



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MARKETING MANAGEMENT**

**THE EFFECT OF INTEREST FREE BANKING SERVICE
QUALITY ON CUSTOMERS' SATISFACTION: A CASE OF
AWASH BANK, HWASSA CITY BRANCHES
THESIS**

BY

BETELIHEM SHENENA LEGAMO

HAWASSA, ETHIOPIA

MAY, 2024

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**MBA IN MARKETING MANAGEMENT THESIS PROPOSAL
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DEPARTMENT OF MARKETING MANAGEMENT
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This certifies that under our supervision, Betelihem Shenena Legamo ID No. GpMaMw/0010/15 carried out the thesis, "The Effect of Interest Free Banking Service Quality on Customers' Satisfaction: a case Study on Awash bank of Hwassa city Branches", in partial fulfillment of the requirements for the degree of Master's with specialization in Marketing Management, the Graduate Programme of the Department/School of College of Business and economics, School of Graduate Studies. Therefore, we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

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DECLARATION

I hereby declare that this MBA Thesis, ‘‘The Effect of Interest Free Banking Service Quality on Customers’ Satisfaction: a case Study on Awash bank of Hwassa city Branches’’, is my original work, has not been submitted for credit at any university, and includes properly cited sources.

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LETTER OF CERTIFICATION

This is to certify that the theses Thesis entitled, “The Effect of Interest Free Banking Service Quality on Customers’ Satisfaction: a case Study on Awash bank of Hwassa city Branches” and prepared for the partial fulfillment of the requirement for the degree of Master’s with Marketing management is produced by the student Betelihem Shenena, Legamo under my supervision.

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LIST OF ACRONYMS AND ABBREVIATIONS

- CS- Customers' Satisfaction
- IBS- Islamic banking system
- IFB- Interest Free Banking
- IFBCS- Interest Free Banking Customers' Satisfaction
- IFBSQ- Interest Free Banking Service Quality
- IFBW- Interest Free Banking service Window
- NBE- National Bank of Ethiopia

Abstract

The success and endurance of banking industry nowadays depend on the quality services to customers and Interest free bank are not exception to this. Although the banking industry is starting and offering various types of IFB financial services to the public, their existence does not do any good unless they deliver a quality service. The purpose of this study is to determine the effect of service quality of non-interest bank on customers' satisfaction using Awash bank as a case study. The study adopted modified SERVQUAL measurement dimensions comprising of six dimensions such as: assurance, reliability, tangibles, empathy, and responsiveness and compliance dimension signifies the ability of the organization to comply with Islamic law and principles in their operation. The research design used explanatory research design that shows the relationships and the effect of independent variables on dependent variables (in this case assurance, reliability, Compliance Islamic Law, tangibles, empathy and responsiveness on Awash bank IFB customers). The study utilized stratifying sampling techniques to select 326 customers who served as respondents in the study. Correlation and multiple regression analysis were employed as analytical techniques. The results show that Assurance is highly correlated with customer satisfaction which was followed respectively by compliance, empathy, reliability, responsiveness and tangibility dimensions. The results of this study indicate that, four the service quality dimensions (compliance, reliability, empathy and assurance) have positive and significant relationship with customer satisfaction but responsiveness and tangibility dimensions was not. Based on regression result it is observed compliance with Islamic law, empathy, assurance, and reliability dimensions have positive and significant impact on customer satisfaction. The other dimension that is responsiveness and tangibility dimensions has no significant effect on satisfaction. The study recommends that management of the bank should exploit and maneuver the service quality dimensions as a survival strategy for improving customers' satisfaction in an industry characterized by intense competition and environmental dynamism.

Key Words: Service Quality, Customer Satisfaction, interest free bank, Modified SERVQUAL Model

CHAPTER ONE

1.0. Introduction

The background of the research and the problem statements are addressed in this chapter. Additionally, it provided the reader with an overview of the research's aims, objectives, problem identification, and research questions. It then provides an overall picture of the thesis's structure.

1.1. Background of the study

The Ethiopian legislation (Pro No.591/08 &592/08) defines “banking” as any business activity consisting of using the funds for investment and lending, receiving funds from public in line with the directives and proclamation of the central bank, discounting and negotiation of promissory notes, bill of exchange and other evidence of debit and transferring funds locally and internationally. Banks earn maximum returns from this intermediation in the means of interest and charge high interest on loans to cover their expense, cost of fund and profit of the owners.

Banking environment is significantly affected by technological, structural and regulatory factors throughout the world. Banking has integrated globally by implementing regulatory changes (Anwar, 1999). Banks can perform a wide range of activities by implementing structural changes to become more competitive in the financial market. In recent times, banks are involved to provide quality services by using technological changes in the environment. These rapid changes allow the banking sector to improve service quality and customer satisfaction (Raza et.al, 2014).

Interest free bank (IFB) unlike conventional bank an alternative banking service which is in line with values and ethos of Islam, and governed by the principles of Sharia Law that requires not charge interest and avoid any unethical practices in achieving its goals and objectives (Gait & Worthington, 2008). Also an alternative filling the gap left unaddressed by the Conventional Banking (CB) due to various reasons basically pertaining to religious, social, economic and cultural motives and contribution to the economic development by inviting an idle fund kept away from the conventional banking system (Teferi, 2015). Payment of interest which is known as Riba is prohibited in interest free banking system this is underline with several units including their religious books. Also clearly define that profit must be earned from exchange of goods and service but not from exchange of money

itself (Khan et al, 2008). Within a span of five decades, Islamic Banking has been successfully developing into a viable alternative banking framework all over the world.

Now a days, it has been reported that there are approximately 500 Islamic Banks World Wide controlling about one trillion worth of assets and the figure is estimated to reach four trillion dollars by the year 2022 (Aliyu, 2010). Also, Mamman (2005) states that there are over 75 countries operating Interest Free Banks (IFBs) with an annual growth rate of 15% per annum.

Observing this increase demand, different big multinational conventional banks are opening IFB windows providing interest free banking product different part of the world (Beng & Ming, 2008). In accordance with Article 22 (2) of Banking Business Proclamation (BBP) No. 592/2008, the NBE through the BSD No. SBB/51/2011 authorized the business of IFB levied to do interest free banking business in one window with conventional banking. Presently, other commercial banks are following and engaging in the IFB service. Same license is granted to the Commercial Bank of Ethiopia (CBE) on September 17, 2013 that opened IFB window in some selected city branches and outline branches to provide IFB products and service. As the document of Commercial Bank of Ethiopia (June, 2014) indicates that the interest free financial products and services offered under separate windows are Wadiya Amanah account, Qard account, Mudaraba account, Ba'i-Salam mode of financing, Istisna mode of financing, Ijarah mode of financing, Musharakah, Mudarabah, Qard al Hassen and Kafala.

Customer satisfaction facilitates the measure of how service and product provided by company meet customer satisfaction. As competition within the financial services industry is more intense than ever, and as banking companies' service menus are becoming increasingly comparable, the need to understand bank customer satisfaction is vital (Rose & Marquis, 2006). Service quality and product quality are vital elements in determining customer satisfaction, as is customer awareness. In this context, quality is the key factor and is synonymous with the consumer's ability to select from a wide array of products and services that provide a closer match to his or her needs and desires (Ho, Lau, Lee & Ip, 2005).

The relationship between bank customers' awareness, the service quality they receive and their level of satisfaction has been investigated in different countries, but when we come to Ethiopia there are few studies on Interest free banking such as (Debebe, 2015) factor

affecting customer to use interest free banking in Ethiopia and (Mohammed, 2012) on Islamic banking prospects, opportunities and challenges in Ethiopia.

Today's customers are now demanding and knowledgeable about the ways they want to be served and they are even prepared to challenge any firm whose services fall below expectation. Operators in the financial services sector such as banks, insurance, hospitality etc. need to offer excellent services to their clients in order to ensure sustainable competitive advantage for their firms in the market (Nathan, 2013). Banks and other financial institutions operating in Ethiopia are consequently put under intense pressure to develop quality services as a strategy to maintain the present clients and to gain more from competitors in the market. To achieve this, banks and other service oriented firms must understand that the key to competitive advantage in the market place is contingent on building sustainable long term relationships which ensure continuous value creation, customers' satisfaction and services improvement.

Coming to Awash Bank of Ethiopia, there is limited empirical research on interest free bank and studies address on customer satisfaction, customer awareness, service quality and its challenge in IFB. Therefore, the main purpose of this study was to investigate the effect of interest free banking service quality on customer satisfaction in case of Awash bank of Ethiopia.

1.2. Statement of the problem

The introduction of IFB is changing the Ethiopian financial environment by generating new philosophy and phenomena in the banking sector Debebe (2012). Such scenario had also led to the change in the customer's taste and demand for better and high quality banking service (Merton, 1995). According to the central statistics agency the Ethiopian Muslim represent more than 34% share of the population that means more than 27 million (ICPS, 2016) this is a potential target market to provide the interest free banking service, there are also non-Muslims that need to use interest free banking service.

In Ethiopia, the IFB service experience is not more than five years with the limited legal frame work, manpower, competition, financial literacy, religion and moral hazard, being significant constraints on the operation of the Interest Free Window Mohammed (2012). And many IFB customers voice concerns about inefficiency and lack of service quality excellence in the interest free banking windows.

Even though Awash bank has been providing full interest free banking services still there are some factors which are currently affecting customer satisfaction and service quality. Those factors have been continuously raised by customers from time to time. Those factors are observed and noted from the feedbacks that have been provided in IFB dedicated windows from designated customers. Some of the feedbacks include weak operation of the Interest Free Window, failure to aware customers about IFB products, lack of full operation on interest free banking services, providing other conventional banking services on the dedicated IFB window, lack of employee understanding about IFB products and sometimes lack of ability in providing basic information about each IFB products.

In order to get knowledge about the customer's satisfaction and their attitude towards Islamic banking products and its services there are studies conducted in a different region of the world in both in Islamic and non-Islamic countries.

In Ethiopia where 34% of the population is Muslim according to World Population Review (2017), however, few studies were conducted on the attributes of IFB. Among these studies Mohammed (2012) studied the 'Prospects, Opportunities and Challenges of Islamic Banking in Ethiopia'. Debebe (2015) has conducted a study on 'Factors Affecting Customers to Use Interest Free Banking in Ethiopia' and Teferi (2015) examined about 'Contribution of IFB to economic development and its prospect in Ethiopia'. Besides, Kerima (2016) assessed about 'Challenges on Interest Free Banking Services' where none of these studies have addressed the effect of IFB service quality on the customers satisfaction.

Belay and Ebisa (2012) on evaluation of customer satisfaction on bank service in case of Awash bank, Shanka, (2012) on bank service quality, customer satisfaction and loyalty in Ethiopian banking sector and R. Karunakaran, (2013) a review of service quality and customer satisfaction. The above studies analyzed customer satisfaction on conventional bank (interest based) but not undertake interest free bank. However, those studies are limited only on conventional banking. In addition to this; most studies are not give focus for target customer who uses interest free banking service.

Satisfaction and service quality is a crucial concern for both customers and organizations including banks. Othman and Owen (2001, 2002) use a service quality dimensions. Their study will be proposed an insight view that how to improve service quality. Findings will

suggest that model is a multidimensional variable containing six different dimensions in which Interest free bank's customer emphasize on compliance dimension.

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Therefore, this study aims to examine the effect of interest Free Banking Service quality on improving the level of Customers' Satisfaction in the context of Awash Bank of Ethiopia.

1.3. Research questions

In order to achieve the intended objectives of the study and to address the research problem properly, certain research questions were designed accordingly. In light of this, the research answered the following research questions:

1. How does compliance of IFB service to Islamic law affect the level of customers' satisfaction at Awash Bank?
2. To what extent Awash Bank's IFB service assurance influence Customers satisfaction at Awash Bank?
3. To what extent reliability of the IFB service influence customers satisfaction at Awash Bank?
4. How does the Awash Bank's IFB Service giving windows tangibility affect the level of Customers Satisfaction?
5. How does Awash Bank's IFB service providing personnel empathy affect Customers' Satisfaction at Awash Bank?
6. To what extent responsiveness of the IFB service influence customers satisfaction at Awash Bank?

1.4. Objectives of the Study

1.4.1. General Objective of the Study

The general objective of the study was to investigate the effect of Interest free banking service quality on satisfaction of IFB customer in case of Awash bank of Ethiopia.

1.4.2. Specific Objectives of the Study

1. To examine the effect of Compliance of IFB service to Islamic law on customers satisfaction at Awash Bank.
2. To determine the effect of IFB service assurance on customers satisfaction at Awash Bank.
3. To investigate the effect of Awash Bank's IFB service reliability on customers' satisfaction.
4. To determine the effect of IFB service tangibles on CS at Awash Bank.
5. To examine the effect of IFB service providing employees empathy on CS at Awash Bank.
6. To investigate the effect of Awash Bank's IFB service responsiveness on customers' satisfaction.

