

# **FACTORS AFFECTING CUSTOMER RETENTION IN NEPALESE COMMERCIAL BANKS**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial  
fulfillment of the requirements for the Master's Degree

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## **Certification of Authorship**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“Factors Affecting Customer Retention in Nepalese Commercial Banks”**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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### Report of Research Committee

Ms. Bina Singh has defended research proposal entitled “**Factors Affecting Customer Retention in Nepalese Commercial Banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Asso. Prof. Dr. Kapil Khanal Submit the thesis for evaluation and viva-voce examination.

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## Approval Sheet

We, the undersigned, have examined the thesis entitled “**Factors Affecting Customer Retention in Nepalese Commercial Banks**” Presented by Bina Singh Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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## Abbreviations

BE	: Behavior of Employees
CC	: Customer Convenience
CH	: Customer Handling
CR	: Customer Retention
CRM	: Customer Relationship Management CS : Customer Satisfaction
CV	: Coefficient of Variation
PV	: Perceived Service Value
SB	: Switching Barriers
SD	: Standard Deviation
SERVQUA	: Service Quality

## Abstract

The study explores the factors influencing customer retention in Nepalese commercial banks, focusing on perceived service value, employee behavior, complaint handling, customer convenience, switching barriers, and customer satisfaction. Correlation analysis reveals significant positive relationship between customer retention and factors like perceived service value ( $r = 0.522$ ), employee behavior ( $r = 0.495$ ), complaint handling ( $r = 0.492$ ), customer convenience ( $r = 0.587$ ), and customer satisfaction ( $r = 0.793$ ). However, no significant relationship is found between switching barriers and customer retention ( $r = 0.036$ ,  $p = 0.660$ ). The regression analysis, with an adjusted R-squared value of 0.653, indicates that 65.3% of the variation in customer retention is explained by the independent variables, while 34.7% is attributed to other factors like marketing, pricing, and customer interactions. ANOVA confirms the model's appropriateness, and behavior of employees ( $p = 0.018$ ) and customer satisfaction ( $p = 0.000$ ) emerge as the most significant predictors of customer retention. The findings underscore the critical role of service quality, employee engagement, and customer satisfaction in fostering customer loyalty in Nepalese commercial banks.

*Keywords: Customer Relationship Management, Perceived Value, Behavior of Employees, Switching Barriers, Customer Convenience, Customer Satisfaction, Compliant Handling, Customer Retention*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

Customer relationship management is on rise considering the current business scenario. To any business customers are well and truly God. A wide range of businesses, including financial and service industries, recognize importance in fostering strong customer bonds and possibilities benefits they bring. The existing ones are to be retained to obtain life time value and creation of new customer base is future prospect which is a continuous process in any kind of business for survival and success. Customer relationship that lasts long will reap benefits and profits more for business as well as the customer as well. The loyalty of customers is also appreciated by the corporations and it tend to give back as well. Mere knowing the theory of customer focused strategies are not significant until unless they are put into application (Blery & Michalakopoulos, 2015).

CRM is comprehensive strategy In the fields of business and marketing, the technical part and business activity is related to the customer (Fjermestad & Romano, 2016). As market conditions become increasingly challenging, maintaining strong customer relationships is becoming crucial for Nepalese commercial banks. With limited number of customers and with a small economy, Nepalese Banks have had to please every customer in all possible manners in order to create acquire new clientele and retain existing customers. Indeed, it is a fact in marketing that it is costlier for an organization to create a new customer rather than retaining the existing ones. One of the pre-requisites of competitiveness is the capability of the corporations to adapt themselves with the customer wants quickly as well effectively. With rising competition, shrinking margins for error and delays, increasingly demanding customers, and significantly shorter product and service life cycles, banks are compelled to strengthen their relationships with customers and provide the services they need through their preferred channels (Cho, Im, Hiltz, & Fjermestad, 2017).

This paper explores the significance of strong customer bonds management on satisfaction of client customer loyalty initiatives in Nepalese banks by using some analytical methods in customer relationship management applications. Nepalese Commercial banks must know about the changing environment and dynamics of the

market. The commercial banks should understand the degree to which customers perceive them as a highly valued service provider.. Banks should be credible as people trust them with their money and for some that money is all they have as their lifetime savings. People now are very selective in terms of which bank they should choose. Consequently, retaining customers has become more difficult than acquiring new ones.

CRM is a system for tracking and analyzing customer interactions to improve business performance (Long et al., 2013). It is a strategic approach to managing customer relationships throughout the customer lifecycle, helping businesses retain key clients and other profitable customers, thereby ensuring stable growth (Bradshaw & Brash, 2001). Customer Relationship Management as strategic approach focusing companies to manage the relationship with the clients (Blery & Michalakopoulos, 2006). Research indicates that implementing CRM can enhance customer service quality. Additionally, CRM helps in effectively managing customer expectations and fostering loyalty (Cho et al., 2001). According to Bose (2002), CRM is a highly effective and powerful strategies for building and sustaining relationships with customers. It aids banks in identifying high-value customers, improving communication, delivering timely feedback, analyzing customer data, and tailoring their offerings. As noted by Chen and Popovich (2003), CRM is a strategic approach to acquiring and retaining loyal customers development of strong relationships.

CRM focuses on acquiring, nurturing, maintaining, and retaining valuable customers (Massey, Weiss, & Holcom, 2001). CRM empowers businesses to utilize customer data to strengthen relationships and drive sales (Foss & Stone, 2001). Organizations that adopts CRM strategies build stronger connections with the clients, foster customer loyalty, and experience significant returns, including higher revenue and reduced costs (Roh, Ahn, & Han, 2005).

Nepalese commercial banks want to develop and retain relationship with their customers through the adoption of customer relationship management because it helps to know level of customer satisfaction by service and products offered by the bank. Different studies have pointed from among the various factors that led to the failure of CRM implementation. This may have happened due to Due to the absence of tools and criteria for assessing and measuring customer relationships. The concept of CRM and its tools

are to be managed properly and measured time to time with changing trends and taste of clients in order to reap of profits using the CRM concepts. Therefore, an all-encompassing tool for evaluating customer relationships is crucial (Hanley, 2008).

It is crucial to understand that customer loyalty can no longer be relied upon in the same way it has been for the past several decades. While providing high-quality services and products is key to customer retention, customer satisfaction alone does not ensure loyalty. Increasing competition and the ease with which customers can discover alternatives are pushing them to switch providers. This "window" for customers, offering them more choices and flexibility, is likely to remain a permanent aspect of the business world. What remains uncertain is how businesses will respond to retain their customers.

## **1.2 Problem statement**

Customers are valued assets of any profit-making organization and so is the case with Commercial banks. It costs a lot of time, effort and money to recruit a single customer and so retaining the existing customer is of great importance in the financial sector. With the increase in financial sector in Nepal, customer's tendency of switching from one commercial bank to another has become a critical issue. As customer wants a good care of their money and a better return from it so they are always in search of such banks that have a strong track record of financial performance and provide attractive returns to their customers. On the other hand, even commercial banks can increase their profits if they are able to return the existing customers instead of trying to recruit the new ones and losing the existing one every day.

The numbers of banks in Nepalese society are huge one considering size of our economy and population.. Customers move from one institution to another where they get better satisfaction and a good return of their money. In this competitive environment where banks are using different methods to attract the customers, the turnover of customers has become a serious concern for banking sector in Nepal.

This research tries to address the problem associated with the trend of the turnover of customers within Nepal's commercial banks. It helps to identify the important factors what customers think important for them to be retained with the banks and the possible strategy

that should be taken by the banks to retain them. Organization should be conscious about the possible factors which causes the turnover of the customers or should know the factors that can prevent the customers from switching the organizations. The related factors like customer satisfaction, service perceived value, behavior of the employees, switching barriers, customer convenience and complaint handling are some important factors that affect the retention intention of customers with the organizations.

Consequently, this study will investigate the following research questions:

- What is the impact of customer relationship management practices on customer retention in the Nepalese commercial banking sector?
- What is the customers' expectation from the commercial banks to be retained with them?
- What CRM strategies should commercial banks adopt to minimize the rate of turnover of customer?

### **1.3 Objectives of the study**

The primary objective of this study is to evaluate the current practices of customer relationship management and the strategies to retain the client employed by the banks of Nepal. The specific objectives are to:

- To examine factors influencing customer relationship and their effect on customer retention.
- To assess how customers value different services provided by commercial banks.
- To examine the customer behavior towards banks' retention policy

### **1.4 Rationale of the study**

This study offers valuable insights for commercial banks to understand why customer retention matters for institutional profitability, plus the factors that contribute to retaining customers and fostering loyalty and satisfaction. It enhances knowledge and provides a deeper understanding of customer retention and the strategies involved. The study also aids in comprehending various retention-related strategies, which can help reduce customer acquisition costs in the financial sector. Furthermore, this research supports commercial banks in developing proven retention tactics, leading to foster business growth and development. The study's significance lies in connecting This research delves

into the intricate relationship between customer retention and factors such as product quality, customer service, pricing, satisfaction, and switching costs. The findings of this study will empower commercial banks to implement effective strategies to foster growth and development in the dynamic marketplace.

