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CUSTOMER SATISFACTION IN
FINANCIAL INSTITUTIONS

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FINANCIAL INSTITUTIONS

by
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A project
submitted in partial fulfillment of the requirements
for the degree of Master of Business Administration
to the faculty of Business Administration & Economics
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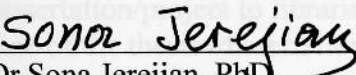
Date of project presentation: June 17, 2005

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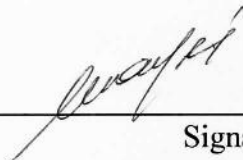
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AN ABSTRACT OF ACKNOWLEDGMENT

Special thanks to all the members of my family who supported and guided me through all the difficult times, and to my fiancé for his support and encouragement as well, throughout my working on this project and completion of the MBA program.

My recognition and gratitude to the Human resource Department of BLOM BANK SAL, for their help and contribution.

Title: Customer Satisfaction in Financial Institutions

Thank you.

In this paper, we study the service quality factors of customer satisfaction in financial institutions. We discuss the results using the stepwise discriminant analysis based on data collected from customers of a leading bank in Lebanon. The approach enables us to assess a coefficient of ten service quality factors related to customer satisfaction, which are as follow:

- 1-Employees Cooperation (Responsiveness)
- 2-Working Environment (Tangible)
- 3-Dressing code (Tangible)
- 4-Employees good and professional behavior (Courtesy)
- 5-Employees speed in performance (Competence)
- 6-Employees knowledge of the products (Competence)
- 7-News update to customers (Competence)
- 8-Employees motivation (Competence)
- 9-Waiting line system (Tangible)
- 10-Communication over the telephone (Courtesy)

We find that four factors have the highest loadings, which are employees' knowledge, employees' cooperation, waiting in line system and telecommunication with the branch. In order to facilitate managerial action, we discuss how specific service quality factors should be interpreted to enable us to enhance customer satisfaction. This approach and findings have significant implications for managing customer satisfaction in the financial industry.

AN ABSTRACT OF THE PROJECT OF

Nayiri Kirkor-Wage Sarkissian for Master of Business Administration
Major: Business Administration

Title: Customer Satisfaction in Financial Institutions

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PART 1: I-INTRODUCTION

A- Subject, relevance, meanings and general Importance of

A-1-Customer Satisfaction

Customer satisfaction is the essence for success in today's highly competitive world of business. Thus the significance of customer satisfaction and customer retention in strategy development for a "market oriented" and "customer focused" firm cannot be underestimated (Kohli and Jaworski, 1990). Customer satisfaction is an important theoretical as well as practical issue for most marketers and researchers (Dabholkar et al., 1996; Fournier and Mick, 1999; Meuter et al., 2000). Consequently, customer satisfaction is increasingly becoming a corporate goal as more and more companies strive for quality in their products and services (Bitner and Hubbert, 1994).

Customer satisfaction is generally described as the full meeting of one's expectations (Oliver, 1980). CS is the feeling or attitude of a customer towards a product or service after it has been used. CS is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behavior. For instance, if customers are satisfied with a particular service offering after its use, then they are likely to engage in repeat purchase and try line extensions (East, 1997). CS is widely recognized as a key influence in the formation of customers' future purchase intentions (Taylor and Baker, 1994).

Satisfied customers are also likely to tell others about their favorable experiences and thus engage in positive word of mouth advertising (Richens, 1983; File and Prince, 1992). This positive word of mouth advertising is particularly useful in

collectivist Middle Eastern cultures like that of Abu Dhabi where social life is structured in a way to improve social relationships in the society (see Hofstede, 1980; Hall and Hall, 1987). Dissatisfied customers, on the other hand, are likely to switch brands and engage in negative word of mouth advertising. Furthermore, behaviors such as repeat purchase and word-of-mouth directly affect the viability and profitability of a firm (Dabholkar et al., 1996). A recent study conducted by Levesque and McDougall (1996) confirmed and reinforced the idea that unsatisfactory customer service leads to a drop in customer satisfaction and willingness to recommend the service to a friend. This would in turn lead to an increase in the rate of switching by customers.

A-2-Contribution of Customer Participation to service and quality

The fact that services typically are produced and consumed, simultaneously, means that it is common for customers to have a direct input to service provision. This customer involvement then becomes one of the many problems to be addressed by service marketers (Zeithaml et al., 1985). However, by its very nature, customer participation is difficult to manage and represents a source of uncertainty for service providers. The development and management of good relationships with customers is advocated as one strategy to overcome many of these potential problems. The extent to which customers are involved in the service delivery process varies considerably. However, financial services in general and corporate financial services in particular represent one sector in which customers' involvement in service delivery is of particular importance. The ability of a financial service provider to meet the needs of its customers is heavily dependent on the information provided by those customers. Customer participation in a relationship then becomes an important influence on the effectiveness

of that relationship and on perceptions of the overall quality of the service received.

(Bowen) The interaction between customers and service providers is an important determinant of perceptions of service quality (Zeithaml et al., 1988). In some instances, this interaction will be largely of a transactional nature but more commonly interaction occurs within the context of an ongoing service relationship. Indeed, services marketing, places considerable emphasis on the development and management of relationships with customers as means of enhancing the quality of service delivery (Berry, 1983; Christopher et al., 1991; Eiglier and Langeard, 1977). Those relationships are seen as being of particular importance in situations in which the service is long term in nature, when customers are heavily dependent on credence qualities in service evaluation and where perceived risk is high (Zeithaml, 1981). Furthermore, building effective and successful relationships can contribute significantly to customer satisfaction, loyalty and retention and thus to improved performance (Reichheld and Sasser, 1993; Rust and Zahorik, 1993).

and part In this context, the role of employees has also attracted considerable attention. Communication and control processes in the management of employees are cited by Zeithaml et al. (1988) as key determinants of service quality while Clarke and Payne (1993) note the potential contribution of employee satisfaction to customer satisfaction and retention. More generally the growing interest in internal marketing is a useful indicator of academic and practitioner concern about managing and motivating employees to improve service quality. By contrast, the role of customers and their participation in the relationship has been less thoroughly researched. As Anderson et al. (1994) note, good consumer behavior is often cited as important but is less frequently the subject of empirical research.

The importance of customer participation is well established conceptually (Bowen and Schneider, 1988). Typically the customer will need either to be physically present for a service to be provided or will have to provide information as a precursor to service provision. The quality of the resulting service will then be dependent partially on the way in which the customer interacts with the service provider. The provision of many services cannot occur without customer involvement, but the way in which customers participate in the service delivery process can have important implications for both customer and service provider. Customers who are willing to participate actively in service delivery may expect to receive a better quality of service for a variety of reasons. First, customer participation should mean that the provider has a clearer understanding of their needs and circumstances. Second, participative customers may also be more aware of the constraints on the service provider in terms of what can and cannot be delivered. Accordingly, such customers are likely to form more realistic expectations about service quality and as a consequence the gaps between expectations and performance may be smaller. Finally, it is possible that the willingness of consumers to participate actively in the provision of a service can provide the organization with an opportunity to enhance service productivity (Lovelock and Young, 1977) by harnessing the contributions of customers.

Inevitably customer involvement presents problems for quality assurance and quality control. Placing customers in the role of “**partial employees**” presents the service provider with the difficult task of managing these “partial employees” (Bowen and Schneider, 1988). However, the benefits of effective and active customer involvement would suggest that there are gains to be made from attempting to address such management problems. One particular issue concerns the motivation of customers

to accept the role of partial employees and to recognize the value of active participation in service delivery.

Research in the area of industrial marketing (Ford, 1990) suggests that customers will and can only be expected to participate in a relationship if they anticipate that there will be benefits from that relationship. The role of the relationship in reducing perceived risk has already been mentioned but other benefits might be anticipated including enhanced service quality as a result of the delivery of a service, which more closely meets customer needs and the formation of more realistic expectations. More generally, the quality of interaction between buyer and supplier and the degree of customer participation in the relationship have been identified as possible antecedents of customer satisfaction (Solomon et al., 1985). Certainly, there is preliminary evidence to suggest a positive relationship between good consumer behavior and relationship satisfaction (Anderson et al., 1994). While good consumer behavior is not necessarily equivalent to relationship participation, it would be suspected that the two are closely associated.

So I conclude that there is or should be an association between service quality, relationship satisfaction and customer participation. The issue of causality is undoubtedly complex; participation should result in an improved quality of service and this may be seen as an antecedent of satisfaction. At the same time, greater participation may only occur if preceded by the assurance of better service. While it may be difficult to identify uniquely the direction of cause and effect, there are good grounds for expecting a greater degree of customer participation to be at least associated with better quality of service and greater levels of customer satisfaction.

A-3-Importance of Customer retention and Loyalty

Satisfaction can be considered as the consumer's evaluation of the product or service received. The importance of these customer evaluations comes from the impact that satisfaction is positioned to have on consumer behaviors such as loyalty. In the literature, the construct of loyalty is divided into its behavioral, cognitive and affective elements (Gremler and Brown, 1996). Behavioral loyalty is the purchase behavior actually displayed by the customer. Cognitive loyalty relates to the intentions of future behavior expressed by the customer. Finally, affective loyalty defines the attitude of the customer to the company.

Attitudinal loyalty represents the individual's feelings towards the company, which may or may not be translated into purchase behavior, depending on factors such as cost, alternatives and convenience. However, attitudinal loyalty is an important construct as customers with more favorable attitudes are more likely to stay loyal in the long term. Chong et al. (1997), in an empirical study, found that both customer satisfaction and customer perceptions of service quality were important predictors of attitudinal loyalty, but that satisfaction in fact had the strongest relationship with the loyalty construct.

Prior to actual behavior, customers are suggested to hold intentions of how they will behave in the next period. LaBarbera and Mazursky (1983), building on Oliver's (1980b), cognitive model, provide empirical evidence that satisfaction mediates the difference between previous intentions and revised intentions, to produce a relationship which is stronger than simply the direct effect of previous period intentions on present periods. This evidence would lead to the expectation that satisfaction will lead to higher repurchase intentions. Indeed, Anderson and Sullivan (1993) found that

intentions were positively influenced by the level of satisfaction, those firms with higher satisfaction levels tending to have lower retention elasticity.

Finally, satisfaction is only of value to firms if it elicits some kind of positive financial outcome. The service management literature suggests that profitability and growth are largely determined by loyalty (Heskett et al., 1994), and behavioral loyalty itself is a direct result of customer satisfaction (Reicheld and Sasser, 1990; Zeithaml et al., 1990). In each period a firm's market share comes from three sources:

Firstly: those customers switching to the company from other firms; Secondly: new customers to the market who choose the company for their initial purchase. Finally: those customers retained by the company from the previous time period.

In the current period, changes in behavioral loyalty will affect the number of people in the third group. In future time periods, behavioral loyalty will affect how many individuals in the first two groups remain with the company. Hence, changes in the level of behavioral loyalty have important implications for the financial position of the company. Hallowell (1996), found that 37% of the variance in this loyalty was due to customer satisfaction. LaBarbera and Mazursky (1983) found that repeat purchasers had significantly higher levels of satisfaction and behavioral intentions than those customers who switched.

There is, therefore, strong support in the literature for the importance of the two constructs of satisfaction and loyalty. There is much evidence that the level of satisfaction experienced by the customer directly affects the loyalty, which the customer will have towards the company. Similarly, evidence has been cited for the positive consequences, which increased loyalty can have for the firm.

In an era of matured and intense competitive pressures, many firms are

focusing their efforts on maintaining a **loyal customer base**. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality.

Retail banks are pursuing this strategy, in part, because of the difficulty in differentiating based on the service offering. Typically, customers perceive very little difference in the services offered by retail banks and any new offering is quickly matched by competitors (Coskun and Frohlich, 1992; Devlin et al., 1995). The task facing these managers is to focus on those activities that result in meeting or exceeding customer expectations.

Also, retail banks, like many other service providers, have discovered that increasing customer retention rates can have a substantial impact on profits. In one case, a retail bank that increased its customer retention rates by 5 per cent increased its profits by 85 per cent (Reichheld and Sasser, 1990).

