

EFFECT OF SERVICE QUALITY ON CUSTOMER SATISFACTION IN NEPALESE BANKING INDUSTRY

A Dissertation submitted to the office of Dean, Faculty of Management in partial
fulfillment of the requirements for Master's degree

By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Effect of Service Quality on Customer Satisfaction in Nepalese Banking Industry**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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Report of Research Committee

Miss. Nimme Maharjan has defended research proposal entitled “**Effect of Service Quality on Customer Satisfaction in Nepalese Banking Industry**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Sita Dhital and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled “**Effect of Service Quality on Customer Satisfaction in Nepalese Banking Industry**” presented by Nimme Maharjan for the degree of master of Business Studies (MBS Semester). We hereby certify that the thesis is worthy of acceptance.

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Nimme Maharjan

September, 2024

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Abbreviations

ASSUR	Assurance
ATM	Automated Teller Machine
Avg	Average
CFA	Confirmatory Factor Analysis
CS	Customer Satisfaction
EMPA	Empathy
FLE	Front Line Employees
MBS	Master of Business Studies
NRB	Nepal Rastra Bank
REL	Reliability
RESA	Responsiveness
SERVPERF	Service Performance
SERVQUAL	Service Quality
SME	Structural Equation Modeling Technique
SPSS	Statistical Package for Social Science
TANA	Tangibility

Abstract

The banking industry in Nepal has experienced rapid growth in recent years, leading to increased competition and the need for service excellence to retain customers. This study explores the effect of service quality on customer satisfaction in the Nepalese banking industry. The research focuses on five key dimensions of service quality—Tangibility, Reliability, Responsiveness, Assurance, and Empathy—analyzing their individual and collective impacts on customer satisfaction. A multiple regression analysis was conducted based on survey data collected from bank customers across various regions of Nepal. The findings reveal that all dimensions of service quality have a significant influence on customer satisfaction, with Assurance and Responsiveness showing the strongest positive impacts. Additionally, the results highlight the areas where Nepalese banks need improvement, particularly in enhancing reliability and empathy to ensure better customer experiences. This study provides valuable insights for bank managers aiming to develop strategies that improve service quality and foster customer loyalty in a highly competitive market. The research concludes with recommendations for the banking sector in Nepal to maintain a high level of service quality, ultimately enhancing customer satisfaction and long-term profitability.

Keywords: *Customer Satisfaction, Tangibility, Reliability, Responsiveness, Assurance, and Empathy*

CHAPTER I

INTRODUCTION

1.1 Background of the study

In a competitive business environment, providing quality service is considered a strategic requirement to attract and retain customers. Therefore, in the era of globalization, achieving higher levels of customer satisfaction has become a difficult challenge, especially in the service sector. To address this difficult challenge, many organizations are starting to improve service quality. Service quality is one of the most important factors in any service field because service quality helps maintain a competitive advantage in the market. Service quality therefore becomes a strategic measure to strengthen competitive advantage and increase enterprise profitability. This is one of the key factors for gaining competitive advantage and generating profits in any service sector. It's a tool to attract customers, expand your customer base, and maintain and build customer loyalty. Therefore, it plays an important role in customer satisfaction and profitability. Therefore, the relationship between service quality and customer satisfaction is very important in-service sectors such as banks. In the service industry, the concept of quality occupies a key position in the relationship with customers, where customer satisfaction can be achieved by providing standard service quality, and customers' high-quality demands are becoming increasingly important. This is because it is increasingly true that in a competitive business environment, a high level of service quality leads to a sustainable competitive advantage. (Parasuraman, Zeithaml, Berry, 2018).

Service quality can be defined as an overall evaluation, similar to attitude towards a service, and is generally considered a prerequisite for overall customer satisfaction. Service quality is considered to be an important tool for companies to differentiate themselves from their competitors (Ladhari, 2018). According to Kotler (2006), service quality is critical to attracting and retaining customers because customers derive their perceptions of service quality from the level of satisfaction they experience with a particular organization. Although service quality is a “multidimensional concept,” there is disagreement about its conceptualization potential in addition to its operationalization (Pantouvakis & Bouranta, 2016). Customer satisfaction is a customer's overall evaluation of past service performance. Customer satisfaction is defined as the emotional response to

the experience related to the quality, timeliness, effectiveness, accessibility, environment, and other amenities of goods and services, and the behavior and attitude of the service provider in accordance with customer expectations. (Adhikari & Nath, 2014). It is an efficient and transaction-specific response to assess the gap between prior expectations and actual experience related to banking services (Paul & Barman, 2010). Customers are considered to be the foundation of any business, as customer satisfaction has a positive impact on a company's profitability. All successful businesses depend on customer satisfaction. Because customers drive repeat business, brand loyalty, positive word of mouth, and more. Changing consumer demands, increasing competition, and increasing understanding of consumer rights require banks to continuously improve their services to retain customers (Nabi, 2012).

Customer satisfaction is critical to customer loyalty and therefore to a bank's success. Identifying and improving factors that can impact customer satisfaction is an important step for banks that want to stay ahead of their competitors. Commercial banks in Nepal are under great pressure due to increasing competition. Various strategies have been developed to retain customers while focusing on improving service quality (Pradhananga, 2014).

Since then, Nepal's banking sector has flourished and numerous banks have been established. This gives customers even more options for accessing banking services. This has made the sector highly competitive and profitable. To compete, banks need to stand out from other banks. The Nepali market scenario is also changing over time so that customers are willing to pay higher prices for quality. Therefore, in order to gain competitive advantage and attract and retain more customers, banks focus on providing better services to their customers, which in turn leads to increased customer satisfaction.

1.2 Problem Statement

Customers play an important role in the banking sector. Banks use funds entrusted to them by customers to operate their organizations. The more customers a bank has, the more funds it can provide for further investments (Karim & Chowdhury, 2014). The higher the customer satisfaction in doing business with the bank, the safer the bank's business and profitability. If banks fail to provide adequate customer service, they will lose customers. Profitability will also suffer due to poor customer service. Previous

research has shown that companies that provide excellent customer service have a 72% increase in profits per employee compared to similar organizations that exhibit poor customer service (Duncan, 2004). It has also been shown that acquiring a new customer is five times more expensive than retaining an existing customer (Duncan, 2014).

Many banks focus on customer satisfaction by differentiating their products and services from key competitors, while others focus on whether their products and services exceed customer expectations. (Chakrabarty, 2006). Exceeding expectations allows banks to retain customers and increase profits, which in turn helps them gain market share in their respective banks. However, expectations can only be exceeded if service quality is included in the service, as service quality plays a major role in achieving customer satisfaction (Kombo, 2015).

In other words, banks must serve the needs of their customers in order to contribute to the economic interests of the country. Therefore, in order to attract and retain customers, banks need to think about the types of attractions that can influence these customers. Therefore, customers who turn to banks to solve their financial needs always strive to receive services that provide the highest level of satisfaction. Wilson et al. (2008) focused only on service quality to evaluate customer satisfaction, but there are also other factors such as pricing, product quality, etc. that influence customer satisfaction.

The main problems in Nepal's banking sector are the lack of competent and well-trained human resources, traditional structures, and outdated technology, which create hurdles in providing quality services to customers and this has led to a decline in customer satisfaction (Devkota & Dahal, 2016). Considering the intense competition in the banking sector in Nepal, as evidenced by the presence of 21 commercial banks with 4,856 branches and 17 development banks with 1,065 branches (Nepal Rastra Bank, 2022), customers are more likely to You can easily switch services to another bank. As a result, banks are unable to meet customer needs and have difficulty retaining customers.

Customers choose banks based on several factors such as location, staff friendliness, quality of service, and bank reputation. For this reason, service quality is considered one of the important factors in the service of banks attach great importance to it. Therefore, banks need to compete on the basis of perceived service quality. (Otoo, 2016) A service

provider's perception of service quality can be significantly different from what a customer perceives as service quality (Melaku, 2015). Therefore, if banks want to provide high-quality services to their customers, it is important to understand customers' perceptions and expectations for high-quality services. Therefore, banks need to determine which aspects of service quality have a significant impact on customer satisfaction in order to differentiate themselves from their competitors.

Therefore, this study is conducted in the context of banking sector in Nepal and uses SERVQUAL model to identify which service quality factors influence customer satisfaction and to improve the relationship between service quality and customer satisfaction in banking sector in Nepal. Attempt to answer the following research questions to understand.

- i. To what extent does service quality dimensions influence the customer satisfaction in case of Nepalese banking industry?
- ii. Is there any relationship between service quality and customer satisfaction in Nepalese banking sectors?
- iii. What is the impact of service quality and customer satisfaction in the banking sectors?

1.3 Objectives of the study

The main objectives of the study were to analyze effects of service quality on customer satisfaction in Nepalese banking industry. The specific objectives of the study are as follows:

- i. To assess the service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) influence on customer satisfaction in case of Nepalese Banking Industry.
- ii. To examine the relationship between service quality and customer satisfaction in Nepalese banking sectors.
- iii. To analyze the impact of service quality on customer satisfaction in banking sectors.

1.4 Hypothesis of the study

Based on the review of past studies and the research objectives, the following hypothesis were formulated for the study.

H01: There is no significant relationship between tangibility and customer satisfaction.

H02: There is no significant relationship between reliability and customer satisfaction.

H03: There is no significant relationship between responsiveness and customer satisfaction.

H04: There is no significant relationship between assurance and customer satisfaction.

H05: There is no significant relationship between empathy and customer satisfaction.

1.5 Rationale of the Study

The financial services sector has become highly competitive in recent years, primarily due to the liberalization of the banking sector. Additionally, changing technology, pressure to meet business goals, and the need to increase productivity and profitability, control operating costs, and prevent waste are forcing industries to improve customer service. Until now, most service providers have barely recognized the importance of customer service. However, modern customers expect to be treated politely, efficiently and as equal partners (Otoo, 2016). Increasing competition, consumer education, and rising standards of living are forcing many companies to rethink their customer service strategies. Because the cost of acquiring new customers is higher than the cost of retaining existing customers, many companies focus more on retaining existing customers than acquiring new ones. There is ample evidence to support the strategic benefits of quality in increasing market share and return on investment. Reichheld and Sasser, (2017).

Therefore, commercial banks operating in Nepal are under great pressure due to increased competition. This puts pressure on you to do something special to gain a competitive advantage. Various strategies are developed to retain customers. The key is to improve the quality of service. Therefore, Nepal's banking industry should focus on service quality to improve customer satisfaction. A study by Koirala and Shrestha (2012) found that all aspects of service quality (i.e., tangible, reliable, responsive, secure, and empathetic) are important in shaping the service quality of commercial banks in Nepal. I understand that. Similarly, all aspects of service quality (tangibility, reliability, responsiveness, safety, empathy) are important for customer satisfaction in commercial banks in Nepal. Customer satisfaction is greatly influenced by service quality. Service also leads to customer loyalty and brand loyalty, which improves the bank's image.

Prajapati (2014), customers were satisfied with banks that had short waiting times and well-behaved employees. The study also showed that factors such as reliability, physical assets, and price factors have a greater impact on customer satisfaction than factors such as security, empathy, and responsiveness. Similarly, Gautam (2013) found that customer satisfaction of commercial banks in Nepal is highly dependent on security and responsiveness. The study also concluded that public sector banks can also compete successfully with joint venture and non-joint venture banks. This study also provides a complete framework on the aspects of service quality related to customer satisfaction. It also provides new opportunities to improve the quality of service to customers and update the current services of Nepali banks if necessary. Additionally, it provides companies with customer satisfaction data and information that helps them further develop their services. This study provides valuable information on the relationship between service quality and customer satisfaction and helps both the banking services industry and individual users to evaluate the scenario. The results of this study provide guidance to future researchers by providing baseline data for more reliable, simplified, and comprehensive research.

1.6 Limitations of the study

The limitations of the study are given below.