The fundamental aim of a company's marketing efforts is to increase profitability and drive business growth through customer retention.. This can be achieved by boosting revenue through higher sales volumes and/or premium pricing, while also minimizing the costs associated with generating that revenue. So, this research will be helpful in not only acquiring the customers but also retaining those acquired customers.

### **1.5 Limitations of the study**

The ultimate goal of marketing is to enhance profitability and fuel business expansion through customer loyalty is important in the present economic climate for banking sectors. Still this study has several limitations and some of the important limitations are mentioned below. The limitations of the research work are:

- A sample of 400 customers from various commercial banking institutions in Nepal may not accurately represent the overall population if a different sampling approach had been used.
- Convenient sampling was applied, which may not yield as reliable results as random sampling would.
- The survey was conducted exclusively with people from within the Kathmandu Valley, which may not reflect the broader context or provide a nationwide perspective if the research had been expanded

## **CHAPTER II**

### **LITERATURE REVIEW**

In this chapter, relevant concepts and studies in customer retention and factor affecting it and also factors like price, quality, satisfaction, corporate image, customer perception, switching cost that have significant relation on customer retention is made. This chapter has been structured into two main sections. The first section provides a comprehensive review of the relevant literature, while the second section delves into the theoretical framework underpinning the research.

#### **2.1 Theoretical Review Customer Satisfaction Theory**

Satisfied customers are more likely to stay loyal, This theory suggests customer satisfaction arises from meeting or exceeding expectations. When customers feel that their needs are fulfilled effectively, their loyalty towards the service provider increases. In the context of Nepalese commercial banks, enhancing customer satisfaction can be achieved through excellent service delivery, competitive interest rates, efficient problem resolution, and personalized banking experiences. Satisfied customers are more likely to stay with a bank, recommend its services, and utilize a wider range of products. Banks can measure satisfaction through surveys and feedback mechanisms, adjusting their services to better meet customer expectations. Research supports that satisfied customer is a bonafide predictor of retention across various industries, emphasizing the relevancy of consistently top-notch service and positive customer interactions. (Oliver, 1999).

#### **Service Quality Theory (SERVQUAL)**

Service quality is pivotal in retaining customers, with The SERVQUAL model posits that service quality is comprised of five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy. High levels of service quality in these dimensions can positively influence customer perceptions and loyalty. For Nepalese commercial banks, delivering consistent and high-quality service across these dimensions is crucial. Tangibles refer to the physical facilities and equipment, reliability to reliability refers to Reliability involves consistently delivering on promises, while responsiveness entails being readily available to assist customers. and offer timely service, assurance pertains to the knowledge and courtesy of staff, and empathy relates to offering personalized and attentive care. By

excelling in these dimensions, banks can significantly boost customer satisfaction and retention. Customers are more likely to stay with a bank that they perceive as reliable, responsive, and empathetic. (Parasuraman,, Zeithaml, & Berry, 1988).

### **Relationship Marketing Theory**

Relationship marketing emphasizes creating long-term connections and cultivating strong bonds with customers.. This theory emphasizes personalized interactions, trust- building, and ongoing communication, which are vital for customer retention. In Nepalese commercial banks, implementing relationship marketing strategies can include personalized banking services, proactive communication, and consistent follow-ups. These strategies help in understanding customer needs and preferences, leading to tailored services that enhance customer satisfaction and loyalty. Trust and commitment are core components of relationship marketing, with customers staying loyal to banks they trust and feel valued by. This approach moves beyond transactional interactions, aiming to create a deeper emotional connection with customers, thereby improving retention rates. (Morgan, & Hunt, 1994).

### **Switching Cost Theory**

Switching costs are the costs a customer incurs when changing between different service providers. High switching costs can deter customers from leaving, thereby increasing retention. These costs can be financial, procedural, or relational. For Nepalese commercial banks, creating high switching costs can be achieved through loyalty programs, exclusive benefits, integrated services, and personalized customer relationships. Customers are more likely to stay with their current bank when they perceive the costs of switching to be high. This can include the inconvenience of transferring accounts, the loss of loyalty rewards, and the effort required to establish new banking relationships. By increasing these perceived costs, banks can effectively retain customers. (Burnham, Frels, & Mahajan, 2003).

### **Social Exchange Theory**

Social exchange theory posits that relationships are established through mutual the reciprocal exchange of resources where both parties aim to maximize rewards and minimize costs. High perceived value and fairness in exchanges enhance relationship quality and retention. In Nepalese commercial banks, ensuring fair and valuable

exchanges with customers can improve retention. This can be achieved through transparent information, fair as if rewarding loyalty, and providing value-added services. When customers perceive that the benefits of staying with their bank outweigh the costs, they are more likely to remain loyal. This theory emphasizes the importance of mutual benefit and fair treatment in fostering long-term customer relationships. (Blau, 1964).

### **Commitment-Trust Theory**

The commitment-trust theory posits that trust and commitment are fundamental antecedents of successful relationships and customer retention. Trust reduces uncertainty and enhances the willingness to maintain the relationship, while commitment reflects the desire to stay in the relationship. For Nepalese commercial banks, building trust through reliable services and demonstrating commitment to customer well-being are crucial. Trust can be built through consistent and transparent communication, while commitment can be shown through personalized services and long-term customer care strategies. By fostering trust and demonstrating commitment, banks can enhance customer loyalty and retention. (Morgan, & Hunt, 1994).

## **2.2 Empirical Review**

Pradhan and Shrestha (2016) carried out research titled "Factors Influencing Customer Retention in Nepalese Commercial Banks" with the objective of identifying significant elements influencing customer retention in banks in Nepal. Using a survey methodology, they collected data from 300 customers through structured questionnaires. Their findings indicated that service quality, customer satisfaction and trust are key factors influencing customer retention, emphasizing the necessity for banks to maintain high service standards and build trust to enhance loyalty.

Sharma (2017) in his study "The Role of Customer Feedback in Enhancing Satisfaction and Retention in Nepalese Banks" focused on The influence of customer feedback on levels of customer satisfaction and retention rates. Employing a mixed-method approach with surveys and interviews involving 200 bank customers and 20 managers, Sharma found that banks actively seeking and acting on customer feedback tend to have higher satisfaction and retention rates. Effective grievance handling was highlighted as a key factor in retaining customers.

Karki and Dahal (2017) conducted research titled "Trust, Commitment, and Customer Retention in Nepalese Commercial Banks" explores connection between trust, commitment, as well as customer retention. Employing a quantitative approach, data was collected from 300 customers through structured questionnaires. The findings indicated that trust and commitment are critical factors in retaining customers, suggesting banks focus on building trust and demonstrating commitment to customer well-being.

Regmi and Acharya (2017) conducted research titled "Influence of Service Convenience on Customer Retention in Nepalese Banks" to study how service convenience affects retention. Using a survey methodology, data was collected from 250 customers through structured questionnaires. The study found that high service convenience, such as easy access to banking services and efficient processes, significantly influences retention, recommending banks enhance service convenience to retain customers.

Shrestha (2018) in his study "The Effect of Customer Relationship Management on Retention in Nepalese Banks" sought to explore the impact of CRM on customer retention. Using a survey methodology, data was collected from 250 customers through structured questionnaires. The research revealed that successful CRM practices, such as personalized services and customer care strategies, significantly enhance retention, recommending banks invest in robust CRM systems.

Thapa and Regmi (2018) made a study titled "The Impact of Relationship Marketing on Customer Loyalty in Nepalese Commercial Banks" to analyze how relationship marketing strategies influence customer loyalty. Data was collected from 300 customers using structured questionnaires, and regression analysis was performed. The findings showed that personalized interactions and proactive communication significantly enhance customer loyalty and retention, suggesting that banks implement relationship marketing strategies to build long-term relationships.

Pandey and Subedi (2018) in their study "Customer Loyalty Programs and Retention in Nepalese Banks" examined the effect of loyalty programs on retaining customers. Employing a quantitative approach, data was gathered from 200 bank clients. through structured questionnaires. It indicated that loyalty programs offering rewards and exclusive benefits significantly increase retention rates, suggesting banks implement

comprehensive loyalty programs.

Shah and Joshi (2018) in their research "Impact of Digital Banking Services on Customer Retention in Nepalese Banks" examined the influence of digital banking services on customer retention rates. Using a survey approach, data was gathered from 250 customers who use digital banking services. The findings indicated that the availability and quality of digital Banking services like mobile banking and internet banking, significantly enhance customer retention, recommending banks invest in improving their digital banking platforms.

Mishra (2019), in his research "Service Quality Dimensions and Customer Retention in Nepalese Commercial Banks," explored connection the association between service quality factors and customer retention rates. Using model which is also known as SERVQUAL model, data was collected from 250 customers through structured questionnaires. The study identified reliability and responsiveness as the most critical service quality dimensions affecting retention, recommending banks focus on these areas to improve customer retention.

