SERVICE QUALITY PERCEPTIONS: A COMPARATIVE STUDY BETWEEN ISLAMIC BANKS AND CONVENTIONAL BANKS IN BANGLADESH

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Abstract

Commercial banks play a significant role in the economy, making up one of the biggest provider of services and corporate social responsibility (CSR) and working as a social partner in the economy of Bangladesh. Hence, providing better service quality is vital, first, because it gives banks a competitive advantage, and eventually, because it can maximize the proper utilization of human and capital resources as well as initiate sustainable economic development. The aim of this study is to examine the service quality from the perspective of bank customers by conducting a mean comparison of all dimensions between Islamic banks (IB) and conventional banks (CB) of Bangladesh, comparing the ranking for IB and CB based on customers' perceptions, and lastly to identify the similarities between IB and CB based on customer preference. A sample of retail banking customers from IB and CB was surveyed through a set of questionnaires. The proposed scale is called service quality (SERVQUAL) and comprises 33 items named with six dimensions: Compliance, Assurance, Reliability, Tangible, then Empathy and Responsiveness (CARTER). By collecting data from a sample of 165 customers, researchers conducted a comprehensive profile analysis, mean average, SERVQUAL scores, ranking of attributes etc. The study indicates that when the mean comparison for all 6 dimensions is generated, compliance issues are very important for IB customers, while the same cannot be said for CB customers, who give more importance to Assurance and Reliability.

Keywords: Islamic banks, conventional banks, SERVQUAL, CARTER

1. Introduction

Service quality is commonly defined as a strategy employed by a firm to attain its service objectives, which in turn is related to the achievement of the firm's business objectives. In other words, service quality refers to the service goals and action plans that address matters of product/service price, distribution, communication, and the process of new product development. The adaptation of any strategy depends much on factors such as management style and experience of the top management, age of the institution, economic environment, and regulations. Generally, we can safely identify whether a

particular bank is a market leader, challenger, follower and nicer by identifying its vision, mission, objectives, and service strategies.

The market leader strategy is for those banks that occupy a dominating position in the market and have established their reputation as a leader. By virtue of having a leadership in the market, it is natural that the market share of the concerned bank is the biggest. Banks belonging to the challenger group are those occupying second, third and lower ranks, and are always formulating and pursuing strategies to expand their market share by targeting the territory of the market leader. Whereas, strategies adopted by the market followers would normally be to maintain their current customer base and win a fair share of new customers by bringing distinctive advantage to their target market.

Commercial banks form the largest and are the country's most important group of financial institutions. With stiffer competition among domestic and foreign banks, therefore, it is important for the commercial banks in Bangladesh to improve the quality of their services. The better the services, the better the customer satisfaction. Through providing better customer services and corporate social responsibility, banks could easily improve their productivity as well as contribute to the sustainable development of the economy. With increase in consumer preferences toward banking products, consumers can choose the banks that give them the best service quality. As globalization and liberalization of financial institutions accelerate, competition among banks in offering products and services becomes more intense.

The service sector in most countries, as a dominant sector, has replaced other sectors. With the increase in the share of services came increased consumer concerns over the perceived deterioration of service quality (Mersha and Adlakha, 1992). Several studies have found a positive relationship between service quality and customer satisfaction, some providing modeling and measurement scales for customer behavior. Examples include, SERVQUAL from Parasuraman *et al*. (1985) in the field of service quality determinants, Kano *et al*.'s (1984) model, and Johnston's (1995a) work in determining the effects of service quality factors, Liljander and Standvik's (1993) and Johnston's (1995b) work in the field of disconfirmation theory and zone of tolerance, and finally Johnston's (1997) work in identifying the critical determinants of service quality.

As the banking industry grows, competition among banks in offering products and services becomes more intense. In addition, customers become more sophisticated and demanding. Therefore, the importance of service quality becomes more pressing. Hence, Islamic banks and conventional banks in Bangladesh have to think strategically by providing high quality products and services to satisfy their customers. In order for these banks to provide high quality products and services, they first need to investigate the level of customers' perceptions and expectations to their service quality. Through that information, they could then strategically adjust their service quality toward customers' satisfaction.

