

## The Impact of Service Quality on Satisfaction of Bank Customers: The Saudi Arabian Case

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### Abstract

The study examines the impact of service quality on satisfaction of bank customers in Saudi Arabia. Prior studies carried out using the socioeconomic characteristics of developing and developed economies have put forward that service quality significantly impact customer satisfaction. However, this assertion is yet to be established empirically in context of the socioeconomic characteristics of Saudi Arabia. This gap provides the ground for the study. A sample of 415 bank customers was selected using convenience sampling technique. The Cronbach alpha test of reliability and regression were the analytic approaches used to assess the data. The results indicate that the five attributes (responsiveness, tangible, reliability, empathy, and assurance) that were used to measure services quality significantly influence customer satisfaction. On the basis of this, the study concludes that service quality significantly impact satisfaction of bank customers in Saudi Arabia.

**Keywords:** Customer satisfaction, Service quality, Service Performance, commercial banks, Saudi Arabia.

### Introduction

The banking sector of the Saudi Arabian Economy is well developed and comparable to their counterparts in Western economies. In a broad sense, there are two categories of banks in Saudi Arabia: the government banks and the commercial banks. Although the two types of bank are important in improving economic efficiency, the commercial banks play significant roles in shaping the banking sector of the Kingdom of Saudi Arabia (KSA). The commercial banks are able to play these vital functions partly because they are well capitalized and operate under a functioning regulatory business environment. Bank capitalization represents the net worth of a bank. The possession of huge capital by Saudi commercial banks provides the advantages that partially insulated Saudi commercial banks against the global financial shocks of 2008 (Hassan & Dridi, 2010).

Saudi commercial banks are advanced and encourage innovativeness in their banking practices. Innovative practices in the Saudi Arabian banking sector have been accompanied by increasing competition amongst the commercial banks. In addition, the healthy

competitive environment as supported by the Saudi Government is a key factor that is driving competitive turbulence in the banking sector. Given this reality, it becomes imperative for commercial banks operating in the financial sector to incorporate issues hinging on customer satisfaction in their business models. Customer satisfaction according to Kotler & Keller (2009) is the feelings of pleasure or the disappointment that results from comparing a product's perceived performance with their expectations. Putting this idea in context of this study, satisfaction is the degree to which customers are contended with the services that are provided by the Saudi Arabian commercial banks. Because satisfied customers are strategic assets to commercial banks, it demands that banks focus on the quality of their services (Mohammed & Shirley, 2009). Banks with superior services quality have the capacity to satisfy their customer needs and the ability to remain competitive. Superior services quality creates value and retention of profitable customers.

In as much as the Saudi Arabian banking sector is well developed in terms of capital stock and supportive regulatory policies, there are sparse explanations as to whether the customers that patronize Saudi Arabian commercial banks are satisfied. Put to the point, there are few empirical examinations on the discourse regarding service quality of commercial banks and customer satisfaction in the KSA. This understanding provides the foundation for this study.

## **Literature /Theoretical Background**

### **Service Quality**

Service quality is the sum of features and characteristics of a service that allow customer needs to be satisfied (Kotler, 2002). Service quality is a major determinant of customer satisfaction. It helps in measuring the degree to which customers are happy when they purchase and experience services. In evaluative term, service quality is an assessment that represents customer's sensitivity to reliability, assurance, responsiveness, empathy, and tangibles (Gupta & Zeithaml, 2006). On the basis this assertion, service quality ought to be the basis for determining customer satisfaction in the Saudi banking sector. This position is strengthened by the argument that through superior service quality, organizations develop capabilities for ensuring improvement of customers' satisfaction (Geetika & Nandan, 2010; Grzanic, 2007). Parasuraman et al (1985) had earlier stressed this perspective when they noted that perceived high service quality is associated with greater customer satisfaction.

Plethora of conceptualizations exists regarding service quality in the marketing and management literature. These conceptualizations, however, tend to converged on the fact that service quality is a measure of excellence of any economic activity that is intangible. Given the fact that services are intangibles, the measure of excellence that is tied to a service product is often difficult to quantify. In spite of this challenge, Parasuraman et al. (1988) provided ten items that were used to measure service quality. These items were: tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding. Although, these measures addressed the major dimensions of service quality, the question as to what should be the measure of service quality has been contentious in the literature. For instance, Brady & Cronin (2001) argued that performance rather than perception expectation should be the measure of service quality. Lee & Yoo (2000) had earlier tested what they called the service performance (SERVPERF) model and discovered that the model explained more variance in service quality than the traditional service quality model. Despite strong inclination in favor of SERVPERF model, it is imprecise that the model holds superiority in comparison to other perspectives when assessing service quality (Jain & Gupta, 2004). By and large, there is consensus that service

quality is a multidimensional construct (Cronin & Taylor, 1992; Parasuraman et al., 1988; Brady & Cronin, 2001).

