

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The banking scenario in Nepal is undergoing tremendous change. In an economy, which can be called 'small', the increasing number of players in the market- both in terms of new entrants, and expansion by existing ones, has led to cut throat competition.

The first commercial bank in Nepal, Nepal Bank Ltd., was established in 1937 A.D. The need to regulate financial and monetary system increased immensely resulting in the establishment of Central Bank. Nepal Rastra Bank was established in 1956 A.D. In order to cater the demand of banking system, Rastriya Banijya Bank was established in 1966 A.D. with 100 percent government ownership. Two commercial banks i.e. Nepal Bank Ltd. and Rastriya Banijya Bank both are owned by the government and two development banks in the form of Agriculture Development Bank and Nepal Industrial Development Corporation are serving industrial and agriculture sector under the separate acts for these institutions.

It was only in 1984 A.D. that Nepal Arab Bank, the first joint venture bank in private sector, was established .It is the pioneer of joint venture banks in Nepal. After that many commercial banks and other forms of financial institution were in line. In the last decade or two, Nepal has gone through tremendous changes in the banking sector. Earlier, when there were majority of public banks and a few private banks, banks had no problem for their operation or sustainability and profit. Customers were not the prior need. However, the scenario has changed. The banking market is becoming increasingly competitive and as such, it is difficult for competitors to maintain or even grow market share. With new entrants attracted to this market, the competition looks set to intensify. Now customers are becoming the central attraction and the existing financial institutions are doing every thing possible to attract them. Building and

maintaining strong relationships with customers, both at the consumer level and at the bank level, is paramount to sustaining and success of the banks. Success in the banking system depends on a thorough understanding of the customer base.

In the fiscal year 2063/64, additional 2 commercial banks, 9 development banks, 4 finance companies and 1 micro finances were established. This has resulted in 20 commercial banks, 38 development banks, 74 finance companies, 12 micro finance and 47 NGOs with limited banking operations permission from NRB. Thus, total number of institutions performing financial operation has reached up to around 191. The process of establishment of such financial institutions is continuing in the current fiscal year 2064/65 also.

Consequently, by the end of mid-January 2009, altogether 235 banks and non-bank financial institutions licensed by NRB are in operation. Out of them, 25 are “A” class commercial banks, 59 “B” class development banks, 78 “C” class finance companies, 12 “D” class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs. In such an environment, the banks are struggling to sustain and succeed in the market through introduction of the latest products and services, including technology enabled services. While the banks are vying with each other, the banking habit is still evolving in a large section of the population- a clear indication of this is, cash still being the most preferred mode, for settlement of financial transactions. While customers are being benefited by access to facilities and services that equal many foreign counterparts, serious thought needs to be given to challenges and implications resulting from this mad rush.

The first and the most crucial thought is about sustainability- to sustain themselves banks need to earn profits- to earn profits they need business- to get business they need customers and customers today are kings because so many banks are trying to win them over. In a customer centric market customers influence pricing decisions- a bank may offer higher interest on deposits to wean away a customer from an existing bank- however the question is will it be able to invest/ lend its funds suitably so as to cover its cost of funds? And if not, will it be able to sustain itself on the thinning margins? And if yes, for how long?

Again, to wean away a good customer from another bank, a bank may offer credit facilities at lower rates- however, will this not further put pressure on the thinning margins? The already established, big banks may be able to sustain themselves- however, what about the smaller or newer ones? Between huge investments for creating a state the art ambience, infrastructure and technological base and business at very thin margins how long would they remain viable and profitable?

The natural corollary to expansion is consolidation- business expansion loses its significance without equal focus on business consolidation. Consolidation necessitates education. Education of staff about products and services, building their skills for optimal utilization of the technological infrastructure as well as servicing customers in the best possible manner so as to convert them into life long customers and education of customers to enable them to derive benefits from the infrastructure already in place and from the wide array of services being offered- what use would be services like mobile banking, internet banking and anywhere banking without customers who understand them and use them. “Innovation of new technologies is the trend of the current era. However, diffusion of new technology throughout the economy rather than its generation affects productivity growth at the macro level. Therefore, timely diffusion of new technology or, from the firm’s point of view, its adoption, is a key element to securing economic growth” (Sullivan and Wang, 2001:115).

However, whether banks are considering these approaches is the basic issue. Banks are in a rush to provide innovative products and open branches in different locations. Until recently, banks are trying to maintain their competitive standing via aggressive promotion and extensive branch networks. However, they should understand that in today’s competitive situation the traditional modus-operandi of focusing on extensive promotion and branch networking will not be sufficient. They should recognize the consumer revolution in retail banking and that the success in the future will rest on delivering excellent service to customers. Therefore, they should center their effort to find out whether customers perceive their effort highly or whether they are satisfied or not. (Salmony and Denck, 1999:120)

Besides, although private banks to some extent are trying to attract customers through different endeavors public banks do not seem to approach in a similar manner. They

are advancing with the same past processes and arrangement. In this era of globalization and deregulation, public banks cannot maintain their market with the traditional procedures. Thus, banks that will adapt their strategies to the new competitive conditions by understanding their customers' needs and expectations and improving the level of service quality, as perceived by their customers, are likely to create and gain a competitive advantage.

## **1.2 The Problem of Statement**

The banking vicinity in Nepal is characterized by intense competition. The number of banks is increasing in a rapid way. Not only banks, but there are number of institutions like co-operatives, NGOs that are performing the financial functions under the permission of Nepal Rastra Bank. This has boosted the competition to attract customers and to maintain and increase market share for sustainability and success.

Banks are competing against each other for resources. If one bank introduces one innovative product then other banks don't take long to provide that product to their customers. This has resulted in a boom of many technological and innovative banking products like ATMs, e-banking, sms-banking etc. Similarly, there are introduction of many new schemes of deposits, loans and different other services. Banks always attempt to be well advanced in their plans because there is a chance that the late adopters will find themselves 'playing catch-up' rather than taking bold initiatives. By adopting and adapting too slowly, banks risk major losses. As a result, banks are always on their way to provide novel and convenient products to their customers and at all times on a move so that they may not lag behind their competitors.

The above case is true only for the private banks. On the other hand, public banks are operating in the traditional set-up like token system, checks etc. These banks are not being actively initiative and innovative to bring in new systems of operation or new products. Public banks seem to ignore the fact that circumstances are changing with changing rules and regulations, market characteristics and consumers' change in lifestyle, education and awareness. However, although private banks are competing for new products and better service they are still not attentive to locate the actual

expectation of their customers. Unless the expectations and perception of customers don't match, customer satisfaction cannot be achieved. If customers are not satisfied, banks cannot retain them and lose their market share. So the retention and expansion of customer base is a must for banks' success. Customer satisfaction can be accomplished only when bank launches schemes, products and services after understanding its customer's needs and expectations.

Sometimes, even when banks instigate right product convenient and handy for customers to fulfill their needs, customers may not perceive it in an appreciable manner. Such situation, when even a right product cannot cover up a lag between customer expectation and perception may arise due to a reason that customers are unaware of the benefits and use of such products. For example, many banks are now moving towards e-banking but many people do not have any idea about its concept or how to use it. Banks do a little to provide information of such new products to customers and it has become a tendency that customers understand the product only when they get a chance to use it. This can be illustrated with the example of ATM cards. Although its users have increased and thus have increased its awareness, yet many do not know its functions and benefits. So bank should see to it that when a new product is launched the product information should be provided to its customers through some appropriate means.

Since the competition is fierce in the banking market, bank should be able to assess the gap between their customers' expectation and perception. This will help them to find out the ways to cover these gaps and achieve customer satisfaction which is the key to success for every bank. Furthermore, public banks should enhance their speed to catch up with the current trend and anticipation.

Thus, from the above discussion, the research questions for this thesis can be summarized as follows:

- What are the expectations of the customers for the product and services to be provided by their banks?

- How does the perception of services actually offered differ among customers of private and public bank?
- What is the difference between the level of satisfaction among the customers of private and public bank?
- What level of different service attributes like tangibility, reliability, responsiveness, assurance etc. do customers expect from their banks?
- How do customers perceive the current position of service quality being provided by their banks?
- In what manner do the customers put emphasis on different service attributes of banks and to what degree?
- Do customers of private banks expect in a different manner than public banks customers for different service attributes?
- Do customers of private banks perceive higher level of service quality from their banks than public banks customers do?
- Do different demographic features like age, gender affect people choice of different expectations and perceptions?
- How can the bank gain a competitive edge over other bank?

### **1.3 Objectives of the Study**

This study has been conducted to find out whether the expectation and perception of bank customers match or not with consideration of private and public banks in Nepal.

The main objectives of the study are:

- To examine the expectations of customers for the product and services to be provided by the bank.

- To determine the actual perceptions of customers towards the availability of product and services from their bank.
- To explore the discrepancy among customers of private and public banks as per their expectations.
- To develop an understanding of the level of dissimilarity for the perception of services being offered between private and public customers.
- To analyze the association between the customer expectations and their perceptions of services actually received.
- To conduct the perception of different categories of clients for different profiles of service attributes.

#### **1.4 Theoretical Framework**

The Nepalese financial sector is characterized by the presence of number of public and private banks under different categorization of commercial banks, development banks, finance companies etc. This makes it increasingly difficult for the financial institutions to maintain their market share. Competition is on the rise and banks are struggling against each other to attract deposits with different schemes and programs. Stiff competition to these banks comes not only from one another but also from other sectors like co-operatives and NGOs which carry out their financial functions under the permission on Nepal Rastra Bank. Even some banks like Kumari bank has initiated prize programs for drawing more and more deposits. It has become ever more complicated to increase their corporate/commercial loan portfolio or consumer loans. With almost all the banks providing nearly all the similar consumer products, the task of attracting customer and withholding them has become something like picking a rose surrounded by thorns. Thus, the study tries to identify the possible ways that could provide a base for gaining competitive edge over the competitors.

The study will endow with some idea of banking industry and the concept of quality in service sector with special reference to banking vicinity and how it helps to gain

better customer relationship and customer satisfaction. The study will also help to gain an awareness of what is the difference between the words ‘expectation’ and ‘perception’ towards anything.

The study is undertaken for the purpose of exploring what type and level of service quality do people expect from a bank they deal with. The survey also encompasses analysis of how the customers of banks perceive the product and service they are receiving in reality. Thus, this study aims to find out whether the expectations and perceptions of the bank customers match or not. This analysis will provide some cue to the banks that they should attempt to identify with the needs and expectations of the customers so that customer satisfaction could be attained and thus a viable edge. When most of the products are similar among most of the banks, the superiority in service quality will provide them with comparable advantage.

Likewise, the study also attempts to find out the degree of difference with the service perception of private bank vs. public bank customers. This will provide an insight to the public banks where and how they are lagging behind in this fast paced competitive situation.

Moreover, the study accorded particular consideration to whether the rating of expectations and perceptions vary systematically on the basis of customer characteristics. Recognizing the fact that the gauging of satisfaction across different socio-economic or demographic groups is important, the study will consider whether people with different demographic features like age, gender, occupation differ in their expectation and perception of bank service quality. This will help the banks to relate and target different services for different types of customers. Thus, the study will try to find, what steps and actions banks should consider in its service portfolio and delivery system in order to attract new potential consumers and retain existing ones.

It is hoped that the information obtained from this study will provide bank managers and decision makers with better insights into the kinds of services that private and public bank customers find most beneficial. Thus, facilitating bankers to develop more precise, targeted marketing strategies for each type of bank in order to attract a

larger number of customers and to better cater to the needs of both current and potential customers

## **1.5 Organization of the Study**

This study has been divided into five distinct chapters which try to compare the customers' expectation and perception considering both private and public banks in Nepal. The title and the brief contents of each of these chapters can be summarized as follows:

### **Chapter 1: Introduction**

The chapter covers the short background of the study, the problem statement followed by the objective of the study. This chapter also includes brief theoretical framework of the subject matter and study questions.

### **Chapter 2: Review of Literature**

This chapter includes the conceptual reviews, reviews of previous writings and studies relevant to the problem being explored within the framework of the theory structure.

### **Chapter 3: Research Methodology**

This chapter includes firstly the research design and the population taken. What procedures used for sampling followed by the data collection procedure. Finally which statistical Analysis tools are used and what data Processing procedure has been used in the study.

### **Chapter 4: Presentation and Analysis of Data**

This chapter includes the analysis of data which are been collected by primary and secondary sources. In this study Descriptive Analysis as well as Correlation Analysis was used using Both MS-Excel and SPSS Software where necessary.

### **Chapter 5: Summary, Conclusions and Recommendations**

This chapter includes the summary of all the findings of the study and followed by the conclusions derived in the process of the study. Finally, here are some recommendations from the consumer's point of view as well as this study's point of view.

At the end references that have been taken during the whole study process are cited in the supplementary section along with appendices.

# **CHAPTER II**

## **LITERATURE REVIEW**

The banking sector in Nepal has made remarkable progress during the last decade. New private sector banks have brought the necessary competition into the industry and spearheaded the changes towards higher utilization of technology, improved customer service and innovative products. Customers are now becoming increasingly conscious of their rights and are demanding more than ever before. The recent trends show that most banks are shifting from a “product-centric model” to a “customer-centric model” as customer satisfaction has become one of the major determinants of business growth. In this context, prioritization of preferences and close monitoring of customer satisfaction have become essential for banks.

### **2.1 Banking Industry**

#### **2.1.1 Private versus Public Banks**

Public banks are the banks run by the state and involve government intervention in its management and intervention. In this context, Zavvos noted that in Greek Public sector banking, as a result of government interference, is staffed by about 50 per cent more employees per branch compared with the private sector and the gap appears to be increasing. Due to the tedious and troublesome regulatory impediments it is typically difficult to bring about alterations in such banking systems. So these banks operate with the traditional systems and procedures. A big question that arises is whether it would be possible for banks in the public sector to keep their market in the context of changing environmental conditions. Many complexities arise on part of public banks to introduce new innovations.

Private Banks are promoted by private entrepreneurs. Although these banks face regular intervention by the state through the introduction of sundry restricting regulations and through the appointment of governors and directors of public banks,

its internal operations and decisions are all privately managed. Private Banks enthusiastically goes for introducing new technical and managerial innovations and constantly strives to excel in the market. In growing and developing countries, private banking institutions have proven themselves as an active partner in national development. These banks constantly keep abreast with the state-of-the-art technological innovations for their banking operation.

Zavvos suggests that improvement of the financial position of individual clients and the dissemination of information about banking services have contributed to increasing customer expectations. In addition to these pressures, the trend towards globalization and deregulation fuel competitive forces in the banking system . In such an environment, maintenance of service quality and focus on customer needs are key components for strategic planning. Banks that will adapt their strategies to the new competitive conditions by improving the level of service quality, as perceived by their customers, are likely to create and gain a competitive advantage.

With the above elucidation, it is apparent that a great part of public bank customers will probably move to private banks able to offer better interest rates and better quality of service; such arguments have wide support in the literature (Zavvos; Provopoulos; Watson, 1995:279).

With the above issues in mind it seems appropriate to explore the extent to which service expectations and perceptions compared among their clients. An analysis of the similarities and differences that might exist will help both with the understanding of differentiation in the financial services sector and in the debate about the appropriateness of a particular strategy under changing conditions.

### **2.1.2 Competitive Strategies in the Banking Industry**

The primary purpose of management and marketing strategy is to develop a competitive advantage. A competitive advantage provides customers with superior value compared with competitive offerings. According to Porter, there are two generic ways of establishing a competitive advantage, the low-cost supplier or by differentiating the offer in a unique and valuable way. Every company has to consider how to enter a market and then build and protect its competitive position. Banks begin

to realize that no bank can offer all products and be the best/leading bank for all customers. They are forced to find a new basis for competition and they have to improve the quality of their own products/services.

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing a dramatically aggressive competition in a new and deregulated environment. The net result of the recent competition and legislation is that traditional banks have lost a substantial proportion of their domestic business to essentially non-bank competition. Competition will undoubtedly continue to be a more significant factor. Finding a place in this heating sun becomes vital to the long-range profitability and ultimate survival of the bank. Those banks that are not considering the new atmosphere to build and protect their competitive position will likely become victims of that heating sun.

