Social Satisfaction towards Islamic Banking in Saudi Arabia: A Survey

Eid Sharidah Musad Alanazi[1] & Fayaz Ahmad Lone[2]

[1] Prince Sattam Bin Abdulaziz University, Al-Kharj, Saudi Arabia

[2] Department of Business Administration, Prince Sattam Bin Abdulaziz University, Al-Kharj, Saudi Arabia

Correspondence: Fayaz Ahmad Lone, Department of Business Administration, Prince Sattam Bin Abdulaziz University, Al-Kharj, Saudi Arabia. E-mail: f.lon@psau.edu.sa. www.wdibf.com

Abstract

Islamic Banking in Saudi Arabia is emerging because of the social implications prevailing in this banking system. Saudi Arabia has both conventional and Islamic banks, but many banks have shifted from conventional to Islamic in the last few years. The present study was conducted to analyze the perception of Saudi society towards Islamic banking as far as its 'shariah' rules are concerned. The study aims at measuring to what extent society is satisfied with this banking system and what is their perception towards working of this banking? Based on the findings, some important suggestions have been mentioned at the end.

Keywords: Islamic banking and finance, Saudi Arabia, shariah, satisfaction, banking and customer satisfaction

1. Introduction

Islamic banking is providing many benefits to the society in General and customers in particular at Saudi Arabia. Society has many expectations on this type of banking due to its unique characteristics of maximizing the 'equal distribution of income' concept. Also culture of Saudi Arabia is such where moral values have more importance in the society.

In Saudi Arabia, there are both Islamic and conventional banks. In total there are 12 banks presently working in different provenances of Saud Arabia. Many foreign banks are also working here and in the similar way many banks of Saudi Arabia have also their branches in different other countries. Banking sector is one of important sectors, which is showing progress as far as the rate of return and social satisfaction is concerned. Banks in Saudi Arabia (both Islamic and conventional) are mentioned as under:

Saudi Arabia has following banks (Note 1)

1. The National Commercial Bank:
2. The Saudi British Bank
3. Saudi Investment Bank
4. Alinma Bank
5. Banque Saudi Fransi
6. Riyad Bank
7. Samba Financial Group (Samba)
8. Saudi Hollandi Bank
9. Al Rajhi Bank
10. Arab National Bank
11. Bank AlBilad
12. Bank AlJazira

2. Review of Literature

Since most of the literature in Saudi Arabia is in Arabic so we have taken only the literature related to the present study in English and published in Saudi Arabia as well as in other countries. Most of the literature for the present

study is published by the Islamic Research and Training center as well as Islamic Economics center of King Abdulaziz University in Saudi Arabia. But some of the relevant literature is also published from some other countries.

Service quality in banking implies anticipating consistently and satisfying the needs and expectations of customers (Howcrof et al., 2002). The service quality in banks leads to - credibility, higher profits and market share, lowering cost - and improving productivity (Raddon, 1987; Buzzell & Gale, 1987; Heskett et al., 1990; Parasuraman & Berry, 1991; Bateson, 1995; Adrian, 1995; Berry et al., 1989; Kotler, 2003).

Although customer satisfaction is the goal of all services, this is not the only one and other goals such as competitive advantage and profit making are included and advantages of customer satisfaction will finally lead to higher loyalty in customers. Maintaining customers in the long run rather than continuous attraction of new customers to replace those who have cut off the ties with the company is more beneficial (Venus, Safaeyan, 2005). In fact, customer satisfaction makes the customers ignore some of the mistakes made by the service institutions which may happen as the consequence of changes in service production. Due to experiences, customers easily ignore small errors of the organization and would not move to the opponents. Actually, this shows the created loyalty in the customer which is directly related to customer maintenance, market share and the organization's interest. The key to sustainable competitive advantage provides high quality service which will lead to customer satisfaction (Sorshchandar et al., 2002). The prominence of these two concepts will be better shown by theoretical and experimental studies. Thus, the importance of service quality and customer satisfaction is the ultimate goal of the service providers.