- i. This research is conducted within Kathmandu valley only.
- ii. Among the 20 commercial banks only five commercial banks (Nabil Bank Limited, Prime Commercial Bank, Siddhartha Bank Limited, NIC ASIA Bank Limited, Laxmi Sunrise Bank Limited) are taken as sample of the study.
- iii. This study has tried to cover the issues related with various dimensions on customer satisfaction towards service quality of Nepalese Banking Industry and other aspects are ignored.
- iv. The study is based on primary data taken from structured questionnaire.
- v. Conclusion of the study is based on questions.
- vi. Reliability of the study results depends from opinions provided by respondents.

CHAPTER II

LITERATURE REVIEW

The purpose of the literature review was to obtain the necessary theoretical and conceptual knowledge about the area of interest of this study. To achieve this objective, the entire chapter is divided into different sections, with the first section presenting a review of relevant empirical evidence and theoretical and conceptual perspectives on service quality, followed by service quality. The review follows. Similarly, the relationship between service quality and customer satisfaction was determined based on the sum of learning imports obtained by reviewing various literatures.

2.1 Theoretical Review

The main purpose of this study is to determine the impact of service quality on banking customer service, with customer satisfaction playing a mediating role. Customers are the lifeblood of any business. To survive and profit in today's competitive market, companies need to know whether their customers are satisfied with the quality of their products/services. This study tested some of the theories related to the dependent and independent variables of the study. They are expectancy theory, SERVPERF model, and assimilation theory.

2.1.1 Concept of customer satisfaction

Customer satisfaction refers to a customer's overall assessment of the quality of past service experiences. It is described as the emotional reaction to factors such as the quality, timeliness, effectiveness, accessibility, environment, and additional features of goods and services, as well as the behavior and attitude of service providers, all in relation to the customer's expectations (Adhikari & Nath, 2014). This satisfaction acts as a specific evaluation of how well the actual experience aligns with prior expectations, especially in banking services (Paul & Barman, 2010). Since customers are the foundation of any business, their satisfaction directly impacts a company's profitability, driving repeat business, loyalty, positive referrals, and more. Given the evolving demands of consumers, heightened competition, and growing awareness of consumer rights, banks must continuously enhance their services to maintain customer retention (Nabi, 2012).

Customer satisfaction is crucial for ensuring customer loyalty, which is key to a bank's success. Identifying and improving factors influencing customer satisfaction is essential for banks looking to outpace their competition. In Nepal, commercial banks face intense competition, prompting them to adopt various strategies aimed at retaining customers and enhancing service quality (Pradhananga, 2014).

2.1.2 Dimension of customer satisfaction

In the banking sector, customer satisfaction is often evaluated based on the five dimensions of service quality outlined in the SERVQUAL model. Here's how these dimensions apply specifically to banking services:

1. **Tangibility:** In a bank, tangibility refers to the physical elements such as the branch appearance, layout, cleanliness, comfort, and technology infrastructure. This dimension could include factors like the design and ambiance of the branch, availability of modern ATMs, the user-friendliness of online banking platforms, and the clarity of information provided on banking documents. Customers often assess the bank's tangibles based on the overall look and feel of the branch, ease of access to services, and technological advancements.
2. **Reliability:** For banks, reliability is crucial. It involves consistency in delivering services accurately and dependably. Customers expect their transactions to be processed accurately, their funds to be secure, and for banking systems to be available whenever needed. Reliable services encompass timely execution of transactions, minimal errors, and trustworthy handling of financial matters. Customers are satisfied when they can depend on the bank to fulfill their financial needs without complications.
3. **Responsiveness:** Responsiveness in a banking context refers to how promptly and effectively the bank addresses customer inquiries, complaints, or requests for assistance. Customers value quick and efficient service when they need support, whether it's resolving an issue with an account, obtaining information about products, or receiving assistance with transactions. A responsive bank shows concern for customer needs and works to provide solutions promptly, which positively impacts satisfaction.
4. **Assurance:** Assurance in banking involves instilling confidence and trust in customers. This dimension encompasses the competence of bank employees, their knowledge about products and services, their ability to handle financial matters

professionally, and their reliability in providing accurate information. Customers are satisfied when they feel confident that the bank staff are capable, knowledgeable, and can offer reliable advice or assistance.

5. **Empathy:** Empathy in banking refers to understanding and addressing the individual needs of customers. This involves personalized attention, active listening, and tailored solutions to meet specific financial needs. Customers appreciate banks that show empathy by understanding their financial goals, offering personalized recommendations, and providing assistance aligned with their unique circumstances. A bank that demonstrates empathy can significantly enhance customer satisfaction. Banks that excel in these five dimensions of service quality tend to create a positive customer experience, leading to higher satisfaction levels, increased loyalty, and improved customer retention in a highly competitive banking industry.

The main purpose of this study is to determine the impact of service quality on banking customer service, with customer satisfaction playing a mediating role. Customers are the lifeblood of any business. To survive and profit in today's competitive market, companies need to know whether their customers are satisfied with the quality of their products/services. This study tested some of the theories related to the dependent and independent variables of the study. They are expectancy theory, SERVPERF model, and assimilation theory.

2.1.3 Theory of Expectation

Expectation theory (also commonly known as Expectancy-Disconfirmation Theory) was proposed by Richard L. Oliver in 1977 and 1980 which is the most widely accepted theory concerning customer satisfaction processes. The Theory of Expectations, particularly in the context of consumer behavior and satisfaction, is a psychological and sociological concept that explores the relationship between individuals' expectations and their subsequent perceptions of reality. At its core, this theory posits that people develop certain expectations based on past experiences, social influences, marketing messages, and individual preferences. These expectations act as a cognitive framework through which individuals evaluate and interpret their interactions with products, services, or experiences. The theory is deeply ingrained in the field of consumer psychology and has significant implications for various industries, including marketing, hospitality, and finance.

In the realm of consumer satisfaction, the Theory of Expectations suggests that satisfaction is not solely determined by the objective quality of a product or service but is heavily influenced by the alignment between what individuals expect and what they actually experience. When individuals' expectations are met or exceeded, they tend to perceive the product or service favorably, leading to higher levels of satisfaction. On the other hand, a misalignment between expectations and reality can result in dissatisfaction, even if the objective quality of the offering is high.

Several factors contribute to the formation of expectations. Past experiences play a crucial role, as individuals draw upon their history with a product or service to create a set of anticipated outcomes. Additionally, external influences, such as word of mouth, advertising, and societal norms, shape expectations by setting standards and benchmarks for what is considered satisfactory. Cognitive processes, including perception and interpretation, further influence how individuals form and adjust their expectations based on new information.

The Theory of Expectations is particularly relevant in the context of service industries, where intangible elements often play a significant role. For instance, in the banking industry, customers may form expectations regarding the responsiveness of customer service, the efficiency of transactions, and the overall reliability of the financial institution. These expectations are dynamic and subject to change based on ongoing interactions and external influences. To manage and enhance customer satisfaction, businesses must actively understand and influence customer expectations. Effective communication, transparent marketing messages, and consistently meeting or exceeding promises are crucial strategies for aligning expectations with reality. This theory also underscores the importance of ongoing customer feedback and adaptation to changing market dynamics to ensure that businesses remain responsive to evolving customer expectations.

In conclusion, the Theory of Expectations is a fundamental concept in understanding consumer behavior and satisfaction. It highlights the intricate interplay between individual expectations and the perceived quality of products or services, emphasizing the need for businesses to proactively manage and align these expectations to foster positive customer experiences and build lasting relationships.

2.1.4 SERVQUAL Model

The SERVQUAL Model, developed by Parasuraman, Zeithaml, and Berry, is a widely recognized framework for assessing and improving service quality in various industries. This model identifies five key dimensions that collectively shape customers' perceptions of service quality. The first dimension is Tangibles, encompassing the physical aspects of service delivery, such as facilities, equipment, and appearance of personnel. Reliability is the second dimension, focusing on the ability of the service provider to consistently deliver accurate and dependable services. Responsiveness, the third dimension, measures the promptness and willingness of the service provider to help customers. Assurance, the fourth dimension, relates to the competence, courtesy, credibility, and security conveyed by service providers. Finally, Empathy, the fifth dimension, involves understanding and caring for customers' individual needs. Customers evaluate service quality by comparing their expectations (pre-service perceptions) with their perceptions of the actual service received. Service quality is considered high when perceptions exceed expectations and low when expectations are not met. The SERVQUAL Model provides a structured approach for organizations to identify and address gaps in service quality, enhancing customer satisfaction and loyalty by delivering services that align with or surpass customer expectations across these five dimensions.

2.1.5 Theory of Assimilation

As of my last knowledge update in January 2022, the term "Theory of Assimilation" is relatively broad and can be applied in various contexts, including cultural assimilation, language acquisition, and cognitive processes. I'll provide a general overview that can be applied across different domains. The Theory of Assimilation generally refers to the process through which individuals or groups integrate new information, experiences, or elements into their existing cognitive or cultural frameworks. In the context of cultural assimilation, it often involves the absorption of a minority culture into a dominant one, leading to a blending of cultural practices and identities. In the realm of language acquisition, assimilation may refer to the process by which learners incorporate new linguistic elements into their existing language repertoire. Cognitively, assimilation is a key concept in Jean Piaget's theory of cognitive development. According to Piaget, assimilation occurs when individuals interpret new information or experiences in terms of their existing mental structures or schemas. This process allows individuals to incorporate new knowledge into their pre-existing frameworks, facilitating the organization and

understanding of the world around them. In the sociocultural context, assimilation can have both positive and negative implications. On one hand, it can promote social cohesion and integration, fostering a sense of unity and shared identity. On the other hand, it may lead to the loss of unique cultural or linguistic elements, raising concerns about cultural homogenization or the erosion of diversity.

The Theory of Assimilation is dynamic and context-dependent, varying based on the specific domain of study. It is often contrasted with the theory of accommodation, where individuals adjust their existing mental structures to accommodate new information that cannot be assimilated easily.

In summary, the Theory of Assimilation is a multifaceted concept that is applied in various disciplines. Whether in the context of cultural dynamics, language acquisition, or cognitive development, assimilation involves the integration of new elements into pre-existing frameworks, contributing to individuals' understanding, adaptation, and interaction within their respective environments.

2.1.6 Customer Relationship Management (CRM)

Customer Relationship Management (CRM) is a multifaceted business strategy and technological solution designed to enhance an organization's interactions with its customers, optimize customer satisfaction, and drive long-term loyalty. At its core, CRM is a comprehensive approach that goes beyond mere transactional exchanges to foster meaningful and mutually beneficial relationships with customers. This strategy involves the integration of people, processes, and technology to manage and analyze customer interactions throughout the entire lifecycle, from initial contact to post-purchase support.

One crucial aspect of CRM is the use of technology, such as CRM software, to streamline and centralize customer data. These systems enable businesses to capture, store, and analyze a wealth of information about their customers, including contact details, purchase history, preferences, and feedback. This centralized database empowers organizations to gain a 360-degree view of their customers, allowing for more personalized and targeted interactions. CRM systems typically offer a range of functionalities, including contact management, sales automation, marketing automation, and customer service management. Contact management involves organizing and tracking customer interactions, while sales automation streamlines the sales process, from lead generation to

deal closure. Marketing automation helps businesses create targeted campaigns and analyze their effectiveness, while customer service management ensures timely and efficient resolution of customer issues.

In addition to technology, CRM is fundamentally about aligning business processes and strategies with customer needs and expectations. It emphasizes a customer-centric approach where every department, from marketing and sales to customer service, collaborates to deliver a cohesive and positive customer experience. The goal is to move beyond one-time transactions and cultivate lasting relationships by anticipating and fulfilling customer needs. Personalization is a key principle of CRM, as businesses seek to tailor their products, services, and communications to individual customer preferences. By leveraging the insights gained from CRM systems, organizations can implement targeted marketing campaigns, recommend relevant products, and provide customized support. This personalized approach not only enhances customer satisfaction but also contributes to increased customer loyalty and advocacy.

