

Determinants of customer satisfaction in Nepalese banking sector

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Abstract

This study attempts to explore the factors impacting customer satisfaction in Nepal's banking industry with a focus on the service quality that the banks offer. The respondent and the study area of the authors are 20 banks located in the Kathmandu Metropolis. Descriptive statistics, Pearson correlation analysis and regression analysis were employed to assess the subjects under study. The Pearson correlation results indicated a positive correlation between customer satisfaction and service quality characteristics. The ordinary Least Squares (OLS) regression model showed tangibility and empathy as key factors. The regression model, however demonstrates tangibility, responsiveness, and empathy as significant in influencing customer satisfaction. Study findings affirm the validity of hypothesis (H1) and highlight the importance of tangibility, responsiveness, and empathy in predicting customer satisfaction, suggests the enhancement of banks' competitive advantage by improving their service quality.

Keywords: customer satisfaction, banking industry, tangibility, responsiveness, and empathy

Introduction

Understanding the determinants of customer satisfaction within commercial banks is essential for improving service quality and maintaining competitive advantage in the banking industry. Several factors contribute to customer satisfaction, including the quality of services provided, the efficiency of transactions, the responsiveness of staff, the availability of products and services, and the overall banking experience. Moreover, factors such as reliability, trustworthiness, convenience, and accessibility also play crucial roles in shaping customers' perceptions and satisfaction levels. By identifying and addressing these determinants, banks can enhance customer satisfaction, foster loyalty, and ultimately drive sustainable business growth. Most of the incentives for individuals to put money aside comes from commercial banks. The primary business of a bank is to receive deposits from customers and then invest those funds in productive endeavors. People are given loans based on their financial and actual assets. From savers to consumers, they move funds. They act as a go-between for the depositors and the lenders, facilitating the transfer of funds. Banks are a crucial part of any economy's financial system (Prakash et al., 2017). The contemporary banking industry is actively working to make its clients happy by implementing a number of measures (Kheng et al., 2010). According to research, one of the main reasons customers switch banks is because they aren't satisfied (Magesh, 2010). The services and

roles that banks play in the economy are sure ways to identify them (Gazi & Talukder, 2017). According to Uddin and Akhter (2012), banks provide the most comprehensive range of services compared to other financial institutions, including deposit taking and loan making, all with the goal of making their customers happy. It is crucial for the bank to consistently assess and communicate customer satisfaction (Gazi and Talukder, 2017). The extent to which a bank's goods and services fulfil the demands of its customers is a measure of customer satisfaction (Munusamy et al., 2010). When it comes to improving a bank's overall performance, client retention is one of the most solid weapons. Keeping in close contact with customers is challenging. To build a resilient relationship that contributes to the bank's performance, you need to offer new services on a regular basis, use innovative technologies, and make it easy for customers to interact with the bank. According to research (Kuo et al., 2009; Lai et al., 2009; Wu & Liang, 2009), increasing customer pleasure guarantees loyalty. Customer satisfaction with Nepalese commercial banks is the primary emphasis of this research.

Literature Review

The banking industry is no exception in terms of the importance of customer happiness for financial institutions. Customer happiness is crucial for the profitability and long-term viability of banking businesses (Rahman et al., 2020). According to Tyrinopoulous and Antoniou (2008), customer

Competitive advantage through quality is pivotal. Multifarious services and their determinants play crucial roles in customer's satisfaction and bank's sustainable growth

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Customer satisfaction has been a major concern to every organization opting for profit. This has universality encouraged research activities globally to determine the contributing factors to customer satisfaction and banks's profitability and long term sustainability

satisfaction is defined as the degree to which a service meets or exceeds the expectations of its users. This is determined by comparing the desired service performance with the actual service performance (Pizam and Ellis, 1999). Customer satisfaction in the banking industry is positively affected by empathy, assurance, reliability, responsiveness, and tangibility (Rahman et al., 2020), with the exception of employee competency. A happy consumer is more likely to buy from you again (Glowa, 2014), and repeat business from happy customers boosts a business's bottom line (Chi & Gursoy, 2009). Nevertheless, a number of scholars have pinpointed elements that influence patron contentment. According to several sources (Singh & Arora, 2011; Culiberg&Rojsek, 2010; Arbore & Busacca, 2009; Ndubisi, 2006; Jamal & Naser, 2002; Oppewal& Vriens, 2000; Lassar et al., 2000), the most important factor is service quality, which encompasses five dimensions: tangibles, reliability, assurance, responsiveness, and empathy.

