

**CUSTOMER LOYALTY
IN THE RETAIL BANKING MARKET OF NEPAL**
(A Case study of retail banking market of Narayangadh city)

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Prekshya Adhikari

Padma Kanya Multiple Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “Customer Loyalty in the Retail Banking Market of Nepal (A Case study of retail banking market of Narayangadh city)” submitted to Padma Kanya Multiple Campus, faculty of Management, Tribhuvan University is my original work and that to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree of a university or other institution of higher learning except where due acknowledgement is made in the acknowledgements.

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ABSTRACT

Customer loyalty is truly an amorphous concept for many bankers. Most banking strive customer loyalty, and considerable efforts are paid to maintain a loyal customer base. As competition is getting much higher, the importance of customer loyalty and challenge in keeping customers loyalty has increased. It is widely argued that lasting customer relationship is beneficial for the banking sector. The cost of recruiting new customer are said to be higher than cost of retaining old customers. It is found a positive relationship between customer loyalty and the organization's profitability. Moreover, customer loyalty provides pricing power in the marketplace and better protection from competitive threats. Loyal customer provides a platform for stronger, deeper relationships with customers. Customers that are loyal will return more often, giving higher sales because when customers are loyal to business, business benefits from that customer for very long and that customer will always buy from your business wherever and whenever possible. If your business satisfies loyal customers every time, then hopefully many will become customers for life. This is the effective form of marketing, where your satisfied customers speak to their friends and family, effectively selling your business to them. So, loyal customers will be much more likely to tell their friends about your business/banking. In today's competitive market, banks and finance companies are emerging very fast in Nepal. The tough competition has been faced by the banks for attracting new customer and retaining old. In this case, maintaining customer loyalty and building customer loyalty program is useful for the bankers. So, the study of customer loyalty would be useful in this situation.

This research has been carried out to find out the customer loyalty. In this context, retail banking has been selected. Retail banking is, however, quite broad in nature. It refers to the dealing of banks with individual customers. In other words, Retail banking refers to the mobilization of deposits by the bank mainly from individuals and lending to small business and in retail loan markets. Retail banking is a relationship business; the institution needs to accept that relationship in two-way street and that a customer will maintain a relationship only if there is value in doing so. Retail banking requires a moderate level of customer relation. In retail banking, each product to be offered to customer needs to be well defined, easily serviceable

and profitable so as to build the customer loyalty. The main objective of the study is to find out the level of customer loyalty. It also deals with factors influencing customer loyalty i.e. customer satisfaction, service quality and switching cost. The research also studied the factor affecting level of customer satisfaction, quality factors and factors that made to switch the bank and not to switch the bank.

The study has only focused to various banks of Narayangadh city. The data was collected mainly through questionnaire survey. For the purpose, a structured questionnaire has been designed to collect the required information. These questionnaires were surveyed to the holder of retail loan of the banks. In order to get the information, regarding customer loyalty, the survey was conducted to 80 respondents who were from diverse age group, profession, and different income levels. Secondary sources are also used to analyze the data. The secondary sources include previous research articles, books, publications, previous thesis, various websites etc. The collected data were coded and entered into a statistical software package, SPSS. With the help of SPSS version 10.00 software, the available data were analyzed.

The study has shown that the respondents of Narayangadh area are satisfied with the bank and live up to their general expectation. The study has also stated that most of respondents are associated with LBL followed by HBL and NBL. As the Lumbini bank has its head office in Narayangadh and started its operation earlier, LBL has covered most of the market in Narayangadh. The study has shown that majority of respondents do not have willingness to change the bank and have no willingness to recommend their bank to other. It means they have positive impact on word of mouth. The findings also show that good interest rate and consumer complaint handling are rated most important factor for determining the level of customer satisfaction about retail banking. It is also found in the study that interest rate and easy loan processing are the important quality factor to choose the bank for retail banking. The study also shows that the respondents changed the bank because of loan processing and interest rate. It is also found that loan processing and interest rate are main factors to switch the bank. On other side, risk in choosing another bank might turn out not to satisfy as the main factor which made not to switch the bank.

Finally, the study depicts the customer loyalty regarding retail banking market. In the context of emerging customer loyalty, this study gives some relevant information to other researchers and banks.

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ACCRONYMS

NIBL	Nepal Investment Bank Limited
HBL	Himalayan Bank Limited
LBL	Lumbini Bank Limited
NCCBL	Nepal Credit and Commerce Bank Limited
NBL	Nepal Bank Limited
RBB	Rastriya Banijya Bank
ADB	Agriculture Development Bank
BOK	Bank of Kathmandu
Etc.	etcetera
i. e.	That is
LLP	Lower Layer Protocol
KBL	Kumari Bank limited
B2B	Business 2 Business

CHAPTER 1

INTRODUCTION

Customer loyalty has long been a topic of high interest in both academia and practice, and a loyal customer base has been found to be beneficial for the firm. The study aims to identify factors that affect customers becoming loyal. The study was carried out in the retail banking market, a service context where long-term relationships have been the norm. Deregulation and increasing competition have challenged traditionally stable relationships, making retail banking an increasing context for studying customer loyalty.

1.1 Background of the Study

In the highly competitive, complex and dynamic environment of the banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The traditional product-oriented bank is becoming increasingly customer-oriented in accordance with the basic principles of relational marketing, which focuses on customer loyalty as its main goal. Most companies strive for customer loyalty, and considerable efforts are paid to maintain a loyal customer base. As the competitions in most sectors are growing tighter, being bank as no exception has been paying high attention in customer loyalty. It has been widely argued that lasting customer relationships are beneficial for the company and several claims of how organization benefit from having loyal customers have been made. Research has shown that decreasing the retention rate by only a few percentages can have a major impact on the level of profitability. The cost of recruiting new customer are said to be higher than the costs of retaining old customers and research has found a positive relationship between customer loyalty and the organization's profitability. Loyal customers are believed to demand less time in personal selling, to be less price sensitive, and to spread positive word-of-mouth. Loyal customers are more likely to become advocates of the organization, recommending the service provider to others. So, considering the positive effect of having loyal customer base, customer loyalty should be worth striving for.

Customer loyalty is a buyer's overall attachment or deep commitment to product, service, brand, or organization. Customer satisfactions together with switching costs are main key factors affecting the customer loyalty. Similarly, perceived quality is one of the indirect factors of loyalty that has a direct influence on customer satisfaction.

Customer satisfaction is a measurement of customer attitudes about products, services and brands. Customer satisfaction can be considered as the essence of success in today's highly competitive world of business. Thus, the significance of customer satisfaction in strategy development for a "market oriented" and "customer focused" firm cannot be underestimated. (Kohli and Jaworski, 1990). Consequently, customer satisfaction is increasingly becoming a corporate goal as more and more companies strive for quality in their products and services (Bitner and Hubbert, 1994).

Service quality incorporates a number of dimensions such as reliability, tangibility, responsiveness & assurance. Due to the intangible nature of services, it is often difficult for customers to understand services. Customers thus make inferences about the service quality on the basis of tangibles (the buildings, the physical layout etc.) that surround the service environment. When customer perceive the service quality positively provided by the provider, customers are likely to feel satisfied with service provider and vice versa. So service quality affects on the customer satisfaction, in turn, on the customer loyalty as well.

In many markets, consumers are forced to incur costs when switching from one supplier to another. These costs are called switching costs. So, switching costs can be defined as "the costs associated with switching supplier" Types of switching costs include exit fees, search costs, learning costs, emotional costs, equipment costs, installation and start-up costs, financial risk, psychological risk, and social risk. When the costs of switching supplier are high for the customer, there is greater probability that the customer will remain loyal in terms of repeat purchase behavior.

1.1.1The Context of the Study: Retail Banking

Retail banking is chosen as the context for the study. Retail banking is an interesting context for studying customer loyalty because it is a context where contract-based relationships are generally formed and aimed for. Moreover, the retail banking has gone through important changes, which have created challenges for maintaining customer loyalty. In such a situation, a study of customer loyalty should have managerial relevance.

Deregulation in banking sector has forced the banks to focus on cost reduction, improving the speed and quality of service to face stiff competition and enormous challenges. Entry of numerous banks in the market has created intense competition in banking industry. We currently have more than 30 commercial banks, more than 80 development banks & more than 80 finance companies & other. (According to NBA's website referred on Nov. 2012). Considering the size of our economy, we surely have overbanked economy competing in small market. This has led the banks to operate under thin interest spreads, declining margin and rising costs.

Consumer finance was not a favored subject for banks some years ago. They were keen to finance industrial and trading activities. However, with slowdown in the economic activities in the recent past, banks became selective in their lending operations. So, due to the uncertainty in the economic sector banks diverted their resources to a new area called retail banking. Retail banking deals with small sized loan like Auto Loan, Home Loan, SME while in wholesale banking bank always have huge investments.

The issue of retail banking is extremely important and topical. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors.

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. In other words, Retail banking refers to the mobilization of deposits by the bank mainly from individuals and lending to small business and in retail loan markets. Retail banking requires a moderate level of customer relation. The bank has to consider the factors that are required for the customer satisfaction, customer loyalty. While most of the banks offer the same range of service with similar facilities and technology, the level of customer services matter the most. In retail banking, each product to be offered to customer needs to be well defined, easily serviceable and profitable so as to build the customer loyalty.

1.2 *Statement of the Problem*

Globally, the banking industry has been going through a process of dramatic change over the past two decades. The banking sector has been providing customized service. Nowadays, banks are facing cut throat competition and finding it difficult to get proper big projects.

Moreover, due to political instability and insecure environment, business prospects have not been seen in Nepal. So, banking industry has tried to create niche market. They have diverted their lending into small lending which is known as retail banking. However, amid the mushrooming growth, the banks are struggling to win the heart of the customer in retail banking market. In order to sustain in competitive market, the banks should retain the old customer and create the new one. In order to retain the customer, the banks should build the customer loyalty. The customer loyalty leads to increase the profitability of banks and reduces the cost. So, customer loyalty in retail banking market is found to be a good topic which is very essential for banks.

Under the prevalence of these situations, some of the important queries regarding customer loyalty and retail banking market are as follows:

- What is the state of customer orientations of retail banking market in Nepal?
- What is the level of customer loyalty in banks?
- What are the factors that can lead customer towards loyalty?
- What are the factors that can lead customer towards disloyalty?
- What are the ways of building the customer loyalty?
- Which factors have a positive effect and which have a negative effect on customer loyalty?

1.3 Objectives of the Study

The main purpose of the study is to identify, describe and analyze key factors that influence the extent to which customers are loyal towards their banks. Besides that, there are some objectives, which are as follows:

- To identify the various occupation, age and income level interested in retail banking
- To know the present scenario of retail banking market in Nepal.
- To analyze the consumer lending facility provided by different banks.
- To know the attitude and behavior of customer towards the retail banking in Nepal.
- To analyze the level of customer loyalty in retail banking market.

- To identify the factors responsible for customer loyalty and disloyalty.

1.4 *Significance of the study*

Analysis of retail banking market is very important. Actually on the basis of customer loyalty we can say that the concerned company is strong or not in terms of various factors like number of customer base, higher deposit volume, service provided by the bank and much other. This study is mainly concerned with the customer loyalty in the retail banking market of Narayangadh city as a sample. The impetus of the study lies in customer loyalty in the retail banking market as it is becoming ever more competitive as price competition intensifies. Hence in the modern customer centric competitive arena satisfaction, quality and loyalty proved to be key factors reciprocally interrelated in casual cyclical relationships. The higher the perceived service quality, the more satisfied and loyal is the customer. In particular financial institutions (i.e.)banks realized the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships and businesses with high customer's loyalty rates have proven to reach great financial results. From the data presentation and analysis researcher finds different strength and weakness of the retail banking market of Nepal in terms of customer loyalty.

As a result, there are numerous works in marketing which have attempted to explain the relationships between brand loyalty and the various variables regarded as antecedents are customer satisfaction and customer loyalty, customer satisfaction and perceived quality, switching cost and customer loyalty

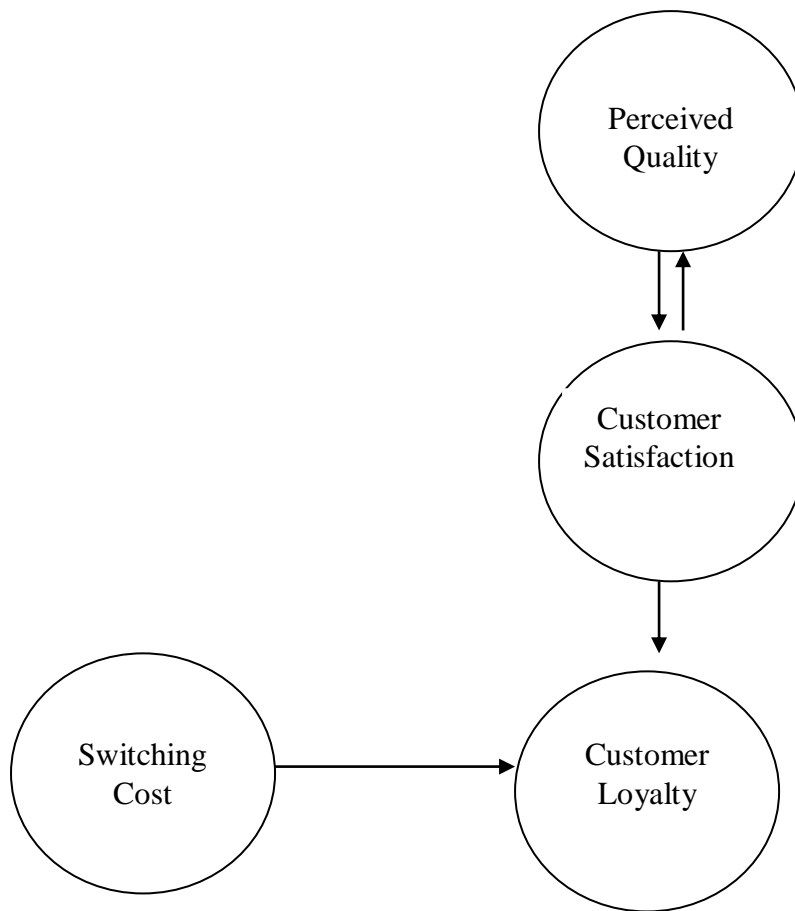


Figure 1.1 Theoretical Frameworks

1.5 Research Questions

This study is carried out with some research questions, which have been developed on the basis of theoretical framework regarding customer loyalty with reference to retail banking market. The research questions can be summarized as follows:

1. Which factors affect the customer loyalty in retail banking?
2. In which bank customers are more associated with?
3. Which bank do customers consider as first choice for retail banking?
4. How many years have customers been associated with the bank?
5. How satisfied and dissatisfied are customer with bank?
6. What are the factors that determine the level of satisfaction regarding retail banking?

7. Which quality factors make customers choose the bank?
8. Would customers like to change the bank?
9. Which factors make customers to switch the bank?
10. Which factors make customers not to change to another bank?

1.6 Hypothesis

The study is carried with some hypothesis to find out the relationship between different variables.

H1: Relationship between age of the respondents and willingness to change the bank

H2: Relationship between category of retail lending and level of satisfaction.

H3: Relationship between banks currently associated and level of satisfaction.

H4: Relationship between respondent's age and factors affecting loyalty.

H5: Relationship between profession and the choice of bank for retail lending.

1.7 Limitation of the Study

Every work has its own restriction and limitation due to lack of time, resources, knowledge e.t.c and this study is also no paradox to that. This work is completed within the periphery of its limitation. Despite the enough efforts of researcher, this thesis is not free from limitation .The researcher has come across many problems while presenting the thesis. Lack of research experience, time constraints and information asymmetry are the major limitations. Other limitations of the work are listed below:

- This thesis is based on primary data collected from the respondents of Narayangadh city. Thus, the result of the analysis depends on the information provided by the respondents.
- Time limitation hinders this research to some extent.
- The unavailability of empirical research based data for this research creates a considerable limitation to this study.
- The study covers data relating to the particular commercial banks with which the respondents have banked.

- Availability of very few publication, articles and other secondary data on the subject matter of the work.

1.8 Organizing the Study

This study has been organized in the following five chapters:

Chapter-1: Introduction

- 1.1 Background
- 1.2 The Problem Statement
- 1.3 Objective of the Study
- 1.4 Significance of the study
- 1.5 Research Questions
- 1.6 Hypothesis
- 1.7 Limitation of the Study
- 1.8 Organization of the study



Chapter-2: Review of literature

- 2.1 Theoretical review
- 2.2 Reviews from articles
- 2.3 Reviews from previous thesis
- 2.4 Review from books



Chapter-3: Methodology

- 3.1 The Research Design
- 3.2 The Population
- 3.3 The sampling Procedure
- 3.4 Data Collection Procedure
- 3.5 Statistical Analysis
- 3.6 Data Processing Procedure



Chapter-4: Presentation and Analysis of Data

- 4.1 Demographic profile of respondents
- 4.2 Retail Loan
- 4.3 Analysis of customer general expectation
- 4.4 Service of the bank
- 4.5 Switching the bank
- 4.6 Test of Hypothesis
- 4.7 Major Findings of the study



**Chapter-5: Summary and
Conclusions**

5.1 Summary of Findings

5.2 Conclusions

5.3 Recommendations

CHAPTER 2

Review of Literature

The literature review chapter deals with the review of related studies and different aspects of the topic “Customer loyalty in the retail banking market of Nepal” in more detail and descriptive manner. For this study, various books, published documents such as research reports, previous thesis are consulted and reviewed. This chapter has been divided into four sections i.e. Conceptual framework/Theoretical Review, review from articles, review from previous thesis and review from books. The main objective of this chapter is to review some of the basic literature on customer loyalty.

There are very few literatures available for customer loyalty in Nepalese context. Most of the literatures about customer loyalty are available in different types of service industry except in banking industry. So, there is lack of sufficient literature available in the context of customer loyalty in retail banking. But whatever is found regarding customer loyalty are studied and analyzed.

Generally, customer loyalty can be defined as a behavior or attitude of a customer to purchase a particular product of a specific brand over others which are available in the market for a particular need. The packaged good industry defines this consumer attitude as ‘Brand Loyalty’. Brand loyalty can be defined as “the degree to which a customer is loyal to a given brand in that they are likely to re-purchase/re-use in the future. The level of loyalty indicates the degree to which a brand is protected from competitors”

Many authors have defined the customer loyalty as per their research. Here, according to Oliver, “A deeply held commitment to re-buy or re-purchase a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts have the potential to cause switching behavior.”

Jacoby and Chestnut (1978) have explored the psychological meaning of loyalty in an effort to distinguish it from behavioral (i.e. repeat purchase) definitions. Their analysis concludes that consistent purchasing as an indicator of loyalty could be invalid because of happenstance buying or a preference for convenience, and that inconsistent purchasing could mask loyalty

if consumers were multi-brand loyal. Therefore, loyalty is a concept that goes beyond simple purchase repetition behavior since it is a variable which basically consists of one dimension related to behavior and another related to attitude, where commitment is the essential feature (Day, 1969; Jacoby and Kyner, 1973; Berne, 1997). According to Jacoby and Chestnut (1978), Solomon (1992) and Dick and Basu (1994), the combination of these two components enables us to distinguish two types of Customer loyalty concepts :(1) Loyalty based on inertia, (2) True brand loyalty. In an inertia situation where the consumer passively accepts a brand where as, in a true brand loyal consumer is actively involved with his or her favorites.