Moreover, CRM facilitates effective communication and collaboration within an organization. By breaking down silos and fostering cross-departmental collaboration, businesses can ensure that everyone in the organization has a unified understanding of each customer. This holistic perspective is instrumental in providing consistent and seamless experiences across various touchpoints, reinforcing the organization's commitment to customer satisfaction.

In conclusion, Customer Relationship Management is a strategic approach that combines technology, processes, and a customer-centric mindset to build and nurture long-term relationships with customers. By leveraging CRM systems and integrating customer-focused strategies into all facets of the business, organizations can enhance customer satisfaction, drive loyalty, and ultimately achieve sustainable success in today's competitive business landscape.

2.1.7 Perceived Value Theory

Perceived Value Theory is a fundamental concept in marketing and consumer behavior that seeks to understand how individuals assess the worth or utility of a product or service based on their perceptions and preferences. At its core, perceived value is a subjective and

dynamic evaluation that customers make, considering both the benefits and costs associated with a product or service. This theory is rooted in the idea that customers make purchasing decisions not solely on objective features but rather on their perception of the overall value proposition. One key element of Perceived Value Theory is the distinction between perceived benefits and perceived costs. Perceived benefits encompass the positive attributes and outcomes that customers associate with a product or service, including functional features, emotional satisfaction, and perceived quality. On the other hand, perceived costs involve not only the monetary price but also non-monetary sacrifices such as time, effort, and any potential negative consequences associated with the purchase.

Consumers weigh the perceived benefits against the perceived costs to determine whether the value offered by a product or service is favorable. If the perceived benefits outweigh the perceived costs, customers are more likely to perceive high value and, consequently, exhibit a higher willingness to purchase or engage with the offering. Moreover, perceived value is a dynamic and context-dependent construct. It can be influenced by various factors, including individual preferences, social influences, marketing messages, and the competitive landscape. Effective marketing strategies aim to enhance perceived value by emphasizing and communicating the unique benefits of a product or service while mitigating perceived costs.

Companies often employ various tactics to influence perceived value. These may include pricing strategies, bundling of products or services, loyalty programs, and marketing communications that highlight distinctive features or advantages. Successful brands understand that creating a positive and differentiated perceived value is a key driver of customer loyalty and repeat business. The importance of perceived value extends beyond individual transactions. Positive perceptions can lead to customer satisfaction, brand loyalty, and positive word-of-mouth, contributing to long-term success for businesses. As customers become increasingly discerning and informed, companies must continuously evaluate and adapt their strategies to align with evolving customer expectations and enhance perceived value in a competitive marketplace.

In conclusion, Perceived Value Theory is a critical lens through which marketers and researchers understand how consumers evaluate the worth of products or services. By

focusing on the interplay between perceived benefits and perceived costs, businesses can tailor their offerings and marketing efforts to enhance customer satisfaction, foster loyalty, and achieve sustained success in the ever-evolving landscape of consumer preferences.

2.2 Empirical Review

Heliyon (2023) Published an article, “Effects of automated teller machine service quality on customer satisfaction: Evidence from commercial bank of Ethiopia”. The main objectives are to identify the dimensions of ATM service quality and to investigate the relationship between customer satisfaction and components of ATM service quality. The banking sector is considered the center of global business in the era of advanced technology. In order to increase the competitive market share, technological innovations will improve the efficiency of banking operations and systems. The research questionnaire consists of demographic variables and his five components of the research model. Demographic variables used to collect information about participants include gender, age, marital status, education, and occupation. Additionally, demographic questions included screening questions to identify respondents who had experience using traditional banking services or ATMs. Survey items were rated using a 5-point Likert scale. The key findings of this study provide valuable insight for ATM service providers and managers to identify areas for improvement. By focusing on improving specific aspects of ATM service quality (reliability, convenience, ease of use, enrichment, and security/privacy), ATM service providers can improve customer satisfaction.

Karmacharya (2022) Published an article, “Impact of Service Quality Dimensions on Customer Satisfaction in Nepalese Financial Institutions based on SERVPERF Model”. The objectives of the study was to identify the relationship between service quality dimensions and customer satisfaction in financial institutions in Nepal and to investigate the impact of service quality dimensions on customer satisfaction. This study is based on quantitative methodology. Therefore, the research design of this study is a social survey study to collect quantitative data. Based on Cronin and Taylor's SERVPERF model, the dependent variable is customer satisfaction and the independent variables are his five dimensions of service quality (tangibility, reliability, responsiveness, security, and empathy). The scale used to test the relationship between service quality dimensions and customer satisfaction dimensions consists of a total of 22 Likert scale items based on the

SERVPERF model, and the customer satisfaction component includes a total of 3 Likert scale items. Nepalese customers want higher quality services to ensure complete satisfaction. Responsiveness, reliability, and security are considered important factors for service quality in Nepali financial institutions. The results of the study suggest that the SERVPERF model can be used to predict overall satisfaction.

Anitha and Hemanathan (2022) Published an article, “Analyzing the impact of service quality on customer satisfaction in selected private banks services at Chennai City”. Major objectives are to categorize the significance of service quality via; reliability, responsiveness, empathy, tangible, and assurance by the customers. A survey of customer satisfaction with services provided by private banks. The questionnaire was divided into three aspects. The first one concerned collecting the demographic profile of the respondents, such as gender, age, income, education, occupation, and bank account. His second section of the questionnaire deals with the assessment of consumer approval levels based on the SERVQUAL model. The SERVQUAL model is divided into five elements: specificity, authenticity, responsiveness, security, and empathy. All closed-ended constructs used in this study were examined using different items based on a 5-point Likert-balanced range. A key finding of this study is that in private banks they overall believed that it had a positive impact on their satisfaction. All five indicators of service quality in private banking have a positive relationship with customer satisfaction.

Joshi (2021) Published an article, “The Relationship Between Banking Service Quality Dimension and Customer Satisfaction in Nepalese Banking Industry”. Major objectives of the study were to examine the relationship between banking service quality dimensions and customer satisfaction in Nepalese banking industry. Three commercial banks (Rastriya Banijya Bank, Nabil Bank and Global IME Bank) operating in Kairali district were sampled and 327 deposit customers of these banks were surveyed using a structured 5-point Likert questionnaire. It was investigated. Data was collected through online surveys and field surveys when customers visited Kairali's affiliated banks, corporate bodies, government and non-government institutions. Data were analyzed using SPSS version 20, Pearson correlation and multiple regression analysis. The results of this study showed that there is a positive relationship between service quality and customer satisfaction. All aspects of service quality have a statistically significant positive impact on customer satisfaction except for tangible. In other words, higher quality services led to

higher customer satisfaction. The results of this study will help bank management to focus on customer satisfaction to compete in the banking sector.

Shrestha (2020) published an article, “The impact of service quality dimension of commercial Banks on Customer in Nepal.” Major objective of this study was to identify service quality dimension that influence on customer satisfaction of commercial banks in Nepal. A structured questionnaire with a 5-point Likert scale was used to collect data through field surveys. The sample size was 144 and was chosen based on practical considerations. Data were analyzed using statistical tools such as mean values and correlation coefficients. The results showed that service quality dimensions such as specificity, reliability, safety, empathy, and responsiveness have a significant and positive relationship with customer satisfaction of commercial banks in Nepal. This study explained that there is a positive and significant relationship between service quality dimensions and customer satisfaction in commercial banks in Nepal. In terms of service quality, there is a high correlation between reliability and customer satisfaction in commercial banks in Nepal. Therefore, banks must be able to satisfy their customers through world-class services and facilities. Banks must strive to maintain long-term relationships with their customers. Customers need to be confident that their bank is delivering on what it promises in advertising. Therefore, banks should collect customer feedback on a regular basis. For commercial banks, service quality plays an important role in customer satisfaction.

Thapa (2020) Published an article, “To reveal the existing level of service quality of some Nepalese commercial banks”. Major objectives of the study were to reveal the existing level of service quality of some Nepalese commercial banks. Customer perception to measure banking service quality in five dimensions. Tangible assets, reliability, responsiveness, security, and empathy are considered as the service quality model proposed by Parashuram et al. was introduced. AI. This study was descriptive in nature and used primary data collected through face-to-face questionnaire survey from customers of several selected commercial banks including public and private banks. The questionnaire contained a total of 22 questions on five dimensions. The sample size for this study was 82 respondents from banks selected on the principle of convenience. The analysis consists of descriptive statistics and t-tests to achieve the research objectives. This study used the SERVQUAL model to investigate service quality as perceived by

bank customers. In order to evaluate the overall service quality status of banks, customers' perceived satisfaction was analyzed in five SERVQUAL dimensions. Descriptive and inferential analyzes showed that customer satisfaction was average in all five dimensions of service quality considered (tangibility, reliability, responsiveness, security, and empathy). Among these five dimensions, empathy and security were the ones that were more satisfied with the quality of banking services. Material value and reliability were also moderate, and responsiveness was the least satisfied dimension from the perspective of bank customers.

Maladi et al. (2019) Published an article, "How Switching Barriers, Company image, and Service Quality Affected Customer Satisfaction and Retention." Major objectives of the study were to investigate how switching barriers, corporate image, and service quality influence customer satisfaction and loyalty. The framework was tested using structural equation modeling techniques and the data were analyzed using AMOS (Analysis of Structural Moments) tools. The results showed that customer loyalty is significantly influenced by customer satisfaction. Furthermore, it was argued that switching barriers should be reduced while maintaining service quality, corporate image, and customer satisfaction.

Koirala and Shrestha (2018) Published an article, "Measure Service Quality and Customer Satisfaction with Respect to The Service Quality Dimensions in the Nepalese Commercial Banking Sector". Major objective of the study was to measure the service quality and customer satisfaction in the commercial banking sector of Nepal from the aspect of service quality. This study used descriptive statistics, correlation analysis, and regression analysis to measure the relationships between service quality factors, service quality, and customer satisfaction variables. Samples of 364 customers currently doing business with commercial banks in Kathmandu Valley were taken. Nepal Investment Bank is found to be the most popular commercial bank in Nepal. All aspects of service quality (i.e., physical assets, reliability, responsiveness, security, and empathy) are important in shaping the service quality and customer satisfaction of commercial banks in Nepal. Customer satisfaction is greatly influenced by service quality.

Anjalika and Priyanath (2018) Published an article, "The effect of service quality of commercial banks on customer satisfaction". Major objectives of the study were to

investigate the impact of commercial banks' service quality on customer satisfaction. Data was collected from 141 customers maintaining public and private bank accounts in Gampaha district. Convenience sampling method was used for sample selection. Data were collected using a structured questionnaire with face-to-face interviews, and the collected data were analyzed using partial least squares structural equation modeling. This study tested his five hypothesized relationships between five dimensions of service quality and customer satisfaction in commercial banks. The results showed that there is a significant positive relationship between assets and customer satisfaction and responsiveness and customer satisfaction for both public and private banks. The main finding of this study was that there is a small positive relationship between security and customer satisfaction in private banks, while there is no relationship between security and customer satisfaction in public banks. Empathy and trustworthiness also showed a marginal positive relationship with customer satisfaction in public banks, but these two dimensions did not show a significant relationship with customer satisfaction in private banks. Therefore, the study found that customer satisfaction with service quality of public banks is higher than that of private banks.

Felix (2017) Published an article, ‘Determine the relationship between service quality and customer satisfaction in Banque Populaire du Rwanda, Kigali branches’. Major objectives of the study were to find out the relationship between service quality and customer satisfaction at Bank of Rwanda branch in Kigali. Both cross-sectional and descriptive survey designs served as its foundation. Using a convenient sampling technique, primary data from 498 customers was gathered via a self-administered questionnaire. The means, Pearson's linear correlation coefficient, and SPSS's frequencies and percentages were used to analyze the data. The study's main conclusions included the following: the majority of respondents were female, more than three of them had an account type that they currently had, more than half of them lacked a professional education degree, and most of them had been BPR customers for three years or longer.