### **Customer Satisfaction**

Service quality precedes customer satisfaction. A service that is associated with high quality has the potential to increase customer loyalty or re-buy ( Mukesh et al., 2009). Kotler & Keller (2009) presupposed that satisfaction can be determined when a consumer's feelings of pleasure is juxtaposed against a product's perceived performance or expectations. Customer satisfaction is the degree to which a product's perceived performance meets a buyer's expectation (Kotler et al., 2002). Service quality and customer satisfaction are related and for this reason, it is well -built to state that customer satisfaction is a direct function of service quality. Customer satisfaction and service quality has been extensively researched and sufficient grounds were found to draw conclusions that the two variables show strong correlation (Brady & Cronin, 2001; Oloruniwo et al., 2006). Unfortunately, these conclusions are based on the socio-economic characteristics that prevail in developed economy. In light of this short-coming, caution must be demonstrated when extrapolating these conclusions to emerging economies such as that of Saudi Arabia. For commercial banks in Saudi Arabia to remain competitive and continue to attract loyal customers, they must place premium on the quality their services. The quest to satisfy the customer should be the force that drives the activities of Saudi commercial banks. The rationale for this reasoning is adduced to the fact that enterprises exist because they have customers' to serve (Valdani, 2009). It is not surprising therefore that, organizations which are able to quickly predict and develop quality services that satisfy customer needs are rewarded with enormous profit when compared to those which failed in this regard (Barsky & Nash, 2003). A stretch of this argument is that banks are inefficient and under performs in satisfying customer needs when customer expectations are not researched, thoroughly understood and served accordingly (Leverin & Liljander, 2006).

### **Conceptual Framework**

Laroche et al., (2004) observed that although varying perspectives of service quality dimensions exist, the common elements of service quality construct are: responsiveness, reliability, empathy, assurance, and tangibles. In context of this study, the five attributes are employed to explain satisfaction of customers with Saudi commercial banks. This standpoint is further hinged on the argument that the aforementioned service quality dimensions have proven to be useful variables for measuring the correlate between customer satisfaction and service quality (Yonggui & Hing-Po, 2002; Bennett & Barkensjo, 2005; Wilson et al., 2008; Eshghi et al., 2008; Negi, 2009)

On the basis of the five service quality dimension, the study hypothesized that:

H1: Responsiveness of employees of Saudi commercial banks significantly impact customer satisfaction

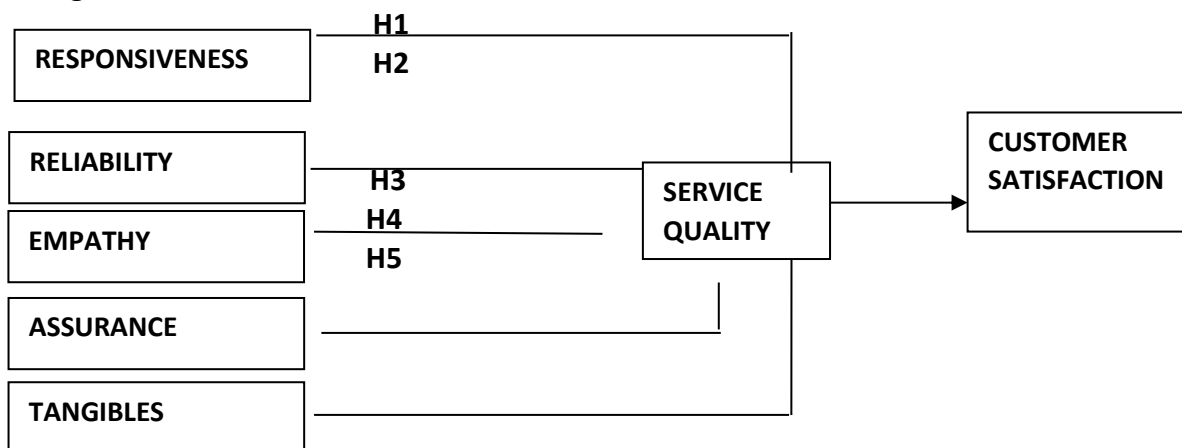
H2: Reliability of employees of Saudi commercial banks has significant impact on customer satisfaction

H3: employee's empathy has significant impact on customer satisfaction of Saudi commercial banks.

H4: employee's assurance to customers has significant impact on their satisfaction.

