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The Impact of Mergers and Acquisitions on Customer Satisfaction of Nepalese Bank and Financial Institutions

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Abstract

Background: In recent years, mergers and acquisitions (M&A) have become a strategic approach adopted by banks and financial institutions worldwide to enhance competitiveness, increase operational efficiency, and strengthen financial stability. In Nepal, regulatory reforms and policies introduced by the Nepal Rastra Bank have encouraged consolidation among banks and financial institutions to create stronger and more sustainable financial entities. Understanding how these structural changes influence customer satisfaction is therefore important for ensuring the success of post-merger operations.

Purpose: This study aims to examine the impact of mergers and acquisitions (M&A) on customer satisfaction in Nepalese banks and financial institutions (BFIs), identifying key challenges and potential managerial solutions for improving service quality post-M&A.

Design/methodology /approach: A descriptive and explanatory research design was adopted. Data were collected from 405 bank customers in Kathmandu Valley using convenience sampling and a structured questionnaire. The data were analyzed using Microsoft Excel for descriptive statistics and SmartPLS 4.0 for inferential analysis, including Structural Equation Modeling (SEM) to assess relationships between service quality dimensions and customer satisfaction.

Findings: The majority of respondents are male and maintain banking relationships primarily as depositors. Almost half of the respondents experienced challenges due to M&A, including changes in product and service offerings (31.45%), integration issues in bank systems (29.3%), and lack of effective communication (21.51%). Among the five SERVQUAL dimensions, tangibility ($\beta = -0.235$, $p = 0$), reliability ($\beta = 0.235$, $p = 0$), and assurance ($\beta = 0.336$, $p = 0$) significantly influence customer satisfaction, while responsiveness and empathy were not significant. Proposed solutions include offering new and improved products and services, enhancing communication, and ensuring reliable system integration to address post-merger challenges.

Conclusion: The study emphasizes the importance of improving service quality after M&A in Nepalese BFIs. By focusing on enhanced products, effective communication, reliable systems, and upgraded service delivery, banks can increase customer satisfaction and ensure successful post-merger operations.

Keywords: Merger and Acquisition, Customer Satisfaction, Banking Sector, Nepalese Financial Institutions, Service Quality

1. Introduction

Mergers and acquisitions (M&A) represent one of the most enduring and influential strategic mechanisms employed by organizations to achieve growth, restructuring, and competitive advantage in an increasingly complex global business environment (Neamat, 2022; Alkaraan, 2022). Rooted in theories of corporate expansion and synergy, M&A activities enable firms to consolidate resources, diversify risk, enhance market power, and realize economies of scale. Over the past several decades, scholarly interest in M&A has expanded substantially, producing a rich body of literature that examines strategic motivations, financial performance, governance implications, and post-merger integration outcomes (Cumming et al., 2023). While early studies primarily emphasized shareholder value and financial efficiency, contemporary research increasingly recognizes that M&A outcomes are multidimensional, affecting not only firms but also a wide range of stakeholders, including employees, customers, regulators, and society at large (Uprety, 2024). Despite this evolution, the dominant analytical focus remains centered on firm-level financial indicators, often overlooking the experiential and relational consequences of M&A. As service-oriented industries expand globally, particularly financial services, understanding how M&A strategies affect customer perceptions and satisfaction has become a critical yet underexplored dimension of organizational performance and sustainability (Vinocur et al., 2023).

The global banking and financial services sector has been at the forefront of M&A activity, driven by liberalization, technological disruption, regulatory pressures, and intensifying competition (Aalam et al., 2025). Banking consolidation has accelerated markedly since the early 2000s, with institutions pursuing mergers to strengthen capital adequacy, improve operational efficiency, and adapt to digital transformation. Global M&A deal value reached an unprecedented USD 5.9 trillion in 2021, reflecting a 64 percent increase from the previous year, with financial services accounting for a significant share of high-value transactions (Santoso, 2022). Although global M&A activity experienced a notable decline in 2023 due to macroeconomic uncertainty, inflationary pressures, rising interest rates, geopolitical conflicts, and weakened investor confidence, consolidation remains a structural feature of the banking industry (Pavković, 2024).

Importantly, banking mergers extend beyond balance sheet considerations, as they directly influence service delivery, customer trust, accessibility, and relationship continuity. Empirical evidence from developed economies suggests that while mergers may enhance cost efficiency, they can simultaneously disrupt service quality and customer satisfaction if integration processes are poorly managed (Almajid, 2021). This duality highlights the need for context-specific investigations, particularly in emerging economies where institutional environments differ significantly from developed markets.

