

ADOPTING AND MEASURING CUSTOMER SERVICE QUALITY (SQ) IN ISLAMIC BANKS: A CASE STUDY IN KUWAIT FINANCE HOUSE

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Abstract

The operation of Islamic bank derives from the Islamic Law and thus differs in spirit, cultural background and practice from conventional bank operations. Because of the strong competition, customer expectation to receive high quality services and quick changes of technology, Islamic banks must therefore think strategically by providing high quality products and services to satisfy their customers. This study indicates that it is important for Islamic banks to put cultural differences at the front when adopting SQ, and suggests a new model to measure SQ called CARTER which is based on 34 items. The study shows validity significant for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between SQ and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items which processes inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt SQ and shows the importance of training to do so.

Introduction

The historical lack of interest in services can be partly explained by the fact that there was little understanding of the differences between the management of services and the management of manufacturing organisations (Bitran & Lojo, 1993). However, it is true that basic management principles are similar for both types of companies, services have some characteristics that require a different emphasis from management on some of these principles. The characteristics that differentiate services from manufacturing in terms of quality have been described by many writers (e.g. Bitran & Lojo, 1993, Parasuraman, et al. 1993 and Zeithaml, et al., 1996) as follows:

- Nature of products which are basically intangible in services including a tangible action, so customer satisfaction in services is not only influenced by objective measures of performance but also influenced by intangible aspects during the service performance.
- Heterogeneity, that creates another challenge for quality management in services, because quality in service is not just ensuring conformity to standards, but taking into account service diversity of customers while the service delivery is taking place, the behaviour and expectations of the customer being served and to customise the service delivery accordingly.
- Simultaneity which means most services are produced and consumed in the same time. That represents a difficulty in quality management of services because it is not usually feasible to actively monitor all service deliveries that are taking place and the service can not be inspected before its consumption.
- The human contact, because services are often characterised by the existence of human contact between employee and the customer.

As a result of the above differences and in addition to the vague of quality concept, many attempts to define quality, total quality management TQM, and finally SQ found in the literature.

The International Standards Organisation ISO defines quality as: the totality of features and characteristics of product or service that bears on its ability to satisfy or imply customers' needs (Samuel, 1999). In order to define TQM we must look at the meaning of each word of TQM, Total: - Everyone linked with the company is involved in continuous improvement (including its customers and suppliers if feasible); Quality: - Customers' expressed and implied requirements are met fully; and Management: - Executives are fully committed (Samuel, 1999). However, British Standards Institution BS 7850 (1992) defines TQM as a management philosophy and company practices that aim to control the human and material resources of an organisation in the most effective way to achieve the objectives of the organisation.

The majority of researchers on SQ support the following definition: quality is "what the customer says it is", thus, how could Islamic banks know whether they give services which are judged 100% satisfactory by 100% of their customers? They would have to ask, observe, find out from the customers themselves, see whether they recommended the bank to others or not, and so on. Therefore, a focus on the customers is the key to adopt and deliver SQ or total SQ management, TSQM as John Peters (1999) named it. The Islamic bank must think about quality this way, because if it figures out what its customers like and delivers it the same in every time, they will come back and tell others about bank services and successes.

In contrast to this, Parasuraman, working with Zeithaml and Berry (1985), concentrated from the outset on SQ. Their so-called "Gap" school defined SQ as the "degree and direction of discrepancy between customer's perceptions of service and expectations".

The other way to think about quality is operations' efficiency, that means if the bank can discover the most efficient ways to produce products and services, stop wasting time and materials, and replace unsatisfactory services, it will also become more successful.

Therefore, SQ tends today to play an important role in many service industries, such as banking services, because excellent SQ is not an optional competitive strategy which may, or may not, be adopted to differentiate one bank from another, but it becomes an essential to corporate profitability and survival. As banks become more "high-tech," their technical services are becoming standardized, reducing the importance of such services as a differentiating factor; thus, consumers will evaluate banks based more on their "high-touch" factors than on their "high-tech" factors (Angur, Natarajan & Jahera, 1999). However, for instance, many banks have provided financial incentives for consumers to utilize automatic teller machines (ATMs), such as teller fees, etc. The "unique selling proposition" (Kotler, 1997) of a bank still appears to be personal banking services. Furthermore they could use only personal banking services to promote effectively to their target market as referred by (Urban & Hauser, 1993) "core benefit proposition". In view of this, SQ has become a key construct in the banking industry.

The focus of this paper is to analyse and evaluate current knowledge and practices of SQ activities in banking industries in general, and to adopt a new model in Islamic banks management, a case study carried out in Kuwait Finance House KFH, in order to recognize the need for SQ and to suggest how it can be measured and implemented.

The main objective for this paper is to examine the performance of alternative measures of SQ proposed by different authors, such as Parasuraman, Berry and Zeithaml (1985, 1988, 1990, 1993 and 1994), and Cronin and Taylor (1992 & 1994), in an Islamic banking industry and also to suggest unique measures that might be used by Islamic banks and to test whether they are valid or not.

The study will include the following areas: the need for Islamic banks to be aware of SQ, the review of literature summaries, the application of the SERVQUAL measuring instruments, the set of quality dimensions in Islamic banking industry, and a case study conducted in KFH. Conclusion and some suggestions to implement SQ and its training programmes will also be highlighted.

Need for Islamic Banks to Adapt SQ

Islamic banks have been operating for about four decades alongside the traditional banks. Like any other traditional commercial banks, they do mobilize deposits and produce loans. But their forms of operation, based on Islamic Law (Shari'ah), are different from the other conventional or commercial banks. Therefore, Islamic banking differs from conventional banking in several ways, such as the prohibition of transactions based on interest rate and the requirement that bank's operations be carried out according to certain procedures through the use of certain financial instruments. The researcher's definition of the Islamic bank is a non-interest based financial institution which complies fully with Islamic Laws, and has creative and progressive financial engineering to offer efficient and competitive banking, investment, trade finance, commercial and real estate financing services.