1.5. Scope of the study

The scope of the study was delimited to see the effect of interest free banking service quality on customer satisfaction by using the six dimension of service quality: these are compliance, reliability, tangibility, assurance, empathy, and responsiveness adopted from (Othman and Owen, 2001). Geographically, the study focused on Awash bank selected branches in Hawassa city administration. The study was restricted to specific area which included three Awash bank selected branches (Hawassa branches, Hawassa Arbe sefer branches and Tabor branches) as opposed to the entire branches of Awash banks all across the country. As the method of primary data collection, only questionnaires' was used to conduct the study. The study only focused on interest free banking service.

1.6. Significances of the Study

First, this study might help Awash bank to identify the strengths and weaknesses of the service delivered and to know its effect on customer satisfaction. Second, it allows the managers to have knowledge on where the bank stands in the eyes of its customer. Third, it could be a good indicator for the managers to identify the gap between the perception about interest free banking service and the actual customer satisfaction. Moreover, the

study also helps other researchers who are interested to conduct further investigation on similar areas.

1.7. Organization of the Study

The research paper organized in to five chapters. The first chapter discussed the introduction, background of the study, statement of the problem, objectives of the study, research questions, and significance of the study, scope and limitations of the study. Second chapter presented literature review. Third chapter mainly deal with description of the research area, sources of data, sample size and sampling procedure, methodology and data presentation and analysis use for the study. Fourth chapter covered the presentation and analysis of data. Finally the last chapter comprises a summary of the findings, conclusion and recommendation.

1.8. Definition of key terms

1.8.1. Conceptual definition: - definitions of terms, concepts or variables from the theoretical perspective are presented here.

- Service is defined as activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything Kotler (2003)
- Quality According to Jones and Lockwood, (1989) quality is defined as the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs. Quality is defined as fitness for purpose.
- Customer satisfaction is a global judgment, or attitude, relating to the superiority of the service. Customer satisfaction is related to a specific transaction. Parasuraman, et al, (1988)

1.8.2. CARTER dimensions:

- Compliance- What makes an Islamic bank an Islamic bank? Its adherence to Islamic banking principles. The Qur'an, which Muslims believe to be the exact Words of God as revealed to the Prophet Mohammed, sets out the principles of Islamic finance.
- Assurance- is the knowledge and courtesy of employees and their ability to convey trust and confidence.
- Reliability- is the ability to perform service dependably and accuracy.
- Tangibles- are the appearance of physical facilities, equipment, personnel, and communication materials.
- Empathy- is the caring, individualized attention the institution provides its customers.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter examines and discusses the effect of interest free banking service quality on customer satisfaction in Awash bank. This chapter consists of an overview of the status of interest free banking service in private bank. This chapter explores the numerous perspectives on the service quality and previous research on the service quality and its relation with customer satisfaction. Moreover, the section covers the theoretical framework and research gap.

2.1. Theoretical Literature

2.1.1. Islamic banking

Islamic Banking is a financial institution which operates on the objective of implementing economic principles and Islamic finance in the banking arena (Kamal et al., 2008). The secretariat of Organization of Islamic Cooperation (OIC) has defined Islamic banking as:

‘...An Islamic bank is a financial institution whose statute, rules and procedures expressly state its commitment to the principle of Syariah and to the banning of the receipt and payment of interest on any its operations...’

From the above definitions, Ali and Sarkar (1995) concluded that Islamic banking system is a system based on the following Sharia principles:

1. Prohibition of riba (interests).
2. Prohibition of gharar (uncertainty, risks, speculation).
3. Involves halal activities (permitted by Islam).
4. Based on justice (which is the ethics and aim of the religion)?

Islamic banking is also a normative concept that can be defined as banking management that is compatible with the system of Islamic values (CIFP, 2006). Ideally, a banking system can be regarded as Islamic when its business conducts are based on profit and loss sharing, based on a participant's equity. The basis of the business is sharing with the customers, not as debtor and creditor. It does not only mean an elimination of interests, but more than that (Joni and Hadenan, 2006).

2.1.2. The Principles of Islamic Banking System

Generally, the best aspect of Islamic banking is the concept of justice and truthfulness. According to Danchenko (2019), in the formation of modern Islamic banking the principles are:

I. Prohibition of Riba: Islam prohibits its followers to receive or provide usury even for the purpose of getting a loan or the charged interest rate is low. In Islam, only a number of loans are allowed, such as Qard al-Hasan (benevolent loan), where the borrower is not charged any interest or additional incrimination on the borrowed sum.

II. Participation of Equity: In Islamic muamalah, the fund provider is the investor. Therefore, the fund provider and merchant will share risks and profits in the business. Apart from that, the concept of funding in Islam is based on the concept of mutual trust between the provider and the merchant. This will increase the growth of economy and encourage the merchants to maximize their effort in a business.

III. Money as Potential Capital: In Islam, money is the medium of exchange that functions as value evaluator tool for a commodity and does not have its own value like other goods. Therefore money should not be used as a medium to generate more money, either through saving process in banks or lent to another party. Money in Islam is considered as possible capital. It can only be the actual capital when combined with other sources in carrying out production activities. Indirectly, this principle encourages Muslims to invest their money in various ventures since savings and frozen money in Islam are haram (forbidden) and in economy are considered as leaks (Jomo and Ishak, 2016).

IV. The Role of Akad (agreement): Islam holds strongly to the obligation of Akad and exposure of information as a requirement that must be fulfilled during transaction. This feature is created in order to reduce the problem of information injustice and integrity between two parties who are in agreement. For example, both parties must have complete information on the product in the respective transaction.

V. Activities Approved by the Sharia: Islamic banking system is known as a system free of business activities that violate Sharia regulations such as investment in business related to liquor and gambling.

2.1.3. Conventional Banking vs. Islamic Banking

As the bank is dealer of money; and reward for using money is interest according to capitalist system; so the prime source of revenue and cost of funds to conventional banks is charging interest through lending and accepting deposits for interest respectively. Interest is the major driver of operations of conventional banks although other valuable services including guarantees, funds transfers, safety of wealth, facilitation in international trade etc. are also provided for reward and form substantial part of income of banks (Hanif,

2018). Where Islamic banking is defined as banking system which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by Islamic Shariah. While Islamic banking has a broader scope and meaning, it is generally referred to the transformation of conventional money lending system into Asset-backed financing transactions conducted by the Financial Institutions.

Table 2.1: Conventional vs. Islamic banking

Conventional banking	Islamic banking
Use money as a commodity	Create link to real sector by using trade related activities
Is based on interest	Is based on profit or rent
Deals in money or papers	Deals in asset
Is based on fixed return	Is based on profit sharing on both sides of balance sheet; deposit on asset side and profit on capital
Does not involve itself	Actively participate in trade, in trade and business production, and valid service through valid contracts
Status – creditors and debtors	Status – partners, investor,
The functions and operating modes of conventional banks are based on man-made principles.	The functions and operating modes of Islamic banks are based on the principles of Shariah i.e. the divine guidance.
Money is treated as a commodity, besides medium of exchange and store of value. Therefore, it can be sold at a price higher than its face value and it can also be rented out.	Money is not regarded as a commodity, though it is used as a medium of exchange and store of value. Therefore, it cannot be sold at a price higher than its face value or rented out.
Conventional banking practices are concerned with the elimination of risk.	Reward should be a consequence of undertaking a risk. It's all about risk taking and risk sharing.
The investor is assured of a predetermined rate of interest.	In contrast, it promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur).

Time value is the basis for charging interest on capital.	Profit on trade of goods or charging on providing service is the basis for earning profit.
Interest is charged even in case the organization suffers losses by using bank's funds. Therefore, it is not based on profit and loss sharing.	Islamic bank operates on the basis of profit and loss sharing. In case, the businessman has suffered losses, the bank will share these losses based on the mode of finance used (Modaraba, Musharaka).
While disbursing cash finance, running finance or other working capital finance, no agreement for exchange (trade) of goods and services is made.	The execution of agreements for the exchange of goods and services is a must, while disbursing funds under Murabaha, Salam and Istisna contracts (Trade-base transactions).
Conventional banks use money as a commodity which leads to inflation	Islamic banking tends to create link with the real sectors of the economic system by using trade related activities. Since, the money is linked with the real assets therefore it contributes directly in the economic development.

Source: <http://www.case.hu-berlin.de>; FAQ- Islamic Banking

2.1.4. What Is The Philosophy Of Islamic Banking?

The philosophy of Islamic banking takes the lead from Islamic Shariah. According to Islamic Shariah, Transactions involving interest/ riba, Gharar and Maiser are prohibited. Moreover, they cannot deal in any transaction, the subject matter of which is invalid (haram in the eyes of Islam). Islamic banks focus on generating returns through investment tools which are also Shariah compliant. Islamic Shariah links the gain on capital with its performance. Operating within the ambit of Shariah, the operations of Islamic banking are based on sharing the risk which may arise through trading and investment activities using contracts of various Islamic modes of finance. According to Iqbal (2018), Islamic Shariah or the divine law of Islam is derived from the following four sources:

1. The Holy Quran
2. The Sunnah of the Holy Prophet (Peace Be Upon Him)
3. Ijma' (consensus of the Ummah)

4. Qiyas (Anology) (Summit Islamic Banking, FAQ)

2.1.5. Islamic Banking System

Islamic banking system has been introduced in the last quarter of the twentieth century, while the concept of Islamic banking system is old. The Islamic banking system (IBS) was introduced due to the reason that there was the need of financial institution for Muslim customers who could satisfy their needs and demands. Because the conventional banking industry is entirely based on the interest based system and that is prohibited in the Islamic shari'ah rules. So the Muslims need such institute which provides them the Islamic platform for their financial transactions. The Islamic finance is defined as a financial service or product principally implemented to comply with the main tenets of Shari'ah (or Islamic law). In turn, the main sources of Shari'ah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Iqbal, 2018).

2.2. Islamic Banking Model

In theory, the business model of Islamic banks differs from conventional banks. Islamic banking rests on a two-tier mudarabah and wakalah model. The first-tier mudarabah refers to contracts signed between an investment account holder and the bank, whereby the account holder provides capital and the bank acts as the manager of funds. The second-tier mudarabah refers to contracts signed between the bank and a client, where the bank finances the entrepreneur who manages the businesses. Other sources of funds arise from setting reserves in a way unique to Islamic banks (profit equalization reserves (PER)). In practice, Islamic finance often involves structuring Shari'ah-compliant products that appear similar to conventional products. According to Krasicka and Nowak (2020) and Chong and Liu (2017), Islamic banks are not different from conventional banks. Other work by Beck, Demirguc-Kunt, and Merrouche (2019) and Cihak and Hesse (2017) find few significant differences in business orientation, asset quality, efficiency, or stability. Similarities between the two banking models arise from the close alignment of the competitive rates paid by Islamic banks on investment deposits with deposit rates at conventional banks, as well as with the benchmarking of Islamic financing rates on the asset side of the balance sheet to the LIBOR (Hussain et al, 2015)

2.3. Customer Satisfaction in Banking Services Context

In contrast to products, customers are not really able to evaluate services before the service process takes place. The interaction with the service provider and the customers, the so

called service encounter, is the key in the evaluation of service performance (Gil, 2018). During these encounters, the customer is able to get an impression of the way the company provides its services. His/her service experience is defined by the interaction with the organization, the processes and the employees.

Accordingly, customer satisfaction is built upon the basis of service encounters. Service providers have significant opportunities to manage the interactions that together form the experience (Wirtz, 2018). They can design and the interactive production process; Select, train and manage service employees; Design and maintain the service environment; Selectively target, socialize and educate customers. In banking services, satisfaction is usually conceptualized as a multidimensional construct (Manrai., 2016). The list of bank service attributes used for the measurement of satisfaction comprises elements like: appearance of the facility, attitude and behavior of staff, decor and atmosphere, business hours, interest rate, waiting time. Bank customers may regard some of these elements as being not equally important as the others.

2.4. The Concept of Service Quality and Satisfaction

Prior to the growth of the service industries, the literature was devoted to the concept of the quality of tangible goods (Fornell 2007). The definition of quality is in conformance to manufacturing standards. However, in the modern world, where buyers have more power in the market along with the growing importance of the services industries, one can erroneously define quality as goodness, or luxury, or weight. The definition of service quality wallowed in a sea of confusion in the 90s (Rust and Oliver 1994).

This meant that ‘quality’ was used inconsistently in phrases such as good quality, bad quality, or quality of life, which might not reflect the exact meaning of the phrases (Reeves and Bednar 1994). As the word ‘quality’ is difficult to define (Reeves and Bednar 1994), the term ‘service quality’ can be even more difficult to define (Cronin and Taylor 1992; Jun and Cai 2001) and measure (Jun and Cai 2001). It is difficult to define for several reasons especially when it has a relation with religion, in which judgments are dominated by unique preferences (Reeves and Bednar 1994).

