

**Comparative evaluation of critical factors
to close the service quality gaps in the
commercial banks of Nepal**

Bibhor Kharel

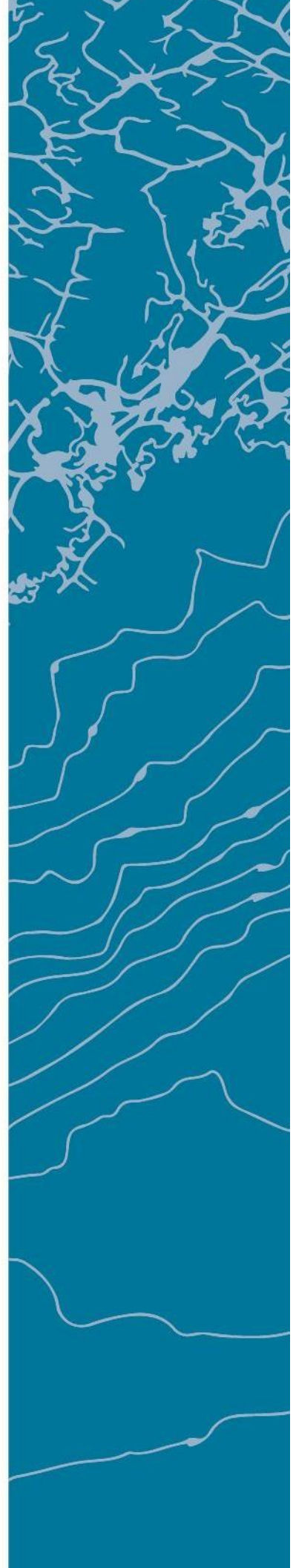
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Contents

List of Abbreviation	5
ACKNOWLEDGEMENT	6
Abstract	7
1 Introduction.....	8
1.1 Title of dissertation.....	8
1.2 Background of the study	8
1.3 Background of Nepal and Banking sector.....	10
1.5 Motivation for Research.....	12
1.6 Research Objective.....	13
1.7 Research Questions	13
2 Literature Review.....	16
2.1 Introduction	16
2.2 Service Quality	16
2.3 Levels of Service Expectation.....	17
2.4 Factors Influencing Customer’s Service Expectations.....	18
2.5 Factors Influencing Desired Service Expectations.....	18
2.6 Factors Influencing Adequate Service Expectations.....	19
2.7 Factors Influencing both Desired and Predicted Service Expectations.....	21
2.8 Factors Influencing Customers’ Service Perceptions.....	23
2.9 SERVQUAL Model	24
2.10 The Scale of SERVQUAL MODEL	25
2.11 SERVQUAL dimensions in the banking sector.....	26
2.12 SERVQUAL Gaps	28
2.13 Criticism of SERVQUAL	29
2.14 Theoretical Framework	31
2.15 Measurement of variables	31
3 Research and Methodology.....	34
3.1. Sampling Method	34
3.2. Data Collection.....	35
3.4 Sample Characteristics	36
4. Analysis and Interpretation.....	38

4.1 Comparison of expectation, perception and service gap.....	38
4.2 Factor analysis Determining critical factors of SERVQUAL and reliability of measures .	39
4.2.1 Scree plot	41
4.2.2 Unrotated and rotated factor matrix.....	41
4.2.3 Cronbach's alpha	44
4.3 Hypothesis testing on overall Service quality gap: PCB Vs GOB.....	45
4.4 Hypothesis test on dimensions of SERVQUAL: PCB and GOB.....	46
4.5 Relative importance of critical factors: PCB Vs GOB.....	51
4.6 Summary of Hypotheses and Analysis	54
5. Discussion.....	56
6. Conclusion and Managerial Implication.....	59
Reflective Note	62
References.....	65
APPENDIX-I	69
Questionnaire	69

List of Tables

Table I: Commercial banks of Nepal	11
Table II: Independent variables with the dimensions and its individual item	32
Table III: Demographic profile of the respondents.....	37
Table IV: Comparison of expectation, perception and service gap	38
Table V: Total Variance Explained	40
Table VI: Unrotated Factor Matrix	42
Table VIII: Reliability Test.....	44
Table IX: Difference in overall perception and expectation using paired sample t-test.....	45
Table X: Difference in overall expectation and perception using independent sample t-test	46
Table XI: Difference in perception and expectation on critical factors using paired sample test	47
Table XII: Difference in expectation and perception of critical factors using independent sample t-test.....	49
Table XIII: Differences in service quality gap of critical factors between private commercial banks and government-owned banks using independent sample t-test	50
Table XIV: Marginal R2 contribution: PCB.....	51
Table XV: Marginal R2 contribution: GOB	52
Table XVI: Summary of dominance analysis relative importance metrics: PCB	53
Table XVII: Summary of dominance analysis relative importance metrics: GOB	53
Table XVIII: Hypothesis test and decisions	55

List of Figures

Figure I: Level of services	17
Figure II: Factors influencing desired service expectation	18
Figure III: Factors influencing adequate service expectation	19
Figure IV: Factors influencing both desired and predicted service expectations	21
Figure V: Factors influencing customer service perception	24
Figure VI: Theoretical framework of service quality	31
Figure VII: Scree plot of factors extracted	41

List of Abbreviation

ATM	Automated Teller Machine
GOB	Government Owned Bank
PCB	Private Commercial Bank
NRB	Nepal Rastra Bank
NRS	Nepalese Rupees

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Abstract

The study aims to find out the critical factors that are creating a gap in service quality in the commercial bank of Nepal using the SERVQUAL model. In order to make the even comparison and proper investigation, the study selects one private commercial bank and one government-owned bank basing on their paid-up capital, nature of the business, profitability, customer base, brand image and so on which is proper representative for the research. With the application of the dominance analysis, the most critical dimensions of the service quality are identified. Furthermore, the study evaluates and emphasize the critical factors that should be focused to increase the service quality of the banks. The research is based on 223 samples collected by using the questionnaire, whereby 22 statements each for perception and expectation of customers, founded by Parasuraman.

The result of the study suggests that there is service quality gap in both private commercial bank and government-owned bank, however, the gap is higher in the government-owned bank. Moreover, with the implementation of dominance analysis helped to underline “responsiveness” and “assurance” as an important dimension to be considered to close the service gap by 73%. However, in the case of the government-owned bank, considering “assurance” and “competence” dimensions can close the service gap by 86%.

The study suggests investing more in updating the recent technology, the human factor (like soft skills training and communication training), customer relationship management and effective information system to close the gap that is evident in the commercial banks of Nepal.

1 Introduction

1.1 Title of dissertation

The title of the dissertation is “Comparative evaluation of critical factors to close the service quality gaps in the commercial bank of Nepal”. The study aims to compare one private commercial bank with one government-owned bank of Nepal to access the service quality gaps and identifying the critical dimensions of service quality to close the gap in the banks.

1.2 Background of the study

In the current era, customer satisfaction is a major concern, especially in the service sector. In order to accomplish the highest level of customer satisfaction, most of the organization emphasize their strategies to improve the service quality provided to the customers. In the presence of close edge competition, the level of service quality gives distinct recognition to the organization which helps to stand out in the crowd. The shift of economy towards service industry and intense competition among the rival companies have emphasized to identify the gaps to increase the given level of services to the customers. In the service sector, the quality service is second to none and it is the fundamental key to attain and retain the customers for a longer period of time (Morrison Coulthard, 2004). Moreover, the service quality helps to gain competitive advantages in the market, hence, the profitability is assured in the long term (Tam, 2004). Service quality is strongly linked with the growth and development of service sectors which consists of various business enterprises (Powell, 1995). Unlike the past days, the service sector has garnered immense attention as it has grown to be the largest sector to add value in the overall economy.

The service providers should have a clear understanding of how the customers perceive and evaluate the service provided to them. The perception and evaluation of customers regarding the service being provided plays important role to determine if there exist any service gaps (Zeithaml, Parasuraman, & Malhotra, 2002). The relationship between service quality and customer satisfaction is not an exception in the case of the banking sector. The service quality is very critical to get hold of customers of banks as technological development is very rapid and ever-changing. Thus, service quality plays a pivotal role in the retention of customers and their royalty. The quality of services provided by the bank to its customer base can be the key to stand out and beat the intense competition in the industry (Lewis P. , 2001).

The organization should focus on retaining the existing customer and regularly acquiring the new ones. The organization should provide the products and services to the current customers in such a way that the customer continues to consume for a long time rather than churning towards the competitors. Of many studies conducted, the researchers concluded that customer satisfaction results in customer loyalty ensure that the existing customers continue to consume the given products and service that stop them from churning towards the competitors. Out of many conducted studies, the researchers concluded that customer satisfaction results in customer loyalty (Caruana, 2002). The loyalty results in the repurchase of products and services from the same provider that ensures the increment in the long-term firm revenue (Ryan, Rayner, & Morrison, 1999).

Bank can influence the growth of the country, playing an essential and active role in the financial and economic development of the country. The significant challenges in the banking industry are the changing customer needs and a better grasp of those needs. Moreover, to defy the competition in the sector the banks have challenges to adopt the latest information system (Malhotra & Mukherjee, 2004).

Many types of research have been conducted to investigate the relationship between customer satisfaction and service quality in the banking sectors in many countries. The studies conducted in Iran show that the services provided by banks run short of fulfilling the ever-growing customer expectation (Hafeez & Muhammad, 2012). Similarly, the study conducted in Jordan concludes that customer satisfaction is affected by the service dimensions in a positive way (Al-Azzam, 2015).

This study aims to access the service quality gaps in the banks of Nepal. Considering the previous studies, service quality and customer satisfaction are sensitive and critical in the banking sector all over the world. The study aims to answer a few questions about the difference in service quality in and between the private commercial bank and government-owned bank. The differences are investigated considering the various service quality dimensions as well. The paper aims to access the difference in a private commercial bank and government-owned bank taking service quality gap of each bank into account to make the research more thorough. The research questions if there is the existence of a service gap in the bank of Nepal, gap amid the service dimensions, and the identification of critical factors to close the gaps in those banks.

The central hypothesis for the study is that the service quality of both private commercial bank and government-owned bank, do not fulfill the expectation of the customers. Precisely, the banks in Nepal are unable to meet the expectations with the current level of services provided to the customers. The following sections discuss in detail and more depth about the set hypotheses.

1.3 Background of Nepal and Banking sector

Situated in between China and India, Nepal is the small landlocked country with a total land area of 147,181 square kilometers. As per (Government of Nepal, 2014) the population of Nepal will amount to 30.4 million by 2021. In the prior years, agriculture contributed the highest percentage toward the overall GDP. But, due to the shift of paradigm, the contribution of the service sector in the whole is the highest now, which is estimated to be 52.4% in FY 2017/18 (Ministry of Finance, 2018). The majority of the population uses Nepali as the national language; however, the use of English is prevalent all over the country. Even though service sectors have more rooms to grow in the future, the minimal research is done to address the possibilities and shortcomings of the tertiary sector. However, the research on the service quality gaps in the banking sector will be the aid to the research field of the country.

The history of banking begins in Nepal from 1937, after the incorporation of Nepal Bank Limited. However, after 1984, the government liberalized the banking sector in the country, which resulted in the private sectors to rush in the finance industry after the restoration of democracy in 1990 (Baral, 2005).

Nepal Rastra Bank (NRB) is the central bank of Nepal, which looks after all the commercial banks of the country. In the past three decades, there have been significant changes in the Nepalese banking industry. The change in the policy of NRB such as interest rate deregulation, the abolishment of statutory provision of liquidity ratio, market-based forex system, flexible license policy, prudential legal framework, and indirect method of monetary control is attributed to the positive impact on the development of commercial bank in Nepal. As the consequences of those significant policy changes, NRB succeeded in luring Foreign Joint Venture banks and domestic banks in the market, broadening the scope and scale of banking services in the country (Gajurel & Pradhan, 2011).

The table below shows the number of commercial banks in Nepal with their establishment date and paid-up capital. The paid of capital is in Nepalese Rupee, and the crores are equal to 10 million.

