



Customer perception on service quality in retail banking in Middle East: the case of Qatar

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Abstract

Purpose – The purpose of this paper is to evaluate the service quality in retail banking in the Middle East in general, and Qatar in particular, based on different levels of customers' perception regarding service quality.

Design/methodology/approach – This is an analytical study based mainly on the primary data collected through a scientifically developed questionnaire. The questionnaire have been personally administered on a sample size of 120, chosen on a convenient basis from four Qatari banks, i.e. Qatar National Bank, Doha Bank, Qatar International Islamic Bank, and Arab Bank. The questionnaire has been designed on the basis of the study of previous scholars such as Berry *et al.*, Parasuraman *et al.*, Zeithaml and Bitner, and Stafford.

Findings – The result indicates that customers' perception is highest in the tangibles area and lowest in the competence area.

Practical implications – In order to achieving higher levels of quality service in retail banking, banks should deliver higher levels of service quality and in the present context customers' perceptions are highest in the level of infrastructure facilities of the bank, followed by timing of the bank, and return on deposit. Owing to the increasing competition in retail banking, customer service is an important part and bank managers should be rethinking how to improve customer satisfaction with respect to service quality.

Originality/value – This paper makes a useful contribution given that there are only a few studies dealing with the assessment of service quality in banking environments.

Keywords Customer services quality, Customer satisfaction, User studies, Banking, Qatar

Paper type Research paper

1. Introduction

In service industries, globally, the subject of service quality remains a critical one as businesses strive to maintain a comparative advantage in the marketplace. Since financial services, particularly banks, compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon (Stafford, 1996). It is true that structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive with non-bank financial institutions (Angur *et al.*, 1999). Currently, technological changes are causing banks to rethink their strategies for services offered to both commercial and individual customers. Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention (Bennett and Higgins, 1993), and expanded market share (Bowen and Hedges, 1993). Moreover, the banks understand that customers will be loyal if they can produce greater value than competitors



(Dawes and Swailes, 1999). In addition, higher profits will be earned by the banks if they can position themselves better than their competitors within a specific market (Davies *et al.*, 1995). Therefore, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elseay, 2004). Within this background, customer satisfaction and service quality are compelling the attention of all banking institutions around the world and Qatar is not an exception.

It is indeed true that delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets (Karatepe *et al.*, 2005). In contrast, high quality of service leads to customer satisfaction and loyalty and greater willingness to suggest and or recommend to someone else, reduction in customer complaints, and improved customer retention rates to a great extent (Bitner, 1990; Headley and Miller, 1993; Zeithaml *et al.*, 1996; Danaher, 1997). In recent years, academicians and practitioners have given more attention to this area as it assumed that service quality is a critical measure of firm performance (Lasser *et al.*, 2000; Yavas and Yasin, 2001; Bick *et al.*, 2004; Andreassen and Olsen, 2008 and Liang *et al.*, 2009). However, service quality is abstract and elusive and lacks objective measures (Karatepe *et al.*, 2005). Therefore, in order to identify the firms strengths and/or weaknesses, customer perceptions of service quality as a basic instrument. Therefore, the objective of the paper is to test a service quality instrument by using retail banking services in emerging countries, such as Qatar, as a case point.

Economic growth has naturally brought increasing demand for financial products and services. Qatar's economy is expanding at an unprecedented rate and is set to continue on this trajectory in the years ahead. Responding to this demand and conscious of the role financial services can play in driving economic diversification, the Government of Qatar in 2005 created the Qatar Financial Centre.

Qatar is one of the smallest gulf countries in terms of population (522,023 as per the 1997 census) and geographical area but has the second largest gas reserves in the world representing more than 5 percent of the world total. The Qatari economy is one of the most rapidly growing economies in the world, offering the international community a variety of world-class and cutting-edge products and services (*Qatar Economic Review*, 2008). Moreover, Qatar's economy is expanding at an unprecedented rate. For example, Qatar has the highest gross domestic product (GDP) per capita income in the world estimated at US\$68,467 in 2008. Qatar's nominal GDP growth continues to reach record levels, averaging 25 percent over the past five years (*Qatar Economic Review*, 2008).