Jitendra (2017) Published an article, “Customer Satisfaction in the Commercial Banks”. The main purpose of this study was to investigate the customer satisfaction level of commercial banks. The study employed both analytical and descriptive research designs. Primary data were gathered from Nepal's commercial banks via judgmental sampling employed in the questionnaires. Five scales and a mean were used in the development of

the questionnaires; the tools used were the standard deviation and coefficient of variation. The Cronbach's alpha test was used to evaluate the data's dependability. It was discovered that every bank had performed satisfactorily overall in terms of client satisfaction. In contrast to government-owned commercial banks, private banks have demonstrated satisfactory performance. Out of all the government banks, RBB has outperformed NBL and ADBL in terms of performance.

Devkota and Dahal (2016) Published an article, "To find out the major factors that have impact in customer satisfaction and customer loyalty in case of commercial banks of Nepal". Major objective of the study was to investigate the impact on customer satisfaction and customer loyalty in commercial banks in Nepal. This study seeks to investigate whether there is a relationship between service quality dimensions, customer satisfaction, and customer loyalty depending on various situational factors. In the literature review, various concepts such as consumer purchasing behavior, buyer decision-making process, customer satisfaction, customer loyalty, service quality, SERVQUAL model and their relationships are discussed and based on them, five A conceptual model enumerating the following has been developed. Different hypotheses (one of the hypotheses was split into his two sub-hypotheses). To collect data for analysis, 375 completed questionnaires were collected within 1 month. Participants were asked to complete a questionnaire during a personal interview. All these documents were collected from various commercial banks in Kathmandu, Nepal. The Statistical Package for the Social Sciences (SPSS) and analytical techniques such as factor analysis, multiple regression analysis, descriptive analysis, and Sobel test for mediation analysis were used to analyze the data. After testing the hypothesis using different techniques. The main finding of this study was that service quality dimensions such as specificity, reliability, responsiveness, empathy, and security have a significant positive impact on customer satisfaction and loyalty. Similarly, one situational factor, indicated as relationship years, showed a significant positive association with customer satisfaction, while another situational factor, indicated as frequency of bank visits, had a significant positive association with customer satisfaction. showed a negative association. Similarly, for the mediating factors, there is no significant relationship between specificity and frequency of bank visits, but there is a significant positive relationship between trustworthiness, responsiveness, relationship years, empathy and sense of security. However, note that some of the independent and mediating variables overlap. Among the control variables,

only respondent's age had a positive and significant impact on customer loyalty, while other variables such as education level, income, and gender had no significant relationship with customer loyalty. This study will help commercial banks to improve the quality of service to their customers, thereby maintaining customer satisfaction and loyalty. Similarly, policy makers can plan for the future in the banking sector based on the information provided by customers as part of this study. Similarly, it can contribute to other sectors by providing basic information about the service quality of Nepal's banking sector.

Otoo (2016) Published an article, "The effect of customer service quality on customer satisfaction in commercial banks in Ghana". Major objectives of the study were to identify the demographic characteristics of customers that influence customer perceptions, to identify customer perceptions of banks' service quality, and to identify the relationship between service quality and customer satisfaction. The questionnaire developed for this study is based on the SERVQUAL model, which identifies the influence of five dimensions in the banking service environment (tangibility, responsibility, reliability, security, and empathy) on customer satisfaction. A descriptive research design was adopted with a sample of 360 randomly selected active customers of selected commercial banks in Ghana. Data were analyzed using both descriptive and inferential statistical tools in SPSS. Bank customers were generally found to be from the middle class of society, more than half of whom were male, relatively young, educated and primarily from the private economic sector. Age and education have been identified as demographics that influence customer perceptions. The majority of those surveyed were satisfied with their bank's services. Additionally, bank service reliability, security, empathy, and physical assets were found to be important factors influencing customer satisfaction with service quality. Banks were advised to strive to improve customer perceptions of empathy, trustworthiness, responsiveness, security and physical assets.

Minh and Huu (2016) Published an article, "Interrelationships between service quality, customer satisfaction, and customer loyalty in a retail banking context". Major objectives of the study were to investigate the relationship between service quality, customer satisfaction, and customer loyalty in retail banking. In this study, a research model on the relationship between service quality, customer satisfaction, and customer loyalty was developed. Retail banking customers were then surveyed on these concepts, with 261

valid respondents. Hypotheses were then proposed and tested using confirmatory factor analysis (CFA) and structural equation modeling (SME) techniques. The analysis revealed that service quality and customer satisfaction are important antecedents of customer loyalty, and customer satisfaction mediates the influence of service quality on customer loyalty. The main findings of the study suggested the existence of a nonlinear relationship between the three constructs and emphasized the need to treat customer loyalty management as a process involving a large number of interacting elements.

Selvakumar (2015) Published an article, "The effect of service quality determinants on the degree of customer satisfaction in public and private banks in India". Major objective of the study was to investigate the service quality perceptions of banking services to customers in Coimbatore and the relative differences related to various determinants of service quality using SERVQUAL model. Security was found to have the most impact on customer satisfaction with banking services in Coimbatore and responsiveness was found to have the most impact on customer satisfaction with banks in Coimbatore. Key findings of this study include customer expectations regarding the importance of customer suggestions and opinions, secure transactions, proper knowledge base management, accurate data maintenance, regular customer meetings, etc. provided by banks in Coimbatore. This includes significantly exceeding security.

Al-Azzam (2015) Published an article, "Effect on the Customer Satisfaction Among Arab Bank Customer in The City of Irbid Used". Major objective of the study was to assess the impact on customer satisfaction of Arab bank customers in Irbid city. The results showed that the higher the quality of service, the higher the customer satisfaction. Service quality aspects play an important role. These dimensions are specificity, responsiveness, reliability, empathy, and safety. The most important finding of this study is that these five factors had a positive impact on customer satisfaction. The study also showed that service quality is an appropriate tool to measure service quality in the banking sector of Arab banks. Therefore, practitioners in the banking sector consider this tool as a very important tool to assess, support and improve the quality of services.

Sokachae and Moghaddam (2014) Published an article, "The impact of service quality on customer satisfaction by using SERVQUAL model". Major objectives of the study was the impact of service quality on customer satisfaction using the SERVQUAL model. The

purpose of this study is to investigate the influence of five elements of service quality (SERVQUAL) on customer satisfaction. All Meri Bank customers of Tehran City501 branch are a statistical population. The research methodology is based on descriptive survey and data analysis methods on structural equation modeling using Lisrel software 8.54. The results show that SERVQUAL's five service quality dimensions (reliability, trust responsibility, empathy, and tangible elements) have a positive impact on customer satisfaction.

Saglik et.al (2014) Major objectives of the study were to examined through research where students using the refectory within the university campus were selected as the sample. This study used a questionnaire survey as the data collection method. The methodology included performing factor analysis, ANOVA, t-tests, and multiple regression analysis on 689 valid survey data. Multiple regression analysis was performed on the three aspects of restaurant service quality (service, hygiene, and atmosphere) obtained as a result of factor analysis. The most important finding of this study was that these dimensions had an overall positive impact on satisfaction, amounting to 44%. Among the aspects of service quality, atmosphere was found to have no significant effect on satisfaction. It was concluded that hygiene has a greater impact on satisfaction than service.

Karim and Chowdhury (2014) Published an article, “The impact of service quality on customer satisfaction in private sector banks in Bangladesh”. Major objectives of the study were to analyzed the impact of service quality on customer satisfaction in private sector banks in Bangladesh. Five dimensions of service quality were considered as the basis for this study: specificity, reliability, responsiveness, empathy, and security. A structured questionnaire with a 5-point Likert scale was used to administer the questionnaire and collect data. The sample size was 110 and was selected based on practical considerations. Data were analyzed using SPSS software (version: -17). Research has shown that specificity, reliability, responsiveness, safety, and empathy influence customer satisfaction attitudes.

Bakar (2013) Published an article, “The service quality and customer satisfaction of the top 14 U.S. airlines between 2007 to 2011 using data from the Department of Transportation Air Travel Reports.” Major objectives of this study were to compare

customer satisfaction and service quality with respect to airlines dimension. A critical review of the literature reveals that the aviation industry faces many challenges. These include reducing costs, managing fluctuating demand, and maintaining rigorous quality requirements, all while maintaining world-class service and meeting the needs of diverse customer groups. The Department of Transportation's Air Travel Consumer Report collected data on measures such as 4,444 percent of passengers arriving on time and passengers being denied boarding, baggage mishandling and customer complaints. Quantitative research techniques were used and data were analyzed using Microsoft Excel version 2010 using percentages, means, and standard deviations. A key finding of this study was that while traditional airlines are aiming for higher levels of service quality, significant differences remain. The study, which spanned five years from 2007 to 2011, found that low-cost airlines generally had higher service quality than traditional legacy airlines. The impact on operating costs, market share, infrastructure, and customer service were clear.

Table 1: Meta-Analysis of Articles (Meta Table)

S.N	Name of Authors/s and Date of Publish	Articles Title	Objectives	Research Methodology	Findings
1	Heliyon (2023)	Effects of automated teller machine service quality on customer satisfaction: Evidence from commercial bank of Ethiopia.	To identify the dimensions of ATM service quality and investigate the relationship between customer satisfaction and ATM service quality constructs.	Descriptive Research Design using Likert-type scale	The key findings of this study provide valuable insight for ATM service providers and managers to identify areas for improvementservice quality (reliability, convenience, ease of use, fulfillment, and security/privacy), ATM service providers can enhance

					customer satisfaction.
2	Karmacharya (2022)	Impact of Service Quality Dimensions on Customer Satisfaction in Nepalese Financial Institutions based on SERVPERF Model.	To establish the relationship between service quality dimensions and customer satisfaction, as well as to examine the influence of service quality dimensions on customer satisfaction in the Nepalese financial institutions.	Descriptive Research Design using Likert-type scale	Nepalese customers want higher-quality services in order to be completely satisfied. Responsiveness, reliability, and assurance are regarded as critical components of service. Quality in Nepalese financial institutions. The study's findings indicate that the SERVPERF model may be used to predict overall satisfaction.
3	Anitha and Hemanathan (2022)	Analyzing the impact of service quality on customer satisfaction in selected private banks services at Chennai City.	To study the level of customer satisfaction for the services rendered by private sector banks.	Likert type balance ranging	A key finding of this study is that in private banks they overall believed that it had a positive impact on their satisfaction
4	Joshi (2021)	Relationship between banking service	To examine the relationship between banking service quality	Pearson's correlation and multiple regression	The findings of this study revealed that there is positive relationship between

		quality dimensions and customer satisfaction in Nepalese banking industry.	dimensions and customer satisfaction in Nepalese banking industry	analysis	service quality and customer satisfaction. All the service quality dimensions have statistically significant positive impact on customer satisfaction except tangibility.
5	Shrestha (2020)	Impact of service quality dimension of commercial Banks on Customer in Nepal.	To identify service quality dimension that influence on customer satisfaction of commercial banks in Nepal.	Mean and Correlation Coefficient	Therefore, the bank should be able to satisfy the customers through superior services and facilities. The bank must try to maintain long term relationship with customers. Service quality dimension play significant role to satisfy their customers in commercial banks.
6	Thapa (2020)	To reveal the existing level of service quality of some Nepalese commercial banks.	To measure bank services quality within five dimensions; tangibles, reliability, responsiveness, assurance and empathy are considered as to service quality.	Descriptive statistics and t-test was used.	Among these five dimensions, empathy and assurance were more satisfied dimensions in bank service quality.
7	Maladi et al. (2019)	Investigated on how switching barriers,	To investigate on how switching barriers, company image,	AMOS (Analysis Moment of Structure)	Customer retention is significantly impacted by customer satisfaction.

		company image, and service quality affected customer satisfaction and retention.	and service quality affected customer satisfaction and retention.	tool.	Additionally, it has been argued that the switching barrier needs to be reduced while maintaining service quality, company image, and customer satisfaction.
8	Anjalika and Priyanath (2018)	Effect of service quality of commercial banks on customer satisfaction in the Gampaha district.	To explore the effect of service quality of commercial banks on customer satisfaction. who maintain both public and private bank accounts in the Gampaha district.	Partial Least Square Structural Equation Model	The results showed that there is a significant positive relationship between assets and customer satisfaction and responsiveness and customer satisfaction for both public and private banks.
9	Koirala and Shrestha (2018)	Service quality and customer satisfaction with respect to the service quality dimensions in the Nepalese commercial banking sector.	To analysis to measure relationship among service quality dimensions, service quality and customer satisfaction variables.	Descriptive statistics, correlation, and regression analysis	All the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming service quality and customer satisfaction of commercial banks in Nepal. Customer satisfaction is highly affected by service quality.