SN	Commercial Banks	Est Date	Paid Up Capital (in crores NRS)
1	NMB Bank Ltd	10/18/2015	646.18
2	Prabhu Bank Ltd	9/14/2014	800.13
3	Siddhartha Bank Ltd	7/21/2016	846.44
4	Bank of Kathmandu Ltd	7/14/2016	924.54
5	Civil Bank Ltd	10/17/2016	725.93
6	Nepal Credit and Commerce Bank Ltd	1/1/2017	467.91
7	Janata Bank Nepal Limited	4/7/2017	800.08
8	Rastriya Banijya Bank	5/2/2018	900.48
9	Mega Bank Nepal Ltd	5/13/2018	928.68
10	Kumari Bank Ltd	4/3/2001	596.95
11	Agriculture Development Bank Ltd	1/21/1968	1393.79
12	Nabil Bank Ltd	7/12/1984	804.32
13	Nepal Investment Bank Ltd	3/9/1986	1064.56
14	Standard Chartered Bank Nepal Ltd	2/28/1987	801.14
15	Himalayan Bank Ltd	1/18/1993	811.45
16	Nepal SBI Bank Ltd	7/7/1993	804.69
17	Nepal Bangladesh Bank Ltd	6/6/1994	808.81
18	Everest Bank Ltd	10/18/1994	810.69
19	Nepal Bank Ltd	11/15/1937	804.27
20	Laxmi Bank Ltd	4/3/2002	822.17
21	Citizens Bank International Ltd	4/20/2007	803.32
22	Prime Commercial Bank Ltd	9/24/2007	803.33
23	Sunrise Bank Ltd	10/12/2007	815.26
24	Century Commercial Bank Ltd	3/10/2011	806.34
25	Sanima Bank Ltd	2/15/2012	800.13
26	Machhapuchhre Bank Ltd	7/9/2012	805.57
27	NIC Asia Bank Ltd	6/30/2013	803.11
28	Global IME Bank Ltd	4/9/2014	888.84

Table I: Commercial banks of Nepal (Nepal Rastra Bank, 2016)

In Nepal, the financial institutions are classified into 4 categories by NRB as in “A”, “B”, “C” and “D” basing on the paid-up capital. The category “A” is defined as commercial banks, “B” as development banks, “C” as finance companies and “D” as microfinance companies. Currently, NRB is encouraging various banks to go into merger and acquisition to increase the shape of the paid-up capital of the institutions to enable them to finance the most significant ventures. There is still the dominance of three large state-owned banks in the commercial banking sector of Nepal, namely; Rastriya Banijya Bank, Nepal Bank Limited, and the Agricultural Development Bank. The summation of these state-owned bank accounts for 16% of the overall banking assets and deposits of the whole country. However, the shift of customers base towards the non-state-owned banks resulted in a large and influential presence as compared to conventional state-owned banks. The establishment of several foreign joint ventures also helped to transfer the state of the art as well as the technological know-how in the banking sectors of Nepal. As per NRB, currently, there are 28 commercial banks (including a foreign joint venture), 33 development banks and 25 finance companies in operation in Nepal (*US department of commerce, 2019*).

1.5 Motivation for Research

Service sector garnered plenty of attention globally. In the three-part economy, the world witnessed the shift from primary and secondary economies towards the tertiary economy. The developed countries of the world strengthen their economy by performing better in the service sector. Unlike in past years, the service sector is perceived as necessary as agriculture and manufacturing sectors or even more. Nepal is not an exception in that case as the country enjoys the highest contribution to its GDP from the service sector. In the growing economy of Nepal, service sectors pose significant opportunities and challenges. However, the service sector is still in the preliminary stage of growth and requires immense attention in the days to come. The service industry, like the hotel, tourism, hospitals, banks and so on, are increasing in the Nepalese economy. But, the required level of research and literary discussions are limited to uplift the service sector. The important aspect of service sectors namely service quality, service perception, service gaps, customer satisfaction and loyalty are not properly addressed in Nepal which is the major concern for the development of the service sector.

In the presence of very few investigative studies in this sector, the study of service quality and service gaps to consider the customer satisfaction in the banking industry will add the valuable

effort in the presently available research in the country. The outcome of the study can usher future researchers into the proper direction as well as give them ample ideas about the service gaps and required action to ensure customer satisfaction in the commercial banks of Nepal.

1.6 Research Objective

The research objective of this study is as follows:

- To access the differences in the service quality (if there exist any) in and between Government-owned commercial bank and Private commercial bank.
- To access the difference in the service quality (if there exist any) along with the service dimensions in and between the private commercial bank and Government-owned bank.
- To find the critical factors of service quality to close the service gaps in both private commercial bank and government-owned bank.

1.7 Research Questions

With the ever-changing technology and services in the banking sector, the expectation and perception of the customers change as well. As the previous literature suggests that the provided services often fall short to suffice the expectation of the customer base. In the presence of the heavy competition among the commercial banks, the bank should address the customer perception and how they evaluate the services, to prevent the switching of the customers to the competitors and retain them for the long run.

This study aims to investigate if there exist any differences in service quality, considering the three angles. The study aims to find out differences considering:

- expectation and perception aspects
- dimensions of service quality
- service quality gaps

So, the research questions for this study are as follows:

1. Are there service quality gaps in the private commercial bank and government-owned bank?
2. Are there service quality gaps between the private commercial bank and government-owned bank ?
3. Are there any differences in the service dimensions, considering expectation and perception, in private commercial bank and government-owned bank?
4. Are there any differences in the service dimensions, considering expectation and perception, between the private commercial bank and the government-owned bank?
5. What are the critical factors in closing the service gap in delivering better service quality in the private commercial bank and government owned bank?

1.8 Research Hypotheses

The following hypotheses are derived which will be tested in the study considering the research questions.

In order to answer research question 1, the study formulates following hypotheses:

- H1: There is no difference in overall expectation and overall perception in private commercial bank
- H2: There is no difference in overall expectation and overall perception in the government-owned bank.

In order to answer research question 2, the study formulates following hypotheses:

- H3: There is no difference in overall expectation between the private commercial bank and government-owned bank.
- H4: There is no difference in overall perception between the private commercial bank and government-owned bank.

In order to answer research question 3, the study formulates following hypotheses:

- H5: There is no difference in the service dimensions, considering expectation and perception, in a private commercial bank.
- H6: There is no difference in service dimensions, considering expectation and perception, in a government-owned bank.

In order to answer research question 4, the study formulates following hypotheses:

- H7: There is no difference in each service dimensions, considering expectation, between the private commercial bank and government-owned bank.
- H8: There is no difference in each service dimensions, considering perception, between the private commercial bank and government-owned bank.

In order to answer research question 5, the study formulates following hypotheses:

- H9: There is no difference in service dimensions, considering the service quality gap, between the private commercial bank and government-owned bank.

2 Literature Review

2.1 Introduction

This section presents relevant literature to this study such as service quality and SERVQUAL model and they will also provide a theoretical framework.

2.2 Service Quality

One of many ways to define service quality can be the degree to which the level of service offered fulfills the customer needs (Lewis B. , 1989). The difference between the customers' expectations of service and perceived service is the actual service quality (Grönroos, A service quality model and its marketing implications, 1984). When the quality of the delivered service is less than the customers' expectation of services, dissatisfaction occurs (Lewis B., 1989).

Service quality can gain competitive advantages over the competitors whereby creating an outstanding position in the market. Service quality is defined as judgement or attitude towards the given service. The customers have a superior or inferior impression towards the organization and its services. Hence, service quality can be defined as a cognitive judgement (Fogli, 2006).

The service has the following features (Mudie & Pirrie, 2006):

Intangibility

As service cannot be counted, measured, verified, and stored before the sale, it cannot assure the quality. It is always a challenge for the firms to understand the process of consideration and evaluation of service by customers.

Inseparability (produced and consumed together)

The physical goods are produced, stored sold, and finally consumed. Unlike physical products, services are produced and consumed at the same time.

Variability (or heterogeneity)

There can be a variation in the quality of services depending on to whom and how it is provided.

Perishability

The unique feature of service is that it perishes. The service cannot be kept as inventory, and managing the demand and supply of service is a difficult task.

2.3 Levels of Service Expectation

The different level of service expectation can be depicted by the figure below (Zeithaml & Bitner, 1996):

The figure shows the five levels of customer expectation i.e. ideal service level, desired service level, adequate service level, predicted service level, and zone of tolerance.

Ideal service level

It is the level of service that the customers want to receive in an idealized way. Ideal service expectation comes in the first rank of the hierarchy of expectation level of customers.

Desired Service Level

It comes in the second rank of the hierarchy of expectation level. The desired service level is less than the ideal service level. However, this level of service expectation is what customers want to receive.

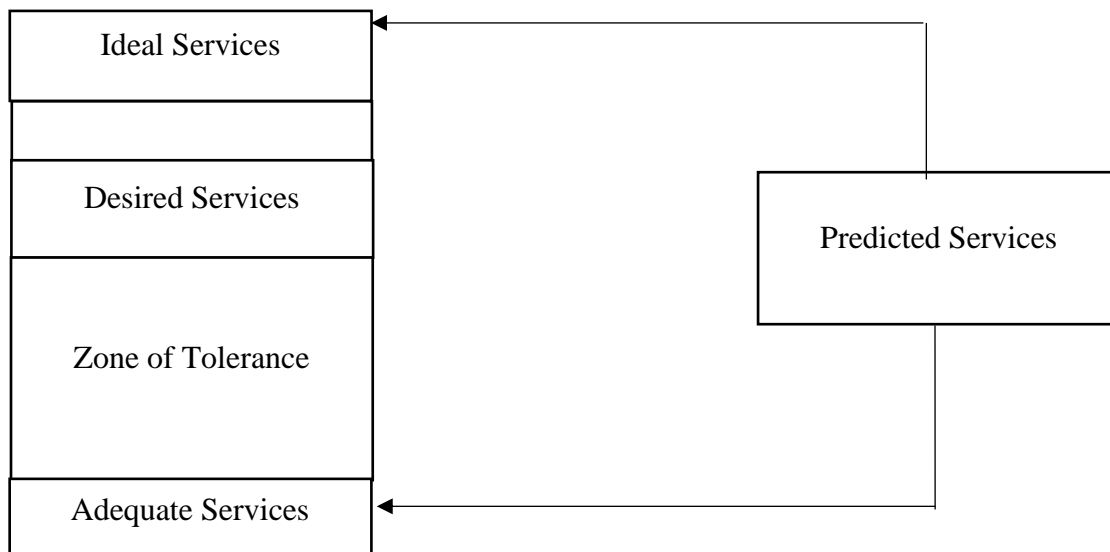


Figure 1: Level of services (Zeithaml & Bitner, 1996)

Adequate Service Level

It holds the least rank in the hierarchy of expectation level. In other words, up to adequate service level, customers do not show the frustrations and tolerate the given services.

Zone of tolerance

It is the zone that defines the prevailing gap between desired service and adequate service levels. All the customers will accept the performance of services within the zone of tolerance. The customers will be delighted if the performance surpasses the ideal service; however, the performance below the adequate service level results in dissatisfaction and negative impression towards the service provider.

Predicted service level

It is the actual level of service that customers expect from the service providers. By modifying the customers' expectations, the predicted service level can be extended from an adequate level to the ideal level depending on service circumstances (Zeithaml & Bitner, 1996).

2.4 Factors Influencing Customer's Service Expectations

In the evaluation process of service quality, service expectations of customers are essential. To influence the service expectations of the customers, the service providers must understand and control those factors (Zeithaml & Bitner, 1996).

2.5 Factors Influencing Desired Service Expectations

The figure below depicts the factors that affect the desired service expectations (Zeithaml & Bitner, 1996):

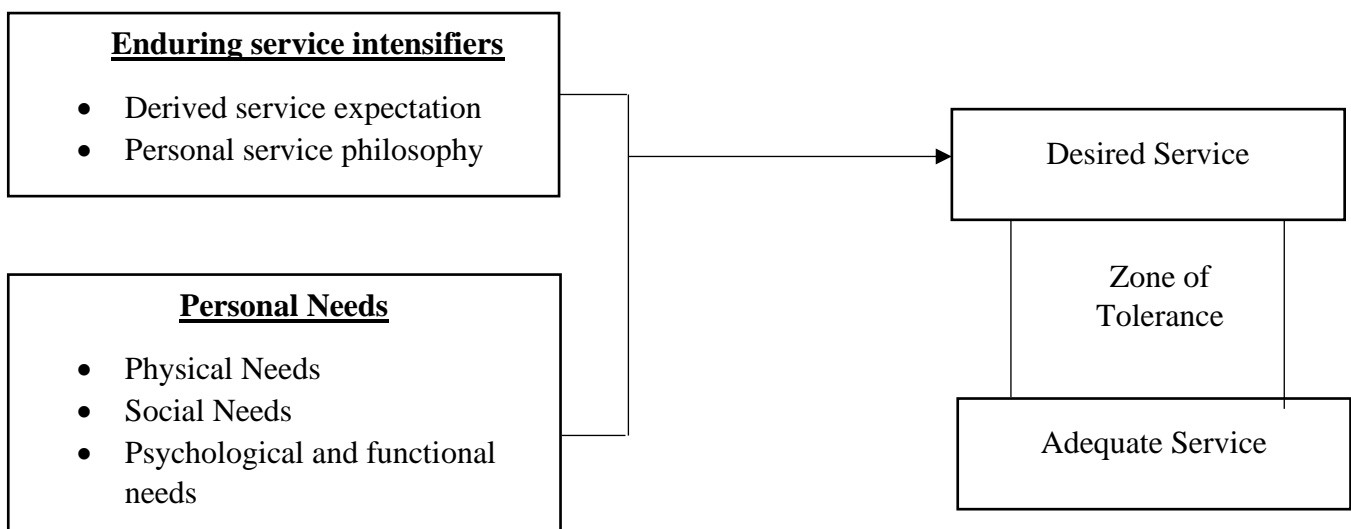


Figure II: Factors influencing desired service expectation (Zeithaml & Bitner, 1996)

Enduring service intensifiers

Enduring service intensifiers is the factor that leads to the sensitivity of customers towards services. It is comprised of “derived service expectations” and “personal service philosophy”. In derive service expectations, the influence of other persons or social groups is present in customer expectations. For instance, the family choosing the house to buy. However, “personal service philosophy” is free from the influence of other people. In this factor, the customers make their judgement regarding the service and its performance. There is a tendency for customers to have stronger service philosophies if they are themselves are a service provider or in any service businesses Zeithaml and Bitner (1996).