Satisfaction is sometimes defined as an end-state resulting from a consumer’s purchasing experience, which can either emerge as a cognitive reward or an emotional response to an experience. Customer satisfaction has been investigated as a ‘perceptual, evaluative and psychological process’ taking place during service delivery (Vavra 1997). It may derive

from any dimension relevant or irrelevant to quality, and judgments may be formed by non-quality components; it also requires experience for its delivery (Taylor and Baker 1994). Scholars have identified customer- and situational-specific determinants that affect overall satisfaction (Zeithaml and Bitner 2000). In relation to high -quality confidence - related services such as those provided in the context of banking, functional quality is emphasized as the most vital driver for customer satisfaction (Shemwell, Yavas and Bilgin 1998).

Service quality and overall satisfaction have been found to be closely related Anderson and Sullivan (1993). The distinction and coherent relationship between service quality and satisfaction has been a pivotal concern in marketing literature and in academic- as well as practitioner-oriented relevant research, Anderson and Fornell (1994). Although numerous empirical works have concentrated on the causal order of the constructs at issue, there is little consensus as to whether expectations for the delivery of a specific service directly affect satisfaction or whether perceived quality is the main antecedent of satisfaction Bahia et al. (2000).

Bahia (2000), suggest that in case of multidimensional, regularly-performed and high-contact services, such as those delivered in banking settings, service quality is most likely to affect satisfaction. Similarly, Papasolomou (2002) advocates that service quality in the banking sector, viewed as a multivariate construct encompassing dimensions, such as convenience, reliability, service portfolio and service personnel, has had a substantial impact on customer satisfaction. Overall, researchers have emphasized that perceived quality, assumed as an antecedent of customer satisfaction, has a direct and positive impact on overall satisfaction (Hume and Mort 2008).

For IFB service quality measurement there is no specific tool or guidance for measuring customer satisfaction and religiosity, especially in IFB, except for Carter's model, which includes the compliance with Shari'ah. Othman and Owen (2001) developed an instrument called CARTER based on 35 items having six dimensions. This was the first time a new dimension was added to SERVQUAL five dimensions called "compliance with Islamic principles" that defines the bank's ability to operate in compliance with the principles of Islamic banking and economy (Abedniya and Zaeim, 2016).

2.5. Models for Measurement of Service Quality

There are many models for service quality, among them let us see only few as cited by

Sangeetha and Mahalingam, (2018).

1. Banking service quality model by Bahia and Nantel (2000)

The instruments available for measuring service quality include either scale contextually developed by specific banks to cope with occasional problems or instruments not especially designed for banking service but rather to measure the perceived service quality across a broad spectrum of services. In view of the non-availability of publicly available and standard scale to measure the perceived quality of banking services, the authors propose the banking service quality (BSQ) scale comprising of 31 items spanning six dimensions, namely: effectiveness and assurance, access, price, tangibles, services portfolio, and reliability.

2. Service quality model by Sureshchander et al. (2001)

The criticisms about SERVQUAL in the research literature, made the authors undertake a careful scrutiny of the 22 items of SERVQUAL and it implied that the items at large deal with the element of human interaction/intervention in the service delivery and the rest on the tangible facets of service. The instrument seems to have overlooked some other important factors of service quality, namely: service product or the core service, systematization/standardization of service delivery (the non-human element) and the social responsibility of the service organization. In an effort to conceptualize service quality, Sureshchandar et al. (2001) identified five factors of service quality covering a total of 41 items as critical from the customer' point of view. These factors are: Core service or service product, Human element of service delivery, Systematization of service delivery, Tangibles of service, and social responsibility.

3. CARTER model by Othman and Owen (2001, 2002)

More precisely in Islamic banking, Othman and Owen (2001, 2002) study investigated the service quality by using SERVQUAL dimensions. Their study proposed an insight view that how to improve service and developed a model, called CARTER. Findings suggest that CARTER model is a multi-dimensional variable containing six different dimensions in which Islamic bank's customer emphasize on compliance dimension. These dimensions are; Compliance, Assurance, Reliability, Tangibility, Empathy and Responsiveness.

4. SYSTRA-SQ by Aldaigan and Buttle (2002)

The authors' objective to develop a new scale based on the Gronroos model of service quality. In doing so, the authors undertook a three-phase, four-sample, quantitative study to

derive a new 21-item scale comprising four dimensions: Service system quality, Behavioral service quality (BSQ), Service transactional accuracy, and Machine service quality.

5. Automated service quality model by Al-Hawari et al. (2005)

Automated service quality has been regained as the factor which determines the success or failure of electronic commerce. The authors claim that the models currently available to measure automated service quality are limited in their focus, encompassing only one electronic channel – the internet – thereby ignoring attributes of the other automated service channels. In relation to the banking sector, research has identified that bank customers tend to use a combination of banking automated service quality. As such, in this research, the authors strive to develop a comprehensive model of banking automated service quality taking into consideration the unique attributes of each delivery channel and other dimensions that have a potential influence on quality issues. They propose five factors as follows: ATM service, internet-banking service, telephone-banking service, core service, and customer perception of price.

6. Service quality scale for banking by Karatepe et al. (2005)

Karatepe et al. (2005) developed a 20-item survey instrument to measure bank customers' perceptions of service quality in Northern Cyprus. The results showed that service quality could be conceptualized and measured as a four-dimensional construct consisting of: service environment, interaction quality, empathy, and reliability.

7. Customer expectations and perceived service quality by Ehigie (2006)

In the attempt to examine how customer expectation, perceived service quality and satisfaction predict loyalty among bank customers in Nigeria, measurement scales were developed to measure the variables of the study using qualitative technique to explore customers' expectations from bank services. The measures of bank customers' expectation in Nigeria were found to be: bank workers' possession of required skill, bank workers possession of knowledge and experience, continuity of service to customer in future years, understand customers' needs, offering of fast and efficient service, providing physical safety to customer, confidentiality of transactions, positive attitude of staff to customer services, trustworthiness of bank, bank's good reputation, staff friendliness, keeping people informed, listening to customers, introduction of Saturday banking, extended banking closing hours, and insurance cover for customers.

2.6. EMPIRICAL LITERATURE REVIEW

2.6.1. Empirical Review at International Level

At international experience, many studies on Interest Free Banking service quality on customers' satisfaction have been conducted. Thus, the researcher has reviewed some of the studies and has presented as follows.

A study conducted in Nigeria on quality of Non-Interest Banking Service and Customers' Satisfaction by Mustepha, Y. et al. (2017) demonstrated that, bank managers who desire improved customer satisfaction or need to remedy their firms' abysmal performance should adopt service quality as an appropriate strategy. The managerial implication of the conclusion was that the service quality dimensions of compliance to Islamic laws, reliability and assurance are areas of strategic advantage that Jaiz bank management should focus on in order to retain current customers and win new customers in study area. Furthermore, the observable contribution of this study to extant body of knowledge is that the researchers appreciate how CARTER model developed to explain the impact of service quality on customers' satisfaction in advanced economies was tested to establish its applicability in an emerging economy such as Nigeria.

A study conducted in Pakistan by Khan and Ahmad (2013), examined the relationship among service quality, customer satisfaction and bank performance by comparing Islamic and conventional banks operating in Pakistan. The researchers found that customer satisfaction level is found high in Conventional bank as compared to Islamic bank, because of good global image, high varieties of products awareness programs and many other activities. It is very strong and functioning from very beginning. The people are reliance upon conventional banking; it provides different varieties of products to customers. Advance technologies also play a key role in their promotion. The researchers suggestion as to IFB was; Islamic banking is needed awareness program among people in country that to know every individual who are doing business with banks are familiar about it. Because peoples are not aware about it. So a comprehensive awareness campaigns is required for the promotion of Islamic banking. It is also required for Islamic banking to set up their branches at every small city of different areas; because to provide their services to individuals at their door step. It is also necessary to introduce new services to people. It is required for Islamic banking to financially strong and reduces transaction time and provide different type of products to customers; because to attract the customers towards Islamic

banking. Conventional banking is required to reduce their interest. And it is also required to reduce their service charges. For more improving it is necessary to provide online facilities in every branch.

According to a study made in Pakistan by Khattak N. and Rehman K., (2010) a research on “Customer satisfaction and awareness of Islamic banking system in Pakistan” where their study indicates that the customer’s awareness level towards Islamic banking products is good in some of the general products such as current accounts, time deposit account. But most of the customers are unaware of the different Islamic financial products such as Murabaha, Ijara.

Regarding the Islamic banking selection criteria most of the customers have adopted Islamic banking due to the religious reasons, but there are some other factors that motivate the customers for the adoption of the Islamic banking system such as, bank efficiency in the transaction, their confidentiality to its customers, its working hours etc. Accordingly the results suggest that over all IFB customers are mostly satisfied with the Islamic banking services been provided to them and the banking efficiency in their transactions.

The research made by Okumus and Genc (2013) in Turkey reveals that the customer satisfaction, it appears that low customer satisfaction about the limited number of branches, the availability of a wide range of credits with favorable terms and high service commission and fees means that the PBs do need to pay attention to improve these aspects of their product and service features. On the other hand, the factor such as rate of return is ranked the last among the other banks’ selection criteria. This study found support for the arguments by Metawa & Almosawi, 1998; Naser et.al., (1999); Gaith & Worthington (2008), and Lee & Ullah (2011) suggesting that religious motivation is the key driver to select a bank operating in compliance with Islamic principles.

In another study conducted by Hamdani S., (2017) customer satisfaction was found as important but several boundaries should be considered. The study suggested that researchers have to recognize that how image and loyalty shows results in the model should be measured for further research. Hamdani added that Islamic banks should have to focus on the profit offered to the customers so that customer remains with the same banks. Hence upcoming studies should contain that what are the other factors which are to be measured to improve the image of the banks that will results in the loyalty and satisfaction of the customers in the direction of the Islamic banks.

A study by Shafie (2004) suggests a new model to measure service quality called CARTER, which is an extension of the SERVQUAL model. The findings of this study showed significant validity for all CARTER's 35 items and six dimensions in terms of their importance in both weights and percentages. Amongst all six dimensions included in the model, the compliance dimension was reported to be most important by respondents of the study. This clearly shows the importance for Islamic banks to place cultural difference in front when adopting service quality. Also, the strong link between service quality and customer satisfaction has been discussed and the study defined it as a system of CARTER items processes inputs and overall satisfaction outputs. Hence, the results of this study support the works of Othman and Owen (2001a, 2001b).

According to Othman & Lynn (n.d.), the banking industry today is moving toward the goal of integrated financial services because of the strong competition and quick changes of technology. Islamic banks must therefore pay attention to this movement and start to think strategically by providing high quality products and services to satisfy their customers. This study indicates that it is important for Islamic banks to put cultural differences at the front when adopting SQ, and suggests a new model to measure SQ called CARTER which is based on 34 items. The study shows validity significant for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between SQ and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items processes inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt SQ and shows the importance of training to do so.

A research by Amin and Zaidi Isa (2008) results indicated that Islamic banking service quality consisting of six dimensions has appropriate reliability and each dimensions has a positive significant relationship with Islamic banking service quality. For Malaysian Islamic banking service quality, reliability was the key driver of service quality, followed by empathy, tangible, responsiveness, assurance, and compliance, respectively.

