

## Perception on Service Quality and Level of Satisfaction of Islamic Bank: A Case Study of Social Islamic Bank Ltd.

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**Abstract:** *Shari'ah based banking have gained good momentum over a short period of time by expanding their activities on the lines of contemporary financial markets. Service quality and customer satisfaction are going to be key differentiators for each Islamic bank from their competitors. The purpose of this study was to evaluate the perception on service quality and level of customer satisfaction in Islamic banks particularly in Social Islami Bank Ltd. (SIBL). A survey was conducted conveniently on 100 retail banking customers in Dhaka city to collect primary data with the help of a structured questionnaire. The study has found that the customers' perception about the service delivery system and products/services offered by the bank are at a satisfactory level except the product Bai-Salam and the ATM Services. Location of the branch gets the higher priority to the customers followed by employees and physical facilities of the branch among the service delivery system of the bank.*

**Keywords:** *Customer Perception, Islamic Bank, Service Quality, Customer Satisfaction*

### Introduction:

Satisfying customers is one of the main objectives of every business. Businesses recognize that keeping current customers is more profitable than having to win new ones to replace those lost. Management and marketing theorists underscore the importance of customer satisfaction for a business's success (McColl-Kennedy and Schneider, 2000). With the phenomenal increase in the

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country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Hamid and Nordin (2001) found a high level of awareness of Islamic banking but a poor knowledge of specific Islamic banking products, including a poor understanding of the difference between Islamic and conventional banks.

Pressures of globalization, competition from non-banking financial institutions (NBFIs), and volatile market dynamics create tremendous pressure on commercial banks all over the world. Banks are constantly seeking new ways to add value to their services; because banks (financial services providers) compete in the marketplace with generally undifferentiated products, service quality becomes a primary competitive weapon (Stafford, 1996) to distinguish a firm from the competitors in the industry. Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention and expanded market share. Therefore, banks should focus on service quality as a core competitive strategy, which can lead to the customer satisfaction. Moreover, the success of any product and service highly depends on customer acceptance and satisfaction. High quality service helps generate customer satisfaction, customer loyalty and growth of market share by soliciting new customers. It also improves productivity and financial performance (Bashir, et. al, 2012; Hassain and Leo, 2009; Hassan, et. al, 2008)

The banking industry in Bangladesh is highly competitive. Up to February, 2011 there were 47 scheduled banks which include 4 state-owned commercial banks, 30 private commercial banks, 9 foreign-owned commercial banks, 4 government-owned specialized banks, were operating in Bangladesh through their 7,664 branches. After two years time as of June, 2014 there are 56 schedule banks operating (including 9 newly lunched private commercial banks) through 8,794 branches. By this three year there newly 1130 branches are added to the banking network (Bangladesh Bank, 2014). Out of the 39 private commercial banks 8 banks are operated under the shariah board - an alternative

concept of Islamic Banking. In Bangladesh, Islamic banking started its journey in 1983 with the opening of Islami Bank Bangladesh Limited (IBBL) and through this journey Social Islami Bank Limited (SIBL) became operational on 22nd November 1995 as fourth Islami bank in the banking industry of Bangladesh. Al Baraka Bank on May 20, 1987 and Al-Arafah Islami Bank on September 27, 1995 are the other two banks in the list. According to the Bangladesh Bank (BB), the central bank of the country, the deposits of the Islamic banking systems are now 18.8 percent of all banks deposits and its investments are 21.6 percent (Bangladesh Bank, 2013). So, the system has some command over the conventional banks in Bangladesh.

Islamic banks in Bangladesh have shown relatively better performance in the areas of loan recovery and various other financial measures (Ahmad and Hassan, 2007). Following banking behavior of Islamic Bank and acceptance of Islamic banks by customers in Bangladesh, various private commercial banks and international banks in Bangladesh started offering various financial products/services in accordance with Islamic principles (Hassan, 1999). While Islamic banking has gained popularity in Bangladesh, there have hardly been researches in the areas of service quality and customer satisfaction of Islamic banks. Most of the studies in the context of Islamic banking in Bangladesh have so far focused on comparative financial performance of banks and legal & ethical issues (Kumar, et. al, 2012; Ahmad, and Hassan, 2007). This study tries to add some insights about the perception of service quality and customer satisfaction of the Islamic banking of Bangladesh by taking SIBL as an experiment.

