

# Master Thesis

*An Empirical Study Of Service Quality Dimensions On Customer Satisfaction  
And Customer Loyalty In Nepalese Commercial Banking Sector*

**Narendra Devkota (6063)  
Jay Raj Dahal (6005)**

**Supervisor**  
Prof. Otto Andersen

*This master's thesis is carried out as a part of the education at the  
University of Agder and is therefore approved as a part of this  
education. However, this does not imply that the University answers  
for the methods that are used or the conclusions that are drawn.*

## ACKNOWLEDGEMENT

It is a great pleasure for us to prepare this thesis report entitled "**An Empirical Study Of Service Quality Dimensions On Customer Satisfaction And Customer Loyalty In Nepalese Commercial Banking Sector** " as a partial fulfillment of Master's degree program.

First and foremost, we would like to express our gratitude to thesis supervisor **Prof. Otto Andersen** for his cooperation, guidance, motivation and valuable suggestion throughout study period.

We remain deeply obliged to all the respondents as well as staffs of Global IME, Kumari, Standard Charter, NABIL as well as other banks of Kathmandu, Nepal for providing necessary information for this thesis.

We are very grateful to our parents , sisters, brothers, relatives and colleagues for their support, cooperation and encouragement while preparing this report.

Finally, we would like to acknowledge our teachers, university staffs, above mentioned persons and whomsoever have helped us directly or indirectly till date.

NARENDRA DEVKOTA & JAY RAJ DAHAL

31<sup>st</sup> May 2016

## Abstract

The main purpose behind of this study is to find out the major factors that have impact in customer satisfaction and customer loyalty in case of commercial banks of Nepal. The thesis tries to explore whether there exists any relationship between service quality dimensions, customer satisfaction and customer loyalty depending upon various situational factors. Various concepts such as consumer buying behavior, buyer's decision process, customer satisfaction, customer loyalty, service quality, SERVQUAL model have been discussed along with relevant relationship between them in the literature review and based upon it, a conceptual model had been formulated stating the five different hypotheses (one of the hypothesis has been divided into two sub-hypothesis).

In order to collect data for analysis, 375 completely filled questionnaires were collected within one month. The participants were asked to fill up the questionnaire form with face to face interaction. All these forms were collected from various commercial banks in Kathmandu, Nepal. In order to analyze the data, Statistical Packages for Social Sciences (SPSS) was used and analytical techniques like factor analysis, multiple regression analysis, descriptive analysis were used along with Sobel test for mediation analysis.

After testing the hypotheses using various techniques, it was found that service quality dimensions such as tangibility, reliability, responsiveness, empathy and assurance had significant positive impact on customer satisfaction and customer loyalty. Similarly, one of the situational factors stated as years of relationship had significant positive relationship with customer satisfaction while another situational factor stated as frequency of visiting bank had a significant negative relationship with customer satisfaction. In the same way, in case of mediating factor, tangibility and frequency of visiting bank do not have significant relationship while reliability, responsiveness, years of relationship and empathy and assurance have significant positive relationship. However, it should be noted that some of the independent and mediating variable are overlapped. In case of control variable, only respondent age had positive significant impact on customer loyalty while other variable like education level, income and gender are not significantly related with customer loyalty.

This research is useful for commercial banks so that they can improve service quality to the customers and thus maintain customer satisfaction and loyalty. Similarly, the policy makers can make future plans in banking sector based upon the information provided by the customers while

doing this research. In the same way, it can also contribute to other sectors by providing baseline information regarding service quality in Nepalese banking sector.

**Key words:** Customer satisfaction, Service quality dimensions, Customer loyalty, SERVQUAL, Linear regression, Situational factors, Factor analysis, Commercial banks, Buyer's decision, Mediating factors, SOBEL test

## Table of Contents

ACKNOWLEDGEMENT .....	i
Abstract .....	ii
List of Tables .....	vi
List of Figures .....	vii
List of Abbreviations .....	viii
INTRODUCTION .....	1
1.1 Title of the Dissertation .....	1
1.2 Background of Study .....	1
1.3 Nepal as Research Location .....	2
1.4 Banking Sector in Nepal .....	2
1.5 Motivation for the Research and Research Objectives .....	3
1.6 Problem Statement .....	4
1.7 Research Objectives .....	5
1.8 Research Question .....	5
1.9 Significance of the Study .....	6
1.10 Organization of the Thesis .....	7
LITERATURE REVIEW AND THEORETICAL FEMEWORK.....	8
2.1 Introduction .....	8
2.2 Consumer Buying Behavior.....	8
2.3 Buyer Decision Process .....	9
2.4 Differences Between Manufactured Goods and Services.....	10
2.5 Impact of Customer Satisfaction and Customer Loyalty on Service Sector.....	10
2.5.1 Customer Satisfaction .....	11
2.5.2 Customer Satisfaction in Banking Sector .....	12
2.6 Service Quality.....	12
2.6.1 SERVQUAL Model (Theoretical Framework) .....	13
2.6.2 SERVQUAL Dimensions in Banking Sector .....	13
2.7 Customer Loyalty.....	14
2.8 Relationship Between Service Quality, Customer Satisfaction and Customer Loyalty .....	15
2.8.1 Product and Service Features .....	16
2.8.2 Price .....	17
2.8.3 Situational Factors .....	17
2.8.4 Personal Factors .....	17
2.9 Relationship Between Service Quality, Customer Satisfaction and Customer Loyalty in Banking Sector.....	18
2.10 Relationship of Theories with Buyer Decision Making Process .....	18
2.11 General Overview of Previous Studies .....	19
2.12 Identification of Independent Variables.....	23
2.13 Identification of Dependent Variables .....	23
CONCEPTUAL FRAMEWORK AND HYPOTHESIS .....	25
3.1 Introduction.....	25
3.2 Control Variables for Regression.....	25
3.3 Hypothesis.....	28
RESEARCH METHODOLOGY.....	29

4.1 Introduction.....	29
4.2 Data Collection and Empirical Context .....	29
4.3 Data Collection Methods and Tools .....	30
4.4 Measurement of Variables .....	31
4.5 Reliability Analysis and Factor on Service Quality Dimensions, Customer Loyalty and Customer Satisfaction .....	34
4.6 Factor Analysis for Service Quality dimensions, Customer Satisfaction and Customer Loyalty .....	36
4.7 Service Quality Dimensions (SQD).....	36
4.8 Customer Satisfaction .....	39
4.9 Customer Loyalty.....	39
4.10 Statistical Methods.....	39
4.10.1 Correlation .....	40
4.10.2 Multicollinearity .....	41
RESULTS .....	42
5.1 Introduction.....	42
5.2 Descriptive Statistics.....	42
5.3 Descriptive Statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction.....	43
5.4 Level of Satisfaction Among the Customers .....	44
5.5 Controlling Effect .....	45
5.7 Mediation Effects.....	47
5.8 Test of Hypothesis .....	48
DISCUSSION .....	52
6.1 Introduction.....	52
CONCLUSION.....	57
7.1 Introduction.....	57
7.2 Conclusion .....	57
7.3 Contribution of the study .....	58
7.4 Implication of the Study.....	58
7.5 Limitation of the Study .....	59
REFERENCES .....	60
Appendices.....	65
Appendix 1: Reflective Note .....	65
Appendix 2: Survey Questionnaire .....	67
Appendix 3: Correlation with Customer Satisfaction.....	71
Appendix 4: Correlation with Customer Loyalty .....	72
Appendix 5: Regression Analysis on Service Quality Dimensions and Situational Factors ....	73
Appendix 6: Regression Analysis on Customer Satisfaction and Customer Loyalty with Control Effect.....	74
Appendix 7: Regression Analysis on Service Quality Dimensions and Customer Loyalty .....	76

## List of Tables

Table 1: Summary of Previous Studies.....	20
Table 2 : Variable and References .....	26
Table 3: Variable Measure and Sources .....	32
Table 4: Reliability and Factor Analysis of all Independent and Dependent Variables .....	35
Table 5: KMO for Service Quality Dimensions, Customer Satisfaction and Customer Loyalty	36
Table 6: Rotated Component Matrixa for Service Quality Dimensions.....	38
Table 7: Rotated Component Matrixa for Customer Satisfaction .....	39
Table 8: Rotated Component Matrix for Customer Loyalty.....	39
Table 9: Socio Demographic Profile of Respondents.....	42
Table 10: Situational Factors of Respondents .....	43
Table 11: Descriptive Statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction.....	44
Table 12: Regression Analysis on Service Quality Dimensions and Situational Factor .....	45
Table 13: Regression Analysis on Customer Satisfaction and Customer Loyalty with Control Effect.....	45
Table 14: Regression Analysis on Service Quality Dimensions and Customer Loyalty.....	46
Table 15: Sobel Test Result for Mediation Test .....	49
Table 16: Model Summary .....	55

## List of Figures

Figure 1: Buyer Decision Process.....	9
Figure 2: Customer Perceptions of Quality and Customer Satisfaction .....	16
Figure 3 : Conceptual Framework .....	27
Figure 4: Sobel’s Tests of Mediation.....	48
Figure 5: Revised Conceptual Framework .....	56



## List of Abbreviations

AD.....	Anno Domini
AMOS.....	Analysis of a Moment Structures
ANOVA.....	Analysis of Variance
ATM.....	Automatic Teller Machine
FDI.....	Foreign Direct Investment
GDP.....	Gross Domestic Product
KMO.....	Kaiser Meyer-Olken
NRB.....	Nepal Rastra Bank
SD.....	Standard Devation
SERVQUAL.....	Service Quality
SPSS.....	Statistical Package for the Social Sciences
SQD.....	Service Quality Dimensions
VIF.....	Variance Inflation Factors

# INTRODUCTION

---

## *1.1 Title of the Dissertation*

*An Empirical Study of Service Quality Dimensions on Customer Satisfaction and Customer Loyalty in Nepalese Commercial Banking Sector*

## *1.2 Background of Study*

In the age of globalization, accomplishing the higher level of customer satisfaction is the challenging task especially in the service sector. In order to face this challenging task, many organizations have started to improve their service quality. Service quality is one of the serious components in any service sector because service quality helps to maintain competitive advantages in the market place. Therefore, service quality is the strategic tool to reinforce competitive advantages and increase profitability in business (Tam, 2004). So many service sectors are using this strategic component to attract and retain customers. Hence, service quality is determined through customer satisfaction and customer satisfaction is determined through customer loyalty. Similarly, in order to provide superior services to the clients, at first service providers must understand how clients perceived and evaluated their services. After that, service providers can assume clients are facilitated by various services provided by service sectors (Zeithaml et al., 2002). Affinity between both service quality and customer satisfaction is highlighted in empirical research (Bitner et al., 1990). Therefore, relationship between customer satisfaction and service quality is very critical in service sector like banking. In case of banking sector, clients are attracted by high quality services. Moreover, advancement in technology helps banking sector to upgrade their service quality (example: ATM, Online Banking, Mobile Banking, and Visa card). The point is that clients are loyal to those products which have a greater value as compared to those of competitors'. Thus, banks can earn higher profit if they are one step ahead of their competitors in terms of services provided by them. For this reason, every banking institution should focus on service quality so as to satisfy customer and retain customer loyalty.

Likewise, empirical studies conducted by Mahamad & Ramayah (2010) in Tehran, Iran found out that customer expectations are always higher and service offered by banking is low as well as customer satisfaction can play role of mediator that bridges gap between service quality and customer loyalty. In Bangladesh, customer satisfactions are positively related to customer loyalty

in banking sector (Siddiqi, 2011). In Jordan and Hong Kong, service quality dimensions have positive effect on customer satisfaction while looking at banking sector. Similarly, in Jordan researchers found that service quality dimension is important instrument to measure quality of services in banking sector (Al-Azzam, 2015). All in all; service quality, customer satisfaction, and loyalty have been emphasized by all banking sector all over the world including Nepal.

### *1.3 Nepal as Research Location*

Nepal is a south Asian country especially known by its Geo-religious features and natural beauty such as; the Mount Everest (the highest peak of the world) and the birthplace of Lord Buddha (the Light of Asia). Nepal is the landlocked country situated in between India in the south, east and west and China in the north. With the area of 147,181 square kilometers, Nepal is divided into three geographical regions i.e. Terai region, Hilly region and Himalayan region (Geographia, 2005). It is predicted that the population of Nepal will reach to 29302938 by 2017 (Countrymeters, 2015) which is one of the fastest growing population in South Asia.

Nepalese is the national language, people also speak different types of language according to their ethnicity, while English is officially used in almost all business organization. Nepalese economy is largely dependent on service sector. Service sectors contribute higher percentage in Gross Domestic Product (GDP).

It is marked that scholars have ignored research in service sector especially in identifying service quality, customer satisfaction and customer loyalty in Nepal. In this circumstances, study on service sectors with respect to service quality, customer satisfaction, and customer loyalty will add value to the country's economy.

### *1.4 Banking Sector in Nepal*

Due to lack of historical data, it is very difficult to trace out the history of banking system in Nepal. The formal banking system started when Nepal Bank Limited was established in 1937. Later on in 1956 A.D, Nepal Government established Nepal Rastra Bank (NRB) also known as central bank of Nepal in order to control and regulate all the financial sectors. Similarly, in 1965 A.D., Rastriya Banijya Bank was established. The financial liberalization policy introduced by the banking sector in 1984 A.D. made a favorable environment for many commercial, development, financial, and co-operative banks to establish in this sector with a view to provide quality of services to the clients (Sharesansar, 2016).

The banking sector is emerging. Various types of banks such as development banks, commercial banks, financial banks are established. Central bank (NRB) always plays a vital role for developing banks in Nepal. NRB reforms various policies as well as government encourages private sector and foreigners for the investment in banking sector. Similarly, NRB has classified banking institutions into four categories “A”, “B”, “C”, “D” based on minimum paid up capital. “A”, “B”, “C”, “D” refer to commercial banks, development banks, financial institutions and micro finance development banks respectively. Here, this research focus only on commercial banks in Nepal. There are all together 30 commercial banks in Nepal offering different banking services to the country people (Sharesansar, 2016). In past two decades, many banks were established in Nepal as the government encouraged the foreign banks to start their operation by creating flexible privatization policy and free economy. So, in recent years, banking sector of Nepal has been converted in too much agile, competitive and profitable industry. Different foreign banks have emerged recently which have further increased competition. Therefore, in order to get competitive edge and to attract more customers, banks are focusing on providing better services to the customers that will lead to customer satisfaction and loyalty.

### *1.5 Motivation for the Research and Research Objectives*

Service sector has seen noticeable changes in the world in recent years. Service sector contribution in GDP of any country is higher as compared to other sector. Therefore, many developed countries such as USA, Germany, Norway, China, Japan in the world have become economic power house. However, service sector also presents many opportunities in developing countries like Nepal. Nepal being an developing country represents high opportunities for economic development. Subsequently, service sector like banking is one of the competitive sectors where entry of foreign banks creates intense competition among all the banks in Nepal.

Service sector in Nepal is contributing large share in country’s GDP. The major service sectors in Nepal include financial, tourism, communication, and transportation sector. Financial sector includes commercial banks, development banks, cooperatives and non-cooperatives, financial companies which contributes around 11% in the country’s GDP (Chimoriya, 2015). This sector is one of the major sources of generating employment and activating scattered capital for country’s economic development. For that reason, service sector plays a vital role in developing country to uplift their economy. Nevertheless, many scholars argue that service sector in developing countries still practice traditional methods of doing business and fail to address the problem of service

quality, customer satisfaction and customer loyalty making these the dominant reasons that they achieve less competitive advantages in market. Therefore, identifying customer satisfaction factors, service quality, and creating loyalty is the hardest task in service sector like banking in Nepal. Only few studies have been conducted to investigate these factors in Nepalese banking sector. However, questions about the major factors affecting customer satisfaction, level of customer loyalty, and factors associated with customer loyalty in Nepalese commercial banks remained unanswered. Furthermore, proposed study will investigate the mediator role of customer satisfaction on service quality and customer loyalty in Nepalese banking sector, as well as provide a comprehensive framework for service quality dimension with respect to customer satisfaction and customer loyalty.

Likewise, it also provides innovative ways to improve service quality to customers and revises the current services provided by the banks, if necessary. The agencies and planners can get data and information on customer satisfaction which will help them to improve their services. These findings may help planners, policy makers and researchers to identify the banking activities and to know the existing impact of bank in the study area. The study can also help providing benchmark information to future researchers.

### *1.6 Problem Statement*

Research on service quality, customer satisfaction and loyalty in service sector like banking has been drawing high attention in this era. In early 90s, service sector has transformed greatly because of change in marketing environment(Zafar et al., 2011).Additionally, maximum number of the research has been accompanied in developed countries. Hence, there is a need for more authentication of customer satisfaction, service quality, and customer loyalty in service sector like banking particularly for developing countries like Nepal.

Likewise, number of research that has been conducted in past have also identified that customer expectations are higher and customer perceived service quality is low. So in such situation, testing mediator role of customer satisfaction might be interesting one in the country like Nepal.

This research is carried out in context of Nepalese banking sector in order to identify the factors that affect the customer satisfaction because the factors leading to satisfied customers differ from one geographical region to another. In some places, customers are satisfied with the service provided by government banks and in some places customer are satisfied towards private banks.

The basic problems faced by Nepalese banking sector are lack of qualified and well trained human resources leading to a low quality of bank services as well as traditional structure and outdated technology creating obstacles while delivering quality services to the customer.