2.6.2. Empirical Review at National Level

As shown in the empirical review at international level most of studies were emphasized on countries with large number of Muslim culture and community than those are Christian dominated country like Ethiopia which both the communities (Christians and Muslims) live in peace and harmony. As to the service quality model most of the researchers used the

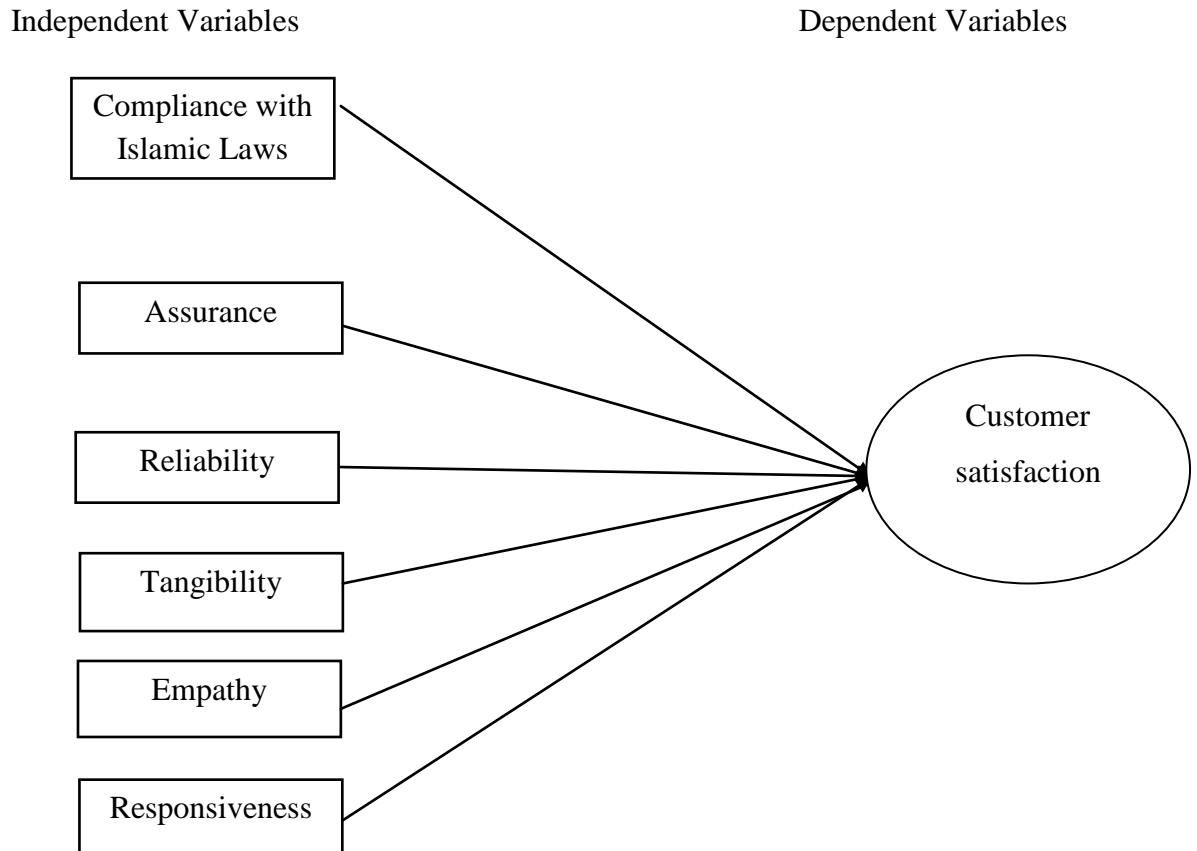
multidimensional model developed by Othman and Owen (2001) which is CARTER model. The CARTER model is gaining acceptance in the measurement of customer satisfaction in IFB as it incorporates an additional dimension, Compliance with Shari'ah, to Servqual's five dimensions.

Further, to the best knowledge of the researcher, there is paucity of research work on the topic under study in Ethiopian context as the product is new as started in 2013. Even if some study conducted regarding Islamic banking in Ethiopia for example by Mohammed (2012), Debebe (2015) and Kerima (2016) none of these researchers address service quality of the IFB and its effect on Customers satisfaction. Accordingly the researcher believed this will make the study to contribute to knowledge and fill the gap in the area.

2.7. Conceptual Framework of the study

Based on Service quality and Customer satisfaction theory there are relational factors such as Tangibility, Responsiveness, Reliability, Empathy and Assurance on the Satisfaction of customers as shown on figure 2.1 In addition the framework considers compliance with Islamic law which developed by Othman and Owen (2001). This dimension signifies the ability of the organization to comply with Islamic law and principles in their operations. As explained in the literature, service quality has an impact on customer satisfaction. Therefore, in this study customer satisfaction is taken as dependent variable while, service quality as independent variable. Also the study focuses on service quality model which represents customers' perceptions and expectation toward the service offered. The modified framework is shown below:

Figure 2.1 Conceptual Framework of the study



(Source: Abedniya and Zaeim (2011), Vazifehdoost and Raeiszadeh, 2015)

2.8. Research Hypothesis

Based on the conceptual framework developed, the researcher has established the relationships among them through logical reasoning in the theoretical framework, then test whether the relationships that are theorized, does in fact comply. Thus, to solve the problem, researcher has developed 6 specific hypotheses for this research. Followings the hypotheses that have been developed;

H1: Compliance of IFB service has a positive and significant effect on Customers' satisfaction.

H2: Assurance of IFB service has a positive and significant effect on Customers' satisfaction.

H3: Reliability of IFB service has a positive and significant effect on Customers' satisfaction.

H4: Tangibility of IFB service has a positive and significant effect on Customers' satisfaction.

satisfaction.

H5: Empathy of IFB service has a positive and significant effect on Customers' satisfaction.

H6: Responsiveness of IFB service has a positive and significant effect on Customers' satisfaction.

CHAPTER THREE

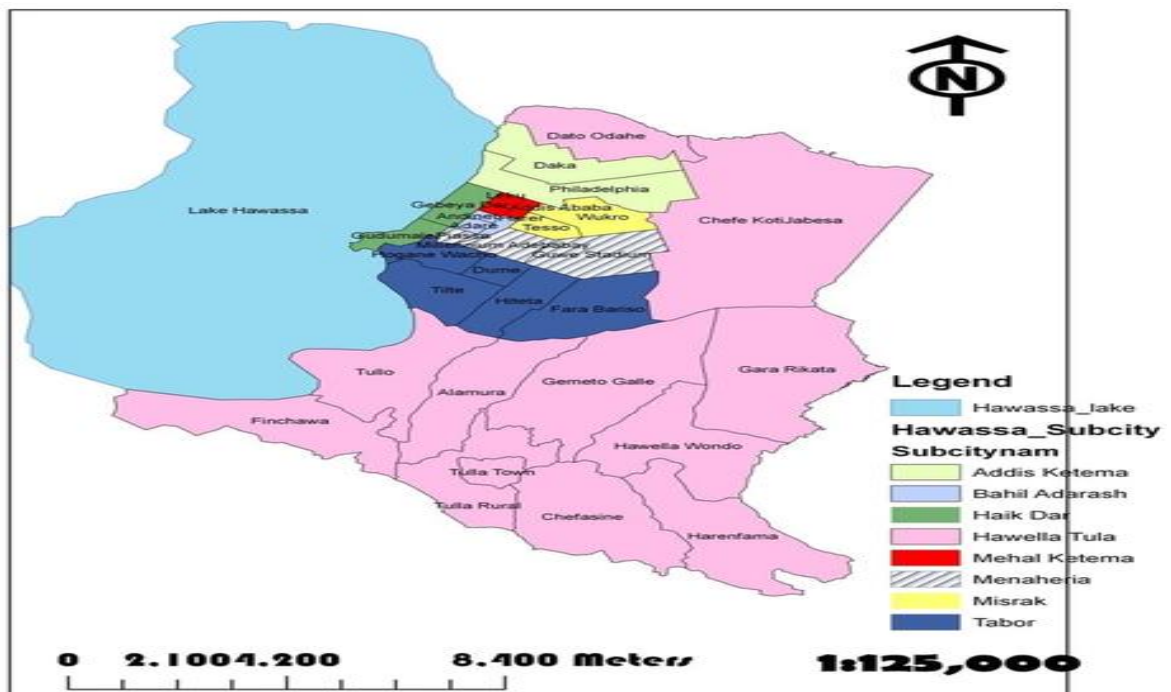
RESEARCH METHODOLOG

This chapter contains the methodology by which the researcher used to conduct this study. Thus, background of the study area, research design, target population, sampling techniques and procedures, data types, source and collection methods and method of data analysis are presented below respectively.

3.1. Description of the study area

This research is limited to Awash Bank Hawassa city Branch's where the population was branches located in Hawassa providing IFB service. The research conducted at Awash Bank Hawassa city Branch's focused on IFB windows specifically to identify the effect of service quality of the window's products on customers' satisfaction.

Awash Bank, a state-owned institution founded in 1994 and it is the largest bank in the country over 700 branches nationwide as of June 30, 2020 constituted in 15 districts. It provides both conventional and IFB products and services to its customers. The bank has started providing IFB services since October 2013. As of September 30, 2023 the bank provides IFB products through its selected 15 branches.



3.2. Research Approach

This study is quantitative since the researcher collected quantitative data on the service

quality measurement dimensions by using questionnaires developed based on the CARTER model (Othman and Owen, 2001). The model offers six dimensions to measure banking service quality. These six dimensions are the independent variables which are compliance, assurance, reliability, tangibility, empathy and responsiveness. The effect of the independent variables on the dependent variable i.e., customer satisfaction was measured by this study.

3.3. Research Design

In order to answer the problem statement the nature of the study is both descriptive and explanatory type. Descriptive method used to identify the relationship between dependent and independent variables, and is useful to identifying variables & hypothetical constructs, could be used as an indirect test of a theory or model. Explanatory research design was used to identify the cause and effect of IFB service quality on customer satisfaction which was appropriate for the objective of the study, also explanatory research design is a good fit to know the effects of the independent variable (compliance to sharia law, tangibles, responsiveness, reliability, assurance and empathy) on the dependent variable customer satisfaction.

3.4. Type and Source of Data

In order to meet the objectives of the study both primary and secondary sources of data was used. The study more depends on primary data, which was collected by using a questionnaire which developed based on modified service quality instrument and was obtained from customers of selected sample branches located in Hawasssa city. Secondary data obtained from different websites, IFB department unpublished materials, working policies and procedures, journal articles and different books that are reviewed in the area of interest free banking service.

3.5. Population of the Study

3.5.1. Target Population

The researcher wanted to measure the effect of IFB services on customers' satisfaction in Awash bank of Ethiopia from the view point of the customers in accordance with the conceptual model of measuring service quality. Therefore, the population under this study was considered all customers of Awash bank in Hawassa, Ethiopia who have been using IFB services.

3.5.2. Sample Size

The sample size refers to the number of observations or replicates to include in a statistical sample. The researcher employed stratifying sampling procedures to calculate the necessary sample size in each of the three branches located inside the city of Hawass. It is computed in this way:

Assumptions

A 95% confidence level, and $e = \pm 5\%$

$$n = N / (1 + N(e)^2)$$

Where:

n = the sample size

N = the population size

e = the level of precision (Sampling error)

$$n = 2225 / (1 + 2225(0.0025)^2) = 339 \text{ sample size of the research}$$

Hence, the total sample size are 339 since the number of IFB customers in each branch is not the same, the number of samples for each branch are calculated by the following formula:

$$n = nN_1 / N$$

Where;

n = is total number of sample

N = is total number of population

N_1 = is total number of population in each branch

Table 3.1 List of Sample Branch

Sample Branch	Total Number of Population	Total Number of Sample
Hawassa Branch	850	130
Hawassa Areb sefer Branch	775	118
Tabor Branch	600	91
Total	2,225	339

Source: Quarter performance of Awash Bank, 2023.

Finally, after determining the sample size the researcher will use simple random sampling to distribute questionnaire for the respondent.

3.6. Data Collection Instrument

The primary data will collect through personally administered questionnaire in order to get first-hand information from IFB customers.

In addition, the questionnaire are on service quality dimensions (independent variables) that includes compliance, assurance, reliability, tangibles, empathy and responsiveness whereas customer satisfaction (dependent variable) is tested with these service quality dimensions.

3.7. Data Collection Procedures

In this study the primary data has been collected through close-ended structured questionnaire items through the adaptation and modification of instruments from previous studies in the area.

The structured questionnaire that contains questions about the dependent and independent variables designed questionnaire for IFB account holders using both English and Amharic language. Independent variables are adapted from CARTER model of (Othman and Owen, 2001, 2002) comprising of 35 items spanning six dimensions, namely: compliance, assurance, reliability, tangibles, empathy and responsiveness.

For measuring this information the Likert scale method has been used to range of responses toward these 35 items on a five-point Likert-scale, ranging from: (1-strongly disagree), (2- disagree), (3-Neutral), (4-Agree), and (5-strongly agree). As Neuman (2003) explained, likert- scale is used to ask many people the same questions and examining their answers research questions. So that the researcher will use cross sectional survey in which independent and dependent variables are measured at the same point in time using a single questionnaire.

3.8. Method of Data Analysis

The data that has been collected from the questionnaire and were analyzed using Statistical Package for Social Sciences (SPSS version 21). Descriptive statistics such as frequency, mean, standard deviations of the respondent's answers will be calculated. In inferential Cronbach's Alpha test will be tasted to assure reliability of the items. Simple regressions and correlation analysis has also been used to analyze the impact and the relationship between the dependent and independent variables.

3.8.1. Descriptive statistical Analysis

With the use of measures of central tendency, we were able to compile all of the vital

demographic information into a single comprehensive report (frequency and frequency distribution, valid & cumulative percentage and comparison of mean). With the assistance of SPSS, tables may also be used to provide an explanation for the results.

3.8.2. Inferential statistical Analysis

The correlation and multiple linear regression analyses that were conducted as part of an inferential statistical investigation were carried out with the help of the SPSS program. In the following paragraphs, we'll discuss how to make use of these statistics and how to present them in a meaningful way.