**Objective of the study:**

At the backdrop the circumstances described above, this study investigates the perception of customers on service quality and satisfaction level about the products/services provided by the SIBL as representative of Islamic banking of Bangladesh. The specific objective of the study was to assess the perception of service quality and level of customer satisfaction with different products/services offered by the SIBL.

### **Literature Review:**

The output of the comparison between expected and perceived service is the definition of service quality (Parasuraman et al. 1988) and the fact is, it includes both technical and functional quality which explains “what is done” and “how is done” respectively. Service quality has widely been used to evaluate the performance of Islami banking services. Moreover service quality can be defined as the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received. Gefan (2002) defined service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. The banks understand that customers will be loyal if they receive greater value than from competitors and on the other hand, bank can earn high profits if they are able to position themselves better than their competitors within a specific market. Therefore, banks need to focus on service quality as a core competitive strategy.

In almost every industry, customers are becoming ever more demanding, and in most markets customers have more options to choose from than ever before. Fornell (1992), upon a study on Swedish customers asserted that although customer satisfaction and quality appear to be important for all firms, satisfaction is more important for loyalty in industries such as banks, insurance, mail order, and automobiles. Customer satisfaction is the feeling or attitude of a consumer toward a product/service after it has been used (Metawa & Almosawi, 1998). In the context of services, according to Naser, et. al, (1999) customer satisfaction is often related to factors such as service quality and service features (for example, convenience, competitiveness, and location of service provider). Researchers (Jamal & Naser, 2003; Khondaker & Mir, 2011; Sarker & Uddin, 2012) have placed emphasis on customer satisfaction in banks, and asserted that banks must focus on understanding the needs, attitudes, satisfactions and behavioral patterns of the market to compete successfully in today’s competitive marketplace (Cohen et al., 2006). Other research by Naser et al. (1999) also asserted increasing emphasis on increasing

customer satisfaction and customer retention through improved quality of their services.

Banking is one of the many service industries where customer satisfaction has been an increasing focus of research. The reason is that competition in the banking sector is increasingly growing. Wilson (1995) particularly identified the importance of customer satisfaction in the Islamic banks and stated that today Islamic banking is no longer a business entity serving religious obligations; the customers of Islamic banking rather include a wide array of people cutting across various religions. The study also found 'increased use of service quality' and 'professional behaviors' (such as formal greetings) improved customer satisfaction and reduced customer attrition.

Metwa and Almosawi (1998) measured customer satisfaction with various products/services of Islamic banks, and with three basic elements of the service delivery system of Islamic bank: employees, physical facilities of the bank, and location. These criteria (i.e., satisfaction with products/services and satisfaction with basic service delivery elements) tend to cover a broad array of factors to be considered for customer satisfaction in a service industry like Islamic banking.

**Methodology:**

The study had a descriptive research design. The population of the study comprised of all the customers of SIBL of Dhaka City. However, the database of comprehensive list of customers with the customers contact details was not readily available or limited access due to reasonable competitive reasons of the banks. Hence, the study adopted a non-probability sampling method (convenient sampling) instead of a probability sampling. Data were collected from 100 customers approached at the counters of the SIBL, in Dhaka City; it covered 10 branches of SIBL. The survey instrument for collecting the data was a questionnaire including closed-ended questions. The questionnaire was adapted from a previous study of Metwa and Almosawi (1998). The questionnaire consisted of 2 sections. Part A sought information from the customers on their following demographic factors: age, level of monthly income, and level of education and asked the

respondents about the perception of different products/services of SIBL on a 5 point likert-type scale ranging from ‘1’ to ‘5’ (with ‘1’ meaning ‘highly dissatisfied’ and ‘5’ meaning ‘highly satisfied’). Similar scale was used in part B, where respondents were asked to indicate their level of satisfaction with the following basic elements of service delivery systems of SIBL: employees, physical facilities of the bank, and location of the branch. After collecting the data, MS Excel was used to compile the data. Descriptive Statistics (percentage, mean and standard deviation) were used to analyze the data.

