

# **Developing Customer Loyalty: A Case-study of National Bank of Oman**

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## **1.0 Introduction**

Today, the growth of e-banking is revolutionising the banking industry globally. The banks are gradually displacing the traditional method (face-to-face) of doing business with more of technology driven self-services to satisfy demanding customers.

The traditional methods of retail banking focused more on convenience, and service quality and emphasized the same in their marketing communications to develop customer loyalty.

With the emergence of e-banking phenomena, the nature and scope of retail banking service provision has undergone drastic changes. A number of banks are working to develop Internet as a service delivery medium and co-ordinate customer relationship management in the context of multiple media, including websites, call-centres, kiosks, ATMs and branches.

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Currently, the retail banking industry is concerned with how the new technologies will shape the future of retail banking and what strategies need to be adopted for building a loyal customer base in the changing scenario.

In this context, this paper attempts at addressing the above issue and researches the key elements of developing customer loyalty in the context of a large retail banking organization - National Bank of Oman (NBO), a leading retail bank in the Sultanate of Oman.

## **2.0 Literature review**

With a view to benefit from the contributions of the previous researchers and to establish key factors that underlie developing customer loyalty, a brief literature review is presented hereunder:

- Target those segments to deliver superior value (Barbara, 1985).
- Use of self-service technologies (Pratibha, 1994)
- Leadership and the Service-Profit chain (James et al, 1994)
- Customer orientation, trust, length of relationship, expertise and ethics (David Bejou et al, 1998)
- Image via service quality (Josey et al, 1998)
- Characteristics of customer, company, industry and service (Chatura and Andy, 1999)
- Cultural change and maintaining staff commitment (Jillian and Stephen, 1999)
- Two-way communication (Alexandros et al, 2002).

Further, the classics works of Berry (1983); Crosby and Stephens (1987); Bitner (1990); Crosby et al (1990) Frederick and Earl (1990); Berry and Parasuraman (1991); David and Allan (1991); Kotler (1991); Jacques and Michele (1992); Frederick (1993); Alan and Kunal (1994); Christopher (1996), *related customer loyalty to Customer satisfaction, relationship marketing, service quality, service encounters and internal marketing etc.*, have been reviewed to provide some useful insights to the study.

A close examination of the salient features of the literature review presented above leads to opine that they advocate more on front-end operations of retail banking, which may not be sufficient to achieve customer loyalty in the changed scenario.

While acknowledging the significance of front-end operations, the role of back-end operations can not be undermined in developing a loyal customer base. In this context, with an objective to understand the present functioning of retail banks in the current situation, an effort is made here to examine NBO's policies, programmes and initiatives, supporting front-end and back-end operations.

### **3.0 Customer Loyalty at NBO**

The National Bank of Oman (NBO), the second largest bank in the Sultanate of Oman, was set up in 1973 and today is one of the largest banks in Oman with a paid up capital of RO (Omani Rial) 45.8 million

(US\$119 million) and a net worth of RO105 million (US\$273 million), as at December 31 2002.

The bank serves its customers in Oman through 55 service centres in Oman and 6 centres in Egypt and UAE. The growth of the bank may be attributed to its professional and personalised approach in its operations to deliver high quality service resulted in building up strong customer loyalty.

The mission, policies and programmes of the bank during the period 1998-2002, have been objectively reviewed with the purpose of **identifying the key loyalty factors**, which are presented briefly here as under:

### **3.1 Mission Statement**

An explicit and clear mission statement is vital for a good organization as it lends scope to actionable programmes and policies and steers the organization through turbulent periods. NBO is no exception to this principle.

It can be observed from the mission statement of NBO<sup>1</sup> that as part of its image and credibility building exercise, the bank placed great emphasis not only on providing superior financial products and services, but also

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<sup>1</sup> *National Bank of Oman strives to be the bank of choice, a provider of superior financial products and services, an active member of the communities in which we operate and an employer that takes every step to ensure that all our people can achieve their true potential (Adapted from Annual Report of NBO, 2002).*

actively involved with community welfare and development to promote overall customer loyalty.