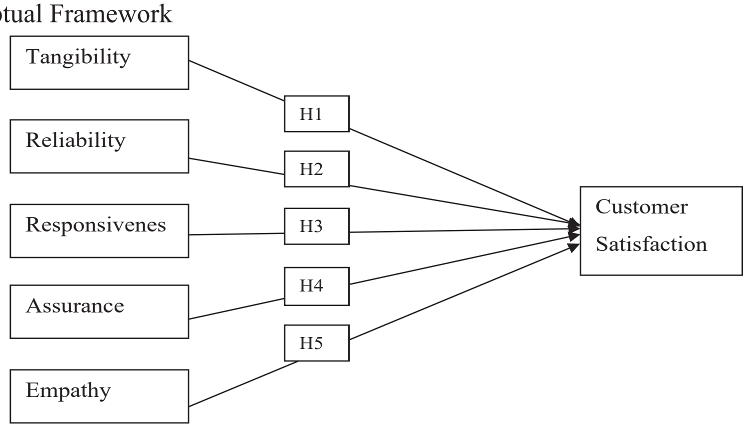
In Nepal, M&A emerged as a formal regulatory and strategic phenomenon relatively recently compared to global standards. The Nepal Rastra Bank (NRB), as the apex regulatory authority, introduced merger bylaws in 2068 B.S. with the explicit objective of strengthening the banking and financial institutions (BFIs) by reducing fragmentation, enhancing financial stability, and improving institutional performance (Lornenge, 2024). These regulatory reforms were reinforced by stringent capital adequacy requirements, compelling BFIs to consolidate in order to survive and compete. As a result, Nepal's financial sector has undergone substantial structural transformation, with the number of commercial banks declining from 27 in 2021 to 21 by mid-2023 (Nepal Rastra Bank [NRB], 2023), alongside significant consolidation among development banks, finance companies, and microfinance institutions. Similar consolidation trends have also been observed in Nepal's insurance sector following revisions to minimum paid-up capital requirements. While policymakers anticipate positive outcomes such as technological advancement, economies of scale, and enhanced competitiveness, the implications of these mergers for customers, particularly in terms of service quality, satisfaction, and trust, remain insufficiently examined within the Nepalese context.

Despite the scale and policy-driven nature of M&A activity in Nepal's banking and financial sector, empirical research has largely concentrated on financial performance, capital structure, and operational efficiency, leaving customer-centric outcomes inadequately addressed (Paneru et al., 2024). The impact of M&A on customer satisfaction remains ambiguous, raising concerns that service disruptions, cultural mismatches, employee uncertainty, and changes in service delivery mechanisms may adversely affect customer experiences (Umashankar et al., 2022). This gap is particularly significant in service-intensive industries like banking, where customer satisfaction and loyalty are critical determinants of long-term success. Existing international findings cannot be directly generalized to Nepal due to differences in regulatory frameworks, market maturity, customer expectations, and institutional capacity. Consequently, this study seeks to address this gap by examining the impact of M&A on customer satisfaction within Nepalese banks and financial institutions (BFIs). Specifically, the study aims to: (i) assess customers' general understanding of M&A in Nepalese BFIs; (ii) examine the relationship between M&A activities and customer satisfaction; (iii) identify challenges faced by BFIs in maintaining service quality post-merger; and (iv) propose managerial strategies to enhance customer satisfaction following M&A. Through this approach, the study contributes empirical evidence to an underexplored area and informs policy and managerial decision-making in Nepal's evolving financial sector.

2. Theoretical Framework and Hypothesis

A theoretical framework provides a structured and systematic foundation for explaining the relationships among key variables in a research study by drawing on established theories (Varpio et al., 2020). In analyzing the impact of M&A on customer satisfaction, this study reviews synergy theory, efficiency theory, social identity theory, free cash flow theory, resource-based theory, and SERVQUAL theory, as these perspectives collectively address the strategic, economic, behavioral, and service-related implications of M&A. Given the service-intensive nature of banking and financial institutions, this study primarily adopts the SERVQUAL theory as its guiding theoretical foundation (Özispa, 2025). SERVQUAL conceptualizes service quality as the gap between customers' expectations and their perceptions of actual service performance. It evaluates service quality across five key dimensions: tangibles (physical facilities and technology), reliability (consistent and accurate service delivery), responsiveness (promptness and willingness to help customers), assurance (competence, credibility, and trust), and empathy personalized attention and care (Setiono et al., 2022). This framework is particularly appropriate in a post-merger banking context, where changes in systems, processes, and employee behavior directly affect customer experiences (Kumar et al., 2025). By applying SERVQUAL, this study is able to systematically assess how M&A-induced transformations influence perceived service quality and, consequently, customer satisfaction. Thus, SERVQUAL provides a robust, customer-centric framework for evaluating the impact of M&A in Nepalese BFIs, while the other reviewed theories offer complementary contextual support. The theoretical relation between the variables illustrated in Figure 1.

Figure 1: Conceptual Framework



Source: SERVQUAL model (Parasuraman et al., 1985)

Tangibility and Customer Satisfaction

Tangibility refers to the physical aspects of service delivery, including facilities, equipment, employee appearance, and communication materials (Munusamy et al., 2010). In banking, tangible cues play an important role in shaping customers' first impressions and perceptions of professionalism, particularly following mergers where branding, infrastructure, and service outlets may change. Beisengaliyeva et al. (2024) identified tangibility as a key determinant of perceived service quality, while Alexander et al. (2025) confirmed its positive association with customer satisfaction. In a post-M&A context, improved physical facilities and modernized service environments are expected to positively influence customer satisfaction.

H1: Tangibility has a significant impact on customer satisfaction.

