

# **CUSTOMER SATISFACTION TOWARDS SERVICE QUALITY OF NEPALESE COMMERCIAL BANKS**

**A dissertation submitted to the Office of the Dean, Faculty of Management in  
partial fulfilment of the requirements for the Master's Degree**

**By**

**Anu Ghimire**

**Roll. No: 1089/17**

**Registration No: 7-2-838-3-2011**

**Campus: Central Department of Management**

**Kathmandu, Nepal**

**February, 2021**

### **Certification of Authorship**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Customer Satisfaction Towards Service Quality of Nepalese Commercial Banks**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

.....

Anu Ghimire

February, 2021

## Report of Research Committee

Miss. Anu Ghimire has defended research proposal entitled “**Customer Satisfaction Towards Service Quality of Nepalese Commercial Banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Lecturer Santosh Pokharel and submit the thesis for evaluation and viva voce examination.

Lecturer Santosh Pokharel

Signature: .....

Position: Supervisor

Dissertation Proposal Defended Date:

3<sup>rd</sup> September, 2019

Lecturer Santosh Pokharel

Signature: .....

Position: Supervisor

Dissertation Submitted Date:

12<sup>th</sup> January, 2021

Prof. Dr. Sanjay Kumar Shrestha

Signature: .....

Position: Research Committee Head

Dissertation Viva Voce Date:

26<sup>th</sup> January, 2021

## Approval Sheet

We have examined the dissertation entitled “**Customer Satisfaction Towards Service Quality of Nepalese Commercial Banks**” presented by Miss. Anu Ghimire for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

.....  
Lecturer Santosh Pokharel  
Dissertation Supervisor

.....  
Associate Prof. Dr. Achyut Gyawali  
Internal Examiner

.....  
Lecturer Dr. Balram Duwal  
External Examiner

.....  
Prof. Dr. Sanjay Kumar Shrestha  
Chairperson, Research Committee

.....  
Prof. Dr. Ramji Gautam  
Head of Department  
Date:

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Anu Ghimire

Researcher

## Table of Contents

	<b>Page no:</b>
<i>Title page</i>	<i>i</i>
<i>Certificate of authorship</i>	<i>ii</i>
<i>Report of research committee</i>	<i>iii</i>
<i>Approval sheet</i>	<i>iv</i>
<i>Acknowledgement</i>	<i>v</i>
<i>Table of contents</i>	<i>vi</i>
<i>List of tables</i>	<i>viii</i>
<i>Lists of figures</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstracts</i>	<i>xi</i>
<b>CHAPTER 1: INTRODUCTION</b>	<b>1-14</b>
1.1 Background of the study	1
1.2 Statement of the problem	6
1.3 Objectives of the study	10
1.4 Rationale of the study	10
1.5 Hypothesis development	13
1.6 Chapter plan	13
<b>CHAPTER 2: LITERATURE REVIEW</b>	<b>15-27</b>
2.1 Conceptual review	15
2.1.1 Review of global studies	15
2.1.2 Review of Nepalese studies	23
2.3 Research Gap	26
<b>CHAPTER 3: RESEARCH METHODOLOGY</b>	<b>28-37</b>
3.1 Introduction`	28
3.2 Research plan and design	28
3.3 Description of Sample	28
3.4 Instruments	29
3.5 Data collection procedure	30
3.5.1 Nature and sources of data	30
3.5.2 Time frame	30

3.6 Method of analysis	30
3.7 Validity and reliability	31
3.8 Analysis Plan	32
3.9 Conceptual framework	32
<b>CHAPTER 4: RESULTS AND DISCUSSION</b>	<b>39-61</b>
4.1 Analysis of primary data	39
4.1.1 Respondents profile	39
4.1.2 Responses of yes/ no question	47
4.2 Descriptive statistics	49
4.3 Correlation analysis	54
4.4 Regression analysis	56
4.5 Findings	58
4.6 Discussion	60
<b>CHAPTER 5: SUMMARY AND CONCLUSION</b>	<b>62-65</b>
5.1 Summary	62
5.2 Conclusion	63
5.3 Implications	64
5.3.1 Managerial implication	64
5.3.2 Future research implication	64
<b>REFERENCES</b>	<b>66-73</b>
<b>APPENDIX</b>	<b>74-82</b>

## LIST OF TABLES

		<b>Page no:</b>
Table 2.1	Empirical studies on customer satisfaction and service quality	21
Table 2.2	Empirical studies of Nepalese studies on customer satisfaction and service quality	25
Table 3.1	Coefficient of Cronbach's alpha	31
Table 4.1	Demographic characteristics of respondents	40
Table 4.2	Types of account currently hold by respondents	44
Table 4.3	Years of banking experience of respondents	45
Table 4.4	Fluency of respondents visit to the bank	46
Table 4.5	Main reason to select bank	46
Table 4.6	Responses on yes/no questions	47
Table 4.7	Analysis of reliability	50
Table 4.8	Analysis of responsiveness	50
Table 4.9	Analysis of empathy	51
Table 4.10	Analysis of assurance	52
Table 4.11	Analysis of communication	52
Table 4.12	Analysis of customer satisfaction	53
Table 4.13	Analysis of correlation	54
Table 4.14	Analysis of regression	56



## List of figures

	<b>Contents</b>	<b>Page no.</b>
Figure 3.1	Conceptual framework	33
Figure 4.1	Classification of the respondents by age	41
Figure 4.2	Classification of the respondents by profession	42
Figure 4.3	Classification of the respondents by academic qualification	43
Figure 4.4	Classification of the respondents by income level	43
Figure 4.5	Description of the type of account hold by respondents	44
Figure 4.6	Years of banking experience of respondent	45

### Abbreviations

ATM	Automated Teller Machine
AS	Assurance
Avg	Average
Com	Communication
CS	Customer Satisfaction
E	error term
Em	Empathy
F	Frequency
GCB	Ghana Commercial Bank
MS	Microsoft
MBA	Masters of Business Administration
NRB	Nepal Rastra Bank
OBC	Oriental Bank of Commerce.
Rel	Reliability
Res	Responsiveness
SERVQUAL	Service Quality
SLC	School Leaving Certificate
SA	Strongly Agree
SD	Strongly Disagree
SEE	Standard Error of Estimate
SPSS	Statistical Package for Social Science
Std. Dev	Standard Deviation
$\beta_0$	Intercept of the dependent variable

## ABSTRACTS

*Customer satisfaction is considered as the emotional response to the experiences associated with the quality of products, services, timeliness, efficiency, ease of access, environment, other facilities including the behavior and attitude of the service providers in comparison to the customer's expectations . It is the transaction specific effective response to the evaluation of discrepancy between the prior expectations and actual experience relating to banking services. Quality is such an important issue that it is considered a really significant concept in our real life. It is regarded as a strategic organizational weapon. And, the pressing need of developing service organizations and upgrading their services necessitates the measuring of service quality. Service quality has a significant impact on a bank's success and performance. Service quality is particularly essential in the banking services context because it provides a high level of customer satisfaction, and hence it becomes a key to competitive advantage. The studies devoted to customer satisfaction and service quality, service quality is of greater significance for customers' satisfaction. Hence, this study focuses on examining customer satisfaction towards service quality of Nepalese commercial banks.*

*The study is based on the primary data. The data obtained from the questionnaires survey are analyzed through SPSS. The instruments are descriptive statistics and inferential statistics. To analyze the reliability and validity of the data Cronbach's alpha ( $\alpha$ ) is used. Frequencies, percent, mean, medium, standard deviation, correlation and test of significance are used in this study to measure the determinants of customer satisfaction. To achieve the purpose of the study, structured questionnaire was prepared. Out of 235 questionnaires, only 182 numbers of customers' response were received. Subjects were asked to assess their perceptions of various items representing customer satisfaction towards service quality of Nepalese commercial banks.*

*The study reveals that all the service quality variables (reliability, responsiveness, empathy, assurance and communication) and customer satisfaction is positively related. It means an increase in service quality variables will lead to an increase in customer satisfaction. The study also concludes that empathy is ranked in first position on the basis of calculated mean value. Similarly, reliability, assurance, responsiveness and communication are ranked second, third, fourth and fifth position respectively as far as factors affecting customer satisfaction is concerned. Service quality is an essential aspects that satisfy customers.*

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background

In the current business environment, which is constantly changing and contains intense competition, commercial banks are facing with many challenges. One of the biggest challenges is competitiveness. When competitive pressures increase, service quality is considered as a competitive factor of the banks and it is also considered as an essential key to create the difference among banks (Siddiqi, 2011). In today's competitive business environment delivering high quality service towards customers is the key for a sustainable competitive advantage. Service quality is particularly essential in the banking services context because it leads to the competitive advantage through the level of customer satisfaction. Osman and Sentosa (2014) proved that increasing levels of service quality can enhance customer satisfaction.

From the customer's point of view to retain the relationship with the bank, the importance of customer satisfaction is clearly obvious. Service quality is of utmost importance in analyzing the performance of bank branches, since their survival depends on their service quality levels, they provide (Portela and Thanassoulis, 2005). Excellence in service quality is a key to achieve customer loyalty, which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006).

When purchasing goods, the consumer employs many tangible cues to judge quality: style, hardness, color, label, package and fit. When purchasing service, fewer tangible cues exist. In most cases, tangible evidence is limited to the service provider's physical facilities, equipment, and personnel (Parasuraman et. al., 1985). In the absence of tangible evidence on which to evaluate quality, consumers must depend on other cues. The nature of these other cues has not been investigated by studies, although some studies have suggested that price becomes a pivotal quality indicator in situations where other information is not available (McConnell, 1968). Because of service intangibility, a firm may find it more difficult to understand how consumers perceive services and service quality. "When a service provider knows how the service will be evaluated by

the consumer, we will be able to suggest how to influence these evaluations in a desired direction" (Gronroos, 1993). Many studies concurred that service quality involves a comparison of expectations with performance: Service quality is a measure of how well the service level delivered matches customer expectations (Parasuraman et. al., 1985).

Kotler (2003) defined service as 'any behavior or act based on a contact between two parties: the provider and the receiver, and the essence of this reciprocal process in intangible. Beer (2003) defined service as a set of characteristics and overall properties of the service which aim to satisfy the clients and meet their needs. The American Society for Marketing defined service as activities or benefits that are offered for sale or that are offered for being related to a particular product. Mohamed and Shirley (2009) emphasized that banks have to care about the quality of their services since this quality is considered the essence or core of strategic competition. Walfried et al. (2000) defined service as a set of characteristics that meet the clients' needs, strengthen the links between the organization and them, and enhance the clients' value as well.

Delivering quality service means conforming to customer expectations on a consistent basis (Berry, 1983). In line with this thinking, Gronroos (1993) developed a model in which he contends that consumers compare the service they expect with perceptions of the service they receive in evaluating service quality. Smith and Houston (1982) claimed that satisfaction with services is related to confirmation or dis-confirmation of expectations. They based their research on the disconfirmation paradigm, which maintains that satisfaction is related to the size and direction of the disconfirmation experience where dis-confirmation is related to the person's initial expectations (Churchill and Surprenant, 1982).

Satisfaction became a popular topic in marketing during the 1980s and is a debated topic during both business expansions and recessions. Most discussions on customer satisfaction involve customer expectation of the service delivery, actual delivery of the customer experience, and expectations that are either exceeded or unmet. If expectations are exceeded, positive disconfirmation results, while a negative disconfirmation results when customer experience is poorer than expected. In today's world of intense competition, the key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customers (Shemwell et al., 1998).

Kolter and Armstrong (1999) defended the customer satisfaction as the customer's perception that compares their pre-purchase expectations with post purchase perception. Oliver (1997) defined satisfaction as the “consumer’s fulfillment response”, a post consumption judgment by the consumer that a service provides a pleasing level of consumption-related fulfillment, including under or over-fulfillment. The point of view of Oliver (1981) on customer satisfaction is the evaluation a customer makes to a certain exchange, which reflects the relation of the customer's expectation and their real perception to products and services they receive. Some researchers think customer satisfaction can be measured. Tsoukatos and Rand (2006) argued customer satisfaction as a key to long-term business success. To protect or gain market shares, organizations need to outperform competitors by offering high quality product or service to ensure satisfaction of customers. In proportion to Magesh (2010), satisfaction means a feeling of pleasure because one has something or has achieved something. It is an action of fulfilling a need, desire, demand or expectation.

Customer satisfaction is defined as a customer’s overall evaluation of the performance of an offering to date. Customer satisfaction is considered as the emotional response to the experiences associated with the quality of products, services, timeliness, efficiency, ease of access, environment, other facilities including the behavior and attitude of the service providers in comparison to the customer’s expectations (Adhikari and Nath, 2014). It is the transaction specific effective response to the evaluation of discrepancy between the prior expectations and actual experience relating to banking services (Paul and Barman, 2010). Customers are considered as the base of any particular organization as satisfied customer does have a positive effect on an organization’s profitability. Satisfied customers form the foundation of any successful business as they lead to repeat purchases, brand loyalty, and positive word of mouth among others. Today, the increasing awareness among bank customers of their rights, changing demands and highly competition requires constant progress in service quality from the bank for their customers to stay loyal (Nabi, 2012).

Quality is such an important issue that it is considered a really significant concept in our real life. It is regarded as a strategic organizational weapon. And, the pressing need of developing service organizations and upgrading their services necessitates the measuring of service quality (Mohammad and Alhamadani, 2011). Service quality has

a significant impact on a bank's success and performance (Mouawad and Kleiner, 1996). Service quality is particularly essential in the banking services context because it provides a high level of customer satisfaction, and hence it becomes a key to competitive advantage (Almossawi, 2001). Parasuraman et al. (1988) defined service quality as a difference between customer expectation of service and customers' perceptions of the actual service. Kasper et al. (1999) defined service quality as the degree to which the service offered can satisfy the expectations of the user. According to these definitions, customers are the sole judges of service quality. If they perceived good service, they became satisfied with the service quality by comparing their expectations with perception.

Today, the quality of products and services consumed has a great importance in the business world. According to Aga and Safakli (2007), it is widely accepted that surviving in difficult and competitive conditions of a market economy requires good quality production as well as services. To understand and assess the results of efforts realized, quality of production should be measurable. While the quality of goods can easily be measured by taking into account of certain physical properties, the measurement for services is rather difficult because the quality in this case depends on large number of factors.

Different studies have been conducted on customer satisfaction in the banking sector which concluded that with the phenomenal increase in population and the increased demand for banking services, service quality and customer satisfaction are going to be key differentiators for each bank's success in future. Parasuraman et al. (1985) suggested the SERVQUAL framework to assess the level of customer satisfaction. The SERVQUAL model of Parasuraman et al. (1988) proposed a five-dimensional construct of perceived service quality-tangibles, reliability, responsiveness, assurance, and empathy- with items reflecting both expectation and perceived performance. Parasuraman (2000) opined that superior customer service and marketing excellence are the two sides of the same coin.

Vijayakumar (1999) opined that the interaction of individual needs, motives, perception, and attitudes with environmental influences cause the customer to act. The study has suggested that banks can maximize the level of customer satisfaction by concentrating on- good and prompt customer service; courtesy and pleasant reception;

display and decoration of the branch; convenience in terms of location/time: helpful and friendly attitude of employees; and reputation/ recommendations.

Ahmed (2008) stated that a bank can be said as customer-oriented, if its various organizational activities like organizational restructuring, staffing and co-ordination are geared up to fulfill customers' need. The study is based on the public sector banks in the Barak valley with respect to customer satisfaction and it has been found that the customers are dissatisfied with the working of the bank. Paul and Barman (2010) observed that in the age of competition, the banks have to concentrate on the customers' satisfaction levels through providing prompt, regular and quality service to retain the existing customers and at the same time have to improve the quality of services day by day to attract new customers. Spreng and Mackoy (1996) also provide supports for service quality as an antecedent to satisfaction.

Ananth et al. (2011) conducted a study to evaluate the quality of service delivered by selected private sector banks. The study followed the SERVQUAL as a framework and added one more dimension "accessibility" to the previous five dimensions of SERVQUAL to fit into the study. It has been observed in the study that empathy, reliability and assurance are major dimensions positively influencing the quality of service for bank customers.

Kailash (2011) indicated that enhancing the customer experience is now a crucial component of attracting and retaining customers in order to grow and protect a profitable business. Islam and Ali (2011) examined the interrelationship among service quality, satisfaction, and customer loyalty. It is found in the study that the customer satisfaction and reputation of the bank lead to greater loyalty. The study provides a framework for bankers to offer quality service.

Nepalese financial system saw a rapid growth after the liberalization policies adopted by the nation since 1980. This growth was not only in the number of entities, but also in terms of the varieties of products and services and adoption of the newer technologies. This growth even crossed the national boundaries and integrated with the global financial system. It is a well-known fact that no business can exist without customers. More than any other, banking is a customer-oriented services industry and Nepalese banks have started realizing that business depends on client service and the satisfaction of the customer (Niraula, 2015).



Customer satisfaction is the key factor for customer retention and thereby the banks success. Identifying and improving the factors that can limit the satisfaction of customer is the crucial step for the bank which wants to be a step forward than its competitors. Commercial banks operating in Nepal are consequently put into lot of pressures due towards increase in competition. Various strategies are formulated to retain the customers and the key of it is to increase the service quality level (Pradhananga, 2014).

