EFFECT OF SERVICE QUALITY ON CUSTOMER SATISFACTION IN NEPALESE BANKING INDUSTRY

A Thesis Proposal

By

Anup Sthapit

T.U. Registration No: 7-2-410-71-2012

Symbol No: 7309/18

Campus Roll no: 18/074

People's Campus

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1. Background of the study

Providing the quality service to attract and retain customers has been recognized as a strategic requirement in highly competitive business environments (Parasuraman, Zeithamal, & Berry, 1985). Thus, In the age of globalization, accomplishing the higher level of customer satisfaction is the challenging task especially in the service sector. In order to face this challenging task, many organizations have started to improve their service quality (Devkota & Dahal, 2016). Service quality is one of the serious components in anyservice sector because service quality helps to maintain competitive advantages in the market place. Therefore, service quality is the strategic tool to reinforce competitive advantages and increase profitability in business (Tam, 2004).

Service quality is mainly focused on meeting the customer's needs and also how good the service offered meets the customer's expectation of it (Daniel & Berinyuy, 2010).It is one of the main components to gain competitive advantages and earn profit in any service sector. It is the tool to attract customers, increase customer base, retain them and build customer loyalty. So, it plays a vital role in customer satisfaction and profitability. Thus, the relationship between service quality and customer satisfaction is crucial in- service sector such as banking. In service industry, the concept of quality holds the main position where relationship with the customer is based on the promise that customer satisfaction is achieved through providing standard quality of service and the high-quality demands on customers end is becoming prominent due to the growing fact that high level of service quality leads to sustainable competitive advantage in the competitive business environment (Sureshchandar, Chandrasekharan, & Anantharaman, 2002).

Bank is basically a customer centric service industry. In banking sector, the customers are attracted by the quality of services offered. For example, the advancement of technology has helped the banks to introduce services such as internet banking, mobile banking, ATM (automated teller machine), etc. which have made the lives of the customerseasier (Otoo, 2016). People want to become clients of the banks which help them ease their daily activities. With the presence of cut-throat competition in the banking industry, the banks have to stay ahead of their rivals in order to earn profits. It can do so by differentiating itself from the competitors by providing high quality

customer service. For this, the banks should know about the expectations and perception of the customer. Measuring customers' expectation is the key to be able to serve the customers satisfactorily. On the other hand, with the better understanding of customers' perceptions, banks can determine the actions required to meet the customers' needs. This helps to satisfy the customers' needs which directly impact the overall performance of the bank (Karim & Chowdhury, 2014). So, customer satisfaction has a significant role in continuity of the financial institutions and achieving their goals and objectives. The way to keep customers satisfied in banking industry is by providing high level of service. Therefore, all banking institutions should be focused on maintaining and enhancing their service quality in order to satisfy their customers' needs and expectations.

2. Problem statement

Customers play a vital role in the banking sector, banks run their organization by using the deposited funds of customer, the more the customers the more funds bank can allocate for further investments (Karim & Chowdhury, 2014). So, the more satisfied the customers are while involving with the bank, the more secure is the bank's business and profitability. If a bank cannot provide proper customer service, then the bank would be losing its customers. The profitability would also be decreasing because of the poor customer service (Karim & Chowdhury, 2014). The past research has indicated that companies with excellent customer service record reported a 72% increase in profit per employee, compared to similar organizations that have demonstrated poor customer service (Duncan, 2004). It also showed that it is five times costlier to attract new customers than to retain existing customers (Duncan, 2004).

The main problems faced by Nepalese banking sector are lack of qualified and well trained human resources, traditional structure and outdated technology which have created obstacles while delivering quality services to the customers and ultimately led to a low customer satisfaction (Devkota & Dahal, 2016). The customers select the banks on the basis of several factors such as location, friendliness of personnel, quality of service delivery and the bank's reputation (Otoo, 2016). This is why service quality is taken as one of the key factors in service industry and is given considerable attention by organizations (Otoo, 2016). As such, the banks have to compete on the basis of the

perceived service quality.

3. Objectives of the study

The main objective of this study is to analyze effect of service quality on customer satisfaction in Nepalese banking industry. The specific objectives of study are as follows:

1. To examine the relationship of tangibility, reliability, responsiveness, assuranceand empathy with customer satisfaction of Nepalese Banking Industry.

2. To investigate the determinants of service quality that have significant influence on the customer satisfaction of Nepalese banking industry.

4. Hypothesis of the study

H1: There is no significant relationship between tangibility and customer satisfaction.

H2: There is no significant relationship between reliability and customer satisfaction.

H3: There is no significant relationship between responsiveness and customer satisfaction.

