



## Customers Satisfaction in Malaysian Islamic Banking

‘Ismah Osman

Faculty of Business Management, Universiti Teknologi MARA  
40450, Shah Alam, Selangor, Malaysia  
Tel: 60-3-554-4446 E-mail: ismah817@salam.uitm.edu.my

Husniyati Ali

Faculty of Business Management, Universiti Teknologi MARA  
40450, Shah Alam, Selangor, Malaysia  
Tel: 60-3-554-4446 E-mail: husni833@salam.uitm.edu.my

Anizah Zainuddin

Faculty of Business Management, Universiti Teknologi MARA  
40450, Shah Alam, Selangor, Malaysia  
Tel: 60-3-554-4446 E-mail: niz@salam.uitm.edu.my

Wan Edura Wan Rashid

Faculty of Office Management and Technology, Universiti Teknologi MARA  
40450, Shah Alam, Selangor, Malaysia  
Tel:60-3-5543-5549 E-mail: wan\_edura@salam.uitm.edu.my

Kamaruzaman Jusoff (Corresponding author)

Yale University, Yale’s Tropical Forest Institute  
370 Prospect St, New Haven, CT 06511-2104, USA  
Tel: 203-676-7761 E-mail: jusoff.kamaruzaman@yale.edu

### Abstract

The development of the Islamic banks in Malaysia is increasingly challenging with more conventional banks participating and offering banking products and services based on Islamic principles after two decades of its establishment. Thus, it is very important for the players in the Islamic banking industry to better position themselves in order to confront and respond vigorously to the robustness of the global financial environment. This study is embarked on to identify the relative significance assigned to selection criteria in deciding a bank that has an Islamic banking system. More importantly, it would evaluate customer preference of the choices of a bank that is adapted from CARTER model. Secondly, it would investigate service quality and customer satisfaction between the full-pledged Islamic banks and the conventional banks offering Islamic banking products and services. It is hoped that the study would facilitate the management of the banks in developing their marketing strategies which is very important for the survival of the bank specifically due to intense competition arising from the foreign banks.

**Keywords:** Customer satisfaction, Service quality

### 1. Introduction

It is now a fact that consumers of all products and services tend to become more demanding due to the current marketplace that are becoming more competitive. As a result, there is a continuous increase in customer expectations and customers’ successive demands within the improvement of the quality of service (Parasuraman *et. al.*, 1988). Thus, service organizations should always be able to meet the needs and demands of those sophisticated customers effectively and efficiently in order to retain them, as loyal customers tend to spend more, purchase more and act as

enthusiastic advocates for the organizations (Harris & Goode, 2004). In addition, it can generate positive returns to the firm such as increased sales and lower costs as to attract new customers (Griffin, 1995) as well as more predictable profit flow (Meidan, 1996; Ostrowski, O'Brien, & Gordon, 1993), and determines price indifference, favorable word of mouth communication, customer referrals and resistance to competition (Barnes & Howlett, 1998). Eventually, one of the strategies that would enhance customer loyalty is through service quality and it has been related to success in service organizations (Wong & Sohal, 2003) including Islamic banks, which will be a significant indicator to differentiate an organization among the rest of the competitors (Parasuraman et al., 1988).

The establishment of Islamic banks has grown rigorously for the past four decades. It has spread across the whole universe and received wide acceptance by both Muslims and non-Muslims (Iqbal & Molyneux, 2005). This is because Islamic banks play their role similar to conventional banks except that they have to conform to Islamic principles and regulations (Henry & Wilson, 2004). It has been estimated that Islamic banking, which managed around US\$250 billion worth of assets worldwide as of 2004, is expected to grow at the rate of 15% per annum (The Banker Magazine, 5<sup>th</sup> October 2005). Therefore, Islamic banking can no longer be regarded as a business organization which is established to fulfill religious duties but what is more important, to be as competitive as possible side by side with the conventional system in alluring more customers and retain them. Inevitably, Islamic banks need to really understand the perceptions of their customers towards their business operations particularly their quality of service rendered to increase customer satisfaction and ultimately their loyalty (Dusuki & Abdullah, 2007).

Evidently, the Islamic banking and finance has contributed to the growth and sustainability of the Malaysian economy since its establishment in 1983. Since then, the strong growth of the Islamic banking in Malaysia is expected to continue due to new players who have joined the bandwagon in relation to the strong demand for Shariah-compliant financial products and services. The total deposits of Islamic banks have grown vigorously at 18.2% to account for 12.2% of banking system deposits. Assets of the Islamic banking system accounted for RM133 billion or 6.4% of total assets in the financial system compared to 5.8% in 2005 (Bank Negara Malaysia, 2006). In time, this figure is expected to increase, gearing towards competitive advantage, with the launching of more innovative products and services and the enhancement of customer centricity to cater to the needs of customers, Muslims and non-Muslims.