3.8.1.1. Correlation

The word "correlation" refers to the way in which the correlation coefficients of two variables represent the link between those variables (r). The Pearson product moment correlation will be employed for this analysis since all of the variables are being analyzed at the interval level. When the correlation coefficient, denoted by "r," between two variables is larger than zero, this indicates that there is a positive association between the variables. When one or both of the variables has a negative value, this indicates that their association is unfavorable. In order to be regarded statistically significant, correlations need to have a significance level of at least 95% and an alpha value of 0.05, which is the likelihood of an unexpected correlation happening once for every 100 observations

3.8.1.2. Multiple Regression Analysis

Multiple regression analysis is one of the statistical methods that is used the majority of the time while attempting to speculate on the value of a variable whose exact value is unknown. The development of a model is also an essential component of this procedure. The model that utilized for this study will be constructed with the help of predictors of the spread of interest-free banking.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_n X_n + \epsilon$$

Where Y is the dependent variable and the independent variables are those which explain the response ranges from X1 to X5.

Table 3:1 multiple regression analysis model

No	Predictor (X)	Beta Coefficient ()	Predictor X-Value Assigned
1	Compliance	Predictor (X)	X1
2	Assurance	Predictor (X)	X2

3	Reliability	Predictor (X)	X3
4	Tangibility	Predictor (X)	X4
5	Empathy	Predictor (X)	X5
6	Responsiveness	Predictor (X)	X6
7	Customer Satisfaction	Constant	Y

3.9. Reliability and validity test

Reliability and validity are the two pillars of scientific research methods. According to Cooper and Schindler (2003), “a measure is reliable to the extent that it supplies consistent results”. The reliability of the measuring instrument shall be ensured even before considering the validity of the measurement instrument. From a measurement perspective, reliability is defined as the degree to which the measures are free from error so that the consistency of the results is assured (Fuchs & Diamanto puolos, 2009). Reliability will be checked using the Cronbach’s Alpha test. When Cronbach’s Alpha values are higher than 0.7 thus the questions will be used to measure variables in this research will show the high reliability and meet the standards recommended for research purposes.

Based on the results of the reliability analysis, one can conclude that the items are internal consistent. George and Malley (2003, cited in Matkar) provide the following techniques:

Cronbach’s alpha reliability coefficient Cronbach α	$\alpha \geq 0.9$	$0.8 \leq \alpha < 0.9$	$0.7 \leq \alpha < 0.8$	$0.6 \leq \alpha < 0.7$	$0.5 \leq \alpha < 0.6$	$\alpha < 0.5$
Consistency	Excellent	Good	Acceptable	Questionable	Poor	Unacceptable

Therefore the variability of the study will be used in the analysis if their respective chronbach’s alpha is greater or equal to 0.70.

Validity is defined as how much any measuring instrument measures what it is intended to measure, Bryman and Bell (2003) also suggested that the important issue of measurement validity relates to whether measures of concepts really measure the concept. “Validity refers to the issue of whether an indicator (or set of indicators) that is devised to measure a concept really measures that concept. Several ways of establishing validity are: face validity; concurrent validity; predictive validity; construct validity; and convergent validity. (Bryman and Bell, 2003,) In this study, face validity has been applied to measure the standard questionnaire.

3.10. Ethical Considerations

According to Creswell (2003) “As the researchers anticipate data collectors, they need to

respect the participants and sites for the research''. During the data collection time the researcher protects rights of the respondents by: When the researcher undertakes the study, name and other identifying information is not using. The questioner explains to the respondent and all respondents are request politely to participate in the study on voluntarily basis while their information will remain kept confidentialia

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents an analysis and interpretation of the data that was gathered from the respondents. Awash Bank sent out a structured questionnaire to 339 IFB service users. 326 of the 339 usable questionnaires that were given to the target respondents were properly filled out and returned. Considering the total number of target respondents, the 96% response rate displayed here seems reasonable. Version 21 of SPSS was employed for the analysis.

Using the conceptual model (CARTER), which establishes the relationship between service quality dimensions and customer satisfaction, the purpose of the study was to assess the effect of Awash Bank's Interest Free Banking service on customers' satisfaction. We have tested the hypothesis that the dimensions of the IFB service quality measurement have a significant effect on customer satisfaction.

4.1. Reliability and validity analysis

To measure the internal consistency (reliability) of the scales the Cronbach alpha coefficient was used. Therefore, all the six IFB service quality dimensions were found to be high in their internal consistency (Table 4.1). The dimensions for measuring IFB service quality as explained in the literature are established by the conceptual model as Compliance, Assurance, Reliability, Tangibility, Empathy and Responsiveness (CARTER) where validity of the instrument for the present study was ensured as the service quality dimensions and items are identified from the literature and were reviewed by other academicians and by my advisor.

Table 4.1: Cronbach Alpha Coefficient for each variable

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Customer Satisfaction	22.0951	12.706	0.959	0.962
Compliance	21.8971	14.017	0.953	0.963
Assurance	21.9714	13.737	0.951	0.963
Reliability	22.0339	15.411	0.873	0.972
Tangibility	22.6861	12.561	0.844	0.976
Empathy	22.2757	13.889	0.943	0.964
Responsiveness	22.0959	13.883	0.914	0.965

Source: Survey Result, 2024

Table 4.2: Reliability Statistics

Cronbach's Alpha	N of Items
0.971	7

Source: Survey Result, 2023

As can be seen from Table 4.1 and 4.2, all the dimensions have relatively the same Cronbach Alpha results which are over 0.70 this implies that all the IFB service quality dimensions have excellent internal Consistency.

Table 4.3: Model Summary for Reliability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.981 ^a	0.963	0.962	0.15037

Predictors: (Constant), RESPO, RELIAB, TANG, EMPH, COMP, ASSUR

Source: Survey Result, 2024

The result of regression analysis on the independent variables (CARTEL) with the dependent variable (customer satisfaction) indicates existence of positive and statistically significant relationship between them. Table 4.3 depicts that the independent variables explain 96.3% ($R^2 = .963$) of variation in the customer satisfaction. This shows that there

are other variables which can influence the IFB customers' satisfaction level of Awash Bank.

4.2. Descriptive Analysis

4.2.1. Demographic Characteristics of Respondents and Their Relationship with the Bank

In order to carry out the data analysis, descriptive statistics were employed. The questionnaire included a section on customers' profile to be able to define the features of those who use interest-free products and services in Awash Bank. In addition, since various demographic factors were likely to influence the use of interest-free products and service and degree of satisfaction with the products and services and degree of satisfaction with the products and service offered by Awash Bank, it is necessary to reveal the Awash Bank customer profile (Table 4.4).

The Table 4.4 reveals that, almost 63 percent of the respondents are males whereas females account for approximately 37 percent. More than 55 percent of the respondents are between 26 and 35 years of age. All the respondents (100 percent) are followers of Islamic religion (are Muslims). The table also reveals that more than 54 percent of the respondents hold a Diploma and above 29 percent have at least a high school certificate.

Table 4.4: Demographic characteristics of respondents

Demographic Characteristic	Frequency	Percentage
Gender		
Male	207	63.5
Female	119	36.5
Total	326	100%
Age		
<25	34	10.4
26-35	181	55.5
36-45	111	34
Total	326	100%
Religion		
Muslim	326	100
Educational Background		
Secondary school	52	16
High School Certificate	97	29.8
Diploma and above	177	54.3
Total	326	100%

Source: Survey Result, 2024

Table 4.5: Respondents Relationship with the bank

Item	Frequency	Percentage
Respondents Relationship with the bank		
Less than 1 year	20	6.1
1-3 years	82	25.2
3-5 years	112	34.4
>5 years	112	34.4
Respondents' window usage type		
Interest free banking window	246	75.5
Both window	80	24.5
Respondents' IFB Account type affiliation		
Wadiah (saving account)	244	74.8
Qard (current account)	82	25.2

Source: Survey Result, 2024

As far as the respondents' relationship with the bank, more than 68 percent of the respondents have 3 years and above relationship with the bank. 75% of the respondents

uses only the IFB windows whereas 25% of the respondents uses both the conventional and IFB windows. Regarding the IFB account type usage, 75 percent of the respondents hold Wadiah and the remaining 25 percent hold Qard account.

4.3. Descriptive Analysis of IFB Service Quality Dimensions

A descriptive statistics has conducted for the dependent variable (Customer Satisfaction) and independent variables (Compliance, Reliability, Responsiveness, Assurance, Empathy and Tangibility). It includes mean and standard deviation. Mean score was calculated to show the average responses of respondents for each question that was included under each dimension and to reach the grand mean of each dimension. Mean scores 4.51-5.00 excellent or very good, 3.51- 4.50 good, 2.51-3.50 average or moderate, 1.51-2.50 fair and 1.00-1.50 is poor (poonlar btawee:1987).

Table 4.6: Compliance with Islamic law Dimension

Measurement Item	Mean	Std. Deviation
Awash bank's Interest Free Banking (IFB) service offered based on Islamic law and principles	2.93	1.387
Awash bank's Interest Free Banking (IFB) service has no interest payment nor collection on savings and loans	3.11	1.271
Awash bank's IFB service giving windows provide products and services acceptable by Islamic law.	2.99	1.226
Using Awash bank's Interest Free Banking Service is an opportunity to get free interest loans.	3.09	1.332
The bank provides profit-sharing investment service.	3.02	1.24
I am satisfied with the compliance of Awash bank's IFB service with Sharia law.	3.12	1.282
Grand mean	3.053	1.288

Source: survey result (2024)

Compliance to Islamic law and principle is when IFB runs based on strict Sharia compliance procedures, specifically the prohibition of taking or giving interest. (Othman and Owen, 2001) According to the table 4.6, the highest mean is scored from item seven i.e. the customers were satisfied with the compliance of Awash bank's IFB service with Sharia law with a mean score of 3.12 followed by item two which is Awash bank's

Interest Free Banking (IFB) service has no interest payment nor collection on savings and loans with a mean score of 3.11, The bank provides profit-sharing investment service with a mean score of 3.02 and using Awash bank's Interest Free Banking Service is an opportunity to get free interest loans with a mean score of 3.09 and Awash bank's Interest Free Banking (IFB) service has no interest payment nor collection on savings and loans with a mean score of 2.99. Moreover, Awash bank's Interest Free Banking (IFB) service offered based on Islamic law and principles with a mean score of 2.93. In general the grand mean score for compliance to Islamic law and principle dimension is 3.053. Therefore the researcher concludes that, in terms of complying with Islamic law and principle Awash bank's IFB service quality is not as such satisfactory. The result shows that Awash banks have to give emphasis for this dimension in order to satisfy its customer.

Table 4.7: Tangibility Dimension

Measurement Item	Mean	Std. Deviation
Awash bank's IFB service providing windows are appealing or attractive from the outside.	3.71	1.149
Awash bank's IFB service providing windows offers speedy and efficient transactions	3.08	1.356
Awash bank's IFB service windows have operating hours convenient to its customers.	3.29	1.185
Awash bank's IFB service providing windows are convenience to get the service.	2.5	1.364
Awash bank's IFB service provides overdraft privileges on current account (Amanah)	3.145	1.2635
I am satisfied with the tangibility of the Interest Free Banking service of Awash bank.	3.61	1.149
Grand mean	3.22	1.244

Source: survey result, 2024

The appearance of actual buildings, furnishings, staff, and communication materials is referred to as tangible. The following table shows that the IFB separate windows, which

are easily distinguished from traditional banks by their unique tag, had the highest mean of 3.71. The fourth item, "IFB reception desk employees are neat appearing and appropriate attire," had the lowest mean score (2.50), indicating that it would be convenient to receive the service. As can be seen from the above table, 3.22 is the grand mean for the tangibility dimension. Based on the aforementioned information, the researcher draws the conclusion that IFB clients view the organization's service quality as modest in terms of tangibility.

Table 4.8: Reliability Dimension

Measurement Item	Mean	Std. Deviation
Service provided by Interest Free Banking (IFB) service giving windows takes short time for service anywhere.	3.79	1.152
There is wide range of products and services in the Interest Free Banking Service.	3.25	1.104
There is security of transaction in Interest Free Banking Service.	3.39	1.137
There are sufficient Interest Free Banking Service giving windows opened at peak time	2.86	1.293
Employees of the bank serving IFB service provide service at the time they promise to do so.	3.29	1.185
I am satisfied with reliability of the service I get from Interest Free Banking Service of Awash bank's	3.6	1.233
Grand mean	3.363	1.184

Source: survey result, 2024

Reliability refers the ability to perform the promised service dependably and accurately. According to the table 4.8, the highest mean is scored from the first item i.e. the separate window service for IFB minimize the time spent in the banking service with a mean score of 3.79 followed by item six which is customer satisfied with reliability of the service they get from Interest Free Banking Service of Awash bank's with a mean score of 3.6. The bank has sufficient Interest Free Banking Service giving windows opened at peak time with a mean score of 2.86. In general the grand mean score for service reliability dimension is 3.363. Therefore the researcher concludes that, in terms of reliability

customers are not satisfied enough. The implication of this study for the management of Awash bank's it is important to identify what gaps are seen regarding the service provided and to identify what should be improved in order to increase customer satisfaction.

