

**FINANCIAL PERFORMANCE AND PERCEIVED SERVICE QUALITY
OF COMMERCIAL BANKS IN NEPAL**

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RECOMMENDATION

This is to certify that the thesis:

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Entitled

**Financial Performance and Perceived Service Quality of
Commercial Banks in Nepal**

*has been prepared as approved by this department in the prescribed
format of the faculty
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to be accepted as partial fulfillment of the requirement for the degree of
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DECLARATION

I hereby declare that this thesis entitled “**Financial Performance and Perceived Service Quality of Commercial Banks in Nepal**” submitted to the office of dean, Faculty of management, Tribhuvan university is my original research work, which is prepared as the partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.) under the guidance and supervision of **Mr. Babu Ram Panthi**, thesis Supervisor, Faculty of Management, Balkumari College, T.U.

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Indira Devi Paudel
MBS

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LIST OF ABBREVIATIONS

| No. | Abbreviation | Details |
|-----|--------------|----------------------------------|
| 1. | ANOVA | Analysis of Variance |
| 2. | CRM | Customer Relationship Management |
| 3. | MBS | Masters in Business Studies |
| 4. | MIS | Management Information System |
| 5. | T.U. | Tribhuvan University |
| 6. | SERVQUAL | Service Quality. |
| 7. | WOM | Word of Mouth |

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CHAPTER-I

INTRODUCTION

1.1 Background

“Acquiring new customers is important for business success, but maintaining customer relationships is just as crucial.” This statement highlights the importance of customer relationship to be nimble and competitive organizations. Therefore, Customer Relationship Management (CRM) is the business strategy that aims to understand, anticipate, manage and personalize needs of potential customers that can be integrated with current organizational target (Adhikari & Adhikari, 2009).

Nepalese banking industry is growing day by day that has emerged many issues for clients, practitioners, and researchers. Financial performance of Nepalese commercial banks seems relatively better than other areas such as manufacturing, hotel, and other service sector. Many earlier researchers focused much on financial performance of Nepalese banking sector. Nepalese banks were comparatively studied in many aspects especially in financial performance, dividend policy, working capital and many other aspects.

There are different opinions on Consumer relationship management (CRM) by different experts. For instance, Prof. Philip Kotler (2006) and many other marketing experts have defined CRM as process of creating & retaining profitable customer with long term relation by delivering customer value and satisfaction. Similarly, Management Information System (MIS) experts like James A O'Brien & George M. Marakas (2007) argue that CRM is a cross functional enterprise system that helps a business to develop and manage its customer oriented business processes.

Therefore, these arguments will become even more important in service organizations that basically focus on activities that have some elements of intangibility associated and involve some interaction with customer that create value and provide benefits for

customer's specific times and places, as a result of bringing about a desired change in or on behalf of the recipient of the service.

A main purpose of business is to create a customer because it is basically the consumer who essentially determines what a business is. Although it is significant to provide time and effort on how you are going to improve your products and services, it is still the customers who establish the future success of a business. Therefore, consumer service enhancement is very important if you would want your business to prosper.

Customer service is a key factor in achieving business success. It can either make or break your business. This is for the reason that the entire business plan, marketing strategies, sales and profits will solely depend on its impact on the customers. Essentially, you are in business to generate revenue through selling your products to people who are in need of these services. These people want to discern if your products will be able to make their lives much easier.

To be able to gain income for business, it follows that there to carefully design and satisfy the needs of your consumers. This is the foundations of an emerging and profitable business. Every decision made must be taken into consideration how it affects the customers. There should always give importance on service circumstances affecting your customers.

Service quality greatly helps in attracting new customers for your business but it is amazing consumer service that keeps people coming back for more. This is indeed a fact because people typically would want to do business with people that they trust and had a good experience with. Consequently, an entrepreneur has to ensure that customers will continue to take service from you by offering them great quality consumer service.

It has been proven in surveys that most customers do not come back to certain business establishment because of the indifferent attitudes towards them by business owners, managers and employees regardless if they like the products or services these businesses offer. Most of the time, these dissatisfied customers will just simply walk away and never come back thus decreasing potential revenue without your knowledge. It is therefore true

to say that many businesses cannot succeed for a long time without giving importance to customer service.

This crucial factor has somewhat leveled the opportunities for both large and small businesses. This provides each business to offer consumers quality service in which they can be known for. In this way, they are able to differentiate themselves from the competition.

There is a continuing change in customer demands in recent years so it is the major task to offer a satisfaction program for the customers. This program helps to gain additional customers and retain them for a very long time.

Every business management must recognize the reality that consumer service is imperative in the success of their business. This will ensure organization's customer loyalty and commitment to the business. Ability to focus on your consumer's need rather than your own and servicing them to the best of your ability will ensure that business will be far more cost-effective than you have ever dreamed of.

Financial performance of the organization depends on many other factors such as management system, organizational climate, marketing style, structure of the organization, and its operation efficiency. It is, therefore, necessary to have a short look at financial performance of Nepalese commercial banks and to relate the financial performance with perceived service quality of the customer. Customers' satisfaction and quality service perception of the customer is also a major determinant factor in effectiveness of specific organization in service sector.

There is impact of service quality perception of customers on financial performance of a service organization. In general, organization must be able to satisfy its customers to get success at the market place. Organization should have a very good internal system to provide effective service. In other words, an organization should have very good internal environment to grasp all the available opportunities and face the threats that come from external environment. There are many subsystems in an organization. Basically, finance

system, human resources system, culture of organization, strategy of organization, structure of the organization, operation system, and marketing systems are the part of internal environment for an organization.

Customer satisfaction and their attitude ultimately affect the organization in many ways. Organization collects financial and other resources and mobilizes that in productive sectors. An organization always attempts to deliver qualitative products to its valued customers. Customers pay financial resources to the organization for product received. The product can be tangible as well as intangible. Intangible products are known as services. In case of commercial banking industry, products refer services to the customer.

There are many kinds of services in banking area. Customers open their current, saving, and fixed accounts in commercial banks. Many customers get loans and overdrafts from banks. Transfer of fund from one place to another is another major service of commercial banks. Use of debit and credit cards, handling foreign currency and opening letter of credit service for the customer also come as major services in commercial banking sector.

Employees' behavior and their fast functioning provide good impression to the customers. In floating loan to the customers, fast loan processing and assertive behavior of the loan sanction authority can be a determinant factor in building positive attitude of customers. Similarly, queuing-line in getting cash from cheque is another issue for a quality service to customers. In some organization waiting line and queue of customers were found very long in previous research (Dhital, 2000).

Good facilities available within the bank also build favorable perception of customers. Computerized service, availability of drinking water, facility for telephone service, a good waiting room and chairs, news papers and entertainment facilities are also some factors in building quality service perception of customers. In general, quality service perception increases the organization's reputation among the customers. Sometimes, customers select their commercial banks based on what they have heard from other customers. Many customers refer other customers to select an appropriate commercial

bank for them. In one hand, satisfied customers convey good message to others that helps to bring more business there and, on the other, quality service perception increases the volume of the business that ultimately affects in its financial as well as on the overall performance.

1.2 Statement of Problem

Nepalese commercial banking sector is taken as successful area in Nepal. Most of the banks are running in profit but few banks are also running into loss. For example, Standard Chartered Bank has recently provided 80 percent cash dividends and 50 percent bonus share in 2007/08 to its shareholders where as Nepal Bank Limited and other private sector banks are in heavy loss from many years. Nepal Rastra Bank intervened Nepal Bank limited and Nepal Bangladesh Bank limited in the past and recently to Nepal Bikas Bank to make the system better, to minimize the loss, and to maximize the recovery the loans. Many commercial banks were making very good profit in past few years but some are in loss and some are in profit decreasing during these years.

After the reestablishment of Democracy in Nepal, the liberalization policy is adopted by the governments. That opened the door for foreign direct investment. Many private banks and joint venture banks are established in Nepal thereafter. There were only two state-owned commercial banks before emergence of joint venture commercial banks. During that decade, there was no any issue of competition. Customers had only the hard choices to get commercial banking services. However, in today's context, almost twenty seven banks have to compete among each other in terms of quality service. Therefore, quality service perception is a very important issue in Nepalese commercial banks.

One of the most prominent research issues is the financial performance and customers' service quality perception in Nepalese banking sector. It is necessary to review financial performance of Nepalese commercial banks and to assess their service quality in terms of customers' perception. It can help to find the existing situation of Nepalese commercial banks in terms of their customers' perception and organizational success. In descriptive

analysis, present research will be successful to design a preliminary research that can be a good background for an advance level research.

1.3 Objectives of the study

Basic objective of present study is to evaluate or analyze the state of financial performance and customers' service quality perception in Nepalese commercial banks. A descriptive study is made on the financial performance to evaluate the relative competitive position of selected commercial banks. Similarly, descriptive study also focuses on how customers perceive commercial banks in terms of service quality. Thus, the study has specified following objectives as presented below.

1. To assess financial performance of selected commercial banks
2. To analyze competitive situation of those banks in terms of financial performance
3. Examine the service quality perception of customers in selected banks
4. To assess the comparative situation of service quality perception in those banks

1.4 Research Questions

The followings are the research questions;

- What is the condition of financial performance of commercial banks?
- Position of commercial bank in terms of profitability and market capitalization rate?
- What sort of services is being offered by the selected commercial banks of Nepal?
- What is the general perception of the customers towards the services offered by these banks?
- Increase in service budget is worthwhile in terms of profitability or not?
- Which bank is most reliable from customer's point of view?
- Which bank value the money of customers most in their perception?
- Are customers satisfied by the employee behaviours of bank?

1.5 Significance of the study

The study will be very important from cross-functional point of view. Marketing strategies always have impact on financial performance of an organization. Each organization wants to build positive service quality perception in customers groups. Once the customers build positive attitude and perception that helps to make the organization success in terms of better transaction, better turnover, and better profitability.

Most of the earlier researchers focused on financial performance of the company but the linkage of product perception of customer with financial performance is lacking. Thus, there is a significant gap in this research area. In this context, present research will be better in Nepalese banking sector. It is a very important breakthrough in viewing an organization's performance in holistic approach.

Most of the bankers still focus much on financial product. It is apparent that they overlook the importance of customers' attitude in their overall performance. Further, their culture and style is also responsible factor in building positive attitude of customers. Sometimes, lengthy process of lending, necessary of physical appearance in front of counters and long waiting lines are responsible in building negative attitude of customers towards service quality of the bank. In this context, present research explores the existing situation and linkage of financial performance with customers' service quality perception that paves a way for advance research in this area.

1.6 Limitation of the study

The followings are the main limitation of this research;

1. Selection of only the selection of only three commercial banks of Nepal and their financial performance.
2. Research is conducted based on the judgmental sampling basis but not simple random sampling.
3. Based on the responses of these selected respondents, conclusion about the perceived service quality is drawn.

4. Researcher has tried to conclude the relationship between the perceived service quality and the financial performances of the commercial banks of Nepal are positively correlated. However, there may not be a single contributing factor for the betterment of the financial performance of banks.
5. For the analysis of financial performance of the selected banks, Dividends payout ratio, Market capitalization rate and Profitability of the firm are considered as independent variables however, they are not self sufficient to analyze the financial performances. Various other tangible and intangible factors may also be responsible for the betterment of the financial performance of a commercial bank.
6. The questionnaire has been administered to selected clients of commercial banks in three days only. Clients are selected who responded and filled up the questionnaires but they may not be the valid representative to draw the inferences.
7. Sampling for data collection is also limited to selected cities of Nepal such as Kathmandu and Narayangarh in spite of samples may not represent the population and their views as a whole.

1.7 Organization of the Study

The whole study has been designed into five chapters:

Chapter I: Introduction

This chapter includes background of the study, basic assumption of the study and plan of the study. It also introduces about the concept of financial performance of an organization and service quality. It highlights the importance of this research presenting research issues, statement of problem, objective of the study, significance of the study and limitations of the study.

Chapter II: Review of Literature

The second chapter consists of conceptual framework and review of literature under which the term financial performance and service quality using different approaches have been highlighted. Past study regarding importance of service quality in service providing

forms etc. have been presented as well as previous related research works also been reviewed.

Chapter III: Research Methodology

In the third chapter, the research methodology followed to achieve the purpose of this study has been designed which includes research design, period covered, nature and sources of data, tools used to analyze the data and research variables are described.

Chapter IV: Presentation and Analysis of Data

The fourth chapter includes the presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed. It presents the financial performance of Nepalese commercial banks and the service quality perception of the respondents. It also presents the comparative analysis of service quality perception and financial performance as well as their linkage. Major findings of the study are included at the last of this chapter.

Chapter V: Summary, Conclusion and Recommendation

This is the last chapter of this dissertation which consists of summary of the study, conclusion and the recommendations for improving the service quality of commercial banks of Nepal.

Bibliography and Appendices are included in the last of this thesis report.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature provides the conceptual knowledge, bases and inputs for the study. Present chapter discusses about some related concept used in this study. Most of the earlier researchers have reviewed on financial performance; therefore, a short focus is given in literature related to financial performance. Service quality perception is a new concept and untouched research area in Nepalese context. Thus, much focus is given to the various dimensions of the concept. Few earlier related researches have been reviewed in this chapter. A short focus is given to financial and non-financial performance of an organization.

2.1 Concept of Service Quality

In perceived service quality, Word-of-mouth (WOM) communication is undoubtedly among the strongest factors in forming expectations and frequently in leading purchasing behavior (Arndt, 1967; Mossberg, 1995). This importance stems from the fact that service quality is hard to assess in advance of the purchase thus becomes a strong factor which consumers consider. The reason why WOM can play such an important role in developing perceptions of quality is an important issue.

The outcome of the communication process is used by individuals who are not familiar with either the service or the provider as signals of quality. Lewis *et al.* (1991) studied on how young people choose a bank, indicated that informal communications influence young people's assessment of bank service quality. Hence, WOM communication influences perceived service quality since those individuals who consider this form of communication prior to a purchasing decision have indirectly controlled for the result of their choice.

Bank's market orientation relates positively with the customers forming a positive impression about the quality of the products/services offered by the bank (McCullough *et*

al., 1986). Successful market orientation development impacts the perceived service quality in terms not only of the characteristics of the service being delivered, but also in terms of the customer's experience regarding the outcome of encounter between the service provider and him/herself.

