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Examining the Relationship Between Brand Satisfaction and Customer Experience in Nepal's Retail Banking Sector

Poonam Kumari Labh Karna
R.R.M. Campus, T.U., Nepal
poonamlabh64@gmail.com

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Abstract

This study examines the primary determinants of customer happiness and loyalty in Nepal's competitive retail banking industry. By integrating insights from primary data and existing literature, this study investigates the effects of situational factors (frequency of bank visits, length of customer-bank relationship) and service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) on customer satisfaction and subsequent loyalty. Information was gathered from 575 customers of "A"-class commercial banks in Kathmandu, Nepal, using structured questionnaires. Statistical analysis, such as factor analysis, multiple regression, correlation analysis, and mediation testing (Sobel test), was employed to look into the relationships between the variables. The findings show that elements of service quality, particularly reliability and assurance, have a significant positive impact on customer satisfaction and loyalty. It's interesting to note that while relationship duration positively enhances enjoyment, visit frequency exhibits a negative correlation with it. For banks seeking to enhance customer satisfaction, experience, and enduring loyalty, these insights provide valuable guidance.

Keywords: Retail Banking, Situational Factors, Mediation Analysis, Customer Loyalty, and Customer Happiness.

INTRODUCTION

Customer satisfaction is crucial in today's globalised economy, particularly in the service industry (Tam, 2004). As a strategic differentiator, service quality boosts profitability and competitive advantage. This is especially true in the banking industry, where rising competition and technology improvements consistently raise client expectations (Zeithaml et al., 2002). Although the banking industry in Nepal has expanded significantly, little research has been done on the subtleties of customer happiness, loyalty, and service quality. By investigating how these elements interact inside Nepalese commercial banks, with a particular emphasis on retail clients, this study seeks to close this gap. The banking industry in Nepal is becoming more competitive, which calls for a better grasp of consumer preferences and the elements that influence their loyalty and level of satisfaction (Sharesansar, 2016). Drawing on well-established theories of consumer behaviour, this study highlights how cultural, social, psychological, and personal aspects impact consumer decisions (Kotler & Armstrong, 2012). Through the SERVQUAL model (Parasuraman et al., 1985), which includes the five dimensions of tangibility, reliability, responsiveness, assurance, and empathy, service quality—a crucial factor in determining customer satisfaction—is assessed. A key measure of long-term performance, customer loyalty is examined in connection to service quality and satisfaction, taking into account the mediating function of satisfaction as noted by Caruana (2002). Customer loyalty, according to Oliver (1997), is a strong resolve to regularly use or repurchase a favoured good or service in the future. Prior studies have demonstrated a robust positive correlation between customer happiness, loyalty, and service quality (Veloutsou et al., 2004; Lau et al., 2013). Despite their modest number, studies carried out in Nepal indicate that elements such as certainty, empathy, and dependability are important in determining customer satisfaction (Gyawali & Kunwar, 2014; Maharjan, 2014). Pradhananga (2014), however, found poor relationships between satisfaction and tangible service components in Nepal, indicating contextual differences.

Conceptual Structure and Theories

The conceptual framework of this study incorporates the SERVQUAL model, which is a widely recognized tool for assessing service quality. Along with the SERVQUAL dimensions, the framework also includes demographic characteristics (such as age, gender, income, and education) and situational factors (such as the frequency of bank visits and the duration of a customer's relationship with the bank) as control variables. These factors are considered important as they may influence customer satisfaction and loyalty independently of service quality dimensions.

One key aspect of the conceptual framework is the role of customer satisfaction as a mediator between customer loyalty and various aspects of service quality. In other words, it is posited that customer satisfaction is a key driver that connects service quality attributes to customer loyalty.