Different studies have been conducted regarding service quality and customer satisfaction in Nepalese commercial banks in which the significant relation between service quality and customer satisfaction has been found. Koirala and Shrestha (2012) found that satisfaction and overall service quality is highly correlated. Also, responsiveness and reliability dimension are also highly positively correlated. The positive correlation between empathy and satisfaction is found and it indicates that banks show personal attention and understand specific needs of the customers or clients. Customers feel that their interest is heartily taken. Maharjan (2014) found positive relationship between customers' satisfaction and service quality factors, reliability is the most essential factor for service quality in commercial bank of Nepal and technology is the least important factor for service quality. Jan Eklofa, Olga Podkorytova and Aleksandra Malova (2020) define that Customer satisfaction and loyalty have a significant positive influence on banks' profitability and can be considered as a predictor for future profitability as the satisfaction index of the preceding year influences the next year's financial performance. We are also able to confirm that there is a positive link between the customer satisfaction of the preceding year and market indicators of the current year. These results are important for both decision makers in banks and investors. They mean that decision makers and investors can take the bank's level and trend in customer satisfaction to make assumptions on its future profitability and market performance

## **1.2 Statement of the problem**

The concept of customer care is concern with customer satisfaction putting the customer first, anticipating needs and problems, tailoring the product and services to meet needs and being nice to customers it also includes service to the customer, delivery operation, employee relationship with customer and internal relationship between employee and management. In improving customer care strategies and programs, financial services organizations are managing products and services, delivery systems,

environment, and people so as to provide an efficient and caring service, getting things right the first time and maintaining standards (Amoako, 2012).

In services industries, the subject of service quality globally remains a critical one as service providers strive to maintain a comparative advantage in marketplace. Financial services in general, particularly banks; compete in marketplace with generally undifferentiated services and products, thereby service quality becomes a key competitive weapon (Stafford, 1996). Customer expectations and needs for services have substantially increased (Wrennall, 2000).

As customers become better educated, they demand new products, better and more reliable delivery as well as more responsive services. As a consequence, to improve competitiveness, banks have to understand customer needs and expectations and satisfy their customers by providing better products and services (Parasuraman, 1998). In using the traditional SERVQUAL model in assessing service quality research done by Khalid et al. (2011) in Pakistan indicated that in the assessment of service quality customer perceive highest satisfaction in the responsiveness area and lowest in the tangibles area. They found out that in order to achieve higher levels of service quality, the bank managers should redesign their strategies about customer satisfaction with respect to service quality.

Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer service strategy. Many business firms are channeling more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring one new customer is greater than cost of retaining existing customers. There is enough evidence that demonstrates the strategic benefits of quality in contributing to market share and return on investment (Ghost and Gnanadhas, 2011). Maximizing customer satisfaction through quality customer service has been described as 'the ultimate weapon' by Davidow and Vital (1989). In all industries, when competitors are roughly matched, those with stress on customer's service will win.

Ha and Jang (2009) argued that service failure occurs when customer perceptions do not meet customer expectations. The problem with service failure is that it may lead to a destroyed relationship between the customer and the organization. Thus, the importance of customer satisfaction in today's dynamic corporate environment is

obvious as it greatly influences customer's repurchase intentions whereas dissatisfaction has been seen as a primary reason for customer's intentions to switch. Satisfied customers are most likely to share their experiences with other five or six people around them. Equally well, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customers' needs and demands (Pizam and Ellis, 1999). Otherwise, the combined effect of negative word-of-mouth, switching and reduced consumption will affect the productivity and profitability of the bank.

The increased emphasis on quality improvement has led organizations to emphasize customer service. In almost any job especially the banking sector, customer service skills are important to achieving success and people skills form the foundation for good customer service. Such skills include interpersonal relation, problem solving, leadership and teamwork. People skills can foster a positive attitude, effective communication, courteous and respectful interaction, and the ability to remain calm in control of difficult situations (Becker and Wellins, 1990).

Many studies, such as, Ganesan (1994), Mittal et al., (1998) and Mittal and Kamakura, (2001) have suggested that customer satisfaction is the influencing factors that signify customer loyalty or the relationship long term orientation. In addition, Geyskens et al., (1998) proposed customer satisfaction as a crucial factor accountable for the long-term involvement between sellers and buyers. It has always been expressed that the satisfaction affect component could encourage a satisfied customer to support the service provider and at the same time introducing its services to other potential customers. Customer satisfaction positive effect on these loyalty dimensions has been reiterated in many literatures.

Banks in an economy concern as primary mobilize of funds and as the main source of financing to support the national economic activities. When operating in business banks not consider profit as a primary consideration but in order to remain in the competitive business environment, they have to provide their service in a better way than others to maintain their service in a top priority (Adhikari and Nath, 2014). In other way around to meet the economic interest of the nation banks have to provide their service by

satisfying the customer requirements. Therefore, banks should concern on what kind of pull that can impact upon their customers in order to entice and retain their customers. Thus, customer who select bank for their financial services will always prefer to get the service that gives them maximum satisfaction. Although, there are other factors such as price, product quality etc. other than service quality that determine customer satisfaction, Wilson et. al. (2008) focused on service quality alone to determine the customer satisfaction.

Customers have expectations and criteria when they judge whether the provided banking services is satisfactory or not. At the same time, due to the high competition in a banking sector, the perception of customers and potential customers are also divided according to the services that they want to achieve (Amoako, 2012). The proper identification of customer satisfaction helps to retain customers and to increase brand awareness, profitability, and effectiveness of bank's services. These are the major customer-oriented opportunities and challenges for the banking sector in Nepal. Pradhananga (2014) argued that through the satisfied customers, a bank can easily measure the effectiveness of the business, its potential and position in the industries and the areas that are needed to polish and improve. But gathering a satisfied customer is not an overnight miracle but with the full of patience and bountiful of effort.

Gautam (2013) compared three categories of Nepalese commercial banks based on their service quality. Different categories of bank have different service quality level. Joint venture banks have better service quality dimensions except tangibles than non-joint venture banks and public banks. For Nepalese customer, reliability is considered as the most important factor for influencing the service quality of Nepalese commercial banks. The study also concluded that the public banks are also competing successfully with the joint venture and non-joint venture banks.

Customer satisfaction will vary from person to person depending on a whole host of variables which may be both psychological and physical. It is a measure of how products and services supplied by a company meet or surpass customer expectation. Today all the Nepalese commercial banks are offering different services which are not only enhancing bank customers' satisfaction but also expanding the banking business. Due to increase competition, it is essential for bank to know about service quality and customer satisfaction level for the same (Pathak, 2015).

This study deals with the following issue:

- i. What are the factors affecting the customer satisfaction of Nepalese commercial banks?
- ii. Is there any relationship between reliability, responsiveness, empathy, assurance, communication, and customer satisfaction?
- iii. Is there any effect of reliability, responsiveness, empathy, assurance, communication on customer satisfaction in Nepalese commercial bank?

### **1.3 Objective of the study**

The major objective of this study is to assess customer satisfaction towards service quality of Nepalese commercial banks and also to analyze the service quality factors of customer satisfaction in Nepalese commercial banks. The specific objectives of this study are as follows:

- i. To identify the factor influencing customers satisfaction on service quality in Nepalese commercial Banks.
- ii. To analyze the relationship of reliability, responsiveness, empathy, assurance, and communication of Nepalese commercial banks.
- iii. To examine the impact of reliability, responsiveness, empathy, assurance, and communication on customer satisfaction.

### **1.4 Rationale of the study**

Quality in service is very important especially for the growth and development of service sector business enterprise. It works as an antecedent of customer's satisfaction. In the past, quality was measured only for the tangible products because of less dominance of service sector in the economy. Due to the increasing importance of service sector in the economy, the measurement of service quality became important. Undoubtedly, owing to the belief that delivery of high service quality is a must for attaining customer's satisfaction and a number of other desirable behavioral outcomes, recent years have incensed a flurry of research exploring interrelationship between service quality, satisfaction and behavioral outcomes (Ghost and Gnanadhas, 2011).

Today, the quality of products and services consumed has a great importance in the business world. According to Aga and Safakli (2007), it is widely accepted that surviving in difficult and competitive conditions of a market economy requires good quality production as well as services. To understand and assess the results of efforts

realized, quality of production should be measurable. While the quality of goods can easily be measured by taking into account of certain physical properties, the measurement for services is rather difficult because the quality in this case depends on large number of factors.

To achieve a high level of customer satisfaction, most studies suggest that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction. As service quality improves, the probability of customer satisfaction increases. Quality was only one of many dimensions on which satisfaction was based; satisfaction was also one potential influence on future quality perceptions (Clemes, 2008). Service quality is an important tool to measure customer satisfaction (Hazlina et al., 2011). Empirical studies show that the quality of service offered is related to overall satisfaction of the customer.

Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer service strategy. Many business firms are channeling more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring one new customer is greater than cost of retaining existing customers. There is enough evidence that demonstrates the strategic benefits of quality in contributing to market share and return on investment (Reichheld and Sasser, 1990).

Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction, and hence it becomes a key to competitive advantage (Almossawi, 2001). In addition, service quality has a significant impact on a bank's success and performance (Mouawad and Kleiner, 1996). Nowadays, service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction, and customer retention. Organizations' not only needs empirical data to understand the level of customers' satisfaction but also, they need to understand how to integrate these service quality concepts into managing the customer's satisfaction. This knowledge gap is where the present conceptual paper wishes to contribute. The study aims to provide past literature findings of service quality and customers satisfaction intent to develop a conceptual framework for further study. Therefore, this study will help the management of service providers to better

understand their service quality which help them to draw specific guidelines to meet the customer's expectation.

Commercial banks operating in Nepal are consequently put into lot of pressures due to increase in competition. This put pressure on them to do something distinct so that they can gain competitive advantage. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Hence for this reason, Nepalese banking industry needs to focus on service quality to improve customer satisfaction. The study of Koirala and Shrestha (2012) found that all the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming service quality of commercial banks in Nepal. Similarly, all the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming customer satisfaction of commercial banks in Nepal. Customer satisfaction is highly affected by service quality. Service also leads to customer retention and brand loyalty and increase the image of the bank.

According to Prajapati (2014), customers were found to be satisfied with those banks where customers had to spend less time on waiting, the employees with good behavior. This study also showed that factors like reliability, tangibles and price factors influence more in satisfying customers than factors like assurance, empathy, and responsiveness.

Similarly, Gautam (2013) found that in case of Nepalese commercial banks customer satisfaction is highly affected by assurance and responsiveness. The study also concluded that the public banks are also competing successfully with the joint venture and non-joint venture banks.

This study helps to understand how the customers perceive service provided by banks. It is one of the important issues of Nepalese commercial banks to determine differences in service quality and customer satisfaction among different category of commercial banks. Impacts of service quality and customer satisfaction should be analyzed for better performance of commercial banks. It helps to identify present situation of commercial banks based on their services offered to customers. This study presents the customer's satisfaction level towards service quality in Nepalese commercial banks among the different group of customers. It also helps to know the relationship between different dimension of service quality (reliability, responsiveness, tangibility, assurance, empathy, communication and safety) and customer satisfaction in Nepalese

banking market, identify customer perception regarding service quality provided by Nepalese commercial banks and help to know customer satisfaction level in commercial banks of Nepal.

Hence, the above discussion shows that the studies devoted to customer satisfaction towards service quality of Nepalese commercial bank are of greater significance. This study focuses on the factors affecting customer satisfaction of Nepalese commercial banks using the more recent data in the context of Nepal.

### **1.5 Hypothesis development**

In accordance with the developed conceptual framework of this study, service quality and customer satisfaction are the two basic concepts which will be guided in this whole study. This framework has been developed based on the Parasurman et al. SERVQUAL model. Reliability, responsiveness, assurance, empathy, and communication are independent variables and customer satisfaction is dependent variables to state hypothesis. A research hypothesis is a specific, clear, and testable proposition or predictive statement about the possible outcome. A scientific research study based on a particular property of a population, such as presumed differences between groups on a particular variable or relationships between variables.

#### **Hypothesis related with dependent variables**

H1: Reliability is positively related to customer satisfaction. There is a significant relation between reliability and customer satisfaction.

H2: Responsiveness is positively related to customer satisfaction. There is a significant relation between responsiveness and customer satisfaction.

H3: Assurance is positively related to customer satisfaction. There is a significant relation between assurance and customer satisfaction.

H4: Empathy is positively related to customer satisfaction. There is a significant relation between empathy and customer satisfaction.

H5: Communication is positively related to customer satisfaction. There is a significant relation between communication and customer satisfaction.

### **1.6 Chapter plan**

This study is organized into a total of five chapters. Chapter one contains general background of the study including statement of the problem, objective of the study,



rationale of the study and hypothesis development. Chapter two consists of review of literatures related to studies in global context as well as the review of studies in Nepalese context. Chapter three presents the research plan and design, nature and sources of data, selection of enterprises, models used for data analysis and conclusion along with the limitations of the study. Besides, this chapter also comprises theoretical or conceptual framework used in the study. Chapter four consists of presentation and analysis of data with different financial and statistical tools. Chapter five offers the summary overview on all works carried out in chapter one through four including major conclusions derived from the study. This chapter also includes a separate section for implications based on the major findings of the study.

## **CHAPTER 2**

### **LITERATURE REVIEW**

This chapter deals with the various international and national literature related to this study. This chapter is divided into two sections. The first section deals with review of different literature, second presents research gap.

#### **2.1 Conceptual review**

In this section, the review of literature is divided into two parts. First part deals with the review of global studies whereas the second part deals with related studies in Nepalese context. The review of literature has been conducted based on the chronological order and categorized into different periods as under:

- i. Review of global studies
- ii. Review of Nepalese studies

##### **2.1.1 Review of global studies**

Al Tamini and Al Amiri (2003) compared the five dimensions of SERVQUAL between the two main Islamic banks of UAE; Abu Dhabi Islamic Bank, and Dubai Islamic bank. An instrument for measuring service quality in UAE banks based on the five items of SERVQUAL was developed and tested in 2002. Factor analysis of the items of SERVQUAL resulted in three dimensions: tangibles, reliability, and empathy. They found out that reliability was the most important dimension of their instrument. While their factor analysis resulted in a three-dimension instrument, there was also no attempt to address new service quality dimensions that are particular to UAE culture.

Wang et al. (2003) evaluated the antecedents of service quality and product quality, and their influences on bank reputation in the banking industry of China, using a structural equations model. They concluded that both service quality and product quality had a significant influence on bank reputation.

Jamal and Kamal (2004) also established that the level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit and that dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. They found that when customers think that the charges are perceived to be higher, they churn or defect to other banks. If a customer is satisfied, then loyalty

injects automatically, and the customer remains with the current providers for a longer and longer period of time.

Al-Hawari and Ward (2006) study was based on service quality and customers' role in financial performance. Findings help in the formulation of marketing strategies and proved customer satisfaction as a mediator in relationship between retail banking and financial performance.

Aga and Safakli (2007) found that price, firm image and service quality had a positive relationship with customer satisfaction. The impact on satisfaction from highest to lowest in order was, overall firm image, price compared to quality and service quality (empathy), respectively. This tells us the firm image is the most important factor to customer satisfaction, next price, and service quality last from firms' perspective. From our empirical results, we may infer that the clients believe that no matter which accounting firm they choose should have a certain degree of service quality guaranteed in the highly competitive battlefield.

Astrid (2007) results indicated that markets remain concentrated, number of dominant banks remains almost constant across markets and most importantly, service quality increases in larger markets and is higher in larger banks because of their good will in the market.

Yoo and Park (2007) analyzed relationship among employees, customers, and financial performance. Results showed that employee training and understanding has a significant impact on service quality.

Naeem et al. (2009) study found that customers of foreign bank perceived high level of service quality whereas customers of nationalized bank experiences low level of service quality from the bank personnel. It is further concluded that service quality is a strong predictor of customer satisfaction in case of foreign bank whereas the situation is vice versa in case of nationalized bank. The empirical evidence shows that public sector banks are unable to manage the factors influencing quality as well customer satisfaction. On the other hand, foreign sector banks are keen to improve upon such issues. The data proves that there is a significant relationship between service quality and customer satisfaction.

Jahiruddin and Haque (2009) surveyed 198 bank customers in Khulna, the third largest city in Bangladesh to explore the pattern of preferences and relative importance of different factors to customers when selecting their preferred banks. The study concluded that customers placed the highest priority on convenience factors, i.e. responsiveness and assurance factors in the SERVQUAL model. The study also recommended that banks should focus on reducing their procedural complexities and ensuring the delivery of quick services to customers in order to retain existing as well as attracting new customers.

Munusamy (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. Tangibles have positive relationship and have significant impact on customer satisfaction. Empathy has positive relationship but no significant impact on customer satisfaction.

Ghost and Gnanadhas (2011) concluded that there is a close link between the customer's perception on the service quality factors and the customer satisfaction. But the impacts of service quality factor on customer satisfaction among the customer are not unique. It depends upon the demographic profile of the customers. For example, the degree of influence of the service quality factors on customer's satisfaction is higher among the male, higher income group and highly educated customers. It may be because of their level of knowledge and awareness on the banking services offered at the industry.

Mohammad and Alhamadani (2011) found that service quality is an important antecedent of customer satisfaction. Five dimensions of service quality have significant influence on customer satisfaction. These dimensions include tangibles, reliability, responsiveness, assurance, and empathy. Moreover, the findings show that service quality is an important antecedent of customer satisfaction. This finding reinforces the need for banks managers to place an emphasis on the five dimensions of service quality.

Siddiqi (2011) conducted a survey of 100 retail banking customers in Bangladesh to establish the relationships between service quality attributes, customer satisfaction and customer loyalty. This study also supported the contention that all service quality

attributes are positively related to customer satisfaction, and customer satisfaction is positively related to customer loyalty in the retail banking settings in Bangladesh.

