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Banking Type Differences In Service Quality: A Comparative Perspective In Ethiopian Commercial Banks

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Abstract
This study investigates the differences in service quality between public and private commercial banks in Ethiopia, utilizing a quantitative comparative research design. Data were collected from 385 customers using a structured questionnaire based on the Banking Service Quality model, covering dimensions such as assurance, access, price, service portfolio, tangibility, and reliability. The study employed independent sample t-tests analyzed through SPSS version 26 to discern statistically significant differences between public and private banks. The results reveal that public banks outperform private banks significantly in the dimension of access, likely attributed to their extensive branch networks and regulatory mandates ensuring widespread service availability. Conversely, private banks exhibit superior performance in tangibility and reliability, reflecting better physical facilities and consistent service delivery. Notably, no significant differences emerged in assurance, price, and service portfolio dimensions between the two banking types. These findings align with previous research indicating private banks' focus on customer-centric innovation and infrastructure improvements, while public banks leverage their broader accessibility as a competitive advantage. The study underscores the multifaceted nature of service quality and its variation based on ownership and operational strategies in the Ethiopian banking sector. The implications point toward the necessity for public banks to enhance infrastructural and service consistency aspects, while private banks should consider expanding physical accessibility to sustain competitive parity. The study contributes to the growing body of knowledge on banking service quality in developing contexts and provides actionable insights for policymakers and banking practitioners aiming to elevate customer satisfaction and foster sustainable financial sector development.

Keywords: Assurance, Access, Price, Service Portfolio, Tangibility, Reliability

The financial sector is experiencing a rapid transformation driven by economic liberalization and technological adoption. In this dynamic environment, the need for commercial banks to provide consistent, high-quality service has become more important than ever. Both public and private institutions have played a crucial role in fueling the nation's economic growth and increasing financial inclusion for previously underserved populations (Rahaman et al., 2020). However, the fundamental differences in their core structures, where state-owned banks are often guided by broader socio-economic goals and private banks by shareholder profit motives, create natural variations in their operational approaches and strategic resource allocation (Kuada, 2021). This inherent disparity often results in a noticeable gap in customer experience, affecting key performance indicators across various service quality dimensions. For all banks, striving for service excellence is not just an operational aim but a strategic necessity, directly linked to higher customer satisfaction (Mandal, 2020).

These performance differences align with global comparative studies of public versus private banking models, which have produced nuanced and often contrasting results. Research consistently indicates that ownership and governance structures influence performance across specific service quality parameters. A multidimensional analysis of factors like reliability, empathy, and service delivery efficiency regularly uncovers distinct performance patterns between the two banking types, highlighting ownership structure as a key factor in service quality outcomes (Sarı, 2019).

As Ethiopia moves toward a more open and competitive banking sector, understanding these differences is not merely academic but essential for policymakers, practitioners, and customers alike. This article offers a comprehensive, data-driven comparative view of service quality between public and private commercial banks in Ethiopia, based on recent empirical findings, validated measurement models, and specific contextual factors unique to the Ethiopian banking landscape. Therefore, this study aims to examine the differences in service quality perceptions across various banking types and compare how these differences manifest in Ethiopian commercial banks.

LITERATURE REVIEW

Assurance

Assurance in banking service quality refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence among customers. It reflects the degree to which bank personnel can effectively communicate and demonstrate competence, ensuring customers feel secure in their transactions. Studies in the Ethiopian banking context highlight assurance as a critical determinant of customer satisfaction and loyalty, where banks that maintain well-trained staff and secure processes tend to enjoy greater customer trust (Dawit et al., 2019). Research has shown that assurance underpins customers' perceptions of credibility and safety, which are crucial in managing financial transactions and personal data, especially in markets transitioning to sophisticated digital services (Elifneh et al., 2020). Moreover, the uniformity of assurance scores across public and private banks suggests a baseline competency in this dimension within Ethiopia's commercial banking landscape, reflecting regulatory standards and industry best practices (Mekonen et al., 2019).

Assurance also links closely with employees' empathy and reliability, as customers interpret professional behavior and security as fundamental pillars for engagement. Empirical evidence indicates that while assurance contributes positively to satisfaction, banks must invest continuously in staff development and the security of operations to maintain this trust in an increasingly competitive environment (Abebe, 2014). Variations in assurance levels, therefore, often relate to differences in training intensity and organizational culture rather than infrastructure alone.