Customer loyalty plays a very essential role in the performance of a company. By retaining existing customers and expanding customer base companies create a brand equity which is positive. Though we say that customer loyalty is an important factor in today's competitive market but what is more important is to manage and maintain loyalty. In order to manage and maintain the level of customer loyalty, we should know the factors influencing customer loyalty. So, there has been a growing interest in recent years in analyzing the factors influencing customer loyalty. As a result, there are numerous works in marketing which have attempted to explain the relationships between brand loyalties.

2.1 Conceptual Framework / Theoretical Review

2.1.1 Customer Loyalty

Customer loyalty has become the buzzword of the marketing industry. Banks are constantly trying to increase their brand awareness by promoting loyalty schemes, making more and more people take their services. However, now a day, banks are struggling to win the hearts and minds of their customers. Recent crash of few financial Institutions have made very difficult for banks to assure about their services to the public. In order to engender customer loyalty, banks must differentiate their products by creating a distinct customer experience tailored to the needs and wants of their targeted customer segments. Moreover, Regular maintenance of customer database containing customer, sales data and other statistical data is a good technique to measure customer loyalty. By constantly analyzing this data companies can increase their customer loyalty.

Customer loyalty can be defined as the totality of feelings or attitudes that would incline a customer to consider the re-purchase of a particular product, service or brand or re-visit a

particular company, shop or website. Loyalty has two definitions. Loyalty BEHAVIOR means the act of customers making repeat purchases of their current brand, rather than choosing a competitor brand instead. Loyalty behavior is also called "customer retention." Loyalty ATTITUDES are those judgments and feelings about your product, service, brand or company that are associated with repeat purchases. Sometimes customers exhibit loyalty behavior without having loyalty attitudes. And sometimes customers exhibit loyalty attitudes without demonstrating much loyalty behavior

Customer loyalty has always been critical to business success and profitability. So, customer loyalty is central goal of relationship marketing. Customer loyalty is determined by three factors customer satisfaction, switching cost and perceived quality.

Major factors that negatively affect customer loyalty are:

- The customer moves out of the service area.
- The customer no longer has a need for the products or service
- More suitable alternative providers become available to the customer.

2.1.2 Customer Satisfaction

Customer satisfaction is a key issue to survive. You must continuously understand and provide what the customer wants. Customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship relative to the value expected from transactions or relationships with competing vendor. In other words, Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. Satisfied customers are likely to tell others about their favorable experiences and thus engage in positive word of mouth advertising. Dissatisfied customers, on the other hand, are likely to switch brands and engage in negative word of mouth advertising.

Customer satisfaction and loyalty are critical elements of long-term business growth and profitability. Highly satisfied customers produce several benefits for the company. Satisfied customers are not much price sensitive, talk favorably to others about the company and its products; achieve lower costs of selling, create a pool of referrals for capturing new accounts, improve employee productivity, satisfaction, and retention, remain loyal for a longer period. As satisfaction increases, so does loyalty. The rate of change of increment can be equal or can be different i.e. with little level of increase in satisfaction may result in high-level of loyalty

whereas high rate of change in satisfaction levels may also result in lower increment in loyalty. This is due to different customer attitude and perception.

Table 2.1 Loyalty and Customer Satisfaction

Loyalty	Customer Satisfaction
High	Completely Satisfied
Moderate	Satisfaction
Low	Completely Dissatisfied

2.1.3 Perceived quality

Consumers often judge the quality of a product or service on the basis of variety of informational cues that they associate with the product. Some of these cues are intrinsic to the product or service for perceptions of product and service, others are extrinsic. Either singly or in composite such cues provide the basis for perceptions of product and service quality.

2.1.4 Perceived quality of product

Cues that are intrinsic concern physical characteristics of the product itself, such as, size, color, flavor, or aroma (smell). In some cases, consumers use physical characteristics to judge product quality. Consumers like to believe that they base their evaluations of product quality on intrinsic cues, because that enables them to justify their product decisions (either positive or negative) as being “rational” or “objective” product choices. More often than not, however, the physical characteristics they use to judge quality have no intrinsic relationship to product’s quality. For example, though many consumers claim they buy a brand because of its superior taste, they are often unable to identify that brand in blind taste tests.

2.1.5 Perceived quality of service

It is more difficult for consumer to evaluate the quality of service than the quality of products. This is true because of certain distinctive characteristics of services: they are intangible (which can not be seen), they are variable, they are perishable, and they are simultaneously produced and consumed. In evaluating a doctor’s services, for example, they note the quality of the office and examining room furnishings, the number of framed degrees

on the wall, the pleasantness of the receptionist and the professionalism of the nurse; all contribute to the consumer's overall evaluation of service quality. Because the actual nature of services can vary from day to day, from service employee to service employee, and from customer to customer, marketers try to standardize their services in order to provide consistency of quality.

Some researchers believe that a consumer's evaluation of service quality is the function of magnitude and direction of the gap between the customer's expectations of service and the customer's assessment of the service actually delivered. Some researchers believe that service quality perceptions are a function of the gap between perceived performance and a combination of expectations and desires.

2.1.6 Intangible dimension of service quality

Service quality incorporates a number of dimensions such as reliability, tangibility, responsiveness, assurance and empathy. The first one refers to the core aspects of the service (e.g. reliability) and the second one refers to the relational or process aspects of the service (e.g. tangibility, responsiveness, assurance and empathy). This is due to the fact that reliability is mainly concerned with the outcome of service, whereas tangibles, responsiveness, assurance and empathy are concerned with the service delivery process. In this context, we propose that both the core and relational dimensions of service quality are likely to be the factors of customer satisfaction.

2.1.7 Tangible dimension of service quality

Due to the intangible nature of services, it is often difficult for customers to understand services. Customers thus make inferences about the service quality on the basis of tangibles (the buildings, the physical layout etc.) that surround the service environment. Support for this argument comes from empirical evidence suggesting that the tangible and physical surroundings of the service environment can have a significant impact on customers' affective responses and their behavioral intentions. The evaluative criteria can include attributes like price, brand perceptions, quality, comfort and design. Findings suggest that convenient location is a critical factor influencing the formation of performance expectations by customers. A convenient bank location means customers can easily do business with their banks on a regular basis. Accessibility is also a related factor, which, while acting together with convenience, enables customers to deal with their banks more easily. Convenience and accessibility are treated as part of the tangible dimensions of service quality. In this context,

the tangible dimension of service quality is also likely to be an important antecedent of customer satisfaction.

2.1.8 Switching Cost

In many markets, consumers are forced to incur costs when switching from one supplier to another. These costs are called switching costs and can come in many different shapes

Switching cost is defined as one time cost that customers associate with the process of switching from one provider to another. When consumers simplistically state that “it’s just not worth it” to switch providers, they may evaluate “search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional cost, financial risk, social risk and psychological risk on the part of the buyer”. These costs are seldom explicitly assessed, but they become salient and evident when consumers are faced with a reason to consider switching. Switching costs affect competition. When a consumer faces switching costs, the rational consumer will not switch to the supplier offering the lowest price if the switching costs in terms of monetary cost, effort, time, uncertainty, and other reasons, outweigh the price differential between the two suppliers. If this happens, the consumer is said to be locked-in to the supplier. If a supplier manages to lock-in consumers, the supplier can raise prices to a certain point without fear of losing customers because the additional effects of lock-in (time, effort, etc.) prevent the consumer from switching.

Switching costs are likely to be present in a large class of markets. The importance of understanding switching costs has been emphasized with the rise of information technologies, since switching costs seems to be a phenomenon that is especially strong in the information economy. Shapiro and Varian (1999) write: *"you just cannot compete effectively in the information economy unless you know how to identify, measure, and understand switching costs and map strategy accordingly."* Businesses are not the only ones who need to be aware of and understand switching costs. Since switching costs affect market performance, governments and regulators also have incentives to understand switching costs in order to be able to promote competition effectively.

When the costs of switching are high for the customer, there is a greater chance that the customer will remain loyal in terms of repeat purchase behavior, because of the risk or expense involved in switching and because of the accompanying decrease in the appeal of other alternatives. The effect of switching costs on loyalty varies with the type of industry, the category of the product and the characteristics of the customer. Though customers remain

with the company in terms of repeat purchase behavior, they don't recommend the service and product to others because of their dissatisfaction.

2.2 Reviews from Articles

2.2.1 Customer Loyalty in retail banking market

From the article on “**customer loyalty in retail banking market**” (January 2002) by Asuncion Beerli, Josefa D. Martin and Agustin Quintana, we can find out many definitions on customer loyalty by different research such as:

The increasing importance of relational marketing in recent years, particularly in the servicing and manufacturing industries, has been accompanied by a bundle of works on customer loyalty. Several authors emphasize the positive relationship existing between customer loyalty and business performance (Reichheld and Sasser *et al.*,1990). Loyal customers not only increase the value of the business, but they also enable it to maintain costs lower than those associated with attracting new customers (Barroso Castro and Martin Armario, 1999).

Generally, loyalty has been, and continues to be, defined as a repeat purchasing frequency or relative volume of same-brand purchasing. Many definitions in the literature suffer from the problem that they record what the consumer does, and none taps into the psychological meaning of loyalty (Oliver, 1999).

According to Jacoby and Kyner (1973), brand loyalty is the biased (i.e. non-random) behavioral response (i.e. purchase), expressed over time, by some decision-making unit, either on the part of an individual, family or organization, with respect to one or more alternative brands out of a set of such brands, which means that it is necessary to distinguish between exclusivity and loyalty and a function of psychological processes which involves the evaluation of different alternatives using specific criteria.

Jacoby and Chestnut (1978) have explored the psychological meaning of loyalty in an effort to distinguish it from behavioral (i.e. repeat purchase) definitions. Their analysis concludes that consistent purchasing as an indicator of loyalty could be invalid because of happenstance buying or a preference for convenience, and that inconsistent purchasing could mask loyalty if consumers were multi-brand loyal. Therefore, loyalty is a concept that goes beyond simple purchase repetition behavior since it is a variable, which basically consists of one dimension, related to behavior and another related to attitude, where commitment is the essential feature

(Day, *et al.* 1969). According to Jacoby and Chestnut *et al.*, (1978), the combination of these two components enables us to distinguish two types of Customer loyalty concepts:

(1) Loyalty based on inertia, where a brand is bought out of habit merely because this takes less effort and the consumer will not hesitate to switch to another brand if there is some convenient reason to do so; and

(2) True brand loyalty is a form of repeat purchasing behavior reflecting a conscious decision to continue buying the same brand, and it must be accompanied by an underlying positive attitude and a high degree of commitment towards the brand.

Halstead *et al.* (1994) regard satisfaction as an effective response, focused on product performance compared to some pre-purchase standard during or after consumption. Mano and Oliver (1993) establish that satisfaction is an attitude or evaluative judgment varying along the hedonic continuum focused on the product, which is evaluated after consumption. Fornell (1992) identifies satisfaction as an overall evaluation based on the total purchase and consumption experience focused on the perceived product or service performance compared with pre-purchase expectations over time. Oliver (1997, 1999) regards satisfaction as a fulfillment response/judgment, focused on product or service, which is evaluated for one-time consumption or ongoing consumption.

A concept which is very closely related with satisfaction is perceived quality, and the differences between these two have not always been very clearly defined, both having been used on occasion in an indistinct manner. In an attempt to clarify the distinction between satisfaction and perceived quality, Anderson *et al.* (1994) consider that satisfaction requires previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience and does not normally depend on price, although in circumstances where there is little available information or where quality evaluation is difficult, price can be an indicator of quality. In this sense, Spreng and Mackoy (1996), starting from Oliver's (1997, 1999) conceptual model of service quality and service satisfaction, concluded that these constructs are distinct and have different antecedents. On the other hand, there is a lack of consensus in literature and among researchers about the causal link between the two constructs. While quality service literature claims that customer satisfaction is an antecedent of perceived quality (Parasuraman *et al.*, 1988). Other authors regard the relationship as being the other way round, in other words, perceived quality is considered as an antecedent of customer satisfaction (Woodside *et al.*, 1989).

Another brand loyalty antecedent is known as switching costs, which can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Selnes, 1993). According to Alet i VilagineÂs (1994), the switching costs can be broken down as follows:

- The customer's personal costs, referring to tradition and the client's habits, to effort in terms of the time and commitment needed to evaluate new alternatives, to the economic advantages associated with loyalty, to the social and psychological risks stemming from making a wrong choice, and to the established contracts with the supplier company; and
- Costs associated with the product, such as the costs of redesigning the process of production or consumption, investment in related equipment, and contractual costs.

Consistent with Anton Martin *et al.* (1998), in the relationship existing between customer satisfaction/perceived switching costs and loyalty, the degree of elaboration which is followed in the decision-making process can have a moderating influence. Elaboration is a construct based on the information processing theory (Petty and Cacioppo, 1997) and is determined by the motivation and the ability of a consumer to elaborate on the brand choice (Bloemer and Ruyter, 1998). Motivation can be operationalised by bank choice involvement and ability can be operationalised by bank choice deliberation.

There are some major findings in the article "customer loyalty in retail banking market" which are as follows:

- With respect to loyalty antecedents, there is positive relationship between satisfaction/switching costs and loyalty. But, satisfaction has a greater weight on loyalty than switching costs.
- There exists a positive and statistically significant relationship within the satisfaction-perceived quality relationship. The perceived quality-satisfaction relationship, although positive, is not statistically significant. The research has also found out that when perceived quality and satisfaction are measured in a global perspective, satisfaction is an antecedent of perceived quality and not vice versa.

- The degree of elaboration does not have a moderating influence on the relationships between satisfaction/switching costs and loyalty in retail banking market.

These findings have some managerial implications, which are given below.

- The impact of satisfaction on loyalty is considerably stronger than the cost of switching. This implies that banks should place greater emphasis on achieving high levels of customer satisfaction than on creating switching barriers because switching costs creates additional disadvantage of difficulty in attracting new customers, when they are aware of the existence of such costs, and the possibility that outside forces may eliminate the barriers erected by switching costs.
- The direct positive relationship between switching costs and loyalty may imply that banks could undertake actions that increase switching costs for their customers, such as establishing preferred customer programs, which can also contribute to increasing customer satisfaction
- Though, there may not be a direct relationship between overall service quality and satisfaction, the banks should not overlook the importance of quality, whenever the quality improvement efforts are oriented to meet the customers' needs.

2.2.2 The relationships of customer satisfaction, customer loyalty, and profitability

This research had been conducted by Roger Hallowell, Harvard Business School, Boston, MA, USA. This research basically supports the theory that customer satisfaction is related to customer loyalty, which in turn is related to profitability.

The service management literature argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs (Blanchard and Galloway, 1994; Heskett *et al.*, 1990) – relative to the value expected from transactions or relationships with competing vendors (Zenithal *et al.*, 1990). Loyalty behaviors, including relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers. Loyalty creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price

sensitivity, and decreased costs to serve customers familiar with a firm's service delivery system (Reicheld and Sasser, 1990).

The second relevant literature is found in the marketing domain. It discusses the impact of customer satisfaction on customer loyalty. Yi's "Critical review of customer satisfaction" (1990) concludes, "Many studies found that customer satisfaction influences purchase intentions as well as post-purchase attitude". The marketing literature suggests that customer loyalty can be defined in two distinct ways (Jacoby and Kyner, 1973). The first defines loyalty as an attitude. Different feelings create an individual's overall attachment to a product, service, or organization (Fornier, 1994). These feelings define the individual's (purely cognitive) degree of loyalty. The second definition of loyalty is behavioral. Examples of loyalty behavior include continuing to purchase services from the same supplier, increasing the scale and or scope of a relationship, or the act of recommendation (Yi, 1990). The behavioral view of loyalty is similar to loyalty as defined in the service management literature. This study examines behavioral, rather than attitudinal, loyalty (such as intent to repurchase). This approach is intended, first, to include behavioral loyalty in the conceptualization of customer loyalty that has been linked to customer satisfaction and second, to make the demonstrated satisfaction/loyalty relationship immediately accessible to managers interested in customer behaviors linked to firm performance. Both the service management and the marketing literatures suggest that there is a strong theoretical underpinning for an empirical exploration of the linkages among customer satisfaction, customer loyalty, and profitability.

It is found that, in this study, the analysis support the inference of a customer satisfaction/customer loyalty relationship. Further, they also illustrate that customer satisfaction may be responsible for customer loyalty. The findings also support the discussions in the service management literature relating customer satisfaction to customer loyalty to profitability, as well as the marketing literature's behavioral arguments relating customer satisfaction to loyalty. But, the analysis neither confirmed nor denied that the relationship path hypothesized by the service management literature (customer satisfaction --> customer loyalty --> profitability) is stronger than a direct customer satisfaction --> profitability relationship. Further research will be necessary to draw informed conclusions on this topic.

2.2.3 Customer value, satisfaction, loyalty and switching costs: An Illustration from a business-to-business service context

This article was written by Shun Yin Lam, Venkatesh Shanket, M. Krishna Erramilli, Bvsn Murthy. The main objective of this study is to propose and empirically analyze conceptual framework that considers customer perceived value, customer satisfaction and switching costs as antecedents of customer loyalty in a B2B context.

Customer loyalty has a powerful impact on firms' performances and is considered by many companies an important source of competitive advantage (Heskett, *et al.* 1997). The consequences of enhanced customer loyalty in service firms are increased revenue, reduced customer acquisition costs, and lower cost of serving repeat purchasers, leading to greater profitability (Reichheld *et al.* 1993). In organizational buyer-seller relationships, loyal buyers are more likely to focus on long-term benefits and engage in cooperative actions beneficial to both partners in a relationship than disloyal buyers, thus enhancing the competitiveness of both partners and reducing transaction costs (Doney *et al.* 1994).

To date, however, limited attempts have been made to conceptualize customer loyalty and investigate its antecedents, in the B2B context. Potential antecedents include customer satisfaction, switching costs and customer value.

Many researchers have given the definitions of customer loyalty, customer value, customer satisfaction and switching costs.

According to Oliver 1999, customer loyalty is a buyer's overall attachment or deep commitment to a product, service, brand, or organization. The loyalty concept is similar in meaning to relationship commitment, which is described by the relationship marketing literature as an enduring desire to be in a valued relationship (Anderson and Weitz, *et al.* 1992). Customer loyalty manifests itself in a variety of behaviors, the more common ones being recommending a service provider to other customers and repeatedly patronizing the provider (Dwyer, *et al.* 1992). Therefore, the study has focused on two key manifestations of customer loyalty i.e., customer loyalty (Recommend) and customer loyalty (Patronage).

Customer value can be conceptualized as a comparison of weighted "get" attributes to "give" attributes (Heskett *et al.* 1994). Customer value is operationalised as a ratio or trade-off between total benefit received to total sacrifices, taking into consideration on the available suppliers' offerings and prices (Buzzell and Gale 1987). Service consists of a wide variety of

dimensions, and two of the most commonly examined service attributes are reliability and customization (Zeithaml 2000).

Customer Satisfaction in the B2B context is often defined as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm (Geyskens, *et al* 1999). Two general conceptualizations of customer satisfaction exist in the literature: service encounter or transaction-specific satisfaction and overall or cumulative satisfaction (Boltan and Drew *et al.*1991.) While transaction-specific satisfaction may provide specific diagnostic information about a particular product or service encounter, cumulative satisfaction (i.e., satisfaction that accumulates across a series of transactions or service encounters) is a more fundamental indicator of the firm's past, current, and future performance (Bitner and Hubber *et al* 1994). Therefore, in this research, cumulative satisfaction is considered as customer satisfaction.

Switching costs can be defined as the costs involved in changing from one supplier to another (Heide and Weiss 1995). The domain of switching costs encompasses both monetary expenses and nonmonetary costs (e.g., time spent and psychological effort) (Dick and Basu 1994). Furthermore, the domain could include the loss of loyalty benefits as a result of ending the current relationship. Conceptually, switching costs may also reflect a buyer's dependence on a vendor, which refers to a buyer's need to maintain his or her relationship with a supplier to achieve desired goals (Frazier 1983).