Consumers' perceptions of high service quality and their willingness to recommend to others develop positive WOM. Service quality relates positively to saying positive things regarding the company to others, while other researchers have indicated that when consumers perceive they have experienced inferior service performance, they are likely to engage in complaining behavioral responses (Singh, 1988). In general, these negative communicational responses stem from the fact that consumers have received poor service quality.

Relationships that foster between the individuals participating in exchanges are important because they enhance communication and information flow, which in turn, upgrades the relationship as a whole. Social bonds include feelings of likeness, acceptance, friendship, social interactivity and so on. Buyers with strong social bonds with their service providers are more committed to maintaining the relationship (Wilson and Mummalaneni, 1988).

There is no study which has attempted to directly investigate why consumers, who have developed a certain experience and are familiar with the offered service, minimize information search efforts and are more inclined to proceed with the purchase. However, from the above discussion it seems logical to infer that previous experience helps consumers to form specific expectations of the quality of the service. Notion of bonding is a process through which the provider and the buyer develop and sustain a mutually rewarding relationship. Within this context, Wilson and Mummalaneni (1988) suggested a process model that explains how relationships between two parties grow. They suggested two broad categories of bonds: structural and social. In general, structural bonding refers to ties developed between organizations whereas social bonding, on the

other hand, has been conceptualized as the inevitable by-product of any business relationship or exchange.

A parallel research stream that started developing in the beginning of the 1990s was that of market orientation and customer orientation development, two closely related but nonetheless distinct notions. Again, the primary interest for researchers was to develop measures to measure the companies' degree of market orientation and/or customer orientation adoption (Kohli and Jaworski, 1990). Researchers have also been interested in studying the effect of the two notions on company performance (Kohli and Jaworski, 1992).

Consumer's degree of familiarity with the service has been found to moderate information search and consumers tend to spend less time shopping for a brand they are familiar with than they do when their experience is comparatively limited (Biswas, 1992). A study by Arora and Stoner (1996) has shown that purchase intentions are enhanced when potential buyers are more experienced and familiar with particular products and/or services.

Consumer's previous experience with the service provider or with the service offered is an important factor (Parasuraman *et al.*, 1991). The term "expertise" captures the special, uncommon; state of knowledge an individual may have about a certain product or service whereas "experience" is perceived as a lower level, general, knowledge about the product or the service which indicates a certain degree of familiarity.

A review of the relevant literature reveals that the principal focus of service quality research has been twofold. First, the identification of service quality dimensions was of primary interest to researchers (Parasuraman *et al.*, 1991). Second, the development of measurement instruments of service quality was the focus of subsequent research efforts (Parasuraman *et al.* 1993; Buttle, 1996). Next, the agenda on service quality was very quickly enhanced by examining its consequences, such as customer retention, attraction of new customers through word of mouth advertising, increases in productivity,

improvements in market share, reduction in staff turnover and operating costs, improvements in employee morale, and increase of profitability. Researchers suggested that consumers follow several ways to arrive at their expectations for service quality and whether these expectations are actually met or not. More specifically, consumers' perceptions of service quality are influenced by factors such as communications from salespeople and social referents, various types of information collected, and the credence developed towards a service organization. Four primary factors have been identified as influencing customer perceptions of service: service encounters or "moments of truth", the evidence of service, image, and price. These factors form the customer's overall perceptions of quality, satisfaction and value (Zeithaml and Bitner, 1996).

Perceived service quality has been defined as the consumers' global attitude or judgment of the overall excellence or superiority of the service. Perceived service quality results from comparisons by consumers of expectations with their perceptions of service delivered by the suppliers (Lewis *et al.*, 1994). It is argued that the key to ensuring good service quality perception is in meeting or exceeding what customers expect from the service. Thus, if perception of the actual service delivered by the supplier falls short of expectation, a gap is created which should be addressed through strategies that affect the direction either of expectations or perceptions, or both. Closing this gap might require toning down the expectations or heightening the perception of what has actually been received by the customers or a little of both.

Present literature review offers a comprehensive model to conceptualize the factors that might influence perceived service quality. It is an attempt to empirically review drivers of perceived service quality. It reviews how consumers' perceptions of quality are influenced by their own characteristics and the company's degree of market orientation. Further, it examines the company's market orientation as perceived by customers and not as assessed by its employees. Maintenance of service quality and focus on customer needs are key components for strategic planning. Banks that will adapt their strategies to the new competitive conditions by improving the level of service quality, as perceived by their customers, are likely to create and gain a competitive advantage. Quality has been

defined (Cronin and Taylor, 1994) as superiority or excellence (Zeithaml and Bitner, 1996), or, as the consumer's overall impression of the relative inferiority/superiority of the organization and its services.

Financial institutions are acknowledging that unless customer needs are taken into account in designing and delivering services, technical superiority will not bring success (Zeithaml and Bitner, 1996). New marketing concepts and strategies are paying greater attention to identifying customer needs and expectations and offering high levels of service quality. Customers will shop around more than ever and profitability will come under pressure. The result of this "shopping around" culture will be a higher mobility among customers buying financial products. Differentiation will continue to lead the marketing strategy of banks, but it will be centered neither on products, as they are about the same, nor on price, as price differentials are minimal.

It is probably the effective measurement, management and improvement of service quality that will enable financial institutions to achieve a differential advantage over their competitors. Service quality must take its cues from what the customers want that is through customer perception. Perceived service quality is defined as the extent of discrepancy between expectation and perception of performance (Zeithaml and Bitner, 1996).

Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zeithaml and Bitner, 1996); what customers think a service provider should offer rather than what might be on offer. Expectations are formed from a variety of sources such as the customer's personal needs and wishes, the customer's personal philosophy about a particular service, by promises (staff, advertising and other communications), by implicit service promises (such as price and the tangibles associated with the service), by word-of-mouth communication (with other customers, friends, family and experts), as well as by past experience of that service (Zeithaml and Bitner, 1996).

In general, developing a market orientation leads to positive job attitude, commitment and team spirit for the company's employees (Selnes *et al.*, 1996). This is especially important in the services sector and particularly for front-line personnel whose role is, in principle, a very important one in actually delivering superior service quality (Harris, 1999). Researchers have demonstrated that a market-oriented approach may remain elusive unless the company has managed to effectively communicate the values of market orientation.

The major constructs in the model are antecedents of perceived service quality. The major hypothesis underlying this study is that perceived service quality is a function of factors pertaining to both the service provider and the buyer of the service. The service provider's degree of market orientation is expected to impact the user's perception of the quality of the service. The rationale behind this lies on the anticipation that market-oriented companies are more apt to understand and meet their targeted customers' needs and demands. Further, individuals also have their own mechanisms for forming quality anticipations, which influence how they conceive the level of offered quality.

Experience may be developed through personal use of the service; it may also be developed through exposure to communication messages; in-store promotions and comparison-shopping may also help consumers to develop a degree of experience with certain services (Sundaram and Webster, 1999). Empirical evidence exists which demonstrates that consumers' choices are frequently guided by the degree of experience the individual has with a certain brand.

Over the last ten years or so, a great deal of research attention has been attracted to the field of service quality (Robledo, 2001). Service quality is now considered a critical success factor that affects an organization's competitiveness. Furthermore, service quality is considered an essential determinant that allows an organization to differentiate itself from the competition and therefore gain a sustainable competitive advantage.

A major finding of this research stream was that both have a positive impact on different aspects of a company's financial performance, including sales and market share as well as on its non-financial performance, including delivered quality, particularly for the service sector. However, past research has almost exclusively considered market orientation as an "employee-perceived" phenomenon and, consequently, studies pertaining to the company's orientation have generally been based on self-reported questionnaire.

The company's degree of market orientation has been the focus of many empirical studies. The majority of these studies have mainly investigated the link among market orientation, quality practices, and the company's financial performance. They have mainly used the company's self-assessment of its degree of market orientation. Empirical evidence shows that companies adopting a market orientation enjoy superior quality assessments and financial performance. The rationale behind these findings lies in the essence of market orientation that can assist the company to outperform competition in meeting the needs of its target market (Avlonitis and Gounaris, 1997). There is link between market orientation and perceived quality. Once market orientation has been developed, the company's ability to derive superior performance is attributed to the subsequent skills it builds. It allows for a better understanding of the needs of its target market. Understanding the target customers' needs permits the company to coordinate all its assets in a manner that allows increasing the value for the customer.

2.2 Review of Previous Findings Service Quality Measures

Boyd, Leonard, and White (1994) conducted a study on customer preferences for financial services to evaluate the relative importance attached to selection criteria used to choose a financial institution. They have identified many important factors responsible in selecting financial institution. Reputation of the organization was found the most important factor. Customers have also reported modern facilities as a very important factor in selecting financial institution. Similarly, quick service system inside the bank was also found a determinant factor in selecting the institution. Further, few other factors such as hours of operation, interest charged on loans, availability of current account,

location, and friendly behavior were also found important factors in selecting the financial institution or banks.

Levesque and McDougall (1996) found service quality as a major determinant factor of customer satisfaction in retail banking. Authors identified the determinants which include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery and products used. The research found, in particular, that the service problems and the bank's service recovery ability have a major impact on customer satisfaction and intentions to switch.

Cui, Lewis, and Park (2003) recently conducted a survey design of research in service quality measurement in the banking sector in South Korea. They have derived the concept from earlier research and designed a questionnaire focusing on three major dimensions: customers' expectation, their performance and perception, and importance. They have administered questionnaire among the selected customers of 153 banks to find out the dimensionality of the SERVQUAL of Parasuraman *et al.* (1991). They found the measure multidimensional. Their finding proved that service quality measures designed by the earlier researchers were found relatively valid in eastern context. Yavas, Benkenstein, and Stuhlderier (2004) conducted a study and examined the nature of relationships between service quality, background characteristics, and satisfaction and selected behavioral outcomes by using retail banking in Germany as its setting. Study results showed that service quality is at the root of customer satisfaction and is linked to such behavioral outcomes as word of mouth, complaint, recommending and switching. However, different aspects of service quality and different consumer characteristics appeared to be associated with different outcomes. For instance, the results suggested that tangible elements of service quality and being a female were more closely associated with positive word of mouth and commitment. On the other hand, "timeliness" aspects of service delivery were found more closely related to customer satisfaction, and complaint and switching behaviors.

Sureshchandar, Rajendran, and Anantharaman (2003) conducted a study on customer perceptions of service quality in the banking sector of a developing economy. They

focused on investigation of critical factors of customers' perceived service quality in banks of a developing economy. They compared three groups of banks in India with respect to the service quality factors from the perspective of the customers. There was a great amount of variation observed with respect to the level of service quality offered by the three groups of banks. They identified the factors that discriminate the three groups of banks. Customers in developing economies seem to keep the "technological factors" of services such as core service and systematization of the service delivery as the yardstick in differentiating good and bad service while the "human factors" seem to play a lesser role in discriminating the three groups of banks.

Gounaris, Stathakopoulos, and Athanassopoulos (2003) conducted a study on antecedents to perceived service quality in banking industry. Authors attempted to model the influence of bank-specific and customer specific parameters on the customer's perception of service quality. Customer specific parameter was conceptualized as a multidimensional concept comprising employee competence, the bank's reliability, the innovativeness of the bank's products, its pricing (value for money), the bank's physical evidence and the convenience of the bank's branch network. Findings suggested that all the antecedents examined in the study did not influence the various dimensions of the quality of service offered by a bank.

2.3 Financial Performance

Shrestha (1980) described that a corporate can claim itself to be successful if it can maintain maximum profit to justify the worth of the return on investment. Pandey (1995) stated that the basic financial statements are the balance sheet and profit and loss account. The information contained in those statements is used by management, creditor, investor, and others to judge about the operating performance and financial position of the firm. Management is particularly interested in knowing the financial strength of the firm to make their best use and to find out the financial weakness of the firm to make suitable corrective action. There are many research papers available in financial performance of Nepalese organization in Tribhuvan University Central Library and in many other places that have been already reviewed by earlier research.

Financial statements help assess the financial well-being of the overall firm. Information about the financial results of each enterprise (enterprise budgets) and physical asset is important for enterprise management decisions, but by themselves are inadequate for certain decisions because they do not describe the whole business. An understanding of the farm's overall financial situation and enterprise relationships requires three key financial documents: the balance sheet, the income statement and the cash flow statement (Laurence, 2007).

Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. A frequent cause of liquidity problems occurs when debt maturities are not matched with the rate at which the business' assets are converted to cash.

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business.

Four useful measures of farm profitability are the rate of return on firm assets (ROA), the rate of return on equity (ROE), operating profit margin and net income. The ROA measures the return to all firm assets and is often used as an overall index of profitability, and the higher the value, the more profitable the firm business. The ROE measures the rate of return on the owner's equity employed in the firm business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a profitable return on their borrowed money (Ibid).

2.4 Financial Performance and Non-financial Performance

Yeo (2003) reviewed on the tangibles and intangibles of organizational performance. Finding of the author highlighted the importance of intangible and human related aspects that can contribute for the financial performance of the organization. Financial performance is issue that can be compared, analyzed, and presented easily but there is a linkage of financial performance with non-financial performance of the organization. From a traditional perspective, organizational performance is commonly referred to as financial performance where considerations of budgets, assets, operations, products, services, markets and human resources are crucial in determining the overall bottom-line of an organization. As such, the financial benefits of organizational performance are often associated with organizational success. However, the notion of performance embraces a far wider dimension of interpretations.

2.5 Research gap

There are various researches conducted about the financial performances of banks and other financial institutions. The researches were extended to manufacturing organizations as well. However, there are very limited researches conducted comparing the financial performances with respect to the perceived service quality of the banks in the view point of its customers (Clients). There are numerous banks and other financial institutions operating in a single market. Some has become successful while others are in break even and some are struggling for existence. To be in front of the financial line, different banks have invested remarkable sum for their different service offerings. It is of highly concentrated and demanded field of research to show the relation whether the services offered by them is congruent for their financial good health or not. The previous researches have not concentrated their efforts deviating time and other resources towards it. Thus there is main gap for the research to show whether the services offered by the commercial banks are worthwhile or not.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Background

This study was aimed to find out the financial performance and service quality performance in Nepalese commercial banks and to find the linkage of both of these concepts. Suitable research design is followed for the study to achieve the objectives. Primary and secondary data are used for the study and suitable tools and techniques are used for the study. Following section deals about the research design, sources of data, sample and population of survey design, data collection methods of primary and secondary data, data collection procedure and instruments, and tools or techniques used for analysis.

