

Effect of E-Banking Service Quality on Customer Satisfaction: The Case of Commercial Bank of Ethiopia Wolaita Sodo Town Branches

Tamirat Borena Bono

Arbaminch University, Arbaminch, Ethiopia

This study examines the effects of e-banking service quality on customer satisfaction in the Commercial Bank of Ethiopia (CBE) branches in Wolaita Sodo town. Using a causal research design, the study explored the cause-and-effect relationship between service quality dimensions and customer satisfaction. A sample of 385 customers was selected using convenience sampling, with 365 questionnaires returned. Data were collected through questionnaires and analyzed using SPSS V.21. The Cronbach's alpha value of 0.72 from a pilot study confirmed reliability. Descriptive and inferential statistics, including multiple linear regression and one-way ANOVA, were employed. Results revealed that three service quality dimensions—responsiveness, reliability, and assurance—were statistically significant and positively influenced customer satisfaction, while two dimensions showed negative associations. The regression model's coefficient of determination (R^2) was 0.621, indicating a moderate explanatory power. Findings suggest that CBE managers and stakeholders should prioritize improving responsiveness, reliability, and assurance by providing prompt, dependable, and trustworthy services. Due to limitations in time and resources, this study was confined to CBE branches in Wolaita Sodo town; future research could expand to a national level or other service sectors.

Keywords: reliability, responsiveness, assurance, empathy, tangibility, customer satisfaction

Introduction

In recent years, electronic banking (e-banking) has become a dominant force in the global financial sector, revolutionizing how banks interact with their customers. E-banking enables financial institutions to reduce operational costs, shorten transaction processing time, increase service speed, enhance business flexibility, and improve overall service quality (Shih & Fang, 2004). The rapid adoption of e-banking is driven by advancements in information and communication technologies (ICT), which have transformed traditional banking practices into more efficient, customer-centric models. As the academic and professional literature suggests, e-banking is expected to continue its exponential growth, significantly influencing markets worldwide (Nielsen, 2002). However, this growth is not without challenges, particularly in developing countries where

Tamirat Borena Bono, Master of Business Administration, Lecturer and PhD Research Scholar in Marketing Management, Arbaminch University, Arbaminch, Ethiopia.

Correspondence concerning this article should be addressed to Tamirat Borena Bono, email: tamiratorena@gmail.com; tamirat.borena@amu.et.edu.

infrastructure limitations and technological barriers hinder widespread adoption.

The pressure of globalization and the rapid evolution of technology have compelled banks to re-evaluate their service delivery systems. To remain competitive, banks must adapt to the dynamic landscape of information technology and meet the changing expectations of their customers (Evwiekpaefe, 2011). E-banking encompasses a variety of self-service platforms, including internet (online) banking, mobile banking, telephone banking, TV banking, agent banking, and PC banking. These platforms allow customers to access banking services remotely using electronic devices such as personal computers, automated teller machines (ATMs), point-of-sale (POS) terminals, and mobile phones, eliminating the need for physical visits to bank branches (T. Pikkarainen, K. Pikkarainen, Karjaluoto, & Pahnla, 2004).

Despite its potential, the adoption of e-banking in Africa and other developing regions faces significant challenges. Issues such as poor telecommunication infrastructure, high access costs, low internet penetration, limited bank account ownership, and delays in the delivery of physical goods have stifled the growth of e-banking in these regions (Simon, 2016). Ethiopia, as a developing country, is no exception. The Ethiopian banking system grapples with similar obstacles, and its electronic payment systems are still in the nascent stages of development.

To measure service quality in e-banking, researchers often rely on the SERVQUAL model, developed by Parasuraman, Zeithaml, and Berry (1988). This model identifies five key dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy. These dimensions serve as critical indicators for evaluating customer perceptions of service quality (Mengesha, 2016). In today's business environment, ICT applications have become central to banking operations, with the internet serving as a primary platform for delivering financial, banking, and commercial services. However, banks continue to face challenges related to data security and customer trust, which are critical to the success of e-banking initiatives (Simon, 2016).

