Understanding Service Quality, Customer Satisfaction, and Loyalty in Commercial Banks of Nepal

Basanta Prasad Adhikari[1a]*, Ananda Adhikari[1b], Dan Bahadur Giri[1c]

[1a]Research Department, Oxford College of Engineering and Management,Gaidakot,Nepal

[1a]Chairman,Saraswati Kendra Nepal,Ratnanagar,Nepal

[1b]Branch Manager,Machhapuchhre Bank,Tandi,Nepal

[1c]Department of Business Administration,Oxford College of Enginering and Management,Gaidakot,Nepal

*Corresponding email: drbasanta@oxfordcollege.edu.np.

Abstract

This study examines the interplay among service quality, customer satisfaction, and customer loyalty within Nepal's commercial banking sector. Customer satisfaction is crucial as it reflects the association between customer expectations and perceived service quality, significantly influencing customer loyalty and the industry's overall health. This study aims to comprehend banking behaviors, assess satisfaction levels concerning service quality, elucidate the connection between satisfaction and loyalty, and identify factors that shape loyalty and satisfaction in Nepalese commercial banks. Methodologically, this research applied a descriptive approach to explore these dynamics thoroughly. It also applied a causal comparative method to establish robust relationships among service quality, customer satisfaction, and loyalty. The data collection process involved distributing questionnaire to customers of commercial banks in Kathmandu, surrounding both physical branches and online platforms. The analysis of the data depends on the use of MS Excel and SPSS software to interpret findings effectively.

Key findings disclose significant correlations between different service quality dimensions. They are tangibility, reliability, assurance, empathy, technology, responsiveness, and customer satisfaction, with assurance emerging as a particularly influential predictors. Regression analysis further highlights the positive impact of assurance, technology, empathy, and tangibility on satisfaction, contrasting with lesser effects from reliability and responsiveness. Regarding customer loyalty, this study highlights the significant influence of customer satisfaction alongside empathy, whereas factors like reliability, responsiveness, tangibility, and technology show minimal impact. Ultimately, enhancing service quality especially assurance and empathy is crucial for improving satisfaction and cultivating final customer loyalty within Nepal's commercial banking sector, a vital issue of banking industries.

Keywords: *Commercial banks, consumer's loyalty, customers' satisfaction, Nepal, service quality.*

Introduction

The role of banks in economic development is crucial, as highlighted by different studies. Banks serve as intermediaries facilitating economic growth by managing financial relationships and providing essential services such as savings accounts, loans, and remittance facilities to a diverse customer base (Hafeez & Muhammad, 2012). The banking sector's contribution to a country's GDP is significant, driven by increased savings and capital formation that stimulate investments in productive sectors (Nepal Rastra Bank Report, 2012). However, the banking sector faces challenges, such as technological advancements, regulatory changes, and economic fluctuations, demanding constant adaptations and innovations (Ali & Zhou, 2013). In Nepal, the banking industry has evolved significantly since the establishment of Nepal Bank Limited in 1937, with subsequent reforms and liberalization in the 1980s opening doors to foreign joint ventures like NABIL Bank Ltd (formerly Nepal Arab Bank Ltd) (NRB Bank Supervision Report, 2012).

Despite political instability and liquidity crises, regulatory bodies and banks can collaborate on effective policies promoting tourism, developing infrastructure like hydropower, and enhancing service delivery to foster economic growth (Ali & Zhou, 2005). Service quality is paramount in distinguishing banks, influencing customer satisfaction, fostering customer loyalty, and reinforcing the sector's stability and growth (Mudie & Pirrie, 2006; Kumar, Tat Kee & Manshor, 2009). Thus, the banking industry's ongoing evolution and adaptation are crucial for sustaining economic development in Nepal and globally (Zafar et al., 2012).

The study addresses the increasing attention on service quality management within the banking sector, which is crucial as banking is a cornerstone of any economy with a substantial contribution to GDP. Despite operating under pressure and facing technological challenges, banks struggle to differentiate themselves solely through products and services in a competitive environment. The primary challenge lies in cultivating satisfied customers to foster loyalty, a critical factor often overlooked in the developing economies compared to the developed ones. Customers, well informed and influenced by global competitiveness, have high expectations that banks find challenging to meet consistently. Studies among Nigerian bank customers underscore this global trend (Woldie, 2003). Customer satisfaction hinges mainly on the quality and reliability of services, influencing customer loyalty and ultimately impacting bank profitability and effectiveness. This research seeks to fill gaps in the understanding of service quality, customer satisfaction, and loyalty within Nepalese commercial banks, addressing critical questions about factors influencing loyalty, areas needing improvement in customer satisfaction, and the interconnected relationships between service quality, satisfaction, and loyalty (Hafeez & Muhammad, 2012; Pandey & Joshi, 2010).

This study examined the interplay between service quality, customer satisfaction, and customer loyalty within commercial banks in Nepal. Specific objectives include identifying factors that impact service quality in banking institutions, determining critical drivers of customer satisfaction in the banking industries, identifying factors that foster customer loyalty, assessing the relationship between service quality and customer satisfaction, and exploring how customer satisfaction correlates with customer loyalty. The above-mentioned aims collectively seek to enhance understanding of the dynamics within Nepalese banking, providing insights that can potentially guide strategies for improving service delivery and fostering customer loyalty in the banking sector.

Due to the intense competitive situation in the banking sector, all banks must improve their service quality to their customers by providing quality services to fulfill their banking needs. Along with this, continuous evaluation and upgrades of the services should be done to satisfy customers' changing needs and retain customers. Any lack of service or quality can cause customer dissatisfaction and lead to a switch over to other competitors, thereby causing an awful condition for the bank. Thus, it is crucial to re-examine the quality of banks' service. Customers are becoming

more critical and selective about the services they receive.

This study produces clear knowledge about customer satisfaction and significant determinants of service quality, customer satisfaction, and loyalty. This study's findings help determine the level of customer satisfaction and customer loyalty in commercial banks in Nepal. It also helps identify the weaknesses in customer service delivery and significant factors influencing customer satisfaction and loyalty. This research provides academicians, researchers, banking administrators, bank investors, and students with the will to conduct extensive studies to show the relationship between service quality, customer satisfaction, and customer loyalty.

Research questions

What is the association between service quality and customer satisfaction in Nepalese commercial Banks?

What is the association between customer loyalty and satisfaction in Nepalese commercial Banks?

What is the appropriate proposed model of service quality and loyalty to customer satisfaction in Commercial Banks in Nepal?

Research Hypothesis

Based on objectives and research questions, this study developed and tested the following set of research hypotheses.

H10: There is no significant relationship between customer satisfaction and service quality of commercial banks in Nepal.

H20: There is no significant relationship between customers' loyalty and the service quality of commercial banks in Nepal.

H30: There is no significant relationship between customer loyalty and satisfaction in Nepal's commercial banks.

H40: There is no significant relationship between service quality, customers' satisfaction, and customers' loyalty to commercial banks in Nepal.

H50: There is no significant relationship between

customers' satisfaction with service quality and customers' loyalty to commercial banks in Nepal.

H60: There is no significant relationship between customers' loyalty, customer satisfaction, and service quality of commercial banks in Nepal.

Literature review

Service quality is how customers' perceptions of service meet and exceed their expectations. Thus, service quality can be how customers are served in an organization, whether good or poor. Parasuraman defines service quality as "the differences between customer expectations and perceptions of service" (Parasuraman el al, 1988). They argued that measuring service quality, as the difference between perceived and expected service was valid and could make management identify gaps in their offer.

Customers' Satisfaction

Customer satisfaction is mainly derived from the physiological response with the perceptual difference gap between expectation before consumption and practical experience after consumption of service or products. It implies an accumulated temporary and sensory response. Therefore, such a specific consumption setting frequently influences customers' overall attitude and decision-making when purchasing products or services (Lee, Hsiao & Yang, 2010). Anderson and Srinivasan, 2003) assessed consumer satisfaction in five dimensions: overall satisfaction, a customer favourite, customer loyalty, customer recommendation, and priority option. Understanding customer satisfaction will facilitate companies to maintain customer satisfaction with products or services.

Customers' Loyalty

Customer loyalty is a special kind of customer behaviour towards the organization. It is a kind of future prediction about the customer's intentions to do business with the firm. The customer's overall behaviour regarding product, service, or any other aspect of the organization in which the customer is involved makes the term customer loyalty. Loyalty is generally explained in terms of attitude and behaviour (Prabhakaran & Satya, 2003).