3.2 Research Design

Present study follows descriptive design to analyze the secondary data collected from Nepal stock exchange. Few financial statements of Nepalese commercial banks were collected and tabulated using spreadsheet. Another major design of this present research is survey. After the financial analysis three commercial banks were selected on the basis of best, worst, and average performance to find out the service quality perception of customers in those organizations.

3.3 Population and Sample

The population for the study is all the commercial banks operating in Nepal. There are altogether twenty nine commercial banks operating in Nepalese market till date. The sample for the study purpose is three commercial banks namely, Nepal Bank Limited, Kist Bank Limited and Nabil Bank Limited. The selection of the sample was done based on the judgmental sampling basis and viewing their financial performance of last five years.

3.4 Sources of Data

Secondary sources of information published financial statements were collected and tabulated in spreadsheet. Such secondary information was gathered from websites of Nepal stock exchange and security board of Nepal.

Primary data were collected by using a carefully designed instrument (questionnaire). Basic source of primary information were customers of selected three commercial banks. The questionnaire was administered to the selected customers (clients) of the selected commercial banks. The questionnaire was filled up by the respondent and it was returned immediately to the researcher. Researcher was assisted by the helpers to collect the questionnaire.

3.5 Sample and Population of Survey Design

All the Nepalese commercial banks were taken as the population of present study. All the commercial banks established and operated before Fiscal Year 2009/10 were taken for secondary data analysis. After identification of strongest and weakest banks, only three banks that represent the best, worst, and average were taken judgmentally as a sample for the survey design to compare them in terms of perceived service quality. Following Table 3.1 presents the detail of the respondent groups of the selected sample.

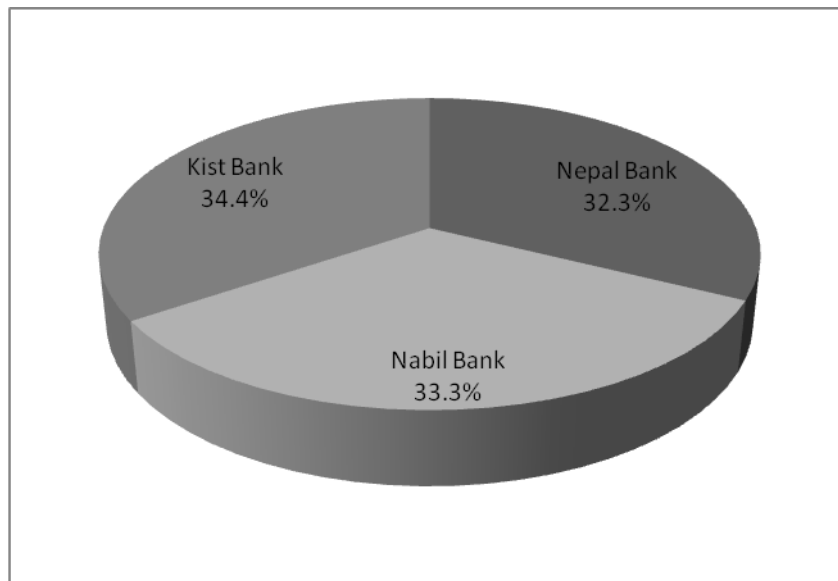
Table 3.1
Detail of the sample of survey design

| Name of the Bank | Frequency | Percent | Cumulative Percent |
|-------------------------|------------------|----------------|---------------------------|
| Nepal Bank Limited | 31 | 32.3 | 32.3 |
| Nabil Bank Limited | 32 | 33.3 | 65.6 |
| Kist bank Limited | 33 | 34.4 | 100.0 |

Source: Market Survey, 2010

Graphical Presentation of Samples:

Fig. 3.1 Samples from different banks



Source: Table No. 3.1

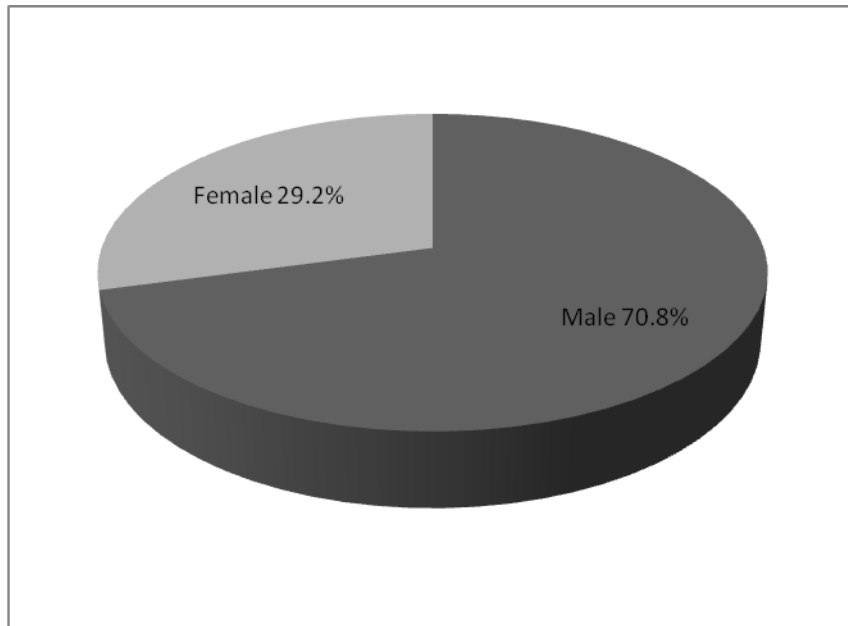
Table 3.2
Gender of the Samples

| Gender | Frequency | Percentage | Cumulative Percentage |
|---------------|------------------|-------------------|------------------------------|
| Male | 68 | 70.8 | 70.8 |
| Female | 28 | 29.2 | 100 |

Source: Market Survey, 2010

Graphical Presentation of Gender of samples:

Fig. 3.2 Gender of Samples



Source: Table No. 3.2

Table 3.3

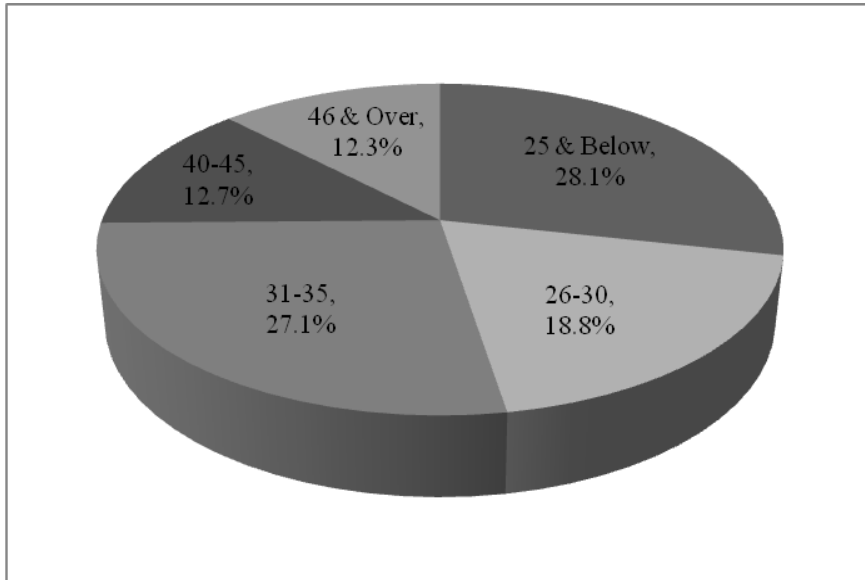
Age group of the Samples

| Age Group | Frequency | Percentage | Cumulative Percentage |
|------------------|------------------|-------------------|------------------------------|
| 25 & Below | 27 | 28.1 | 28.1 |
| 26-30 | 18 | 18.8 | 46.9 |
| 31-35 | 26 | 27.1 | 74.0 |
| 40-45 | 13 | 12.7 | 87.7 |
| 46 & Over | 12 | 12.3 | 100.0 |

Source: Market Survey, 2010

Graphical Presentation of Age group of Samples is as follows:

Fig.3.3 Age group of Samples



Source: Table No. 3.3

Above table shows that there is almost equal number of respondents selected from three banks. Out of total respondents only 29.2 percent were female and rest were male respondents. Diverse groups were included in the sample in terms of age groups that constitutes 28.1% below 26 and age group of 31-35 was 27%. In total, 74% respondents were from 35 years or below.

3.5 Data Collection Instrument of Primary Information

An instrument was designed deriving many items from earlier international researchers. The instrument is placed in appendix of this study. The instrument have ten items relating to the service quality perception of the customers, three antecedent factors, three outcome factors, and three related to linkage of service quality perception, customer satisfaction, and service quality perception's impact on financial performance. Few demographic variables such as name of the bank, age, and gender of the respondents were also included in the instrument. Only the demographic variables and antecedent items were

designed in nominal scale. All the other items were designed in five point Likert type scale “1 for strongly disagree to “5” strongly agree.

3.6 Primary Data Collection Procedure

Convenient sampling technique was followed to collect opinion of more than thirty customers from one bank. Questionnaire were administered and returned within ten minutes from the customers. Researcher personally visited main banking office of all the banks. Exit gate and parking place were used to request the customers to fill up the questionnaire. In most of the cases, meaning of the item and instruction to fill up the questionnaire were described to the respondents.

3.7 Tools and Techniques Employed

Excel spreadsheet was used to tabulate and analyze the financial statements of commercial banks. SPSS version 10 was used to for tabulation and data analysis. Simple descriptive statistical tools such as frequencies, mean, standard deviation, and standard error of the mean were analyzed. Some other inferential statistics such as Analysis of Variance (ANOVA) was used to find out the differences among the banks.

Description of SPSS computer software

SPSS (originally, Statistical Package for the Social Sciences) was released in its first version in 1968 after being developed by Norman H. Nie and C. Hadlai Hull. Norman Nie was then a political science postgraduate at Stanford University, and now Research Professor in the department of Political Science at Stanford and Professor Emeritus of Political Science at the University of Chicago. SPSS is among the most widely used programs for statistical analysis in social science. It is used by market researchers, health researchers, survey companies, government, education researchers, marketing organizations and others. The original SPSS manual (Nie, Bent & Hull, 1970) has been described as one of “sociology's most influential books”. In addition to statistical analysis, data management (case selection, file reshaping, creating derived data) and data

documentation (a metadata dictionary is stored in the datafile) are features of the base software.

Statistics included in the base software:

- Descriptive statistics: Cross tabulation, Frequencies, Descriptives, Explore, Descriptive Ratio Statistics
- Bivariate statistics: Means, t-test, ANOVA, Correlation (bivariate, partial, distances), Nonparametric tests
- Prediction for numerical outcomes: Linear regression
- Prediction for identifying groups: Factor analysis, cluster analysis (two-step, K-means, hierarchical), Discriminant

SPSS places constraints on internal file structure, data types, data processing and matching files, which together considerably simplify programming. SPSS datasets have a 2-dimensional table structure where the rows typically represent cases (such as individuals or households) and the columns represent measurements (such as age, sex or household income). Only 2 data types are defined: numeric and text (or "string"). All data processing occurs sequentially case-by-case through the file. Files can be matched one-to-one and one-to-many, but not many-to-many.

CHAPTER -IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Overview of Nepalese Economy

According to the bulletins published by the Ministry of Finance in 2010, Nepal's economic growth rate in the current FY 2009/10 is declined. In comparison to 4.0 percent GDP growth achieved at producers' prices in FY2008/09, is estimated to grow in this fiscal year only by 3.5 percent. Major factors attributable to slower growth in GDP are the decline in production mainly of monsoon (summer) crops due to adverse weather situation and the expansion of economic activities under non-agriculture sector remaining not so favorable. Such performance of the economy below the expectation is mainly attributable to *bandhs*, strikes, labor problem, electricity supply problem and contraction in external market.

Non-agriculture sectors of the economy that recorded expansion in FY2009/10 in comparison to the previous fiscal year have been, mining and quarrying (from 0.7 percent to 4.2 percent); industry (from -1.0 percent to 2.6 percent); electricity, gas and water (from -0.9 percent to 0.5 percent); construction (from 0.9 percent to 6.6 percent); hotel and restaurant (from 3.0 percent to 8.5 percent); financial intermediation (from 1.5 percent to 1.6 percent); and real estate, rent, professional services (1.7 percent to 4.8 percent).

Observation of the sector-wise structure of GDP according to the ISIC classification shows, the shares of different sectors are, agriculture and forestry 33.0 percent, fisheries 0.5 percent, wholesale and retail trade 14.0 percent, transport, communication, and warehousing 9.8 percent, real estate and professional services 8.3 percent, education 6.7 percent, construction 6.6 percent and industry 6.3 percent. Likewise, the shares of the other remaining sectors to total GDP are, financial intermediation 4.1 percent, other community, social and personal services 3.7 percent, public administration and defense

2.0 percent, hotel and restaurant 1.7 percent, electricity, gas and water 1.5 percent, health and social works 1.5 percent and , mines and explorations 0.5 percent.