The study examines several hypotheses to explore these relationships:

i. **Hypothesis 1** suggests that there is a positive relationship between customer satisfaction and various dimensions of service quality. This implies that as the quality of service improves in areas such as reliability, responsiveness, and empathy, customers are more likely to express higher levels of satisfaction.

ii. **Hypothesis 2** postulates that customer satisfaction serves as a mediator between situational factors (such as the frequency of bank visits and the length of the customer-bank relationship) and customer loyalty, with service quality attributes influencing satisfaction. This means that situational factors interact with service quality to affect customer satisfaction, which in turn affects loyalty.

iii. **Hypothesis 3** indicates that there is a positive correlation between customer satisfaction and customer loyalty. This hypothesis underscores the assumption that higher satisfaction leads to greater loyalty toward the bank, resulting in long-term customer relationships.

iv. **Hypothesis 4** asserts that service quality dimensions have a direct, positive impact on customer loyalty. This suggests that improving service quality, in terms of the SERVQUAL dimensions, will lead to increased customer loyalty over time.

Additionally, two situational factors are hypothesized to influence satisfaction levels:

- **The number of bank visits** is expected to have a positive effect on customer satisfaction. Customers who visit the bank more frequently are presumed to have a more engaged experience, leading to greater satisfaction.
- **The length of time a customer has been with the bank** is also anticipated to positively impact satisfaction. Customers who have had

longer relationships with the bank may feel more confident and satisfied with the services provided, as familiarity and trust are built over time.

These hypotheses guide the study's investigation into how service quality, situational factors, customer satisfaction, and customer loyalty are interrelated within the context of Nepalese retail banking services.

METHODS

In order to gather information for this study, structured questionnaires were sent out to 575 retail banking clients of commercial banks of the "A" class that are based in Kathmandu, Nepal. The size of the sample was established by merging the sample sizes from two earlier studies that served as the foundation for the investigations that are currently being conducted. The survey covered a wide range of topics, such as demographic information, banking habits, consumer opinions on various aspects of service quality, and metrics of customer satisfaction and loyalty that were taken into consideration. Statistical Package for the Social Sciences (SPSS) was utilised to perform the analysis on the data that was gathered, and a number of different statistical methods were utilised. The Sobel test was used for mediation analysis, correlation analysis was used to investigate the relationships between variables, factor analysis was used to determine the underlying dimensions of service quality, and multiple regression analysis was used to investigate the impact of various factors on customer satisfaction and loyalty.

RESULTS

The analysis of the data indicated a number of noteworthy trends that were associated with the demographic features of the respondents and their perceptions of the quality of service in the Nepalese retail banking sector. As indicated by the descriptive statistics, the bulk of the individuals who participated in the survey were between the ages of 20 and 29. According to the results of the poll, this age group was the most prevalent, which suggests that younger persons are more engaged with retail banking services pertaining to this context. Furthermore, the gender distribution among respondents was generally balanced, which suggests that male and female consumers at retail banking are equally represented in the poll, or at the very least, the study was representative of both genders.

After conducting an investigation into the impressions that the respondents had regarding the quality of the service, it became evident that various aspects of service quality were valued differently by customers. One example is that some of the respondents showed a higher level of satisfaction with the responsiveness of the bank, which indicates a preference for communication that is both timely and comprehensive. On the other hand, other individuals expressed a higher level of contentment with certain parts of the service, such as assurance and dependability, which indicated that they placed a greater emphasis on trustworthiness and dependability in their banking connection. These findings are illustrative of the varied nature of customer expectations in the banking industry, where the importance of service quality can vary based on the preferences of the person.