At the moment, bank officers pay little attention to service quality. It is unfortunate that many commercial banks and their officers still provide poor services. For example the time allocated for every transaction is too long, leading to long queues. Cronin and Taylor (1992) and Brown and Swartz (1989) opine that customer satisfaction and service quality are distinct but interrelated concepts, but their relationship seems not to be clear. Therefore, it is undeniable that there are certain banks that can do their work faster than others, but they are still few in number. Regarding quality, it is known that quality is sought by all organizations especially in the service sector.

The Customer Relation Advisor (CRA) is the most visible representative in banking institutions (Enis 1980; Crosby *et. al.*, 1990). In Crosby *et. al.*'s (1990:68) words: "frequently the service salesperson (customer relation advisor) is the primary – if not sole – contact point for the customer both before and after the purchase". Consequently, the firm's sales force is critical to its service delivery process (Shepherd 1999). At the same time, salespeople (customer relation advisors) are exposed to greater ethical pressures than individuals in many other jobs. They work in relatively unsupervised settings; they are primarily responsible for generating the bank's revenues, which at times can be very stressful, and they are often evaluated on the basis of short term objectives (Wotruba 1990).

It can happen that a customer relation advisor behaves unethically when interacting with different stakeholders such as customers, competitors or their employer. However, in the hierarchy of stakeholder importance, it appears that the CRAs regard ethical transgressions against customers as being more serious than any controversial actions taken against competitors or employers (Chonko and Burnett 1983; Chonko and Hunt 1985). When competition intensifies and banks start to offer more or less similar products and services, it is the customer's perception of satisfactory service provided by the customer

relation advisor that can influence the performance of the banks and determine its competitiveness and success.

The need to be customer-focused in the rapidly changing service environment has never been more important for banks and financial services institutions than it is nowadays. However, under the present circumstances, where customers are becoming more demanding and increasingly mobile between competing financial providers, being customer-oriented is not enough. Banks and more specifically their contact employees need to be perceived by their customers with satisfaction.

The main purpose of this study is to compare Islamic banks and conventional banks based on customers' perceptions of service quality. The specific objectives of this study are:

i)   To examine customers' perceptions and expectations towards the quality of services provided by Islamic banks and conventional banks in Bangladesh;

ii)   To identify the problems related to providing quality service in the sample organizations;

iii)   To suggest some recommendations for addressing the identified problems.

2. Literature Review

The issue of service quality banking is under-researched. Specifically, there is a lack of published literature on the comparative analysis of Islamic and conventional perspectives on service quality as applicable to the banking sector.

Two quite distinct meanings of quality are relevant in the service context. The first of these relates to the attributes which help to define the nature of a particular service, and the second usage is a qualifier in assessing or measuring such an attribute (Nightingale, 1986; Lovelock and Wright, 2002; Zeithaml 1996). Furthermore, Nightingale (1986) and Brown and Swartz (1989) opine that quality lies in the eyes of the beholder. So, different people will hold different perceptions on the attributes of a service and regard different service characteristics as more or less desirable. Here are two approaches that capture the essence of the word.

According to Cronin and Taylor (1992), service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production. Services are economic

activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in or on behalf of the recipient of the service.

Organizations that focus on continuous improvement motivate employees to achieve quality output, and focus on satisfying customers' needs are found to have a competitive edge (Joiner, 2007). Service strategies emphasize the need to provide customers with high value service through improvements in efficiency by way of eliminating waste, non-value added activities/cost and reducing lead times at all stages of services (Chenhall, 1997). Customer- focused activities such as those associated with conformance quality, product reliability, and on-time delivery (Kim & Miller, 1992) are important capabilities for competitiveness in the manufacturing firms.

Most studies report a positive relationship between service strategies and performance (e.g., Brah, Lee, & Rao, 2002; Hendricks & Singhal, 2001; Ittner & Larcker, 1997; Joiner, 2007; Kaynak, 2003). In the banking industry, the study on service quality has been undertaken by Yavas et. al. (1997), Bahia and Nantel (2000); Lassar et. al. (2000); Duncan and Elliott (2002); Jabnoun and Al-Tamimi (2002); and Arasli et. al. (2005). In the study of service quality in the banking sector in Turkish banking, Yavas et. al. (1997) focused on the relationship between service quality on consumer satisfaction, complaint behavior and commitment. Their study found that overall service quality was a significant determinant of customer satisfaction, complaint behavior and commitment.