Table 4.1
Gross outputs by Industrial Division

Rs. in ten million

| Industries | Fiscal Year | | | | |
|---|-------------|-----------|-----------|-----------|-----------|
| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 P |
| Agriculture & forestry | 27805.63 | 29938.50 | 32940.10 | 40531.40 | 49124.06 |
| Fishing | 361.43 | 379 | 437.3 | 572 | 640.27 |
| Mining and quarrying | 394.32 | 429.6 | 550.8 | 639.7 | 727.64 |
| Manufacturing | 17087.5 | 18649.6 | 20410.70 | 22827.2 | 25342.76 |
| Electricity gas and water | 2263.71 | 2510.6 | 2641.8 | 2962.8 | 3288.71 |
| Construction | 8314.70 | 9174.6 | 11163.90 | 13113.50 | 15181.1 |
| Wholesale and retail trade | 10736.5 | 11032.51 | 12540.20 | 14990.03 | 18472.21 |
| Hotels and restaurants | 2947.7 | 3242.23 | 3753.63 | 4539.85 | 5242.77 |
| Transport, storage and communications | 10734.85 | 12179.9 | 13312.52 | 16044.87 | 18415.45 |
| Financial intermediation | 2793.90 | 3689.7 | 4390.74 | 5022.27 | 5833.37 |
| Real estate, renting and business activities | 8569.8 | 10057.5 | 10788.72 | 11987.46 | 13457.2 |
| Public administration and defense | 1428.8 | 1652.4 | 1922.4 | 2400.60 | 2873.20 |
| Education | 4497.90 | 5332.80 | 6326.30 | 8072.40 | 9518.00 |
| Health and social work | 1093.00 | 1265.20 | 1535.70 | 1919.00 | 2247.50 |
| Other Community, social and personal service activities | 2368.00 | 3095.90 | 3745.80 | 4946.00 | 5777.30 |
| Gross output at basic prices | 101397.73 | 112630.04 | 126460.61 | 150569.08 | 176141.54 |

P= preliminary

Source: Central Bureau of Statistics

Table 4.2
Gross Value Added by Industrial Division

Rs. in ten million

| Industries | Fiscal year | | | | |
|---|-------------|----------|----------|----------|----------|
| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
| Agriculture & forestry | 18025.97 | 18195.80 | 19251.40 | 19828.20 | 20036.40 |
| Fishing | 275.52 | 283.80 | 304.50 | 321.80 | 338.89 |
| Mining and quarrying | 234.83 | 238.30 | 251.30 | 253.10 | 263.80 |
| Manufacturing | 3889.83 | 3989.10 | 3954.50 | 3913.20 | 4016.78 |
| Electricity gas and water | 1156.22 | 1306.50 | 1320.40 | 1308.40 | 1315.33 |
| Construction | 3069.00 | 3145.30 | 3304.30 | 3334.10 | 3554.90 |
| Wholesale and retail trade | 3809.90 | 6429.22 | 6696.22 | 7090.54 | 7489.46 |
| Hotels and restaurants | 800.10 | 827.81 | 885.11 | 911.29 | 989.13 |
| Transport, storage and communications | 4200.10 | 4409.43 | 4822.58 | 5188.27 | 5523.17 |
| Financial intermediation | 1984.30 | 2210.30 | 2414.23 | 2450.21 | 2488.68 |
| Real estate, renting and business activities | 3690.00 | 4124.00 | 4554.40 | 4634.25 | 4859.79 |
| Public administration and defense | 913.90 | 926.20 | 931.90 | 999.90 | 1041.90 |
| Education | 2964.00 | 3073.80 | 3271.60 | 3639.90 | 3876.10 |
| Health and social work | 647.00 | 688.80 | 747.40 | 830.80 | 877.40 |
| Other Community, social and personal service activities | 1393.30 | 1664.30 | 1820.40 | 2057.00 | 2181.70 |

P= Preliminary

Source: Central Bureau of statistics

4.2 FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

4.2.1 Background

Financial statements show the financial condition of an organization. Profit and loss account shows the information relating to income and expenditure of the company. Net profit shown in profit and loss account is a very basic indicator of an organization's financial performance. Balance sheet shows the situation of capital structure, net worth, liquidity position and other information that can be a guide for a financial analysis to make a important financial analysis and conclusion.

Present analysis is based on the secondary source of information collected from stock exchange center. All the commercial banks established before 1997 were included in this financial analysis. Available information was found very important for comparative analysis of Nepalese commercial banks. Descriptive analysis is followed in this analysis to assess the financial performance of commercial banks in terms of profitability, market share attractiveness, and credit efficiency.

4.2.2 Comparative Market Share Attractiveness of Commercial Banks

There was a boom period in capital market for Nepalese commercial banks during 2005 to 2009. Share price of each bank was normally in increasing trend during the decade. However, the share prices of those banks have decreased in recent years. It was a major movement in Nepalese capital market. Many experts realized artificial share price increment, thus, claim natural trend in recent year.

There might be many determinant factors of share price in capital market. One of the basic determinant factors is financial performance of the organization. Even though total assets and reputation of the organization also affects in market share, financial performance affects the market share price of the company. Thus, it is important to review market share price for performance comparison of Nepalese commercial banks. Following Table 4.3 shows the comparative market share price of Nepalese Commercial Banks for past five years.

Table 4.3
Year End Closing share price of Nepalese commercial banks

(Amount in Rs.)

| Banks / Year | 2006 | 2007 | 2008 | 2009 | 2010 (As of 16 July '10) | Mean | Std. dev. | C.V. |
|-------------------------|-------|--------|--------|-------|--------------------------------|---------|--------------|------|
| Bank of Asia | - | - | - | 475 | 270 | 372.50 | 144.96 | 0.39 |
| Bank of Kathmandu | 1095 | 2,100 | 1,300* | 940 | 840 | 1243.75 | 580.39 | 0.47 |
| Citizens Bank | - | - | - | 593 | 296 | 444.50 | 210.01 | 0.47 |
| DCBL Bank | 819 | 3015 | 685* | 310 | 260 | 1101.00 | 1300.75 | 1.18 |
| Everest Bank | 1,910 | 2,600 | 1,900 | 1700 | 1630 | 1960.00 | 442.94 | 0.23 |
| Global Bank | - | - | - | 425 | 260 | 342.50 | 116.67 | 0.34 |
| Himalayan Bank | 1303 | 2095 | 1800 | 1080 | 816 | 1503.50 | 562.92 | 0.37 |
| Kist Bank | 351 | 1,876* | 998 | 319 | 199 | 466.75 | 360.16 | 0.77 |
| Kumari Bank | 760 | | 800 | 540 | 468 | 642.00 | 162.86 | 0.25 |
| Laxmi Bank | 547 | 1,200 | 990 | 1085 | 570 | 878.40 | 301.46 | 0.34 |
| Lumbini Bank | 363 | 835 | 484 | 327 | 303 | 462.40 | 219.61 | 0.47 |
| Machhapuchhre Bank | 490 | 1,386 | 490 | 334 | 282 | 623.00 | 516.29 | 0.83 |
| Nabil Bank | 3,330 | 5,010 | 3,470 | 2720 | 2384 | 3361.00 | 1166.99 | 0.35 |
| NCC Bank | 213 | 520 | 340 | 290 | 275 | 324.50 | 134.53 | 0.41 |
| Nepal Bangladesh Bank | 328 | 1,200 | 320 | 300 | 265 | 482.60 | 401.78 | 0.83 |
| Nepal Investment Bank | 1,238 | 2110 | 1,205 | 887 | 705 | 1235.00 | 623.87 | 0.51 |
| Nepal SBI Bank | 785 | 2,315 | 1120 | 900 | 741 | 1185.25 | 756.14 | 0.64 |
| NIC Bank | 650 | 1,530 | 800* | 680 | 626 | 871.50 | 439.56 | 0.50 |
| NMB Bank | 546 | 799 | 698 | 326* | 295 | 1241.50 | 1708.66 | 1.38 |
| Prime Commercial Bank | - | - | - | 583 | 495 | 539.00 | 62.23 | 0.12 |
| Siddhartha Bank | 645 | 1,295 | 852* | 470 | 444 | 713.50 | 397.81 | 0.56 |
| Standard Chartered Bank | 4,650 | 5260 | 4,710 | 3515* | 3279 | 4474.75 | 843.11 | 0.19 |
| Sunrise Bank | - | - | - | 399 | 265 | 332.00 | 94.75 | 0.29 |

* Stock split and/or Stock Dividend and/or Issue of new shares

Source: Nepal Stock Exchange

Above Table 4.3 shows a clear picture of market share price of Nepalese commercial banks. Above picture shows best situation of Standard Chartered Bank and Nabil Bank Limited. Share price behavior shows continue increasing trend in most of the commercial banks while in 2010, it shows decreasing trend with respect to the previous year end

price. In spite of being so there was no stock trading of Nepal Bank Limited since the trading of stock of Nepal Bank Limited was stopped by Nepal Stock exchange as per the letter issued by the Nepal Rastra Bank, the regulator of Banking and Financing organizations of Nepal. Hence the researcher has categorized the weakest Bank from its financial performance (Operating loss for the year 2004/05 was Rs. 508,56,13 and For the year 2005/06 was Rs.36,836,080) and market value per share point of view.

However, Bank of Kathmandu also had a high fluctuation in market price of stock. Everest Bank, Himalayan Bank and Nepal Investment Bank appeared relatively better banks than others. The market performance of stocks of Kist Bank, Kumari Bank, Laxmi Bank, NIC Bank, NMB bank and Siddhartha Bank is in average.

4.2.3 Comparative Earnings per Share of Nepalese Commercial Banks

Earnings per share are another issue relating to the competitive strength of commercial banks. Net income can be distributed to the share to find out the earning per share of each company. Higher the earning per share better will be the position and vice versa. Service quality situation of an organization can be a determinant force in overall earning per share of a bank. It is, therefore, logical to review the comparative earning per share of Nepalese commercial banks. Following Table 4.4 presents the earning share price of commercial banks during the period of 2004/05-2008/09.

Table 4.4
Earnings per share of Nepalese commercial banks (in Rs.)

| Bank | 2004 /05 | 2005 /06 | 2006 /07 | 2007 /08 | 2008 /09 | Mean | Std. dev. | C.V. |
|-------------------------|----------|----------|----------|----------|----------|--------|-----------|-------|
| Bank of Kathmandu | 30.10 | 43.67 | 43.50 | 59.94 | 54.68 | 46.38 | 11.55 | 0.25 |
| DCBL Bank | 22.27 | 13.68 | 16.78 | 5.30 | - | 14.51 | 7.09 | 0.49 |
| Everest Bank | 32.47 | 45.81 | 57.22 | 54.27 | - | 47.44 | 11.09 | 0.23 |
| Global Bank | - | -7.57 | 8.75 | 2.63 | 4.23 | 2.01 | 6.89 | 3.43 |
| Himalayan Bank | 47.91 | 59.24 | 60.66 | 62.74 | - | 57.64 | 6.64 | 0.12 |
| Kist Bank | 18.52 | 18.55 | 13.03 | 5.71 | - | 13.95 | 6.08 | 0.44 |
| Kumari Bank | 16.84 | 16.59 | 22.70 | 16.86 | - | 18.25 | 2.97 | 0.16 |
| Laxmi Bank | 4.34 | 5.80 | 8.99 | 13.14 | 17.21 | 9.90 | 5.30 | 0.54 |
| Lumbini Bank | -39.52 | -161.21 | 32.07 | 32.91 | - | -33.94 | 91.39 | -2.69 |
| Machhapuchchhre Bank | 15.43 | 18.74 | 9.25 | 14.18 | - | 14.40 | 3.94 | 0.27 |
| Nabil Bank | 105.49 | 129.21 | 137.08 | 108.31 | 106.76 | 117.37 | 14.70 | 0.13 |
| NCC Bank | -0.74 | -84.77 | -16.56 | 35.63 | 29.35 | -7.42 | 48.26 | -6.51 |
| Nepal Bangladesh Bank | - | - | - | 80.16 | 116.01 | 98.09 | 25.35 | 0.26 |
| Nepal Investment Bank | 39.50 | 59.35 | 62.57 | 57.87 | 38.00 | 51.46 | 11.74 | 0.23 |
| Nepal SBI Bank | 13.29 | 18.27 | 39.35 | 28.33 | 36.18 | 27.08 | 11.21 | 0.41 |
| NIC Bank | 22.75 | 16.10 | 24.01 | 26.37 | - | 22.31 | 4.40 | 0.20 |
| NMB Bank | 16.02 | 18.25 | 37.57 | 7.28 | 4.42 | 16.71 | 13.02 | 0.78 |
| Siddhartha Bank | 20.08 | 13.05 | 15.88 | 18.97 | - | 17.00 | 3.17 | 0.19 |
| Standard Chartered Bank | 143.14 | 175.84 | 167.37 | 131.92 | 109.99 | 145.65 | 26.69 | 0.18 |

Source: Nepal Stock Exchange

Above presented Table 4.4 shows a comparative picture of earning per share of commercial banks for past five years during 2004/05 to 2008/09. The trading of stock of Nepal Bank Limited was running in loss after 1998, therefore, the trading of the stock in Nepal Stock Exchange Limited was stopped after 2002. The performance of most of the banks was found relatively satisfactory. In Standard Chartered Bank Nepal Limited and Nabil Bank Limited, earning per share was outstanding whereas the earning per share was found very good in case of Himalayan Bank, Everest Bank, Nepal Investment Bank, Nepal SBI Bank and Siddhartha Bank Limited. It was found satisfactory the earning per share of Global Bank, Kist Bank, Machhapuchchhre Bank and NMB Bank Limited. The

earning per share of Nepal Bangladesh Bank was found very well in 2008 & 2009. In summary, Standard Chartered Bank and Nabil Bank were found to be the best and Nepal Bank Limited was found worst in terms of earning per share among commercial banks under the study.

4.2.4 Comparative Dividend Payout Percent of Nepalese Commercial Banks

Profitable organizations distribute cash and stock dividend to its shareholders as a return on their investment. More profitable and successful organization distributes higher percentage of dividend and organization that is running in loss cannot announce any dividend to its shareholders. Organizations sometimes retain some part of their earning to increase the investment of organization. Therefore, dividend payout decision not only depends on financial performance but also on the management decision of an organization. Such a dividend payout ratio can be a strong indicator of financial performance of Nepalese commercial banks. Following Tables 4.5 and 4.6 show facts and figures of dividend payout percent in Nepalese commercial banks during the study period 2004-2009.