Reliability and Customer Satisfaction

Reliability refers to the ability of a service provider to perform promised services accurately, consistently, and dependably (Njelital et al., 2023). Customers expect banks to deliver error-free transactions, timely services, and consistent performance, especially during post-merger transitions that may involve system integration and operational restructuring. Empirical studies indicate that reliability is among the strongest predictors of customer satisfaction in banking services (Kashyap et al., 2024). When customers perceive merged institutions as reliable, their confidence and satisfaction are likely to increase.

H2: Reliability has a significant impact on customer satisfaction.

Responsiveness and Customer Satisfaction

Responsiveness reflects the willingness and ability of service providers to assist customers promptly and effectively (Setiono et al., 2022). In the aftermath of M&A, customers often seek timely information and quick resolution of service-related issues. Studies have shown that proactive and responsive customer service significantly enhances satisfaction and loyalty (Munusamy et al., 2010; Raza, 2009). Therefore, responsiveness is expected to play a critical role in shaping customer satisfaction in Nepalese BFIs following M&A.

H3: Responsiveness has a significant impact on customer satisfaction after M&A in Nepalese BFIs.

Assurance and Customer Satisfaction

Assurance refers to employees' knowledge, courtesy, and ability to inspire trust and confidence among customers (Sangpikul, 2023). In banking, assurance is particularly important due to the high involvement and risk associated with financial services. Prior studies suggest that customers' perceptions of staff competence and credibility positively influence satisfaction (Lepistö et al., 2024). In post-merger settings, assurance can help mitigate uncertainty and strengthen customer trust.

H4: Assurance has a significant impact on customer satisfaction after M&A in Nepalese BFIs.

Empathy and Customer Satisfaction

Empathy refers to the degree of individualized care, attention, and understanding provided to customers (Kumra et al., 2022). Although some studies suggest empathy may have a comparatively weaker influence than other SERVQUAL dimensions (Lau et al., 2013), others identify it as a critical determinant of satisfaction, particularly in periods of organizational change (Almajid, 2021). Personalized service and customer-centered approaches are expected to enhance satisfaction in merged banking institutions.

H5: Empathy has a significant impact on customer satisfaction after M&A in Nepalese BFIs.

Table 1: Variable Table

Construct	Indicators	Observed Variables	Explanation	Citations
Tangibility (TAN)	TAN1*	Accessibility	Bank facilities and equipment are easily accessible	(Almajid, 2021)
	TAN2	Improvement & Comfortable	Bank facilities and designs has improved and feel more comfortable	
	TAN3	Look & feel	Bank facilities look and feel exactly as expected.	
	TAN4	Visually appealing	Bank's physical facilities are more visually appealing	
	TAN5	Neat & well dressing	Bank representatives are appearing neat and well dressed	
Reliability (REL)	REL1	Improvement	Improvement in banking services as promised	(Mungai, 2016)
	REL2	Ability	Changes in ability to deliver its promised product and services	
	REL3*	Error-free	Error free bank transactions, records and statements after m&a	
	REL4	Dependable	Employees are dependable on solving problems	
	REL5	Consistent	Employees are consistent at responding my queries	
Responsiveness (RES)	RES1	Quick response	Employees respond more quickly	(Siankwilimba, 2022)
	RES2	Eagerness	Employees are consistently eager to assist in good manner	
	RES3	Promptness	Employees are quick and prompt at delivering services	
	RES4	Willingness	Employees show willingness to address queries & complaints	
	RES5	Knowledge	Employees have good knowledge to answer client queries.	
Assurance (ASU)	ASU1	Trustworthy	Bank & financial institution is trustworthy after merger and acquisitions	(Almajid, 2021)
	ASU2	Politeness	Bank representatives are polite	
	ASU3	Confidence	Representatives are confidence at providing services	
	ASU4	Easy dealing	Representatives are easy at dealing with customers	
	ASU5*	Concern	Bank representatives are much concerned solving customer queries	

Empathy (EMP)	EMP1	Awareness	Bank representatives are fully aware of customer requirements and needs	(Alexander et al., 2025)
	EMP2	Priority	Bank staffs prioritize providing greatest services	
	EMP3	Individual attention	Bank employees are providing individual attention for providing services	
	EMP4	Personalization	Offerings are changed by providing personalized and tailored product & services.	
	EMP5*	Convenient	Banking and transactions hours are convenient	
Customer Satisfaction (CUS)	CUS1	Understanding	The representatives were able to understand my queries & requirements	(Antony, 2024)
	CUS2	Expectation	The bank & financial institutions staffs were able to meet my expectations	
	CUS3	Matching	Perceived quality of services & products matches with my expectations	
	CUS4	Loyal	Being loyal with this bank or financial institution in future days.	
	CUS5	Satisfaction	Satisfaction with the bank & financial institution's every product and services offerings and delivery & overall service quality.	