On the basis of the cognition-affect-behavior model, the authors hypothesize that customer satisfaction mediates the relationship between customer value and customer loyalty and that customer satisfaction and loyalty have significant reciprocal effect on each other. Furthermore, the potential interaction effect of satisfaction and switching costs, and the quadratic effect of satisfaction, on loyalty are explored.

2.2.4 How organizational complaint handling drives customer loyalty: An analysis of the mechanistic and the organic approach

This article was written by Christian Homburg and Andreas Furst. This article addresses how and organization's complaint management affects customer justice evaluations and, in turn, customer satisfaction and loyalty. In delineating an organization's complaint management, the authors draw a distinction between two fundamental approaches, the mechanistic approach (based on establishing guidelines) and the organic approach (based on creating a favorable internal environment).

2.2.5 Mechanistic approach and organic approach

First, Companies can influence individual behavior by developing guidelines for specific activities. In doing so, a firm does not seek to convince the subordinate, but only to obtain his acquiescence to act in intended manner. The once-and-for-all decision “that a particular task shall be done in a particular way relieves the individual who actually performs the task of the necessity of determining each time how it shall be done” (Simon 1997) and therefore it enables a more rational decision on making (March and Simon 1993; Simon1997). Following terminology in the field of organization theory, this article refers to this approach as the **mechanistic approach**. Because complaints base their evaluations on perceptions of the complaint process, interpersonal treatment, and complaint outcome (Smith, *et al* 1999), this study has considered process, behavioral, and outcome guidelines.

In this article, the authors define the “quality of process guidelines for complaint handling” as the degree to which a formal organization procedure for registering and processing customer complaints exists and is consistent with complaints’ need. The “quality of behavioral guidelines for complaint handling” is defined as the degree to which an explicit organizational policy for employees’ behavior toward complaints exists and is consistent with complainants’ needs. This construct includes directions for employees to be polite, helpful, and understanding while interacting with complainants as to show concern and take responsibility for customer problems (Bailey *et al* 1994). Finally, they define the “quality of outcome guidelines form complaint handling” as the degree to which a formal organizational policy for providing compensation to complainants exists and fits customers’ needs. Types of compensation include correction, replacement, discount, and refund (Kelley *et al* 1993).

Second, organizations can influence behavior by focusing on training and motivating employees and by providing them with shared values and norms. Rather than developing specific guidelines on how to behave in certain situations, this approach aims to establish “in the employee himself a state of mind which leads him to reach that decision which is advantageous to the organization” (Simon 1997). Human Resource Management (HRM) and the design of the organizational culture ensuring the “right kind of people and behaviors” form the core of **organic approach**.

In organic approach, this study has considered the supportiveness of the internal environment with respect to complaint handling. The authors define the “supportiveness of the internal environment with respect to complaint handling” as the degree to which HRM practices and

the organizational culture favor effective complaint handling. This construct includes the extent to which personnel-related activities support employees' customer orientation in general and customer orientation toward complainants in particular.

2.2.6 Customer justice evaluations

Justice theories explain people's reactions to conflict situations (Gilliland et al 1993). The concept of perceived justice offers a valuable framework for explaining customers' reactions to complaint episodes (Blodgett *et al* 1997). In the article, perceived justice of complaint handling is conceptualized as a three dimensional construct that includes procedural, interactional, and distributive justice (Clemmer *et al* 1993).

"Procedural justice" reflects the perceived fairness of the complain-handling process. In this study, this construct includes the facets of timeliness and process control. "Interactional justice" refers to the perceived fairness of the behavior that employee's exhibit toward complainants. It includes the customer perceptions of employee empathy, employee politeness and employee effort (i.e., the amount of energy spent to solve a problem). "Distributive justice" describes the fairness of the complaint outcome, as the customer perceives it. It includes the facets of equity, equality and need consistency.

2.2.7 Customer satisfaction evaluation and loyalty

"Complaint satisfaction" refers to the degree to which the complainant perceives the company's complaint-handling performance as meeting or exceeding his or her expectations (Gilly and Gelbs *et al* 1982). "Overall customer satisfaction after the complaint" refers to the degree to which the complainant perceives the company's general performance in a business relationship as meeting or exceeding his or her expectations (Anderson and Sullivan 1993). This type of satisfaction is cumulative in nature, whereas complaint satisfaction reflects a form of transaction-specific satisfaction. "Customer loyalty after the complaint" refers to the degree to which a customer has continued the relationship with a company after the complaint and the degree to which he or she intends to do so in the future.

In this article, finding indicates that though both mechanistic and the organic approach significantly influences complaining customers' assessments, the mechanistic approach has a stronger total impact. It is also found that there is positive effect of the quality of a company's guidelines for complaint handling on customer justice evaluation with respect to complaint handling. In addition to, there is also positive effect impact of the supportiveness of the internal environment on customer justice evaluations. In this study, though, their results confirm the presumed positive relationships between customer justice evaluations and complaint satisfaction and the expected positive impact of complaint satisfaction on overall

customer satisfaction and loyalty respectively; they fail to find statistical support for the predicted positive link between overall customer satisfactions and loyalty.

2.2.8 Create customer loyalty and improve your bottom line by Jim Teegarden and Bob Krok

The article “Create customer loyalty and improve your bottom line “was written by Jim Teegarden and Bob Krok. This study has mainly focused on empirical evidence: customer loyalty is a key driver of profitability. Creating customer loyalty must be an integral part of your organization's strategy - particularly in a time of industry consolidation. Understanding customers' requirements is fundamental to business success. The most important basis for strategy development, however, is a comprehensive understanding of what drives customer loyalty and how strong those drivers are.

The key to understanding what drives your customers' loyalty lies in finding answers to the following questions:

- How does our business define customer loyalty?
- Are our customers loyal? To what extent or intensity?
- How do we create, build or earn customer loyalty?
- How can we use customer loyalty strategically and tactically for positioning?

The first step in answering these questions is to measure both customer satisfaction and customer loyalty. These data can then be analyzed to determine key linkages to and drivers of customer loyalty. A brief commentary about each of these topics follows.

2.2.9 Measuring customer satisfaction

Customer satisfaction is measured because it contributes to customer loyalty. The trick is determining how specific elements of customer satisfaction lead to customer loyalty. Once you have established the most important components of a company's delivery package, for example, you might then ask customers to rate the company in each of the following categories: (1) scheduling acceptable delivery dates; (2) meeting promised delivery dates; (3) providing advanced notification of delivery delays; and (4) rescheduling delivery dates as requested by the customer.

2.2.10 Measuring customer loyalty

Customer loyalty relates to probable behaviors. To measure customer loyalty, you must develop specific dimensions of customer loyalty to determine the description and intensity of customer loyalty in aggregate and within each core segment of key customer served. It is essential to have a solid grasp of which factors in your business relationship with your customers are most important to them. This means developing a comprehensive understanding of your customer's business and doing some very objective listening.

2.2.11 Determining the key drivers of customer loyalty

After you measure customer loyalty and customer satisfaction, you can then identify key drivers of customer loyalty through multiple linear regression analyses.

These analyses reveal the following:

- The degree to which customer loyalty exists - in total, by core segment, and by key customer;
- The dimensions, intensity, and sources of customer loyalty; and
- An understanding of where and how to develop customer loyalty among non-customers or those customers who currently express no loyalty.

These analyses provide the knowledge and understanding that serve as the foundation for developing objectives, strategies, and tactics that will result in increased customer loyalty. Note that these strategies and tactics are predictive: they address future behaviors. Continuous improvement in those aspects of the business relationship most important to your customers is essential to creating customer loyalty.

2.2.12 Customer loyalty in retail banks: Time to move beyond simple programs or a product orientation (February, 2005)

This report has been prepared by Tower Group heading by Kathleen Khirallah. This Tower Group Viewpoint examines the status of customer loyalty programs found within retail banks today and argues that retail bankers need to be more creative if loyalty between customers and the bank is to be a cornerstone of a strong, profitable relationship.

2.2.13 Customer loyalty in retail banking

Customer loyalty is truly a vague concept for many bankers. Indeed, it can be argued that the reason so many bankers struggle with developing, deploying, and measuring customer loyalty programs is that there is little agreement among bankers as to what behaviors constitute customer loyalty and how best to encourage these behaviors. The lack of agreement among bankers as to what constitutes customer loyalty renders the discussion of customer loyalty programs cloudy and often unproductive. Further complicating the discussion is the fact that too many retail bankers still confuse customer loyalty with two distinct, yet closely related concepts: customer satisfaction and customer retention. Tower Group offers following definitions to clarify the interrelationships among these three concepts:

Customer Loyalty: A customer's demonstration of faithful adherence to an institution (or merchant) despite the occasional error or indifferent service. As the definition implies, having entered into a business relationship with a financial services institution, the customer maintains and continues the relationship. In this view, customer loyalty is an attitude or behavior that customers explicitly vocalize or exhibit.

Customer Satisfaction: A customer's perception that his or her needs, wishes, expectations, or desires with regard to products and service have been fulfilled. Again, it is an attitude or behavior that customers vocalize or exhibit. The implication is that the financial institution is consciously and proactively able to meet the myriad expectations of its many customers. Unfortunately, customer satisfaction is no guarantee of retention or loyalty.

Customer Retention: The ability to hold on to customers over time. Unlike customer loyalty and customer satisfaction, which measure aspects of the relationship from the customer's perspective, customer retention is a direct measure of the institution's ability to maintain relationships with customers.

The tendency of bankers to use these three terms interchangeably only complicates the challenges of building effective customer loyalty programs. Even though increasing customer

retention is not the same as having loyal customers, many bankers continue to act as though it is. The figure demonstrates true customer loyalty is a reflection of positive customer attitudes and positive customer behaviors.

2.2.14 Customer behavior and customer attitude defines the degree of customer loyalty

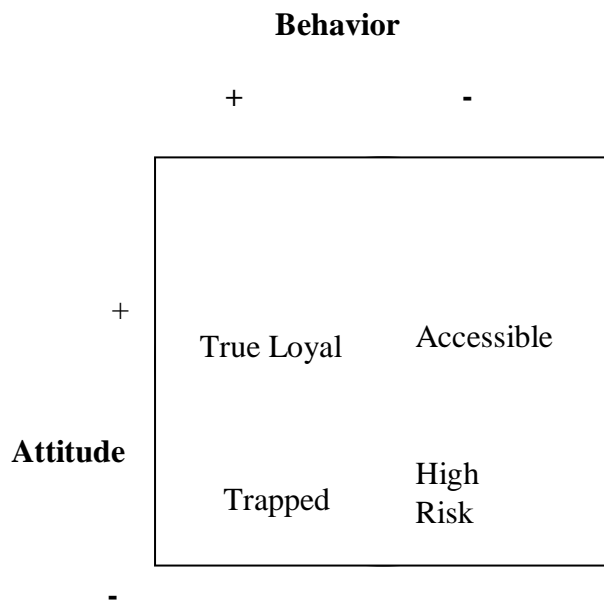


Figure 2.1 Customer behavior and customer attitude

Retail banks are often guilty of mistaking customer inertia for loyalty. Correctly assigning customers to the quadrants of figure requires being able to discern the differences between the behaviors that customers demonstrate and their attitudes toward the bank. Customers that remain in a long-term relationship with a banking institution while holding the bank in relatively low esteem are merely trapped, not loyal. The challenge for the bank is in understanding the degrees of loyalty that exist among customers and designing loyalty programs that can address the loyalty gaps. In the interests of building healthy, long-term, mutually profitable, and satisfying relationships, bankers need to understand the connection between retention and satisfaction and how they interact to foster customer loyalty. Customer retention should not be used as a convenient proxy for customer loyalty.

2.2.15 Total customer satisfaction services system and its best practices

This article was written by Hang-Yang of National sun yatsen university of China (2000) published in the journal of Asian Productivity organization.

Customer satisfaction is a function of performance relative to the customer expectations. When a lot has been promised and more is being delivered, this will always create satisfied customer. For sales people, this means that they only should promise what they know, and then you are able to deliver. For management, this means that when performing a customer satisfaction survey, they should measure their performance relative to the customer expectation. It should be remembered that it is the customer's perception that ultimately counts. The management's view on its service is interesting but irrelevant to serving customers. It is how customers feel that really counts.

A customer service is philosophy in which all employees feel accountable for creating satisfied customer. Everyone in organization is responsible for work to exceed the customer's expectations. Serving customers is unique opportunity for employees. Few jobs in any organization carry such as impact as an employee does who is creating satisfied customers. The treatment of the customer is more powerful than all of the advertising dollars in budget. Advertising only draws customers to an organization. It is the organization's performance that brings them back.

2.2.16 The loyalty effect: A new look at life time value by Arthur Middleton Hughes

This study had been made by Arthur Middleton Hughes from the books on customer retention is *The Loyalty Effect* by Frederick Reichheld (Harvard Business School Press 1996). In this insightful book, he opens up several new ways to look at customer lifetime value.

Successful companies, Reichheld points out, have three things in common: loyal customers, loyal employees and loyal owners. The customers are often loyal, not so much to a bank, for example, as to employees that they know and trust who work for the bank. If you have loyal customers, several things happen:

- Retention rates go up
- Referrals go up
- Spending rates go up
- The customers are less price sensitive
- The costs of servicing them go down
- Initial processing costs go down
- Returns and losses are lower

- Profits go up

Reichheld maintains that a five percent increase in the retention rate can increase lifetime value by as much as 75% in such industries as insurance, banking, and auto service. Arthur Middleton Hughes applies Reichheld’s principles to a set of standard lifetime value charts. The results are shown as Chart A. In most LTV charts, the variables are customer retention, referrals and spending rates. During the first year with any supplier, the customer defection rate tends to be high. But after that crucial first year, those loyal customers still remaining have much higher retention rates. These loyalists tend to refer their friends, relatives and business associates more and more as they continue with the same bank, brokerage firm, automobile service, or department store. Finally, these loyal customers tend to spend more every year with their chosen supplier.

Reichheld adds two more important variables, which affect lifetime value: price sensitivity and cost of service. Concerning price sensitivity, he makes the point that loyal customers tend, not only to buy more over their years with a supplier, but also to buy more expensive products Reichheld points out that the costs of servicing a new customer are typically much higher in the first year. The cost of servicing a bank loan or insurance usually occurs heavily in the application phase. The cost of service after the first year is usually very low. Since these costs do drop with length of service, the cost reductions should be reflected in an accurate lifetime value table.

Arthur Middleton Hughes took Reichheld’s ideas and applied them to a normal modern LTV table. Essentially, he was trying to replicate Reichheld’s concept that lifetime value could increase as much as 75% if the retention rate increased by 5%. Here are the variables that Arthur Middleton Hughes used:

Table: 2.2 Modern LTV table

	Year 1	Year2	Year3	Year4	Year5
Retention	60%	80%	83%	86%	90%
Referrals	4%	8%	9%	9%	9%
Purchases	5	10	12	13	14
Price	\$48	\$56	\$60	\$64	\$68

Cost	70%	60%	58%	56%	56%
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Imagine that we are looking at customers of a bank. In the first year, the supplier loses 40% of their customers. Thereafter, however, the retention rate jumps to 80% and rising. In the first year, 4% of the customers refer others who become customers to the business. In subsequent years, the referral rate more than doubles. In the first year, the customers make only five purchases, averaging \$48 per time. For those loyalists who last to the second year, the purchases double, and the price they pay for products increases as well. Finally, the first year costs (which include the cost of the products delivered, plus the cost of delivering those products) amount to 70% of revenue. Thereafter, the costs drop to 60%.

Arthur Middleton Hughes concluded that loyalty is vital to success today. With the maturing of the markets for most companies today, "the smartest of the smart will shift their growth strategies away from new-customer acquisition and toward building and broadening their relationships with the good customers they've already won."

He goes on to point out that getting the right customers is only the first step. The next step is to use the superior cash flow from superior customers to hire and retain superior employees. Loyal employees are a key factor, in many companies, in having loyal customers. If customers are loyal, it affects purchases, price, and cost. Ultimately, it affect on the profitability of company.

2.2.17 “Customer loyalty key to retail banking growth: Focus on convenience, value and service will enhance growth and mitigate customer attrition” by Deloitte

This report was made by Deloitte consulting LLP. It was published in NEW YORK, on January 5, 2006. Banks must provide customers with convenience, value and service in order to strengthen customer loyalty and stimulate growth, according to this report.

Toby Kilgore, principal with Deloitte Consulting LLP, says “Particularly in major metropolitan markets, many banks are competing for the same group of customers. To be successful, banks must differentiate themselves from the pack by providing a distinctive customer experience that captures customers’ hearts and minds. Convenience will help attract new customers, but banks need to provide service and value in order to build loyalty, mitigate attrition and achieve significant top-line growth.” The report identifies a series of small steps

that, over time, will transform a bank to a truly customer-centric organization focused on meeting the needs and wants of its customers.

a) **Convenience**

In this report, customer research underscores the importance of convenience in a customer's decision to choose a bank. Almost half of the respondents to a consumer survey cited location/access as the primary reason they chose their bank and slightly more than half continue to interact mainly with the branch, despite the industry's significant investments in other channels. Four out of five respondents indicated that they visited their bank branch at least once a month and 43 percent visit a branch at least once a week. Twenty percent of consumers said they interact most frequently online and another 20 percent interact most frequently through ATMs.

According to Deloitte Research, branches and location are critical to customer acquisition, and new branches are proliferating, with considerable capital expense and management time being invested. According to this study, most bankers agree that too much branch-building is taking place in general, but they do not believe that their own expansion plans are endangered by market saturation – despite the fact that large numbers of new branches are being built in already heavily branched cities.

b) **Value**

As important as convenience is in acquiring new customers, we believe that creating and sustaining value is a more important customer issue. Our research made clear that one of the fastest ways to lose an account holder was for the customer to perceive that he or she was not receiving value from the relationship.

The report shows that competitive fees/rates rank very high in importance to consumers. However, a much smaller percentage of survey respondents were satisfied with their primary bank on this metric. The report also finds that it is important to provide products and product bundles tailored to meet the needs of targeted customer segments rather than simply representing a grab bag of whatever products and services the bank wants to include., while at the same time streamlining product offerings so that the array of products aren't overly complex and confusing. As consumers continually seek better value in their banking products, banks are experimenting with reward programs as a means to deliver better value and create a stronger relationship with their customers. Reward programs have been implemented with varying degrees of success in other industries, including travel, hospitality

and retail stores. Despite the many flavors of reward Programs, finding a successful formula in the banking industry has proven to be elusive.

c) Service

Superior service helps to stem attrition and deepen customer relationships, while poor customer service destroys relationships. The consumer survey found that 90 percent of bank customers would recommend their bank to a friend, if asked to recommend a bank. Similarly, when asked how their bank could make banking more convenient, survey respondents gave the highest rating to a live voice on the telephone. In addition, some banks that want to excel in customer service have begun to offer customer service guarantees – limited wait times on teller lines, rapid responses to inquiries and effective hand-offs.

Banks continue to build branches to stimulate growth, but four additional areas have been identified which they should explore. “First, most banks could do a better job of identifying and pursuing underserved market segments, which are likely to be more loyal and maintain a greater share of wallet with a single financial institution. They could also employ more healthy pricing strategies, targeted at certain customer profiles that are willing to pay or increase share of wallet in exchange for personalized features or services. Banks could improve their customer development and retention through award programs and improved product pricing and bundling. And, finally, with the relaxing of regulatory barriers, retail banks can bring together their banking and investment businesses, leveraging their large retail customer bases and branch locations to gain greater access to the investments portion of their customers’ wallets.”

