A comparative study of factors affecting service quality and level of customer satisfaction in Local and Foreign banks in Oman

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Abstract: Quality service and customer satisfaction are major challenges faced by the banking sector in Oman. This paper aims to comparative study of the factors affecting service quality in local and foreign banks in Oman. The quality of service provided in the service sector is of utmost importance in order to sustain in a competitive market. As far banking sector in Oman is concerned, the various policies are adopted by the banks to improve the service quality that includes e- banking, Phone banking, making available CDM (Cash deposits Machines) and ATM (Automated Teller Machines), easy loans, customer care service etc. This research paper is an attitudinal study of customers of two local and foreign banks in Oman. The customer feedback is collected through structured questionnaire, based on the five points Likert scale. The parameters of servqual model have been followed to test the service quality in the banks. An attempt has been made to explore and analyze the significant factors affecting the service quality of banks in Oman by using descriptive and inferential statistics. The key findings of the study are the level of customer satisfaction of local banks is better than the foreign banks in Oman. This is because of the quality of service provided by the local bank is better than foreign banks.

Keywords: Service quality, Servqual model, Local banks in Oman, foreign banks in Oman

INTRODUCTION

With the advent of Oman Banking law in 1974, central bank of Oman was established in April 1975 when H.M. Sultan Qaboos bin Said took over. The Banking sector in Oman embarked on with just three registered commercial banks in a country. The number has reached to 17 commercial banks in 2015. Out of these 17 commercial banks 7 banks are local and 10 are foreign banks (in addition to 2 specialized banks viz. Oman Housing Bank and Oman Development Bank). Six local banks are listed on Muscat Securities market [1]. All these 17 commercial banks have 429 branches across country. Local banks have their 13 branch office abroad. The banking sector has developed by leap and bounds   Banking law in Oman has outlined the objectives of banking industry and established fortified banking system. Banking law of Oman first amended in 1991 by which the CBO empowered to withdraw the license or suspend the bank activities which come with its jurisdiction (Royal Decree No.114/2000) (Ministry of Information, Sultanate of Oman).

As far as Omanization is concerned, this is the sector which could achieve 100% Omanization. During the last five decades this sector has provided career opportunities to thousands of Omanis. Around 12000 Omanis are employed in the banking sector and 40% of them are women Jobs in this particular sector. Career in the banking sector is preferred by most of the young Omani graduates.

The banks in sultanate can be divided into three mail categories - Local commercial banks, foreign commercial banks and specialized banks.

According to annual report of central bank of Oman 2008, the commercial banks in Oman has adopted world class technological advances and international standards of credit risk and market risk that enable to manage their business effectively. Old style of banking operations has totally replaced with the new technology in operating bank 'anywhere - anytime ' banking. Customers enjoy the facilities provided by the banks like ATM, CDM, Online banking - e- banking, mobile banking, credit card facilities and many more. As far as marketing share of banking sector in Oman is concerned 89% market share is held by local banks and 11% market share is held by foreign banks. The present research is an endeavor of comparative analysis of an impact of service quality provided by local and foreign banks on the customer satisfaction and retention in Oman.

Table-1: Local and Foreign Banks in Oman

Name of the Bank	Date of Establishment
Local Banks	
National Bank of Oman	1973
Oman Arab Bank	1973
Oman International Bank	1975
Bank Muscat	1981
Bank Dohfar	1990
Bank Sohar	2007
Al Ahli Bank	1997
Foreign Banks	
HSBC Bank Middle East	1948
Standard Chartered Bank	1968
Habib Bank Ltd.	1972
Bank Melli Iran	1974
National Bank of Abu Dhabi	1976
Bank Saderat Iran	1976
Bank of Baroda	1976
State Bank of India	2004
Bank of Beirut	2006
Qatar National Bank	2007
Specialized Banks	
Oman Housing Bank	1977
Oman Development Bank	1977
Alliance Housing Bank	1997

Source: Compiled from the various issues of Annual Reports, Central Bank of Oman [1]

Objectives of the study

The study is designed to cover the following objectives:

- To study the banking sector of Oman.
- To analyze the quality of service provided by the local and foreign banks in Oman
- To understand the level of customer satisfaction in local and foreign banks in Oman.

Hypothesis:

H0: Local banks in Oman do not provide better service quality as compared to Foreign Banks operating in Oman.

H1: Local banks in Oman provide better service quality as compared to Foreign Banks operating in Oman.

Literature Review
Customer Satisfaction

Customer satisfaction is a part of choice, cognitive judgment connected to a particular decision [2]. According to Saurabh Singh and Renu Arora [16] the efficiency banking sector is solely depend upon the service provided to the target customers. They have further stated that to sustain in competitive environment, consistent customer satisfaction can only be achieved by providing quality service. Study depicts that employees being attentive to the customer and redressing their queries and constant assistance is significant factor for customer satisfaction. In addition to that employee's assistance, technology adopted in the banks like internet, e-commerce and various other banking applications have been enormously made life of customer at ease. Use of technology is one of the important factors of customer satisfaction as far as banking industry is concerned.