Personal Needs

Personal needs demand and influence the desired service expectations. The physical needs, social needs, psychological needs, and functional needs come under the category of personal needs. For instance, the disabled person may look for the handicapped toilet while choosing the restaurant to dine (Zeithaml & Bitner, 1996).

2.6 Factors Influencing Adequate Service Expectations

The transitory service intensifiers, perceived service alternatives, a self-perceived service role and situational factors influence the adequate service expectations (Zeithaml & Bitner, 1996).

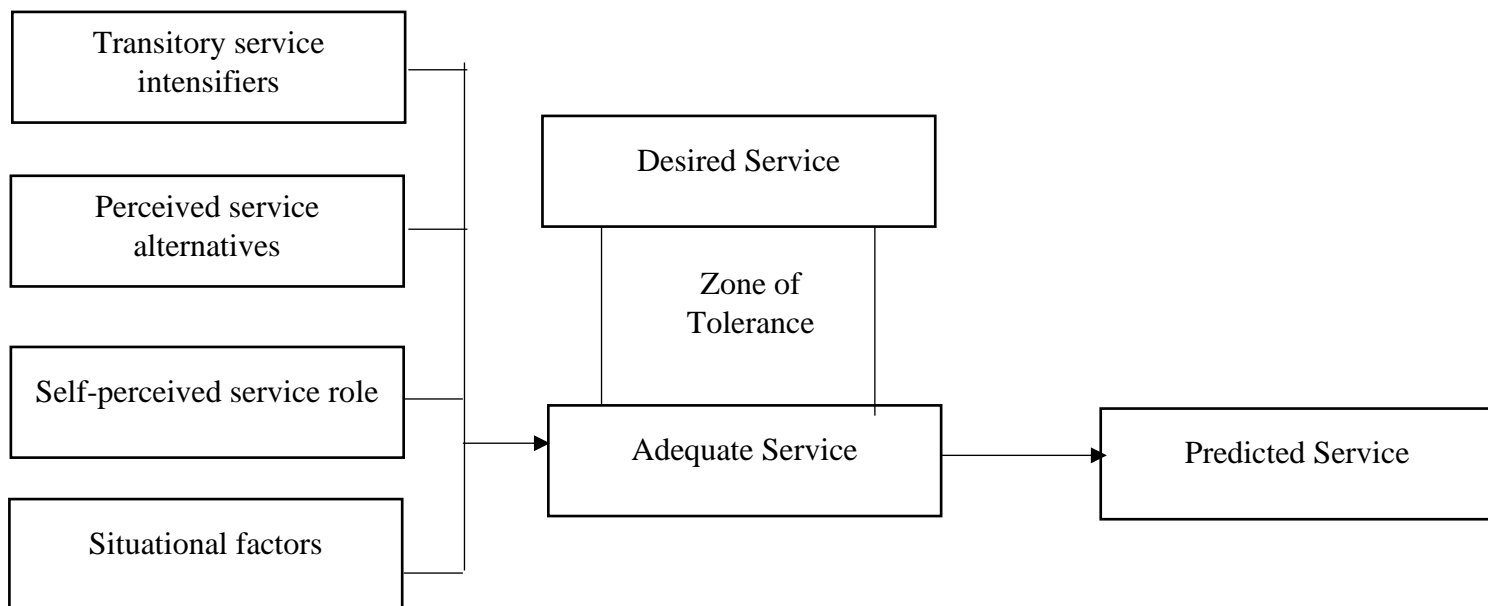


Figure III: Factors influencing adequate service expectation (Zeithaml & Bitner, 1996)

Transitory Service Intensifiers

Transitory service intensifiers are temporary and dependable on the individual factors creating more awareness of the need for services compared to the normal situation. For instance, the person working in the deadline accepts the raise in the level of responsiveness to address the breakdown of the office equipment. Compared to the normal situation, the level of service that is acceptable may not be enough during such case (Zeithaml & Bitner, 1996).

Perceived Service Alternatives

The perceived service alternatives hit both the customers and service providers. It is related to the option of multiple service providers to the customers as well as the distinct choice of customers that can be fulfilled by only selected service providers (Zeithaml & Bitner, 1996).

The Customer's Self-Perceived Service Role

The expectation of the customer is formed by their own role-play in the process of service delivery. During the process of receiving the services, the customer puts some degree of influence which affects the level of service expectation. For instance, if the customer instructs the waiter in the restaurant to make his steak raw, however, receives the steak in the overcooked form, the customer experience more dissatisfaction compared to the situation in the absence of his instructions to the waiter (Zeithaml & Bitner, 1996).

Situational Factor

Situational factors also influence the expected level of adequate services. Precisely, the situation which is not in the grip or beyond the control of service providers affects the levels of adequate services (Zeithaml & Bitner, 1996).

Predicted Service

Predicted service is related to what customers get in a single transaction instead of the overall performance of a service provider. Predicted service, the final factor to influence the level of adequate service expectation, will not come as a surprise as a situational factor as it is anticipated by the customers (Zeithaml & Bitner, 1996).

2.7 Factors Influencing both Desired and Predicted Service Expectations

During the process of purchasing products or services, the recommendation of friends, family, or advertisements influences the customer. In the case of internal influence, it can be the information held in the memory of the service. So, the three external influence factors, namely, explicit service promises, implicit service promises, and word of mouth whereas the internal influencing factor such as previous experiences affect the desired and predicted service expectations (Zeithaml & Bitner, 1996).

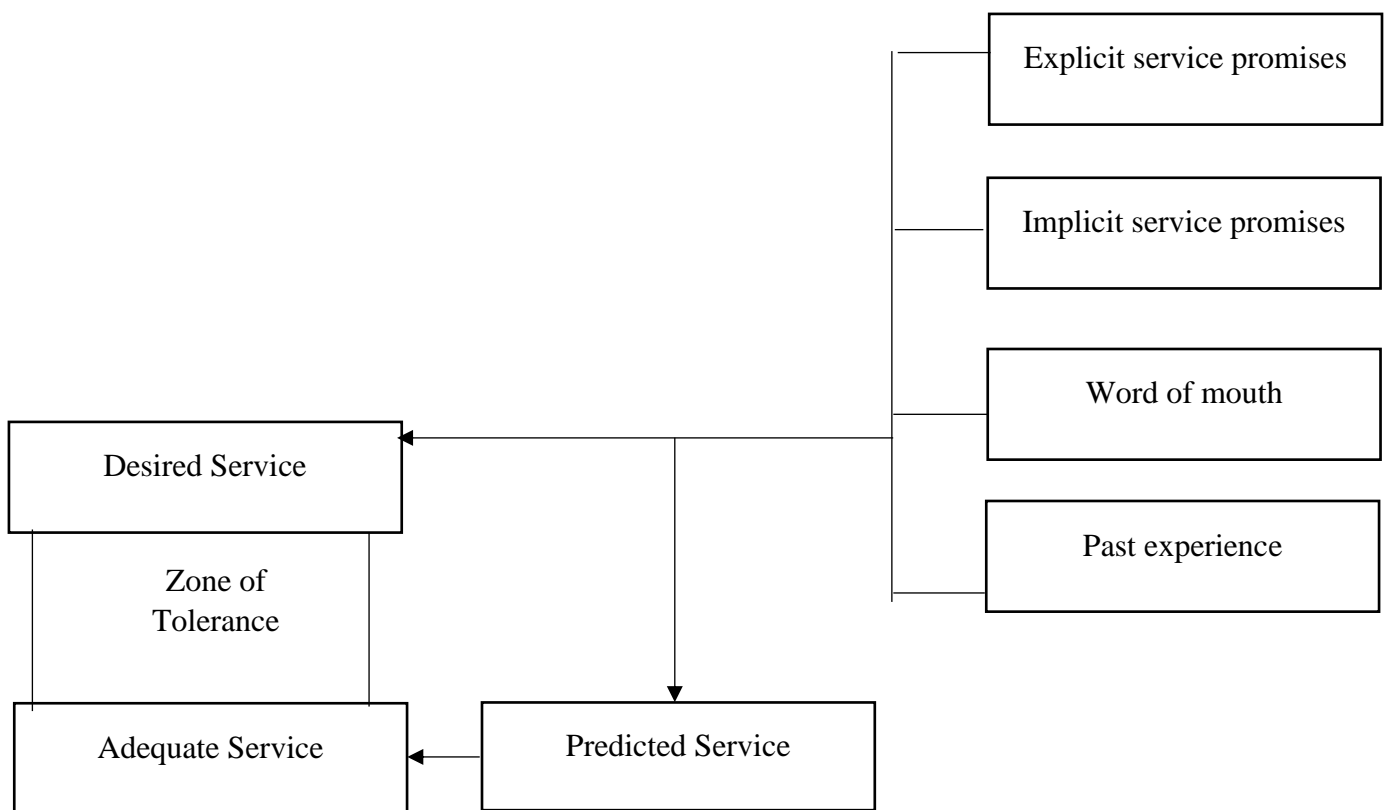


Figure IV: Factors influencing both desired and predicted service expectations (Zeithaml & Bitner, 1996)

Explicit Service Promises

The promises are the statements, in the form of employees' testimony, advertisement, brochures, written publication, and so on, made by the organization to the customers. There should be a reality check while making the explicit service promises as they should be realistic. The service provider can only control the explicit promises (Zeithaml & Bitner, 1996).

Implicit Service Promises

The implicit service promises are associated with quality cues. While conveying the quality cues, both the factor such as price and tangibility associated with the services play a significant role. Considering the price and tangibility factors, the customers can anticipate and infer a lot about the quality of services provided by the organization. The tangibility of services and the price charged are directly associated that is higher the price charged, the better the provision of tangibility (Zeithaml & Bitner, 1996).

Word-Of-Mouth

Word of mouth, the informal source of communication, is mighty enough to affect both predicted and desired services. It is considered the unbiased source of information. The friends, family, opinion leaders, and experts convey the word of mouth statements to the customers that shape the expectation of both predicted and desired services (Zeithaml & Bitner, 1996).

Past Experience

Past experiences mean the previous experiences of the customer to shape the prediction and desires. They compare their previous experience with the same service provider or other service providers who are giving similar kinds of services in the market (Zeithaml & Bitner, 1996).

As there are plenty of limitations associated, so it is difficult to answer the expected service quality. It results in the difference in the perceived quality and the expected quality. The factors like market conditions, management indifferences, and resource constraints create the gap in management

perceptions of expectation of customers and the service specification established by the organization (Zeithaml, Parasuraman, & Berry, 1990).

2.8 Factors Influencing Customers' Service Perceptions

The factors listed below influence the customers' service perception Zeithaml and Bitner (1996):

Image

The image of the organization affects customer perceptions. The excellent image can even compensate for the time of poor services provided by the organization (Zeithaml & Bitner, 1996).

Price

Because of the intangible nature of services, price is one of the major indicators to form the perception of customers. In the case of the price, which is higher than the average price, the expectation of quality is higher. However, if the price is too low, customer doubts that the organization's ability to render services is not appropriate (Zeithaml & Bitner, 1996).

Service Encounters (Moments of Truth)

Customers form the perception about the organization during the time of service transactions considering the service encounters. The types of service encounters are as follows:

Remote Encounters

In this context, there is no direct face to face interaction between customers and service providers.

Phone Encounters

In this context, information technology comes into play. The encounter occurs through the electronic platform like telephone, internet, or other multimedia.

Face-To-Face Encounter

In this context, the customer and service provider meet in person or have face to face interaction.

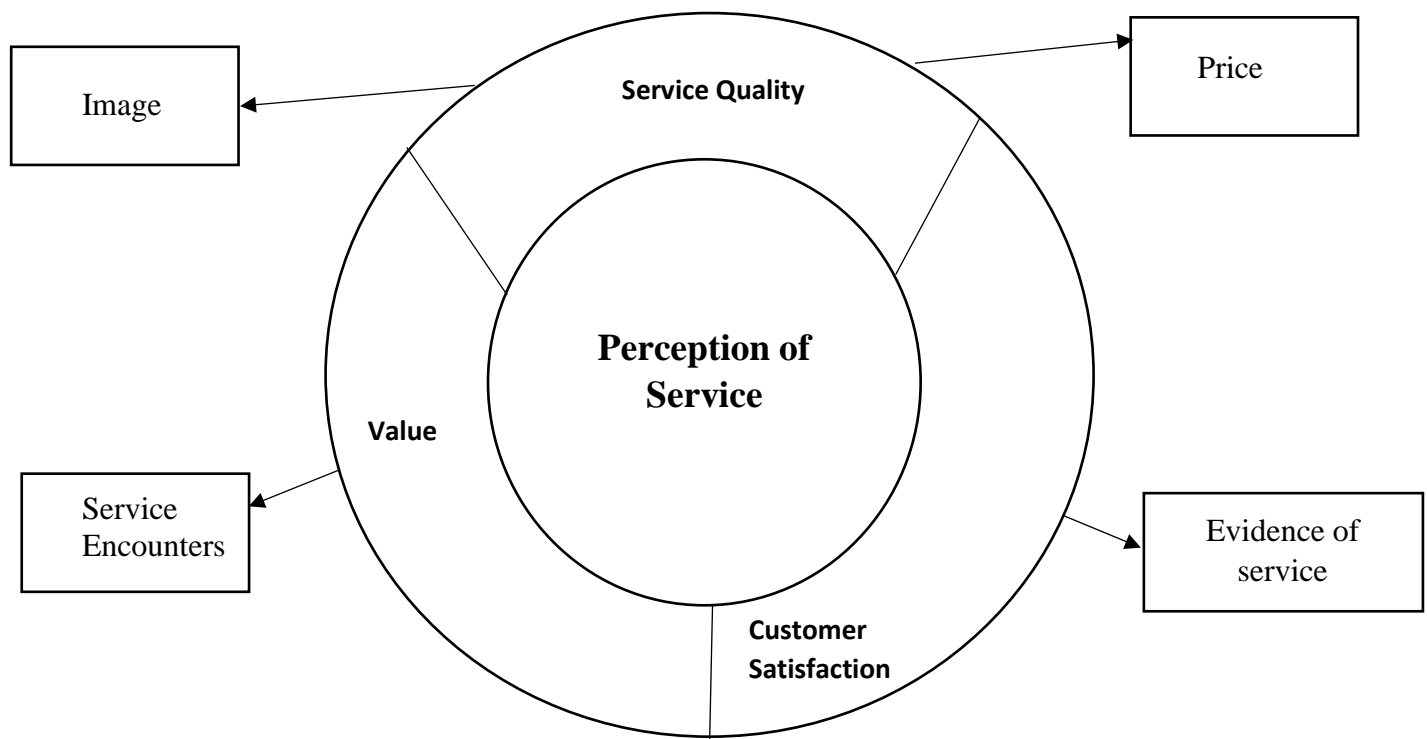


Figure V: Factors influencing customer service perception (Zeithaml & Bitner, 1996)

Evidence of Service

As the service is intangible in nature, it is not just the price that the customers rely on, rather the customer considers the evidence of services in every encounter with the organization to form the service perception. The people, process, and physical evidence, are three evidence of service (Zeithaml & Bitner, 1996).