According to a research by Zineldin in a Swedish banking industry relating to the competitive strategy, the findings was -- A bank has to create customer relationships that deliver value beyond that provided by the core product. This involves added tangible and intangible elements to the core products, thus creating and enhancing the “product surrounding”. One necessary condition for the realization of quality and the creation of value added is quality measurement and control. This is an important function to ensure the fulfillment of given customer requirements. The key ways to building a strong competitive position are through CRM, product/service quality and differentiation.

#### **a. Customer Relationship Management**

Today’s businesses are facing fierce and aggressive competition while operating in both a domestic and a global market. They discovered that close relationships with customers are invaluable with constantly changing technology and increasing global competition.

Most managers and marketers would of course agree that establishing long-term business relationships with is about development and survival. According to Lewis , the world has never been so interdependent. All trends point to cooperation as a

fundamental, growing force in business. Relationship marketing is a concept reflecting a number of differing themes or perspectives. Some definitions of relationship marketing are:

Relationship marketing is attracting, maintaining and in multi-service organizations-enhancing customer relationships (Berry, 1983:145).

The relationship marketing concept is emerging as a new focal point, integrating customer service and quality with a market orientation.

In 1995, Zineldin defined a business to business (B2B) relationship in the following way: “Relationship management emphasizes the organization of marketing activities around cross-functional processes as opposed to organizational functions or departments. This results in a stronger link between the internal processes and the needs of customers and results in higher levels of customer satisfaction.” (Zineldin, 1995; 122)

## **b. CRM and Competitive Positioning**

Positioning is an attempt to distinguish the bank from its competitors along real dimensions in order to be the most preferred bank for a certain market segment or prospect. Positioning starts with a product. It can be a piece of merchandise, a service, a company, an institution or even a person. But positioning is not what you do to a product. Positioning is what you do in the mind of the prospect. Those are your position, your organization and your product in the mind of the prospect.

A bank can occupy a position as a large bank, a global bank, a friendly bank, a niche bank or an efficient bank, etc. By playing on its strengths, a bank has the best chance of finding opportunities above the risk-return trade-off line, thereby creating value for its shareholders.

If a bank can position itself favorably within a particular marketplace, relative to competitors, that bank is a competitive one. Competitiveness mean that a banks, in terms of its competitive position, its management and marketing strategies, its use of

information technology, the quality of its product service and its ability of managing long term customer relationships, must be increasingly responsive to the market considerations and customer orientation.

### **Operations Strategies of Private Banking Institutions**

In an article titled “An Assessment of Banking Operation Strategies of Private Banking Institutions in the Philippines” by Liu some banking operations strategies practiced by the private banking institutions in the Philippines are described as follows:

#### **Customer Relations Strategies**

Customer relation strategies are aimed at establishing good business and public relations, rapport and goodwill to the customers. To do so, the bank should perform the following:

- a. Maintain customer’s satisfaction by meeting the customer’s requirements and needs on time.
- b. Maintain a constant check on the company’s service level in relation to customer’s expectations. Banks must be able to offer a variety of products and services; otherwise, it will be just like other banks.
- c. Provide approachable and well-trained bank personnel to assist the customers..
- d. Provide convenience banking thrusts to the customers such as ATM, Bank Net, and other electronic inter-bank linkages. Banks should provide easy access to their customers’ or depositors’ accounts anytime, and any day.
- e. Monitor services deficiencies through a number of devices such as periodic customer surveys, suggestion boxes, and complaint handling systems. Banks have their customer service counters or information counter to answer queries and other customer related problems (Llanes, 1985:106).

### **Banking Services Strategies**

Corporate accounts are afforded greater convenience in their banking transactions via payroll and armored car services. Computerization is the key role in their efficient servicing of clients. Bank's on-line network is placed all over the county in strategic locations capable of processing banking transactions with increased speed, accuracy and efficiency.

Rose argued that banks can be viewed in terms of the many different roles they play in the economy. While many people believe that banks play only a narrow role in the economy, the modern bank has to adopt new roles in order to maintain, the competitive edge and be responsive to public needs. (Rose, 1991: 144)

### **Banking Promotion Strategies**

Banks offering a variety of products and services has to make these known to their market. Banks resort to advertising either through the media - newsprint and/or television - and other publicity such as word of mouth from satisfied customers. The trend nowadays is for banks to be more socially responsible than before, that will make people gravitate to institutions and programs with social cause.

### **Banking Rates Strategies**

Virata explains that banks can manipulate their interest rate to some extent only since it is regulated by the Bangko Sentral ng Pilipinas (Central Bank of Philippines). However, by offering higher rates of interest on savings, time and other forms of deposits, people are enticed to save instead of putting their money into unproductive assets such as jewelry and real estate whereby money is tied-up instead of being lent to investors as banks do. (Virata, 1998:156)

### **2.1.3 Job Values in Today's Workforce:**

#### **A comparison of public and private sector employees**

Unlike workers in the '70s and '80s who valued interesting work above everything else, the journal article by Karl & Sutton in *Public Personnel Management*, suggest today's workers place the highest value on good wages and job security. A comparison of public and private sector workers revealed private sector workers place the highest value on good wages, while public sector workers valued interesting work the most. No significant difference was found between public and private sector employees in the importance placed on job security. These results suggest employers need to keep in touch with current employee values in order to design jobs, reward systems, and human resource policies that will result in maximum job satisfaction and productivity. These results also suggest that reward systems may not be equally effective in both the public and private sectors. (Karl & Sutton, 1998:159)

From an employee's standpoint, job satisfaction is a desirable outcome in itself. From a managerial or organizational effectiveness standpoint, job satisfaction is important due to its impact on absenteeism, turnover, and pro-social "citizenship" behaviors such as helping coworkers, helping customers, and being more cooperative. According to Edwin Locke, job satisfaction results from the perception that one's job fulfills or allows the fulfillment of one's important job values. Thus, to redesign jobs, reward systems, and human resource management policies that will result in optimum job satisfaction and productivity, managers need to know what employees value.

Although the relative importance of various job values has been studied for nearly five decades, this topic continues to intrigue researchers and practitioners. One reason for this continued interest is that the relative importance of job values has changed over time. It is not surprising that job values had changed over the decades given the dramatic changes in economic, social, technological, and political conditions. In addition, the relative importance individuals place on some job values depends on such factors as ages and employment sector (i.e., private vs. public). The main purpose of our study is to investigate the relative importance current public and private sector employees place on job values. First, we discuss how the relative

importance of job values has shifted over the decades. Then, we discuss differences between public and private sector employees.

#### **2.1.4 Profitability Comparison of Similar-Sized Public and Private Banks**

A research by Indiana University examining public and private banks put forward that private banks are more profitable than their same-sized publicly-traded peers. This was a result according to the first study to empirically compare profitability across private and publicly traded banks -- as well as three other dimensions of performance: risk, growth and accounting conservatism. (Indiana University, 2006:170)

In most industry sectors, private companies are not required to file detailed financial statements with any public agencies. Not so in the banking sector, where federal deposit insurance regulations require that data from both types of companies.

That requirement gave James Wahlen, an accounting professor at IU's Kelley School of Business, a rare porthole into a question that has long vexed economists -- are private companies, unburdened by short-term pressures to report quarterly earnings to shareholders, more profitable?

"For banks of equal size, public banks are less profitable than private banks," Wahlen says. "Compared to privately-held banks, publicly-traded banks face potentially greater agency costs as a consequence of greater separation of ownership and control. This makes them less profitable, all else equal. But the tradeoff is that public banks enjoy potentially greater benefits from access to the capital market and lower costs of equity capital.

"Public banks can more easily and cheaply issue equity capital, which fuels growth and helps them attain valuable economies of scale and they ultimately become larger and therefore more profitable because of their access to capital markets," he adds. "These results in general imply that public banks are motivated to acquire small privates. They're already pretty profitable and the consolidation trend and acquisition wave may also reflect these findings."

In the study, Wahlen, along with two co-authors who were Wahlen's PhD students at the Kelley School of Business, D. Craig Nichols, now of Cornell University, and

Matthew M. Wieland, now of the University of Georgia's Terry College of Business, also hypothesize that agency costs change as a company increases in size.

To put it more simply, in private banks, owners work together, trust, manage and monitor each other, while in public banks, there's greater separation between those who own and those who manage the company, Wahlen says.

Compensation schemes are created to align the manager's interests with the shareholders, but those incentives don't always work that well in public companies, including public banks," he observes. "In a private bank, if you make a bad loan as a bank owner, that money comes out of your pocket. In a public bank, loan losses accrue to the shareholders, and managers usually don't have a majority equity stake. So, managers at public banks might be more inclined to make a risky loan, because they may not bear the majority of the loss if the loan goes bad.

On the other hand, public banks can issue stock and raise more capital and grow faster, becoming more efficient and profitable in the process.

In the study, Wahlen and his co-authors examined 1,652 private banks and 608 public banks during 1992 to 2002, with assets that fell within the range between the smallest public bank and the largest private bank.

"Public banks generate less profitability per unit of risk and per dollar of invested capital than private banks of equivalent size. However, relaxing the control for size, public banks enjoy faster growth, become larger, achieve greater economies of scale, and therefore generate greater profitability than private banks." (Wahlen, 2002:280)

"These results imply that the costs associated with agency problems dominate the benefits of capital market access for public banks relative to private banks of equal size, but capital market access enables public banks to become larger and capture greater profitability from economies of scale." (Wahlen, 2002:280)

"These implications may be partial explanations for why we observe that the majority of banks that seemingly meet U.S. stock exchange listing requirements choose to remain privately-held, but the largest and most profitable banks in the U.S. are publicly-traded," they conclude.

### **2.1.5 Technology in Banks**

Innovation of new technologies is the trend of the current era. However, diffusion of new technology throughout the economy rather than its generation affects productivity growth at the macro level. Therefore, timely diffusion of new technology or, from the firm's point of view, its adoption, is a key element to securing economic growth (Sullivan and Wang, 2001:115).

Increased competition in the financial services sector has forced even the most reluctant institutions to analyze the opportunities offered by new technologies in the delivery of financial products. There is the increasing importance of modern information and communication technologies for the delivery of financial services. Nonetheless the role of these technologies is not always clear. Many stress technology as the potential for service quality improvement, while others consider it as a cost-effective means to achieve geographic expansion.

Whatever the underlying strategy, nobody questions the importance of understanding the patterns of technology adoption by bank customers. Moreover, it is fundamental to assess to what extent and – most importantly – for which customers technology-intensive delivery systems (from ATMs and POS devices to telephone and home banking) can meet real customer needs, differentiation through service delivery.

There have already been many studies in this area, especially with reference to ATMs' acceptance and usage. Many have investigated the demographic, psychographic and motivational profile of ATM users and nonusers and the causes of resistance to ATM adoption. More recently, the importance of perceptual factors as predictors of ATM usage has also been stressed. Other researchers have analyzed the problem in the broader framework of the customer's overall satisfaction with banking services (Moutinho and Meidan, 1989:116).

A wide survey of over 1,500 Italian customers by Filotto analyses both payment services and sales and private banking areas. In the former, human contact attributes

of service prove to be overemphasized when customer satisfaction is observed. In the latter, technology seems extremely important in helping bank branch officers decide which new services to offer to which customers. In both sections customers' clusters are identified according to the importance of different service attributes; subsequently, they are described in terms of demographic, behavioral and psychographic characteristics. Technology-oriented unsatisfied customers seem to belong to most segments. This calls for a major shift in the approach to delivery channels the majority of Italian banks are still adopting. (Filotto, 1997:117)

### **Internet Banking**

Internet banking is one of the technological innovations introduced in the financial sector. The rate at which innovations are adopted by firms constitutes an important part of the process of technological change. E-banking services presented banks with a more economical substitute for brick and mortar branches. The current level of ATM penetration in the UK and the USA is 61 and 114 ATMs per 100,000 inhabitants, respectively. As a consequence of the increasing importance of modern information and communication technologies for the delivery of financial services, the analysis of the determinants of Internet banking adoption has become an area of growing interest to researchers and managers. (Kassim, 2005:160)

Despite the IT developments, there are various psychological and behavioral issues such as distrust in the system, impersonal treatment, a perceived lack of security, privacy, ethics, ease of use, openness, etc. that may appear to impede the growth of internet banking. Not only from consumer perspective there are hindrances for e-banking development from business viewpoint too. Although internet is increasingly becoming the most important distribution channel for financial services, internet has become a major challenge for the banking business, where customer perception has become essential for its success. Possible explanations could be that internet banking might result in lower switching barriers, more difficult cross-selling activities and that information about customers might become harder to obtain as well as banks might have to compete on a product by product basis. Against this backdrop, the banking industry has been attempting to gather more and more information on aspects that induce people to do their banking over the internet (Sathye, 1999:162).

Kassim and Abdulla prepared a research paper with the title “The influence of attraction on internet banking: an extension to the trust-relationship commitment model” with the purpose to investigate and extend the trust-relationship commitment model to an internet banking setting by adding attraction as a new factor. The paper shows that in testing whether attraction might be related to belief in and use of the internet banking, this research sampled 276 bank customers’ responses via a cross-sectional survey in Doha, Qatar. A survey instrument which assesses six possible factors that may lead to the success of internet banking shared value, communication, opportunistic behavior, trust, attraction and commitment which sought responses was specifically designed for this research. (Kassim and Abdulla, 2006:164)

The findings of this research suggest that trust and attraction are the main reasons that the bank customers use the internet for carrying out banking activities/transactions in Qatar. Thus, both trust and attraction have significant positive impact on relationship commitment with attraction having a strong positive effect, with communication representing the most important determinant of attraction and having a significant positive relationship with both trust and attraction.

Similar research has been conducted by Malhotra and Singh from Guru Nanak Dev University, Amritsar to discover the factors affecting a bank’s decision to adopt Internet banking in India. Logistic regression technique is employed to study the relationship. The study has considered size, age, deposits, wage, expenses, return on assets, branches, market share, nature of bank category and the percentage of banks that have already adopted the internet banking as the explanatory variables. (Malhotra and Singh, 2007:172)

The results for all banks regardless of nature show that the larger banks, banks with younger age, private ownership, and higher expenses for fixed assets, higher deposits, and lower branch intensity evidence a higher probability of adoption of this new technology. Banks with lower market share also see the Internet banking technology as a means to increase the market share by attracting more and more customers through this new channel of delivery. Thus, the banks have used Internet banking as a complementary channel to the existing branch network with an intention to increase

the market share and lower the expenses. Further, the adoption of Internet banking by other banks increases the probability that a decision to adopt will be made.

The paper also presents constructive implications for the managerial level. The findings of this study suggest that, in order to develop trust and to attract more users to internet banking, it is not going to be enough to make the system easy to interact with. It is of paramount importance for banks to develop secured and private internet banking systems that are trustworthy, for their users. Thus, management attention might be fruitfully focused on the development of such beliefs on the part of the users. Bankers and policy makers, moreover, need to realize that more favorable communication environments must be created to attract customers and to make them more committed to conducting online transactions over the internet. Similarly, banks may consider offering a low-cost service by passing on some of their gains from reduced operating cost to customers. This may lead to better customer loyalty towards the service.

## **2.2 Quality Visualization in Service Sector: With emphasis on banking scenario**

### **2.2.1 Service Quality**

Quality is a complicated and indistinct concept. For the purpose of this study, we can employ quality definition as: “Quality is the degree of excellence intended and the control of variability in achieving that excellence, in meeting the customer’s requirements”. Quality has been defined as the consumer's overall impression of the relative inferiority or superiority of the organization and its services. (Taylor and Baker, 1994:360).

Correspondingly, service quality is defined as the extent of discrepancy between the customers' expectations or desires and their perceptions.