Karigoleshwar and Shivaji (2013) found that the perceived quality of services provided by private sector bank (HDFC) is better than public sector bank (State bank of India) in Gulbarga city. It is evident that public sector banks have a strong presence in the market, but in recent times they are facing stiff competition from private sector banks in the range and quality of services offered. In the present scenario banks have to be service oriented in order to keep ahead of competition. It is prudent Public sector banks to concentrate on providing updated information to customers regarding the new services offered by them. They must also change their policies, customer service norms and service efficiency keeping in view the strategies adopted by private sector banks.

Al Karim and Chowdhury (2014) analyzed the impact of service quality on customer satisfaction of private sector banks in Bangladesh, have observed that out of five service quality dimensions, tangible is having a high mean score and the bank should concentrate on responsiveness as it has the least mean score. The study also established that the combination of tangibility, reliability, responsiveness, assurance and empathy together have significant effect on customer satisfaction. Therefore, service quality has positive effect on customer satisfaction. These two variables should work hand in hand to ensure success and survival of the private sector banks. The study accomplished that quality service is an important factor to satisfied customer satisfaction.

Osman and Sentosa (2014) revealed that service quality has a positive and significant direct effect on customer satisfaction. In addition, from the same model, it was found that service quality has a positive and significant direct effect on customer loyalty. Subsequently, the mediating relationship was established in the model where customer satisfaction was introduced as a mediator in service quality and customer loyalty relationship.

The main aim of the study by Agarwal and Kamal (2015) was to assess the service quality of private banks and its impact on customer satisfaction. The analysis of responses clearly reveals that there exists a small perceptual difference among customers regarding overall service quality with their respective banks. The respondents of the bank mostly focus on people (staff of the banks) factor for improving customer satisfaction; while the banks are focusing on tangible factors such as

computerization, ATMs, etc. to attract customers. Although this research provides some significant insights into service quality in Indian banking industry, there is still a chance to extend the findings to gain a more comprehensive understanding of the nature of banking services to gain more customer satisfaction. Hence, there is a need to monitor and maintain the service quality from time to time. The study revealed that the all the dimensions in the OBC bank positively related to customer satisfaction.

Cudjoe et al. (2015) found that, the dimension that had the highest expectations was tangibility and showed a top average score. The study also found out that, the expectations of customers with all the dimensions investigated into were higher than what they perceived. In trying to find out how customers rated the service quality dimensions performed by GCB which needs to be improved to increase customer satisfaction, the results showed that, reliability was highly rated followed by responsiveness and empathy. Assurance and tangibility were the fourth and fifth respectively regarding to the issue on board. The study found that, a link between service quality and satisfaction level can be established following the discussions from the analysis made that, customers' satisfaction is influenced by the level of total service quality. However, it was revealed that certain service quality dimensions fell short of customer's expectation as their perceived service quality was less than their expectations. GCB implements all the five service quality dimensions (empathy, assurance, tangibility, reliability, and responsiveness), which is to say that the bank strives to be at its best when it comes to quality.

Kojo (2016) explains that the proliferation of banking institutions in the country has resulted in stiff competition in the banking industry hence the need for all such institutions, particularly commercial banks, to ensure maintenance of very high service quality standards. Therefore, this study examined the effect of customer service quality on customer satisfaction in commercial banks in Ghana. It sought to determine the demographic characteristics of customers that influence their level of perception, determine the perception of customers about the quality of service provided by the banks, and to establish the relationship between service quality and customer satisfaction. The questionnaires developed for this study was based on a SERVQUAL model that identified the influence of five dimensions (i.e. tangibility, responsibility, reliability, assurance, and empathy) in banking service environments on customer satisfaction. A descriptive study design was employed and involved 360 randomly

selected active customers of selected commercial banks in Ghana. Data were analyzed using both the descriptive and inferential statistical tools in the SPSS. It was found that the clients of the banks were generally from the middle class of the society with more than half being males, relatively younger, educated and mainly from the private sector of the economy. Age and education were identified as the demographic characteristics that influenced customers' level of perception. Overwhelming majority of the respondents were satisfied with the banks' services. Also, the banks' service reliability, assurance, empathy, and tangibles were found to be significant determinants of customers' satisfaction with their service quality. It was recommended that the banks should strive to improve upon its customers' perception scores in the areas of empathy, reliability, responsiveness, assurance, and tangibles.

Nahida Afroz (2018) concludes that this study attempts to determine the effect of service quality on customer satisfaction both from public and private banks in Tangail city. Service quality of different banks is observed that is provided for their customers. An attempt is made to find out which service quality dimensions may enhance customer satisfaction in a better way. To measure the service quality, an extensive survey of bank clients has been performed with a structured questionnaire. Respondents are chosen from different demographic features. The 200 sample clients were selected from the branches of different public and private banks located in Tangail City. The sample clients were selected randomly at the banks while interviewing. Both descriptive and inferential statistics were used in the analysis. To explore the relationship between service quality and overall customer satisfaction, frequency distribution, descriptive statistics, correlation, and regression analysis was performed. From the overall analysis, the most important service quality factor of banks is personal attention to the clients followed by error-free records, safety in transaction, and tangible physical facilities of the bank. A significant correlation between the performance of promises in time and professions of the clients are observed. Perceived service quality factors have significant relationship with the overall service quality of the banks located in Tangail City which indicates that the service quality dimension have strong influence on the overall customer satisfaction. After all, findings indicate that service quality and all its dimensions have significant and positive association with customer satisfaction. Therefore, this study has been specifically conducted to consider this phenomenon and

seek empirical justification in this regard by considering service quality as the main contributory factor towards customer satisfaction.

In this section, the relevance and remarkable empirical studies carried out in foreign countries have been reviewed briefly and shown in table 2.1

**Table 2.1: Empirical studies on customer satisfaction and service quality**

This table presents some global studies, area of study along with major finding which have reviewed in this study.

Study	Area of Study	Major findings
Al Tamimi and Al Amiri (2003)	Analyzing service quality in the UAE Islamic banks.	Reliability was the most important dimension of their instrument and there was also no attempt to address new service quality dimensions that are particular to UAE culture.
Wang et al. (2003)	The antecedents of service quality and product quality and their influences on bank reputation: Evidence from Banking Industry in China.	Both service quality and product quality had a significant influence on bank reputation.
Jamal and Kamal (2004)	Customer satisfaction and retail banking: An assessment of some of the key antecedents of customer satisfaction in retail banking.	If a customer is satisfied, then loyalty injects automatically, and the customer remains with the current providers for a longer and longer period of time.
Al-Hawari and Ward (2006)	The effect of automated service quality on Australian banks' financial performance and the mediating role of customer satisfaction.	Customer satisfaction as a mediator in relationship between retail banking and financial performance.
Aga and Safakli (2007)	An Empirical Investigation of Service Quality and Customer Satisfaction in Professional Accounting Firms: Evidence from North Cyprus	Price, firm image and service quality had a positive relationship with customer satisfaction, firm image is the most important factor to customer satisfaction, price next, and service quality last from firms' perspective
Astrid (2007)	Market Size, Service Quality, and Competition in Banking	Service quality increases in larger markets and is higher in larger banks because of their good will in the market.
Yoo and Park (2007)	Perceived service quality: Analyzing relationships among employees, customers, and financial performance	Employee training and understanding has a significant impact on service quality.
Naeem et al. (2009)	Service quality and its impact on customer satisfaction: An empirical evidence from the Pakistani banking sector	Service quality is a strong predictor of customer satisfaction in case of foreign bank whereas the situation is vice versa in case of nationalized bank.



Jahiruddin and Haque, (2009)	Bank Selection Criteria of Retail Customers in Bangladesh: A Study on Khulna City	Customers placed the highest priority on convenience factors, i.e. responsiveness and assurance factors in the SERVQUAL model
Munusamy (2010)	Service quality delivery and its impact on customer satisfaction in the banking sector in Malaysia	The relationship between service quality dimensions and customer satisfaction was revealed.
Ghost and Gnanadhas (2011)	Impact of service quality in commercial banks on the customers satisfaction: An empirical study	Close link between the customer's perception on the service quality factors and the customer satisfaction, the degree of influence of the service quality factors on customer's satisfaction is higher among the male, higher income group and highly educated customers.
Mohammad and Alhamadani (2011)	Service Quality Perspectives and Customer Satisfaction in Commercial Banks Working in Jordan	Service quality is an important antecedent of customer satisfaction, findings reinforces the need for banks managers to place an emphasis on the five dimensions of service quality.
Siddiqi (2011)	Interrelations between Service Quality Attributes, Customer Satisfaction and Customer Loyalty in the Retail Banking Sector in Bangladesh.	All service quality attributes are positively related to customer satisfaction, and customer satisfaction is positively related to customer loyalty in the retail banking settings in Bangladesh.
Karigoleshwar and Shivaji (2013)	Customer perception towards banking services (A study of selected public and private banks in Gulbarga).	Perceived quality of services provided by private sector bank (HDFC) is better than public sector bank (State bank of India) in Gulbarga city.
Al Karim and Chowdhury (2014)	Customer satisfaction on service quality in private commercial banking sector in Bangladesh	Service quality has positive effect on customer satisfaction, tangible is having a high Mean score and the bank should concentrate on responsiveness as it has the least mean score.
Osman and Sentosa (2014)	Influence of customer satisfaction on service quality and customer loyalty relationship in Malaysian commercial banking industry.	Service quality has a positive and significant direct effect on customer satisfaction, service quality has a positive and significant direct effect on customer loyalty.
Agarwal and Kamal (2015)	Study of customer satisfaction in commercial banks with special reference to Oriental Bank of Commerce..	The study revealed that the all the dimensions in the OBC bank positively related to customer satisfaction.
Cudjoe et al. (2015)	Service quality and customer satisfaction in the Ghanaian banking industry.	Customers' satisfaction is influenced by the level of total service quality.
Kojo (2016)	Study of customer service quality impact on customer satisfaction.	This study found that customers satisfaction is largely dependent on their perceptions about service quality reliability, assurance', empathy and tangibles.

Nahida Afroz(2018)	Effect of Service Quality on Customer Satisfaction Evidence from Banks in Tangail	This study indicates that improvements of service quality should be conducted on all the five service quality dimensions, especially the dimensions of responsiveness and empathy.
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### 2.1.2 Review Nepalese studies

Koirala and Shrestha (2012) used descriptive statistics, correlation, and regression analysis to measure relationship among service quality dimensions, service quality and customer satisfaction variables. It has used 364 sample customers who have been dealing currently with the commercial banks in Kathmandu valley. The result found that all the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming service quality of commercial banks in Nepal. Similarly, all the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming customer satisfaction of commercial banks in Nepal. Customer satisfaction is highly affected by service quality. Service also leads to customer retention and brand loyalty and increase the image of the bank.

Gautam (2013) found joint venture banks have better service quality dimensions except tangibles than non-joint venture banks and public banks. For Nepalese customer reliability is considered as the most important factor for influencing the service quality of Nepalese commercial banks. The result shows that banks should focus on their service quality and customer satisfaction for their long-term existence. The result also indicates that in case of Nepalese commercial banks customer satisfaction is highly affected by assurance and responsiveness. The research also concluded that the public banks are also competing successfully with the joint venture and non-joint venture banks.

Pradhananga (2014) considered six private commercial banks and with primary data. The study includes only three independent variables. Using primary data from a survey, the study used related dimensional service quality, tangible dimensional service quality and core service quality as dimensions of service quality. The study found the results that, the related dimensional service quality and tangible dimensional service quality have no significant impact on customer satisfaction. But, core service quality has a significant impact on customer satisfaction. The study concludes that the related

dimensional service quality and the tangible dimensional service quality have a very low relationship with customer's satisfaction in the Nepalese commercial banking sector; it is not desirable. Nepalese commercial banks should improve their service quality on the related dimension and tangible dimension to make the banks perform more effectively.

Gnawali (2016) concludes that Service Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. This study has tried to discover the impact of service quality on customer satisfaction in Nepalese commercial bank. A structured questionnaire with 5-point Likert scale has been used to collect the data by conducting survey. The sample size is 392 and is chosen on a convenient basis. Data has been analyzed by using SPSS software (version: 22). Both primary and secondary sources of data are collected and used. Result of the study shows that tangibility, reliability, responsiveness, assurance and empathy significantly and positively influence customer attitudes in terms of satisfaction, i.e. service quality dimensions are crucial for customer satisfaction in public, private and joint venture commercial banking sector in Nepal.

Shrestha (2018) Present research has been conducted to examine the customer satisfaction on service quality of selected commercial banks of Nepal. The study has employed descriptive research design and quantitative study by using survey methodology to deal with customer satisfaction in the context of Nepalese commercial banks. In this study, the data collected through questionnaire from 65 respondents (out of 100 customers of commercial banks) has been used for analysis. A detail study has been done on the basis of five dimensions as suggested by Parasuraman, Zeithamal and Berry (1988). They are reliability, responsiveness, assurance, empathy and tangibles. The result of the study indicated that the overall customers are satisfied with service quality of the commercial banks. Hence the level of customer satisfaction of the commercial banks on the basis of service quality can be considered satisfactory.

Thapa (2020) study is to reveal existing level of service quality of some Nepalese commercial banks. The customer perception to measure bank services quality within five dimensions; tangibles, reliability, responsiveness, assurance, and empathy are considered as to service quality model introduced by Parashuranman et. al. in 1988. This study is a descriptive in nature and uses primary data collected through personally

administered questionnaire survey with customers of some selected commercial banks including public and private banks. The questionnaire includes 22 questions in total for five dimensions. The sample size of the study is 82 respondents of the banks selected on convenience basis. The analysis consists descriptive statistics and t-test in order to meet the study objectives.

The major studies on relationship between customers' satisfaction and service quality with its major contributions for the Nepalese banking is presented in Table 2.2 as

Table 2.2: Empirical studies of Nepalese studies on customer satisfaction and service quality

Study	Area of Study	Major findings
Koirala and Shrestha (2012)	Measuring Service Quality and Customer Satisfaction: Empirical Evidence from Nepalese Commercial Banking Sector Undertakings.	All the service quality dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming service quality and customers' satisfaction in Nepalese commercial banks, customer satisfaction is highly affected by service quality.
Gautam (2013)	Service quality and customer satisfaction in Nepalese commercial banks.	Customer satisfaction is highly affected by assurance and responsiveness, Public banks are also competing successfully with the joint venture and non-joint venture banks.
Pradhananga (2014)	Impact of Service Quality on Customer Satisfaction in Nepalese Commercial Banks.	The related dimensional service quality and the tangible dimensional service quality have a very low relationship with customer's satisfaction in the Nepalese commercial banking sector, but core service quality has a significant impact on customer satisfaction.
Gnawali (2016)	Effects of Service Quality on Customer Satisfaction in Nepalese Commercial Ban	This study can be concluded that the Overall Banking Customers' Satisfaction is dependent to the five dimensions of service quality (tangibility, responsiveness, empathy, assurance, and reliability). These five dimensions have the greater predictability towards the customers' satisfaction in Nepalese commercial banks.
Shrestha (2018)	Service Quality and Customer Satisfaction: Evidence of Nepalese Banks	The result of the study indicated that the overall customers are satisfied with service quality of the commercial banks. Hence the level of customer satisfaction of the commercial banks on the basis of service quality can be considered satisfactory.
Thapa (2020)	Service Quality Status and Customer Satisfaction in Commercial Banking Sector of Nepal.	The basic intent of this study is to reveal existing level of service quality of some Nepalese commercial banks. The customer perception to measure bank services quality within five dimensions; tangibles, reliability, responsiveness, assurance and empathy are considered as to service quality model introduced by Parashuranman et. al. in 1988.

## 2.2 Research gap

Fewer studies have been conducted on commercial banks in Nepal that focuses on customers satisfaction and service quality. Among the studies related with commercial banks in Nepal, most of studies were focused on other issues of the bank rather than focusing on factors affecting customer satisfaction. From the previous studies, it is found that most of the studies based on theoretical and small sample size. No study has been conducted to identify the impact of communication and security on customer satisfaction in Nepalese commercial banks with empirical support for the same. This study somehow tried to fulfill the research gap of the previous studies. This study focuses on customer satisfaction towards service quality of Nepalese commercial banks and it can also provide a framework for future studies.

Numerous quantitative studies have been carried out to establish, largely in sample of multiple industries about customer satisfaction towards service quality of Nepalese commercial bank of Nepal .The analysis from the study has tried to see the impact of these five independent variables .In the current business environment which is constantly changing and contains intense competition ,commercial banks are facing many more challenges .service quality is particularly essential in the banking services context because it leads to the competitive advantage through the level of customer satisfaction. Besides this certain gap is created due to context, time, variable and methodology that was uses in research.

Type of research Gap

- i. Variable gap
- ii. Methodology gap
- iii. Context gap
- iv. Time gap

### **Variable Gap**

In this research only five variables were used. Although there is number of variable available for research tools. The variable is used for finding accurate and precise outcomes. But all researcher may not agree with this argument.

**Methodology gap**

It involves studying the methods used in research field and the theories or principles behind them, in order to develop an approach that matches this research objectives. Methodology explains what research did and how research did it, allowing readers to evaluate the reliability and validity of the research. It should include:

- The type of research did
- How we collected data for research
- How we analyzed data
- Materials that used in the research

Same methodology not favored for different location by which the gap is created in research.

**Context gap**

Research project exists in a particular context. How it's been conducted, who has participated when it's been conducted, etc. However, those studies are basically done in foreign context and very new are done in the context of Nepalese service industry. So certain gap is generated due to perception of people and their social behaviors.