Bahia and Nantel (2000) suggested alternative scale for the measurement of perceived service quality in retail banking. Their study found that when comparing BSQ dimensions and SERVQUAL, it seemed that BSQ dimensions were more reliable than SERVQUAL. On the other hand, Lassar et. al. (2000) studied service quality using two major service quality constructs, SERVQUAL and Technical/Functional Quality models to the private banking industry. They found that Technical/Functional Quality-based model of service quality is better suited compared to SERVQUAL-based model. On the other hand, Duncan and Elliot (2002) explored the relationship between customer service quality and financial performance in Australian banks and credit unions. They found that there was significant relationship between financial performance and customer service quality scores.

Jabnoun and Al-Tamimi (2002) examined service quality at UAE commercial banks using the model and included thirty attributes in the five dimensions of SERVQUAL. When they tested the

developed instrument for reliability and validity, they found that the instrument had only three dimensions.

Arasli et. al. (2005) studied service quality perceptions of Greek Cypriot bank customers using the model. They, however, extended the study by looking at the relationship between service quality, customer satisfaction and positive word of mouth. They found that the expectations of bank customers were not met where the largest gap was obtained in the responsiveness-empathy dimension. In addition, the reliability attributes had the highest effect on customer satisfaction, which in turn had a statistically significant impact on the positive word of mouth.

In Islamic banking study, Othman and Owen (2001) adopted a model known as CARTER model to study customer service quality. They proposed six dimensions; Compliance, Assurance, Reliability, Tangibles, Empathy and Responsiveness. Thirty-four attributes were included in these six dimensions. Their study focused on Kuwait Finance House and found that the CARTER model to measure service quality in the Islamic banking industry was valid.

3. Data and Methodology

The conceptual foundation and theoretical applications constitute the core of the subject matter. The concepts and techniques in current use by the organizations are introduced in generic terms and then explained in details. A significant feature of the study is the use of primary information as well as secondary information. A self-rating instrument of service quality, first developed by Parasuraman, Zeithaml & Berry (1988) is adapted to measure service quality performance.

Respondents are asked to evaluate their service quality performance for the past 3 years against average service quality performance using a Likert scale ranging from 1 (much worse) to 7 (much better). Respondents were asked about customer satisfaction towards physical appearance, reliability of service delivery, level of staff responsiveness in attending to customers, staff competency in carrying out tasks, staff skills, and service accuracy. Secondary data, namely, annual reports of the sample organizations, related books, journals, and magazines etc. were consulted for the theoretical development of the study. The study adopted a service quality model called CARTER as proposed by Othman and Owen (2001) to measure service quality in Islamic banking in Malaysia. The collected data and information have been

analyzed and examined critically through quantitative analysis such as mean average, SERVQUAL scores, ranking of attributes etc. in order to make the study more informative and useful to the researchers, academicians, and management. The questionnaire designed for this study was based on the widely accepted SERVQUAL model. A total of 33 attributes were categorized under six dimensions as found in Table 1.

Several limitations of this study should be emphasized. First, to measure the variables, respondents were asked to rate subjectively on a seven point Likert scale. These evaluations are subject to personal bias and judgment errors. To address this, future research should include data collection from multiple sources. Second, this study provides a cross-sectional picture at a single point in time, which means the recommendations are applicable only if external variables are unaffected. Nonetheless, the findings of the consequences of customers' satisfaction on service quality performance do shed light on the understanding of the impact of service strategies. Third, the sample was drawn from a single industry, the banking sector. Although this sampling frame allowed for the control for environmental factors and the provision of results applicable to other major sectors, the findings may not be generalizable to other financial/non-financial sector organization. Replication of this study by further research on banks in other countries and in different government jurisdictions would help to determine the generalizability of the combined influences of customers' satisfaction and service capabilities on the important banking sector issue of service quality.

4. Results and Discussion

One hundred and sixty-five questionnaires were successfully collected from the 200 that were distributed, giving an 82.5% response rate. Roscoe (1975) has asserted that for most studies, a sample size between 30 and 500 would be sufficient. The analysis of the demographic profile of the respondents is shown in Table 2.