By considering this reasons, nowadays many banks are working hard to resolve these problems. In this research, study factors including service quality dimensions, customer satisfaction and loyalty are assumed from past literature.

To encapsulate, this research is attempting to find out whether there exists any relationship between service quality dimension, customer satisfaction and customer loyalty in case of Nepalese banking customers. Also, banking sector in developing countries like Nepal is facing the challenge of creating quality services, satisfying customer and customer loyalty because skilled human resources are lacking and banking culture lacks structure. Consequently, banking sector in Nepal requires further research, innovation and development activities so as to satisfy customer and create loyalty.

### *1.7 Research Objectives*

The general objective of this proposed research is to study the customer satisfaction, quality services and customer loyalty in banking sector in Nepal. Moreover, the specific objectives are:

- To assess the level of customer satisfaction for quality of service provided by Nepalese commercial banks among their customers.
- To assess the level of loyalty among Nepalese commercial bank users.
- To identify factors associated with customer loyalty in the Nepalese commercial banks among their customers.

### *1.8 Research Question*

There are major expectations and criteria of customers on the basis of which they judge whether the banking services provided to them are satisfactory or not. Also, because of high competition, improvement in technology and globalization, their expectations are increasing continuously. So, it is challenge for the banking sector to provide them with the quality services by identifying their needs, taking continuous feedback. Hence, the major concerns of our study regarding customer satisfaction are:

- What are the major factors affecting customer satisfaction ?
- What is the level of customer loyalty in Nepalese commercial banks ?

- What are the factors associated with customer loyalty in Nepalese commercial banks?

This research starts with detail inspection of the literature by developing five hypotheses for testing. The hypothesis hold the crucial relationship articulated in existing theory, as well as supporting the research question.

### *1.9 Significance of the Study*

This research will provide a comprehensive framework for service quality dimension with respect to customer satisfaction and customer loyalty. It also provides innovative ways to improve service quality to customers and revise the current services provided by the banks, if necessary.

The agencies and planners can get data and information on customer satisfaction which will help them to improve their services. These findings may help planners, policy makers and researchers to identify the banks activities and to know the existing impact of bank in the study area. This present research also guides future researcher by providing baseline data for huge research which will be more reliable and can be generalized.

## *1.10 Organization of the Thesis*

The remaining part of this research is organized as follows:

### **Chapter 2:**

This chapter presents literatures which are relevant to this research such as consumer buying behavior, service quality dimension, customer satisfaction, and customer loyalty and will provide a theoretical framework as well.

### **Chapter 3:**

This chapter contents conceptual framework and hypothesis along with defining conceptual framework briefly. And also defining relationship between variables clearly.

### **Chapter 4:**

This chapter includes research methodology in details i.e. research design and data collection technique as per the objectives of this thesis.

### **Chapter 5:**

This chapter contains data analysis and interpretations of the findings or results on the basis of descriptive statistics and linear regression model according to nature of variable.

### **Chapter 6:**

This chapter involves discussion of findings or results with previous literature, theories and comparison is done to find similarities between current results.

### **Chapter 7:**

The final chapter presents conclusion, implication of research and limitations of the study.



## LITERATURE REVIEW AND THEORETICAL FRAMEWORK

---

### 2.1 Introduction

*This section presents literatures which are relevant to this research such as consumer buying behavior, service quality dimension, customer satisfaction, and customer loyalty and will provide a theoretical framework as well.*

### 2.2 Consumer Buying Behavior

Consumer behavior is the learning process of how consumers process the information and select the goods and services, consume, and finally dispose of that goods and services. According to their purchasing power, needs and preferences, consumers buy and consume goods and services. But several factors such as individual attitude, beliefs, values perception, social and cultural background play a vital role in buying decision (Khan, 2006). Therefore, consumer buying behavior is one of the driving factors that have an impact on service sector.

According to Philip Kotler & Gary Armstrong.” Consumer buying behavior refers to the buying behavior of final consumers- individuals and households that buy goods and services for personal consumption.”(Kotler & Armstrong, 2012, p. 133). On the top of that, the buying behavior of consumers is strongly influenced by several factors such as cultural, personal, psychological and social; and these factors are uncontrollable in nature.

It is worth noting that buying behavior differs significantly for a physical product (such as toothpaste, an iPhone, laptop and so on.) to financial services (such as services provided by banking sector). The decision will be more complicated with the increase in participation of buyers’ opinion. Basically buying behavior can be broadly categorized in four types (Assael, 1995):

- 1. Complex buying behavior:** Under this type, consumers are highly involved while taking purchase decision as well as there are major perceived dissimilarities among brands.
- 2. Dissonance-reducing buying behavior:** In this type, consumers are highly involved but perceived differences are few among various brands.
- 3. Habitual buying behavior:** In this type, the consumer behavior is described by low involvement in purchases with few noteworthy perceived brand differences.

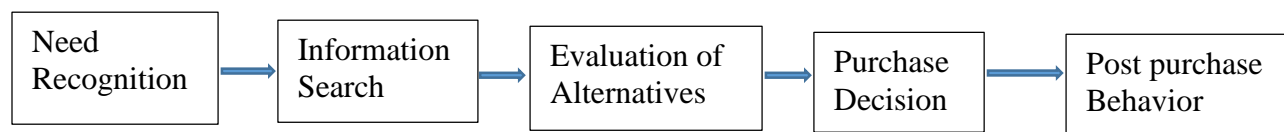
- 4. Variety-seeking buying behavior:** In this type, the consumer behavior is described by low involvement in purchases with noteworthy perceived brand differences (Kotler & Armstrong, 2012, p. 151)

### 2.3 Buyer Decision Process

After looking at the factors influencing buyer behavior and types of consumer decision making, the next step is to identify buyer decision making process. According to Kotler & Armstrong (2012) buyer decision making process consist of the following five sequential stages:

- 1. Need Recognition:** In this step, core problems are recognized. This step finds out the gap between actual situation and desired situation. However, the desired situation should be quite important for the consumer.
- 2. Information Search:** After identifying the needs, the consumer has to search information from various sources. Consumer can get information from various sources such as family, friends, acquaintances, advertising salespeople, websites, packaging display, communication media and so on. However, all these sources are categorized under internal and external sources and also is dependent upon the complexity of choices.
- 3. Evaluation of Alternatives:** After collecting the required information, the consumers evaluate the available alternatives and choose the best alternatives. There are several evaluation process to evaluate alternatives. The consumer uses simple or complex evaluation process depending upon various factors. Consumer start to rank their produce on the basis of their evaluation criteria.
- 4. Purchase Decision:** Basically consumer will purchase those products which are ranked high while evaluating the alternatives.
- 5. Post Purchase Behavior:** On the basis of satisfaction and dissatisfaction, the consumer will take further action after the product was purchased.

Figure 1: Buyer Decision Process



Adopted from : Kotler & Armstrong (2012)

## *2.4 Differences Between Manufactured Goods and Services*

Similarly, the buying practice of services are different from manufactured goods because services are intangible in nature. Therefore, it is very difficult to evaluate services before they are consumed. But in case of manufactured goods it is possible to evaluate the goods before purchase. Likewise, while consuming by consumer, processing variable are significantly different in service as compared to manufactured goods (Shanker, 2002, p. 53). It is also believed that unique quality of services such as intangibility, inseparability, heterogeneity, and perishability makes consumer more difficult to evaluate services rather than manufactured goods (Parasuraman et al., 1985). Basically, four differences between manufactured goods and services are identify by various studies done on consumer services (Jackson et al., 1995) which are as follows:

- Services are highly intangible in nature which means that service cannot be stored. Pricing service is also difficult. So, these factor totally differentiate services from manufacturing goods because manufactured goods are tangible in nature.
- Since services are inseparable in nature, they are consumed at the same time when they are produced so, it gives straight impact on services provider but in case of manufactured goods this is not possible (Parasuraman et al., 1985) as customer participation will also affect the service consumed. However, in case of goods, production and consumption can done in two different point of time.
- Heterogeneity nature of service quality also differs service from goods since goods are standardized in nature. But many uncontrollable factors play a vital role in determining service quality. There are the chances of occurrence that whatever were planned and promoted will not be delivered in case of service delivery.
- Since service cannot be returned or resold and there are difficulties in coordinating demand and supply. Also, they are perishable in nature. However, goods can be stored, returned, resold and it is possible to forecast demand and supply based on market situation (Wilson et al., 2012).

## *2.5 Impact of Customer Satisfaction and Customer Loyalty on Service Sector*

Various scholars proved that overall service quality creates customer satisfaction and customer satisfaction leads to customer loyalty. And this overall service quality is the combination of relational and core qualities. What actually delivered is a core quality and how it is delivered is a relational quality (McDougall & Levesque, 1992). From the view point of service provider,

gaining customer satisfaction is very important because it is very important drive to achieve customer loyalty, increasing goodwill and creating positive word of mouth (Bearden & Teel, 1983). All in all, customer satisfaction has a positive impact on service sector.

Customer loyalty plays a vital role in the success of any service sector because loyal customers are the true assets of the organization. It is also believed that improvement in service quality will boost customer loyalty. Wallin Andreassen, (1994) argued that customer loyalty is originated through reputation and image of service sector. He also advocated that corporate image and corporate financial performance are linked with each other. Likewise, Loureiro & Kastenholz, (2011) examined that company image has a positive effect on customer loyalty especially in service sector. To encapsulate, customer loyalty has a positive influence in service sector.

### *2.5.1 Customer Satisfaction*

A customer is a stakeholder of an organization who provides payment in exchange for offer provided by the organization with the aim of fulfilling their needs and to maximize satisfaction. Therefore, customers want greatest value for their money. So they are working hard to select greatest products and services. Satisfaction can also be a person's feelings of pleasure or disappointment that results from comparing a product's perceived performance or outcome with their expectations (Kotler & Keller, 2011).

Customer satisfaction is defined as "the individual's perception of the performance of the products or services in relation to his or her expectations"(Schiffman & Kanuk, 2004, p. 14).Customer Satisfaction helps in measuring whether the products and services supplied by company meet or further exceed the expectations of customers. Customer satisfaction is an indicator which shows whether the customers will make repurchase decision or not along with their loyalty (Boonlertvanich, 2011). It also describes that the feeling of happiness which is gained by achieving his or her goals can be considered as satisfaction.

Customer satisfaction is a key factor in organization that defines long term involvement of customer (Oly Ndubisi, 2004). Similarly, Mittal & Kamakura (2001) revealed that customer satisfaction is crucial element of customer wishes for upcoming purchases. Therefore, those customers who are satisfied are ready to share their positive thoughts with others (Mittal & Kamakura, 2001)

Nowadays, banking sector is also considering customer satisfaction as one of the factor for the smooth functioning of the organization. Therefore, banks are implementing new and advanced tool

and technique to satisfy their customer such as e-banking, ATM machine. Hence, competitiveness and convenience are the two major features which have impact on levels of customer satisfaction in any banking sector (Parasuraman et al., 1988). Therefore, measuring satisfaction will help to identify the status of the organization regarding customer satisfaction (Badara et al., 2013). In this competitive world, customer needs have to be addressed properly by different service sectors. In such case many service providers are shifting their focus from product to customer. Patterson & Spreng (1997) stated that satisfaction plays vital role in attracting customer. Customer satisfaction has a great importance in the service sectors especially in banking field because customer satisfaction is directly linked with loyalty and goodwill of the organization (Ravichandran et al., 2010). Also, research performed by Mahamad & Ramayah (2010) and Caruana (2002) revealed that customer satisfaction can be considered as mediator between service quality and loyalty.

### *2.5.2 Customer Satisfaction in Banking Sector*

In this era of globalization, service sector is growing in a fast pace. Therefore, competition is high, many service firms are focusing their strategy on creating customer loyalty. Hence all banking sectors are now focusing their strategy to create customer loyalty by improving service quality. Parasuraman et al., (1988) in his paper, mentioned that five service quality dimensions are major factors to create customer satisfaction in banking sector which are tangibility, reliability, responsiveness, assurance and empathy while some scholar had pointed out that empathy, reliability and tangibility are important to determine customer satisfaction. But Ahmed et al. (2010) pointed out that empathy has negative relationship with customer satisfaction. So, several scholars have identified various factors that determine customer satisfaction in banking sectors. In Nigeria, when bank staff provide fast and responsive services, then customer will be satisfied Badara et al. (2013). In Iran customer satisfaction plays vital role in determining customer loyalty (Mahamad & Ramayah, 2010) This was further supported by Caruana (2002).

### *2.6 Service Quality*

According to Salas & Fogli (2006) service quality can be defined as “a global judgment or attitude relating to a particular service; the customer’s overall impression of the relative inferiority or superiority of the organization and its services. Service quality is a cognitive judgment”. With regards to service quality literature, Grönroos (1984) first introduced the specific two dimensional model to measure service quality which are as follows:

1. **Technical-quality:** which measure outcome of service performance
2. **Functional-quality:** shows subjective perceptions of customer interaction with service provider.

Grönroos compares two dimension with expectations of customer (Gronroos, 1990). Likewise Parasuraman et al. (1985) defines service quality as degree of inconsistency among customer's normative prospects for services and their opinions of service performed. Similarly meeting the needs and expectations of the customer defines quality of service (Smith, 1998). Also service quality is evaluated through ten service quality dimension proposed by Parasuraman et al. (1985) But later on Parasuraman et al. (1985 ) reduce these ten dimensions into five dimensions so as to measure perceived value on customer, which is also known as SERVQUAL Model.

### *2.6.1 SERVQUAL Model (Theoretical Framework)*

This model was first introduced in 1985 and it is one of the popular tools used to measure service quality. SERVQUAL Model measures the gap that exists between customer expectation and actual service received from the customer. This model consists of five service quality dimensions and they are:

1. **Tangibility:** which includes exterior of physical facilities, equipment, written sign and signal, personnel.
2. **Reliability:** Focuses on how service promises are delivered.
3. **Responsiveness:** Focuses on how organization are willing to help customer and offer prompt services.
4. **Assurance:** Focuses on inspiring trust and confidence in employee while delivering services.
5. **Empathy:** Focuses on providing individual attention, and caring to the customer by providing customized services, because each and every customer is unique. (Wilson et al., 2012).

### *2.6.2 SERVQUAL Dimensions in Banking Sector*

SERVQUAL dimensions plays vital role in measuring service quality in banking sector. Tangible related factor in banking sector relate to adequate staff to provide services, advance and useable equipment and easy physical layout. So these factors should be properly maintained in the banks because these factors help to increase customer satisfaction. Reliability focuses on delivering of

promised services. Banks with high reputation and dependability will always fulfill the promise made to customer, as well as banks also ensure level of security.

Responsiveness focuses on helping customer and provide accurate services. Many banks try to customize their services depending upon the level of customer, as well as they try to personalize their services, which helps to enhance customer satisfaction. Similarly, customer wants assurance from bank. So, bank staff must explain each and every product and services to customer in detail so that customer will feel comfortable with banking services. Finally, to assure empathy, bank employee should treat each and every customer individually because each and every customer are unique (Lau et al., 2013).

All in all, organizations should enhance the quality of service, identify the problems quickly through research and feedback, and should try to assess client satisfaction effectively because service quality is becoming very significant competition factor in the field of service sector like banking.

## *2.7 Customer Loyalty*

In early days' loyalty was viewed as brand royalty of tangible goods. But later on, many studies were carried out and the field of loyalty was expanded. However, only few studies covered the area of customer loyalty of services (Oliver Richard, 1997) . Customer loyalty in a general is somewhat that consumer may reveal to a particular brand and service (Uncles et al., 2003) .Simply, customer loyalty can be explained as power of relationship between relative and repeated patronage of an individual. Dick & Basu (1994) highlighted that loyalty is based on customer attitude as well as behavioral phenomenon. Customer loyalty has two dimension and on the basis of these two dimensions four types of loyalty were developed and they are:

- True loyalty
- Latent loyalty
- Spurious loyalty
- No loyalty

Later on, Garland & Gendall (2004) experienced the context of Dick & Basu and established their own codification. Similarly, Rauyruen & Miller (2007) specified that customer loyalty can be determined on the basis of behavioral, attitudinal and composite factor of the customer. Repurchasing pattern is represented by behavior loyalty, positive word of mouth represents

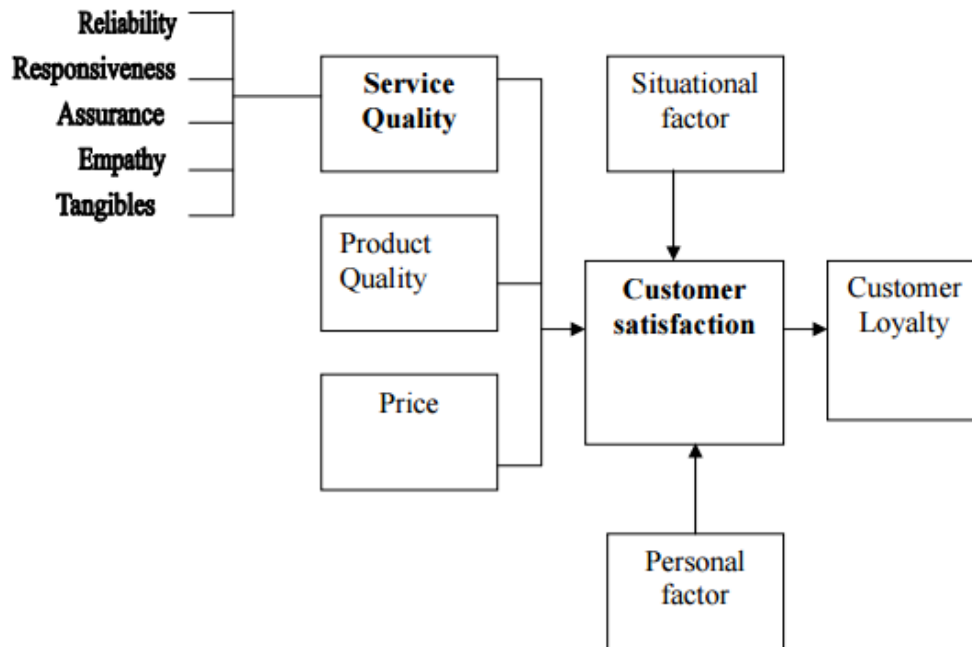
attitudinal loyalty and composite loyalty represents both loyalties. Therefore, customer loyalty can be explained as committed customer's activity of purchasing again and again and patronize again and again to a preferable product in future. Hence, loyalty improves the financial position of the organization. Oliver Richard (1997) discovered that customer loyalty helps firm to increase their profit. Customer loyalty is one of the thriving and valuable sources which helps in future planning of the organization because loyal customers will create superior value as well as relationship marketing acts as a key component to create customer loyalty. So many service organizations have started to implement customer loyalty programs.

