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CONSUMERS' PERCEPTIONS OF BANKS COUNTRY OF ORIGIN IN THE UAE

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Abstract

The overarching objective of this research paper is to undertake an analysis of the Country of Origin (COO) influence on banking services. The paper assesses consumers' perceptions and selection of banking services in the UAE. This study is based on a survey exercise conducted across UAE. Based on a review of literature, several research propositions were formulated. These relate to consumers' choice of and factors considered in choosing two categories of banks: local and foreign banks. Empirical research was used to test the propositions. The country of origin may be an important element in the perceptions consumers have of banking services especially where little other information is known in the context of a developing country. Analysis shows that the local bank services were perceived to have "higher prices in general" and to offer "more value for money" than the foreign bank services. This study is important as it has great implications for decision making and the literature focusing on banking services in the Middle East.

Keywords: Country of Origin, Perception, Banking, Service Quality, UAE

1. Introduction

Recent decades have witnessed a proliferation of research studies focusing on how the country of origin (COO) of a product or service influences consumers' product or service evaluations in developed countries (DCs). Previous studies explicitly suggest that consumers have different perceptions of quality and price for products made in a developed country (Al-Sulaiti and Baker 1997). However, the literature does not adequately address the question of whether such effects similarly influence consumers' perceptions of a service provider in developing countries of the Middle East.

In the Middle East, banking organizations play a vital role and provide an essential service to all sectors of the economy and of course the ordinary people. Banking services are not standardized in a technical sense as they are mainly performed by the personnel (for instance, personal banking staff, call center staff). As a result, consumers' evaluations of banking services might be strongly influenced by the attitude of the banking personnel.

This paper presents the findings of research examining UAE consumers' perceptions and selections of domestic and foreign banks in the country. The banks used in this study are grouped into two categories: Domestic or local and foreign banks (popularly referred to as foreign).

This paper is organized as follows. First, a brief discussion of the banking industry in the UAE is presented. Second, service quality will be defined in the context of the banking sector. Third,

countries of origin effects are presented. Fourth, research methodology is discussed. Finally, a discussion of the findings is presented.

2. Banking Industry in the UAE

The United Arab Emirates (UAE) is located within the Arabian Gulf peninsula, and is a federation of seven emirates. The UAE is one of the six members of the Gulf Cooperation Council (GCC) grouping, and is predominantly an oil and gas exporting nation. It has oil reserves exceeding 98 billion barrels, accounting for 10% of the world's crude oil and 4% of the world's natural gas reserves. Abu Dhabi controls nearly 90% of these resources (Hashmi, 2007).

The UAE is a small country, with a population of nearly 8 million, of which approximately 1 million being nationals. The expatriate labor within the UAE represents more than 90% of the national workforce. The UAE has been putting up an impressive growth and socio-economic development in recent years. It has carved a niche in the services sector, including most notably banking and finance. The country has been making incessant efforts in establishing a global hub for Islamic banking and finance.

The UAE's banking sector was formalized with federal law 10, in 1980, establishing a legal framework within which financial institutions could be licensed and get going. Federal law 10 is still the foundation for UAE banking legislation. In 1985, federal law 6 provided for Islamic banking (Hashmi, 2007).

Within the UAE banking sector, 46 banks have been licensed by the UAE Central Bank, as of 2007, representing 17 local banks, 3 Islamic banking institutions, and 26 foreign banks (Budd, 2004 and Hashmi, 2007).

In recent years, many banks in the UAE have developed products and services to better serve the retail customer by improving their infrastructure and through branch expansion and technology enhancement (Al Shamsi *et al.* 2009).

Indeed, the banking sector plays a significant role in the UAE. It is also noteworthy that the banks (local as well as foreign) have come to operate in a competitive environment characterized, *inter alia*, by rising customer expectations particularly in terms of service quality. Surely, the one critical factor that is going to distinguish between a successful bank and a not so successful one is service quality.

3. Service Quality: A Conceptual Framework

Traditionally, quality has been defined in terms of zero defects in any kind of offering. But many modern organizations prefer to define quality by linking it to customer satisfaction and value. For instance, Motorola, which took lead in the United States to popularize various quality concepts and techniques, defines quality as something for the customer. Its definition of a defect is that if the customer does not like it, it's a defect.

The American Society of Quality defines quality as "the characteristics of a product or service that bear on the ability to satisfy stated or implied customer needs".¹ In other words, quality is a total concept. It begins and ends with the customer. Since service providers may vary in their offerings, an evaluation of quality may change with each purchase. Tangible products such as clothing and fashion jewellery have search properties such as color, design and size which can be determined before making a purchase. Services such as restaurants and hospitals have experience properties, the quality of which can only be determined during and after the process of service delivery.