The rewards to firms that establish a loyal customer base have been well documented (Armstrong and Symonds, 1991; Heskett et al., 1994; Reichheld and Sasser, 1990). In general, increased loyalty leads to lower costs of servicing the firm's customers, reduced marketing expenditures, increased business from the existing customer base and greater profits.

These rewards are particularly true in the retail-banking sector. By increasing loyalty, a retail bank:

- reduces its servicing costs (i.e. accounts do not have to be opened or closed, and credit ratings do not have to be established;

Where • gains knowledge of the financial affairs and needs of its customers (thereby allowing effective and efficient targeting); and

previous • has an opportunity to cross-sell existing and new products and services.

B- My study on customer satisfaction in financial institutions

B-1- Purpose of the study:

Evolution in communication and technology is concrete and spreading its effects on various fields of business. Access to information especially that related to the banking services is abundant to every investor (potential bank customer). Transportation facilities are more affordable, reliable and practical. Transfer of capital throughout the globe is becoming as easy as clicking some buttons on a PC keyboard. Yes, in Lebanon, the globalization switch is on (seminars in BLOM-BANK).

More and more of our customers are on the web and are learning how to use and benefit from the system. This access affects their wants and demands and integrates their perception in the quality of service. It opens new dimensions for customer needs to be satisfied.

On the other hand, looking at the local economic and financial situation, The central bank has changed its strategy reducing high interests on treasury bills in Lebanese Pounds (the current increase is limited in terms of time and value). This drives local Banks to search for other sources of income and introduce new lines of services (meetings with BLOM bank branch and general managers)

My objective is to use my experience as a customer service officer (C.S.O.) in one of the largest bank in Lebanon, and study the issue of our customers' satisfaction.

Where do we stand? Where are we going? And how can we improve?

I will be using some brainstorming sessions with clients and coworkers, previous surveys and research results made by other banks and financial institutions like (ADCB) Abu Dhabi Commercial Bank, and Barclays Life. As a result, I will create a tool to measure customer satisfaction.

B-2- Statement of Hypothesis

In the study performed in one of the largest banks in Lebanon, we explore multiple facets of the customer interface and model the differential impact of customer's perceived quality of service provided through these interfaces on overall customer satisfaction of the firm.

B-3-Methodology

My study will be divided into two parts; the first will be mainly theoretical .It will include an introduction, review of literature, and findings of other research.

My second part will be mainly fieldwork where I will use customer satisfaction data, collected by one of the largest banks in Lebanon, from the first part to build up a tool. This sample tool will help me formulate a hypothesis. In my hypothesis Customer satisfaction will be my dependent variable, and the other service quality variables will be the independent variables. So, as a formula I can say $X_{cs} = f(x_1, x_2, x_3, \dots, x_i)$ The X_i s will be the determinants of customer satisfaction, where each x will be tested for significance, using tests like (Zikmund W.G, 2000) -Stepwise discriminant analysis.

The results will lead to conclusions, recommendations and a model that I will apply in my bank to maintain and ameliorate a loyal customer base.

II-LITERATURE REVIEW

Customer Satisfaction has been described as a consumer's post-purchase evaluation of a product or service, given pre-purchase expectations (Kotler, 1991). It concerns the favorableness of the individual's evaluation of the outcomes and experiences associated with the product (Hunt, 1977). Since the 1970s, customer satisfaction research has been a legitimate and ever-growing field. Research concerning the definition, measurement and outcomes of the construct has been undertaken in many different services and product constructs (for example, Churchill and Suprenant, 1982; Halstead et al., 1995; Oliver and DeSarbo, 1988; Spreng and Mackoy, 1996). Notwithstanding the variety of contexts for this research, there is a fair amount of agreement in the literature concerning how the construct of satisfaction should be conceptualized. Most researchers agree that satisfaction is an attitude or evaluation, which is formed by the customer comparing their pre-purchase expectations of what they would receive from the product to their subjective perceptions of the performance they actually did receive (Oliver, 1980a).

A- Basic Hygiene factors that have correlation to Loyalty and customer Satisfaction .(Barclays Life)

Czepiel et al. (1974), argue that for any given level of satisfaction there are two types of items:

- 1- Maintainers: must exist if dissatisfaction is to be avoided.
- 2-Satisfiers: motivate satisfaction.

Similarly, Johnson et al. (1990) and Silvestro and Johnson (1990) identified hygiene factors, enhancing factors and dual threshold factors.

✓ **Hygiene factors:** are those aspects of the service that the customer expects to be present, and will not necessarily create satisfaction, while their absence will create dissatisfaction. For example, instructions being carried out by the bank at the time they have been promised.

✓ **Enhancing factors:** are those elements of the service which lead to satisfaction, but the absence of which will not necessarily create dissatisfaction. For example, service personnel remembering the customer's name between service encounters.

✓ **Finally, dual threshold factors:** are those aspects which, if the company fails to deliver them, will create dissatisfaction, but their delivery above a certain level will also create dissatisfaction. For example, personnel explaining the terms of a contract thoroughly).

A-1-Loyalty tracking survey

Applying this, Barclays Life has launched a new customer satisfaction tracking survey, which has enabled the company to monitor customer satisfaction and loyalty amongst different customer groups and, by linking in to existing syndicated work, to compare satisfaction with the Barclays Life service with other well-known companies. The work is proving useful in helping Barclays Life to prioritize marketing planning activities and in highlighting the company's strengths.

The key aims of the Barclays Life customer satisfaction and loyalty tracking survey are to provide regular reporting on:

- Overall customer satisfaction and loyalty index (CSLI)
- Satisfaction and loyalty amongst Barclays Life's key customer groups
- Satisfaction and loyalty amongst customers at each stage of the relationship chain; and
- Satisfaction and loyalty amongst customers at each stage of the business process – i.e. from new customers through to people receiving benefits.

A working party was set up to establish the terms of reference for Barclays Life customer satisfaction and loyalty tracking survey. The working party included representatives from all key customer-facing divisions of the company. In this way, Barclays Life was able to ensure that the survey addressed the needs of the business and achieved buy-in from across the organization.

Six group discussions and 40 in-depth interviews were conducted during June and July 1997 to determine the elements of service of most importance to customers when selecting and dealing with a life insurance or pension provider.

During the sales process the following issues come to the fore:

- Quality sales people – aspects of this included providing a detailed explanation of products and options, salespeople who are helpful but not pushy and who demonstrate an understanding of customer needs.

After purchasing, customers are looking for the provider to:

- Maintain contact with them through annual statements and financial reviews;
- Provide a simple way of getting in touch with the company if the customer has any queries;
- Provide a quick response to queries;
- Provide a reliable service – with no mistakes; and

have high • Provide the ability for customers to deal with someone who knows their background.

Following on from the results achieved during the qualitative research, a baseline quantitative survey was conducted in September 1997 to quantify the importance of different elements of service, which were identified by consumers in the initial qualitative investigation. Telephone interviews with 1,400 Barclays Life customers were undertaken, concerning the importance of different aspects of service. Analysis of this information included correlation analysis to determine which elements of service are most crucial to improving both customer satisfaction and loyalty. The key drivers of satisfaction were established by correlating overall consumer satisfaction with two loyalty measures:

- ✓ Their willingness to recommend the company and its products, and
- ✓ The extent to which they were considering the purchase of further products.

It was felt that the initial qualitative and quantitative research provided the company with the information necessary to set up a continuous monitoring system of satisfaction and loyalty amongst customers. From October 1997 onwards, a monthly telephone survey was conducted to monitor customer satisfaction and loyalty against key elements of service. Top line results were reported monthly. Quarterly reports were produced showing differences in levels of customer satisfaction and loyalty amongst different customer groups.

A-2-Findings

The surveys consistently showed that consumers with higher incomes tended to

have higher expectations of service. This result has implications for staff training and servicing support. This led to Barclays Life setting up a customer-servicing regime, which reflects the identified customer preferences. It was also found that customers who had recently been contacted by a Barclays Life adviser showed higher levels of satisfaction. This led to Barclays promoting, to its sales force, the advantages of servicing key existing clients at least once a year.

The development of an on-going satisfaction and loyalty tracking survey was undertaken in three stages:

- ✓ Initial qualitative research was undertaken to provide the company with a frame of reference concerning the way in which customers assessed their satisfaction with the service.
- ✓ Following from the information gained in this stage, a quantitative investigation was undertaken to assess the relative importance of each of the elements identified in the qualitative discussions.
- ✓ The results of this analysis were then used as the basis for the ongoing satisfaction and loyalty survey to be used in the company.

From the qualitative research, a list of key elements of service was prepared. In broad terms, the qualitative research indicated the importance of a range of issues when selecting a service provider. Table I show the issues which were identified by customers as being of importance, and indicates the order in which they were ranked overall.

Table I
The importance of key elements of service provision

Service factor	Rank
Being one of the top specialists in Pensions, investment and protection policies	1
Treating you as a valued customer	2
Having financial advisers who are knowledgeable about the products and services	3=
Providing continuity of contact with the Financial adviser	3=
Making it easy to contact the right person if You have a query	4
Listening to everything you have to say	5
Explaining policies clearly and in person	6=
Offering regular financial reviews	6=
Answering queries within a reasonable time	

The baseline quantitative research conducted in September 1997 included interviews with 1,400 Barclays Life customers. The research reviewed both the claimed importance of different aspects of service and derived importance.

✓ Claimed importance is established by asking customers which elements of service they feel are most important. This is useful in highlighting basic hygiene factors, such as accuracy of direct debits.

✓ Derived importance is obtained by conducting a correlation analysis to establish which elements of service are most closely correlated with high levels of satisfaction and customer loyalty.

This helps to establish the elements of service on which a company must score highly to establish a competitive advantage. Table II shows the top three ranked items for both derived and claimed importance.

Table II

The top three ranked items for derived and claimed importance

Rank	Claimed importance	Rank	Derived importance
1	Acting honestly, fairly and in A trustworthy manner	1	being one of the top specialists in pensions, investments and protection policies
2	Telling customers about charges In advance	2	Treating people as valued customers
3	Always being accurate when Dealing with direct debits	3 =	having financial advisers who are knowledgeable about the company's Products and services
		3=	providing the continuity of contact with the adviser

Each element of service was given a weighting, corresponding to its derived importance level. These weights are used to calculate a monthly index of customer satisfaction. The monthly index is used to help Barclays Life monitor its strengths and development areas over time. Marketing activities can capitalize on the company's strengths. For example, one of the consistent strengths of Barclays Life is customers' favorable impressions of Barclays Life financial advisers. This information is used in training advisers to underline the importance of their role.

Development areas are addressed through special initiatives.

On the other hand, the two columns do not match each other, suggesting that the elements of service customers claim they feel are most important are not necessarily those, which are determining their feelings of satisfaction and loyalty.

An example of the difference between the two measurements is in the service factor: "always being accurate when dealing with direct debits". This ranked as the third most important element of service on claimed importance. Accuracy of direct debits

was the least important element of service on derived importance. It is important to get direct debits right. However, there is no competitive advantage in doing so, as customers expect there will be no mistakes. In essence, accuracy with respect to direct debits is a “hygiene factor”. When the rankings for derived importance and claimed importance are compared, several differences become apparent.

Barclays Life found that boosting recognition of the company, as an important provider of life and pension products, is a key development area. In response to this finding, recently a number of activities have been launched to help boost awareness of the service provided by Barclays Life, including the launch of the 2020 Futurology Report, which received wide media coverage. The report was developed in conjunction with the Henley Forecasting Center and helped boost awareness of Barclays Life among journalists and potential customers.

The report outlined scenarios for life in 2020, as well as predictions concerning the role of the welfare state. In addition, the company aims to increase satisfaction amongst existing customers through the Barclays Life telephone service, which calls customers to offer them a financial review and keeps them abreast of the services offered by Barclays Life.

Finally, the customer perspective obtained from satisfaction and loyalty surveys provides a consistent measure of the company’s strengths and development areas; this helps the organization to prioritize those activities which will deliver the greatest competitive advantage in terms of customer satisfaction, ensuring the company makes best use of scarce resources.

B- Determinants of Customer Satisfaction

B1-Issue Question

The question is: What are the major determinants of customer satisfaction?