### *2.8 Relationship Between Service Quality, Customer Satisfaction and Customer Loyalty*

Many scholars discussed that service quality has a great impact on customer satisfaction which leads to customer loyalty. Wilson et al., (2012) established a theoretical model in which service quality, customer satisfaction and loyalty are correlated in one structure. As stated in the model, service quality dimensions such as reliability, responsiveness, assurance, empathy and tangibility create service quality. Situational and personal factors as well as price and product factor have impact on customer satisfaction. Similarly, Heskett et al., (1997) also created a model popularly known as "Service Profit Chain" which shows relationships between customer satisfaction, loyalty, profit and growth, worth of goods and delivered services to customer and organization employee ability, pleasure, loyalty and productivity. Similarly, Wilson et al. (2012) tried to clarify the customer perception of quality and satisfaction which leads to loyalty. The model is presented below in figure.



**Figure 2: Customer Perceptions of Quality and Customer Satisfaction**



**Source : Wilson et al. (2012)**

The given figure illustrates the relationship between service quality and customer satisfaction, which leads to customer loyalty. From the above figure, it is crystal clear that service quality is determined on the basis of customer's perception of service quality dimensions such as reliability, assurance, responsiveness, empathy and tangibility. So service quality is based on evaluation of these dimension. Whereas, satisfaction is comprehensive in nature and factors such as product quality, price, service quality and other situational and personal factors have a great impact. Therefore, service quality and satisfaction are correlated to each other, which leads to customer loyalty (Wilson et al., 2012).

### **2.8.1 Product and Service Features**

Customer satisfaction is heavily influenced by evaluation of product and services features made by customer. In case of banking sector, customer may evaluate service features on the basis of price level, friendliness of personnel and level of customization of services. Especially in service sector, service is the core product sold by the service provider. However, there are few service providers which sell service as well as product such as hotels and restaurants. They offer food and beverages along with services. Therefore, quality of product along with effective service will affect

perception of customer. Several scholars also conducted various studies which address the importance of product along with services (Kandampully & Suhartanto, 2000). Hence, higher the quality of goods, higher will be the service quality.

### *2.8.2 Price*

Quality of service can be determined on the basis of price of the product and services. Usually customers believe that higher the prices of product or services, higher will be the service quality and vice versa. So, customer use price as a basis to judge quality.

### *2.8.3 Situational Factors*

Situational factors are also known as environmental factors which also affect satisfaction while consuming services. Michael et al. (1999) describes that individual consumption behavior also depends on the situational or environmental factor. Situation factors are one of the general factors that influence customer satisfaction because buying behavior always takes place in certain situational context (Engel et al., 1993). Basically purchase and usage situation have a significant effect on the behavior of individual buyer. These purchase and usage situation denote the physical facilities of service provider. Similarly, time is also one of the situational factors which influence consumption. Moreover, time is viewed in terms of frequency of visit and years of relationship in banking sector.

### *2.8.4 Personal Factors*

Individual perceptions, values, attitudes and belief also influence in customer level of satisfaction. Moreover, personal factor plays vital role in individual's way of consuming goods and services. So consumer consume those products which they believe can fulfill their own needs. Hence, personal factor such as age, gender, education level, income level also influences level of satisfaction (Boundless, 2015).

On the basis of aging, individual buying behavior differs. For instance, demand for services, recreation, clothes, food habits differ with changes in age. Likewise, in developing countries, gender is an important personal factor. For example, females prefer to go to banks that gives more importance to female customers. Similarly, education level also influences consuming behaviors of individual customers. Customer with high level of education wants quality of services and customized services rather than customers with low level of education. Moreover, level of income determines consuming patterns of an individual (Engel et al., 1993). Individual with high income

are likely to spend more and vice versa. Kotler et al. (1999) described that personality also influences an individual buying decision making.

### *2.9 Relationship Between Service Quality, Customer Satisfaction and Customer Loyalty in Banking Sector*

Many scholars try to find out the relationship between service quality, customer satisfaction and customer loyalty in banking sector. Scholars discuss that customer loyalty is the outcomes of service quality and customer satisfaction. Veloutsou et al. (2004) has established the positive relationship among service quality, customer satisfaction and loyalty in Greece's banking sector. Similarly, Caruana (2002) also discuss that customer satisfaction act as mediator that bridge between service quality and customer loyalty and also explain that these are interrelated to each other. Further this was supported by various scholars Lau et al. (2013) and Lewis & Soureli (2006). Likewise, Johnston (1997) worked to identify crucial factors of service quality in service sector and he identified that responsiveness of the service quality dimension is the crucial factor for customer satisfaction and loyalty.

All in all, most of the scholars have view that there is a positive relationship between service quality, customer satisfaction and loyalty. Also, Caruana (2002) viewed that service quality and loyalty are bridged by customer satisfaction. Hence, this study also focuses on testing this relationship in the banking sector in Nepal.

### *2.10 Relationship of Theories with Buyer Decision Making Process*

Psychographic variable plays vital role in buyer decision making process, evaluation and judgmental process because this variable influences the direct relationship between service quality and customer loyalty. La Roche (2005) mentioned that quality service also stimulates buyer to make purchase decision quickly especially in a banking sector because several studies have found that service quality and willingness to buy are positively correlated. The buyer's decision process can be influenced by price of the services because majority of customers are price sensitive.

Customer satisfaction and buyer's decision making process is the chain cycle. Customer's post purchase view has a great impact on repurchases decision. Post purchase view can be either positive or negative. If customer have a positive view, then customer will be satisfied with the services and will take decision to repurchase again and again. They will also recommend other customers which will ultimately influence on other buyer's decision making process. But if the

experience was negative, then customers will be dissatisfied with the decision made by them and will consider switching the services.

While making buying decision, customers focus more on features and benefits of the product and services. Therefore, these benefits and features are considered to be important determinants of customer loyalty in banking sectors. It means that service quality leads to customer satisfaction and satisfied customer tend to be loyal. Thus, customer loyalty influences buyers decision making process. Likewise, positive outcomes of buyers decision making process will create customer satisfaction, improved sales, increased goodwill and brand images (Onditi, 2013). Similarly, loyalty program also influences the buyer decision process because the loyalty program such as offering various benefits for customers also encourage customers to create long term profitable relationship with service provider. Hence, customers will regularly visit service provider.

### *2.11 General Overview of Previous Studies*

The table below shows the relationship of service qualities, customer satisfaction and customer loyalty with respect to banking sector. It is crystal clear that majority of studies were done in countries such as Iran, Nigeria, United Kingdom, Bangladesh, Pakistan, Jordan, Netherland, India. But only few studies were done in Nepal regarding service quality, customer satisfaction and customer loyalty with respect to banking sector.

Moreover, we see that majority of researchers used service quality dimension as an independent variable and customer satisfaction as a dependent variable in their theoretical framework while few of them use customer loyalty as dependent variable in their studies. There are several studies conducted before 2010 but in this research only recent years' studies were taken into consideration.

**Table 1: Summary of Previous Studies**

<b>Author</b>	<b>Dependent Variable</b>	<b>Independent Variable</b>	<b>Sample Used/Size</b>	<b>Findings</b>	<b>Methodology / Measurement</b>
Zafar et al. (2012)	Customer Satisfaction and customer loyalty	Service Quality (Tangibility, Reliability, Competence, and Conflict Handling)	Out of 500 questionnaire filled by customers from various banks of Pakistan, 192 were accepted	1.Tangibility, Reliability, competence, and conflict Handling will positively result in customer satisfaction 2.Customer Satisfaction will positively result in Customer loyalty.	SPSS technique used for data analysis and findings (descriptive statistics was performed. AMOS (Regression was run).
Badara et al. (2013)	Customer Satisfaction and customer loyalty	Service Quality (Tangibility, Reliability, Responsiveness, Assurance, Empathy, compliance)	240 questionnaires were distributed among which 209 questionnaires is convenience and respondents were the Nigerian students in University Utara Malaysia.	1.Tangibility, Reliability has no significant effect on customer loyalty and customer satisfaction in Islamic bank in Nigeria. 2.Responsiveness has no significant effect on customer loyalty but has significant effect in customer satisfaction. 3.Assurance has significant effect on customer loyalty but has no significant effect in customer satisfaction 4. Empathy, compliance has no significant effect on customer loyalty and customer satisfaction 5. No positive relationship between customer satisfaction and customer loyalty in Islamic bank in Nigeria	AMOS, Descriptive Statistics and composite reliability analysis.

**Table 1: Summary of Previous Studies (Continued...)**

Mahamad & Ramayah (2010)	Customer Satisfaction and customer loyalty	Service Quality (Reliability, Responsiveness, Assurance, Empathy, Tangibles)	147 questionnaires were collected and analyzed.	1.Perceived service quality is positively associated with customer satisfaction and customer loyalty. 2.Customer satisfaction and customer loyalty are positively associated. 3.Customer satisfaction mediates the relationship between perceived service quality and customer loyalty.	Descriptive statistics, Regression analysis, ANOVA Test
M. M. Khan & Fasih (2014)	Customer Satisfaction and customer loyalty	Service Quality (Tangibles, Reliability, Assurance, Empathy)	225 questionnaires were collected and analyzed	1.Service quality have significant and positive relationship with customer satisfaction and customer loyalty.	Descriptive statistics, one sample t-test, correlation and regression
Siddiqi (2011)	Customer Satisfaction and customer loyalty	Service Quality (Tangibles, Responsiveness, Reliability, Assurance, Empathy)	100 questionnaires were collected and analyzed in the retail banking in Bangladesh.	1.Service Quality has positive association with customer satisfaction. 2.Customer satisfaction and loyalty are positively related.	SPSS technique Descriptive Statistics, Pearson Correlation
Al-Azzam (2015)	Customer Satisfaction	Service Quality (Tangibles, Responsiveness, Reliability, Empathy, Security)	400 questionnaires were collected and analyzed	1.Service Quality is positively associated with customer satisfaction.	SPSS Technique Reliability Analysis, Multiple Regressions, Correlation of Analysis
Lau et al. (2013)	Customer Satisfaction and customer loyalty	Service Quality (Tangibles, Responsiveness, Reliability, Assurance, Empathy)	119 questionnaires were collected and analyzed	1.Customer satisfaction was positively influence by service quality. 2.Customer loyalty has a positive influence on customer satisfaction.	Descriptive Statistics, Multiple Regression

**Table 1: Summary of Previous Studies (Continued...)**

Kheng et al. (2010)	Customer Satisfaction and customer loyalty	Service Quality (Tangibles, Responsiveness, Reliability, Assurance, Empathy)	238 questionnaires were collected and analyzed	<p>1.Tangibles, Responsiveness have no significant effect on customer loyalty and customer satisfaction.</p> <p>2.Reliability and customer loyalty are positive effected</p> <p>3.Reliability have no significant effect on customer satisfaction.</p> <p>4.Empathy and Assurance have positive effect on customer loyalty and customer satisfaction.</p> <p>5.Customer loyalty mediated by customer satisfaction towards service quality.</p> <p>6.High customer satisfaction higher will be customer loyalty.</p>	Reliability Coefficient, Mean and Standard Deviation (SD) for the major variables, Multiple Regressions
Ragavan & Mageh (2013)	Customer satisfaction	Service Quality (Tangibles, Responsiveness, Reliability, Assurance, Empathy)	400 questionnaires were collected and analyzed	<p>1.There is a positive correlation between (tangibles, responsiveness, reliability, assurance) and customer satisfaction</p> <p>2.There is a negative correlation between Empathy and customer satisfaction in new private sector banks in Chennai</p>	Correlation Analysis and Multiple Regression

## *2.12 Identification of Independent Variables*

From the above literature review, several variables were taken into consideration in different conditions. Based on those, service quality dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy) and situational factor are selected for the purpose of this study.

- 1. Service Quality Dimensions :** Service can be considered as an intangibility offer by one party to another in exchange of money for pleasure. Quality is one of the things that consumers look for in an offer, which service happens to be one (Michael et al., 1999). Quality can also be defined as the totality of features and characteristics of a product or services that bear on its ability to satisfy stated or implied needs (Kotler & Armstrong, 2012). Organizations should enhance the quality of service, identify the problems quickly through research and feedback, and should try to assess client satisfaction effectively. Parasuraman et al. (1988) admits that there are five major dimensions of service quality and they are Tangibility, Reliability, Responsiveness, Assurance and Empathy.
- 2. Situational Factor:** Situational factor such as circumstances and conditions will also affect the expectation of services that are to be consumed by consumer. Therefore, services which are user friendly and services which enhance customer ways of living are consumed with more frequency and involvement. According to Dewan & Mahajan (2014) in banking sector, two situational factor such as (i) Frequency of visiting and (ii) Years of relationship, plays vital role in defining level of satisfaction.

## *2.13 Identification of Dependent Variables*

From above literature, two common dependent variables are used for this study purpose. Which are customer satisfaction and customer loyalty. From above table, seven out of ten studies used customer loyalty as dependent variable. Out of ten studies eight studies takes customer satisfaction as dependent variable and the two studies takes customer satisfaction as intermediating variable. In different environment, different studies looked at different variable and their relations.

Table 2 shows the clear picture of the variable and their references from where different independent and dependent variables are taken into consideration for this research purpose.



1. **Customer Loyalty:** Several studies have highlighted the impact of customer loyalty in banking sector. Seven out of ten studies used customer loyalty as a dependent variable. Customer loyalty can be considered as an attitudinal tendency as well as behavioral tendency where the customer favors one brand over others. Such favoritism over one brand is because the performance of it stands as per expectations. So, they have positive attitude towards the product which turns in to brand loyalty after continuous improvement. Similarly, Caruana (2002); Siddiqi (2011); Gorondutse & Hilman (2014) also use customer loyalty as dependent variable in their research.
2. **Customer Satisfaction:** Customer satisfaction is defined as “the individual’s perception of the performance of the products or services in relation to his or her expectations” (Schiffman & Kanuk, 2004, p. 14). Following the examples shown with regards to Nigeria and Iran in 2.5.2, we can say that all studies focus on customer satisfaction as a key determinant that influences the service quality and customer loyalty. Similarly, Mahamad & Ramayah (2010); Gorondutse & Hilman (2014) use customer satisfaction as mediating variable in their research.

## CONCEPTUAL FRAMEWORK AND HYPOTHESIS

---

### 3.1 Introduction

*This section present overall conceptual framework and hypothesis along with defining conceptual framework briefly. Relationship between independent, control and dependent variable will define clearly and impact of mediate variables with independent variable will be defined.*

A conceptual framework acts as a blue print that shows the relationship among the concepts. Conceptual framework clarifies the underlying process, which is used to guide this study. On the basis of nature and scope of this study, conceptual framework was created. As well as it was developed on the basis of available literature and theoretical issues.

After going through previous available literature, the dependent variable tested by Caruana (2002); Siddiqi (2011); Gorondutse & Hilman (2014) independent variable tested by Kheng et al. (2010); Gorondutse & Hilman (2014); Dewan & Mahajan (2014); Mahamad & Ramayah (2010); Parasuraman et al. (1991) and mediating variable tested by Mahamad & Ramayah (2010) were taken into consideration in this thesis writing process. This thesis will try to find out which factor (service quality dimensions) have a positive impact on customer satisfaction (mediating variable) and customer loyalty (dependent variable) in banking sector of Nepal.

### 3.2 Control Variables for Regression

After obtaining a set of independent variables, a regression using control variables will be carried out. The control variable tested by Mahamad & Ramayah (2010) were taken into consideration in this thesis writing process. Control variable includes the demographic variables such as gender of the respondents, age, monthly income and their educational qualification which will be constant and unchanged throughout the course of investigation. The main aim of this step is to measure the relationship between the dependent variable and the multiple independent variables proposed in the hypothesis, thus being able to explain the predictive power of the variables in determining customer satisfaction, and customer loyalty.