The Qatari banking sector comprises a combination of local and foreign banks. A total of 15 banks currently operate in Qatar, seven of which are Qatari-owned institutions, including five commercial banks (Al Ahli Bank, Commercial Bank, Doha Bank, Grindlays Qatar Bank, and Qatar National Bank (QNB)) and two Islamic institutions (Qatar Islamic Bank and Qatar International Islamic Bank (QIIB)). Also represented are the local branches of seven foreign banks including Arab Bank, Bank Saderat Iran, HSBC, Mashreq Bank, BNP Paribas, Standard Chartered, and United Bank. Moreover, as well as their standard current and savings accounts, all the commercial banks in Qatar offer the same range of standard facilities you would expect to find anywhere in the world including personal loans, vehicle loans, debit cards, credit cards, travelers cheques, money transfers, etc. Selected banks also offer specialized accounts such as VIP, ladies, students or children's accounts, plus electronic banking platforms such as telephone and PC banking which offer 24 hours-a-day, seven days a

week access (www.qatarembassy.net). Qatari banks are also gradually developing and enhancing their franchises by expanding their product ranges – especially in retail and Islamic banking – and via geographical diversification. The ongoing macro-economic improvements suggest that Qatari banks will be operating in a stable and prosperous environment over the long-term, allowing them to build stronger and more diversified franchises and more robust balance sheets. Indeed, in today's intensely competitive economy, providing excellent customer service plays a vital role in a company's success and failure (Mouawad and Kleiner, 1996). The financial sector has developed rapidly in terms of size, structure and the variety of consumer and business-to-business products and services around the world in general and gulf region, in particular. In addition, many retail banks face huge challenges such as technological advancement, competitive products, and services and thus, in order to survive and compete effectively, banks must recognize the customer perceptions of the service quality.

Given these significant findings in the financial companies in Qatar, it is important to understand specifically how service quality is perceived by the customer. Moreover, it is critical to determine which elements of service quality are more important to different customers. Therefore, the purpose of the study is to evaluate customer perception about retail banking services offered by the Qatari banks and obviously the outcome of the study will show the present status of service quality in the Middle East in particular and Qatar, in particular.

2. Service quality and related literature

Research has indicated that service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman *et al.*, 1988) and the banking sector in this case is not exceptional. Service quality has been widely used to evaluate the performance of banking services (Cowling and Newman, 1995). The banks understand that customers will be loyal if they receive greater value than from competitors (Dawes and Swailes, 1999) and on the other hand, banks can earn high profits if they are able to position themselves better than their competitors within a specific market (Davies *et al.*, 1995). Therefore, banks need focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). Moreover, bank all over the world offer similar kinds of services, and try to quickly match their competitors' innovations. It can be noted that customers can perceive differences in the quality of service (Chaoprasert and Elsey, 2004). Moreover, customers evaluate banks' performance mainly on the basis of their personal contact and interaction (Grönroos, 1990).

Defining service quality and its components in a form that is actionable in the workplace is an important endeavor that any business company cannot take lightly. Moreover, many scholars agree that service quality can be decomposed into two major dimensions (Grönroos, 1984; Lehtinen and Lehtinen, 1982). The first is referred to by Zeithaml *et al.* (1985) as "outcome quality" and the second by Grönroos (1984) as "technical quality." However, the first dimension is concerned with what the service delivers and on the other hand, the second dimension is concerned with how the service is delivered: the process that the customer went through to get to the outcome of the service.

Given a premise that only customers judge quality, service quality can be also defined as "a judgment about a service's overall excellence or superiority" (Schneider and White, 2004, p. 51). As Schneider and White (2004) noted, "service quality judgments were

viewed as global evaluation that were composites of consumers' experiences with an organization (global-level evaluation)," in this case, users' perception is a tool to evaluate the rate of service quality of the organization. The topic of measuring service quality has been studied extensively in the past-15 years. The study of McCleary and Weaver (1982) indicated that good service is defined on the basis of identification of measurement behaviors that are important to customers. Zemke and Albrecht (1985) suggested that service plays an important role in defining a restaurant's competitive strategies and identified systems and strategies for managing service.