**Time gap**

Banking sector is one of those highly service sectors in Nepalese market as well. Hence, this study aims to examine the relationship between service quality and customer satisfaction and main objective of this research is to examine the level of customer satisfaction of selected commercial banks. And identify the service quality of selected commercial banks. This research was completed on mention time frame. Although some variable sensitive to time. So, results will influences with time.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### **3.1 Introduction**

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

#### **3.2 Research plan and design**

Research design adopted in the study is descriptive and correlational research designs to deal with the fundamental issues associated with various factors of service quality and customer satisfaction of Nepalese commercial banks. This study adopts descriptive research design for fact finding and identifies adequate information about factors affecting customer satisfaction of Nepalese banking sector. Descriptive research design is a process of accumulating facts and involves the systematic collection and presentation of data to give clear picture of a particular situation. Descriptive research design helps to reduce data into manageable form. It is used to depict the accurate results and further describe about the characteristics of the sample.

This study also established the cause and effect relationship between service quality and customers' satisfaction. Hence, this study also employs correlational research design. Correlational research design attempts to determine the cause or consequences of differences that already exist between the variables and the relationship between independent and dependent variables. The goal of the study is to determine whether the independent variable affected the outcome, or dependent variable, by comparing two or more groups of individuals.

#### **3.3 Description of the sample**

To collect enough data to test hypotheses, a survey was conducted to collect data from sample. For fact finding of the study questionnaire was made. The structured set of questionnaires was distributes to the customers of Nepalese commercial banks. The primary data were used to extract the information from the customers regarding the perception of customers on the existing service quality level of Nepalese commercial bank and to access the level of customers' satisfaction in Nepalese commercial banks.

In the study five commercial bank were taken as sample (Global IME Bank LTD, Everest Bank, Siddhartha Bank Ltd, NIC Asia, SBI). To find out the customer satisfaction of these respective banks is the main motto of this research. This research is going through the customers of five commercial banks inside Kathmandu valley, among 27 commercial banks operating in Nepal. In this research, data is collected from five different banks in order to maintain holistic approach towards all commercial banks. Major objective of this research is to find out actual result through the data collected from selected banks of Nepal. Main reasons behind these five banks selections are to study upon:

- i. Technology adopted by the banks
- ii. No of Customers and their branches
- iii. Nature of formation (Independent or Joint venture with foreign banks)

235 questionnaires distributed to the respondents for analyzing the relationship between services quality and customer satisfaction and 182 questionnaires was collected. To cover the diversity among the customers. This research adopts snowball sampling method as well as distributed sample to different service areas peoples through personnel relationship.

### **3.4 Instrumentation**

The study is based on the primary data. The data obtained from the questionnaires survey are analyzed through SPSS. The instruments are descriptive statistics and inferential statistics. To analyze the reliability and validity of the data Cronbach's alpha ( $\alpha$ ) is used. Frequencies, percent, mean, medium, standard deviation, correlation and test of significance are used in this study to measure the determinants of customer satisfaction. To achieve the purpose of the study, structured questionnaire was prepared. The questionnaire was formulated out of the concepts that were raised in the review of the literature. The questionnaire is divided into four sections. The first section, 'A' is about the respondent information including basic demographics information of the respondents. The next section, 'B' includes different types of yes/no questions. "Section C" includes ranking type questions where most important factors were ranked as 1 and least important factors were ranked as 5 according to the number of factors. "Section D" is about Likert type questions about service quality variables that affect customer satisfaction which scale ranges from 1 (Strongly agree) to 5 (Strongly disagree).



### **3.5 Data collection procedure**

The purpose of the study is to access the customer satisfaction towards service quality of Nepalese commercial banks. This section elaborates on data collection procedure which includes nature and sources of data and also time frame for the study.

#### **3.5.1 Nature and sources of data**

This study is based on primary data. The primary data and information is collected and analyzed to determine the relationship between service quality and customer satisfaction of Nepalese commercial Bank. This study collect data from structured questionnaire survey which contains the respondent related information through yes or no questions, tick mark questions, multiple choice questions, rank questions and 5-scale Likert scale questions and data will be analyzed in descriptive and causal comparative method. The relationship between dependent and independent variable are analyzed in multi-step regression analysis. Multiple regression analysis is used with one categorical independent variable and one continuous variable. It is used to find the relationship among the dependent and independent variable and its significance.

#### **3.5.2 Time frame**

The research was prepared within the time period of four months. This study took about four weeks to visit different customers of banks to fill up the questionnaire and collect them back from the respondents.

### **3.6 Method of analysis**

The study aims to analyze the relationship between service quality and customer satisfaction by using a simultaneous equation model. Service quality dimensions are used as independent variables. Service quality dimensions are categories in to five variables, they are: reliability, responsiveness, empathy, assurance, and communication. Customer satisfaction is taken as dependent variable. Multiple regression models are used in this study to analyze the relationship between service quality and customer satisfaction. The multiple regression model used in this study is as follow:

$$CS = \beta_0 + \beta_1 Rel + \beta_2 Res + \beta_3 Em + \beta_4 As + \beta_5 Com + e \dots\dots\dots (i)$$

Where,

CS= Customer Satisfaction

Rel=Reliability

Res=Responsiveness

Em=Empathy

As=Assurance

Com=Communication

$\beta_0$  = Intercept of the dependent variable

e= error term and

$\beta_1, \beta_2, \beta_3, \beta_4,$  and  $\beta_5$  are the beta coefficients of the explanatory variables to be estimated.

### 3.7 Validity and reliability

Validity is the extent to which a test measures what actually wish to measure. It refers to the accuracy of a measure and a measurement is valid when it measures what it is supposed to measure and perform the functions that it purports to perform. Methods of establishing validity of the measurement technique fall into one of three categories: self-evident measures, pragmatic measures, and construct validity. Reliability is to do with the accuracy and precision of a measurement procedure. It refers to the credibility of the test, and it mainly tests measurements results and measurement tools 'stability and consistency. The most popular internal consistency reliability estimate is given by Cronbach's alpha. Data on the various multi-item constructs representing the different components of Service Quality and customer satisfaction which were first tested for reliability and validity by computing Cronbach's alfa values. The value of Cronbach's alpha of collected primary information is presented in Table 3.1.

Table 3.1:Coefficient of Cronbach's Alpha

Cronbach's Alpha	Number of Items
0.851	6

Here, for the reliability of data the Cronbach's Alpha should be more than 0.70. In the table 3.1 the value of Alpha is 0.851 which is more than 0.70, so this study is reliable for further process.

### **3.8 Analysis plan**

Data for this survey is collected through questionnaire for measuring customer satisfaction of the sample commercial banks. A sample of 235 respondents of sample commercial banks covered for questionnaires concerning the factors affecting customer satisfaction of Nepalese commercial banks. The questionnaires were distributed among the respondents and the responses were collected thereafter. After gathering all the completed questionnaires from the respondents, for the analysis and interpretation of the data, Excel and SPSS are used. Total responses collected from the respondent were coded and tabulated into SPSS worksheet. Depending upon the nature of the question such as multiple choices, ranking scale and Likert Scale, the coding was followed as per the rule. After the analysis and interpretation of the responses, the results were presented.

Different types of questionnaires are used such as Yes/No questions, multiple choice questions, ranking questions regarding determinants of customer satisfaction in Nepalese commercial banks. The questionnaire includes personal information about respondents such as gender, age, qualification and occupation. The questionnaire also included single choice, ranking questions to extract the view of the banks customer. There is also five point Likert scale questions in which respondents were asked to express to what extent respondents are satisfied or dissatisfied and or agree or disagree about the determinants of service quality (reliability, assurance, empathy, responsiveness, and communication) to their banks. Finally, one open-end question which is categorize in to two parts is included to obtain other kind of problems and solution suggested by respondent which are not included in questionnaire.

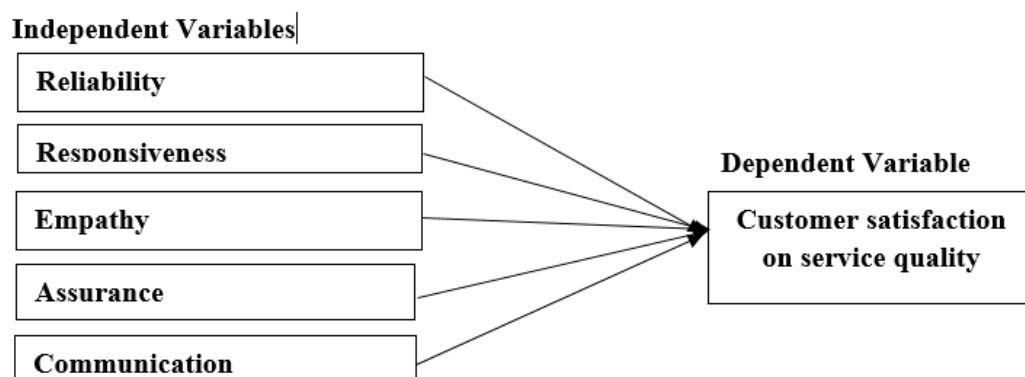
Simple descriptive statistics such as simple frequency count, percent, mean, median and standard deviation, etc. is used particularly to analyze the factors affecting customer satisfaction and issues related to it in commercial banks of Nepal.

### **3.9 Conceptual framework**

Guided by the literature survey and the requirement of the study, the following Conceptual Model was developed. The Dependent Variable (Customer Satisfaction) and Independent variable (service quality) of the study has been conceptualized based on the empirical findings of previous studies. The purpose of this study is to determine the customer satisfaction towards the service quality of Nepalese commercial bank. In

this study the dependent variable is customer satisfaction and independent variable is service quality dimensions.

Under dependent variable, called customer satisfaction the indicators like attitude, switching, recommendation, fulfillment of expectation, satisfaction with use and repurchase have been developed. Attitude means what kind of feeling; perception has been emerged in the customer mind with regards to the service. After dealing with the bank service what kind of attitude emerge with in the customer black box, sometimes it will be positive or negative, it helps to analyze whether they are satisfied with this service. Switching means the action through which a customer changes supplier. How likely our existing customers are willing to switch from current financial service provider to other banks. Are they very likely or much disliked switching from this bank or what kind of commitment is having with customers? Recommendation means how far customers recommend their service to other people. Are they highly recommend service to friends or relative or not recommend? Fulfillment of expectation means the level of fulfillment of their needs with the bank. Satisfaction with use means how far customers are satisfied with the service quality of the bank in terms of image occurs by branch premises, overall experiences, importance level of the service and overall satisfaction. Re-purchase refers how far customers come again after once come to the bank. To what extent are customers having intentions to buy another product from this bank? The conceptual framework of this study is shown in figure 2.1.



**Figure 3.1: Conceptual framework**

In accordance with the developed conceptual framework of this study, service quality and customer satisfaction are the two basic concepts which will be guided in this whole

study. This framework has been developed based on the Parasurman et al. SERVQUAL model. SERVQUAL Model comprises with basically five dimensions such as reliability, responsiveness, assurance, empathy, and tangible. These dimensions represent how customers organize information about service quality in their mind set and how customers will judge the customer satisfaction using these five SERVQUAL dimensions.

### **3.9.1 Independent variables**

#### **Service quality**

It is the independent variable. As mentioned earlier Service quality is generally perceived to be a tool that can be used to create a competitive advantage and further it can be define as “the consumers’ overall impression of the relative inferiority/superiority of the organization and its services.” The most common definition of service quality is the discrepancy between consumer’s expectations and perceptions of the service received. Accordingly, service quality is defined as how well a delivered service level matches customer’s expectation. Numerous studies have focused on the dimensions of traditional service quality (Gronroos, 1983; Lewis and Booms, 1983; Parasuraman et al. 1985). Parasuraman et al. (1985) are among the best-known researchers in service quality. They have developed a conceptual model of service quality that identifies the gaps and possible sources of quality problems. The initial study of service quality determinants found the ten dimensions of service quality: tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, and communication and understanding customers.

Parasuraman et al. (1985) developed the SERVQUAL instrument which is a 22-items tool used to measure the level of service quality by the discrepancy which exists between customers’ perceptions and expectations of the service received across the five dimensions. Service quality involves the degree of customer satisfaction attained by businesses while meeting the needs and expectations of the customers who are key actors of the business. Notwithstanding this simplification, it was ensured that each of the five identified dimensions of quality was represented: reliability, responsiveness, assurance, empathy, and communication.

### **a. Reliability**

Reliability refers to the ability to deliver the promised service (Parasuraman, 1998). Reliability involves consistency of performance and dependability. It means that the firm performs the service right the first time. It also means that the firm honors its promises. Specifically, it involves accuracy in billing, keeping records correctly, performing the service at the designated time (Parasuraman et. al., 1985). According to Zeithaml et al. (2006) reliability is “the ability to perform the promised service dependably and accurately” or “delivering on its promises”. Does the firm perform the service right at the first time? Does the firm honors it promises? These are some of the questions which need to be answered by service providers if they are to achieve reliability. This dimension of service quality, is how the service provider is able to provide service to a customer as promised, dependable in handling customers’ service problems, performs service right the first time, provide service at promised time and keep customers informed about when services will be performed ? (Parasuraman et al. 1985). Based on it, this study develops the following hypothesis:

H1: Reliability is positively related to customer satisfaction.

### **b. Responsiveness**

Responsiveness is a firm’s willingness to assist its customers by providing fast and efficient service performances (Shanka, 2012). Responsiveness refers to the readiness of staff members to help in a pleasant and effective way (Parasuraman, 1998). Responsiveness concerns the willingness or readiness of employees to provide service. It involves timeliness of service, mailing a transaction slip immediately, calling the customer back quickly, and giving prompt service (e.g., setting up appointments quickly) (Parasuraman et. al., 1985). A firm is known to be responsive when it communicates to its customers how long it would take to get answers or have their problems dealt with. To be successful, companies need to look at responsiveness from the view point of the customer rather than the company’s perspective (Zeithaml et al., 2006). Based on it, this study develops the following hypothesis:

H2: Responsiveness is positively related to customer satisfaction.

### **c. Empathy**

The service firm’s readiness to provide each customer with personal (Shanka, 2012). Empathy entails caring and provision of individualized attention to customers by personnel of the firm (Zeithaml et al., 2006). In this respect, the customer feels unique

and special. In an attempt to develop empathy, personnel of the firm should endeavor to know the names of their customers, their preferences and needs and take steps to satisfy them. Small Scale enterprises through the provision of customized services to clients are in a better position to achieve empathy than large firms. Based on it, this study develops the following hypothesis:

H3: Empathy is positively related to customer satisfaction.

#### **d. Assurance**

Assurance refers to diverse features that provide confidence to customers (such as the firm's specific service knowledge, polite and trustworthy behavior of employees) (Shanka, 2012). Assurance entails the knowledge and courtesy of employees and their ability to convey trust and confidence. It also includes competence, courtesy, credibility and security. Andaleeb and Conway (2006), noted that assurance may not be so important relative to other industries where the risk is higher and the outcome of using the service is uncertain. For instance, in the medical and healthcare industry, assurance is an important dimension that customers used as criteria in assessing a hospital or a surgeon for an operation. The trust and confidence may be represented in the personnel who connect the customer to the organization (Zeithaml et al. 2006). Based on it, this study develops the following hypothesis:

H4: Assurance is positively related to customer satisfaction.

#### **e. Communication**

Communication is an understandable manner and use of language by the service provider (Parasuraman, 1998). Communication means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers increasing the level of sophistication with a well-educated customer and speaking simply and plainly with a novice. It involves explaining the service itself, explaining how much the service will cost, explaining the trade-offs between service and cost, assuring the consumer that a problem will be handled (Parasuraman et. al., 1985). Based on it, this study develops the following hypothesis:

H5: Communication is positively related to customer satisfaction.

### **3.9.2 Dependent variable**

#### **Customer satisfaction**

Customer satisfaction is the dependent variable in this study because of it is behaved or depends on the service quality and its seven factors. Customer satisfaction measures how well a company's products or services meet or exceed customer expectations. These expectations often reflect many aspects of the company's business activities including the actual product, service, company, and how the company operates in the global environment. Customer satisfaction measures are an overall psychological evaluation that is based on the customer's lifetime of product and service experience. "According to Rust and Subramanian (1995), Customer Satisfaction brings many benefits as satisfied customers are not very price sensitive, buy additional products, are less influenced by competitors and stay loyal longer. Rust and Subramanian (1995) stated that customer satisfaction has been deemed directly to affect customer retention and companies' market share. In Banks, service quality, service features, and customer-complaint handling determine customer satisfaction.



## CHAPTER 4

### RESULTS AND DISCUSSION

Competition in banking industry is stiff with bankers adopting a more and more promotional strategies to maintain existing customers and attract new ones. However, banking experts have express worry about the fact that the intense competition is not being matched by the necessary improvements in service quality. Complaints of poor-quality services are on to the increasing trend Cudjoe (2015). Hinson and Mensah, (2006) contends, in a competitive era, customer switching to other service providers is high especially when customers are dissatisfied with service provided. Thus, customer defection due to dissatisfaction is a curious research subject to investigate. Since, Service Quality is touted as the bedrock of every successful organization, its practice needs to be examined and measured. However, it appears little studies have sought to ascertain how service quality practices could lead to customer satisfaction in banks within Nepal.

This chapter discusses the empirical results of the effects of service quality on customer satisfaction in the banking industry. It also analyses data obtained from the field. The data obtained is presented in the form of charts, bar graph and tables with the aid of Statistical Product for Social Solutions (SPSS). One set of questionnaire was analyzed with focus on customers of Nepalese commercial banks which concentrated on the expectations and perceptions of customers about the service quality delivery of Nepalese commercial banks based on the SERVQUAL scale model which is categorized into five main dimensions and plus two other dimensions and also the rating of the service quality dimensions by the respondents. The study is very timely and contributes to knowledge on service quality and customer satisfaction and it is expected to be of great benefit to management of various banks in Nepal, marketing practitioners, decision makers and stakeholders in their decision making in the banking sector. The findings and recommendations reported in the study would provide a more reliable measure and proven perspective for evaluating the level of customer satisfaction with the banking services been delivered. Also, this research is being conducted because, service is dynamic in nature and therefore the effect of service quality on customer satisfaction should be carried often since the rendering of services changes any moment

in time. Moreover, the study will contribute to almost none or little knowledge on service quality and customer satisfaction within the banking industry of Nepal.