Access

Access concerns the ease and availability with which customers can reach banking services, including physical branch presence, operating hours, and digital platforms. In Ethiopia, extensive branch networks by public banks have traditionally ensured superior access, particularly in rural and underserved regions, placing them advantageously relative to private competitors (Mekonen et al., 2019). This broad accessibility facilitates financial inclusion and remains a strong driver of customer preference in contexts where digital penetration is still developing. Studies affirm that customers value banks with widespread, convenient access points as it reduces their transaction costs and enhances service continuity (Elifneh et al., 2020).

Contrastingly, private banks often exhibit more limited physical outreach but compensate through innovative digital and mobile banking solutions, which increasingly mediate access challenges in urban settings (Ayinaddis et al., 2023). However, the disparity between physical and digital access creates a service gap, particularly among less tech-savvy populations, underscoring the need for balanced investment across channels. Additionally, access is impacted not just by geographic presence but also by the quality of interaction points, such as reduced waiting times and staff availability, further influencing customer perceptions (Beshir et al., 2020).

Price

Price as a service quality dimension entails the perception of fairness and transparency in fees, charges, and interest rates. Price sensitivity remains high among Ethiopian banking customers, especially in lower-income segments, where cost considerations strongly influence bank choice. However, comparative research reveals that price perceptions between public and private banks are largely similar, suggesting competitive parity or regulated pricing strategies that limit significant deviations (Mekonen et al., 2019).

While some studies denote that private banks might introduce higher fees due to perceived premium services, others indicate that price differences do not significantly drive customer satisfaction or loyalty in practice (Dawit et al., 2019). This aligns with findings that customers weigh price alongside quality and accessibility more heavily than in isolation. The balance between price and perceived value becomes critical, whereby banks that manage to optimize this balance retain or grow their customer base despite fee structures. Transparency in pricing and clear communication of costs are emphasized as value-enhancing tactics, reducing uncertainty and dissatisfaction (Balcha, 2024). Thus, while price remains a vital consideration, it interacts complexly with other service attributes in shaping overall quality perceptions.

Service Portfolio

Service portfolio refers to the breadth and depth of services offered by banks, including savings, loans, investment products, electronic banking, and advisory services. A diversified and relevant portfolio is essential in meeting the heterogeneous needs of customers and fostering loyalty. Ethiopian commercial banks are increasingly expanding their service portfolios to include e-banking, mobile payments, and tailored loan products (Beshir et al., 2020).

Comparative analyses demonstrate negligible significant differences in customer perceptions of service portfolios between public and private banks, signaling a convergence in product offerings prompted by competitive pressures and regulatory encouragement (Mekonen et al., 2019). Innovations in digital banking services by private banks and state-driven financial inclusion programs through public banks illustrate complementary approaches to portfolio expansion.

Nonetheless, the adaptability of banks to emerging customer demands, such as fintech integration and personalized financial solutions, remains a critical differentiator influencing satisfaction and competitive positioning (Ayinaddis et al., 2023). Banks with stagnant portfolios risk alienating tech-savvy and younger customer segments, highlighting the dynamic nature of this dimension.

Tangibility

Tangibility encapsulates the physical aspects of service delivery, including the appearance of facilities, equipment, personnel, and communication materials. It serves as a tangible cue for customers to evaluate service quality in environments characterized by intangibility. Several studies highlight that private banks frequently outperform public banks on tangibility, attributable to investments in modern branch infrastructure, up-to-date technology, and aesthetically pleasing environments (Dawit et al., 2019).

Empirical evidence from the Ethiopian banking sectors confirms significant differences favoring private banks in tangibility dimensions, with customers associating well-maintained physical assets and contemporary technology as indications of overall service excellence (Mekonen et al., 2019). This perception extends to ATM availability and user-friendliness, aspects closely tied to tangibility and directly impacting customer satisfaction (Elifneh et al., 2020).

Conversely, public banks tend to lag due to budget constraints and a historically inward focus on expanding physical access rather than modernizing existing outlets. The gap in tangibility points to potential areas for public banks to improve through targeted capital investment and customer-centric refurbishment programs (Mekonnen, 2022).

Reliability

Reliability, the ability to perform the promised service dependably and accurately, remains a paramount determinant of banking service quality. It reflects the consistency of service outcomes, error-free transactions, and timely responsiveness to customer needs. In Ethiopia, private banks typically score higher on reliability, reflecting their emphasis on process efficiency, reduced downtime, and customer-centric operations (Dawit et al., 2019).