The analysis of the respondents' demographic profiles reveals that most of the respondents were male, making 110 (66.67%), while for the age category and particularly the number of respondents' with age between 20-29 years old, 68 (41.21%) was the highest. Most of the respondents were single, 87 (52.73%) respondents. Bangladeshi constituted highest respondents' race with 152 (92.12%)

respondents, while the rest includes Bidayuh and Hindu who were 13 (7.88%). In terms of level of education, 133 respondents (80.61%) stated having Master's degree. Most of the respondents work in the Islamic banking sector, totaling 85 (51.51%); and 80 (48.49%) work in conventional banking sector.

4.1. Mean Comparison

Mean comparison can be utilized to disclose the strength of respondents' answer to every item in each dimension included in the questionnaire. In other words, by finding the mean value for each item, we can infer respondents' preference strength. As we see from Table 3, compliance, assurance, tangibility and responsiveness carry 5 attributes each while reliability and empathy carry 4 and 9 attributes respectively. All of the compliance attributes carried the highest mean value, 7.0 and ranked 1 under the Islamic banking industry in Bangladesh. Ethical policy follows highest mean value of 6.83, and highest ranking of 5 under conventional banking industry. In fact, no financial support for countries and companies with poor human rights record follow the lowest ranking, 29, under conventional banking activities in Bangladesh. Under the assurance dimension, the attributes of politeness and friendly staffs has been given the highest mean value, 7.0 and ranked 1, under the Islamic banking industry. The attributes of knowledgeable and experienced management team have given the highest priority in conventional banking. Security of transactions followed highest mean value, 7.0, and rank 1 in the area of Islamic banking industry under reliability dimension. Table 3 provides for the mean values and ranking of the items in the six dimensions.

Convenience and "more tills open at peak time" occupy the highest mean value, 6.87, and highest rank also under the area of conventional banking. Likely, confidence in office management shows the highest mean value, 6.88 and 6.87 in Islamic banking as well as conventional banking, under the area of empathy dimension. Considering responsiveness issue, the attributes of availability of credits/services on favorable terms carry the highest mean value, 6.87, 5.95, and highest rank also under Islamic banking and conventional banking.

4.2.Comparing the Ranking

After analyzing the differences in the mean values in establishing the most preferred items in customer preferences in relation to service quality, comparing the ranking of the mean value is also important, as it provides an understanding of how the customer prioritizes the items. Such prioritizing can render further meaning between the banks. By referring to Table 4, the highest item preferred by customers is listed to the ten highest items in each of the industry. On the other hand, the lowest five attributes of each industry are listed in Table 5. The highest and the lowest items were listed to find out which items are more preferred and which items are less appreciated by customers for each service industry. From Table 4, some crucial points can be inferred: First, customers' ultimate motive to deal with Islamic Banks is because of its religious motivation. From the analysis of Table 4(a), this can be seen from first rank of seven attributes, those are dominated from religious principles, rather than quality services. It is interesting to note that confidence in bank management as a proxy of quality service offered by the bank only falls at the second ranking. Side by side, the most undesirable attributes, Table 5 (a), of Islamic banking industry are overdraft/credit privileges (rank 20), knowledge of customers of business or willing to help (rank19), etc.

From these ranking criteria, we may deduce that the customers appreciate Islamic banks for their religious provisions rather than the service quality offered. Secondly, customers of conventional banks tend to prefer to deal with the banks for its quality services. Customers appreciate the conventional banks not just because they are run based on ethical value, but mostly due to its quality services, Table 4(b). This can be seen from their preference of knowledge and experienced management team (rank 1), provision of financial advice (rank 2), confidentiality of organization (rank 3), undesirable attributes, Table 5(b), such as overdraft/credit privileges (rank 30), lower service charge (rank 27), etc. However, it is worth noting that the customers also appreciate the bank because its operations are based on ethical values (ranking 5).

4.3. Similarities of Preference

Table 6 shows the similarities of customers' preferences in the service industry. The following results can be inferred. Although there is a distinct behavior of customers of those industries in regard of religious motivation and quality services, they roughly have similar perspectives on some points. First, the customers from both of the industries enjoy the cooperation, politeness and friendliness of staff, as this is shown from their ranking (1 and 4). Second, Islamic banks as well as conventional banks show the parallel confidence in bank management (rank 2 and 2) and organizational confidentiality (rank 5 and 3). Third, customers are aware that account information is not easily accessible which in turn will discourage the customer from using their products and facilities when considering both service units (ranking 15 and 16). In addition, the customers realize that the Islamic banking industry as well as the conventional banking industry attach less importance to internal communications among their branches for ensuring service quality (ranking 12, and 11), which in turn might generate poor performance and customers' service ranking.