28

Review of Empirical Studies

The review of significant literature on service quality, customer satisfaction, and loyalty has been systematically categorized into three periods: literature up to the 2000s, from 2000 to 2010, and from 2011 to the present. Each period provides valuable insights into the evolution of these concepts, highlighting foundational theories, advancements, and emerging trends over time.

Review of literature till 2000s

The result shows some prominent studies on the effect of service quality on customer satisfaction from the 2000s, along with the major findings and conclusions of the studies (see Table 2).

Table 1. Major Studies till the 2000s

Study	Major Findings and Conclusion
Parasuraman et al. (1988)	Ten service quality dimensions were revised, and five dimensions of service quality were developed, i.e., tangibles, reliability, responsiveness, assurance, and empathy.
Joseph (1999)	Consumers have perceptual problems with some aspects of electronic banking in Australia.

A concise instrument called service quality SERVQUAL was developed to measure the service quality that would be reliable and meaningful in assessing quality in different service sectors. Two hundred respondents (N = 200) were taken from different service industries, such as appliance repair and maintenance, retail banking, long-distance telephone, securities brokerage, and credit cards. This study reveals the five attributes of the service quality model: tangibility, reliability, responsiveness, assurance, and empathy. SERVQUAL has a variety of potential applications. It can help a wide range of service and retail organizations assess consumer expectations and perceptions of service quality. It can also help pinpoint areas requiring managerial attention and action to improve service quality (Parasuraman et al., 1988). In Australian banking, Joseph (1999) conducted the study. Its objective was to investigate the role of technology in Australian banking and its impact on the delivery of perceived service quality. A sample of 440 electronic banking customers and three hundred

questionnaires were analyzed. This study indicated that consumers have perceptual problems with some aspects of electronic banking in Australia.

Review of literature from 2000 - 2010

The results show some prominent studies between 2000 and 2010 on service quality's effect on customer satisfaction, along with major findings and conclusions.

Table 2. Major Studies during 2000 and 2010

Study	Major Findings and Conclusion
Seth, Deshmukh and Vraf (2005)	The paper presents six propositions about service experiences and emotions' role in customer-perceived service quality.
Edvardsson (2005)	The study's main focus is to widen the scope of service quality by focusing on dimensions beyond cognitive assessment.
Wang and Shieh (2006)	Service quality dimensions have no significant difference among institutes and status. Overall service quality has a significantly positive effect on overall user satisfaction.
Abdollahi (2008)	The study displayed that satisfaction, choosing habits, tangible and intangible service quality, and switching costs are the factors that influence loyalty.
Mohamma and Noorjahan (2009)	Trust and customer satisfaction are significantly and positively related to customer loyalty. Customer satisfaction is an important mediator between perceived service quality and customer loyalty.
Munusamy (2010)	Tangibles have a positive relationship and have a significant impact on customer satisfaction. Assurance and responsiveness have a positive relationship, but it has no significant effect on customer satisfaction.
Pandey and Joshi (2010)	Service quality is directly correlated with customer satisfaction and also with the behavioural intentions of the customer.
Afsar (2010)	Factors like perceived quality, satisfaction, trust, switching cost, and commitment are the factors that influence the loyalty of the customer.
Kheng (2010)	The findings showed that improvement in service quality can enhance customer loyalty. Reliability, empathy, and assurance are the service quality dimensions that play a significant role in this equation.
Mosahab, Chelliab & Mum (2010)	This study revealed a positive and meaningful relationship between satisfaction and loyalty among all five service quality dimensions.

The study on different service quality models revealed that the service quality outcome and measurement depend on different factors like service setting, situation, time, and need. In addition, the study revealed customers' expectations of particular services. These services are changing due to different factors like time, the

increase in the number of encounters with a specific service, the competitive environment, etc. This study provided a rich agenda for future research on service quality (Seth, 2005).

The results collectively discuss several studies focusing on service quality, customer satisfaction, and loyalty in different contexts. Edverdsson (2005) explores the role of customer emotions in-service experiences, proposing six propositions related to service encounters and the impact of emotions on perceived service quality. Abdollahi (2008) investigates customer loyalty determinants in the Iranian banking industry, finding satisfaction, service quality (both tangible and intangible), personal habits, and switching costs as key influencers. Mohammad and Noorjahan (2009) examine the effects of service quality, trust, and satisfaction on customer loyalty in Bangladesh's telecommunications sector using structural equation modeling, highlighting the mediating role of satisfaction.

Munusamy et al. (2010) studied customer satisfaction in Malaysia's banking sector, revealing varied impacts of service quality dimensions on satisfaction. Pandey and Joshi (2010) analyze service quality and customer behavioural intentions in Nepal's hotel industry, demonstrating that satisfaction mediates the relationship between service quality and behavioural intentions. Lastly, Afsar et al. (2010) explored factors influencing customer loyalty in Pakistan's banking sector, emphasizing the interconnectedness of perceived quality, satisfaction, trust, switching costs, and commitment. Kheng (2010) in Malaysia evaluates how service quality dimensions like reliability, empathy, and assurance affect customer loyalty through customer satisfaction mediation. These studies collectively contribute to understanding the complex relationships among service quality, satisfaction, and loyalty across different industries and countries.

Table 3. Major Studies from 2011 to 2015

Study	Major Findings and Conclusion
Mohammad and Al-Hanadan (2011)	Service quality is an important antecedent of customer satisfaction. Managers and decision-makers in Jordanian commercial banks seek to improve the service quality elements that significantly contribute to customer satisfaction.
Mohsan (2011)	Customer satisfaction is a key driver for maintaining long-term relationships with other customers.
Siddiqi (2011)	The study documented a positive relationship between reliability and customer satisfaction.
Mumin (2012)	Variables like satisfaction, bank type, distance, ATM facilities, time to trance, switch cost, loan commitment, and auxiliary banking are significant determinants of customer loyalty.
Hassan and Anwar (2012)	The study displayed that the factors of customer loyalty are customer satisfaction, switching cost, customer perception, success philosophy, trust, and commitment.
Jajace and Ahmand (2012)	The study indicated a strong relationship between five service quality dimensions and customer satisfaction exists.
Anand and Selvaraj (2012)	The study documented that service quality factors such as empathy, responsiveness, assurance, and reliability have a strong positive relation with customer satisfaction and loyalty, but tangibility has no direct relationship.
Shanka (2012)	A positive correlation between the dimensions of service quality and customer satisfaction existed. Empathy and responsiveness are the most important factors in customer satisfaction, followed by tangibility, assurance, and reliability.
Islam (2013)	The customers' satisfaction level towards the overall performance level is quite good. The most positive response factors are products, procedures of services, charges, and employee performance.
Saeed (2017)	Reliability showed the highest positive correlation, with customer satisfaction and assurance as the least correlation.
Saghier and Nathan (2013)	Reliability, responsiveness, empathy, and assurance influence users' evaluation of banking service quality.
Saha et al.(2014)	The research aims to take different people's opinions about the service quality in different commercial banks in Rajshahi City, Bangladesh.
Enriquez-Magkasi and Caballero(2014)	This study was conducted in class AAA Philippine resorts based on the premise that customer satisfaction and loyalty have a significant relationship to service quality.

Rahmani-Nejab, Firoozbakht, and Taghipoor, A. (2014)	This research explores how relationship quality, commitment, and mental image influence long-term loyalty.
AI-Sayed,Shifan & Alawnen (2015)	This study aims to investigate the effect of perceived service quality on customers. Satisfaction in the banking sector in Jordan. Service quality is studied within different aspects based on the SERVQUAL model.
Cambridge Systematic & Retanuee (1999)	This study aims to investigate the relationships between TM and SQ at the Egyptian Commercial Banks (ECB).