#### **4.1 Analysis of primary data**

This study is primarily based on primary data analysis, which mainly deals with qualitative aspects in terms of customer satisfaction towards service quality of Nepalese commercial banks. In this section, primary data are taken in consideration to measure the satisfaction level of customer towards their primary bank. This section also reports the result of questionnaire survey conducted among different groups of customers. Questionnaire survey was designed to understand the views of the respondents in relation to their satisfaction level with the factors like reliability, responsiveness, empathy, assurance, tangible, communication and security towards their banks. A set of questionnaire including yes/no types, multiple choices, rankings, and likert scale questions are provided. Altogether 235 respondents are surveyed and analyzed in accordance with the objectives of the study. The respondents profile along with their personal characteristics and result of the survey are presented in below.

##### **4.1.1 Respondents' profile**

The respondents' profile reveals the personal characteristics of respondents combined on the basis of gender, age group, academic qualification and occupation of respondents. Thus, we can accept that demographic factors are frequently used as a basis for understanding consumer characteristics. Demographic characteristics play a vital role in understanding the buying behavior of consumers.

In addition, for measuring the customer satisfaction and to increase loyalty towards their banks, banks must consider a user's demographic characteristics to offer the correct range of service products. This section deals with gender, age, academic qualification and occupation of the respondents which are shown in table 4.1.

This table shows the number of respondents and percent with the classification on gender, age, profession, academic qualification, and income level.

Table 4.1: Demographic characteristics of respondents

<b>Variables</b>	<b>Components</b>	<b>No of respondents</b>	<b>Percentage (%)</b>
<b>1. Gender</b>	a. Female	92	50.5
	b. Male	90	49.5
	Total	182	100
<b>2. Age</b>	a. Below 20 years	25	13.7
	b. 20 - 30 years	104	57.1
	c. 31 - 40 years	40	22
	d. 41 and above	13	7.1
	Total	182	100
<b>3. Profession</b>	a. Business	44	24.2
	b. Service	13	7.1
	c. Housewife	16	8.8
	d. Students	109	59.9
	Total	182	100
<b>4. Academic qualification</b>	a. PhD	1	0.5
	b. M.Phil.	7	3.8
	c. Master	37	20.3
	d. Bachelor	86	47.3
	e. Intermediate	30	16.5
	f. SLC and Below	21	11.5
	Total	182	100
<b>5. Income level</b>	a. Below 10000	85	46.7
	b. 10000-20000	36	19.8
	c. 20000-30000	15	8.2
	d. 30000-40000	20	11
	e. Above 40000	26	14.3
	Total	182	100

*Field survey: 2020*

### **Gender**

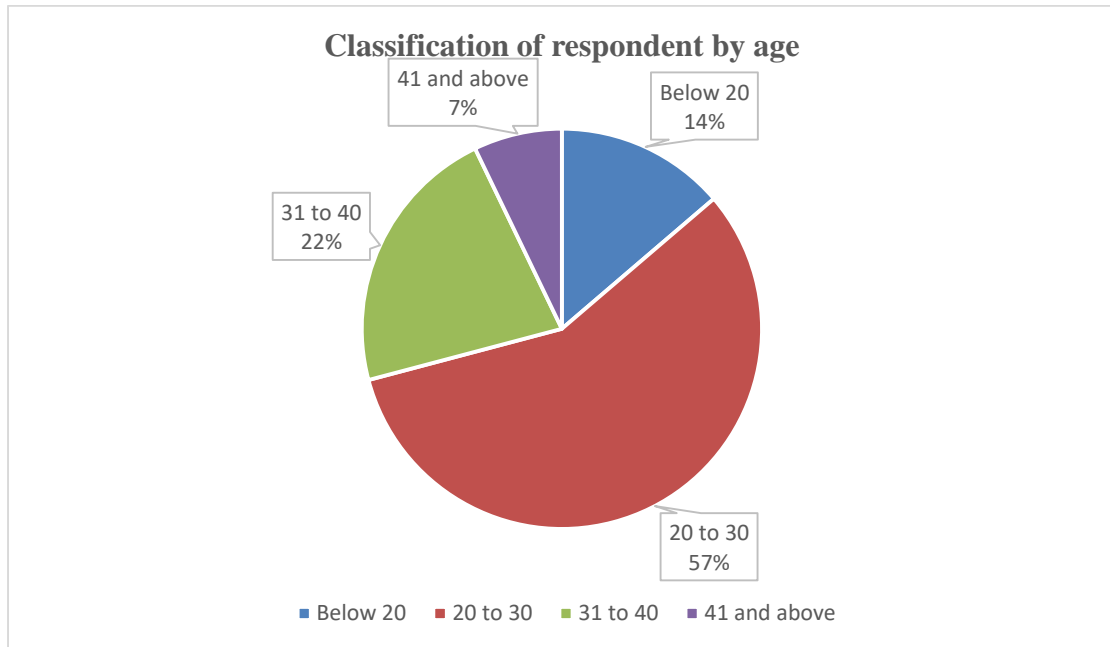
Gender is an important variable in expressing and giving the responses about the problem.

Majority of the respondents is males (49.5 percent) and the rest of the respondents are female (50.5percent).

## Age

Age of the respondents is one of the most important characteristics in understanding the views about the particular problems. The age group of the respondents is categorized into four groups i.e. below 20 years, 20-30 years, 31-40 years and above 41 years.

The classification of the respondents by age in terms of percent is shown in figure 4.1.

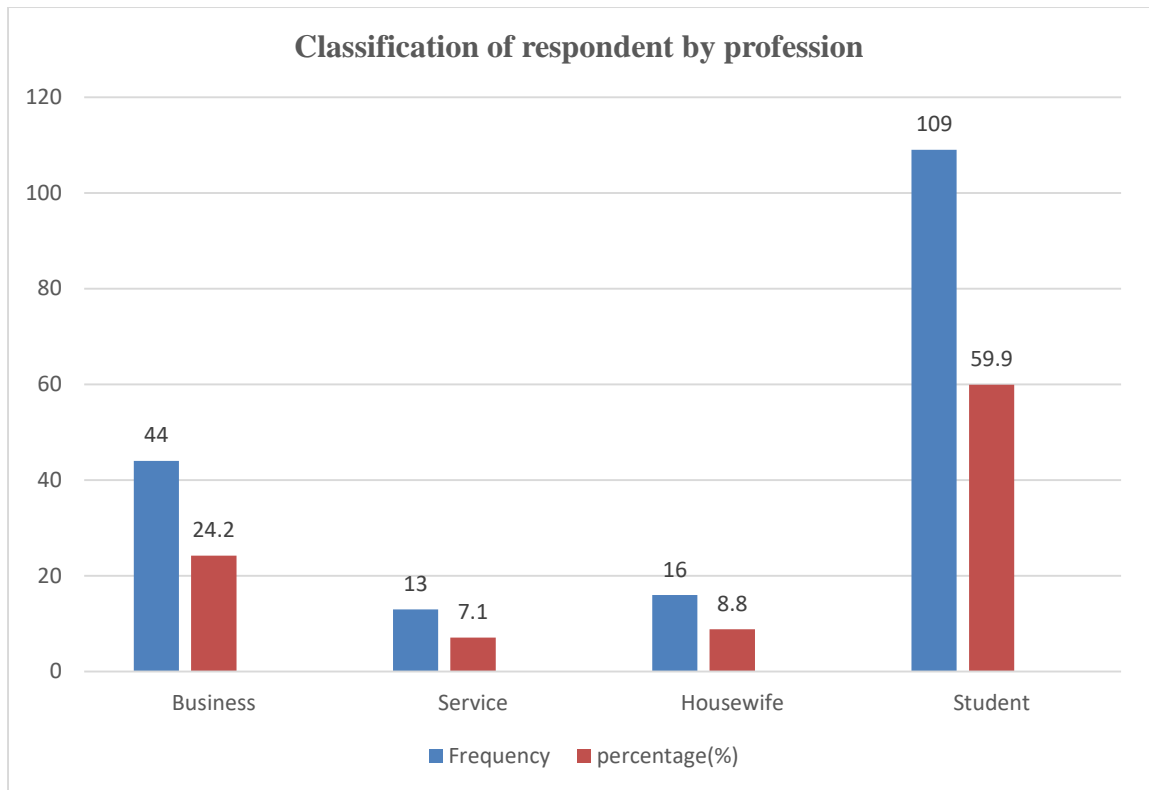


**Figure 4.1: Classification of respondent by age**

The majority of the respondents is in age group of 20 - 30 years (57.1 percent) followed by age 31 - 40 years (22 percent), 41 years and above (7.1 percent) and below 20 years (13.7percent).

## Profession

The profession of the respondents is categorized into five groups i.e. business, service, housewife, student and others. The classification of the respondents by profession in terms of number and percent is shown in figure 4.2.

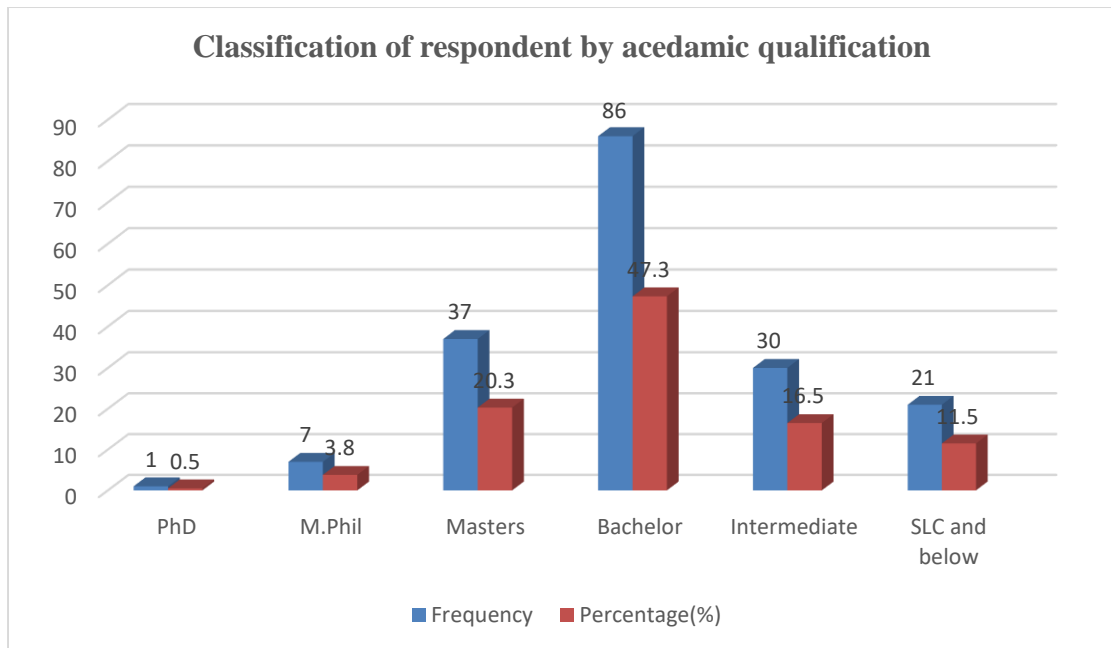


**Figure 4.2: Classification of respondent by profession**

The majority of the respondents (59.9percent) are students and (24.2 percent) are business person, housewife (8.8 percent) and remaining 7.1 percent are services.

#### **Academic qualification**

The academic qualification of the respondents is categorized into six groups i.e. PhD, M.Phil, Masters, Bachelor, Intermediate and SLC and below. The classification of the respondents by academic qualification in terms of number and percent is shown in figure 4.3.



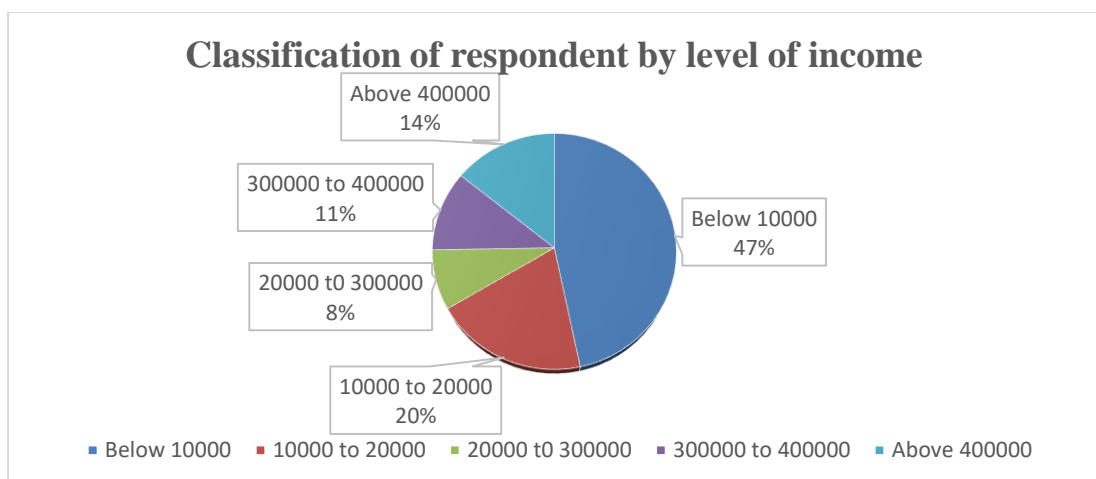
**Figure 4.3: Classification of respondent by academic qualification**

The majority of the respondents had master degree (20.3 percent), followed by respondents having bachelor graduates (47.3 percent), intermediate (16.5 percent), PhD holders (0.5 percent), M.Phil. (3.8 percent) and SLC and below (11.5 percent).

#### **Income level**

The income level of the respondents is categorized into five groups i.e. below 10000, 10000-20000, 20000-30000, 30000-40000, and above 40000.

The classification of the respondents by income level in terms of percent is shown in figure 4.4.



**Figure 4.4: Classification of respondent by income level**

Of the total respondents, majority of the respondents (19.8 percent) has monthly income between Rs.10000-20000 followed by monthly income below 10000 (46.7percent), 20000-30000 (8.2 percent), 30000- 40000 (11 percent) whereas least number of respondents has income of more than Rs. 40000 (14.3 percent).

### Type of account hold

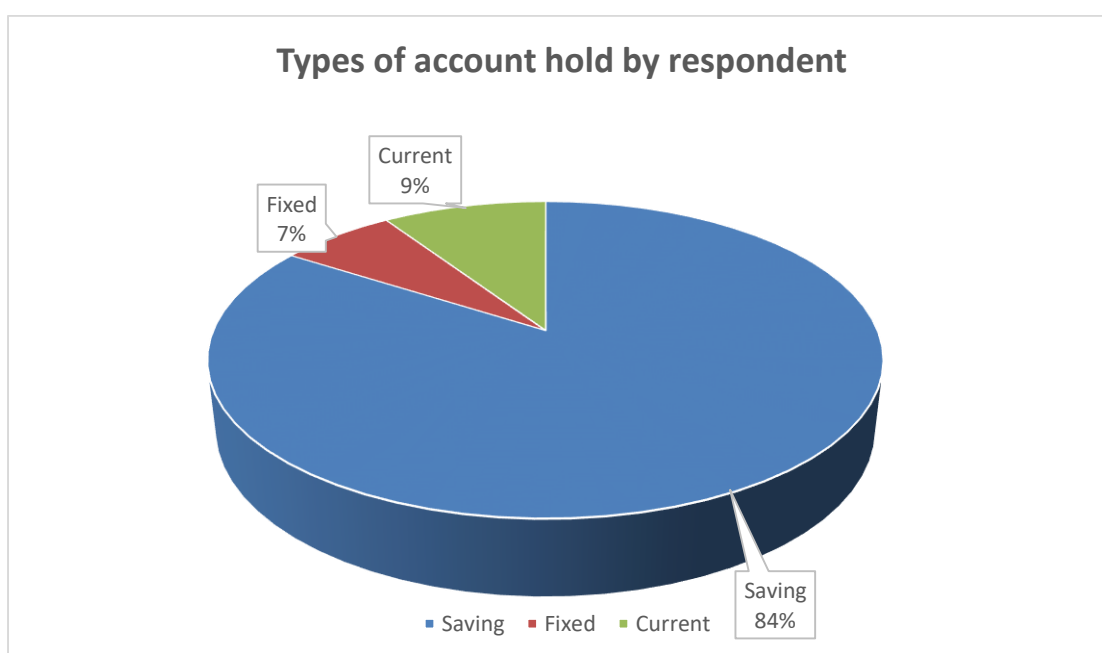
The description of the type of account that the respondents hold is classified as saving account, fixed deposit, current account and others type of account and is shown in table 4.2.

Table 4.2: Types of account currently hold by respondents

Types of account	Frequency	Percent (%)
Saving	153	84.1
Fixed deposit	12	6.6
Current	17	9.3
Total	182	100

Source: Field Survey, 2020

The type of account that is currently hold by the respondents are shown in figure 4.5.



**Figure 4.5: Type of account hold by respondents**

The majority of respondents (84.1 percent) are holding saving account whereas the least number of respondents (6.6 percent) hold fixed deposit of account. 9 percent of the respondents hold current account.

### Years of banking experience

The years of banking experience is classified into four different levels such as less than 1 year, 1 to 3 years, 3-5 years and above 5 years. The respondent involvements in the respective banks are categorized in the different level of years which are shown in table 4.3.