This leads us to identify these determinants in the retail bank sector. To accomplish the objective, information was collected from 325 respondents who rated their main financial institution on aspects of service quality, service problem recovery, service features, product usage, satisfaction and future intentions. The results provide insights for managers concerned with improving customer satisfaction in retail banking.

Improving customer satisfaction, and thereby retention rates, can come from a variety of activities available to the firm. The existing evidence suggests that major gains in customer satisfaction are likely to come from improvements in:

- Service quality;
- Service features; and
- Customer complaint handling.

B-1-1 Service quality

There are strong linkages between service quality dimensions (e.g. courteous service providers) and overall customer satisfaction (Anderson and Sullivan, 1993). However, there has been considerable debate as to the basic dimensions of service quality (see Brown et al., 1993 and Cronin and Taylor, 1992, for reviews), the measurement of these dimensions (Brown et al., 1993; Parasuraman et al., 1993; Smith, 1995; Teas, 1993), and the components of customer satisfaction (Hausknecht, 1990; Yi, 1990). Surprisingly, little empirical research has examined the importance of service quality dimensions in determining customer satisfaction (Fisk et al., 1993).

Extensive research has been conducted on developing and measuring service quality (Brown et al., 1993; Cronin and Taylor, 1992; Parasuraman et al., 1985, 1988; Teas, 1993). A review of this literature suggests the following:

- The contention that service quality consists of five basic dimensions (Parasuraman et al., 1988) is very questionable (Brown et al., 1993; Cronin and Taylor, 1992; Teas, 1993). Instead, the number and composition of the service quality dimensions are probably dependent on the service setting (Brown et al., 1993; Carman, 1990). Empirical evidence and theoretical arguments suggest that there may be two overriding dimensions to service quality:

- 1-The core or outcome aspects (contractual) of the service, and
- 2-The relational or process aspects (customer-employee relationship) of the service (Grnroos, 1985; McDougall and Levesque, 1994; Morgan and Piercy, 1992; Parasuraman et al., 1991b).

- The contention that service quality should be conceptualized and measured as a gap between expectations and performance is very questionable (Brown et al., 1993; Cronin and Taylor, 1994; Smith, 1995; Teas, 1994). The evidence suggests that service quality should be based on performance measures alone (Brown et al., 1993; Cronin and Taylor, 1994; Teas, 1994).

- Items used to measure service quality should reflect the specific service setting under investigation (Carman, 1990).

To elaborate on the two major dimensions of service quality, Parasuraman et al. (1991b) summarized the nature of the core (outcome) and relational (process) constructs:

While reliability, is largely concerned with the service outcome, tangibles,

responsiveness, assurance and empathy. Here, the concern is with the service process. Whereas customers judge the accuracy and dependability (i.e. reliability) of the delivered service, they judge the other dimensions as the service is being delivered.

While the number of underlying dimensions has been shown to vary with the service setting, it appears reasonable to suggest that the service core and relational dimensions will emerge in nearly all cases as they form the basis for the service.

B-1-2 Service features

Customer satisfaction is also related to the service offering. With retail banking, the convenience and competitiveness of the provider's offerings can be expected to affect a customer's overall satisfaction and ongoing patronage. Research has shown that location is a major determinant of bank choice (Anderson et al., 1976; Laroche and Taylor, 1988; Thwaites and Vere, 1995). Underlying location are the customer benefits of convenience and accessibility, which are enabling factors that make it easy for the customer to do business with the bank. The bank's ability to deliver these benefits on an ongoing basis to its existing clientele, will probably impact on customer satisfaction.

Another determinant of bank choice is competitive interest rates (Laroche and Taylor, 1988). While differences in rates, either savings or borrowings, are likely to be minimal between competing banks, customers are concerned that they are getting competitive rates on savings or loans because of the impact on their financial situation. Again, customer satisfaction is likely to be influenced by the perceived competitiveness of the bank's interest rates.

B-1-3 Customer complaint handling

A major reason why customers switch service providers is unsatisfactory problem resolution (Hart et al., 1990). When customers face a problem, they may respond by:

1- Exiting (switching to a new supplier).

2- voicing (attempting to remedy the problem by complaining) or

3- Loyalty (staying with the supplier anticipating that “things will get better”) (Hirschman, 1970).

Given that customers of retail banks have relatively high switching costs, it is likely that a dissatisfying experience will evoke a passive reaction (no complaint) or a complaint. Given that the customer complains, the bank’s response can lead to customer states ranging from dissatisfaction to satisfaction. In fact, anecdotal evidence suggests that when the service provider accepts responsibility and resolves the problem, the customer becomes “bonded” to the organization (Hart et al., 1990). When customers complain, they give the firm a chance to rectify the problem and, interestingly, if the firm recovers successfully, to increase loyalty and profits (Fornell and Wernerfelt, 1987). Thus, customer complaint handling can have an influence on customer satisfaction and retention.

B-1-4 Situational factors

To date, little empirical evidence exists as to how customer product usage patterns impact on customer satisfaction. Customers or segments with different needs or usage patterns may have different determinants of customer satisfaction. In the retail-

banking sector, customers who use particular products (e.g. loans or mortgages) may focus on service features, such as competitive interest rates, more than customers who do not hold these products. Thus, the determinants of customer satisfaction towards the service provider may vary depending on customer or segment characteristics.

The next section details the methodology of the study, followed by the results.

B-1-5 Customer satisfaction

While customer retention is the goal of the service provider, surrogate measures are typically used owing to the constraints involved in longitudinal studies. These measures relate to attitudes or future intentions towards the service provider. There is sufficient evidence to suggest that customer satisfaction can and should be viewed as an attitude (Yi, 1990). For example, in retail banking there is an ongoing relationship between the service provider and the customer. Here, customer satisfaction is based on an evaluation of multiple interactions. For this investigation, satisfaction is considered as a composite of overall customer attitudes towards the service provider that incorporates a number of measures.

Three frequently used measures are (Hausknecht, 1990; Heskett et al., 1994; Jones and Sasser, 1995):

- 1- Overall service quality.
- 2- Meeting expectations and
- 3- Customer satisfaction.

Also, typical measures of future intentions are recommending the service to a friend and propensity to switch (Heskett et al., 1994). While there are some problems with using either customer satisfaction or future intention measures to capture future behavior, the inclusion of multiple measures reduces the problems.

The plan is to investigate the role of service quality, service features, service problems and situational factors on customer satisfaction and future intentions with their main financial institution. The results should provide retail bank managers with a better understanding of the drivers of customer satisfaction in this service setting.

The next section details the methodology of the study, followed by the results.

C- Service Quality Study

The major goal of this study was to identify the drivers of customer-satisfaction in retail banking.

C-1 Methodology

The data were gathered from members of a church congregation. An announcement was made at the church services that researchers from a university were conducting a study on service quality. Members were asked to take a questionnaire, complete it at home and return it by mail in a stamped, addressed envelope, to the university. For each questionnaire completed, the researchers donated \$5.00 to a charity sponsored by the church. Four hundred questionnaires were distributed and 325 were returned for a response rate of 81 per cent. By way of summary, the sample was 60 per cent female, had a mean age in the 40-49 range, with average income in the \$40,000-\$49,000 range. 82% owned their own home, and 57 per cent had completed some post-secondary education.

The demographic profile of the sample was compared with the population

characteristics of the city where the study was undertaken. Comparisons were made on gender, age, education, home ownership, family size and household income. No significant differences were found on family size and household income.

Service quality	Service features	Future intentions
Core		Customer satisfaction
<ul style="list-style-type: none"> • When my bank provides the service, it does so quickly • My bank performs the service as I expect • My bank provides the service I need • My bank provides the service I want • My bank provides the service I need and out of my bank quickly 	<ul style="list-style-type: none"> • my bank offers a wide range of services • my bank provides easily understood statements • my bank provides a wide range of branch locations • my bank provides easily understood statements • my bank provides a wide range of branch locations 	<ul style="list-style-type: none"> • considering everything I have said, I am likely to continue using my bank • the overall quality of the services provided by my bank meets my expectations • If people asked me I would recommend my bank to others • Things happen at my bank that make me want to do business with them
<p>Significant differences were found on:</p> <ul style="list-style-type: none"> ✓ Gender (sample was 60 per cent female; community was 50 per cent). ✓ Home ownership (sample had 82 per cent home ownership; community had 62 per cent). ✓ Age (sample under-represented in 20-39 age groups, over-represented in 40-49 age group). ✓ Education (sample under-represented in less than high school, over-represented in post-high school education). 		
<p>An examination of banking experience revealed that all respondents had a “main financial institution”. On average, respondents dealt with 2.2 banks and used a variety of bank services in the past 12 months (e.g. 71 per cent used a checking account, 75 per cent used a savings account, 39 per cent had a term deposit and 50 per cent had a retirement savings plan).</p>		
<p>In total, 17 items were selected to measure service quality and service features. Respondents were asked to identify their main financial institution and then to evaluate this institution on the 17 items (Table III). All items were measured on seven-point Likert scales:</p>		
<p>From 1 (Strongly disagree)to 7 (Strongly agree).</p>		
Tangibles		
<ul style="list-style-type: none"> • My bank's facilities are visually appealing • My bank's employees are neat in appearance 		

Table III

The measures used

Customer satisfaction and

Service quality	Service features	Future intentions
<p>Core</p> <ul style="list-style-type: none"> • When my bank promises to do something by a certain time, it does so • My bank performs the service <p>Right the first time</p> <ul style="list-style-type: none"> • My bank provides its services At the time it promises to do so • My bank performs the service <p>Accurately</p> <ul style="list-style-type: none"> • My bank tells you exactly when Services will be performed <p>Relational</p> <ul style="list-style-type: none"> • Employees in my bank have the Required skills and knowledge to Perform the service • Employees in my bank are always Willing to help • Employees in my bank are consistently courteous • My bank gives me individual Attention • Employees of my bank understand My specific needs <p>Tangibles</p> <ul style="list-style-type: none"> • My bank's physical facilities are Visually appealing • My bank's employees are Neat in appearance 	<p>Enabling</p> <ul style="list-style-type: none"> • my bank offers a complete range of services • my bank has convenient branch locations • my bank provides easily understood statements • It is very easy to get in and out of my bank quickly <p>Competitive</p> <ul style="list-style-type: none"> • my bank offers competitive deal with my bank Interest rates 	<p>Customer satisfaction</p> <ul style="list-style-type: none"> • considering everything, I am extremely satisfied with my bank • my bank always meets my expectations • the overall quality of the services provided by my bank is excellent <p>Future intentions</p> <ul style="list-style-type: none"> • If people asked me, I would strongly recommend that they • Things happen at my bank that make me want to switch my accounts elsewhere

To begin, an inventory of service quality items was identified. Prior research on SERVQUAL (Carman, 1990; Cronin and Taylor, 1992; Parasuraman et al., 1988, 1991a) provided items to measure the core and relational dimensions of service quality (Table III). In addition, two items were selected to measure the tangible dimension, another potential driver of customer satisfaction (Parasuraman et al., 1988).

Also, the bank marketing literature provided items on service features (LeBlanc and Nguyen, 1988; Lewis, 1991; Teas and Wong, 1991). These items might be considered as enabling features, related to convenience and accessibility that contribute to service quality by making the service easier or more comfortable for the customer. Enabling features include convenience, as measured by branch locations and automatic teller machines, the clarity of bank statements and communications, range of services and accessibility as defined by the bank's internal and external physical layout. The common aspect of these items is that they enable customers to conduct their business with the service provider more readily and easily. Consequently, these items may contribute to the overall value of a customer's experience with the service provider.

An item was also added on the perceived competitiveness of the bank's interest rates. The service marketing literature has concentrated on items measuring service quality to determine customer satisfaction (Parasuraman et al., 1991b). Missing in this discussion is the role that the firm's pricing policies play in the customer's evaluation of the financial institution. Because customers switch brands or banks in reaction to pricing policies (part of the service offering), they may perceive this feature as part of customer satisfaction. For this reason, the item was included in the questionnaire.