*NOTE: * Variable is excluded while data analysis because their AVE is less than 50%.*

3. Research Methods

Study Area and Population

The study area selected for the study is Kathmandu Vally, Nepal. Kathmandu is located in the central part of Nepal, surrounded by hills and mountains. It lies at an elevation of approximately 1,400 meters (4,600 feet) above sea level (Acharya, 2025). Kathmandu Valley is constituted with three districts; Kathmandu, Lalitpur & Bhaktapur. It is a bowl-shaped basin surrounded by hills. The valley is approximately 25 kilometers (16 miles) long and 20 kilometers (12 miles) wide. The latitude of Kathmandu Valley lies between 27° 32′ 13″ and 27° 49′ 10″ north and longitudes 85° 11′ 31″ 'and 85° 31′38″ east (Devkota et al., 2023). The current population in Kathmandu valley is estimated to be 3.3 million and is projected to reach 3.8 million by 2031 (Mesta et al., 2022)many hazard-prone regions face significant challenges regarding risk-informed urban development. This study addresses this issue by investigating evolving spatial interactions between natural hazards, ever-increasing urban areas, and social vulnerability in Kathmandu Valley, Nepal. The methodology considers: (1. The study area of Kathmandu is very suited for this study because of high population, infrastructure availability, technology availability, easy access to information, high number of banks & their branches and business centers. Most of the banks & financial institutions corporate office and their branches are Kathmandu valley centric (Nrb, 2020).

Sampling Technique and Sample Size

Sampling refers to the process of selecting a subset of individuals from a population to draw valid statistical inferences (Bhandari et al., 2021; Devkota et al., 2021). This study employs a non-probability sampling technique, specifically convenience sampling, as the population of customers of Nepalese BFIs is large and undefined, and respondents can be any bank customer available at the time of data collection. Convenience sampling is appropriate due to time constraints, accessibility, and cost efficiency (Taherdoost, 2018). The sample size is determined using Cochran's (1977) formula for large populations, expressed as $n_0=Z^2pq/e2$ (Ahmed & Halim, 2017), where Z=1.96 at a 95% confidence level, p=0.50, q=0.50, and e=0.05. The calculated sample size is 384 respondents, and after adjusting for a 5% non-response rate (e), the final sample size is set at 405 respondents.

Research Instruments, Data Collection and Analysis

The study employed a structured questionnaire to collect primary data on customer satisfaction in Nepalese BFIs following M&A. The questionnaire was carefully designed to capture relevant customer perspectives and pre-tested with 12 respondents to assess clarity, feasibility, and ease of understanding. Feedback from the pre-test was used to make minor adjustments, enhancing comprehensibility and ensuring the questions were clear and unambiguous. Data were collected from 405 respondents using both online and offline modes, facilitated through the KOBO Toolbox, which allowed efficient data entry via mobile devices and streamlined the collection process. For data analysis, both descriptive and inferential approaches were employed. Descriptive analysis, conducted in Microsoft Excel, summarized respondent characteristics and survey responses using frequency distributions, measures of central tendency, variability, and visual tools such as tables and charts. Inferential analysis was performed using PLS-SEM 4.0 to examine relationships between variables and test the hypothesized effects.

4. Results

Socio Demographic Analysis

Table 2: Socio Demographic Analysis

Title	Category	Number	Percentage (%)
Sex	Male	238	58.87
	Female	167	41.13
	Prefer not to say	0	0
Age	Less than 20	24	5.91
	20-30 year	274	67.47
	30-40 year	102	25.27
	40 year & above	5	1.34
Level of education	Illiterate	0	0
	SLC / SEE	2	0.54
	Intermediate	28	6.99
	Bachelors	208	51.34
	Master & above	167	41.13
Employment status	Private sector	108	26.61
	Service sector	52	12.90
	Government sector	37	9.14
	Self-employed	19	4.57
	Unemployed	24	5.91
	Student	164	40.59
	Others	1	0.27

Income level	Less than 5 lakh	194	47.85
	5-10 lakh	125	30.91
	10-15 lakh	63	15.59
	15-20 lakh	13	3.23
	20 lakh & above	10	2.42

Source: Surveyed data

Table 2 presents the socio-demographic characteristics of the 405 respondents surveyed. The majority of respondents were male (58.87%), while females accounted for 41.13%, indicating higher male participation in banking activities. Regarding age, most respondents belonged to the 20–30 years bracket (67.47%), suggesting strong engagement of younger individuals in banking transactions. In terms of educational qualifications, over half of the respondents held a bachelor's degree (51.34%), followed by a master's degree (41.13%), highlighting that the sample was largely well-educated. This aligns with findings from Njue (2023), which reported similar gender distribution in banking studies, while Cherono (2019) observed a higher male participation aged 30–40 years. Employment status analysis revealed that the largest group were students (40.59%), followed by employees in the private sector (26.61%) and government/service sector (12.90%), indicating that banking engagement is popular among students and young professionals. Annual income levels showed that the majority earned less than 5 lakh NPR (47.85%), followed by 5–10 lakh (30.91%) and 10–15 lakh (15.59%), reflecting predominantly lower to mid-income respondents. This trend is comparable to Acharya (2022), who found that most customers earned between Rs. 100,000 and 400,000 annually. Overall, the socio-demographic profile demonstrates a young, educated, and economically diverse sample actively participating in Nepalese banking services.