2.9 SERVQUAL Model

“SERVQUAL” is the short form for “service quality.” In the research related to service quality, this model is the most adopted to measure the perceived service quality. The theoretical foundation of the SERVQUAL model is based on the measurement of service quality. In 1985, Parasuraman developed the model, which served as the most crucial tool to measure the service quality and the gaps associated with it. In the initial development phase of the model, the most essential 97

attributes were identified which is to affect the service quality (Parasuraman, Zeithaml, & Berry, 1985). In the later work, all those 97 attributes squeezed into the 10 dimensions and finally into 5 dimensions (Parasuraman, Zeithaml, & Berry, 1988). Since the attributes overlapped into those 10 criteria, the model was condensed to have only 5 criteria in the later stage (Jannadi & Al-Saggaf, 2000). After the invention of SERVQUAL model in 1985, it is evident that various research was conducted in the field of banking and other various service sectors by using the SERVQUAL approach to gain the complete new trust (Gerrard & Cunningham, 2001). This model is the most widely adopted and trusted instrument to access the service quality (Cook & Verma, 2000).

This model is well discussed, debated, accepted, and carried out in conducting numerous research in essential service sectors focusing on measuring the service quality (Augustyn & Seakhoa-King, 2005). The SERVQUAL model, also known as GAP model, laid down the 5 gaps that should be avoided by the companies to ensure quality services to the customers.

2.10 The Scale of SERVQUAL MODEL

Initially developed in 1985 with the 10 dimensions of services considering 97 attributes, they squeezed the SERVQUAL model into 5 dimensions in 1988 to avoid the overlapping of attributes (Zeithaml, Parasuraman, & Berry, 1990). The dimensions of SERVQUAL model is also known as “RATER” in the short form, namely, Reliability, Assurance, Tangibility, Empathy and Responsiveness. These dimensions are described below:

Tangibility

The ability of the organization/service provider to provide effective equipment in the service process as well as the appearance of physical facilities and personnel while communicating with customers.

Reliability

The ability of an organization/service provider to fulfill the promises while performing the tasks and providing services.

Responsiveness

The willingness of an organization/service provider to help its customers to provide prompt services with sincerity.

Assurance

The ability of the organization/service provider to instill a sense of trust and security among the customers.

Empathy

The ability of the organization/service provider to develop effective communication with customers and deliver personalized attention to them.

2.11 SERVQUAL dimensions in the banking sector

SERVQUAL dimensions can be important measuring rod to access the service gap and quality in the banking sector. The dimensions of this tool cover the most crucial aspect of the banking industry. The tangibility dimension includes all the needed equipment in the bank as the sector is facing rapid changes. The adequacy of staff to provide the uninterrupted services and to ease the customer transaction is related to tangibility. Moreover, the physical layout and all the advanced technology to assist the customer creates a good impression and customer satisfaction among customers. Reliability deals with keeping the promises, and it ensures the dependability amid the customers. The reliability dimension also covers the confidentiality of the transaction made with the customer.

In the current era, the bank even provides tailored services to the customers depending on their banking needs. Responsiveness deals with the provision of needed and accurate service to the customers. The personalisation of such services uplifts customer satisfaction.

A bank should always assure its customers. The proper explanation of the available bank services helps to increase the banking habit of customers and creates long term profitability to the bank. Moreover, a good customer relationship establishes the empathy between the bank and its customers. Empathy can be conveyed as being polite and sympathetic towards the customers in time of need. Bank spends a hefty amount of money for the customer care and empathy can be the key factor to assure the customer care which results in the increment in perceived service quality and customer satisfaction (Lau, Cheung, Lam, & Chu, 2013).

Assurances deals with the courtesy of employees and the way they establish the trust and confidence in the customers. Since the bank deals with the larger deposit from the customer, the

ample commitment from the bank is necessary. One of the ways to please the customers can be friendly customer services. It helps to retain customers for a longer period and result in the usage of banking services (Van Iwaarden, van der Wiele, Ball, & Millen, 2003).

Customer satisfaction helps to negate the intention of customers to switch into other banks (Hoq, Sultana, & Amin, 2010). In one of the studies, it is suggested that a better customer relationship plays a vital role to impact customer satisfaction and loyalty positively. In addition to that, the convenience and consumption frequency affects customer relationship inertia in a positive way (Cheng, Chiu, Hu, & Chang, 2011). The satisfaction and trust are essential to uplift the level of commitment of the customers. Unless the customer senses the significant variation in the financial services offerings, the customers make no plan to switch to another bank (Afsar, Rehman, & Qureshi, 2010). Even there is no guarantee of repeat purchases; customer satisfaction ensures customer loyalty and retention (Mohsan, Nawaz, Khan, & Shaukat, 2011). The collection of regular feedback is better than the complaint lodged to maintain the level of customer satisfaction. Moreover, customers' retention intentions and service quality are directly related (Prof Gopalkrishnan, Dr. Mishra, Dr. Gupta, & Prof. Vetrivel, 2011).

All the dimensions of service quality may not cover all the customers as they are different in their aspect. The customer gives more priority to the responsiveness area compared to the tangible areas. To attain the desired level of service quality, the bank managers should come up with the working lines with refined service quality to ensure increased customer satisfaction (Khalid, Mahmood, & Abbas, 2011).

Out of all the characteristics of the service quality model, Empathy and Assurance stay in the upper level while Tangibility at the bottom of this relation. The prosperity of the bank depends on customer satisfaction looking at the current competition trends (Siddiqi, 2011).

Customer involvement is one of the determinants to increase the market share, thus, the major task of a bank manager is to work in such a way that makes the customers happy and satisfied in the long run (Jumaev & Hanaysha, 2012).

Even though it holds importance, a loyalty program is a short-term tool that cannot guarantee success in the long run. However, the variety of product ranges and better communication skills inspire and retain the customers (Roberts & Carter, 2003).

2.12 SERVQUAL Gaps

SERVQUAL model depicts the way customers access quality. To do that, the model considers the factors which contribute to the overall quality, namely, quality expectations of customers, the quality provided by service providers, and perception of quality by users after the consumption of services. Taking into the fact that quality fulfills the expectations of the customers, the SERVQUAL model underlines the gaps or discrepancies between expected and perceived quality. The model embraces the essential concepts, strategies and decisions to offer the highest level of quality which begins right from the consumers, design the required services and again go back to consumers for the measurement of expectations and perceptions of offered services on consumers side.

Based on the five components of services that is Responsiveness, Assurance, Reliability, Tangibility and Empathy, the model uses 44 questions to measure the expectations and perceptions of the service. 22-items group questions regarding the expectation of customers and other 22-items group cover the perception of customers after the consumption of services. Each question is made in the 7-point scales ranging from 1(strongly disagree) to 7 (strongly agree) (Parasuraman, Zeithaml, & Berry, 1988).

The model accentuates 5 gaps which are described as follows:

Marketer's Side

Gap1 (Positioning Gap):

When there is inadequate market research or poor upward communication, the organization often makes mistakes in accessing the expectation of quality on the customers' side. Such a mistaken assessment leads to the occurrence of GAP 1 where management has no clear idea of what customer wants.

Gap 2 (Specification Gap):

This gap occurs when there is a mismatch between how management access the perception of customer expectations and an appropriate standard of service quality adopted to settle the issues.

Gap 3 (Delivery Gap):

Sometimes inappropriate technology, operating systems, and poor downward communication hamper the performance of the employees in the process of delivering the services. Moreover, the poor performances fail to fulfill the quality service standards adopted by the firm creating the Gap 3 (delivery gap) in the organization.

Gap4 (Communication Gap):

This gap occurs when the external communication of quality characteristics conveyed to the customer mismatch with the services delivered by the firm. The external communication can be in the form of advertisement, personal selling, and so on. Moreover, the promised services do not match service delivered because of the poor inter-division horizontal communication and inconsistent external communication.

Customers' Side

Gap 5 (Perception Gap):

Out of 5 gaps, "customer perception gap" is the most important one as it underlines the difference between the customers' expectations and customers' actual perception of service quality. As per the model, all other 4 gaps can cause the gap5 as they create the discrepancies between the perception of service quality by the firm management and the process to deliver the services to the customers.

2.13 Criticism of SERVQUAL

The inconsistency in the five quality dimensions while conducting the cross-sectional analysis as the variation in factor loading occurred when compared to different service providers. The merger of "Understanding" and "Access" component into Empathy posed the problem in his research. Moreover, he suggested that future researcher to analyze expectations and perceptions individually as the problem persists in the concept of the difference between expectation and perception (Carman, 2000).

In the other study, operational problems in expectation and perception gap analysis occurred, which supports the Carman's idea about the service quality dimensions (Babakus & Boller, 1992).

Due to the presence of operational problems in the “difference score” (perception minus expectation), the model suggests that a “non-difference score” measure is superior to the “difference score” measure (Brown, Churchill Jr, & Peter, 1993).

The criticism of SERVQUAL is as follows (Gilmore, Services marketing and management, 2003):

The gap model: little evidence of consideration of service quality in terms of performance and expectation on the side of customers.

Dimensionality: The dimension used in SERVQUAL is not universal. There is a prevalence of high degree of intercorrelation among the five dimensions as they are contextualized.

Expectation: Researchers argue that it is unnecessary to measure expectations. In case of necessity, a single scale should be used to measure expectations and perception.

Item Composition: The four or five items are not enough to capture the presence of high variability within each SERVQUAL dimension.

Scale points: Since the mid-range number in the scale is vaguely related to the variation of opinions, the seven-point Likert scale is flawed.

Polarity: There is evidence of response error because of the reversed polarity of items in the scale. To ensure that the respondent does not give the same scale point, some items are reversed in the SERVQUAL instrument which creates confusion.

Service quality is important in the retail banking sector. Some of the reviewed works of literature are presented below:

The study investigated that all the dimensions of service quality do not equally measure the variance in overall service quality. Of all the dimensions, reliability and responsiveness are the most important, whereas assurance is the least essential dimension. The study concluded that to measure the service quality in the banking industry, the SERVQUAL tool is the best (Angur, Natarajan, & Jahera, 1999).

Many other researchers agreed with Angur, Natarajan, & Jahera (1999) as SERVQUAL is well established and employed while studying service quality in the retail banking industry, especially,

in case of a developing country. The modification of original SERVQUAL is also evident to fulfill the purpose of numerous studies.

Considering the discussion above, SERVQUAL still fulfills the aim of accessing service quality in the banking industry, including the study of difference score, gap score or only the performance.

2.14 Theoretical Framework

The figure below explains the theoretical framework as described above in the literature review. There are five service quality dimensions namely, tangibility, reliability, responsiveness, assurance and empathy. The customers have a degree of expectation and perception basing on those dimensions. When there is a discrepancy between expectation and perception, that results in a service gap (which is indicated as gap 5 in the figure). When the expectation is subtracted from the perception, if there is a positive value that denotes good service quality, however, the negative value indicates the falling service quality.