The literature review covers different studies examining the relationship between service quality, customer satisfaction, and loyalty across different sectors and regions. Agyapong (2011) focused on the telecom industry in Ghana, using the SERVQUAL model to assess service quality and its impact on customer satisfaction among Vodafone clients. The study found positive correlations between service quality dimensions (competence, courtesy, tangibility, reliability, responsiveness, and communication) and customer satisfaction, emphasizing the importance of meeting customer needs to enhance service differentiation from competitors. Mohammad and Al-Hanadan (2015) explored service quality in Jordanian commercial banks, revealing that dimensions like reliability, responsiveness, empathy, assurance, and tangibles significantly influenced customer satisfaction and loyalty. Similarly, Anand and Selvaraj (2012) studied the Indian banking sector, confirming a positive relationship between service quality and customer satisfaction and loyalty at the State Bank of India,which underscore the universal importance of service quality in fostering customer loyalty and satisfaction across diverse banking contexts.

Theoretical frameworks in previous studies highlight reliability and empathy as crucial factors for customer satisfaction within different dimensions of service quality, supported by findings from Agyapong (2011), Saeed et al. (2013), and Jajaee and Ahmad (2012). Moreover, factors such as responsiveness, tangibility, technology, and pricing significantly influence customer satisfaction and subsequently affect customer loyalty, as Afsar et al. (2010) and Siddiqi (2011) noted. Despite extensive research in other regions, a notable gap exists in understanding these dynamics within Nepal's banking sector. Therefore, this study aims to explore the levels of service quality, customer satisfaction, and customer loyalty in Nepalese commercial banks, emphasizing their interconnectedness and importance in fostering customer loyalty.

Table 4. Summary of the previous studies on service quality, customer satisfaction, and loyalty in commercial banks

Authors and years	Title of the articles	Methods and sample	Sources of journal	Findings
Boonlertvanich (2019)	Service quality, satisfaction, trust, and loyalty: the moderating role of main-bank and wealth status.	A hierarchical model (N = 400)	International journal of bank marketing	Customer-perceived service quality significantly influences both attitudinal and behavioural loyalty through direct and indirect pathways involving satisfaction and trust. However, its impact on customer loyalty diminishes for customers who view the service provider as their main bank. It is less pronounced in behavioural loyalty among high-wealth customers than in regular customers, although it maintains consistent effects on attitudinal loyalty across different customer wealth levels.
Bellas and Gabčová (2016)	The relationship among customer satisfaction, loyalty, and financial performance of commercial banks.	Survey study (N= 459)	E & M economie a management	Product quality, recognition of customers' financial needs, and acceptance of prices by a customer have an impact on customer satisfaction, which then influences customer loyalty, which in turn influences the additional purchase potential of a customer.

Yoganathan et al.(2015)	The influence of relationship marketing orientation on brand equity in banks	Survey study (N = 1400)	Journal of retailing and consumer services	Relationship marketing orientation (RMO) positively influenced brand equity development in banks. The dimensions of RMO examined here, trust, communication, shared values, and empathy, significantly enhanced brand equity.
Nguyen et al. (2020)	Impact of Service Quality, Customer Satisfaction, and Switching Costs on Customer Loyalty	The survey (N = 227)	The journal of Asian finance, economics, and business	The results show that all five service quality factors in e-banking – reliability, responsiveness, service capacity, empathy, and tangibility – positively correlate with customer satisfaction. Among these determinants, service capacity and tangibility have the strongest impact.
Rod et al .(2016)	Customer perceptions of frontline employee service delivery: A study of Russian bank customer satisfaction and behavioural intentions.	The survey (N = 101)	Journal of retailing services and consumer	The study findings show that relational service delivery only significantly impacts customer satisfaction for Russian males, whereas core service delivery only impacts this effective outcome for Russian female customers.
Olavarría-Jaraba et al .2018)	Relationship quality as an antecedent of customer relationship proneness: A cross-cultural study between Spain and Mexico	The survey study (N = 431)	Journal of retailing and consumer services	The results show that, in both countries, customer relationship programs were significantly influenced by relationship quality. At the same time, the principle of responsible investment should be considered when improving the quality of customer relationships. However, intangible aspects (such as the level of market orientation or knowledge management are relevant in more mature, competitive markets whose customers show a higher level of LTO.
Ahmed et al. (2020)	Multivariate analysis techniques evidence the ES-QUAL model and customer satisfaction in online banking.	The survey study with ES-QUAL model (N = 931)	Oeconomia Copernicana	The outcomes of the direct investigation revealed an affirmative, potent impact of ES-QUAL dimensions on customer satisfaction.
Alam et al. (2021)	The relationship between CRM and customer loyalty: the moderating role of customer trust	The survey study (N = 350)	International journal of bank marketing	The results show that CRM components (customer orientation, customer advocacy, and customer knowledge), except customer engagement, positively impact customer loyalty. Moreover, customer trust only moderates the relationship between customer knowledge and customer loyalty, whereas other CRM components and customer loyalty do not moderate by trust.
Hoang (2019)	The central role of customer dialogue and trust in gaining bank loyalty: an extended SWICS model was applied.	Focus group survey (N = 389)	International journal of bank marketing	The findings highlight that customer dialogue plays a crucial role by independently influencing customer loyalty and acts as a mediator between customer satisfaction and loyalty, fully mediating this relationship. Customer trust is also emphasized for its significant role, fully mediating perceived value's effect on customer dialogue and loyalty, and partially mediating the paths from customer satisfaction and dialogue.

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Hanif et al. (2023)	Greening for the greater good: investigating the critical factors for customer satisfaction with sustainable e-banking.	The survey study method (N = 350)	Environmental science and pollution research	The results indicate that efficiency, reliability, responsiveness, safety, and security significantly impacted customer satisfaction with e-banking services. Efficiency and reliability were the most crucial factors influencing customer satisfaction, followed by safety, security, and responsiveness.
Kombo, Felix; Paulik, Jiri (2015)	Customers' satisfaction as an influence of corporate social responsibility in commercial banks: case from Kenya and Czech Republic	The quantitative survey (N = 353).	Finance and performance of firms in science, education, and practice.	In CSR activities and initiatives, many businesses have retained customers (through customer loyalty) and command high profits and market shares.
Aramburu and Pescador (2019)	The impacts of banks' corporate social responsibilities were based on different activity structures of service quality, consumer satisfaction, and consumer loyalty in Turkey.	The cross-sectional survey study (N = 262)	Journal of Sustainability	The findings show that CSR practices do not directly affect customer value co-creation in digital contexts. However, CSR practices positively influence customers' perception of a company's social responsibility. This perception, in turn, positively affects customer value co-creation, acting as a mediator between CSR practices and customer value co-creation.

The findings indicate that how customers perceive service quality significantly affects their loyalty—both in attitudes and behaviours—through pathways of satisfaction and trust. However, this effect is weaker for leading bank customers and less pronounced in the behavioral loyalty of high-wealth clients. Factors such as product quality, recognizing customer financial needs, and pricing approval can shape customer satisfaction, directly affecting loyalty and the probability of making extra purchases. A correlation marketing methodology highlighting trust, effective communication, shared values, and compassion can improve brand equity in the banking sector.

In the context of e-banking, aspects such as reliability, responsiveness, service capacity, empathy, and tangibility are positively associated with customer satisfaction, with service capacity and tangibility having the most significant influence. For instance, relational service delivery greatly improves satisfaction among the male population, while core service delivery has a stronger impact on women's satisfaction—the value of associations and principles of reliable investment shape customer relationship programs.

The factors of ES-QUAL considerably increase customer satisfaction, and elements of customer relationship management, for example, customer orientation and advocacy, promote loyalty, with customer trust acting as an intermediary between knowledge and customer loyalty. Furthermore, customer conversation directly enhances loyalty and facilitates the persuasion of satisfaction on loyalty. Trust also fully intermediates how perceived value influences both conversation and loyalty. Key dominations like effectiveness, reliability, approachability, protection, and security are necessary for satisfaction in e-banking, particularly highlighting the significance of usefulness and trustworthiness. While corporate social responsibility (CSR) practices do not directly impact digital customer value creation, they do develop perceptions of a company's social responsibility, positively adopting customer value co-creation.

The conceptual framework of this study
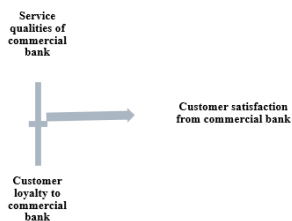
Figure 1. Factors affection customer satisfaction

The conceptual framework of this study is based on the literature on bank service qualities and loyalty in commercial banks in Nepal. This framework focuses on how customer loyalty and bank service quality influence customer satisfaction in commercial banks in Nepal (see Figure 1).