This observation aligns with findings that private banks invest strategically in staff training and technology to minimize service failures, garnering heightened customer confidence and loyalty (Balcha, 2024). Public banks, while robust in access, often contend with systemic inefficiencies, legacy IT infrastructure, and bureaucratic inertia that undermine reliability perceptions (Ayinaddis et al., 2023).

Customers link reliability not only to transactional accuracy but also to responsiveness and problem resolution speed, making reliability a multi-faceted construct (Abebe, 2014). The literature thus advocates for strengthening internal controls, digitization, and service process reengineering across Ethiopian banks to enhance reliability.

RESEARCH METHODOLOGY

Research Design

This study employs a comparative research design utilizing a quantitative research approach to rigorously evaluate the differences in service quality between public and private commercial banks in Ethiopia. The primary aim is to systematically compare key dimensions of service quality across bank types and pinpoint where notable gaps exist. The quantitative approach enables robust statistical analysis of collected data, enhances objectivity and reliability by minimizing researcher bias, and facilitates replicability across different contexts.

Sample Size and Sampling Technique

A total sample of 385 respondents was determined using the Cochran formula, ensuring statistical representativeness within practical constraints. The sampling employed was convenience sampling, a method chosen for its logistical feasibility in customer-service research, which is acknowledged to potentially impact generalizability.

Data Collection and Measurement

Data were collected using a questionnaire adapted from existing validated scales measuring service quality based on the Banking Service Quality model. This model specifically covers core dimensions, including assurance, access, price, service portfolio, tangibility, and reliability, with responses recorded on a five-point Likert scale to measure perceived quality. Before the main data collection, a pre-testing of the questionnaire was conducted with 30 bank customers to ensure its clarity, reliability, and validity.

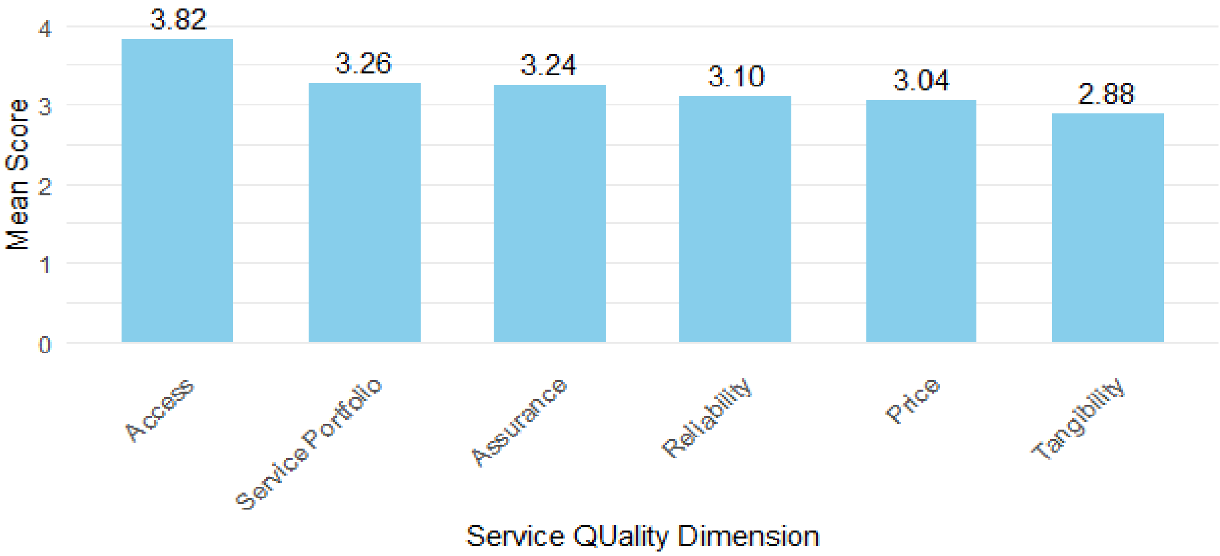
Statistical Analysis

SPSS software version 26 was used to facilitate data entry, management, and analysis. Data analysis was executed using descriptive statistics, such as mean and standard deviation, to summarize the service quality dimensions of both public and private banks. Furthermore, independent sample t-tests were employed to identify statistically significant differences between public and private banks on each service dimension.