Three items were used to measure customer satisfaction and two items to measure future intentions towards the service provider (Table III). These measures have

frequently been used in both academic and practitioner studies of customer satisfaction (Brown et al., 1993; Hausknecht, 1990; Heskett et al., 1994; Jones and Sasser, 1995; Yi, 1990).

Information on significant service problems was obtained by asking respondents:

- If they had encountered a problem with their main financial institution in the past six months.

- If they had, had they complained; and
- If they had complained, how satisfied were they with the bank’s response

(five-point satisfaction scale).

Information on financial services used (e.g. loans, savings accounts) was obtained (17 services) as well as the number of banks respondents dealt with. This information formed the basis for the situational measures. The questionnaire was pre-tested and, based on the debriefing of the pre-test respondents (n = 12), minor changes were made to improve the clarity and visual layout of the questionnaire.

C-2 Results

The primary objective of this research was to identify the major determinants of customer satisfaction and future intentions with respect to retail banking. Table IV provides the results of the three empirical models and their determinants.

Table IV
Regression coefficients for the customer satisfaction and future intentions

Measures

	Customer Satisfaction	Recommend to friend	Consider switching
Relational performance	+0.31*	+0.43*	+0.21
Core performance	+0.31*	+0.24*	+0.52*
Features performance	+0.14*	+0.20*	+0.07
Competitive rates	+0.11*	+0.18*	+0.08
Skilled employees	+0.15*	+0.14*	+0.02
Problem encountered a	-1.03*	-1.38*	-1.80*
Satisfaction with problem Recovery b	+0.23*	+0.30*	+0.23
Hold mortgage and loan c	-0.15*	-0.17	-0.24
Single or multiple bank user d	-0.05	-0.06	-0.28
Constant	+0.02	-1.06*	+0.77
Adjusted R ²	0.71	0.57	0.29

Notes:

* $P < 0.05$

a. Within last six months, respondent experienced a problem and complained (no = 0, yes = 1)

b Respondent satisfaction with bank's response to problem (very satisfied = 5; Very unsatisfied = 1)

c. Respondent holds mortgage and loan at the bank (no = 0, yes = 1)

d. Respondent deals with one bank (0) or more than one bank (1)

The "Customer Satisfaction" model fits the data very well (adjusted $R^2 = 0.71$). With one exception, all the explanatory variables were significant which suggests that, in retail banking, customer satisfaction is driven by a number of factors, including but not limited to, service quality dimensions. The key explanatory variables were in the service quality domain; core and relational performance, problem encountered and satisfaction with problem recovery. However, the bank's features (e.g. location), the competitiveness of the bank's interest rates, the customers' judgments about the bank employees' skills and whether the customer was a borrower were all factors that drove customer satisfaction. Whether the customer was a single or a multiple bank user was not significant in the model.

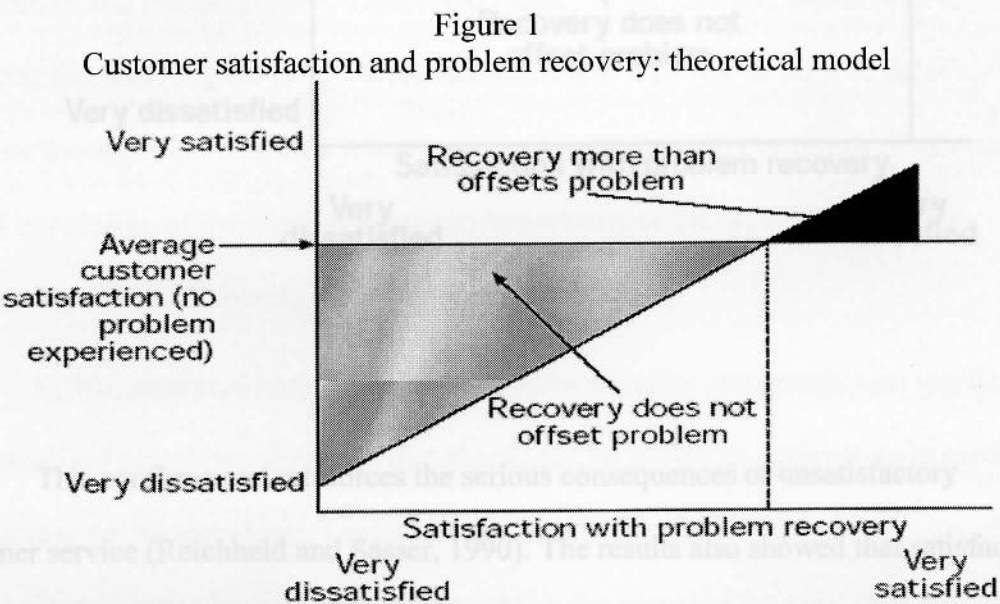
All of the coefficients were in the expected direction. Customer satisfaction improved as the customer's judgment about core and relational quality and features performance became more favorable, and the bank's problem recovery efforts increased. Customers, who had encountered a problem, or who were borrowers, rated banks less favorably than others. It was interesting to note that the bank's features and competitive interest rates were significant contributors to customer satisfaction. The inclusion of features and benefits beyond the "traditional" service quality determinants provided a more complete and comprehensive picture of the factors that contributed to a customer's overall attitude towards the service.

The "Recommend to Friend" model was very similar to the "Customer Satisfaction" model. The two main differences were that relational performance was a stronger driver in the "Recommend to Friend" model and, if a problem was encountered, it had a greater negative impact on willingness to recommend. This suggests that, while there are similarities between the determinants of customer satisfaction and recommend to friend, the differences indicate that behavioral intentions (i.e. recommend to friend) are driven more by specific determinants.

The "Intentions to Switch" model was substantially different from the two previous models. First, the explanatory power of the model was lower, with an adjusted R^2 of 0.29. Second, the two significant determinants were core performance (e.g. getting it right the first time) and problem encountered. Improvements in the customers' judgment concerning core performance reduced the intention to switch. If a customer encountered a problem, regardless of the bank's ability to handle that problem, intentions to switch increased. In this study, core performance and problems encountered were the primary drivers of intentions to switch; other factors such as

relational performance, competitive rates, features performance or problem recovery did not play a role.

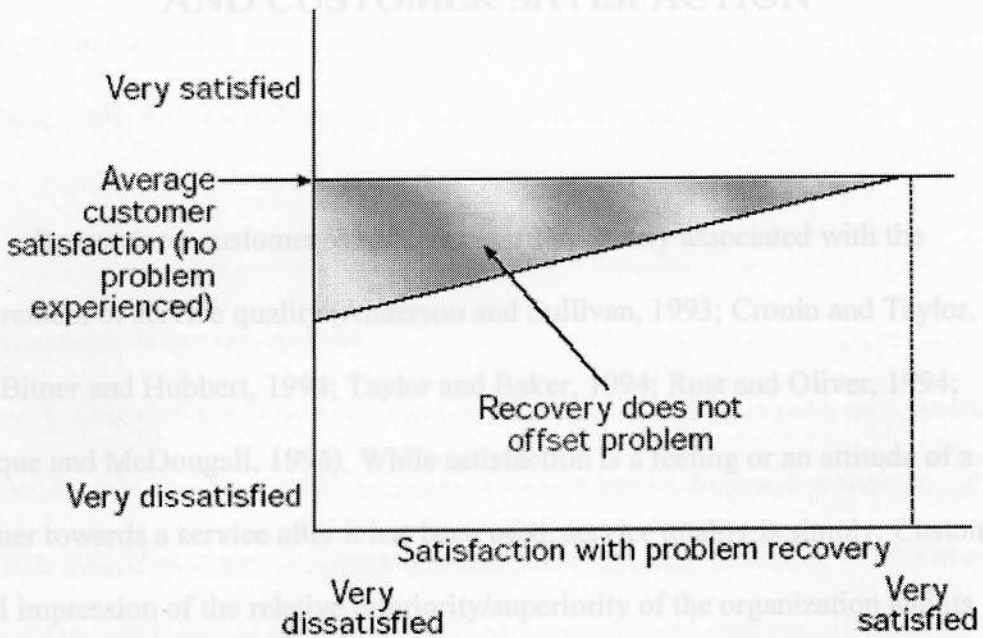
Discussing the results concerning problem encounter and service problem recovery, the literature suggests that satisfactory problem recovery can increase customer loyalty towards the service provider (Figure 1).



That is, through the recovery process, the service provider can actually increase customer satisfaction and “bond” the customer to the organization (Hart et al., 1990). Conversely, unsatisfactory problem recovery reduces customer satisfaction and loyalty.

The results (Figure 2) showed that respondents who experienced a problem had a significant and dramatic drop in customer satisfaction, willingness to recommend to friend, and, conversely, an increase in consider switching.

Figure 2
Customer satisfaction and problem recovery: study findings
Customer satisfaction



This confirms and reinforces the serious consequences of unsatisfactory customer service (Reichheld and Sasser, 1990). The results also showed that satisfaction with problem recovery restored, but did not enhance, customer satisfaction (Figure 2). Further, satisfaction with problem recovery does not ameliorate the respondents' intention to switch. This calls into question the proposition that satisfactory problem recovery can actually increase overall customer satisfaction.

III- SERVICE QUALITY AND CUSTOMER SATISFACTION

Research on customer satisfaction is often closely associated with the measurement of service quality (Anderson and Sullivan, 1993; Cronin and Taylor, 1992; Bitner and Hubbert, 1994; Taylor and Baker, 1994; Rust and Oliver, 1994; Levesque and McDougall, 1996). While satisfaction is a feeling or an attitude of a customer towards a service after it has been used, service quality is simply: Customers' overall impression of the relative inferiority/superiority of the organization and its services (Bitner and Hubbert, 1994, p. 77).

In this context, some argue that both service quality and satisfaction are: best conceptualized as unique constructs that should not be treated as equivalents in models of consumer decision-making (Taylor and Baker, 1994, p. 165).

Hence, many have attempted to establish the nature of the relationship between service quality and customer satisfaction. Among the many attempts, some have proposed a causal link between customer satisfaction and service quality, due to the fact that satisfaction is viewed as experiential or occurring at the transactional level, whereas service quality is viewed to be an attitude at a global level (Bitner, 1990; Oliver, 1981; Parasuraman et al., 1988). For instance, Bitner (1990) explored the service quality and satisfaction judgments of 145 travelers at an international airport. Her findings suggest that satisfaction judgments are antecedents of service quality.

However, substantial amount of research propose a causal link between service

quality and customer satisfaction. This is due to the fact that customers can and do evaluate service quality at the transactional level and customer satisfaction may be quite meaningful at the global level (see for instance Anderson and Sullivan, 1993; Bolton and Drew, 1991; Cronin and Taylor, 1992; Woodside et al., 1989).

A- Dimensions of service quality

A review of the literature, suggests that service quality is not a uni-dimensional construct. Rather, service quality incorporates a number of dimensions such as reliability, tangibles, responsiveness, assurance and empathy (Carman, 1990; Gronroos, 1984; Lewis, 1993; Bitran and Lojo, 1993; McDougall and Levesque, 1994; Parasuraman et al., 1985; 1988).

Although the number and composition of service quality dimensions are likely to be dependent on service settings (see for instance Brown et al., 1993; Carman, 1990), one can argue that there are two overriding dimensions of service quality (Levesque and McDougall, 1996; Gronroos, 1984; McDougall and Levesque, 1994; Parasuraman et al., 1991a):

✓ The first one refers to the core aspects of the service (e.g. reliability) and

✓ The second one refers to the relational or process aspects of the service (e.g. tangibles, responsiveness, assurance and empathy (Parasuraman et al., 1991a)).

Reliability is mainly concerned with the outcome of service, whereas tangibles, responsiveness, assurance and empathy are concerned with the service delivery process

(Parasuraman et al., 1991a). In this context, we propose that both the core and relational dimensions of service quality are likely to be antecedents of customer satisfaction.

A-1-Tangible dimension of service quality

Due to the intangible nature of services, it is often difficult for customers to understand services (Legg and Baker, 1996). Customers thus make inferences about the service quality on the basis of tangibles (the buildings, the physical layout etc.) that surround the service environment (Bitner, 1990).