Research Method and Materials

The research methodology chapter outlines the structure and approach of the study. It introduces the descriptive research design applied to investigate factors influencing service quality, customer satisfaction, and loyalty in commercial banks. Additionally, correlation and casual comparative designs are utilized to explore relationships among variables. This study discusses quantitative research approaches, emphasizing exploring and interpreting customer perceptions alongside empirical observation and statistical analysis. Still, only a quantitative approach has been followed in the results section for the data analysis (Adhikari & Thomas, 2024). The method section has summarized the details of the primary data sources, focusing on a structured questionnaire to assess service quality, satisfaction, and loyalty interrelationships (see Table 5). This study applied the stratified sampling technique used to select thirty commercial banks in Nepal as the sample population, categorized into

Table 5. Composition of respondents and representing banks

S. No	Types of Banks	No of Respondent Representing Banks	No of respondents	Percent (%)
1	Governments Owned Banks	3	22	9%
2	Joint Venture Banks	6	64	27%
3	Private Banks	21	149	63%
	Total	**30**	235	100%

The questionnaire was distributed personally to customers at commercial banks and also to friends and family members. This survey aimed to assess service quality, customer satisfaction, and loyalty within Nepal's commercial banks, gathering opinions and perceptions from two hundred and sixty-five respondents (Adhikari & Adhikari, 2022). All questionnaires were returned, but there was an 11% error rate during data collection, as depicted (see Appendix A), which shows the response rates. Out of two hundred sixty-five completed questionnaires, 89% were correctly filled in, while twenty-six were filled in incorrectly. Primary data was collected using a self-administered survey questionnaire that included respondent profiles, tick-mark questions, yes-no questions, rank questions, and Five-point Likert scale questions. Collected information was coded and analyzed using SPSS and Excel to derive meaningful relationships between service quality, customer satisfaction, and loyalty through correlation and linear regression analyses (Adhikari, 2022). The study applied a simultaneous equation model to explore these relationships, with service quality dimensions as independent variables and customer satisfaction and loyalty as dependent variables. Multiple regression models were utilized to analyze these interrelationships comprehensively.

The analysis plan involves collecting data from two hundred and sixty-five (N =265) respondents across commercial banks in Nepal, covering aspects of service quality, customer satisfaction,

and loyalty. The questionnaire included seventy-six questions: personal information, yes-no questions on service quality, multiple-choice questions on banking habits, ranking questions on influential factors, Likert scale questions on agreement levels, and an open-ended suggestion query. Data will be coded and analyzed using SPSS and Excel for quantitative analysis, employing Cronbach's alpha for reliability testing of scaled items. Descriptive statistics such as frequency tables, percentages, means, and standard deviations will be used to assess service quality, customer satisfaction, and loyalty relationships within Nepalese commercial banks.

Reliability and validity

Reliability and validity are crucial aspects of measurement in this study. Validity ensures that a test accurately measures what it intends to measure, ensuring its functions and accuracy. Methods for establishing validity include self-evident measures, pragmatic measures, and construct validity. On the other hand, reliability concerns the consistency and precision of measurement procedures and evaluating the stability and consistency of measurement results and tools. Cronbach's alpha (α) was used to assess the reliability and validity of the data collected (see Table 6). The alpha coefficient of 0.74 for 77 items indicates that 74% of the data used in the study is reliable, with a 26% margin of error. Additional Cronbach's alpha values for other items are detailed (see Appendix B).

Table6. Reliability and validity of the collected data

Cronbach's Alpha	Standardized Cronbach's Alpha	No of Items
0.74	0.74	77

Critical analysis of the applied resources, methods, and materials

Critical analysis of the applied resources is imperative to make scientific writing academic and reliable. Our critical analysis is based on customer satisfaction and loyalty to service quality and

customer satisfaction and loyalty in commercial banks in Nepal. The online and offline resources review was critically analyzed to connect with the Nepalese context. However, the review results show a more significant gap between the Asian, British, European, and American contexts, which indicates further research requirements to understand respondents' current and actual opinions and experiences on customer satisfaction and locality in Nepalese Commercial Banks.

.The latest study by Nguyen, Ho, and Ngo (2024) highlights that a company builds trust, satisfaction, and loyalty by delivering excellent service and enhancing the overall customer experience. They further indicate that investing in service quality strengthens the current relationship and covers the way for long-term customer loyalty and success. This resource is the latest research and underpins the concept of customer satisfaction, service quality, and customer loyalty. The study of Parasuraman (1988) defined the meaning of service quality by providing deep literature on our research title, service quality, highlighting a difference between the fundamental definition of customer satisfaction and loyalty. It reveals the importance of the SERVQUAL model, even though it cannot cover the applicability of this model, which might miss the Nepalese context on factors affecting understanding the roles of service quality to customer satisfaction in the Nepalese context.

The resource of Nguyen et al. (2024) has significantly enriched the literature of the research topic of this study. They have highlighted that behavioural and attitude factors can determine the resource on customer loyalty. Customers' attitudes encompass concepts such as their intention to repurchase or purchase more products from specific banks, their intention to suggest the product to many different consumers, and their demonstrated adherence to the supplier through their refusal to switch to other competitors or willingness to pay high prices. They further declared that consumer loyalty can also be described as the customer's disposition regarding the likelihood of repurchasing identical products. Nguyen et al. (2024)highlighted that customer

loyalty is behaviorally expressed as the repeated purchase of various items from a single vendor, the willingness to refer the provider to multiple clients, and a long-term perception of the brand as a viable option.

The sources of Ganguli and Roy (2011), Ganguli and Roy (2011), Lee et al. (2010), Srinivasan (2003), Seth (2005), and Edvardsson (2005), Satya's (2003), Olavarría-Jaraba (2018), and Nguyen et al. (2020) have highlighted vivid literature on understanding service quality, customer satisfaction, and loyalty in Commercial Banks of Nepal. These sources have supported finding the correct literature while administrating the survey questionnaire to collect the data. When the survey instrument measures the opinions, experiences, and observations of the respondents on what is intended to be examined, the results can be valid and reliable so that future implications can be considered in different locations and contexts (Adhikari, 2022).

The literature (see Table 1) shows a large gap between the other Asian countries, European, American, and British contexts. We have no evidence that the opinions, experiences, and observations on customer satisfaction, service quality, and loyalty in global contexts are the same because the technologies, human workforce, and international environments are different and complex among different countries.

Research on service quality, customer satisfaction, and loyalty in commercial banks of Nepal highlights significant gaps in the existing literature. The current focus predominantly examines the individual impacts of service qualities and customer loyalty factors without examining how commercial banks and wealth status specifically moderate the abovementioned relationships. Studies often generalize findings across customer segments, overlooking these crucial moderating factors. Methodologically, there is a clear need for more nuanced approaches to measure and analyze these moderating effects comprehensively. Moreover, while acknowledging the positive relationship between satisfaction, loyalty, and financial performance, methodological gaps exist

in establishing causality across diverse bank types and geographic contexts.

Furthermore, understanding the precise mechanisms within relationship marketing that enhance brand equity in the banking sector requires more empirical studies employing comparative analyses. Furthermore, integrative research on the combined influence of service quality, satisfaction, and switching costs on customer loyalty is lacking, necessitating the development of more sophisticated models. Cross-cultural studies that compare customer perceptions in banking are notably weak. Furthermore, despite increasing attention to CRM and sustainability in banking, there is a pressing need for comprehensive investigations into their impacts across various socio-economic contexts and within different banking sectors.

Therefore, future research should focus on enhancing customer perceptions of service quality, loyalty, and customer satisfaction. In the Nepalese banking sector context, customer relationships are vital business processes, and customer satisfaction is becoming the key to business success. Furthermore, the main element determining customer satisfaction is the customer's perception of service quality and loyalty in the Nepalese context, which requires future investigation to understand the actual problem of Nepalese Commercial Banks. Customer satisfaction is defined as comparing the customers' expectations and their subsequent perceived service quality performance.

Results and Discussion

This study provides valuable insights into how Nepalese commercial banks can optimize service quality to enhance customer satisfaction and loyalty, improving their market position and retention strategies.