Table 4.3: Years of banking experience of respondents

Years of banking experience	Frequency	Percent (%)
Less than 1 Year	43	23.6
1 – 3 Years	42	23.1
3 – 5 Years	39	21.4
Above 5 Years	58	31.9
Total	182	100

Source: Field Survey, 2020

The years of banking experience by respondents is shown in figure 4.6.

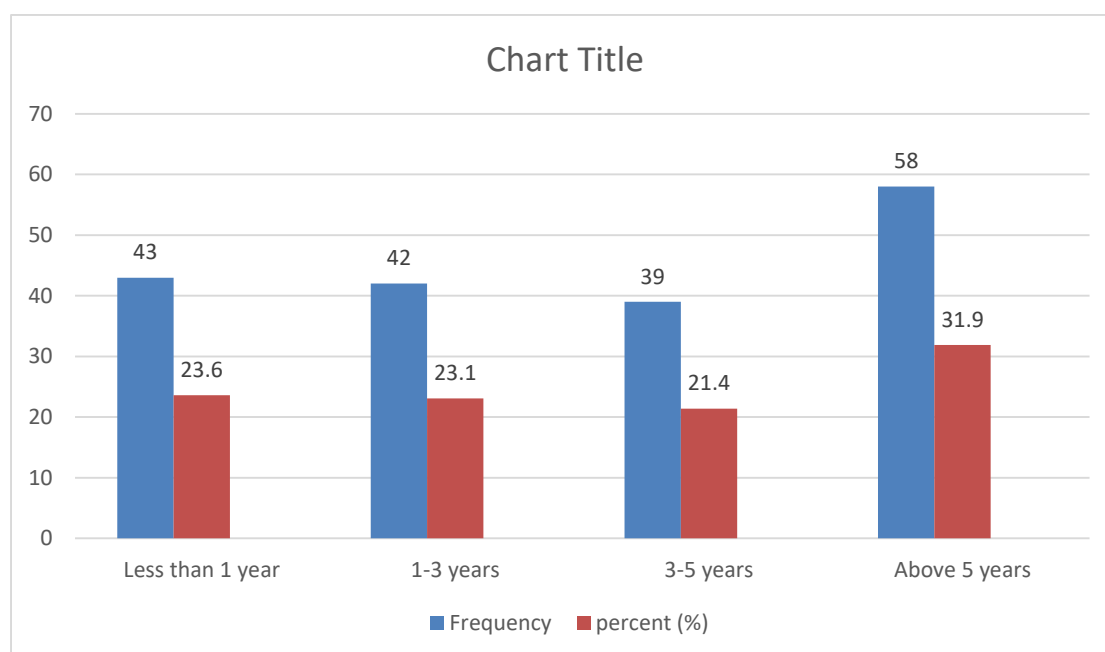


Figure 4.6 Years of banking experience of respondents



The majority of respondents (31.9 percent) have a banking experience of more than 5 years whereas only 21.4 percent have experience of less than 1 year.

### Fluency of visit

The fluency of visit by the respondents in their bank is shown in table 4.4.

Table 4.4: Fluency of Respondents visit to the Bank

Fluency of visit by the respondent	Frequency	Percent (%)
Everyday	2	1.1
Twice a week	31	17
Once a week	23	12.6
Twice a month	111	61
Once a month	8	4.4
Others	7	3.8
Total	182	100

Source: Field Survey, 2020

The majority of respondents (28.18 percent) visit their bank twice a month whereas the least number of respondents (4.09 percent) visit in other time period not classified above.

### Main reason to select bank

There are various reasons for the selection of bank by the customer. The reason that respondent choose the bank is categorize into eight options and is shown in table 4.5.

Table 4.5: Main reason to select bank

Components	Frequency	Percent (%)
a. High interest rate on deposit	34	18.7
b. Low service charge	27	14.8
c. Wide branch network/Location	48	26.4
d. Efficient, reliable and fastest services	19	10.4
e. Public image of the bank	13	7.1
f. Recommendation from friends and relatives	32	17.6
g. Personal relationship	7	3.8
h. Others (please specify)	2	1.1
Total	182	100

Source: Field Survey, 2020

Out of the 182 respondents, the majority of respondent (26.4 percent) select the bank because of wide branch network and favorable location followed by recommendation from friends and relatives (17.6 percent), public image of the bank (7.1percent), other reasons (1.1 percent), personal relationship (3.8 percent), low service charge (14.8percent) and high interest rate on deposit (18.7 percent).

#### 4.1.2. Responses of yes/no questions

The responses from the respondents on Yes/no questions which is related to the service quality and customer satisfaction from 220 respondent are listed and are explained in table 4.6.

Table 4.6: Responses on yes/no questions

S.N	Question	Frequency of responses			Total
		Yes	No	No idea	
1.	Are you satisfied with bank's reliability?	137	29	16	182
2.	Are you satisfied with bank's responsiveness?	133	33	16	182
3.	Are you satisfied with empathy?	117	30	35	182
4.	Are you satisfied with assurance in your bank?	122	27	33	182
5.	Are you satisfied with communication system of your bank?	144	14	24	182
6.	Are you satisfied with product and services provided by your bank?	127	26	29	182
7.	Does your bank offer competitive interest rate?	70	39	73	182
8.	Are you satisfied with the service charges by your bank?	90	59	33	182
9.	Do you recommend your bank to others?	135	25	22	182

Source: Field Survey, 2020

The yes/no questions in which the question is related to the customer's satisfaction on service quality variables, products and services of banks and so on are shown in above table. In first question i.e. "Are you satisfied with bank's reliability?", the majority of respondent i.e. 137 respondents say "yes" it means the majority of respondent are satisfied with bank's on-time and accurate services. Whereas 29 respondents are dissatisfied with banks online and accurate services and 16 respondents are neutral about their bank's accurate and on-time services.

Similarly, in second question i.e. "Are you satisfied with bank's responsiveness?" the majority of respondents i.e. 133 respondents are satisfied with employees willingness to assist customers and fast and efficient services whereas 33 respondents are dissatisfied with bank's responsiveness and 16 respondents are neutral.

At the same time in third question i.e. "Are you satisfied with empathy?" the majority of respondents i.e. 117 respondents are satisfied with bank's employee behavior and personalize or customized services whereas 30 are dissatisfied and 35 are neutral about bank's employee behavior and customized services.

In the fourth question i.e. "Are you satisfied with assurance in your bank?" the majority of respondents i.e. 122 respondents are satisfied with bank's friendliness, trust and confidence to the staff whereas 27 are dissatisfied and 33 remain neutral about bank's assurance.

Similarly, in the fifth question i.e. "Are you satisfied with communication system of your bank?" the majority of respondents i.e. 144 respondents are satisfied with bank's understandable and timely information and listening to customers whereas 14 are dissatisfied and 24 remain neutral about bank's communication system.

Similarly, the question sixth is "Are you satisfied with product and services provided by your bank?" Among 182 respondents, 127 respondents are satisfied with bank's products and services whereas 26 respondents are dissatisfied, and 29 respondents are neutral regarding bank's product and services. At the same time, the responses from the seventh question i.e. "does your bank offer competitive interest rate?", among all the respondents, 70 respondents said their bank's offer competitive interest rate whereas 39 respondents said their bank does not provide competitive interest rate and 73 respondents are neutral.

The question eight is “Are you satisfied with services charges by your bank?” Among 182 respondents, 90 respondents are satisfied with bank’s service charge whereas 59 respondents are dissatisfied, and 33 respondents are neutral regarding bank’s service charge. The last question is “Do you recommend your bank to others?” Among 182 respondents the majority of respondents i.e. 135 respondents said that they recommend their bank to others whereas 25 respondents said they do not recommend their bank to other and 22 remain neutral.

In conclusion we can see that the most responses of yes is for question one i.e. 137 respondents are satisfied with the reliability of the bank and most responses for no is for question eight i.e. 59 respondents said they are not satisfied with the service charges from their bank. Among all the questions, we can see that most of the respondents answer is yes so we can see that majority of respondent are satisfied with their bank’s service quality variables, products and services, interest rate, service charge and also majority of respondents said they recommend their bank to others.

#### **4.2 Descriptive statistics**

In this study descriptive statistics have been used to describe impact of service quality on customer satisfaction during the study period. The descriptive statistics used in this study consists of mean, standard deviation, minimum and maximum values associated with variables under considerations. The independent variable is service quality variables that are reliability, responsiveness, empathy, assurance, tangibles, communication, and security. The dependent variable is customer satisfaction. The descriptive statistics which includes number of observations (N), minimum, maximum, mean, and standard deviation of the variables are summarized on table 4.7

Table 4.7: Analysis of reliability

Descriptive Statistics		Test scale/3	
Reliability	N	Mean	Std Deviation
The bank provides services at promised time.	182	2.35	0.828
Employees are sincerely handling customers' problems.	182	2.38	0.776
The bank provides all the services as promised.	182	2.45	0.804
The bank maintains timely and error-free records.	182	2.54	0.864
The bank provides accuracy in all type of transaction.	182	2.46	0.858

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived service quality component tangible by customers. The average score for all the statements that represent service quality of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the service quality they are receiving from banks. Descriptive analysis of service quality component reliability mean is 2.54 which is respondents answer they are keep accurate records standard deviation is 0.776 same question.

Table 4.8 Analysis of Responsiveness

Descriptive Statistics		Test scale/3	
Responsiveness	N	Mean	Std Deviation
Employees of bank are willing to help customers.	182	2.31	0.978
Bank provides prompt service to customers.	182	2.29	0.825
Bank keep customer informed about when services will be performed.	182	2.39	1.049
Employees are ready to respond to customers' request.	182	2.42	0.918
Bank provides financial advice to the customers.	182	2.71	1.071

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived service quality component of responsiveness by customers. The average score for all the statements that represent service quality of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the service quality they are receiving from banks. Descriptive analysis of table shows service quality component responsiveness mean is 2.42 which is answers employees are ready to respond customer's request. Standard deviation is 0.825 answer when bank provides prompt service to customers.

Table 4.9: Analysis of Empathy

Descriptive statistic	Test scale/3		
	N	Mean	Std. Deviation
Empathy			
The bank provides convenient business hours.	182	2.24	0.979
The bank provides convenient service charge.	182	2.63	1.134
Employees give personal attention to the customers.	182	2.66	1.004
Employees understand the customer's specific needs.	182	2.65	0.878
The bank focuses to fulfill customer's need.	182	2.60	1.023

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived service quality component of by customers. The average score for all the statements that represent service quality of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the service quality they are receiving from banks under study. Descriptive analysis of table 4.9 service quality component empathy shows bank offers very convenient working hour mean is 2.24 and standard deviation is 0.878 staffs try to understand customer's specific need.

Table 4.10 Analysis of Assurance

Assurance	Test scale/3		
	N	Mean	Std. Deviation
Employee's behavior brings confidence in customers.	182	2.12	0.988
Employees are consistently polite and well-mannered.	182	2.41	1.003
Employees have the knowledge to answer customer questions.	182	2.44	0.768
The bank makes customers feel safe in their transactions.	182	2.37	1.015
Customers can easily trust employee of their bank.	182	2.48	1.086

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived service quality component of responsiveness by customers. The average score for all the statements that represent service quality of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the service quality they are receiving from banks. Descriptive analysis of table 4.9 service quality component Assurance higher mean is 2.48 which is respondents answer customers can easily trust employee of their bank. Lower standard deviation is 0.768 respondents answer employees have the knowledge to answer customer question.

Table 4.11: Analysis of communication

Communication	Test scale/3		
	N	Mean	Std. Deviation
Bank's website has clear and understandable information about its products and services.	182	2.20	0.968
Bank explains about the service cost.	182	2.34	0.817
Bank timely inform about the changes in interest rate.	182	2.60	0.968
Bank timely inform about the changes in services.	182	2.35	0.926
Bank assures the consumer that a problem will be handled.	182	2.40	0.688

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived service quality component of responsiveness by customers. The average score for all the statements that represent service quality of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the service quality they are receiving from banks. Descriptive analysis of table 4.10 service quality component communication higher mean is 2.60 which is respondents answer bank timely inform about the change in interest rate. Lower standard deviation is 0.688 respondents answer bank assures the consumer that a problem will be handled.

Table 4.12: Analysis of customer satisfaction

Eight questions were provided to the target respondents to measure the customer satisfaction of Nepalese commercial banks. The respondents were asked “whether customer level of the satisfaction of bank towards customers is excellent or not.” The detail analysis of the respondents is shown in the table:

Descriptive statistics	Test scale/3		
	Customer satisfaction	N	Mean
I am satisfied with the services provided by the bank.	182	2.35	1.065
Banks forms and slips are easy to understand and fill.	182	2.32	0.963
I am satisfied with the bank’s ATM services.	182	2.91	1.150
The performance of bank is more than my expectation.	182	2.44	1.119
Online and mobile banking services of the banks are secure and reliable.	182	2.46	0.725
The bank provides clear and understandable bank statements.	182	2.22	0.938
I can apply for cheque book at any branch where I find convenient.	182	2.18	0.783
I will always be the customer of this bank	182	2.49	1.106

*Field survey: 2020*

The table shows the average score for all the statements regarding perceived customer satisfaction component by customers. The average score for all the statements that



represent customer satisfaction of bank has an average score of 2 and not excellent. This indicates that customers are slightly satisfied with the customer satisfaction they are receiving from banks under study. Employees in the bank have the knowledge to answer the questions mean is 3.92 and standard deviation is 0.59 which is result is the satisfaction.

### 4.3 Correlation Analysis

Table 4.13: Analysis of Correlation

		Correlation					
		Customer satisfaction	Reliability	Responsiveness	Empathy	Assurance	Communication
Customer satisfaction		1	.266**	.636**	.659**	.608**	.540**
	Pearson correlation						
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N		182	182	182	182	182
Reliability			1	.238**	.336**	.302**	.060
	Pearson correlation						
	Sig. (2-tailed)			.001	.000	.000	.422
	N			182	182	182	182
Responsiveness				1	.652**	.764**	.464**
	Pearson correlation						
	Sig. (2-tailed)				.000	.000	.000
	N				182	182	182
Empathy					1	.742**	.430**
	Pearson correlation						
	Sig. (2-tailed)					.000	.000
	N					182	182
Assurance						1	.493**
	Pearson correlation						
	Sig. (2-tailed)						.000
	N						182
Communication							1
	Pearson correlation						
	Sig. (2-tailed)						
	N						

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

*Field survey: 2020*

Where,

The table shows the correlation matrix between the dependent variable and independent variables, where dependent variables customer satisfaction and independent variables are Reliability, Responsiveness, Empathy, Assurance, and communication are independent variables that determine service quality and customer satisfaction.

The Pearson Correlation coefficient between the independent variable Reliability and dependent variable customer satisfaction is .266, which implies that the two variables are positively correlated and there is correlation between Reliability and perception in customer satisfaction. The positive coefficient of correlation is .266 at 1% significant level.

The Pearson Correlation coefficient between the independent variable Responsiveness and dependent variable customer satisfaction is .636, which implies that the two variables are positively correlated and there is correlation between Responsiveness and perception in customer satisfaction. The positive coefficient of correlation is .636 at 1% significant level.

The Pearson Correlation coefficient between the independent variable Empathy and dependent variable customer satisfaction is .659, which implies that the two variables are positively correlated and there is correlation between Empathy and perception in customer satisfaction. The positive coefficient of correlation is .659 at 1% significant level.

The Pearson Correlation coefficient between the independent variable Assurance and dependent variable customer satisfaction is .608, which implies that the two variables are positively correlated and there is correlation between Assurance and perception in customer satisfaction. The positive coefficient of correlation is .608 at 1% significant level.

The Pearson Correlation coefficient between the independent variable Communication and dependent variable customer satisfaction is .540, which implies that the two variables are positively correlated and there is correlation between Communication and perception in customer satisfaction. The positive coefficient of correlation is .540 at 1% significant level.

#### 4.4 Regression Analysis

Table 4.14: Analysis of regression

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Change statistics				
					R Square Change	F Change	df1	df2	Sig. F change
1	.749 <sup>a</sup>	.561	.548	.345	.561	44.958	5	176	.000

- a. Predictors: (Constant), Communication, Reliability , Responsiveness ,Empathy, Assurance

##### ANOVA<sup>a</sup>

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	26.778	5	5.356	44.958	.000 <sup>b</sup>
Residual	20.965	176	.119		
Total	47.743	181			

- a. Dependent Variable: Customer Satisfaction
- b. Predictors: (Constant), Communication, Reliability, Responsiveness, Empathy, Assurance

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficient		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.615	.152		4.044	.000
Reliability	.066	.050	.071	1.325	.187
Responsiveness	.209	.059	.284	3.559	.000
Empathy	.257	.056	.355	4.574	.000
Assurance	-.016	.063	-.024	-.259	.796
Communication	.220	.049	.263	4.467	.000

a. Dependent Variable: Customer Satisfaction

**Regression model**

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

$$\hat{Y} = .615 + \beta_1 .066 + \beta_2 .209 + \beta_3 .257 + \beta_4 -.016 + \beta_5 .220$$

Where,

$\hat{Y}$  = Customer Satisfaction (dependent variable)

$X_1$  = Reliability

$X_2$  = Responsiveness

$X_3$  = Empathy

$X_4$  = Assurance

$X_5$  = Communication

$\alpha$  = Constant

$\beta_1, \beta_2, \dots, \beta_5$  = Regression coefficients of Factor 1 to Factor 5 respectively

$e_i$  = Error term.

Analysis of variance (ANOVA) is an analysis tool used in statistics that splits an observed aggregate variability found inside a data set into two parts: systematic factors and random factors. The systematic factors have a statistical influence on the given data set, while the random factors do not. Analysts use the ANOVA test to determine the influence that independent variables have on the dependent variable in a regression study.

