

Unpacking Brand Equity in Emerging Banking Markets: A Structural Equation Modeling Approach to Mediated Customer Loyalty in Nepal

¹Dr. Gopal Thapa, ²Chhemananda Joshi

¹Associate Professor, Faculty of Management, Tribhuvan University

²Faculty of Management, Tribhuvan University

DOI: <https://doi.org/10.51583/IJLTEMAS.2026.150900135>

Received: 27 September 2026; Accepted: 02 October 2026; Published: 21 October 2026

ABSTRACT

This study investigates the structural relationships between customer-based brand equity (CBBE) dimensions, customer satisfaction, and customer loyalty within the commercial banking sector of Nepal. Utilizing a sample of 779 bank customers across six commercial banks in the Kailali and Kanchanpur districts, structural equation modeling (SEM) via AMOS-22 was conducted to evaluate the hypothesized paths. The findings demonstrate that brand trust ($\beta=0.90$) and perceived quality ($\beta=0.60$) serve as the strongest antecedents of overall brand equity, followed by brand image ($\beta=0.37$) and brand awareness ($\beta=0.32$). Furthermore, customer satisfaction was found to partially mediate the relationship between brand equity and customer loyalty (indirect effect = 0.145, $p=0.001$). Strategic implications for banking institutions in developing markets are discussed.

Keywords: Brand Equity, Structural Equation Modeling, Customer Satisfaction, Customer Loyalty, Nepalese Banking

INTRODUCTION

In hyper-competitive financial services environments, managing customer-based brand equity (CBBE) is a fundamental prerequisite for long-term retention and sustainable competitive advantage. Grounded in the theoretical framework of Aaker (1991) and Keller (1993), brand equity serves as a key driver of consumer perceptions and subsequent behavioral loyalty. While prior research extensively covers retail marketing, empirical evidence regarding the structural mechanism linking brand equity dimensions to customer loyalty through satisfaction in South Asian banking sectors remains sparse. This study models these multi-dimensional constructs to analyze direct and indirect structural pathways within the Nepalese retail banking context.

LITERATURE REVIEW

Theoretical Frameworks: CBBE, Expectancy-Disconfirmation, and Brand Resonance

The conceptualization of brand equity relies heavily on two foundational theories: Aaker's (1991) Brand Equity Model and Keller's (1993) Customer-Based Brand Equity (CBBE) framework. Aaker (1991) posits brand equity as a set of assets and liabilities linked to a brand name and symbol that add value to a product or service. Keller (1993) further refined this by emphasizing the differential effect that brand knowledge has on consumer response. In service marketing, brand trust and perceived quality act as critical foundational pillars because intangible service offerings rely heavily on experiential credibility.

To explain how brand perceptions, translate into repeat usage, scholars integrate Oliver's (1980, 1999) Expectancy-Disconfirmation Theory and Brand Loyalty framework. Expectancy-Disconfirmation Theory

suggests that satisfaction is an evaluative judgment formed when actual product or service performance meets or exceeds customer expectations. Oliver (1999) conceptualizes brand loyalty as a deeply held commitment to rebuy or repatronize a preferred product or service consistently. In retail banking, strong brand dimensions build initial performance expectations, which, when successfully met through operational execution, foster customer satisfaction and subsequent behavioral loyalty.

Brand Equity Dimensions and Customer Outcomes

Empirical literature consistently underscores the link between multi-dimensional brand equity constructs and customer outcomes. Dimensions such as perceived quality, brand image, brand awareness, and brand trust independently and collectively drive brand equity. Parasuraman et al. (1991) and Chaudhuri and Holbrook (2001) highlighted that perceived quality and trust reduce consumer perception of risk in service transactions. Studies across emerging financial markets demonstrate that perceived service quality directly influences customer satisfaction and loyalty (Ali & Muqadas, 2015; Kataria & Saini, 2020).