SERVQUAL Dimensions

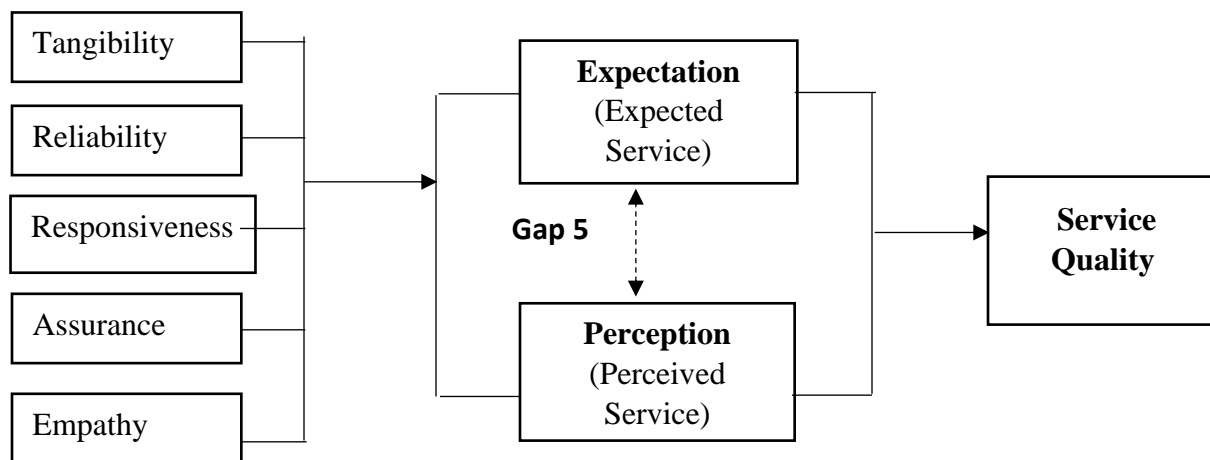


Figure VI: Theoretical framework of service quality (Kumar, Tat Kee, & Charles, 2010)

2.15 Measurement of variables

After the literature review, the various measurement of the variables was taken into consideration. The questionnaire for the study was also borrowed from previous studies in service quality in the field of the banking sector.

2.14.1 Independent variable

As shown in Figure VI, the dimensions of service quality namely, tangibility, reliability, responsiveness, assurance and empathy are the independent variable in this study. However, the table below shows the reduced dimensions after running the factor analysis later in the paper. The independent variables are not affected by any other factors. Many previous studies support the idea of taking service dimensions as the independent variables (Kumar, Tat Kee, & Charles, 2010; Ananth, Ramesh, & Prabakaran, 2010). Each item of the independent variable corresponding to the service dimensions are as follows:

Dimensions	Variable no.	Attributes
Tangibility	1	The bank having up-to-date equipment
	2	The professional layout of the bank
	3	Bank employees' dress and appearance
	4	The appearance of physical facilities of the bank
	5	Trust in bank's employees
	6	Bank's ability to keep customer transactions confidential
	7	Polite employees
	8	Adequate support from the bank for its employees
Responsiveness	9	Inform customers about the exact time of service
	10	Prompt service from bank employees
	11	Employees' willingness to help customers
	12	Prompt response to customer requests
Competence	13	Reliability of the bank's staff
	14	Bank's staff were sympathetic and reassuring to customers
	15	Dependability of the bank
	16	Timely service
	17	Accurate records
	18	Individualized attention to customers
	19	Employees providing personal attention
	20	Employees understand customer needs accurately
	21	The bank having customers' best interest at heart
	22	Convenient banking hours

Table II: Independent variables with the dimensions and its individual item

2.14.2 Dependent variable

The service quality gap is the differences in the perception and expectations of the customers. After the subtraction of expectation from perception, the positive value indicates the better service quality and the negative value indicates the falling service quality. So, as shown in Figure VI, the dependent variable in this study is the service quality gap, and it is affected the independent variables. There are previous studies that support the idea of considering the service quality gap as the dependent variable (Kumar, Tat Kee, & Charles, 2010; Ananth, Ramesh, & Prabakaran, 2010).

3 Research and Methodology

SERVQUAL model, also very well known as Service Quality Model was developed by Valarie Zeithaml, Leonard Berry, and Parasuraman, in 1985. From then, numerous researches have employed this method. In the absence of trial and tested method to measure service quality, only the product quality measurement was possible in the primitive stage. However, the invention of this model made it possible to even quantify the service quality (Ghobadian, Speller, & Jones, 1994).

This research is carried out to do the comparative study of private commercial bank and the government bank of Nepal taking account of the prevailing service gap in the banks and between them. Considering the limitation of time and to have the clear as well as concise comparison, the study includes only one private commercial bank and one government-owned commercial bank. The customers of those two banks served as the respondents for the research. With the help of the staff working there, the structure questionnaires were filled. The needed instructions and briefing of the objective of the study were explained to the facilitators who helped to record the responses of the respondents.

3.1. Sampling Method

Sampling is the process where the representative group is selected from the population. In the research, there should be a clear distinction of the target population from the given population. Moreover, the samples are collected from the target population. In other words, the sample can be defined as the respondents who give their responses being part of or showing their involvement in the given research or study.

In this study, the customers from the two banks of Nepal were considered to get a more reliable and accurate sample. A total of 250 questionnaires was handed to the customers of those two banks. The screening of the incomplete and missing data was conducted to refine the research. The private commercial bank and government-owned banks are chosen based on their paid-up capital, network coverage, profitability, brand name, popularity and similarities in the business operation.

The chosen private commercial bank has a paid-up capital of 1064.56 crores (crores= 10 million) in NRS (Nepalese Rupee). With is 33 years of high reputation in the Nepalese banking industry, the stock of the bank is the blue-chip in the stock market of Nepal. It is one of the renowned banks

of Nepal with a sharp brand image, especially among the private commercial banks. Scattered through Nepal, the bank has 81 branches including both the major cities and rural part of Nepal, serving more than 600,000 customers. For easy money withdrawal, the bank has 124 ATMs (Automated teller machine) all over the country. The bank focuses on both the corporate client as well as the individual customers. The bank has become the synonyms for the trust amid the clients in the banking industry of Nepal.

The chosen government-owned bank has paid-up capital of 900.48 crores (crores = 10 million) in NRS (Nepalese Rupee). Established in 1966, Government of Nepal wholly owns the bank with more than 53 years of history. The bank serves the nation with 238 branches and 165 ATMs (Automated teller machine) all over the country. The bank is successful enough to stand out as a modern and trustworthy financial institution of Nepal to date with its pioneer recognition. From the poor to elite customers, the bank has 1.7 million customer base and contributes to the socio-economic development of the country.

Considering the various analogy in the above paragraph, both the bank qualifies to represent the private commercial banks' sector as well as government-owned banks. These two banks serve as a better sample to conduct a comparative study fulfilling the aim of the research. Moreover, the personal relationship with the staff in those banks was convenient to collect the data with fewer intricacies considering the limited time to conduct the investigation.

However, the final sample of 223 respondents was considered out of the total distributed questionnaire, which is approximately 89% of the response rate. The study uses both inferential and descriptive statistics to get a clear picture of all the aspects that are related to the service quality.

3.2. Data Collection

The research is based on the primary data where the questionnaire served as the main tool to capture the responses of the respondents. The survey has two parts where the first part includes service quality dimensions and the second part consists of the socio-demographic profiles of respondents. The study uses the same questionnaire employed by Parasuraman and Zeithmal (1988) to measure the service quality of the bank. The questionnaire includes the seven-point Likert Scale which ranges from Strongly Disagree (1) to Strongly Agree (7). The middle scales

are Disagree (2), Slightly Disagree (3), Neutral (4), Slightly Agree (5), and Agree (6). In the second part, the questionnaire deals with the demographic aspect such as gender, age, educational level and occupation of the respondents.

3.3 Data analysis techniques

STATA is used to run the required test in the study. The study uses both inferential and descriptive statistics to process and analyze the data. The data analysis techniques such as exploratory factor analysis with varimax rotation, scree plot, paired sample t-test, independent sample t-test, multiple regression, and marginal R2 contributions are used in the study to analyze and interpret the given dataset.

The factor analysis helps to see the possibilities if a large number of variables can be condensed into fewer factors. In the study, the maximum explanation of variance and extraction of variables in the data set is done using the factor analysis.

The study runs various paired sample t-test and independent sample t-test to test the hypothesis. The hypothesis is either accepted or rejected considering the p-value using these t-tests.

The use of multiple regression test finds out the dominating dimension of service quality that helps to close the service gap in the bank,. Moreover, the marginal R2 contribution along with the data from multiple regression underlines the most critical dimension of all the dimensions to close the service gap in the bank, if there exist any.

3.4 Sample Characteristics

The table below depicts the characteristics of the collected sample basing on gender, age, education level and occupation.

	Categories	Frequency % (PCB)	Frequency % (GOB)
Gender	Male	60%	57%
	Female	40%	43%
Age	16-30	23%	27%
	31-45	49%	49%
	46-55	24%	21%
	Above 55	4%	3%

Education	Not educated at all	-	-
	Secondary school certificate	1%	5%
	Higher Secondary	10%	12%
	Bachelor's degree	51%	52%
	Master's degree or above	38%	35%
Occupation	Service Holder	74%	63%
	Business	11%	17%
	Student	15%	20%
	Freelancer	-	-

Table III: Demographic profile of the respondents

The demographics of the respondent show that the highest percentage of both the private bank and government users are male which is 60% and 57%, respectively. The female customers are less in both banks. Most of the customers from both the banks fall under the age cohort of 31- 45. In the table, both banks have 49% of the customers who fall under 31-45. After that, the age group of 16-30 and 46-55 are the highest among all the age cohorts.

The above table reports that most of the bank users have earned the bachelor's degree in the case of both private commercial bank and government-owned bank, i.e. 51% and 52%, respectively. The customers who received the master's degree or above comes as the second highest in the table above in our collected samples.

Considering the occupation, most of the bank users are service holder in both private and government-owned bank. In the private commercial bank, 74% of the users are service holders, whereas 63% of users are service holders in the government-owned bank. In Nepal, there is a smaller number of freelancers so, in this study, there is not a single freelancer present as the sample.

4. Analysis and Interpretation

This chapter is comprised of all the analyses and interpretations made after using various statistical tests. This section answers all the research questions mentioned in the first chapter.

4.1 Comparison of expectation, perception and service gap

The table below shows the comparison between the expectation, perception, and service gap corresponding to a private commercial bank and government-owned bank. The service gap is computed by subtracting the expectation score of each attribute from the perception score. The positive value in the service gap indicates better service quality whereas the negative score denotes the falling service quality.

Dimensions	Variable no.	Mean Expectation		Mean Perception		Gap Score	
		PCB	GOB	PCB	GOB	PCB Gap Score	GOB Gap Score
Assurance	1	6.339	6.029	4.890	4.990	-1.449	-1.038
	2	6.203	6.133	5.314	5.505	-0.890	-0.629
	3	6.136	6.057	4.949	5.010	-1.186	-1.048
	4	5.432	5.571	4.907	5.076	-0.525	-0.495
	5	6.000	6.057	5.008	5.000	-0.992	-1.057
	6	6.127	6.181	5.331	5.514	-0.797	-0.667
	7	6.093	6.057	4.966	5.048	-1.127	-1.010
	8	5.466	5.505	4.941	5.105	-0.525	-0.400
Responsiveness	9	5.932	5.943	5.008	4.886	-0.924	-1.057
	10	5.847	5.857	5.492	5.486	-0.356	-0.371
	11	5.814	6.010	5.102	4.952	-0.712	-1.057
	12	5.907	6.000	5.229	4.914	-0.678	-1.086
Competence	13	6.314	6.333	5.720	5.762	-0.593	-0.571
	14	6.508	6.429	5.805	5.638	-0.703	-0.790
	15	6.305	6.295	5.805	5.762	-0.500	-0.533
	16	6.381	6.267	5.788	5.771	-0.593	-0.495
	17	6.534	6.505	5.686	5.667	-0.847	-0.838
	18	6.271	6.314	5.356	5.305	-0.915	-1.010
	19	6.254	6.305	5.237	5.248	-1.017	-1.057
	20	6.212	6.324	5.619	5.495	-0.593	-0.829
	21	6.220	6.295	5.619	5.419	-0.602	-0.876
	22	6.339	6.400	5.585	5.438	-0.754	-0.962

Table IV: Comparison of expectation, perception and service gap

As observed in table IV, there is a falling service gap in all the dimensions as well as attributes in both private commercial bank and government-owned bank. The negative value in the column service gap is the difference between the perception of service and expectation of service, which indicates the lack in service quality.

4.2 Factor analysis Determining critical factors of SERVQUAL and reliability of measures

As described by Parasuraman et al. (1990), the major factors of service quality are tangibility, reliability, responsiveness, assurance and empathy. In this model, 22 statements each access both the perception as well as expectation.

Factor analysis helps to summarize the data as well as to find out the relationship and pattern associated with it. The factor analysis has been implemented to extract the maximum common variance from the data set. Furthermore, the test also uses the varimax rotation to conform to the detected dimension. In table IV, the factor analysis extracts only 3 factors that explain 84% of the total variance.