Against this backdrop, the present study seeks to identify the selection criteria of the customers patronizing Islamic banks in Malaysia. Specifically, this study attempts to investigate customers' perception towards quality of services based on CARTER (Othman and Owen, 2002). What makes this study different from other studies particularly like Al-Tamimi and Al-Amiri (2003), al-Zaabi (2007) or even El-Din and Shahril (2007) is that this study involves the conventional banks especially the foreign counterparts which are also offering Islamic banking products and services, for example Citibank, HSBC Bank, OCBC Bank, and also the Islamic foreign counterparts which include Kuwait Finance House. Consequently, it determines to clarify the perception of customers who patronize Islamic banks and those who patronize conventional banks in terms of the quality of service rendered and their satisfaction towards the services. Hence, the study sets out to provide answers to the following research questions:

- ii) What are the factors that seem to be significant in terms of service quality based on CARTER model (Othman & Owen, 2002)
- iii) To what extent do the customers in the Islamic banks are satisfied with the services provided compared to their competitors particularly from the conventional banks?

## 2. Methodology

The measurement of customer satisfaction in this study is based on CARTER model that has been developed by Othman and Owen (2001). However, prior to the survey, four (4) mini focus groups each consisting of five participants was used to generate a list of attributes of quality service, seen as being of importance to consumers. The finding reveals that the attributes chosen by the participants closely resemble to CARTER (Othman and Owen, 2001). In addition, it has been successfully scrutinized in Kuwait Finance House in terms of its compliance to Islamic guidelines, assurance, reliability, tangibles, empathy and responsiveness. The reason for adopting this model is because it emphasizes on quality which is important to customers' satisfaction and it is verified in meeting customer's requirements, specifically in terms of its importance feature and that is compliance to Islamic law. The reliability test has also been carried out and the alpha for CARTER dimensions has been high (0.79). A seven-point scale was used with anchors of very strongly disagree and very strongly agree. This scale is appropriate for the study and enabled the identification of the relative significance in selection criteria for choosing a bank which offers Islamic banking products and services.

However, it is important to note that the questions pertaining to service quality in this study does not employ the gap analysis based on Parasuraman *et. al* (1988) SERVQUAL measurement where it measures the perception of customers on service quality against their expectations to the quality of service provided by the organization. The reason being refers to Cronin and Taylor (1992) where they compared the expectation-perception gaps in opposition to perceptions alone, which they called SERVPERF and they decided that the measurement of service quality based on perception alone is adequate.

Furthermore, Othman and Owen (2001) did not measure customer service quality in Kuwait Finance House based on the expectation but they merely adopted the questions based on perceptions. Hence, we are adopting to Othman and Owen (2001) measurement which is based on processes inputs and overall satisfaction outputs.

Self-administered questionnaires is based on those six variables adapted from Othman and Owen (2001), namely, Compliance Assurance, Reliability, Tangibles, Empathy and Responsiveness. The questionnaires were distributed to the 200 adult respondents, however only 141 were used for analysis purposes. There are seventeen (17) selected commercial banks which offer Islamic banking products and services involve in this study. The selection of banks can be further developed through the nature of operation; whether they are a full-pledged Islamic banks or conventional banks having Islamic windows.

### 3. Results and discussion

From the data it was possible to access how Islamic Financial Institutions was viewed with respect to how satisfied customers were with the services that they have provided. Furthermore, this study discovers certain differences in terms of absolute and relative perceptions of the attributes instill in CARTER model. Results show that Reliability (mean 5.05) is perceived as the most important attributes in choosing the Islamic Financial Institutions (IFIs), followed by Assurances and Tangibles (Table 1). The least important attributes are Empathy, Responsiveness and Compliance, respectively.

In terms of the overall impression of CARTER model, it is interesting to note that Compliance is the only significant attributes that contribute to the criteria for choosing IFIs that offers Islamic product and services in the market (Table 2). However, the result from test statistics revealed that Reliability was ranked second, Tangibles was ranked third, Responsiveness was ranked fourth, Assurance was ranked fifth and finally, Empathy was ranked the least important attribute.

This study supports the research done by Othman and Owen (2001) based on the fact that compliance to Islamic principles is perceived as the most significant criteria. It is interesting to note that Malaysian in general prefer to deal with IFIs as it suits with their religious' values and principles. The study also revealed that choices of the IFIs do not much correspond with IFIs product which is "*offered free interest loan*" as the mean observed in this study is the lowest (4.61) (Table 3).