**Findings of the Study:**

**Descriptive Statistics for different product/service offered by SIBL:**

Mean score ranges from 1.88 to 4.57 on a five point scale which is a measure of the customer perception about the SIBL products/services quality. It indicates the fact that customer’s perception regarding the quality of product/service in the SIBL is in an agreeable level except Musharaka, Hire Purchase, Savings Bond, Bai-Salam and ATM services (as the mean score of the customer’s perception are below the cutoff point of 3.5). From the standard deviation, it can be concluded that responses are more or less clustered around the mean. This is visible that customers are relying on their transactions with SIBL, which indicates that customers are over all merely satisfied. Jones and Sasser (1995) pointed out that there is a huge difference between merely satisfied and completely satisfied customers. Therefore, branch managers should pay attention to the complete customer satisfaction. For almost all the products/services, responses did not vary to a great extent. Quard secured the top rank, where as ATM services took the lowest position among all the products/services offered by the SIBL.

**Table 1: Descriptive Statistics of the customer’s perception about the SIBL Products/services**

| Types of Products/Services | Mean | Standard Deviation | Rank on the basis of mean score |
|----------------------------|------|--------------------|---------------------------------|
| Quard                      | 4.57 | 0.51355            | 1                               |
| Bai- Murabaha              | 4.07 | 0.64051            | 2                               |
| Bai- Muajjal               | 3.91 | 0.66856            | 3                               |

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| Types of Products/Services | Mean | Standard Deviation | Rank on the basis of mean score |
|----------------------------|------|--------------------|---------------------------------|
| Locker Service             | 3.90 | 0.70065            | 3                               |
| SWIFT                      | 3.87 | 0.61870            | 4                               |
| Savings Deposit            | 3.63 | 0.90809            | 5                               |
| Term Deposit               | 3.54 | 0.93845            | 6                               |
| Current Account            | 3.54 | 0.93353            | 7                               |
| Izara Bil Baia             | 3.5  | 0.70711            | 8                               |
| Letter of credit           | 3.5  | 0.54772            | 9                               |
| Musharaka                  | 3.42 | 0.53452            | 10                              |
| Hire purchase              | 3.33 | 1.03280            | 11                              |
| Savings Bond               | 3.29 | 0.75060            | 12                              |
| Bai-Salam                  | 2.50 | 0.57735            | 13                              |
| ATM Services               | 1.88 | 0.72572            | 14                              |

Source: Field Survey, June, 2014

**Descriptive Statistics for Basic Elements of Service Delivery Systems of SIBL:**

**Table 2: Descriptive Analysis for Degrees of Satisfaction with Basic Elements of Service Delivery Systems**

| Basic Elements of Service Delivery Systems | Mean  | Standard Deviation | Rank on the Basis of Mean Score |
|--|-------|--------------------|---------------------------------|
| Location                                   | 3.720 | 1.01723            | 1                               |
| Employees                                  | 3.360 | 1.10057            | 2                               |
| Physical facilities of the bank            | 3.150 | 1.13026            | 3                               |

Source: Field Survey, June 2014

From the above table, it is clear that customers are satisfied with the location of the branches (Mean score 3.72), which is the most dominant elements of the service delivery systems of SIBL. Among the elements location of the branch gets the higher priority to the customers followed by employees and physical facilities of the branch. It shows that customers are very concerned about the convenience (easy to reach, safety of the transaction etc.) and reliability of the service provided by SIBL.

**Recommendations & Conclusion:**

Financial institutions have gained good momentum over a short period of time. SIBL is one of the financial institutions of

Bangladesh that has gained momentum expanding its activities on the lines of contemporary financial markets. Although financial institution like SIBL is in its infancy stage as compared to other conventional institutions. Through the way of momentum SIBL added the substantial fuel by satisfying the customers by the way of providing quality products and services. The study has found that the customers' perception about the service delivery system and products offered by SIBL are at agreeable level except the product Bai-Salam and the ATM services. In these aspects, SIBL should set up separate substantial ATM network for its customers, also need to exert concerted efforts of undertake intensive research in the field of product engineering so that bank can offer more customer friendly products under the shari'ah principles. A rigorous training program should be taken more often for officers of the bank for acquiring clear knowledge about the products and the better manner of attending customers when provide banking services. These essentially require employing dedicated human resources who have a genuine interest of working under the interest free system and thus SIBL can be made its customers more satisfied.

**Limitation of the study and further Research opportunities:**

Every study has some limitation and this study is not out of it. Gathering information about the customer satisfaction is very hard and the respondents were not much cooperative. There is also some confidentiality of some information. Lack of information in this respect makes the study limited in nature. Another limitation of the research that the unavailability of the respondents. These limitations may hinder the study from obtaining a generalized result. However, these can extend in term of geographical location of the branches, or SIBL as a whole or can be on the Islamic banking industry in both Bangladesh & other geographical locations.



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