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SERVICE QUALITY AND CUSTOMER SATISFACTION OF NEPALESE COMMERCIAL BANKS

SIKSHYA ARYAL

Abstract

This study has analyzed bank customers' perception in relation to the service quality factors explaining customer satisfaction. This study has applied descriptive research design using SERVQUAL approach to analyze service quality factors affecting customer satisfaction. A survey was conducted to collect data from bank customers using structural questionnaire in Butwal city. All together 200 questionnaires were distributed to the bank customers and only 160 respondents responses. Result of the study indicates that bank service quality factors affect customer satisfaction. Finally, this paper concludes that bank service quality factors reliability, assurance, tangibility, empathy and responsiveness determine the level of customer satisfaction. Tangibility, assurance and empathy are strong and have more explaining power of customer satisfaction in Nepalese commercial banks.

1. INTRODUCTION

Customers are king in business. Their satisfaction is important for success of the business. Customer satisfaction is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify quality dimensions and improve service quality to satisfy customers. The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions (Kaynak & Kucukemiroglu, 1992; Hull, 2002). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer satisfaction is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

In today's competitive business environment, the commercial banks are competing with others in order to become the best banks and have maximum deposits and gain trust of customers in Nepal. In this case the customer satisfaction, loyalty and retention become the major issues. The major factors that attract the customers today is high interest rates and fast as well as quality services. The banks that provide high quality service retain the existing customer and also pull the new customers towards their offices and branches. Therefore, banks launch new schemes and provide various quality services and facilities so as to retain and attract customers with different characteristics and businesses. Hence, this study explores service quality as a means for customer satisfaction.

Service quality has become ever more important to the achievement of customer satisfaction and competitive advantage and coupled with the increasing complexities of the need and expectation of customers, it is imperative to explore the relationship between service quality and customer satisfaction. So, the major objective of this study is to examine the level of customer satisfaction on the basis of service provided by the commercial banks in Nepal. The specific objectives are: to analyze the problems rose by the customers and are solved by the banks; to analyze the fulfillment of promises and services made by the banks and to identify how often the banks inform about their various products and services in Nepal. The study shows that customer satisfaction is determined by the service quality provided by the selected commercial banks.

2. LITERATURE REVIEW

Customer satisfaction refers to the situation when customers are happy with the goods or services they have bought which is primarily measured by the number of repeat customers. It is regarded as an important step to gain customer loyalty. Customer satisfaction is generally defined as a feeling or judgment by customers towards products or services after they have used those (Ahmad & Kamal, 2003).

Customer satisfaction has been gaining increasing attention from the researchers and practitioners as a recognized field of scholarly study and is a fundamental tool used by financial institutions for enhancing customer loyalty and ultimately organizational performance and profitability (Faizan, et al., 2011). In businesses where the underlying products have become commodity- like, quality of service depends heavily on the quality of its personnel. This is well documented in a study Leeds (1992). He documented that approximately 40 percent of customers' switched banks because of what they considered to be poor service. Leeds further

argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality and professional behaviors (such as formal greeting) improved customer satisfaction and reduced customer attrition. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. However, keeping customers is also dependent on a number of other factors. These include a wider range of product choices, greater convenience, better prices, and enhanced income (Storbacka, et al, 1994).

Service quality has been described as a form of attitude that results from the comparison of expectation with performance (Cronin & Taylor, 1992: Parasuraman et al., 1985). Customers, while evaluating the quality of a service, compare the service they expect with perceptions of the services they actually receive. It has been argued that the quality of services is not a one-dimensional that relates to both core and augmented service offerings (Bitran & Lojo, 1993). Customer satisfaction can thus be based not only on the judgment of the customer towards reliability of the delivered service but also on customer's experiences with the service delivery process. It is generally accepted that customer satisfaction often depends on the quality of product or service offering (Anderson & Sullivan, 1993). For this reason, research on customer satisfaction is often closely associated with the measurement of quality. Thus, both service quality and customer satisfaction share a close relationship.
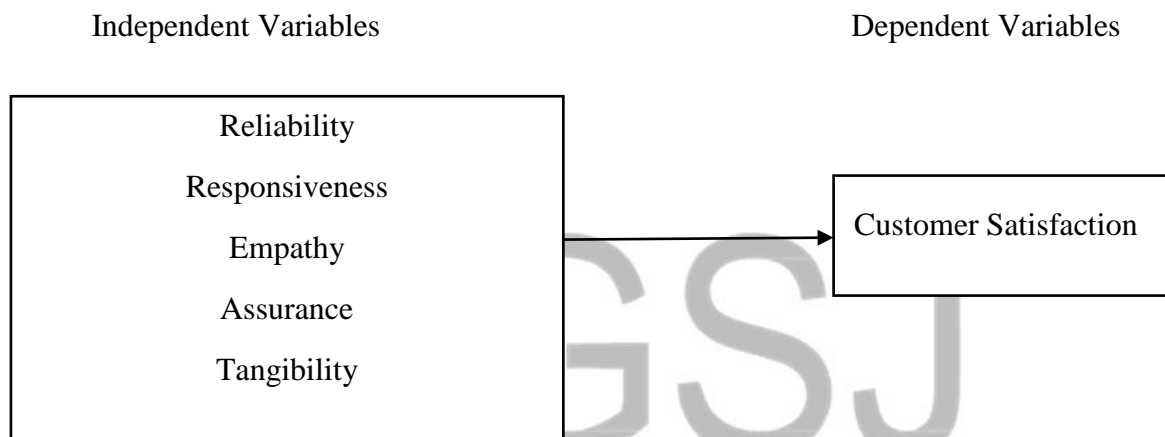
3. RESEARCH METHODOLOGY