The concept of quality, if not the broader meaning of quality management, would appear to be seen by the marketing professionals and lobbies in various parts of the world as less threatening

¹American Society for Quality, Glossary – Entry: Quality.

and more in keeping with their core values than the aggressive language and connotations of marketing. For instance, trust managers frequently seek to link clinical quality and marketing initiative for gaining acceptance of, and of legitimizing, marketing activities among various sections of society.

Customer contact paves the way for an increase in variability in the process. This leads to a high degree of customization in services as well as great variability in the time required to perform services. In manufacturing, repetitive tasks are easily measured, and cycle times are generally consistent. When customers are intimately involved in processes, there is much more customization and much more variability than in manufacturing.

Services design in the banking sector is also very different from design in manufacturing. Because services are intangible, warranty or repair processes are not as important as recovery or reimbursement processes. Moreover, the design of the services must take into account such variables as customer moods and feelings because these affect customer perceptions of service quality.

Service quality is a measure of how well the delivered service level matches consumer expectations (Donaldson and Runciman, 1995). This quality depends on the size and direction of the gap between expected and perceived service (Bolton and Drew, 1997).

Physical environment cues, such as colors, lighting, smells, sounds, temperature help to shape an image for service firms, and set up the customer's expectation for what they are about to experience (Lovelock, 1981). The physical environment has the potential to influence one's impression of the service (Shostack, 1977) such that the environment affects behavior by influencing the meaning a customer draws from a particular setting (Fox and Bender, 1986).

The appearance of staff can provide evidence about the nature of the service (e.g., a tidily dressed teller in a bank) suggests that the banking operation as a whole is run with care and attention. Buildings are also frequently used to give evidence of service nature. The physical environment affects the customers' perception of the service provider, even when all other conditions are equal (Bitner, 1990). Bitner (1990) compared customer reaction to a travel agent where in one case the customer encountered a well-organized workplace and in the other case a more casual environment. According to Bitner (1990), the customer who encountered the well-organized workplace had significantly more positive response on all the variable tested without technically receiving more qualified service. Thus, the ideal physical environment will prepare the customer by giving visual, procedural and psychological clues, which both support and define service quality expectations. Moreover, by giving unique physical environment, a service firm can differentiate itself and its services from others, and ultimately it can gain competitive advantage in the market (Ballantyne *et al.* 1995).

Customers' perceptions of service quality and what is being delivered are of course determined partly by what is actually being delivered (Stone and Young, 1992). Services often encompass multiple interactions between the customer and differing employees. In a typical visit to a bank, a customer may interact with (or be exposed to) tellers, customer care employees, receptionist, gate keepers and others. A poor performance by any of these may lead to perceptions of poor service because a service cannot be put into inventory, consistency of performance is difficult to attain and sustain (Ostrowski *et al.* 1993). Secondly, good service may have little to do with what the provider believes; rather it depends on the beliefs of the individual customer. Customer satisfaction can occur when the customer's perceived experience either matches or exceeds the customer expectations. However, customer loyalty (leading to repeat business) occurs only when the perceived experience can be considered excellent, a level far exceeding merely good service (Zemke, 1993).

In the new smart economy, it is important for managers to appreciate that smart service quality plays an important role in carving success. Consider the following smart service quality dimensions:

- | | |
|----------------------------------|-------------------|
| ● Access | ● Responsiveness |
| ● Ease of Navigation | ● Assurance/Trust |
| ● Efficiency | ● Price Knowledge |
| ● Customization/ Personalization | ● Site Aesthetics |
| ● Security/Privacy | ● Reliability |
| | ● Flexibility |

Banks serving the consumer markets, in particular, should be sensitive to the impact of the 'e' and 'm' trends on their operations. For instance, the philosophy of the 'e' and 'm' business movement in various parts of the world is the adoption of the quality orientation. Dubai has taken a strategic decision to transform itself into a smart city within 3 years. In fact, the UAE as a whole would adopt smart strategy. In other words, UAE banking organizations would strive to serve their customers effectively in a smart manner. Smart orientation refers to the firm-wide generation of quality intelligence with the aid of Decision Support Systems (DSS), Marketing Information Systems (MIS), Strategic Information Systems (SIS) and other research activities, effective dissemination of the intelligence throughout the firm and organization-wide responsiveness to the changes taking place in the environment influenced by the smart quality trends.

In view of the emergence of the smart city concept in the UAE, a new trend that is developing is narrowed towards offering excellent service. Having commanding heights of service quality is accepted as a strong competitive advantage. It brings great success for the bank if managed properly.