Finally, in order to compare the service quality between the full-pledged IFIs and the conventional banks offering Islamic products and services, the result has shown that the relative importance of each selection criteria as adopted from CARTER model (Othman and Owen, 2001) are differ from one bank to another depending on the type of institution (fully pledged Islamic bank or conventional bank offers Islamic window). The findings are shown in two tables, namely Table 4 shows the top five (5) rank of financial institutions offerings Islamic banking products and services, while Table 5 shows the bottom five (5) of ranking based on CARTER model.

The findings also show that Bank Islam Malaysia Berhad (BIMB) was ranked top under the compliant attribute. It is not surprising as the bank carries the word '*Islam*' as such it is expected to perform and operating fully under Islamic principles. However, as for assurance, it has been ranked five (5) which are indeed poor, and it implies to the knowledge and the courtesy of the employees and their ability to convey trust and confidence. This indicates that least attention was given by the bank as to ensure that their customers are satisfied with the services provided. As for other attributes such as Assurance, Reliability, Empathy and Responsiveness, the respondents ranked Citibank Berhad as a top provider. This indicates that Citibank Berhad has been doing very well in order to satisfy its customers. The results may also suggest that consumer have a strong satisfaction level towards the conventional bank. Perhaps, this is because customers perceive that the conventional banks, especially the international banks offer better services particularly in terms of quality. This can also be witnessed through customers' ranking of Malayan Banking Berhad. Although it is known as one of the largest commercial and Islamic bank in Malaysia, as it is also offering Islamic window, yet it has been ranked five (5) for Empathy attribute.

Table 5 stipulates that as for the Reliability, Tangibles and Responsiveness, the respondents have ranked the services rendered by BIMB as dissatisfactory. It could be inferred that the BIMB has taken little effort to improve with their services knowing that consumer will still go to their bank because of the important factor that consumer are looking at especially the Muslims, and it would be that the bank must fully adhere to the Islamic principles. As noted by Ariff (1988), if there is only one Islamic bank in a particular country, the complacency factor may set in. That is, the bank tends to behave as though it has capture a larger market especially catering to the Muslim masses since they will patronize an Islamic bank due to religiosity. So what does this tell us? Do the customers really satisfy with the services render by the full-pledged Islamic bank? Can the full-pledge Islamic banks sustain their market positioning since now we have more competitors offering innovative Islamic banking products and services?

### 4. Conclusion

The researchers feel that in order for the full-pledged Islamic banks to sustain their market positioning, they need to really ensure their service quality as this will entail customer satisfaction and ultimately customer loyalty. They need to remain

competitive especially with their international counterparts by offering good quality products and services as well as not just only rely on their “Islamic” image and reputation to draw customers (Muslims and non-Muslims).

### References

- Al-Tamimi, H. A. H., & Al-Amiri, A. (2003). Analyzing service quality in the UAE Islamic Banks. *Journal of Financial Services Marketing*, 8(2), 119-132.
- al-Zaabi, O. S. H. A. (2007, 23 April - 25 April). Measuring the perceived service quality : an empirical study of Islamic banks in the UAE. Paper presented at the IIUM International Conference of Islamic Banking and Finance, Kuala Lumpur.
- Barnes, J., & Howlett, D. (1998). Predictors of equity in relationships between financial service providers and retail customers. *International Journal of Bank Marketing*, 16(1), 15-23.
- Cronin, J. J., & Taylor, S. A. (1992). Measuring service quality : a re-examination and extension. *Journal of Marketing*, 56(July), 55-68.
- Dusuki, A. W., & Abdullah, N. I. (2007). Why do Malaysian customers patronise Islamic banks? *International Journal of Bank Marketing*, 25(3), 142-160.
- El-Din, S. E. I. T., & Shahril, R. A. M. (2007). Analysis of banking service quality perception : a comparative study for Islamic and conventional banks. Paper presented at the IIUM International Conference on Islamic Banking and Finance, Kuala Lumpur.
- Griffin, J. (1995). *Customer loyalty : how to earn it, how to keep it*. San Francisco, USA: Jossey-Bass Publishers.
- Harris, L. C., & Goode, M. M. H. (2004). The four levels of loyalty and the pivotal role of trust : a study of online service dynamics. *Journal of Retailing*, 80, 139-158.
- Henry, C. M., & Wilson, R. (2004). *The politics of Islamic Finance*. Edinburgh: Edinburgh University Press.
- Iqbal, M., & Molyneux, P. (2005). *Thirty years of Islamic Banking : History, Performance and Prospect*. New York, NY: Palgrave Macmillan.
- Meidan, A. (1996). *Marketing Financial Services*. Houndmills, UK: Macmillan Press.
- Ostrowski, P. L., O'Brien, T., & Gordon, G. (1993). Service quality and customer loyalty in the commercial airline industry. *Journal of Travel Research*, 32, 16-24.
- Othman, A., & Owen, L. (2001). Adopting and measuring customer service quality (SQ) in Islamic banks : a case study in Kuwait Finance House. *International Journal of Islamic Financial Services*, 3(1), 1-26.
- Othman, A., & Owen, L. (2002). The multidimensionality of CARTER model to measure customer service quality in Islamic banking industry : a study in Kuwait Finance House. *International Journal of Islamic Financial Services*, 3(1).
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL : a multi-item scale or measuring customer perceptions o service quality *Journal of Retailing*, 64(1), 12-40.
- Wong, A., & Sohal, A. (2003). Service quality and customer loyalty perspectives on two levels of retail relationships. *Journal of Services Marketing*, 17 (5), 495-513.

