

ADOPTING AND MEASURING CUSTOMER SERVICE QUALITY IN ISLAMIC BANKS: A CASE STUDY

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Abstract

This study measures the perceptions of Islamic bank's retail customers in Malaysia using CARTER, a new model to measure service quality. The findings of this study show significant validity for all CARTER's 35 items and six dimensions in terms of their importance in both weights and percentages. Amongst all six dimensions included in the model, the compliance dimension was reported to be most important by BIMB's customers and a strong link between service quality and customer satisfaction does exist. Thus, this study shows the importance for Islamic banks to place cultural difference in front when adopting service quality.

Keywords: Service Quality, Islamic Banking, Customer Satisfaction, CARTER

INTRODUCTION

The banking industry has become increasingly integrated in recent years. Liberalisation and deregulation of the financial sector, coupled with rapid technological advancement and improved communication systems, have contributed to the integration process. As a result, banks are now facing very high and intense competition. Studies by Parasuraman et. al (1985), and Zeithmal et. al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. Accordingly, Newman and Cowling (1996) believes that excellent service quality is vital to business profitability and survival. In this sense, Islamic banks are of no exception.

Although Islamic banks' principal activities are based on Islamic law (Shariah), their banking businesses are no different from other banks or financial institutions. Thus, Islamic banks face competition not only from conventional banks, but from new market entrants as well. One of the means for Islamic banks to cope with such strong competition is by improving the ways products and services are offered to their customers. It is for this reason that Othman and Owen (2001a) concluded that there exists a need for Islamic banks to adopt service quality program. They further argued that service quality can be a differentiating factor for Islamic banks to boost up their market shares and profit position.

The importance of service quality and its role as the key factor in differentiating service products and gaining competitive advantage have been documented in a number of studies (see for example studies by Parasuraman et. al, 1985; Bolton and Drew, 1991; and Cronin and Taylor, 1992). Even though there is an abundant of research investigating service quality in the service industries, studies on this issue as related to Islamic banks are scant. This study adds to the existing literature by examining the performance of service quality in the Islamic banking industry through a case study conducted on Bank Islam Malaysia Berhad (BIMB). The objective of this paper is twofold. Firstly, to measure the level of service quality provided by BIMB. Secondly, to measure customer's perceptions on quality of services provided by BIMB.

This paper is organised into 5 sections. Section 2 contains a review of the literature on service quality. Section 3 describes the research methods used.

Findings and statistical inferences are given in Section 4. Finally, Section 5 concludes the paper. Recommendations for further research and limitations to this study are also being highlighted in this section.

LITERATURE REVIEW

Service quality has been viewed as a significant issue in the banking industry by Stafford (1994). Since financial services are generally undifferentiated products, it becomes imperative for banks to strive for improved service quality if they want to distinguish themselves from the competition. Roth and van der Velde (1991) and Bennet (1992) found the positive relationship between high levels of service quality and improved financial performance. Similarly, Bowen and Hedges (1993) documented that improvement in quality of service is related to expansion of market share.

In the current marketing literature, much attention on the issue of service quality as related to customers' attitudes towards services has focused on the relationship between customer expectations of a service and their perceptions of the quality of provision. This relationship known as perceived service quality and was first introduced by Gronroos (1982). Gronroos suggested that the perceived quality of a given service is the result of an evaluation process since consumer makes comparison between the services they expect with perceptions of the services they receive. Hence, he concluded that the quality of service is dependent on two variables: expected service and perceived service. Parasuraman et. al (1985) considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service. Thus, the key to managing perceived service quality is to minimize this gap. Zeithaml (1988) defined perceived service quality as the customers' assessment of the overall excellence of the service. Bolton and Drew (1991) described service quality as a form of attitude that results from the comparison of expectations with performance. Berry et. al (1990) pointed out that since customers are the "sole judge of service quality", an organisation can build strong reputation for quality service when it can constantly meet customer service expectations.

Approaches to the measurement of service quality have typically been either a simple comparison of mean scores, extensive and detailed statistical model or more recently market research questionnaire. The current

measurement of perceived service quality using the latter approach can be traced to the research of Parasuraman et. al (1985). Based on an exploratory research on four types of service firms, they identified 10 determinants of service quality, which have been consistently ranked by customers to be the most important for service quality. The findings served as the foundation for these authors to develop an instrument of measuring customers' perceptions of service quality called SERVQUAL in 1988, which was later refined in 1991.

In developing SERVQUAL, Parasuraman et. al (1988) recast the 10 determinants into five principal dimensions: tangibles, reliability, responsiveness, assurance and empathy. Following their works, other researchers have adopted this model for measuring service quality in various service industries. Amongst them is Blanchard (1994), Donnelly et. al (1995), Angur (1999), Lassar (2000), Brysland and Curry (2001), Wisniewski (2001) and Kang et. al (2002). Application of this model to measure the quality of service in the banking industry was conducted by Newman (2001).