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contribution to the variance in dependent variable. The results presented in Table 4.13, shows that Reliability ( $\beta_1=0.066$ ,  $p=0.187$ ) carries the heaviest weight for customer satisfaction, followed by Empathy ( $\beta_3=0.257$ ,  $p=0.000$ ), communication ( $\beta_5=0.220$ ,  $p=0.000$ ), responsiveness ( $\beta_2=0.209$ ,  $p=0.000$ ), assurance ( $\beta_4=-0.016$ ,  $p=0.796$ ). The results showed that a one-unit increase in reliability would lead to a 0.066 unit increase in customer satisfaction keeping other variables constant. Similarly, one unit increase in empathy factor would lead to a 0.257 unit increase in customer satisfaction, one unit increase in communication factor lead to a 0.220 unit increase in customer satisfaction. Here beta of assurance is negative -0.016 which lead to negative relation with dependent variable customer satisfaction. In conclusion, reliability and empathy are significant. Thus, there is positive relationship between independent variables and dependent variable in customer satisfaction.

#### **4.5 Findings**

This study has mainly focused on relationship between customer satisfaction and service quality in Nepalese commercial bank. This study has used service quality components as independent variables', the major components of service quality are reliability, responsiveness, empathy, assurance, tangibles, communication and security and dependent variable is customer satisfaction.

- i. The first most important factor affecting customer satisfaction is empathy with mean value of 2.56 followed by reliability, responsiveness, assurance, and communication. Whereas the least important factor ranked by respondents is communication with mean value of 2.38.

- ii. The total weighted average mean value for reliability, responsiveness, empathy, assurance, communication, and customer satisfaction is 2.44, 2.42, 2.56, 2.43, 2.38, and 2.42 respectively. This indicates that customers are more satisfied with security followed by technology in Nepalese commercial banks. On the other hand, the highest mean value is of empathy i.e. 2.56 this indicates that customers are less satisfied with bank's empathy.
- iii. The descriptive result shows that the average reliability is noticed to be 2.44 with a minimum of 1 to maximum of 5. Responsiveness ranges from 1 to 5. The average empathy is noticed to be 2.56, which ranges from 1 to 5. Assurance ranges from 1 to 5 having mean of 2.43 and having highest standard deviation of 0.738. Communication ranges from 1 to 4 having mean of 2.38.
- iv. The result of correlation coefficient shows positive relation of reliability, responsiveness, empathy, and assurance with customer satisfaction. It means an increase in reliability, responsiveness, empathy, and assurance will lead to an increase in customer satisfaction. Similarly, communication is positively related with customer satisfaction. It indicates increase in communication will lead to increase in customer satisfaction.
- v. The findings revealed that highest correlation coefficient was found between empathy and customer satisfaction at 0.659. The lowest correlation coefficient is found between reliability and customer satisfaction at 0.266.
- vi. The beta coefficient for reliability is positive with customer satisfaction. It reveals that higher the reliability, higher would be the customer satisfaction. Similarly, customer satisfaction is positively related with responsiveness. It reveals that higher the responsiveness higher would be the customer satisfaction. Where beta coefficient for reliability and responsiveness is significant at 5 percent level.
- vii. Likewise, the regression result reveals that customer satisfaction is positively related with empathy. It means higher the empathy higher would be the customer satisfaction. Where beta coefficient is significant at 5 percent level.
- viii. Similarly, the beta coefficient for assurance is negative with customer satisfaction. The regression result shows that communication is positively related with customer satisfaction. It reveals that higher the communication would be the customer satisfaction.

#### **4.6 Discussion**

The major discussion of the study is that service quality play a vital role in determination of customer satisfaction. The major reason to select bank was found to be bank's wide branch network and favorable location. The study reveals that the correlation coefficient between all the service quality variables (reliability, responsiveness, empathy, assurance, and communication) and customer satisfaction is positively related. It means an increase in service quality variables will lead to an increase in customer satisfaction. The regression of service quality variables on customer satisfaction shows that relationship between service quality measured by reliability, responsiveness, empathy, assurance, and communication with customer satisfaction is positive which indicates that higher the reliability, responsiveness, empathy, assurance, communication higher will be the customer satisfaction. Thus, service quality will help in satisfying customers banking needs and satisfied customer help in retaining the customer for longer period of time. This implies that all the hypothesis i.e. H1, H2, H3, H4, and H5 are accepted.

The purpose of present study was to examine the relationship between customer satisfaction and service quality with respect to service quality dimensions. The study is consistent with Shrestha (2018) to analyze the relationship between customer satisfaction and service quality. The result of the study indicated that the overall customers are satisfied with service quality of the commercial banks. Hence the level of customer satisfaction of the commercial banks on the basis of service quality can be considered satisfactory.

The present study also concluded that empathy is ranked in first position on the basis on calculated mean value. Similarly reliability, responsiveness, assurance, and communication are ranked second, third, fourth, and fifth position respectively in concern with factor affecting customer satisfaction. It was found that deposit facility has been ranked first important facility that affects customer satisfaction. Similarly long term existence and profitability were ranked first and second position respectively for reason of importance of service quality and customer satisfaction. This study is consistent with Gnawali (2016) to analyze the relationship of reliability, responsiveness, empathy, assurance and communication of Nepalese commercial banks. The study concluded that the Overall Banking Customers' Satisfaction is

dependent to the five dimensions of service quality (tangibility, responsiveness, empathy, assurance and reliability). These five dimensions have the greater predictability towards the customers' satisfaction in Nepalese commercial banks. Similarly the major problem faced by respondents from their respective banks is ATM services and employees behavior. If a bank focuses on improving its services and improves its service quality obviously the bank's customer's satisfaction will increase and customer retention or customer loyalty will increase and also customers flow will also increase and will improve the performance of that bank. Service quality is an essential aspects that satisfy customers.

The purpose of the study is to identify the relationship between reliability and customers satisfaction. The study is consistent with AL Tamimi and AL Amiri (2003) to determine the relationship between reliability and customer satisfaction. The study concluded that reliability was the most important dimension of their instrument and there was also no attempt to address new service quality dimensions that are particular to UAE culture.



## CHAPTER 5

### SUMMARY AND CONCLUSIONS

#### 5.1 Summary

In today's competitive business environment delivering high quality service towards customers is the key for a sustainable competitive advantage. Service quality is particularly essential in the banking services context because it leads to the competitive advantage through the level of customer satisfaction.

The major objective of the study is to assess customer satisfaction towards service quality of Nepalese commercial bank. The specific objectives are to study the service quality level of commercial banks operated in Nepal, to examine the customer satisfaction level of commercial banks in Nepal, to test the relationship between the two variables i.e. service quality and customer satisfaction, to determine the factors that affect customer satisfaction in Nepalese Commercial Banks, to analyze the impact of service quality in customer satisfaction level in Nepalese commercial banks.

This study is primarily based on primary sources of data. The primary sources of data have been used to assess the opinion of respondents with respect to customer satisfaction level regarding the commercial banks. The questionnaire survey has been conducted to know the opinions of customers regarding service quality of Nepalese commercial banks. A set of questionnaires was prepared and distributed to the customers of sample Nepalese commercial banks. The questions were designed to get the views, related information from the respondents. Data were collected using well formulated questionnaires. The questionnaires were self-adjusted, validated, and pre-tested. The respondents represent customers of 5 commercial banks of Nepal and out of 235 questionnaires 182 questionnaires were collected. The information related to customer satisfaction and service qualities were administered through questionnaires.

Descriptive statistics, correlation coefficient and a step wise regression method has been applied to estimate the relationship between customer satisfactions as dependent variable with service quality as independent variables. The collected data has been processed with the use of SPSS Statistical package.

## 5.2 Conclusions

The major conclusion of the study is that service quality play a vital role in determination of customer satisfaction. The major reason to select bank was found to be bank's wide branch network and favorable location. The study reveals that the correlation coefficient between all the service quality variables (reliability, responsiveness, empathy, assurance, and communication) and customer satisfaction is positively related. It means an increase in service quality variables will lead to an increase in customer satisfaction. The regression of service quality variables on customer satisfaction shows that relationship between service quality measured by reliability, responsiveness, empathy, assurance, and communication with customer satisfaction is positive which indicates that higher the reliability, responsiveness, empathy, assurance, communication, higher will be the customer satisfaction. Thus, service quality will help in satisfying customers banking needs and satisfied customer help in retaining the customer for longer period of time. This implies that all the hypothesis i.e. H1, H2, H3, H4, and H5 are accepted.

The study also concluded that empathy is ranked in first position on the basis on calculated mean value. Similarly reliability, responsiveness, assurance, and communication are ranked second, third, fourth, and fifth position respectively in concern with factor affecting customer satisfaction. It was found that deposit facility has been ranked first important facility that affects customer satisfaction. Similarly long term existence and profitability were ranked first and second position respectively for reason of importance of service quality and customer satisfaction. Similarly the major problem faced by respondents from their respective banks is ATM services and employees behavior. If a bank focuses on improving its services and improves its service quality obviously the bank's customer's satisfaction will increase and customer retention or customer loyalty will increase and also customers flow will also increase and will improve the performance of that bank. Service quality is an essential aspects that satisfy customers.

### **5.3 Implication**

On the basis of the findings of the study, the following implications are made for further improvement on the service quality of Nepalese commercial banks and in order to satisfy customer needs and expectations. There are some reasons why it is important for customer satisfaction. The organization must know all the factors by which customers can be satisfied and will be the loyal customers of the organization. The implication for Nepalese commercial banks is:

#### **5.3.1 Managerial implication**

- i. The study observed a positive relationship between reliability and customer satisfaction and hence banks willing to increase customer satisfaction should increase reliability.
- ii. Based on the study, banks willing to increase customer satisfaction should improve responsiveness. Since, a positive relationship is found between responsiveness and customer satisfaction.
- iii. The study stated that empathy has a positive relation with customer satisfaction and hence banks willing to improve customer satisfaction should improve employee behavior, provide personalized services and so on.
- iv. The study showed a positive relation between assurance and customer satisfaction and hence, banks willing to improve customer satisfaction should focus on creating a friendliness environment, trust and so on.
- v. From the study, a positive relation is found between communication and customer satisfaction and hence one willing to increase customer satisfaction should rely on improving information, listening to customers, providing timely information and so on.

#### **5.3.2 Future research implication**

This study has tried to cover the issues related with the customer satisfaction towards service quality of Nepalese commercial banks. Therefore, further studies can be carried out on the basis of the findings of this study. Some of the future scopes of this study are listed as below:

- i. This study used demographic variables however this study is not based on satisfaction of customer on the basis of demographic characteristics. Hence, the further study can be done on the basis of demographic characteristics.

- ii. This study is based on the survey of customers of Nepalese commercial bank's branches inside the Kathmandu valley. Therefore, to incorporate wide geographical character of the respondents, further studies can be carried out by extending the survey outside the Kathmandu valley.
- iii. In this study only 'A' class commercial bank's customers were taken as sample respondent where for further studies other financial institutions like development banks and finance companies can be include. As there are many customers who transact with other financial institution.
- iv. This study has only taken 5 Nepalese commercial banks whereas further studies can be done by including all the commercial bank of Nepal.

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## Appendix

### Survey Questionnaire

#### Customer Satisfaction towards Service Quality of Nepalese Commercial Banks

Dear respondent,

This is a survey research on “**Customer satisfaction towards service quality of Nepalese commercial banks**” which is conducted to meet the academic requirement of MBS affiliated to Tribhuvan University to submit the graduate research project report. I would be thankful if you could take few minutes and complete this questionnaire for giving feedback. I also assure that your response will be kept confidential and used only at aggregate level. Your kind cooperation will be highly appreciated.

Thanking You

Anu Ghimire

Central Department Of Management

**Section A: Respondent information** (Please make a tick mark on appropriate option from ‘ii’ to ‘xi’)

**i. Name of your Bank**.....

**ii. Type of account you have**

a. Saving a/c [  ]      b. Fixed a/c [  ]      c. Current a/c [  ]      d. Others (please specify) ..... [  ]

**iii. Gender:**

- a. Female [ ]      b. Male [ ]

**iv. Age (Years):**

- a. Below 20 [ ]      b. 20-30 [ ]      c. 31-40 [ ]      d. 41 and above [ ]

**v. Profession**

- a. Business [ ]      b. Service [ ]      c. Housewife [ ]      d. Student [ ]

e. Others (please specify) .....

**vi. Academic qualification**

- a. PhD [ ]      b. M.Phil. [ ]      c. Masters [ ]      d. Bachelors [ ]

e. Intermediate [ ]      f. SLC and below [ ]

**vii. Level of income (In Nepalese Rupees)**

- a. Below 10000 [ ]      b. 10000-20000 [ ]      c. 20000-30000 [ ]

d. 30000-40000 [ ]      e. Above 40000 [ ]

**viii. How long have you been transacting with this Bank?**

- a. Less than 1 year [ ]      b. 1-3 Years [ ]      c. 3 -5 Years [ ]      d. More than 5 Years [ ]

**ix. How frequently do you visit the bank?**

- a. Everyday [ ]    b. Twice a week [ ]    c. Once a week [ ]    d. Once a month [ ]  
 e. Twice a month [ ]    f. Others (Please specify.....) [ ]

**x. What is the main reason that you select this bank? (Please make a tick mark on appropriate option)**

- a. High interest rate on deposit [ ]  
 b. Low service charge [ ]  
 c. Wide Branch Network (location) [ ]  
 d. Efficient, Reliable and Fastest Services [ ]  
 e. Public image of the Bank (Reputation) [ ]  
 f. Recommendation from friends/relatives [ ]  
 g. Personal relationship [ ]  
 h. Others (please specify.....) [ ]

**xi. What is the major problem that you have faced from this bank while receiving services?**

- a. ATM Service [ ]  
 b. Employees behavior [ ]  
 c. Opening/Closing accounts [ ]  
 d. Internet Banking Services [ ]  
 e. Others (Please specify.....) [ ]

**Section B: Yes/no question regarding customer satisfaction levels on Banking Services** (Please make a tick mark in appropriate option)

i. Are you satisfied with bank's reliability (accurate and on-time services)?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

ii. Are you satisfied with bank's responsiveness (willingness to assist customers and fast and efficient service)?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

iii. Are you satisfied with empathy (employee behavior, personalized or customized service)?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

iv. Are you satisfied with assurance (friendliness, trust and confidence to the staff) in your bank?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

v. Are you satisfied with communication system (understandable and timely information and listening to customers) of your bank?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

vi. Are you satisfied with product and services provided by your bank?

- a. Yes ( )                      b. No ( )                      c. No idea ( )



vii. Does your bank offer competitive interest rate?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

viii. Are you satisfied with the service charges by your bank?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

x. Do you recommend your bank to others?

- a. Yes ( )                      b. No ( )                      c. No idea ( )

**Section C:** Please make a rank for the following questions

**i. Which of the following factor do you think is the most important regarding the customer's satisfaction in Nepalese commercial bank?** (Please rank 1 for the most influencing factor and 7 for the least influencing factor and so on)

- a. Reliability [ ]
- b. Responsiveness [ ]
- c. Empathy [ ]
- d. Assurance [ ]
- e. Communication [ ]

**ii. Which of the following facilities do you consider the most important in Nepalese commercial bank?** (Please rank 1 for the most influencing factor and 5 for the least influencing factor and so on)

- a. Loan facilities [ ]
- b. Deposit facilities [ ]
- c. Automated Teller Machine (ATM) facilities [ ]
- d. Any Branch Banking Services (ABBS) [ ]
- e. Online and mobile banking [ ]

**iii. Why do you think service quality and customer satisfaction is so important for Nepalese commercial banks?** (Please rank 1 for the most influencing factor and 5 for the least influencing factor and so on)

- |                                 |     |
|---------------------------------|-----|
| a. Profitability                | [ ] |
| b. Long term Existence          | [ ] |
| c. Brand/ Image/Reputation      | [ ] |
| d. Competition                  | [ ] |
| e. Others (Please specify.....) | [ ] |

### Section D: Likert type questions

Please use the following table to rank your responses to situations given below. *(Please make a tick mark on appropriate option)*

Perception						
Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree		
1	2	3	4	5		
Variables	Service quality measurement variables	Perception				
		1	2	3	4	5
<b>Reliability</b>	1. The bank provides services at promised time.					
	2. Employees are sincerely handling customers' problems.					
	3. The bank provides all the services as promised.					
	4. The bank maintains timely and error-free records.					
	5. The bank provides accuracy in all type of transaction.					
<b>Responsiveness</b>	1. Employees of bank are willing to help customers.					
	2. Bank provides prompt service to customers.					
	3. Bank keep customer informed about when services will be performed.					
	4. Employees are ready to respond to customers' request.					
	5. Bank provides financial advice to the customers.					
<b>Empathy</b>	1. The bank provides convenient business hours.					

	2. The bank provides convenient service charge.					
	3. Employees give personal attention to the customers.					
	4. Employees understand the customer's specific needs.					
	5. The bank focuses to fulfill customer's need.					
<b>Assurance</b>						
	1. Employee's behavior brings confidence in customers.					
	2. Employees are consistently polite and well-mannered.					
	3. Employees have the knowledge to answer customer questions.					
	4. The bank makes customers feel safe in their transactions.					
	5. Customers can easily trust employee of their bank.					
<b>Communication</b>						
	1. Bank's website has clear and understandable information about its products and services.					
	2. Bank explains about the service cost.					
	3. Bank timely inform about the changes in interest rate.					
	4. Bank timely inform about the changes in services.					
	5. Bank assures the consumer that a problem will be handled.					
<b>Customer satisfaction</b>	<b>Measurement Variables</b>	<b>Perception</b>				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	1. I am satisfied with the services provided by the bank.					