Both the service management and the marketing literatures suggest that there is strong theoretical underpinning among customer satisfaction, customer loyalty, and profitability (Hollowell, 1996). However, the study of Hollowell (1996) neither confirmed nor denied that the relationship path hypothesized (customer satisfaction > customer loyalty > profitability) is stronger than a direct customer satisfaction > profitability relationship. It is evident that customer retention has a significant impact on the bottom line. For example, Bain and Company provides evidence that a 5 percent increase in customer retention adds 25-150 percent on the bottom line (Reichheld and Sasser, 1990).

Even in UK financial institutions, it is estimated that an increase of 5 percent in customer retention is potentially worth £100 million a year (Newman and Cowling, 1996). The study of Newman and Cowling (1996) reports that two British banks used the SERVQUAL[1] model and this model improved quality of service, as well as both banks enjoying substantial increases in profit.

Chang and San's (2005) study investigated the relationship between service quality, customer satisfaction, and profitability in the Taiwanese banking industry. The conclusion of the study is that the performance scale developed in the SERPERE model and customer satisfaction in the profitability model are confirmed in the Taiwanese banking industry. The study revealed that service quality is an antecedent of customer satisfaction and customer satisfaction is an antecedent of profitability. Moreover, Zeithaml (2000) also found evidence about the influences of service quality on profits and Heskett *et al.* (1997) argued that a "direct and strong" relationship exists among service quality, customer satisfaction and profitability.

Vimi and Mohd (2008) undertook a study of the determinants of performance in the Indian retail banking industry based on perception of customer satisfaction. The finding of the study reinforces that customer satisfaction is linked with performance of the banks.

3. Methodology

This is an analytical study based mainly on the primary data collected through a scientifically developed questionnaire. The questionnaire has been personally administered on a sample size of 120, chosen on a convenient basis from four banks, i.e. QNB, Doha Bank, QIIB, and Arab Bank. All of the above banks are listed on the Doha Securities Markets, the only security market in Qatar, except Arab Bank. The selection of the banks was based on some unique characteristics of the banks. For example, QNB was established in 1964 and it is the country's first Qatari-owned commercial bank with a market share of 40 percent of banking sector assets. Doha Bank, established in 1979 is one of the largest private commercial banks in the State of Qatar. QIIB was established in 1991, and has become one of the healthiest and

most successful banks in Qatar in terms of growth and profitability. The Arab Bank, established in 1930, constitutes the first private sector financial institution in the Arab World. Moreover, Arab Bank Group has the largest Arab banking branch network world-wide, with over 500 branches in 30 countries, spanning five continents.

The questionnaire has been designed on the basis of the study of scholars such as (Berry *et al.*, 1985; Parasuraman *et al.*, 1985; Zeithaml and Bitner, 1996; Stafford, 1996). Parasuraman *et al.* (1985) identified 11 dimensions of service quality: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, competence, understanding the customer, and tangibles. Berry *et al.* (1985) and Zeithaml and Bitner (1996) indicated that service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel, and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers). Reliability is considered the essential core of service quality. Stafford (1996) actually focused on customer services on seven dimensions, such as bank atmosphere, relationships, rates and charges, available and convenient service, ATM, reliability/honesty of the bank personnel, and facilities of bank counter (tellers). Another good study has been done by Johnston (1995) in which he provides 18 service dimensions and their definitions: access, aesthetics, attentiveness, availability, care, cleanliness/tidiness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness, and security. Upon considering the above studies, we have constructed four dimensions (reliability, competence, tangibles, and empathy), which cover the 18 parameters/scale (Table I). The degree of perception of customers on the parameters is quantified by using a five-point Likert scale. However, customer demographic information was included in the questionnaire.