Any successful business firm must increase competitiveness and profitability, in one way or another. Similarly, the incentive for implementing quality management initiatives, like TQM, is that it contributes to increasing competitiveness and profitability. As the preceding discussion has made it clear that quality is a philosophy with service dimensions and can be summed up as doing things properly for competitiveness and profitability.

4. Country of Origin Effects

Country of origin effects have been defined in many ways in the literature. According to Wang and Lamb (1983) country of origin effects are intangible barriers to enter new markets in the form of negative consumer bias toward imported products. Ozsomer and Cavusgil (1991) define country of origin as the country where corporate headquarters of the company marketing the product or brand is located. Typically, this is the home country for a company.

In the modern market place defining the country of origin can be a very complicated task. The growth of multinational companies and the evaluation of hybrid products, which have components from many source countries have in many cases blurred the accuracy or validity of made in ----" labels (Baughn and Yaprak, 1993).

The literature related to country of origin suggests a general home-country selection bias with alternative product choice selection affected by product class. Most researches to date have focused primarily on country of origin effects on product evaluation and nationality differences in the consumption of a product in more developed countries. To date there are few studies which have examined the impact of country of origin effects on the consumption and evaluation of services (Kaynak *et al.* 1994). Most of these researchers examined consumers' perceptions towards services in the US.

Morello's (1984) influential comparative study on the image of domestic and foreign products sought to establish the relationship between the image of seven countries and the image of products made in those countries: Belgium, France, Holland, Italy, Spain, USA, USSR, West Germany were the selected countries. The results of the study explicitly suggested the existence of a country-of-origin effect and that this may affect consumer buying behavior. It may be observed

that the convenience sample (29 Dutch students and 37 Italian students) constrains the generalization of Morello's research findings.

5. Research Methodology

This empirical study sought to capture the perceptions of customers about the service quality of local versus foreign banks in the UAE. We compared the service quality perceptions following conventional wisdom (Murray and Schlacter, 1997).

Based upon the success of previous researchers (Ghadir, 1990) it was decided that personal delivery and collection of a self-administered questionnaire would provide the most suitable form of data collection. Questionnaires translated into Arabic were hand-delivered by the researcher to senior students of a university who were then asked to distribute them as randomly as possible among professionals in 100 organizations in order to determine their perceptions and selections of UAE versus foreign banks. In the cover letter, a request was made to the respondent to answer all the questions. After three weeks' waiting time, questionnaires were personally collected. Of the 430 professionals, 380 responses were received, of which 324 usable questionnaires for final analysis were resulting in a response rate of 75.3%.

The source of the ideas for the questions followed a comprehensive review of the literature available regarding country of origin effects on product and service evaluation. In order to ensure the validity and reliability of the questions that were to be used in this study, a number of previous studies were consulted because they had been shown to possess a high level of validity and reliability.

The results of the reliability test of this study for the Likert type scale used for measuring the consumers' perceptions of the quality of the local and foreign services together with consumers' patriotic feelings, showed an internal alpha reliability of .90 for the local services, .95 for foreign services and .65 for consumers' patriotic feelings variables.

6. Statistical Analysis

Respondents were asked to indicate whether they ever had experience of any local or foreign banks. Results showed more than half of the respondents (56%) had experience of local and foreign banks whereas 45% had experienced some combination of the two types of banks.

Respondents were asked to indicate their preferred bank for international transactions. They were given the option of selecting their top three banks out of a total 10, assuming that they all offer the same service portfolio. Respondents were then asked to rank them in order of preference. Results indicated no significant differences between consumers' demographics in selecting local and foreign banks. The top three local banks selected were Dubai Islamic Bank, Emirates NBD and Abu Dhabi National Bank. The remaining foreign banks selected most frequently were HSBC, Standard Chartered, and Citibank.

Respondents were also asked to choose the bank category that they prefer most for international transactions out of the two bank categories. Exactly two thirds of the respondents (66%) had selected local banks for international transactions, while around one third said that they would select foreign banks for their international business if they were given the option to do so. Of the remaining respondents, nearly 3% had chosen foreign Arab banks for their transactions. Due to this marginal preference for the Arab banks, it was decided to exclude this category from further analysis and focus instead on the UAE and foreign banks.

Since measurements were taken from respondents for the two different types of banks, it would be possible to make a direct comparison between the domestic and foreign banks in terms of service quality dimensions. Consumers were asked to evaluate the services on selected concepts which contributed to service quality attributes and factors. A paired T-test was performed on each of the quality variables. Table 1 summarizes the results of the test. The last column of the Table 1

showed the significance of the differences between the qualities of the two banks' services. As seen from the table, statistically significant results were detected for 18 out of 29 items at $P < .05$ level of significance.