H5: Tangibles existing in Saudi commercial banks have significant impact which on customer satisfaction

Figure 1: The Theoretical Model



### Methodology

The study population comprised all persons in Asir region whom are above 16 years and operating a bank account with a commercial bank in this region. Data were generated utilizing convenience sampling method. Specifically, customers were surveyed in Abha and Khamis Mushyt to reach the 415 respondents which constitute the sample size of the study. Structured questionnaire were disseminated to the respondents electronically and face- to-face approaches.

. The questionnaire consists of two distinct parts: biographical and service quality/satisfaction components. The components of the service quality/satisfaction were measured on five point likert scale with 1 representing strongly disagree, 2 as disagree, 3 is neutral, 4 is agree and 5 as strongly agree.

The resulting data were analyzed using Cronbach alpha test of reliability and regression statistical technique. In respect of regression analysis, the significance threshold was set at .05 (i.e  $p = .05$ ).

The regression model to be fitted is of the form shown below:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where:

$b_0$ = constant

$b_1 - b_5$ = beta coefficients

$X_1$ = responsiveness

$X_2$ = tangible

$X_3$ = reliability

$X_4$ = empathy

$X_5$ = assurance

### Results

The first result reported is the test of reliability of the items used to measure the five service quality attributes. The coefficients of this measure are presented in table 1

Table 1

*Reliability Statistics*

Attributes	Number of items	Reliability
Responsiveness	4	.886
Reliability	5	.782
Empathy	5	.880
Assurance	3	.714
Tangible	5	.833

The reliability coefficients shown in table 1 are > .70, this clearly point to the fact that the 22 items are reliable and valid measure of the five service quality attributes.

**Regression Analysis**

The prime objective of the study is to assess the impact of the five service quality dimensions on customer satisfaction. This was carried out using multiple regression model and the findings shown in tables 2b to 2d. The result presented in tables 2b and 2c revealed statistical significance between the five service quality variables and customer satisfaction. This finding implies that the five service quality attributes are important predictors of satisfaction of customers operating accounts with Saudi commercial banks. Put succinctly, in table 2b, the regression model has R value of .928 and R -squared value of .861. Whereas the R value indicates a strong relationship between the service quality variables and customer satisfaction, R- squared signifies that the model explains a high percentage (i.e 86%) of the response variable variation (customer satisfaction). Table 2c is the result of the F-test. It measures the overall significance of the service quality variables in predicting customer satisfaction with Saudi commercial banks. According to the table, the p value of the F- test of overall significance is less than the significance level that was mentioned in the methodology section. That is  $F(5, 409) = 507$   $p < .05$ . This result is strong suggestion that the regression model sufficiently predicted the response variable.

Table 2d shows the magnitude and direction of the coefficients of the predictor variables. These coefficients are indicators that relate the nature of the dynamics that can be observed in customer satisfaction as a result of the service quality attributes. According to the table, responsiveness and reliability are inversely related to customer satisfaction while tangible, empathy and assurance are directly related to customer satisfaction. Therefore, the regression model can practically be represented as:

Customer satisfaction =  $-4.616 - .782(\text{responsiveness}) + .579(\text{tangible}) - .188(\text{reliability}) + .009(\text{empathy}) + 2.346(\text{assurance})$

**2b Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.928 <sup>a</sup>	.861	.860	.473

a. Predictors: (Constant), ASSURANCE, TANGIBLE, RELIABILITY, EMPATHY, RESPONSIVENESS

**2c. ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
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1	Regression	568.186	5	113.637	507.601	.000 <sup>b</sup>
	Residual	91.563	409	.224		
	Total	659.749	414			

a. Dependent Variable: CUSTOMER STAISFACTION

b. Predictors: (Constant), ASSURANCE, TANGIBLE, RELIABILY, EMPATHY, RESPONSIVENESS

## 2d. Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.616	.585		-7.894	.000
	RESPONSIVENESS	-.782	.154	-.709	-5.086	.000
	TANGIBLES	.579	.158	.345	3.662	.000
	RELIABILY	-.188	.083	-.145	-2.277	.023
	EMPATHY	.009	.118	.006	.080	.937
	ASSURANCE	2.346	.173	1.466	13.533	.000

a. Dependent Variable: CUSTOMER STAISFACTION

## Conclusion

The results of the study confirmed that the five dimensions of service quality have significant impact on customer satisfaction. This is especially so for service quality attributes such as tangibles and assurance. By implication, Saudi commercial banks must place emphasis on the appearance of their employees, facilities, equipment, and materials on the one side. And on the other side, the commercial banks must provide a high degree of safety and confidence in their services to customers. These two attributes are the drivers of customer satisfaction in the Saudi Arabian banking industry. Therefore, Saudi commercial banks must incorporate these two attributes in their quest to satisfying their customers.

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