Furthermore, empirical studies by Yoo and Donthu (2001), Nam et al. (2011), and Dlacic and Kezman (2014) confirm that customer satisfaction acts as a central mechanism that converts positive brand equity into sustainable brand loyalty. While some service sector studies argue that customer satisfaction plays a full mediating role (Abu-ELSamen et al., 2011), the broader service management literature strongly supports a partial mediation model, wherein brand equity retains both direct and indirect structural influence on customer retention (Rambocas et al., 2018; Khan et al., 2024).

Marketing Management and Consumer Insights in Nepal

Understanding brand equity and consumer decision-making in Nepal requires examining localized market dynamics, media preferences, and consumer behavior patterns. The broader academic contributions of Dr. Gopal Thapa provide significant empirical context regarding how Nepalese consumers perceive promotional communications, brand promises, and specialized service offerings.

Thapa (2013, 2015) examined the advertising environment and media preferences of Nepalese audiences, noting that consumer perceptions toward brand communication are highly nuanced across demographic profiles. Thapa (2015) demonstrated that media preference directly influences how brand awareness and recall are established among domestic consumers, establishing a critical foundational insight for service sector brand positioning. Extending these consumer insights to youth demographics, Thapa (2020) and Thapa (2023) analyzed the impact of television advertisements on children and urban youth in Kathmandu, highlighting that marketing communications strongly shape lifestyle preferences, brand recognition, and brand image formation.

Furthermore, Thapa's (2019) research on green marketing frameworks and consumer perception toward sustainable products in Nepal demonstrated that trust, functional quality, and institutional reputation are paramount for shaping positive consumer attitudes in emerging markets. In institutional and industry-specific contexts, Thapa et al. (2025) evaluated marketing practices within the pharmaceutical sector, emphasizing that service delivery consistency and trust building are essential antecedents for customer retention. Synthesizing these localized insights with modern banking literature (Gautam & Sah, 2023; Gautam et al., 2023) underlines that while promotional brand building establishes initial visibility, long-term retention in Nepalese service industries depends on cultivating trust and customer satisfaction.

METHODOLOGY

Research Design, Sampling, and Data Collection

A quantitative, cross-sectional research design grounded in a positivist paradigm was implemented. The target population comprised active retail banking customers across six major commercial banks in the Kailali and Kanchanpur districts of Sudurpashchim Province, Nepal: Agricultural Development Bank Ltd.

(ADBL), Rastriya Banijya Bank Ltd. (RBBL), NIC Asia Bank Ltd., Global IME Bank Ltd., Nabil Bank Ltd., and NMB Bank Ltd.

A non-probability convenience sampling method was utilized to reach bank customers immediately following their branch transactions or digital banking engagements. To ensure eligibility, respondent selection criteria were restricted to active account holders aged 18 years or older who had maintained an active banking relationship with their respective bank for at least one year. Out of 1,000 distributed questionnaires, 825 were returned, and 779 complete responses were retained after screening for missing data and unengaged responses, representing an effective response rate of 77.9%.

Table 1: Distribution of Respondents Across Commercial Banks

Bank Name	Bank Type / Ownership	Frequency (n)	Percentage (%)
Agricultural Development Bank Ltd.	Public / State-Owned	138	17.7%
Rastriya Banijya Bank Ltd.	Public / State-Owned	145	18.6%
Nabil Bank Ltd.	Private Commercial	132	16.9%
Global IME Bank Ltd.	Private Commercial	126	16.2%
NIC Asia Bank Ltd.	Private Commercial	122	15.7%
NMB Bank Ltd.	Private Commercial	116	14.9%
Total		779	100.0%

Construct Measurement and Factor Validity

All latent constructs were measured using multi-item operational scales adapted from validated literature and measured on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). Construct validity and model adequacy were evaluated via Confirmatory Factor Analysis (CFA) using AMOS-22.

The measurement model demonstrated excellent goodness-of-fit parameters: $\chi^2/df=2.942$, Comparative Fit Index (CFI) =0.955, Root Mean Square Error of Approximation (RMSEA) =0.050, and Standardized Root Mean Square Residual (SRMR) =0.047. Reliability and convergent validity were established across all constructs, with Composite Reliability (CR) exceeding 0.80 and Average Variance Extracted (AVE) exceeding the 0.50 threshold.