### **3.2 'NBO' Brand**

As a good brand image via service quality (Josey, 1998) is likely to foster loyalty, the bank had strived to develop a very distinct and strong brand identity. The 'NBO' brand has become to be associated with - customer friendly, superior consistent service, innovative products, integrity, teamwork, professionalism and community support.

### **3.3 Competitive Strength**

A customer usually prefers to choose a bank that has relatively better competitive strength to assure him (or her) of continuity of the bank in future. The bank developed leadership in customer service, innovation and technology and well-trained service providers at its largest network of service centers in Oman.

### **3.4 Information Technology initiatives**

The bank has made a significant investment in state-of-the-art information technologies to attain leadership position in Oman's banking sector. The initiatives have resulted in possessing Oman's first Web site, first Call-Centre, first network-wide e-mail service, fastest ATMs with a response time of less than three seconds, computerization of account opening and processing of loan applications.

Further, the initiatives have equipped its staff with the systems to delivering fast and efficient service to its customers both internal and external.

### ***3.5 Customer-focused initiatives***

The following have been initiated to make banking easy and convenient for the customers, which may have contributed to developing loyalty:

- Large network of 71 ATMs, Evening banking facility during the holy month of Ramadan.
- A financial information portal with value-added services for the benefit of investment banking customers.
- Personal loans at low interest rate with reduced insurance charges and a specifically tailored repayment schedule.
- First bank in Oman to offer a cash-back program for our credit card customers.
- Implemented valuable suggestions received from the customers.
- Privilege Banking services to address the needs of a growing number of high Networth customers.
- Friendly service attitude.

### ***3.6 Human resource initiatives***

The bank realizes the importance of having loyal workforce as employee loyalty leads to customer loyalty since the employees are the link between

the bank and customers. The following initiatives may be attributed to developing customer loyalty:

Over the past decade, the stringent recruitment procedures ensured that only people with the better intellectual capabilities and attitudes joined the bank's team.

The bank has a well-structured and transparent system of performance appraisal, which ensured that the staff remains highly motivated and committed whilst being individually accountable for their achievements. Introduced a number of compensation-linked benefits and awards for rewarding excellence.

The cross-divisional nature of the teams, which are project-driven promoted a dynamic atmosphere within the organisation, made it conducive for innovation, teamwork and achievement. It also helped to retain and nurture talent.

The bank had invested its resources to continuously enhance the skills of its employees through a range of in-house training programmes to develop managerial, functional, technical skills and understanding of bank's work-culture.

### ***3.6.1 Performance based culture***

As the employee satisfaction is of paramount importance to promoting customer loyalty, the bank has successfully created the right kind of

environment that encouraged its employees to give their best to the organization, thus to its customers.

The work culture is performance oriented and it rewarded the best performing employees. In order to develop a sense of identity and belongingness among employees, it also encouraged innovation by rewarding the best performers.

### ***3.7 Innovation***

The bank constantly strived for bringing in innovation with regard to its products and services, for example, Call Center. With the establishment of the Call Center, the bank offered banking services from the comfort of customers' homes and offices for all their banking needs.

The bank's lending and marketing division has successfully employed innovative ways to deliver the right financial solutions to its wide range of customers.

### ***3.8 Value-added Services***

In response to the customers' demand for value-added services, the bank had expanded its domain of operations into investment banking and portfolio management services to trade in equity and debt securities.

### ***3.9 Corporate Governance & Management***

NBO distinguishes itself from other banks operating in Oman by virtue of possessing a wise and matured board, quality management team, a



strong sense of team work, a firm commitment to play by the rules, integrity had all enhanced the credibility and reliability of bank's operations.

The directors active involvement with the management in setting and guiding policy and strategy, and in ensuring that the most rigorous international standards of financial reporting are met all times had enhanced transparency of operations and credibility in the eyes of its customers.