In Ethiopia, the banking sector is experiencing intense competition, driven by the increasing demand for innovative and customer-centric services. To remain competitive, Ethiopian banks must prioritize the delivery of high-quality e-banking services that meet customer expectations and foster satisfaction. The Commercial Bank of Ethiopia (CBE), as the largest and most prominent bank in the country, has made significant strides in implementing e-banking services. However, despite its efforts, several factors continue to constrain the quality of these services, limiting their effectiveness in achieving customer satisfaction.

This study focuses on the impact of e-banking service quality on customer satisfaction, using the CBE branches in Wolaita Sodo town as a case study. By examining the relationship between service quality dimensions and customer satisfaction, this research aims to provide actionable insights for CBE and other Ethiopian banks to enhance their e-banking services. The findings of this study will contribute to the broader discourse on e-banking in developing countries, offering recommendations for improving service quality and customer satisfaction in the face of technological and infrastructural challenges.

The study is structured as follows: after this introduction, the research motivation and literature review are outlined, followed by a discussion of the findings and their implications.

Research Motivation

Customer satisfaction plays a pivotal role in the success of banking business organizations. To enhance customer satisfaction, banks are increasingly adopting e-banking services, which offer convenience, efficiency,

and flexibility (Shittu, 2010). Many financial institutions are strategically focusing on improving service quality to boost customer satisfaction and loyalty, as these factors provide a competitive edge in the market. Banks that fail to offer electronic banking services risk losing customers to competitors and struggle to gain a competitive advantage (Kombo, Paul k, & Kwarteng, 2015).

Despite the growing importance of e-banking, there has been limited focus on the effect of e-banking service quality on customer satisfaction. Previous studies, such as those by Simon (2016), have highlighted the significant impact of service quality dimensions like tangibility, reliability, and responsiveness on customer satisfaction. Similarly, Assefa (2013) explored the impact of e-banking on customer satisfaction in two private bank branches in Gondar city. However, this study relied on a qualitative approach, limiting its generalizability, and focused solely on ATMs as the e-banking channel. Another study by Agarwal and Kassahun (2017) compared the service quality of public and private banks in Wolaita Sodo town but included a broad range of banking services, making it difficult to draw specific conclusions about e-banking. These studies, while valuable, did not comprehensively incorporate all dimensions of service quality or their collective impact on customer satisfaction.

A strong correlation exists between customer satisfaction and the quality of services provided by companies. In the business world, customers are the primary source of revenue and profit, and improvements in service quality directly contribute to higher customer satisfaction (Talukder, 2018). For banks, establishing standards to measure customer satisfaction is essential, as it enables a better understanding of customer needs and expectations. Evaluating customer satisfaction is critical for banks to refine their services and maintain a competitive position in the market.

This study aims to address the gaps in existing research by examining the effect of e-banking service quality on customer satisfaction, specifically in the context of the Commercial Bank of Ethiopia (CBE) branches in Wolaita Sodo town. By incorporating all dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy, this research seeks to provide a comprehensive understanding of how these factors influence customer satisfaction. The findings will offer valuable insights for CBE and other banks to enhance their e-banking services, ultimately improving customer satisfaction and fostering long-term loyalty.

Literature Review

Essentially, e-banking empowers customers to access accounts, transact business, and obtain financial information through public or private networks, including the internet. Lee (2004) emphasized the convenience and time-saving aspects, along with reduced service charges. E-banking can also be viewed as a fully automated service built on information technology platforms, providing access to accounts, fund transfers, and payments via electronic channels (Daniela, 2014).

The History of E-Banking

The evolution of e-banking began in the 1980s, initially differing significantly from its current form. In 1981, New York City banks pioneered home banking access. The Bank of Scotland introduced the first UK internet banking service, "Home-link", in 1983. A pivotal moment arrived in 1994 when Stanford Federal Credit Union became the first US institution to offer internet banking to all customers. This progression has made e-banking a highly convenient service, accessible anytime and anywhere (Cohen & Shy, 2022).