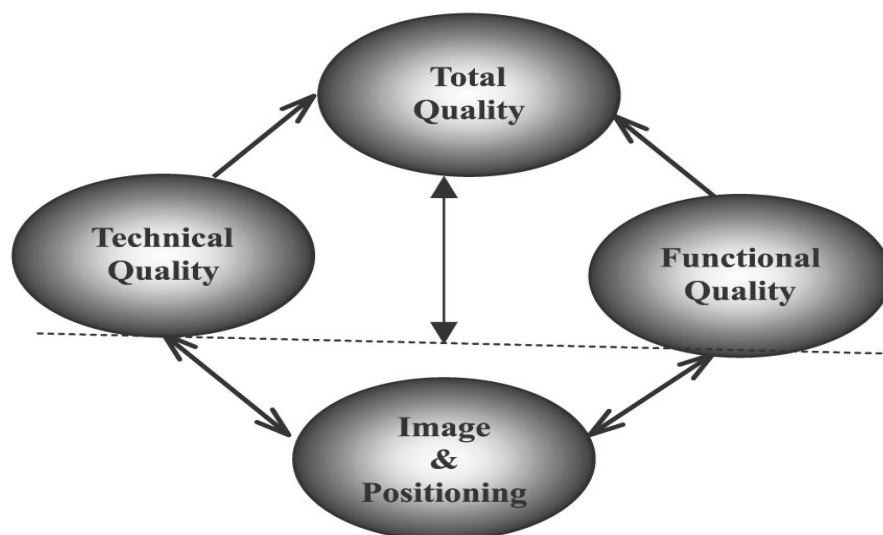
It can also be redefined service quality as a mixture of three elements: the quality of the consumption process itself; the quality of the outcomes of the process; and image of the provider of the service.

Likewise, according to Zineldin and Bredenlow , the total quality of a product service could be broken down into three dimensions as shown in the figure. (Zineldin and Bredenlow, 2001:350)

These are:

- (1) Technical quality (t) of the service (what quality), i.e. what a customer buys and whether the product service fulfils its technical specifications and standards. The technical elements concern the manufacturing interface.
- (2) Functional quality (f) of the product service (how quality). The functional quality concerns how the company delivers the product service and how is the relationship between the company and its customers is?
- (3) Image (i) and positioning ( p) or corporate quality, the image of a company may also influence customers' perceptions of the total quality and in turn the company's strategic position.

In short, total quality is a function of these three quality dimensions or  $T$  is an  $F(t, f, i/p)$



**Figure 2.1** Three quality dimensions and positioning

For businesses, service quality has become very important because of increasing national and global competition which has forced them to differentiate themselves from their competitors through competition at the margins by use of quality e.g. speedy service delivery. The private sector has been forced to manage customer increasing customer loyalty and hence profits. In the drive for increased competitiveness, service quality is “the cornerstone of marketing strategy” and “the single most researched area in services marketing to date” (Fisk , 1994:362).

This interest in service quality is largely driven by the realization that high service quality results in customer satisfaction and loyalty, greater willingness to recommend to someone else, reduction in complaints and improved customer retention rates

#### **2.2.1.1 Service Quality and Customer Relationship**

Today a competitive market position and a good reputation of a company can quickly translate into market share and profit, but that distinction is often earned only through a philosophical commitment to service backed by diligent attention to what customers want and need. Unlike manufacturing and some service industries, bankers are not only selling products and services. First and foremost, they are selling their organization reputation with every “customer relationship”. An effective customer relationship requires the marketer to make specific efforts to create, establish and develop a good quality package mix in order to be able to maintain and enhance the relationship intact:

The adaptation of the relationship philosophy as a key strategic issue is more important than a written plan. For example, a formal marketing plan for internal markets is of little value if customer contact staff are not motivated and empowered to deliver the level of service quality required.

Black detail that environment is becoming increasingly competitive with the increasing and changing consumer expectations (e.g. the rise of “consumerism”). Customers and users expect services to be more readily available (e.g. a demand for availability of service at “out-of-hours” times has been evident). Similarly, innovation

is expected e.g. in the public sector, neighborhood rather than centre-of-town offices; in the private sector, new competition to drive down process such as e-commerce for goods and services such as books and holidays. (Black, 2001:145)

In such an environment which becomes increasingly competitive, service quality as a critical measure of organizational performance continues to compel the attention of banking institutions and remains at the forefront of services marketing literature and practice. The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty, greater willingness to recommend to someone else, reduction in complaints and improved customer retention rates (Zeithaml, 1996:146).

In an era when intense competition is being greatly facilitated by technology, the need of providing adequate product service quality will necessitate that banks have to focus attention on issues of improving, measuring and controlling their product service quality and efficiency. Efficiency can be defined as the lack of waste of resources and time and optimization of efficiency elements in line with high quality (Armistead, 1990:146).

Finally, the main issue of measurement and control of quality is to provide a true reflection of the way in which resources are used, which can be the subject of comparison between service production and delivery systems. One way to measure quality is through customer complaints and customer survey. Quality measurement is of particular importance to be considered by all managers and marketers of high-contact services including banking industry. The inputs or delivery system in a bank is a combination of human resources, locations and equipment.

Those companies with the deepest and strongest customer relationships will stand the best chance of retaining the customer's transactions. Many companies are selecting a few key market targets and concentrate on trying to serve them better than competitors. Companies, therefore, should emphasize deeper penetration of the existing customer database. An effective customer database allows a company to understand better customer's needs – particularly their relationship needs – better than the competitors.

Customer satisfaction and the maintenance of the customer relationship in fact depend on how well a product and service measures up to the customer's original expectations of quality. Drummond philosophy and his argument is that competitiveness depends upon customer satisfaction. Customer satisfaction is created through a combination of responsiveness to the customer's views and needs and continuous improvement of products or services, as well as continuous improvement of the overall customer relationship. The corner stone is that quality is a fundamental customer requirement (Drummond, 1992:148).

### **2.2.1.2 Customer Satisfaction and its Relationship to Quality**

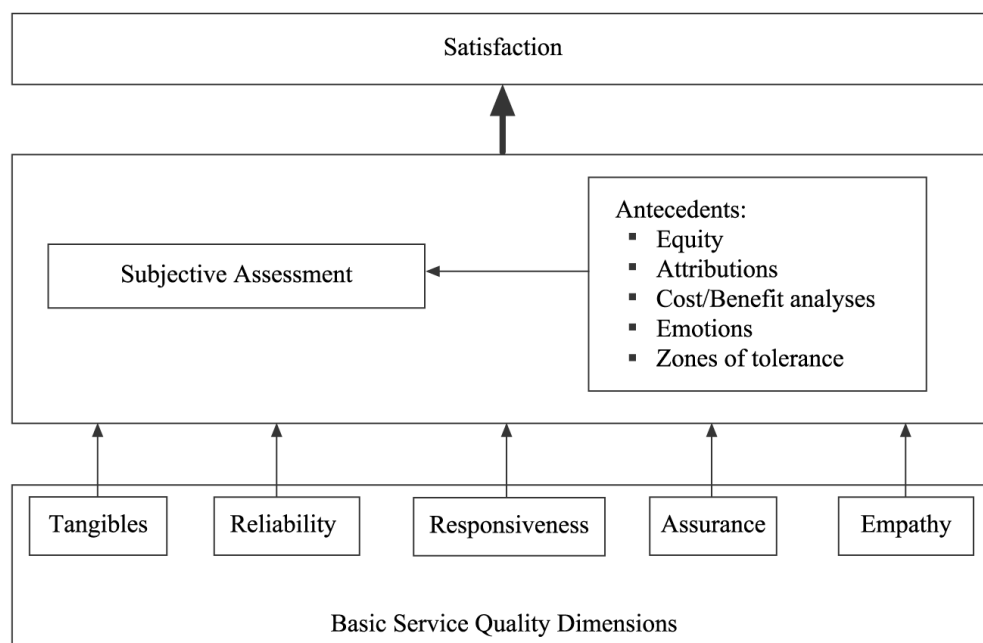
Customer satisfaction is increasingly considered as a baseline standard of performance and a possible standard of excellence for any business organization. Companies with a bigger share of loyal customers profit from increasing repurchase rates, increasing cross-buying potential, higher price willingness, positive recommendation behavior and less switching tendency. Indeed, in the customer satisfaction/service quality arena, aggregate market studies have shown that higher customer satisfaction leads to better financial results. This is the main reason why we have witnessed in recent years a proliferation of work on the topic of customer satisfaction and its close cousin, service quality (Rust , 2000:155).

Discussion of the indispensable role of service quality in retail banking and its measurement has been the focus of a number of studies. A research of these writings shows that most of them measure service quality by replicating or adapting five-dimension SERVQUAL model. A smaller body of writings, however, presents new models or approaches to the measurement of service quality in banking. For instance, Mersha and Adlaka (1992; 150) applied the Delphi technique to a sample of MBA students to generate attributes of poor and good service quality. They then converted the 12 attributes thus identified into scales and analyzed students' service quality perceptions. The authors concluded that the list of attributes they generated were similar to the five dimensions of SERVQUAL. (Mersha and Adlaka, 1992; 150)

The extent of discrepancy between the customers' expectations or desires and their perceptions". They argue that service quality is critical to the success of all

organisations, more difficult to evaluate than goods quality, and evaluated by customers not just in terms of outcomes but on the basis of the whole package of delivery. This same team also adopted an influential technique ("SERVQUAL") to measure the five major dimensions of quality which they identify in a service (tangibles, reliability, responsiveness, assurance and empathy). They suggest that service quality should be defined by customer criteria only. However, this remains more an ideal than a description of organisational practice, despite growing attention to service quality.

As illustrated in the figure, customer satisfaction measures incorporate both cognitive and affective components. The cognitive component involves an assessment of the basic quality dimensions (which can be based on objective or subjective data), while affective assessments include other variables, which are known to contribute to satisfaction, such as emotions, attributions and perceptions of equity. In other words, customer satisfaction is initially affected by a cognitive comparison between expectations and perceptions of basic service quality dimensions. This initial assessment is then further interpreted – subjectively – by customers on the basis of affective processes including attributions and emotions. This reinforces the points made earlier that satisfaction is a super-ordinate construct, and that quality and satisfaction can be separated even though they are related.



**Figure 2.2** Relationship between customer satisfaction and service quality

### **2.2.1.3 Relationships between Service Quality and Behavioral Outcomes**

Previous research in services acknowledges a strong positive correlation between service quality and satisfaction. There is now a convergence of opinion that service quality is a primarily cognitive construct while satisfaction is a complex concept with a healthy dose of both cognitive and affective components and that favorable service quality perceptions lead to improved satisfaction.

Research conducted specifically in the context of financial services is consonant with the extant thinking. For instance, Jamal and Nasser contend that core and relational dimensions of service quality are causal antecedents of customer satisfaction and demonstrate that a technical/functional quality-based model of service quality is a reliable predictor of satisfaction. (Jamal and Nasser 2002; 160)

Previous studies in services suggest that service quality demonstrates positive relationships with a number of behavioral intentions either directly or through the mediating effect of satisfaction. Research conducted in the domain of financial services lends credence to this observation and shows that favorable perceptions of service quality lead to positive word-of-mouth, lessening of complaint tendencies and continuity in bank-customer relationships.

Yavas conducted a study of private bank customers in Germany to examine the nature of relationships between service quality, background characteristics, and satisfaction and selected behavioral outcomes. Study results show that service quality is at the root of customer satisfaction and is linked to such behavioral outcomes as word of mouth, complaint, recommending and switching. However, different aspects of service quality and different consumer characteristics seem to be associated with different outcomes. For instance, the results suggest that tangible elements of service quality and being a female are more closely associated with positive word of mouth and commitment. On the other hand, “timeliness” aspects of service delivery are more closely related to customer satisfaction, and complaint and switching behaviors. (Yavas, 2003:157)

### **2.2.2 Customers' Gender Effect on Service Quality of Banks**

Service quality has been linked to performance through activities that contribute to customer retention and through management expectations and service reliability. Service quality can lead to increased customer satisfaction, and can thus be said to contribute significantly to performance (Lassar, 2000:90).

In an increasingly competitive marketplace, banks cannot overlook the needs, motivations, and purchase decisions of their consumers. To achieve a better customer focus, it is critical to determine which dimensions of service quality (such as access, effectiveness, assurance, price, tangibles, and reliability) are more important to different customers.

With the consumers at the focus, gender can be a critical segmentation variable. Gender difference is significant for three reasons:

- 1) There has been a dramatic increase in the number of women investors in the recent years, especially in the field of personal investment;
- 2) Significant gender-related differences have been identified in the patterns of consumption of financial goods and services
- 3) There have been significant changes in consumer behavior among women as a result of wider changes in society- with women now increasingly involved in managing the family budget, making expenditure decisions, and planning finances.

Research has suggested that gender is a significant factor in perceptions of service quality. Service quality has been found to be more important to women than to men when transacting business with a bank. These differences in perception might result from the differential treatment of men and women in commercial exchanges, or they might be sustained by distinctive patterns of behaviour and personality associated with gender. Biological and physical differences, gender identity ("feminine" and "masculine" traits), and gender role attitudes (beliefs about appropriate social roles) all have the potential to affect behaviour and perceptions (Fischer and Arnold, 1994:93).

Although number of researches has been carried out that focused on measuring perceived service quality in services and in banks particular, little attention has been paid to possible differences among different demographic segments of customers. Demographic characteristics are an accepted basis for segmenting markets and customers. Gender segmentation, in particular, has become more common with the recognition that women represent a lucrative market segment.

With this notion Spathis conducted a research under the topic of: “Managing Service Quality in banks: Customers' gender effects”. The paper discusses the service quality of Greek banks on the basis of their customers' perceptions, and analyses how gender difference affect customers' perceptions of service quality dimensions such as effectiveness and assurance, access, price, tangibles, service portfolio and reliability i.e. using the BSQ instrument. (Spathis , 2004:102)

The results of an empirical study of 1,260 customers of Greek banks generally support the hypothesis that gender affects service quality perceptions and the relative importance attached to various banking service quality dimensions. The study suggests that in majority of dimensions male clients perceived receiving a higher level of quality than did females. In another context of the degree of importance attached to various dimensions of service quality also difference was found among male and female clients. It was found that women gave more emphasis on price, access, assurance and reliability while men stressed more on effectiveness and reliability and then assurance. This indicates that male customers are willing to pay a price premium and wait longer if they enjoy assurance and reliability, and if they have good relations with the staff. In contrast, women are less sensitive to factors such as assurance and reliability- ranking price first and access second as the main factors that influence their quality perceptions.

The paper thus provides important information for bank managers to use in developing operational, human resource, and marketing strategies, and in targeting those strategies in terms of the gender differences in quality perceptions among their customers.

## **2.3 Comparison of Customer Expectation and Perception of Service Quality**

Today's businesses are facing fierce and aggressive competition while operating in both a domestic and a global market. Scenario is changing in the form of increasing competition in the marketplace, growing financial awareness by customers, economic pressures on traditional markets and government legislation (Davis, 1994:400).

Ellwood suggests that: In the year 2000, the customer will see a banking marketplace where the blurring of identity between banks, insurance companies, and of other possible competitors that will enter in the market, will have accelerated...Customers will shop around more than ever and profitability will come under pressure. The result of this "shopping around" culture will be a higher mobility among customers buying financial products. Differentiation will continue to lead the marketing strategy of banks, but it will be centered neither on products, as they are about the same, nor on price, as price differentials are minimal. (Ellwood, 1994:402)

Currently what Ellwood suggested has turned into reality and detail that environment is becoming increasingly competitive with the increasing and changing consumer expectations. Customers and users expect services to be more readily available. It is increasingly becoming difficult for banks to compete and differentiate its offerings from those of its competitors.

Financial institutions are acknowledging that unless customer needs are taken into account in designing and delivering services, technical superiority will not bring success. New marketing concepts and strategies are paying greater attention to identifying customer needs and expectations and offering high levels of service quality. It is probably the effective measurement, management and improvement of service quality which will enable financial institutions to achieve a differential advantage over their competitors. Service quality must take its cues from what the customers want, that is, through customer perception. Perceived service quality is defined as the extent of discrepancy between expectation and perception of

performance. Consequently, effective management of the determinants of quality expectation and perception is required (Berry, 1985:402).

