reliability	0.203	0.057	0.205	3.587	0
Responsiveness	0.385	0.051	0.42	7.559	0
Assurance	0.187	0.05	0.206	3.747	0

Empathy	0.123	0.048	0.136	2.54	0.012
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F-test showed that the effects of tangibility, reliability, responsiveness, assurance and empathy explained 54.4% of the variation in customer loyalty and was significant ($p = 0.000$) (Table 8).

Table 8 SIGNIFICANCE OF REGRESSION MODEL OF SERVICE QUALITY DIMENSIONS ON CUSTOMER LOYALTY ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023					
Source of variation	df	Sum of squares	Mean square	F	P
Regression	5	68.672	13.734	45.017	0
Residual	189	57.663	0.305		
Total	194	126.335			

^aDependent variable = customer loyalty (CL); independent variables: tangibility, reliability, responsiveness, assurance, empathy; df = degree of freedom; $R^2 = 0.544$; standard error of the estimate (SE) = 0.552.

Table 9 indicated that, in agreement with correlation analysis, reliability, responsiveness and assurance, except tangibility and empathy dimensions, had a statistically significant effect on customer loyalty. The unit increase in reliability, responsiveness, and assurance would increase customer loyalty by 0.176, 0.343 and 0.209 units, respectively. The direct effect (β) of reliability, responsiveness, and assurance dimensions on customer loyalty was also, 0.163, 0.343, and 0.212, respectively.

Table 9 REGRESSION COEFFICIENTS FOR RELATIONSHIP BETWEEN SERVICE QUALITY DIMENSIONS AND CUSTOMER LOYALTY ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023					
Model	Unstandardized coefficients		Standardized coefficients		
	B	SE	β	t	P
(Constant)	-0.037	0.26		-0.144	0.886
Tangibility	0.115	0.075	0.099	1.538	0.126
Reliability	0.176	0.075	0.163	2.357	0.019
Responsiveness	0.343	0.067	0.343	5.103	0
Assurance	0.209	0.066	0.212	3.176	0.002
Empathy	0.099	0.064	0.1	1.548	0.123

Tolerance and the variance inflation factor (VIF) are commonly used to assess multicollinearity, or the degree of correlation in independent variables. Tolerance is determined as $1-R^2$, i.e., the variability of an independent variable that cannot be explained by the other independent variables, after regressing independent variables on another independent variable, and it should be more than 0.10 to demonstrate that the independent variables do not contribute significantly to the variation of that independent variable. Variance inflation factor (VIF), which

should be generally less than 10, is an inverse of the tolerance value and its square root indicates the degree to which the standard error would be increased (Hair et al., 2019). Thus, in this study, there has been no multicollinearity problem with regard to service quality dimensions (Table 10).

Table 10 VALUES OF TOLERANCE AND VARIANCE INFLATION FACTOR FOR SERVICE QUALITY DIMENSIONS ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023		
Dimensions	Tolerance	VIF
Tangibility	0.578	1.729
Reliability	0.505	1.979
Responsiveness	0.535	1.871
Assurance	0.542	1.843
Empathy	0.576	1.736
aVIF = variance inflation factor		

Customer Satisfaction as a Mediator

The following three simple linear regressions and one multiple regression were conducted to assess the role of customer satisfaction (mediator) in the relationship between service quality (independent variable) and customer loyalty (dependent variable) (Baron & Kenny, 1986).

- Model 1: Service quality significantly affects customer satisfaction
- Model 2: Service quality significantly affects customer loyalty
- Model 3: Customer satisfaction significantly affects customer loyalty
- Model 4: Service quality insignificantly affects customer loyalty in the presence of customer satisfaction

Complete mediation exists if all four conditions are met, and partial mediation exists if only the first three conditions are significant (Baron & Kenny, 1986). Simple regression analysis showed that the effect of service quality on customer satisfaction and loyalty, and that of customer satisfaction on customer loyalty was significant ($p = 0.000$) and had moderate R-square ($R^2 = 0.529$ to 0.674) values. Multiple regression showed that the effects of service quality and customer satisfaction on customer loyalty were significant ($p = 0.000$) suggesting that customer satisfaction was a partial mediator between service quality and customer loyalty (Table 11).