According to Othman and Owen (2001a), SERVQUAL has proven to be the most popular instrument for measuring service quality because it affords technology techniques for measuring and managing service quality. However, since the Islamic banking industry operates under different principles and cultures as compared to other service industries, they argued that an additional dimension should be added to the SERVQUAL method. They developed an instrument called CARTER to measure service quality in Islamic banking. In addition to the existing five dimensions in SERVQUAL, CARTER incorporates an extra dimension, which is "Compliance with Islamic Law". This dimension includes such items as run on Islamic law and principles, no interest neither paid nor taken on savings and loans, provision of Islamic products and services, provision of free interest loans and provision of profit-sharing products (Othman and Owen, 2001a).

In a study conducted on Kuwait Finance House (KFH), Othman and Owen (2001b) applied this model to measure the importance of service quality in the Islamic banking industry. They found a positive link between quality, satisfaction and service encounter. The finding proved the validity of this model for measuring quality of services in Islamic banks. Furthermore, all of CARTER's six dimensions were rated highly by KFH customers.

RESEARCH METHODS

As discussed in the previous section, perceived quality is the result of customer's comparison of expected service with the service received. Amongst the most popular assessments tool of service quality is SERVQUAL. The model identifies 22 items with which to measure customers' expectations and perceptions of the five dimensions proposed by Parasuraman et. al (1988). A factor analysis of the 22-item scale was used as a basis for identifying these five dimensions. The basic assumption underlying the SERVQUAL scale is that performance below (obtaining a negative score) leads to a perception of low service quality, while exceeding expectations (obtaining a positive score) leads to a perception of high service quality.

Bearing in mind that there exists cultural differences between countries, regions, religions or ethnic groups, it is imperative to build additional dimensions for service quality especially in the Islamic banking industry. Both cultural and religious influences are not defined by the SERVQUAL model. Taking this into consideration when adopting service quality, Othman and Owen (2001a) developed an instrument called CARTER, which is based on 35 items. This is the first approach to add and mix customers' religious beliefs and cultural values with other quality dimensions.

CARTER's six dimensions were conceptualised as a proposed framework for measuring quality of services in Islamic banks by Othman and Owen (2001a). The authors defined the six dimensions as follows:

- D1: Compliance, which means the ability to comply with Islamic law and operate under the principles of Islamic banking and economy.
- D2: Assurance is the knowledge and courtesy of employees and their ability to convey trust and confidence. It also includes verbal and written communication between bank staff and customers
- D3: Reliability is the ability to perform the promised service, dependability and accuracy.
- D4: Tangibles means the appearance of physical facilities, equipment, personnel, and communication materials.
- D5: Empathy is caring, individualised attention which the Islamic bank provides for its customers.
- D6: Responsiveness is the willingness to help customers and provide prompt service.

The CARTER model used in this study is a replication of an earlier study by Othman and Owen (2001a). A questionnaire was chosen as the method by which the survey was conducted. Sums of 200 questionnaires were distributed to BIMB's customers with 100% respond rate. Customers were contacted in the offices of the selected BIMB's branches in the northern region. Respondents were asked to rank the CARTER dimensions by rating the importance of each 35 items and their satisfaction and dissatisfaction with overall services and quality. Results were graded using the five point Likert scale starting from 1 – not important, 2 – somewhat not important, 3 – neutral, 4 – somewhat important and 5 – very important. The reliability of all 35 items as well as the six dimensions in the model was measured by obtaining their respective coefficient alpha.

FINDINGS

Coefficient alpha, as suggested by Peters (1999), was calculated to measure the reliability of the survey. Avkiran (1994) noted that a low value of coefficient alpha indicates that either “the test is too short or the items tested have very little in common”. As shown in Table 1, the alpha values in this study showed very high reliability for both the model (0.9178) and each of the CARTER's six dimensions: Compliance (0.7594), Assurance (0.7720), Reliability (0.7416), Tangible (0.7548), Empathy (0.8093) and Responsiveness (0.8146). These results support the reliability of these instruments. Hence, all 35 items listed in the model were incorporated into the survey. These findings prove that the CARTER model is a valid instrument to measure service quality in the Islamic banking industry.