Types of E-Banking Services

Several key e-banking services have emerged:

- **Automated Teller Machines (ATMs):** ATMs provide self-service access to financial transactions and other banking tasks. Users interact with the machine using a plastic card and PIN (Shemsu, 2017). ATMs have become increasingly prevalent in Ethiopia, offering services like cash withdrawal (Worku, 2015). Modern ATMs also facilitate bill payments and account balance checks (Rose, 1999).
- **Mobile Banking:** Mobile banking allows customers to access banking services through mobile phones. Clottey and Collier (2008) defined it as a system that automatically notifies users of account changes, such as charges or debits, typically through SMS.
- **Internet Banking:** Internet banking enables customers to conduct financial transactions on a secure website operated by the financial institution (Alabar, 2012). These websites often provide information on account balances, interest rates, and exchange rates, in addition to transaction capabilities.

Benefits of E-Banking

E-banking offers numerous benefits to both customers and banks. Customers gain convenience, time savings, and the ability to manage finances from anywhere. Banks benefit from increased efficiency, reduced operational costs, and enhanced brand reputation (Khan, 2017; Kwarteng, 2015). E-banking also facilitates better understanding of market needs and competitor offerings. Furthermore, it breaks down geographical barriers, allowing banks to reach a wider customer base. The digital platform has become a key competitive factor for banks (Khan & Alhumoudi, 2022).

Service Quality

Service quality is crucial for business sustainability. Customers' expectations of quality evolve, necessitating continuous assessment of e-banking service quality. Identifying key factors and understanding customer perceptions are essential. Customer preferences influence both perceptions and the scope of services offered. Customer trust in e-banking plays a significant role in their overall satisfaction (Khan & Alhumoudi, 2022).

Dimensions of Service Quality

- **Reliability:** The ability to perform the promised service dependably and accurately (Parasuraman et al., 1988). This includes delivering the service correctly the first time and keeping promises.
- **Assurance:** The knowledge and courtesy of employees and their ability to inspire trust and confidence. Security concerns are particularly relevant in e-banking.
- **Responsiveness:** The willingness to help customers and provide prompt service. Timely service delivery positively impacts customer perceptions.
- **Empathy:** Caring, individualized attention the firm provides its customers (Parasuraman, 1985). This includes understanding customer needs and providing personalized service.
- **Tangibles:** The appearance of physical facilities, equipment, personnel, and communication materials (Parasuraman, 1985). In the context of e-banking, this can include website design, ease of use, and the overall online experience.

Customer Satisfaction and E-Banking

A strong positive relationship exists between e-service quality and customer satisfaction (Gronroos, 1998;

Parasuraman et al., 1988). High customer satisfaction is dependent on high-quality service (Jain & Gupta, 2004).

Empirical Review

Several studies have investigated the relationship between e-banking service quality and customer satisfaction.

- Munusamy, Chelliah, and Mun (2010) found that tangibility positively and significantly impacted customer satisfaction in Malaysian banks.
- Fadiya (2015) concluded that reliability, responsiveness, and empathy are the most influential factors in e-banking service quality affecting customer satisfaction.

Determinants of Customer Satisfaction in CBE Wolaita Sodo Branches

This section explores the relationship between service quality dimensions and customer satisfaction within CBE Wolaita Sodo branches.

E-banking service quality and customer satisfaction: A strong positive relationship exists between service quality and customer satisfaction, particularly in the banking sector (Shahraki, 2014; Parasuraman et al., 1988).