Support for this argument comes from empirical evidence suggesting that the tangible and physical surroundings of the service environment can have a significant impact on customers' affective responses and their behavioral intentions (Wakefield and Blodgett, 1999). Dabholkar et al. (1996) reported similar findings that the tangible aspects of department stores do influence customers' perceptions of service quality. Furthermore, the exploration of the use of evaluative criteria in forming performance expectations has had a major impact on the study of consumer behavior (Bettman, 1970; Fishbein, 1963; Fishbein and Ajzen, 1975; Rosenberg, 1950). The evaluative criteria can include attributes like price, brand perceptions, quality, comfort and design (Grapentine, 1995; Lee and Lou, 1996; Monroe and Dodds, 1988; Myers and Shocker, 1981; Rao and Monroe, 1989; Richardson et al., 1994).

In the context of services, a substantial amount of research has looked into the criteria adopted by customers in forming performance expectations (see for example, Anderson et al., 1976; Tan and Chua, 1986; Laroche and Taylor, 1988; Erol and El-Bdour, 1989; Erol et al., 1990; Denton and Chan, 1991; Kaynak et al., 1991; Khazeh and Decker, 1992; Levesque and McDougall, 1996; Mittal, 1999).

Findings suggest that:

1- Convenient location is a critical factor influencing the formation of performance expectations by customers. A convenient bank location means customers can easily do business with their banks on a regular basis (Levesque and McDougall, 1996).

2- Accessibility is also a related factor, which, while acting together with convenience, enables customers to deal with their banks more easily (Levesque and McDougall, 1996).

For the purpose of current study, convenience and accessibility are treated as part of the tangible dimension of service quality. In this context, I propose that the tangible dimension of service quality is also likely to be an important antecedent of customer satisfaction.

A-2- Customers' expertise

Some earlier studies have suggested that the effect of evaluative criteria in forming performance expectations can be moderated by factors like consumer individual differences (such as age, gender, education, occupation) and by customers' expertise (Bettman and Park, 1980; Oliver, 1980).

In a landmark article on customer expertise, Alba and Hutchinson (1987) identified two major and distinctive components of customer expertise:

1-Expertise: defined as the ability to perform product related tasks successfully.

2-Familiarity: defined as the number of product related experiences that have been accumulated by the consumer (Alba and Hutchinson, 1980, p. 411).

between More specifically, expertise or product class knowledge represents: The understanding of the attributes in a product or service class, and knowledge about how various alternatives stack up on these alternatives (Sheth et al., 1999, p. 533). Thus, some customers may be more expert than others and may be more likely to evaluate service quality and satisfaction judgments rationally at the cognitive level.

1984, A For instance, in an earlier work, Gronroos (1982) argued that while evaluating the quality of a service, customers compare the service they expect with perceptions of the services they actually receive. Hence it is significant for service providers to consistently meet or exceed customer expectations (Bojanic, 1991).

purchas Gaps can exist, however, between the service provider's perception of quality and customers' perception of service quality (Parasuraman et al., 1985; Bojanic, 1991; Patterson and Johnson, 1993). Obviously, the focus of service providers' strategy is to narrow or close the gaps by developing proper communication programs to facilitate customers' understanding of and perceptions about service quality.

Research in consumer behavior has, established that customers' expertise facilitates their learning of new and more complex types of information (Alba and Hutchinson, 1987; Cowley, 1994; Mishra et al., 1993). For instance, a number of researchers have compared the information processing activities of more knowledgeable (expert) customers with those of less knowledgeable customers (novice). Findings indicate that:

- ✓ Experts have superior ability about learning new information about an offering, as compared to novice customers (Johnson and Russo, 1984; Brucks, 1985; Alba and Hutchinson, 1987). Also,

- ✓ Expert customers are likely to have developed skills in distinguishing

between important and unimportant information, as well as between relevant and irrelevant information (Alba and Hutchinson, 1987).

Generally, expert customers are likely to have a superior knowledge of existing alternatives; they are also likely to have a superior ability to encode new information and to discriminate between relevant and irrelevant information (Johnson and Russo, 1984; Alba and Hutchinson, 1987). On the other hand, due to their knowledge and abilities, one could argue that expert customers, in comparison with novice customers, are very likely to have high expectations from service providers. Hence, as per the disconfirmation paradigm, the differences between pre-purchase expectations and post-purchase perceptions are likely to be at a highest level for expert customers.

However, despite this, no study to the best of my knowledge has looked into the role played by customers' expertise in the formation process leading to overall customer satisfaction. On the basis of the review of the literature, a number of research questions can be raised.

For instance, within the retail banking sector:

- ✓ What is the role of the core, relational and tangible dimension of service quality in the formation process leading to overall customer satisfaction?
- ✓ What is the role of customer expertise in moderating the effects of various dimensions of service quality in the formation process leading to overall customer satisfaction?
- ✓ What is the role of consumer individual differences such as demographics and factors such as ethnic background or length of stay in moderating the effect of service quality in the formation process leading to overall customer satisfaction?

Answers to these questions should be of help to the bank marketers and

consumer researchers in any marketplace.

B- Example in practice

The Abu Dhabi Commercial Bank (ADCB) was chosen for the current study for two important reasons:

✓ First, the bank ranks among the largest and strongly profitable banks in the UAE (Bank Report, 2000). It was the third largest bank in the UAE with total assets of AED 23 billion (US\$6.3 billion) at the end of 1999.

✓ Second, the bank has a significant retail presence with a focus on the retail market, small businesses, agriculture, construction, real estate and domestic private companies; this is despite the fact that the public sector and the government remain important customers for the bank.

The bank was established in 1985 and offers a wide range of products and services. The bank competes with a number of local as well as foreign banks in the country. Altogether, a total of 27 local and seven foreign banks serve the UAE population of 2.7 million people. In addition to this, 34 foreign banks maintain their representative offices in the UAE.

However, despite this competition, the ADCB enjoys a competitive advantage due to its large size, strong retail presence and competitive pricing. The bank also has an Internet presence with the aim of offering a comprehensive range of information and Internet banking.

B-1- Measures

Customer satisfaction in retail banking is based on the multiple interactions between the bank and the customer (Levesque and McDougall, 1996). In this context, customer satisfaction could be identified as a composite of overall attitudes that customers have towards the bank. Following Levesque and McDougall (1996), three frequently used measures of customer satisfaction (i.e. overall service quality, meeting of expectations and satisfaction with the service) were used in this study. (Table V) reports these measures:

Table V
The measures used in the study

Service quality	Service quality	Customer satisfaction
<i>Core dimension (five- point LT)</i>	<i>Tangible dimension (five- point LT)</i>	<i>(Five-point LT)</i>
When my ADCB promises to do something by a certain time, It does so.	the physical facilities of my ADCB is visually appealing.	after considering everything, I am extremely satisfied with my ADCB.
My ADCB performs the service Right the first time.	Parking facilities provided to customers are adequate.	My ADCB always meets my expectations.
My ADCB provides its services at the time it promises to do so.	My ADCB personnel are neat in appearance.	The overall quality of the services provided by my ADCB is excellent.
My ADCB performs the service accurately.	My ADCB has, convenient branch locations.	
My ADCB tells you exactly When services will be performed.	My ADCB offers a complete range of services.	
<i>Relational dimension (five-point LT)</i>	My ADCB provides easily Understood statements.	
Employees in my ADCB are always willing to help.	it is very easy to get into and out of my ADCB quickly.	
Employees in my ADCB are Consistently courteous.	My ADCB personnel have the required skills and knowledge	
My ADCB gives me individual attention.		
Employees in my ADCB Understand my specific needs.		
<i>Customer expertise (seven -point bi- polar scales)</i>		
I know very little about Banking.	1 2 3 4 5 6 7	I know a lot about banking.
I am inexperienced.	1 2 3 4 5 6 7	I am experienced.
I am uninformed.	1 2 3 4 5 6 7	I am well informed.
I am a novice buyer.	1 2 3 4 5 6 7	I am an expert buyer.

B-2- Data collection, estimating procedures , model development, And analysis

A questionnaire in English was designed which incorporated the measures mentioned above. A total of 200 questionnaires were randomly distributed to those visiting a specific branch of Abu Dhabi Commercial Bank (ADCB) in Abu Dhabi during the last two weeks of June 2000. Following the data collection procedures outlined by Gerrard and Cunningham (1997), the questionnaire was only distributed on every second day of each week. Furthermore, half of the questionnaires were distributed during the first half of the day and the remaining on the second half of the day. The procedure resulted in a sample of 167 completed questionnaires (83.5 per cent useable response rate).

An index was constructed to measure customer satisfaction. The index can be presented mathematically as follows:

$$S_1 = \sum_{i=1}^x T_x$$

Where:

S_1 = customer satisfaction measured by overall service quality, meeting of expectations and satisfaction with the service; and

T_x = level of satisfaction scored by customer x.

The strength of association between customer satisfaction and the explanatory variables was measured by using a linear regression. It was recognized that the use of all explanatory variables to predict customers' satisfaction might give rise to some redundant variables and co-linearity problems.

A stepwise regression was therefore employed to remove a previously entered

variable that became redundant. Thus, the following regression model was used to assess the effect of each of the explanatory variables on the level of customers' satisfaction:

$$S_{10} = I\chi = \alpha_0 + \beta_1CORE + \beta_2RELATION + \beta_3TANGIBLE + \beta_4EXPERTISE + \beta_5AGE + \beta_6BUSTYPE + \beta_7EDUCA + \beta_8ETHNIC + \beta_9GENDER + \beta_{10}INCOME + \beta_{11}ITPUR + \beta_{12}OCCUPA + \beta_{13}YEARS + \varepsilon$$

Where:

CORE= core dimension of service quality.

RELATION= relational dimension of service quality.

TANGIBLE= tangible dimension of service quality.

EXPERISE= expertise.

AGE= age of the respondents.

BUSTYPE= type of business if the respondents had a business account.

EDUCA = education of the respondents.

ETHNIC = ethnic background of the respondents.

GENDER = gender of the respondents.

INCOME= income of the respondents.

ITPURCAS = purchases made by the respondents through the Internet during the last five years.

OCCUPA= occupation of the respondents.

YEARS = number of years respondents had been resident in the UAE.

A multicollinearity problem is likely to occur when explanatory variables correlate with each other. Consequently, the effect of each variable on the dependent variable becomes difficult to identify. Hence, variance inflation factors (VIF) for each

explanatory variable were used to measure multicollinearity.

Normally, a set of explanatory variables is highly correlated when VIF exceeds ten, thus presenting a multicollinearity problem. To analyze the impact of the demographic factors on the dependent variable, the multivariate analysis of variance (MANOVA) analysis was undertaken. The basic principle of this test is similar to other parametric tests such as the t-test, one-way analysis of variance and simple regression. In this test, the effect of the independent variables is identified taking into account the interaction among the demographic factors.

Data analysis (Respondents’ profile):

The questionnaire included a section on customer’s profile, as various demographic and other factors like the expertise were likely to influence the degree of customer satisfaction of products and services offered by the bank. Information on demographic features is also useful in formulating the bank’s marketing strategy. A profile of respondents is presented in Table VI.

Table VI
Personal background of the respondents

	Frequency	Percentage
Gender (n = 164)		
Male	148	90.2
Female	016	09.8
Age (n = 164)		
20 or less	01	00.6
21-30	22	13.4
31-40	67	40.9
41-50	61	37.2
51-60	12	07.3
61 and over	01	00.6
Occupation (n= 165)		
Businessman	85	51.5
Banker	03	01.8

Table VI (continued)
Personal background of the respondents

	Frequency	Percentage
Investor	06	03.6
University lecturer	07	04.2
School teacher	07	04.2
Accountant	09	05.5
Manager	29	17.6
Auditor	01	00.6
Other	53	32.1
<i>Education (n = 164)</i>		
Less than O- level	28	17.1
O- Level	14	08.5
A -Level	08	04.9
Graduate	59	36.0
Masters or equivalent	52	31.7
PhD	03	01.8
<i>Monthly income (n = 162)</i>		
Less than Dh10, 000	19	11.7
Dh10, 000- 20,000	33	20.4
Dh20, 001- 25,000	36	22.2
Dh25, 001- 30,000	26	16.0
Dh30, 001- 35,000	15	09.3
Dh35, 001- 40,000	17	10.5
More than Dh40, 000	16	09.9
<i>Ethnic origin (n = 166)</i>		
UAE national	70	42.2
Egyptian	10	06.0
Syrian	05	03.0
Lebanese	12	07.2
Sudanese	03	01.8
Indian	20	12.0
Pakistani	18	10.8
Bangladeshi	04	02.4
European	14	08.4
America	06	03.6
Others	04	02.4
<i>Number of years lived in the U A E (n = 105)</i>		
1 -3	03	02.9
More than 3 but less than 5	14	13.3
More than 5 but less than 10	34	32.4
More than 10 but less than 15	33	31.4
15 and over	21	20.0

According to Table VI, a significant majority of the respondents (90 per cent) were males, while females accounted for about 10 per cent.