10	Felix (2017)	Service quality and customer satisfaction in Banque Populaire du Rwanda, Kigali branches.	To determine the relationship between service quality and customer satisfaction in Banque Populaire du Rwanda, Kigali branches.	Pearson's Linear Correlation Coefficient	The findings from PLCC showed a significant and positive relationship between service quality and customer satisfaction while comparing dimension like customer loyalty with reliability, responsiveness and assurance.
11	Otoo (2016)	Effect of customer service quality on customer satisfaction in commercial banks in Ghana	To examine the effect of customer service quality on customer satisfaction in commercial banks in Ghana.	Descriptive and inferential statistical tools	It found to be significant determinants of customers' satisfaction with their service quality. It was recommended that the banks should strive to improve upon its customers' perception scores in the areas of empathy, reliability, responsiveness, assurance and tangibles.
12	Al-Azzam (2015)	Effect on the customer satisfaction among Arab bank customers in the city of Irbid.	To evaluate its effect on the customer satisfaction among Arab bank customers in the city of Irbid.	Quantitative Research	The study also showed that service quality is an appropriate tool to measure service quality in the banking sector

13	Shah, Khan, Imam, and Sadiqa (2015)	Impact of service quality on customer satisfaction in banking sector employees of Lahore region.	To find out the impact of service quality on customer satisfaction in banking sector employees of Lahore region.	Reliability statistics, correlation and regression analysis	Significant positive relationship between service quality and customer satisfaction. Study revealed that the respondents have responded in disagreement to the quality of services provided to the customers, which in turn, definitely affected the customer satisfaction.
14	Karim and Chowdhury (2014)	Impact of service quality on customer satisfaction in private sector banks in Bangladesh.	To analyze the impact of service quality on customer satisfaction in private sector banks in Bangladesh. Five dimensions in service quality such as tangibility, reliability, responsiveness, empathy, and assurance were considered as the base for this study.	Reliability statistics, correlation and regression analysis	A significant positive relationship between service quality and customer satisfaction. Study revealed that the respondents have responded in disagreement to the quality of services provided to the customers, which in turn, definitely affected the customer satisfaction.

15	Ragavan and Mageh (2013)	Service quality dimensions on customer overall satisfaction.	To examine the influence of service quality dimensions on customer overall satisfaction.	Correlation and multiple regression model	Service quality dimensions of tangibles, responsiveness, reliability and assurance are positively and significantly influencing the customers overall satisfaction, while the empathy is negatively and significantly influencing the customers overall satisfaction.
16	Munhurrun, Bhiwajee and Naidoo (2012)	Public service by drawing on front-line employees (FLE) and customer perceptions of service quality.	To investigate to obtain a better understanding of the extent to which service quality is delivered within the Mauritian public service by drawing on front-line employees (FLE) and customer perceptions of service quality.	Quantitative approach	There is a significant shortfall in meeting customer expectations, the FLE appears to have a good understanding of what these expectations actually are. The FLE should focus on those dimensions which receive lowest ratings and attributes with high gap scores.
17	Munusamy, Chelliah and Mun (2012)	Customer satisfaction through delivery of service	To study the relationship between service quality dimensions and	Correlation and regression model	It has no significant effect on customer satisfaction. Responsiveness has positive relationship

		quality in the banking sector in Malaysia.	customer satisfaction.		but no significant impact on customer satisfaction.
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2.3 Research Gap

It is uncommon to find research on Nepalese commercial banks that focuses on customer satisfaction and service excellence. The majority of research on Nepal's commercial banks has tended to focus more on other banking-related issues than on factors that affect customer satisfaction. Most studies employed small sample sizes and a theoretical framework, according to earlier research. Research demonstrating the empirical relationship between communication and security and customer satisfaction in Nepalese commercial banks has not been conducted. In some ways, this study tried to close a research gap left by past investigations. This study focuses on how satisfied customers are with the caliber of service offered by Nepalese commercial banks, and it can also be used as a model for future research.

There aren't many studies on this topic in Nepal. By primarily focusing on selected development banks that were founded in different eras, this study aims to fill the research gap on the profitability analysis of these five banks' service quality and customer satisfaction. However, this could have resulted in inaccurate results. The profitability of three banks has been evaluated in this study using a variety of ratios and trend analysis. Statistical techniques like the Likert scale, mean, and correlation are also used to assess the riskiness and relationships between tangibility, responsiveness, reliability, and empathy at a specific development bank.

Several quantitative studies have been carried out to ascertain the degree of customer satisfaction with the quality of services provided by the Nepalese Commercial Bank, mainly in a sample of various industries. The current dynamic business environment, marked by intense competition, presents a greater number of challenges for commercial banks. Service quality is particularly important in the context of banking services because it gives a competitive advantage based on the level of client satisfaction. In addition, a gap is produced by the research's time, variables, context, and methodology.

CHAPTER III

RESEARCH METHODOLOGY

This chapter focuses on research design, nature and sources of data, selection of samples, method of analysis and the methodological limitations of this study and described in consecutive sections and conceptual framework.

3.1 Research Design

Quantitative method is used to achieve the objectives of this study. Quantitative research is the process of collecting and analyzing numerical data. It can be used to find patterns and averages, make predictions, test causal relationships, and generalize results to wider populations. Because this study aims to assess the impact of service quality and customer satisfaction in the banking sector of Nabil Bank Limited, Prime Commercial Bank, Siddhartha Bank Limited, NIC ASIA Bank Limited, Laxmi Sunrise Bank Limited. The study also revealed a causal relationship between service quality and customer satisfaction.

3.2 Population and Sampling Methods

The total population of this study consists of five commercial banks in Nepal that are currently highly profitable. Therefore, these five banks, which represent only 16.66% of the population which is used as the sample for the study. Using judgment sampling technique, Nabil Bank Limited, Prime Commercial Bank, Siddhartha Bank Limited, NIC ASIA Bank Limited, Laxmi Sunrise Bank Limited are considered. In this study, five selected banks are used as research examples. 400 questionnaires were distributed to respondents to analyze the relationship between service quality and customer satisfaction.

3.3 Data collection Procedure

The study is based on various data published by banks. Financial performance reports, articles, magazines, reference materials, annual reports, and related websites are considered for the necessary observations. Supplementary information is collected from various agencies and authorities such as NRB, Nepal Stock Exchange and Ministry of Finance. Similarly, various data and information from journals, articles, questionnaires, and other published and unpublished reports and documents are collected from various

sources for the required observations. Some of the review materials are mainly from the Central Library of Kirtipur, Shankar Dev Campus.

3.4 Nature and Sources of Data

This study is based on primary data. Primary data and information are collected and analyzed to determine the relationship between service quality and customer satisfaction of Nepal Commercial Banks. This study provides information from a structured survey that includes relevant information to respondents through yes or no questions, check mark questions, multiple choice questions, ranking questions, and 5-point Likert scale questions. Collect data. Data are analyzed using descriptive and causal comparative methods.

3.5 Data Processing Procedure

First, we extracted data from banks' surveys and annual reports and compiled them into a single sheet. Next, we entered the data into a spreadsheet to determine the financial ratios and prepared the required numbers according to the needs and requirements of this study. For this purpose, the collected data were processed using computer programs such as Microsoft Excel and Microsoft Word.

3.6 Method of Analysis

The purpose of the study is to analyze the relationship between service quality and customer satisfaction using a simultaneous equation model. Service quality dimensions are used as independent variables. Service quality dimensions are categories of five variables: reliability, responsiveness, empathy, security, and communication. Customer satisfaction is used as the dependent variable. This study uses a multiple regression model to analyze the relationship between service quality and customer satisfaction. The multiple regression models used in this study were:

$$CS = \beta_0 + \beta_1Rel + \beta_2Res + \beta_3Em + \beta_4As + \beta_5Com + e \dots \dots \dots (i)$$

Where,

CS = Customer Satisfaction

Rel = Reliability

Res = Responsiveness

Em = Empathy

As = Assurance

Com = Communication

β_0 = Intercept of the dependent variable

e = error term

$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are the beta coefficient of the explanatory variables to be estimated.

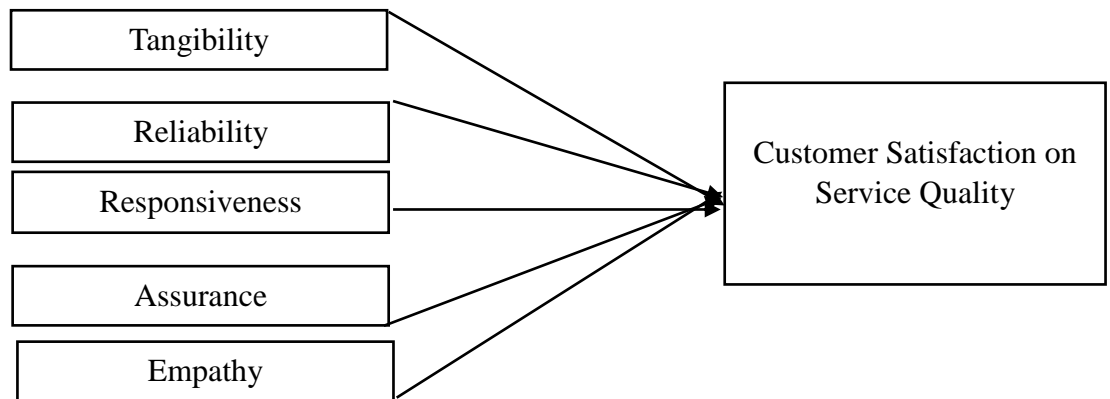
3.7 Conceptual Framework

Based on the literature review and research requirements, the following conceptual model was developed. The dependent variable (customer satisfaction) and independent variable (service quality) in this study were designed based on the empirical findings of previous studies. The purpose of this study is to determine the customer satisfaction towards the service quality of Nepal Commercial Bank. In this study, the dependent variable is customer satisfaction and the independent variable is the service quality dimension.

The indicators of attitude, change, recommendation, and fulfillment of expectations, usage satisfaction and repeat purchase were developed under the dependent variable customer satisfaction. Attitude means how you feel. Customers have awareness about the service. What kind of attitude emerges in the customer's black box after dealing with banking services can be positive or negative? It helps us analyze whether users are satisfied with this service. Switching is the act of a customer changing suppliers. How likely is an existing customer to switch from her current financial services provider to another bank? Are they likely to switch from this bank, or do they not want to switch, or what kind of initiatives does the bank have for their customers? Recommendation is when a customer recommends your service to others. It refers to the degree to which would you highly recommend or not recommend the service to your friends and family? Fulfillment of expectations refers to the extent to which the bank meets the needs of its users. Usage satisfaction refers to the extent to which customers are satisfied with a bank's service quality in terms of branch image, overall experience, service importance, and overall satisfaction. Repurchase refers to the extent to which a customer returns after visiting the bank again. To what extent are customers willing to purchase other products from this bank? The conceptual framework for this study is shown in Figure 1.

Independent Variables

Dependent Variables



Source: Adhikari, (2014)

Figure 1. Research Framework

According to the conceptual framework developed in this study, service quality and customer satisfaction are the two fundamental concepts that serve as a guide throughout this study. This framework was developed based on Parasuraman et al. developed. The SERVQUAL model basically includes five dimensions such as reliability, responsiveness, security, empathy, and specificity. These dimensions represent how customers organize information about service quality in their thinking and how customers evaluate customer satisfaction based on these five SERVQUAL dimensions.