Customer satisfaction in the banking industry is influenced by aesthetically pleasing premises, favourable word-of-mouth about the bank, and the friendliness of the bank's employees (Siddiqui, 2011; Khalid et al., 2011). Service quality, according to several researches (Akhtar et al., 2016; Le et al., 2019; Tabash et al., 2019), is the surest way to keep customers happy while dealing with banks. According to Ali and Raza (2015), multidimensional service quality has a favourable and considerable impact on the happiness of the bank's customers. Paul et al. (2016) and Bilika et al. (2016) arrived to the same conclusion. The majority of research (Bedi, 2010; Kumar et al., 2010) has shown that satisfied customers are result from high-quality service.

Kumar et al. (2009), Naeem & Saif (2009), and Choudhury (2008), banks consider customer service and satisfaction to be the most significant factor in acquiring and retaining customers. The characteristics of service quality and customer happiness were shown to be significantly positively correlated, according to Islam and Niaz (2014). The dependability component is the most important to customers, according to Kumar (2013). According to research by Abdullah et al. (2011), three factors significantly influence

banking customers' happiness: dependability, assurance, and enabling. The research aims to investigate whether service quality has an impact on customer satisfaction within the banking sector of Nepal.

Hypothesis

H1: There is a positive and statistically significant association between customer satisfaction and the quality of the bank's service.

Methodology

This study adopted a probability sampling approach, specifically employing stratified sampling techniques to collect data. A total of 240 questionnaires were distributed among 20 banks exclusively located within Nepal's Kathmandu district, with an average of 12 questionnaires allocated per bank. Despite this distribution, only 153 completed questionnaires were returned, resulting in a response rate of 63.75% for the study. The questionnaire utilized a 5-point Likert scale to gauge respondents' opinions. To investigate the relationship between service quality and customer satisfaction, descriptive statistics such as standard deviation and mean were utilized. Additionally, customer satisfaction was analyzed using both multiple regression modeling and correlation analysis methods. These analytical approaches were employed to comprehensively explore the factors influencing customer satisfaction within the banking sector in the Kathmandu district of Nepal.

Model Specification

In order to determine what makes Nepalese bank customers happy, an OLS regression model was employed. A regression model has been suggested for this situation:

$$CS = \beta_0 + \beta_1 (TANG) + \beta_2 (RELI) + \beta_3 (RESP) + \beta_4 (ASSU) + \beta_5 (EMPT) + \varepsilon$$

Where,

CS = Customer Satisfaction

TANG = Tangibility

RELI = Reliability

RESP = Responsiveness

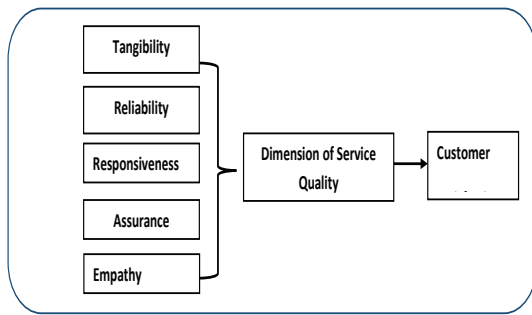
ASSU = Assurance

EMPT = Empathy

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficient of Independent Variables

ε = Error term



(Source: Gazi et al., 2021)

Figure: 1 Conceptual Framework

Results

Table 1: Descriptive statistics (N= 153)

	Min	Max	Mean	S.D.
<i>TANG</i>	1.0	5.0	3.67	0.51
<i>RELI</i>	1.0	5.0	3.73	0.58
<i>RESP</i>	1.0	5.0	3.70	0.58
<i>ASSU</i>	1.0	5.0	3.69	0.55
<i>EMPT</i>	1.0	5.0	3.81	0.60
<i>CS</i>	1.0	5.0	3.74	0.56

Table 1 shows the results of every variable utilized in the banking sector's customer satisfaction survey in Nepal. Consequently, the mean value of customer satisfaction is 3.74, which suggests that consumers are moderately happy. Furthermore, it is seen that all the explanatory variables have positive mean values.