- Tangibility and customer satisfaction: Tangibility, including the appearance of physical facilities and online platforms, significantly influences customer satisfaction in banking (Parasuraman et al., 1988; Selvakumar, 2016; Ananth, Ramesh, & Prabakaran, 2010). A positive and attractive online experience is crucial. *H₁: Tangibility positively influences customer satisfaction in CBE Wolaita Sodo branches.*

- Reliability and customer satisfaction: Reliability, including accurate transactions and fulfilling promises, is a key driver of customer satisfaction in banking (Peng & Moghavvemi, 2015). *H₂: Reliability positively influences customer satisfaction in CBE Sodo branches.*

- Assurance and customer satisfaction: Assurance, encompassing employee knowledge, courtesy, and the ability to build trust, significantly affects customer satisfaction (Selvakumar, 2016). Security and trust are especially important in e-banking. *H₃: Assurance positively influences customer satisfaction in CBE Wolaita Sodo branches.*

- Responsiveness and customer satisfaction: Responsiveness, including willingness to help and provide prompt service, is crucial for customer satisfaction (Parasuraman et al., 1988; Selvakumar, 2016). Quick and efficient resolution of issues is essential. *H₄: Responsiveness positively influences customer satisfaction in CBE Wolaita Sodo branches.*

- Empathy and customer satisfaction: Empathy, including understanding customer needs and providing personalized attention, contributes to customer satisfaction (Ennew, N. Waite, & R. Waite, 2013; Parasuraman et al., 1988; Ananth et al., 2010). Personalized service and understanding customer needs are important. *H₅: Empathy positively influences customer satisfaction in CBE Wolaita Sodo branches.*

Conclusion

As stated in both specific objectives and literature parts of the study, the five explanatory variables were reliability, responsiveness, assurance, empathy, and tangibility. The result of descriptive analysis showed that all items related within each of those variables had the mean value of between 1.5 and 3 averages. It is an implication of customer's disagreement on the effects of these variables on their satisfaction in their respective branches.

Through analysis of descriptive summary statistics, the researcher concluded the specific objectives that responsiveness, reliability, and assurance had the highest mean values which highly affected the customer satisfaction in CBE Wolaita Sodo branches. Three variables significantly positively affected customer satisfaction (responsiveness, reliability, and assurance) whereas tangibility negatively affected but had significant relationship and empathy negatively affected and had no significant relation with the customer satisfaction. If those first three variables are properly managed, the customer satisfaction positively rises whereas the later one variable does not significantly affect customer satisfaction in CBE Wolaita Sodo branches.

Regarding the correlation analysis output which showed the relationship amongst predictors, it was possibly concluded that all of the variables were significantly related to one another at $p < 0.05$ where the null hypothesis was rejected. The regression result again concluded that the predictors affect the dependent variable as the R^2 value of 0.621 was strong and highly significant at $p < 0.05$ value. In addition, the results of ANNOVA statistical test analysis of variables among the 10 branches of hypothesis concluded that five independent variables identified in the study were found to be statistically significant ($p = 0.000$, $F = 117.554$). It was concluded that the predicting ability and probability of the independent variables (reliability, responsiveness, assurance, empathy, and tangibility) to dependent variable (customer satisfaction) was the highest for the overall model.

Again for Beta coefficients, it can be concluded that responsiveness which is 0.766 Beta coefficient was the highest of other four elements of e-banking service quality dimensions that affect customer satisfaction. The second Beta value rested in reliability 0.360 which affects customer satisfaction and the third variable with Beta value of 0.278 was found to be assurance and other two predictors empathy and tangibility had negative relationship with customer satisfaction with less beta value.

To conclude the effects of change in the dependent variable (customer satisfaction) due to changes in independent variables (reliability, responsiveness, assurance, empathy, tangibility), the Beta value was conclusion of the overall results, which means if there is 1% change in the reliability, customer satisfaction increases by 0.360% while other factors remain constant. If there is 1% change in the responsiveness, customer satisfaction increases by 0.766% and other factors remain constant. If there is 1% change in assurance, the value of customer satisfaction increases by 0.278% holding the other factors constant. Again if there is 1% change in the empathy, the customer satisfaction reduces by 0.055% with others being constant as well as if there is 1% change in the tangibility, the customer satisfaction reduces by 0.423% with others being constant.

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