	2. Banks forms and slips are easy to understand and fill.					
	3. I am satisfied with the bank's ATM services.					
	4. The performance of bank is more than my expectation.					
	5. Online and mobile banking services of the banks are secure and reliable.					
	6. The bank provides clear and understandable bank statements.					
	7. I can apply for cheque book at any branch where I find convenient.					
	8. I will always be the customer of this bank					

**Thank you very much for your kind information and cooperation.**

**CUSTOMER SATISFACTION TOWARDS SERVICE QUALITY  
OF NEPALESE COMMERCIAL BANK**

**A Thesis Proposal**

**By**

**Anu Ghimire**

Central Department of Management

Roll. No: 1089/17

Registration No: 7-2-838-3-2011

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In the

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**Tribhuvan University**

**Kathmandu, Nepal**

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## Table of Contents

	Page No:
1. Background of the study	1
1. Problem statement and Research questions	3
2. Objectives of the study	4
3. Conceptual Framework	5
5. Significance of the study	6
6. Limitations of the study	7
7. Literature review	8
8. Research Methodology	9
8.1 Research Design	9
8.2 Population and Sample	10
8.3 Sources of Data	10
8.4 Data Collection & Processing Procedure	10
8.5 Data Analysis Tools and Techniques	10
9. Chapter Plan	11

## References

## INTRODUCTION

### 1. Background of the study

In the current business environment which is constantly changing and contains intense competition, commercial banks are facing with many challenges. One of the biggest challenges is competitiveness. When competitive pressures increase, service quality is considered as a competitive factor of the banks and it is also considered as an essential key to create the difference among banks (Siddiqi, 2011). In today's competitive business environment delivering high quality service towards customers is the key for a sustainable competitive advantage. Service quality is particularly essential in the banking services context because it leads to the competitive advantage through the level of customer satisfaction. Osman and Sentosa (2014) proved that increasing levels of service quality can enhance customer satisfaction.

Customer satisfaction is defined as a customer's overall evaluation of the performance of an offering to date. Customer satisfaction is considered as the emotional response to the experiences associated with the quality of products, services, timeliness, efficiency, ease of access, environment, other facilities including the behavior and attitude of the service providers in comparison to the customer's expectations (Adhikari and Nath, 2014). It is the transaction specific effective response to the evaluation of discrepancy between the prior expectations and actual experience relating to banking services (Paul and Bannan, 2010) The increasing awareness among bank customers of their rights, changing demands and highly competition requires constant progress in service quality from the bank for their customers to stay loyal (Nabi, 2012).

Service quality has a significant impact on a bank's success and performance (Mouawad and Kleiner, 1996). The quality of products and services consumed has a great importance in the business world. According to Aga and Safakli (2007), it is widely accepted that surviving in difficult and competitive conditions of a market economy requires good quality production as well as services. To understand and assess the results of efforts realized, quality of production should be measurable. While the quality of goods can easily be measured by taking into account of certain physical properties, the measurement for services is rather difficult because the quality in this case depends on large number of factors, The quality of products and services consumed



has a great importance in the business world. According to Aga and Safakli (2007), it is widely accepted that surviving in difficult and competitive conditions of a market economy requires good quality production as well as services. To understand and assess the results of efforts realized, quality of production should be measurable. While the quality of goods can easily be measured by taking into account of certain physical properties, the measurement for services is rather difficult because the quality in this case depends on large number of factors.

Different studies have been conducted on customer satisfaction in the banking sector which concluded that with the phenomenal increase in population and the increased demand for banking services, service quality and customer satisfaction are going to be key differentiators for each bank's success in future. Parasuraman et al. (1985) suggested the SERVQUAL framework to assess the level of customer satisfaction. The SERVQUAL model of Parasuraman et al. (1988) proposed a five dimensional construct of perceived service quality-tangibles, reliability, responsiveness, assurance and empathy- with items reflecting both expectation and perceived performance.

Service Quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. This study has tried to discover the impact of service quality on customer satisfaction in Nepalese commercial bank. A structured questionnaire with 5 point Likert scale has been used to collect the data by conducting survey. The sample size is 392 and is chosen on a convenient basis. Data has been analyzed by using SPSS software (version: 22). Both primary and secondary sources of data are collected and used. Result of the study shows that tangibility, reliability, responsiveness, assurance and empathy significantly and positively influence customer attitudes in terms of satisfaction, i.e. Service quality dimensions are crucial for customer satisfaction in public, private and joint venture commercial banking sector in Nepal.

Customer satisfaction is the key factor for customer retention and thereby the banks success. Identifying and improving the factors that can limit the satisfaction of customer is the crucial step for the bank which wants to be a step forward than its competitors. Commercial banks operating in Nepal are consequently put into lot of pressures due towards increase in competition. Various strategies are formulated to retain the customers and the key of it is to increase the service quality level (Pradhananga, 2014).

## **2. Problem Statement and Research Questions**

The concept of customer care is concern with customer satisfaction putting the customer first, anticipating needs and problems, tailoring the product and services to meet needs and being nice to customers it also includes service to the customer, delivery operation, employee relationship with customer and internal relationship between employee and management. In improving customer care strategies and programs, financial services organizations are managing products and services, delivery systems, environment and people so as to provide an efficient and caring service, getting things right the first time and maintaining standards (Amoako, 2012).

In services industries, the subject of service quality globally remains a critical one as service providers strive to maintain a comparative advantage in marketplace. Financial services in general, particularly banks; compete in marketplace with generally undifferentiated services and products, thereby service quality becomes a key competitive weapon (Stafford, 1996). Customer expectations and needs for services have substantially increased (Wrennall, 2000).

Customers have expectations and criteria when they judge whether the provided banking services is satisfactory or not. At the same time, due to the high competition in a banking sector, the perception of customers and potential customers are also divided according to the services that they want to achieve (Amoako, 2012). The proper identification of customer satisfaction helps to retain customers and to increase brand awareness, profitability and effectiveness of bank's services. These are the major customer oriented opportunities and challenges for the banking sector in Nepal. Pradhananga (2014) argued that through the satisfied customers, a bank can easily measure the effectiveness of the business, its potential and position in the industries and the areas that are needed to polish and improve. But gathering a satisfied customer is not an overnight miracle but with the full of patience and bountiful of effort.

Customer satisfaction will vary from person to person, depending on a whole host of variables which may be both psychological and physical. It is a measure of how products and services supplied by a company meet or surpass customer expectation. Today all the Nepalese commercial banks are offering different services which are not only enhancing bank customers' satisfaction but also expanding the banking business.

Due to increase competition, it is essential for bank to know about service quality and customer satisfaction level for the same (Pathak, 2015).

This study deals with the following issue:

- iv. What are the factors affecting the customer satisfaction of Nepalese commercial banks?
- v. Is there any relationship between reliability, responsiveness, empathy, assurance, communication, and customer satisfaction?
- vi. Is there any effect of reliability, responsiveness, empathy, assurance, communication on customer satisfaction in Nepalese commercial bank?

### **3. Objective of the study**

The major objective of this study is to assess customer satisfaction towards service quality of Nepalese commercial banks. The specific objectives of this study are as follows:

- iv. To identify the factor influencing customers satisfaction on service quality in Nepalese commercial Banks.
- v. To analyze the relationship of reliability, responsiveness, empathy, assurance, and communication of Nepalese commercial banks.
- vi. To examine the impact of reliability, responsiveness, empathy, assurance, and communication on customer satisfaction.

### **4. Conceptual Framework**

The purpose of this study is to determine the customer satisfaction towards the service quality of Nepalese commercial bank. In this study the dependent variable is customer satisfaction and independent variable is service quality dimensions.

Under dependent variable, called customer satisfaction the indicators like attitude, switching, recommendation, fulfillment of expectation, satisfaction with use and repurchase have been developed. Attitude means what kind of feeling, perception has been emerged in the customer mind with regards to the service. After dealing with the bank service what kind of attitude emerge with in the customer black box, sometime it

will be positive or negative, it help to analyze whether they are satisfied with this service. Switching means the action through which a customer changes supplier. How likely our existing customers are willing to switch from current financial service provider to other banks. Are they very likely or much disliked switching from this bank or what kind of commitment is having with customers? Recommendation means how far customers recommend their service to other people. Are they highly recommend service to friends or relative or not recommend. Fulfillment of expectation means the level of fulfillment of their needs with the bank. Satisfaction with use means how far customers are satisfied with the service quality of the bank in terms of image occurs by branch premises, overall experiences, importance level of the service and overall satisfaction. Re-purchase refers how far customers come again after once come to the bank. To what extent are customers having intentions to buy another product from this bank? The conceptual framework of this study is shown in figure 1

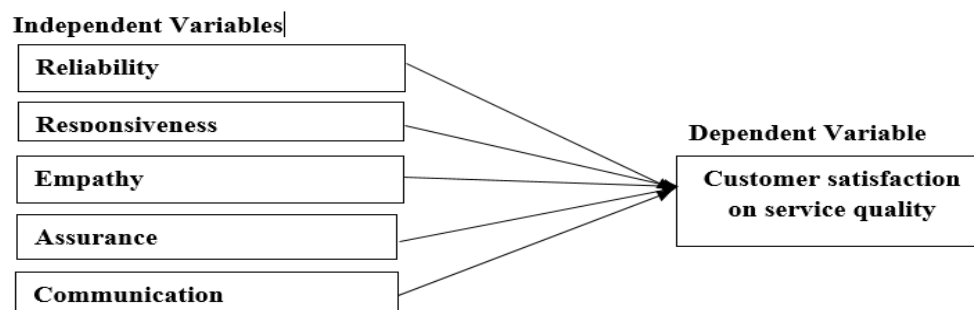


Figure 1: Conceptual Framework

## 5. Rationale of the Study

Quality in service is very important especially for the growth and development of service sector business enterprise. It works as an antecedent of customer's satisfaction. In the past, quality was measured only for the tangible products because of less dominance of service sector in the economy. Due to the increasing importance of service sector in the economy, the measurement of service quality became important. Undoubtedly, owing to the belief that delivery of high service quality is a must for attaining customer's satisfaction and a number of other desirable behavioral outcomes, recent years have incensed a flurry of research exploring interrelationship between service quality, satisfaction and behavioral outcomes (Ghost and Gnanadhas, 2011).

Today, the quality of products and services consumed has a great importance in the business world. According to Aga and Safakli (2007), it is widely accepted that surviving in difficult and competitive conditions of a market economy requires good quality production as well as services. To understand and assess the results of efforts realized, quality of production should be measurable. While the quality of goods can easily be measured by taking into account of certain physical properties, the measurement for services is rather difficult because the quality in this case depends on large number of factors.

Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction, and hence it becomes a key to competitive advantage (Almossawi, 2001). In addition, service quality has a significant impact on a bank's success and performance (Mouawad and Kleiner, 1996). Nowadays, service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction, and customer retention. The study aims to provide past literature findings of service quality and customers satisfaction intent to develop a conceptual framework for further study. Therefore, this study will help the management of service providers to better understand their service quality which help them to draw specific guidelines to meet the customer's expectation, dimensions (i.e., tangibles, reliability, responsiveness, assurance and empathy) are important for forming customer satisfaction of commercial banks in Nepal. Customer satisfaction is highly affected by service quality. Service also leads to customer retention and brand loyalty and increase the image of the bank.

## **6. Limitations of the Study**

We tried to make a research perfect, solution oriented ,meaningful and result oriented, although some factor plays the vital role, due this phenomenon our research is not validate all areas .In this research also there is some limitation.

- i. This study is based on some selected branches of commercial bank and specific geographical region
- ii. Digital divide plays the vital role for this study. Satisfaction level varied with educated and non-educated people.
- iii. Finding solution may not applicable for all areas.

- iv. Research based on data that collected different Questionnaire technique not application for diversify customers.
- v. Calculated methods used for this research may not globally accepted methods.

## 7. Literature Review

Simply, literature review is a comprehensive summary of previous research. It is a flash back or gist of some research topic. Review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. It should illustrate a theoretical concept for the research and help us to identify the nature of the research. The literature review acknowledges the work of previous researchers, and in so doing, assures the reader that the phenomenon of legitimacy of work.

A literature review creates a "landscape" for the reader. After study of some research topic. Here are some scholar's research which is relevant to customer satisfaction towards service quality of Nepalese commercial bank which is as follows:

- i. Service Quality and Customer Satisfaction: Evidence of Nepalese Banks Dr. Prakash Shrestha Lecturer, Nepal Commerce Campus.
- ii. Effects of Service Quality on Customer Satisfaction in Nepalese Commercial Banks
  - a. Achyut Gnawali
- iii. Study of customer service quality impact on customer satisfaction in
  - a. Commercial Banks in Ghana
  - b. Benjamin Kojo Otoo Department of Marketing

In the Research article name as "Study of customer service quality impact on customer satisfaction in Commercial Banks in Ghana Kojo Otoo was mention on conclusion. The customers having multiple banks, bank accounts, and from diverse socio-cultural and economic backgrounds, it is responsibility of Commercial Banks to always strive for excellence and customers of Commercial Banks are fairly young and educated are easily influenced by a change in service quality. Young and highly educated customers have higher level of perception towards service quality of banks .He concluded that customers' satisfaction is largely dependent on their perceptions about service quality

reliability, assurance, empathy and tangibles. In this study there were some contradiction between the responsiveness and satisfaction too.

In the Research article done by Gyawali name as “Effects of Service Quality on Customer Satisfaction in Nepalese Commercial Banks” clearly mention that Customers’ Satisfaction depends on the dimensionality of Service Quality. Professor Gyawali mention that in Nepalese commercial bank this five factors Tangibility, Empathy, Responsiveness, Assurance, Reliability directly related to customer satisfaction and one interesting fact that was mentioned in this research is the customer satisfaction level in fluctuated which means the commercial bank unable to maintain quality of services for long period of time.

Likewise the research article done by Shrestha name as “Service Quality and Customer Satisfaction: Evidence of Nepalese Banks” Dr. Shrestha puts some key factor like reliability, empathy, assurance, responsiveness, tangibility for measuring satisfaction level, some reveal the moderate level, some poor and some are satisfactory level .In the context of Nepal, he was mentioning that bank is the safest place for keeping money, this shows trust towards bank. In this research he concluded some factual information which is directly impact daily life of customer. Like location of ATM machine, advertisement of services, staff responses, technology and equipment’s, physical facility, staff accuracy level.

## **8. Research Methodology.**

### **8.1 Research Design**

Research design adopted in the study is descriptive and causal comparative research designs to deal with the fundamental issues associated with various factors of service quality and customer satisfaction of Nepalese commercial banks. This study adopts descriptive research design for fact finding and identifies adequate information about factors affecting customer satisfaction of Nepalese banking sector. This study also established the cause and effect relationship between service quality and customers’ satisfaction. Hence, this study also employs causal comparative research design. Causal-comparative research attempts to determine the cause or consequences of differences that already exist between the variables and the relationship between independent and dependent variables. The goal of the study is to determine whether the

independent variable affected the outcome, or dependent variable, by comparing two or more groups of individuals.

## 8.2 Population and Sample

Population refers to the entire group of people, events or things of interest that investigator wishes to investigate. As Kathmandu is the economic capital of Nepal where all most all of the commercial banks has its presence here, Kathmandu valley has been taken for the study. In the study only commercial banks were taken as sample where as other financial institutions were excluded like development bank, finance companies and micro credit institution. The total commercial banks operated in Nepal are 27. Among those, the customers of the 5 Nepalese commercial banks were taken as sample.

**Table 1: Example of Bank**

S.N	Name of Banks
1	Global IME
2	Everest bank
3	Siddhartha Bank Ltd.
4	NIC Asia
5	SBI

235 questionnaires were distributed randomly to customers of commercial banks located in Nepal and were asked to fill the questionnaire for their respective bank.

## 8.3 Sources of Data

This study is based on primary data. The primary data and information is collected and analyzed to determine the relationship between service quality and customer satisfaction of Nepalese commercial Bank. To achieve the purpose of the study, structured questionnaire is prepared. The questionnaire is formulated out of the concepts that were raised in the review of the literature.

## 8.4 Data Collection and Processing Procedure



As the study is based on primary data. Primary data will be collected through questionnaire, direct interview, social polls and using different bank site, Article of different bankers and financial stakeholder's .Some statistical tools and formula, pie chart, bar-graph will be used for processing data.

### **8.5 Data Analysis Tools and Techniques.**

Several tools will use to analyze the data that was collected for research .For easy visualization graphical presentation and figure will more meaningful. Statistical formula and tools have been used for this research.

- i. Average/ Mean
- ii. Standard Deviation
- iii. Coefficient of Variance
- iv. Correlation Coefficient

Beside that using different graphical methods like Bar-Graph, Pie-Chart, Flow-Chart also will use for data analysis.

## **9. Chapter Plan**

Research paper will follow this standard format before compiling the result.

### **Chapter I: Introduction**

The first chapter is the introductory part. This chapter describes the general background, statement of the problem and research questions, objectives, Significance and limitations of the study.

### **Chapter II: Review of the Literature**

This chapter includes a discussion on the conceptual framework and review of the related and pertinent literature available. The conceptual considerations and review of related literature conducted in this chapter provides a framework with the help of which the study has been accomplished.

### **Chapter III: Research Methodology**

This third chapter describes the research methodology employed in the study. In this chapter, research design, nature and sources of data, methods of data collection and tools and techniques of data analysis are discussed.

#### **Chapter IV: Data Presentation and Analysis**

This fourth chapter consists of presentation and analysis of data, which deals with the empirical analysis of the study and the major findings of the study.

#### **Chapter V: Summary, Conclusion & Recommendations**

This chapter concludes the research with necessary summary, conclusion and recommendations of the study.

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