Table 11 SIGNIFICANCE OF REGRESSION MODELS TO TEST CUSTOMER SATISFACTION AS A MEDIATOR BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023										
	Dependent variable	Independent variable(s)	Source of variation	Sum of Squares	df	Mean Square	F	P	R-square	SE
1	CS	SQ	Regressi	70.463	1	70.463	377	0	0.661	0.43

			on				.1			2
			Residual	36.063	19 3	6.187				
			Total	106.52 6	19 4					
2	CL	SQ	Regressi on	66.859	1	66.859	216 .95 7	0	0.529	0.55 5
			Residual	59.476	19 3	0.308				
			Total	126.33 5	19 4					
3	CL	CS	Regressi on	85.15	1	85.15	399 .02 7	0	0.674	0.46 2
			Residual	41.185	19 3	0.213				
			Total	126.33 5	19 4					
4	CL	CS, SQ	Regressi on	86.483	2	43.242	208 .33 2	0	0.685	0.45 6
			Residual	39.852	19 2	0.208				
			Total	126.33 5	19 4					
aCS =customer satisfaction; CL = customer loyalty; SQ = service quality; df = degree of freedom; SE = standard error of the estimate										

Table 12 showed that, in simple regression, a unit increase in service quality would increase customer satisfaction by 0.988 and customer loyalty by 0.962, whereas a unit increase in customer satisfaction would increase customer loyalty by 0.894. The significant effect of service quality on customer satisfaction and that of customer satisfaction on customer loyalty have also been reported in previous studies (Lenka, et al., 2009; Shanka, 2012; Kasiri et al., 2017; Islam et al., 2020; Supriyanto et al., 2021). The direct (standardized) effects of service quality on customer satisfaction and customer loyalty were 0.813 and 0.727, respectively, while that of customer satisfaction on customer loyalty was 0.821.

In multiple regression, the substantial reduction in the direct effect of service quality on customer loyalty to 0.177, in the presence of customer satisfaction and the significant indirect effect ($0.813 \times 0.677 = 0.550$) according to Sobel test ($Z = 7.776$, $p = 0.000$) would show that customer satisfaction is a more crucial factor for customer loyalty than service quality. The role of customer satisfaction as a mediator between service quality and customer loyalty has also been reported in previous studies (Siddiqi, 2011; Ngo & Nguyen, 2016; Kasiri et al., 2017; Pakurár et al., 2019; Slack & Singh, 2020; Supriyanto et al., 2021). Even though customer satisfaction is a strong mediator, the significant effect of service quality in the presence of customer satisfaction would show that multiple mediating factors occur between service quality and customer loyalty (Baron and Kenny, 1986). It has also been reported that satisfied customers

are not always loyal (Bhat et al., 2018; Supriyanto et al., 2021). For instance, Bhat et al., (2018) suggested that satisfaction can lead to loyalty when customers build trust.

Table 12
SIGNIFICANCE OF REGRESSION COEFFICIENTS FOR RELATIONSHIP BETWEEN SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY ACROSS NINE PRIVATE BANKS CUSTOMERS (N = 195) IN HAWASSA, 2023

Model	Dependent variable	Independent variable(s)		Unstandardized Coefficients		Standardized Coefficients		
				B	SE	β	t	P
1	CS	SQ	Constant	0.099	0.197		0.505	0.614
			SQ	0.988	0.051	0.813	19.419	0
2	CL	SQ	Constant	-0.087	0.253		-0.344	0.731
			SQ	0.962	0.065	0.727	14.729	0
3	CL	CS	Constant	0.126	0.176		0.715	0.475
			CS	0.894	0.045	0.821	19.976	0
4	CL	CS, SQ	Constant	-0.16	0.208		-0.772	0.441
			SQ	0.234	0.092	0.177	2.534	0.012
			CS	0.738	0.076	0.677	9.724	0

aCS =customer satisfaction, CL = customer loyalty; SQ = service quality; SE = standard error of the estimate.

CONCLUSION

This study showed that all service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) were positively correlated with service quality, customer satisfaction and customer loyalty, suggesting that improving service quality would improve customer satisfaction and loyalty in private banks. In this study, reliability, responsiveness and assurance dimensions were most important determinants of customer satisfaction and loyalty, suggesting that their improvement would enhance customer satisfaction and loyalty in private banks. Service quality had large indirect effect on customer loyalty through customer satisfaction, suggesting that implementing service quality improvement strategies which ensure customer satisfaction, would in return lead to customer loyalty.

RECOMMENDATIONS

Based on this study, the following recommendations would be suggested to enhance service quality, customer satisfaction and loyalty in private banks:

- The significant effects of reliability, responsiveness, and assurance on customer satisfaction and loyalty, would suggest that the focus would be given to these dimensions to retain the existing customers and to attract the new ones.

- The non-significant effect of tangibility on both customer satisfaction and loyalty, and that of empathy on customer loyalty would suggest that implementing strategies to differentiate these dimensions would give private banks competitive advantages.
- The strong mediation role of customer satisfaction between service quality and customer satisfaction would suggest that improving service quality to enhance customer satisfaction would increase customer loyalty.
- Even though customer satisfaction strongly mediated the relationship between service quality and customer loyalty in this study, other factors affecting this relationship should also be studied.
- Both private and public banks would be studied in the future in order to better understand the relationship between service quality, customer satisfaction and customer loyalty in Ethiopian banking industry.

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