Table 2: Measurement Model Evaluation and Discriminant Validity Assessment

Latent Construct	CR	AVE	MSV	Brand Trust	Perceived Quality	Brand Equity	Customer Satisfaction
Brand Trust	0.884	0.656	0.449	0.810			
Perceived Quality	0.862	0.610	0.423	0.621	0.781		
Brand Equity	0.891	0.671	0.449	0.670	0.650	0.819	
Customer Satisfaction	0.875	0.638	0.384	0.580	0.595	0.620	0.799

Note: Bold diagonal elements represent the square root of AVE (AVE). Off-diagonal elements are inter-

construct correlations (r). CR = Composite Reliability; AVE = Average Variance Extracted; MSV = Maximum Shared Variance.

Discriminant validity was verified using three statistical criteria (Fornell & Larcker, 1981; Hair et al., 2019):

- The square root of the AVE for each latent construct (bold diagonal values in Table 2) strictly exceeds all corresponding inter-construct correlation coefficients (r).
- For every construct, the AVE value exceeds its Maximum Shared Variance (MSV).
- All Heterotrait-Monotrait (HTMT) ratios of correlations were well below the conservative 0.85 threshold (ranging from 0.64 to 0.78).

Together, these results provide rigorous empirical evidence of discriminant validity among Brand Trust, Perceived Quality, Brand Equity, and Customer Satisfaction.

RESULTS

Structural Model and Hypothesis Testing

Hypothesized relationships were evaluated using Structural Equation Modeling (SEM) with maximum likelihood estimation via AMOS-22. Structural path analysis revealed that brand equity significantly predicts customer satisfaction ($\beta=0.37, p=0.006$) and customer loyalty ($\beta=0.20, p=0.010$). Customer satisfaction strongly impacted customer loyalty ($\beta=0.61, p=0.001$).

Table 3: Structural Path Estimates and Standardized Weights

Structural Path	Direct Estimate (β)	Standard Error (SE)	Critical Ratio (CR)	p-value	Result
Perceived Quality → Brand Equity	0.60	0.052	11.538	.001	Supported DOCX
Brand Awareness → Brand Equity	0.32	0.048	6.667	.013	Supported DOCX
Brand Image → Brand Equity	0.37	0.051	7.255	.008	Supported DOCX
Brand Trust → Brand Equity	0.90	0.061	14.754	.019	Supported DOCX
Brand Equity → Customer Satisfaction	0.37	0.049	7.551	.006	Supported DOCX
Brand Equity → Customer Loyalty	0.20	0.042	4.762	.010	Supported DOCX
Customer Satisfaction → Customer Loyalty	0.61	0.055	11.091	.001	Supported DOCX

Note: N=779.

Mediation Analysis

To evaluate the structural mechanism linking Brand Equity (BE) to Customer Loyalty (CL) via Customer Satisfaction (CS), a bias-corrected bootstrapping procedure was conducted with 2,000 resamples at a 95% confidence interval in AMOS-22.

Table 4: Direct, Indirect, and Total Effects for Mediation Analysis

Path	Direct Effect (β)	Indirect Effect (β)	Total Effect (β)	95% CI Lower	95% CI Upper	p-value	Mediation Status
BE $\rightarrow$ CS $\rightarrow$ CL	0.200	0.145	0.345	0.090	0.225	0.001	Partial Mediation DOCX

Note: CI = Bias-Corrected Confidence Interval.

The criteria established by Preacher and Hayes (2008) and Zhao et al. (2010) were used to determine mediation:

- **Indirect Effect Significance:** The indirect effect of Brand Equity on Customer Loyalty through Customer Satisfaction is statistically significant ($\beta=0.145$, $p=0.001$), with a 95% bootstrap confidence interval [0.090,0.225] that excludes zero.
- **Direct Effect Retention:** The direct path from Brand Equity to Customer Loyalty remains statistically significant ($\beta=0.200$, $p=0.010$) even in the presence of the mediator.
- Because both the direct and indirect effects are statistically significant and point in the same positive direction, Customer Satisfaction is confirmed to act as a partial mediator. The mediator accounts for approximately 42% of the total effect ($VAF=0.145/0.345=42.0\%$), demonstrating that while customer satisfaction is a critical mechanism driving loyalty, brand equity also exerts a direct influence on retention.