Respondents' profile

Table 7. Respondents; demographic information

Particulars	Frequency (N)	Percent (%)
Age in years		
Below20	8	3.4
21-25	64	27.2
26-30	84	35.7
31-35	50	21.3
36-40	18	7.7
41 and above	11	4.7
Total	235	100
Female	95	40.4
Male	140	59.6
Total	235	100
Profession		
Government Employee	39	16.6
Private Employee	136	57.9
Businessperson	11	4.7
Other	49	20.9
Total	235	100
Academic Qualification		
PhD	1	0.4
M. Phil	4	1.7
Master	127	54.0
Bachelors	94	40.0
Intermediate	9	3.8
Total	235	100
Transaction with Bank		
Less than one year	30	12.8
1-2Years	43	18.3
2-5Years	87	37.0
more than 5 Years	75	31.9
Total	235	100

The respondent profile shows their characteristics such as age group, gender, educational background, occupation, and duration of banking relationship. This information is crucial for understanding customer traits and purchasing behaviours, forming a foundation for analyzing customer demographics and preferences.

The results show the gender, age, profession, academic qualification, and the manes of banks where they did their financial transaction along with frequency and percentage values. Among the 235 respondents, 59.6% were male, and 40.4% were female (see Table 7). An evaluation of service quality in Nepalese commercial banks was conducted using a yes-or-no questionnaire approach. The detailed questionnaire statements (see Appendix A) focused on various aspects such as overall service quality, customer perceptions of bank facilities, operational performance and accuracy, staff interaction with customers, online and mobile banking services, and customer recommendations. Further details can be found on the factors influencing service quality (see Table 7). The results show the factors influencing service quality in banks, assessed through statements categorized as yes, no, and no idea responses(see Table 8).

Table 8. Respondent's Perception of Service Quality

Statements for Service Quality	N / %	Yes	No	No Idea
The physical facilities and equipment of your bank are visually appealing	N	165	31	39
	%	70.2%	13.2%	16.6%
The bank can perform the promised services accurately.	N	192	27	16
	%	81.7%	11.5%	6.8%
Bank employees are willing to help the customer.	N	131	95	9
	%	55.7%	40.4%	3.8%
The bank employees show politeness to the customer	N	190	31	14
	%	80.9%	13.2%	6.0%
The bank employees properly understand the customer's needs.	N	146	47	42
	%	62.1%	20.0%	17.9%
Online and mobile banking at the bank is user-friendly.	N	113	54	68
	%	48.1%	23.0%	28.9%
Would you like to recommend the bank to other people?	N	125	91	19
	%	53.2%	38.7%	8.1%

The results indicate varying satisfaction levels with different aspects of service quality in commercial banks. A majority, 70.2%, are satisfied with the physical facilities and equipment, while 13.2% express dissatisfaction. Regarding service delivery, 81.7% believe banks provide promised services. Employee willingness to assist customers is noted positively by 55.7% of respondents, and 80.9% find employees polite. However, online and mobile banking services receive lower satisfaction, with only 48.1% satisfied and 28.9% unsure. Lastly, 53.2% would recommend their bank to others. Respondents prioritize employee helpfulness, politeness, and timely service delivery

in their service quality assessment (see Table 8).

Banking Pattern of Respondents

The results show the frequency of respondents visiting the bank. The visiting frequencies are classified into different periods to measure the frequency of the respondents' visits. Out of 100 %, 7.7% of respondents visit the bank daily, 11.1% visit twice a week, and 9.8% visit once a week. Similarly, 37.4% of respondents visit monthly, 17.9% visit once a month, and 16.2% visit when required. Hence, it could be concluded that most respondents visit the bank once a month, and fewer respondents visit the bank twice a week. The results show that most respondents visit the bank once a month. Out of 235 respondents, 42 visited the bank once a month. However, respondents visit the bank twice weekly (see Figure 1).
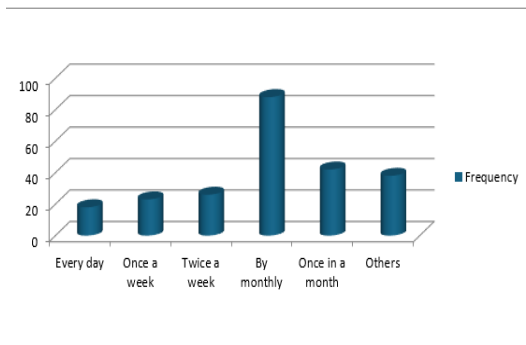

Figure 1. Frequency of Visiting Banks

The results show that different factors influence the selection of banks among different commercial banks in the financial market. The results further show five factors: a high interest rate on deposits, low service charge, location, personal relationship, and service delivery speed, which help the bank selection (see Table 9).

Table 9. Selection of Bank

Factors	Frequency (N)	Percent (%)
The high interest rate on deposit	29	12.3
Low service charge	22	9.4
Location	74	31.5
Personal relationship	45	19.1
Service delivery speed	52	22.1
Others	13	5.5
Total	**235**	**100**

The results concluded that location is the major factor in customers' selection of banks. In contrast, a higher interest rate is the second factor in the selection of the bank, and other factors like ATM facilities and utility payment services are the least important factors for customers to select the bank (see Table 9).

Table 10. Employees' Behavior for Quality Service

Qualities	Frequency (N)	Percent (%)
Politeness	77	32.8
Immediate responses	64	27.2
Adequate knowledge / Information	38	16.2
Problem handling skill	39	16.6
Manage the waiting time	16	6.8
Others	1	0.4
Total	**235**	**100**

The results show that employee behaviours are required to deliver quality service. Politeness is the most important behaviour required of each employee while providing services. Thus, employees must be polite in front of their valuable customers. Managing the waiting time is the least important behaviour required in employees while delivering services (see Table 10).

Factors for Service Quality

Service quality is a critical factor for profitability as well as firm success. It is regarded as a means for service differentiation and competitive advantage that attracts new customers and contributes to market value. It also enhances customers, inclination to buy again, to buy more other services, to become less price-sensitive, and to tell others about their favourable experiences(Aslam, Khan & Tanveer, 2011).

Table 11. Factors Influencing Service Quality

Major Reasons/ Factors	Most Important			Least Important			N	Mean	Rank
	1	2	3	4	5	6			
Tangibles	47 20%	20 8.5%	31 13.2%	42 17.9%	45 19.1%	50 21.3%	235 100%	3.7	4
Reliability	65 27.7%	56 23.8%	40 17.0%	38 16.2%	28 11.9%	8 3.4%	235 100%	2.7	1
Responsiveness	51 21.7%	55 23.4%	54 23.0%	43 18.3%	20 8.5%	12 5.1%	235 100%	2.8	2
Assurance	30 12.8%	50 21.3%	59 25.1%	46 19.6%	35 14.9%	15 6.4%	235 100%	3.2	3
Empathy	18 7.7%	33 14.0%	30 12.8%	45 19.1%	68 28.9%	41 17.4%	235 100%	4.0	5
Technology	25 10.6%	20 8.5%	22 9.4%	21 8.9%	41 17.4%	106 45.1%	235 100%	4.5	6

Based on the findings, this study reveals that reliability is the most influential factor in service quality in Nepalese commercial banks, with a mean value of 2.7. Following the results (see Table 11) closely is responsiveness, which has a mean value of 2.8. Conversely, technology is identified as the least influential factor, with a mean value of 4.5. Reliability, being the most preferred service quality by customers, emphasizes the importance of timely and error-free services, ensuring transaction safety, and demonstrating sincere interest in customer queries. Responsiveness, as the second most influential factor, underscores the need for efficient and quick service delivery and effective problem-solving by bank employees. On the other hand, technology, while less impactful, necessitates the provision of user-friendly ATMs and Internet banking systems to meet customer banking needs (see Table 11).

Customers' Satisfaction

Customer satisfaction refers to the state where the bank's service meets customers' expectations and leaves them feeling content (Adhikari, 2019). This satisfaction is crucial in competitive environments where businesses vie for each other's clientele. Factors influencing customer satisfaction include pricing strategies, minimal complaints, transparent transactions, and the business's overall reputation (Adhikari, 2019).