Table 4.5 Dividend (Including bonus) on share capital of Nepalese Commercial Banks (In percent)

| Bank | 2005 | 2006 | 2007 | 2008 | 2009 | Mean | Std. dev. | C.V. |
|-------------------------|--------|--------|--------|--------|--------|--------|-----------|------|
| Bank of Kathmandu | 0.00 | 30.00 | 0.00 | 42.11 | 47.37 | 23.90 | 22.71 | 0.95 |
| DCBL Bank | 12.63 | 12.63 | 12.63 | 0.00 | 5.26 | 8.63 | 5.78 | 0.67 |
| Everest Bank | 20.00 | 0.00 | 30.00 | 30.00 | 30.00 | 22.00 | 13.04 | 0.59 |
| Himalayan Bank | 31.58 | 35.00 | 40.00 | 45.00 | 43.56 | 39.03 | 5.68 | 0.15 |
| Kist Bank | 0.00 | 0.00 | 0.00 | 0.00 | 3.50 | 0.70 | 1.57 | 2.24 |
| Kumari Bank | 0.00 | 21.05 | 21.05 | 10.53 | 10.58 | 12.64 | 8.80 | 0.70 |
| Laxmi Bank | 0.00 | 0.00 | 0.00 | 0.00 | 5.00 | 1.00 | 2.24 | 2.24 |
| Lumbini Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Machhapuchhre Bank | 0.00 | 15.79 | 10.52 | 21.05 | 0.00 | 9.47 | 9.41 | 0.99 |
| Nabil Bank | 70.00 | 85.00 | 140.00 | 100.00 | 85.00 | 96.00 | 26.79 | 0.28 |
| NCC Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Nepal Bangladesh Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Nepal Investment Bank | 55.46 | 30.00 | 30.00 | 40.83 | 20.00 | 35.26 | 13.48 | 0.38 |
| Nepal SBI Bank | 0.00 | 5.00 | 47.59 | 0.00 | 42.11 | 18.94 | 23.82 | 1.26 |
| NIC Bank | 10.53 | 10.53 | 21.05 | 21.05 | 15.79 | 15.79 | 5.26 | 0.33 |
| NMB Bank | 31.58 | 24.29 | 30.00 | 10.53 | 0.00 | 19.28 | 13.60 | 0.71 |
| Siddhartha Bank | 0.00 | 0.00 | 15.79 | 15.79 | 10.53 | 8.42 | 7.98 | 0.95 |
| Standard Chartered Bank | 120.00 | 140.00 | 130.00 | 130.00 | 100.00 | 124.00 | 15.17 | 0.12 |

Source: Nepal Stock Exchange

Above Table 4.5 shows the best status of Standard Chartered Bank and Nabil Bank Limited in terms of dividend (including bonus) on share capital during the study period. Everest Bank, Himalayan Bank, DCBL Bank, NMB Bank, Nepal Investment Bank appeared at the good position. All of them have relatively high dividend payout in terms of share capital in Nepalese banking industry. Most of the commercial banks could not distribute dividend on share capital while after upgradation of Kist Bank in Class A, its dividend growth rate was found to be satisfactory in the year 2009. Dividend payout percent appeared zero in case of Nepal Bank Limited because of heavy loss from its operation.

Table 4.6
Cash Dividend on share capital of Nepalese Commercial Banks
(In percent)

| Bank | 2005 | 2006 | 2007 | 2008 | 2009 | Mean | Std. dev. | C.V. |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|-------------|
| Bank of Kathmandu | 15.00 | 18.00 | 20.00 | 2.11 | 7.37 | 12.50 | 7.53 | 0.60 |
| DCBL Bank | 12.63 | 0.63 | 0.63 | 0.00 | 0.26 | 2.83 | 5.48 | 1.94 |
| Everest Bank | 0.00 | 25.00 | 10.00 | 20.00 | 30.00 | 17.00 | 12.04 | 0.71 |
| Himalayan Bank | 11.58 | 30.00 | 15.00 | 25.00 | 12.00 | 18.72 | 8.32 | 0.44 |
| Kist Bank | 10.53 | 10.53 | 10.00 | 5.00 | 3.50 | 7.91 | 3.39 | 0.43 |
| Kumari Bank | 0.00 | 1.05 | 1.05 | 0.53 | 0.55 | 0.64 | 0.44 | 0.69 |
| Laxmi Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.26 | 0.05 | 0.12 | 2.24 |
| Lumbini Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Machhapuchchhre Bank | 0.00 | 0.79 | 0.52 | 9.00 | 0.00 | 2.06 | 3.89 | 1.89 |
| Nabil Bank | 70.00 | 85.00 | 100.00 | 60.00 | 35.00 | 70.00 | 24.75 | 0.35 |
| NCC Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Nepal Bangladesh Bank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Nepal Investment Bank | 20.00 | 5.00 | 5.00 | 7.50 | 20.00 | 11.50 | 7.83 | 0.68 |
| Nepal SBI Bank | 0.00 | 5.00 | 12.59 | 0.00 | 2.11 | 3.94 | 5.25 | 1.33 |
| NIC Bank | 0.53 | 0.53 | 1.05 | 1.05 | 0.79 | 0.79 | 0.26 | 0.33 |
| NMB Bank | 0.00 | 0.00 | 30.00 | 0.00 | 0.00 | 6.00 | 13.42 | 2.24 |
| Siddhartha Bank | 0.00 | 0.00 | 0.79 | 0.79 | 10.53 | 2.42 | 4.55 | 1.88 |
| Standard Chartered Bank | 120.00 | 130.00 | 80.00 | 80.00 | 50.00 | 92.00 | 32.71 | 0.36 |

Source: Nepal Stock Exchange

Above Table 4.6 shows the best status of Standard Chartered Bank and Nabil Bank Limited in terms of cash dividend on share capital during the study period. Everest Bank, Himalayan Bank and Nepal Investment Bank appeared at the better position. All of them have relatively high cash dividend payout in terms of share capital in Nepalese banking industry. Few commercial banks could not distribute dividend on share capital while few banks distributed satisfactory level of cash dividends such as Kist Bank Limited and

DCBL Bank Limited. Dividend payout percent appeared zero in case of Nepal Bank Limited because of heavy loss from its operation.

4.2.5 Net Profit Volume of Nepalese Commercial Banks

Net profit of an organization is a very basic indicator of financial performance. Healthy organizations are able to maintain their cost at the low level and revenue at high so that they can generate net profit from their operation. A successful organization might have increasing trend of its profitability whereas an unsuccessful organization might generate increasing loss. Following Table 4.7 presents comparative facts of net profit volume in Nepalese commercial banks during the study period 2004/05-2008/09.

Table 4.7
Net profit of Nepalese commercial banks

(Rs. in Millions)

| Bank | 2004 /05 | 2005 /06 | 2006 /07 | 2007 /08 | 2008 /09 | Mean | Std. dev. | C.V. |
|-------------------------|----------|----------|----------|----------|----------|---------|-----------|--------|
| Bank of Kathmandu | 139.53 | 202.44 | 262.39 | 361.5 | 461.73 | 285.52 | 128.04 | 0.45 |
| DCBL Bank | 35.64 | 32.84 | 45.1 | 58.75 | - | 43.08 | 11.69 | 0.27 |
| Everest Bank | 168.21 | 237.29 | 296.41 | 451.22 | - | 288.28 | 120.60 | 0.42 |
| Global Bank | - | -38.61 | 61.23 | 26.3 | 42.31 | 22.81 | 43.36 | 1.90 |
| Himalayan Bank | 308.28 | 457.46 | 491.82 | 635.87 | - | 473.36 | 134.48 | 0.28 |
| Kist Bank | 9.26 | 16.51 | 26.06 | 45.7 | - | 24.38 | 15.79 | 0.65 |
| Kumari Bank | 84.2 | 103.67 | 170.25 | 180.37 | - | 134.62 | 47.83 | 0.36 |
| Laxmi Bank | 26.46 | 35.39 | 65.58 | 120.03 | - | 61.87 | 42.24 | 0.68 |
| Lumbini Bank | -197.58 | -806.06 | 192.4 | 327.65 | - | -120.90 | 508.16 | -4.20 |
| Machhapuchhre Bank | 84.87 | 134 | 75.98 | 127.82 | - | 105.67 | 29.48 | 0.28 |
| Nabil Bank | 520.11 | 635.26 | 673.96 | 746.47 | 1031.05 | 721.37 | 191.51 | 0.27 |
| NCC Bank | -5.16 | -497.6 | -73.51 | 495.56 | - | -20.18 | 407.02 | -20.17 |
| Nepal Bangladesh Bank | 2.65 | -749.52 | -1797.15 | -1061.6 | 541.96 | -612.73 | 913.10 | -1.49 |
| Nepal Investment Bank | 232.15 | 350.54 | 501.4 | 696.73 | 914.58 | 539.08 | 272.50 | 0.51 |
| Nepal SBI Bank | 57.39 | 117 | 254.91 | 255.12 | - | 171.11 | 99.90 | 0.58 |
| NIC Bank | 113.76 | 96.59 | 158.48 | 248.94 | - | 154.44 | 68.19 | 0.44 |
| NMB Bank | 32.05 | 36.49 | 75.14 | 73.11 | - | 54.20 | 23.10 | 0.43 |
| Siddhartha Bank | 70.28 | 65.25 | 95.31 | 157.11 | - | 96.99 | 42.18 | 0.43 |
| Standard Chartered Bank | 536.24 | 658.67 | 691.67 | 818.92 | 1028.28 | 746.76 | 186.80 | 0.25 |

Source: Bank Reports & Nepalstock.com

It is clearly evident that Nabil Bank and Standard Chartered Bank appeared at the first from net profit volume generated by them in comparison to other commercial banks during the study period of 2004/05 to 2008/09. Himalayan bank and Nepal Investment Bank also showed relatively better position than other banks whereas other banks such as Everest Bank, DCBL Bank, Kumari Bank, Laxmi Bank, Machhapuchhre Bank, NIC Bank, Siddhartha Bank and Nepal SBI Bank come into the average status. After takeover by the Nepal Rastra bank, Nepal Bangladesh Bank appeared as a very strong Bank from

net income point of view. Out of total number of commercial banks, Nepal Bank Limited appeared a weakest one in terms of net profit and a bank running in heavy loss in the recent years.

4.2.6 Credit Efficiency of Nepalese Commercial Banks (Total credit/Deposit)

Financial performance of an organization depends in many other management aspects. One of such factor is mobilization of liquid assets and credit efficiency of an organization. In case of commercial banks, they must be able to mobilize the collected deposit effectively, maintaining the minimum required level of cash and bank to meet customer requirement. Successful banks can mobilize their resources whereas weak organizations cannot mobilize its resources properly. However, organization should also be able to maintain liquidity to meet the short-term credit obligation. But, the success depends on maintaining minimum required level of liquidity and mobilize credit resources. The following Table 4.8 presents a comparative status of Nepalese commercial in terms of credit ratio percentage.

Table 4.8
Credit Percent (Total Credit/Deposit)

| Bank | 2004 /05 | 2005 /06 | 2006 /07 | 2007 /08 | 2008 /09 | Mean | Std. dev. | C.V. |
|-------------------------|----------|----------|----------|----------|----------|--------|-----------|------|
| Bank of Kathmandu | 68.87 | 71.42 | 78.25 | 80.51 | 82.65 | 76.34 | 5.93 | 0.08 |
| DCBL Bank | 0.94 | 0.90 | 0.94 | 1.27 | 0.98 | 1.01 | 0.15 | 0.15 |
| Everest Bank | 78.20 | 73.40 | 77.40 | 78.60 | 73.43 | 76.21 | 2.58 | 0.03 |
| Himalayan Bank | 50.07 | 55.27 | 56.57 | 61.23 | 71.49 | 58.93 | 8.07 | 0.14 |
| Kist Bank | 74.98 | 101.36 | 95.03 | 59.20 | 79.31 | 81.98 | 16.74 | 0.20 |
| Kumari Bank | 90.62 | 90.20 | 85.84 | 90.20 | 94.17 | 90.21 | 2.96 | 0.03 |
| Laxmi Bank | 89.33 | 96.30 | 85.78 | 89.72 | 83.88 | 89.00 | 4.76 | 0.05 |
| Lumbini Bank | 91.41 | 90.29 | 82.07 | 94.10 | 88.15 | 89.20 | 4.53 | 0.05 |
| Machhapuchchhre Bank | 91.83 | 77.87 | 77.25 | 5.00 | 83.00 | 66.99 | 35.14 | 0.52 |
| Nabil Bank | 75.05 | 68.63 | 68.13 | 68.18 | 73.87 | 70.77 | 3.40 | 0.05 |
| NCC Bank | 90.66 | 89.12 | 78.80 | 72.14 | 78.62 | 81.87 | 7.82 | 0.10 |
| Nepal Bangladesh Bank | 79.39 | 75.27 | 87.01 | 87.01 | 91.33 | 84.00 | 6.51 | 0.08 |
| Nepal Investment Bank | 90.66 | 89.12 | 78.80 | 72.14 | 78.62 | 81.87 | 7.82 | 0.10 |
| Nepal SBI Bank | 77.87 | 69.32 | 82.66 | 88.32 | 55.84 | 74.80 | 12.68 | 0.17 |
| NIC Bank | 78.74 | 78.74 | 90.67 | 87.62 | 89.32 | 85.02 | 5.83 | 0.07 |
| NMB Bank | 100.85 | 121.36 | 112.02 | 120.96 | 76.78 | 106.39 | 18.54 | 0.17 |
| Siddhartha Bank | 104.42 | 98.75 | 95.39 | 93.03 | 85.18 | 95.35 | 7.12 | 0.07 |
| Standard Chartered Bank | 43.49 | 39.92 | 43.78 | 46.95 | 38.70 | 42.57 | 3.30 | 0.08 |

Source: Nepalsharemarket.com

The above table shows that some of the banks such as Standard Chartered Bank and Nabil Bank have effectively mobilized its resources and other banks have mobilized more resources as Credits. DCBL Bank has mobilized less in Credits than other banks per unit Deposits. Lumbini Bank, Machhapuchchhre Bank, NMB Bank and Siddhartha Bank etc. has utilized more than hundred percent on credit in some years so they are in risk from the researcher's point of view.

4.3 SERVICE QUALITY PERCEPTION IN NEPALESE COMMERCIAL BANKS

Perception of customers towards organizational goods or services is a determinant factor in organizational success. An organization's prime objective is to satisfy its customer so that it can turn the relationship with customer into favorable business transaction. Once, a customer is satisfied and his or her perception is positive towards certain goods or services the customer transmits the message to others. Such favorable communication helps to increase the goodwill or to bring further business in that organization. Thus, it is a very important issue for today's organizations.

A structured questionnaire was administered among the few conveniently-selected customers from three banks. Out of these three, strongest and weakest organizations in terms of financial performance were selected along with an average organization. Implied intention of this convenient sampling was to make a sample with mixture of all types of organizations. General findings from the selected sample can be generalized for the population. Further, comparative study can be made among the banks. It can also help to find out the status of service quality perception of the customers in high performing and low performing banks in terms of financial performance.

An appropriate instrument was designed in five point Likert type scale “1=Strongly Disagree” to “5=Strongly Agree” to assess the service quality, its antecedents and outcomes deriving from the theory and concept of earlier research works. Most of the items were adopted from the Parasuraman *et al.* (1991) and from other many researchers to assess the service quality. Present instrument covers most of the service quality dimensions identified by the earlier researchers. An analysis is necessary on these aspects in our own context. Thus, essential analysis is made in the following part of the study to find out the status of service quality and its linkage with other factors.

4.3.1 General Service Quality Perception in Nepalese Banking Sector

A general overview of all the items relating to the customers' perception on service quality and other aspects such as linkage of service quality, satisfaction, and performance can be a valuable aid to make a conclusion. Five point Likert type scale was used to gather customers' opinion, thus, mean score above 3 shows voting into positive side and below 3 into negative side in certain item. Standard deviation is also another statistics that indicates the variation among the respondents. If there is high variation in responses, for examples many have responded into strongly agree side and others into strongly disagree side there will be very high variation or standard deviation. In such situation, it becomes very difficult to make a generalization. Following Table 4.9 shows presents the detail descriptive statistics of each item.