2.2.18 The determinants of perceived quality and its relationship with satisfaction by

Lee H., Lee Y., and Yoo D.

This article was written by Lee H., Lee Y., and Yoo D. in 2000. The idea of this article is to compare the gap model with performance model. Several critics have been labeled against Parasuraman et.al. (1988) gap model, which is based on Oliver’s (1980) disconfirmation model. In his model, Oliver proposed that satisfaction is a function of disconfirmation of performance from expectations i.e. Carman (1990) argued that SERVQUAL could not be a generic measure that could be applied in any service. It needed to be customized to the specific service. Several research have supported the argument that overall service quality is determined by perception only rather than the difference between (normative) expectations and performance. These studies include Cronin and Taylor’s SERVPERF, Tse’s (1993)

evaluated performance model and normative quality model and Brown *et al.*'s (1993) non difference score measure.

The result of the author's study is that performance-based measures are able to clarify more of the service quality than the difference based measures where the expectations are compared to experiences. Also the performance-based scale (SERVPERF) is more efficient than the difference based scale because it reduced the number of items that must be measures 50% from 30 to 15.

2.2.19 Customer satisfaction and retail banking by Ahmad Jamal and Kamal Naser

This article was prepared by Ahmad Jamal and Kamal Naser in 2002. From the article on customer satisfaction and retail banking, we can find out many definitions on customer satisfaction and service quality by different researchers.

Customer satisfaction is an important theoretical as well as practical issue for most marketers and consumer researchers (Dabholkar *et al.*, 1996; Fournier and Mick, 1999; Meuter *et al.*, 2000). Customer satisfaction is generally described as the full meeting of one's expectations (Oliver, 1980). Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. Customer satisfaction is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behavior. For instance, if customers are satisfied with a particular service offering after its use, then they are likely to engage in repeat purchase and try line extensions (East, 1997). Customer satisfaction is widely recognized as a key influence in the formation of customers' future purchase intentions (Taylor and Baker, 1994). Satisfied customers are also likely to tell others about their favorable experiences and thus engage in positive word of mouth advertising (Richens, *et al* 1983). Dissatisfied customers, on the other hand, are likely to switch brands and engage in negative word of mouth advertising. Furthermore, behaviors such as repeat purchase and word-of-mouth directly affect the viability and profitability of a firm.

In this article also, the researcher has given importance to service quality and discuss on it. Some researcher sees relation between service quality and customer satisfaction and some does not. Here are some of the views of the researchers on the service quality and its relationship with customer satisfaction.

Research on customer satisfaction is often closely associated with the measurement of service quality (Anderson and Sullivan, *et al* 1993). While satisfaction is a feeling or an attitude of a

customer towards a service after it has been used, service quality is simply: Customers' overall impression of the relative inferiority/superiority of the organization and its services (Bitner and Hubert, 1994, p. 77). In this context, some argue that both service quality and satisfaction are: Best conceptualized as unique constructs that should not be treated as equivalents in models of consumer decision-making (Taylor and Baker, 1994, p. 165).

Hence, many have attempted to establish the nature of the relationship between service quality and customer satisfaction. Among the many attempts, some have proposed a causal link between customer satisfaction and service quality, due to the fact that satisfaction is viewed as experiential or occurring at the transactional level, whereas service quality is viewed to be an attitude at a global level (Bitner, 1990; Oliver, 1981; Parasuraman *et al.*, 1988).

Service quality incorporates a number of dimensions such as reliability, tangibles, responsiveness, assurance and empathy (Carman, *et al* 1990). The first one refers to the core aspects of the service (e.g. reliability) and the second one refers to the relational or process aspects of the service (e.g. tangibles, responsiveness, assurance and empathy (Parasuraman *et al.*, 1991a)). This is due to the fact that reliability is mainly concerned with the outcome of service, whereas tangibles, responsiveness, assurance and empathy are concerned with the service delivery process (Parasuraman *et al.*, 1991a). In this context, researchers propose that both the core and relational dimensions of service quality are likely to be antecedents of customer satisfaction. Due to the intangible nature of services, it is often difficult for customers to understand services (Legg and Baker, 1996). Customers thus make inferences about the service quality on the basis of tangibles (the buildings, the physical layout etc.) that surround the service environment (Bitner, 1990). In this context, the tangible dimension of service quality is also likely to be an important antecedent of customer satisfaction.

In this article, it is found that there appears to be a strong relationship between the core and relational dimensions of service quality and satisfaction. In other words, customers who positively perceive the core and relational dimension of the service quality provided by a specific service provider are likely to feel satisfied with the service provider. These results indicate that customer satisfaction is based not only on the judgment of customers towards the reliability of the delivered service, but also on customers' experiences with the service delivery process. However, the research reported, here, that there could not establish a relationship between the tangible dimension of service quality and customer satisfaction. This

might be due to the fact that tangibility is already part and parcel of the relational dimension of service quality.

2.3 Reviews from previous thesis

Raman conducted the study “**Customer Satisfaction: A study of the banking sector of Nepal**”(2006) with objective of investigating the level of satisfaction of customer in banking sector, analyzing comparative level of service in banking sector in term of customer satisfaction and dissatisfaction, identifying the reasons/factors responsible for customer satisfaction or dissatisfaction. He has used two private banks i.e. Everest Bank Limited (EBL), Bank of Kathmandu (BOK) and two government banks i.e. Nepal Bank Limited (NBL), and Rastra Banijya Bank (RBB) to investigate the level of customer satisfaction. The study was basically based on primary data. Descriptive as well as analytical tools have been used to draw the conclusion.

In this study, he concluded that customers of EBL and RBB are more satisfied from their bank location in compared to other two banks i.e. NBL and BOK while taking about location of the banks. During the research, it was found that customers are sensitive toward parking facilities in comparison to other facilities that their bank provides. In case of private bank’s most of the customers, they have the knowledge about it. EBL customers are highly satisfied from facilities than BOK customers. While analyzing the important factors for increasing the customer satisfaction level, it was found out that majority of customers from both private sector and government sector, they all think that fast service is number one factor for increasing the satisfaction level of the customers whereas another most important factor is employee good behaviors. If they got these two things , then they would not give must priority to factor such as interest rate, infrastructure. Regarding complaint handling task, customers do complain to their respective bank and out of them BOK customers are more satisfied from their bank’s customer handling procedure in compare to other banks.

To sum up, he concluded that customers of commercial banks are satisfied from their concern bank and they think that the service of their bank is in between good and neutral.

Similarly, The study “**Service Quality and Rural Branches Rastra Banijya Bank with special reference to resource mobilization**” was objectively conducted by Mr. Siwakoti to show the spatial distribution pattern of Rastra Banijya Bank (RBB) in Nepal, assess the service quality of the targeted rural branches of RBB, evaluate the causes of the present level

of service, and assess chance of improvement of quality services provided by the bank. In this study, he used both primary and secondary data.

Using the various statistical tools, he came to the following conclusions.

Majority of the customer had positive attitude to present banking services and minority are dissatisfied with it. The clients consider the given quality of service as better because of absence of benchmarking. They have not experienced the difference between the service qualities of the other institutions of same nature. The theoretical concept such as KFA, MBO and the performance evaluation of the staff is not found in the branches of the RBB. Officers and juniors are not concentrated on service quality. So the service is not oriented to quality services. RBB has rural policy of creating the quality service. The performance evaluation system of the bank is an effective rather it is subjective. Therefore, the carrier paths of the employees are not decided by the service of quality.

Finally, he concludes that the RBB has not performed and planned to deliver quality service to the clients. However the rural clients seem satisfied with the quality of the service delivered by the existing system and staff. They do not have any grudge on the quality service in the particular locality.

In the same way, Ramila Gurung conducted the study on **“Customer Satisfaction and Retail Lending: with special reference to Home Loan”(2006)** to know the attitude of customer towards the consumer financing scheme, to analyze the consumer lending facility provided by different commercial banks, to analyze consumer financing’s effectiveness in the market, to analyze the level of customer satisfaction in retail lending in Nepal, to examine the trend of providing loan, determine the growth rate annually and forecast likely disbursement of loan on consumer lending, to evaluate the causes of the present level of customer services and to recommend for further possibilities to promote quality service provided by the bank. The study is basically focused on primary data. The research contains two types of questionnaire for the two different customers’ one for the existing customers and another for prospective customer of the banks. She has used five commercial banks i.e. Everest Bank Limited (EBL), Bank of Kathmandu (BOK), Kumari Bank Limited (KBL), NABIL Bank, Himalayan Bank Limited (HBL) to analyze the customer satisfaction in retail lending. In her study, she used statistical analysis, data processing procedures, percentage, diagrams and graph to draw the conclusion.

The survey on the prospective customers of consumer loan showed that maximum numbers of respondents are aware of retail loans and most respondents are from service sectors. They are very positive about consumer lending schemes of the commercial banks and showed special interest on home loan and auto loan. It is found that the prior relation with the bank and the interest rate is considered as major factors while choosing the specific banks for the consumer loans. According to survey on existing customer, they are different from novice customers in that they may have higher expectations in comparison with the novice customers. This means more hard work the bank managers, as they have consistently to outperform demands and expectations of customers who are increasingly making their own financial decisions.

The major findings of this study is that positive attitudes toward a retail lending are driven by service quality component such as the employee-customer relationship as well as other features and benefits of the service.

2.4 Reviews from books

“Consumer Behavior” written by McGraw-Hill

According to McGraw-Hill, in his book, satisfaction is a relatively temporary post purchase state that reflects how the product or service has fulfilled its purpose. But loyalty goes beyond satisfaction. He defined customer loyalty as “A deeply held commitment to re-buy a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.” Thus loyalty includes both readiness to act and resistance to alternatives. For firm, loyalty leads to an increase in profits, more predictable sales and profit streams, and positive word-of-mouth. High overall satisfaction protects firms from a reduction in loyalty after poor performance in a particular transaction. Customer satisfaction leads to loyalty and continued patronage. Specifically, if a customer is loyal and switching costs are high, decreases in satisfaction will not cause switching until some threshold of dissatisfaction is reached. Product quality and switching cost alone are weak determinants of continued patronage or loyalty.

Companies should be quite interested in generating and maintaining customer loyalty, but it’s not easy. Although clusters of consumers claim that they find a good brand and stick with it, this does not seem to translate into consistent repurchase rates. While 85% to 95% of automobile customers report they are satisfied, only 30% to 40% return to their previous

make. A typical large study in Denmark that included 684 brands of consumer products found that only 13% of consumers claimed to use specific brand 90% to 100% of the time. Consumers search for variety and respond to switching incentives provided by competitors.

In his book, he also defines enduring loyalty. As suggested by example given here, enduring loyalty is a long-term consequence only of some types of customer satisfaction (e.g., pleasure and delight). Under such circumstances, loyal consumers are resistant to competitive switching efforts. If product consumption is closely associated with community membership or identity, loyalty may be stronger. For example, Loyalty to wrangle jeans, Justin boots, Resistol- hats or loyalty to particular European football teams reflects these identity and community-based types of loyalty.

Relational strength may lead consumers to ignore competitive alternatives. Consumers may remain loyal even when it is difficult to do so. Consider the case of hairstylists and consumers. Some consumers will travel long distance at considerable inconvenience to continue patronage because of their loyal feelings for the stylist.

With low switching costs in competitive markets, the relationship between satisfaction and continued patronage is more fluid. When people are only moderately satisfied with an automobile, they may switch since there are so many brands of cars available. Satisfaction is not enough to ensure loyalty.

In his book, he also defined customer satisfaction as a judgment of a pleasurable level of consumption-related fulfillment, including levels of under fulfillment or over fulfillment.

In this literature review chapter, various articles, thesis and books regarding customer loyalty were reviewed. In article customer loyalty in retail banking market, researchers have found that there is positive relationship between satisfaction/ switching cost and loyalty. Similarly, an article on customer value, satisfaction, loyalty and switching cost concluded that customer satisfaction mediates the relationship between customer value and customer satisfaction. In article, customer loyalty in retail banks, researchers have said that customer loyalty is reflection of positive customer attitude and positive customer behaviors. Similarly, it is found that there appears to be a strong relationship between core relationship between the core and relational dimension of service quality and satisfaction in article “customer satisfaction and retail banking”.

There is very little research on customer loyalty in Nepalese context. So, there is lack of sufficient literature available in customer loyalty. In this case, this study helps to other researchers and bankers to know about the level of customer loyalty in Nepal.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter bridges the problem with the result. It provides the instruction regarding the methods and process associated with the overall study related to customer loyalty in retail banking market.

This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers qualitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. This research tries to perform a well- designed qualitative research in a very clear and direct way using statistical tools. Details of research method are described in the following headings.

3.1 Research design

In order to make any type of research a well- set research design is necessary to fulfill the objectives of the study. Research design is a plan, structure and strategy to obtain the objective of the study. In other word, Research design is a systematic plan or procedure that the researcher is going to use to carry out the research. Generally, it means definite procedure and technique which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. The purpose of this study is to find out the

level of loyalty of those customers who hold retail lending from banks. To achieve the objective of this study, descriptive and analytical research design has been used.

In this study, mainly primary data have been used which are collected through structured questionnaires. In order to get the diverse response from the respondents, the questionnaires were distributed to different work groups such as businessmen, jobholder, students, teachers, farmers and so on. The collected data have been represented in the tabular form, sorted and organized, analyzed and concluded. Based on these, some generalizations have also been made and necessary recommendations have been provided at the end of the study

The researcher has designed research hypothesis to study the dependent variables and independent variables. As most of the factors are subjective in nature, qualitative research was found to be appropriate for this study among various other research designs.

3.2 Population and Sample

This study has totally centered on Narayangadh city. Narayangadh city has been taken for this study due to convenience to collect the data and also due to the fact the city has been growing in terms of population & business in fast pace. As there are many opportunities emerging, many banks, finance companies, development banks have been opening their branch to provide various facilities to reap benefit. For this study, target customers are customers who are resident of Narayangadh. Hence, all residents or local people of Narayangadh have been taken as population of the study.

In Narayangadh city, customers of three areas i.e. Shahid Chowk, Putali Bazzar and Pragati Path have been taken as the sample of the study because many banks and finance companies are located within these places. Moreover, many business houses and companies are also located within these areas. So, these areas are better place for business perspective. The respondents include businessmen, teachers, bankers, students and farmers as well. Total of 100 respondents were surveyed. But, considering the accuracy and completion of the questionnaires, out of 100, 80 surveys are taken into consideration. Among 80 respondents, 62 were male and 18 were female.

3.3 Sampling Procedure

The sampling method has been used to draw conclusion from total population. In this sampling, customers of three areas were selected as the sample of this study. A convenient judgment sampling method was mainly used because there is no information available

regarding level of customer loyalty. Therefore, the researcher used common convenience samples.

A structure questionnaire was designed to collect the required information. The questionnaire consisted of five set of question. The first set consisted of question related to the demographic information such as a respondent's age group, gender, occupation and income level etc, and then the second set was related to customer loyalty. These questions included respondent's association with bank, their first choice for retail lending, no. of years that respondents have associated with banks, factors affecting the loyalty etc. Similarly third part of the questionnaire was designed to assess the level of customer satisfaction, which consisted of factors determining the level of customer satisfaction, service of the bank. Likewise, the fourth part of questionnaire was related to quality, which consists of employee's behavior of the bank, quality factor that made to choose the bank, availing the services as it promised. The fifth part of the questionnaire was related to switching cost. These questions included the causes for switching the bank and the factors that made them to switch the bank and not to switch bank. The respondents were asked to point out their opinion on various dimensions of the study.

3.4 Data Collection Procedures

The data was mainly collected though questionnaire survey. A structured questionnaire has been designed to collect the required information, which has been shown in appendix. These questionnaires had been surveyed to holder of retail loan of banks. As three areas of Narayangadh city had been taken as sample, questionnaires were distributed to those people who are holder of retail loan and associated with these areas. Each questionnaire was interviewed with respondents to collect the data so that high reliability response could be maintained. The data also was collected from visiting web site regarding customer loyalty in retail banking.

For this research, dichotomous close ended and labeled scales format were used. Secondary sources were also used to collect the data. The secondary sources include previous research articles, books, publications, previous thesis, various websites etc.

3.5 Statistical Analysis

Method of data analysis depends on the nature of data. Therefore, a wide variety of analytical tools such as bar diagram, pie chart has been employed in the present study. Since the study

is based on qualitative data, the descriptive analysis has mainly been made to draw some conclusion of the study. Data have been also presented in tabular form and interrelated in percentage. Simple bar diagram, and graphic presentation have also been depicted in the text. SPSS software is also used to find out the result.

3.6 Data Processing Procedure

After collection of the questionnaires from the respondents, the relevant factors are drawn under the different needs. Thereafter, the data were coded and entered into a statistical software package, SPSS version 10.00. With the help of SPSS software, frequency distribution, mean and standard deviation were computed and descriptive analyses were performed for interpretation of data. Next, the Chi-square tests were conducted to determine the existence of relationships between variables and clustering data into identifiable components, which were necessary steps before proceeding further with causal analysis.

3.6.1 Percentage Analysis

It is a mathematical tool, which represent the proportion of any variable in term of its total.

3.6.2 Diagrams and Graphs

There are picture tools, which will help to know the true picture of the different variable in the absence of complicated formula and equation.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

In this chapter, data and information, which is obtained from questionnaire has been presented and analyzed to study the level of customer loyalty in retail banking market. Appropriate statistical tools and graph has been used to perform the analysis as described in the research methodology chapter. This chapter has been organized in five sections. In this first section, the demographic information has been analyzed. It includes age group, gender, income level etc. In the second part of analysis, analysis of customer loyalty regarding retail banking, affecting factor to customer loyalty and their association with bank has been done. In third part, level of satisfaction and factor for increasing satisfaction level has been analyzed, as customer satisfaction is an antecedent of customer loyalty. In fourth part of this chapter, quality factor has been analyzed, as customer satisfaction is often closely associated with the measurement of service quality. In the last part, switching another bank, factors that make switch to another bank has been analyzed, as there is positive relationship between switching cost and loyalty.

This section presents the findings from the survey of customer loyalty in retail banking market with the help of questionnaires. This survey is confined within Narayangadh city. So it depicts the customer loyalty in retail banking market of Narayangadh area. The analysis was done with a system designed for statistical analyses (SPSS). Descriptive analysis was performed for easy interpretation of data such as frequency distribution, mean and standard deviation. Next, the Chi-square test was conducted to determine the existence of relationships between variables.

4.1 Demographic profile of respondents

This profile depicts the gender statistics, income level, occupation and age of respondents.

4.1.1 Sex

Figure 4.1 shows that out of 80 respondents, 62 respondents were male which is 77.50% and 18 were female respondents, which is 22.50%. Majority of respondents were male in the survey because this survey was conducted randomly.