Table 1. Comparison of the Consumers' Perceptions of the Quality of the Domestic versus Foreign Bank Services

| Quality Variables | Domestic Mean | Foreign Mean | Dif | t-value | df | Sig |
|---------------------------------------|---------------|--------------|--------|---------|-----|------|
| Perform service at designated time | 2.8276 | 3.0596 | -.2320 | -3.67 | 318 | .000 |
| Call customers for any changes | 2.6909 | 3.0032 | -.3123 | -4.18 | 318 | .000 |
| Give prompt service | 2.7217 | 3.1489 | -.4272 | -6.69 | 303 | .000 |
| Service is accessible by phone | 3.4219 | 3.0906 | .3312 | 5.62 | 319 | .000 |
| Convenient schedule | 3.4537 | 3.1629 | .2907 | 4.23 | 712 | .000 |
| Polite and friendly call center staff | 3.8994 | 3.5723 | .3270 | 5.17 | 317 | .000 |
| Handling the problems intelligently | 2.7906 | 2.9594 | -.1688 | -2.93 | 317 | .004 |
| Goodwill of the bank | 3.4606 | 3.1577 | .3028 | 4.76 | 317 | .000 |
| Excellent internet safety records | 4.0406 | 3.3844 | .6563 | 11.61 | 31) | .000 |
| Clean and neat frontline staff | 4.1761 | 3.7516 | .4245 | 8.53 | 317 | .000 |
| Maintain office hours | 1.9561 | 2.7743 | -.8182 | -11.57 | 313 | .000 |
| Handle the complaints carefully | 3.2648 | 3.0561 | .2087 | 3.11 | 33 | .002 |
| Serve each customer without any bias | 3.5559 | 3.1087 | .4472 | 6.37 | 321 | .000 |
| Comfortable seating arrangement | 3.5741 | 3.1893 | .3849 | 5.69 | 316 | .000 |
| Efficient teller procedure | 3.5844 | 3.0000 | .5844 | 8.86 | 319 | .000 |
| Excellent call center services | 3.5831 | 3.1285 | .4545 | 6.99 | 318 | .000 |
| Special attention for families | 3.2671 | 2.9969 | .2702 | 4.22 | 321 | .000 |
| Recover smartly from mistakes | 3.8464 | 3.4671.4671 | .3793 | 6.54 | 318 | .000 |

Notes: Evaluations were done on a 5-point Likert-type scale. 5 = strongly agree, 4 = agree, 3 = neither agree nor disagree, 2 = disagree, 1 = strongly disagree.

* Only values with significant differences at the .05 level or below were reported.

Hypothesis:

There is no significant difference between the consumers' perceptions of the quality of local and foreign bank services.

Paired T-test showed significant differences between the consumers' perceptions of the quality of local and foreign services. These differences are statistically significant for 18 out of 29 quality attributes and factors at $P < .05$ level of significance. This seems reasonable; since most of Arab countries are not highly advanced in terms of technological and managerial know how which

may suggest that the amount technological complexity of goods or services may have a strong impact upon perceived variation in quality. The null hypothesis is therefore rejected.

The greatest difference between the services of the two groups was related to the following cue: calling customers in case of any changes (-1.447), and providing prompt service (-1.2597). The least difference was related to having comfortable seats (-.2194). The mean ratings for having excellent internet safety records and call center staff indicated that the difference is to the benefit of the domestic banking services.

These results do not support previous research findings performed in the United States and other developed countries which indicated that there was a bias against foreign product or service in favor of domestic ones (Brown *et al.* 1987).

Table 2. One-Sample Chi-Square Test for the Difference between the Customers' Selection of a Gulf or a Foreign Bank

| Selection | Cases Observed | Expected | Residual |
|--------------------------------|----------------|----------------------|----------|
| Local | 214 | 157.5 | 56.50 |
| Foreign | 101 | 157.5 | -56.50 |
| Total | 315 | | |
| Chi-Square = 40.53 D.F. = 1 | | Significance = 0.000 | |

One reason for the unexpectedly favorable selection of foreign banks may be the consumers' tendency to prefer foreign banks' services. Therefore, preference for domestic services might be due to ethnocentrism and patriotism. A number of studies on country of origin effects have shown that consumers all over the world generally tend to prefer products or services made or provided by their home-countries to foreign ones. Thus, this finding offers support to the conclusion of McLain and Sternquist (1991), Nagashima (1970), and Shimp and Sharma (1987).