5. Conclusion and Recommendations

From the research findings, it can be deduced that the customers of Islamic banks are more appreciative of almost all items in dimension one (compliance), while conventional banks' customers are less appreciative of compliance issues, as only one item is ranked high by their customers, among the compliance items. In term of service quality, Islamic banks score much better than conventional banks, as items such as '[p]rovision of Islamic products and services/no financial support for countries and companies with poor human rights records' and '[p]rovision of profit-sharing investment products/provision of all conventional and financial products' are ranked as 1 of both items by Islamic banks' customers while conventional banks' customers ranked the same items only as 29 and 28. It can, therefore, be concluded that both banks have individual strengths and weaknesses in their service quality. For better service quality, the weaknesses have to be improved, while strong points should be enhanced by respective bank models.

This research has several implications for practitioners. In our discussion, it is emphasized that service behavior will have a major impact on the development and maintenance of the buyer-seller relationship. Therefore, Islamic banks and conventional banks have to show a critical importance in establishing a long-term relationship with their customers, and should achieve an environment in which the potential for unethical behavior is at a minimum. In doing so, the management should take follow-up actions on the following points:

(1) The need to create, communicate and enforce a thorough corporate code of quality services. Employees should know that management is taking serious action to ensure that the code is followed. When a violation arises, it is extremely important that employees are informed of punitive actions taken against the violator.

(2) The code of quality services must form the basis of ongoing training regarding the handling of ethical dilemmas. The management of the banks needs to design sales training programs where the sales manager can present salespeople or CRA with several different potential ethical scenarios, and solicit how they would respond to each one. Customer Relation Advisors can then discuss how the organization desires such situations to be handled.

(3) The managers should try to communicate with their Customer Relation Advisors, assisting and guiding them in accurately viewing their day-to-day sales activity from a quality service perspective; then they should not reward them on a 100% commission based on the sales made, but evaluate their various activities, not just the outcomes achieved (sales volume).

This research does not imply that banks should avoid incentive programs; rather, they could use a combination of base salary plus incentive pay in the form of commissions, bonuses or both based not only on the sales performance but also on how well long-term objectives such as customer satisfaction have been achieved.

Given the key importance of customer trust in banking and financial services sector generally, it is recommended that Islamic banks as well as conventional banks should emphasize frontline employees' service behavior that particularly leads to customers' trust and confidence. This may also enhance their capacity to achieve corporate social responsibility.

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APPENDIX

Tables

Table 1: Dimensions of customer perceptions

Dimensions – 'CARTER'	Number of Attributes
Compliance (C)	5
Assurance (A)	5
Reliability (R)	4
Tangibility (T)	5
Empathy (E)	9
Responsiveness (R)	5

In calculating the mean of SERVQUAL scores, the 'CARTER' model includes a 33 items instrument that was customized for the Islamic banks and conventional banks in reviewing the suitability of the original SERVQUAL instruments to both banks.

Table 2: Demographic profile of the respondents

Demographic Variables	Details	Frequency	Percent (%)
Gender	Male	110	66.67
	Female	55	33.33
Age (in year)	20-29	68	41.21
	30-39	57	34.54
	40-49	23	13.94
	50-59	10	6.07
	60 plus	7	4.24

Material Status	Single	87	52.73
	Married	75	45,45
	Others	03	1.82
Race	Bangladeshi	152	92.12
	Others	13	7.88
Education	Masters	133	80.61
	Bachelor Degree	17	10.30
	Professional Qualification	10	6.06
	Others	05	3.03
Sectors	Islamic Bank	85	51.51
	Conventional Bank	80	48.49

Table 3: Mean values and ranking of the items in the six dimensions.