Effective internal controls through well-defined systems and procedures, transparency, accountability, compliance with code of corporate governance adopted by the Capital Market Authority (CMA), compliance with the principles laid down by the Central Bank of Oman (CBO) have further strengthened the process of developing customer loyalty.

The Board has a collective responsibility for the establishment, maintenance and review of a system of internal control that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with all relevant laws and regulations.

### ***3.10 Sound Operational systems & Audit procedures***

The Operations division worked relentlessly at keeping the bank's service engines humming through its core sections which include Central Operations, Card Processing, Cash Management, Branch Coordination and Treasury & Investment Banking Transaction management. To achieve a

high level of compliance, the branch staff are trained to self-audit their work regularly.

The Bank has established a management structure that clearly defined roles and responsibilities and reporting lines. The Expenditure Policy Manual and Credit Approval Procedures document the delegation of power to executives at different levels of the managerial hierarchy. Approval authority for all significant credit exposures vested with the Board of Directors.

The Board has approved a Code of Conduct that sets out the bank's core values relating to the lawful and ethical conduct of business. All employees are expected to observe the highest standards of integrity and fair dealing in relation to customers, staff and regulators in all the communities in which the bank operates.

The Audit division ensures that the bank conducts its business to international standards, and measures the bank's performance at every level.

The Audit division served as a checkpoint that carefully monitored and assessed the activities of the Operations division. This enhanced the overall performance of the Operations division and helped it to further perform in a very professional manner. The interaction produced a very acceptable set of checks and balances.

Though matters such as corporate governance, liquidity and risk management and audit procedures discussed above are not invisible and

non-discernible to a normal customer of the bank, assume more importance than the front-end service facilitators (service quality, flexibility, convenience and ambience of service center etc.) and determine the continuity of a bank's operations and NBO had taken appropriate measures in this regard.

### ***3.11 Risk, Return and Liquidity Management***

The success and credibility of a financial institution depends upon how well it is able to manage and trade off among risk, return and liquidity, which also gives the customers a sense of security and prosperity in turn ensures high customer loyalty.

As financial transactions are becoming more globalised, complex and volatile, the management has been careful to manage liquidity in a manner that has always allowed it to handle all the bank's commitments extremely comfortably and has set in place a global risk and liquidity management group that is charged with the responsibility of assessing and rigorously analysing, as well as monitoring and controlling, general market risk, liquidity risk, legal risk, credit risk, operations risk, currency and interest rate risks.

The bank ensures that the Central Bank of Oman (CBO) reserve requirements and normal short term transactions are well covered by keeping the required amount of cash with the CBO reserve requirements.