This is not surprising given the fact that in a Muslim country like the UAE, it is the men who perform banking who are expected to carry out dealings with the banks

(Naser et al., 1999). It is also clear from Table VI that almost 92 per cent of the respondents were between 21 and 50-age range. In terms of the occupational background, Table VI indicates that a large number of the respondents (52 per cent) were businessmen; this was followed by managers, who constituted almost 18 per cent of the total sample. This is due to the location of the particular branch of the bank where the questionnaire was administered; there was a large number of a variety of business outlets in the area. A significant majority (70 per cent) of the respondents were highly educated (graduates 36 per cent; postgraduates 32 per cent; doctorate 2 per cent). Table VI also indicates that the respondents came from different income backgrounds; however, a majority of them (70 per cent) earned up to Dh 30,000 per month (1\$≈3.6Dh).

The questionnaire also included measures to capture the ethnic background of the respondents. According to Table VI, the respondents came from diverse ethnic backgrounds; UAE nationals accounted for 42 per cent of the total sample. This is not surprising given the nature and structure of UAE society, which is mainly multicultural. On the other hand, the respondents who took part in the survey can be categorized into three main ethnic categories, namely Arabs (60 per cent), South Asians (25 per cent) and American/Europeans (15 per cent). The Arab category consists of UAE nationals, Syrians, Lebanese and Sudanese, whereas the South Asian category included Indian, Pakistanis, and Bangladeshis. The American/European category includes Europeans, Americans and the rest.

In order to determine the impact of one's length of stay in a particular market environment on his/her level of satisfaction, the questionnaire included a question that addresses length of the respondent's stay in the UAE (The assumption here is that the

degree of customer’s satisfaction varies with the length of stay). In this respect, the results appearing in Table VI showed that a large majority of the respondents (64 per cent) had been in the UAE for more than five but less than 15 years. However, 20 per cent of the respondents had been in the UAE for more than 15 years; the rest were in the UAE for less than five years.

Table VIII
Types of accounts held by the respondents (n = 167)

Value label	Business only		Personal only		Business and personal	
	F	%	F	%	F	%
Current/						

Type and duration of banking:

In order to investigate customer satisfaction with the commercial bank, it was important to explore where the respondents held their accounts. For instance, holding accounts in more than one bank enables customers to make useful comparisons while evaluating bank service quality. It was also important to explore the different types of accounts held by the respondents with bank(s) and for how long.

Details of the respondents’ accounts are reported in Table VII.

Table VII

Type of bank(s) in which respondents hold their accounts

Value label (n = 155)	Percent	Frequency
The Abu-Dhabi Commercial Bank only	103	066.5
The Abu-Dhabi Commercial Bank and some other banks	52	033.5
Total	155	100.0

Table IX
Type of businesses if the respondents had a business account

Value label (n = 89)	Frequency	Percent
Manufacturing	25	28.1
Agriculture/fishing	25	28.1
Wholesale trading	97	107.9
Building/contracting	10	11.2

According to Table VII, a large number of the respondents (almost 66.5 per cent) held accounts in the Abu Dhabi Commercial Bank only. The remaining 33.5 per cent, however, indicated that they not only held accounts with the Abu Dhabi Commercial Bank but also with some other banks. On the other hand, the questionnaire

included a section that dealt with types of accounts held by the respondents and the length of time that they had held their accounts. The findings are summarized in Table VIII.

Table VIII
Types of accounts held by the respondents (n = 167)

Value label	Business only		Personal only		Business and personal	
	F	%	F	%	F	%
Current/deposit/investment account	38	22.8	100	59.9	66	39.5

It can be observed from Table VIII that a large proportion of the respondents (59.9 per cent) held personal current accounts with the Abu Dhabi Commercial Bank. However, a reasonable proportion of the respondents (39.5 per cent) did hold both a business and a personal account with the Abu Dhabi Commercial Bank. This was followed by 22.8 per cent who only had a business account with the Abu Dhabi Commercial Bank. Respondents were also asked to indicate the type of their businesses if they had a business account with Abu Dhabi Commercial Bank. Table IX reports the findings in relation to this question.

Table IX
Type of businesses if the respondents had a business account

Value label (n = 89)	Frequency	Percent
Manufacturing	03	03.4
Agriculture/farming	25	28.1
Retail outlet	13	14.6
Renting/leasing	11	12.4
Wholesale trading	07	07.9
Importing/exporting	15	16.9
Building/contracting	10	11.2
Other	05	05.6

According to Table IX, the respondents who had a business account with the Abu Dhabi Commercial Bank came from a diverse business background.

Table X reports the findings in connection with the length of time that the respondents had held their accounts with the Abu Dhabi Commercial Bank.

Table X

Period of time the account(s) has/have been held (n = 167)

	Less than 1 year		1- 3 years		3- 6 years		More than 6 y ears	
Value label	F	%	F	%	F	%	F	%
Current /deposit/	8	5.6	56	39.2	45	31.5	34	23.8
Investment account								

It is evident from Table X that a high proportion of the respondents (55 per cent) had held accounts with the Abu Dhabi Commercial Bank for more than three years, whereas almost 45 per cent had been with the bank for less than three years. This might imply a reasonable degree of customer loyalty and satisfaction. The bank can make use of this result by adopting a strategy that contains products and services of long-term nature (pension and saving schemes, long term financing and mortgages). This would help in diversifying products and facilities offered by the bank in the UAE.

B-3- Stepwise regression of some antecedents of Customer Satisfaction

Customer satisfaction could be modeled using a multivariate regression analysis that links customer satisfaction to core, relational and tangible dimensions of service quality and a range of other variables such as expertise, age, business type, education, ethnic background, gender, income, Internet purchase, occupation, and number of years in the UAE. Hence a stepwise regression was performed.

Table XI

Stepwise regression

Model	Variable	Parameter estimate	t-statistic	Prob > T	VIF	R ²	F-stat.	Prob>F	Standard error
1	Constant	4.00		0.09	0.93		0.66	77.51	0.000
	CORE	+1.03		+8.80	0.00	1.00			0.41
2	Constant	+0.17		+0.41	0.668		0.72	50.75	0.000
	CORE	+1.09		10.0	0.0000	1.03			0.38
	Bustype	-8.60		-2.97	0.005	1.03			
3	Constant	+1.00		+1.96	0.058		0.76	40.89	0.000
	CORE	+1.06		10.34	0.000	1.05			0.35
	Bustype	-9.90		-3.57	0.001	1.07			
	AGE	-0.19		-2.57	0.014	1.05			
4	Constant	+0.63		+1.29	0.204		0.80	38.03	0.000
	CORE	+0.84		+6.90	0.000	1.75			0.32
	Bustype	-8.20		-3.15	0.003	1.12			
	AGE	-0.21		-3.06	0.004	1.06			
	Relation	+0.29		+2.78	0.008	1.69			
5	Constant	+1.57		+2.56	0.015		0.83	35.20	0.000
	CORE	+0.87		+7.52	0.000	1.78			0.31
	Bustype	-8.30		-3.38	0.002	1.12			
	AGE	-0.20		-3.13	0.003	1.07			
	Relation	+0.25		+2.45	0.019	1.75			
	Expertis	-0.17		-2.34	0.025	1.04			
6	Constant	+1.26		+2.11	0.042		0.85	33.11	0.000
	CORE	+0.88		+6.71	0.000	2.00			0.29
	Bustype	-6.70		-2.69	0.011	1.25			
	AGE	-0.21		-3.47	0.001	1.07			
	Relation	+0.30		+3.01	0.005	1.86			
	Expertis	-0.17		-2.48	0.018	1.04			
	YEARS	+0.11		+2.16	0.037	1.20			

A stepwise regression is a useful tool when dealing with many explanatory variables. It is an attempt to find the best regression model without testing all possible regressions. In such a regression, variables are either added to or deleted from the regression model at each step in the model development process. The regression ends with the selection of the best fitting model where no variable can be added or deleted

from the last fitted model. The stepwise regression results are shown in Table XI. It is evident from Table XI that model 6 is highly significant and explains 85 per cent of variations in customers' satisfaction. Table XI indicates that a positive and significant association exists between the degree of customers' satisfaction and CORE, RELATION and YEARS. On this basis of this we can conclude that there appears to be a strong relationship between the core and relational dimensions of service quality and satisfaction. In other words, customers who positively perceive the core and relational dimension of the service quality provided by a specific service provider are likely to feel satisfied with the service provider.

These findings are in line with, those reported by Levesque and McDougall (1996). On the basis of their research, Levesque and McDougall (1996) reported that customer satisfaction was driven by a number of factors, including, but not limited to, service quality dimensions. Our findings also point to the fact that the respondents who have been in the UAE for a longer period of time are likely to feel satisfied with the service provider. According to Table XI, however, a negative and significant association exists between the degree of customers' satisfaction and EXPERTIS, BUSTYPE, and AGE. It implies that as expertise level increases, the satisfaction levels are likely to decrease. Similarly, as the age levels go up, satisfaction levels are likely to go down.

In order to see whether the average perceptions (of the issues or variables under-investigation) were identical for all groups involved in this survey, the Kruskal-Wallis test was performed.

Table XII

Kruskal-Wallis one-way ANOVA test

	SATISFAC		EXPERTIS	
	χ^2	Significance	χ^2	Significance
SATISFAC			08.123	0.087
COREASP	75.562	0.000	06.048	0.109
RELATION	62.683	0.000	01.278	0.734
TANGIBLE	18.368	0.000	01.020	0.600
AGE	05.582	0.349	10.814	0.055
BUSTYPE	08.843	0.264	26.123	0.000
EDUCA	10.033	0.074	27.128	0.000
ETHNIC	01.890	0.596	08.857	0.031
GENDER	00.372	0.542	00.394	0.530
INCOME	10.810	0.094	11.298	0.080
ITPURCAS	00.174	0.677	12.919	0.000
OCCUPA	04.784	0.780	35.604	0.000
YEARS	03.108	0.540	04.196	0.380

The test was used to measure any significant difference in responses, since there were different groups involved in this survey. This nonparametric test is appropriate when measurement of the variables under investigation is in an ordinal scale (Grimm and Wozniak, 1990). The results are shown in Table XII. It can be seen from Table XII that the respondents, regardless of their age, business type, ethnic background, gender, Internet purchases, occupation and number of years in the UAE expressed a degree of satisfaction towards most dimensions of the bank. The results, however, pointed to some differences between the educational background of the respondents and satisfaction. Similarly, differences existed between income levels and satisfaction. These differences can be clearly observed from the reported χ^2 . Also, the reported χ^2 indicated some differences between expertise and satisfaction. Similarly, the reported χ^2 indicated strong differences between business type and expertise, between education and expertise; between Internet purchases and expertise and between

occupation and expertise. Some differences in the respondents’ satisfaction were also reported between satisfaction and expertise, age and expertise, and the income variable and expertise.

To shed more, light on the effect of demographic factors on the dependent variable, a general factorial ANOVA analysis was carried out and reported in Table XIII.