H4: There is no significant relationship between assurance and customer satisfaction.

H5: There is no significant relationship between empathy and customer satisfaction.

5. Rationale of the study

This study will help to provide a complete framework for service quality dimension in relation to customer satisfaction. It will also provide data and information on customer satisfaction to organizations which will help them to progress their services. The findings of the study will also provide guidance to future researcher by providing baseline data for huge research which will be more reliable and can be simplified.

6. Literature review

Lovelock, Wirtz and Chatterjee (2013) wrote that: Word quality means different things to people according to the context, common perspectives on quality includes: The transcendent view of quality is synonymous with innate excellence: a mark of uncompromising standards and high achievement. This viewpoint often is applied to the performing and visual arts. It argues that people learn to recognize quality only

through the experience gained from repeated exposure. From a practical standpoint, however, suggesting that managers or customers will know quality when they see it is not very helpful.

Upadhyay (2017) explained customer satisfaction is nothing more than a snapshot of how customers feel about organization's products, services and brands, at a given point of time. The question is not how satisfied customers are, but how emotionally attached they are to organization's products, services and brands. Customer satisfaction is important because it provides marketers and business owners with a metric that they can use to manage and improve their businesses (Upadhyay, 2017). Customer satisfaction mainly depends on the build-up of the perceived value which the customers have concerning a product or service (Kotler, 2009).

Munusamy, Chelliah and Mun (2010) focused on the measurement of customer satisfaction through delivery of service quality in the banking sector in Malaysia. A quantitative research was used to study the relationship between service quality dimensions and customer satisfaction. Assurance has positive relationship but it has no significant effect on customer satisfaction. Reliability has negative relationship but it has no significant effect on customer satisfaction. Tangibles have positive relationship and have significant impact on customer satisfaction. Empathy has positive relationship but it has no significant effect on customer satisfaction. Responsiveness has positive relationship but no significant impact on customer satisfaction. The study highlights implications for marketers in banking industry for improvement in delivery of service quality.

Anjalika and Priyanath (2018) attempted to explore the effect of service quality of commercial banks on customer satisfaction. Data were collected from 141 customers who maintain both public and private bank accounts in the Gampaha district. Convenient sampling method was used to select the sample. Data were collected through a structural questionnaire conducting face to face interviews and the collected data were analyzed through Partial Least Square Structural Equation Model. The study tested five hypothetical relationships between five dimensions of service quality of commercial banks and customer satisfaction. Results revealed a significant positive relationship between tangible and customer satisfaction as well as responsiveness and

customer satisfaction of both public and private banks. It was also found that, assurance has a low positive relationship with customer satisfaction regarding private banks, while there was no relationship between assurance and customer satisfaction regarding public banks. Also, empathy and reliability indicated a low positive relationship between customer satisfaction regarding public banks while these two dimensions did not indicate any significant relationship with customer satisfaction regarding private banks. Therefore, this study found that customer satisfaction regarding the service quality of public banks is higher than that of private banks.

Koirala and Shrestha (2018) attempted to measure service quality and customer satisfaction with respect to the service quality dimensions in the Nepalese commercial banking sector. The study used descriptive statistics, correlation, and regression analysis to measure relationship among service quality dimensions, service quality and customer satisfaction variables. It used 364 sample customers who have been dealing currently with the commercial banks in Kathmandu valley. It was found that Nepal Investment Bank is most popular bank in commercial banks in Nepal. All the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming service quality and customer satisfaction of commercial banks in Nepal. Customer satisfaction is highly affected by service quality.

7. Research methodology

7.1 Research design

This study will be based on descriptive and causal comparative research designs. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual or of a group (Kothari & Garg, 2017). Causal comparative research design is like experimental research where the investigator takes one or more dependent variable and examines the data by going back through time, seeking outcauses, relationships and their meaning (Pant,2014).

7.2 Population and sampling technique

Convenience and simple random sampling methods is proposed for this study. Convenience sampling refers to samples selected not by judgement or probability techniques but because the elements in a fraction of the population can be reached conveniently (Pant, Convenience Sampling, 2014). Simple random sampling means that the respondents will be selected randomly and the information are collected from only those who have bank accounts (Cooper & Pamela S. Schindler, 2014).

7.3 Nature and sources of data

The nature of data will be both quantitative as well as quantitative. For the collection of the data, two different types of sources will be used. A survey questionnaire will be designed as primary source for the collection of data and secondary sources: articles; books will be used to get the knowledge on past researches made under related topic, methodologies used and their findings.