Independent variables

Tangibility

Tangibility, at its core, embodies the palpable, touchable essence of the physical world. It is the quality that renders objects perceptible through our senses, particularly touch. In the realm of physical entities, tangibility is an inherent characteristic, defining the nature of items we can handle, feel, and manipulate. Beyond the tangible confines of the material world, this concept extends its reach into diverse domains. In business, tangibility distinguishes physical assets from intangible ones, influencing valuation and investment decisions. Designers meticulously craft tangible products to not only please the eye but also to engage our tactile senses, creating a holistic user experience. Moreover, tangibility finds expression in the digital landscape, where touchscreens and haptic interfaces bridge the gap between the virtual and the physical. As a broader concept, tangibility even seeps into the intangible realm, shaping our comprehension of measurable goals, emotions expressed through physical gestures, and the overall palpability of abstract concepts.

Thus, tangibility serves as a fundamental element, weaving through the fabric of our interactions with the world, whether in the touch of a tangible object, the metrics of a business valuation, or the design of a digital interface.

(<https://www.investopedia.com/search?q=tangibility>)

Reliability

Reliability stands as a cornerstone in the foundation of trust and dependability. In essence, it is the quality or attribute of being consistent, accurate, and steadfast over time. Whether applied to machines, systems, individuals, or information, reliability signifies a capacity to deliver consistent and predictable results under various conditions. In the realm of technology, reliable systems are those that function consistently without unexpected failures, ensuring seamless operations. Similarly, in interpersonal relationships, reliability is a trait that cultivates trust, reflecting an individual's ability to fulfill commitments and meet expectations. In research and data, reliability implies the consistency and repeatability of measurements, essential for drawing valid conclusions. The concept of reliability resonates in various facets of life, from the reliability of a transportation system to the reliability of information sources in decision-making. Ultimately, reliability is not merely a technical attribute; it is a linchpin for building confidence, fostering stability, and sustaining the integrity of systems and relationships in our interconnected world.

(<https://www.investopedia.com/search?q=reliability>)

Responsiveness

Responsiveness is a multifaceted concept that encapsulates an entity's ability to react promptly, adapt effectively, and engage dynamically with changing circumstances. It is a quality highly valued in various contexts, spanning technological systems, customer service, and interpersonal relationships. In the realm of technology and user experience, a responsive system or website swiftly adapts to user interactions, providing real-time feedback and maintaining optimal performance across different devices and screen sizes. This adaptability ensures a seamless and user-friendly experience. In customer service, responsiveness is a cornerstone of customer satisfaction. A responsive organization promptly addresses inquiries, resolves issues, and acknowledges feedback, demonstrating a commitment to customer needs. Responsiveness is also a key attribute in effective leadership and collaboration, where individuals and teams adeptly adjust their strategies and actions in response to evolving situations. Furthermore, responsiveness extends

beyond immediate reactions; it encompasses an ongoing commitment to improvement and innovation. An organization or individual that embraces responsiveness remains agile, continuously learning, and evolving to meet the demands of a dynamic environment. In the broader societal context, responsiveness is crucial for institutions to address the changing needs and expectations of the communities they serve. (<https://www.investopedia.com/search?q=responsiveness>)

Assurance

Assurance encapsulates the concept of instilling confidence and certainty in various domains, ranging from business practices to interpersonal relationships. In the business context, assurance often refers to the measures, processes, and practices undertaken to ensure the reliability, accuracy, and integrity of financial information. Companies employ auditing and accounting practices to provide stakeholders with assurance that financial reports are transparent, trustworthy, and comply with relevant standards. Beyond finance, assurance extends to the overall quality and safety of products and services, assuring consumers that their expectations will be met or exceeded. In interpersonal relationships, assurance involves the communication of trustworthiness, commitment, and reliability. Providing assurance in personal connections involves actions and words that build confidence and security, fostering a sense of trust and dependability. In the realm of technology and cybersecurity, assurance measures are implemented to guarantee the confidentiality, integrity, and availability of information, assuring users that their data is protected. (<https://www.investopedia.com/search?q=assurance>)

Empathy

Empathy, a cornerstone of human connection, embodies the capacity to understand and share the feelings of others. It transcends sympathy by not only acknowledging someone else's emotions but also immersing oneself in their perspective. At its core, empathy involves a deep and genuine concern for the well-being of others, fostering compassion and a sense of shared humanity. It is a powerful force that bridges gaps in understanding, promoting inclusivity and nurturing meaningful relationships. In interpersonal dynamics, empathy cultivates a supportive and nurturing environment, facilitating effective communication and conflict resolution. It is the ability to listen actively, discern emotional nuances, and respond with sensitivity. Empathy is not limited to personal relationships; it plays a pivotal role in various professional settings. Leaders who display

empathy create workplaces that prioritize the holistic well-being of their team members, leading to increased morale, productivity, and a positive organizational culture. Empathy extends beyond individual interactions to societal and global perspectives. It drives collective efforts toward social justice, as individuals and communities seek to understand and address the challenges faced by others. In the broader context of technology and design, empathetic approaches result in products and solutions that cater to the diverse needs and experiences of users. (<https://www.investopedia.com/search?q=empathy>)

Dependent Variable

Customer Satisfaction on Service Quality

Customer satisfaction, intricately tied to service quality, is a pivotal metric that gauges the success and effectiveness of businesses in meeting customer expectations. Service quality, encompassing various dimensions such as responsiveness, reliability, assurance, empathy, and tangibles, directly influences the overall customer experience. A high level of service quality manifests in timely and efficient responses to customer needs, consistent and reliable service delivery, clear communication that assures customers of the reliability of the service, empathetic interactions that address their concerns, and tangible elements that enhance the overall service experience. When customers perceive that a service meets or exceeds their expectations, satisfaction ensues. It goes beyond the transactional aspect of a service and delves into the emotional resonance created by positive interactions. Service quality not only fulfills the functional requirements but also contributes to building trust and loyalty. A satisfied customer is more likely to become a loyal advocate, promoting the business through positive word-of-mouth and repeat transactions.

Monitoring and improving service quality to enhance customer satisfaction involve a continuous feedback loop. Gathering customer feedback, whether through surveys, reviews, or direct interactions, becomes crucial for businesses to understand their strengths and areas for improvement. Adjustments and innovations based on this feedback contribute to an iterative process that aligns services with evolving customer needs and expectations. ([https://www.investopedia.com/search?q=customer satisfaction on service quality](https://www.investopedia.com/search?q=customer+satisfaction+on+service+quality))

CHAPTER IV

RESULTS AND DISCUSSION

This chapter deals with the in-depth analysis and presentation of data collected from the research questionnaire. The purpose of this chapter is to analyze the data collected through primary source that is research questionnaire. The data collected will be analyzed so as to carry out the necessary statistical tests and give the relevant interpretations For the purpose of the research; questionnaire was filled from 435 respondents working in commercial banking sector of Kathmandu valley. The chapter begins with the demographic background of the respondents and further with various aspects of non-financial rewards that affects the employee's motivations towards works in 'A" class commercial banks in Nepal on the given topic on set questions. Statistical indicators include; Descriptive analysis, correlation and multiple regression analysis along with anova. After all the tests and analysis, the results from the primary data are presented with the help of tabular and graphical tools and statistical test analysis.

4.1 Demographic analysis

This section deals with the demographic analysis of the data collected through the questionnaires during the research process. Demographic analysis incorporates segmentation or we can say the distribution of the samples collected for the research with respect to various demographic components. These values help researcher to analyze the data with respect to frequencies and aggregation relating to research questions and variables.

Table 2

Gender wise distribution of the sample

Gender	Frequency	Percentage
Male	170	42.5 %
Female	230	57.5 %
Total	400	100 %

Table 2 shows the total number of male and female respondents. Among 400 respondents, 170 of them were male and other 230 were female. This shows that 42.5% of the total respondents were male and remaining 57.5% were female.

Table 3

Age wise distribution of the sample

Age Group	Frequency	Percentage
Below 20 years	96	24 %
20-30	205	51.25%
31-40	68	17 %
41 years and above	31	7.75%
Total	400	100 %

Table 3 shows the total number of respondents' age wise. Among 400 respondents, age group below 20 years consists of 96 respondents which shows that 24% of respondents, 20-30 consists of 205 respondents which show that 51.25% of respondents, 31-40 consists of 68 respondents which shows that 17% of respondents, 41 above consists of 31 respondents which shows that 7.75% of the respondents of the total respondents.

Table 4

Education wise distribution of the sample

Level of Education	Frequency	Percentage
10+2	63	15.75
Bachelors	208	52
Masters	111	27.75
Mphil/Doctarate	18	4.5
Total	400	100 %

Table 4 shows that the majority (i.e. 52 %) of the respondents have an education level of "Bachelors". Likewise 27.75% of the respondents have an education level of "Master's Degree", 15.75% of the respondents have an education level of "10+2" and Mphil/Doctarate is 4.5% which is least among the total respondents.

Table 5

Effects of Service Quality on Customer Satisfaction

S.No.	Statements	Mean	S.D.	CV
1	Tangibility	Mean	S.D.	CV
1.1	The bank has modern looking equipment.	4.4	0.753	17.10
1.2	The physical facilities in the bank is visually appealing.	4.37	0.678	15.51
1.3	Employees at the banks is neat appearing.	4.33	0.618	14.27
1.4	Materials associated with the service (such as pamphlets or statements) is visually appealing at the bank.	4.105	0.682	16.61
2	Reliability	Mean	S.D.	CV
2.1	When the bank promise to do something by a certain time, they do.	4.1425	0.995	24.01
2.2	When a customer has a problem, the bank shows a sincere interest in solving it.	4.0925	0.772	18.86
2.3	The bank performs the service right at the first time.	4.0175	0.836	20.81
2.4	The bank delivers the service as promised to the customers within a given time.	4.04	0.925	22.89
2.5	The bank provides secure and accurate service to customers.	3.98	0.999	25.09
3	Responsiveness	Mean	S.D.	CV
3.1	Employees in the bank tell you exactly when services will be performed.	4.1675	0.931	22.34
3.2	Employees in the bank give prompt service.	3.92	1.158	29.55
3.3	Employees in the bank are always willing to help you.	4.15	0.927	22.34
3.4	Employees in the bank are never too busy to respond to your request.	4.04	1.028	25.44
4	Assurance	Mean	S.D.	CV
4.1	You feel safe in your transactions with the bank.	4.1825	0.791	18.91
4.2	Bank employee's behavior will increase customers confidents and trust in quality services	4.13	0.717	17.37
4.3	Bank employees will be regularly courteous with customer queries.	3.9525	0.931	23.56
4.4	Bank employees have a knowledge to answer your question.	4.0925	0.936	22.87
5	Empathy	Mean	S.D.	CV
5.1	The bank has operating hours convenient to all its customers.	4.1575	0.754	18.15
5.2	The bank has employees who give personal attention.	4.205	0.689	16.38
5.3	Bank employees have the enthusiasm to understand the customer specific needs.	4.345	0.779	17.94
5.4	Bank employees consider customer needs in the first place.	4.2075	0.633	15.04
6	Customer Satisfaction	Mean	S.D.	CV

6.1	I would recommend others to open account in this bank.	4.3025	0.956	22.21
6.2	I will continue to use this bank services.	4.14	0.976	23.58
6.3	I speak positive things about my bank to other people.	4.1425	1.000	24.14
6.4	I am very satisfied with the services offered by this bank.	4.1925	0.961	22.91

From table 5, the tangibility of banking services is measured through mean, standard deviation (S.D.), and coefficient of variation (CV). The highest mean (4.4) indicates that customers perceive the bank's equipment as modern, while employees' neat appearance (Mean: 4.33, CV: 14.27%) is rated highly with the least variability. Physical facilities (Mean: 4.37, CV: 15.51%) and service-related materials (Mean: 4.105, CV: 16.61%) are also viewed positively. Overall, the data reflects customer satisfaction with the bank's tangible aspects, such as equipment, facilities, and employee presentation.