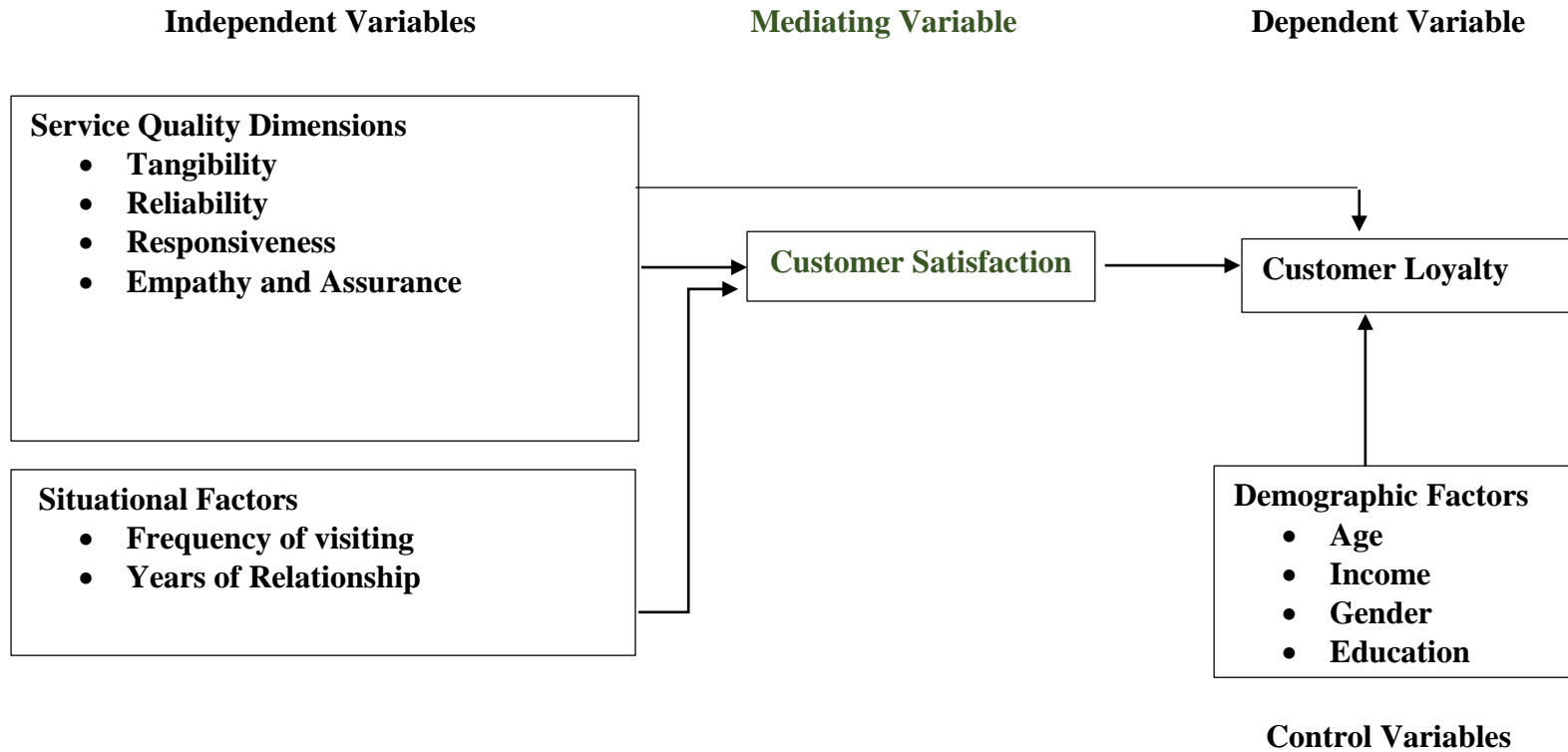
The variable used in this theses are presented in table below:

**Table 2 : Variable and References**

<b>Variables</b>	<b>References</b>
<b>Dependent Variable:</b> Customer Loyalty	Caruana (2002); Siddiqi (2011); Gorondutse & Hilman (2014)
<b>Independent Variable:</b> Service Quality Dimensions and Situational Factors	Kheng et al., (2010); Gorondutse & Hilman (2014); Dewan & Mahajan (2014); Mahamad & Ramayah (2010); Parasuraman et al. (1991)
<b>Mediating Variable:</b> Customer Satisfaction	Mahamad & Ramayah (2010); Gorondutse & Hilman (2014)
<b>Control Variable:</b> Demographic Factors	Mahamad & Ramayah (2010)

## Conceptual Framework

Figure 3 : Conceptual Framework

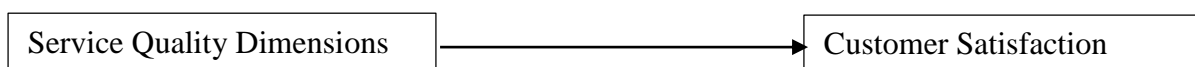


Source :Gorondutse & Hilman (2014);Wilson et al. (2012)

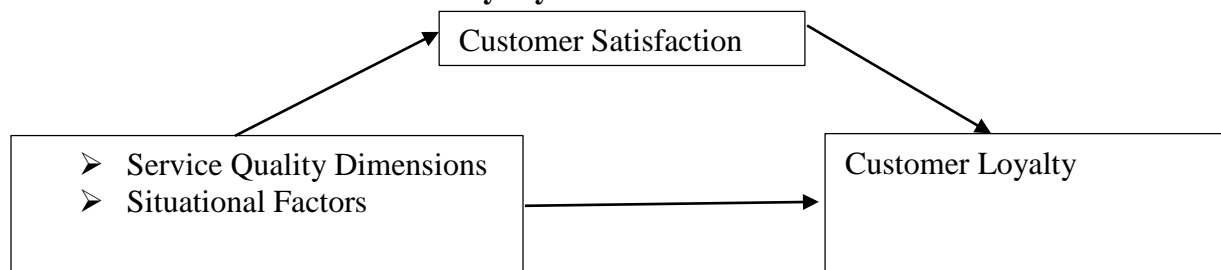
### 3.3 Hypothesis

It is a tentative assumption the validity of which remains to be tested. If the customers agree that they are satisfied and give the reasons for satisfaction as service quality, service quality dimension has significant relationship with customer satisfaction. Similarly, conclusions can be drawn for customer loyalty, satisfaction, service quality dimensions and other situational factors. Based on framework and objectives of research, the present study seeks to test the following hypothesis:

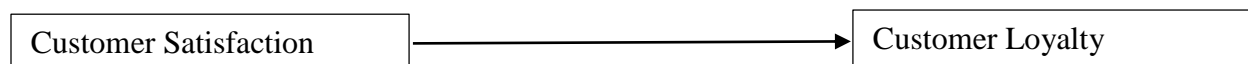
**H1: There is a positive relationship between service quality dimensions and customer satisfaction in Nepalese commercial Banks.**



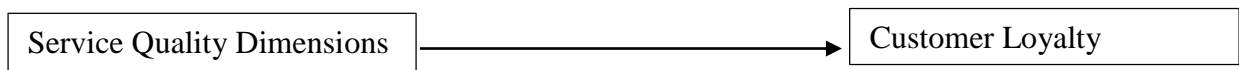
**H2: Customer satisfaction mediates the relationship between service quality dimensions, situational factors and customer loyalty.**



**H3: There is a positive relationship between customer satisfaction and customer loyalty in the Nepalese commercial banks.**

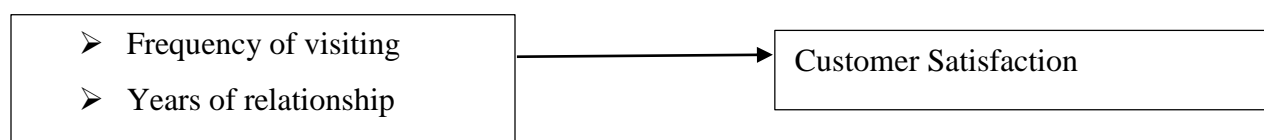


**H4: Service Quality Dimension has a positive effect on customer loyalty.**



**H5a: Situational factor (Frequency of visiting) has a positive impact on customer satisfaction.**

**H5b: Situational factor (Years of Relationship) has a positive impact on customer satisfaction.**



## RESEARCH METHODOLOGY

---

### *4.1 Introduction*

*This section discusses about research methodology and includes detail discussion about research procedure, design and data collection methods which we selected for this research.*

### *4.2 Data Collection and Empirical Context*

Thesis writing process is the certain plan of action which starts with the definition of research questions, selection of different variables, several methods of collecting data and analyzing the data to generate accurate results.

The descriptive research was carried out to assess the service quality, customer satisfaction and customer loyalty in the commercial banks of Nepal. Therefore, researchers started by searching former knowledge of the area. These past knowledges are used to recognize different dependent and independent variables. After identifying these variables, specific research questions are developed. On the basis of these questions hypothesis and conceptual framework were developed. Finally, data were analyzed to identify relationship between dependent and independent variables. When research plan was selected, the researchers had to select types of data they needed to answer the research question. Data are of two types: 1) Primary data and 2) Secondary data. This study is based on primary data where data are collected and analyzed by researchers. These data are also called first hand data.

#### **Study Area**

Commercial banks of Kathmandu, Nepal.

#### **Population**

Population refers to specific group of the units such as individuals, households, organization and similar that are targeted for definite study. For this thesis, 375 customers of commercial banks of Kathmandu, Nepal were identified.

### **Sampling Frame**

After defining the population, the next step is to identify the sample frame. Sampling frame is the process of listing the elements so as to draw actual sample. For this thesis, list of commercial banks in Nepal was obtained.

### **Sampling Procedure**

Non- Probability sampling methods was used for data collection. Under this sampling procedure, convenience sampling procedure is appropriate for this research. Convenience sampling method depends on the data collected from the population who are willing to participate in the study. In this sampling method primary data that are available first are used without any modification. This approach of sampling focus on getting participant wherever you find them and wherever is convenient. In order to get initial primary data concerning specific issues such as customer in relation to service quality, this approach is used. In exploration stages of the research, this sampling technique is effective and in order to collect the basically data structural questionnaires are developed.

### **Sampling Size**

Several factors such as money, time, statistical methods, population size and so on depends upon the question of sample size. For this thesis, as per the research convenience, 375 sample were taken.

### **Nature of Instruments**

Structural questionnaires were developed. The questionnaire consists of four parts.

- First part consists of demographic factor and situational factor
- Second part consists of service quality dimensions
- Third part consists of customer loyalty.
- Final part consists of customer satisfaction.

### ***4.3 Data Collection Methods and Tools***

This questionnaire survey was carried out in Kathmandu, Nepal from March 4<sup>th</sup> to April 3<sup>rd</sup>, 2016. At the beginning of interview verbal consent was taken from respondents and those who refused were excluded from the study. Responses were collected on the basis of interview and face to face interaction with the customers of commercial banks in Nepal. For this research, structural questionnaire was used. Survey questionnaire was presented in English. However, for few respondents, researchers explained the same in native Nepali language for better understanding

The questioners were distributed and collected during office working days. Among 375, 325 questioners were filled and collected in the banks and remaining 50 were distributed to the employees of the different who were working in Customer service department and this employee give questionaries' to the customers directly.

#### *4.4 Measurement of Variables*

After completing the data collection, questionnaires were checked for completeness. By using SPSS software, at first variables were developed and data were entered accordingly. For this research multivariate statistical analysis was used. Likert scale was used for rating responses. Each testimonial is measured by 5- point Likert scale: 1= Strongly disagree; 2=Disagree; 3=Neutral; 4= Agree; 5=Strongly agree. Similarly, dependent and independent variables were measured by focusing on Cronbach's alpha (must be above 60%). In this research we are going to use multivariate statistical analysis as well as dependence techniques are used because hypothesis that are presented in this research distinguish independent and dependent variable.

The most significant study of the literature comes out to be Badara et al. (2013); Kheng et al. (2010). This literature also studies the about service quality dimensions along with customer satisfaction as a mediator that mediates the relationship between service quality dimensions and customer loyalty respectively. Therefore, this literature provides base line information to look at various dependant and independant variables respectively.



**Table 3: Variable Measure and Sources**

<b>Variables (Items)</b>	<b>Sources</b>
<p><b>Service Quality dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy)</b> (1= Strongly disagree to 5=Strongly agree)</p> <ol style="list-style-type: none"> <li>1. Bank have up to date equipment which is sufficient and obvious for customers' usage.</li> <li>2. Customers feel comfortable while using bank physical facilities</li> <li>3. Sufficient Employee are committed to provide customers banking services.</li> <li>4. Bank's physical facilities and material associated with service are visually pleasing</li> <li>5. The bank can deliver the service as promised to the customers with in a given time.</li> <li>6. The bank can provide secure and accurate service to customers</li> <li>7. The bank can honor their promises.</li> <li>8. When customer are facing problem, bank show genuine interest in handling customer problems</li> <li>9. Bank employees will provide customers precise personal services.</li> <li>10. Bank employees will provide prompt service to customer</li> <li>11. Bank employees are willing to help customers.</li> <li>12. Bank employees are never too busy to respond customer request</li> <li>13. Customers will feels safe during the transaction process.</li> <li>14. Bank employees behavior will increase customer's confident and trust in quality services.</li> <li>15. Bank employees will be regularly courteous with customer queries.</li> <li>16. Bank employees have a knowledge to answer your questions</li> <li>17. Bank employees will provide customized services to their customers.</li> <li>18. Bank employees have the enthusiasm to understand the customer specific needs.</li> <li>19. Bank employees consider customer needs in the first place.</li> <li>20. Bank opening hours is appropriate to the customers</li> </ol>	<p>Kheng et al., (2010); Gorondutse &amp; Hilman (2014); Dewan &amp; Mahajan (2014); Mahamad &amp; Ramayah (2010); Parasuraman et al. (1991)</p>

**Table 3: Variable Measure and Sources (Continued...)**

<p><b>Situational Factors</b>  <b>1.</b> Frequency of Visisting Banks <b>2.</b> Year of relationship</p>	<p>Dewan &amp; Mahajan (2014);</p>
<p><b>Customer Satisfaction</b> (1= Strongly disagree to 5=Strongly agree)</p> <p><b>1.</b> I am very satisfied with the services offered by this bank.  <b>2.</b> Bank comes up to my beliefs of a good bank.  <b>3.</b> Overall, I have a good and positive impression towards this bank.  <b>4.</b> Employee are highly motivated to solve customer problems</p>	<p>(Mols, 1998) Mahamad &amp; Ramayah (2010);  Gorondutse &amp; Hilman (2014)</p>
<p><b>Customer Loyalty</b> (1= Strongly disagree to 5=Strongly agree)</p> <p><b>1.</b> I speak Positive things about my bank to other people.  <b>2.</b> I would suggested my bank to those who search for my advice about such matter.  <b>3.</b> I will continue to use this bank services  <b>4.</b> I only pay my attention to this bank</p>	<p>(Mols, 1998) Caruana (2002); Siddiqi (2011);  Gorondutse &amp; Hilman (2014)</p>
<p><b>Control</b>  <b>Gender</b>  <b>1.</b>Male <b>2.</b> Female  <b>Education Level</b>  <b>1.</b> Primary <b>2.</b> Secondary <b>3.</b> Higher Secondary <b>4.</b> Undergraduate <b>5.</b> Graduate <b>6.</b> Post graduate  <b>2.</b> Doctorate  <b>Age</b>  <b>1.</b> Less than 20 years <b>2.</b> 20-29years <b>3.</b> 30-39years <b>4.</b> 40-49 years <b>5.</b> 50years and Above  <b>Income Per Months in Nepalese Rupees (Rs)</b>  <b>1.</b> Less than Rs.10000 <b>2.</b> Rs.10000-19999 <b>3.</b> Rs.20000-29999 <b>4.</b> Rs. 30000-39999  <b>5.</b> Rs. 40000-49999 <b>6.</b> Rs.50000 and Above</p>	<p>Mahamad &amp; Ramayah (2010)</p>

#### *4.5 Reliability Analysis and Factor on Service Quality Dimensions, Customer Loyalty and Customer Satisfaction*

Reliability simply refers to the capability of the questionnaire to constantly measure the data across different population and at different time period. Cronbach's alpha is one of the most popular methods of testing reliability. The value of Cronbach's alpha ranges from 0 to 1. Where 0 refers to completely unreliable test and 1 refers to reliable test.

Factor Analysis is the set of statistical measures that analyze the correlations between variables by setting common dimension known as factors. So as to reduce number of dimensions of independent variables and to identify definite, factor analysis is used in this thesis. Basically, exploratory or confirmatory perspective are chosen to achieve factor analysis purpose. Similarly, KMO (Kaiser Meyer-Olken) measure is used while doing Factor analysis. KMO evaluates and examines the suitability of the samples and creates relevance factor. KMO values between 0.5 to 0.7 are considered to be moderate, 0.7 to 0.8 are considered to be good, 0.8 to 0.9 are considered to be excellent and the values less than 0.5 indicate that more data are required for the accurate prediction. The following table shows the test result of reliability, KMO and factor loading for independent and dependent variables.