Table 2: Correlation Matrix (N= 153)

Components	<i>TANG</i>	<i>RELI</i>	<i>RESP</i>	<i>ASSU</i>	<i>EMPT</i>	<i>CS</i>
<i>TANG</i>	1.000	.530**	.373**	.490**	.480**	.578**
<i>RELI</i>		1.000	.484**	.513**	.490**	.464**
<i>RESP</i>			1.000	.597**	.436**	.424**
<i>ASSU</i>				1.000	.509**	.372**
<i>EMPT</i>					1.000	.610**
<i>CS</i>						1.000

(Source: Authors' own calculation based on primary data.)

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

Table 2 displays the findings from the use of Pearson's correlation coefficients, which measure the strength of relationships between the variables used to assess customer happiness. According to the matrix, commercial banks in Nepal may increase customer satisfaction by focusing on five key areas: tangibility, dependability, responsiveness, assurance, and empathy.

Table 3: Regression Analysis

Variables	Coefficient	P-value
Constant	0.554	0.054
<i>TANG</i>	0.387	0.000***
<i>RELI</i>	0.068	0.354
<i>RESP</i>	0.160	0.029**
<i>ASSU</i>	-0.148	0.076
<i>EMPT</i>	0.382	0.000***
Observations	153	
Adjusted R-squared	0.485	
F-statistic	29.656	
Prob (F-statistic)	0.0000***	
Note: *** & ** significant at 1% and 5% level		

(Source: Authors' own calculation based on primary data.) Dependent variable: Customer Satisfaction

Table 3 shows that how different aspects of service quality affect bank customers' happiness. The study found that while assurance had a negative correlation with customer satisfaction, tangibility, dependability, responsiveness, and empathy all had positive correlations. There is a 1% level of statistical significance between customer satisfaction and tangibility and empathy among these variables. This model's explanatory variable explains around 48.5% of the variation in the dependent variables, according to the modified R^2 value of 48.5%.

Discussion

The level of satisfaction experienced by consumers is a good indicator of whether or not the efforts made by the organization were effective. Because of this, it is essential to investigate the elements that have an impact on the satisfaction of the bank's clients. In this study, we set out to investigate what variables influence Nepalese bank customers' happiness. Customer satisfaction is significantly influenced by the service quality aspects of tangibility, responsiveness, and empathy, according to the results. Hutchinson et al. (2009), Uddin & Akhter (2012), Lai et al. (2009), and Wu & Liang (2009) are among the experts who have noted the connection between quality and satisfaction and discovered a positive association between the two. According to Chen and Chen (2010), customer satisfaction is greatly affected by service quality.

Relevant tools are adopted to enquire service quality and customer satisfaction relations. In addition, multiple regression modeling and correlation analysis were resorted to, to analyze customer satisfaction

Effective efforts are positive indicators of customer satisfaction and is evident significantly influenced by aspects like tangibility, responsiveness and empathy in Nepal

Based on the study, tangibility, responsiveness, and empathy are three aspects of service quality that significantly affect customer satisfaction in Nepal's banking business. Ahmed and Siddique (2013), Kumar (2013), and Akhter et al. (2014) all came to the same conclusion. According to research by Jaydeb Ray (2018), the empathy component has the least impact on consumer happiness, whereas tangibility is the most important predictor. As a result, customer happiness is strongly related to the overall quality of banking sector service. However, this study highlights three elements of service quality—tangibility, responsiveness, and empathy—that significantly impact customer satisfaction and service quality. This study's findings support H1 by showing a positive association between service quality parameters and customer satisfaction.

Conclusion

Customers are more likely to buy services and spread the word about them if they are satisfied with them. Customer satisfaction is an important indicator of whether a company's products and services are up to par with what consumers anticipate, which is crucial for the success of any business in the long run. The research measured customer satisfaction in the banking sector using service quality dimensions, which include tangibility, dependability, responsiveness, assurance, and empathy. In addition, descriptive correlation and regression analysis were the main tools utilized to test the hypothesis. Findings indicate that tangibility, reliability, responsiveness, and empathy are more important factors in determining service quality than assurance. This study found that in Nepalese commercial banks, consumer satisfaction—which is impacted by service quality—leads to customer loyalty. In the current highly competitive landscape, banks can gain a competitive advantage by offering exceptional services to their clientele, which requires a dedication to delivering outstanding services to uphold a dominant market position.

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Services at par with customer anticipation resemble true satisfaction. Findings indicate aspects that ranked comparative position in the context of Nepal

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