Table 12. Factors Influencing Customers' Satisfaction

Major Reasons/factors	Most Important			Least Important			N 100 %	Mean	Rank
	1	2	3	4	5	6			
Few complaints	35	29	38	53	46	34	235 100 %	3.62	3
	15%	12%	16%	23%	20%	14%			
Pricing plan	28	27	38	53	55	34	235 100 %	3.77	4
	12%	11%	16%	23%	23%	14%			
Clarity in transaction	42	50	42	38	26	37	235 100 %	3.28	2
	18%	21%	18%	16%	11%	16%			
Bank image	78	58	41	32	17	9	235 100 %	2.48	1
	33%	25%	17%	14%	7%	4%			
First choice	24	40	40	34	53	44	235 100 %	3.78	5
	10%	17%	17%	14%	23%	19%			

Overall service quality	29	30	39	27	38	72	235 100 %	3.98	
	12%	13%	17%	11%	16%	31%			6

The results show the key factors influencing customer satisfaction in commercial banks in Nepal, ranked according to their impact. The results further show complaints, pricing plan, transaction clarity, bank image, being the first choice, and overall service quality. Each factor has been assigned a ranking score, where a rank of 1 signifies the highest importance in driving customer satisfaction, followed by ranks 2 through 6, with 6 indicating the least influential factor (see Table 12).

This study highlighted that bank image is the most influential factor for customer satisfaction in Nepalese commercial banks, with a mean value of 2.48, and closely follows clarity in the transaction, which has a mean value of 3.28. Conversely, overall service quality is identified as the least influential factor, with a mean value of 3.98. A bank image emerges as the primary driver of customer satisfaction, highlighting the importance of maintaining a positive reputation in the financial market to retain customers long-term. Clarity in transactions is identified as the second most influential factor, emphasizing the need for transparency and customer confidence in every transaction. On the other hand, overall service quality, while important, is noted as the least influential factor, suggesting a need for banks to improve across all aspects of service quality to enhance customer satisfaction and retention.

Factors Influencing Customers' Loyalty

The results indicate key factors influencing customer loyalty in commercial banks in Nepal, ranked by their impact based on respondent feedback. Factors such as switching costs, trust, commitment, employees' behaviour, location, and a strong capital base are evaluated. Rankings range from 1 for the most significant factor to 6 for the least significant, providing insights into what drives customer loyalty in this context.

Table 13. Factors Influencing Customers' Loyalty

Major Reasons/ Factors	Most Important		Least Important				N	Mean	Rank
	1	2	3	4	5	6	100%		
Switching cost	22	23	24	27	63	76	235	4.34	5
	9%	10%	10%	11%	27%	32%	100%		
Trust	79	48	38	36	18	16	235	2.63	1
	34%	20%	16%	15%	8%	7%	100%		
Commitment	32	42	55	47	42	17	235	3.32	4
	14%	18%	23%	20%	18%	7%	100%		
Employees behavior	43	55	52	40	23	22	235	3.05	2
	18%	23%	22%	17%	10%	9%	100%		
Location	42	45	43	46	36	23	235	3.25	3
	18%	19%	18%	20%	15%	10%	100%		

Strong capital base	17	22	22	38	55	81	235		
								4.45	
	7%	9%	9%	16%	23%	34%	100%		6

The results highlight trust as the primary driver of customer loyalty in Nepalese commercial banks, followed by employee behaviour and location. Commitment and a strong capital base are identified as the least influential factors in this context (see Table 13).

Relationship between Service Quality, Customers' Satisfaction and Customers' Loyalty

The correlation analysis illustrates the connection between service quality, customer satisfaction, and loyalty. Spearman's rho correlation measures the association between the variables. This correlation can be positive or negative. Customer loyalty is the outcome variable, while tangibility, empathy, assurance, responsiveness, reliability, technology, and customer satisfaction are the predictors. The correlation coefficient indicates the strength of the relationship between these predictors and customer loyalty. A high correlation suggests a strong relationship, whereas a low correlation indicates a weak relationship between the variables (Adhikari, 2022).

Table 14. Spearman's Rho Correlation

	TAN	REL	RES	ASS	EMP	TECH	CS	CL
TAN	1							
REL	0.811**	1						
RES	0.512**	0.613**	1					
ASS	0.575**	0.639**	0.685**	1				
EMP	0.582**	0.572**	0.582**	0.619**	1			
TECH	0.413**	0.483**	0.435**	0.386**	0.527**	1		
CS	0.548**	0.594**	0.565**	0.598**	0.582**	0.509**	1	
CL	0.504**	0.516**	0.535**	0.612**	0.604**	0.465**	0.657**	1

The Spearman's rho correlation coefficients show strong positive associations between the dependent variable, customers' loyalty, and different independent variables: tangibility, reliability, responsiveness, assurance, empathy, technology, and customer satisfaction. Specifically, customer loyalty shows the highest correlation with customer satisfaction, with a coefficient of 0.65, which indicates that satisfied customers are more likely to exhibit loyalty (see Table 14). The next most influential factor for customer loyalty is assurance, with a correlation coefficient of 0.612, which highlights the importance of trust and confidence in employees' interactions with customers, including polite behaviour, knowledge to address queries, and ensuring safe transactions. The results further show that empathy also significantly influences customer loyalty, with a correlation coefficient of 0.604. The result highlights the value of employees' personal attention and empathetic behaviour, which makes customers feel valued and enhances their loyalty (see Table 14).

Customers' Satisfaction and its Determinants

The results indicate that key factors influencing customer satisfaction include tangibility, reliability, responsiveness, assurance, empathy, and technology, assessed on a 5-point Likert-type scale. Table 4.10 illustrates the implementation of tangibility practices in Nepalese commercial banks. It shows that a majority of respondents agree with various aspects: 78% agree that banks have necessary modern equipment, while only 9% disagree. Additionally, 82% agree that employees maintain a neat and clean appearance. Furthermore, 68% find pamphlets and statements clear and well-explained, and 70% agree that banks provide proper and convenient waiting and sitting arrangements. Moreover, 64% agree that the physical facilities of banks are visually appealing. In summary, the findings indicate widespread agreement among respondents regarding the neat appearance of bank employees.

The results show that there are reliable practices in Nepalese commercial banks. About 86% of respondents agreed with the statement that respondents are safe in all transactions with the bank, and 75% agreed that the bank delivers all the services within the promised time. 68% of respondents agreed that the bank maintains error-free services. 64% agreed with the sincere interest shown by employees in customers. The results further highlight the responsive practice in Nepalese commercial banks. About 79% of respondents agreed that bank employees are willing to help customers, 69% agreed with special services provided to special customers, and 55% agreed that the bank operates a regular and effective complaint-handling process. 55% of respondents agreed with the statement that banks provide financial advice.

The findings reveal the implementation of assurance practices in Nepalese commercial banks. A significant 82% of respondents feel secure in their transactions with banks, while 76% agree with the polite behaviour exhibited by employees.

Additionally, 75% of respondents agree that banks provide efficient and prompt services. Moreover, 71% of respondents expressed trust in their bank's employees, and an equal percentage affirmed that employees possess sufficient knowledge to address customer queries.

The results further illustrate the empathy practices within Nepalese commercial banks. It indicates that 75% of respondents agree that banks maintain strong customer relationships. Furthermore, about 70% of respondents agree that employees consistently deliver accurate service, with only 8% expressing disagreement. Moreover, 51% of respondents agree that banks regularly inform them about new and attractive offers, whereas 20% disagree.

Table 15. Regression Analysis of Customer Satisfaction and Service Quality Factor

Model	Intercept	Tangibility	Reliability	Assurance	Responsiveness	Empathy	Technology	Adjust R2	Standard Error	F Value
1	1			0.606				0.368	0.506	137.356
	8.926**			11.720**						
2	0.587	0.296			0.189	0.259		0.453	0.47096	65.653
	4.762**	4.637**			3.404*	4.446**				
3	0.622			0.479			0.307	0.462	0.467	101.345
	5.234**			9.262**			6.440**			
4	0.467	0.251		0.352			0.248	0.496	0.45214	77.773
	3.851**	4.10**		5.994**			5.136**			

5	0.418	0.242	-0.06	0.276	0.061	0.13	0.202	0.504	0.44853	40.636
	3.415**	2.935**	-0.713	3.811**	1.03	2.128*	3.812**			
6	0.437	0.211		0.299		0.138	0.203	0.505	0.44803	60.72
	3.620**	3.353**		4.774**		2.293*	3.935**			

Using a linear regression model, the regression results are based on the weighted mean value of the perceived Likert value of 30 commercial banks of the 2015 survey. The model is CS = α + β1ASS + β2TEC + β3REL+ β4RES + β5EMP + β6TAN where CS, ASS, TEC, REL, RES, EMP, and TAN are customers' satisfaction, assurance, technology, reliability, responsiveness, empathy, and tangibility, respectively. The regression analysis has examined the relationship between the independent variables— assurance, technology, reliability, responsiveness, empathy, and tangibility—and the dependent variable, customer satisfaction. The analysis applied pooled cross-sectional data from two hundred and thirty-five (N = 235) respondents, representing weighted average responses across each aspect of these variables (see Table 15). The results indicate that the regression model went across and models assessing customers' satisfaction and service quality factors. Overall, the findings demonstrate a positive relationship between customers' satisfaction and service quality factors such as assurance, technology, reliability, responsiveness, empathy, and tangibility (see Table 15).