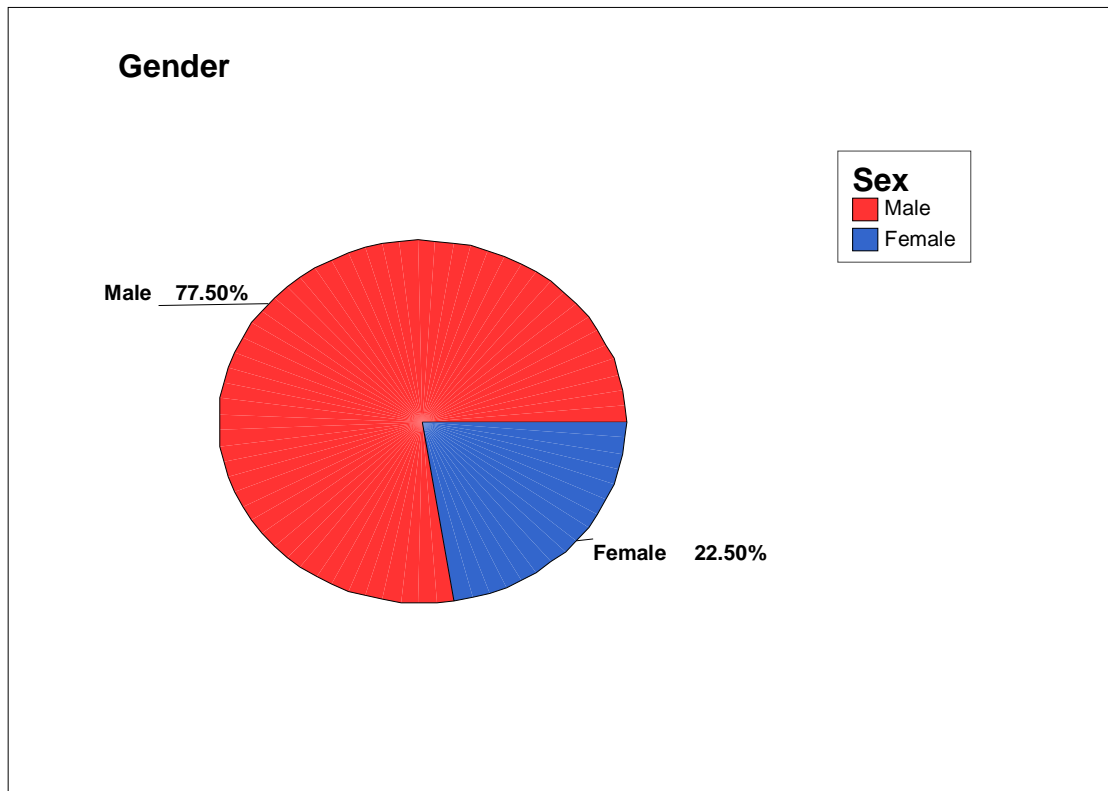


Figure 4.1 Gender of respondents

4.1.2 Age

With respect to age, most of the respondents are between 20-30 years. Out of the 80 respondents in sample, 47.50% are from age of 20-30 years old, 36.25% are between 31-40 years old, and 16.25% are above 40 years old. There is no respondent below 20 years old.

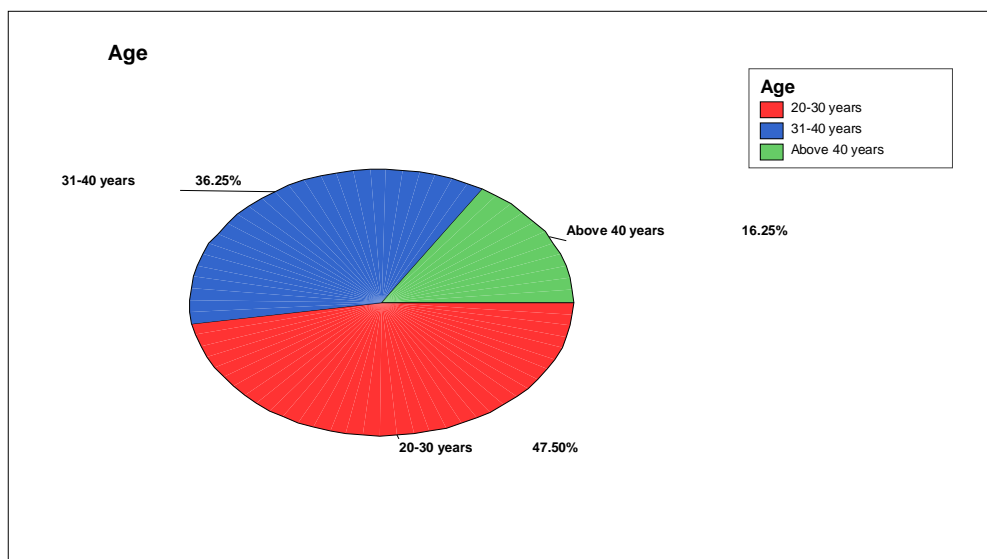


Figure 4.2 Age of respondents

4.1.3 Occupation

A survey was conducted among the respondents who were involved in different professions like business, student, service, teaching and farming. As shown in figure 4.3, a majority of the respondents are businessmen. Out of total sample, businessmen comprise of 63.75%. 13.75% are from service sector, 10% are students, 7.50% are teachers and 5% are involved in farming.

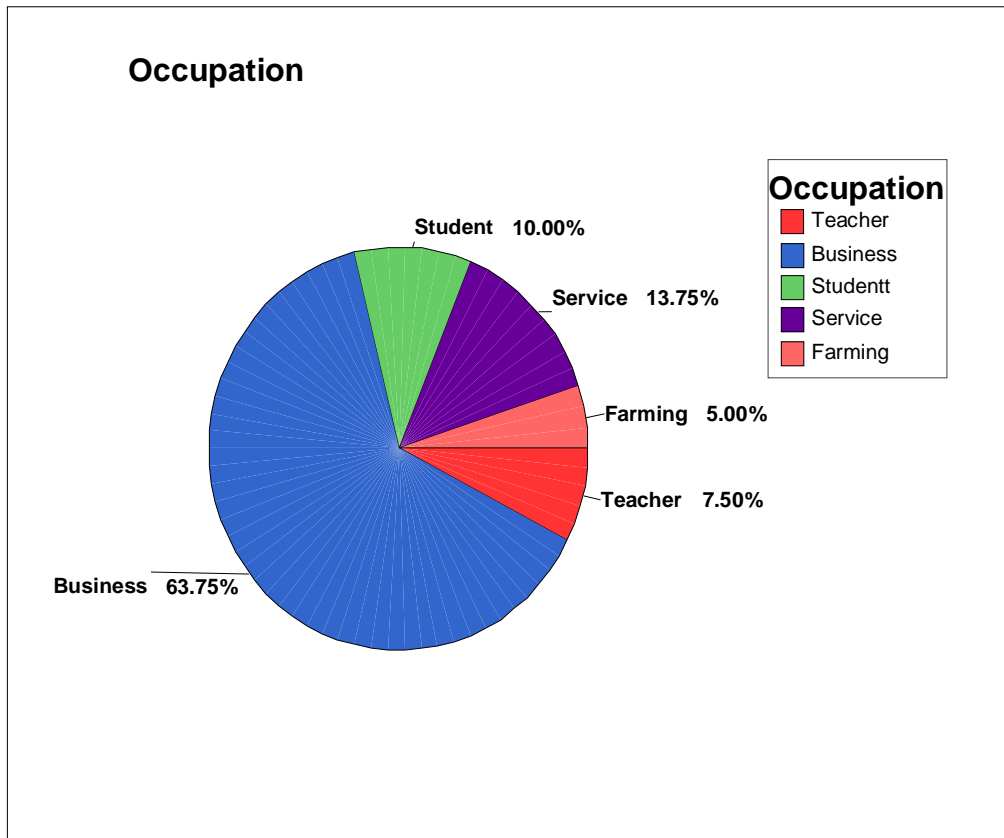


Figure 4.3 Occupation of respondents

4.1.4 Income Level

While conducting the survey, the income levels of the respondents were also studied, as it is main basis for retail lending. As shown in the figure 4.4, majority of respondents have income level of Rs.10, 001- Rs.20, 000. 45% respondents have income between Rs.10, 001- Rs.20, 000, 30% have income between Rs.20, 001- Rs. 30, 000, 13.75% lies between Rs.5,001- Rs. 10,000 and 5% have less than Rs. 5,000. Most of the respondents who have less than Rs. 5,000 were students.

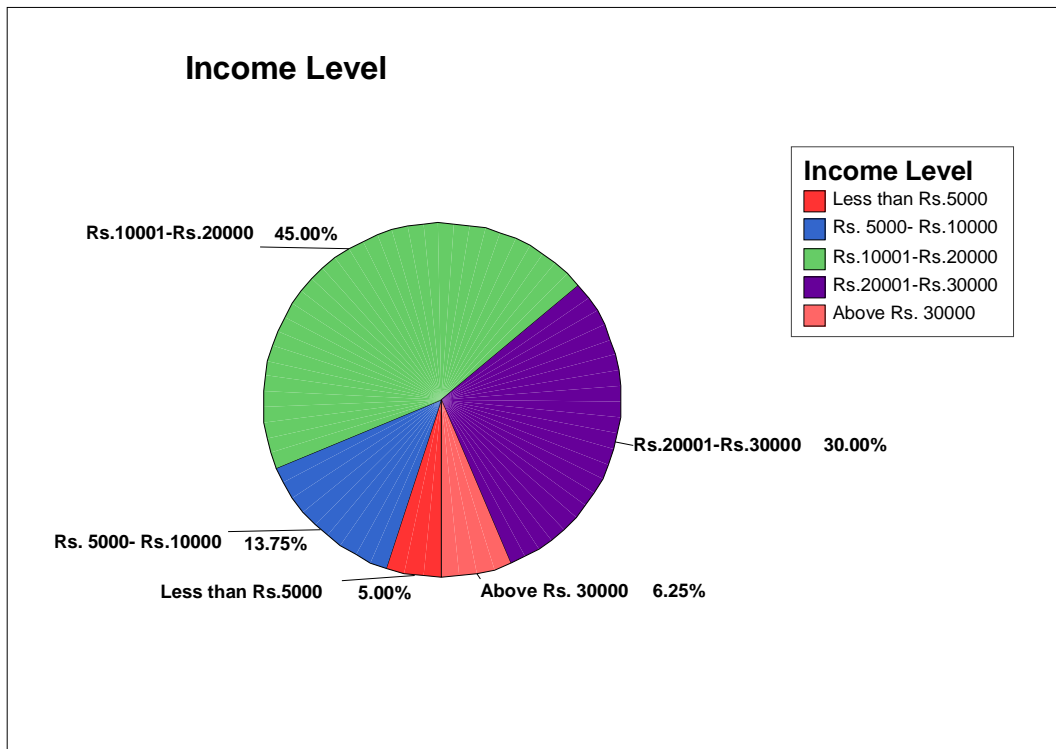


Figure 4.4 Income Level of respondents

Table: 4.1 Income Level of Respondents

Category	Amount	Percent
Low Income group	Less than Rs. 5000	5.00%
Low Income group	Rs 5000-Rs 10000	13.75%
Medium Income group	Rs 10001-Rs 20000	45.00%
Medium Income group	Rs 20001-Rs 30000	30.00%
High Income group	Above Rs 30000	6.25%

Source: Field 2012

4.2 Retail Loan

Table 4.2 Category of Retail Loan

Category	Frequency	Percent
Home loan	12	15
Auto loan	10	12.5
Education loan	11	13.8
Personal loan	14	17.5
Business loan	29	36.3
Agriculture loan	4	5
Total	80	100

Source: Field 2012

In order to retain the customer and build the customer loyalty, banks have been trying to introduce the different product in the market. Banks have also been providing the different products in the market at the competitive rate. From the survey within Narayangadh city, it is found that home loan, auto loan, education loan, personal loan, business loan, agriculture loan have been provided by the banks in the market. The above table 4.2 shows that most of the respondents hold the business loan. It is because the survey was conducted randomly without preference for specific loan. As there were more respondents from business background, out of 80 samples, 29 respondents hold business loan, 14 personal loans, and 12 home loans. There were some students respondents who hold education loan accounting for 11. Out of total samples, 10 respondents hold auto loan. Least number of respondents i.e. 4 is for agriculture loan.

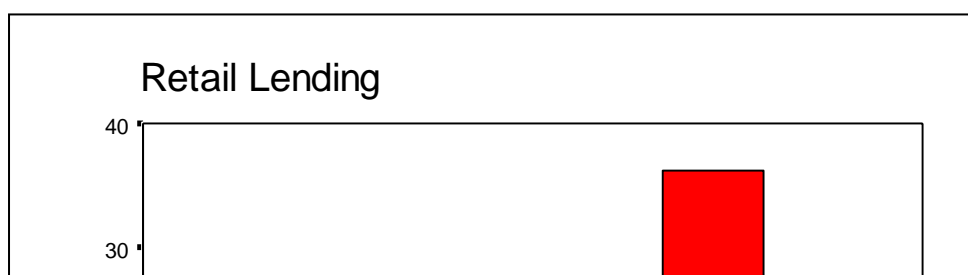


Figure 4.5 Category of Retail Loan

As per figure 4.5, out of total sample, 36.3% is covered by business loan and followed by personal loan with 13.8%. Similarly, 15% is home loan, 13.8% is education loan, 12.5% auto loan and 5% is agriculture loan.

4.2.1 Respondents associated with the banks

In order to find out the customer loyalty in retail banking, association with the bank of respondents was asked. It is because it shows that with which bank majority of respondents are associated. More the people associated with bank, more it shows that customers are satisfied and loyal with that bank.

Table 4.3 Respondents associated with the banks

Bank	Frequency	Percent
Nepal Investment Bank Limited	8	10
Himalayan Bank Limited	13	16.3
Lumbini Bank Limited	25	31.3
NCC Bank Limited	7	8.8
Nepal Bank Limited	11	13.8
Rastriya Banijya Bank	8	10
Agriculture Development Bank	8	10
Total	80	100

Source: Field 2012

Table 4.3 shows that out of 80 respondents, most of the respondents i.e. 25 are associated with Lumbini Bank Ltd. As Lumbini Bank started its operation earlier as compared to other commercial banks in Narayangadh city; hence, Lumbini Bank has covered more market in Narayangadh compared to other banks. 13 respondents are associated with Himalayan Bank Ltd, 11 respondents are associated with Nepal Bank Ltd., 8 respondents associated respectively with Nepal Investment Bank Ltd, Rastriya Banijya Bank and Agriculture Development Bank. 7 respondents are associated with NCC Bank Ltd.

Respondents associated with the bank have been shown in the bar diagram below:

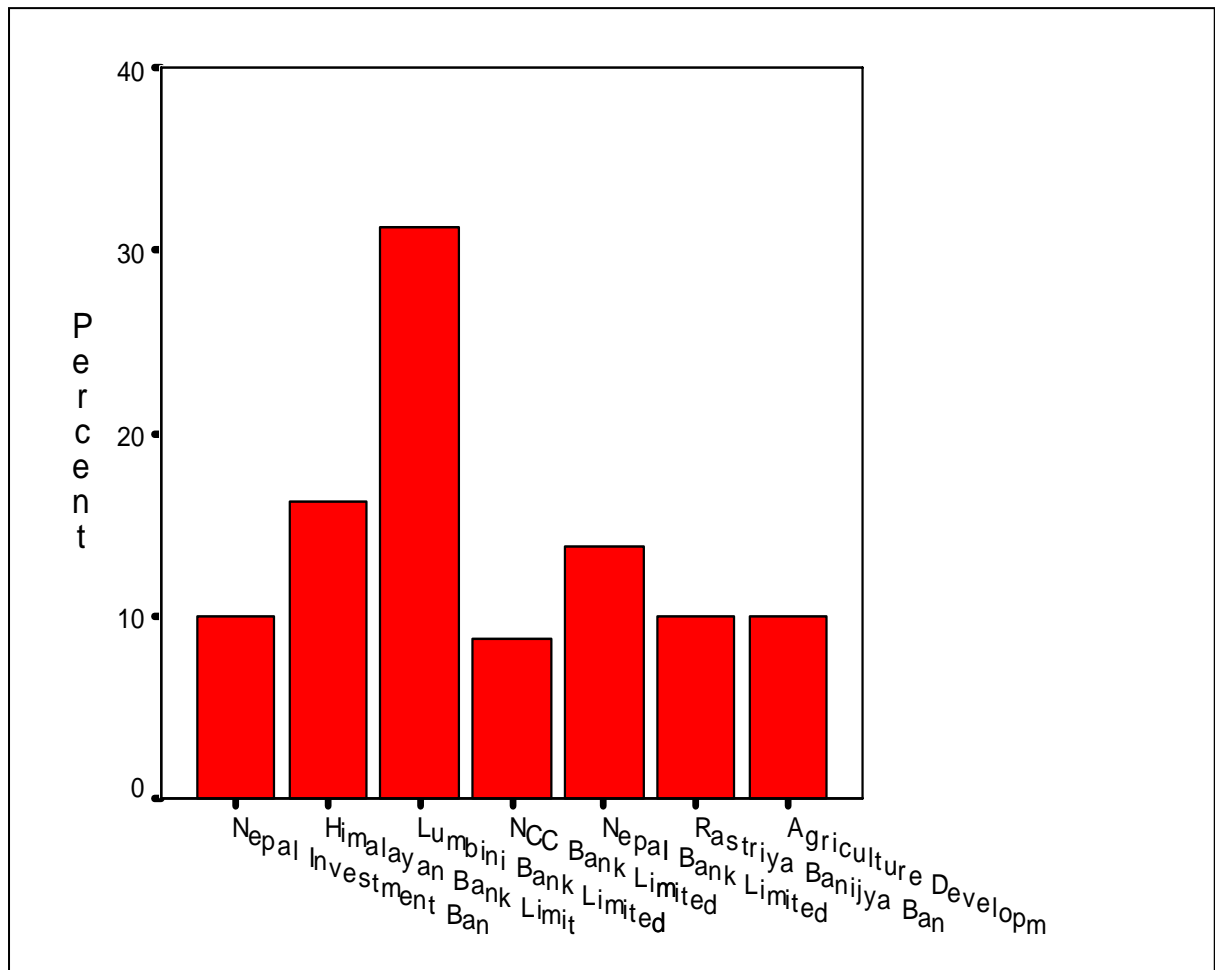


Figure 4.6 Respondents associated with the banks

As the result of above bar diagram, among total sample, 31.3% respondents are currently associated with the LBL, followed by HBL, NBL with 16.3%, 13.8%.

4.2.2 Period of association with banks

Numbers of years that respondents have been associated with the banks were asked in survey in order to find out how loyal they are with their bank. The longer the period they are associated with the bank, the more it depicts either the customers are more satisfied with the banks or the customers have high switching cost. So, it shows the level of customer loyalty with the bank.

Table 4.4 Period of association with banks

Bank	Less than 1 year	1 year - 5 years	More than 5 years	Total
Nepal Investment Bank Limited		7	1	8
Himalayan Bank Limited	5	7	1	13
Lumbini Bank Limited	6	16	3	25
NCC Bank Limited		7		7
Nepal Bank Limited	1	5	5	11
Rastriya Banijya Bank	1	5	2	8
Agriculture Development Bank	1	5	2	8
Total	14	52	14	80

Source: Field 2012

As shown in the table 4.4, among the total respondents, majority of respondents said that they have been associated with the bank since 1 year-5 years. Out of the 80 respondents, 52 are at 1 year-5 years that they have been associated. Among 52 respondents for 1 year- 5 years, 16 are associated with Lumbini Bank Limited followed by 7 respondents respectively with Nepal Investment Bank Limited, Himalayan Bank Limited, and NCC Bank Limited. 5 respondents are associated respectively with Nepal Bank Limited, Rastriya Banijya Bank, and Agriculture Development Bank.

Among 80 respondents, for less than 1 year, 14 respondents have been associated and 14 respondents are at more than 5 years.

The above data has also been presented in pie chart. As per the Figure 4.7, 64% respondents reveal that they are associated with bank since 1 year – 5 years. 18% respondents said that they are associated with bank since less than one year and remaining 18% are associated since more than 5 years.