Another reason for the favorable selection of services provided by local banks may be that, in the mind of UAE consumers, the word domestic is connected with predominantly favorable associations at an emotional level. In general, individuals tend to have more favorable attitudes towards countries and regions which are close in a geographic sense and similar in a cultural sense than towards very distant and dissimilar countries (Schweiger *et al.* 1995). It has been noticed that this also holds for "made-in images". Wang and Lamb (1983) found that respondents tended to buy goods produced in close and culturally similar countries. In addition, some authors found that similarities between the value systems of countries had an impact on "made in images" and preferences for products "made in" certain countries (Schweiger *et al.* 1995). Therefore the affinity of UAE consumers with the local banks in terms of cultural background may be one of the main factors causing the favorable selection of the services provided by local banks relative to those of foreign banks. Preference for domestic service providers also may be due to the perceived risk in choosing foreign service providers (Gudum and Kavas, 1996).

7. Summary and Conclusion

During the volatile business environment of 1970s and the early part of the 1980s, bank marketing was a comparatively unimportant activity among banking organizations around the world, due to stringent industry regulations. In addition, the industry was operating in a sellers' market around the world. In particular, protected by government ownership and regulations, banks were safe from the serious competitive effects of the market place. In most cases, the industry showed an oligopolistic market structure (Kaynak *et al.* 1994).

In recent years, however, there have been a number of changes in the global banking industry which have had significant effects on the development of this rapidly growing sector of the

economy in most countries of the world (Pustay, 1992). The continuous relationship between banks and their customers has become the benchmark for banking industry standard.

In line with other studies on country of origin effects, the findings of this research indicated that UAE consumers tended to prefer services provided by their home-country to foreign ones. Two thirds of the total respondents preferred local services and the remainder showed a preference for foreign services. The affinity of UAE consumers with the local banking service providers in terms of cultural background may be the main factor causing the favorable selection of the services provided by domestic banks relative to those of foreign countries.

Despite the importance of the research findings of the present study, the study has some limitations. A quantitative technique was used in this research, limiting the richness of information that could have been obtained from some qualitative methods of data collection. Due to lack of knowledge of country of origin effects in Middle Eastern countries and particularly in the UAE, the questions asked in the questionnaire were based heavily on western literature and research. This might have reduced the validity of some of the questions. Due to financial and time limitations, the sample was drawn from only UAE consumers. If other states of the Gulf (Bahrain, Oman, Qatar, Saudi Arabia and Kuwait) had been included, the information gathered would have been more comprehensive and more generalizable.

Another important limitation was related to the length of the questionnaire. A number of respondents pointed out that the questionnaire was too lengthy. Due to the descriptive nature of the study, the length of the questionnaire was required to capture a wide range of aspects of the consumers' perceptions. This limitation can be reduced to a greater extent through the improvement of the research questionnaire by future researchers. Generalization beyond the banking service industry is tenuous. For example, in a service industry high involvement services such as banking and finance, have different service quality definitions than low involvement services such as fast food or dry cleaning (Cronin and Taylor, 1997). Therefore, managers and researchers must be very careful when making cross-sectional comparisons between different types of service industries.

Finally, it may be observed that in a cross-cultural environment, country of origin has an important role in influencing consumers' decisions about banking services. The GCC countries including the UAE are characterized by a rich cross-cultural environment. Therefore, it is high time for researchers to conduct in-depth studies focusing on country of origin effects on consumers' choices of banking and financial services.

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Appendix

Table A1. Banks Operating in the UAE *

| National Banks | | | | | |
|----------------------------------|----------------------|-------------------|------------------|-----------------------|----------------------|
| | December 2011 | March 2012 | June 2012 | September 2012 | December 2012 |
| Head Offices | 23 | 23 | 23 | 23 | 23 |
| Branches | 768 | 794 | 799 | 807 | 805 |
| Electronic Banking Service Units | 26 | 28 | 28 | 28 | 28 |
| Pay Offices | 87 | 88 | 89 | 86 | 89 |
| GCC Banks | | | | | |
| Main Branches | 6 | 6 | 6 | 6 | 6 |
| Additional Branches | 1 | 1 | 1 | 2 | 2 |
| Other Foreign Banks | | | | | |
| Main Branches | 22 | 22 | 22 | 22 | 22 |
| Additional Branches | 82 | 82 | 82 | 82 | 83 |
| Electronic Banking Service Units | 50 | 52 | 52 | 52 | 52 |
| Pay Offices | 1 | 1 | 1 | 1 | 1 |
| Number of ATMs | 4,172 | 4,280 | 4,346 | 4,392 | 4,492 |

Notes: * Compiled from The UAE Central Bank Annual Reports, 2012.