The results show that the six models specify relationships between customer satisfaction and service quality factors. Model 1 identifies a significant relationship between customers' satisfaction and assurance, while model 2 adds tangibility, responsiveness, and empathy as significant variables positively affecting satisfaction. Model 3 emphasizes the significance of assurance and technology. In model 4, tangibility, assurance, and technology are significant factors, whereas reliability and responsiveness in model 5 show no significant relationship with satisfaction. Model 6, surrounding all service quality variables simultaneously, finds that tangibility, technology, assurance, and empathy are statistically significant at either the 1% or 5% levels, explaining 50.5% of the variance in customer satisfaction through adjusted R square (see Table 15). The beta coefficients in model 6 highlight tangibility (β = 0.211), assurance (β = 0.299), empathy (β = 0.138), and technology (β = 0.203) as significant predictors of customer satisfaction, which indicates that a one percent increase in tangibility, assurance, and technology leads to respective increments of 0.211, 0.299, and 0.203 in customer satisfaction (see Table 15).

DISCUSSION AND CONCLUSION

Overview of the study

The study investigates the impact of unrelated service quality factors—tangibility, reliability, responsiveness, assurance, empathy, and technology—on customer satisfaction and how that satisfaction, in chance, affects customer loyalty in Nepalese commercial banks, which applies two models: one in which customer satisfaction is the dependent variable designed by the service quality factors, and another in which customer loyalty is the dependent variable influenced by both customer satisfaction and those service quality factors.

Demographic findings indicate that 35.7% of respondents are aged 26-30, primarily work in the private sector, possess master's degrees, and have over five years of banking experience (31.9%). A majority prefer private banks, with 149 out of 235 choosing them for transactions. The survey reveals that reliability is the most valued service quality dimension, highlighting banks' need to offer timely and accurate services. Responsiveness, which relates to prompt service and readiness to assist customers, is the second most crucial factor, while technology ranks the lowest in significance.

The studies of Boonlertvanich (2019), Bellas and Gabčová (2016), Nguyen et al. (2020), Rod et al.

(2016), Olavarría-Jaraba et al.2018), Alam et al. (2021); Hoang (2019), and Hanif et al. (2023) have partially supported the current results because the current results disclosed that customer satisfaction is embedded with the service quality and loyalty in Commercial Banks. We identified the same results mentioned in this section's first and second lines. They also highlighted that customer dialogue plays a crucial role by independently influencing customer loyalty and acts as a mediator between customer satisfaction and loyalty, fully mediating this relationship. Customer trust is also emphasized for its significant role, fully mediating perceived value's effect on customer dialogue and loyalty, and partially mediating the paths from customer satisfaction and dialogue. Additionally, the previous authors mentioned in the discussion section above indicate that the study findings show that relational service delivery only significantly impacts customer satisfaction for Russian males. In contrast, core service delivery only impacts this effective outcome for Russian female customers (see Table 4).

However, the results of previous studies by Yoganathan et al.(2015), Ahmed et al. (2020), Kombo, Felix, Paulik, Jiri (2015), and Kang et al. (2010) were different from the results of the current study because they found that CSR practices did not directly affect customer value co-creation in digital contexts. However, CSR practices positively influence customers' perception of a company's social responsibility. This perception, in turn, positively affects customer value co-creation, acting as a mediator between CSR practices and customer value co-creation.

The previous study by Johnson and Karlay (2018) highlighted that empathy, reliability, and assurance are the most influential service quality dimensions on customer satisfaction. However, our research found that the most influential service quality dimensions on customer satisfaction in Nepalese commercial Banks are responsiveness, empathy (price of service), and assurance. This is in conformity with those who find that the concept of service quality differs from organization to organization. Price is of vital importance; the price of the service has the most substantial impact on customer satisfaction.

Regarding customer satisfaction, the bank's image is the most significant factor, resulting in transaction clarity, with overall service quality considered the least impactful. Trust is identified as the critical factor for customer loyalty, followed by employee behaviour, while a solid capital base is viewed as the least significant. Furthermore, the results show that correlation analysis shows positive relationships between tangibility, reliability, assurance, empathy, technology, responsiveness, and customer satisfaction, with assurance being the strongest. Regression analysis confirms that assurance, technology, empathy, and tangibility significantly enhance customer satisfaction, particularly tangibility, assurance, and technology at 1% and empathy at 5%. However, reliability and responsiveness do not considerably relate to customer satisfaction.

DISCUSSION BASED ON THE RESEARCH QUESTIONS

This section covers the Discussion based on research questions. Furthermore, this section backed up the current results with the previous studies on the topic related to this study.

Research question 1.

What is the association between service quality and customer satisfaction in Nepalese commercial Banks?

The findings demonstrate a positive relationship between customers' satisfaction and service quality factors such as assurance, technology, reliability, responsiveness, empathy, and tangibility (see Table 15). This research suggests that the most important factor after price is service efficiency for customers when evaluating a service provider's quality. Most of the respondents voiced displeasure with the efficiency of LRA services, with respondents complaining about the prolonged waiting time to get their inquiries addressed when the model is $CS = \alpha + \beta1ASS + \beta2TEC + \beta3REL + \beta4RES + \beta5EMP + \beta6TAN$ where CS, ASS, TEC, REL, RES, EMP, and TAN are customers' satisfaction, assurance, technology, reliability, responsiveness, empathy, and tangibility, respectively (see Table

44

14).

In Nepalese banking, "customer satisfaction" refers to how happy customers are with the services banks provide. This crucial indicator demonstrates how successfully banks meet or surpass their clients' expectations. Convenience, overall experience, product options, customer service, and service quality all have an impact on consumer satisfaction. In Nepal, tangible service quality indicators, such as communication, empathy, assurance, responsiveness, and consistency, impact customer satisfaction. Client satisfaction is increased by well-maintained bank facilities (tangibles), accurate and dependable service (reliability), quick and efficient responses to client inquiries (responsiveness), courteous and professional staff (assurance), and individualized attention to customer requirements (empathy) (Joshi, 2021).

The results show that the bank's image was the most crucial factor, followed by transaction clarity, with overall service quality considered the least impactful for customer satisfaction in Nepalese Commercial Banks. The results further indicate that trust is regarded as the critical factor for customer loyalty, followed by employee behaviour, while a strong capital foundation is considered the least significant. Further, previous studies show that tangibles have a positive relationship and a significant impact on customer satisfaction.

Research question 2

What is the association between customer loyalty and satisfaction in Nepalese commercial Banks?

The results show that there was an association between customer loyalty and customer satisfaction. The result of the current study is partially supported by the studies of Mohammad and Shireen (2011), Mohsan (2011), Siddiqi (2011), Mumin (2012), Hassan and Anwar (2012), Jajace and Ahmand (2012), Anand and Selvaraj (2012), Shanka (2012), Islam et al. (2013), Saeed (2013), Saghier and Nathan (2013), Saha et al.(2014), Enriquez-Magkasi and Caballero(2014), Rahmani-Nejab, Firoozbakht, and Taghipoor, (2014), Sayyed et al. (2015), and Nafel, (2015), who highlighted that six propositions about service experiences and emotions' role in customer-perceived service quality, widens the scope of

service quality by focusing on dimensions beyond cognitive assessment, and shows that service quality dimensions have no significant difference among institutes and status.