**Table 4: Reliability and Factor Analysis of all Independent and Dependent Variables**

<b>CONSTRUCTS</b>	<b>ITEMS</b>	<b>KMO</b>	<b>FACTOR LOADING</b>
<b>Independent Variables</b>			
Tangibility(alpha=0.786)	1.Bank have up to date equipment which is sufficient and obvious for customers' usage.	<b>0.771</b>	<b>0.774</b>
	2.Customers feel comfortable while using bank physical facilities		<b>0.810</b>
	3.Sufficient Employee are committed to provide customers banking services.		<b>0.759</b>
	4.Bank's physical facilities and material associated with service are visually pleasing		<b>0.782</b>
Reliability(alpha=0.807)	5.The bank can deliver the service as promised to the customers with in a given time.	<b>0.791</b>	<b>0.818</b>
	6.The bank can provide secure and accurate service to customers		<b>0.823</b>
	7.The bank can honor their promises.		<b>0.827</b>
	9. Bank employees will provide customers precise personal services.		<b>0.719</b>
Responsiveness (alpha=0.626)	8.When customer are facing problem, bank show genuine interest in handling customer problems	<b>0.50</b>	<b>0.827</b>
	12.Bank employees are never too busy to respond customer request		<b>0.827</b>
Empathy and Assurance (alpha=0.839)	13.Customers will feels safe during their transaction process.	<b>0.877</b>	<b>0.692</b>
	14.Bank employee's behavior will increase customers confidents and trust in quality services		<b>0.669</b>
	15.Bank employees will be regularly courteous with customer queries.		<b>0.733</b>
	16.Bank employees have a knowledge to answer your question		<b>0.695</b>
	17.Bank employees will provide customized services to their customers		<b>0.738</b>
	18.Bank employees will have the enthusiasm to understand the customer specific needs		<b>0.744</b>
	19.Bank employees consider customer needs in the first place		<b>0.720</b>
<b>Dependent Variable</b>			
CustomerLoyalty(alpha=0.74)	1.I speak Positive things about my bank to other people.	<b>0.724</b>	<b>0.813</b>
	2.I would suggest my bank to those who search for my advice about such matter		<b>0.782</b>
	3.I will continue to use this bank services		<b>0.867</b>
	4.I only pay my attention to this bank		<b>0.521</b>
CustomerSatisfaction(alpha=0.796)	1.I would suggest my bank to those who search for my advice about such matter	<b>0.780</b>	<b>0.791</b>
	2.I will continue to use this bank services		<b>0.834</b>
	3.I speak positive things about my bank to other people		<b>0.800</b>
	4.I only pay my attention to this bank		<b>0.723</b>

The table 4 explains about factor analysis and reliability test for all service quality dimensions as well as customer loyalty and customer satisfaction. For tangible variable, the KMO value is 0.771, reliability KMO is 0.791, responsiveness KMO is 0.50, assurance and empathy KMO is 0.877 whereas customer loyalty KMO is 0.724, and customer satisfaction KMO is 0.780 respectively. Generally, KMO value should be greater than 0.5, higher value than 0.5 is better.

#### 4.6 Factor Analysis for Service Quality dimensions, Customer Satisfaction and Customer Loyalty

Reliability Cronbach’s alpha was used to check internal consistency of the measurement tools. Reliability test for all variable was performed so as to check the reliability of the variables. The variable value higher than 0.5 are considered for further analysis.

**Table 5: KMO for Service Quality Dimensions, Customer Satisfaction and Customer Loyalty**

	<b>Kaiser-Meyer-Olkin (KMO)</b>	<b>Significance Value</b>
Service Quality Dimensions	0.929	0.000
Customer Satisfaction	0.78	0.000
Customer Loyalty	0.724	0.000

#### 4.7 Service Quality Dimensions (SQD)

KMO measure for the SQD is 0.929 which is above 0.6 and the Sig. value is also 0.000. Therefore, factor analysis is appropriate. In the beginning, 20 multi-items concepts were taken into considerations so as to measure Five service quality dimensions. By using Principle Component Analysis as extraction method seventeen multi-items were extracted under four factors below table. The remaining items such as “Bank employees will provide customer precise personal services”, “Bank employees are willing to help customers”, “Bank opening hours is appropriate to the customers” are removed from the list and deleted from the final analysis because their factor loading is less than 0.5.

In this research, four service quality dimension were created by combining assurance and empathy in one, tangibility, reliability, responsiveness respectively. More precisely, all the items within the dimension “assurance and empathy” describe the way in which customers are treated by employees during the time of service delivery. Initially, there were four items in responsiveness “Bank employees will provide customer precise personal services”, Bank employees will provide prompt

services”, “ Bank employees are willing to help customers”, “ Bank employees are never too busy to respond customer request”. After the factor analysis, one item “Bank employees will provide customer precise personal services” was extracted under reliability dimension. This leaves responsiveness with three items. Originally there were four items in reliability: “The bank can deliver the services as promised to the customer with in a given time”, The bank can provide secure and accurate services to the customer”, “The bank can honor their promises “, “When customers are facing problem, bank show genuine interest in handling customer problems”. After the factor analysis, one item “When customer are facing problem, bank show genuine interest in handling customer problems” was extracted under responsiveness. All the items in tangibility dimension are the same as the original items. Initially there were four items in each assurance and empathy. After the factor analysis one item form empathy was removed “Bank opening hours is appropriate to the customer” and seven items all turned up under one component hence we combined assurance and empathy due to that overlap. This kind of situation (overlapping factors) was found in some previous studies conducted by Činjarević et al. (2010)in banking sector of of Bosnia and Herzegovina. Some of the items overlapped and the three dimension of service quality responsiveness, assurance and empathy were combined and create new dimensions known as Customer orientation. Likewise, in previous research conducted by Dhar & Kushwah, (2009) regarding private and public bank in India, they have also combined the two dimension of service quality( assurance and empathy) into one due to overlap. Similarly, in the prior article conducted by Huseyin et al. (2005) in Greek Cypriot bank, it is concluded that responsiveness and empathy items were loaded in the same and four dimensions were formed. This types of similar situation were found in our thesis too.Varimax with Kaiser Normalization rotation method was used to illustrate this interpretation.

**Table 6: Rotated Component Matrix for Service Quality Dimensions**

	<b>Factor 1</b> <u>Assurance and Empathy</u>	<b>Factor2</b> <u>Reliability</u>	<b>Factor 3</b> <u>Tangibility</u>	<b>Factor 4</b> <u>Responsiveness</u>
1.Bank have up to date equipment which is sufficient and obvious for customers' usage			<b>0.752</b>	
2.Customers feel comfortable while using bank physical facilities			<b>0.717</b>	
3.Sufficient Employee are committed to provide customers banking services			<b>0.571</b>	
4.Bank's physical facilities and material associated with service are visually pleasing			<b>0.737</b>	
5.The bank can deliver the service as promised to the customers with in a given time		<b>0.728</b>		
6.The bank can provide secure and accurate service to customers		<b>0.743</b>		
7.The bank can honor their promises		<b>0.756</b>		
9.Bank employees will provide customers precise personal services		<b>0.590</b>		
8.When customer are facing problem, bank show genuine interest in handling customer problems				<b>0.672</b>
12.Bank employees are never too busy to respond customer request				<b>0.676</b>
13.Customers will feels safe during the transaction process	<b>0.572</b>			
14.Bank employees behavior will increase customer's confident and trust in quality services	<b>0.593</b>			
15.Bank employees will be regularly courteous with customer queries	<b>0.674</b>			
16.Bank employees have a knowledge to answer your questions	<b>0.557</b>			
17.Bank employees will provide customized services to their customers	<b>0.713</b>			
18.Bank employees have the enthusiasm to understand the customer specific needs	<b>0.653</b>			
19.Bank employees consider customer needs in the first place	<b>0.621</b>			

Extraction Methods: Principal Component Analysis

Rotation Methods: Varimax with Kaiser Normalization

#### 4.8 Customer Satisfaction

For customer satisfaction the KMO measure of sampling adequacy is 0.78 which also falls into the ranges of moderate, which means that data are accurate to perform factor analysis. While running factor analysis, all the multi- item concept for customer satisfaction are extracted in one factor. Here all the items extracted in factor one truly defines customer satisfaction.

**Table 7: Rotated Component Matrixa for Customer Satisfaction**

	<b>Factor 1</b>
1.I would suggest my bank to those who search for my advice about such matter	<b>0.791</b>
2.I will continue to use this bank services	<b>0.834</b>
3.I speak positive things about my bank to other people	<b>0.800</b>
4.I only pay my attention to this bank	<b>0.723</b>

Extraction Methods: Principal Component Analysis

Rotation Methods: Varimax with Kaiser Normalization

#### 4.9 Customer Loyalty

For customer loyalty, the KMO measure of sampling adequacy is 0.724 which is in moderate range. Hence, data are considered to be accurate to perform factor analysis. While performing the factor analysis by selecting principle component analysis, all the multi- items that are selected to define customer loyalty are extracted under one factor. The multi- items that are selected for customer loyalty in fact defines the loyalty.

**Table 8: Rotated Component Matrix for Customer Loyalty**

	<b>Factor 1</b>
1.I speak Positive things about my bank to other people.	<b>0.813</b>
2.I would suggest my bank to those who search for my advice about such matter	<b>0.782</b>
3.I will continue to use this bank services	<b>0.867</b>
4.I only pay my attention to this bank	<b>0.521</b>

Extraction Methods: Principal Component Analysis

Rotation Methods: Varimax with Kaiser Normalization

#### 4.10 Statistical Methods

In this research correlation and linear regression, analysis was done with the help of SPSS software in order to analyze the relationship between several variables that influence customer satisfaction



and loyalty in Nepalese commercial bank. Here, customer satisfaction acts as a mediating variables and customer loyalty is considered to be dependent variable.

#### 4.10.1 Correlation

Correlation is the basic step in regression analysis. Based on multi-item concepts, correlation also calculates and confirms relationship. It also confirms the direct relationship and validation. The Correlation coefficient, R shows the degree of relationship between two different types of variables. It ranges from -1 to +1, where -1 indicates a perfect negative relationship which means the decreasing linear relationship that is when one variable increases the another variable will decrease and 1 indicate a perfect positive correlation which means that increase in one variable will result from increase in another variable respectively.

**Customer Satisfaction :** In the appendix 3, the correlations of service quality dimensions (tangibility, reliability, responsive, empathy and assurance), situational factors (frequency of visiting banks, years of relationship), and customer satisfaction are presented. The relationship between mediator variable customer satisfaction with all independent variables are investigated by Pearson correlation coefficient.

Firstly, the table shows that one of the situational factor frequency of visiting the bank has a lower negative relation to one of the service quality dimensions (responsiveness) with  $r = -0.130^*$ . Secondly, the next situational factor years of relationship has a positive correlation to customer satisfaction with  $r = 0.151^{**}$  at the level of P- value= 0.003. This indicates that one situational factor has a negative relation with service quality and next one is positively correlated with customer satisfaction.

Thirdly, customer satisfaction is positively correlated with various service quality dimensions with  $r = 0.363^{**}$  for tangibility,  $r = 0.394^{**}$  for reliability,  $r = 0.278^{**}$  for responsiveness,  $r = 0.465^{**}$  for empathy and assurance respectively.

Finally, on the basis of Pearson Correlation it can be concluded that service quality dimensions are positively correlated with customer satisfaction whereas in case of situational factor, only one factor is correlated with customer satisfaction.

**Customer Loyalty :** In appendix 4, the correlation of eleven variables which are age, gender, education level, income, frequency of visiting banks, years of relationship, tangibility, reliability, responsiveness, empathy and assurance, customer satisfaction are summarized. The relationships between dependent variable customer loyalty with all independent variables are investigated by Pearson correlation coefficient.

First of all, the table represents four control variables among which respondent age with  $r=0.102^*$  has a positive low correlation with customer satisfaction where as other are not correlated with the dependent variable customer loyalty.

Secondly, the table shows the two situational factors among which years of relationship is positively correlated with  $r=0.112^*$ .

Thirdly, the variable related to the service quality dimensions such as empathy and assurance, reliability, tangibility and responsiveness shows the high positive relationship with customer loyalty with  $r=0.491^{**}$ ,  $r=0.400^{**}$ ,  $r=0.340^{**}$  and,  $r=0.150^{**}$  respectively.

In addition, customer satisfaction is highly and positively correlated with customer loyalty with  $r=0.739^{**}$ . This indicates that higher the customer satisfactions higher will be the service quality.

Finally, on the basis of Pearson correlation, it can be concluded that respondent's age, years of relationship, empathy and assurance, reliability, tangibility, responsiveness, and customer satisfaction have significant positive relation to customer loyalty.

#### *4.10.2 Multicollinearity*

Collinearity is occurred in such situation where two or more predictor variables has a higher correlation. So, the problem may be faced while drawing conclusion because of high correlation. In SPSS, test between variables are done by using tolerance values and variance inflation factors. It means that variance inflation factor(VIF) values below 5 are acceptable. Similarly, tolerance value should be higher than 0.1 It is crystal clear that multicollinearity problem does not exist in this research because the value of tolerance is higher than 0.3 and variance inflation factors value is also less than 5. So it is possible for us to perform regression analysis.

## RESULTS

---

### 5.1 Introduction

*This chapter presents finding of the study which were obtained from the analysis of the data. Data were analyzed by using SPSS software. The total respondents were 375 customers of commercial banks of Kathmandu, Nepal. Data were presented in tables according to nature of variables as follows.*

### 5.2 Descriptive Statistics

Descriptive statistics defines the basic character of the data in a study. Descriptive statistics were used in this study to present summaries about sample and measures. Descriptive statistics helps to identify the nature of data. It helps to simplify large number of data. In this thesis, a sample size of 375 respondents were selected. The summary of socio demographic profile of respondents selected for the study are presented below in Table 9.

**Table 9: Socio Demographic Profile of Respondents**

<b>Variable</b>	<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
Gender	Male	224	59.7
	Female	151	40.3
Age	<20 Years	20	5.3
	20-29 Years	177	47.2
	30-39 Years	99	26.4
	40-49 Years	51	13.6
	>50 Years	28	7.5
Income	< Rs. 10000	58	15.5
	Rs. 10000-19999	68	18.1
	Rs. 20000-29999	88	23.5
	Rs. 30000-39999	73	19.5
	Rs. 40000-49999	43	11.5
	>Rs.50000	45	12.0
Education Level	Primary	2	0.5
	Secondary	7	1.9
	Higher Secondary	32	8.5
	Undergraduate	97	25.9
	Graduate	130	34.7
	Post Graduate	99	26.4
	Doctorate	8	2.1
	Total	375	100

Source: Survey, 2016

Out of the 375 respondents, 59.7%(224) were male and 40.3%(151) were female respectively. This shows that male customers are higher than female customers in commercial banks in Nepal.

Likewise, following table demonstrates that majority of respondents belongs to age group 20-29 years i.e 47.2 %( 177) and minority i.e 5.3 %( 20) belongs to age group less than 20 years.

Similarly, the table below reflects the income of respondents per month in Nepalese currency i.e NRs. Among 375 respondents, the highest monthly income ranges from Rs 20000-29999 and lowest monthly income was found less than Rs 10000.

In the same way, given table states the educational level of respondents, out of 375 respondents, 34.7% (130) were graduated and 0.5 %( 2) had passed primary level.

**Table 10: Situational Factors of Respondents**

Variable	Description	Frequency	Percentage
Frequency of visiting bank	3-5 times a week	33	8.8
	Once a week	68	18.1
	Once in every two weeks	60	16.0
	Monthly	150	40.0
	More seldom than once a monthly	64	17.1
Years of relationship with banks	< 1 Years	24	6.4
	1-2 Years	71	18.9
	2-5 Years	147	39.2
	> 5 Years	133	35.5
	Total	375	100.0

Source: Survey, 2016

The above table represent the situational factor of respondents selected for the study. From above table it can be concluded that highest proportion of respondents visiting bank was found monthly i.e 40.4% (150) and 8.8% (33) respondents visited bank 3-5 times a week.

Similarly, the table 10 also illustrates, years of relationship between respondents and banks. Among 375 respondents, 39.2 % (147) respondents have been using bank services form 2-5 years and 6.4% (24) respondents have been using banking services less than 1 year respectively

### **5.3 Descriptive Statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction**

The Table 11 reflects the descriptive statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction. Number of observation are 375 in each cases.

**Table 11: Descriptive Statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction**

	Number of Items	N	Minimum	Maximum	Mean	Std. Deviation
Tangibility	4	375	1.00	5.00	3.4367	.75122
Reliability	4	375	1.00	5.00	3.4460	.76144
Responsiveness	2	375	1.00	5.00	3.2947	.83488
Empathy and Assurance	7	375	1.71	4.86	3.4697	.66240
Customer Loyalty	4	375	1.00	5.00	3.4673	.72075
Customer Satisfaction	4	375	1.25	5.00	3.4500	.71580

Source: Survey, 2016

Here the mean value of all variable ranges between 3.3947 to 3.4673 respectively and standard deviation ranges from 0.66240 to 0.83488 respectively. Service quality empathy and assurance has a highest mean value of 3.4697 along with standard deviation 0.66240 in given table.