From table 5 of reliability, the highest mean (4.1425) shows that customers perceive the bank as fulfilling promises on time. Banks showing sincere interest in solving problems (Mean: 4.0925, CV: 18.86%) is rated consistently. Performing services correctly the first time (Mean: 4.0175) and delivering services as promised (Mean: 4.04) have slightly higher variability. Secure and accurate service (Mean: 3.98, CV: 25.09%) reflects the greatest variability. Overall, the data suggests that customers generally trust the bank's reliability.

From table 5 of responsiveness the highest mean score (4.1675) indicates that employees are clear about when services will be performed. However, the highest CV (29.55%) suggests that prompt service has more variability in customer perception. Overall, employees show willingness to help (Mean: 4.15, CV: 22.34%) and are generally responsive to customer requests (Mean: 4.04, CV: 25.44%).

The table 5 of assurance highlights customer perceptions of assurance in banking services, evaluated through mean, standard deviation (S.D.), and coefficient of variation (CV). The highest mean (4.1825) indicates that customers feel safe in their transactions. Trust in employee behavior (Mean: 4.13, CV: 17.37%) shows consistent responses, while employees' knowledge (Mean: 4.0925, CV: 22.87%) and courteousness (Mean: 3.9525, CV: 23.56%) display slightly more variability. Overall, the data suggests that customers generally trust the bank's services and its employees' behavior.

The table 5 of empathy evaluates customer perceptions of empathy in bank services through mean, standard deviation (S.D.), and coefficient of variation (CV). The highest mean (4.345) indicates that employees show enthusiasm in understanding customers' specific needs. The lowest CV (15.04%) suggests that employees consistently prioritize customer needs, while personal attention (Mean: 4.205, CV: 16.38%) and convenient operating hours (Mean: 4.1575, CV: 18.15%) are also valued. Overall, the data indicates a strong sense of empathy from bank employees towards customers.

From table 5 of customer satisfaction, it assesses customer satisfaction, an independent variable, through four key statements measured by mean, standard deviation (S.D.), and coefficient of variation (CV). High mean values across all statements indicate strong satisfaction, particularly with recommending the bank (Mean: 4.3025) and overall satisfaction with services (Mean: 4.1925). Customer satisfaction is influenced by dependent variables such as tangibility, reliability, responsiveness, assurance, and empathy, which contribute to customers' positive perceptions and willingness to recommend and continue using the bank's services. Variability in responses is minimal, indicating generally consistent satisfaction levels.

Table 6

Descriptive statistics for composite mean, standard deviation and coefficient of variation

Descriptive statistics table for composite mean and standard deviation				
Descriptive statistics	N	Mean	Std. Deviation	CV
TANA	400	4.3013	0.41794	13%
RELA	400	4.0545	0.77720	19%
RESA	400	4.0694	0.80706	20%
ASSURA	400	4.0894	0.64085	16%
EMPA	400	4.2288	0.54197	10%
Average Score		4.14865		

As indicated in Table 6, it shows the descriptive statistics for composite mean and standard deviation for the different independent variables used in the research. The highest mean score (4.3013) is for tangibility, indicating customer satisfaction with the bank's physical aspects, while the lowest mean (4.0545) is for reliability. Empathy shows

the least variability with a CV of 10%, reflecting consistent customer perceptions, whereas responsiveness has the highest CV of 20%, indicating more variability. The overall average score is 4.14865, reflecting generally high satisfaction across all dimensions.

4.2 Correlation analysis

This section of analysis covers all correlation analysis of the variables under the study that was obtained using IBM SPSS by using the commands Analyze-Correlate-Bivariate. The correlation analysis is conducted for the whole sample which helps to find out the relationships between the variables under the study. This analysis also helps to verify the hypotheses and ascertain the significance of different factors (independent variables) and customer satisfaction (Dependent Variable). It includes computation of correlation coefficient between different non-financial factors that affects the employee motivation. They are briefly discussed below.

Table 7

Correlation matrix between variables for all samples

Variables		Correlations					
		TAN A	REL A	RESA	ASSURA	EMPA	CSA
TANA	Pearson Correlation	1	.327**	.259**	.421**	.263**	.146*
RELA	Pearson Correlation		1	.824**	.714**	.443*	.374*
RESA	Pearson Correlation			1.00	.637**	.323**	.507*
ASSURA	Pearson Correlation				1.00	.478**	.714*
EMPA	Pearson Correlation					1	.352*
CSA	Pearson Correlation						1

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

The output of the correlations indicated in Table 7 provides Pearsons correlation between each pair of variables and associated significance tests. It is found that Customer Satisfaction (CS) is positively correlated with all five different independent variables i.e tangibility (TANA), reliability(REL), responsiveness (RESA), assurance (ASSUR) and

empathy (EMPA). Customer Satisfaction (CS) is positively correlated with TANA ($r=.146^{**}$ or 14.6 %), Similarly Correlation between CS and RELA is positive with $r=.374^{**}$ or 37.4 %, correlation between CS and RESA is positive with $r=.507^{**}$ or 50.7%, correlation between CS and ASSUR is positive with $r=.714^{**}$ or 71.4 %, correlation between CS and EMPA is positive with $r=.352^{**}$ or 35.2%.

Thus, as per the computation of the results obtained from Table 7, it clearly shows that all the independent variables; tangibility (TANA), reliability(REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA) are positively correlated with dependent variable i.e. Customer Satisfaction (CS) and is significant at two tailed test. Among all the five different independent variables; tangibility (TANA), reliability (REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA) ASSUR is relatively highly correlated with the dependent variable i.e. Customer Satisfaction (CS) with $r=.714^{**}$ or 71.4 % and is significant at 0.05 level of significance in a 2 tailed test.

4.3 Regression analysis

The regression analysis aids to find out the impact of independent variables on the dependent variable. The regression analysis is conducted for the whole sample. In the study, regression analysis is done for the different determining factors; tangibility (TANA), reliability (REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA) on Customer Satisfaction (CS). A multiple regression model can be set up in SPSS by using the commands Analyze – Regression – Linear.... The resulting SPSS output tables are shown in Table 8.

Table 8

Multiple regression model fit output

Model summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.808 ^a	0.653	0.648	0.48875

a. Predictors: (Constant), TANA, RELA, RESA, ASSURA, EMPA, dependent Variable; CS

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	176.834	5	35.367	148.056	<.001 ^b
	Residual	94.116	394	0.239		
	Total	270.950	399			

a. Dependent Variable: CSA

b. Predictors: (Constant), EMPA, TANA, RESA, assura, RELA

As indicated in Table 8, the model fit output consist of a Model summary table and an ANOVA table. This computation includes the multiple correlation coefficient, R, its square R^2 , and an adjusted version of this coefficient as summary measures of model fit. The multiple correlation coefficient $R = .808$ indicated that there is a strong correlation (80.8%) between the customer satisfaction and those predictors in the regression model value of R-square is 0.653, which indicates that the independent variables tangibility (TANA), reliability(REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA). described for up to 65.30% of dependent variable (Customer Satisfaction). The remaining 34.7% can therefore be achieved through other factors outside the five variables. Adjusted R^2 (0.684) is called the coefficient of determination which tells % of variations in dependent variable explained by independent variables. In the study, Adjusted R^2 is 64.8 % which shows that 64.8% of variations dependent variable is explained by independent variable after adjusting by degree of freedom. The standard error of estimate measures the variability of observed value of dependent variable around

regression line. In the study, the standard error of the estimate is 0.48875 indicated that the average distance of the data points from the fitted regression line is deviated by given calculated value.

Next, the ANOVA table shows the overall model is fit. It provides the F- test for the Null hypothesis that we can clearly reject the Null hypothesis and accept the alternative hypothesis as $p < 0.05$ and is significant at 0.05 level and so we conclude that in overall there is statistically significant relationship between independent variable and dependent variable i.e. customer satisfaction (CS).

Table 9

Multiple regression coefficients output

Model	Unstandardized		Standardized coefficients	T	Sig.
	B	Std. Error			
1 (Constant)	0.532	0.287		1.852	0.065
TANA	-0.256	0.050	-0.168	-5.118	0.000
RELA	-0.699	0.063	-0.660	-11.091	0.000
RESA	0.502	0.054	0.492	9.228	0.000
ASSURA	1.150	0.059	0.894	19.439	0.000
EMPA	0.202	0.068	0.102	2.961	0.003

a. Dependent Variable: CSA

As indicated in Table 9, Customer Satisfaction (CS) is considered as dependent variable and tangibility (TANA), reliability (REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA) are considered as independent variables. The beta value indicates that change in independent variable by 1 unit will bring about the change in the dependent variable by the beta value of respective independent variables. As depicted in table 9, independent variable with highest beta value is of ASSURA with 0.894, which means that

the change in independent variable ASSURA by 1 unit will bring about the changes in the dependent variable i.e. (EM) by 0.894 units.

Likewise the independent variable with lowest beta value among all independent variables is Reliability (REL) is -0.660, which means that the change in independent variable (CD) by 1 unit will bring about the changes in the dependent variable i.e. (CS) by -0.660units which is negative change.

Furthermore, in Table 9 it also most importantly indicates the significance value i.e. p value of all five different independent variables with dependent variable (CS) where it clearly shows that all p values of all five independent variable tangibility (TANA), reliability(REL), responsiveness (RESA), assurance (ASSUR) and empathy (EMPA) have significant relationship with dependent variable i.e. Customer Satisfaction (CS) with p value 0.000,0.000, 0.000, 0.000 and 0.003 respectively which is less than 0.05. Therefore we hereby can conclude that all Null hypothesis H01, H02, H03,H04 and H05 can be clearly rejected and admit that they have significant relationship with dependent variable .All the results of the hypothesis has been depicted in Table 10.

Table 10

Result of hypothesis testing

Statement	Decision	Sig.Level
H01: There is significant relationship between tangibility and Customer satisfaction.	Accept	0.000
H02: There is significant relationship between reliability and Customer satisfaction.	Accept	0.000
H03: There is significant relationship between responsiveness and Customer satisfaction.	Accept	0.000
H04: There is significant relationship between assurance and Customer satisfaction.	Accept	0.000
H05: There is significant relationship between empathy and Customer satisfaction.	Accept	0.003

4.4 Discussion

The objectives of the study, quantitative research methodology was applied in the research. The survey conducted in this research study was to figure out the effect of service quality on customer satisfaction in “A” class commercial bank inside Kathmandu valley.

This study aims to determine which of the five independent variables—tangibility, reliability, responsiveness, assurance, and empathy has the most significant impact on customer satisfaction. Each of these variables represents key elements of service quality. By analyzing their effects, the study seeks to identify which factor plays the most critical role in shaping customer experiences and satisfaction within the Nepalese banking sector. The findings will provide insights into which aspect of service quality banks should prioritize to improve customer satisfaction effectively.

The result of this study is found similar to study conducted by Karmacharya (2022). Main variables of this study are tangibility, reliability, responsiveness, assurance, and empathy which are similar to article by Karmacharya (2022). Among these, reliability and assurance were found to be the most critical factors for customer satisfaction, as customers value dependable and trustworthy services while this study revealed that responsiveness and assurance as the most important in determining customer satisfaction. "Responsiveness" refers to how quickly and effectively a business addresses customer needs, inquiries, or issues, while "assurance" relates to the confidence customers have in the company's reliability, competence, and trustworthiness. In this context, these two factors were found to have the greatest influence on how satisfied customers feel, suggesting that timely responses and a sense of security are crucial for maintaining customer loyalty.

Anitha and Hemanathan (2022), concluded that improving service quality in private banks can significantly boost customer satisfaction. They recommended that banks focus on training staff, streamlining processes, and investing in technology to enhance service quality. Overall, the study underscores the importance of delivering high-quality services to foster customer loyalty in the competitive banking sector in Chennai.