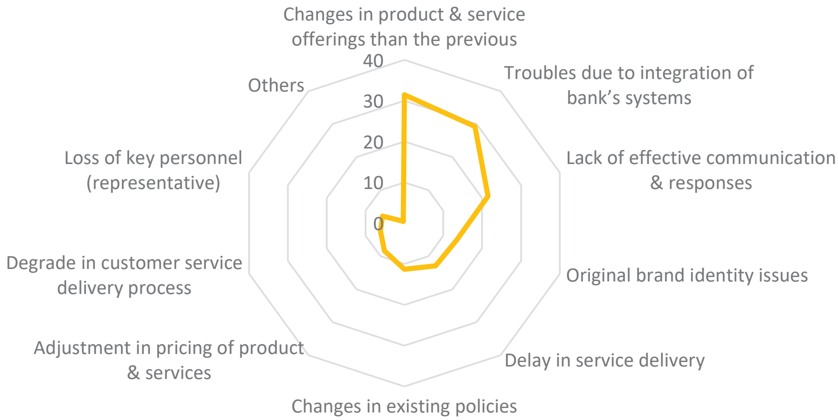
General Information Regarding Customer-Bank Relationship and Merger & Acquisition

This section deals the general information regarding Customer-Bank Relationship and Merger & Acquisition in Nepalese BFIs. This survey shows that the majority of respondents are associated with banks for 1-3 years (32.8%), followed by 3-5 years (26.34%). Most of them reveal the nature of customer-bank relationship as Depositor (91.94%), followed by Loan client (21.51%). Which means customers are maintaining depositor relationship with banks & financial institutions for example; saving purpose. Further, the, majority of respondents (48.39%) revealed that they have experienced merger & acquisition in their organization, (30.91%) respondents are not sure and (20.7%) revealed that there's no any M&A to their organization in the past. Which means most of the respondents have faced M&A in their associated BFIs. Out those respondents, majority (47.04%) say that merger and acquisition does impact on customer service quality and (27.69%) revealed impact to some extent and (25.27%) as no impact of M&A. For the study of level of impact in customer service quality, majority respondents (30.65%) revealed moderate level of impact, followed by Very fair by 10.22 percent.

Challenges and Solutions

The survey data indicate that while the majority of respondents (56.45%) did not experience any difficulties following M&A in Nepalese banks and financial institutions (BFIs), a significant portion (43.55%) reported facing challenges. Among the challenges, the most frequently cited were changes in products and services compared to pre-merger offerings (31.45%), difficulties in integrating banks' core systems (29.3%), and lack of effective communication and responsiveness (21.51%). Other notable issues included the loss of original brand identity (13.44%), delays in service delivery (12.9%), and changes in existing policies (11.29%), while less common concerns were loss of key personnel (5.65%) and other minor challenges (0.54%). The frequency of experiencing these challenges varied, with 20.16% of respondents encountering them sometimes, 9.14% occasionally, and 2.42% frequently.

Figure 2: Challenges regarding Merger & Acquisition in Nepalese BFIs



To address these challenges, respondents proposed several managerial solutions aimed at enhancing service quality and overall customer satisfaction. 38.44% of respondents who experienced difficulties believed that the issues were solvable. Key recommendations included the introduction of new and improved products and services (27.96%), enhanced communication with customers (27.42%), faster and more reliable integration of banking systems (25.81%), and upgrades in service delivery processes (19.62%). Less frequently suggested solutions involved maintaining familiar brand names and staff continuity (around 10%). The results emphasize that by implementing these solutions; particularly improving product offerings, leveraging technology for reliable service delivery, and ensuring timely communication; Nepalese BFIs can mitigate post-merger challenges, strengthen customer relationships, and enhance overall satisfaction following M&A.

Inferential Analysis

Common Method Bias: To address the issue of common method bias, the data were tested using the full collinearity approach. According to Vishnoi et al., (2024), variance inflation factor (VIF) values below 3.3 indicate the absence of common method bias. Based on Table 3, all constructs in this study have VIF ≤ 3.3, confirming that the data are free from common method bias and can be considered unbiased for further analysis.

Measurement Model Assessment: The measurement model is a critical part of structural equation modeling that evaluates the relationship between latent constructs and their observed indicators (Zhang, 2022). In this study, the measurement model was assessed through internal consistency reliability, convergent validity, and discriminant validity. Internal consistency reliability assesses whether the indicators of a latent construct consistently measure the same underlying concept. In this study, reliability was evaluated using Cronbach's alpha (CA) and composite reliability (CR). According to Gebremedhin et al. (2022), CA values between 0.6 and 0.7 are acceptable, while values up to 0.9 indicate excellent reliability. Composite reliability values above 0.7 are also considered adequate, with higher values reflecting stronger internal consistency (Hair et al., 2020). As shown in Table 3, Cronbach's alpha ranged from 0.659 to 0.836, and CR ranged from 0.796 to 0.884, confirming that all constructs demonstrate satisfactory reliability and are suitable for further analysis.