Table XIII
General factorial ANOVA test

	<i>F</i>	Sig. <i>F</i>
Intercept	182	0.000
AGE	001.453	0.220
EDU	001.979	0.086
ETHNIC	001.807	0.149
GENDER	001.058	0.306
INCOME	002.381	0.033
OCCUPA	002.056	0.075
YEAR	000.905	0.463
EXPEIS	000.115	0.989
Note: Dependent variable: SATISFACT		

It can be observed from Table XIII that EDU, OCCUPA and INCOME are significantly associated with SATISFACT, while the table revealed that the association between SATISFACT and ETHNIC was marginally significant, whereas, the association between SATISFACT and each of YEAR and EXPEIS was insignificant.

Discussion:

The current research contributes to this discussion by demonstrating that conceptualizing different dimensions of service quality into two overriding dimensions

increases our ability to explain the relationship in a better way. This proposition is tested in the current research utilizing data from the retail-banking sector in the UAE. The results indicate that both core and relational dimensions of service quality appear to be linked to customer satisfaction. We suggest that these results indicate that customer satisfaction is based not only on the judgment of customers towards the reliability of the delivered service, but also on customers' experiences with the service delivery process. In other words, customers who appreciate the core and relational dimensions of service quality provided by a service provider are likely to be satisfied with the services offered by that service provider.

These findings are in line with those reported earlier (see Levesque and McDougall, 1996; Naser et al., 1999). A great deal of discussion has also occurred in the service literature regarding the significance of the tangible aspects of service environment on customers' affective responses and behavior intentions. The research reported here, however, could not establish a relationship between the tangible dimension of service quality and customer satisfaction. This might be due to the fact that tangibility is already part and parcel of the relational dimension of service quality.

A growing body of services literature has acknowledged the fact that there can be potentially many antecedents of customer satisfaction. The current research contributes to this literature by attempting to explore the relationship between customers' expertise and customer satisfaction. The findings suggest that expertise is negatively related to satisfaction. In other words, as expertise levels of customers go up, they are less likely to feel satisfied with service providers. This might be due to the fact that expert customers might have raised expectations about service quality.

The findings also indicate that there is a strong relationship between one's

length of stay (i.e. number of years) and satisfaction. Furthermore, the findings indicate that there existed some demographic differences in the way respondents expressed their satisfaction with the bank. These findings are in line with those reported earlier (Goode and Moutinho, 1996; Moutinho and Goode, 1995; Naser et al., 1999).

In their study, Naser et al. (1999) reported demographic differences in the degree of customer satisfaction towards an Islamic bank in Jordan. In the study, respondents belonging to different education and income groups expressed their differences towards satisfaction with the bank. On the basis of this, we suggest that education levels and income levels are important factors in determining customer satisfaction.

and may vary depending upon the channel of service delivery. While all service encounters mostly involve the customer in one way or another, the nature of personal interactions with customers at branches differs from that of IT enabled automated delivery channels. There is a need for a deeper understanding of this distinction for firms to leverage overall customer satisfaction. Different components of the customer interface may have varying impacts on satisfaction across the customer population.

As a consequence in our study, we explore multiple facets of the customer interface, model the differential impact of customer's perceived quality of service provided through these interfaces and their impact on overall customer satisfaction of the firm.

customer interface, model the differential impact of customer's perceived quality of service provided through these interfaces and their impact on overall customer satisfaction of the firm.

B- Research Design

The research was conducted by one of the leading banks in Lebanon providing

PART 2

IV-MY STUDY ON CUSTOMER SATISFACTION IN FINANCIAL INSTITUTIONS

A- Introduction to the case

In the financial services business, the notion of customer satisfaction interface is multi-faced and may vary depending upon the channel of service delivery .While all service encounters mostly involve the customer in one way or another , the nature of personal interactions with customers at branches differs from that of IT enabled automated delivery channels. There is a need for a deeper understanding of this distinction for firms to leverage overall customer satisfaction. Different components of the customer interface may have varying impacts on satisfaction across the customer population.

As a consequence in our study, we explore multiple facets of the customer interface, model the differential impact of customer's perceived quality of service provided through these interfaces and their impact on overall customer satisfaction of the firm.

B- Research Design

The research was conducted by one of the leading banks in Lebanon providing

financial services. As an employee in this bank, I participated in conducting the research and I'm using it for my study. The firm offers a number of products to its customers and provides services over automated telephone systems and other electronic channels, and a multitude of branch offices located throughout the nation. The product offerings include various types of savings, checking, credit card, and investment products and accounts. The firm has also started providing account services over the Internet through the World Wide Web. However, during our data collection the service offered over the internet was not fully operational. In the recent past, the management has focused on quality initiatives to improve customer satisfaction and profitability. The research effort was aimed at providing an analytical framework to carefully identify the critical needs of its customers.

C- Exploratory Research

With the help of this leading multi-channel financial services firm, we first thought to identify the characteristics of products and services offered by the firm that are perceived as important by customers in determining overall customer satisfaction with the firm. The exploratory research involved several focus groups with customers drawn from the firm's database. A major purpose of these focus groups was to identify the factors that were salient to customers in evaluating the firm's product offerings and deliver services.

The focus group revealed that customers in the financial services sector derive value from the service quality, as follows:

1- Tangibles: Appearance of physical facilities, equipment, personnel, and

visual materials. delivered over the telephone or other electronic means. Important services

such 2-**Reliability**: Ability to perform promised service dependably and accurately

are 3-**Responsiveness**: Willingness to help customers to provide prompt service.

add 4-**Competence**: Possession of required skill and knowledge to perform service

serv 5-**Courtesy**: Politeness, respect, consideration and friendliness of contact

personnel.

It has been observed that financial services often lose customers due to poor service rather than to poor products (Bowen and Hedges, 1993).

The quality of customer service through multiple channels, such as accurate and timely statements of various accounts appeared to be critical to customers .As noted earlier; this exploratory finding from the study is also well grounded in the literature (Roth and Jackson, 1995)

Over the last decade, Information technology (IT) has revolutionized the concept of delivering financial services and redefined the customer interface. Firms find automated telephone services as a cost-effective tool for account inquiries and other transactions.

Over 50% of the financial transactions are currently conducted over automated telephone systems and other electronic means (Kalakota and Frei, 1996). It has also enabled firms to provide customized reporting of accounts in the financial services sector. Technology leadership in financial services firms is a significant variable that enhances organizational knowledge and improves overall service quality in the eyes of the customer (Roth and Jackson, 1995)

Financial services firms in general also provide direct services to their customers through a large number of branch offices. Though routine transactions

may be provided over the telephone or other electronic means, important services such as opening of accounts, changing account information, and investment advice are provided through direct contact with customers in the branch offices .In addition, an industry survey finds that not all customers prefer online delivery services (Morrall, 1996).

D-Survey Research

The key factors that have been identified in the literature as being significant are, as follows:

- 1-Employees Cooperation (Responsiveness service)
- 2-Working Environment (Tangible service)
- 3-Dressing code (Tangible service)
- 4-Employees good and professional behavior (Courtesy)
- 5-Employees speed in performance (Competence service)
- 6-Employees knowledge of the products (Competence service)
- 7-News update to customers (Competence service)
- 8-Employees motivation (Competence service)
- 9-Waiting line system (Tangible service)
- 10-Communication over the telephone (Courtesy service)

For the subsequent phase of survey research, a questionnaire (appendix 1) was designed and pre-tested with a pool of customers.

The questionnaire was answered by 500 customers during their visit to the bank. Besides questions pertaining to customer satisfaction, the firm also sought to

to take additional notes from the customers, no matter what the issues were about.

The survey was done on a 4 point-scale ranging from very satisfied (4) to satisfied (3) to weak(2) and to unacceptable(1).From the questionnaire the

satisfaction level was perceived by answers "Yes" or "No" by the customers.

F-1-Introduction

The study was performed on one of the largest banks in Lebanon, was executed

E- The model

The dependent variable in the first level of our analysis is customer satisfaction with the firm. Since the variable is a true dichotomy (yes or no) and not continuous, the classical regression model is not appropriate. A more appropriate model is the stepwise discriminant analysis.

The most common application to determine the variables that discriminate between groups is the discriminant function analysis.

The discriminant analysis is going to aid us assess the relative importance of the independent variables vis-à-vis the dependent variable, in this case, the customer satisfaction.

The analysis has two steps:

1-an F test (Wilk's Lambda) is used to test if the discriminant model as a whole is significant and

2-if the F test shows significance, the individual independent variables are assessed to see which differ significantly in group mean and they are used to classify the dependent variable.

As we mentioned before, the study was performed using a questionnaire prepared by one of the largest bank in Lebanon. The questionnaire and was distributed

to 500 clients in different branches.

Figure 1

F- Descriptive Results for the sample collected

F-1-Introduction

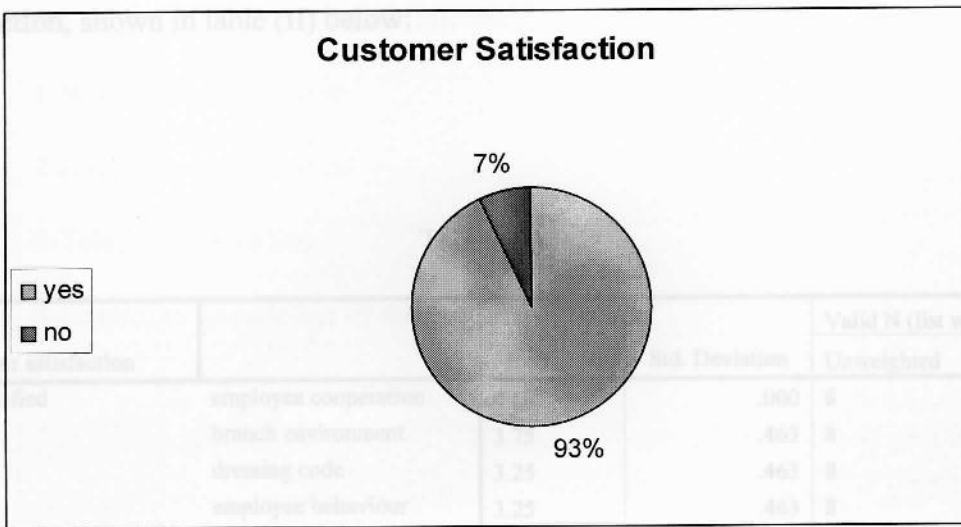
The study was performed on one of the largest banks in Lebanon, was executed through a questionnaire, answered by 500 customers in different branches. But for our analysis, only 100 sample cases were used and accordingly the analysis was done.

F-2-The stepwise Discriminant Analysis (D.A.)

The analysis executed on the data was the stepwise discriminant analysis ,because this procedure selects the most correlated independent variables first, removes the variance in the dependent ,then selects the second independent variable which most correlates with the remaining variance in the dependent , and so on until selection of an additional independent variable does not increase the R-squared (in DA , canonical R-squared) by a significant amount (usually significance=.05)

For the firm in the study, the customers were distributed on the overall customer satisfaction scale as follows: 93% satisfied and 7% not satisfied , as shown in the figure (I) Below .

Figure I



The relatively small number of not satisfied customers is not surprising for a high-performance firm in the financial sector. Consequently, for the analysis, the dissatisfied customers were combined into one category. In fact, the firm in the study had stated goals of total satisfaction, and is focusing its quality initiatives on shifting customers to the very satisfied category to ensure long-term loyalty.