The previous study displayed that satisfaction, choosing habits, tangible and intangible service quality, and switching costs are the factors that influence loyalty. Trust and customer satisfaction are significantly and positively related to customer loyalty. Customer satisfaction is an important mediator between perceived service quality and customer loyalty. Assurance and responsiveness have a positive relationship, but it has no significant effect on customer satisfaction. Service quality is directly correlated with customer satisfaction and also with the behavioural intentions of the customer. Factors like perceived quality, satisfaction, trust, switching cost, and commitment are the factors that influence the loyalty of the customer. The previous findings showed that improvement in service quality can enhance customer loyalty. Reliability, empathy, and assurance are the service quality dimensions that play a significant role in this equation. This study revealed a positive and meaningful relationship between satisfaction and loyalty among all five service quality dimensions.

The results show a positive and significant correlation between customer satisfaction and loyalty, with customer satisfaction and assurance being significant at 1% and empathy at 5%. Conversely, reliability, responsiveness, tangibility, and technology show no significant relationship with customer loyalty. This study supports previous findings regarding the importance of reliability, assurance, and employee behaviour in consistently fostering customer satisfaction and loyalty (Mohammad &Shireen, 2011). It also offers new insights into the diminishing role of technology compared to earlier studies. It highlights the significance of the bank's image, which has received less attention in prior research. The comprehensive demographic analysis enriches understanding customer satisfaction and loyalty, addressing gaps in earlier studies, and introducing new aspects such as criteria for bank selection and specific employee behaviors that were previously underexplored. Focusing on Nepalese commercial

banks provides context-specific insights that differ from findings in regions of Jordan and the Philippines.

Research question 3

What is the appropriate proposed model of service quality and loyalty to customer satisfaction in Commercial Banks in Nepal?
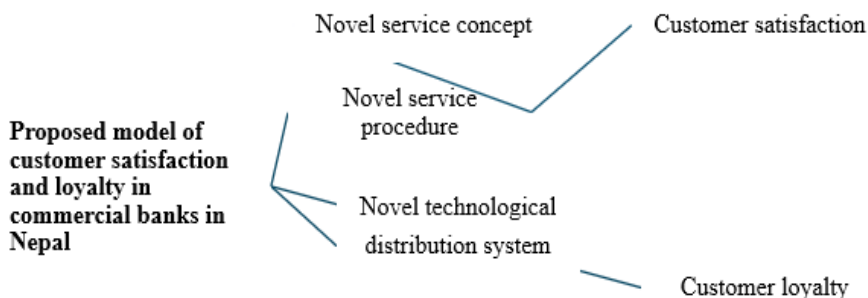
Figure 2. Proposed model of predicting customer satisfaction based on service quality.

This study has proposed a new combined model to enhance customer satisfaction and loyalty in the context of Nepalese Commercial Banks in Nepal (see Figure 2).

Novel service concept

The most prominent feature of service innovation is the introduction of new service concepts. Frei explains that these novel concepts often involve adding supplementary services, which blend components of one service with elements from another to form a new offering or policy. This approach can serve as a strategy or solution for addressing past management failures within an organization, as it seeks to implement new services tailored to the organization's current needs (Nguyen et al., 2024).

Novel service procedure

Nguyen et al. (2024) state that the new service procedure focuses on the human element of the distribution system, encompassing personnel, organizational structure, and culture. Essentially, it pertains to the relationship between suppliers and purchasers. The new distribution system component is particularly significant for altering the organization's internal structure to facilitate changes in service delivery. They further said that when other aspects of service innovation are adjusted, organizations often need to refresh their service distribution systems to accommodate these changes. Marino and Presti (2018) highlight that new services may require a different organizational framework and a diverse skill set among personnel.

New Service Distribution System (Technological Component)

Awuku, Agyei, and Gonu (2023) state that the new service distribution system (technological component) aspect highlights the technological systems and processes used in service distribution. They further disclosed that advances in information and communication technologies create immense opportunities for introducing new service concepts, enhancing interactions with customers and partners, developing new revenue models, and creating new service distribution frameworks, which can drive or require new innovations in other dimensions, and the relationship is mutually reinforcing.

Customer Satisfaction

YuSheng and Ibrahim (2019) define satisfaction as a positive state that influences evaluations of all aspects of collaborative efforts. For organizations, a key focus is to create and maintain a competitive advantage, along with understanding how the public perceives their products after customer usage. As a result, customer satisfaction has become a fundamental priority, as most businesses recognize their customers as vital to their revenue. Customer satisfaction is a multifaceted concept that has been widely studied across different fields. It is often described as the extent to which a customer's perceptions of a product or service after purchase match its actual features. Essentially, customer satisfaction reflects the emotional response of customers when their assessment aligns with their expectations. Customers feel satisfied when they believe the product or service meets their needs and desires. The traditional satisfaction model examines the gap between expected and actual outcomes.

Moreover, customer satisfaction is not static; it is affected by various environmental and temporal factors. In the context of banking services, customer satisfaction reflects how pleased clients are with their overall experiences at a bank, including service procedures and waiting times. Several studies show that price fairness, service quality, and performance-based satisfaction significantly influence these evaluations (Wong & Sohal, 2003). A strong relationship exists between customer satisfaction, engagement, and fulfilling essential human needs. Customer satisfaction is crucial in determining business performance, profitability, and shareholder value in the service sector (Marino & Presti, 2018; Zouari & Abdelhedi, 2021).

Customer loyalty

Customer loyalty can be assessed through behavioral and attitudinal factors. Customers' attitudes include their intentions to repurchase or buy additional products from a specific provider, their willingness to recommend the product to others, and their commitment to the supplier, demonstrated by their reluctance to switch to competitors or their readiness to pay higher prices. Furthermore, consumer loyalty can be characterized by the likelihood of repurchasing the same products. Behaviorally, customer loyalty is reflected in the repeated purchase of various items from a single vendor, the eagerness to refer the provider to others, and a long-term perception of the brand as a preferred choice (Albaity & Rahman, 2021).

Customer loyalty embodies both intended and actual behaviours towards a supplier and is crucial for the ongoing success of a business. Loyal customers are generally less sensitive to reasonable price increases, speak positively about the company, and tend to overlook competing businesses. It is one of the most important assets a company can have. When a supplier successfully fosters and maintains customer loyalty, it creates a mutually beneficial relationship.

Tegambwage and Kasoga (2022) highlight that customer loyalty ensures the likelihood of future purchases of favoured products. They stated further that loyal customers remain unfazed by adverse purchasing conditions or rival attempts to entice them away. As a result, the costs associated with preventing customer turnover are reduced, leading to more stable revenues, and supporting growth. The role of customer loyalty in enhancing long-term financial performance and achieving organizational goals underscores its importance as a critical element of organizational effectiveness (Alam et al., 2021).

Finally, Zhang, Yi, and Zhou (2022) highlighted that customer loyalty is crucial for retail banks to maintain market share, increase revenue and profits, and reduce costs in today's highly competitive business landscape. They consistently strive for innovation to maintain a competitive edge, introducing novel experiences and heightened customer satisfaction, thereby enhancing customer loyalty.

CONCLUSION

The primary goal of this research is to explore how service qualities and customer loyalty impact customer loyalty and satisfaction in Nepal's

retail banking sector. In contrast to many earlier studies, our study explicitly inspects the effects of three distinct aspects of service innovation- novel service concepts, novel service procedures, and novel technological distribution systems- on customer loyalty and satisfaction within banks. Utilizing the service innovation framework, their study aims to understand better how the three dimensions influence banking customers' loyalty and satisfaction. Banks can implement service innovation through any combination of these components. By understanding the effects of each innovation component, bank managers can make informed decisions about the level and type of innovations to apply for specific banking services. This approach offers an alternative perspective to previous research, which typically viewed service innovation as a singular concept. Banks can implement service innovation through any combination of these three components (see Figure 2). By understanding the effects of each innovation component, bank managers can make informed decisions about the level and type of innovations to apply for specific banking services. This approach offers an alternative perspective to previous research, which typically viewed service innovation as a singular concept.

The results of this study positively correlate customer satisfaction and customer loyalty, showing the most vital relationship. Regression analysis shows that assurance, technology, empathy, and tangibility positively affect customer satisfaction, with tangibility, assurance, and technology being significant at the 1% level. In comparison, empathy is significant at the 5% level. In contrast, reliability and responsiveness are not related to customer satisfaction. Furthermore, there is a significant positive link between customer loyalty and the independent variables of customer satisfaction, assurance, and empathy, with customer satisfaction being significant at the 1% level and empathy at the 5% level. The remaining variables—reliability, responsiveness, tangibility, and technology—do not significantly correlate with customer loyalty.

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