Khadka and Pandey (2019) in their study "Social Exchange Theory and Customer Loyalty in Nepalese Commercial Banks" explored the social exchange factors on the loyalty of the clients. Using survey method, data was collected from 200 customers through structured questionnaires. The study concluded that fair and valuable exchanges, including transparent information and loyalty rewards, significantly influence customer retention, emphasizing the importance of mutual benefit in fostering customer loyalty.

Gautam (2020) in his study "Switching Costs and Customer Retention in the Banking Sector of Nepal" sought to explore the role of switching costs in retaining customers. Using a quantitative approach, data was collected from 250 bank customers through structured questionnaires. The study found that high switching costs, such as loyalty programs and exclusive benefits, effectively retain customers, recommending banks increase perceived switching costs to improve retention.

Bista and Adhikari (2019) in their research "The Role of Perceived Value in Customer Retention in Nepalese Banks" investigated how perceived value influences customer retention. Data was collected from 200 customers through the questions that was

structurally designed with some relevant questions, and regression was performed. The research concluded that high perceived value, derived from quality service and fair pricing, significantly influences retention, suggesting banks enhance perceived value to retain customers.

Lama (2019) in his study "The Role of Emotional Bonding in Customer Retention in Nepalese Commercial Banks" examined emotional connections on client retention. Data was collected from 200 customers through structured questionnaires, and correlation analysis was performed. The study concluded that strong emotional bonds, fostered through personalized interactions and empathetic service, significantly enhance retention, suggesting banks focus on building emotional connections with customers.

Gurung (2020) carried out an investigation titled "Impact of Service Recovery on Customer Retention in Nepalese Commercial Banks" to investigate the impact of service recovery strategies on customer retention rates. Adopting a survey method, data was collected from 150 customers who had experienced service failures. The study found that effective service recovery, including prompt and satisfactory resolution of issues, significantly enhances retention, recommending banks prioritize service recovery to retain customers.

Chaudhary and Koirala (2020) carried the research entitled "The Effect of Customer Engagement on Retention in Nepalese Commercial Banks" examining the effect of engagement with clients and retention rate. Using mixed-method approach, surveys and interviews were conducted with 200 customers and 20 bank managers. The study found that high levels of customer engagement, achieved through interactive communication and involvement in bank activities, significantly enhance retention, suggesting banks adopt strategies to increase customer engagement.

Shrestha and Thapa (2022) explored the connection between the quality of service as well as retention of clients in their research titled "Impact of Service Quality on Customer Retention in Nepalese Commercial Banks." The goal was to see how service quality affects customer loyalty. Data was collected from 300 customers using the SERVQUAL model, focusing on physical appearance, dependability, responsiveness, confidence, and understanding. It found that reliability and responsiveness were the most critical factors

influencing customer retention. The researchers recommended that banks should focus on improving these dimensions to enhance customer loyalty and retention (Shrestha & Thapa, 2022).

Gurung and Adhikari (2022) in their study "Relationship Marketing and Its Effect on Customer Loyalty in Nepalese Banks" aimed to analyze how relationship marketing strategies influence customer loyalty and retention. Using a quantitative research design, the study surveyed 400 bank customers through structured questionnaires. The findings indicated that personalized interactions, trust-building, and proactive communication significantly enhance customer loyalty and retention. The study suggested that banks should adopt relationship marketing tactics aimed at building long-lasting connections with customers. (Gurung & Adhikari, 2022).

Lama and Bista (2022) conducted a study titled "Perceived Value and Customer Retention in Nepalese Commercial Banks" to investigate the role of perceived value in retaining customers. The objective was to understand how perceived value derived from quality service and fair pricing affects customer loyalty. Data was collected from 300 customers through structured questionnaires, and regression analysis was performed. The findings indicated that high perceived value significantly influences retention. It suggested banks focus on enhancing perceived value, improved service quality and fair pricing strategies (Lama & Bista, 2022).

Poudel and Karki (2023) conducted a study titled "Factors Influencing Customer Satisfaction and Retention in Nepalese Commercial Banks" identifying critical elements that drive customer satisfaction and retention. Utilizing a mixed-method approach, the researchers gathered data from 350 customers through structured questionnaires and conducted in-depth interviews with 25 bank managers. The findings revealed that high service quality, personalized customer service, and efficient grievance handling were significant contributors to satisfy the clients as well as retain them. It emphasized banks need to invest in training their staff to enhance service quality and develop robust mechanisms for addressing customer complaints promptly (Poudel & Karki, 2023).

Subedi and Shrestha (2023) conducted research titled "The Role of Digital Banking Services in Customer Retention in Nepalese Commercial Banks." The goal was to see

how digital banking affects retention. Information was gathered from 350 clients using digital banking services through online surveys. The study found that the availability and quality of digital banking services like mobile banking and internet banking, significantly enhance customer retention. The researchers recommended that banks should continuously improve their digital platforms to meet customer expectations and retain them (Subedi & Shrestha, 2023).

Rai and Shrestha (2023) explored the effect of social exchange factors on customer loyalty. In their study titled "Social Exchange Theory and Customer Loyalty in Nepalese Banks." The objective was to investigate how perceived value and fairness in exchanges influence customer retention. Data was collected from 250 customers through structured questionnaires, and correlation analysis was performed. The study concluded that fair and valuable exchanges, including transparent information and loyalty rewards, significantly influence customer retention. The researchers emphasized the importance of mutual benefit in fostering customer loyalty (Rai & Shrestha, 2023).

Pandey and Joshi (2024) examined the connection between trust, commitment, and customer retention in their research titled "Trust, Commitment, and Customer Retention in Nepalese Commercial Banks." The motive was to understand how trust and commitment affect customer loyalty. Using a quantitative approach, data was collected from 400 customers through structured questionnaires. The findings revealed that trust reduces uncertainty and enhances the chances of customers remaining with their bank. Commitment to customer well-being through personalized services was also found to significantly enhance retention rates. The study suggested banks should focus on cultivating trust and demonstrating enduring commitment to their customers. (Pandey & Joshi, 2024).

Acharya and Regmi (2024) in their study "Service Recovery and Its Impact on Customer Retention in Nepalese Banks" aimed to study how service recovery affects retention. Using a survey approach, data was collected from 200 customers who had experienced service failures. The study found that effective service recovery, including prompt and satisfactory resolution of issues, significantly enhances retention. The researchers recommended that banks prioritize service recovery efforts to retain customers and restore trust after service failures (Acharya & Regmi, 2024).

### **2.3 Research gap**

Many of the Nepalese Commercial Banks are focused on increasing profits only. Focus has only been on increasing the rate of deposit and loan in order to grow. But, what the Nepalese Commercial Bank actually lack is the will to hold on to a customer. No change in process or product in order to go forward with an innovative idea. Old school ideas and facilities will no longer work for the banks in Nepal's commercial sector. as the competition is increasing rapidly with establishment of branches all over country. Even in a very small rural area, there are 5-6 commercial banks competing to establish their authority over the locality. The scenario is like big sharks fighting over few small fishes in an ocean. True, that our economy is not as big as ocean but unhealthy competition will do no good for banking industry (Bista & Adhikari, 2019). It should be a win-win situation for banking industry as a whole. Customer retention will somewhat reduce the clash between banks to pull their customers towards them but focus on innovation and new services that could be provided to the existing customers and attract new ones. However very negligible quantitative research about customer retention is spoken and researched about as banks are mostly about share prices, credit lending, deposits and big profits. Thus, there is a research gap of this kind in the banking sector about importance of customer retention. Thus, this research seeks to study what factors affect customer retention in the commercial banks of Nepal (Gurung & Adhikari, 2022). Moreover, this study emphasizes on providing statistical evidence about how the how CRM and its components affect customer retention in Nepalese banks.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter presents a detailed overview of the research design and methodology employed in this study. It further provides details on the data collection process, including the timeframe required to complete it. This section highlights the key measures used to evaluate the accuracy and consistency of the data. The research followed a straightforward approach, utilizing commonly used statistical tools for analysis. Additionally, this chapter specifies the variables, measurement methods, and data analysis techniques utilized in this study.

#### **3.1 Research design**

A descriptive research design was employed to provide a detailed account of the characteristics of the population, as suggested by Quee (1999). This involved analyzing individuals, events, decisions, time periods, projects, policies, institutions, or other systems using one or more methods, as outlined by Thomas (2011). The survey method was chosen as the most suitable approach for data collection. The descriptive research design was employed to gather relevant data on CRM factors affecting customer retention in Nepalese banks. This study is also based on a survey research design.

#### **3.2 Population, sample, and sampling design**

The study population comprises customers of the 20 commercial banks currently operating in Nepal's banking sector, with a specific focus on those located within the Kathmandu Valley. A total of 400 customers from commercial banks in Nepal were surveyed to examine the relationship between customer relationship management and customer retention.

#### **3.3 Nature and source of data, and the instrument of data collection**

The study relies on primary data sources to evaluate respondents' opinions regarding their bank selection decisions. A questionnaire survey was conducted to capture customers' views and perceptions about the influence of customer relationship management initiatives factors on improving customer satisfaction levels in Nepalese commercial banks. 400 bank customers was surveyed to gather insights on how CRM factors

influence customer satisfaction in these banks. Primary data has been collected using the questionnaire survey in joint venture, domestic private and public banks. The questionnaire survey collects personal details from respondents, including their gender, age, working sector, education and income level. Set of questionnaires contained different question related to research title such as yes/no, tick mark question, ranking questions, likert scale questions.