Table 4.9**Descriptive statistics of perceived service quality & related items**

| Items | N | Mean | Std.Dev. |
|--|-----------|---------------|-----------------|
| 1. I receive prompt service from this bank | 96 | 3.3021 | 1.2322 |
| 2. If there is problem, bank is willing to discuss with me | 96 | 2.9271 | 1.1539 |
| 3. Loan interest of this bank is lower than others | 96 | 3.1875 | .9874 |
| 4. Deposit interest rate is higher in this bank | 96 | 3.5313 | .9285 |
| 5. I feel I pay minimum commission charged | 96 | 3.4792 | .9945 |
| 6. There is friendly and warm relationship in this bank | 96 | 3.4583 | 1.0455 |
| 7. Employee of this bank are well dressed and appear neat | 96 | 3.4792 | 1.3137 |
| 8. Atmosphere in this bank gives me positive impression | 96 | 3.4792 | 1.3610 |
| 9. The bank offers photocopy services | 96 | 3.2292 | 1.3493 |
| 10. Banks branches are near my work place | 96 | 3.2292 | 1.1000 |
| 11. I will continue to do transaction with this bank | 96 | 3.3646 | .9417 |
| 12. I prefer to say positive things about this bank to other people | 96 | 3.5417 | 1.3292 |
| 13. I recommend this bank to someone who seeks my advice | 96 | 3.5417 | 1.1958 |
| 14. Service quality makes customers satisfied | 96 | 4.2396 | .8553 |
| 15. Customer satisfaction affects in transaction volume in this bank | 96 | 4.3750 | .5666 |
| <u>16. Service quality ultimately increases profitability</u> | <u>96</u> | <u>4.4271</u> | <u>.5937</u> |

Valid N (listwise) 96

Source: Market Survey, 2010

General status of service quality perception (Item 1-10) showed above the average situation based on the mean score of each item. Mean score of each dimension of service quality showed above the average, thus, it can be generalized that service quality

perception in Nepalese banking sector is satisfactory. Customers perceive that banks normally able to provide quality service to them.

Overall status of outcome factors (Item 11-13) of service quality perception was found positive among the respondents. In general, respondents expressed their agreement on positive behavior in future. The mean score was found higher than the general service quality perception items but lower than the service quality outcome items. Standard deviation showed similar status as found in service quality perception items.

Finding showed that there is linkage of service quality with financial performance and customer satisfaction of the commercial banks (Item 14-16). Mean score in relation of service quality to satisfaction and company performance was found near the strongly agree level. Standard deviation of each item appeared below 1.00. Thus, it is clear that there is linkage of service quality with employee perception and organizational financial performance.

However, in case of many service quality items the standard deviation showed high fluctuation in opinion in many items related to service quality perception. It means that there was variation among the responses. Some have responded positively and others have reported negatively. The reason of this high variation might be the differences among the employees of different commercial banks that is discussed in the following section.

4.3.2 Comparative Service Quality Perception in Nepalese Commercial Banks

Descriptive analysis is made in this section to find out the differences among the banks in terms of mean and standard deviation. Analysis is made to find out the differences among three commercial banks in terms of many aspects of customers service quality perception. One way Analysis of Variance (ANOVA) that can show the significance level of differences among the banks that will be discussed in the next section.

4.3.3 Responsiveness in Nepalese Commercial Banks

A statement “I receive prompt service from this bank” was supplied to the respondents to express their agreement or disagreement of banks responsiveness in five point Likert type scale. Descriptives of mean and standard deviation of the results are presented in the following Table 4.10.

Table 4.10
Responsiveness in Nepalese commercial banks

| Banks | N | Mean | Std. Deviation | Std. Error |
|--------------------|-----------|---------------|-----------------------|-------------------|
| Nepal Bank Limited | 31 | 2.4194 | 1.0886 | 0.1955 |
| Nabil Bank Limited | 32 | 4.2188 | 0.9064 | 0.1602 |
| Kist Bank Limited | 33 | 3.2424 | 1.0009 | 0.1742 |
| Total | 96 | 3.3021 | 1.2322 | 0.1258 |

Source: Market Survey, 2010

Above Table 5.2 shows clear distinction among three banks in terms of customer’s response in terms of “perception of prompt service from this bank”. Customers were found relatively agreed in Nabil Bank and disagreed in Nepal Bank Limited in terms of prompt service of the banks to them. Kist Bank was found in between two in mean score. Nabil Bank Limited was found the strongest in financial performance and Nepal Bank Limited the weakest. The same pattern was observed among the customers perception in both of these banks.

4.3.4 Reliability in Nepalese Commercial Banks

Questionnaire was designed with an item “If there is problem, bank is willing to discuss with me” to assess the reliability of the bank from customers' perspective. Following Table 4.11 presents general descriptive such as mean, standard deviation, and standard error of the items in case of three banks.

Table 4.11

Reliability to customers in Nepalese commercial banks

| Banks | N | Mean | Std. Deviation | Std. Error |
|--------------------|----------|-------------|-----------------------|-------------------|
| Nepal Bank Limited | 31 | 1.9677 | 1.0483 | 0.1883 |
| Nabil Bank Limited | 32 | 4.0313 | 0.5379 | 0.0951 |
| Kist Bank Limited | 33 | 2.7576 | 0.7084 | 0.1233 |
| Total | 96 | 2.9271 | 1.1539 | 0.1178 |

Source: Market Survey, 2010

Above Table 4.11 showed meaningful differences of three commercial banks in terms of reliability to customers. Customers found Nabil Bank Limited the best in willingness of the bank to discuss in customers problem. But the customers of Nepal Bank Limited found the bank less reliable where customers perceived unwillingness of banks management to discuss with them if there is any problem in their areas. Kist Bank stood in between both of these banks. In this case, financially strongest bank was observed as a best bank in customers' perception on reliability and vice versa.

4.3.5 Value for Money in Nepalese Commercial Banks

Few statements were designed to assess the value for money in Nepalese commercial banks. Customers were asked about the loan interest rate, deposit interest rate, and commission charge to check their perception of value for money in their respective bank. Customers reported their extent of agreement on low loan interest rate, high interest rate on deposit, and low commission for banking services in their respective banks. Following Table 4.12 presents the descriptive detail of three commercial banks on above stated three items.

Table 4.12**Value for money to customers in Nepalese Commercial Banks**

| Banks | N | Mean | Std. Deviation | Std. Error |
|--|----------|-------------|-----------------------|-------------------|
| 1. Loan interest of this bank is lower than others | | | | |
| Nepal Bank Limited | 31 | 2.9355 | 1.0307 | 0.1851 |
| Nabil Bank Limited | 32 | 3.3438 | 0.5453 | 0.0964 |
| Kist Bank Limited | 33 | 3.2727 | 1.2317 | 0.2144 |
| 2. Deposit interest rate is higher in this bank | | | | |
| Nepal Bank Limited | 31 | 3.2581 | 0.7732 | 0.1389 |
| Nabil Bank Limited | 32 | 3.2500 | 0.8799 | 0.1555 |
| Kist Bank Limited | 33 | 4.0606 | 0.8993 | 0.1565 |
| 3. I feel I pay minimum commission charged | | | | |
| Nepal Bank Limited | 31 | 3.8065 | 0.8725 | 0.1567 |
| Nabil Bank Limited | 32 | 2.7500 | 0.9837 | 0.1739 |
| Kist Bank Limited | 33 | 3.8788 | 0.6963 | 0.1212 |
| Total | 96 | 3.3993 | 0.9701 | 0.0987 |

Source: Market Survey, 2010

Above Table 4.12 showed relatively similar status of customers' perception on loan interest rate in three banks. Customers of Kist Bank Limited perceived higher interest rate on deposit than in other banks whereas two other banks were found at the similar level in perception of their customers in deposit interest rate. Customers of Nabil Bank Limited expressed their disagreement on minimum commission charge in their bank. Average opinion of customers from rest of the two banks appeared close to the "agree" label in five point Likert type scale. Service quality of the bank might relatively increase the cost of the service. Evidence shows that customers expressed the high service quality in Kist

Bank Limited and Nabil Bank Limited at the same time they also expressed high commission charge and relatively not attractive interest scheme in Nabil Bank Limited.

4.3.6 Employee Behavior in Nepalese Commercial Banks

Service quality of an organization depends on how employees behave with their customers therefore it is taken as an important dimension of service quality perception of customers. In the present study, a statement “There is friendly and warm relationship in this bank” was supplied to the respondents to rate their agreement-disagreement in five point Likert type scale. Following Table 4.13 presents general descriptive of sample of the present study.

Table 4.13
Employee behavior for customers in Nepalese Commercial Banks

| Banks | N | Mean | Std. Deviation | Std. Error |
|--------------------|----------|-------------|-----------------------|-------------------|
| Nepal Bank Limited | 31 | 2.6129 | 0.9549 | 0.1715 |
| Nabil Bank Limited | 32 | 3.7813 | 0.8701 | 0.1538 |
| Kist Bank Limited | 33 | 3.9394 | 0.7882 | 0.1372 |
| Total | 96 | 3.4583 | 1.0455 | 0.1067 |

Source: Market Survey, 2010

Above Table 4.13 showed comparative situation of employee behavior in customers’ perception in three commercial banks. Customers of Nepal Bank Limited perceived weak human relation skill of employees than in two other commercial banks.

Customers of Nepal Bank Limited perceived employee behavior and human relation skill below the average. In case of Nabil Bank and Kist Bank, customers perceived employees’ human relation skill at the very nice and very close to each other. Kist bank is found to be the best in employee behaviour among the three banks studied.

4.3.7 Physical Evidence and Tangibles in Nepalese Commercial Banks

Physical setting, interior design, employees dressing, facility of telephone and working place usually affect in the customers' perception on service quality of the bank. Three statements were asked to the respondents about (a) Employees dressing, (b) Positive impression from work atmosphere, and (c) Telephone facility available for customers to find out the status of customers' perception on physical evidence and tangibles in selected commercial banks. Following Table 4.14 presents the general descriptive of above described three items.

Table 4.14
Physical evidence and tangibles in Nepalese Commercial Banks

| Banks | N | Mean | Std. Deviation | Std. Error |
|--|----------|-------------|-----------------------|-------------------|
| 1. Employee of this bank are well dressed and appear neat | | | | |
| Nepal Bank Limited | 31 | 1.9032 | .9436 | .1695 |
| Nabil Bank Limited | 32 | 4.4688 | .5070 | .0896 |
| Kist Bank Limited | 33 | 4.0000 | .6124 | .1066 |
| 2. Atmosphere in this bank gives me positive impression | | | | |
| Nepal Bank Limited | 31 | 1.8710 | .7184 | .1290 |
| Nabil Bank Limited | 32 | 4.4063 | .6652 | .1176 |
| Kist Bank Limited | 33 | 4.0909 | .9139 | .1591 |
| 3. The bank offers photocopy services | | | | |
| Nepal Bank Limited | 31 | 1.7742 | .8835 | .1587 |
| Nabil Bank Limited | 32 | 3.6364 | .8594 | .1496 |
| Kist Bank Limited | 33 | 4.2188 | .8701 | .1538 |
| Total | 96 | 3.3544 | 1.3433 | .1371 |

Source: Market Survey, 2010

From the above descriptive statistics, it is evident that Nepal Bank Limited was found weakest one among three commercial banks in terms of physical evidence and tangibles that can build service quality perception of customers. Mean score shows the status of Nepal Bank Limited below 2 that means average customers expressed their perception into negative side. Customers found dressing of employees, physical setting of the bank, and prompt service availability very weak. Nabil Bank was found the strongest in all these aspect whereas Kist Bank was also found relatively good in these aspects.

4.3.8 Proximity or Convenience for Customers in Nepalese Commercial Banks

Proximity or convenience is one of the important factors in selecting specific banks by the customers. Customers of the three commercial banks were asked about how near the banks branches are for them. Branches near their residence or near to the city center are the important factors in selecting the bank. It is one of the very important factors in building positive attitude of banking service. Following Table 4.15 shows the detail descriptive of the item related to the proximity of the banks branch.

Table 4.15

Bank proximity to customers in Nepalese Commercial Banks

| Banks | N | Mean | Std. Deviation | Std. Error |
|--------------------|----------|-------------|-----------------------|-------------------|
| Nepal Bank Limited | 31 | 4.1613 | .8601 | .1545 |
| Nabil Bank Limited | 32 | 2.9688 | .6468 | .1143 |
| Kist Bank Limited | 33 | 2.6061 | 1.0880 | .1894 |
| Total | 96 | 3.2292 | 1.1000 | .1123 |

Source: Market Survey, 2010

Above Table 4.15 shows that Nepal Bank Limited has many branches that are near to the customers than other banks. Customers reported that branches of their banks were not near to them. It is clearly evident that customers selected those banks because of high service quality even if the branches of that bank were not convenient to them. In this

context, it can be concluded that service quality perception attracts customers from different places.

4.3.9 Customers' Attitude or Satisfaction in Nepalese Commercial Banks

Customers' perception affects in their intention and behavior. Customers' high quality perception towards a certain bank affects in their future intention. Satisfied customers refer the bank to other customers. They want to remain with the same bank and continue the service there. However, less satisfied customers do not want to remain and continue the service; neither they refer the bank for other customers. Three statements were asked to the customers to express their relative attitude. Following Table 4.16 presents the general descriptive of items bank wise.