However, as per Tapan K panda and Satyabrata Das [3] in their research says that in service industry like hospitality, without quality service attaining customer satisfaction is not possible. The service quality is a function of customer satisfaction which is entirely based on the perception of customers. Though service is an intangible nature, physical evidence such as behavior of employees, systematize banking processes are the key factors of customer satisfaction.

Service quality

This model has been developed by, Zeithaml, Parasurama and Berry in 1988 [4] and was widely used in the service industry to measure the service quality of an industry. Service quality is consumer's perception of firm's delivery of desired service [5].

Service quality is usually considered as one of the most significant factor to measure how well the level of service delivered matches with the customer expectations [6]. The service quality can be defined as the overall assessment of a service by customers. They further mentioned in their study that when service matches with the expectations of customers, it is considered as quality service. It's not only the quality of service but consistency in the same conforms the customer expectations [7, 8].

The sustainability of company is dependent upon matching increased expectations of the customer regarding quality of service with the service provided [9]. However, another study denotes that the service quality is considered as an observant competitive advantage and supporting satisfying relationship with customers [10].

Measurement parameters of service quality introduced and defined by Parasuraman *et.al* [11]. The Parameters like physical evidence, prompt service, individual attention, are the most essential factors of service quality and they are interdependent [12]. Service quality comprises of five dimensions viz. tangibility (physical appearance, facilities etc), reliability (ability to perform promised service), responsiveness (willingness to help customers) and empathy (caring and individual attention). These five factors of service play crucial role in maintaining service quality standards [13].

The banking sector has become highly competitive and they have started providing world class service and are committed to provide quality service to ensure customer satisfaction and customer loyalty [14].

Banking sector has been undergoing remarkable changes in providing service to the customers. Customer's expectations regarding service quality, have gone high due to well awareness of global service quality standards, technological advancement

RESEARCH METHODOLOGY
Data for this study will be collected through primary and seconary methods of data collection and collected data will be analyzed by various statistical tools and techniques. Marye Tharpe says, "Any communication or marketing professional needs cross-cultural research and communication skills to be able to succeed in the future." It denotes that research skills are very much important to analyze the various parameter of this research. This research is an empirical research where emphasize is especially on the parameters of service quality and it their impact on the customer satisfaction and retention. Five important parameters of service quality have been studied and analyzed by testing collected data statistically. Primary data is the set of data collected for the first time by the researcher. This is raw data that has not been analyzed or discussed before. There are different types of primary data collection that include interviews, observations, questionnaires and surveys. For the purpose of this study, data has been collected by questionnaire and interview method from the customers of local and foreign banks in Oman. A set of questionnaire and interviews with the customers of local and foreign banks in Oman is an attempt to look at the management's perception of the service quality as well as how well the employees understand their roles and the banks aims and goals. Whereas secondary data for this study has been collected by referring to the journals, articles and online resources which are evident in the literature review. The collected data has also been analyzed comparatively what is the impact of service on customer satisfaction and retention in local and foreign banks in Oman. The quality of service provided, customer satisfaction and retention in the local and foreign bank have been compared and analyzed on various significant parameters Servqual Model.

Sample size and sample techniques
The data for the present study has been collected by using probability simple random sampling. Around 100 customers from local and foreign bank have chosen to perform the SERVQUAL survey. Convenience and judgment sampling of available employees and managers will be chosen to undertake the interviews. The ideal number of employees would be 100 employees including 4 heads or unit heads in local and foreign bank in Oman.

Instrument Developed
The questionnaire consists of set of questions based o five factors of SERVQUAL [15]. All these questions are trying to learn the customer satisfaction and quality service provided local and foreign banks in Oman. The study aims to investigate the behavior of customers of local and foreign banks in Oman on five point Likert scale. Where for each item, 1 represents highly dissatisfied, 2 as dissatisfied, 3 represents neither satisfied nor dissatisfied, 4 for satisfied and 5 represents highly satisfied.

Data Analysis
Descriptive Statistics
Descriptive statistics is applied to analyze the means of all the factors of both the banks to compare the satisfaction level of the customers of local and foreign banks in Oman. Mean of all the five factors have been calculated by using following formula X= **3(A) + (Σfd/Σf).** The calculated means of both banks have been compared and analyzed between each other.

Table-2: Mean Analysis

Factors	Local Bank	Foreign Bank
Tangibility	4.6	4.00
Reliability	4.00	3.76
Responsiveness	4.00	3.34
Assurance of the employees	4.00	3.52
Empathy to customer needs	4.00	3.7

Descriptive statistics - Comparative study

The above table denotes the mean analysis of level of customer satisfaction towards the factors of quality of service provided by Local Banks in Oman and foreign banks in Oman. The mean of quality of service provided by both the banks is measured on the basis of five factors of service quality model.