Table 4.9: Responsiveness Dimension

Measurement Item	Mean	Std. Deviation
Employees of the bank in IFB service providing windows have knowledge of customers' business and have willingness to help	3.56	1.049
Awash bank's IFB service providing windows' staffs provides courteous counter service	3.62	1.099
Awash bank's offers credit on favorable terms for its IFB service customers.	3.4	1.085
There are availed numbers of branches of Awash bank's offering IFB service.	3.43	1.211
Awash bank's employees providing IFB service provide fast and efficient services	3.49	1.185
I am satisfied with the responsiveness of Interest Free Banking service providing employees of the bank.	3.53	1.23
Grand mean	3.5	1.18

Source: survey result, 2024

Being willing to assist consumers and offer a timely service is part of the responsiveness component. The responsiveness dimension has the greatest grand mean of any independent variable, at 3.5, as indicated in table 4.9 above. Employees allocated to the IFB separate window consistently demonstrate a willingness to assist IFB customers, as seen by their highest mean responsiveness characteristic of service quality (3.62). With a mean score of 3.56, the first item—which refers to Employees assigned on IFB separate window respond customer request quickly—has the second-highest mean score. Item three, which offers financing on favorable terms to consumers of its IFB service, has the lowest mean score (3.40). To conclude the grand mean of responsiveness dimension shows that IFB customers are satisfied with the responsiveness dimension of the bank and they have a good perception about the responsiveness dimension of the bank.

Table 4.10: Assurance Dimension

Measurement Item	Mean	Std. Deviation
Staff of the Awash bank's providing IFB services are polite and friendly	3.08	1.296
Employees of the bank serving in the IFB service giving window can provide financial advice when needed.	2.99	1.224
Awash bank's has an attractive interior comfort in IFB service giving windows.	2.68	1.285
There is ease access to my interest free account information.	3.33	1.211
Employees of the bank serving Interest Free Banking service are knowledgeable and experienced.	3.29	1.185
I am satisfied with the service assurance of Awash bank's Interest Free Banking service	3.43	1.23
Grand mean	3.13	1.24

Source: survey result, 2024

Assurance dimension refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence including competence, credibility and security. The above table portrays items that measures assurance. The highest mean score was 3.33 which is assigned to the fourth item that describes Employees assigned on IFB window make customer ease access to interest free account information. Whereas, the least mean was scored 2.68 which is assigned to the item three which explain Awash bank's has an attractive interior comfort in IFB service giving windows. Still IFB customer do not have a good perception regarding to assurance dimension of the bank i.e. customers are not confident by IFB separate window employees of the bank and they have doubt about their knowledge related to IFB. To generalize as shown in above table the grand mean for assurance is 3.13 which indicate regarding to assurance Awash bank's IFB customers perceive that the quality of service being offered by the organization is moderate

Table 4.11: Empathy Dimension

Measurement Item	Mean	Std. Deviation
Awash bank's IFB service providing windows are located in easy getting areas.	3.21	1.255
Awash bank's is a bank you can rely on.	3.45	1.207
Awash bank's is has the capacity to provide IFB service customers need.	3.23	1.236
Awash bank's branches providing IFB service has sufficient parking area for customers	3.07	1.219
There is confidentiality of transaction in Awash bank's IFB service providing windows.	3.29	1.185
I have confidence in the Awash bank's IFB service providing windows team	3.08	1.296
My business with IFB service of Awash banks provides better profit comparing with the interest in conventional bank.	3.56	1.049
Awash bank's IFB service providing windows charges low service charge	3.62	1.099
Awash bank's employees providing IFB service are knowledgeable about my business	3.40	1.085
I am satisfied with the empathy (dependability) of Awash banks	3.56	1.049
Grand mean	3.347	1.168

Source: survey result, 2024

The empathy dimension represents the provision of caring and individualized attention to customers including access or approachability and ease of contact, effective communication, and understanding the customers. As clearly seen from the table above, the highest mean for this dimension come from the second indicator that signifies the bank has operating hour suitable for IFB customers with a mean score of 3.62 followed by the bank has best interests at heart to customers with a mean score of 3.56. However the least mean comes from the six items which is the customers have confidence in the Awash bank's IFB service providing windows team specific needs of customer with a mean score

of 3.08.

Table 4.12: Overall satisfaction

Measurement Item	Mean	Std. Deviation
The overall satisfaction with Awash bank's IFB services	3.71	1.335
I am very satisfied with my personal contact with Awash bank's staff	3.6	1.149
The quality of service	3.56	1.049
Grand mean	3.62	1.177

Source: survey result, 2024

According to scholars defined, customer satisfaction in a competitive environment, customer satisfaction is viewed as being a crucial element in the firm's strategy. The firm needs to retain existing customers and target new one. Customers become satisfied if the performance of the good or service is equivalent to, more than expectation. As clearly seen from the table above, the highest mean for this dimension come from the second indicator that signifies IFB customers satisfied with financial consulting provided on IFB product and service with a mean score of 3.71 followed by the Awash bank's Interest free banking service level of the bank close to IFB customers expectations with a mean score of 3.6. However the least mean comes from the second item which are customers are satisfied with the IFB quality service provided by the bank with a mean score of 3.56.

As a conclusion, the grand mean score of this construct based on customers view is 3.62 this shows regarding to overall customer satisfaction customers have high perception about satisfaction which means the customers were satisfied enough by IFB service provided by the bank.

4.4. Correlation Analysis between Customer Satisfaction in IFB and IFB Service Quality Dimensions

To determine the existence and level of association, the researcher used bivariate correlation from which Pearson correlation coefficient is considered.

For the purpose of determining whether or not there is a significant connection between compliance. Assurance, reliability, tangibility, empathy and responsiveness views, and consumer satisfaction about IFB, this study employed the Pearson's correlation coefficient. When attempting to ascertain how closely related two variables are to one another, the method that is utilized most frequently is known as Pearson's coefficient of correlation. If we assume that there is a linear relationship between the two variables, then the value of this coefficient will be expressed as a percentage (Kothari, 2004).

In the next part, the findings of the correlation analysis on the connection between the independent factors and the dependent variables will be presented. The correlation coefficients are linear and positive, ranging from moderate to high levels of strength, when it comes to the ties that exist between independent factors and their dependent variable.

Rule of thumb for correlation

Correlation Coefficient (r)	Description
+1.0	Perfect positive + association
+0.8 to 1.0	Very strong + association
+0.6 to 0.8	Strong + association
+0.4 to 0.6	Moderate + association
+0.2 to 0.4	Weak + association
0.0 to +0.2	Very weak + or no association
0.0 to -0.2	Very weak - or no association
-0.2 to - 0.4	Weak - association
-0.4 to -0.6	Moderate - association
-0.6 to -0.8	Strong - association
-0.8 to -1.0	Very strong - association
-1.0	Perfect negative association
+1.0	Perfect positive + association

Table 4.13: Correlation results of service quality and customer satisfaction

Variables	1	2	3	4	5	6	7
Customers Satisfaction	1						
Compliance	.948**	1					
Assurance	.945**	.979**	1				
Reliability	.862**	.876**	.827**	1			
Tangibility	.814**	.779**	.780**	.801**	1		
Empathy	.951**	.883**	.876**	.874**	.881**	1	
Responsiveness	.899**	.933**	.967**	.732**	.792**	.836**	1

Source: Survey Result, 2024

Table 4.13 shows that the degree of correlation or the relationship among variable. The Correlation coefficient between compliance and customer satisfaction is ($r=0.948$) with ($P<0.05$) level of significance approves a positive relationship between them. Assurance and customer satisfaction are also positively related ($r=0.979$) with ($P<0.05$) level of significance this means the customers of the bank feel safe with IFB service provided by the bank.

According to the correlation result Reliability and customer satisfaction has also positive related ($r=0.827$) with ($P<0.05$) level of significance. The correlation coefficient between tangibility and customer satisfaction is also positively related ($r=0.801$) with ($P<0.05$).

The fifth explanatory variable is Empathy which is also positively related to customer satisfaction having a correlation ($r=0.881$) with ($P<0.05$) level of significance which means Employees give personal attention to IFB customer which enhances the customer satisfaction with IFB service provided by Awash bank. The correlation coefficient between responsiveness and customer satisfaction is also positively related ($r=0.836$) with ($P<0.05$) level of significance this is because the IFB separate window employees and the bank are willing to support IFB customers.

According to table 4.13, Pearson correlation matrix shows almost all variables have strong association with overall customer satisfaction. According to field (2005), Pearson correlation coefficient value from <0.05 shows that variables are strongly correlated. So based on the above result variables have positive relation that supports the work of Shanka

(2012) the study found that there is a positive correlation between service quality dimensions and satisfaction also According to Yusuf (2017) finding the six Service Quality variables are significantly related to customer satisfaction in Islamic banking.

Based on the above finding the correlation was positive, service quality and customer satisfaction is positively related, which means the better service quality was the higher customer satisfaction. Accordingly, the most important service quality dimension that affects customer satisfaction is Assurance, which goes to prove that Assurance perceived as a dominant service quality followed by compliance.

4.5. Inferential Statistical Analysis

4.5.1. Regression Analysis

In this section regression analysis for dimensions of customer satisfaction on IFB have been undertaken to understand the relationship between customer satisfaction on IFB and the explanatory variables used were (compliance, assurance, reliability, tangibility, empathy and responsiveness).

4.5.2. Diagnosis Test

Before applying regression analysis some tests were conducted in order to ensure the appropriateness of the data to assumption regression analysis as follows.

4.6. Multicollinearity Test between Study Variables

Multicollinearity refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. It exists when there are strong correlations among the predictors and the existence of r value greater than 0.08, tolerance value below 0.10 and Variance Inflation factor (VIF) greater than 10 in the correlation matrix are the causes for the multicollinearity existence (Field, 2009; Myers, 1990; Pallant, 2007). Tolerance is a statistics used to indicate the variability of the specified independent variable that is not explained by the other independent variables in the model and the model suffers multi-collinearity problem only if the variables are correlated at equal to or greater than 0.80. Thus, below we have VIF value below 10 except with compliance and assurance which VIF value is 14.747

Table 4.14: Multicollinearity Test
Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	Compliance	0.068	14.747
	Reliability	0.11	9.053
	Assurance	0.173	6.932
	Tangibility	0.186	5.385
	Empathy	0.104	9.643
	Responsiveness	0.141	7.08

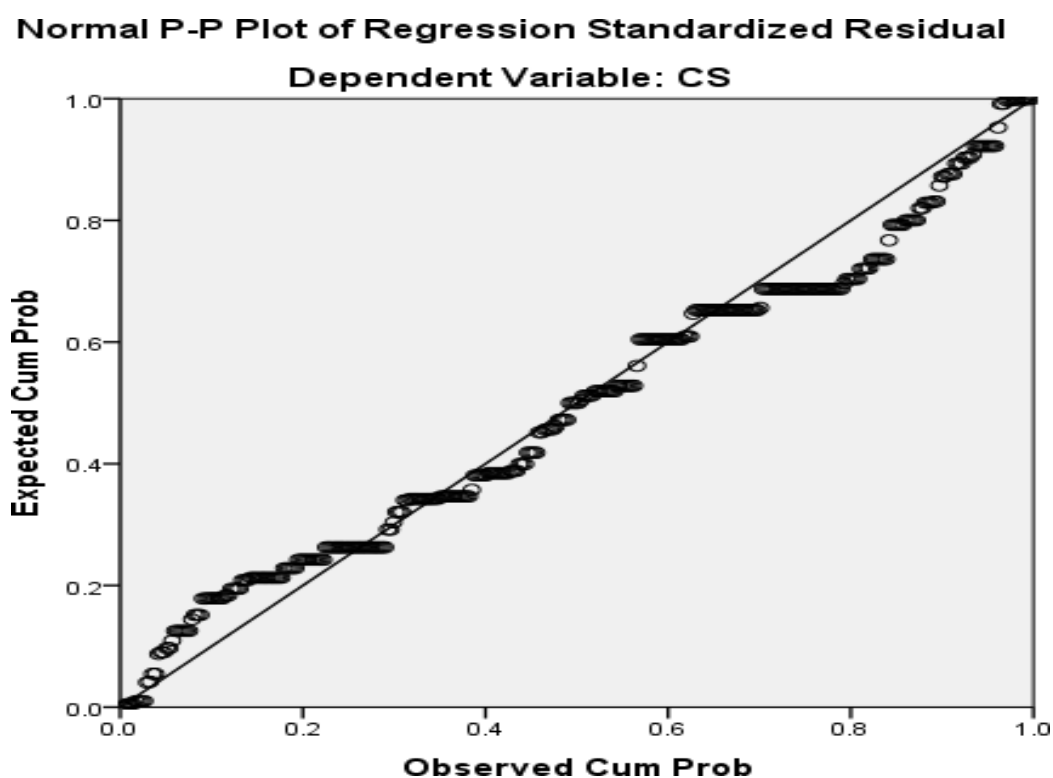
Dependent Variable: Assurance

Source: Survey Result, 2024

4.6.1. Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable customer satisfaction on interest free banking service and the independent variables Compliance, Reliability, Assurance, Tangibility, Empathy and Responsiveness is linear; plots of the regression residuals through SPSS software had been used.