Table 4.16**Customers' attitude or satisfaction in Nepalese commercial banks**

| Banks | N | Mean | Std. Deviation | Std. Error |
|--|----------|-------------|-----------------------|-------------------|
| 1. I will continue to do transaction with this bank | | | | |
| Nepal Bank Limited | 31 | 2.3871 | .6152 | .1105 |
| Nabil Bank Limited | 32 | 3.7500 | .5080 | .0898 |
| Kist Bank Limited | 33 | 3.9091 | .8048 | .1401 |
| 2. I prefer to say positive things about this bank to other people | | | | |
| Nepal Bank Limited | 31 | 1.9677 | .8360 | .1502 |
| Nabil Bank Limited | 32 | 4.5000 | .5680 | .1004 |
| Kist Bank Limited | 33 | 4.0909 | .8048 | .1401 |
| 3. I recommend this bank to someone who seeks my advice | | | | |
| Nepal Bank Limited | 31 | 2.1290 | .8059 | .1447 |
| Nabil Bank Limited | 32 | 4.4063 | .5599 | .0990 |
| Kist Bank Limited | 33 | 4.0303 | .6366 | .1108 |
| Total | 96 | 3.4826 | .1555 | .1179 |

Source: Market Survey, 2010

Above table shows that customers at Nabil Bank were found very satisfied. They preferred to stay in the bank for future transaction and would like to talk about the positive aspects of the banks with future customers. Kist bank stood at the second position in customer satisfaction and their positive perception about the banking service. But, the customers of Nepal Bank Limited were found not satisfied with their bank. They are neither willing to continue the bank nor want to refer the positive aspects of the banks to other people. Nabil Bank was the strongest bank in terms of financial performance whereas the Nepal Bank Limited was the weakest bank. The same situation appeared in customer satisfaction and intention. In this context, it can be argued that these two issues:

performance and satisfaction are highly correlated factors. Further, it can be concluded that customer satisfaction leads organization towards the profitability and success.

4.3.10 Relationship among Perception, Satisfaction, and Financial Performance

There is positive relationship between quality service perception and customer satisfaction. It means organization's quality service always gives the positive impact to the customer so that they build positive service quality perception. Once they form positive perception that helps them to be satisfied to that service. Thus quality service perception can be a very basic factor in customer satisfaction in Nepalese commercial banks. Further, satisfied customers effect will be on high turnover of service or transaction that ultimately increases the financial performance of the bank. Three statements were asked to the respondents to state their agreement. These statements were: a) Service quality makes customers satisfied b) Customer satisfaction affects in transaction volume in this bank, and c) Service quality ultimately increases profitability. General descriptive of the items are presented bank wise in the following Table 4.17

Table 4.17**Relationship among perception, satisfaction and financial performance**

| Banks | N | Mean | Std. Deviation | Std. Error |
|--|----------|-------------|-----------------------|-------------------|
| 1. Service quality makes customers satisfied | | | | |
| Nepal Bank Limited | 31 | 3.8387 | 1.0984 | .1973 |
| Nabil Bank Limited | 32 | 4.3750 | .6599 | .1167 |
| Kist Bank Limited | 33 | 4.4848 | .6185 | .1077 |
| Total | 96 | 4.2396 | .8553 | .0873 |
| 2. Customer satisfaction affects in transaction volume in this bank | | | | |
| Nepal Bank Limited | 31 | 4.4516 | .5059 | .0909 |
| Nabil Bank Limited | 32 | 4.5313 | .5070 | .0896 |
| Kist Bank Limited | 33 | 4.1515 | .6185 | .1077 |
| Total | 96 | 4.3750 | .5666 | .0578 |
| 3. Service quality ultimately increases profitability | | | | |
| Nepal Bank Limited | 31 | 4.5161 | .5080 | .0912 |
| Nabil Bank Limited | 32 | 4.3750 | .6599 | .1167 |
| Kist Bank Limited | 33 | 4.3939 | .6093 | .1061 |
| Total | 96 | 4.4271 | .5937 | .0606 |

Source: Market Survey, 2010

Above table 4.17 shows the general status of variables in case of each bank. Customers expressed generally similar views but customers of Nepal Bank Limited reported low level of agreement on service quality impact on their customer satisfaction. The reason might be that they perceive other weakness within the bank that is to be repaired. However, in general, the response of respondents were found above the agree level. They have supported the statement “service quality makes customer satisfied” here. Thus, it

can be concluded that high quality service perception is a basic factor in building customer satisfaction.

Respondents from three commercial banks expressed very positive response on effect of customer satisfaction on transaction volume. Similarly, they also supported the linkage of service quality on performance of the banks. In this context, assumption of previous researchers and present study is found supported by this finding. Hence, conclusion can be made that customers' service quality perception makes them satisfied, such satisfied customer can be valuable source for heavy banking transaction, and thus service quality ultimately increases financial performance of the bank.

4.3.11 Factors contributing in Selection of Commercial Banks by Customers

There can be many factors in selecting an appropriate commercial bank for customers. Present study attempts to find out the important factors of commercial bank selection. Respondents were asked to assign their agreement or disagreement for the statement in "yes" or "no" dichotomy. Statements were related to "recommendation by friends", "search of alternatives", and "impression of advertisement" in selecting the bank. General frequency of the statements responded by the selected customers of the banks is presented in Table 4.18 below.

Table 4.18

Criteria for selecting Commercial Banks by customers

| Statements and options | Frequency | Percent | Cumulative Percent |
|--------------------------------------|------------------|----------------|---------------------------|
| 1. My friend recommended this bank | | | |
| No | 44 | 45.8 | 45.8 |
| Yes | 52 | 54.2 | 100.0 |
| 2. I have checked different banks | | | |
| No | 50 | 52.1 | 52.1 |
| Yes | 46 | 47.9 | 100.0 |
| 3. I have got positive advertisement | | | |
| No | 59 | 61.5 | 61.5 |
| Yes | 37 | 38.5 | 100.0 |

Source: Market Survey, 2010

Above Table 4.18 gives some hints how customers select their commercial banks in Nepalese banking sector. Out of total 96 respondents from three commercial banks majority of the customers agreed that they have got recommendation from the friends. However, they have denied accepting impression from the advertisement to select their bank. Neither they have searched many options before selecting a certain bank nor have they cared the message of advertisement in media in selecting the bank.

Information was investigated bank wise whether they followed different strategies to choose the bank. Result showed that customers of Nabil Bank were highly impressed from advertisement (59.38%) and customers of Kist Bank to some extent (48.48%) but customers of Nepal Bank Limited were not influenced by advertisement program of the bank (0.064%). Most of the customers of Nabil Bank and Kist Bank reported (More than 50%) that they have searched options before selecting their bank. These findings show that customers who searched more options and impressed from advertisement might

focus more on service quality. Hence, high service quality and high performance banks had more selective customer they had focused more on advertisement.

4.3.12 Analysis of Variance among Three Commercial Banks

The differences among three commercial banks in variety of variables are to be statistically identified. One-way analysis of variance (ANOVA) is an appropriate tool to find such differences among the groups. Present study comprised three groups of customers selected from three different commercial banks. Differences observed among the groups were discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. The following Table 4.19 presents 'F' statistics and level of significance. Higher the F statistics and lower the level of significance higher will be the differences among the groups in case of each variable.

Following Table 4.19 shows the significant (High 'F' statistics and less than 0.01 level of significance) differences among three banks in terms of most of the customers' service quality perception items except the loan interest rate item in present data set. Customers' future intention or satisfaction was observed by using three items. Customer groups from three banks were found significantly different in terms of customer satisfaction or their future intention. In summary, the differences in mean of service quality perception items were found statistically significant.

Table 4.19
Analysis of variance among three Commercial Banks

| Items | F | Sig. |
|--|----------|-------------|
| If there is problem, bank is willing to discuss with me | 25.560 | .000 |
| If there is problem, bank is willing to discuss with me | 54.915 | .000 |
| The bank offers prompt services | 67.539 | .000 |
| Loan interest of this bank is lower than others | 1.551 | .217 |
| Deposit interest rate is higher in this bank | 9.663 | .000 |
| I feel I pay minimum commission charged | 17.418 | .000 |
| There is friendly and warm relationship in this bank | 21.790 | .000 |
| Employee of this bank are well dressed and appear neat | 116.832 | .000 |
| Atmosphere in this bank gives me positive impression | 99.791 | .000 |
| Banks branches are near my work place | 26.686 | .000 |
| I will continue to do transaction with this bank | 51.228 | .000 |
| I prefer to say positive things about this bank to other people | 104.467 | .000 |
| I recommend this bank to someone who seeks my advice | 103.272 | .000 |
| Service quality makes customers satisfied here | 5.671 | .005 |
| Customer satisfaction affects in transaction volume in bank | 4.354 | .016 |
| Service quality ultimately increases profitability | .518 | .598 |
| My friend recommended this bank | 3.399 | .038 |
| I have checked different banks before final choice | 5.880 | .004 |
| I have got positive impression from advertisement in selecting this bank | 12.797 | .000 |

Source: Market Survey, 2010

Note: Sig. specifies the level of significance of the data. It tells the readers if the result is significant. If Sig. is less than 0.05 then the effect is significant because it falls in the region of confidence. That means there is less than 5 percent chance the result is obtained by chance and is considered by scientists to make the observed effect significant.

Much similarity was observed in linkage of perception, satisfaction, and financial performance in commercial bank. The ANOVA couldn't show significant differences among the groups. It is, therefore, the findings can be generalized in the Nepalese banking sector. In this case, it can be concluded that perceived service quality positively affects customer satisfaction and that ultimately influence in financial performance of the bank.

Respondents expressed mixed view in selecting commercial banks, thus, ambiguous results were observed in selecting the banks in three groups. However, the effect of advertisement was found significantly different among the banks. As discussed in the previous section, it was evident that customers from two private sector's banks had high impression of advertisement than in Nepal Bank Limited in the present data set.

4.4 Major Findings

Main aim of the present study was specified to assess the financial performance and customers' service quality perception in Nepalese commercial banks to find out issues relating the concepts. It was to find out whether customers hold high service quality perception in financially strong banks. Present research was found very successful in finding the results very consistent to theoretical assumption. Research findings showed that customers of financially strong bank, Nabil bank, expressed high service quality perception whereas customers of financially weak bank, Nepal Bank Limited, expressed low level of service quality perception. Similarly, a bank with average financial performance showed the average position in perceived service quality. Many specific aspects of financial performance and perceived service quality were explored that are discussed in the following section.

4.4.1 Financial Performance

- Findings showed Nabil Bank the strongest and Nepal Bank the weakest among Nepalese commercial banks. Himalayan bank, Nabil Bank, NIB Bank, Nepal SBI Bank, Everest Bank, Siddhartha Bank and Investment bank were found relatively

better than others. Nepal Bank Limited had very negative profitability; therefore, it stood as a weakest bank in terms of financial performance in Nepalese banking industry. Details of the findings are presented below.

- Standard Chartered Bank and Nabil Bank were found the strongest among Nepalese commercial banks in comparative share market attractiveness. Himalayan Bank, Everest Bank, Siddhartha Bank, Nepal SBI Bank, NIC Bank and Investment bank had attractive position in Nepalese capital market. Rest of the other banks was found average and Nepal Bank Limited was found the weakest bank in terms of share market attractiveness in Nepalese commercial banking industry.
- Earnings per share were found the highest in Standard Chartered Bank and Nabil Bank and lowest (Zero) in Nepal Bank Limited. Few banks, especially Himalayan, Nepal SBI, Kist, Kumari, NIC, Everest and Investment bank showed strong position but others showed comparatively average or weak position in terms of earning per share.
- Dividend payout ratio showed Standard Chartered Bank and Nabil Bank at the top level. Himalayan Bank, Kist Bank, NIC Bank, Nepal SBI Bank and Everest Bank were found relatively better than rest of the other banks but others were found relatively poorer in dividend payout ratio. Nepal Bank Limited had zero dividend payout-ratio because of heavy loss in that bank.
- Net profit and earnings per share in Nabil Bank and Standard Chartered Bank was found the best and Nepal Bank Limited the worst (highly negative). All other banks stood in between these two organizations in terms of net profit and earnings per share.
- Credit efficiency showed that Standard Chartered Bank, Nabil Bank, and Himalayan Bank were mobilizing their credit resources more effectively whereas all the other banks were found relatively less effective in credit mobilization.

4.4.2 Non-Financial Performance: Perceived Service Quality

Only three banks were selected for survey design representing strongest, weakest, and average banks in terms of financial performance. Findings were very consistent to the

assumption that customers of financially strong organization perceive high service quality in that organization and vice versa. Nabil Bank was found the strongest and Nepal Bank a weakest in terms of customers' service quality perception. Details of findings are presented as follows.

- In general, service quality perception of customers in Nepalese commercial banks was found satisfactory. Customers perceive that banks are normally able to provide quality service to them. The respondents expressed their agreement on positive behavior in future. Similarly, the finding showed that there is linkage of service quality with financial performance and customer satisfaction of the commercial banks.
- Findings revealed clear distinction among three banks in terms of customers' response in terms of 'perception of prompt service from their bank'. Customers were found relatively agreed in Nabil Bank but disagreed in Nepal Bank Limited in terms of prompt service of the banks to them.
- Findings showed meaningful differences of three commercial banks in terms of reliability to customers. Customers found Nabil Bank the best in willingness of the bank to discuss in customers problem. But the customers of Nepal Bank found their bank less reliable where they perceived unwillingness of banks management to discuss with customer if there is any customer related problems.
- Findings showed relatively similar status of customers' perception on loan interest rate in three banks. Customers of Nabil bank expressed their disagreement on low commission charge in their bank. Service quality of the bank might relatively increase the cost of the service. Evidence shows that customers expressed the high service quality in Nabil Bank but at the same time they also expressed high commission charge and relatively not attractive interest scheme in this bank.
- Customers of Nepal Bank perceived weak human relation skill of employees than in two other commercial banks. In case of Nabil Bank and Kist Bank, customers perceived employees' human relation skill at satisfactory level.
- Nabil Bank was found strongest in physical evidence, tangibles, dressing, atmosphere, and prompt service. Nepal Bangladesh Bank was also found relatively

good in these aspects. But, Nepal Bank was found weakest among three commercial banks in terms of physical evidence and tangibles that can be helpful in building service quality perception of customers.

- High performing banks had attracted customers from far places where as the customers of low performing banks were from near places. Customers selected high performing banks because of high service quality even if the branches of that bank were not convenient to them.
- Customers at Nabil Banks were found very satisfied. They preferred to stay in the bank for future transaction and would like to talk about the positive aspects of the banks with future customers. Kist Bank stood at the second position in customer satisfaction and their positive perception about the banking service. But, the customers of Nepal Bank were found not satisfied with their bank.

4.4.3 Linkage of Financial Performance with Non-financial Performance

Findings showed that there is positive relationship between quality service perception and customer satisfaction. It means organization's quality service always gives the positive impact to the customer so that they build positive service quality perception. Once they form positive perception that helps them to be satisfied to that service. Thus quality service perception can be a very basic factor in customer satisfaction in Nepalese commercial banks. Further, satisfied customers effect will be on high turnover of service or transaction that ultimately increases the financial performance of the bank.