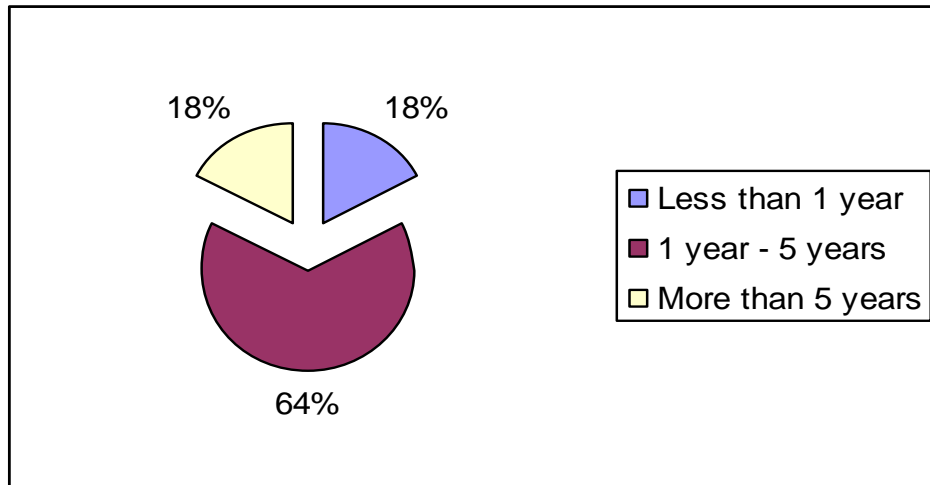


Figure 4.7 Period of association with the banks

4.2.3 Factors affecting loyalty towards the bank

In order to build and maintain the customer loyalty for the bank, there are some factors, which should be maintained in the bank and kept in mind by the banks. So, in survey, factors affecting

Loyalty towards the bank was asked to find out what are those factors that affect customer loyalty.

Table 4.5 Factors affecting loyalty towards the bank

Factors	Frequency	Percent
Quality service provided by the bank	27	33.8
Switching cost	21	26.3
Customer Satisfaction	29	36.3
Goodwill of the bank	3	3.8
Total	80	100

Source: Field 2012

As per the above table 4.5, most of the respondents i.e. 29 respondents said that customer satisfaction is the main factor that should be maintained by the bank. When customers are

satisfied with the bank, they are likely to be remaining loyal. Out of total sample, 27 respondents think that quality service provided by the bank is another factor to affect the customer loyalty because if customers perceive the qualitative service of the bank relatively, they feel satisfied with the bank. Out of total sample, 21 respondents felt switching cost of the bank is one of the factors affecting the loyalty because if switching of bank has high cost, the customer won't switch the bank. So this shows their loyalty. Remaining 3 respondents felt goodwill of the bank as the factor which affects the loyalty towards the bank. The above table 4.5 has also been shown in the figure 4.8.

As per the result of Figure 4.8, out of the total sample, 36.3% respondents said customer satisfaction is affecting factors because they feel that if customers are satisfied with the bank, they will be loyal. Among the total respondents, 33.8% thinks quality service provided by the bank, 26.3% switching cost and 3.8% good will of the bank.

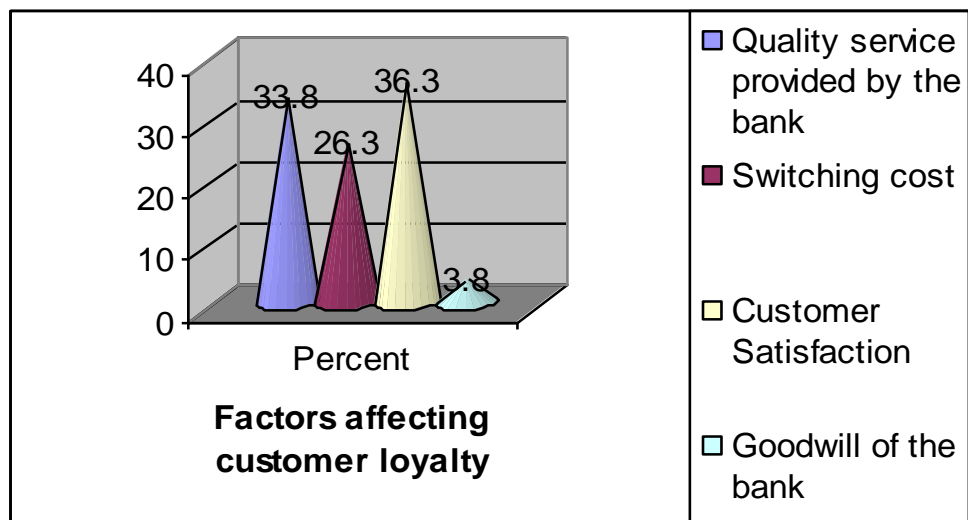


Figure 4.8 Factors affecting loyalty towards the bank

4.2.4 Willingness to change the bank

The willingness to change the bank shows that how much customers are loyal and satisfied with the bank. If customers are loyal for particular service offering after its use, then they are likely to engage in repeat purchase. So, willingness to change the bank was also asked in the survey.

Table 4.6 Willingness to change the bank

Willingness to change bank	Frequency	Percent
Yes	11	13.8
No	69	86.3
Total	80	100

Source: Field 2012

Table 4.6 shows that out of 80 samples, 69 respondents said that they would not like to change the bank. On other hand, 11 respondents said that they would like to change the bank. So, this result depicts that majority of the respondents don't have willingness to change the bank. They are loyal towards their bank.

The above result has also been presented in bar diagram (Fig 4.9). As per the bar diagram, 86.3% respondents don't have willingness to change the bank, whereas 13.8% have willingness to change the bank. It means that they are not satisfied with the bank.

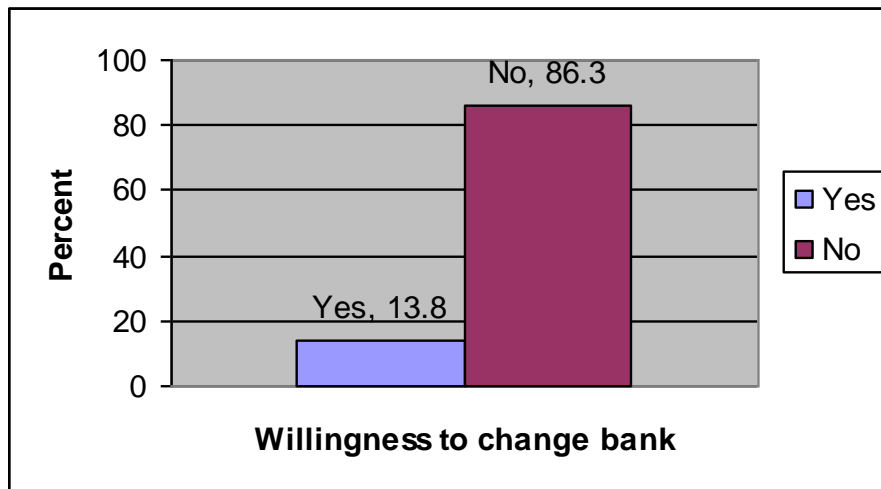


Figure 4.9 Willingness to change the bank

4.2.5 Willingness to recommend the bank

Loyal customers are also likely to tell others about their favorable experiences and thus engage in positive word of mouth advertising. Disloyal customers, on the other hand, are

likely to switch brands and engage in negative word of mouth advertising. So this willingness to recommend the bank also depicts the level of customer loyalty.

Table 4.7 Willingness to recommend the bank

Willingness to recommend bank	Frequency	Percent
Yes	64	80
No	16	20
Total	80	100

Source: Field 2012

As per the above Table 4.7, among the total respondents, 64 respondents said that they would like to recommend the bank to others who seek their advice. On the other hand, 16 respondents said that they would not like to recommend the bank to other. This result also portrays customer loyalty towards their bank.

The result of below bar diagram (Fig. 4.10) shows that 80% respondents have willingness to recommend their bank and remaining 20% respondents don't have willingness to recommend their bank. So, most of the respondents are likely to engage in positive word of mouth advertising.

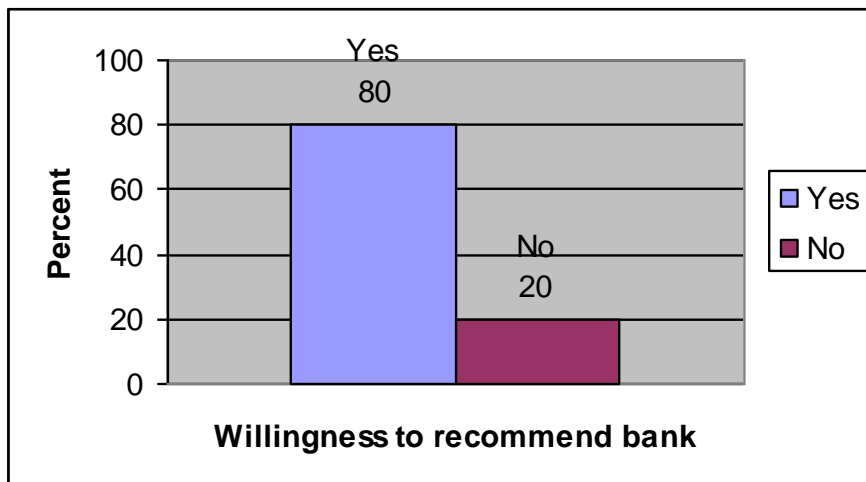


Figure 4.10 Willingness to recommend the bank

4.3 Analysis of customer general expectation

Meeting with customer general expectation was asked in the survey to find out to what extent the bank lives up to customer general expectation. If the bank is able to meet customer general expectation, customers are likely to be satisfied with the bank, so this question shows the level of customer satisfaction.

Table 4.8 Analysis of customer general expectation

Banks	Highly satisfied	Satisfied	Neutral	Dissatisfied	Total
Nepal Investment Bank Limited	2	5	1		8
Himalayan Bank Limited	2	10	1		13
Lumbini Bank Limited	4	16	5		25
NCC Bank Limited	1	5	1		7
Nepal Bank Limited		2	6	3	11
Rastriya Banijya Bank		1	4	3	8
Agriculture Development Bank		5	3		8
Total	9	44	21	6	80

Source: Field 2012

Mean (\bar{x})

Standard Deviation (σ)

2.3

0.7697

The mean value of this questionnaire is 2.3. It interprets that majority of respondents are satisfied with the bank. The result of above table 4.8 shows that 44 respondents are satisfied with their bank. They said that their bank does live up to their general expectation. Out of the total sample, 9 respondents are highly satisfied with meeting their general expectation. On the other hand, 21 respondents are neutral. They are on middle-of-the-road. Among the total sample, 6 respondents are dissatisfied with the bank.

Among the satisfied customer i.e. 44, 16 respondents said that Lumbini Bank Limited lives up to their general expectation and followed by 10 respondents with Himalayan Bank

Limited. Likewise, out of total satisfied respondents, 5 respondents selected respectively Nepal Investment Bank Limited, NCC Bank Limited and Agriculture Development Bank. Most of respondents are dissatisfied with the government bank i.e.3 for Nepal Bank Limited and 3 for Rastriya Banijya Bank.

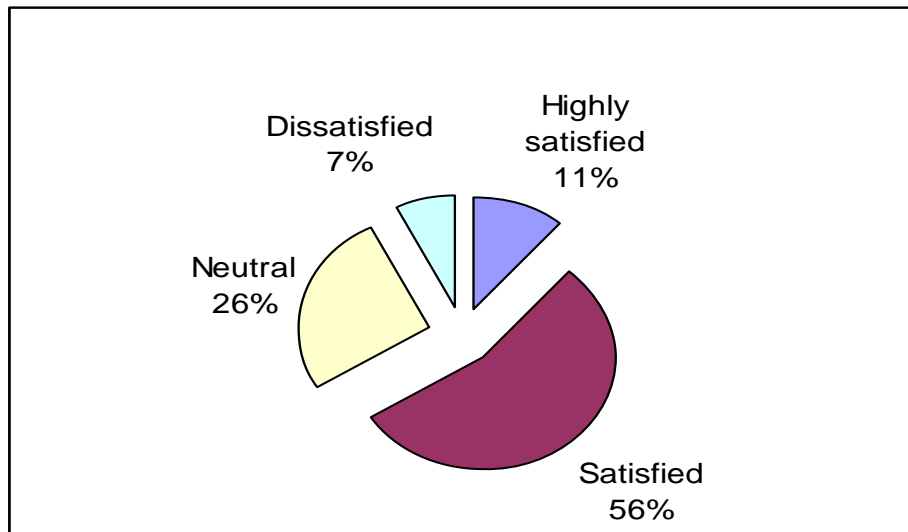


Figure 4.11 Analysis of customer general expectation

The above figure 4.11 shows that 11% respondents reveal that the bank highly lives up to their general expectation. Out of total respondents, 56% respondents are satisfied with the bank, 26% neutral and 7% dissatisfied.

4.3.1 Analysis of level of satisfaction with the bank

Satisfaction and dissatisfaction with the bank was asked with respondents to find out the level of customer satisfaction, as customer satisfaction is an antecedent of customer loyalty. Customer satisfaction has greater weight on customer loyalty. As satisfaction increases, so does loyalty. So, Customer satisfaction and loyalty are critical elements of long-term business growth and profitability.

Table 4.9 Analysis of level of satisfaction with the bank

Banks	Highly satisfied	Satisfied	Neutral	Dissatisfied	Total
Nepal Investment Bank Limited	2	5	1		8
Himalayan Bank Limited	2	10	1		13

Lumbini Bank Limited		20	5		25
NCC Bank Limited		5	2		7
Nepal Bank Limited		3	4	4	11
Rastriya Banijya Bank		2	4	2	8
Agriculture Development Bank		5	3		8
Total	4	50	20	6	80

Source: Field 2012

Mean (\bar{x})

Standard Deviation (σ)

2.35

0.6954

The mean value is 2.35. It depicts that the customers are satisfied with the bank in general. On the survey conducted, 50 respondents said that they are satisfied with the bank. 20 respondents felt that they are neutral. 6 respondents are dissatisfied with the bank while 4 respondents are highly satisfied with the bank.

Among the satisfied customers, 20 respondents said that they are satisfied with Lumbini Bank Limited. Out of the total satisfied customers, 10 respondents said that they are satisfied with Himalayan Bank Limited. Among the dissatisfied respondents, 4 respondents are dissatisfied with Nepal Bank Limited and 2 respondents for Rastriya Banijya Bank. The above result shows that customers are dissatisfied with the government bank as compared to private bank.

Fig.4.12 pie chart shows that out of the total sample, 62% are satisfied with the bank, 25% are neutral. They are neither satisfied nor dissatisfied. 8% are dissatisfied and 5% are highly satisfied with the bank.

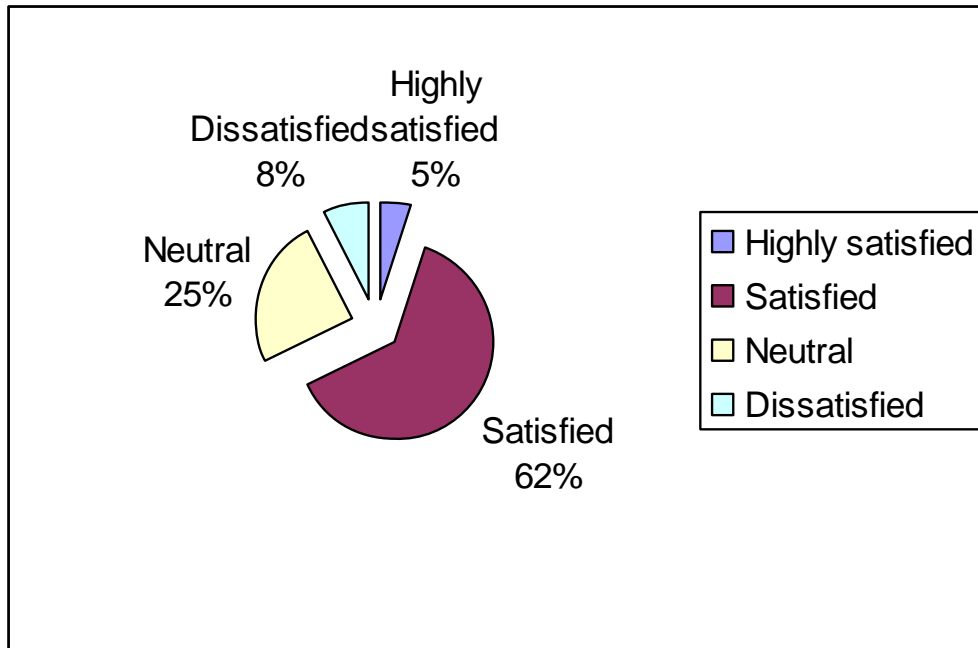


Figure 4.12 Analysis of level of satisfaction with the bank

4.3.2 Factors determining level of satisfaction regarding retail banking

In addition to above findings regarding customer satisfaction, further descriptive findings were analyzed to give more exposure towards the factors that determine the level of satisfaction regarding retail banking. In retail banking, it is basically found that good interest rate, consumer complaint handling, prompt service, reliability, location near from residence, timely information, pleasant office environment and loan procedure are the major factors that determine the level of satisfaction of customer. In survey, respondents were asked to rate from most important factor to least important factor so that we can find out the most preference factor to least preference factor that determine level of satisfaction of customer.

The below table 4.10 shows the list of factors that determine the level of satisfaction. Majority of respondents' rated good interest rate as the most important factor to determine the customer satisfaction. Consumer complaint handling is rated as second important factor followed by reliability, prompt service and loan procedure respectively.

On the other side, pleasant office environment was found to be less important. Likewise, Location near from the residence, timely information was found as least important factor to determine the level of satisfaction.

The below table 4.10 also shows that standard deviation of reliability and loan procedure is 1.43. It depicts that there is much deviation among respondents' view about it, where as standard deviation of prompt service is 0.97, which depicts that there is much deviation among respondents' view about it

Table 4.10 Factors determining level of satisfaction regarding retail banking

Factors	Mean	Standard Deviation
Good Interest rate	1.92	1.06
Consumer complaint handling	2.36	1.40
Reliability	2.97	1.43
Prompt service	3.22	0.97
Loan procedure	3.28	1.43
Pleasant office environment	3.50	1.37
Location near from residence	3.63	1.33
Timely Information	3.92	1.27

Source: Field 2012

Respondents were asked to rank from 1 most important to 5 least important factors determining the level of customer satisfaction.

4.4 Service of the banks

On the conducted survey, service of the bank was also asked to rate, as service of the bank also determines the customer satisfaction. The below table 4.11 shows that 50 respondents rated the service of their bank as good. Out of total sample, 22 respondents rated the service of their bank as neutral and 8 respondents rated as very good. None of the respondents reveal that the service of their bank was bad or very bad.

Among all, 50 respondents rated the service of the bank as good, 19 respondents rated the service of Lumbini Bank Ltd as good since there was highest respondents from Lumbini Bank Ltd followed by Himalayan Bank Ltd and Investment Bank Ltd with 11 respondents and 6 respondents respectively

Table 4.11 Service of the bank

Bank	Very Good	Good	Neutral	Total
Nepal Investment Bank Limited	1	6	1	8
Himalayan Bank Limited	2	11		13
Lumbini Bank Limited	4	19	2	25
NCC Bank Limited	1	5	1	7
Nepal Bank Limited		3	8	11
Rastriya Banijya Bank		2	6	8
Agriculture Development Bank		4	4	8
Total	8	50	22	80

Source: Field 2012

Mean (\bar{x})

Standard Deviation (σ)

2.18

0.5905

The mean value is 2.18, which depicts that majority of respondents rate the service as good.

The above table 4.11 has also been presented in pie chart. As per the figure 4.13, 62% respondents said the service of the bank is good and 28% respondents are neutral regarding service of the bank. Among the total respondents, 10% respondents rated the service of the bank as very good.