### **3.4 Method of analysis**

This research utilized both a descriptive and analytical statistics to analyze the collected data, incorporating manual calculations as well as computer software such as MS Word, MS Excel, and SPSS. Descriptive statistics were applied to analyze the data, with ratios and data presented in terms of frequencies and percentages, reflecting various financial ratios included in the study.

#### **3.4.1 Financial tools**

A ratio is a numerical expression that represents the quantitative relationship between two variables. It was used as a method to quantify the connection between two sets of financial data from the insurance companies.

#### **3.4.2 Statistical tools**

In conducting this research, several statistical tools were employed to analyze the data more precisely as outlined below:

#### **Descriptive Statistics**

##### **Arithmetic Mean or Average**

The mean, often referred to as the average, represents a single value that indicates the central tendency of a dataset. It is considered a measure of central tendency because it illustrates where majority of data points are concentrated.

##### **Standard Deviation (SD)**

Standard deviation, denoted by the Greek letter sigma ( $\sigma$ ), it is a commonly used statistical measure of the dispersion of values in a dataset.. It gives an idea of how much individual data points differ from the average.

### **Coefficient of Variation (CV)**

The coefficient of variation is a statistical measure that quantifies the relative dispersion of a dataset. It is calculated as the ratio of the standard deviation to the mean. A higher coefficient of variation suggests a higher degree of relative risk.

### **Statistical Analysis**

#### **Correlation Analysis**

The correlation coefficient indicates and quantifies the strength and direction of the linear relationship between two variables, enabling the assessment of how changes in one variable are correlated with changes in the other. A high correlation means variables change together, the other tends to change in a consistent manner, either increasing or decreasing together (Kuinkel, 2023).

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

n = number of observation in series X and Y

$\sum X$  = sum of observation in series X

$\sum Y$  = sum of observation in series Y

$\sum X^2$  = sum of squared observation in series X

$\sum Y^2$  = sum of squared observation n series y

$\sum XY$  = sum of the product of observations in series X and Y The value of correlation coefficient ranges from -1 to +1.

r = 0 means variables are correlated lies between -1 and +1

r = -1 means perfect negative correlation between the variables

r = +1 means positive correlation between the variables

#### **Regression Analysis**

Data was coded for SPSS analysis. Data analysis was performed using both descriptive and comparative statistical methods. Descriptive statistical techniques, including measures of central tendency (mean) and dispersion (standard deviation), as well as percentages, were employed. For comparative analysis, ANOVA and correlation tests were carried out. Regression analysis was utilized to examine the influence of independent variables on overall satisfaction, while correlation analysis was employed to assess the strength and direction of the linear association between independent and

dependent variables.

$$CR = \beta_0 + \beta_1PCV + \beta_2BE + \beta_3CH + \beta_4CC + \beta_5SB + \beta_6CS$$

where,

CR= Customer Retention

PV= Perceived Service Value

BE= Behavior of Employees

CH= Customer Handling

CC= Customer Convenience

SB= Switching Barriers

CS=Customer Satisfaction

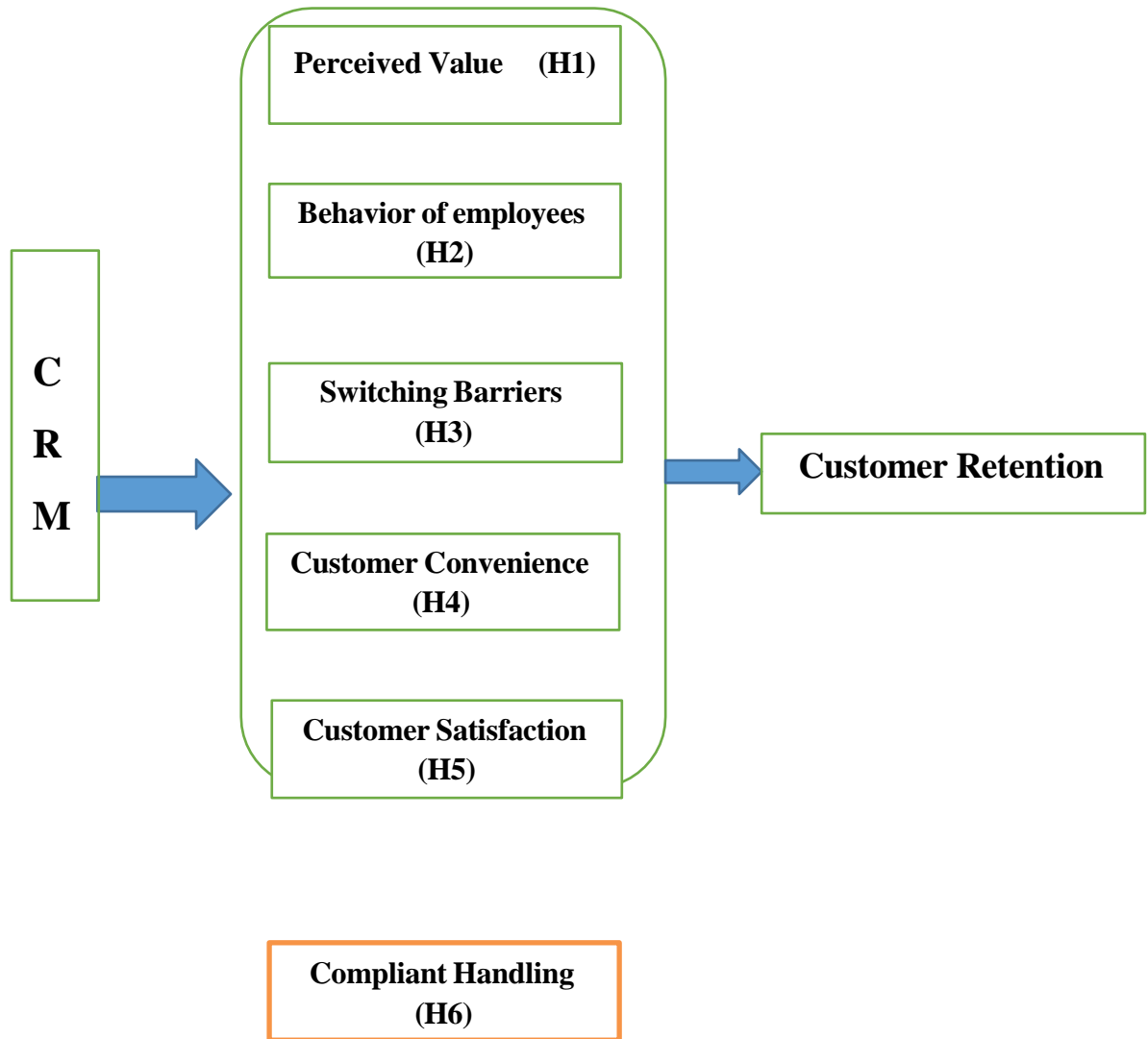
$\beta_0$  = Y-intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  and  $\beta_6$  are respective regression coefficients.

### **3.5 Research framework and definition of variables**

A conceptual framework serves as a guiding tool for researchers. It constitutes a conceptual framework that provides a structured approach to the research, including the research question, literature review, methodology, and data analysis. This study primarily focuses on the literature regarding the impact of influence of customer relationship management on customer satisfaction in Nepalese commercial banks.

Based on the literature review of various CRM models and previous research, several key factors that significantly influence customer retention have been identified. These factors include perceived customer value, employee behavioral factors, switching costs, customer convenience, complaint handling mechanisms, and customer satisfaction levels. A conceptual framework has been developed, as shown in the accompanying figure. This framework illustrates the theoretical foundation of the study. In this framework, customer retention through CRM is the dependent variable, while the independent variables include perceived customer value, employee behavioral factors, switching costs, customer convenience, complaint handling mechanisms, and customer satisfaction levels.



(Source: Pandey & Subedi, 2018)

Figure1:Conceptual Framework

#### Operational Definition of Variables

#### Customer Retention and Customer Perceptions of Value

In contemporary markets, customers are increasingly discerning, prioritizing value propositions due to the proliferation of alternative service offerings (Slater, 1997; Woodruff, 1997). As Gale & Wood (1994) argued, consumers frequently encounter the dilemma of selecting between competing firms that offer similar products or services. They argued that customers make decisions based on the value they perceive, rather than just purchasing products for their own sake. Moreover, customers have become more discerning, evaluating the value they receive through factors such as preferred attributes, the performance of those attributes, and the outcomes of using a product in specific

situations (Woodruff, 1997). As a result, banks need to offer personalized, high-quality service to meet the high expectations of their customers. For those who prioritize convenience, In the contemporary banking landscape, banks must provide a suite of modern banking services, such as electronic banking, phone banking, and internet banking. It is clear that customer value is a paramount factor in driving customer retention.