3. Research Methodology – Part I

The methodology used for data collection process is mentioned below.

3.1 Research Objectives

The study aims to conduct in-depth analysis of social satisfaction towards Islamic Finance in Saudi Arabia and focuses on different geographical regions of Saudi Arabia:

- To identify potential difference in social satisfaction towards Islamic Finance between geographical regions.

3.2 Questionnaire

Questionnaire has been designed to find the perception of society towards Islamic finance. The questionnaire was distributed among the customers and employees in different branches of Islamic banks. Those customers were considered who have visited the branch for some transaction, which may be depositing, withdrawing, transferring or account related work within the bank. Only those banks were chosen which are Islamic in Saudi Arabia and questionnaire was distributed personally to the customers with a request to fill it in. Usually every customer has taken five minutes on average to complete answering the questionnaire. Sometimes customers were explained the purpose of the questionnaire and methodology of completing the questionnaire. During the process of filling in the questionnaire, many customers raised certain points related to different questions written in the questionnaire which were answered to them accordingly.

Likert's scale has been used for data collection. This is an important scale for measuring the perception of society. This scale has been named after its developer, Rensis Likert. The Likert scale is widely used rating scale throughout the world. In this scale respondents are required to indicate the degree of agreement or disagreement with each of a series of statements about the stimulus objects (Bortholomew, 2006; Ammo, 2002). Usually it is called Likert's five point scale.

The questionnaire includes points related to the personal information about the people selected from society. They have to tick the relevant option like gender, region, age etc. and then choosing among five options any one which is fit as per their expectations. Every question has five options they find fit as per their perception. The option 5 means strongly agree, 4 means agree, 3 means neutral, 2 means disagree and 1 means strongly disagree.

3.3 Selected Regions for Data Collection

For the present research following regions were selected for data collected process form the society.

Table 1. Showing regions where data was collected

Riyadh	Riyadh is considered the most populous city in the Saudi Arabia and is located in the central province. Riyadh is the capital city of Saudi Arabia. It is also the high-tech Centre of modern Saudi Arabia and houses the headquarters of the Gulf Cooperation Council (GCC). The population of Riyadh has been estimated as 6.7 million as per Central Department of Statistics and Information in 2010 census, which includes 4.2 million Saudis. Riyadh also ranks second among the regions in the number of foreigners which is 2.4 million.
Dammam	Dammam has branches of many ministries, governmental agencies and departments. It also houses the Emirate of the Eastern Province. The famous King Fahd International Airport is located northwest of the city. Dammam is famous for its Port, which is the largest on the Arabian Gulf.
Madinah	Madinah holds the forth position as far as the population of Saudi provenances is concerned. As per 2010 census its population is 1.1 million. It is the second holist place after Makkah and is a famous city in the Islamic World.
Makkah	According to the 2010 census, Makkah province is the most populous out of the Kingdom's 13 provinces. In Makkah there are 4.1 million Saudis and 2.8 million foreigners residing. It is among the top regions with a population of 6.9 million as per the Central Department of Statistics and Information census 2010. It Is the focal point of Hajj as well as the birthplace of Prophet Muhammad. Hajj is the Islamic pilgrimage in which almost two million Muslims from all parts of the world participate every year.

Data was collected from the above four regions to represent the opinion of Saudi society towards the Islamic banking.

For the present research data has been collected from these regions so that to represent the perception of people towards Islamic Banking living in Saudi Arabia. The questionnaire has been devised in such a way so that the results from different regions can be distinguished easily.