### **2.3.1 Customer Expectations of Service Quality**

Quality has been defined as superiority or excellence, or, as the consumer's overall impression of the relative inferiority/superiority of the organization and its services. Customer expectations are beliefs about a service that serve as standards against which service performance is judged; what customers think a service provider should offer rather than what might be on offer. Expectations are formed from a variety of sources such as the customer's personal needs and wishes, the customer's personal philosophy about a particular service, by promises (staff, advertising and other communications), by implicit service promises (such as price and the tangibles associated with the service), by word-of-mouth communication (with other customers, friends, family and experts), as well as by past experience of that service (Zeithaml and Bitner, 1996:405).

### **2.3.2 Customer Perceptions of Service Quality Received**

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

Zeithaml and Bitner identified four primary factors as influencing customer perceptions of service: service encounters or "moments of truth", the evidence of

service, image and price. These form the customer's overall perceptions of quality, satisfaction and value.

1. In service encounters. Verbal and nonverbal behaviour are as important determinants of quality as tangible cues such as the equipment and physical setting.
2. Evidence of service. Due to the intangibility of services and the simultaneity of production and consumption, customers are searching for cues to help them determine the level of service. Three major categories of evidence have been identified:
  - Employees – how they are dressed, their personal appearance and their attitude and behavior;
  - Process – whether the service is complex, bureaucratic; and
  - Physical evidence – all the tangible aspects of the service such as reports, equipment, statements, and in some cases the physical facility where the service is offered (the branch).
3. Image and reputation- The set of perceptions reflected in the associations held in the memory of the consumer . These can be specific (e.g. hours of operation, ease of access), or, of an intangible nature (e.g. trustworthiness, tradition, reliability). A favorable image can influence positively perceptions of quality, value and satisfaction.
4. Price- If the price is high, customers are likely to expect high quality, and their actual perceptions will be influenced accordingly. If the price is too low, customers might have doubts about both the ability of the institution to deliver quality and about the actual level of service received. (Zeithaml and Bitner, 1996: 407)

### **2.3.3 Comparison according to Banking Sector**

Kangis and Voukelatos (1997:105) conducted a survey among customers of private and public sector banks in Greece on service quality perceptions and expectations. A

sample of 163 respondents was contacted by personal interviews and for the measurement of both expectations and perceptions the “Likert’s summated ratings” method was used and a five-point scale developed . The finding is summarized as below:

### 2.3.3.1 Quality Expectations

The Table below displays the service quality attributes expected by the respondents according to banking sector. The survey findings show that customers of public banks have a similar profile of expectations of service quality as do those of private banks.

Service quality expectations

Service quality expectations	Private sector mean score	Public sector mean score	<i>p</i>
<i>Tangibles</i>			
Appearance of staff	4.54	4.41	0.17
Modern looking equipment	4.78	4.85	0.24
<i>Reliability</i>			
Keeping of promises for on-time performance	4.76	4.69	0.34
Sincere interest in solving customers’ problems	4.71	4.72	0.89
Accuracy of services-transactions, statements, etc.	4.76	4.69	0.37
<i>Responsiveness</i>			
Reduction of queuing time	4.78	4.74	0.53
Willingness of staff to serve/help clients	4.72	4.67	0.54
<i>Assurance</i>			
Clear explanations of services	4.76	4.76	0.92
Friendliness and courtesy of staff	4.57	4.63	0.50
Knowledge and competence of staff	4.75	4.71	0.53
<i>Empathy</i>			
Branches in convenient locations	4.57	4.56	0.86
Convenient opening hours	4.66	4.51	0.10

**Table 2.1** Service Quality Expectations

It is worth noting that, in eight of the 12 attributes examined, clients of private banks expected a higher mean level of quality than did those of the public sector, even though this difference was marginal. Relatively little importance was given to the appearance of the staff that lead to the conclusion that the attributes of tangibles are the least important determinants of quality expectation. Branches in convenient

locations and convenient opening hours were rated among the lowest in importance by both groups. The reduction of queuing time was ranked high on the list while expectation of friendliness and courtesy of staff was relatively low rated.

### 2.3.3.2 Quality Perceptions

The Table below shows that, in 11 out of the 12 dimensions, clients of private banks perceived receiving a higher level of quality than did those of the public banks. Customers of private banks thus perceive receiving a better quality of service than do those of public banks. Within this survey, public banks offered convenient locations, good appearance of staff and modern looking equipment; private banks were perceived as offering good appearance of staff, accurate statements and willingness to help clients with their banking problems.

Service quality perceptions

Service quality perceptions	Private sector mean score	Public sector mean score	<i>p</i>
<i>Tangibles</i>			
Appearance of staff	3.69	3.40	0.02
Modern looking equipment	3.56	3.29	0.08
<i>Reliability</i>			
Keeping of promises for on-time performance	3.54	3.27	0.07
Sincere interest in solving customers' problems	3.50	3.03	0.002
Accuracy of services-transactions, statements, etc.	3.60	3.20	0.01
<i>Responsiveness</i>			
Reduction of queuing time	3.28	2.57	0.0001
Willingness of staff to serve/help clients	3.59	3.05	0.001
<i>Assurance</i>			
Clear explanations of services	3.38	2.94	0.005
Friendliness and courtesy of staff	3.43	3.00	0.01
Knowledge and competence of staff	3.40	3.02	0.02
<i>Empathy</i>			
Branches in convenient locations	3.26	3.46	0.16
Convenient opening hours	3.22	3.02	0.18

**Table 2.2** Service Quality Perceptions

Further analysis of the data aimed to establish the extent to which clients of each banking sector claimed to be receiving the profile of services that they were

expecting. Analysis showed that for private bank customers there was a very weak association (correlation estimate 0.04) between expectations and what they perceived receiving. There was a similarly poor level of association (correlation estimate  $-0.36$ ) between expectation and perception for clients of public banks indicating a larger discrepancy between expectation and perception of what was actually received. In effect, customers from neither sector perceived receiving the profile of service that they were expecting.

### **2.3.4 Comparison Entailing Awareness of Service Charges**

Customer satisfaction is high on the list of what banks are aiming for, since effective management of service quality is thought to be contributing to sustainable competitive advantage. In this environment, pricing is becoming an important factor for both the operating banks and their customers. Customer value includes several price and non-price factors such as quality and service expectations. The way customers perceive price and service quality and how these contribute to determining satisfaction is of continuous concern for practicing managers and researchers alike.

In this respect, Kangis and Passa accomplished a project aiming to establish the extent to which price awareness affects expectations and perceptions of quality by customers. It intended to explore whether or not customers who claim to be aware of their bank's charges have different expectations and perceive receiving quality differently than do customers who are not aware of these charges. The sample consisted of 112 private and corporate customers of commercial retail banks in the area of Athens, Greece. (Kangis and Passa, 1997:109)

The survey measured expectations and perceptions of service quality by two subgroups of bank customers; those who claimed that they were aware of the pricing list of their bank (Group 1) and those who said they did not know about it (Group 2). The objective of the research was to determine if the two groups had different levels of expectation and perception of the quality of service received and the findings is summarized below:

#### **2.3.4.1 Service Quality Expectations:**

Customers in Group 2, who claimed not to be aware of bank charges, declared a lower mean level of expectation than those who claimed to be aware. The result also suggested that bank customers gave broadly the same order of priority to the 12 variables measured, irrespective of whether or not they claimed knowledge of banking charges.

#### **2.3.4.2 Service Quality Perceptions:**

As was the case for expectations, perception of the level of service quality received was consistently lower for the group that declared not to be aware of banking charges (Group 2) than for the one which claimed to be aware. There seemed to be no consistency in the ranking of the 12 variables measured between the two groups, the rank order correlation coefficient of 0.46 (not significant at 10 percent) suggesting that those who said that they knew of the banking charges valued different attributes of the service received than those who claimed not to know of the banking charges.

Interestingly, both groups perceived receiving a different service mix than what they claimed to be expecting and both groups also perceived receiving a lower level of quality than expected, with those claiming to be aware of the banking charges indicating lower levels of discrepancy between expectation and perception than those who claimed that they did not know.

The two main implications from the findings are: pricing of services needs special care and service quality must be consistent. Prices must be chosen with a view to emitting the appropriate quality signals. Positioning too low could lead to inaccurate inferences about the quality of the service; pitching too high can set expectations which might not be supported in practice. Charges should be presented in a way which leads the customers to believe that these charges were related to the quality offered. In the same way, the service quality must be consistent and that dissatisfaction was much more the consequence of service variability than level.

	Expectation			Perception		
	Group 1 Know	Group 2 Do not know	Differences sign	Group 1 Know	Group 2 Do not know	Differences sign
<b>Tangibility</b>						
Appearance	5.98	5.93	ns	5.26	4.74	0.10
Tidiness	6.59	6.46	ns	5.33	4.92	ns
<b>Reliability</b>						
Accuracy	6.76	6.75	ns	5.97	5.54	0.01
On time	6.64	6.54	ns	5.55	4.89	0.01
<b>Responsiveness</b>						
Helpfulness	6.72	6.57	ns	5.60	5.17	ns
Queuing	6.71	6.56	ns	3.41	2.87	ns
<b>Assurance</b>						
Explanations	6.59	6.52	ns	5.38	4.57	0.01
Friendliness	6.60	6.33	0.10	5.69	5.22	0.10
Knowledge	6.53	6.52	ns	5.34	4.74	0.05
<b>Empathy</b>						
Value	5.84	5.78	ns	5.48	4.33	0.01
Convenience	6.21	6.11	ns	5.22	4.91	ns
Information	6.53	6.44	ns	5.64	4.30	0.01

**Note:** ns: not significant

*Table I. Summary of findings: mean value for each variable for each group and level of significance*

Do not know about pricing	Know about pricing	
	Expectation	Perception
Expectation	0.91	
Perception		0.46

*Table II. Consistency between awareness and nonawareness of pricing:*

**Table 2.3** Comparison of expectations and perceptions regarding service charge awareness

As the results of the present project have indicated, the relationship between price awareness and quality perception and expectation was consistent but statistically weak.

So the two main implications from the findings are: pricing of services needs special care and service quality must be consistent. Prices must be chosen with a view to emitting the appropriate quality signals. Positioning too low could lead to inaccurate inferences about the quality of the service; pitching too high can set expectations

which might not be supported in practice. Charges should be presented in a way which leads the customers to believe that these charges were related to the quality offered. In the same way, the service quality must be consistent and that dissatisfaction was much more the consequence of service variability than level.

Similar is the scenario in the Nepalese banking sector where tough competition is going on all around. Banks are competing through factors like tangibles, branch openings, convenient opening hours, staff responsiveness and friendliness etc. Where sturdy struggle is going on among private banks, public banks are running at slow pace to manage the factors influencing quality perception. Banks should be looking carefully at each one of the dimensions where customers perceive receiving a different service than expected and consider the extent to which they should work on influencing expectations or perception or both.

Previous studies in services suggest that customers of public banks have a similar profile of expectations of service quality as do those of private banks. Similarly, studies also suggest that the service that is offered by banks in the private sector has a more favorable influence on actual perceptions of quality received than is the case with the service from banks in the public sector.

## **2.4 Concluding Remarks**

Financial Institutions are the major contributors to the economy of Nepal in the current context. Among these institutions, banks in particular are the major players. Many studies have been conducted in relation to banks in our country. However, most of these researches are focused on the financial arena. Not much significant study has been conducted in the field of customer expectations and perceptions. Moreover, there is not much study comparing the private and public banks. Nevertheless, many researches have been conducted on this topic in the international level. These research articles and journals have provided a valuable insight in understanding the basics and detailed issues related with this topic.

The literature review accomplished above provides the understanding of the banking industry including different competitive strategies like CRM, operational strategies, comparing private and public banks in terms of employees, profitability etc. and the technologies being adopted by different banks. Besides endowing with varied conception of banking industry, the review also gives the idea about quality in service sector with special emphasis on banking sector. This covers the relationship of service quality with customer relationship, customer satisfaction and behavioral outcomes.

The review also conceptualizes the customer expectations and perceptions relating to service quality. Furthermore, it provides with examples of researches conducted earlier in different countries comparing the customer expectations and perceptions in the banking scenario.

Finally, this project aims to study and compare the expectations and perceptions of bank customers about bank's service quality. In today's fiercely competitive Nepalese banking environment, where bankers consider delivery of excellent service quality to customers a key to success and survival, the findings from the study can provide them with valuable insights in ways of enhancing service quality to induce greater customer satisfaction and positive behavioral outcomes.

# **CHAPTER III**

## **RESEARCH METHODOLOGY**

### **3.1 The Research Design**

Understanding the implications of research design, this study attempts to explore the specific qualities to be involved in a bank's service as prioritized and opined by private and public bank customer segments and to determine in a comparative way the perceived usefulness of a variety of services offered by these banks.

With a view to further analyze the banking services offered from customer's viewpoint the descriptive study was conducted. The descriptive study focused on finding out the outlook, perspectives and opinions of customers in relation to the bank services. In the course of the descriptive s, a questionnaire survey was done on the present customers of private and public banks. This was a structured approach and included the quantitative details about the customer status of the banks in Nepal.

In this study, mainly primary data have been used which are collected through structured questionnaires. The respondents were requested to fill up the questionnaire. In order to get the diverse response from the respondents, the questionnaires were distributed to different work groups such as businessman, jobholder, students, government officials, housewives and retired people. This study has tried to make questionnaire as simple as possible so that there won't exist any problems for the respondents in filling up the questionnaires.

The collected data have been represented in the tabular form, sorted and organized, analyzed and concluded. Based on these, some generalizations have also been made and necessary recommendations have been provided at the end of the study. As most of the factors are subjective in nature, qualitative research was found to be appropriate for this study among various other research designs.

### **3.2 Population and Sample**

The study has totally focused to Kathmandu Valley. Kathmandu valley has been taken for this study, as the Kathmandu is a centrally located part of Nepal, where most of the commercial banks head offices are situated. To this end, the population for this project consisted of customers of public and private banks in the valley.

For the study reported herein, responses were gathered from customers of five banks in the banking industry which includes two public sector bank and three private sector bank so that the comparative study can be made. The three private sector banks are Laxmi Bank Ltd., Bank of Kathmandu Ltd. And Nepal Investment Bank Ltd. while as Rartriya Banijya Bank Ltd. and Agriculture Development Bank Ltd. are the two public sector banks taken for the study

Particular sample sizes were selected in such a manner that it gives most of the information required for the study with maximum accuracy and precision fulfilling the research objectives. The sample size has been chosen in such a manner that it would be enough to provide all necessary information. Questionnaire has been distributed to 120 samples according to the targeted customers focusing different age group, education, marital status, income level, occupation and gender.

### **3.3 The Sampling Procedure**

In this study, the sampling procedure has been used with view of principle of validity, principle of statistical regularity and the principle of optimization. The sampling procedure consists of product sample, sampling unit, sample of respondents and sampling method.

### **3.3.1 Product Sample**

The study focuses on comparing the expectations and perceptions of the customers of private and public banks. Thus, the only sample product used for the study purpose was the commercial banks and the services provided by them.

### **3.3.2 Sampling Unit**

The sampling unit for this study constitutes the people within different places of the Kathmandu Valley. The selection of the respondents was made on the basis of personal contacts and in a random basis. The respondents have been approached personally and given a detailed explanation about the survey (including its purpose, the meaning of the items and what is expected of the respondents).

### **3.3.3 Sample of Respondents**

The respondents selected as sample unit constitutes 86 customers of the banks within Kathmandu Valley. Total of 120 respondents from 5 different banks have been approached, from whom 86 correctly completed questionnaires have been obtained, thereby yielding a response rate of about 71.67 per cent. The high response rate is due to the personal- contact approach used. Of the 86 questionnaires taken into consideration, 44 respondents were from private banks while 42 were from public banks.

### **3.3.4 The Sampling Method**

A convenient judgment sampling method was employed to select sample of the study. The information regarding details of the customers aren't provided by the financial institutions due to policy of confidentiality. Therefore, the researcher used common convenience samples such as friends, relatives, neighbors and others.