RESULTS

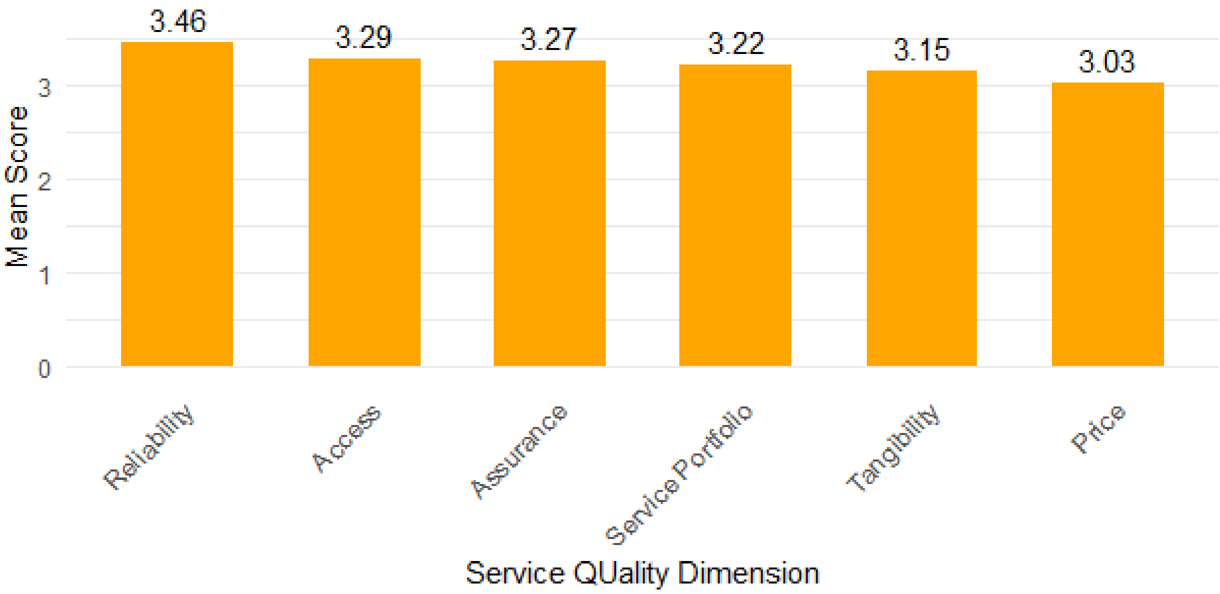
This section presents the findings of the study, detailing the perceived service quality across key dimensions within the public and private banking sectors. The results are structured in two parts: first, a descriptive analysis outlining the performance profiles of each bank type individually, followed by a comparative inferential analysis using independent samples T-tests to identify statistically significant differences between them. This data provides a clear, evidence-based foundation for understanding customer perceptions and the strategic strengths of each sector.

Figure 1: *Service Quality Dimensions of Public Banks*



The service quality assessment for public banks reveals an overall adequate but unexceptional performance, with a clear hierarchy among dimensions. Access (3.82) stands as the primary strength, indicating customers find banks easy to reach through various channels. This is followed by moderate scores in Service Portfolio (3.26) and Assurance (3.24), suggesting satisfactory product offerings and employee competence, respectively. The performance dips further in Reliability (3.10) and Price (3.04), hinting at issues with service consistency and perceived value. The most critical weakness is in Tangibility (2.88), the lowest score, which signals an urgent need to modernize physical facilities, technology, and equipment to improve the customer experience and meet modern expectations.

Figure 2: *Service Quality Dimensions of Private Banks*



The service quality assessment for private banks indicates a consistently solid and well-balanced performance across all dimensions, with all scores clustering in a narrow, above-average range. Reliability (3.46) is the highest-rated dimension, signifying that customers trust private banks to perform promised services dependably and accurately. This is closely followed by strong scores in Access (3.29) and Assurance (3.27), reflecting ease of contact and competent, trust-inspiring employees. The Service Portfolio (3.22) and Tangibility (3.15) also scored well, indicating a good range of modern products and well-maintained physical facilities and technology. While Price (3.03) is the lowest score, it remains above a mid-point, suggesting that while customers may see costs as a relative weakness, they do not perceive them as poor value overall. In essence, the figure shows that private banks deliver a reliable, well-rounded, and high-quality customer experience with no significant weaknesses.