Convenience sampling technique was chosen to collect the sample from Islamic banks. Those people were selected from the society who visited the branch of sample collection at the time of survey. Data was collected through close ended questionnaire which measures satisfaction level and in total 5 questions were asked in the questionnaire. The response was collected from the above four regions of Saudi Arabia. The number of distributed questionnaires and response rate is shown in the following table.
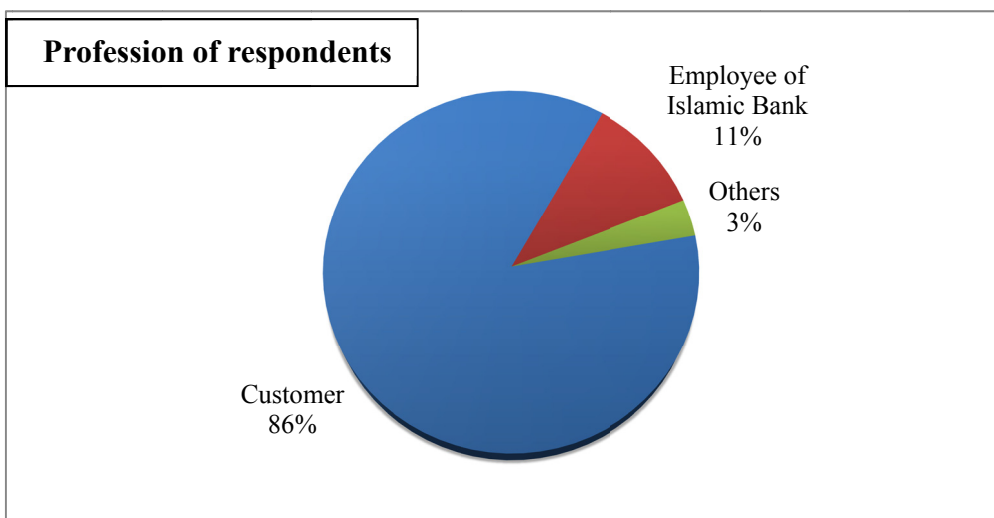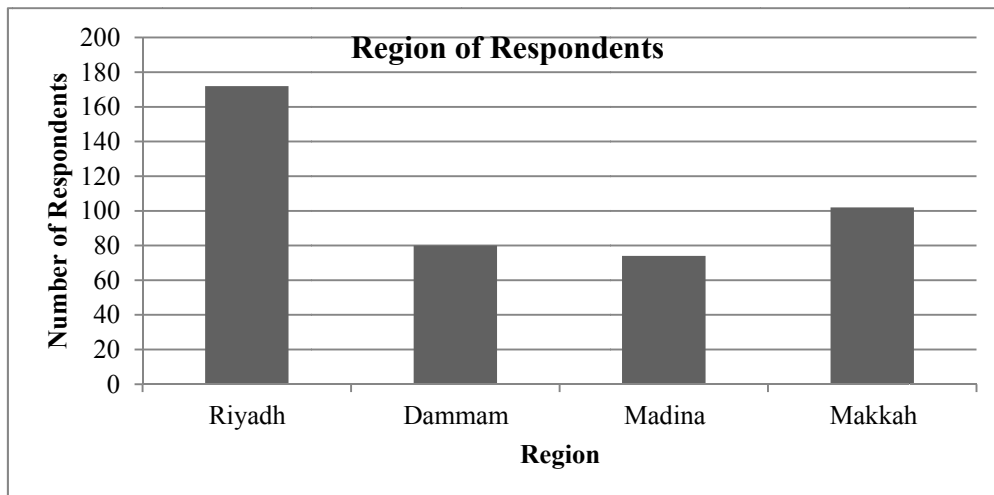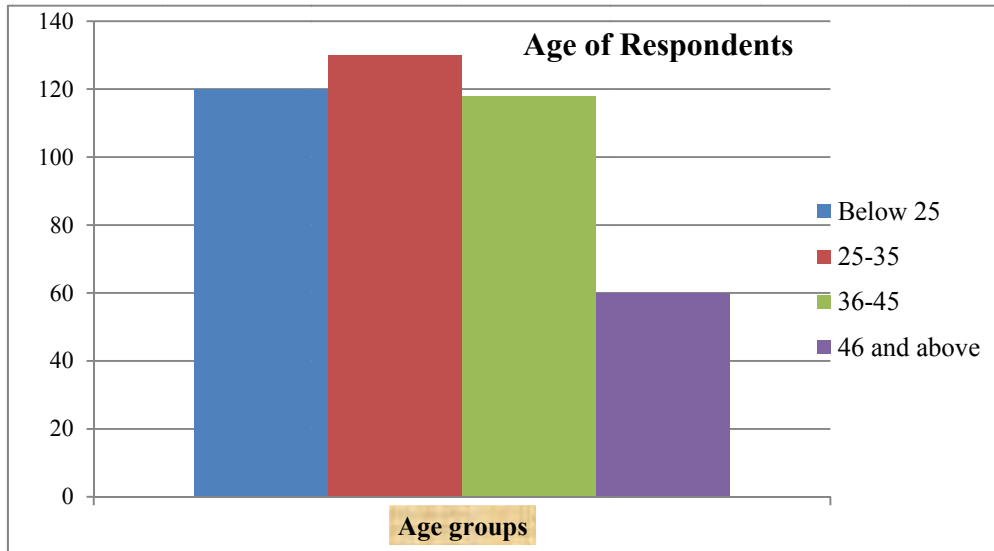
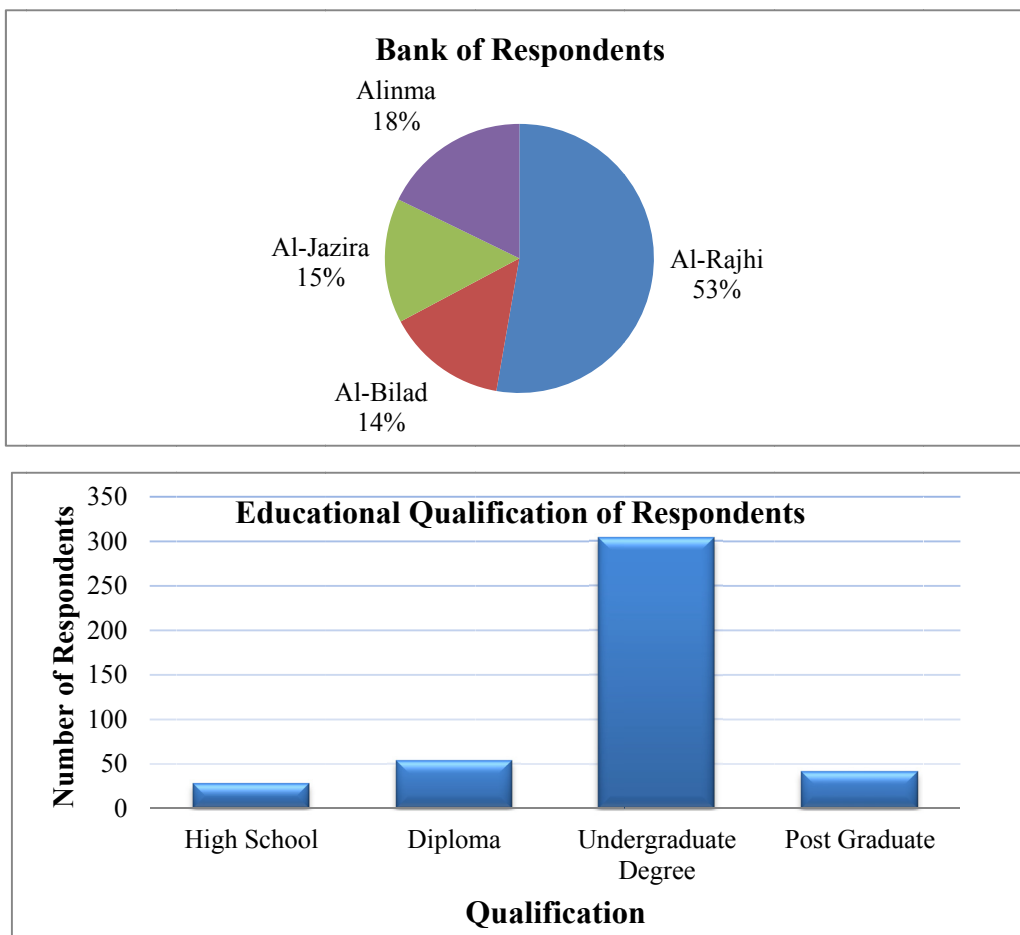Table 2. Showing response rate and distributed questionnaires