Convergent validity examines whether the indicators of a construct are highly correlated and capture the intended latent variable. It was assessed using factor loadings (FL) and average variance extracted (AVE). Following Hair et al. (2017), factor loadings above 0.7 (Maharjan et al., 2025) and AVE values above 0.5 indicate good convergent validity (Lawaju et al., 2023). As presented in Table 3, all factor loadings met the threshold, and AVE values exceeded 0.5 for all constructs, confirming that the measurement items adequately represent their respective latent variables and converge to measure the intended constructs.

Table 3: Reliability and Validity Testing

	Items	Loadings	Cronbach's Alpha	Average variance extracted (AVE)	Composite reliability (CR)	VIF
Customer Satisfaction	cus1 cus2 cus3 cus4 cus5	0.788 0.73 0.752 0.845 0.766	0.836	0.604	0.884	1.646
Assurance	asu1 asu2 asu3 asu4	0.58 0.836 0.796 0.618	0.677	0.512	0.804	2.021
Empathy	emp1 emp2 emp3 emp4	0.746 0.844 0.764 0.573	0.726	0.545	0.825	1.38
Reliability	rel1 rel2 rel4 rel5	0.66 0.49 0.811 0.822	0.659	0.502	0.796	1.795
Responsibility	res1 res2 res3 res4 res5	0.801 0.786 0.676 0.607 0.729	0.772	0.523	0.845	1.993
Tangibility	tan2 tan3 tan4 tan5	0.687 0.62 0.824 0.817	0.727	0.551	0.829	1.049

Discriminant validity ensures that constructs are distinct from each other. It was evaluated using the Heterotrait-Monotrait (HTMT) ratio, Fornell-Larcker criterion, and cross-loadings. HTMT values below 0.8 indicate sufficient discriminant validity (Hair et al., 2019). As shown in Table 4, all HTMT values were below 0.8. Similarly, the Fornell-Larcker criterion in Table 5 shows that the square root of AVE for each construct is higher than its correlations with other constructs, and cross-loadings in Table 6 confirm that each indicator loads higher on its own construct than on others (Jendryczko et al., 2024). These results confirm that all constructs are distinct and the measurement model is valid for structural analysis.

Table 4: Discriminant Validity (HTMT Matrix)

	asu	cus	emp	rel	res	tan
asu						
cus	0.707					
emp	0.577	0.431				
rel	0.711	0.677	0.69			
res	0.897	0.552	0.59	0.704		
tan	0.331	0.516	0.205	0.5	0.285	

Table 5: Discriminant Validity (Fornell-Larcker)

	asu	cus	emp	rel	res	tan
asu	**0.716**					
cus	0.558	**0.777**				
emp	0.426	0.363	**0.738**			
rel	0.496	0.527	0.484	**0.709**		
res	0.656	0.46	0.487	0.534	**0.723**	
tan	-0.25	-0.406	-0.073	-0.326	-0.236	**0.742**

Table 6: Cross Loadings

	asu	**cus**	**emp**	**rel**	**res**	**tan**
asu1	**0.58**	0.273	0.226	0.216	0.342	-0.205
asu2	**0.836**	0.515	0.283	0.454	0.532	-0.292
asu3	**0.796**	0.438	0.353	0.357	0.549	-0.115
asu4	**0.618**	0.318	0.381	0.356	0.427	-0.084
cus1	0.548	**0.788**	0.365	0.513	0.398	-0.24
cus2	0.3	**0.73**	0.186	0.323	0.297	-0.39
cus3	0.407	**0.752**	0.209	0.3	0.31	-0.256
cus4	0.422	**0.845**	0.209	0.452	0.352	-0.389
cus5	0.452	**0.766**	0.402	0.415	0.408	-0.318
emp1	0.263	0.247	**0.746**	0.326	0.366	-0.11
emp2	0.469	0.356	**0.844**	0.419	0.515	-0.088
emp3	0.28	0.265	**0.764**	0.402	0.294	-0.057
emp4	0.156	0.153	**0.573**	0.256	0.165	0.113
rel1	0.349	0.285	0.496	**0.66**	0.339	-0.11
rel2	0.156	0.28	0.067	**0.49**	0.156	-0.432
rel4	0.425	0.402	0.435	**0.811**	0.492	-0.153
rel5	0.426	0.479	0.358	**0.822**	0.46	-0.264
res1	0.492	0.367	0.393	0.539	**0.801**	-0.235
res2	0.473	0.386	0.472	0.454	**0.786**	-0.153
res3	0.383	0.279	0.314	0.333	**0.676**	-0.132
res4	0.452	0.221	0.221	0.241	**0.607**	-0.142
res5	0.57	0.369	0.314	0.314	**0.729**	-0.183
tan2	-0.093	-0.247	0.066	-0.134	-0.067	**0.687**
tan3	-0.069	-0.231	0.046	-0.107	-0.068	**0.62**
tan4	-0.277	-0.346	-0.136	-0.332	-0.254	**0.824**
tan5	-0.245	-0.357	-0.126	-0.329	-0.253	**0.817**

Goodness of Fit: Goodness of fit evaluates how well a structural equation model represents the observed data. In PLS-SEM, it is commonly measured using the Standardized Root Mean Square Residual (SRMR), with a threshold value of ≤ 0.10 indicating an acceptable fit (Ximénez et al., 2022). In this study, the SRMR value is 0.092, which is below the threshold, confirming that the model demonstrates a good fit.