#### Customer Retention and Behavior of the Employee

Employee behavior is a significant determinant of customer satisfaction and loyalty (Azzam, 2014). Research conducted by Long et al. (2013) and Hanley (2008) has empirically demonstrated a positive and significant correlation between employee behavior and customer satisfaction and loyalty. Employees are expected to exhibit not only politeness and courtesy but also possess strong product knowledge and effective communication skills to cultivate strong customer relationships. Hanley (2008) and Coulter (2002) further contend that positive employee behavior is vital in sustaining customer loyalty. Employees must be well-trained to respond promptly and empathetically to customer inquiries and concerns.

#### Customer Retention and Switching Barriers

Employee behavior is a significant determinant of customer satisfaction and loyalty (Azzam, 2014). Empirical research has consistently indicated a strong positive correlation between employee behavior and both customer satisfaction and loyalty (Long et al., 2013; Hanley, 2008). It is not enough for employees to simply be polite and respectful toward customers; they must also possess in-depth product knowledge and effective communication skills to build lasting relationships with customers. Hanley (2008) and Coulter (2002) emphasize that positive employee behavior is essential for maintaining customer loyalty.

Additionally, employees should be trained to respond to customer needs quickly and efficiently, while also demonstrating empathy and genuine care toward customers.

Anderson (1994) and Jones et al. (2002) noted factors like switching costs and relationships, the appeal of alternative options, and service recovery efforts contribute significantly to the creation of switching barriers that impact customer retention. As these

barriers become higher switching costs lead to less switching providers due to the costs and inconveniences associated with changing services. Therefore, customer retention can remain high even if customer satisfaction levels are similar, as long as the switching barriers are strong. However, studies on the direct and impact of switching barriers on customer retention remain limited and inconclusive (Colgate & Lang, 2001; Jones et al., 2000; Lee & Cunningham, 2001).

#### Customer Retention and Customer Convenience

Customer convenience increased with the services which are provided to the customers. Convenience refers to products and services designed to make access easier, streamline processes, and reduce the time, effort, and energy required by customers. It aims to minimize inconvenience and frustration, enhancing the overall customer experience (Shah, 2012). Customer convenience depends upon service quality, access of services, and so on.

#### Customer Retention and Customer Satisfaction

Customer satisfaction is a function of the discrepancy between a customer's perceived expectations and actual experiences. When a customer's experience aligns with their expectations, they are considered satisfied with the service provided. Customer satisfaction is a crucial driver of a company's performance and a vital element of competitive strategies (Stank, Daugherty, & Ellinger, 1997), as well as a source of long-term advantage (Patterson et al., 1997). In today's competitive market-driven economy, measuring customer satisfaction is of paramount importance (Wu et al., 2006). It plays a fundamental role in a company's sustained survival and growth (Guo et al., 2004). Thus, ensuring in contemporary business environments, customer satisfaction has become a paramount objective for many organizations. (Dimitriadis, 2006; Homburg & Rudolph, 2001). Marketing strategies focus on meeting customer needs through integrated efforts, aiming to satisfy customers while generating profit.

#### Complaint Handling

Addressing customer problems and complaints plays a critical role in fostering customer satisfaction (Azzam, 2014). According to Shammou and Haddad (2014), Complaint handling, service quality, switching costs, service failures, guarantees, and perceived value impact satisfaction. Effectively handling complaints is essential, as it not only helps resolve customer dissatisfaction but also offers valuable insights that can be used to improve the service.

## CHAPTER IV

### RESULTS AND DISCUSSION

This chapter focuses on presenting and discussing the study. It primarily addresses presentation and the quantitative data collected through a structured questionnaire survey distributed to customers. The chapter aims to provide an overview of the findings and offer an explanation of the outcomes derived from the analysis.

#### 4.1 Results

This section presents a demographic profile of the participants, who were customers of Nepalese commercial banks, focusing on their personal attributes. The study gathered information on various aspects such as gender, age, education level, occupation, and monthly income. A total of 152 usable responses were successfully collected for subsequent analysis.

Table 1

*Frequency Distribution by Gender*

Gender	Frequency (n)	Percent %
Male	79	52
Female	73	48
Total	152	100

Table 1 indicates that 52% of the total respondents are male, while 48% are female, suggesting that a slightly higher proportion of the respondents are male.

Table 2

*Frequency Distribution by Age*

Age in years	Frequency (n)	Percent %
16-30	89	58.6
31-50	52	34.2
51 and above	11	7.2
Total	152	100.0

Table 2 reveals that the majority of respondents, 58.6%, are in the age group of 16-30. Additionally, 34.22% of the respondents fall within the 31-50 age range, while 7.2% belong to the 51 and above category. Therefore, the largest proportion of customers are in the 16-30 age group.

Table 3

*Frequency Distribution by Academic Qualification*

	Frequency (n)	Percent %
Up to Intermediate Level	30	19.7
Bachelor's Level	72	47.4
Master's degree and above	50	32.9
Total	152	100.0

Table 3 indicates that, based on academic qualifications, 19.7% of the respondents have up to an intermediate level of education, 47.4% hold a Bachelor's degree, and 32.9% have attained a Master's degree or higher. Therefore, it can be concluded that the largest group of respondents possess a Bachelor's degree.

Table 4

*Frequency Distribution by Occupation*

	Frequency (n)	Percent %
Student	41	27.0
Self Employed	27	17.8
Salaried Person	79	52.0
Housemaker	5	3.2
Total	152	100.0

Table 4 categorizes respondents based on their occupation into four groups. The largest group, comprising 52% of respondents, are salaried individuals. Following this, 27% of the respondents are students, 17.8% are self-employed, and 3.2% are homemakers.

Table 5

*Frequency Distribution by Family Monthly Income*

	Frequency (n)	Percent %
Below 30,000	69	45.4
30,000-60,000	56	36.8
60,000-100,000	15	9.9
Above 100,000	12	7.9
Total	152	100.0

Table 5 categorizes respondents based on their monthly income into four ranges: below 30,000, 30,000 to 60,000, 60,000 to 100,000, and above 100,000. The largest group, accounting for 45.4% of respondents, earns below 30,000 per month. Meanwhile, 36.8% of respondents fall within the 30,000 to 60,000 income range. Additionally, 9.9% of respondents earn between 60,000 and 100,000, and 7.9% have a monthly income exceeding 100,000.

Descriptive Analysis

This section presents a descriptive analysis of the quantitative data collected through the questionnaire survey, including the calculation of statistical measures such as the mean and standard deviation. All responses were measured on a 5-point Likert scale, Perceived Service Value

Table 6

*Responses Towards Bank Offer Perceived Service Value*

	Number (n)	Percent
Yes	93	61.2
No	45	29.6
Don't Know	14	9.2

Among the total respondents, the majority (61.2%) agree with the statement that Nepalese commercial banks provide superior service quality to their customers. In

contrast, 29.6% of the respondents disagree with this statement, and 9.2% are unsure about the service quality offered by these banks.

Table 7

*Bank Delivers the Services within Promised Time*

	Number (n)	Percent
Yes	105	69.1
No	37	24.3
Don't Know	10	6.6

Among all the respondents, the majority (69.1%) agree that Nepalese commercial banks provide services within the promised time. However, 24.3% of respondents disagree with this statement, and 6.6% are uncertain about whether the bank meets its service delivery timelines.

Table 8

*Analysis of Parameter of Perceived Service Value*

Perceived Service Value (PV)	Minimum	Maximum	Mean	SD
Employees are efficient at service delivery	1	5	1.99	0.814
Bank provides special service to special customer	1	5	1.97	0.809
Accurate information is must for customer satisfaction	1	5	1.66	0.599
Bank provides a wide range of services	1	5	1.89	0.855
Bank provides quality service consistently	1	5	2.18	0.809
Bank has all necessary technologies	1	5	2.29	1.052
Overall customer convenience	1	5	1.99	0.823

Table 8 presents the descriptive analysis of perceived value. The factor of providing accurate information to customers has a mean score of 1.66, indicating that customers

generally agree that this aspect significantly contributes to creating strong perceived value, which in turn supports customer retention. The standard deviation for this factor is 0.599, the lowest among all, suggesting a high level of consistency in customer opinions. On the other hand, customers also expect a broad range of services to be offered by their bank to maintain their loyalty. However, it appears that banks need to improve their technological offerings. This is reflected in the mean score of 2.29 for technological services, indicating that customers are somewhat dissatisfied with the current technology. The standard deviation for this factor is 1.052, suggesting a lower level of reliability in customer perceptions regarding the bank's technology.

#### Behavior of Employees

Table 9

#### *Employees Attitude Favorable to all Customers*

	Number	Percent
Yes	145	95.4
No	6	3.9
Don't Know	1	0.7

Among all the respondents, a significant majority (95.4%) agree that the attitude of employees is a key factor contributing to customer satisfaction. In contrast, only 3.9% of respondents feel that employees' attitude does not play a crucial role in customer satisfaction. Additionally, a small percentage (0.7%) of respondents remain uncertain about whether employees' attitude is an important factor in determining customer satisfaction.