Descriptive research design was used to achieve the objectives of this research. Data and information were collected from primary sources. This study is based on the quantitative method using the structured questionnaire. Quantitative method is used to fulfill the overall objective and provide answers to the proposed research questions. A structured questionnaire was designed and distributed in physical form and google form to collect response from customers of Nepalese commercial banks.

Software named statistical Package of Special Sciences (SPSS), which is the world's leading statistical software, was used to solve research problems, and Microsoft Excel was used to analyze and interpret the data.

Five questions were designed in a five point Likert scale types to identify the degree of agreement or disagreement containing four statements of each of reliability, assurance, tangible, empathy and responsiveness in relation to service quality factors affecting customer

satisfaction. There are altogether 26 commercial banks as per the annual report of Nepal Rastra Bank (2022). These banks are the population of the study. This study includes only those customers who have bank account in commercial banks in Butwal city. Out of them, 5 commercial banks were taken as a population of the study. The banks selected for the study are: NIC Asia Bank, Global IME Bank Limited, Everest Bank Limited, Shine Resunga Development Bank and Jyoti Bikash Bank Limited are considered as sample unit using convenience sampling method. For the survey 200 questionnaires were randomly distributed to 40 customers of each sampled bank. Out of 200, only 160 usable questionnaires were returned for a response rate of 80 percent.

Research Framework

Independent Variables   Dependent Variables

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┌─────────────────────────────┐
│          Reliability         │
│        Responsiveness        │          ┌──────────────────────┐
│           Empathy            │─────────▶│ Customer Satisfaction │
│          Assurance           │          └──────────────────────┘
│          Tangibility         │
└─────────────────────────────┘
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Note: Research Framework

The Model

CS= β_0 + β_1Rel+ β_2 Res + β_3Emp + β_4Ass + β_5Tan + e …………….. (i)

Where, CS= Customer Satisfaction, Rel= Reliability, Res= Responsiveness, Emp= Empathy, Ass=Assurance, Tan=Tangibility, β_0 = Intercept of the dependent variable, e= error term and β_1, β_2, β_3, β_4, and β_5 are the beta coefficients of the explanatory variables to be estimated.

Customer Satisfaction

Customer satisfaction is 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. Customers compare their expectations about a specific product or services and its actual benefits.

Reliability

It refers to the dependability of the service providers and their ability to keep their promises. In other words, it means that the company delivers on its promises, service provision, problem resolution and pricing. Customers want to do business with companies that keep their promises, particularly their promises about the service outcomes and core service attributes.

Responsiveness

Johnston (1997) defines responsiveness such as speed and timeliness of service delivery. This consists of processing speed and service capabilities to respond promptly to customer service requests, and wait a short and queuing time. More specifically, responsiveness is defined as the willingness or readiness of employees to provide services. It contains the timeliness of service (Parasuraman et al., 1985). It also contains understanding the needs and requirements of the customer, easy operation time, individual attention provided by the staff, attention to the problem and customers' safety in their dealings (Kumar et al., 2009).

Empathy

Tamang (2016) stated that the essence of empathy is conveying through personalized or customized service that customers are unique and special and that their needs are understood. Customers want to feel understood by an important to firms that provide service to them. The firm's readiness and ability to provide each customer with personal service empathy represented the extent to which respondents felt that their bank valued them individually, the convenience of opening hours and the provision of information on charges and interest rates. It is about the caring, individualized attention the firm provides its customers.

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.

Tangibility

According to Mundie and Pirrie (2006), tangibility simply refers to the ability of being touched, material or substantial. The appearance of physical evidence associated with the service facilities, equipment, personnel and communication materials are said to be tangibles. Tangibility provides physical representations or images of the service that customer, especially new customers' uses to evaluate quality. Tangibility of any organization is seen when customers are able to remember the organization through good experience, employees being well groomed and further better services.