Tangibility

The table denotes that the mean of level of customer satisfaction towards the tangibility of the service provided by both the banks, that includes facilities provided to the customers, tangible quality of corporate branches, ATM's and CDM's. The mean of local banks is on the higher side i.e 5 (highly satisfied on the likert scale) whereas the mean of tangibility of service provided by the foreign banks is 4 (satisfied). As far as tangibility of service is concerned, customers of local banks are highly satisfied as compared to the foreign banks customers.

Reliability

The mean analysis depicts that the customers of local banks are satisfied with the reliability of local banks with mean 4 i.e. satisfied on the likert scale whereas customers reliability mean of foreign banks is slightly lesser i.e. 3.76 when compared with local banks. Mean analysis of reliability factor clearly states that customers of local banks are satisfied with the ability of local banks to performed promised service.

Responsiveness

The mean for responsiveness of Local banks in Oman is 4.00,which shows that customers are satisfied with responsiveness of the staff while providing the service ,whereas the mean for responsiveness factor of the forign bank is 3.34 which is neutral on the likert scale. This indicates that responsiveness of the staff of local banks to the customer queries is more positive than foreign banks. In order to increase the level of customer satisfaction, foreign banks should provide customers with information about the service and respond to their queries and doubts immediately.

Assurance

The mean analysis shows that the calculated mean for assurance factor of service provided by local bank is 4 (satisfied) whereas the mean for the same component of foreign bank is 3.52 which is little lesser than local banks. Local banks in Oman assure their customer for quality service, polite and friendly staff, and provisions for financial advice, interior comfort, and easy access to account information and knowledgeable and experienced management team.

Empathy

As far as mean analysis for empathy factor is concerned local banks in Oman has upper hand in this factor when compared with foreign banks. The empathy mean of local banks is 4 whereas the mean of foreign banks is 3.7 which do not show much difference.

The endeavor of both the local and foreign banks in Oman is to provide customers with individual attention. Employees of both banks understand the needs of their customers and try to resolve their queries promptly.

Analysis of customer retention survey

Table-3: Customer retention survey

Number of years banking with	Local Banks	Foreign Banks	Mean of customer satisfaction level Local Banks	Mean of customer satisfaction level Foreign Banks
0 to 5 years	25	30	4	3
6 to 10 years	30	40	4	3
11-15 years	20	20	5	4
16 and above	25	10	5	4

Above chart explains customer's satisfaction and customer retention. It is observed from the above table that local banks customer satisfaction mean is satisfied and highly satisfied in almost all the groups. As far as first and second group is concerned, customers are satisfied where as in third and fourth group they are highly satisfied with the service provided by the bank and hence the customers from 3rd and 4th group are showing long association with the local banks in Oman.

Comparatively, the foreign banks customer satisfaction mean shows that in 1st and 2nd caetogry customers are neutral, however, the category 4th and 5th shows satisfied. But they are just satisfied with the services provided by foreign banks. Hence, the less number of customers copared to local banks, could show the long association with foreign banks

Inferential statistics

Inferential statistics is applied by using ANOVA to test the hypothesis and compare the quality of service provided in both the banks local and foreign in Oman.

Table-4: Testing hypothesis using ANOVA

ANOVA		Sum of Squares	df	Mean Square	F
Between Group		25.46	4	6.365	8.68
Within Group		179.54	245	0.732	
	Total	205	249		

The above table explains that the significance value is less than 0.05 and the F value is 8.68 which more than table value 2.566, which implies that the calculated value of F is more than the tabulated value of F statistic. Therefore, the researcher can assume that there is significant difference in variances of groups and this difference is not caused by chance. It disproves null hypothesis, hence, the alternative hypothesis : H1: Local banks in Oman have better service quality as compared to Foreign Banks operating in Oman stands accepted.

CONCLUSION

As far service industry is concerned the customer satisfactions is of utmost importance and it has direct impact on customer loyalty. The present study on service quality in selected local and foreign banks is measured in five dimensions by using SERVQUAL scale developed by Parasuraman et al. [4]. The respondents of both the banks are more focused on the tangible and intangible factors of the banks for improving customer satisfaction. The parameter of service quality model viz. Reliability, responsiveness and assurance plays vital role in comparing the quality of service in both banks. While competing with foreign banks the local banks have developed the tangible factor like a computerization, physical facilities, etc. to attract the customers. Customer satisfaction and retention has impact on customer loyalty on a long term basis, therefore, foreign bankers in Oman should work towards 100% customer satisfaction so that they will sustain in the market long term efficiently.

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