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	7.9408	3.6714	0.4594	0.4594
Factor2	4.2694	1.9435	0.2470	0.7063
Factor3	2.3259	1.3550	0.1345	0.8409
Factor4	0.9708	0.2398	0.0562	0.8971
Factor5	0.7310	0.1349	0.0423	0.9393
Factor6	0.5962	0.1318	0.0345	0.9738
Factor7	0.4643	0.1874	0.0269	1.0007
Factor8	0.2770	0.0898	0.0160	1.0167
Factor9	0.1872	0.1025	0.0108	1.0275
Factor10	0.0848	0.0172	0.0049	1.0324
Factor11	0.0676	0.0559	0.0039	1.0364

Factor12	0.0117	0.0126	0.0007	1.0370
Factor13	-0.0009	0.0027	-0.0001	1.0370
Factor14	-0.0036	0.0165	-0.0002	1.0368
Factor15	-0.0200	0.0034	-0.0012	1.0356
Factor16	-0.0234	0.0134	-0.0014	1.0343
Factor17	-0.0368	0.0272	-0.0021	1.0321
Factor18	-0.0640	0.0313	-0.0037	1.0284
Factor19	-0.0953	0.0051	-0.0055	1.0229
Factor20	-0.1004	0.0192	-0.0058	1.0171
Factor21	-0.1196	0.0565	-0.0069	1.0102
Factor22	-0.1761	0.0000	-0.0102	1.0000

Table V: Total Variance Explained

Eigenvalues are the special value which is related to a linear system of equations which are also known as characteristic roots and characteristic value. In eigenvalue total, only 3 factors have the value greater than 1, hence, we only select the three factors that best explain the variance in our model.

4.2.1 Scree plot

The eigenvalues after the factor analysis and the extraction of 3 factors can also be justified by the scree plot figure below:

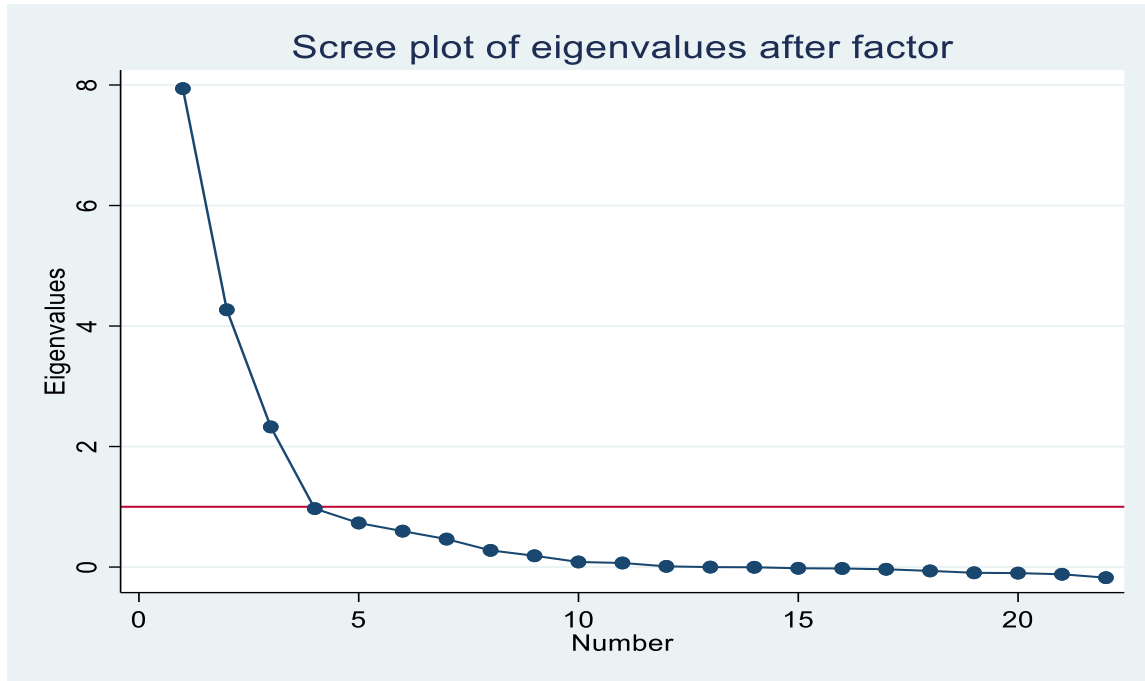


Figure VII: Scree plot of factors extracted

The above graph shows the eigenvalue in X-axis and variable numbers in the Y-axis. The red line is the mark where the eigenvalue is equal to 1. The figure clearly shows only 3 factors that are higher than the red line, that is where eigenvalue equals 1. Hence, only 3 factors should be extracted out of 5 prior dimensions.

4.2.2 Unrotated and rotated factor matrix

The table below shows the factors loading of unrotated factor matrix:

Variable No.	Factor1	Factor 2	Factor 3	Uniqueness
1	0.6331	-0.5596	0.0009	0.2861
2	0.5946	-0.5682	0.0505	0.3210
3	0.6832	-0.5692	0.0641	0.2052
4	0.7461	-0.4440	0.0084	0.2461
5	0.5185	0.4216	0.0075	0.5533
6	0.6843	0.4991	-0.0308	0.2817
7	0.7249	0.4565	0.0022	0.2661
8	0.6854	0.4317	-0.0786	0.3377

9	0.4230	0.4201	0.0104	0.6444
10	0.0024	0.1053	0.7500	0.4264
11	0.0027	0.0275	0.7061	0.5007
12	-0.1156	0.0482	0.8054	0.3357
13	-0.1460	-0.0267	0.7673	0.3892
14	0.6606	-0.5651	0.0354	0.2431
15	0.5963	-0.5662	0.0446	0.3219
16	0.6746	-0.5742	0.0530	0.2124
17	0.7413	-0.4512	-0.0040	0.2469
18	0.6033	0.4576	0.0449	0.4246
19	0.6373	0.4167	0.0221	0.4198
20	0.7498	0.3572	0.0133	0.3101
21	0.7208	0.4576	0.0676	0.2665
22	0.7540	0.4540	0.0042	0.2254

Table VI: Unrotated Factor Matrix

As observed in the rotated factor matrix in table VI, variable number 1 to 4 has the higher factor loadings in Factor 2. The variables from 1 to 4 are related to the tangibility. The variable number 5 to 9 have a higher factor loading in factor 1 and variable number 10 to 13 have a higher factor loading in factor 3. These variables are related to reliability and responsiveness, respectively. The variable number 14 to 17 which is relevant to assurance, has a higher factor loading in Factor 2. Finally, variable number 18 to 22 which is associated with the empathy dimension, has the highest factor loadings in factor 1.

Variable No.	Factor 1	Factor 2	Factor 3	Uniqueness
1		0.839		0.2861
2		0.8223		0.3210
3		0.8837		0.2052
4		0.8309		0.2461
5	0.6671			0.5533
6	0.841			0.2817
7	0.8425			0.2661
8	0.7957			0.3377
9	0.5959			0.6444
10			0.7523	0.4264
11			0.7056	0.5007
12			0.8113	0.3357
13			0.7721	0.3892
14		0.7523		0.2431
15		0.7056		0.3219

16		0.8113	0.2124
17		0.7721	0.2469
18	0.7543		0.4246
19	0.7513		0.4198
20	0.7936		0.3101
21	0.841		0.2665
22	0.8622		0.2254

Note: blanks represent abs(loading)<.3

Table VII: Rotated Factor Matrix

The unrotated factor matrix also suggests and supports the factor loadings shown by the rotated factor matrix. However, as shown in table VI, two dimensions namely reliability and empathy share the same factor with the higher factor loading in factor 1 and tangibility and assurance share the same factor with higher factor loading in factor 2. Finally, only the responsiveness dimension load independently in factor 3.

Looking carefully at the variables of both reliability and empathy, and their common characteristics, all these are merged into a single dimension, namely, competence.

Similarly, in the context of Nepal, the tangibility features are directly related to the creation of assurance. The plant and building, fixed assets, tangible technology, and equipment contribute a lot in building assurance. Since tangibility and assurance dimension are loaded in the same factor i.e. factor 2, all these variables are merged into a single dimension, namely, assurance.

Thus, factor analysis helped to reduce the five dimensions into only three dimensions namely assurance (a mixture of tangibility and assurance), responsiveness, and competence (a mixture of reliability and empathy). In order to check the reliability of scale of these merged and reduced dimensions, Cronbach's alpha coefficients are derived.

4.2.3 Cronbach's alpha

The Cronbach's alpha coefficients are derived from both perception and expectation variables though the factor analysis included the only perception on a set of 22 statements. Table VIII summarizes the Cronbach's alpha coefficients for both expectation and perception basing upon the merged dimensions.

	Dimension	No of items	Cronbach Alpha
Expectation	Assurance	8	0.70
	Responsiveness	4	0.73
	Competence	10	0.82
Perception	Assurance	8	0.95
	Responsiveness	4	0.85
	Competence	10	0.94

Table VIII: Reliability Test

The table above shows that all the variables have the Cronbach's alpha not less than 0.7, which is adequate and fulfills the conditions of reliability test. As observed in table VIII, the alpha coefficient ranges from 0.70 to 0.82 in case of expectation. However, the value ranges from 0.85 to 0.95 in the case of perception. Hence, it can be concluded that there are adequate reliabilities on both perception and expectation in the case of all extracted 3 factors, and SERVQUAL instruments are reliable.

4.3 Hypothesis testing on overall Service quality gap: PCB Vs GOB

Table IX shows the overall expectation, overall perception and overall service quality gap of both private commercial bank and government-owned bank. The listed hypothesis for the overall service quality gap is as follows:

H1: There is no difference in overall expectation and overall perception in private commercial bank

H2: There is no difference in overall expectation and overall perception in the government-owned bank.

The negative value in the gap column shows that there is a falling service quality in both the banks and the presence of gap. The calculation of the service gap is computed by subtracting the mean score of expectation from that of perception. The table shows that overall expectation is slightly higher in government bank compared to the private commercial bank.

Type of Banks	Overall Expectation (E)	Overall Perception (P)	Overall Service Gap (P-E)	T-value	Sig. (2 tailed)
PCB	6.12	5.316	-0.803	-12.509	0.0000
GOB	6.13	5.338	-0.792	-0.792	0.0000

Table IX: Difference in overall perception and expectation using paired sample t-test

After running the paired-sample t-test, the P-value for both hypotheses is 0.0000. Since the p-value i.e. 0.000 in the above table is less than 0.05 in both the cases of Private commercial bank and Government-owned bank, hence, the null hypothesis H1 and H2 is rejected. In other words, there is a difference in overall expectation and overall perception leading to the service quality gap in a private commercial bank as well as the government-owned bank.

	Type of banks	Mean	Mean Diff	SD	T-value	Sig. 2 tailed
Expectation*	PCB	6.119	0.011	0.297	0.2629	0.7929
	GOB	6.130				
Perception*	PCB	5.316	0.022	0.715	0.227	0.8206
	GOB	5.338				

Table X: Difference in overall expectation and perception using independent sample t-test

Table X compares the expectation and perception aspect between the private commercial bank and government-owned bank using independent sample t-test. The two null hypotheses to be tested between the private commercial bank and government-owned bank considering the expectation and perception aspects are as follows:

H3: There is no difference in overall expectation between the private commercial bank and government-owned bank.

H4: There is no difference in overall perception between the private commercial bank and government-owned bank.

As seen in table X, the overall expectation from government bank is slightly higher when compared to that of private commercial banks i.e. 0.011. Similarly, in the case of the overall perception, the government bank has perception higher than private commercial bank by 0.022. The p-value for the comparison of expectation between PCB and GOB is 0.7929 whereas the p-value for the perception between PCB and GOB is 0.8206, which is more than 0.05. Hence, both the null hypotheses are accepted in this case.

Following the paired sample t-test and its p-value, it is concluded that there is no difference in overall expectation as well as overall perception between the private commercial bank and government-owned bank.

4.4 Hypothesis test on dimensions of SERVQUAL: PCB and GOB

In this section, the hypotheses related to dimensions, namely assurance, responsiveness and competence, of SERVQUAL are tested in a private commercial bank as well as the government-owned bank. The null hypotheses related to the dimensions of SERVQUAL are as follows:

H5: There is no difference in the service dimensions, considering expectation and perception, in the private commercial bank.

H6: There is no difference in service dimensions, considering expectation and perception, in the government-owned bank.

Table XI depicts the three critical factors and their respective mean perception and mean expectation along with the service quality gaps for both private commercial bank and government bank.

	Dimensions	Expectation (E)	Perception (P)	Gap (P-E)	T- value	Sig. 2 tailed
	Assurance	5.975	4.887	-1.088	-9.806	0.0000
PCB	Responsiveness	5.875	5.227	-0.648	-4.9142	0.0000
	Competence	6.334	5.696	-0.638	-7.105	0.0000
	Assurance	5.949	5.326	-0.622	-5.128	0.0000
GOB	Responsiveness	5.952	5.038	-0.914	-7.706	0.0000
	Competence	6.347	5.468	-0.879	-8.49	0.0000

Table XI: Difference in perception and expectation on critical factors using paired sample test

In the case of the private commercial bank, the service quality gap ranges from -1.088 to -0.638 for the factor assurance, responsiveness and competence respectively. However, in the case of the government-owned bank, the service quality gap ranges from -0.914 to 0.622 for the factor responsiveness, competence and assurance respectively.

Moreover, from the observation of the table, the mean expectation of two factors of the government-owned bank is higher than that of private commercial bank namely responsiveness and competence. However, the mean expectation of the factor assurance is higher in private commercial bank as compared to the government-owned bank.

Similarly, the mean perception of two factors of a private commercial bank is higher than that of government-owned bank namely responsiveness and competence. However, the mean expectation

of the factor assurance is higher in the government-owned bank as compared to the private commercial bank.