Region	Questionnaires Distributed	Questionnaires Received	Response Rate (%)
Riyadh	205	172	83
Dammam	110	80	72
Madinah	95	74	77
Makkah	130	102	78
Total	540	428	79

To analyze the results, different statistical tolls were used by applying SPSS. Among them the one way ANOVA is important to compare the means in different regions on the basis of different variables. The results were generated based on the objectives and hypothesis set for the study, which are shown in the data analysis.

3.4 Demographic Profile of Respondents

The demographic profile of respondents based on age, region, profession, bank and educational qualification of respondents shown below:

Age of Respondents

Region of Respondents

Profession of respondents

Bank of Respondents

Alinma
18%

Al-Jazira
15%

Al-Rajhi
53%

Al-Bilad
14%

Educational Qualification of Respondents

Number of Respondents (y-axis: 0, 50, 100, 150, 200, 250, 300, 350)

Qualification: High School, Diploma, Undergraduate Degree, Post Graduate

3.5 Reliability Test

The Cronbach's Alpha value is more than 0.86 and therefore data is fit for further analysis.

Table 3. Showing the reliability test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.869	.884	33
Mean score and Standard Deviation		
Variable	Mean	Std. Deviation
Social Satisfaction	3.5140	.90592

3.6 Factor Analysis

Table 4. Showing factor analysis of each statement

	Extraction
work on Islamic law and principles	.616
Provision of free interest loans	.711
investment products are of profit-sharing basis	.594
There is a provision of Islamic products and services	.630
No interest paid nor taken on savings and loans	.614

4. Research Methodology- Part II

The analysis part of the research is shown below.

4.1 Region versus Social Satisfaction

The descriptive table below shows the statistical data which include number, mean, Std. Deviation and 95% confidence intervals for the dependent variable (social satisfaction) for each separate region (Riyadh, Dammam, Madinah and Makkah) as well as when all groups are combined (total).

Table 5. Showing the descriptive statistics

					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Riyadh	172	3.0674	.71122	.05423	2.9604	3.1745	1.40	4.80
Dammam	80	3.2700	.90293	.10095	3.0691	3.4709	2.00	5.00
Madinah	74	3.8324	.81293	.09450	3.6441	4.0208	2.40	5.00
Makkah	102	4.2275	.72305	.07159	4.0854	4.3695	1.80	5.00
Total	428	3.5140	.90592	.04379	3.4279	3.6001	1.40	5.00

In the table above the mean for Riyadh, Dammam, Madinah, Makkah are 3.06, 3.27, 3.83 and 4.22 respectively. The highest mean score of 4.22 is of Makkah and highest Std. Deviation is of 0.905 is of Dammam. The numbers of respondents (N) are more from Riyadh (172) region and minimum are from Madinah (74) out of 428.

ANOVA test is used to determine if the means are statistically different as far as Social Satisfaction variable is concerned. The below table shows the ANOVA result in which degrees of freedom (df), and the Sig. value (often referred to as the p value) is shown. The sig. value or p value determine if condition means were relatively the same or if they were significantly different from one another.

In the blow table sig. value is 0.000, which is blow 0.05 and therefore there is a statistically significant difference in the social satisfaction variable as far as different regions of Saudi Arabia are concerned.