SL NO	Attributes	Average Importance (IB)	Rank (IB)	Average Importance (CB)	Rank (CB)
COMPLIANCE					
1	Run on Islamic law and principles /run on ethical policy	7.0	1	6.83	5
2	No interest is paid nor taken on savings and loans /no investment on environmentally harmful business	7.0	1	6.75	8
3	Provision of Islamic products and services /no financial support for countries and companies with poor human rights records	7.0	1	2.33	29

4	Provision of free interest loans/customer oriented (financial) services	7.0	1	6.40	14
5	Provision of profit-sharing investment products/ provision of all conventional and financial products	7.0	1	3.15	28
ASSURANCE					
6	Politeness and friendly staffs	7.0	1	6.84	4
7	Provision of financial advices	6.42	13	6.87	2
8	Interior comfort of organization	6.40	14	5.20	25
9	Ease of access to account information	6.37	15	6.13	16
10	Knowledgeable and experienced management team	5.98	18	6.95	1
RELIABILITY					
11	Convenience (short time services from anywhere)	6.63	9	6.87	2
12	Wide range of products and services Provided	6.62	10	6.42	13
13	Security of transactions	7.0	1	6.38	15
14	More tills open at peak time	6.78	5	6.87	2
TANGIBILITY					
15	External appearance	6.68	8	5.75	19
16	Speed and efficiency of transactions	6.82	4	6.76	7
17	Opening hours of operations	6.52	11	6.73	20
18	Counter partitions in bank and its branches/inter communication among the units	6.42	12	6.47	11
19	Overdraft / credit privileges	1.08	20	2.16	30
EMPATHY					
20	Location (easy to get)	6.70	7	5.58	22
21	Well known bank	6.87	3	6.80	6
22	Size in assets capital	6.68	8	6.65	9
23	Parking available	6.23	17	6.51	10

24	Confidentiality of organization	6.78	5	6.85	3
25	Confidence in bank management	6.88	2	6.87	2
26	Products and service profitability	6.78	5	6.44	12
27	Lower service charge	6.82	4	4.91	27
28	Provisions of financial advices	6.23	17	5.35	23
RESPONSIVENESS					
29	Knowledge of customers to business or willing to help	5.92	19	5.10	26
30	Way of treat of staffs to customers/client	6.35	16	5.65	21
31	Availability of credits/services on favorable terms	6.87	3	5.95	17
32	Number of branches /service centre	6.78	5	5.25	24
33	Fast and efficient counter services	6.73	6	5.80	18

Source: Authors estimation from field survey

Note: SL – Serial, NO – Number, IB - Islamic banks, CB - Conventional banks

Tables 4 and 5: Comparing the ranking

Table 4(a): The highest ranked attributes of Islamic bank		Table 4(b): The highest ranked attributes of conventional banks	
Ranking position	Attributes	Ranking position	Attributes
1	Run on Islamic law and principles	1	Knowledgeable and experienced management team
1	No interest neither paid nor taken on savings and loans	2	Provision of financial advices
1	Provision of Islamic products and services	2	Convenience (short time services from anywhere)

1	Provision of free interest loans	2	More tills open at peak time
1	Provision of profit-sharing investment Products	2	Confidence in bank management
1	Politeness and friendly staffs	3	Confidentiality of organization
1	Security of transactions	4	Politeness and friendly staffs
2	Confidence in bank management	5	Run on ethical policy
3	Well known bank	6	Well known bank
3	Availability of credits on favorable terms	7	Speed and efficiency of transactions

Table 5(a): The lowest ranked attributes of Islamic banks		Table 5(b): The lowest ranked attributes of conventional banks	
Ranking Position	Attributes	Ranking position	Attributes
20	Overdraft / credit privileges	30	Overdraft / credit privileges
19	Knowledge of customers to business or willing to help	29	No financial support for countries and companies with poor human rights record
18	Knowledgeable and experienced management team	28	provision of all conventional and financial products
17	Provisions of financial advices	27	Lower service charge
17	Parking available	26	Knowledge of customers to business or willing to help

Source: Authors estimation from field survey

Table 6: Similar ranking between the industries

SL NO	Attributes	Rank (IB)	Rank (CB)
1	Politeness and friendly staffs	1	4
2	Confidence in bank management	2	2
3	Confidentiality of organization	5	3
4	Counter partitions in bank and its branches/inter communication among the units	12	11
5	Ease of access to account/booking information	15	16

Source: Authors estimation from field survey