Taking the p-values in the given table, each factor is statistically significant, considering the difference between perception and expectation. The p-value of all three dimensions of service quality in both private commercial bank and the government-owned bank is 0.0000. Since, the P-value i.e. 0.0000 is less than 0.05, the null hypotheses H5 and H6 should be rejected. In other words, the difference exists in the service dimensions, considering both expectation and perception, in private commercial bank as well as in the government-owned bank.

Table XII summarizes the findings of independent sample t-test to verify the difference in each service quality dimensions between private commercial bank and government-owned bank considering both the expectation as well as perception aspects. The null hypotheses to be tested in this section are as follows:

H7: There is no difference in each service dimensions, considering expectation, between the private commercial bank and government-owned bank.

H8: There is no difference in each service dimensions, considering perception, between the private commercial bank and government-owned bank.

The table XII reports that all three factors on expectation significantly differ between the private commercial bank and government-owned bank with a confidence level of 95%. Considering the expectation aspect as well as the comparison between two banks, the p-value of service dimensions namely, assurance, and responsiveness are 0.6816, 0.4733 and 0.7408 respectively. Since all the values are more than 0.05, the null hypothesis H7 and H8 is accepted. Hence, there is no difference in service dimension in between private commercial bank and government bank considering the expectation aspect.

	Dimensions	Type of banks	Mean	SD	T-value	Sig. 2 tailed
Expectation	Assurance*	PCB	5.975	0.441	-0.4109	0.6816
		GOB	5.949	0.495		
	Responsiveness*	PCB	5.875	0.845	0.7183	0.4733
		GOB	5.952	0.753		
	Competence*	PCB	6.334	0.275	0.3312	0.7408
		GOB	6.347	0.301		
Perception	Assurance	PCB	4.887	1.122	2.9189	0.0039
		GOB	5.326	1.123		
	Responsiveness*	PCB	5.227	1.106	-1.309	0.1917
		GOB	5.038	1.035		
	Competence*	PCB	5.696	0.967	-1.7132	0.0881
		GOB	5.468	1.021		

Table XII: Difference in expectation and perception of critical factors using independent sample t-test.

However, in the case of perception, only two factors, namely, responsiveness and competence, differ significantly with the confidence level of 95%. The assurance dimension has the p-value of 0.0039, which is lesser than 0.05. The responsiveness and competence dimensions have a p-value of 0.1917 and 0.0881 respectively which is higher than 0.05. In this case, the assurance dimension has a difference between the private commercial bank and government-owned bank considering the perception aspect. However, the other two dimensions that are responsiveness and competence have no differences between the private commercial bank and government-owned bank.

Table XIII depicts the findings of independent sample t-test on the service quality gap of each factors taking the service dimensions into account. The table summarizes if there exist any gap on each service dimension in both private commercial bank and government-owned bank. The null hypotheses to be tested in this section are as follows:

H9: There is no difference in service dimensions, considering the service quality gap, between the private commercial bank and government-owned bank.

Dimension	Type of banks	Service quality gap	SD	T-value	Sig. 2 tailed
Assurance	PCB	-1.088	1.205	2.8344	0.005
	GOB	-0.623	1.244		
Responsiveness*	PCB	-0.648	1.433	-1.4848	0.139
	GOB	-0.914	1.216		
Competence*	PCB	-0.638	0.976	-1.7667	0.0787
	GOB	-0.879	1.060		

Table XIII: Differences in service quality gap of critical factors between private commercial banks and government-owned banks using independent sample t-test

The table shows that the service quality gap on two factors, namely responsiveness and competence, are higher in Government-owned bank compared to the private commercial bank. However, on factor assurance, the service quality gap is higher in private commercial bank.

Considering the p-value in the table, the dimensions namely, assurance, responsiveness and competence have the p-value of 0.005, 0.139 and 0.0787 respectively. The p-value of assurance is lesser than 0.05 whereas p-value of responsiveness and competence is greater than 0.05. So, the null hypothesis is accepted only in the case of assurance. Hence, there is no difference in assurance dimension considering the service quality gap between the private commercial bank and government-owned bank. However, responsiveness and competence dimension significantly differ following the rule of p-value between the private commercial bank and government-owned bank. So, the null hypotheses are rejected.

4.5 Relative importance of critical factors: PCB Vs GOB

With the help of dominance analysis, the degree of importance of the three critical factors is identified. In this process, the dependent variable is the SERVQUAL gap of both types of banks and the independent variable is the mean score of perception of each dimension. Hence, the SERVQUAL gap is measured against the mean score of perception on each dimension.

Table XIV and XV depict the summary of effects of three dimensions namely assurance, responsiveness and competence (all of which are independent variable) on the overall SERVQUAL gap (dependent variable) for both private commercial bank and government-owned bank. Column 1 is comprised of three individual variables and then in a unique pairing. The column with the label of R2 shows the squared multiple correlations for each model. Hence, simple linear regression composed of X1 and the dependent variable yields squared multiple correlations of 0.3258 and 0.5160 respectively, for the two types of banks.

4.7 Relative importance of critical factors: PCB vs GOB

Variable(s)	R2	X1	X2	X3
	-	0.3258	0.3006	0.2807
X1	0.3258	-	0.315	0.1886
X2	0.2807	0.3402	-	0.2447
X3	0.2807	0.2337	0.2676	-
X1X2	0.6408	-	-	0.1588
X1X3	0.5144	-	0.2852	-
X2X3	0.5483	0.2513	-	-

Note: X1=Assurance; X2=Responsiveness; X3=Competence

Table XIV: Marginal R2 contribution: PCB

Variable(s)	R2	X1	X2	X3
	-	0.5161	0.0879	0.3418
X1	0.5160	-	0.0010	0.0757
X2	0.0879	0.4282	-	0.4113
X3	0.3418	0.2500	0.1575	-
X1X2	0.5161	-	-	0.2256
X1X3	0.5917	-	0.1500	-
X2X3	0.4992	0.2425	-	-

Note: X1=Assurance; X2=Responsiveness; X3=Competence

Table XV: Marginal R2 contribution: GOB

The correlations between each independent variable and the dependent measure of private commercial banks are $r_{Y.X1} = 0.5708$, $r_{Y.X2} = 0.5483$, and $r_{Y.X3} = 0.5298$. Similarly, the correlations between each independent variable and dependent measure of government-owned banks are observed as $r_{Y.X1} = 0.7184$, $r_{Y.X2} = 0.2965$, and $r_{Y.X3} = 0.5846$. These correlations squared made up the first row of Tables XIV and XV.

Considering the table XIV and XV, the dominance of independent variables on the outcome variables can be identified. Tables XVI and XVII summarized the relative importance of each critical factor in a private commercial bank and government-owned bank, respectively. The first row is comprised of squared (multiple) correlations for each variable with the dependent variable.

K	X1	X2	X3
0	0.3258	0.3006	0.2807
1	0.2870	0.2913	0.2182
2	0.2513	0.2852	0.1588
M(Cx)	0.2880	0.2924	0.2192
Percent	36	37	27

Note: X1=Assurance; X2=Responsiveness; X3=Competence

Table XVI: Summary of dominance analysis relative importance metrics: PCB

Successive rows show the average marginal increase in R2 when each variable is added to an existing model composed of one or two variables. The row corresponding to M(Cx) presents the marginal contribution of each variable averaged an overall combination of regression. The last row converts each variable's average marginal contribution to the squared multiple correlations to a proportion of the total.

K	X1	X2	X3
0	0.5161	0.0879	0.3418
1	0.3391	0.0793	0.2435
2	0.2425	0.1500	0.2256
M(Cx)	0.3659	0.1057	0.2703
Percent	50	14	36

Note: X1=Assurance; X2=Responsiveness; X3=Competence

Table XVII: Summary of dominance analysis relative importance metrics: GOB

After the observation of tables XV and XVI, X2 (Responsiveness) exerts the greatest marginal influence, followed by X1 (Assurance). The responsiveness and assurance have more dominance in the private commercial bank. However, in the case of the government-owned bank, X1(Assurance) adds the greatest marginal influence, followed by X3 (Competence). So, assurance and competence are the dominant factors in the government-owned bank. X2 and X1 together can reduce the overall service quality gap by 73% in private commercial bank, and the factor X1 and X3 can together reduce 86% in the case of a government-owned bank. The application of dominance analysis indicates the degree rather than a pattern to predict the SERVQUAL gap in these two types of banks.

4.6 Summary of Hypotheses and Analysis

The summary of hypotheses tests and analysis are mentioned below:

- In table IX, the rejection of null hypothesis H1 and H2 underlines the existence of the service quality gap in both the banks. The expectation of the customers is not fulfilled by the provided services, creating a low perception and service gap in both the institutions.
- Corresponding to table X, the acceptance of null hypotheses H3 and H4 emphasize that there exists no difference in expectation and perception between the private commercial bank and government-owned bank. The customers of both banks have a similar kind of expectation from the institutions and perceive the institutions similarly.
- As observed in table XI, the acceptance of null hypotheses H5 and H6 refers that there is no gap in private commercial bank considering the service dimensions, namely, assurance, responsiveness and competence. Moreover, the same thing applies to the government-owned bank.
- Considering table XII, hypotheses H7 and H8 are tested. The service dimensions on the expectation aspect between the private commercial bank and government-owned bank statistically differ, referring to the existing service gap in all three dimensions. However, considering the perception aspects between the private commercial bank and government-owned bank, there is a difference in only two dimensions that is responsiveness and competence.
- In table XIII, the hypotheses H9 is tested to find out if any difference exists in the service dimensions considering the service quality gap between the private commercial bank and government-owned bank. The table XII shows that only two dimensions namely, responsiveness and assurance, significantly differ comparing its p-value from the t-test. However, there is no difference in the assurance dimension, considering the service quality gap, between the private commercial bank and government-owned bank.
- With the application of dominance analysis, the study shows that “responsiveness” and “assurance” is dominant in the private commercial bank, whereas “assurance” and “competence” are the factors that are dominant in the government-owned bank.
- Responsiveness and assurance, combinedly, can close the 73% percent of service gap in case of the private commercial bank. Moreover, more than 86% of the service gap can be

closed by considering the assurance and competence dimension in the government-owned bank by implanting the suggested strategies.

The following table gives the glimpse of hypotheses tests and decisions:

Hypotheses	Decisions
H1	Rejected
H2	Rejected
H3	Accepted
H4	Accepted
H5	Accepted
H6	Accepted
H7	Partially Supported
H8	Partially Supported
H9	Partially Supported

Table XVIII: Hypothesis test and decisions

5. Discussion

As shown by the factor analysis, the factor loading of tangibility and assurance in the same component means that the tangible factors help to assure the safety of their deposits in the bank. The fixed assets of the banks play a vital role in attracting plenty of customers apart from other many essential factors. Customers believe that in case of the default of the financial institutions, the deposit will be returned by selling fixed assets like land and building and ATMs. Hence, both the dimensions are condensed and named as “assurance” in this study.

Both the private commercial bank and government-owned bank shows the significant gap between the expectation and perception in three items of service quality in tangibility-assurance dimension i.e. “bank having up-to-date equipment”, “bank’s employee dress and appearance” and “polite employees”.

Moreover, the investment in the tangible technology makes customers believe that the bank possesses stable financial status and create the “hi-tech” image among the customers which is one of the attractive factors in the banking industry of Nepal. In the recent days, especially the private commercial banks are being scrupulous to increase their tangible factors like decorating the branches of the bank, adopting the latest and advanced technology to serve customers, investing the profit into getting the fancy buildings, scrutinising the outlook of the employees and so on. The visibility of tangible facilities is directly proportional to gaining faith in the banks by the customers (Moyes, 2012).

The factor loading of reliability and empathy dimension, in the same component, signifies how the banking customers of Nepal interpret both the dimensions to be similar. If observed, both dimensions have the variables that are related to the “humane” factors and soft skills. The kindness and compassionate behaviour of the employees plays a significant role in retaining the old customers and attracting the new ones. Hence, they are combined as a new dimension named “Competence”. The competence dimension, when strengthening correctly, helps to stand out the bank amid its competitors.

In the competence dimension, two items of service quality show the critical gap in both private commercial bank and government-owned bank i.e. “Individualized attention to customers” and “Employees providing personal attention”. In most of the private banks in Nepal, the customer care department is in an excellent state.

There should be a reflection of warm and friendly behaviour in the bank by employees. The bank can gather as much data about the customers to reduce the gap between the organization and customers. By doing this, the bank can get a more precise view of the demands and needs of the customer, whereby giving more personalized and tailored services to the customers. Utilizing the effective management information system, the bank can address the exact needs of customers, effectively utilizing the resources and reducing the waiting time for the customers

In the responsiveness dimension, four items show the critical gap in case of government-owned bank i.e. “Inform customers about the exact time of service”, “Employees' willingness to help customers”, “Prompt response to customer requests”, and “Trust in bank's employees”. The private commercial bank has a low gap in these items compared to the government-owned bank. Proper and timely implementation of promised services is the most anticipated factor by the customer of the banks (Nunally & Bernstein, 1978).

The responsiveness can be increased by giving software-related training to the employees of the bank. The adequate number of employees in the front line also reduces the time to address the need of the customers or to finish the given work in a short time in the bank.