Table 6. Showing the ANOVA value

ANOVA					
Social Satisfaction					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	98.485	3	32.828	55.246	.000
Within Groups	251.951	424	.594		
Total	350.436	427			

To know which of the specific groups differ if Sig. value is blow 0.05, therefore another statistical test know as multiple comparisons is needed to know which of the specific groups differ from each other. For this purpose post-hoc tests is shown blow.

In the Table 7 Tukey post-hoc test is conducted on a one-way ANOVA to know which groups differ from each other. From the data it can be concluded that there is a significant difference in social satisfaction when comparing different regions except Riyadh and Dammam (which has sig. value (p) more than 0.05). All other regions have significant difference ($p = \leq 0.05$).

Table 7. Showing region-wise multiple comparisons

	(I) Region	(J) Region	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
		Dammam	-.20256	.10432	.053	-.4076	.0025
	Riyadh	Madina	-.76499*	.10717	.000	-.9756	-.5543
		Makkah	-1.16001*	.09634	.000	-1.3494	-.9707
		Riyadh	.20256	.10432	.053	-.0025	.4076
	Dammam	Madina	-.56243*	.12433	.000	-.8068	-.3181
LSD		Makkah	-.95745*	.11512	.000	-1.1837	-.7312
		Riyadh	.76499*	.10717	.000	.5543	.9756
	Madina	Dammam	.56243*	.12433	.000	.3181	.8068
		Makkah	-.39502*	.11771	.001	-.6264	-.1636
		Riyadh	1.16001*	.09634	.000	.9707	1.3494
	Makkah	Dammam	.95745*	.11512	.000	.7312	1.1837
		Madina	.39502*	.11771	.001	.1636	.6264

*. The mean difference is significant at the 0.05 level.

* LCD stands for Least Significant Difference

5. Conclusion and Suggestions

While measuring the relation between Different regions of Saudi Arabia and social satisfaction variable, it is clear that significance value is 0.000 which means there is a difference of opinion among stakeholders of different regions towards the social satisfaction variable. To find out the particular regions where this difference is prevailing, a statistical tool known as multiple comparisons has been used. This analysis of this test shows that there is difference of opinion in all regions except Dammam-Riyadh as p value is greater than 0.05.

Based on the study, following points are positive towards Islamic banking in Saudi Arabia:

- **Customers**: Every customer prefers Islamic banking while investing in banks.

- **Regulators**: The political system of the country is such which always welcomes Islamic system.

- **Accounting, Auditing, Taxation and Information Support Systems**: All these support systems are prevailing in Saudi Arabia

- **Shariah Compliance**: This is the need of the country

- **Human skill development**: For this purpose, may number of big institutions have been developed by the government.

- **Product Innovation and Development**: These are prevailing in Islamic banks in Saudi Arabia.

- **Inclusion of Islamic values and integrity**: Whole country prefers these values and therefore support and implement such values.

- **Legal framework**: Very preferable and encouraging Islamic banking

- **Shareholders and Investors**: This is a developed country so investors are eager to invest a huge amount.

Taking these things in to consideration, Islamic banking has huge potential for development in Saudi Arabia. Although full-fledged Islamic banks have developed very recently in the world but its progress in Saudi Arabia is tremendous. It is because the market here is such where Islamic values are more important than anything else. But if we take profitability of Islamic banks in Saudi Arabia into consideration, it is also huge. It is expected that within few years every bank in Saudi Arabic might be fully Islamic and conventional banks will turn into Islamic

banking. For this purpose Saudi economists are developing the economic models adopted by Malaysia and United Arab Emirates. As these two countries have become largest Islamic finance markets in the world. Saudi Arabia has competitive advantage to develop the Islamic financial system because of its Islamic laws and regulations as well as easy licensing for the establishment of Islamic banks. But still there is a lack of experts and Islamic educational institutions, for which ministry of higher education should take appropriate steps to establish more and more specialized institutions of Islamic finance.