Similarly, this study also emphasize the critical role of service quality in influencing customer satisfaction, highlighting the need for banks to understand and improve various

aspects of their services to meet customer expectations. Anitha and Hemanathan (2022), focused on customer satisfaction in banking through recommendations and insights and this study through statistical analysis.

The relationship between banking service quality dimensions and customer satisfaction highlighting several key findings. It identifies critical dimensions of service quality tangibility, reliability, responsiveness, assurance, and empathy—that significantly influence customer satisfaction. The study reveals a strong positive correlation: customers tend to be more satisfied when they perceive higher service quality in these areas. Notably, reliability and responsiveness emerge as the most influential factors, with customers prioritizing these aspects in their banking experiences. Additionally, the study uncovered a gap between customer expectations and actual service quality received, indicating areas where banks can improve their service delivery. While this study concludes responsiveness and assurance have the strongest effects on customer satisfaction other than rest of the three key elements: tangibility, reliability and empathy Shrestha (2020), Thapa (2020), Anjalika and Priyanath (2018), Munusamy, Chelliah and Mun (2012).

The study by Munhurrun, Bhiwajee, and Naidoo (2012) on public service through the perspectives of front-line employees (FLE) and customer perceptions of service quality concludes that understanding both front-line employee performance and customer perceptions is essential for improving service quality in public services. They recommended focusing on employee training, enhancing service quality dimensions, and closing the expectation gap to boost customer satisfaction. Overall, the study underscores the importance of aligning employee performance with customer expectations to foster a positive service experience. Similarly, this study concluded that improving service quality in banks positively affects customer satisfaction and there is a positive relationship between service quality and customer satisfaction. All aspects of service quality have a statistically significant positive impact on customer satisfaction.

The study by Ragavan and Mageh (2013) likely referenced the SERVQUAL model, which includes dimensions such as tangibility, reliability, responsiveness, assurance, and empathy as in our study too. The researchers found that each dimension of service quality has a positive correlation with overall customer satisfaction. High levels of service quality

in these areas lead to increased customer satisfaction while this study concluded more emphasis on assurance and responsiveness leads to customer satisfaction.

Likewise in the Nepalese banking sector, assurance is crucial because customers seek to feel secure about the transactions and services they receive. This includes knowledgeable staff who can provide accurate information and help customers feel valued and respected.

In Nepal, where trust in financial institutions can vary, reliability is vital. Customers expect banks to provide timely and accurate services, such as processing transactions and resolving issues efficiently, which contributes significantly to overall customer satisfaction.

CHAPTER V

SUMMARY AND CONCLUSION

The final chapter of the report has been organized into three separate sections. The first section summarizes the research that has been completed. The second section offers a review of the current study and interprets its findings in comparison to the earlier research outlined in the evaluation section. The third section discusses the study's conclusion, while the fourth section focuses on the recommendations and limitations of the research.

5.1 Summary

The aim of this study was to assess how service quality influences customer satisfaction in Nepal's banking sector. The research followed a quantitative design, using regression analysis and correlation to evaluate the impact of various service quality dimensions on customer satisfaction, based on primary data. A five-point Likert scale was used in the survey, with regression analysis and correlation applied for data analysis. A total of 400 samples were collected, and a pre-designed questionnaire was used as the primary data collection tool. The primary data collected from the respondents were analyzed using the statistical analysis software, SPSS version 25. The first section of the questionnaire gathered respondents' personal information, while the second focused on their behavioral experiences with banking services, using Likert scale questions. The study's findings were produced by coding, analyzing, presenting, and integrating the survey data.

As indicated in Table 6, it shows the descriptive statistics for composite mean and standard deviation for the different independent variables used in the research. The highest mean score (4.3013) is for tangibility, indicating customer satisfaction with the bank's physical aspects, while the lowest mean (4.0545) is for reliability. Empathy shows the least variability with a CV of 10%, reflecting consistent customer perceptions, whereas responsiveness has the highest CV of 20%, indicating more variability. The overall average score is 4.14865, reflecting generally high satisfaction across all dimensions.

In table 5, bachelor level respondents have the highest intermediate (52%), followed by master degree (27.75%), intermediate (15.75%) and MPhil. / Doctorate (4.5%). Overall, the table highlights the educational background of the sample, showing a wide range of

qualifications. Bachelor's and Master's degrees are most common, while higher academic degrees are less represented but still present in the sample. This distribution offers valuable insights into the educational levels of the respondents.

As indicated in Table 6, it shows the descriptive statistics for composite mean and standard deviation for the different independent variables used in the research. The highest mean score (4.3013) is for tangibility, indicating customer satisfaction with the bank's physical aspects, while the lowest mean (4.0545) is for reliability. Empathy shows the least variability with a CV of 10%, reflecting consistent customer perceptions, whereas responsiveness has the highest CV of 20%, indicating more variability. The overall average score is 4.14865, reflecting generally high satisfaction across all dimensions.

The strongest positive correlations are with Assurance (ASSURA) at 0.714 and Responsiveness (RES) at 0.507, indicating that as CS increases, so do REL and EMPA. Tangibility (TAN) is positively correlated with CS (0.146) and also positively correlated with REL (0.374) and RES (0.507). Reliability (REL) is positively correlated with CS (0.374), TAN (0.146), RES (0.507), and Assurance (AS) (0.714), suggesting that it has a strong positive relationship with these variables. Responsiveness (RES) is positively correlated with CS (0.507), TAN (0.146), REL (0.374), and AS (0.714), indicating that it is positively associated with these aspects. Assurance (AS) shows positive correlations with CS (0.714), REL (0.374), and RES (0.507), indicating a positive relationship with these variables. Empathy (EM) exhibits positive correlations with all variables. The strongest positive correlations are with ASSUR (0.714) and RESA (0.507), suggesting that as RELA increases, EM and TAN tend to increase as well.

5.2 Conclusion

As previously stated, a sample size of 400 respondents was used in the study on the relationship between customer satisfaction and service quality, which used service quality as the dependent variable. The outcome provides information on customer satisfaction in the banking industry inside Kathmandu Valley only. This study's main goals were to determine how satisfied customers were with the dimensions of service quality, including courtesy. Thus, in order to achieve the research objectives, the dimensions of assurance, tangibility, reliability, responsiveness, and empathy were connected to the measurements

of service quality. Assurance has the highest score out of the five variables examined in the analysis of the impact of service quality on customer satisfaction of Nepalese banks; banks should focus on tangibility, which has the lowest score. Assurance, responsiveness, empathy and reliability are the positively significant relationship between customer satisfaction and tangibility are insignificant relationship between customer satisfaction.

This study demonstrates that tangibility, assurance, responsiveness, reliability, and empathy all work together to significantly impact customer satisfaction. Customer satisfaction is therefore positively impacted by service quality. This suggests that these factors are crucial to the prosperity of banks. As a result, this study demonstrates that a key component of customer satisfaction is service quality. As a result, banks must priorities service quality as a service industry in order to satisfy clients in every way.

5.3 Implications

The study's conclusions have practical implications for banks. Specifically, banks and other service providers must improve the quality of their services to meet customer satisfaction. Maintaining high levels of customer satisfaction is key to generating consistent revenue from existing clients and attracting new ones. Banks need to focus on meeting the needs of every customer to build long-term relationships and sustain profitability. Enhancing the quality of core services should be a top priority, which includes providing ongoing training for staff in areas like communication, etiquette, and customer interaction.

Given the sensitive nature of customer accounts and banking data, banks must ensure error-free transactions to retain existing clients and improve service quality. Managers should prioritize service improvements to meet client expectations, and banks must address customer complaints seriously. Providing personalized attention is essential for understanding and catering to individual customer needs. Bank management should also conduct regular research to monitor customer satisfaction levels and gauge expectations across various service aspects.

Since customer satisfaction and expectations are not fixed values, ongoing research at appropriate intervals is essential. The study identified several areas for future research, including factors such as system and communication quality. Exploring these elements can help organizations better understand how to expand their customer base. Future researchers could also enhance this study by applying different methods, variables, samples, or designs, such as comparative studies. Although this research focused on banks, future studies could explore other industries, companies, or consultancies.

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ANNEXURE

Annex 1

Dear respondents,

I am Nimme Maharjan, a MBS student of Shanker Dev Campus. As a partial fulfillment of the academic requirement of the university, I am conducting research entitled “Effect of Service Quality on Customer Satisfaction in Nepalese Banking Industry” This research is performed to find out the relationship between service quality dimension and customer satisfaction in Nepalese banking industry.

For this, I request you to fill up the questionnaire below. All your answers will be maintained highly confidential and used for academic purpose only.

Section A: Respondent’s Profile

1. Age:

- a. Below 20 years
- b. 20 – 30 years
- c. 31 – 40 years
- d. 41 years and above

2. Gender:

- a. Male
- b. Female
- c. Others

3. Education:

- a. 10+2
- b. Bachelors
- c. Masters
- d. MPhil/Doctorate

Section-B

Please indicate your opinion by circling the appropriate number using the scale below:

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

S.No.	Statements	Level of Agreement				
		1	2	3	4	5
4	Tangibility					
4.1	The bank has modern looking equipment.					
4.2	The physical facilities in the bank is visually appealing.					
4.3	Employees at the banks is neat appearing.					
4.4	Materials associated with the service (such as pamphlets or statements) are visually appealing at the bank.					
5	Reliability	1	2	3	4	5
5.1	When the bank promise to do something by a certain time, they do.					
5.2	When a customer has a problem, the bank shows a sincere interest in solving it.					
5.3	The bank performs the service right at the first time.					
5.4	The bank delivers the service as promised to the customers within a given time.					
5.5	The bank provides secure and accurate service to customers.					
6	Responsiveness	1	2	3	4	5
6.1	Employees in the bank tell you exactly when services will be performed.					

6.2	Employees in the bank give prompt service.					
6.3	Employees in the bank are always willing to help you.					
6.4	Employees in the bank are never too busy to respond to your request.					

7	Assurance	1	2	3	4	5
7.1	You feel safe in your transactions with the bank.					
7.2	Bank employee's behavior will increase customers confidents and trust in quality services					
7.3	Bank employees will be regularly courteous with customer queries.					
7.4	Bank employees have a knowledge to answer your question.					
8	Empathy	1	2	3	4	5
8.1	The bank has operating hours convenient to all its customers.					
8.2	The bank has employees who give personal attention.					
8.3	Bank employees have the enthusiasm to understand the customer specific needs.					
8.4	Bank employees consider customer needs in the first place.					
9	Customer Satisfaction	1	2	3	4	5
9.1	I would recommend others to open account in this bank.					
9.2	I will continue to use this bank services.					
9.3	I speak positive things about my bank to other people.					
9.4	I am very satisfied with the services offered by this bank.					

Thank you for spending your precious time on filling this questionnaire.

Annex 2

Result of hypothesis test

SN	Hypothesis	P Value	Remark
H01	Tangibility has significant effect on customer satisfaction	0.000	Accept Alternative Hypothesis
H02	Reliability has significant effect on customer satisfaction	0.000	Accept Alternative Hypothesis
H03	Responsiveness has significant effect on customersatisfaction.	0.000	Accept Alternative Hypothesis
H04	Assurance has significant effect on customer satisfaction.	0.000	Accept Alternative Hypothesis
H05	Empathy has significant effect on customer satisfaction.	0.003	Accept Alternative Hypothesis

EFFECT OF SERVICE QUALITY ON CUSTOMER SATISFACT...

By: Nimme Maharjan

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[Bibek Karmacharya. "Impact of Service Quality Dimensions on Customer Satisfaction in Nepalese Financial Institutions based on SERVPERF Model", Journal of Nepalese Business Studies, 2022](#)

paper text:

Abstract The banking industry in Nepal has experienced rapid growth in recent years, leading to increased competition and the need for service excellence to retain customers. This study explores

the effect of service quality on customer satisfaction in the **Nepalese banking industry. The** research focuses on **five** key **dimensions of service quality**