7.4 Research framework and definition of variables

Independent Variables   Dependent Variable
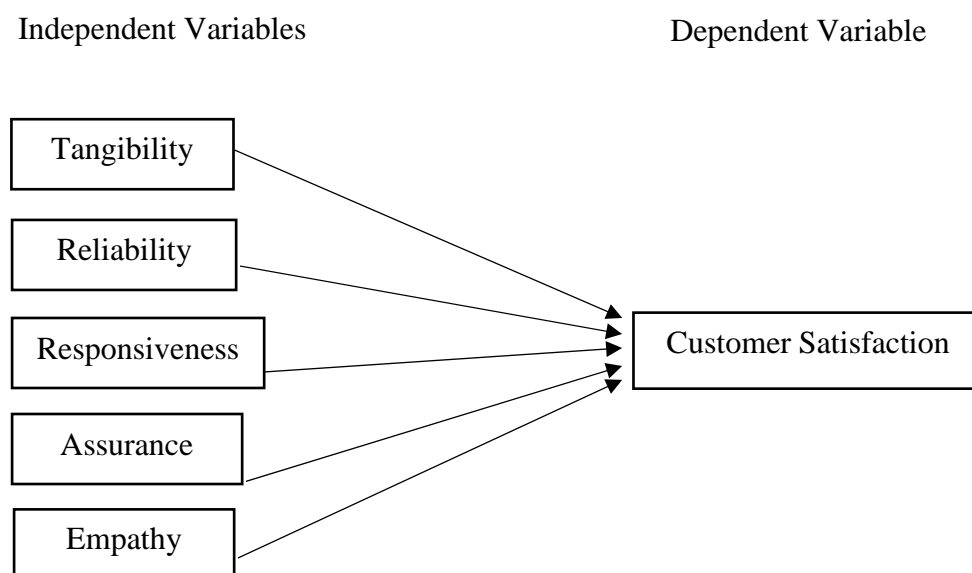
Figure 1: Conceptual Framework
Note. Ragavan & Mageh, 2013.

This study will use SERVQUAL model to investigate the effect of the service quality factors on customer satisfaction in Nepalese banking industry. The five dimensions of service quality as per the SERVQUAL model i.e. tangibility, reliability,

responsiveness, assurance and empathy are considered as independent variables and the customer satisfaction is taken as the dependent variable.

Tangibility

Tangibles are defined as the appearance of physical facilities,equipment, personnel and communication materials. They provide physical representations or images of the service which the customers especially new customers use to evaluate quality (Hennayake,2017).

Responsiveness.

Responsiveness is the willingness to help customers and provide prompt services. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints and problems, responsiveness is communicated to customers by the length of time they have to wait for assistance, answerto questions or attention to problems, responsiveness also captures the notion of flexibilityand ability to customize the service to customer needs (Hennayake,2017).

Reliability

Reliability is defined as the ability to perform the promised service dependably and accurate. In the broader sense, it means that the company delivers on its promises-promises made about delivery, service provision, problem resolution, and pricing (Hennayake,2017). Customers want to do businesses with companies that keep their promises, particularly their promises about the service out come and core service attributes (Hennayake,2017).

Assurance

An assurance is defined as employees' knowledge and courtesy and the ability of the firm and its employees to inspire trust and confidence (Hennayake, 2017). In order words, it is concerned with knowledge and courtesy of employees and their ability to convey trust and confidence. This dimension is likely to be important for servicesthat customers perceive as high risk or for services of which they feel uncertain about their ability evaluate outcomes (Hennayake,2017).

Empathy

Empathy is defined as the caring, individualized attention that the firm provide to its customers (Hennayake,2017). The essence of empathy is conveying, though

personalized or customized service, customers are unique and special and that their needs are understood (Hennayake,2017). In short, it is about the caring, individualized attention the firm provides to its customers.

7.5 Methods of analysis

The analysis of quantitative data will include descriptive statistics and inferential statistics. Descriptive Statistics includes mean, percentage and frequency. This research will use mean to summarize the data.Inferential Statistics includes correlation, regression. Pearson's correlation analysis and multiple regression analysis will be used to analyze the data.

8. Chapter plan

Chapter plan for the thesis will be divided into five parts. Chapter 1 will contain background of study, statement of problems, rationale of the study, research question, research objectives, working hypothesis, significance of the study, conceptual framework, definition of terms. Chapter 2 will include literature review, introduction, review of related articles. Similarly, Chapter 3 will contain methodology, introduction, research design, data collection, analysis and research model. Chapter 4 shall provide systematic presentation, analysis and discussion of data. The last chapter shall provide a summary of overview on all work carried out, including conclusion derived from the study. This chapter will also include recommendations based on major findings of the study.

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