Table 1. Mean for all items under CARTER Model

CARTER Model	Mean
Compliance	4.8733
Assurance	4.9726
Reliability	5.0548
Tangibles	4.9592
Empathy	4.9490
Responsiveness	4.9218

Table 2. Criteria for choosing a IFIs products and services

Attributes (CARTER)	Compliance	Assurance	Reliability	Tangibles	Empathy	Responsiveness
Chi-square	52.269	14.273	16.970	16.670	12.156	16.333
Df	16	16	16	16	16	16
Asymp. Sig	.000	.578	.388	.407	.733	.430
Rank	1	5	2	3	6	4

Kruskall Wallis Test

Table 3. Compliance Attribute

Dimension	Items	Mean	Standard deviation
compliance	The bank is operated on Islamic principles	4.94	.911
	I prefer this bank because no interest neither paid no taken	4.65	1.051
	I prefer this bank because it offers Islamic products and services	5.24	3.588
	I prefer this bank because it offers free interest loan	4.61	1.040
	I prefer this bank because it offers profit-sharing investment products	4.92	.843
	I prefer this bank because the transactions made are free from any uncertainties (gharar) or doubtful transactions	4.93	.860
	I prefer this bank because investment made does not involve any act of gambling or other acts that are against Shari'ah	4.96	.878
	I prefer this bank because the bank contributes some portion of its profits towards the payment of zakat and sadaqah	4.85	.930
	I prefer this bank because the bank performs its task by means of justice and honesty based on the teachings of the Holy Qur'an and the Sunnah	4.71	1.020

Kruskall Wallis Test

Table 4. Summary of the criterion selection of selected commercial banks.

Banks	Compliant	Assurance	Reliable	Tangible	Empathy	Responsive
BIMB	1	5				
Bank Muamalat	3	4			4	
Commerce TIJARI Bank Berhad	4					5
Kuwait Finance House (Malaysia) berhad	4		2	3		5
RHB Islamic Bank Berhad			4			
Affin Islamic Bank Berhad	2					
EONCAP Islamic Bank Berhad						
AmBank (M) Berhad		3				4
Citibank Berhad		1	1	4	1	1
HSBC Bank Malaysia Berhad	5	2	3	2	2	2
Malayan Banking Berhad					5	3
OCBC Bank(Malaysia) Berhad						
Public Bank Berhad			5	5	3	
Southern Bank Berhad				1		5
Standard Chartered Bank Malaysia Berhad						5

Kruskall Wallis Test.

Note: the lower the number the better the perception .

Table 5. Summary of the criterion selection of selected commercial banks

<b>Banks</b>	<b>Compliance</b>	<b>Assurance</b>	<b>Reliability</b>	<b>Tangible</b>	<b>Empathy</b>	<b>Responsive</b>
BIMB			4	4	2	4
Bank Muamalat						3
Commerce TIJARI Bank Berhad		5	2	2		
Kuwait Finance House (Malaysia) berhad		5				
RHB Islamic Bank Berhad		4				2
Affin Islamic Bank Berhad			2	2	1	
EONCAP Islamic Bank Berhad		5	2	5	4	5
AmBank (M) Berhad			3		3	
Citibank Berhad	5					
HSBC Bank Malaysia Berhad						
Malayan Banking Berhad	2	2		3		
OCBC Bank(Malaysia) Berhad						
Public Bank Berhad	1	3				1
Southern Bank Berhad	4	5	5			
Standard Chartered Bank Malaysia Berhad	4		2	2	5	

Kruskall Wallis Test.

Note: The highest the number the least customer preference.