### **3.4 Data Collection Procedure**

Considering the descriptive research design, it was necessary to collect primary and secondary data. Specifically, primary data and secondary data were used to describe the qualitative and quantitative aspects of the study respectively. The following were the data collection procedure:

#### **1. Primary Data Collection:**

The questionnaires are the primary sources of data collection. Questionnaires were prepared according to the requirement of the study on the basis of literature review and guidance of various personalities. This questionnaire was distributed according to the sampling taken as described in sampling procedure. The questionnaire included 15 questions for the respondents to fill up. During the process of data collection respondents were approached in banks, their homes and offices at different times and locations with a view to sampling a wide range of customers. Service provision and consumption were not disrupted for questionnaire administration purposes, and data gathering did not influence customer evaluations.

#### **2. Secondary Data Collection:**

The secondary source were various materials available in the web sites, published journals, newspaper, magazines, reports and various books. The data were collected from various sources such as internet and the documents provided by various commercial banks. Apart from these the websites of commercial banks were visited for necessary data. Articles and data's from various magazines and newspapers were also taken into consideration.

### **3.5 Statistical Analysis**

A total of 86 questionnaires considered as completed, acceptable and usable were returned, which was 71.67 per cent of the total number of respondents. Qualitative information collected through the primary and secondary sources were quantitatively

tabulated and analyzed using the related statistical tools like SPSS and MS-Excel. However, for the purpose of graphs (bar chart, pie chart, etc), Microsoft Excel has been used.

More specifically in statistical analysis data were presented using classified tables, diagram and analyzed using descriptive statistics, frequencies, percentage, arithmetic means, chi-square and cross tabulation.

### **3.6 Data Processing Procedures**

After collection of the questionnaires from the respondents, the relevant factors are drawn under needs. Thereafter, the data were coded and entered into a statistical software package SPSS version 10.00. With the help of SPSS software, frequency distribution, mean and standard deviation were computed and descriptive analysis was performed for interpretation of data. Next the chi square test was conducted to determine the existence of relationships between variables and clustering data into identifiable components, which were necessary steps before proceeding further with casual analysis.

### **3.7 Limitations**

No study is absolutely free from constraints and limitations. In the same way, this present study had some limitations which are as follows:

1. The study was mainly conducted among the respondents of Kathmandu and Lalitpur. This report has been prepared on the basis of the study conducted with customers of banks in those areas hence it becomes difficult to generalize the findings for the whole country.
2. The time frame for the study was very limited due to which deeper study on the subject matter could not be made.

3. Due to only 86 customers' responses that have restricted to take a broad view of the findings.
4. This is a static study which examined bank behavior in one specific time period. Additional studies of the longitudinal type may bring more insightful information.

# **CHAPTER IV**

## **PRESENTATION AND ANALYSIS OF DATA**

The analysis has been done on the basis of data collected through questionnaire, websites, brochures etc and recommendations of consumer, and the analysis has been done on sequential manner. Analysis of the study is completely based on customer survey.

As mentioned in the research methodology section, the analysis of the data collected has been done through the use of SPSS, which is a statistical tool. So the analysis is more or less in the form of descriptive analysis. It is because the statistics such as mean and frequencies has been used to analyze the collected data. As far as the presentation of data is concerned, tables bar diagrams and pie charts have been used. The chi square test has been used to test the hypothesis set in order to find out relationship between variables.

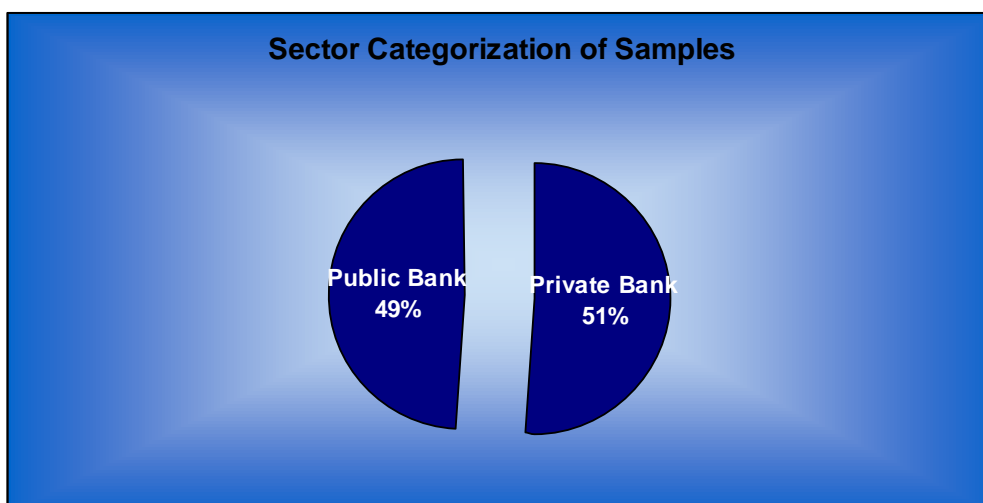
### **4.1 CUSTOMER SURVEY ANALYSIS**

For the survey analysis three banks from private sector and two from public sector were selected. Laxmi Bank Ltd., Bank of Kathmandu Ltd. And Nepal Investment Bank Ltd. was chosen from private banks and Agriculture Development Bank Ltd. and Rastriya Banijya Bank Ltd. were chosen as public banks.

#### **❖ Sector Categorization of Customer Samples**

<b>Sector</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Private Bank	44	51%
Public Bank	42	49%

**Table 4.1:** Sector categorization of customer samples



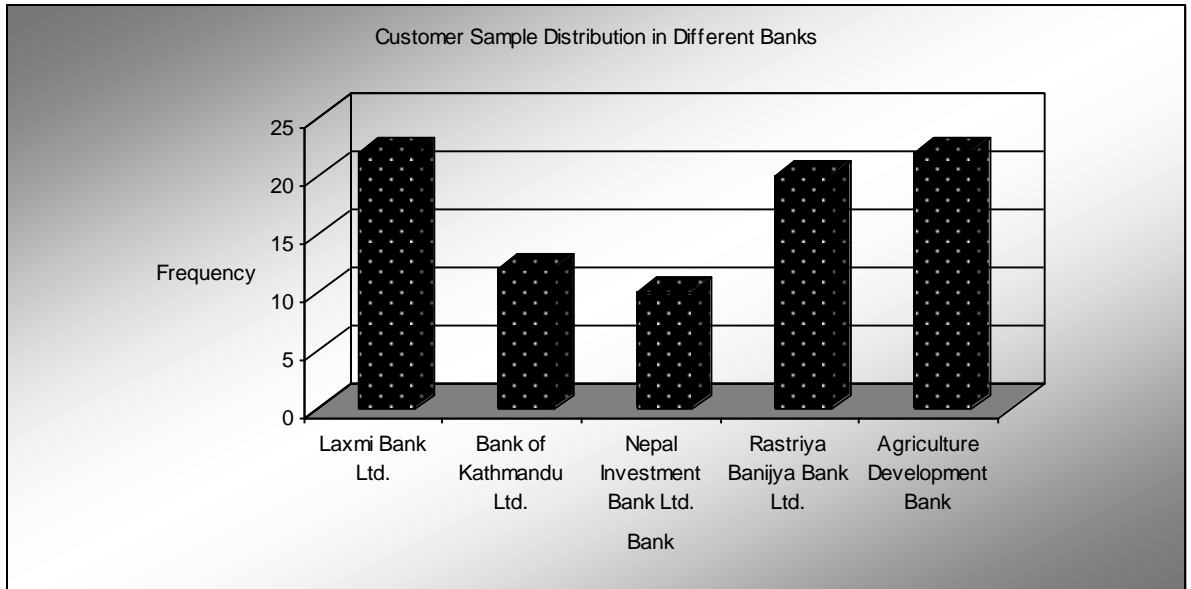
**Fig 4.1:** Sector categorization of customer samples

According to the sector, out of 86 respondents 44 respondents had an account in private banks while 42 respondents had accounts in public banks. Thus, 51% of the sample comprised of the private bank customers and the remaining 49% were from the public bank.

❖ **Customer Sample Distribution in Different Banks**

<b>Bank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Private Bank</b>		
Laxmi Bank Ltd.	22	50
Bank of Kathmandu Ltd.	12	27.27
Nepal Investment Bank Ltd.	10	22.73
<b>Public Bank</b>		
Rastriya Banijya Bank Ltd.	20	47.62
Agriculture Development Bank Ltd.	22	52.38

**Table 4.2:** Customer sample distribution in different banks



**Fig 4.2:** Customer sample distribution in different banks

The above bar diagram details the sample distribution in different banks. As shown in the diagram, the private customer sample consisted of 22 samples from Laxmi Bank, 12 from Bank of Kathmandu Ltd. and 10 from Nepal Investment Bank Ltd. Similarly, the public customer comprised of 20 from Rastriya Banijya Bank Ltd. and 22 samples from Agriculture Development Bank Ltd. Therefore, altogether a total of 86 respondents were surveyed for the analysis.

## CHI- SQUARE TEST

### ❖ Relationship between Age and Choice of Banking Sector

Sector	Age						Total
	below 20	20-29	30-39	40-49	50-59	over 60	
Private	1	25	10	6	1	1	44
Public		23	12	7			42
<b>Total</b>	1	48	22	13	1	1	86

**Table 4.3:** Cross tabulation of age and banking sector

Out of 86 samples total of 48 respondents were from the age of 20-29 range. In this range, majority (56.81%) were from private sector. So the majority of private sector seemed to be of lower age range. However, there were private bank respondents from the age range of 50-59 and over 60 also while there were no public bank respondents in this age range.

### **Chi-Square Test**

Ho: Choice of Banking Sector is independent of age of the respondent.

H1: Choice of Banking Sector is dependent of age of the respondent.

<b>Chi-Square Test</b>	<b>Value</b>	<b>Df</b>	<b>Asymp. Sig. (2-sided)</b>
Pearson Chi-Square	3.297	5	.654

**Table 4.4:** Chi-Square Test - Dependency of choice of banking sector with age

As per the chi square test, the significance level has been found 0.654 which is higher than 0.05. Thus the null hypothesis (H0) is accepted which states that the choice of banking sector is independent of age of the respondent Therefore, we can infer that the age of the people has no influence on making a choice of either public or private bank.

This has opposed the general concept that senior citizens are inflexible in their behavior and still up to dealing with traditional public banks. Private banks with their effort and heavy promotion strategy are trying to change the conception of senior people to experience their services.

### **❖ Customers Expectations and Perceptions in relation to the Tangible Features of Banks**

Here the lowest mean indicates the most preferred feature or the highest level of satisfaction and the highest mean in the table indicates the least prioritized attribute or the lowest level of satisfaction.

Tangible Features	Expectation Mean		Perception Mean	
	Private Bank	Public Bank	Private Bank	Public Bank
Effective physical layout and furnishings	2.36	1.90	2.14	2.67
Signs and advertisements in the bank	3.09	3.14	2.66	3.00
Appearance of staff	2.36	2.64	2.43	3.02
Modern looking equipment and facilities	2.18	2.31	2.39	3.19

**Table 4.5:** Customers expectations and perceptions in relation to the tangible features of banks

The expectations of public bank customers and private bank customers seemed to be much different. Private bank customers expected that among other tangible features banks should focus on providing modern looking equipment and facilities for the customers in the first place. On the other hand, public bank customers expected their bank to provide them with effective physical layout and furnishings as the top priority. Thus, private bank customers seemed to be attracted by appearance while public bank customers appeared to prefer effective physical layout that helps to perform their task much easily and faster.

However, the customers of both the banks have given similar priority to good staff appearance. Finally, signs and advertisements in the banks were viewed as the least important feature. As for the case of perception, customers of both the sectors seemed to be satisfied in effective physical layout and furnishings. Nevertheless, modern looking equipment and facilities scored second in the private bank while in public bank equipment and facilities were considered to provide least satisfaction level. This shows that the in comparison to the private banks, public banks customers didn't seem to satisfy with the equipments and facilities provided by the bank. This illustrates that public banks are still up to traditional equipments. So the public banks should introduce modern equipments and facilities for better service to customers.

While perceiving the satisfaction level, comparatively the mean scores of private

banks were lower for every tangible feature than those of public banks. Especially, modern equipments and facilities comprised vast difference in the mean scores of private and public banks. This proves that public banks customers are less satisfied with their banks than private banks customers in terms of tangibility. The data prompts the public banks to show greater concern for their tangible appearance to attract customers.

On the overall comparison of expectations and perceptions, as compared to private banks the respondents of public banks appeared to have lower level of perception of services towards their banks as compared to their expectations. This shows that public banks are lagging behind in their effort to meet the expectation level of their customers.

#### **CHI- SQUARE TEST**

##### **❖ Relationship between Banking Sector and Tangible Feature of Effective Physical Layout and Furnishings**

<b>Effective Physical Layout and Furnishings</b>	<b>Sector</b>		<b>Total</b>
	<b>Private Sector</b>	<b>Public Sector</b>	
Very satisfied	6	1	7
Satisfied	27	20	47
Neutral	10	13	23
Dissatisfied	1	8	9
<b>Total</b>	44	42	86

**Table 4.6:** Cross tabulation of banking sector and tangible feature of effective physical layout and furnishings

When asked about their perception about the physical layout and furnishings of their current bank, higher fraction of private bank customers were satisfied and very satisfied than public bank customers. While more percentage of the public bank customers was dissatisfied than private bank customers. Thus, the findings revealed that private bank customers were more satisfied with their bank than public bank customers.

### Chi-Square Test

Ho: Tangible Feature of Effective Physical Layout and Furnishings is independent of banking sector of the respondent.

H1: Tangible Feature of Effective Physical Layout and Furnishings is dependent of banking sector of the respondent.

Chi-Square Test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.409	3	.015

**Table 4.7:** Chi-Square Test - Dependency of tangible feature of effective physical layout and furnishings with banking sector

As per the chi square test, the significance level has been found 0.015 which is lower than 0.05. Thus the alternative hypothesis (H1) is accepted which states that the tangible feature of effective physical layout and furnishings is dependent of banking sector of the respondent.

Private Banks always takes special care for the customers to feel comfortable while doing transactions through good layout for easy movement and modern and comfortable facilities and furnishings. This effort has been rewarded by the customers. Customers dealing with private bank have shown higher level of satisfaction with regards to physical layout than customers of public. This is also identified from the above cross tabulation table. Therefore, we can conclude that the level of satisfaction of customers in relation to physical layout and furnishings depend on the sector to which the bank they are dealing with belongs to.

#### ❖ **Customers Expectations and Perceptions in relation to the Reliability Features of Banks**

For the reliability features, the major expectation of private bank customers was that bank should provide them with the service on time when promised. This means they wanted timely performance. After this they desired for the transactions to be secured and more service accuracy. Just opposite to this, the public bank customers expected more security and accuracy than timely performance. They gave first priority to

accuracy of transactions and safe and secure transactions and then only keeping of promises for on- time actions. It is also clearly seen that for both the private and public banks among other reliability features customers have given the lowest priority to the complaint procedure feature. This may be for the reasons that if banks are able to provide secure and accurate services on time the chances of complaint would be very low. Accordingly they expected the banks to concentrate on facilitating other features first.

Reliability Features	Expectation Mean		Perception Mean	
	Private Bank	Public Bank	Private Bank	Public Bank
Accuracy of services and transactions	2.52	1.98	2.11	2.26
Keeping of promises for on-time actions	2.25	2.57	2.43	2.67
Safe and secure transactions	2.32	2.40	2.34	2.52
Effective customer complaint procedures	2.90	3.05	2.80	3.21

**Table 4.8:** Customers expectations and perceptions in relation to the reliability features

The private banks customers seem to perceive the level of service just opposite to their expectations. They had higher expectation for on- time services but they seem to be less satisfied with this feature as compared to service accuracy and safe and secure transactions. In fact, they perceived receiving highest level of satisfaction for service accuracy and then safe and secure transactions. They showed lower level of satisfaction for on-time performance and effective complaint procedures. However, the public bank customers showed similar perception and expectation level for reliability features. As per their expectations, they perceived receiving the highest level of performance in terms of service accuracy and safe transactions followed by on-time performance and effective complaint procedures.