Structural Model Assessment

The structural model is used to test hypotheses about the relationships between latent variables, estimate path coefficients, and assess the overall fit of the model to the data (Schuberth et al., 2023). The R^2 value and path coefficient are critical measures for evaluating the structural model in PLS-SEM (Fauzi, 2022). As per results presented in figure, the Customer Satisfaction i.e., dependent variable in the model exhibits an R^2 value of 0.44 (Figure 3). Which implies to ensure the model fit. Hair et al., (2019) suggest that the R^2 value of 0.75 or higher indicates excellent predictive relevance, while the value of 0.25 or lower indicates poor predictive relevance.

Figure 3: Structural Path Analysis

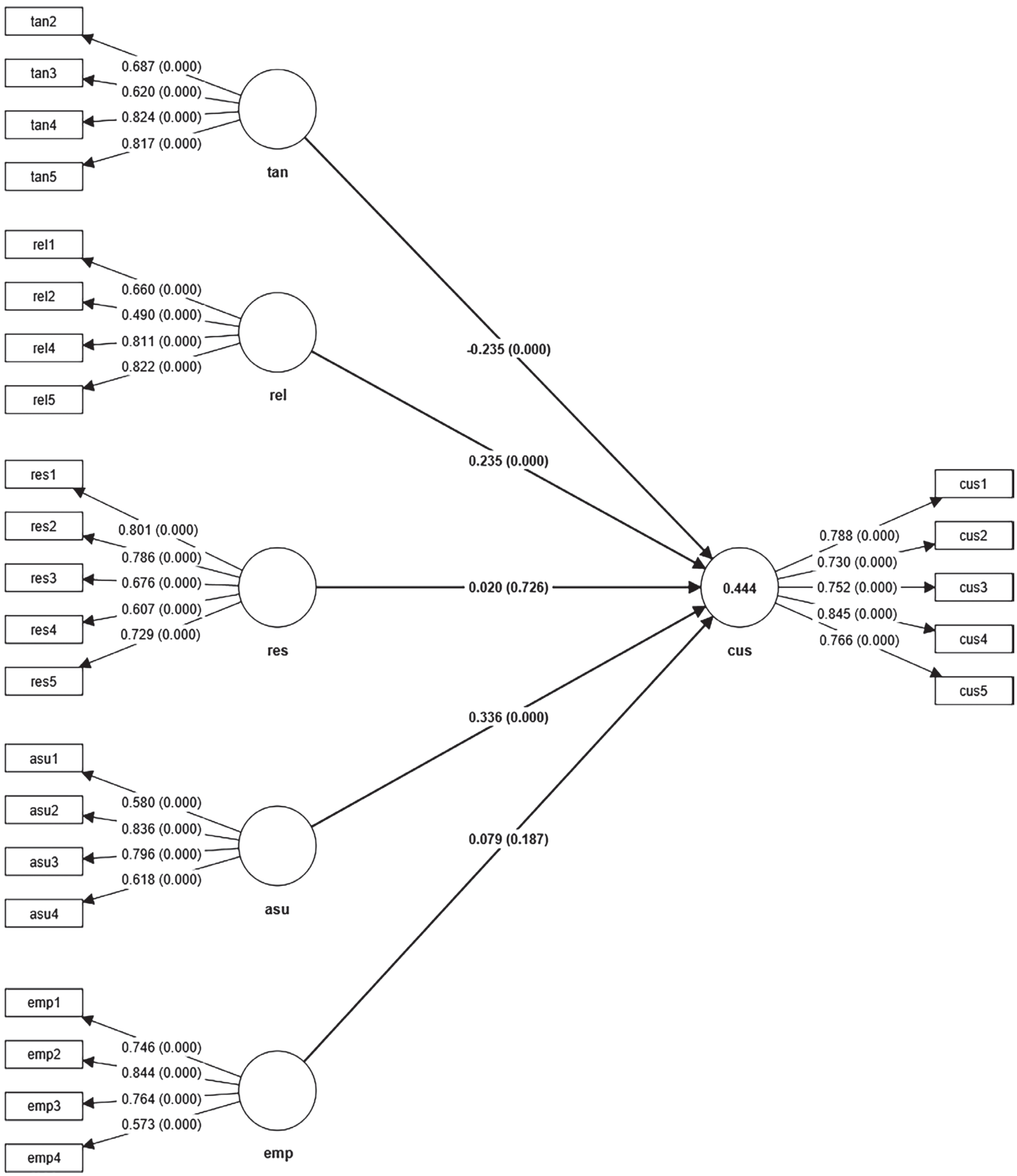


Table 7: Hypothesis Test Results

	Beta (β)	SD	T values	P values	CI		Result
					LL	UL	
H1: tan -> cus	-0.235	0.047	5.021	0.000	-0.328	-0.143	Significant
H2: rel -> cus	0.235	0.054	4.35	0.000	0.124	0.335	Significant
H3: res -> cus	0.02	0.056	0.351	0.726	-0.08	0.138	Not Significant
H4: asu -> cus	0.336	0.061	5.495	0.000	0.214	0.452	Significant
H5: emp -> cus	0.079	0.06	1.319	0.187	-0.037	0.199	Not Significant