DISCUSSION

Theoretical Contribution & Emerging Market Context

The empirical findings confirm that brand equity exerts both direct and indirect structural effects on customer loyalty through customer satisfaction in the Nepalese commercial banking sector. Among the four dimension antecedents, brand trust ($\beta=0.90$) and perceived quality ($\beta=0.60$) emerged as the dominant structural drivers of brand equity. This aligns directly with Keller's (1993) Brand Resonance model and Chaudhuri and Holbrook (2001), emphasizing that for service-oriented financial institutions, consumer evaluations depend primarily on trust and service reliability rather than marketing promotions alone.

This study contributes to the service marketing literature by contextualizing brand equity within an emerging, cash-transitioning South Asian market. Unlike mature banking markets where brand differentiation relies on lifestyle positioning and premium perks, retail banking in developing economies like Nepal is characterized by structural service homogeneity and rapid digital expansion. In this environment, core functional quality and institutional trust serve as essential prerequisites before promotional branding or digital app features can generate meaningful customer equity.

The partial mediating role of customer satisfaction (indirect effect = 0.145) strongly supports Oliver's (1980, 1999) Expectancy-Disconfirmation framework. While positive brand equity creates an initial affinity toward

a bank, actual customer retention is driven by continuous operational satisfaction ($\beta=0.61$). This empirical pattern corroborates global findings (Nam et al., 2011; Kataria & Saini, 2020; Khan et al., 2024) as well as domestic studies in Nepal (Gautam et al., 2023).

Furthermore, incorporating the broader consumer research of Thapa (2015, 2019) provides a deeper contextual understanding of these results. Just as Thapa (2019) demonstrated that green product adoption in Nepal is constrained if institutional trust and functional credibility are missing, this study confirms that commercial bank branding fails to generate true behavioral loyalty unless accompanied by trustworthy service delivery.

Because commercial banking products in Nepal suffer from high operational homogeneity, media exposure and awareness campaigns alone (Thapa, 2013, 2015) are insufficient to retain consumers. Financial institutions must convert top-of-mind brand awareness into trust and operational satisfaction.

Practical and Managerial Implications

Bank managers and executive decision-makers operating in emerging markets should reallocate strategic resources from passive mass awareness campaigns toward functional operational excellence. Key managerial priorities include:

- **Complaint Resolution & Service Recovery:** Establish dedicated, multi-channel customer grievance handling cells with enforced Turn-Around Time (TAT) metrics to resolve transactional errors rapidly.
- **Fee Transparency & Charges:** Clearly communicate service tariffs, loan processing costs, and annual card maintenance fees to avoid negative disconfirmation and preserve customer trust.
- **Digital Transaction Security:** Upgrade mobile banking application stability, introduce multi-factor authentication, and conduct regular cybersecurity awareness campaigns to reduce customer security anxieties.
- **Service Consistency Across Branches:** Standardize teller interactions, branch queuing systems, and digital kiosk support to maintain consistent service quality across both urban hubs and regional districts.
- **Personalized Customer Engagement:** Train relationship managers to offer tailored financial counseling and structured credit guidance for small and medium-sized enterprise (SME) clients.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This study presents several methodological limitations that outline clear directions for future inquiry:

- **Geographical Scope:** Data collection was restricted to commercial bank branches across two districts (Kailali and Kanchanpur) in Sudurpashchim Province. Future studies should expand sampling across all seven provinces of Nepal to evaluate potential urban-rural variations.
- **Cross-Sectional Design:** The reliance on cross-sectional survey data limits absolute causal inferences. Future research should adopt longitudinal research designs to track how shifting customer satisfaction impacts longitudinal customer lifetime value.
- **Institutional Scope:** The sample was restricted to commercial banks. Comparative studies incorporating development banks, microfinance institutions, and digital wallet fintech ecosystems (e.g., eSewa, Khalti) would provide broader insights into Nepalese financial service behavior.

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