The results suggest both banks are still not able to provide service on-time as promised and to effectively handle customer complaints. This may have serious implication on customer retention. So they should try to improve their on-time performance and take the customer complaints seriously to satisfy and retain them.

Thus, though the customers of the two banking sector showed difference in the ranking of their expectations level towards a particular bank, yet their ranking for the perception towards the services of their current bank seem to be similar. The overall comparison also identified that both the expectation and perception level of public banks customers were lower than private banks customers. This showed that the customers of public banks had much lower expectations and they also showed less satisfaction towards their banks. Public banks should thus put in more effort to provide reliable services to come up to the level of private banks.

**❖ Customers Expectations and Perceptions in relation to the Responsiveness Features of Banks**

<b>Responsiveness Features</b>	<b>Expectation Mean</b>		<b>Perception Mean</b>	
	<b>Private Bank</b>	<b>Public Bank</b>	<b>Private Bank</b>	<b>Public Bank</b>
Queues that move rapidly	2.41	2.38	2.45	2.90
Caring and individual attention to customers	2.61	2.5	2.45	2.93
Willingness of staff to serve/ help clients	2.20	2.19	2.45	3.02
Innovative facilities like sms and internet banking	2.77	2.93	2.18	3.55

**Table 4.9:** Customers expectations and perceptions in relation to the responsiveness features of banks

In case of responsiveness features, the expectations of the customers of both banks seem to be similar. The ranking comprised from the topmost staff willingness to serve clients, rapidly moving queues, caring attention to customers and then innovative facilities. Thus, the customers wished for the staff to be more courteous and willing to help them because mostly they have to deal with the staff and not the management team or directors. Rapidly moving queues also came as a priority as in the present context people have busy schedule and they cannot waste their valuable time standing in the queue. So they wished for better service counters that help the queues to move rapidly. The customers may have shown low priority to innovative facilities like sms

and internet banking because these facilities are popular only in a small section of educated and urban people. Probably, many of the accountholders may not know about its usefulness and convenience.

Although the customers of both the banking sectors showed similar type of expectations, they perceived receiving different level of satisfaction from their respective banks. Private bank customers seemed to be satisfied with the innovative facilities which demonstrate the private banks effort to introduce new innovations in the banking system. However, for the public bank this feature involved the highest mean showing the dissatisfaction among the customers. This is because public banks are reacting very slowly towards the innovative facilities. For other responsiveness features i.e. rapidly moving queues, attention to customers and willingness of staff the private bank customers seemed to perceive these services as satisfactory. On the whole, customers appeared to be satisfied with the kind of response they were receiving from private banks. While in the public sector, customers were neutral with those features.

Banks are service related organizations so they should be customer focused and respond to them well. They should show proper attention and willingness to serve their customers because good customer relation is the key to success in today's competitive environment. In particular, respondents from public banks showed lower satisfaction level. So, especially, public banks should consider appropriate responsiveness service for their customers. This will help the bank to satisfy and attract more customers and thus compete with the private banks.

## **CHI- SQUARE TEST**

### **❖ Relationship Between Banking Sector and Responsiveness Feature of Rapidly Moving Queues**

From the table 4.10 it is seen that respondents from private banks were more satisfied with the queuing system of their banks than from public banks. While more percentage of public bank respondents seem to be neutral. Similarly, the proportions of very dissatisfied responses from both the sectors were equal.

Rapidly Moving Queues	Sector		Total
	Private Sector	Public Sector	
Very satisfied	7	1	8
satisfied	17	11	28
neutral	14	22	36
dissatisfied	5	7	12
very dissatisfied	1	1	2
<b>Total</b>	44	42	86

**Table 4.10:** Cross tabulation of banking sector and responsiveness feature of rapidly moving queues

### Chi-Square Test

Ho: Responsiveness Feature of Rapidly Moving Queues is independent of banking sector of the respondent.

H1: Responsiveness Feature of Rapidly Moving Queues is dependent of banking sector of the respondent.

Chi-Square Test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.855	4	.097

**Table 4.11:** Chi-Square Test - Dependency of responsiveness feature of rapidly moving queues with banking sector

As per the chi square test, the significance level has been found 0.097 which is higher than 0.05. Thus the null hypothesis (H0) is accepted which states that responsiveness feature of rapidly moving queues is independent of banking sector of the respondent.

The customers of public bank have the problem to wait long in their queues. Though the private banks claim to have less queuing problem this is the case of only few private banks that also only in some of their branches. Although some private banks have been providing effective queuing system, yet the customers have to face the problem of waiting in the long queues even in most of the private banks. Therefore, we can conclude that unlike tangible feature of physical layout banking sector has no

influence customers' satisfaction level of responsiveness feature of rapidly moving queues.

**❖ Customers Expectations and Perceptions in relation to the Assurance Elements of Banks**

Assurance Elements	Expectation Mean		Perception Mean	
	Private Bank	Public Bank	Private Bank	Public Bank
Recognition of regular client	2.82	2.52	2.50	2.55
Employee understanding clients' needs	2.52	2.57	2.52	2.83
Staff knowledge and competence to help clients	2.25	2.14	2.59	3.26
Clear explanations of services	2.41	2.76	2.75	2.93

**Table 4.12:** Customers expectations and perceptions in relation to the assurance elements of banks

From among the assurance elements, private bank customers placed adequate knowledge and competence of their bank's employees as their top expectation with the lowest mean of 2.25. This may be because only when staff has adequate knowledge that they can understand clients needs and clearly explain about services to them. Then they prioritized clear explanation of services, understanding clients' needs and recognition of regular client with in descending order. As for the case of staff knowledge and competence, public bank customers seemed to agree with private bank customers showing highest expectation with the lowest mean of 2.14. Subsequently, they wanted the bank to recognize and give priority to the regular client. This factor will help the banks to keep long term relation with their clients.

From the analysis we can see that for both the sectors respondents were more satisfied with the recognition of regular client among other assurance elements. This shows that both the banks are doing well in terms of recognizing and serving their regular clients with personal preference making them feel special. However, customers of private banks were more or less neutral with staff conduct to clients and understanding their needs identified from the mean ranking of the features like understanding clients' needs, staff knowledge and explanation of services. Private

banks should, therefore, work on enhancing the staff skills and knowledge about the available bank service products. Public bank respondents also consented with private banks in case of staff knowledge with the highest mean of 3.26. This elucidate the need of public banks to give more training to augment the skills of their staff and also well educate their staff about the services offered by the bank in detail. This will help them to understand the clients' need better and help them in a suitable manner.

Therefore, in case of perception of services by the customers, in assurance elements also, the mean scores of private banks were lower than those of public banks. This proves that public banks customers are less satisfied with their banks than private banks customers. The data prompts the public banks to boost up their staff knowledge and competence and try to better understand and serve their customers for better competition with the private sector.

**❖ Customers Expectations and Perceptions in relation to the Empathy Factors of Banks**

Empathy Factors	Expectation Mean		Perception Mean	
	Private Bank	Public Bank	Private Bank	Public Bank
Branches in convenient locations	2.19	2.04	2.25	2.60
Most services available in every branch	2.21	2.47	2.45	2.60
Convenient opening hours and days	2.53	2.33	2.45	2.90
Sufficient number of ATMs per branch	3.07	3.16	2.73	3.86

**Table 4.13:** Customers expectations and perceptions in relation to the empathy factors of banks

Customers of both the banking sector showed the highest expectation for branches to be in convenient locations. This is possibly because people nowadays want services at their footstep so that they don't have to take out time from their hectic schedule. After that the order of priority for private bank customers was most services in every branch, convenient opening hours and ATM network. On the other hand, the ranking from the public sector resulted in convenient opening hours, most services in every branch and ATM network. The lowest priority for ATM network shows that larger

population is still using conventional banking methods for banking activities that can be done through ATM. Moreover, in case of public banks, banks themselves lag behind to introduce ATM cards for their customers so the customers are more prone to conventional banking system and don't know the importance of ATMs.

In case of the perception of the service quality of their respective bank, for private sector, the satisfaction level was highest for branches in convenient locations and then for convenient opening hours, services available in every branch, and ATM network. This demonstrates that customers are satisfied with the attempt of private banks to expand their branch network to help consumers avail their service from wherever they need. Nevertheless, customers didn't seem to be satisfied with ATM network provided by the banks as illustrated by the highest mean scores. Banks should acknowledge the increasing popularity of ATMs and try to increase their ATM network much more than their branch network.

Similarly in public sector, respondents considered the branch network and the branches availing most of the services of public banks as satisfactory with the lowest mean among other factors. However, the higher mean for opening hours showed that they were not satisfied with this feature. Public banks are still functioning in traditional working hours while people are not up to routine work but their work has become more dynamic. So the banks should increase their service hours in holidays and extra hours to provide additional service to their customers. With highest mean of 3.86 respondents showed dissatisfaction with regards to ATM networks of public banks.

In general comparison, for both the sectors the expectation level of respondents seemed to be higher than their perception. Thus, the banks should put in more effort in researching and understanding the needs of their customers and also to fulfill these needs so that their perception level may come up to their expectation level. Thus, in this age of competition, banks should endeavor for providing easy and convenient banking services and facilities to their customers.

❖ **Respondent’s Opinion towards their Current Bank**

	Private Bank			Public Bank		
	Mean	Std. Deviation	N	Mean	Std. Deviation	N
Overall service quality	3.14	.55	44	2.79	.56	42
Likely to continue in future	3.64	.61	44	3.05	.94	42
Likely to recommend others	3.61	.75	44	3.10	.88	42

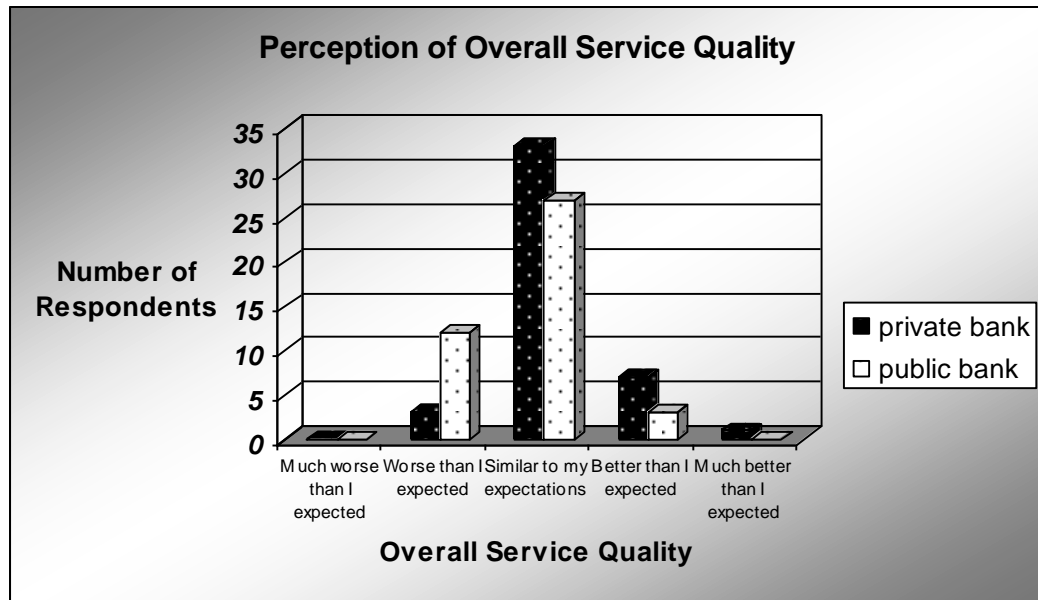
**Table 4.14:** Respondent’s opinion towards their current bank

The respondents were asked to give their view about how they feel about the “overall service quality” of their respective banks. The respondents of private bank seemed to be satisfied with the overall service quality provided by their bank. The mean response of 2.79 obtained from public bank customers shows that they are also more or less satisfied with their bank. However, the satisfaction level of public bank customers was much less than that of private banks. Therefore, the customers of private banks perceived to have received service at higher level of their expectation as compared to customers of public banks.

In the same way, there was higher mean response from private bank respondents in the favor of the fact that they are likely to continue with their current bank in the future and high probability of recommending the bank to their relatives and friends. This shows that the continuous effort of private banks to serve their customers has paid off and customers are satisfied with their bank. As in the overall satisfaction, mean response of public bank was lower than that of private banks. This is obvious because since the public banks customers are comparatively not so much satisfied with their bank they are also less likely to continue in the future or recommend to others. Public banks, therefore, have to put in lot of effort and time for innovative facilities, and effective and efficient service to attract and retain their customers.

The standard deviation for all the subjects of respondent’s attitude towards their current bank was low which justifies that there is no significant variability in the responses obtained in this regard. Nevertheless, the deviation from public bank

responses was higher than the deviation from the private bank responses. This shows that private bank respondents follow the similar range of opinions than public bank respondents. The attitude of the respondents towards their current bank can be clearly viewed in the figures below:

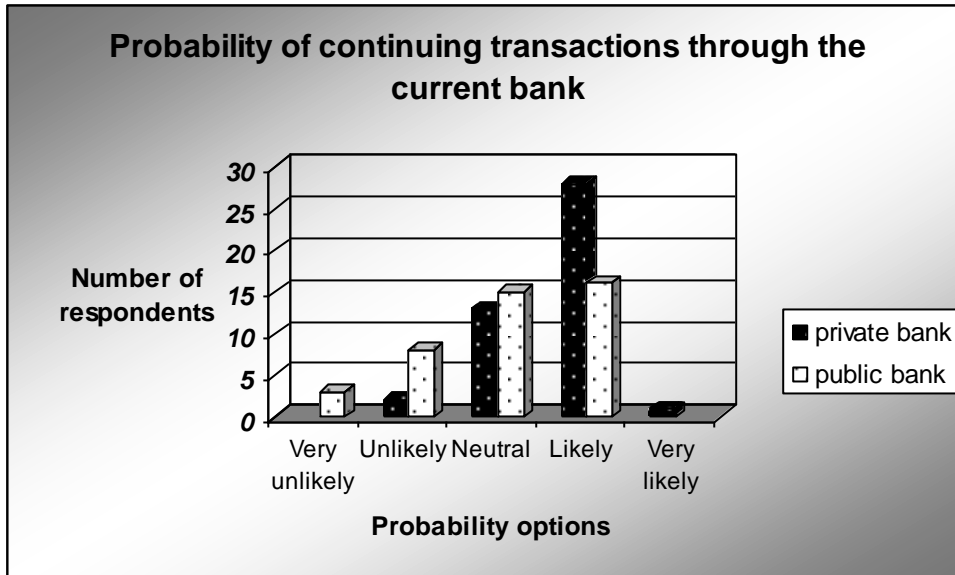


**Figure 4.3:** The “overall service quality” provided by current bank of customer

From the figure we can see that to the left of similar to expectations private bank frequency is lower while in similar to expectations and to further right private bank frequency is higher than public bank. From this we can draw the conclusion that the customers of private banks perceive receiving service at higher level as compared to customers of public banks.