The survey results conducted on BIMB's customers on the importance of proposed quality items model based on the CARTER six dimensions are presented in Table 1, which gives the dimensions and their item's average importance rank. Respondents were particularly consistent in their assessment because they clearly judged Compliance, Assurance and Reliability as most important, while Responsiveness, Empathy and Tangible were the least important. Of the three dimensions deemed to be important, emphasis was placed on Compliance (4.46 average scale). Amongst the 35 items listed, the item 'dealing with products that are accepted by Islamic law' was given the highest ranking. About 95 percent of the respondents believed that it is

important for BIMB to deal with products that are accepted by Islamic law. The item ‘runs in Islamic principles’ was ranked as the second most important item (94.5 percent), while 94 percent of the respondents perceived BIMB as an opportunity to get free interest loans. The item ‘no interest neither paid nor taken on savings and loans’ also showed a high importance percentage (91.5 percent). The provision that it is the only Bank in the country that provides Islamic banking products was rated to be important by 88.5 percent of the respondents whereas ‘profit sharing investments’ was rated the least important of the Compliance dimension. Although Tangible dimension received the lowest average important mean (4.15), it still remains on the important scale.

Table 1: Survey results on the importance of quality items based on CARTER model

Dimensions	Items	Average Important	Per-centages	Items rank	Dimension rank
Compliance	Runs in Islamic principles	4.48	94.5	2	A=0.7594 M=4.46 Ra=1
	No interest neither paid nor taken on savings and loans	4.54	91.5	8	
	It is the only Bank in the country that provides Islamic Banking products	88.5	14	4.38	
	To deal with products that are accepted by Islamic Law	4.51	95.0	1	
	Opportunity to get accepted by Islamic Law	4.51	94.0	3	
	Profit sharing investments	4.35	87.0	19	

Assurance	Friendliness of Bank personnel	4.30	87.0	20	A=0.7720 M=4.31 Ra=3
	Financial counselling provided	4.20	84.0	25	
	Interior comfort in BIMB	4.24	82.5	29	
	BIMB has a wide and easy to access network	4.35	92.0	10	
	Knowledgeable and experienced management team	4.46	93.5	4	
Reliability	Convenience (short time for service anywhere)	4.32	90.0	12	A=0.7416 M=4.37 Ra=2
	Integrated value-added services used	4.32	88.0	16	
	A wide range of services provided	4.32	86.9	22	
	Security of Transaction	4.47	93.0	5	
	Many counters open at peak hours	4.41	85.5	24	
Tangible	External appearance of BIMB Quick service and	4.17	80.3	31	A=0.7548 M=4.15 Ra=6
	Speed of transactions	4.33	87.0	21	
	Hours of operations	4.35	87.4	18	
	Counter partitions in BIMB	4.04	75.5	34	
	Overdraft	3.86	66.3	35	
Empathy	Bank location	4.15	79.4	32	A=0.8093 M=4.25 Ra=5
	Bank's familiarity, reputation and image	4.27	86.5	23	

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	The size of Bank (in terms of asset and capital)	4.12	80.5	30	
	Available parking space nearby	4.22	83.5	27	
	Confidentiality Bank	4.39	90.9	11	
	Confidence in Bank's management	4.37	92.0	7	
	Better profit compared with the interest in traditional Bank	4.29	88.0	17	
	Lower service charge	4.23	83.5	28	
Responsive-ness	Knowledgeable about your business	4.04	77.4	33	A=0.8121 M=4.36 Ra=4
	Able to fulfil individual/personal needs	4.37	89.4	13	
	Courteous counter services	4.30	88.4	15	
	Availability of credit on favourable terms	4.41	91.5	9	
	The number of branches available	4.26	83.9	26	
	Fast and efficient counter services	4.45	91.0	10	
<p>A : Alpha M : Average dimension mean Ra: Dimension rank based on importance percentage</p>					

In order to achieve objective 2, i.e. to measure the customer's perceptions on quality of services provided by BIMB, the relative importance

weights were calculated for all 35 items and six dimensions based on five-point Likert scale. The results of both item's and dimension's weighted average are presented in Table 2 and Table 3. From Table 2, it is shown that BIMB's customers considered all items as important. Even though overdraft has the minimum weight (76.9), it is judged to be important because the value is still above 50. This result confirms to the findings in Table 1 where 66.3 percent of the customers deemed overdraft to be an important item.

The last column in Table 2 shows whether CARTER's items represent process or outcome issues. The identification of these items follows Othman and Owen (2001a). This clearly shows that the model includes percent "Processes" and percent "Outcomes" which illustrates that customers assign greater significance to the process elements of the bank, rather than to the outcomes, when judging quality.