Table 10

#### *Employee Behavior Bring Confidence in Customer*

Number		Percent
Yes	147	96.7
No	2	1.3
Don't Know	3	2.0

A large majority of respondents (96.7%) agree that the behavior of employees instills confidence in customers. On the other hand, 1.3% of respondents disagree with this

statement, and 2% are unsure about whether employee behavior plays a role in building customer confidence.

Table 11

*Analysis of Parameter of Behavior of Employees*

Behavior of Employees (BE)	Minimum	Maximum	Mean	SD
Skilled and experience employees for good service delivery	1	5	1.56	0.584
Sincerity at work makes customer happy	1	5	1.64	0.557
Employees have knowledge to customer queries	1	5	1.89	0.807
Employees are polite to customers	1	5	1.78	1.63
Employees are consistently courteous	1	5	1.89	0.715
Overall customer convenience	1	5	1.75	0.858

Table 11 presents the descriptive analysis of employee behavior. The factor of skilled and experienced employees in service delivery received a mean score of 1.56, indicating that customers believe this factor is crucial for improving customer retention. The standard deviation for this factor is 0.584, which is relatively low, suggesting a high level of reliability. Overall, customers express satisfaction with the employee behavior aspects, as all mean scores are below 3. However, the standard deviation for the factor of employees being polite to customers is 1.63, which indicates a lower level of consistency compared to other factors.

Complaint Handling

Table 12

*Bank has Excellence Complaint Handling System*

	Number	Percent
Yes	72	47.4
No	69	45.4
Don't Know	11	7.2

Among the total respondents, the majority (47.4%) expressed satisfaction with the bank's complaint handling system, considering it to be excellent. On the other hand, 7.2% of respondents were unsure about the effectiveness of their bank's complaint handling system. Meanwhile, 45.4% of respondents were dissatisfied with the bank's ability to provide an excellent complaint handling system.

Table 13

*Bank Investigate the Root Cause of the Complaint*

	Number	Percent
Yes	73	48.0
No	62	40.8
Don't Know	17	11.2

Among all respondents, the majority (48%) believe that banks investigate the root cause of customer complaints. However, 40.8% disagreed with this view, stating that banks do not thoroughly investigate the root cause. Additionally, 11.2% of respondents were uncertain about whether banks take the necessary steps to investigate the root cause of complaints.

Table 14

*Bank Responds Customer Grievances Promptly*

	Number	Percent
Yes	85	55.9
No	52	34.2
Don't Know	15	9.9

A majority of respondents (55.9%) believe that the bank addresses customer grievances in a timely manner. In contrast, 34.2% of respondents disagreed with this statement, indicating that they do not think the bank handles grievances promptly. Additionally, 9.9% of respondents were unsure about the bank's responsiveness to customer grievances.

Table 15

*Analysis of Parameter of Customer Handling*

Complaint Handling (CH)	Minimum	Maximum	Mean	SD
Employees initiate in solving customer's				
problems	1	5	2.19	1.200
Proactive action is taken to prevent mistakes	1	5	1.48	1.079
Complaints are handled promptly	1	5	2.51	1.151
Complaints are handled effectively	1	5	2.45	1.184
Overall customer convenience	1	5	2.40	1.154

Table 15 presents a summary of customer responses regarding employee involvement in addressing customer issues. The factor of employees taking the initiative to solve customer problems has a mean score of 2.19, indicating that customers generally agree that this aspect is important for improving customer retention. However, the standard deviation for this factor is relatively high at 1.200, suggesting that the responses were more varied and less consistent. Overall, customers seem to be reasonably satisfied with the various aspects of customer handling, as all the mean scores are below 3.

Customer Convenience

Table 16

*Convenient Language with Customer*

	Number	Percent
Yes	130	85.5
No	20	13.2
Don't Know	2	1.3

The majority of respondents (85.5%) agree with the statement that the bank uses clear and accessible language when communicating with customers. On the other hand, 13.2% of respondents disagree with this assertion, and 1.3% are unsure whether the bank uses

convenient language in its communications with customers.

Table 17

*Bank Commits Time and Resource for Customer Convenience*

	Number	Percent
Yes	97	63.8
No	46	30.3
Don't Know	9	5.9

The majority of respondents (63.8%) agree that the bank invests time and resources to ensure customer convenience. However, 30.3% of respondents disagree with this statement, and 5.9% are unsure whether the bank dedicates time and resources to enhance customer convenience.

Table 18

*Analysis of Parameter of Customer Convenience*

Customer Convenience (CC)	Minimum	Maximum	Mean	SD
Banking hour are convenient for all	1	5	2.06	1.031
Service delivery are convenient for all customers	1	5	2.22	0.985
Adequate staffing to reduce customer wait time	1	5	2.41	1.209
Banks are located at convenient location	1	5	2.03	0.789
Innovation in banking are convenient	1	5	2.16	0.862
Prompt response to customer request	1	5	2.27	1.079
Overall customer convenience	1	5	2.19	0.992

Table 18 presents the summarized customer responses regarding customer convenience. The factors of bank location and banking hours are considered the most convenient for customer retention, with mean scores of 2.03 and 2.06, respectively. The standard deviation (SD) for the bank's location is 0.789, indicating reliable responses from customers. However, the SD for banking hours is higher at 1.031, suggesting that the responses regarding banking hours have a lower level of reliability.

#### Switching Barriers

Table 19

#### *Awareness of Existing Switching Barriers*

Number	Percent
Yes	107 70.4
No	29 19.1
Don't Know	16 10.5

Among all the respondents, the majority (70.4%) are aware of the switching barriers present in commercial banks, while 19.1% are not aware, and 10.5% are neutral regarding this aspect.

Table 20

#### *Do these Barriers Stop a Customer from Switching to Another Bank?*

	Number	Percent
Yes	76	50.0
No	37	24.3
Don't Know	39	25.7

Among all the respondents, half (50%) believe that switching barriers will prevent them from seeking other banks, while 24.3% think customers can still switch despite these barriers. Additionally, 25.7% are unaware that switching barriers exist and that they play a role in limiting customers' ability to switch banks, even if they wish to do so.

Table 21

*Satisfaction with the Bank Service*

	Number	Percent
Yes	115	75.7
No	32	21.1
Don't Know	5	3.3

Among all the respondents, the largest portion (75.7%) reported being satisfied with the services provided by Nepalese commercial banks. On the other hand, 3.3% of respondents held a neutral stance, neither agreeing nor disagreeing with the statement. A minority of 21.1% expressed dissatisfaction, indicating that they were not happy with the services offered by these banks.

Table 22

*Recommend the Bank to Other People*

	Number	Percent
Yes	93	77.6
No	45	16.4
Don't Know	14	5.9

Among all the respondents, the majority (77.6%) indicated that they would recommend their bank to others. Meanwhile, 5.9% of respondents remained neutral about the statement, and 16.4% disagreed, expressing that they would not recommend their bank to others.

Table 23

*Analysis of Parameter of Customer Satisfaction*

Customer Satisfaction (CS)	Minimum	Maximum	Mean	SD
I am satisfied with the service offered	1	5	2.08	0.793
I am satisfied with the employee behavior	1	5	2.05	0.823
I am satisfied how my complaints are addressed	1	5	2.58	1.095
I am satisfied with the convenient service	1	5	2.14	0.887
I have no problems with existence of switching barriers	1	5	2.59	1.025
Overall customer convenience	1	5	2.28	0.929

Table 23 presents a summary of customer responses regarding customer satisfaction. The majority of customers expressed satisfaction with the services provided and the behavior of employees, with mean scores of 2.08 and 2.05, respectively. The standard deviations for these factors were 0.793 and 0.800, both of which are relatively low, indicating a high level of consistency and reliability in the responses.

## Customer Retention

Table 24

*Analysis of Parameter of Customer Retention*

Customer Retention (CR)	Minimum	Maximum	Mean	SD
Perceived Service Value	1	5	2.28	0.801
Behavior of Employees	1	5	2.23	0.849
Complaint Handling	1	5	2.58	1.095
Customer Convenience	1	5	2.16	0.895
Switching Barriers	1	5	2.88	0.886
Customer Satisfaction	1	5	2.3	0.83
Overall customer convenience	1	5	2.4	0.892

Table 24 presents the descriptive analysis of customer retention. All the responses related to the dependent variable fall below the mean value of 3, indicating that respondents

provided generally positive feedback. Based on the results, customer convenience, with a mean score of 2.16, emerges as the most influential factor contributing to customer retention. On the other hand, switching barriers have the highest mean scores, suggesting they do not significantly impact customer retention. Therefore, it is recommended that banks prioritize enhancing customer convenience to improve retention rates among existing clients.

Table 25

*Descriptive Table*

<b>Particulars</b>		<b>Mean SD</b>
Perceived Value	3.51	1.11
Behaviour of Employees	3.41	1.21
Switching Barrier	3.27	1.31
Customer Convenience	3.17	0.87
Customer Satisfaction	3.25	0.97
Complaint Handling	3.22	0.68
Customer Retention	3.17	1.21
CRM	3.23	0.21

**Inferential Analysis**

Correlation Analysis

Pearson's correlation analysis is a statistical technique used to quantify the strength and direction of the linear association between two continuous variables.