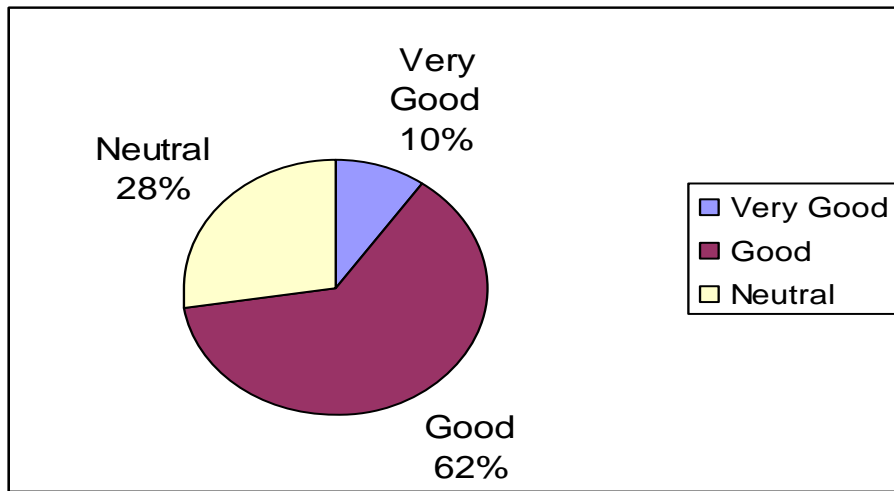


Figure 4.13 Service of the Bank

4.4.1 Satisfaction with employee’s behaviors of the bank.

In survey, employee’s behavior of the bank was asked to find out the service quality provided by the bank. Service quality is closely associated with the customer satisfaction. If customers feel that they are getting quality service from the bank, they are likely to be satisfied from the service. In turn, it also helps to build the customer loyalty. So it is necessary to measure the service quality.

In addition to, when customer feel satisfied with the service of the bank, customer perceived the service relatively superior. So there are two-way relationships between customer satisfaction and service quality, and this has positive effect towards customer loyalty.

Employee’s behavior is one of the important factors in the bank. Willing to help, responding to customer request at the time, providing prompt service, understanding the specific need of customers, showing constantly courtesy to customer are comprised in employee’s behavior. If customers are satisfied with these things, they are likely to be satisfied with employee’s behavior.

Table 4.12 Satisfaction with employee’s behaviors of the bank

Level of Satisfaction	Frequency	Percent
Highly satisfied	6	7.5
Satisfied	54	67.5
Neutral	18	22.5
Dissatisfied	2	2.5
Total	80	100

Source: Field 2012

As per the Table 4.12, it is found that out of the total sample, 54 respondents are satisfied with employee’s behavior of the bank. Among the total sample, 18 respondents said that they are neutral with employee’s behavior. Out of total sample, 6 respondents are highly satisfied and 2 respondents are dissatisfied. The above table has also been presented in figure 4.14.

Fig.4.14 shows that 67.5% respondents satisfied with employee’s behaviors of the bank, 22.5% are neutral, 7.5 % highly satisfied and 2.5% dissatisfied.

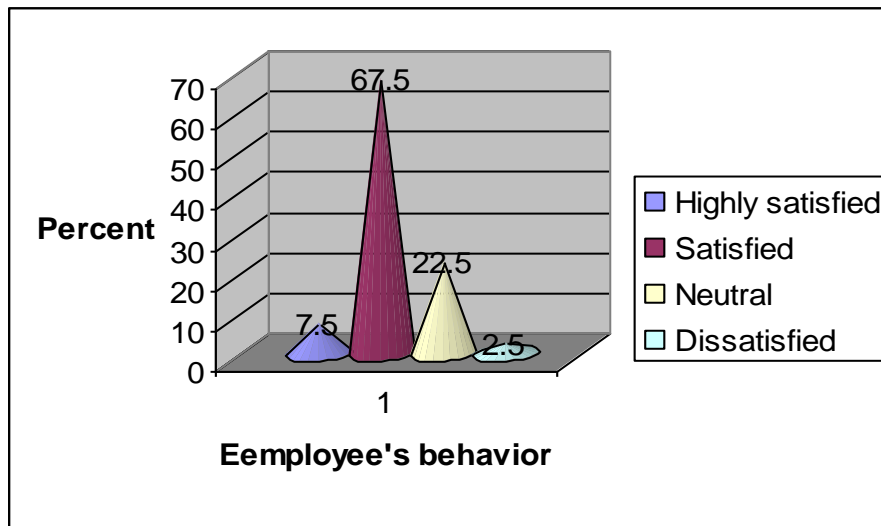


Figure 4.14 Satisfaction with employee’s behaviors of the bank

4.4.2 Quality factors choosing the bank

In addition to this survey questionnaire, quality factors that made the customer choose to bank for retail banking was asked to highlight the quality factor which is most preferred for choosing the bank. Easy loan processing, interest rate, loan period, location of the bank, goodwill of the bank, prompt service and employee's behavior are found to be the most important quality factor to select the bank for retail lending. The respondents were requested to rate from most important to least important in order to know their most preferred quality factor and least preferred quality factor.

The below table 4.13 shows that standard deviation found for goodwill of the bank is 1.3779. It depicts that there is much dispersed customers' view, whereas standard deviation found for prompt service is 0.97, which depicts that, there is not much deviation among customers' view about it.

Table 4.13 Quality factors choosing the bank

Quality Factors	Mean (\bar{x})	Standard Deviation (σ)
Interest rate	2.3288	1.2025
Easy loan processing	2.4085	1.2826
Goodwill of the bank	2.5577	1.3779
Loan period	3.0588	1.2564
Location of the bank	3.3492	1.3339
Employee's behaviors	3.9024	1.2001
Prompt service	4.5	0.9924

Source: Field 2012

Respondents were asked to rank from 1 most important to 5 least important quality factors for choosing the bank.

The above table 4.13 list quality factors. The result shows that interest rate and easy loan processing are important quality factor for retail banking. It is because when customers need the loan, they generally pay attention towards interest rate and easy loan processing. If

interest rate is high and loan processing is longer and difficult, they would not prefer the bank. Goodwill of the bank, loan period and location of the bank are another consideration for choosing the bank. but respondents are found indifferent towards goodwill of the bank, loan period, and location of the bank.

On the other side, prompt service and employee’s behavior are found less important for selecting the bank for retail banking.

4.4.3 Providing service at the time the bank promises

As per the below table 4.14, we can see that out of 80 samples, 62 respondents said that the bank provide the service at the time it promises to do so where as 18 respondents said that the bank don’t provide the service at time. This result depicts that customers are satisfied with the prompt service of the bank.

Table 4.14 Providing service at the time the bank promises

Prompt service	Frequency	Percent
Yes	62	77.5
No	18	22.5
Total	80	100

Source: Field 2012

The above result has also been presented in (Fig.4.15).

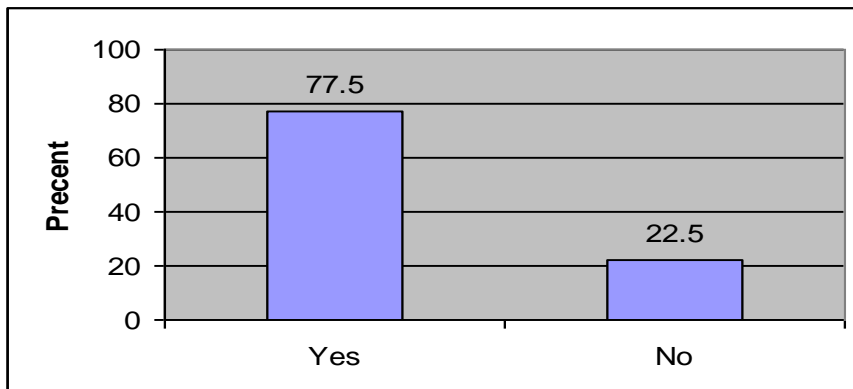


Figure 4.15 Providing service at the time the bank promises

The above diagram 4.15 shows that 77.5 % respondents said that they have prompt service where as 22.5% respondents said that the bank don't have prompt service.

4.5 Switching the bank

It is found that willingness to switch the bank also depicts the level of customer loyalty. When consumers switch from one supplier to another, consumers are forced to incur costs. These costs are called switching costs. Switching cost could be search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional cost, financial risk, social risk and psychological risk on the part of the buyer. Because of the switching cost, customers are compelled to associate with bank. As a result, it also depicts the level of customer loyalty.

Table 4.15 Switching the Bank

Switching the bank	NIB	HBL	LBL	NCC	NBL	RBB	ADB	Total
Yes	1	2	5		3	3		14
No	7	11	20	7	8	5	8	66
Total	8	13	25	7	11	8	8	80
% of switching the bank	12.50	15.38	20.00	0.00	27.27	37.50	0	17.50
% of not switching the bank	87.50	84.62	80.0	100.0	72.73	62.50	10.00	82.50

Source: Field 2012

From the above Table 4.15, we can see that among the total samples, 66 respondents said that they have never switched the bank. On the other hand, 14 respondents said that they have already changed the bank. Switching the bank shows that customer are not satisfied with the bank.

Rastriya Banijya bank has 37.5% respondents switching the bank and followed by the Nepal Bank Ltd, Lumbini Bank Ltd, Himalayan Bank Ltd and Nepal Investment Bank Ltd with respectively 27.27%, 20%, 15.38%, and 12.50%.

NCC Bank Ltd and Agricultural Development Bank's respondent don't want to change the bank. Nepal Investment Bank has 87.50% respondents who have not switched the bank. Similarly, 84.62% respondents for Himalayan Bank Limited, 80% Lumbini Bank Ltd, 72.73% for Nepal Bank Ltd, and 62.5% for Rastriya Banijya bank.

The above data has been presented in pie chart. (Fig.4.16)

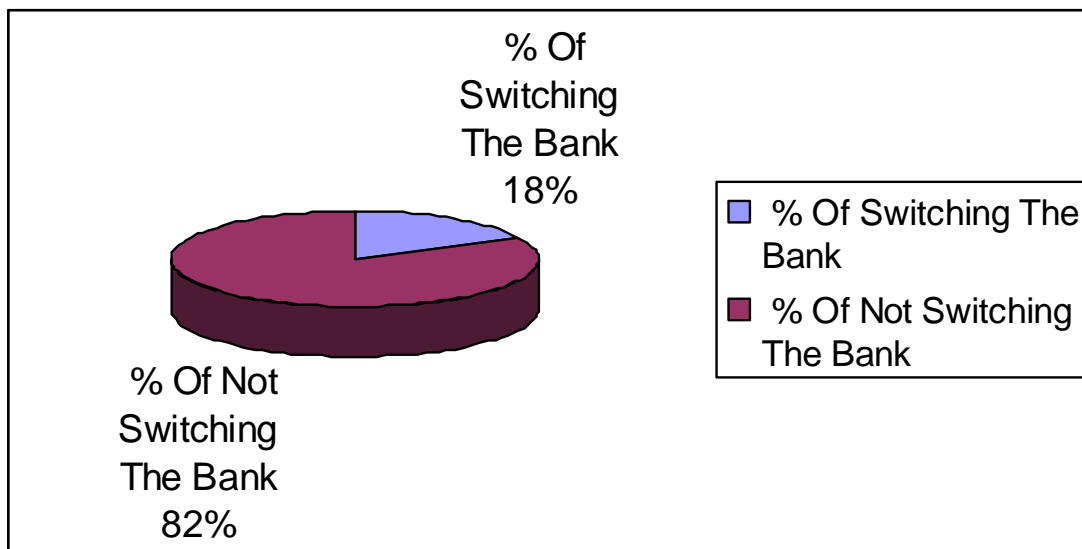


Figure 4.16 Switching the bank

According to (Fig. 4.16) above pie chart, 82% respondents have not switched the bank and 18% respondents have switched the bank.

4.5.1 Factors to switch the bank

Part of switching costs may involve loyalty benefits that have to be given up by a customer when his or her relationship with the service provider ends. There are some factors, which compel customers to switch the bank. On the conducted survey, we found some factors such as loan processing, interest rate, location of the bank, goodwill of the bank and employees behavior that made the customers to switch the bank.

The below table 4.16 shows that there are 14 respondents who have switched the bank. Out of the total respondents having switched the bank, 5 respondents switched the bank because of

loan processing and 4 respondents switched, as they are not satisfied with interest rate. Similarly, 3 respondents said that goodwill of the bank made them to switch the bank where as employee behaviors is another factor to switch the bank which accounts for 2 respondents.

Table 4.16 Factors to switch the bank

Factor	Yes
Loan processing	5
Interest rate	4
Goodwill of the bank	3
Employee behaviors	2
Total	14

Source: Field 2012

Table 4.16 has also been drawn in bar chart.

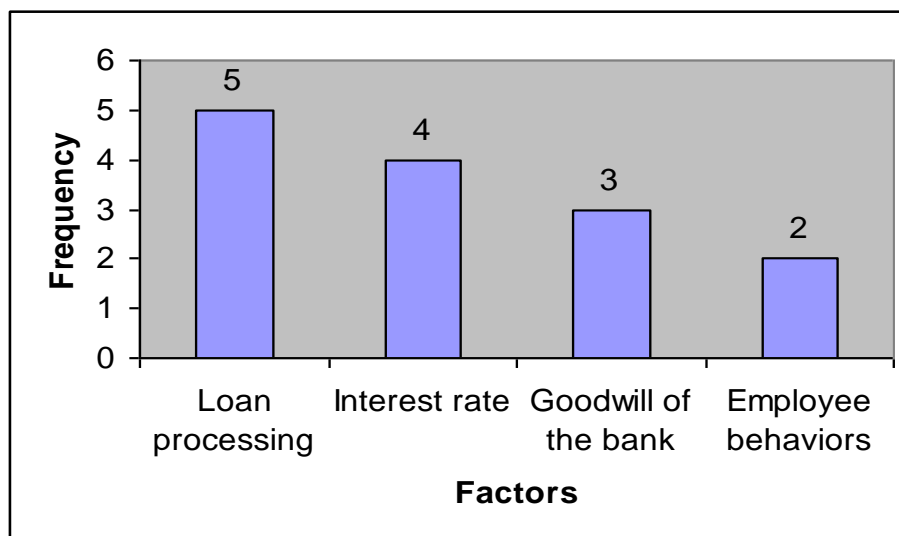


Figure 4.17 Factors to switch the bank

The above bar chart fig.4.17 shows that in retail banking, most of respondents pay attention to loan processing and interest rate as these two factors play crucial role in deciding whether to hold loan from the bank or not.

4.5.2 Factors not to switch the bank

When the costs of switching bank are high for the customer, there is a greater probability that the customer will remain loyal in terms of repeat purchase behavior, because of the risk or expense involved in switching and because of the accompanying decrease in the appeal of other alternatives. In survey, factors not to switch the bank were asked to know the factors that make the customer remain loyal towards the bank.

Table 4.17 Factors not to switch the bank

Factors	No
Time in searching for information about other banks	18
Effort in deciding other bank to use	16
Risk in choosing another bank	31
Relation with management	2
Total	67

Source: Field 2012

The result of above table 4.17 shows that 67 respondents have not changed to another bank. Among the total respondents having not switched the bank, 31 respondents have not changed the bank because of risk in choosing another bank which might turn out not to satisfy. Out of total sample, 18 respondents said that searching for information about other banks takes more time. That's why they don't want to change to another bank. Similarly, effort is also another factor. Among the total sample, 16 respondents said that they have not changed the bank because of the effort in deciding other bank to use. On the other hand, 2 respondents said that relationship with management and staffs also made not to switch the bank.

The above data has been shown in Fig. 4.18 bar diagram.

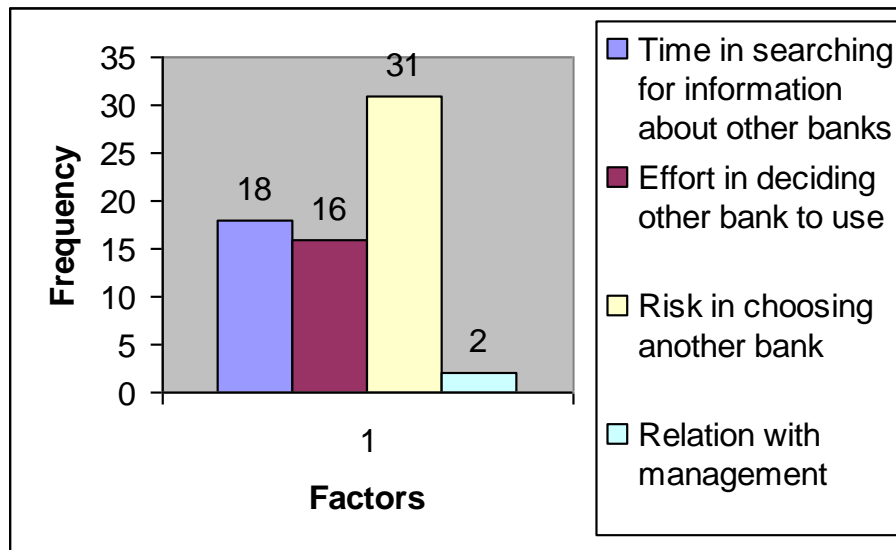


Figure 4.18 Factors not to switch the bank

The result of above figure 4.18 depicts that risk in choosing another factor is main factor that make the customer loyal to the bank. It also depicts when cost of switching the bank is higher, the customer remain loyal.

4.6 Test of Hypothesis

Some hypotheses were formulated for testing. In order to test these hypotheses, chi-square test was used. The Chi-square tests were calculated at 5% level of significance.

4.6.1 Relationship between age and willingness to change the bank

A hypothesis has been set to find out whether there is relationship between Age and willingness to change bank. Chi-square test has been carried out.

Table 4.18 Relationship between age and willingness to change the bank

Age	Willingness to change bank		Total
	Yes	No	
20-30 years	4	34	38
31-40 years	4	25	29
Above 40 years	3	10	13
Total	11	69	80

Source: Field 2012

Null Hypothesis (H_0): There is no relationship between age and willingness to change bank.

Alternative Hypothesis (H_1): There is a relationship between age and willingness to change bank.

Pearson Chi-Square

Level of significance (α)	Degree of freedom (df)	P-value
0.05	2	0.526

With 5% level of significance, degree of freedom being 2, the p-value is 0.526. Since p-value of 0.526 is greater than level of significance 0.05, we accept the null hypothesis. So, there seems no relationship between age and willingness to change bank.

The table shows that between age of 20-30 years, 34 respondents said that they would like to change the bank while only 4 respondents have willingness to change the bank. In age group of 31-40 years, 25 respondents said that they don't have willingness to change the bank while 4 respondents said that they have willingness to change the bank. Among the respondents who are above 40 years, 10 respondents would not like to change the bank where as only 3 respondents would like to change the bank.

We can see that willingness to change the bank doesn't seem to differ with age. So, there does not exist the relationship between willingness to change the bank and age group.

4.6.2 Relationship between category of retail loan and level of satisfaction.

A hypothesis has been set to find out whether there is a relationship between category of retail lending and level of satisfaction. Chi-square test has been carried out.

Table 4.19 Level of satisfaction with category of retail loan

Level of Satisfaction					
Category of Retail Loan	Highly satisfied	Satisfied	Neutral	Dissatisfied	Total
Home loan		7	4	1	12
Auto loan		7	3		10
Education loan		6	3	2	11
Personal loan	1	8	5		14
Business loan	3	19	4	3	29
Agriculture loan		3	1		4
Total	4	50	20	6	80

Source: Field 2012

Null Hypothesis (H_0): There is no relationship between Category of retail lending and level of satisfaction.