Table 1: Banking Type Differences on Service Quality

Variables	Bank Type	Mean	SD	T-test	Sig-value
Assurance	Public	3.24	0.971	-0.335	0.738
	Private	3.27	0.854		
Access	Public	3.82	0.542	6.476	0.000***
	Private	3.29	0.994		
Price	Public	3.04	1.006	0.080	0.936
	Private	3.03	0.908		
Service Portfolio	Public	3.26	1.083	.352	0.725
	Private	3.22	0.837		
Tangibility	Public	2.88	0.996	-3.196	0.002**
	Private	3.15	0.613		

Reliability	Public	3.10	1.088	-3.646	0.000***
	Private	3.46	0.776		

For the dimension of Assurance, which encompasses the knowledge, courtesy, and trustworthiness of employees, there is no statistically significant difference between public banks (Mean=3.24) and private banks (Mean=3.27), as indicated by a high significance value ($p > 0.05$) and a very low T-test statistic (-0.335). This parity suggests that customers perceive the competence and ability of staff from both banking sectors to be virtually identical, indicating that neither type holds a competitive advantage or disadvantage in building customer trust and confidence through employee interaction.

The analysis for Access reveals a highly significant difference ($p < 0.001$) between public banks (Mean=3.82) and private banks (Mean=3.29), with a very large T-test statistic (6.476). This result demonstrates that public banks hold a decisive and overwhelming advantage in this dimension, meaning customers find them substantially superior in terms of convenience, ease of contact, and the availability of service through branches, ATMs, and other channels.

Regarding Price, which relates to the perceived fairness and value of the cost of services, the mean scores for public (3.04) and private (3.03) banks are nearly identical, and the lack of statistical significance ($p > 0.05$) confirms there is no real difference between them. This indicates that customers view both banking types similarly when it comes to fees and pricing, with neither sector being perceived as offering a notably better or worse value proposition.

The variable Service Portfolio, concerning the range and diversity of financial products offered, shows no statistically significant difference ($p > 0.05$) between public (Mean=3.26) and private (Mean=3.22) banks. This finding implies that customers do not distinguish between the two sectors based on the variety or types of accounts, loans, or investment products available, suggesting their service offerings are viewed as comparable in the marketplace.

For Tangibility, which includes the appearance of physical facilities, equipment, and materials, a statistically significant difference exists ($p < 0.01$), with private banks (Mean=3.15) outperforming public banks (Mean=2.88). This significant result, supported by a negative T-test statistic (-3.196), identifies Tangibility as a clear competitive weakness for public banks and a strength for private banks, whose customers report a more positive perception of their modern infrastructure and technology.

The dimension of Reliability, defined as the ability to perform the promised service dependably and accurately, demonstrates the most statistically significant difference ($p < 0.001$) of all variables, with private banks (Mean=3.46) scoring substantially higher than public banks (Mean=3.10). This result, underscored by a large negative T-test value (-3.646), establishes that customers have significantly greater trust in private banks to execute services correctly and consistently, marking it as their most defining strength and a critical area of deficiency for public banks.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This comparative study provides robust evidence of pronounced differences in service quality between public and private commercial banks in Ethiopia. The data demonstrate that public banks' primary strength lies in access, attributable to their extensive branch network and regulatory mandate. Contrastingly, private banks have successfully established a reputation for strong tangibility and reliability, often reflecting their focus on customer experience, innovation, and efficient service delivery. On the other hand, customers' perceived assurance and price levels do not differ significantly across bank types, possibly due to overlapping service standards and pricing competition. However, both sectors lag in certain dimensions: public banks trail in physical infrastructure and responsiveness, while private banks, although strong in reliability, still need to close the gap in network breadth and community accessibility.

Recommendations

Public banks should prioritize investments in modern infrastructure to enhance the tangible aspects of their service. This involves revitalizing branch aesthetics, upgrading technology, and developing more user-friendly digital channels to meet evolving customer expectations. Furthermore, a dedicated focus on customer experience training is essential to improve service reliability and responsiveness through updated staff protocols and process refinements. Concurrently, direct technology upgrades are critical to address persistent network and system issues that frequently disrupt digital banking and ATM services, thereby restoring customer confidence and operational stability.

Conversely, private banks are advised to concentrate on expanding their physical network and outreach, particularly in underserved areas, to rival the extensive access traditionally offered by public banks. To deepen customer relationships, they should leverage data analytics to transform customer feedback into actionable insights, enabling more personalized offerings and enhanced service reliability. Expanding into a broader and more diverse service portfolio will also be key to attracting value-seeking customer segments and increasing their market share through competitive differentiation.

For both public and private banks, a unified strategy is paramount. This includes implementing continuous monitoring of customer satisfaction through robust models to drive data-informed, iterative improvements. Regulators must also enact policy-level interventions that incentivize technology adoption, staff capacity building, and modernization programs equally across sectors. Ultimately, all service quality initiatives should be designed to align with broader, inclusive financial strategies, ensuring that improvements contribute to the goals of financial inclusion and equitable economic participation for all customers.

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