According to the findings of the correlation analysis, there are significant positive relationships between customer satisfaction and all aspects of service quality. These aspects include tangibility, reliability, responsiveness, assurance, and empathy. According to this, it appears that the level of customer satisfaction increases in a manner that is comparable to the degree to which the quality of service improves across various dimensions. According to the findings, every facet of service quality plays a significant role in determining the level of total satisfaction experienced by clients. The results of a regression study provided additional confirmation for these findings. The analysis revealed that assurance and dependability (reliability) were the most powerful predictors of customer satisfaction. Therefore, this lends credence to the notion that customers place a substantial amount of significance on their trust in the bank's capacity to provide services that are both secure and reliable. The results of the regression analysis demonstrated that these two aspects had a significant and favourable influence on the level of satisfaction experienced by customers, so highlighting the essential role that they play in the development of positive customer experiences. When it comes to client loyalty, hypothesis testing provided support for the idea that customer satisfaction and service quality were key factors that drove customer loyalty. The findings provided further support for the notion that contented clients are more likely to maintain their loyalty to the bank and to continue making use of its services throughout the course of time.

However, contrary to what was anticipated, the investigation discovered that there is a negative association between the number of times a customer visits the bank and their level of happiness. The fact that this is the case implies that, contrary to the notion that having more frequent encounters with the bank would result in higher levels of satisfaction, consumers who visit the bank more frequently do not always give the impression that they have a better overall experience. This may suggest that frequent visits are related with unfavourable variables such as longer wait times or unhappiness with the delivery of services, which calls for additional research to be conducted. However, on a more positive note, it was discovered that the length of the relationship between the consumer and the bank had a favourable impact on the level of satisfaction experienced by the customer. Generally speaking, customers who had been with the bank for a longer period of time reported higher levels of satisfaction with the institution. This might be ascribed to greater trust and familiarity with the bank's services, which often get stronger over time as clients build confidence in the bank's capacity to efficiently meet their needs. There is also a possibility that this could be a result of other factors.

The findings, taken as a whole, shed light on the substantial part that service quality plays in determining customer satisfaction and loyalty. Furthermore, they indicate that customer relationship elements, such as length of time spent with the bank, significantly contribute to increased levels of satisfaction. Retail banks in Nepal and abroad can benefit from these findings since they provide significant insights that highlight areas for improvement and areas that should be focused on more in order to improve client experiences.

DISCUSSION

This finding is consistent with the findings of earlier studies (Mahamad & Ramayah, 2010; Siddiqi, 2011) that have demonstrated the impact of service quality in creating customer loyalty and satisfaction. When it comes to the supply of services, the major influence of confidence and dependability underlines how crucial it is to create trust and consistency within the service delivery process. In light of the fact that there is a negative correlation between the number of visits and the degree of satisfaction, there is room for improvement. This is because the correlation suggests that there may be inefficiencies in the services that are provided to customers who are regulars. There could be a lot of causes that are contributing to this, such as lengthier wait times, more complex interactions that are required for in-person visits, or other circumstances that are tied to branch traffic. The benefits of a longer connection illustrate how important it is to cultivate long-lasting bonds with customers and imply that the provision of exceptional experiences over a protracted period of time is the foundation of continuing contentment for customers with a product or service.

CONCLUSION

Within the context of Nepal's retail banking sector, this study highlights the significance of service quality in determining customer loyalty and satisfaction, with a special emphasis on the essential role that assurance and dependability play. To enhance their tangibility, financial institutions ought to update their infrastructure, place a higher priority on the training of their employees in order to enhance their assurance and responsiveness, and ensure that they provide consistent service delivery in order to enhance their reliability. Furthermore, in light of the unexpectedly high visit frequency finding, additional research is required in order to identify and address any potential bottlenecks in service delivery. It is recommended that future research expand the scope of the study to include a wider geographical area, analyse additional aspects such as perceived value and the adoption of technology, and investigate the factors that contribute to the inverse relationship between visit frequency and satisfaction.

It is possible that in the future, research will broaden the scope of the study by include additional financial institutions and a greater number of commercial banks. This would make it possible to obtain conclusions that are more applicable to the entire Indian banking sector. Although the Kathmandu Valley was the primary focus of this study, it is possible that future research would investigate other parts of Nepal. Furthermore, researchers have the opportunity to explore additional elements that influence consumer satisfaction. These characteristics include empathy, communication, security, technology, convenience, and internet banking.

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