Perception Service Value and Customer Retention

This section examines the association between overall satisfaction and the non-categorical predictor variables.

Table 26

*Correlation Analysis*

PV	BE	CH	CC	SB	CS	CR
PV 1	.256**	.404**	.338**	-.037	.595**	.522**
	.001	.000	.000	.650	.000	.000
BE	1	.447**	.437**	-.024	.501**	.495**
		.000	.000	.771	.000	.000
CH		1	.641**	-.088	.633**	.492**
			.000	.279	.000	.000
CC			1	.088	.685**	.587**
				.278	.000	.000
SB				1	.025	.036
					.760	.660
CS					1	.793**
						.000
CR						1

---

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

Table 26 presents a statistically significant positive correlation ( $r = 0.522$ ,  $p < 0.01$ ) between customer retention and perceived service value. This finding provides empirical evidence supporting the hypothesis that perceived service value has a significant positive impact on customer retention.

The correlation analysis between customer retention and employee behavior shows a significant relationship, as the P value is less than 0.01 ( $0.00 < 0.01$ ). The correlation coefficient of 0.495 indicates a significant positive correlation between employee behavior and customer retention ( $p < 0.01$ ). This finding provides empirical evidence supporting the hypothesis that employee behavior has a significant impact on customer retention.

Additionally, a correlation analysis was conducted to examine the relationship between customer retention and complaint handling. also reveals a significant relationship, with a P value less than 0.01 ( $0.00 < 0.01$ ). The correlation coefficient value of 0.492 suggests A statistically significant positive correlation ( $p < 0.01$ ) was found between complaint handling and customer retention, providing empirical evidence in support of the hypothesis that effective complaint handling significantly influences customer retention.

Table 27 presents the results of the correlation analysis between customer retention and customer convenience. The P-value is reported to be less than the alpha value of 0.01 ( $0.00 < 0.01$ ), indicating that the correlation between these two variables is statistically significant. Furthermore, the correlation coefficient of 0.587 suggests a positive relationship between customer convenience and customer retention. This implies that as customer convenience increases, so does customer retention. Therefore, the hypothesis stating that customer convenience positively influences customer retention is supported at the 0.01 level of significance.

On the other hand, the correlation analysis between customer retention and switching barriers, also shown in Table 27, reveals a different result. The P-value here is greater than the alpha value of 0.01 ( $0.660 > 0.01$ ), meaning that the correlation is not statistically significant. The correlation coefficient is very low at 0.036, suggesting that there is no meaningful relationship between switching barriers and customer retention. This lack of correlation could be due to a variety of factors, such as the limited sample size used in the study or the possibility that the respondents did not fully understand the role switching barriers play in customer retention. As a result, the hypothesis concerning the impact of switching barriers on customer retention is not supported, and there is no significant correlation found between the two variables.

Table 27 displays the results of the correlation conducted between customer retention and customer satisfaction. The P-value obtained is less than the alpha threshold of 0.01 ( $0.00 < 0.01$ ), which indicates the relation these variables is statistically significant. Additionally, the correlation coefficient of 0.793 demonstrates a strong positive relationship between customer satisfaction and customer retention. This suggests that as customer satisfaction increases, the likelihood of customer retention also increases. Consequently, the analysis shows that customer satisfaction has a significant influence on customer retention

#### Regression Analysis

A multiple regression analysis was conducted to identify the different strategies that contribute to customer retention within financial institutions in Nepal. The following is a detailed summary of the findings from the analysis:

Table 27

#### *Regression Analysis*

	Beta	t	p-value
(Constant)	0.442	2.232	0.027
Perceived service value	0.112	1.676	0.096
Behavior of employees	0.177	2.394	0.018
Complaint handling	-0.051	-1.241	0.217
Customer convenience	0.086	1.423	0.157
Switching barriers	0.012	0.200	0.842
Customer satisfaction	0.569	7.623	0.000
R-Squared			
F-Value	45.49		
P-Value	<0.001		

In Table 27, the Adjusted R-squared value, indicates the extent to which customer

retention in Nepalese commercial banks (the dependent variable) is influenced various independent variables.

According to the regression model summary, the Adjusted R-squared value is 0.653. Independent variables explain 65.3% of the variation in customer retention within these banks. The remaining 34.7% of customer retention is influenced by other factors not covered in the analysis, such as marketing strategies, pricing, and various other interactions.

To evaluate the reliability of the regression model, ANOVA (Analysis of Variance) was performed. A regression model is considered suitable if it achieves a confidence level of 95% or higher. In this case, the F-statistic value from the regression table is 45.49, with a p-value lower than 0.001, overall regression model is statistically significant and can effectively predict the factors influencing customer retention. Additionally, the model's significance suggests that it can be utilized to influence customer retention outcomes in the desired direction.

The p-value of behavior of employees is 0.018 and that of customer satisfaction is 0.000. So it is clear that behavior of employees and customer satisfaction have significant linear relation with the overall customer retention.

## **4.2 Major Findings**

The data gathered was analyzed and interpreted using several statistical methods, including frequency analysis, percentages, mean, standard deviation, and correlation tests. The correlation test was specifically applied to evaluate the hypotheses, determining there status.

The majority of respondents were in the age group of 16-30, while the number of individuals aged 51 and above was notably smaller in comparison to the younger age groups. With the exception of switching barriers, A positive correlation was found between all other independent variables and customer retention. This does not imply that switching barriers negatively impact customer retention, but rather that their influence on customer retention is not statistically significant. The lack of a significant impact from switching barriers could be attributed to the limited sample size of the study. If a larger sample or the entire population had been surveyed, the results might have differed.

The regression analysis revealed that the independent variables explained 65.3% of the variation in customer retention in commercial banks, with the remaining 34.7% of customer retention being influenced by factors outside the six variables analyzed in this study.

Switching barriers were not significantly correlated with customer retention. However, based on the significance level of the regression model, the hypothesis was confirmed. The absence of a significant correlation may be due to the limited sample size, which might not accurately reflect the broader population. A larger sample or consideration of the entire population might have produced different perceptions and outcomes.

The beta coefficient for customer handling was found to be negative, indicating that an increase of one unit in customer handling would result in a decrease of 0.442 units in customer retention. This negative result may be due to the variance in responses from the survey participants, as the responses were quite scattered. The outcome could potentially have been more positive with a larger sample size. However, Due to time and resource limitations, the study was conducted with a small sample size of 152 respondents.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

This chapter offers a comprehensive summary of the research, including key findings, conclusions, and recommendations. To achieve this, the chapter is organized into three main sections: Summary, Conclusion, and Recommendations, as outlined below.

#### **5.1 Summary**

This research explores how strategic factors influence customer retention in Nepalese commercial banks. It identifies perceived value, employee behavior, customer satisfaction, complaint management, and customer convenience as key factors significantly impacting customer retention. In contrast, switching barriers were found to have minimal effect on customer retention, showing little to no significant impact in this context.

The findings suggest that commercial banks should prioritize factors that positively influence customer retention. Specifically, enhancing perceived value through modern electronic products, responsiveness to customer needs, convenient branch locations, and extended banking hours is crucial. Additionally, ensuring customer convenience by being reliable, trustworthy, and offering distinctive products contributes significantly to retaining customers.

Customer satisfaction, influenced by transaction accuracy, staff performance, branch locations, pricing, and ATM service conditions, is a major determinant of customer retention. The study highlights that customer satisfaction, employee behavior, and perceived service value are the most influential factors in retaining customers.

Nepalese commercial banks often focus heavily on acquiring new customers but should also emphasize retaining existing ones to maintain profitability. Given the competitive banking landscape and the relatively small market size, effective retention strategies are essential to prevent customer attrition and ensure sustainable growth.

In conclusion, commercial banks should strategically focus on enhancing customer satisfaction, improving employee behavior, and maximizing perceived service value to

achieve higher customer retention rates. Adopting this strategy will enable them to sustain a competitive advantage and foster lasting customer loyalty over time.

## **5.2 Conclusion**

This research demonstrates a clear link between customer retention and several key strategic factors, including perceived value, employee behavior, customer satisfaction, complaint handling, and customer convenience. However, switching barriers were not found to be significantly related to customer retention. As a result, commercial banks should focus their efforts on the factors that most influence customer retention to improve their customer loyalty. While switching barriers may not be a key driver of retention, banks can differentiate themselves by enhancing their service quality compared to competitors, which helps in maintaining strong relationships with existing customers.

If the other factors—such as customer satisfaction, convenience, and perceived value—are well-managed, customers are less likely to switch banks, according to the data analysis. The study highlights those factors such as customer perception of value (e.g., availability of the latest products, Customer convenience is enhanced by factors such as prompt response to customer needs, conveniently located branches, and extended banking hours. (e.g., reliability, trustworthiness, positive reputation, and unique products), and customer satisfaction (e.g., transaction accuracy, service delivery, branch accessibility, competitive pricing, and ATM service quality) all play a significant role in customer retention strategies. Additionally, customers value service quality, branch location, distinctive offerings, and excellent customer service as essential factors for staying loyal to a bank.