Table 7 presents the results of hypothesis testing based on path coefficients (β), p-values, and standard deviations in the structural model. The findings indicate that out of the five variables, three variables-tangibility, reliability, and assurance-showed statistically significant relationships with customer satisfaction, while responsiveness and empathy were found to be insignificant. Specifically, tangibility ($\beta = -0.235$, $p = 0$), reliability ($\beta = 0.235$, $p = 0$), and assurance ($\beta = 0.336$, $p = 0$) significantly influenced customer satisfaction, supporting hypotheses H1, H2, and H4. In contrast, responsiveness ($\beta = 0.02$, $p = 0.726$) and empathy ($\beta = 0.079$, $p = 0.187$) did not exhibit significant effects, leading to the rejection of H3 and H5. These results suggest that while certain service quality dimensions positively affect customer satisfaction in the post-merger context of Nepalese BFIs, other dimensions such as responsiveness and empathy do not significantly influence customers' perceptions following M&A.

5. Discussion

This study investigated the impact of M&A on customer satisfaction in Nepalese banks and financial institutions (BFIs), focusing on five service quality dimensions: tangibility, reliability, responsiveness, assurance, and empathy. The results indicate that tangibility, reliability, and assurance significantly influenced customer satisfaction, while responsiveness and empathy were statistically insignificant.

Tangibility demonstrated a significant relationship with customer satisfaction, reflecting the importance of visible and physical aspects of banking services, such as branch appearance, staff professionalism, and technological facilities (Alemu et al., 2023). In the post-M&A scenario, banks that upgraded their physical infrastructure and standardized operational processes were perceived positively by customers. This aligns with Parasuraman et al. (1985), who found that tangible cues significantly shape customer perceptions of service quality. Similarly, reliability was also significant, indicating that accurate, consistent, and dependable service is a critical factor for customer satisfaction in Nepalese BFIs. This mirrors findings from international studies by Beisengaliyeva et al. (2024), which emphasized that dependability and error-free service delivery build trust and confidence among customers.

Assurance was another dimension showing a positive and significant impact, suggesting that the perceived competence, credibility, and professionalism of bank personnel directly affect customers' satisfaction levels. This is consistent with studies by Munusamy et al. (2010), which highlighted the role of trust and knowledge in influencing satisfaction. Customers in Nepal, particularly in post-merger institutions, value employees' ability to provide reliable guidance and demonstrate expertise in handling banking operations Tuladhar et al., (2024) which may mitigate uncertainties associated with M&A processes.

In contrast, responsiveness and empathy did not show a significant relationship with customer satisfaction in this study. Responsiveness, which captures the promptness and efficiency of service, and empathy, which measures personalized attention to customers, were previously found significant in foreign studies (Troung et al., 2025). However, in the Nepalese context, their effects appear diminished. This could be attributed to the structural and operational realities of Nepalese banks post-merger, where standardization and process integration take precedence over individualized attention. Customers may prioritize reliable and professional service over speed or personalized interaction, particularly when navigating newly merged institutions with unfamiliar systems (Singh et al., 2024). Additionally, cultural factors and lower expectations for personalized service in Nepalese banking may explain why empathy and responsiveness were less influential, despite being significant in international contexts.

6. Conclusion

The primary aim of this study was to examine the impact of M&A on customer satisfaction in Nepalese BFIs. The study revealed that M&A significantly affect service delivery, product offerings, pricing, and policies, which collectively shape customer satisfaction. Data collected from 405 customers highlighted several critical factors influencing satisfaction, including tangibility, reliability, and assurance. Customers reported challenges such as changes in products and services (31.45%), difficulties integrating banking systems (29.3%), lack of effective communication (21.51%), and issues with brand identity (13.44%). These challenges underscore the complexity of post-merger operations in Nepalese BFIs. To address these issues, customers suggested managerial solutions such as introducing improved and innovative products and services, enhancing communication, ensuring timely integration of banking systems, upgrading service delivery processes, and maintaining consistent brand identity. The findings also indicate that banks focusing on tangibility, reliability, and assurance are more likely to achieve higher customer satisfaction during and after M&A processes. Furthermore, adopting proper regulations, leveraging technology, attending to employee understanding, and prioritizing customer queries and complaints are essential for successful M&A implementation in the Nepalese banking sector.

The study provides practical implications for banking management and policymakers in Nepal, highlighting strategies to enhance customer satisfaction during M&A. Understanding customer challenges and implementing targeted solutions can strengthen service quality and foster loyalty. Further research could explore broader geographic areas beyond Kathmandu Valley to capture diverse customer experiences across Nepal. Additionally, investigating the long-term effects of M&A on customer satisfaction, examining satisfaction across different demographic segments, evaluating the role of technology integration in post-merger operations, and assessing employee perspectives on service delivery and engagement can provide deeper insights for improving M&A outcomes in the banking sector.

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