Muslims in general and the Muslims in Saudi Arabia prefer Islamic Banking, which used to be a considered only a myth in some parts of the world few years ago, is not only in vogue but is gaining rapid popularity these days. Now customers prefer to invest in Islamic banks in Saudi Arabia compared to conventional banks. In Saudi Arabia, not only a number of foreign and local banks are doing good business in Islamic banking but even the conventional banks have been tempted to open special Islamic banking windows and branches. The best example of popularity of Islamic banking in Saudi Arabia is of Al Rajhi Bank. This bank is very famous in Saudi Arabia and leading in GCC.

Acknowledgements

References

Abduh, M., & Othman, A. (2014). Service Quality Evaluation of Islamic Banks in UAE: An Importance-Performance Analysis Approach. *Journal of Islamic Economics, Banking and Finance, 10*(2), 103-113.

Akhtar, A., & Zaheer, A. (2014). Service Quality Dimensions of Islamic Banks: A Scale Development Approach. *Global Journal of Management and Business Research, 4*(5).

Ammo, T., & Friedman, H. H. (2002). Overall Evaluation Rating Scale: An Assessment. *International Journal of Marketing Research, 43*(3), 301-310.

Arasli, H., Katircioglu, S. T., & Mehtap-Smadi, S. (2005). *Customer Service Quality in the Greek Cypriot Banking Industry Managing Service Quality, 15*(1), 41-45.

Arasli, H., Mehtap-Smadi, S., & Katircioglu, S. T. (2005). A comparison of Service Quality in the Banking Industry some evidence from Turkish and Greek-speaking areas in Cyprus. *International Journal of Bank Marketing, 23*(7), 508-526. http://dx.doi.org/10.1108/02652320510629881

Awan, A., & Azhar, M. (2014). Customer Behavior Towards Islamic Banking in Pakistan. *European Journal of Accounting Auditing and Finance Research, 2*(9), 42-65.

Bashir, M. (2014). Analysis of Customer Satisfaction with the Islamic Banking Sector: Case of Brunei Darussalam. *Asian Journal of Business and Management Sciences, 2*(10), 38-50.

Bateson. (1995). *Managing Services Marketing* (2nd ed.). Forth Worth, Texas: Dryden Press.

Bortholomew, D. J. (2006). *Measurement.* Thousand Oaks, CA: Sage Publications. http://dx.doi.org/10.4135/9781446262481

Buzzell, R. D. & Gale, B. T. (1987). *The PIMS Principles.* New York: The Free Press.

Heskett, J. L., Sasser, W. E., & Hart, C. W. L. (1990). *Breakthrough Service.* The Free Press, New York, NY.

Howcroft, B., Hamilton, R., & Hewer, P. (2002). Consumer attitude and the usage and adoption of home-based banking in the United Kingdom. *International Journal of Bank Marketing, 20*(3), 111-121. http://dx.doi.org/10.1108/02652320210424205

Okumus, H. (2005). Interest free banking in turkey: A study of customer satisfaction and bank selection criteria. *Journal of Economic Cooperation, 26*(4).

Othman, A., & Owen, L. (2001). Adopting and measuring customer service quality in Islamic banks: A case study in Kuwait Finance House. *International Journal of Islamic Financial Services, 3*(1), 20-26.

Parasuraman, A., & Berry. (1991). *Marketing Services: Competing through Quality.* Free Press, New York, NY.

Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1985). A conceptual model of service quality and implications for future research. *Journal of Marketing, 49*(4), 41-50. http://dx.doi.org/10.2307/1251430

Shiraj, M., Shameem, A., & Nawaz, S. (2014). Comparative Study on Customer Satisfaction of Islamic and

Conventional Banking in Sri Lanka. *First International Symposium*.

Spreng, R. A., Mackenzie, S. B., & Olshavsky, R. W. (1996). A re-examination of the determinants of consumer satisfaction. *Journal of Marketing, 19*(4), 491.

Note

Note 1. Sources: Saudi Arabia Monetary Agency