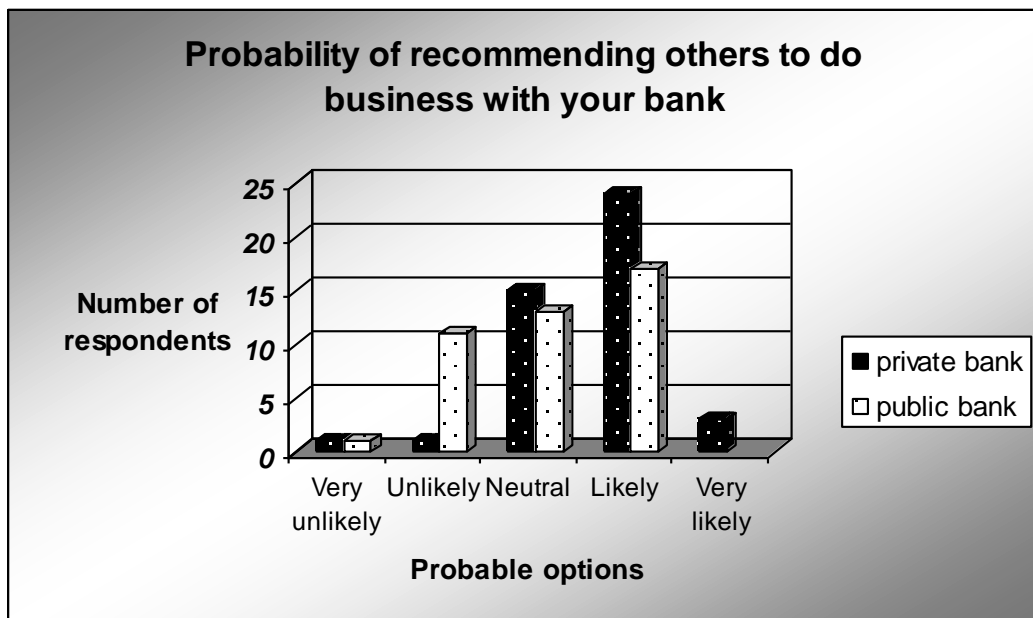
**❖ Probability of Continuing Transaction in Future through the Current Bank**

The figure 4.4 identifies that the percentage of private bank customers is higher for being likely or very likely to continue transaction in the future through the current bank. Similarly, in case of neutral or unlikely public bank percentage is higher. Therefore, the probability of continuation seems to be higher among private bank customers.



**Figure 4.4:** Probability of continuing transaction in future through the current bank

❖ **Probability of Recommending Others to do Business with your Bank**



**Figure 4.5:** Probability of recommending others to do business with your bank

The proportion of private bank customers is higher for being likely or very likely to recommend their bank to others. While, in case of unlikely or very unlikely public bank percentage is higher. Therefore, the probability of recommendation seems to be higher among private bank customers.

## CHI- SQUARE TEST

### ❖ Relationship Between Occupation and Level of Satisfaction towards the Current Bank

Level of Satisfaction	Occupation						Total
	Self-employed	service	housewife	retired	Student	unemployed	
Very dissatisfied	1	1					2
dissatisfied	1	6					7
Neutral	3	27	2	1	2		35
Satisfied	8	27	2		1	3	41
Very satisfied					1		1
<b>Total</b>	13	61	4	1	4	3	86

**Table 4.15:** Relationship between occupation and level of satisfaction towards the current bank

There doesn't seem to be any regular pattern where particular occupations of people were more satisfied with their bank or not. Service people were equally satisfied and neutral with their bank. This was also the case for housewives. The self employed people seemed to be satisfied with their bank.

### Chi-Square Test

Ho: Level of Satisfaction toward the current bank is independent of occupation of the respondent.

H1: Level of Satisfaction toward the current bank is dependent of occupation of the respondent.

Chi-Square Test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.454	20	.063

**Table 4.16:** Chi-Square Test - Dependency of level of satisfaction toward the current bank with occupation.

As per the chi square test, the significance level has been found 0.063 which is higher than 0.05. Thus the null hypothesis (H0) is accepted which states that the level of satisfaction toward the current bank is independent of occupation of the respondent

The level of satisfaction is the attitudinal aspect and it doesn't seem to be affected by occupation of the respondents. This may be because even in the same occupation there may be people with varying vision and attitude. Therefore, we can infer that the occupation of the people has no influence on one's feelings towards the current bank.

**❖ Relationship Between Gender and Probability of Recommendation of Current Bank to Others**

Probability of Recommendation to others	Gender		Total
	Male	Female	
very unlikely	1	1	2
Unlikely	9	3	12
Neutral	17	11	28
Likely	26	15	41
very likely	2	1	3
<b>Total</b>	55	31	86

**Table 4.17:** Cross tabulation of gender and probability of recommendation of current bank to others

Here, the research question asked the respondents whether they would recommend their current bank to their friends and relatives. The findings revealed that more proportion of female respondents were likely to recommend than male while more male were very likely to recommend to others. There were similar fraction of male and female very unlikely to recommend. There didn't seem to be any particular relation between these two factors.

**Chi-Square Test**

Ho: Probability of recommendation of current bank to others is independent of gender of the respondent.

H1: Probability of recommendation of current bank to others is dependent of gender of the respondent.

Chi-Square Test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.946	4	.918

**Table 4.18:** Chi-Square Test - Dependency of probability of recommendation of current bank to others with gender

As per the chi square test, the significance level has been found 0.918 which is higher than 0.05. Thus, the null hypothesis (H0) is accepted which states that the probability of recommendation of current bank to others is independent of gender of the respondent

Therefore, we can conclude that the gender has no influence on the probability of whether one would recommend his bank to his friends and relatives or not. The level of satisfaction influences the recommendation factor rather than the gender. This opposes the findings from previous researches where female were found more involved in recommending others than male respondents.

## 4.2 Major Findings

The study on the level of expectations and perceptions made by the customers towards their bank has lead to certain conclusion and findings. These conclusion and findings are stated below:

- Out of 86 samples, 51% of the sample comprised of the private bank customers and the remaining 49% are from the public bank.
- The Chi- square test showed that the choice of banking sector is independent of age of the respondent. Therefore, the age of the people has no influence on making a choice of either public or private bank.

- The tangibility feature of equipments and facilities showed that private bank customers expected that among other tangible features banks should focus on providing modern looking equipment and facilities for the customers while public bank customers expected their bank to provide them with effective physical layout and furnishings.
- The study has found out that for the reliability features the major expectation of private bank customers was that bank should provide them with the service on time when promised while the public bank customers expected better service accuracy.
- In case of responsiveness features, the expectations of the customers of both banks seemed to be similar. The ranking comprised from the topmost staff willingness to serve clients, rapidly moving queues, caring attention to customers and then innovative facilities.
- The survey data showed that for the assurance elements, both the private bank and public bank customers have placed the employees of their bank to have adequate knowledge and competence as their top expectation.
- Branches in convenient locations, an empathy factor have been placed as the most important factor by customers of both the banking sector.
- When analyzing the customer perceptions among the tangible features, amid the private bank customers explained that customers seemed to be satisfied with physical layout and furnishings of the private bank. Similar was the case with public bank customers.
- The relationship analysis showed that the tangible feature of effective physical layout and furnishings is dependent of banking sector of the respondent. Thus,

the banking sector to which the respondent is associated with has direct influence on their level of satisfaction.

- The level of satisfaction as per the reliability aspects showed that customers of both sector had same perceptions with satisfied response in accuracy of services and then in safe and secure transactions.
- From the mean statistics we can see that customers were more satisfied with the innovative facilities among other responsiveness features for private banks which demonstrate that the customers of the private banks seemed to be satisfied with their banks effort to introduce new innovations in the banking system.
- However, for the public bank innovative facilities involved the highest mean of 3.55 which shows that public banks are reacting very slowly towards the innovative facilities.
- As per the chi square test, responsiveness feature of rapidly moving queues was independent of banking sector of the respondent. Therefore, we can conclude that unlike tangible feature of physical layout, banking sector has no influence on customers' satisfaction level of responsiveness feature of rapidly moving queues.
- From the analysis assurance elements we can see that for both the sectors respondents were more satisfied with the feature of recognition of regular client.
- In case of the empathy factors, the ranking of the factors was branch locations, services available in every branch, opening hours and then ATM network for both sectors. Hence, respondents showed higher level of satisfaction for branches in convenient location.

- Out of 44 respondents from the private sector 33 respondents (75%) mentioned that the quality of service provided by their current bank was similar to their expectations. Similarly, in the public sector, 27 out of 42 (64.3%) had similar remarks i.e. similar to their expectations.
- On asking about their feelings towards their bank in terms of satisfaction 54.5% (24 out of 44) from private sector and 40.5% (17 out of 42) from public sector expressed satisfied feelings towards their respective bank.
- Besides 2.3% were very satisfied while 2.3% were dissatisfied among respondents of private bank. On the contrary, 14.3% were dissatisfied and 4.8% were very dissatisfied among the public bank respondents. In the public sector, there was no any very satisfied percentage whereas in the private sector, there was no any very dissatisfied group. This proves that the private banks are able to maintain more satisfied customers than public banks.
- From the Chi- square test, it was found that the level of satisfaction toward the current bank is independent of occupation of the respondent. Thus, whatever may be the occupation of the people; it has no particular influence on one's feelings towards the current bank.
- 54.5% of private sector respondents said that they were likely to recommend their current bank to their friends and relatives. In case of public sector, 40.5% respondents were likely to recommend to others.
- There was a vast difference in case of unlikely option. 2.3% of private bank customers were unlikely to recommend while 26.1% of public bank customers were unlikely to recommend others. This shows that a greater percentage of public bank customers are themselves dissatisfied with their bank and don't like to recommend to others as compared to private bank customers.

- Relationship analysis has revealed that the probability of recommendation of current bank to others is independent of gender of the respondent. Therefore; we can conclude that the probability of recommendation of bank to others is not affected by the gender of the respondent.

Therefore, from the analysis it was clear that there exists a major difference in the factors of expectations of the private bank and public bank respondents. Not only in the factors, there was also much discrepancy in the level of their expectations. The expectation level of private bank customers was higher than that of public bank customers. In the same way, in case of the perception of the service of their respective bank, the level was higher for the customers of private bank.

# CHAPTER V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

The general objective of the study is to compare the private and public sector bank in relation to customer expectations and perceptions. The study has focused on customers of banks within the Kathmandu valley. Based on the findings of the past studies and the characteristics of Nepalese markets and customers, some research questions has been developed related to the expectations of the customers towards a Nepalese bank in general and perceptions made by the customers in relation to their particular bank.

In this study data were obtained through questionnaires with different age group, profession group and income group. For the better result of the study, the questionnaire was collected from diverse demographic people. A detailed questionnaire was used which covered different aspects of service provided by the banks. The collected data were analyzed and interpreted by using statistical tools like Mean, Frequencies, and Percentages. Similarly, the developed hypotheses were tested by using statistical tool like Chi- Square.

The questionnaire conducted during the course of the study revealed that there were similarity as well as differences in the expectations of private bank and public banks while analyzing their expectations relating to various SERVQUAL features like tangibility, reliability etc. The private bank customers prioritized providing modern looking equipment and facilities for the customers, provide service on time when promised, and staff willingness to serve clients, the bank employees to have adequate knowledge and competence and branches to be in convenient locations as their top expectation. On the other hand, public bank customers expected their bank to provide them with effective physical layout and furnishings, accurate service, staff willingness to serve clients, staff knowledge and competence and branches in convenient

locations as the top priorities. In case of perception of the customers, it was found that the mean scores of private banks are lower than public banks for every SERVQUAL feature. This result is in line with the results obtained from previous research by Kangis & Voukelatos (1997). This proves that public banks customers are less satisfied with their banks than private banks customers. The data prompts the public banks to show greater concern for their customers and to put in more effort to attract and satisfy them for better competition with the private sector.

While analyzing the relationship between choice of banking sector and age it was found that choice of banking sector is independent of age. For the relationship between occupation and level of satisfaction towards the current bank, again the relationship was independent. Similarly, there was independent relationship between gender and probability of recommendation of current bank to others. This outcome opposes the result of previous researches by Belenky and Hegie (1987) which state that women are more likely to offer word of mouth recommendations. However, it was found that level of satisfaction in the tangible feature of effective physical layout and furnishing was dependent of banking sector of the respondent. Unlike in tangible feature, the satisfaction level for the responsiveness feature of rapidly moving queues was independent of banking sector of the respondent.

The Chi- square analysis showed that the choice of banking sector was independent of age of the respondent. Similarly, it was found that the level of satisfaction toward the current bank was independent of occupation of the respondent. Relationship analysis has revealed that the probability of recommendation of current bank to others was also independent of gender of the respondent. The tangible feature of effective physical layout and furnishing was found dependent of banking sector of the respondent. Unlike for tangible feature, responsiveness feature of rapidly moving queues was independent of banking sector of the respondent.

The study on the level of expectations and perceptions made by the customers towards their bank has revealed that the customers of private sector banks expected better facilities in areas like modern looking equipment and facilities, on- time service etc. While public bank customers expected their bank to provide with effective physical layout and furnishings, better service accuracy and so on. In some features,

the expectations of the customers of both banking sector were similar. Both expected better service regarding willingness to serve clients, adequate knowledge and competence of staff and branches in convenient locations.

When analyzing the customer perceptions, customers of both sector banks showed satisfaction in similar factors like physical layout and furnishings, accuracy of services, recognition of regular clients and branch locations. Although they showed satisfaction in similar factors, however, the level of satisfaction was different. The customers of private bank showed higher level of satisfaction and higher level of probability for recommending their respective bank to their friends and relatives as compared to public bank customers.

Therefore, from the analysis it was clear that there exists a major difference in the factors of expectations of the private bank and public bank respondents. Not only in the factors, there was also much discrepancy in the level of their expectations. The expectation level of private bank customers was higher than that of public bank customers. In the same way, in case of the perception of the service of their respective bank, the level was higher for the customers of private bank. The respondents from the private sector seemed to be more satisfied with their bank and were likely to continue transactions with their bank in future. They were also likely to recommend their bank to their friends and relatives. Comparatively, the respondents from public banks showed higher level of dissatisfaction from their respective bank and were less likely to continue transactions in future or to recommend to their friends and relatives.

## **5.2 Conclusions**

In the world of competitive environment it is very difficult for every sector to survive. The banks are gradually expanding the menu of financial services they offer to their customers in order to satisfy their customers and add value, as well as attract more customers and increase their market share. Similarly, commercial banks face cut throat competition and especially in country like Nepal with very less opportunities and low investment sector, customers are the king. Therefore, banks have to

continually upgrade and enhance their services to meet up to the customer's expectations and constantly review their perceptions.

The analysis showed that for the overall service quality provided by the current bank of the respondents, the majority of both the private and public bank customers seemed to have the quality similar to their expectations. However, there were a higher percentage of private banks customers saying better or much better than expected and higher percentage of public banks customers saying worse or much worse than expected. Similar result was revealed in case of the level of satisfaction towards the current bank. The majority were satisfied from both the sectors while more private bank customers were very satisfied than public bank customers. In line with this result, the majority of the respondents of both the banking sector were likely to continue transactions with their bank and to recommend their bank to others. Greater percentage of private bank customers was very likely to continue their transactions and recommend to others than the public bank customers.

Therefore, while comparing the expectations and perceptions of the private and public bank customers through the questionnaires survey conducted during the course of the study it was found that there was much difference in their expectations and perceptions. The customers of private bank customers were more satisfied with the overall service quality and likely to continue transaction with their bank than customers of public bank customers.

### **5.3 Recommendations**

The study has been carried out to compare the private and public banks in relation to the customers' expectations and perceptions. A number of findings and conclusions regarding the respondents' level of expectations and perceptions has been drawn from the study that has been listed above. Furthermore, the study has also dealt with customer satisfaction, perceived level of overall service quality and their recommendation likeliness. After summarizing and concluding the whole study process, some recommendations have been made for the banks:

1. As per the survey findings, it is recommended to the banks to provide modern looking equipment and facilities for the customers as customers has placed highest priority on this factor. Particularly in case of public banks, they are still up to traditional equipments and should bring in change.
2. Especially public banks are recommended to amend the physical layout provide effective physical layout and furnishings for easy flow of customers.
3. It would be recommended to the bank to make available efficient and increase the number of service counters so that the customers need not wait long in their busy schedule.
4. Respondents have placed the employees of their bank to have adequate knowledge and competence as their top expectation while they perceive this feature to be less satisfactory in their current bank. Therefore, banks and especially public banks should work on training and enhancing the staff skills and knowledge about the available bank service products. Only when staff has adequate knowledge that they can understand clients needs, serve them properly and clearly explain about services to them.
5. Banks are suggested to continue their effort to provide branch facilities in various convenient locations as customers have placed the highest expectation for convenient branches locations. This is possibly because people nowadays want services at their footstep so that they don't have to take out time from their hectic schedule.
6. The survey suggests that both sectors of banks are still not able to provide service on-time as promised and to effectively handle customer

complaints. This may have serious implication on customer retention. So they should try to improve their on-time performance and take the customer complaints seriously to satisfy and retain them.