Hypotheses

H_1: There is significant effect of reliability on customer satisfaction

H_2: There is significant effect of responsiveness on customer satisfaction

H_3: There is significant effect of empathy on customer satisfaction

H_4: There is significant effect of assurance on customer satisfaction

H_5: There is significant effect of tangibility on customer satisfaction

4. PRESENTATION AND ANALYSIS OF DATA

4.1 Respondents Profile

4.1.1 Gender of customer respondents

Gender	Frequency	Percent
Male	75	46.9
Female	85	53.1
Total	160	100

Source: Author's data collection from questionnaire survey, 2023

Out of the total of 160 customer respondents, 75 are male and 85 are female. The total number of respondents includes 46.9% of male and 53.1% of female respondents. This indicates that more female customer respondents took active participation in this survey.

4.1.2 Age-group of customer respondents

Age	Frequency	Percent
Below 25	100	62.5
25 to 35	45	28.1
36 to 45	10	6.3
45 above	5	3.1
Total	160	100

Source: Author's data collection from questionnaire survey, 2023

The age group of respondents has been categorized into four groups. Out of 160 respondents, 100 respondents fell within the age group below 25 years representing 62.5%, 45 respondents fell within the age group 25 to 35 years representing 28.1%, 10 respondents fell within the age group 36 to 45 representing 6.3% and rest 5 respondents fell within the age group of 45 and above representing 3.1%.

4.1.3 Education of customer respondents

Academic qualification	Frequency	Percent
+2 and below	30	18.8
Bachelors	95	59.4
Masters and above	35	21.9
Total	160	100

Source: Author's data collection from questionnaire survey, 2023

The table shows that 30 respondents had obtained academic qualification +2 and below representing 18.8%, 95 respondents had obtained bachelor's degree representing 59.4% and 35 respondents with the highest participation had obtained master's degree representing 21.9%.

4.1.4 Occupation of customer respondents

Occupation	Frequency	Percent
Business person	24	15
Service	18	11.3
Agriculture	7	4.4
Student	106	66.3
Others	5	3.1

	Total	160	100

Source: Author's data collection from questionnaire survey, 2023

Respondents are categorized into five groups with different occupation and profession. 24 respondents were the business person representing 15%, 18 respondents with the highest participation were involved in service representing 11.3%, 7 respondents with lowest participation had agriculture as occupation representing 4.4%, 106 respondents were students representing 66.3% and rest 5 respondents belonged to other occupation representing 3.1%. This others category included housewives, retired person from service.

4.1.5 Personal monthly income of customer respondents

Personal monthly income	Frequency	Percent
Below 25000	120	75
25000 to 40000	30	18.8
41000 to 60000	9	5.6
61000 and above	1	0.6
Total	160	100

Source: Author's data collection from questionnaire survey, 2023

From the table, we can see that out of 160 respondents, 120 respondents had personal monthly income less than Rs. 25000 representing highest portion of 75%, 30 respondents had personal monthly income from Rs. 25000 to Rs. 40000 representing 18.8%, 9 has monthly income from Rs. 41000 to Rs. 60000 representing 5.6% and 1 respondents had monthly income of Rs. 61000 and above representing 0.6%.

4.2 Descriptive statistics

4.2.1 Descriptive statistics of reliability

Statements	N	Mean	Std. Deviation
Staffs perform the services right at the time promised to do so	160	3.7313	0.75003
They keep accurate records	160	4.1437	1.05119
The services of the bank are dependable	160	3.7688	0.83344

Descriptive analysis of table shows service quality component reliability mean is 4.1437 and standard deviation is 1.05119. It means more respondents responses that they keep accurate records.

4.2.2 Descriptive statistics of responsiveness

Statements	N	Mean	Std. Deviation
Employees give me prompt service	160	3.8188	0.87503
Employees are always willing to help me	160	3.8688	0.91886
Staffs are never too busy to respond to customers' needs	160	3.2688	0.69790

Descriptive analysis of table shows service quality component responsiveness mean is 3.8688 and standard deviation is 0.91886. It means more respondents responses that employees are always willing to help me.

4.2.3 Descriptive statistics of empathy

Statements	N	Mean	Std. Deviation
Employees in the bank give me personal attention	160	3.5000	0.80094
Bank offers very convenient working hour	160	3.9188	1.11011
Staffs try to under my problem and respond properly	160	3.9063	1.10344

Descriptive analysis of table shows service quality component empathy mean is 3.9188 and standard deviation is 1.11011. It means more respondents responses that bank offers very convenient working hour.

4.2.4 Descriptive statistics of assurance

Statements	N	Mean	Std. Deviation
Behavior of staffs build confidence in customer	160	3.9625	1.13208
Customers feel safe in their transaction	160	4.0937	1.18585
Banks provides all the important information to the customers	160	4.0875	1.18368

Descriptive analysis of table shows service quality component assurance mean is 4.0937 and standard deviation is 1.18585. It means more respondents responses that customers feel safe in their transaction.