#### *5.4 Level of Satisfaction Among the Customers*

In order to identify level of satisfaction among the customers, regression analysis was run for service quality dimensions and situational factors. These two variables are the key variables that help to determine level of satisfaction among the customer as well as these are the factors that determine the customer satisfaction. From the regression analysis, it is determined that service quality dimensions (tangibility with  $\beta = 0.352$  &  $p > 0.05$ , reliability with  $\beta = 0.384$  &  $p > 0.05$ , responsiveness  $\beta = 0.279$  &  $p > 0.05$ , empathy and assurance  $\beta = 0.469$  &  $p > 0.05$ ) is significantly and positively correlated with customer satisfaction. This result indicates that higher the service quality, higher will be the level of customer satisfaction. Secondly, the situational factor years of relationship is also significantly and positively correlated with the customer satisfaction with  $\beta = 0.122$  &  $p > 0.05$ . This indicates that those customers who have a long relationship with bank, have a higher level of satisfaction. However, situational factor frequency of visiting bank is statically insignificant with negative correlation with customer satisfaction. Therefore, it is concluded that frequency of visiting bank does not determine the level of satisfaction among customer.

**Table 12: Regression Analysis on Service Quality Dimensions and Situational Factor**

Independent Variable	Customer Satisfaction
	Coefficient (t-Value)
Frequency of visiting bank	-0.011 (-.387)
Years of relationship	0.122 (3.260) ***
Empathy and assurance	0.469 (14.084) ***
Reliability	0.384 (11.486) ***
Tangibility	0.352 (10.471) ***
Responsiveness	0.279 (8.310) ***
Constant	-0.335 (-2.205)
R2	0.592
Adjusted R2	0.586
F statistic	89.115
Maximum VIF	1.028

a. Dependent Variable: Customer satisfaction

b. Note: For significance P-value: less than 0.01

### 5.5 Controlling Effect

The controlling variable used in this research are Gender, Age, Education level, and Income level. Hence, the effect of the control variables is assessed on customer satisfaction and customer loyalty.

**Table 13: Regression Analysis on Customer Satisfaction and Customer Loyalty with Control Effect**

Independent Variable	Customer Loyalty	
	Model 1 Coefficient (t-Value)	Model 2 Coefficient (t-Value)
Education level of the respondents	0.038(0.637)	0.093(2.42) ***
Respondents Age	0.115(2.004) ***	0.008(0.193)
Income Per Months in NRs	-0.035(-0.846)	-0.058(-2.069) ***
Gender of the respondents	-0.076(-0.716)	-0.017(-0.233)
Customer Satisfaction		0.745(21.160) ***
Constant	-0.273(-0.940)	-0.253(-1.291)
R2	0.014	0.555
Adjusted R2	0.003	0.598
F statistic	1.328	447.730
Maximum VIF	1.588	1.591

a. Dependent Variable: Customer loyalty

b. Note: For significance P-value: less than 0.01

It is seen that in model 1, control variables are taken as an independent variable and it is clear that in model 1, only one control variable respondent age is significant at P -value = 0.046. this means that only age has a controlling effect on customer loyalty. But in case of Model 2, we take customer

satisfaction and control variable as an independent variable. Here model 2 education level, income and customer satisfaction are significant at P – value 0.016, 0.039 and 0.00 respectively.

**Table 14: Regression Analysis on Service Quality Dimensions and Customer Loyalty**

Independent Variable	Customer Loyalty	
	Model 1 Coefficient (t-Value)	Model 2 Coefficient (t-Value)
Education level of the respondents	0.038(0.673)	0.019(0.482)
Respondents Age	0.115(2.004) ***	0.049(1.238)
Income Per Months in NRs	-0.035(-0.846)	-0.051(-1.785)
Gender of the respondents	-0.076(-0.716)	-0.045(-.627)
Empathy and assurance		0.490(13.839) ***
Reliability		0.404(11.387) ***
Tangibility		0.335(9.361) ***
Responsiveness		0.152(4.284) ***
Constant	-0.273(-0.940)	0.008(.039)
R2	0.014	0.544
Adjusted R2	0.003	0.534
F statistic	1.328	106.366
Maximum VIF	1.588	1.610

a. Dependent Variable: Customer loyalty

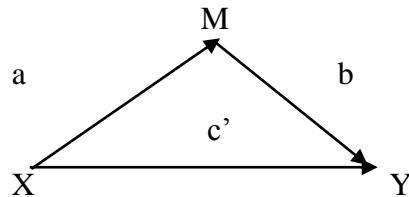
b. Note: For significance P-value: less than 0.01

The table 14 illustrates the regression analysis with service quality dimensions and customer loyalty along with controlling variable. Above table consists of two model. Model 1 is with control variable and Model 2 is with control variable along with service quality dimensions.

The controlling variable used in this research are Gender, Age, Education level, and Income level. Hence, the effect of the control variables is assessed on service quality dimensions and customer loyalty. In Model 1 only one control variable respondent age is significant at P -value = 0.046. This means that only age has a controlling effect on customer loyalty. In case of model 2, all the service quality dimensions are statistically significant with P -value= 0.000 at 95% level of confidence interval.

## 5.7 Mediation Effects

Variable (M) acts as a mediator when it influences the independent variable (x) for any given dependent variable (Y). Framework for mediator variable can be shown as follows:



In the above framework  $c$  represents the total effect of X on Y,  $c'$  is known as a direct effect. Furthermore, effect of X on M is  $a$ , but the effect of M on Y is  $b$ .

If  $c'$  is zero in that case, there will be complete mediation which means that X has no longer effect on Y when controlling for M. And in the case where  $c' < c$ , then partial mediation takes place but  $c'$  is still non zero.

Baron & Kenny (1986) and Judd & Kenny (1981) used common procedure to establish mediation effect which is discussed in four steps as follows

**Step 1:** A simple least square regression analysis was conducted with X predicting Y to test for path  $c$  alone

**Step 2:** A simple least square regression analysis was conducted with X predicting M to test for path  $a$ ,

**Step 3:** A simple least square regression analysis was conducted with M predicting Y to test the significance of path  $b$  alone,

**Step 4:** Conducting a multiple regression analysis with X and M predicting Y. Here effect of X controlling for M should be zero. Same equation was used to estimate effect in both step 3 and 4.

All in all, if  $c' = 0$  there will be complete mediation; if not there is a partial mediation.

To examine the effect of mediating customer satisfaction on a given relationship between dependent and independent variables, customer loyalty and service quality dimensions situational factor; we follow the Sobel's test of mediation.

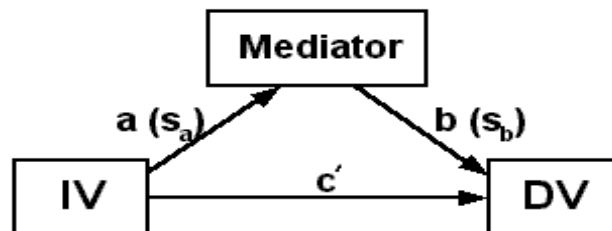


Sobel's test of mediation was developed by Sobel (1982). It is use to test the direct significance of **a b** against the normal Z distribution, with **S<sub>a</sub>** and **S<sub>b</sub>** as standard error (Wu & Zumbo, 2007). This means that result of indirect effect, **ab** is divided by standard error. Mathematically, Sobel test can be expressed as

$$z = \frac{ab}{\sqrt{(b^2SE_a^2) + (a^2SE_b^2)}}$$

where **a**= raw regression coefficient, association between independent variable and mediator. **S<sub>a</sub>**= standard error of **a**, **b**= raw coefficient, association between mediator and dependent variable, **S<sub>b</sub>**= standard error of **b**. In order to get the values of these firstly, we have to perform regression analysis with the independent variable predicting the mediator which gives the value of **a** and **S<sub>a</sub>** (Soper, 2006 ). Secondly, we have to perform regression analysis with the independent variable and mediating variable predicting the dependent variable which gives the value of **b** and **S<sub>b</sub>**. Also, the value of **S<sub>a</sub>** and **S<sub>b</sub>** should not be negative.

**Figure 4: Sobel's Tests of Mediation**



In order to get the value, we use Sobel test calculator that is available online in this website: <http://quantpsy.org/sobel/sobel.htm> in this research.

### 5.8 Test of Hypothesis

**H1: There is a positive relationship between service quality dimensions and customer satisfaction in Nepalese commercial banks.**

To investigate the influence of service quality dimensions as independent variables on customer satisfaction as the dependent variable the regression analysis is used to test the hypothesis in table 12 it is illustrated that service quality dimensions (Empathy and assurance with  $\beta = 0.469$ ,  $t = 14.084$  &  $p < 0.01$ , Reliability with  $\beta = 0.384$ ,  $t = 11.486$  &  $p < 0.01$ , Tangibility with  $\beta = 0.352$ ,  $t = 10.471$  &

$p < 0.01$ , Responsiveness with  $\beta = 0.279$ ,  $t = 8.310$  &  $p < 0.01$ .) is positively significantly associated with customer satisfaction. This means that service quality plays vital role in creating customer satisfaction in service sector. Hence, given hypothesis is supported.

**H2: Customer satisfaction mediates the relationship between service quality dimensions, situational factors and customer loyalty.**

In order to examine the effect of mediation in relationship between independent and dependent variable. Here raw regression coefficient **a** for Tangibility, Reliability, Responsiveness, Empathy and Assurance, Frequency of visiting bank and Years of relationship are ( $a = 0.340$ ,  $a = 0.400$ ,  $a = 0.150$ ,  $a = 0.491$ ,  $a = -0.005$  and  $a = 0.125$ ) and the standard error of **a** is defined as **S<sub>a</sub>** with values of 0.49 for Tangibility, 0.047 for Reliability, 0.051 for Responsiveness, 0.045 for Empathy and Assurance, 0.43 for frequency of visiting banks and 0.058 for Years of relationship respectively. Similarly, raw coefficient association between mediator and dependent variable **b** are 0.709, 0.688, 0.755, 0.651, 0.739, and 0.739 for each variables. likewise, standard error of **b** is defined as **S<sub>b</sub>** and the value for each items for **S<sub>b</sub>** are 0.037, 0.037, 0.036, 0.038, 0.035 and 0.035. We use Sobel’s test calculator. On the basis of Sobel’s test, following result are drawn:

**Table 15: Sobel Test Result for Mediation Test**

	<b>Tangibility</b>	<b>Reliability</b>	<b>Responsiveness</b>	<b>Empathy and Assurance</b>	<b>Frequency of visiting bank</b>	<b>Years of relationship</b>
<b>Test statistic</b>	1.84707687	7.73859146	0.150	9.2030457	-1.2767292	2.1440324
<b>Std. Error</b>	0.34763769	0.03556201	0.03888181	0.03473204	0.0318525	0.0430847
<b>P-value</b>	0.48804408	0.000	0.0035	0.000	0.20169784	0.03203029

From the above table, it is concluded that P-value of Tangibility and Frequency of visiting banks are not statistically significant because their P-values are higher than 0.01. If  $p < .05$  then it is a mediator. But in our case it is higher than 0.05. So it fails to reject the null hypothesis. Hence it is concluded that customer satisfaction does not mediate between tangibility and customer loyalty as well as between Frequency of visiting banks and customer loyalty. However, the other variables are statistically significant with P- value less than 0.05 which means that it rejects null hypothesis and supports our hypothesis. Hence, the given hypothesis is partially supported since customer

satisfaction does not mediate between one variable of service quality dimensions and situational factor with customer loyalty.

**H3: There is a positive relationship between customer satisfaction and customer loyalty in the Nepalese commercial banks.**

To examine the relationship between customer satisfaction and customer loyalty, a regression analysis is carried out with customer satisfaction as independent variable whereas customer loyalty as dependent variable. The result of regression between customer satisfaction and loyalty is displayed above in table 13 which shows the significant positive relationship between the two variables. Here the beta is 0.745, t-value is 21.61 with  $P < 0.01$  which is statistically significant of test results. Therefore, above hypothesis was supported.

**H4: Service quality dimensions has a positive effect on customer loyalty.**

To examine the relationship between service quality dimensions and customer loyalty, a regression analysis is carried out with service quality dimensions as an independent variable and customer loyalty as a dependent variable. From above table 14, service quality dimensions (Empathy and assurance with  $\beta = 0.490$ ,  $t = 13.839$  &  $p < 0.01$ , Reliability with  $\beta = 0.404$ ,  $t = 11.387$  &  $p < 0.01$ , Tangibility with  $\beta = 0.335$ ,  $t = 9.361$  &  $p < 0.01$ , Responsiveness with  $\beta = 0.152$ ,  $t = 4.284$  &  $p < 0.01$ ) are drawn. The results show that all the service quality dimensions have significant positive relationship with customer loyalty and have  $P < 0.01$  (99% level significant). Hence given hypothesis was supported

**H5a: Situational factor (Frequency of visiting) has a positive impact on customer satisfaction.**

The regression analysis is used to test the relation between situational factor with two variables: frequency of year visits and years of relationship and customer satisfaction respectively.

From the table 12, we conclude that the situational factor frequency of visit has negative relation with customer satisfaction with  $\beta = -0.011$   $t = -0.387$  &  $p > 0.01$ . whereas another situational factor years of relationship has significantly positively relationship with customer satisfaction in the meantime its P value is 0.001 which is statistically significant of test results as well as  $\beta = 0.122$   $t = 3.260$ . Hence, H5a is not accepted.

**H5b: Situational factor (Years of relationship) has a positive impact on customer satisfaction.**

Similarly, in table 12, it is shown that situational factor years of relationship has significantly positively relationship with customer satisfaction. In the meantime its P value is 0.001 which is statistically significant of test results as well as  $\beta=0.122$   $t=3.260$ . Therefore, the given hypothesis H5b is supported.

## DISCUSSION

---

### 6.1 Introduction

*In this chapter, research result will be discussed with respect to previous literature and theories and comparison will be made to find similarities between current results.*

The statistical results of questionnaire and hypothesis testing show that independent variables such as service quality dimensions have an impact on dependent variable customer loyalty and mediating variable customer satisfaction. Moreover, we discuss service quality dimensions and situational factors as independent variables and its impact on customer satisfaction, the mediating variable and customer loyalty as a dependent variable. All the service quality dimensions such as reliability, tangibility, responsiveness, assurance and empathy had significant positive impact on customer loyalty. In case of situational factor, only one variable (years of relationship) has significant positive relationship with customer satisfaction out of two variables. Similarly, customer satisfaction mediates the relationship between independent variable service quality dimensions, situational factors and customer loyalty. The main aim of this research is to explore the level of satisfaction for quality of service provided by Nepalese commercial banks among their customers, level of loyalty among Nepalese commercial bank users and factors associated with customer loyalty and satisfaction in the Nepalese commercial banks among their customers.

**H1: There is a positive relationship between service quality dimensions and customer satisfaction in Nepalese commercial banks.**

Service quality dimension such as tangibility, reliability, responsiveness, assurance and empathy have a significant relationship with customer satisfaction. This indicates that higher the service quality, greater the customer satisfaction. Usually in service sector, customer satisfaction is determined with the help of service quality dimensions. This finding was supported by previous literatures of Mahamad & Ramayah (2010); Siddiqi (2011); Al-Azzam (2015); Lau et al. (2013). Furthermore, earlier studies conducted by M.M. Khan & Fasih (2014) also support these findings. However, the research conducted by Kheng et al. (2010) stated that only two dimensions of service quality (Empathy and Assurance) are positively related with customer satisfaction. Therefore, for

this research, the results with respect to Nepalese commercial banks supported that service quality dimensions were the vital factors for customer satisfaction.

**H2: There is a positive relationship between customer satisfaction and customer loyalty in Nepalese commercial banks.**

The second hypothesis states that customer satisfaction acts as a vital variable to create loyalty in service sector like banks in Nepal. The research result concluded that customer satisfaction had a significant positive relationship with customer loyalty. This finding was also supported by earlier studies of Zafar et al. (2012); Lau et al. (2013); M.M. Khan & Fasih (2014). Similarly, the research conducted by Siddiqi (2011) in retail banking in Bangladesh also support this result. It stated that customer satisfaction and customer loyalty are positively related with each other. This means that higher the customer satisfaction, greater will be loyalty. However, prior study by (Badara et al., 2013) stated that there is no positive significant relationship between customer satisfaction and customer loyalty in Nigerian Islamic banks. Nevertheless, it is concluded that satisfied customers are loyal with the services they received from commercial banks in Nepal.

**H3: Customer satisfaction mediates the relationship between service quality dimensions, situational factors and customer loyalty.**

The third hypothesis explains the mediating relationship between service quality dimensions and customer loyalty. The results supported that customer satisfaction mediated the relationship between services quality dimensions and customer loyalty. Prior study by Mahamad & Ramayah (2010) also mentioned that customer satisfaction mediated the relationship between perceived services quality and customer loyalty. Similarly, another prior research by Kheng et al. (2010) also supported the above mentioned hypothesis. The research findings also concluded that in Nepalese commercial banks customer satisfaction mediated between service quality dimensions, situational factors and customer loyalty respectively.

**H4: Service Quality Dimensions has a positive effect on customer loyalty.**

The hypothesis four clarifies the relationship between various service quality dimensions and customer loyalty. The results indicate that all the service quality dimensions have positive significant relationship with customer satisfaction. This finding was supported by previous research done by M.M. Khan & Fasih (2014); Mahamad & Ramayah (2010). On the other hand, prior research conducted by Kheng et al. (2010) stated that out of five service quality dimensions, only two dimensions: assurance and empathy, have a positive effect on customer loyalty respectively. All in all, in Nepalese commercial banking sector, service quality dimensions such as tangibility, reliability, responsiveness, assurance and empathy played vital role in creating customer loyalty. Therefore, many commercial banks in Nepal put their effort to improve service quality dimension so as to attract more customer and create loyalty.