3.1 Measurement of reliability

To validate the results empirically, appropriate reliability and validity tests of the measurement were taken. Indeed, reliability refers to the instrument's ability to prove consistent results in repeated uses, whereas validity refers to the degree to which the instrument measures the concept the researcher wants to do. This provides confidence that the empirical findings accurately reflect the proposed constructs (Flynn *et al.*, 1994). The reliability coefficient (Cronbach's alpha) values for the four areas are 0.840, 0.784, 0.913, and 0.965 (Table II). None of the reliability alphas is below the cutoff point of 0.60, which is generally considered to be the criterion for demonstrating internal consistency of new scales (Nunnally and Bernstein, 1994).

4. Findings

4.1 Demographic profile of respondents

The questionnaire was designed to seek information about the user groups, age, gender, education, and their occupation. Analysis shows that 87 percent of the respondents are female and 33 percent are male. The detailed breakdown of the demographic profile of the customers has been given in Table II. It is seen from Table II that 45 percent of the respondents are in the age group of below 25 years. The next

Service quality dimensions	Scale/parameters
Reliability	1 Customer support 2 Good manners and hospitality 3 Resolving customer grievances 4 Imposing of service charge
Competence	5 Return of customers' deposit 6 Promptness and accuracy in transactions 7 Safety of customers' investment 8 Keep confidentiality of accounts and transactions 9 Various kinds of service offered 10. Reputation of the bank
Tangibles	6 Promptness and accuracy in transactions 7 Safety of customers' investment 8 Keep confidentiality of accounts and transactions 9 Various kinds of service offered 10. Reputation of the bank 11. Infrastructure facilities such as parking, ATM, etc. 12. Banking network 13. Modern equipment and décor 14. Internet banking
Empathy	15. Easy to operate account 16. Convenient business hours 17. Different income-earning options 18. Providing prompt information to customers

Table I.
List of service quality
items included
in questionnaire

Demographics	%
<i>1. Gender</i>	
Male: 40	33
Female: 80	87
<i>2. Age (years)</i>	
Below 25	45
25-35	35
35-45	20
45 above	0
<i>3. Education</i>	
High school	30
Bachelor	60
Post graduate	5
PhD	5
<i>4. Occupation</i>	
Service: 50	42
Students: 30	25
Accountant: 20	17
Academicians: 6	5
Others: 14	11

Table II.
Demographic profile
of the customers

largest group of the respondents is in the age group of 25-35 years (35 percent). About 20 percent respondents are from the age group of 35 to 45 years. No respondents are in the age group of 45 and above. Analysis also shows that more than half of the respondents are Bachelor degree holders (60 percent), however, postgraduate and PhD holders are both 5 percent of the total respondents. Among the 120 respondents, the highest numbers of the respondents are in service sector occupations (42 percent) followed by students (25 percent). However, accountants and others service holders represent 17 and 11 percent, respectively.

4.2 Discussion on descriptive statistics of customers' perception

The following is the discussions on each of the parameters of the customers' perception on service quality of Qatari banks:

- *Customer support.* This is an important service that bank should provide to the customers. Proper support to the customer may lead to the banks generating profit and build customers' confidence. The mean score of this parameter is 3.04 with standard deviation of 0.99 and also coefficient of variance is 32.6 percent with Z-score 8.18. The results indicate that customers' perception is positive regarding service provided by the bank in the way of customer support. However, in terms of ranking in the mean score, it stands in 14 position (Table III). This is an indication of poor support provided by the bank to the customer. Therefore, banks should pay more attention to this parameter so that customers' perceptions are raised.