F-1-1- Objective

a- Objective 1: Develop a predicting model for Customer Satisfaction:

A questionnaire in English was designed which incorporated the quality service factors mentioned before. A total of 500 questionnaires were randomly distributed to those visiting different branches in one of the largest banks in Lebanon, during the month of February 2005. But for our analysis a sample of 100 completed questionnaires were used. The questionnaire includes ten questions, and our purpose is to choose the

minimum number of variables that best explains the dependent variable, i.e. customer satisfaction, shown in table (II) below:

Table (II):

customer satisfaction		Mean	Std. Deviation	Valid N (list wise)	
				Unweighted	Weighted
not satisfied	employee cooperation	4.00	.000	8	8.000
	branch environment	3.75	.463	8	8.000
	dressing code	3.25	.463	8	8.000
	employee behaviour	3.25	.463	8	8.000
	speed in performance	3.25	.463	8	8.000
	employee knowl. of product	3.25	.463	8	8.000
	news update	3.13	.641	8	8.000
	employee motivation	3.63	.518	8	8.000
	waiting line	1.00	.000	8	8.000
	telecommunication	2.63	1.188	8	8.000
satisfied	employee cooperation	3.61	.534	92	92.000
	branch environemt	3.65	.501	92	92.000
	dressing code	3.73	.471	92	92.000
	employee behaviour	3.66	.498	92	92.000
	speed in performance	3.50	.703	92	92.000
	employee knowl. of product	3.51	.602	92	92.000
	news update	2.82	.983	92	92.000
	employee motivation	3.63	.549	92	92.000
	waiting line	2.65	1.124	92	92.000
	telecommunication	3.51	.584	92	92.000
Total	employee cooperation	3.64	.523	100	100.000
	branch environment	3.66	.497	100	100.000
	dressing code	3.69	.486	100	100.000
	employee behaviour	3.63	.506	100	100.000
	speed in performance	3.48	.689	100	100.000
	employee knowl. of product	3.49	.595	100	100.000
	news update	2.84	.961	100	100.000
	employee motivation	3.63	.544	100	100.000
	waiting line	2.52	1.168	100	100.000
	telecommunication	3.44	.686	100	100.000

The table (III) below revealed that four variables were mostly significant in determining customer satisfaction, as follows:

- 1-Waiting in line system
- 2-Employee cooperation
- 3-Telecommunication
- 4-Employee knowledge of the product

Table (III):

	Wilks' Lambda	F	df1	df2	Sig.
employee cooperation	.958	4.262	1	98	.042
branch environment	.997	.283	1	98	.596
dressing code	.928	7.601	1	98	.007
employee behaviour	.950	5.116	1	98	.026
speed in performance	.990	.969	1	98	.327
employee knowl. of product	.986	1.423	1	98	.236
news update	.992	.763	1	98	.385
employee motivation	1.000	.001	1	98	.979
waiting line	.851	17.140	1	98	.000
telecommunication	.876	13.852	1	98	.000

All other variables have been dropped since they didn't have enough significance in their customer satisfaction determination, as shown in table (IV) below.

Table (IV)

Variables Entered/Removed (a, b, c, d)

Step	Entered	Wilks' Lambda							
		Statistic	df1	df2	df3	Exact F			
						Statistic	df1	df2	Sig.
1	waiting line	.851	1	1	98.000	17.140	1	98.000	.000
2	employee cooperation	.757	2	1	98.000	15.601	2	97.000	.000
3	telecommunication	.708	3	1	98.000	13.211	3	96.000	.000
4	employee knowl. of product	.658	4	1	98.000	12.356	4	95.000	.000

At each step, the variable that minimizes the overall Wilks' Lambda is entered.

a Maximum number of steps is 20.

b Minimum partial F to enter is 3.84.

c Maximum partial F to remove is 2.71.

d F level, tolerance, or VIN insufficient for further computation.

This overall model significance is tested and shown to be high .The table

(V)and table (VI) below provide such results.

Table (V):

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.658	40.213	4	.000

Table (VI):

Step	No of Variables	Lambda	df1	df2	df3	Exact F			
						Statistic	df1	df2	Sig.
1	1	.851	1	1	98	17.140	1	98.000	.000
2	2	.757	2	1	98	15.601	2	97.000	.000
3	3	.708	3	1	98	13.211	3	96.000	.000
4	4	.658	4	1	98	12.356	4	95.000	.000

The model obtained derived as a standardized discriminant function with coefficients as shown in the table (VII) below. They serve the same purpose as the beta weights in multiple regressions, and they indicate the relative importance of the independent variables in predicting the dependent variable, i.e. customer satisfaction.

The structure matrix show the correlations of each variable with each discriminant function. That is, by identifying the largest absolute correlations associated with each discriminant function the researcher gains insight into how to name each function. In this matrix, we can identify as the employee cooperation, employee's knowledge of the products, the waiting-in-line system, and the telecommunication with the bank as being included in the analysis, with high correlations to customer satisfaction.

Table (VII):
Structure Matrix

	Function
	1
employee cooperation	-.501
employee knowl. of product	-.750
waiting line	.779
telecommunication	1.014

b- Objective 2: Using The Model For Future Customer Evaluation.

From the structured matrix below (table VIII), we come up with a Z-function.

	Function
customer satisfaction	1
not satisfied	-2.421
satisfied	.211

Table (VIII):

	Function
	1
employee cooperation	-.975
employee knowl. of product	-1.264
waiting line	.720
telecommunication	1.571
(Constant)	.743

Unstandardized coefficients

The Z-function is as follows:

$$Z = 0.743 + (0.975) \text{ COOP} + (1.264) \text{ KNOWL} + 0.720 \text{ WAIT} + 1.571 \text{ TELC}$$

where COOP stands for employee's cooperation , KNOWL stands for employee's knowledge, WAIT stands for waiting in line idea, and TELC stands for the telephone communication with the bank.

For the purpose of predicting customer satisfaction, the table(IX) below is used to establish the cutting point for classifying cases. Since the two groups of cases in either being satisfied or not satisfied, the optimal cutting point is obtained as the weighted average of the two values. Cases which evaluate on the function below the cutting point are classified as "not satisfied," while those evaluating above the cutting point are evaluated as "satisfied." Of course, the computer does the classification automatically, so these values are for informational purposes.

According to the Z-formula: Table (IX): we came up with a Z value of -

0.5036, a value that exceeds Functions at Group Centroids

	Function
customer satisfaction	1
not satisfied	-2.421
satisfied	.211

Unstandardized canonical discriminant functions evaluated at group means

Branch 3: $Z \sim 0.128$ ($Z > Z\text{-cut off}$)

Branch 4: $Z \sim +1.085$ ($Z > Z\text{-cut off}$)

The Z-function we came up with, is going to be used in order to be compared with the Z-cut off, as follows:

$$Z\text{-cutoff} = \frac{NBZA + NA ZB}{NA + NB}$$

*Objective 3: Checking the Consistency Of The Sample:

The table (X) below is used to assess how well the discriminant function

works. For new cases, any value below the Z-cutoff leads to non satisfaction and any value above the Z-cutoff mean a satisfied customer, as follows:

Non-satisfied	Z-cutoff (-2.21)	Satisfied
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significant. This means that only 3 out of 100 answered "satisfied" while they wanted

In our survey, we took a sample from five branches, calculated the Z value, and accordingly we valued the customer satisfaction level in the branch.

Examples:

*In branch 1, the values of the independent variables were as follows:

Original			Predicted Group Membership		Total
			not satisfied	satisfied	
COOP:	3.2	customer satisfaction			
KNOWL:	3.2	not satisfied	40	0	40
		satisfied	3	37	60
WAIT:	2.2	Ungrouped cases	0	72	72
TELEC:	3.4	not satisfied	100.0	0	100.0
		satisfied	5.0	95.0	100.0
		Ungrouped cases	41	100.0	100.0

According to the Z-formula stated above, we come up with a Z value of - 0.5036, a value that exceeds that of the Z-cutoff, thus customer is satisfied in branch 1.

		customer satisfaction	Predicted Group Membership		Total
			not satisfied	satisfied	
Cross-validated	Count	not satisfied	40	0	40
		satisfied	3	57	60
		Ungrouped cases	0	72	72
	%	not satisfied	100.0	.0	100.0
		satisfied	5.0	95.0	100.0
		Ungrouped cases	.0	100.0	100.0

* The results for the other four branches were as follows:

Branch 2: Z=+0.982 (Z> Z-cutoff)

Branch 3: Z=-0.128 (Z>Z-cut off)

Branch 4: Z=+1.085 (Z> Z-cut off)

Branch 5: Z=+0.9332 (Z>Z-cut off)

***Objective 3: Checking The Correctness Of The Sample:**

The table (X) below is used to assess how well the discriminant function works, and if it works equally well for each group of the dependent variable. Here it correctly classifies about 97% of the cases. This proves how accurate the classification is by using the Z-model. 97% of the classification is correct, then this latter is significant. This means that only 3 out of 100 answered “satisfied “while they wanted to answer “not satisfied”.

Table (X):
Classification Results (b,c)

		customer satisfaction	Predicted Group Membership		Total
			not satisfied	satisfied	
Original	Count	not satisfied	40	0	40
		satisfied	3	57	60
		Ungrouped cases	0	72	72
	%	not satisfied	100.0	.0	100.0
		satisfied	5.0	95.0	100.0
		Ungrouped cases	.0	100.0	100.0

Table (X): Classification Results (b,c) (continued)

		customer satisfaction	Predicted Group Membership		Total
			not satisfied	satisfied	
Cross- validated(a)	Count	not satisfied	40	0	40
		satisfied	3	57	60
	%	not satisfied	100.0	.0	100.0
		satisfied	5.0	95.0	100.0

a Cross validation is done only for those cases in the analysis. In cross validation, each case is classified by the functions derived from all cases other than that case.

b 97.0% of original grouped cases correctly classified.

c 97.0% of cross-validated grouped cases correctly classified.

V SUMMARY

To summarize, when interpreting discriminant functions, which arise from the analysis with more than two groups and more than one variable, one would first test the different functions for statistical significance, and only consider the significant functions for further examination. Next, we would look at the standardized b coefficients for each variable for each significant function. The larger the standardized b coefficient, the larger is the respective variable's unique contribution to the discrimination specified by the respective discriminant function. In order to derive substantive "meaningful" labels for the discriminant functions, one can also examine the factor structure matrix with the correlations between the variables and the discriminant functions.

In this case, the coefficients interpreted for each independent variable will lead us to the conclusion that the highest variable upon which Customer satisfaction depends are employee cooperation, employee's knowledge of the products, waiting in line system and telecommunication with the branch.

This does not mean that the other variables are not important, customer satisfaction depends on all, but the most important ones are the strongest variables, those mentioned in the previous section.

V- CONCLUSION

In this paper, we have provided a framework and an approach to measure customer satisfaction. The model allows managers to understand the specific factors that significantly affect customer satisfaction in financial institutions, and quantitatively assess the relative importance of each factor. This approach also helps managers realize the needs of the customers in order to satisfy them to the maximum.

In addition, the analysis enables managers in financial institutions recognize the service quality factors that need to be improved in order to enhance customer satisfaction.

Based on customer feedback, through the administered questionnaire, we were able to identify four highly correlated factors that affect customer satisfaction, which were employee cooperation, employee's knowledge of the products, waiting in line system and telecommunication with the branch.

While customer satisfaction can be affected by many other factors such as the branch's location or the customer's updated information, our analysis helped us select the most significant factors.

Many comments were also given by the customers that managers should take into consideration in order to improve or solve the problem, for the sake of enhancing customer satisfaction. Some of those comments are:

- Assurance of a parking lot
- Increase the number of employees

- Long waiting hours
- Unclear information given by the employees
- Decoration improvement within branches
- Disrespect of “banking secrecy”
- ATM out of order
- No waiting rooms
- Lack of employee motivation
- Not up to date IT

All of those comments should be will listened to studied carefully and improved immediately so that the customers do not become annoyed and reach the level of closing their accounts, and the bank is able to effectively increase its customer satisfaction.

Also, to strengthen the analysis and elucidate the understanding of customer satisfaction, it would be much helpful to also study the impact of the demographic factors of the customers, such as their age group, income level, gender, education level, professional background on their satisfaction level.

Due to dynamic changes in the financial industry, achieving high levels of customer satisfaction may be more like a moving target. Hence it is important to continually assess customer segments and identify the drivers of satisfaction in order to retain profitable customers.

APPENDIX 1

Customer Satisfaction Questionnaire					
Date:					
Branch:					
Put an X in the appropriate area, as follows: 1= Very good 2=Good 3= Weak 4=Unacceptable					
	1	2	3	4	NOTES
Overall branch environment(organization, cleanliness, noise, smoke)					
Cooperation between employees(execution of transactions and follow up)					
Decent look(name tag, tie, dress code)					
Good professional behavior on behalf of the employees					
Employee motivation to satisfy your needs					
The Speed Rate in performance					
Exact information and explanation that you get from employees					
News update given about retail banking products and services					
Branch communication through the telephone system					
The idea of waiting in-line for customers					

Question:

Overall Customers satisfaction : Yes or No

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