Figure 4.1: Normal point plot of standardized residual



Source: Survey Result, 2024

The p plot of residuals reveals no large deviation in the spread of the residuals as we look from left to right on the figure and it is almost all residuals lay on the linear straight line therefore this tells us the relationship between the predictor variables (CARTER) and the dependent variable (customers satisfaction on IFB) is linear.

4.6.2. Normality Test

In an ideal world our data would be distributed symmetrically around the centre of all scores. As such, if we drew a vertical line through the centre of the distribution then it should look the same on both sides. This is known as a normal distribution and is characterized by the bell-shaped curve with which you might already be familiar. And also As per the classical linear regression models assumptions, the error term should be normally distributed or expected value of the error term should be normally distributed or expected value of the errors terms should be zero.

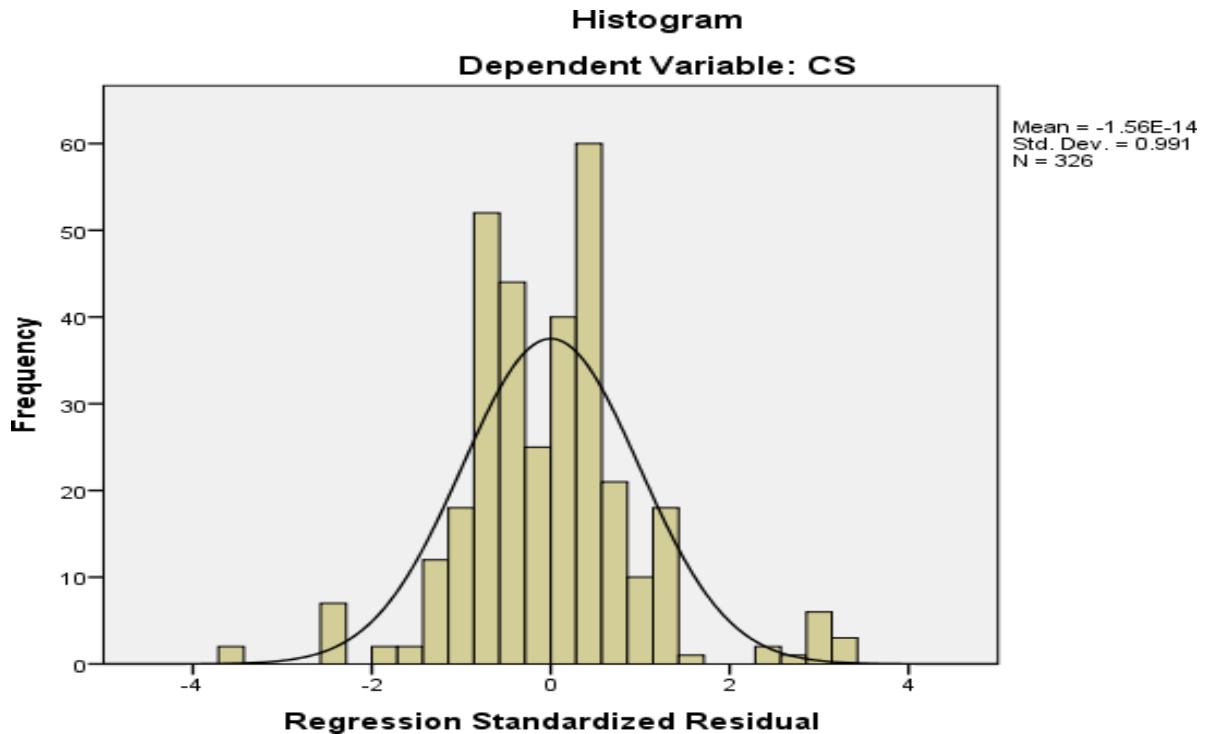


Figure 4. 2: Frequency Distribution of Standardized Residual

Source: Survey Result, 2024

Though the figure 4.2 displays some standard residuals are a little bit far away from the

curve, many of the residuals are fairly close more to the curve and the histogram is bell shaped. This shape basically implies that the majority of scores lie around the centre of the distribution (so the largest bars on the histogram are all around the central value. Therefore, this indicates that the residuals or (disturbance or errors) are normally distributed. To get strong assurance of the residual or errors are normally distributed In addition to the above test for normality, normal distribution is detected based on skewness and kurtosis statistics. Skewness is a measure on the asymmetry of a distribution. Whereas, kurtosis measures the extent to which observations cluster around a central point.

Table 4.15 Normality of Distribution Using Descriptive Statistics

Tangibility	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Compliance	326	3.9454	-1.156	0.135	1.388	0.269
Assurance	326	3.8712	-1.558	0.135	2.007	0.269
Reliability	326	3.8086	0.694	0.135	0.471	0.269
Tangibility	326	3.1564	-0.586	0.135	-1.101	0.269
Empathy	326	3.5669	-0.505	0.135	-0.406	0.269
Responsiveness	326	3.7466	-1.721	0.135	1.779	0.269
Valid N (list wise)	326					

Source: Survey Result, 2024

The value of kurtosis informs us how acute the apex of a frequency distribution curve is, in contrast to the value of skewness, which reveals the degree to which a distribution is symmetrical. Skewness and kurtosis both have values of zero for variables with normal distributions; any value other than zero indicates a departure from normality (Hair, 2010). 2.58 is the number that is generally considered acceptable for the (kurtosis/skewness) distribution. Therefore, the values of kurtosis and skewness for the variables are within the range that is presented in the table that is included with this analysis. Thus, according to the above diagnosis information presented in all the four tests there are no significant data problems that violate the assumptions of multiple regressions.

4.7. Independent Test and ANOVA for Demographic Profile of Respondents

4.7.1. GENDER

Table 4.16: Independent Samples Test

	Levene's Test for Equality of Variances	t-test for equality of means							
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the Difference 95% Confidence
								Lower	Upper
Equal variances assumed	0.765	0.38	1.727	324	0.085	0.15368	0.08901	-0.02143	0.3288
Equal variances not assumed									
			1.679	225.801	0.095	0.15368	0.09154	-0.02669	0.33406

According to table shown above gender and customer satisfaction has no significant effect, gender has no impact on customer satisfaction.

4.7.2. Age

ANOVA

Customer satisfaction

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.244	2	0.122	0.202	0.818
Within Groups	195.518	323	0.605		
Total	195.762	325			

According to table shown above age and customer satisfaction has no significant effect, age has no impact on customer satisfaction.

4.7.3. Education background

ANOVA
Customer Satisfaction

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.697	2	1.349	2.256	0.106
Within Groups	193.064	323	0.598		
Total	195.762	325			

According to table shown above Education Background and customer satisfaction has no significant effect at $P < 0.05$, education background has no impact on customer satisfaction.

4.7.4. Years of affiliation with the Bank

ANOVA
CS

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.602	3	2.534	4.337	0.005
Within Groups	188.159	322	0.584		
Total	195.762	325			

As the ANOVA table above reveals years of affiliation with the bank significantly affect the dependent variable customer's satisfaction at $P < 0.05$.

4.7.5. Type Of Window Usage

ANOVA
CS

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.494	1	0.494	0.82	0.37
Within Groups	195.268	324	0.603		
Total	195.762	325			

According to ANOVA table shown above type of window usage and customer satisfaction has no significant effect at $P < 0.05$, type of window usage has no impact on customer satisfaction.

4.7.6. Type of account

ANOVA

CS

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.515	1	0.515	0.86	0.36
Within Groups	195.246	324	0.603		
Total	195.762	325			

According to table shown above type of account and customer satisfaction has no significant effect at $P < 0.05$, type of account has no impact on customer satisfaction.

4.8. Regression Analysis between Customers Satisfaction on IFB

The researcher tested the six hypothesis set out to be tested at the beginning based on the regression analysis. The researcher believes that the bank can use the result of the regression analysis for future decision making via identifying which IFB service quality dimension got the highest effect on customer satisfaction. Collinearity test was performed, Collinearity Statistics gives two values—Tolerance and VIF (variance inflation factor). As one can see Tolerance is just the inverse of VIF. In social sciences research, a VIF value as high as 10 is considered to be acceptable. In turn, tolerance values greater than 0.1 have very serious collinearity effects. (Gaur & Gaur, 2009) Therefore, variables like Compliance, Assurance, Tangibility, Empathy and Responsiveness were selected and included in the regression analysis.

4.8.1. Model Summery

Table 4.17: Model Summary of Service Quality Dimensions and Customer Satisfaction

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.921 ^a	0.848	0.842	1.492	1.982

a.Predictors: (Constant), empathy, compliance, responsiveness,assurance, reliability, tangibility

b.Dependent Variable: CUSTOMERS SATSFACTION

The above table 4.17 presents the coefficient of determination (R-squared) indicates the proportionate amount of variation in the response variable (customer satisfaction) explained by the independent variable in the linear regression model. It has been seen that R value is 0.921. Therefore, R value (.921) for the overall service quality dimensions

namely compliance, tangibility, reliability, responsiveness, assurance and empathy. We suggested that there is a strong effect of these variables on customer satisfaction. It can also observe that the coefficient of determination i.e. the R-square (R²) value is 0.848. This implies that 84.8% variation of the dependent variable (Average Customer Satisfaction) is due to the control variables and independent variables (Service quality) the rest 15.2% are other variables not included in this study.

Table 4.18: Regression Coefficient for Service Quality Dimension and Customer Satisfaction

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	0.985	0.111		8.859	0.000
	Compliance	0.364	0.086	0.279	4.238	0.000
	Assurance	0.394	0.099	0.322	3.983	0.000
	Reliability	0.108	0.061	0.061	1.77	0.001
	Tangibility	-0.084	0.025	-0.095	-3.41	0.078
	Empathy	0.772	0.041	0.615	19.067	0.000
	Responsiveness	-0.082	0.073	-0.067	-1.13	0.259

a. Dependent Variable: CS

Source: Survey Result, 2024

Regression Equation

$$Y = a + bX_1 + bX_2 + bX_3 + bX_4 \dots$$

$$CS = 0.985 + 0.364 CO + 0.394 ASS + 0.108 REL - 0.084 TAN + 0.722 EMP - 0.082 RES$$

Where,

CS = Customer satisfaction, CO = Compliance, TAN = Tangibility, REL = Reliability, RES = Responsiveness, EMP = Empathy, ASS = Assurance

The above table shows the standardized beta coefficient, which tells us the unique contribution of each factor to the variance. A high beta value and a small p value (<.05) indicate the predictor variable has made a significant statistical contribution to the model. On the other hand, a small beta value and a high p value (p >.05) indicate the predictor variable has little or no significant contribution to the model (Gorge et al., (2003).

The beta (β) sign also shows the +ve or -ve effect of the independent variables coefficient over the dependent variable. And as shown in table 4.18 above, beta sign of all the independent variables shows the positive effect of the predicting dependent variable. That means, any increase in the independent variables lead to increase in the dependent variable. This finding is

consistent with most of the previous studies that are (Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone, 2009; Al-Twaijry et al. 2004).

Moving on the beta value table of independent variable (compliance) is 0.364 with t value 4.238 and significant level of 0.000. The beta value of independent variable (Assurance) is .394 with t value 3.983 and significant level of 0.000. The beta value independent variable (Reliability) is 0.108 with t value 1.77 and insignificant level of 0.001. The beta value independent variable (Tangibility) is -0.084 with t value -3.41 and significant level of 0.078. The beta value independent variable (empathy) is 0.772 with t value 19.067 and significant level of 0.000. The beta value independent variable (Responsiveness) is -0.082 with t value -1.13 and significant level of 0.259. This beta value indicates the amount of change in the dependent variable (customer satisfaction) due to changes in independent variables (reliability, compliance, assurance, and empathy).

Therefore, based on the statistical significances of the independent variable over the dependent variable at 5% level of significance, only four independent variables (reliability, compliance, empathy and Assurance) are significantly contributed for IFB customer satisfaction at ($P < 0.05$) level of confidence.