**H5a: Situational factor (Frequency of visiting) has a positive impact on customer satisfaction.**

**H5b: Situational factor (Years of Relationship) has a positive impact on customer satisfaction.**

The fifth hypothesis describes the impact of situational factor on customer satisfaction. The result in this research concluded that out of two situational factors, one factor has a positive impact on customer satisfaction where as another factor has a negative relationship with customer satisfaction.

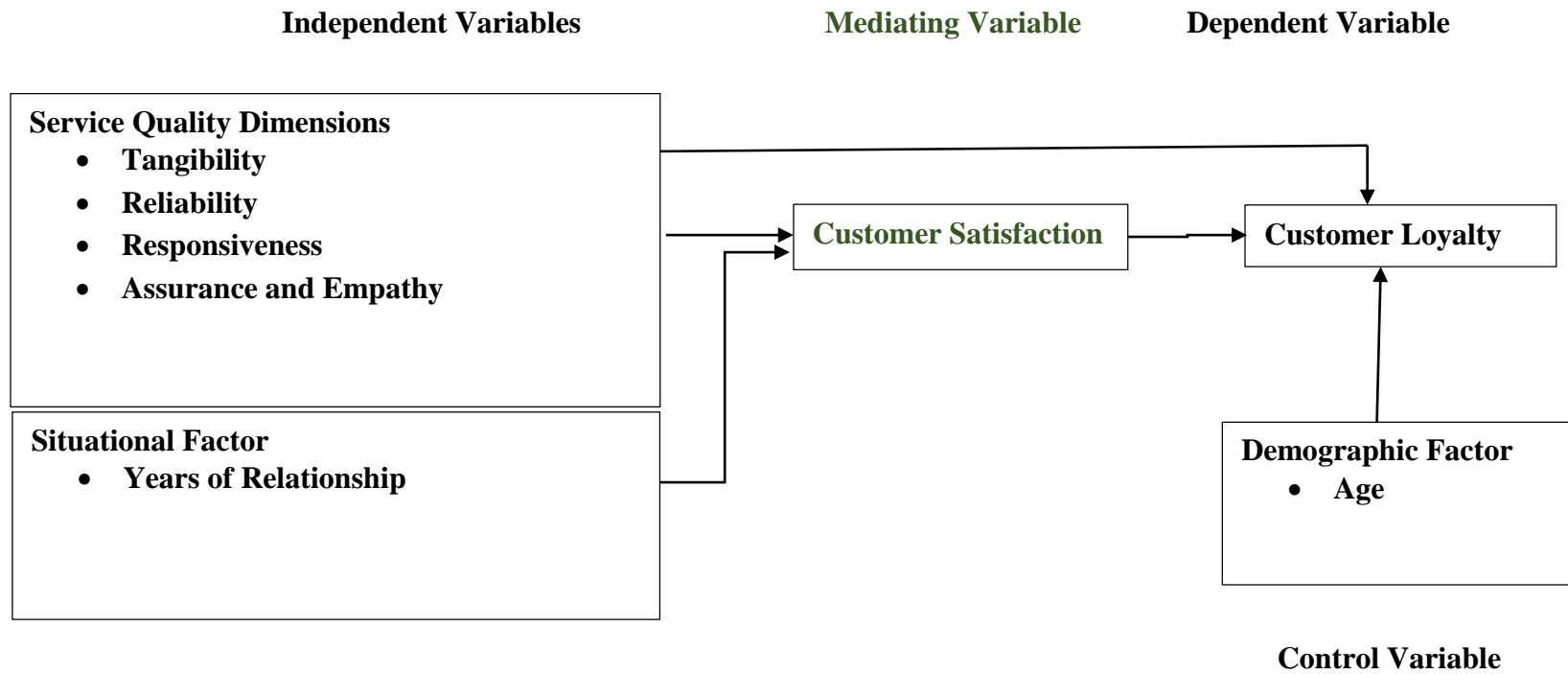
This means that in case of **H5a**, the situational factor frequency of visit has a negative relationship with customer satisfaction. But in case of **H5b**, situational factor years of relationship has positive relationship with customer satisfaction which indicated that those customers who had a long relationship with bank were satisfied with the services provided by banks in Nepal. However, prior research conducted by Dewan & Mahajan (2014) in public sector banks in India concluded that years of relationship with banks has no positive effect on customer satisfaction whereas frequency of visiting has a moderating effect on customer satisfaction. On the contrary, only satisfied customers are willing to keep long term relationship with commercial banks in Nepal.

**Table 16: Model Summary**

<b>Independent Variables</b>	<b>Direct Effect on Customer satisfaction</b>	<b>Direct Effect on Customer Loyalty</b>	<b>Mediation Effect testing</b>
<b>Service Quality Dimensions</b>			
Tangibility	Supported	Supported	Not Supported
Reliability	Supported	Supported	Supported
Responsiveness	Supported	Supported	Supported
Empathy and Assurance	Supported	Supported	Supported
<b>Situational Factors</b>			
Frequency of Visiting Banks	Not Supported	-	Not Supported
Years of Relationship	Supported	-	Supported



Figure 5: Revised Conceptual Framework



## CONCLUSION

---

### 7.1 Introduction

*This chapter presents the research findings and conclusion, implication of research and limitation of the study.*

### 7.2 Conclusion

The main purpose of conducting this research was to identify the important factors of customer satisfaction and customer loyalty in the context of Nepalese commercial banks. Many similar researches have been conducted in different setting like European, America, African countries and in few Asian countries, but only few data are available for Nepal. Furthermore, banking sector in Nepal is emerging. It plays vital role in the economic development of the country.

This research observed prior literature and established a base for examining customer loyalty and customer satisfaction. The hypotheses presented in this research are tested and findings are presented. The presented findings revealed that service quality dimensions such as tangibility, reliability, responsiveness, empathy and assurance have a significant impact on customer loyalty and customer satisfaction. Additionally, study also indicate that situational factors have also impact on customer satisfaction. Likewise, customer satisfaction mediates the relationship between service quality dimensions, situational factors and customer loyalty. Finally, it also examines control variables such as gender, age, income, and education level. Here, gender and education level and income has insignificant effect on the given factor customer loyalty. Similarly, age has a partial significant effect on the given factor.

All in all, the objective of this research was to identify the major factors that have an impact in customer satisfactions and customer loyalty. In this regard, finding exhibit that service quality dimensions such as tangibility, reliability, responsiveness, empathy and assurance are the most important factors that have an impact on customer satisfaction and customer loyalty respectively.

### *7.3 Contribution of the study*

**For Commercial Banks:** This research is new as the combined research with regards to customer satisfaction, service quality and customer loyalty is not found in context of Nepal. It focuses on customer satisfaction and customer loyalty in commercial banks of Nepal. This research also suggests innovative ways to improve service quality to customers and revise the current services provided by the banks, if necessary.

**For Policymakers :** It also provides agencies and planners information on customer satisfaction and loyalty which helps them to make future plans and policy in banking sector in Nepal as well as in various services sector as per need.

**For Society and Others:** It also contributed to other service sector in context of Nepal and other similar countries like Nepal. The research will helps for new researcher by providing base line information regarding service quality of Nepalese banking sector.

Finally, the findings of this research contribute to the understanding of customer satisfaction and customer loyalty with respect to service quality dimensions in the context of Nepalese commercial banks.

### *7.4 Implication of the Study*

This research is useful in the field of service marketing and understanding customer satisfaction and customer loyalty in Nepalese context. It also provides clear insight to commercial banks manager to understand customer needs and wants in changing environments. It also facilities the higher level employees to take decision that helps to improve their business by managing service quality.

Furthermore, findings reveal that service quality dimension is vital to create customer satisfaction and customer loyalty. So in order to exist in a sustainable manner, commercial banks in Nepal need to upgrade their service quality and review their business strategy. Finally, managerial implication of this research will help managers to evaluate their business strategies and upgrade their strategy to face new competition by attracting more customers.

### *7.5 Limitation of the Study*

This research has some limitations which can be addressed in future research. First of all, it focuses on commercial banking sector only; so limitation from generalization takes places. In future , the research should focus on other financial sector as well as service sector such as tourism, retail, hotels, transportation and many more. Secondly, this research is based on quantitative methods, so in future, researcher can use qualitative methods to understand customer satisfaction and loyalty in Nepalese commercial banks. During data collection the questionnaires should be developed in both English as well as in native language in understandable and simple words. Similarly, only SERVQUAL dimension are used in this research but in future it would be interesting if others dimensions are also added. Likewise, it would be interesting if different situational and control variables are used in future research. Also, the researcher focused upon the customers of Kathmandu as here are the most customers of banks. In the future when customers are more evenly dispersed, then it would be better to collect data from various places.

## REFERENCES

---

- Ahmed, I., Nawaz, M. M., Usman, A., Shaukat, M. Z., Ahmad, N., & Iqbal, H. (2010). Impact of Service Quality on Customers' Satisfaction: Empirical evidence from telecom sector of Pakistan. *Interdisciplinary journal of contemporary research in business*, 1(12), 98.
- Al-Azzam, A. F. M. (2015). The Impact of Service Quality Dimensions on Customer Satisfaction: A Field Study of Arab Bank in Irbid City, Jordan. *European Journal of Business and Management*, 7(15).
- Assael, H. (1995). *Consumer Behavior and Marketing Action*: South-Western College Pub.
- Badara, M. a. S., Mat, N. K. N., Mujtaba, A. M., Al-Refai, A. N., Badara, A. M., & Abubakar, F. M. (2013). Direct effect of service quality dimensions on customer satisfaction and customer loyalty in Nigerian Islamic bank. *Management*, 3(1), 6-11.
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology*, 51(6), 1173.
- Bearden, W. O., & Teel, J. E. (1983). Selected determinants of consumer satisfaction and complaint reports. *Journal of marketing Research*, 21-28.
- Bitner, M. J., Booms, B. H., & Tetreault, M. S. (1990). The service encounter: diagnosing favorable and unfavorable incidents. *The Journal of Marketing*, 71-84.
- Boonlertvanich, K. (2011). Effect of customer perceived value on satisfaction and customer loyalty in banking service: The moderating effect of mainbank status. *International Journal of Business Research*, 11(6), 40-54.
- Boundless. (2015). Boundless Marketing. *Factors Influencing Experience, Involvement, and Satisfaction*. Retrieved 21/012/2015, from <https://www.boundless.com/marketing/textbooks/boundless-marketing-textbook/consumer-marketing-4/consumer-experience-43/factors-influencing-experience-involvement-and-satisfaction-218-4858/>
- Caruana, A. (2002). Service loyalty: The effects of service quality and the mediating role of customer satisfaction. *European journal of marketing*, 36(7/8), 811-828.
- Chimoriya, B. (2015). Service Sector industries in Nepal with Examples. Retrieved 09/01/2016, from <http://www.wisenepali.com/2015/01/service-sector-industries-in-nepal-with.html>

- Činjurević, M., Tatić, K., & Avdić, A. (2010). An integrated model of price, service quality, satisfaction and loyalty: An empirical research in the banking sector of Bosnia and Herzegovina. *Economic Research-Ekonomska Istraživanja*, 23(4), 142-161.
- Countrymeters. (2015). Nepal Population. Retrieved 14/01/2016, from <http://countrymeters.info/en/Nepal>
- Dhar, D., & Kushwah, S. V. (2009). Service quality expectations and perceptions of public and private sector banks in India: A comparative study. Retrieved February, 22, 2014.
- Dick, A. S., & Basu, K. (1994). Customer loyalty: toward an integrated conceptual framework. *Journal of the academy of marketing science*, 22(2), 99-113.
- Engel, J. F., Miniard, P. W., & Blackwell, R. D. (1993). *Consumer behavior* Fort Worth, Tex Dryden Press.
- Garland, R., & Gendall, P. (2004). Testing Dick and Basu's customer loyalty model. *Australasian Marketing Journal (AMJ)*, 12(3), 81-87.
- Geographia. (2005). An Introduction to Nepal. Retrieved 15/01/2016, from <http://www.geographia.com/nepal/>
- Gorondutse, A. H., & Hilman, H. (2014). Mediation effect of customer satisfaction on the relationships between service quality and customer loyalty in the Nigerian foods and beverages industry: Sobel test approach. *International Journal of Management Science and Engineering Management*, 9(1), 1-8.
- Gronroos, C. (1990). *Service management and marketing: Managing the moments of truth in service competition*: Lexington books.
- Heskett, J. L., Saeere, W. E., & Schlesinger, J. L. A. (1997). *The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value*. New York : Free Press.
- Huseyin, A., Salime, M. S., & Salih Turan, K. (2005). Customer service quality in the Greek Cypriot banking industry. *Managing Service Quality: An International Journal*, 15(1), 41-56. doi:10.1108/09604520510575254
- Jackson, R. W., Neidell, L. A., & Lunsford, D. A. (1995). An empirical investigation of the differences in goods and services as perceived by organizational buyers. *Industrial Marketing Management*, 24(2), 99-108.

- Johnston, R. (1997). Identifying the critical determinants of service quality in retail banking: importance and effect. *International Journal of bank marketing*, 15(4), 111-116.
- Judd, C. M., & Kenny, D. A. (1981). Process analysis estimating mediation in treatment evaluations. *Evaluation review*, 5(5), 602-619.
- Kandampully, J., & Suhartanto, D. (2000). Customer loyalty in the hotel industry: the role of customer satisfaction and image. *International journal of contemporary hospitality management*, 12(6), 346-351.
- Khan, M. (2006). *Consumer Behaviour and Advertising Management*: New Age International Pvt. Ltd., Publishers.
- Kotler, P., & Armstrong, G. (2012). *Principles of marketing*. Boston: Pearson Prentice Hall.
- Kotler, P., & Keller, K. L. (2011). *Marketing Management* (14 ed.): Prentice Hall.
- La Roche, M. (2005). *Cultural Perspectives on Services Marketing* (Vol. 19): Emerald Group Publishing.
- Lau, M. M., Cheung, R., Lam, A. Y., & Chu, Y. T. (2013). Measuring service quality in the banking industry: a Hong Kong based study. *Contemporary Management Research*, 9(3), 263.
- Lewis, B. R., & Soureli, M. (2006). The antecedents of consumer loyalty in retail banking. *Journal of consumer Behaviour*, 5(1), 15-31.
- Loureiro, S. M. C., & Kastenholtz, E. (2011). Corporate reputation, satisfaction, delight, and loyalty towards rural lodging units in Portugal. *International Journal of Hospitality Management*, 30(3), 575-583.
- Mahamad, O., & Ramayah, T. (2010). Service quality, customer satisfaction and loyalty: A test of mediation. *International business research*, 3(4), 72.
- McDougall, G., & Levesque, T. (1992). The measurement of service quality: some methodology issues. *2ème Séminaire International de Recherche en management des activités de service*, 411-430.
- Michael, S., Gary, B., & Soren, A. (1999). Consumer behaviour: a European perspective. *New Jersey, ZDA: Prentice Hall Inc.*
- Mittal, V., & Kamakura, W. A. (2001). Satisfaction, repurchase intent, and repurchase behavior: Investigating the moderating effect of customer characteristics. *Journal of marketing Research*, 38(1), 131-142.

- Oliver Richard, L. (1997). Satisfaction: A behavioral perspective on the consumer. *New York NY: Irwin-McGraw-Hill.*
- Oly Ndubisi, N. (2004). Understanding the salience of cultural dimensions on relationship marketing, it's underpinnings and aftermaths. *Cross Cultural Management: An International Journal, 11(3), 70-89.*
- Onditi, A. A. (2013). Relationship between Customer Personality, Service Features and Customer Loyalty in the Banking Sector: A Survey of Banks in Homabay County, Kenya. *International Journal of Business and Social Science, 4(15).*
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1985). A Conceptual Model of Service Quality and Its Implications for Future Research. *Journal of Marketing, 49(4), 41-50.* doi:10.2307/1251430
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. *Journal of Retailing, 64(1), 12-40.*
- Patterson, P. G., & Spreng, R. A. (1997). Modelling the relationship between perceived value, satisfaction and repurchase intentions in a business-to-business, services context: an empirical examination. *International Journal of service Industry management, 8(5), 414-434.*
- Rauyruen, P., & Miller, K. E. (2007). Relationship quality as a predictor of B2B customer loyalty. *Journal of business research, 60(1), 21-31.*
- Ravichandran, K., PRABAKARAN, S., & Kumar, S. A. (2010). Application of Servqual model on measuring service quality: A Bayesian approach. *Enterprise Risk Management, 2(1).*
- Schiffman, L. G., & Kanuk, L. L. (2004). Consumer behaviour 8 th ed: New Jersey: Pearson Prentice Hall.
- Shanker, R. (2002). *Services Marketing: The Indian Perspective : Text and Readings: Excel Books.*
- Sharesansar. (2016). Banking History in Nepal: When were the commercial banks established in Nepal ? Retrieved 9/02/2016, from <http://www.sharesansar.com/banking-history-in-nepal-when-were-the-commercial-banks-established-in-nepal/>
- Siddiqi, K. O. (2011). Interrelations between service quality attributes, customer satisfaction and customer loyalty in the retail banking sector in Bangladesh. *International Journal of Business and Management, 6(3), 12.*



- Smith, S. (1998). How to create a plan to deliver great customer service. *Best Practices in Customer Service*. New York, NY: AMACOM.
- Soper., D. D. (2006 ). Calculator: Sobel Test for the Significance of Mediation. Retrieved 15/05/2016, from <http://www.danielsoper.com/statcalc/calculator.aspx?id=31>
- Tam, J. L. (2004). Customer satisfaction, service quality and perceived value: an integrative model. *Journal of marketing management*, 20(7-8), 897-917.
- Uncles, M. D., Dowling, G. R., & Hammond, K. (2003). Customer loyalty and customer loyalty programs. *Journal of consumer marketing*, 20(4), 294-316.
- Veloutsou, C., Daskou, S., & Daskou, A. (2004). Are the determinants of bank loyalty brand specific? *Journal of Financial Services Marketing*, 9(2), 113-125.
- Wallin Andreassen, T. (1994). Satisfaction, loyalty and reputation as indicators of customer orientation in the public sector. *International Journal of Public Sector Management*, 7(2), 16-34.
- Wilson, A., Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services marketing: Integrating customer focus across the firm*: McGraw Hill.
- Wu, A. D., & Zumbo, B. D. (2007). Understanding and Using Mediators and Moderators. *Social Indicators Research*, 87(3), 367-392. doi:10.1007/s11205-007-9143-1
- Zafar, M., Zaheer, A., & ur Rehman, K. (2011). Impact of online service quality on customer satisfaction in banking sector of Pakistan. *African Journal of Business Management*, 5(30), 11786.
- Zeithaml, V. A., Parasuraman, A., & Malhotra, A. (2002). Service quality delivery through web sites: a critical review of extant knowledge. *Journal of the academy of marketing science*, 30(4), 362-375.