4.4.4 Selection of Banks by Nepalese Banking Customers

Customers of Nepal Bank Limited were not influenced by advertisement program of the bank. Most of the customers of Nabil Bank and Kist Bank reported that they have searched options before selecting their bank. These findings show that customers who searched more options and impressed from advertisement might focus more on service quality. Because, high service quality and high performing banks had more selective customers who focused more on advertisement and compared alternative before selecting their bank.

CHAPTER – V

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

The research is of descriptive nature. The research was conducted in order to find out whether there is any positive correlation between the service quality offered by the commercial banks of Nepal to its financial performance or not. There are different banks operating in the market offering numerous services. Pools of customers are in queue to take the offered services from different banks. It was an uncovered fact whether they are attracted by the services offered by the banks or not. From the viewpoint of banks, they have invested a huge sum focusing to offer unique and congruent services for the betterment of the financial health of the banks. Whether the service offered is worthwhile or not. Thus, research was conducted to overcome this problem.

To capture different types of data required for the analysis, secondary data were collected from the published data sources not necessarily published for this research. Websites of different commercial banks, their AGM report, Income statement, Balance sheet and related data available in the Nepal Stock Exchange Limited and Security Board of Nepal are taken. Primary data were collected by developing a questionnaire and administering it to the prospective respondent.

Data were analyzed after coding, classifying and tabulating it. Various statistical tools such as mean, median, mode, percentage, frequency, ANOVA and computer based SPSS program was used for analysis of data. Major findings on the financial performance of the research are as follows:

1. Nabil Bank Limited is the strongest among Nepalese commercial banks in comparative share market attractiveness.

2. Earnings per share were found the highest in case of Nabil Bank and Standard Chartered Bank.
3. Dividend payout, Net profit and credit efficiency showed Nabil Bank at the top and Kist Bank Limited in an average while that of Nepal Bank Limited was found to be below satisfactory level.

Findings about the perceived service quality are summarized as follows:

1. There is consistency to the assumption that customers of financially strong organization perceive high service quality in that organization and vice versa.
2. Prompt services are provided by the private sector banks (Nabil bank and Kist bank) while it was found lacking in public sector (Nepal Bank Limited).
3. There to struggle the customers to discuss with the bank management if there is a problem.
4. Loan interest rate was perceived to be high in all the banks under study. Out of them, Nepal bank charges the highest among the three.
5. Deposit interest rate is highest in Kist Bank than following Nepal Bank and Nabil Bank.
6. Commission charge is paid lowest in Kist Bank following Nepal Bank and Nabil Bank. That means Nabil Bank charges highest commission charges.
7. Weak human relation is found in Nepal Bank while it was found satisfactory in Private sector banks (Nabil Bank and Kist Bank).
8. Bank atmosphere, employees dress up and behaviour were found to be best in Nabil Bank following Kist bank. Nepal Bank is found to be the weakest among the three banks.
9. Provision of tangible services such as photocopy services in Kist Bank is perceived to be the best, Nabil Bank in good position while Nepal Bank is in dissatisfactory level.
10. Customer satisfaction rate is high in those banks whose financial performance is sound and vice versa.

5.2 Recommendation

Since the research was based on sample, the inference drawn may not be totally relevant to the actual market scenario however; it is a well known fact in Nepal that private sector banks are performing better and satisfying the customers more and are being successful to attract the customers. It is all because of quality services offered by them. Customers are found to be more satisfied by the services offered by the private sector banks. Researcher recommends the followings for the betterment of the financial performance of the commercial banks:

- Earnings per share and dividend payout ratio are the two vital indicators used for measurement of financial performance from the investor's point of view. So it can be used by the board of directors of the commercial banks for their goodwill in market place than to offer other tools.
- Service to be strengthened by the public sector bank such as Nepal Bank Limited for the betterment of its financial performance.
- Use of advance technology and new generation service providers are highly recommended.
- Prompt services to be provided to the customers and use of Self service banking such as ATM service are highly appreciated.
- Prime focus should be on provision of services offerings.
- Banking appearance and impressive environment and unique services such as photocopy services are also inevitable to attract the targeted customers. Researcher recommends Nepal Bank to provide such facilities to its customers.
- It is found that most of the customers perceived it is difficult to discuss with the bank management if there is any problem; so bank management should design and implement a customer care center effectively for handling of consumer complaints.
- Bank environment, Behaviour of staff and provision of photocopy services also play vital roles to make the customers satisfied so researcher recommends Nepal Bank to provide such services to its customers.

- Deposit interest rate of Nabil Bank and Nepal Bank should increase as far as possible and practicable.

5.3 Conclusion

Present research seems successful to fulfill the objectives designed for the study. It was designed to find out the financial performance of banks and to explore the state of customers' perceived service quality. It was also aimed to find out the linkage of financial performance with perceived service quality. Present study successfully explored financial performance of Nepalese commercial banks and it also explored the perceived quality of customers in those banks. It is clearly evident that there is positive relation of perceived service quality and financial performance in Nepalese Banking sector. High performing organizations from financial perspective were found highly successful in providing quality service perception to the customers and vice versa. An attempt is made in this chapter to make general conclusion based on the findings presented in the previous chapter.

a) Relationship between Financial and Non-financial Performance

Based on the findings of this research it is clear that financially strong organizations were found strong in non-financial performance, especially in perceived service quality performance. Customers of high performing organization do not give much importance to the cost and distance while selecting their bank. Thus, it can be concluded that high performing banks are good in service quality; they can satisfy their customers; their turnover is higher than other banks; and they are financially stronger than others.

b) Issues related to Financial Performance in Nepalese Banking Sector

Based on the findings, it can be concluded that net profit generally affects in earning per share and dividend pay out ratio in Nepalese banking sector. There is impact of dividend pay out ratio and earning per share into market share attractiveness. Research also showed that credit efficiency of the banks generally affects in their financial

performance. Even though all these conclusions are based on descriptive findings of present study but they have high implication for the future research.

c) Issues Related to Non-financial Performance of Commercial Banks

Generally customers perceived satisfactory level of perceived service quality in Nepalese Banking sector. Financially strong banks were found strong in perceived quality of their customers. Customers found good response, high reliability, good human relation skill, adequate tangibles and atmosphere in financially high performing banks. Customers were ready to pay higher charges and come from long distance for better service in high performing banks. Thus, it can be concluded that one of the major determinant factor in organizational effectiveness is ability of an organization to give high service quality perception to their customers.

5.4 Implications and Limitations of the Findings

Present study appeared as a successful piece of research work that explored both financial performance and non-financial performance of Nepalese commercial banks. It also proved that financially strong banks were found strong and weak banks were found weak in non-financial variables. Thus, it proved the positive relationship of financial performance with non-financial performance. There is high implication of this finding for future researchers. They can start a detail investigation on linkage between financial performance and non-financial performance in Nepalese organizations. Findings can be very interesting for the bankers because they can use findings for designing their future strategies. Thus, present study can be seen a valuable piece of work for both academician and practitioners.

There are many limitations of this study. First, this research used descriptive analysis in most of the cases. Second, it couldn't explore the validity and reliability of the research instruments. Third, sample is relatively very small to generalize the findings of this study. And finally, the linkage between financial and non-financial variables is analyzed in descriptive way.

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Appendix I

QUESTIONNAIRE FOR SURVEY

Date:

Dear Sir/Madam,

I am Indira Devi Paudel, a student of Masters in Business Studies. I am going to conduct a research in the topic of '**Financial Performance and Perceived Service Quality of Commercial Banks in Nepal**' as a partial fulfillment of requirements for this degree programme. So it is my humble request to you to furnish the answers of the following questions.

Thanks in advance for your kind cooperation.

Personal Details

Name:

Sex: Male [] Female []

Age:

Name of the bank:

Please put tick mark (√) in your agreed option.

A. Perceived Service Quality

1. I received the prompt Service for the bank's employees

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

2. If there is a problem, the bank is willing to discuss it with me

- 1. Strongly Disagree []
- 2. Disagree []

- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

3. The bank offers photocopy services

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

4. The loan interest rates in this bank are lower than that of other banks

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

5. The deposit interest rates of this bank are higher than that of other banks

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

6. I feel I pay a lot on commissioned charged

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

7. There is a warm and friendly environment inside the bank

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

8. Employees of the bank are well dressed and appear neat

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

9. The atmosphere inside the banks gives me appositve impression for the services

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

10. The bank's branch is near my home/workplace

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

11. Service quality makes me satisfied here

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []

- 4. Agree []
- 5. Strongly Agree []

B. Antecedents (Why did you choose this bank?)

12. Recommended by my friends

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

13. I have checked different banks before final choice

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

14. I have got the positive impressions from the advertisements

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

C. Outcomes (What about your experience here?)

15. I will continue to do business with this bank.

- 1. Strongly Disagree []
- 2. Disagree []
- 3. Average (Satisfactory) []
- 4. Agree []
- 5. Strongly Agree []

APPENDIX II

PRINCIPLE INDICATORS AND SOME KEY FIGURES OF B/S AND P/L ACCOUNT WITH BRIEF FINANCIAL INDICATORS OF COMMERCIAL BANKS IN NEPAL

APPENDIX III

ANALYSIS OF VARIANCE OF PRIMARY DATA

Difference among three banks

| | Sum of | | Mean | F | Sig. |
|--|---------|----|---------|--------|------|
| | Squares | df | Squares | | |
| I receive prompt service from this bank | | | | | |
| Between groups | 51.162 | 2 | 25.581 | 25.56 | .000 |
| Within groups | 93.078 | 93 | 1.001 | | |
| Total | 144.240 | 95 | | | |
| If there is problem, bank is willing to discuss with me | | | | | |
| Between groups | 68.492 | 2 | 34.246 | 54.915 | .000 |
| Within groups | 57.997 | 93 | 0.001 | | |
| Total | 126.490 | 95 | | | |
| The bank offers photocopy services | | | | | |
| Between groups | 102.434 | 2 | 51.271 | 67.539 | .000 |
| Within groups | 70.524 | 93 | 0.758 | | |
| Total | 172.958 | 95 | | | |
| Loan interest of the bank is lower than others | | | | | |
| Between groups | 2.990 | 2 | 1.495 | 1.551 | .271 |
| Within groups | 89.635 | 93 | 0.964 | | |
| Total | 92.625 | 95 | | | |
| Deposit interest rate is higher in this bank | | | | | |
| Between groups | 14.0492 | 2 | 7.046 | 9.663 | .000 |
| Within groups | 67.814 | 93 | 0.729 | | |
| Total | 81.906 | 95 | | | |
| I feel I pay minimum commission charges | | | | | |
| Between groups | 25.604 | 2 | 12.802 | 17.418 | .000 |
| Within groups | 68.354 | 93 | 0.735 | | |
| Total | 93.958 | 95 | | | |

There is friendly and warm environment inside the this bank

| | | | | | |
|----------------|---------|----|--------|--------|------|
| Between groups | 33.131 | 2 | 16.565 | 21.790 | .000 |
| Within groups | 70.702 | 93 | 0.760 | | |
| Total | 103.833 | 95 | | | |

Employees in this bank are well dressed and appear neat

| | | | | | |
|----------------|---------|----|--------|---------|------|
| Between groups | 117.280 | 2 | 58.640 | 116.832 | .000 |
| Within groups | 46.678 | 93 | 0.502 | | |
| Total | 163.958 | 95 | | | |

Atmosphere in this bank gives me positive impression

| | | | | | |
|----------------|---------|----|--------|--------|------|
| Between groups | 120.028 | 2 | 60.014 | 99.791 | .000 |
| Within groups | 55.930 | 93 | 0.601 | | |
| Total | 175.958 | 95 | | | |

Banks branches are near my home/workplace

| | | | | | |
|----------------|---------|----|--------|--------|------|
| Between groups | 41.917 | 2 | 20.959 | 26.686 | .000 |
| Within groups | 73.041 | 93 | 0.785 | | |
| Total | 114.958 | 95 | | | |

I will continue to do transaction with this bank

| | | | | | |
|----------------|--------|----|--------|--------|------|
| Between groups | 44.157 | 2 | 22.079 | 51.228 | .000 |
| Within groups | 40.082 | 93 | 0.431 | | |
| Total | 84.240 | 95 | | | |

I prefer to say positive things about this bank to other people

| | | | | | |
|----------------|---------|----|--------|---------|------|
| Between groups | 116.138 | 2 | 58.069 | 104.467 | .000 |
| Within groups | 51.695 | 93 | 0.556 | | |
| Total | 167.833 | 95 | | | |

I recommend this bank to anyone who seeks my advice

| | | | | | |
|----------------|---------|----|--------|---------|------|
| Between groups | 93.661 | 2 | 46.831 | 103.272 | .000 |
| Within groups | 42.172 | 93 | 0.453 | | |
| Total | 135.833 | 95 | | | |

Service quality makes me satisfied here

| | | | | | |
|----------------|--------|----|-------|-------|------|
| Between groups | 7.554 | 2 | 3.777 | 5.671 | .000 |
| Within groups | 61.936 | 93 | 0.666 | | |
| Total | 69.490 | 95 | | | |

Customer satisfaction affects the transaction volume in banks

| | | | | | |
|----------------|--------|----|-------|-------|------|
| Between groups | 2.611 | 2 | 1.306 | 4.654 | .016 |
| Within groups | 27.889 | 93 | 0.300 | | |
| Total | 30.500 | 95 | | | |

Service quality ultimately increases profitability

| | | | | | |
|----------------|--------|----|-------|-------|------|
| Between groups | 0.369 | 2 | 0.184 | 0.518 | .598 |
| Within groups | 33.121 | 93 | 0.356 | | |
| Total | 33.490 | 95 | | | |

My friend recommended this bank

| | | | | | |
|----------------|--------|----|-------|-------|------|
| Between groups | 1.623 | 2 | 0.812 | 3.399 | .038 |
| Within groups | 22.210 | 93 | 0.239 | | |
| Total | 23.833 | 95 | | | |

I have checked different banks before final choice

| | | | | | |
|----------------|--------|----|-------|-------|------|
| Between groups | 2.690 | 2 | 1.345 | 5.880 | .004 |
| Within groups | 21.269 | 93 | 0.229 | | |
| Total | 23.958 | 95 | | | |

I have got positive impression from advertisement in selecting this bank

| | | | | | |
|----------------|--------|----|-------|--------|------|
| Between groups | 4.907 | 2 | 2.454 | 12.797 | .000 |
| Within groups | 17.832 | 93 | 0.192 | | |
| Total | 22.740 | 95 | | | |