7. Public banks are reacting very slowly towards the innovative facilities like ATM cards and e-banking. Since customers are being more aware of the use and ease endowed by ATMs they are being more prone to using it. Thus, in this age of innovation, public banks should try to launch different innovative products for easy and convenient banking by customers.
8. Similarly, private customers also don't seem to be satisfied with ATM network. Banks are recommended to acknowledge the increasing popularity of ATMs and increase their ATM network much more than their branch network
9. Public banks are still functioning in traditional working hours. They are suggested to increase their service hours in holidays and extra hours to provide additional service to their customers.
10. On overall, customers of private banks perceive receiving service at higher level of their expectation as compared to customers of public banks. Therefore, public banks are suggested to come up with new ideas and facilities to their customers. This will help them to increase the probability of their customers to continue transactions with them and to recommend to others.
11. Banks should also target female customers by providing special schemes.
12. Banks should target service occupation cardholders because service people are usually busy in their routine work so that they don't get enough time

for typical banking activities and require fast, reliable and convenient services.

Some recommendations have been made for the future study:

1. A sample size of 120 respondents for study purpose was taken. This sample size in itself may not be optimal sample size to represent the customer expectations and perceptions. Furthermore, this study has been focused within Kathmandu Valley only. So, in order to get better picture of subject matter, it is better to conduct the study by taking large sample size and other various location.
2. This study has only tried to compare private and public sector bank in relation to customers' expectations and perceptions. The study has only been limited with the customers' focal point. There are also various other areas for comparison like employee satisfaction, financial issues like profitability, etc.
3. This study has taken tangibility, reliability, responsiveness, assurance and empathy factors to assess expectations and perceptions. There may be other factors like price and cost, which should be taken into consideration as factors affecting expectations and perceptions.

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## APPENDIX

### CUSTOMER SURVEY QUESTIONNAIRE

Dear Sir/Madam,

I am undertaking a study on “*Private and Public Banks: A comparative study of Customer Expectations and Perceptions.*” as a partial fulfillment of the requirements for the Masters Degree in Business Studies (MBS).

Your cooperation in this regard would be highly appreciated. Your response would help me to understand the general banking behavior and to know your views about the services provided by different private and public banks in Nepal. I would also like to assure you that all information contained in this questionnaire will be kept confidential and used only for statistical analysis. I would appreciate your cooperation.

Thank You.

Some of the *factors that you consider while selecting a particular bank* are summarized in the following questions.

**Rank** the factors in the questions in the order of your preference (*with 1 for most important factor and 4 for least important factor*).

1.	What do you expect among the following tangibles options that your bank should possess?	1	2	3	4
	○ Properly designed physical layout and furnishings for comfortable interaction with employees				
	○ Visually appealing signs, advertisement boards and other artifacts in the bank				
	○ Employees who have a neat and professional appearance				
	○ Existence of modern looking equipments and facilities for good customer service				
2.	How reliable and effective should a bank be to become the bank of your choice? Give your opinion in relation to the following options.	1	2	3	4
	○ Accuracy of services- transactions, statements, etc.				
	○ Keeping of promises for on-time performance				
	○ Making customers feel safe and secure in their transactions				

	○ Effectiveness of customer complaint procedures and processes				
<b>3.</b>	<b>Prioritize the following factors in an order that makes you feel a bank is a responsive one.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
	○ Waiting is not too long				
	○ Giving caring and individual attention to customers				
	○ Willingness to help customers and the readiness to respond to customers' requests				
	○ Provision of innovative facilities like sms and internet banking to better respond to the customers' needs				
<b>4.</b>	<b>Please rank the following assurance factors in the order you prefer in your bank</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
	○ Recognition of a regular client				
	○ Employees who understand the needs of their customers				
	○ Employees who have the knowledge and competence to answer customers' specific queries and requests				
	○ Clear explanations of services				
<b>5.</b>	<b>Please rate the following features in the order you consider while selecting a bank.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
	○ Branches in convenient locations				
	○ Availability of most service operations in every branch of the bank				
	○ Convenient opening hours and days (Saturdays, evening services etc.)				
	○ Sufficient number of ATMs per branch				

Please answer the following questions on the basis of *the transactions you actually performed in your particular bank and what you have observed*. (Please ✓ in the box for each factor).

**6. Give your opinion on the following features of your primary bank that you are dealing with.**

S. N.	Tangible Features	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
1	Effective physical layout and furnishings					
2	Signs and advertisements in the bank					
3	Appearance of staff					
4	Modern looking equipment and facilities					

**7. Have you found your bank reliable in the following aspects while performing your transactions?**

S. N.	Reliability Aspects	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
1	Accuracy of services and transactions					

2	Keeping of promises for on-time actions					
3	Safe and secure transactions					
4	Effective customer complaint procedures					

**8. To what degree of satisfaction do you believe your bank provides its services in a responsive way to its customers?**

S. N.	Responsiveness Features	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
1	Queues that move rapidly					
2	Caring and individual attention to customers					
3	Willingness of staff to serve/help clients					
4	Innovative facilities like sms and internet banking					

**9. How much assured do you feel while dealing with your bank?**

S. N.	Assurance Elements	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
1	Recognition of a regular client					
2	Employee understanding clients' needs					
3	Staff knowledge and competence to help clients					
4	Clear explanations of services					

**10. Please rate the following features that your bank provides to its customers.**

S. N.	Empathy Factors	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
1	Branches in convenient locations					
2	Most services available in every branch					
3	Convenient opening hours and days					
4	Sufficient number of ATMs					

	per branch					
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**11. The "overall service quality" provided by your current primary bank is: (Please ✓ before the appropriate answer)**

- Much Worse than I expected   
 Worse than I expected   
 Similar to my expectations  
 Better than I expected   
 Much better than I expected.

**12. Your feelings toward your bank can be best described as: (Please ✓ before the appropriate answer)**

- Very Dissatisfied   
 Dissatisfied   
 Neutral  
 Satisfied   
 Very Satisfied

**13. How likely are you to continue your transactions in future through this particular bank? (Please ✓ before the appropriate answer)**

- Very unlikely   
 Unlikely   
 Neutral   
 Likely   
 Very likely

**14. Would you recommend and encourage your friends and relatives to do business with your bank? (Please ✓ before the appropriate answer)**

- Very unlikely   
 Unlikely   
 Neutral   
 Likely   
 Very likely

**15. Which sector do your bank belong to?**

- Private   
 Public

**Personal Information**

Please check (✓) the appropriate category:

- | <b>AGE</b>                        | <b>EDUCATION</b>                             | <b>OCCUPATION</b>                      | <b>INCOME (Monthly in Rs)</b>             |
|-----------------------------------|--|--|---|
| <input type="checkbox"/> Below 20 | <input type="checkbox"/> S.L.C.              | <input type="checkbox"/> Self employed | <input type="checkbox"/> Less than 5000   |
| <input type="checkbox"/> 20-29    | <input type="checkbox"/> Intermediate level  | <input type="checkbox"/> Service       | <input type="checkbox"/> 5,000-10,000     |
| <input type="checkbox"/> 30-39    | <input type="checkbox"/> Bachelor level      | <input type="checkbox"/> Housewife     | <input type="checkbox"/> 10,000-20,000    |
| <input type="checkbox"/> 40-49    | <input type="checkbox"/> Masters level       | <input type="checkbox"/> Retired       | <input type="checkbox"/> 20,000- 30,000   |
| <input type="checkbox"/> 50-59    | <input type="checkbox"/> Post Graduate level | <input type="checkbox"/> Student       | <input type="checkbox"/> More than 30,000 |
| <input type="checkbox"/> Over 60  |  | <input type="checkbox"/> Unemployed    |   |

**GENDER**

- Male  
 Female

**MARITAL STATUS**

- Married  
 Single

## Overall Customer Perception of the following tangible features

### Appendix 1: Effective physical layout and furnishings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	7	8.1	8.1	8.1
	Satisfied	47	54.7	54.7	62.8
	Neutral	23	26.7	26.7	89.5
	Dissatisfied	9	10.5	10.5	100.0
	Total	86	100.0	100.0	

### Appendix 2: Signs and advertisements in the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	29	33.7	33.7	36.0
	Neutral	39	45.3	45.3	81.4
	Dissatisfied	14	16.3	16.3	97.7
	Very dissatisfied	2	2.3	2.3	100.0
	Total	86	100	100	

### Appendix 3: Appearance of staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	3	3.5	3.5	3.5
	Satisfied	34	39.5	39.5	43.0
	Neutral	34	39.5	39.5	82.6
	Dissatisfied	14	16.3	16.3	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

### Appendix 4: Modern looking equipments and facilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	5	5.8	5.8	5.8
	Satisfied	32	37.2	37.2	43.0
	Neutral	30	34.9	34.9	77.9
	Dissatisfied	15	17.4	17.4	95.3
	Very dissatisfied	4	4.7	4.7	100.0
	Total	86	100	100	

### Appendix 5: Accuracy of services and transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	10	11.6	11.6	11.6
	Satisfied	52	60.5	60.5	72.1
	Neutral	22	25.6	25.6	97.7
	Dissatisfied	2	2.3	2.3	100.0
	Total	86	100.0	100.0	

#### Appendix 6: Keeping of promises for on-time actions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	43	50.0	50.0	52.3
	Neutral	34	39.5	39.5	91.9
	Dissatisfied	6	7.0	7.0	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

#### Appendix 7: Safe and secure transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	6	7.0	7.0	7.0
	Satisfied	46	53.5	53.5	60.5
	Neutral	25	29.1	29.1	89.5
	Dissatisfied	9	10.5	10.5	100.0
	Total	86	100.0	100.0	

#### Appendix 8: Effective customer complaint procedures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	26	30.2	30.2	32.6
	Neutral	31	36.0	36.0	68.6
	Dissatisfied	24	27.9	27.9	96.5
	Very dissatisfied	3	3.5	3.5	100.0
	Total	86	100	100	

#### Appendix 9: Queues that move rapidly

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	8	9.3	9.3	9.3
	Satisfied	28	32.6	32.6	41.9

	Neutral	36	41.9	41.9	83.7
	Dissatisfied	12	14.0	14.0	97.7
	Very dissatisfied	2	2.3	2.3	100.0
	Total	86	100	100	

#### Appendix 10: Caring and individual attention to customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	40	46.5	46.5	48.8
	Neutral	27	31.4	31.4	80.2
	Dissatisfied	17	19.8	19.8	100.0
	Total	86	100.0	100.0	

#### Appendix 11: Willingness of customers to serve clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	4	4.7	4.7	4.7
	Satisfied	36	41.9	41.9	46.5
	Neutral	26	30.2	30.2	76.7
	Dissatisfied	19	22.1	22.1	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

#### Appendix 12: Innovative facilities like sms and internet banking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	10	11.6	11.6	11.6
	Satisfied	29	33.7	33.7	45.3
	Neutral	23	26.7	26.7	72.1
	Dissatisfied	12	14.0	14.0	86.0
	Very dissatisfied	12	14.0	14.0	100.0
	Total	86	100	100	

#### Appendix 13: Recognition of regular client

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	8	9.3	9.3	9.3
	Satisfied	30	34.9	34.9	44.2
	Neutral	44	51.2	51.2	95.3
	Dissatisfied	3	3.5	3.5	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 14: Employee understanding clients' needs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	37	43.0	43.0	45.3
	Neutral	34	39.5	39.5	84.9
	Dissatisfied	13	15.1	15.1	100.0
	Total	86	100.0	100.0	

**Appendix 15: Staff knowledge and competence to help clients**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	24	27.9	27.9	30.2
	Neutral	40	46.5	46.5	76.7
	Dissatisfied	19	22.1	22.1	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 16: Clear explanations of services**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	26	30.2	30.2	32.6
	Neutral	47	54.7	54.7	87.2
	Dissatisfied	6	7.0	7.0	94.2
	Very dissatisfied	5	5.8	5.8	100.0
	Total	86	100	100	

**Appendix 17: Branches in convenient locations**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	3	3.5	3.5	3.5
	Satisfied	53	61.6	61.6	65.1
	Neutral	22	25.6	25.6	90.7
	Dissatisfied	7	8.1	8.1	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 18: Most services available in every branch**

		Frequency	Percent	Valid	Cumulative
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				Percent	Percent
Valid	Very Satisfied	3	3.5	3.5	3.5
	Satisfied	45	52.3	52.3	55.8
	Neutral	29	33.7	33.7	89.5
	Dissatisfied	8	9.3	9.3	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

#### Appendix 19: Convenient opening hours and days

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	9	10.5	10.5	10.5
	Satisfied	28	32.6	32.6	43.0
	Neutral	33	38.4	38.4	81.4
	Dissatisfied	14	16.3	16.3	97.7
	Very dissatisfied	2	2.3	2.3	100.0
	Total	86	100	100	

#### Appendix 20: Sufficient number of ATMs per branch

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	3	3.5	3.5	3.5
	Satisfied	19	22.1	22.1	25.6
	Neutral	26	30.2	30.2	55.8
	Dissatisfied	27	31.4	31.4	87.2
	Very dissatisfied	11	12.8	12.8	100.0
	Total	86	100	100	

#### Appendix 21: Opinion on overall service provided by the respective bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Worse than I expected	15	17.4	17.4	17.4
	Similar to my expectations	60	69.8	69.8	87.2
	Better than I expected	10	11.6	11.6	98.8
	Much better than I expected	1	1.2	1.2	100.0
	Total	86	100.0	100.0	

#### Appendix 22: Feelings towards the current bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Satisfied	2	2.3	2.3	2.3
	Satisfied	7	8.1	8.1	10.5
	Neutral	35	40.7	40.7	51.2

	Dissatisfied	41	47.7	47.7	98.8
	Very dissatisfied	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 23: Probability to continue transactions with the current bank in future**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very unlikely	3	3.5	3.5	3.5
	Unlikely	10	11.6	11.6	15.1
	Neutral	28	32.6	32.6	47.7
	Likely	44	51.2	51.2	98.8
	Very likely	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 24: Probability to recommend the current bank to others**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very unlikely	2	2.3	2.3	2.3
	Unlikely	12	14.0	14.0	16.3
	Neutral	28	32.6	32.6	48.8
	Likely	41	47.7	47.7	96.5
	Very likely	3	3.5	3.5	100.0
	Total	86	100	100	

**Appendix 25: Age of the respondent**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 20	1	1.2	1.2	1.2
	20-29	48	55.8	55.8	57.0
	30-39	22	25.6	25.6	82.6
	40-49	13	15.1	15.1	97.7
	50-59	1	1.2	1.2	98.8
	Over 60	1	1.2	1.2	100.0
	Total	86	100	100	

**Appendix 26: Education of the respondent**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Intermediate	4	4.7	4.7	4.7
	Bachelor	26	30.2	30.2	34.9
	Masters	56	65.1	65.1	100.0
	Total	86	100	100	

**Appendix 27: Occupation of the respondent**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Self employed	13	15.1	15.1	15.1
	Service	61	70.9	70.9	86.0
	Housewife	4	4.7	4.7	90.7
	Retired	1	1.2	1.2	91.9
	Student	4	4.7	4.7	96.5
	Unemployed	3	3.5	3.5	100.0
	Total	86	100	100	

**Appendix 28: Income level of the respondent**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5,000	6	7.0	7.0	7.0
	5,000-10,000	20	23.3	23.3	30.2
	10,000-20,000	30	34.9	34.9	65.1
	20,000-30,000	21	24.4	24.4	89.5
	More than 30,000	9	10.5	10.5	100.0
	Total	86	100	100	

**Appendix 29: Gender of the respondent**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	55	64.0	64.0	64.0
	Female	31	36.0	36.0	100.0
	Total	86	100	100	

**Appendix 30: Marital Status**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	48	55.8	55.8	55.8
	Single	38	44.2	44.2	100.0
	Total	86	100	100	