4.2.5 Descriptive statistics of tangibility

Statements	N	Mean	Std. Deviation
Bank uses modern and advance equipment's to facilitate customers	160	3.9250	1.11338
The appearance of staffs is very neat and clean	160	4.1250	1.19617
Branding of the bank is very good	160	3.9125	1.10680

Descriptive analysis of table shows service quality component tangibility mean is 4.1250 and standard deviation is 1.19617. It means more respondents responses that the appearance of staffs is very neat and clean.

4.2.6 Descriptive statistics of customer satisfaction

Statements	N	Mean	Std. Deviation
Employees in the bank have the knowledge to answer your questions	160	3.9187	1.12139
I will encourage friends and relatives to use the service offered by the bank	160	4.2563	1.17225
The bank has operating hours convenient to all its customers	160	3.8938	0.93565
Overall, I am satisfied with the bank services	160	4.4813	1.06972

Descriptive analysis of table shows customer satisfaction mean is 4.4813 and standard deviation is 1.06972. It means more respondents responses that the customers are satisfied with the bank services.

4.3 Correlation Analysis

In this section, we present the correlation coefficients between dependent and independent variables and also correlation between explanatory variables to show the direction and the strength of the relationship between any pair of explanatory variables as well as the explained variables by using correlation matrix.

Table 4.3.1: *Correlation matrix of variables*

Variables	Reliability	Responsiveness	Empathy	Assurance	Tangibility	Customer satisfaction
Reliability	1	.				
Responsiveness	.956** (.000)	1				
Empathy	.900** (.000)	.910** (.000)	1			
Assurance	.879** (.000)	.856** (.000)	.973** (.000)	1		
Tangibility	.884** (.000)	.880** (.000)	.987** (.000)	.988** (.000)	1	
Customer satisfaction	.964** (.000)	.944** (.000)	.942** (.000)	.942** (.000)	.949** (.000)	1

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

The table shows the correlation matrix between the dependent variable and independent variables, where dependent variable customer satisfaction and independent variables are

empathy, responsiveness, tangibility, reliability, assurance, are independent variables that determine service quality and customer satisfaction.

The correlation coefficient shows that there is a positive and significant relationship between empathy, responsiveness, tangibility, reliability, assurance and customer satisfaction.

4.4 Regression analysis of Service Quality and Customer Satisfaction

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991[a]	.982	.981	.14011

a. Predictors: (Constant), reliability , responsiveness, empathy, assurance, tangibility

ANOVA analysis

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	161.827	5	32.365	1648.685	.000[b]
	Residual	3.023	154	.020		
	Total	164.850	159			

a.   Dependent Variable: customer satisfaction
b.   Predictors: (Constant), tangibility, responsiveness, reliability, assurance, empathy

Coefficients analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.085	.055		-1.544	.125
	Reliability	.521	.052	.434	10.121	.000
	Responsiveness	.345	.060	.270	5.756	.000
	Empathy	-.735	.087	-.709	-8.498	.000
	Assurance	.084	.069	.095	1.206	.230
	Tangibility	.846	.097	.934	8.744	.000

a. Dependent Variable: customer satisfaction

R- squared of 0.982 implies that the 98.2 variation in the dependent variables is explained by the independent variables and remaining variation is explained by error. Furthermore, regarding the statistical significance of the model it's p value = 0.000 is less than 5% level, indicating that the estimated model has a high statistical significance, which increases the model's reliability and validity.

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 4.4, shows that tangibility ($\beta5=0.846$, $p=0.000$) carries the heaviest weight for customer satisfaction, followed by reliability ($\beta1=0.521$, $p=0.000$), responsiveness ($\beta2=0.345$, $p=0.000$), assurance ($\beta4=0.084$, $p=0.230$) and empathy ($\beta3=-0.735$, $p=0.000$). The results showed that a one-unit increase in tangibility would lead to a 0.846 unit increase in customer satisfaction keeping other variables constant. Similarly, one unit increase in reliability factor would lead to a 0.521 unit increase in customer satisfaction, one unit increase in responsiveness factor lead to a 0.345 unit increase in customer satisfaction, one unit increase in assurance factor would lead to a 0.084 unit increase in customer satisfaction and one unit decrease in empathy factor lead to a 0.735 unit decrease in customer satisfaction. In conclusion, reliability, responsiveness, empathy and tangibility are significant. Thus, there is positive relationship between independent variables and dependent variable in customer satisfaction.

5. SUMMARY AND CONCLUSION

This study reveals reliability, responsiveness, empathy, assurance and tangibility has significant effect on customer satisfaction. This research provides bank managers with a scale to assess the quality of their service from the perspective of the five underlying dimensions called SERQUAL. This study concludes that reliability, responsiveness, empathy and tangibility are the most important factor that analyzes the customer satisfaction.

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