Thus, this implies the reliability, compliance, empathy and assurance are the most important determinants of customer satisfaction in which the bank should give more emphasis. Besides this, even if the relationship is positive the remaining two independent variables responsiveness and tangibility have not significant contribution for the predicted dependent variable customer satisfaction because it has a sig. value of greater than 5%. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, beyond this level of sig. the variable are not making a significance contribution for the prediction of the dependent variable (Pallant, 2007; Somekh and Lewinn, 2005).

4.8.2. Summary of Hypotheses Test

The result of this study indicates that except responsiveness and tangibility, all dimensions of service quality have a positive and significant effect on IFB customer satisfaction. Moreover, from the findings of this study, researcher found out that not all of the service Quality dimensions has positive and significant effects on IFB customer satisfaction. Out of the six modified service quality dimensions four dimensions (reliability, compliance, empathy and assurance) have positive and significant effects on customer satisfaction. On

the other hand, responsiveness and tangibility has no significant effect on IFB customer satisfaction.

Hypothesis testing was based on standardized coefficients beta with 95% confidence level to test whether the hypotheses are rejected or not.

Table 4.19: Summary Of Hypotheses Test

No.	Hypothesis	Sig.	Confirmed
H1	Compliance of IFB service has a positive and significant effect on Customers' satisfaction.	0.000	Yes
H2	Assurance of IFB service has a positive and significant effect on Customers' satisfaction.	0.000	Yes
H3	Reliability of IFB service has a positive and significant effect on Customers' satisfaction.	0.001	Yes
H4	Tangibility of IFB service has a positive and significant effect on Customers' satisfaction.	0.078	No
H5	Empathy of IFB service has a positive and significant effect on Customers' satisfaction.	0.000	Yes
H6	Responsiveness of IFB service has a positive and significant effect on Customers' satisfaction.	0.259	No

As shown from the above regression and correlation result the four variables with high value of beta and mean and have significant value of 0.000, therefore, these four hypothesis for the service quality dimension of compliance, reliability, assurance and empathy has been confirmed and the rest two dimensions with low (negative) value of beta, low mean value and high significant value were not confirmed.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The study examined the consequence of service quality on the side of satisfaction of customers of Awash Bank. To do this, the study adopted the CARTER six service quality dimensions. Out of the six dimensions, Awash Bank was discovered to be rendering superlative services in the dimensions of empathy, reliability, assurance and compliance with Islamic laws. The mean score values of the remaining two dimensions (responsiveness, and tangibility) are lower and the implication of this is that the bank needs to re-strategize on how to improve on these two service quality dimensions to further increase its customers' satisfaction.

Furthermore, the outcome indicates that though there is perfect significant correlation among the six service quality variables and customers' satisfaction but empathy, assurance and compliance with Islamic laws had the paramount relationship with customer satisfaction at Awash Bank.

5.1. Conclusion

Customer satisfaction is a critical business requirement. Customer value is an asset to the organization. While, quality service is essential in today's competitive market. The objective of this study was to find out the effect of IFB service on customer case of Awash Bank. The results demonstrate that four hypotheses are accepted and proved statistically significant except tangibility and responsiveness, the other four has a positive impact on the customer satisfaction when customers dealing with interest free banks.

According to the model, this study applied six dimensional model of CARTER for measuring the satisfaction of IFB. These dimensions are known as compliance, assurance, reliability, tangibility, empathy, and responsiveness. These empathy elements of IFB banks have a direct impact on satisfaction.

The study showed that there is a substantial correlation between customer happiness and all six Service Quality indicators. Assurance and customer satisfaction had the highest correlation, with a value of 0.979, while compliance with Islamic rules came in second with a value of 0.948. The empathy variable had a score of 0.881, while the reliability variable had a value of 0.827. The responsiveness variable had a value of 0.836, while the tangibility variable got the lowest value, 0.801.

The correlation result showed that, the six service quality dimensions (assurance, reliability

compliance, empathy and tangible) were positively and significantly related with customer satisfaction. However, responsiveness and tangibility has lowest relation and insignificant impact on customer satisfaction.

The regression output showed that customer satisfaction variation determined by empathy, tangibility, compliance, reliability, assurance and responsiveness respectively.

From four intangible components namely Empathy, Compliance, Reliability and Assurance stress statistically significant impacts on customer satisfaction with significant level at 5%. Empathy and Assurance illustrates strongest impact on customer satisfaction with the highest beta coefficient value, followed by reliability and Compliance, respectively. However, Tangibility and Responsiveness dimensions are not significant at 95% confidence level. Therefore, service quality dimension have positive effect on satisfaction of interest free banking (IFB) user. The results of this study concluded that service quality is an important antecedent of customer satisfactions.

5.2. Recommendations

The present study, which investigates how interest-free banking, is carried out in Ethiopia, focuses on a customer who maintains an account with Awash bank in Hawassa as its primary subject. Because of this, people who wish to establish an interest-free bank or construct an organization that is analogous to it would benefit from this study, as will practitioners and stakeholders more generally. The findings of this study indicate, on the whole, that the perception of interest-free bank products is a factor that adds to the speed with which they are deployed. During the process of putting in place IFB services, here are a few points to bear in mind:

I. Customers should be educated about the Shariah position on business transactions, a concept of profit-and-loss-sharing practice, and for whom it is offered by Islamic banking institutions such as religious institutions, Edirs, and family members. This education should take place within Islamic banking institutions. The marketing and promotion plan that the bank uses ought to be modified so that it takes these developments into account.

II. In addition, for the bank to be successful in reaching its target population, it requires a well-planned and aggressive strategy for selling its IFB products through religious leaders, as well as through mainstream media and client sessions.

III. The findings of the study indicate that interaction with customers was an essential factor in the accomplishment of the goal of installing the IFB service successfully. This is

due to the fact that conventional banking does not need nearly as much connection with customers as interest-free banking does. As a consequence of this, the financial institution ought to organize client sessions on the subject of how to encourage consumers to make more use of the interest-free banking service's loan and deposit products.

IV. It is clear that people's religious beliefs continue to play a substantial impact in their decisions to purchase goods and services from IFB. In order to guarantee that the service is efficiently executed and that religious issues are handled, it is important to establish a clear structure for the establishment of the Shariah Committee of interest-free banking services.

V. For this reason, officials and employees at Awash banks' interest-free counters need to regularly participate in training programs, seminars, and workshops on Islamic finance as well as the standards and procedures of interest-free banking. This will allow them to educate customers about the implementation of interest-free banking service through their day-to-day activities.

5.3. Limitation and Future Area of the Study

This investigation has been concentrated on the Awash Bank district that is located in Hawassa. As a consequence of this, the inferences that may be taken from this specific scenario might not be applicable to customers of other banks located in cities other than Hawassa.

Therefore, future study should

I. In order to get an accurate picture of how successfully this service was delivered, a representative sample of the nation's financial institutions and geographic areas was investigated.

II. This research might be repeated with longitudinal data and carried out on a much bigger scale for the goal of comparing and contrasting the characteristics of various geographical areas (nationally).

III. The methodology used in this work has the potential to be expanded in order to conduct a more in-depth study of IFB if certain elements, such as culture, trust, and motivation, are taken into account.

IV. In order to carry out a full evaluation of the IFB ecosystem, it is possible to employ methods such as analyzing the influence that human perception, governmental laws, infrastructure, and organizational aspects have.

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Appendix I

HAWASSA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MARKETING MANAGEMENT

Dear respondents, I am conducting a research in partial fulfillment of my Master's Degree study in Marketing Management at the college of business and economics, Hawassa University. The purpose of this study is to examine the effect of Interest Free Banking Service Quality with particular reference to Awash bank of Ethiopia. Therefore, this is to kindly request you to take some of your precious time to fill the questionnaire. Your honest and accurate response will make this study more valuable. Your responses are only meant for academic purpose and will be kept confidential. So, please read it carefully and give your opinion.

Thank you in advance for your time!

Important aspects of the questionnaire

1. There is no need to write your name or any other personal identity
2. For all questions, mark or circle the alternative numbers of your choice

Part One: Demographic Information

1. Please use this \surd mark for each question to indicate your response
 - 1.1. Gender: Male Female
 - 1.2. Age: 25 or below 26-35 36-45 >46
 - 1.3. Your religion? Muslim Non- Muslim
 - 1.4. Educational Background: No formal education Primary school
Secondary school High School Certificate
Diploma and above
 - 1.5. For how long you have been customer of Awash Bank?
Less than 1 year 1-3 years 3-5 years >5 years
 - 1.6. Which window you are currently using?
Interest free banking window Conventional window Both
 - 1.7. Which interest free banking accounts you have with Awash Bank? (You can choose more than one)
Wadiah Amanah (saving account)
Amanah (current account)

Mudarabah (Profit sharing)

Mudarabah (Fixed time deposit)

Part Two: Customers' Perception

The following statement relates to you're feeling about the service quality of Awash Bank of Ethiopia's Interest Free Banking Service. Please indicate how much each of the following factors or criteria is important to your service satisfaction by circling the number for each statement that is closest to your evaluation of the question using the following scale:

KEY: 1= Strongly Disagree 4= Agree

2= Disagree 5= Strongly Agree

3= Neutral

No	Statements of Service Quality	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	COMPLIANCE					
1	Awash bank's Interest Free Banking (IFB) service offered based on Islamic law and principles					
2	Awash bank's Interest Free Banking (IFB) service has no interest payment nor collection on savings and loans					
3	Awash bank's IFB service giving windows provide products and services acceptable by Islamic law.					
4	Using Awash bank's Interest Free Banking Service is an opportunity to get free interest loans.					
5	The bank provides profit-sharing investment service.					
6	I am satisfied with the compliance of Awash bank's IFB service with					

	Sharia law.					
	ASSURANCE					
7	Staff of the Awash bank's providing IFB services are polite and friendly					
8	Employees of the bank serving in the IFB service giving window can provide financial advice when needed.					
9	Awash bank's has an attractive interior comfort in IFB service giving windows.					
10	There is ease access to my interest free account information.					
11	Employees of the bank serving Interest Free Banking service are knowledgeable and experienced.					
12	I am satisfied with the service assurance of Awash bank's Interest Free Banking service					
	RELIABILITY					
13	Service provided by Interest Free Banking (IFB) service giving windows takes short time for service anywhere.					
14	There is wide range of products and services in the Interest Free Banking Service.					
15	There is security of transaction in Interest Free Banking Service.					
16	There are sufficient Interest Free Banking Service giving windows					

	opened at peak time					
17	Employees of the bank serving IFB service provide service at the time they promise to do so.					
18	I am satisfied with reliability of the service I get from Interest Free Banking Service of Awash bank's					
	TANGIBILITY					
19	Awash bank's IFB service providing windows are appealing or attractive from the outside.					
20	Awash bank's IFB service providing windows offers speedy and efficient transactions					
21	Awash bank's IFB service windows have operating hours convenient to its customers.					
22	Awash bank's IFB service providing windows are convenience to get the service.					
23	Awash bank's IFB service provides overdraft privileges on current account (Amanah)					
24	I am satisfied with the tangibility of the Interest Free Banking service of Awash bank.					
	EMPATHY					
25	Awash bank's IFB service providing windows are located in easy getting areas.					
26	Awash bank's is a bank you can rely on.					

27	Awash bank's is has the capacity to provide IFB service customers need.					
28	Awash bank's branches providing IFB service has sufficient parking area for customers					
29	There is confidentiality of transaction in Awash bank's IFB service providing windows.					
30	I have confidence in the Awash bank's IFB service providing windows team					
31	My business with IFB service of Awash banks provides better profit comparing with the interest in conventional bank.					
32	Awash bank's IFB service providing windows charges low service charge					
33	Awash bank's employees providing IFB service are knowledgeable about my business					
34	I am satisfied with the empathy (dependability) of Awash banks.					
	RESPONSIVENESS					
35	Employees of the bank in IFB service providing windows have knowledge of customers' business and have willingness to help					
36	Awash bank's IFB service providing windows' staffs provides courteous counter service					

37	Awash bank's offers credit on favorable terms for its IFB service customers.					
38	There are availed numbers of branches of Awash bank's offering IFB service.					
39	Awash bank's employees providing IFB service provide fast and efficient services					
40	I am satisfied with the responsiveness of Interest Free Banking service providing employees of the bank.					

Part Three: Overall satisfaction

Please rate Awash bank's IFB services and performance by circling the number from the 5-point scale below that reflects your satisfaction level.

KEY:

1= extremely dissatisfied 4= somewhat satisfied

2= somewhat dissatisfied 5= Very satisfied

3= Neutral

No	Statements of Service Quality	extremely dissatisfied	somewhat dissatisfied	Neutral	somewhat satisfied	Very satisfied
41	The overall satisfaction with Awash bank's IFB services					
42	I am very satisfied with my personal contact with Awash bank's staff					
43	The quality of service					

Thank you for taking time to complete this questionnaire!