No.	Parameters	Mean score	SD	Coefficient of variance	Z-test	Cronbach's alpha value
1	Customer support	3.04 (14)	0.9911	32.60	8.1813	Reliability = 0.840
2	Good manners and hospitality	3.25 (11)	0.7085	21.80	0.0255	
3	Resolving customer grievances	3.12 (13)	0.8535	27.36	0.000	
4	Imposing of service charge	2.38 (15)	0.3358	14.16	0	Competence = 0.784
5	Return on customers' deposits	3.63 (2)	0.9827	27.07	0.9992	
6	Promptness and accuracy in transactions	3.46 (7)	0.8193	23.68	0.8135	
7	Safety of customers' investments	3.45 (8)	0.7507	21.76	0.7750	Tangibles = 0.913
8	Confidentiality of accounts and transactions	3.57 (4)	0.8958	25.09	0.9913	
9	Various kinds of service offered	3.53 (6)	0.8487	24.04	0.9670	
10	Reputation of the bank	3.62 (3)	0.8929	24.67	0.9988	Empathy = 0.965
11	Infrastructure facilities such as parking, ATM, etc.	3.65 (1)	0.9797	26.84	0.9997	
12	Banks network	3.63 (2)	0.9457	26.05	0.9992	
13	Modern equipment and décor	3.45 (8)	0.7427	21.53	0.7750	Empathy = 0.965
14	Internet banking	3.24 (12)	0.8533	26.34	0.0184	
15	Easy to operate account	3.37 (10)	0.8213	24.37	0.3717	
16	Convenient business hour	3.63 (2)	0.6349	17.49	0.9992	Empathy = 0.965
17	Different income earning options	3.54 (5)	0.7630	21.55	0.9758	
18	Providing prompt information to customers	3.54 (5)	0.8811	24.89	0.9758	

Table III.
Descriptive statistics of customer perception responses

Note: The number within the parentheses indicates the rank of mean score

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- *Good manners and hospitality.* The banks' personnel's manners and hospitality is one of the parts of reliability of service quality that attracts customers. This parameter also is not satisfactory, as the mean and Z-scores are 3.25 and 0.0255, respectively, and it holds the ranking of 11. Therefore, banks need to improve their personnel's manners to a great extent.
 - *Resolving customers' grievances.* This is an important service quality factor: the bank customers expect the bank to resolve their grievances. The mean score and rank of this parameter are 3.12 and 13, respectively. The standard deviation and coefficient of variance are 0.85 and 27 percent, respectively, where Z-value is 0 (not exceeding the standard Z-score table value of 1.96). It seems that customers' perception in this case is very unsatisfactory and banks should give attention to this issue.
 - *Imposing of service charges and fines.* Banks have to charge various amounts to the customers' account for their services, such as demand drafts, money transfer, cheque book issue, etc. With regard to this parameter, the mean score is the lowest (2.38) among the 18 parameters. The result indicates that the customers' perception in this case is very unsatisfactory. In other words, banks are imposing too many service charges and fines, and customers' dissatisfaction is reflected in the result. Therefore, banks should minimize the service charges.
 - *Return on customers' deposits.* It is seen from Table III that customers' perception on return on deposits is satisfactory, as mean score is 3.63 and ranked second. The coefficient of variance and Z-value are 27.07, respectively, and 0.9992. It is a good service in the (reliability parameters) provided by Qatari banks and an indication of higher satisfactory of the quality service.
 - *Promptness and accuracy in transactions.* In the banking transaction, customers seek prompt service and accuracy in transactions. The mean score is 3.45 and the position is ranked at seventh. It is understood that customers' perception in this case is better than for customer support, good manners and hospitality, resolving customer grievances and imposing of service charge.
 - *Safety of customers' investments.* The service quality also depends on the safety of customers' investments. The mean score (3.45) and rank (eighth) of this parameter indicate that customers are not highly satisfied, as do other parameters such as infrastructure and bank networking.
 - *Confidentiality of accounts and transactions.* This is an important parameter: customers want their account and transactions to be kept confidential. The mean score is 3.57 and it is ranked fourth, with standard deviation almost 0.90. The result indicates that customers have moderate confidence in this service.
 - *Various kinds of service offered.* In theory, banks are profit-making institutions and offer various types of service to the customers such as car loans, marriage loans, education loans, etc. The mean score (3.53) and its ranking (sixth) imply that customers' perception in this case is moderate.
 - *Reputation of the bank.* Every bank wants to run their business with a good reputation. In this case, customers' perception is good, as mean score is 3.62 and it is ranked third, with standard deviation of 0.89. Therefore, goodwill and

reputation act as other important parameters of the customer perceptions in the area of competence.