A multiple linear regression model was used to the study concludes that customer satisfaction, employee behavior, and perceived service value are the most influential factors in customer retention. Therefore, commercial banks should prioritize these elements in their customer retention strategies, as they are crucial in ensuring customers remain loyal.

While many Nepalese commercial banks invest considerable resources in acquiring new customers, they must recognize the importance of retaining existing ones. Given the relatively small customer base and the oversaturation of banks in the market relative to

the population and economy, there is a risk of losing customers to competitors if effective retention strategies are not implemented. In such a competitive environment, failing to retain customers could ultimately result in a loss of market share and profits.

### **5.3 Implications**

This research examines the factors influencing customer retention in Nepalese commercial banks, offering valuable insights into strategies that foster loyalty. The primary focus of the study is from the customer's perspective, but it also opens avenues for future research from the service provider's viewpoint, particularly in understanding the retention strategies banks can adopt to improve customer loyalty. Below are some key recommendations for commercial banks to enhance their customer retention:

**Customer Satisfaction:** The research revealed a positive link between customer satisfaction and retention. Therefore, banks aiming to improve customer retention in Nepal should consistently offer high-quality service to enhance customer satisfaction.

**Employee Behavior:** The regression results demonstrate that employee behavior is a significant predictor of customer retention. To strengthen customer loyalty, banks should commit to continuous training and development opportunities for their employees. Enhancing the employees' competencies will improve the overall service quality and foster better relationships with customers.

**Complaint Handling:** Despite the lack of a significant correlation between complaint handling and customer retention in this study, this could be due to the relatively small sample size. Nevertheless, banks should still focus on improving their complaint handling practices. Strengthening the quality of services and addressing customer complaints effectively will contribute to building stronger customer relationships and enhancing retention.

**Complaint Management Department:** The study noted that many customers were dissatisfied with the complaint handling process. It is recommended that Nepalese commercial banks establish a dedicated department to manage customer complaints. By creating a dedicated department to manage customer complaints, banks can pinpoint the root causes of problems, take proactive steps to prevent them from happening again, and ultimately improve customer loyalty.

**Customer Satisfaction and Retention:** The regression analysis confirmed the significant impact of customer satisfaction on retention. Therefore, banks seeking to enhance customer retention should explore various ways to satisfy customers across all service areas. This could include offering new services, improving crisis management capabilities, and empowering employees, especially those who interact directly with customers.

**Focus on Key Factors:** The study revealed that all independent variables, except for switching barriers, showed a positive correlation with customer retention. Commercial banks should prioritize improving these factors, which are crucial to customer loyalty. While some banks may excel in certain areas and lag in others, an overall review of all these factors will be beneficial for retaining customers. Continuously enhancing customer relationship management (CRM) efforts should be a key focus.

**CRM Implementation:** The findings of this research can be instrumental for Nepalese commercial banks in developing a more effective CRM strategy. This can help raise customer satisfaction levels and ensure the retention of valuable customers.

Despite achieving its objectives, the study has some limitations. A sample of 152 customers was surveyed across Nepalese commercial banks, and the results may not fully represent the entire population of bank customers in Nepal. Future research could explore various CRM practices and strategies and their impact on customer satisfaction. Another area for future investigation could be assessing the effectiveness of CRM in enhancing customer loyalty and retention.

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## Appendix

### Questionnaire

#### 1. Gender

Male

Female

#### 2. Age

16-30

31-50

51 and Above

#### 3. Academic Qualification

Up to Intermediate Level

Bachelor's Level

Master's degree and above

#### 4. Occupation

Student

Self Employed

Salaried Person

Housemaker

5. Family Monthly Income

Below 30,000

30,000-60,000

60,000-100,000

6. Responses Towards Bank Offer Perceived Service Value

Yes

No

Don't Know

7. Bank Delivers the Services within Promised Time

Yes

No

Don't Know

8. *Analysis of Parameter of Perceived Service Value*

Perceived Service Value (PV)	1	2	3	4	5	5
Employees are efficient at service delivery						
Bank provides special service to special customer						
Accurate information is must for customer satisfaction						
Bank provides a wide range of services						
Bank provides quality service consistently						
Bank has all necessary technologies						
Overall customer convenience						

9. Employees Attitude Favorable to all Customers

Yes

No

Don't Know

10. Employee Behavior Bring Confidence in Customer

Yes

No

Don't Know

11. *Analysis of Parameter of Behavior of Employees*

Behavior of Employees (BE)	1	2	3	4	5
Skilled and experience employees for good service delivery					
Sincerity at work makes customer happy					
Employees have knowledge to customer queries					
Employees are polite to customers					
Employees are consistently courteous					
Overall customer convenience					

12. *Bank has Excellence Complaint Handling System*

Yes

No

Don't Know

13. *Bank Investigate the Root Cause of the Complaint*

Yes

No

Don't Know

14. *Bank Responds Customer Grievances Promptly*

Yes

No

Don't Know

15. *Analysis of Parameter of Customer Handling*

<i>Customer Handling</i>	1	2	3	4	5
Employees initiate in solving customer's problems					
Proactive action is taken to prevent mistakes					
Complaints are handled promptly					
Complaints are handled effectively					
Overall customer convenience					

16. *Convenient Language with Customer*

Yes

No

Don't Know

17. *Bank Commits Time and Resource for Customer Convenience*

Yes

No

Don't Know

18. *Analysis of Parameter of Customer Convenience*

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Customer Convenience (CC)	1	2	3	4	5
Banking hour are convenient for all					
Service delivery are convenient for all customers					
Adequate staffing to reduce customer wait time					
Banks are located at convenient location					
Innovation in banking are convenient					
Prompt response to customer request					
Overall customer convenience					

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19. *Awareness of Existing Switching Barriers*

Yes

No

Don't Know

20. *Do these Barriers Stop a Customer from Switching to Another Bank?*

Yes

No

Don't Know

21. *Analysis of Parameter of Switching Barriers*

Switching Barriers (SB)	1	2	3	4	5
Bank uses switching barriers to retain customers					
Using switching barriers provide opportunity income to banks.					
Does switching barriers influence different age group.					
Overall customer convenience					

22. Satisfaction with the Bank Service

Yes

No

Don't Know

23. Recommend the Bank to Other People.

Yes

No

Don't Know

24.

Analysis of Parameter of Customer

Satisfaction

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Customer Satisfaction (CS)	1	2	3	4	5
I am satisfied with the service offered.					
I am satisfied with the employee behavior.					
I am satisfied how my complaints are addressed.					
I am satisfied with the convenient service.					
I have no problems with existence of switching barriers					
Overall customer convenience					

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# FACTORS AFFECTING CUSTOMER RETENTION IN NEPALES...

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## paper text:

**Abstract** The study explores the factors influencing customer retention in Nepalese commercial banks, focusing on perceived service value, employee behavior, complaint handling, customer convenience, switching barriers, and customer satisfaction. Correlation analysis reveals significant positive relationship between customer retention and factors like perceived service value ( $r = 0.522$ ), employee behavior ( $r = 0.495$ ), complaint handling ( $r = 0.492$ ), customer convenience ( $r = 0.587$ ), and customer satisfaction ( $r = 0.793$ ). However, no significant relationship is found between switching barriers and customer retention ( $r = 0.036$ ,  $p = 0.660$ ). The regression analysis, with an adjusted R-squared value of 0.653, indicates that 65.3% of the variation in customer retention is explained by the independent variables, while 34.7% is attributed to other factors like marketing, pricing, and customer interactions. ANOVA confirms the model's appropriateness, and behavior of employees ( $p = 0.018$ ) and customer satisfaction ( $p = 0.000$ ) emerge as the most significant predictors of customer retention. The findings underscore the critical role of service quality, employee engagement, and customer satisfaction in fostering customer loyalty in Nepalese commercial banks. **Keywords:** Customer Relationship Management, Perceived Value, Behavior of Employees, Switching Barriers, Customer Convenience, Customer Satisfaction, Compliant Handling, Customer Retention

**CHAPTER I INTRODUCTION**

**1.1 Background of the study** Customer relationship management is on rise considering the current business scenario. To any business customers are well and truly God. A wide range of businesses, including financial and service industries, recognize importance in fostering strong customer bonds and possibilities benefits they bring. The existing ones are to be retained to obtain life time value and creation of new customer base is future prospect which is a continuous process in any kind of business for survival and success. Customer relationship that lasts long will reap benefits and profits more for business as well as the customer as well. The loyalty of customers is also appreciated by the corporations and it tend to give back as well. Mere knowing the theory of customer focused strategies are not significant until unless they are put into application (Blery & Michalakopoulos, 2015). CRM is comprehensive strategy In the fields of business and marketing, the technical part and business activity is related to the customer (Fjermestad & Romano, 2016). As market conditions become increasingly challenging, maintaining strong customer relationships is becoming crucial for Nepalese commercial banks. With limited number of customers and with a small economy, Nepalese Banks have had to please every customer in all possible manners in order to create acquire new clientele and retain existing customers. Indeed, it is a fact in marketing that it is costlier for an organization to create a new customer rather than retaining the existing ones. One of the pre-requisites of competitiveness is the capability of the corporations to adapt themselves with the customer