Alternative Hypothesis (H_1): There is a relationship between Category of retail lending and level of satisfaction

Pearson Chi-Square

Level of significance (α)	Degree of freedom(df)	P-value
0.05	15	0.771

With 5 percent level of significance, degree of freedom being 15, the p-value is 0.771. Since p-value of 0.771 is greater than level of significance 0.05, we accept the null hypothesis. So, there is no relationship between Category of retail lending and level of satisfaction.

We can see in table, among 29 respondents for business loan, 19 respondents seem to be satisfied. In personal loan, among the 14 respondents, 8 respondents said that they are satisfied with the bank while 12 respondents for home loan, 7 respondents are satisfied with

the bank. For education loan, among 11 respondents, 6 respondents said that they are satisfied with the bank, among 10 respondents for auto loan, 7 are satisfied with the bank and among 4 respondents, and 3 are satisfied.

This result shows according to category of retail lending, level of satisfaction do not change. So there seems to be no relationship between Category of retail lending and level of satisfaction.

4.6.3 Relationship between banks currently associated and level of satisfaction.

Another hypothesis has been set to find out relationship between bank currently associated and level of satisfaction. Chi-square test has been carried out.

Table 4.20 Banks currently associated and level of satisfaction.

Level of satisfaction					
Banks	Highly satisfied	Satisfied	Neutral	Dissatisfied	Total
Nepal Investment Bank Limited	2	5	1		8
Himalayan Bank Limited	2	10	1		13
Lumbini Bank Limited		20	5		25
NCC Bank Limited		5	2		7
Nepal Bank Limited		3	4	4	11
Rastriya Banijya Bank		2	4	2	8
Agriculture Development Bank		5	3		8
Total	4	50	20	6	80

Source: Field 2012

Null Hypothesis (H_0): There is no relationship between Bank currently associated with and level of satisfaction.

Alternative Hypothesis (H_1): There is relationship between Bank currently associated with and level of satisfaction.

Pearson Chi-Square

Level of significance (α)	Degree of freedom (df)	P-value
0.05	18	0.001

With 5 percent level of significance, degree of freedom being 18, the p-value is 0.001. Since p-value of 0.001 is less than level of significance 0.05, we accept the alternative hypothesis. So, there exists relationship between Bank currently associated with and level of satisfaction.

4.6.4 Relationship between respondent's age and factors affecting loyalty.

Another hypothesis has been set to find out relationship between respondent's age and factors affecting loyalty. Chi-square test has been carried out.

Table 4.21 Respondent's age and factors affecting loyalty

Factors affecting Loyalty					
Age	Quality service provided by the bank	Switching cost	Customer satisfaction	Goodwill of the bank	Total
20-30 years	14	8	16		38
31-40 years	8	11	8	2	29
Above 40 years	5	2	5	1	13
Total	27	21	29	3	80

Source: Field 2012

Null Hypothesis (H_0): There is no relationship between respondent's age and the factors affecting loyalty towards the bank.

Alternative Hypothesis (H_1): There is a relationship between respondent's age and the factors affecting loyalty towards the bank.

Pearson Chi-Square

Level of significance (α)	Degree of freedom (df)	P-value
0.05	6	0.349

With 5 percent level of significance, degree of freedom being 6, the p-value is 0.349. Since p-value of 0.349 is greater than level of significance 0.05, we accept null hypothesis. So, there is no relationship between respondent's age and the factors affecting loyalty towards the bank.

The above table shows that most of all age group respondents said customer satisfaction is main factor affecting loyalty and followed by service provided by the bank, switching cost, goodwill of the bank. Hence, the factors affecting loyalty don't depend on age group.

4.6.5 Relationship between profession and the choice of bank for retail lending.

Another hypothesis has been set to find out relationship between profession and the choice of bank for retail lending. Chi-square test has been carried out.

Table 4.22 Choice of the bank for retail lending according to Occupation

Occupation	Banks							Total
	NIB	HBL	LBL	NCC	NBL	RBB	ADB	
Teacher	1	2	1			2		6
Business	6	7	18	5	7	5	3	51
Student		3	2	1	1		1	8
Service	1	1	4	1	3	1		11
Farming							4	4
Total	8	13	25	7	11	8	8	80

Source: Field 2012

Null Hypothesis (H_0): There is no relationship between Profession and the choice of bank for retail lending

Alternative Hypothesis (H_1): There is a relationship between Profession and the choice of bank for retail lending.

Pearson Chi-Square

Level of significance (α)	Degree of freedom (df)	P-value
0.05	24	0.001

With 5 percent level of significance, degree of freedom being 24, the p-value is 0.001. Since p-value of 0.001 is less than level of significance 0.05, we accept null hypothesis. So, there is no relationship between Profession and the choice of bank for retail lending.

In this chapter, many analytical tools were employed. In this study, it is found that customer satisfaction is main factors affecting loyalty towards the bank. The study shows that majority of respondents in Narayangarh were associated with the Lumbini bank. In regards to factors determining level of satisfaction, good interest rate is most important factors .In regard to quality factors that made to choose the bank, interest rate and easy loan processing are important quality factors for retail banking. The study also shows that the respondents changed the bank because of loan processing and interest rate. In this chapter, chi-square test

has been carried out to find out the relationship between independent and dependent variables. According chi-square test, there exists relationship between currently associated with bank and level of satisfaction.

4.7 Major Findings of the Study

1. It is also found that the factors affecting loyalty towards the bank don't depend upon respondent's age, so there seems to be no relationship between factors affecting loyalty and respondent's age.

2. In the Chi-square test, there seems no relationship between age and willingness to change the bank.

3. The research concludes that there is no relationship between occupation and the choice of bank for retail lending. According to profession, the choice of bank for retail lending does not occurred to change.

4. On the survey conducted among 80 respondents, 62 respondents were male and 18 respondents were female. Among total sample, 31.3% respondents are currently associated with the LBL, followed by HBL, NBL with 16.3% and 13.8% respectively. As per the study, majority of respondents have been associated with the bank since 1 to 5 years. Among the total respondent 64% respondents are associated with bank since 1 to 5 years whereas 18% respondents are associated with the bank for less than one year and remaining 18% are associated for more than 5 years.

5. In regard to quality factors that made to choose the bank, interest rate and easy loan processing are important quality factor for retail banking. Goodwill of the bank, loan period and location of the bank are another consideration for choosing the bank. But respondents are found indifferent towards goodwill of the bank, loan period, and location of the bank. On the other side, prompt service and employee's behavior are found less important for selecting the bank for retail banking.

6. The research also found that 77.5 % respondents have received the service at the time it promises to do whereas, 22.5% respondents reveal that the banks do not provide prompt services.

7. In regards to factors determining level of satisfaction, Most of the respondents that were surveyed rate good interest rate. Consumer complaint handling is rated as second important factor followed by reliability, prompt service and loan procedure respectively. On the other

side, pleasant office environment was found to be less important. Likewise, location near from the residence, timely information was found as least important factor to determine the level of satisfaction.

8. The study concludes that the respondents changed the bank because of loan processing and interest rate. It is found that loan processing and interest rate are the major factors to switch the bank.

9. It is found that customer satisfaction is the main factor affecting loyalty towards the bank. However, 36.3% respondents reveal that customer satisfaction is affecting various factors because they feel that if customers are satisfied with the bank, they will be loyal, whereas. 33.8% thinks that quality service provided by the bank, 26.3% thinks switching cost and 3.8% thinks good will of the bank.

10. Service quality and customer satisfaction are closely related. Service quality and customer satisfaction are the major influencing factor of customer loyalty. Employee behavior is one of the factor of service quality. From survey, we came to conclude that 67.5% respondents are satisfied with employee's behaviors of the bank whereas, 22.5% are neutral, 7.5 % are highly satisfied and 2.5% are dissatisfied.

11. It is found that risk in choosing another bank might turn out not to satisfy as the major factor that made not to switch the bank. Similarly, most of the respondents also state that searching for information about other banks, effort used in deciding other bank to choose, relationship with management/staff are also other factors that made them not to switch the bank.

12. The finding shows that there exists relationship between the bank currently associated with and the level of satisfaction. The type of bank also determines the level of satisfaction.

13. The study stated that according to category of retail lending, level of satisfaction do not change, so there seems to be no relationship between category of retail lending and level of satisfaction.

14. The mean value of 2.18 depicts that majority of respondents rate the services as good. The study shows that, 62% respondents reveal that the service of the bank is good and 28% respondents are neutral regarding the service of the bank. 10% respondents rated the service of the bank as very good.

Furthermore, other major findings derived from the analysis and interpretations of the data are:

Majority of respondents in Narayangadh were associated with Lumbini Bank Ltd. and the respondents belong to various nature of occupation. In general, customers were found satisfied with the commercial banks. Interest rate and easy loan processing were found to be the most important quality factors to select the bank for retail banking. Interest rate was found to be the most important feature determining the level of satisfaction for retail banking. Customer satisfactions were found as the main factors affecting loyalty followed by service quality of the bank.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This final chapter discusses the findings of summary, conclusions and recommendations. The major findings are drawn from above analysis of data and conclusions are also drawn. Lastly, based on major findings and conclusions, recommendations have been provided.

5.1 Summary

This study has been carried out in order to find out the level of customer loyalty in retail banking market. In today's competitive world, retaining the old customer incurs less cost than acquiring new customers. So, the concept of building customer loyalty has been emerging in the market. The study has been carried out in the context of retail banking as the banks are becoming from product oriented to customer oriented. And it is also a context where contract-based relationships are generally formed and aimed for. Moreover, the retail banking has gone through important changes, which have created challenges for maintaining customer loyalty. In such a situation, a study of customer loyalty should have managerial relevance.

In order to support this study, antecedents of customer loyalty also have been discussed in this paper. Customer satisfaction, perceived quality and switching cost are main influencing factors, which measures the level of customer loyalty.

Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. If customers are satisfied with a particular service offering after its use, then they are likely to engage in repeat purchase and try line extensions. Customer satisfaction is widely recognized as a key influence in the formation of customer loyalty.

It is very difficult to measure the service of quality. However, a concept which is very closely related with satisfaction is perceived quality. When customers are satisfied with the service, they perceived the relative superior service. As a result, they are likely to be loyal. There is little difference between satisfaction and service quality. Satisfaction requires previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience.

Another antecedent of customer loyalty is switching cost. When a consumer faces switching costs, the rational consumer will not switch to the supplier offering the lowest price if the

switching costs in terms of monetary cost, effort, time, uncertainty, and other reasons, outweigh the price differential between the two suppliers. So, when cost of switching is high, the customers remain loyal.

In order to achieve the objective, the specific area i.e. Narayangadh area has been selected for conducting survey since it is centrally located and gradually growing place in business perspective. For this study, mainly primary data has been collected. The survey was conducted among various respondents such as businessmen, students, teachers, and jobholders. Various statistical tools have been used to analyze the data. Moreover, chi-square test has been carried out to find out the relationship between dependent and independent variables.

Three major aspects of the study are discussed in this chapter. At the beginning, all the findings have been summarized and some conclusions have been drawn up based on findings. This chapter is very important in the sense that (a) it shows the result what was observed during research (b) it concludes the finding in an understanding form and (c) it provides clues of suggestion and recommendation to the concerned authorities as well as the practitioners and academicians. The recommendation presented in the last part of this chapter considering major finding. The recommendation presented will certainly be proved as milestone to improve the existing condition in this field

5.2 Conclusions

Customer loyalty has long been a topic of high interest in both academia and practice, and a loyal customer base has been found to be beneficial for the bankers. The study aims to identify the level of customer loyalty and factors that affect customers becoming loyal to the bank. The study was carried out in context of the retail banking market of Nepal.

In this regard, Customer loyalty has become a buzzword of the marketing industry. In this context, the study of customer loyalty in retail banking market have little importance as banks are constantly trying to increase their brand awareness by promoting loyalty schemes, making more and more people take their services. However, banks are not gaining success to win the hearts and minds of their customers.

This study (customer loyalty) has brought some facts into light. The research has carried on customer satisfaction, perceived quality and switching cost which are the factors affecting customer loyalty. It shows that customers are satisfied with the bank and live up to their general expectation. The study contributes in identifying factors determining the level of

satisfaction in retail banking. The study stated that good interest rate and consumer complaint handling are the most important factors determining level of satisfaction. The study also deals with quality factor that made to choose the bank. The study shows that interest rate and easy loan processing are the important quality factor while selecting the bank for retail banking. Besides that, it also deals with factors making switch the bank and factors making not to switch the bank.

The study also tried to find out relationship between various variables by using chi –square test. In the chi square test, there seems no relationship between age and willingness to change the bank, There seems to be no relationship between category of retail lending and level of satisfaction. Similarly, it is found that factors affecting loyalty towards the bank do not depend upon respondent’s age. However, finding shows that there exists relationship between bank currently associated with and level of satisfaction. Likewise, the research also shows that there is no relationship between profession and the choice of retail lending.

More studies are recommended to be conducted to delve deeper in the topic “CUSTOMER LOYALTY IN THE RETAIL BANKING MARKET OF NEPAL” because the present study due to time and data constraint have not been able to analyze each and every aspect relating to the “CUSTOMER LOYALTY IN THE RETAIL BANKING MARKET OF NEPAL”, though personally I am benefited a lot as it has helped me gain diverse knowledge and acquaintances in this subject matter. Similarly it is an academically very significant topic having practical relevance for bankers, bank management, students and other individuals like customers or investors.

5.3 Recommendations

Since, the research has been carried to find out the level of customer loyalty in retail banking market, the study has also identified the factors influencing customer loyalty. Furthermore, the study also deals with customer satisfaction, perceived quality and switching cost. After drawing conclusions and findings, there are some recommendations regarding the customer loyalty in the retail banking market of Nepal.

Some recommendations that have been made for the banks are:

1. Profit earning has been always main purpose of the bank but banks can not afford to lose its loyal customer for earning immediate gains. The decision should rather be based on long term benefit.
2. Banks are focusing on acquiring new customer rather than retaining old customer. It costs five times more to gain a new customer than to keep an old one. So banks should focus on building customer loyalty. In order to build customer loyalty, the bank should also build employee loyalty; give employee training so that employee can make decisions that benefit the customer, and also pass their loyalty towards customers.
3. In today's competitive marketplace, customer loyalty is vital. Loyalty marketing programs should be tailored to meet unique objectives and marketplace challenges, as relationships make loyal customers, bank management should acknowledge the longevity of customers' relationships with the bank or their personal milestones such as birthdays, anniversaries e.t.c. Bank should not make biasness among the customers.
4. While preparing this study it has been experienced that due to unexpected increment in interest rate, customers tend to lose their financial balance and from there they face problem. This results bad impact in bank's reputation and further they also search for other alternatives too. This has been serious problem for most of the customer so far; therefore banks should take this matter seriously and act accordingly to retain the customers.
5. As customers pay attention on interest rate and easy loan processing while holding the loan, all the banks should focus on interest rate and easy loan processing in order to increase satisfaction level in retail banking.
6. As customer satisfaction has greater weight to build customer loyalty, banks should focus on building customer satisfaction
7. Customer always expects more from their bank. So, the bank should come up with new ideas and facilities to their customer.

Some recommendations have been made for the future research:

1. The researcher has taken a sample size of 80 respondents for research purpose. This sample size in itself may not be optimal sample size to represent the level of customer loyalty. Furthermore, the researcher has only focused within Narayangadh area. So, in order to get better picture of subject matter, it is better to conduct the study by taking large sample size and other various location.

2. The researcher has only tried to find out customer loyalty of retail banking market. The study has only been limited with the banking industry. There is also various other areas within banking industry. Moreover, there are also other industries in which we can find out the customer loyalty
3. In this study, the researcher has taken customer satisfaction, switching cost and perceived quality as main factors affecting loyalty. There may be other factors, which should be taken into consideration as factors affecting loyalty.

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APPENDIX : I

QUESTIONNAIRE
CUSTOMER LOYALTY IN THE RETAIL BANKING
MARKET OF NEPAL

(A Case study of retail banking market of Narayangadh city)

Marital status:.....

Sex:

Occupation:

1. Age:

- Below 20 years old []
- 20 – 30 years old []
- 31 – 40 years old []
- Above 40 years old []

2. Income Level:

- Less than Rs. 5,000 []
- Rs. 5,000 – Rs. 10,000 []
- Rs. 10,001 – Rs. 20,000 []
- Rs. 20,001 – Rs. 30,000 []
- Above Rs. 30,000 []

3. Please state the category of your retail lending:

- Home Loan []
- Auto Loan []
- Education Loan []
- Personal Loan []
- Other (please specify).....

4. In which of the following bank/s are you associated with?

	Yes	No
Standard Chartered Bank Limited	[]	[]
Nepal Investment Bank Limited	[]	[]
NABIL	[]	[]
Himalayan Bank Limited	[]	[]
Kumari Bank Limited	[]	[]
Laxmi Bank Limited	[]	[]
Lumbini Bank Limited	[]	[]
Nepal Credit and Commerce (NCC) Bank Limited	[]	[]
Nepal Bank Limited	[]	[]
Rastriya Banijya Bank	[]	[]
Other (Please specify)		

5. How many years have you been associated with the bank?

Less than 1 year	[]
1 year – 5 years	[]
More than 5 years	[]

6. Which of the following banks would you consider as your first choice for retail banking? (Please tick one)

Standard Chartered Bank Limited	[]
Nepal Investment Bank Limited	[]
NABIL	[]
Himalayan Bank Limited	[]
Kumari Bank Limited	[]
Laxmi Bank Limited	[]
Lumbini Bank Limited	[]

- Nepal Credit and Commerce (NCC) Bank Limited []
- Nepal Bank Limited []
- Rastriya Banijya Bank []
- Other (Please specify)

7. Which of the following factors determine your level of satisfaction regarding retail banking?

(Rate Most important =1, Important = 2, Neutral = 3, Less important = 4, Least important = 5)

Good interest rate

- Consumer complaint handling []
- Prompt service []
- Reliability []
- Location near from residence []
- Timely information []
- Pleasant office environment []
- Loan procedure []

8. How do you rate the service of the bank?

- Very good []
- Good []
- Neutral []
- Bad []
- Very bad []

9. Would you like to change the bank?

Yes []

No []

10. Would you recommend the bank to someone who seeks your advice?

Yes []

No []

11. To what extent does the bank live up to your general expectation?

Highly satisfied []

Satisfied []

Neutral []

Dissatisfied []

Highly dissatisfied []

12. Did you ever complain to the bank management about employee's behaviors'?

Yes []

No []

13. If yes, what do you feel about the complain hearing by the bank?

Highly satisfied []

Satisfied []

Neutral []

Dissatisfied []

Highly dissatisfied []

14. Which of the following quality factors made you choose the bank?

(Rate Most important =1, Important = 2, Neutral = 3, Less important = 4, Least important = 5)

Easy loan processing []

Interest rate []

- Loan period []
- Location of the bank []
- Goodwill of the bank []
- Prompt service []
- Employee behaviors []
15. Does the bank provide its service at the time it promises to do so?
- Yes []
- No []
16. Have you ever changed the bank?
- Yes []
- No []
17. If yes, which of the following factors made you to switch the bank?
- Loan processing []
- Interest rate []
- Location of the bank []
- Goodwill of the bank []
- Employee behaviors []
- Other (please specify).....
18. If no, which of the following factors made you not to change to another bank?
- Time in searching for information about other banks []
- Effort in deciding other bank to use []
- Risk in choosing another bank which might turn out not to satisfy []
- Other (please specify).....
19. If you are not satisfied with the bank's services, would you like to switch the bank?
- Yes []

No

[]

Thank You.