- *Infrastructure facilities like parking, ATM, etc.* There are some preconditions in order to run businesses like financial institutions; they have to provide infrastructural facilities to the customers. The perceptions of the customer in this area are high (3.62) and ranked first. This means banks are providing such facilities to the customers and they are happy and satisfied with such infrastructure. This is also evidenced in the study of Sohil and Shaikh (2008) in Saudi Arabia.
- *Banking network.* This is another important aspect of service quality of banking companies. In this case, customer perception is good, as mean score is 3.63 and it is ranked second.
- *Modern equipment and décor.* In the modern age, business premises should have a high standard of decoration and a nice environment. The mean score (3.45) and rank (eighth) do not imply that bank customers' perception is higher than for other parameters like goodwill, banks network, etc.
- *Internet banking.* Recently, banks are advanced in using modern technology and IT. In this case, internet banking has added a new dimension. Customers are using online banking to save time and have prompt services. However, the response from the customers' perception is not satisfactory as its mean score is 3.24 and it is ranked 12th.
- *Easy to operate account.* It is one of the issues that customers' can operate their account smoothly. The perception of the customers about this service is not good as its mean score is 3.37 and standard deviation is 0.82.
- *Convenient business hours.* Banks are operating their business within a time framework; also, they have to provide extra times in which customers conveniently can do business. For example, some banks offer banking hours in the evening. The study revealed that the perception in this case is satisfactory compared to other services offered by banks. The mean score (3.63) and ranking (second) support this statement.
- *Different income-earning options.* Banks offer a variety of income-earning options to customers, such as short-time deposits, fixed interest rates, etc. Customers usually seek help from the banks to avail themselves of such facilities. In this case, the perception of customers reaches a moderate level, as the mean score is 3.54 and it is ranked fifth. The more income-earning options given to the customer, the more chances to satisfy the customer.
- *Providing prompt information to customers.* Bank services such as prompt communicating to the customer are vital. Can the banks deal safely and confidently with customers' business transactions? In this case, if the banks provide the right information to the right customers promptly, this will create public confidence, and thus help customers to make the right decisions at the right times. In this case, the mean score is 3.54 and it is ranked fifth, which is understood as moderate service providing by the banks.

5. Conclusion

The above discussions indicate that customers' perceptions vary according to the nature of service. In this case, the highest customers' perceptions are demonstrated in the tangibles area such as infrastructure facilities of the bank, followed by the empathy area such as timing of the bank and returns on deposit. On the other hand, the lowest perceptions are in the competence area, such as the method of imposing service charges followed by reliability, such as customers' guidance. Because of the wide variation of responses, the banks need to consider the weak areas in order to meet customer requirement. Indeed, researchers argue that high levels of customer satisfaction lead to customer retention, especially in markets that are highly competitive and saturated, such as financial services (Rust and Zahorik, 1993; Trubik and Smith, 2000). Moreover, in the present competitive banking environment, most of the banks offer the same or similar products around the world and service quality is a vital means to differentiate themselves in the market place. Therefore, to be successful, retail banks must provide service to their customers that meets or exceeds their expectations, and the present study will provide at least some sorts of guidelines to the policy makers of the banks, to take right decision to improve the quality of services, in particular in Qatar and the Middle East in general. Obviously, the current research contributes toward understanding the relationship among customer services, customer satisfaction, and customer perception.

6. Limitations of the study and future research:

Three limitations have been identified in this study. First, the limited number of financial banks (only three banks) covered under the study. Second, the sample size and the number of actual respondents are limited and finally, a more robust analysis is needed to reach a strong conclusion. In order to greatly contribute to the existing body of knowledge about customer satisfaction within the banking sector in the Middle East, it is recommended that similar future research could be conducted taking in all countries in the Middle East and with more sample sizes; also to differentiate between customer perception in the Islamic and non-Islamic banking sectors.

Note

1. SERVQUAL has been given attention by researchers in various fields including insurance, banking, education, IT, etc. as it deals with users' views regarding services (Parasuraman *et al.*, 1985, 1991, 1994).

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