Table 2: Item and Weight

No	Item	Dimension	Weight	Process/ Outcome
1	No interest neither paid nor taken on saving and on loans	Compliance	90.7	P
2	To deal with products that are accepted by Islamic law	Compliance	90.3	P/O
3	Opportunity to get free interest loans	Compliance	89.7	P
4	Runs in Islamic principles	Compliance	89.6	P
5	Knowledgeable and experienced management team	Assurance	89.1	O
6	Security of Transaction	Reliability	89.0	P
7	Fast and efficient counter services	Responsiveness	88.5	P
8	Many counters open at peak hours	Reliability	88.2	P
9	Availability of credit on favourable terms	Responsiveness	87.8	P
10	It is the only Bank in the country that provides Islamic banking products	Compliance	87.5	P/O

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11	Confidence in Bank's management	Empathy	87.4	O
12	Profit sharing investments	Compliance	87.0	P/O
13	BIMB has a wide and easy to use network	Assurance	87.0	P
14	Able to fulfil individual/personal needs	Responsiveness	87.0	P
15	Quick service and Speed of t'sactions	Tangible	86.6	P
16	Hours of operations	Tangible	86.5	P
17	Confidentiality Bank	Empathy	86.5	O
18	Convenience (short time for service anywhere)	Reliability	86.4	P
19	Integrated value-added services used	Reliability	86.4	P
20	A wide range of services provided	Reliability	86.0	O
21	Friendliness of Bank personnel	Assurance	85.9	P
22	Better profit comparing with the interest in traditional bank	Empathy	85.8	P/O
23	Courteous counter services	Responsiveness	85.6	O
24	Bank's familiarity, reputation and image	Empathy	85.4	O
25	Interior comfort in BIMB	Assurance	84.7	P/O
26	The number of branches available	Responsiveness	84.7	P/O
27	Lower service charge	Empathy	84.6	P/O
28	Available parking space nearby	Empathy	84.5	P/O
29	Financial counselling provided	Assurance	83.9	P
30	External appearance of BIMB	Tangible	82.6	O
31	Bank location	Empathy	82.5	P/O
32	The size of Bank (in terms of asset and capital)	Empathy	82.4	O
33	Counter partitions in BIMB	Tangible	80.8	O
34	Knowledgeable about your business	Responsiveness	80.3	P/O
35	Overdraft	Tangible	76.9	P

The results of the relative weight of each six dimensions are presented in Table 3. The value of the weights calculated corresponds to the level of

importance. The weights calculated for all dimensions were significant. Hence, this study supports the works by Othman and Owen (2001a, 2001b) and validates that the CARTER model is an appropriate instrument to measure service quality in the Islamic banking industry.

Table 3: Ranking of Service Quality Dimension by BIMB Customers

SQ Dimension	Relative weight based on Compliance av. 4.46	Relative weight based on the highest scale point
Compliance	100	89.20
Reliability	97.93	87.36
Assurance	96.54	86.12
Responsiveness	96.50	86.08
Empathy	95.39	85.10
Tangible	93.03	82.99

Table 4 reports the average important mean of BIMB's customer satisfaction on the services provided, personal contacts with the staffs and the quality of service, which are 4.09, 4.13 and 4.00 respectively. The results indicate that BIMB is doing well in satisfying its customers. However, BIMB should build quality culture by adapting a quality system in its managerial and operational sides if it is to maintain this competitive edge.

Table 4: BIMB Customer's Satisfaction

Satisfaction Question	Average Important	Important Percentage
The overall satisfaction with BIMB services	4.09	83.4
I am very satisfied with my personal contact with BIMB staff	4.13	85.4
The Quality of Service	4.00	76.9

CONCLUSION AND RECOMMENDATIONS

The operations of Islamic banks are based on Islamic law, which is different in terms of spirit, cultural background and practice from conventional banks. However, both conventional and Islamic banks operate in a globally integrated banking industry, which is characterised by strong competition and rapid changes in technology. Since the products and services provided by both banks are generally undifferentiated, Islamic banks will have to compete on the basis of high quality of products and services offered to its customers if they want to gain a competitive edge against their rivals.

This study suggests a new model to measure service quality called CARTER, which is an extension of the SERVQUAL model. The findings of this study showed significant validity for all CARTER's 35 items and six dimensions in terms of their importance in both weights and percentages. Amongst all six dimensions included in the model, the compliance dimension was reported to be most important by BIMB's customers. This clearly shows the importance for Islamic banks to place cultural difference in front when adopting service quality. Also, the strong link between service quality and customer satisfaction has been discussed and the study defined it as a system of CARTER-items processes inputs and overall satisfaction outputs. Hence, the results of this study support the works of Othman and Owen (2001a, 2001b).

The major insight gained from the study suggests the adoption of service quality by Islamic banks. Islamic banks' managers can use the CARTER model and the information included in this paper to identify those areas where improvement could be made and resources could be allocated. For instance, by knowing the level of service quality in their banks, managers can use such information to make bank-wide improvement in quality performance. It can also be used as a benchmark to compare the performances of other banks that adopt quality programme.

Since the CARTER model is found to be a valid instrument to measure service quality, the model can be further exploited to investigate other matters such as issues pertaining to Islamic banks' performance, environment and culture. It is recommended that further research be carried out to ascertain

how quality relates to the Islamic banking industry and who should be responsible for implementing service quality in Islamic banks - the Board of Director, General Manager, mid management or all of them.

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