## Appendices

---

### *Appendix 1: Reflective Note*

The economic liberalization introduced by Nepal Rastra Bank (NRB), the central bank of Nepal in 1980s opened the door for not even private only, but even for foreign sector to enter into the banking sector of Nepal. Before that, banking activities were shrunk into a handful of two commercial and two development banks. The liberalization led to new entries and thus competition among the banking sector. Now, the Nepalese banking sector consists of 30 commercial banks (recent mergers activities are making the changes in number of commercial banks). Government, private as well as foreign banks have their strong presence in the Nepalese market toiling hard to maintain and increase customers. Being a service sector, the banks require the satisfaction and loyalty from the side of the customers in order to sustain in the market. With these things in mind, the main objective of this research is to determine the service quality dimensions affecting customer satisfaction and customer loyalty in Nepalese commercial banking sector. By taking previous literatures of Customer Satisfaction and Customer Loyalty as a basis, various service quality dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy) and situational factor such as (Frequency of Visiting Banks and Years of Relationship) were taken into consideration as well as control variables like education, age, gender, income. From the research, it was found that service quality dimensions Tangibility, Reliability, Responsiveness, Assurance and Empathy have positive relationship with customer satisfaction and customer loyalty respectively. Similarly, situational factor years of relationship have positive relationship on customer satisfaction and customer satisfaction mediates the relationship between service quality dimensions, situational factors and customer loyalty. Also, it examines that control variables such as age has a significant impact on given all factors. The outcomes of this research serves to a great regard to how customers feel with regards to the banks whom they interact with for various purposes with regards to the services provided by them.

In the present era of globalization, customer satisfaction and customer loyalty are not just the terms, but something larger: the critical success factors of the banks. With customers becoming more aware of their rights, creating customer satisfaction and loyalty is both a challenge and opportunity for Nepalese commercial banks. With the introduction of private and foreign parties, Nepalese commercial banks are now both directly and indirectly affected by international

environmental factors. All the technological factors such as introduction of ATM machines, electronic cards, internet banking by Nepalese banks are the contribution from international scenario. Not only this, being the member of World Trade Organization as well as South Asian Association for Regional Cooperation, the banking sector is now prone to various international factors.

Innovation is not a new term in service sector as the banks try to remain near to their customers by introducing various innovative ideas. This research suggest that customer satisfaction and loyalty can be increased by providing innovative service to the customers. Finding market gap is one of the important activities with regards to innovation. In case of commercial banks in Nepal, the market is saturated, so the banks need to innovate by exploiting existing market gaps. This can be done by understanding the nature of existing market, the grievances of the customers which defines in what ways they could not get quality services so that the banks can find ways that would address their needs promptly. Also, they can find the unique attributes that helps to drive the core value proposition. For instance; launching different saving accounts to address the necessity of customers from any walk of life, lowering the interest rate in borrowing and making paper work easier, so that people can perform banking transaction with less hassle; can be some innovative ideas for Nepalese commercial banks.

With regards to the responsibility, the commercial banks in Nepal can apply corporate social responsibility (CSR) as a tool of commutative advantage in order to influence the customer satisfaction as well as the customer loyalty. One way to do this can be finding out where the existing customers are more in number in certain area and performing socio- economically beneficial activities (for example: sponsoring the health camping) so that it stimulates the satisfaction level and customer loyalty indirectly but effectively. However, this may also lead to the one big ethical dilemma; should CSR activities be carried out where necessary or should it be carried out where the number of the customer is high. Also, majority of banks are concentrated in major cities only, leaving the customers from rural areas to be fully or partially cut off from enjoying complete banking services. It is the responsibility of the banks to attract the potential customers from rural areas also. Similarly, with Nepalese adult literacy rate being 65.7 percent, there are many customers who are illiterate. There is a big challenge as well as responsibility for the banks to provide user friendly service to these customers and ensure satisfaction and loyalty from them.

## Appendix 2: Survey Questionnaire

Note: Given information will be used for research purpose only and will not be disclosed to anybody.

### Part 1

Tick (✓) mark the appropriate option

#### Demographic or Personal factor (Mahamad & Ramayah, 2010)

1. Gender: 1. Male  2. Female

#### 2. Education Level

1. Primary  2. Secondary  3. Higher Secondary  4. Undergraduate  5. Graduate   
 Post Graduate  7. Doctorate

3. Name of your bank: .....

#### 4. Age

1. Less than 20 years
2. 20-29 years
3. 30-39 years
4. 40-49 years
5. 50 years and Above

#### 5. Income Per Months. (Nepalese Rupees (Rs))

1. Less than Rs.10000
2. Rs.10000-19999
3. Rs.20000-29999
4. Rs. 30000-39999
5. Rs. 40000-49999
6. Rs.50000 and Above

**Part 2**

**Situational Factors** (Dewan & Mahajan, 2014)

**1. Frequency of visiting a bank**

- 1. 3-5 times a week.
- 2. Once a week
- 3. Once in every two week
- 4. Monthly
- 5. More seldom than once a monthly.

**2. How long have you been customer of this bank? (Years of relationship with banks).**

- 1. Less than 1 years
- 2. 1-2 years
- 3. 2-5 years
- 4. More than 5 years

**Part 3**

Please read each question carefully and select your level of agreement for the following statement.

And **tick (√) mark** the appropriate number from 1 to 5. Each testimonial is measured by 5- point

Likert scale: 1= Strongly disagree; 2=Disagree; 3=Neutral; 4= Agree; 5=Strongly agree

<b>A. Service Quality Dimension(SERVQUAL)</b>	<b>LEVEL OF AGREEMENT</b>				
<b>Tangibility</b>	1	2	3	4	5
1. Bank have up to date equipment which is sufficient and obvious for customers' usage.					
2. Customers feel comfortable while using bank physical facilities					
3. Sufficient Employee are committed to provide customers banking services.					
4. Bank's physical facilities and material associated with service are visually pleasing					

<b>Reliability</b>					
5. The bank can deliver the service as promised to the customers with in a given time.					
6. The bank can provide secure and accurate service to customers					
7. The bank can honor their promises.					
8. When customer are facing problem, bank show genuine interest in handling customer problems					
<b>Responsiveness</b>					
9. Bank employees will provide customers precise personal services.					
10. Bank employees will provide prompt service to customer					
11. Bank employees are willing to help customers.					
12. Bank employees are never too busy to respond customer request					
<b>Assurance</b>					
13. Customers will feels safe during the transaction process.					
14. Bank employees behavior will increase customer's confident and trust in quality services.					
15. Bank employees will be regularly courteous with customer queries.					
16. Bank employees have a knowledge to answer your questions					
<b>Empathy</b>					
17. Bank employees will provide customized services to their customers.					
18. Bank employees have the enthusiasm to understand the customer specific needs.					
19. Bank employees consider customer needs in the first place.					
20. Bank opening hours is appropriate to the customers					

Adapted from: (Parasuraman et al., 1991)

### Part 4

Please read each question carefully and select your level of agreement for the following statement. And **Tick (√) mark** the appropriate number from 1 to 5. Each testimonial is measured by 5- point Likert scale: 1= Strongly disagree; 2=Disagree; 3=Neutral; 4= Agree; 5=Strongly agree

<b>B. Customer Loyalty</b>	LEVEL OF AGREEMENT				
	1	2	3	4	5
1. I speak Positive things about my bank to other people.					
2. I would suggested my bank to those who search for my advice about such matter.					
3. I will continue to use this bank services					
4. I only pay my attention to this bank					

Adapted from: (Mols,1998)

### Part 5

Please read each question carefully and select your level of agreement for the following statement. And **Tick (√) mark** the appropriate number from 1 to 5. Each testimonial is measured by 5- point Likert scale: 1= Strongly disagree; 2=Disagree; 3=Neutral; 4= Agree; 5=Strongly agree

Adapted from: (Mols, 1998)

<b>C. Customer Satisfaction</b>	LEVEL OF AGREEMENT				
	1	2	3	4	5
1. I am very satisfied with the services offered by this bank.					
2. Bank comes up to my beliefs of a good bank.					
3. Overall, I have a good and positive impression towards this bank.					
4. Employee are highly motivated to solve customer problems					

Adapted from: (Mols,1998)

*Appendix 3: Correlation with Customer Satisfaction*

	Tangibility	Reliability	Responsiveness	Empathy and assurance	Frequency of visiting bank	Years of relationship	Customer Satisfaction
Tangibility	1						
Reliability	.000	1					
Responsiveness	.000	.000	1				
Empathy and assurance	.000	.000	.000	1			
Frequency of visiting bank	-.089	-.042	-.130*	.024	1		
Years of relationship	.097	.085	-.024	-.040	-.018	1	
Customer Satisfaction	.363**	.394**	.278**	.465**	-.088	.151**	1

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

\* . Correlation is significant at the 0.05 level (2-tailed).



*Appendix 4: Correlation with Customer Loyalty*

	Gender of the respondents	Education level of the respondents	Respondents Age	Income Per Months in NRs	Frequency of visiting bank	Years of relationship	Empathy and assurance	Reliability	Tangibility	Responsiveness	Customer Satisfaction	Customer Loyalty
Gender of the respondents	1											
Education level of the respondents	-.044	1										
Respondents Age	.087	.321**	1									
Income Per Months in NRs	.013	.533**	.450**	1								
Frequency of visiting bank	.000	-.011	.087	-.104*	1							
Years of relationship	.057	.204**	.405**	.332**	-.018	1						
Empathy and assurance	-.035	.061	.017	.021	.024	-.040	1					
Reliability	-.026	.040	.036	.095	-.042	.085	.000	1				
Tangibility	.047	.065	.160**	.039	-.089	.097	.000	.000	1			
Responsiveness	.014	-.076	.046	.029	-.130*	-.024	.000	.000	.000	1		
Customer Satisfaction	-.022	-.005	.140**	.071	-.088	.151**	.465**	.394**	.363**	.278**	1	
Customer Loyalty	-.030	.051	.102*	.019	-.067	.112*	.491**	.400**	.340**	.150**	.739**	1

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

\* . Correlation is significant at the 0.05 level (2-tailed).

### Appendix 5: Regression Analysis on Service Quality Dimensions and Situational Factors

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	R Square Change	F Change	df1	df2	Sig. F Change
1	.770 <sup>a</sup>	.592	.586	.64367558	.592		89.115	6	368	.000

a. Predictors: (Constant), Responsiveness, Tangibility, Reliability, Empathy and assurance, Years of relationship, Frequency of visiting bank

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	221.531	6	36.922	89.115	.000 <sup>b</sup>
	Residual	152.469	368	.414		
	Total	374.000	374			

a. Dependent Variable: Customer Satisfaction

b. Predictors: (Constant), Responsiveness, Tangibility, Reliability, Empathy and assurance, Years of relationship, Frequency of visiting bank

Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance
1	(Constant)	-.335	.152		-2.205	.028	-.635	-.036	
	Frequency of visiting bank	-.011	.028	-.013	-.387	.699	-.065	.044	.973
	Years of relationship	.122	.038	.110	3.260	.001	.049	.196	.981
	Empathy and assurance	.469	.033	.469	14.084	.000	.404	.535	.998
	Reliability	.384	.033	.384	11.486	.000	.318	.450	.991
	Tangibility	.352	.034	.352	10.471	.000	.286	.418	.983
	Responsiveness	.279	.034	.279	8.310	.000	.213	.345	.982

a. Dependent Variable: Customer Satisfaction

## Appendix 6: Regression Analysis on Customer Satisfaction and Customer Loyalty with Control Effect

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.119 <sup>a</sup>	.014	.003	.99825225	.014	1.328	4	370	.259
2	.745 <sup>b</sup>	.555	.549	.67189563	.540	447.730	1	369	.000

a. Predictors: (Constant), Gender of the respondents, Income Per Months in NRs, Respondents Age, Education level of the respondents

b. Predictors: (Constant), Gender of the respondents, Income Per Months in NRs, Respondents Age, Education level of the respondents, Customer Satisfaction

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

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.292	4	1.323	1.328	.259 <sup>b</sup>
	Residual	368.708	370	.997		
	Total	374.000	374			
2	Regression	207.417	5	41.483	91.891	.000 <sup>c</sup>
	Residual	166.583	369	.451		
	Total	374.000	374			

a. Dependent Variable: Customer Loyalty

b. Predictors: (Constant), Gender of the respondents, Income Per Months in NRs, Respondents Age, Education level of the respondents

c. Predictors: (Constant), Gender of the respondents, Income Per Months in NRs, Respondents Age, Education level of the respondents, Customer Satisfactio

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-.273	.291		-.940	.348	-.845	.299		
Education level of the respondents	.038	.057	.041	.673	.501	-.074	.150	.704	1.420
Respondents Age	.115	.057	.117	2.004	.046	.002	.228	.781	1.281
Income Per Months in NRs	-.035	.042	-.055	-.846	.398	-.117	.047	.630	1.588
Gender of the respondents	-.076	.106	-.037	-.716	.475	-.284	.132	.987	1.014
2 (Constant)	-.253	.196		-1.291	.197	-.638	.132		
Education level of the respondents	.093	.038	.100	2.420	.016	.017	.169	.701	1.426
Respondents Age	.008	.039	.008	.193	.847	-.069	.084	.768	1.303
Income Per Months in NRs	-.058	.028	-.091	-2.069	.039	-.113	-.003	.629	1.591
Gender of the respondents	-.017	.071	-.008	-.233	.816	-.157	.124	.985	1.015
Customer Satisfactio	.745	.035	.745	21.160	.000	.675	.814	.975	1.026

a. Dependent Variable: Customer Loyalty

## Appendix 7: Regression Analysis on Service Quality Dimensions and Customer Loyalty

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.119 <sup>a</sup>	.014	.003	.99825225	.014	1.328	4	370	.259
2	.738 <sup>b</sup>	.544	.534	.68253653	.530	106.366	4	366	.000

a. Predictors: (Constant), Gender of the respondents , Income Per Months in NRs, Respondents Age , Education level of the respondents

b. Predictors: (Constant), Gender of the respondents , Income Per Months in NRs, Respondents Age , Education level of the respondents , Empathy and assurance , Reliability, Responsiveness, Tangibility

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

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.292	4	1.323	1.328	.259 <sup>b</sup>
	Residual	368.708	370	.997		
	Total	374.000	374			
2	Regression	203.497	8	25.437	54.603	.000 <sup>c</sup>
	Residual	170.503	366	.466		
	Total	374.000	374			

a. Dependent Variable: Customer Loyalty

b. Predictors: (Constant), Gender of the respondents , Income Per Months in NRs, Respondents Age , Education level of the respondents

c. Predictors: (Constant), Gender of the respondents , Income Per Months in NRs, Respondents Age , Education level of the respondents , Empathy and assurance , Reliability, Responsiveness, Tangibility

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1(Constant)	-.273	.291		-.940	.348	-.845	.299
Education level of the respondents	.038	.057	.041	.673	.501	-.074	.150
Respondents Age	.115	.057	.117	2.004	.046	.002	.228
Income Per Months in NRs	-.035	.042	-.055	-.846	.398	-.117	.047
Gender of the respondents	-.076	.106	-.037	-.716	.475	-.284	.132
2(Constant)	.008	.201		.039	.969	-.386	.402
Education level of the respondents	.019	.039	.020	.482	.630	-.058	.096
Respondents Age	.049	.040	.050	1.238	.216	-.029	.127
Income Per Months in NRs	-.051	.029	-.080	-1.785	.075	-.107	.005
Gender of the respondents	-.045	.072	-.022	-.627	.531	-.188	.097
Empathy and assurance	.490	.035	.490	13.839	.000	.420	.559
Reliability	.404	.035	.404	11.387	.000	.334	.474
Tangibility	.335	.036	.335	9.361	.000	.265	.406
Responsiveness	.152	.036	.152	4.284	.000	.082	.222

a. Dependent Variable: Customer Loyalty