#### **4. Conclusions**

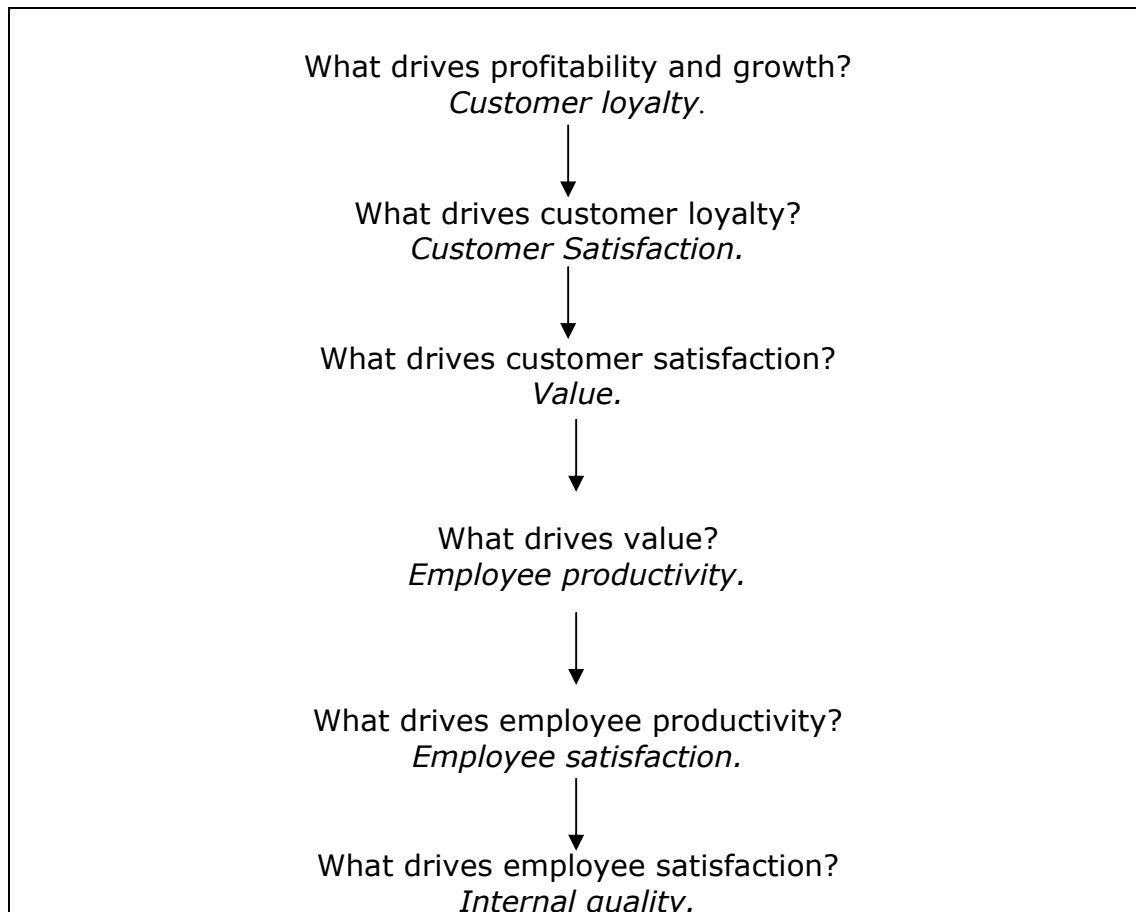
The loyalty factors adopted by NBO may be classified into three categories:

- i) Core factors
  - Mission
  - Brand Image
  - Competitive strength
- ii) Front-end service factors, which facilitate comfort, convenience, flexibility, superior value to customers.
  - Information Technology
  - Customer Focus
  - Human Resources
  - Innovation
  - Value-added Services
- iii) Back-end service factors, which enhance internal control of operations, ethical practices, safety and liquidity of customers' funds, adherence to international banking norms and good corporate governance.
  - Corporate Governance & Management
  - Risk, Return and Liquidity Management
  - Sound Operational Systems & Audit procedures

The Core and Front-end service factors, which NBO had implemented in it's strive to develop a loyal customer base conform to the theoretical prescriptions referred to in the literature review above.

The Core and Front-end service factors adopted by NBO may be reasoned out in the form of the Service-Profit Chain of James et al (1994).

**Fig. 1. The Service-Profit Chain**



The leadership role, which is corporate governance in the context of NBO is all pervasive and underlies every aspect of the Service-Profit chain.

The Back-end service factors, which NBO had implemented seems to have emerged more as a necessity to comply with local and international banking norms to infuse confidence in customers regarding the safety of their funds. Despite providing the best service quality and innovative financial products, if the customers are not assured of the safety of their funds, customers will surely defect.

Hence, the Back-end service factors become more relevant and significant to customers' decision-making process of patronizing a particular bank in the current era of recurring bank scams such as the recent scam of Al-Madina Bank of Lebanon.

Hence, it may be concluded that the experiences of NBO clearly establish a perceptible gap between practice and existing literature in the area of customer loyalty and the current prescriptions available in the literature alone are not sufficient to develop customer loyalty.

Retail banking and financial services organizations may draw a leaf out of the experiences of NBO with suitable adaptations taking into account of the variations in their business contexts and organisations.

The study leaves scope for future research studies, addressing the issue of linking customer loyalty with the back-end service factors discussed in the paper as the study is constrained by lack of primary data pertaining to customer retention rates due to the personal and confidential nature of the data.

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