However, in the case of the government-owned bank, there are many complaints regarding dealing with the customers. There are few significant reasons behind such behaviour in the government bank i.e. hire and fire system and old working population in the bank. Once the government bank hires the staff, it is almost impossible to fire them before they reach a certain age. Unlike private commercial banks, where the firing of staff is possible depending on their level of performance and frequent appraisal system, the government bank struggles with the low performing staffs without the option of firing them. There are many instances where the customers face rude employees in the government-owned bank. Compared to private commercial banks, the employees of government bank are old and close to retirement, hence, they often show irritation and recklessness in the process of service delivery in the context of Nepal. Besides, the bureaucracy hassles and intense level of hierarchy regularly contribute in the late services in the case of the government-owned bank.

The lack of agility among the staff and low degree of response to the queries and requests aggravates the operation of the government bank. Only the convenient banking hours and basic banking service are not enough in the current era, the individual attention and proper identification

of the customer needs is the must to succeed in the banking industry. The first and foremost expectation of the banking customer is the fulfillment of the promised service quality as it is strongly related to the customers' faith in the performance of the bank (Soltani, Barnes, Syed, & Liao, 2012).

In the context of a private commercial bank, there are a few numbers of staff hired in the organization to reduce the cost of operation. The tendency to squeeze as much work as possible from the fewer number of employees in the name of multitasking backfire to address the problem of responsiveness. Due to this reason, there is fewer number of staffs with few counters that cause long queue in the bank contributing to the slow services just as opposite to the customer expectation.

However, banks invest a fixed percentage of the budget in training their employees, whereby giving them soft skills, multitasking skills and communication training. The positive vibes, courtesy, greetings, and joyful environment in the bank is always expected by every customer who visits the bank in Nepal. Many banks provide tailored service to their key account customers to make them feel they are a vital part of the bank. The problem associated with the key account customers is that only a few customers get the privileges whereby the small customers are left out of these services.

6. Conclusion and Managerial Implication

In general, observing the weight on service quality items as suggested by Parasuraman et al. (1988), the expectation of customers of the bank of Nepal is higher than the perception related to the service provided by the bank. The interaction between the employee and customers holds great importance in the delivery process of services. People involved in service delivery are of paramount importance to the customers as they reflect the service provided by the institution and represent the employers too.

The overall gap of the government-owned bank is slightly higher than that of the private commercial bank in Nepal. Even though private banks are more effective compared to government banks, the people of Nepal trust Government-owned banks more with their money deposits. They believe as the government banks, which possess a lot of fixed assets and backed up by the government, will treat them well in the time of default and collapse of financial institutions. While comparing the individual items of service quality, all the factors have the falling service quality in both the bank.

Just as the research aims to access the difference in overall service quality and service dimension in and between the private commercial bank and government-owned bank, the paper successfully answers the research question by testing several hypotheses. The paper put light on the existing service quality gap in both the banks. The expectations of customers of the bank of Nepal is strongly focused on the following items of service quality as mentioned by Parasuraman et al (1988) as well score low in the perception aspects creating the critical service quality gap:

- The bank having up-to-date equipment
- Employees' dress and appearance
- Polite employees
- Individualized attention to customers
- Employees providing personal attention
- Inform customers about the exact time of service
- Employees' willingness to help customers
- Prompt response to customer requests
- Trust in bank's employees

The test of hypothesis shows the difference in service gap in both private commercial bank and government-owned bank considering the overall expectation and perception. The various tests suggest that there are no differences in service quality dimension, regarding expectation and perception, in both private commercial bank and government-owned bank. But, in comparison of the expectation on service dimensions between private and commercial banks, all three dimensions, namely assurance, responsiveness and competence, differ indicating the service quality gap. However, in comparison of perception on service dimensions between two banks, only responsiveness and competence differ, suggesting the gaps. Focusing on service quality gap, the comparison between two banks on the service dimensions indicates the differences in responsiveness and assurance dimensions.

With the help of the dominance analysis, the result reports that service quality gap in terms of degree rather than patterns. With the application of dominance analysis, the study shows that “responsiveness” and “assurance” is dominant in the private commercial bank, whereas “assurance” and “competence” are the factors that are dominant in the government-owned bank. If considered properly by implementing the effective strategies, the two dimensions, namely responsiveness and assurance” can close the service gap by more than 73% in a combined way in case of the private commercial bank. Moreover, more than 86% of the service gap can be closed by considering the assurance and competence dimension in the government-owned bank by implanting the suggested strategies. Hence, the paper answers all the listed research questions and usher the direction to close the critical service gaps present in the commercial banks of Nepal.

The output from Table IV, several hypothesis tests and dominance analysis, lists out the common points in the paper. So, the management can improve the operation to close the service quality gap by focusing on the factors mentioned above in the discussion and conclusion part. The few recommendations as to the measure of improvements, in brief, are as follows (Kumar, Tat Kee, & Charles, 2010):

To address the assurance-tangibility problems

- Adoption of the latest tangible banking technologies such as ATMs, debit cards, credit cards, loyalty cards, and so on.
- Practical and modern layout of the branches of the bank
- Investment in necessary fixed assets
- Scrutiny in the appearance of the staffs

To address the responsiveness problems

- Addition of customer counters
- Hiring adequate employees as the service demands
- Banking software training
- Soft skills and communication training

To address the competence problems

- Early retirement options to update and add new and young workforce
- Carrot and stick approach to motivate and punish behavior of employees
- Sturdy customer relationship management
- Strong management information system

Reflective Note

This study investigates the service quality gap in the banks of Nepal. The study explores and explains the concept of service quality gap with the help of factors like perception, expectation, and the service quality dimensions. The research is based on the primary data whereby the banking customers of Nepal serve as the sample or respondents for the study. The paper aims to underline the existing service gap in the banks of Nepal and the way to close those service gap, increasing the service quality in the banks.

Banking trends

Nepal is the developing country which is situated between the two emerging giant nations namely, India and China. Nepal not only shares the border with India and China but also gets influenced by the economy of its neighboring nations. The major chunk of import in Nepal comes from India and China. Moreover, India and China contribute the most in the incoming foreign direct investment in Nepal. Hence, the two giant nations have been the significant part of economic reforms in Nepal. The banking industry of Nepal played the major part in the financial liberalization and reform of the country. The banks are penetrating not only the city areas but also the rural areas of Nepal embracing the whole nation in the recent years. The financial institutions are categorized into commercial banks, development banks, finance companies, microfinance companies and cooperatives as per their paid-up capital and nature of work. To make the banking industry more sturdy, the central bank of Nepal is focusing on merger and acquisition among the banks to reduce the number and to increase the paid-up capital of the banks. The high paid-up capital increases the capacity of banks to fund the mega projects which now is only possible through consortium. Moreover, Nepal is currently having the stable government for five straight years which is evident after decades of political instability. Hence, the doing business in Nepal is improving and flourishing the whole nation.

The service dimensions serve as the independent variable whereas the service gap (which is the output of difference between expectation and perception) serves as the dependent variable in the study. The service quality of the bank is affected by all these factors and variables.

Internationalization

Following the banking liberalization act in Nepal, many international banks entered in the banking industry of Nepal. Through joint ventures with the foreign banks, there are still 7 joint venture banks serving in Nepal such as Nepal SBI Bank, Everest Bank, NABIL Bank, Standard Chartered Bank, Nepal Bangladesh Bank, Himalayan Bank and NMB Bank. The banking industry reaped the benefits of the joint venture banks in case of technological knowhow, banking software and technology, training and developing the employees and so on. The banks became more matured and competitive after learning a great deal from the foreign banks. The major income of Nepal is from the remittance. The people who are working in form of skilled workers and blue colors worker in the various other countries contribute to Nepal in form of remittance. So, this aspect also touch the internationalization part.

Innovation

In the global scenario, the technology becomes old in short time in the banking industry. The emergence of new and advance technology serves the customer base fulfilling their growing expectation. However, it is also the big challenge for the bank to keep pace with and to adopt the new and changing technology. The cost associated with the technology and developing and training the employees and customer to blend with the technology comes with huge cost. Even in Nepal, the automation and the proper use of information technology changed the scenario of banking system. The concept of online banking is not that old, yet, the impact is already significant in the banking industry of Nepal. The use of technology helped to be more responsive and cover large number of bank users in the developing country like Nepal. The introduction of new banking products in short span of time is also evident that how bank competes with each other creating the innovative products in Nepal.

Responsibility

The bank should be responsible for the confidentiality of the consumer and the transactions associated with it. The bank should not only focus on making profit, yet, it needs to develop the banking products as per the need of the customers. The bank should always be focused on expanding their financial services so as to cover the largest chunk of population as possible. It is the responsibility of the bank to fulfill the expectation of the customers by providing hasslefree

services and , maybe, the tailored services to make the customers delighted. On the side of employees, the bank should train them in such a way that they show politeness, courtesy, concern and compassion to the bank when the basic financial services are provided to the customers. Moreover, since the bank operates in the society, it should focus on corporate social responsibility. The bank should move in such a way that it makes profit as well as contributes to the betterment of the society. Many banks in Nepal are contributing in corporate social responsibility in the recent days.

With the opportunity to write the Master's thesis, I learned a great deal about internationalization, innovation and responsibility. Through this paper, I have tried to contribute to create a knowledge since not many researches are conducted in the topic " "Comparative evaluation of critical factors to close the service quality gaps in the commercial bank of Nepal" in my country.

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APPENDIX-I

Questionnaire

DIRECTIONS: This survey deals with your opinion of Banking services. Choose one of the seven numbers next to each question. If you strongly agree that the bank should possess a feature, circle number seven. If you strongly disagree that the bank should possess a feature, circle number one. If your feelings are not so strong, mark one of them from the middle. There are no right or wrong answer. This part is associated with Customer Expectations:

1. This Bank should have up to date equipment

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

2. The Physical facilities (Help desk, Computers etc) should be visually appealing.

- (1) Strongly disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

3. Their employees should be well dressed and appear neat.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

4. The appearance of the physical facilities of these banks should be in keeping with the type of services provided.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

5. When these banks promise to do something in a certain time, they should do so.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

6. When customers have problems, the bank should be sympathetic and reassuring.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly agree
- (6) Agree
- (7) Strongly agree

7. Banks should be dependable.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly agree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

8. Bank should provide their services at the time they promise to do so.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly agree

9. Bank should keep all the records sincerely and accurately.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

10. Bank should not be expected to tell customers exactly when services will be performed.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

11. It is not realistic for customers to expect prompt service from employees of the bank.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

12. Bank employees do not always have to be willing to help customers.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

13. It is okay if they are too busy to respond to customer request promptly.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

14. Customers should be able to trust employees of these banks.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

15. Customers should be able to feel safe in their transactions with these banks' employees.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

16. Bank employees should be polite.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

17. Their employees should get adequate support from this bank to do their jobs well.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

18. Banks should not be expected to give customer individual attention.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Agree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

19. Employees of this banks cannot be expected to give customers personal attention.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

20. It is unrealistic to expect employees to know what the needs of their customers are.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

21. It is unrealistic to expect these banks to have their customer best interest at heart.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

22. They should not be expected to have operating hours convenient to all their customers.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

DIRECTIONS: The following set of statements is related to your opinion about your preferred bank in Nepal. For each statement, please show the extent to which you believe your preferred bank has the feature describe in the statements. Once again, please do this by choosing one of the seven numbers next to each question. If you strongly agree that this bank possesses a feature, circle number seven. If you strongly disagree that this bank possesses a feature, circle number one. If your feelings are not so strong, mark one of them from middle. There are no right or wrong answer. This part called Perceived services.

What kind of bank you preferred to handle your financial transactions?

- (1) Government-owned commercial Bank
- (2) Private Commercial Bank

1. This Bank you are dealing with have up to date equipment.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

2. In your preferred bank, they have Physical facilities (Help desk, Computers etc.) of this bank are visually appealing

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

3. Your preferred bank employees are well dressed and appear neat.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

4. The appearance of the physical facilities of this bank is in keeping with the type of services provided.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

5 When your bank promise to do something by a certain time, it does so.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

6. When you have problems, your bank is sympathetic and reassuring.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

7. Your bank is dependable.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

8. Your bank provides its services at the time it promises to do so.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Agree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

9. Your bank keeps all the records sincerely and accurately.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

10. Your bank does not tell customers exactly when services will be performed.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

11. You do not receive prompt service from your preferred bank employees

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

12. Employees of your preferred bank are not always willing to help customers.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Agree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

13. Employees of your preferred bank are too busy to respond to customer request promptly.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Agree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

14. You can trust employees of your bank.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

15. You feel safe in your transactions with your preferred bank employees.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

16. Employees of your preferred bank are polite.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

17. Employees get adequate support from your bank to do their jobs well.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

18. Your preferred bank does not give you individual attention.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

19. Employees of your bank do not give personal attention.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

20. Employees of your preferred bank do not know what your needs are.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

21. Your bank does not have your best interests at heart.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

22. Your bank does not have operating hours convenient to all their customers.

- (1) Strongly Disagree
- (2) Disagree
- (3) Slightly Disagree
- (4) Neutral
- (5) Slightly Agree
- (6) Agree
- (7) Strongly Agree

Gender

- (1) Male
- (2) Female

Age

- (1) 16-30
- (2) 31-45
- (3) 46-55
- (4) above 55

Education level

- (1) Not educated at all
- (2) Secondary school certificate
- (3) Higher Secondary
- (4) Bachelor's degree
- (5) Masters or above

Occupation

- (1) Service holder
- (2) Business
- (3) Student
- (4) Freelancer