The following reasons will answer the question why Islamic banks need to be aware of SQ:

First, Islamic banks' products and services are perceived as of high quality by customers because of the concept of doing work in Islam i.e. work is considered in Islam as a type of worship. The Prophet said: "Whoever finds himself at nightfall tired from his work, God will forgive his sins." Also Abu Hurairah said that the Prophet said: "Charity (sadaqah) is due upon every joint of a person on every day that the sun rises. Administering justice between two people is an act of charity; and helping a man concerning his riding beast by helping him on to it or lifting his luggage on to it, is an act of charity; a good word is charity; and every step which you take to prayer is charity; and removing that which is harmful from the road is charity" reported by Bukhari (Abdul Hameed, 2001). The Prophet also said: "Allah loves to see one's job done at the level of *itqan*" (Sabeq, 1988). The word *itqan* means to arrange and dispose of things in a scientific and artistic way in order to obtain the most perfect results or to do something in high quality way with wisdom.

So a Muslim must please others and make sure that whatever he does, does not introduce unbearable pain or suffering to the human in consideration.

Secondly, adapting SQ in Islamic banks has become important because of its apparent relationship to costs (Crosby, 1979), profitability (Buzzell and Gale, 1987; Rust and Zahorik, 1993; Zahorik and Rust, 1992), customer satisfaction (Bolton and Drew, 1991; Boulding *et al.*, 1993), customer retention (Reichheld and Sasser, 1990), and positive word of mouth. SQ is widely regarded as a driver of corporate marketing and financial performance in banking (Kwon and Lee, 1994 and Wong and Perry, 1991).

In addition, the measuring and evaluation of SQ in banking, including Islamic banking industry has become very important because of the changes in the banking environment. Banking has become more globally integrated, there is high competition and it is however, important for banks to know what, when, where, and how they will provide and how their customers perceive products and services.

Furthermore, SQ has become particularly important for Islamic banks in general and Kuwait Finance House KFH in particular because of many reasons. Firstly, there is a lack of knowledge and research on management in general and SQ in particular in this industry, secondly, the industry annually grows between 10%-15%, thirdly, the consequent increase in competition between conventional banks and Islamic banks has made SQ a key differentiating

factor for Islamic banks to improve their market shares and their profits positions. The new entrants to the market in Kuwait, which provide the same Islamic products and services as KFH's are increasingly based on the delivery of quality service to customers, such as Investment Dar which was successfully granted the ISO certificate for International Quality Standards 9001.

Finally, the research to date on Islamic banking has largely focused on their cultural background, regulation, and differences between Islamic and conventional banks in terms of principles, operations, products and services differentiation, etc. This paper represents an effort to examine the performance of alternative measures of SQ in Islamic banking industries, through a case study carried out in KFH.

Review of Literature

Javier Reynoso et al. (1995) and Angur et al. (1999) noted that the debate on SQ began in 1985 in the marketing literature and significant contributions to the literature have also been made by those working in the field of operation management and organisational behaviour. Thus, the research done in the area of quality in the banking industry has been found in many scholarly journals both academic and practitioner papers. Some of these studies on the one hand deal with definitions and overviews of SQ, dimensions and measurements, and others carried out by practitioners or researchers focus on the importance of SQ, functional areas of the banks, assessment and successful implementation of current practice. Table 1 below summarises some of these researches on the area of bulding SQ dimensions in banking industry:

Table 1

<i>Author</i>	<i>Methodology</i>	<i>Findings</i>
Mersha, et al. (1992)	Discussion	The findings indicate that consumers have well-conceived ideas about SQ, and that certain quality attributes are considered important for most types of services which were examined including banking.
Ennew, et al. (1993)	Discussion and survey	Explains the problems associated with the measurements of quality of services and presents a set of indices to provide measures of expectations, perceptions, and overall satisfaction. A quality of the UK banks' services which provided to small firms has been measured. The method was applied to the above example.
Avkiran, (1994)	Discussion and survey	Designs and examine six-dimensions model for SQ in banking industry (<i>Responsiveness, Empathy, Staff conduct, Access, Communication and Reliability</i>) with 27 items. The six dimensions with 27 items were empirically reduced to 17 items across four factors. The dimensions to emerge are <i>staff conduct, credibility, communication, and access to teller services</i> . The instrument's reliability, dimensionality and validity have been empirically tested; the results are encouraging both in their own right and when compared with other studies.
Blanchard, et al., (1994)	Survey	Using SERVQUAL scale and the Gap model to develop an alternative model of greater utility in banking industry.

Lewis, et al. (1994)	Discussion Survey	This research attempts to identify dimensions of loan/overdraft services which banks and building societies provide to students, and also in relation to the trial of a graphic positioning scale to measure students' expectations and perceptions. Even so, the results suggest a number of areas where the banks and building societies might pay attention to improve their "relationships" with students.
Stafford, M (1994)	Discussion case study	Represents a list of characteristics of bank quality as perceived by customers, identifies the underlying dimensions of bank quality and assesses the importance of the characteristics as also perceived by them. Seven factors were found in determining bank quality. They include: employees and employee/customer interactions, the number of accessible and working ATMs, company structure, and four available services. Over 82% of the respondents felt that banks provided quality service.
Johnston, (1995, 1997)	Discussion and survey	These studies classify the determinants of SQ into those that are predominantly satisfiers and others that are predominantly dissatisfiers. The findings indicate that the intangible aspects of the staff-customer interface have significant effects, both negative and positive, on SQ. they also provide managers with a framework to assess the likely impact of any SQ initiative in terms of its effect and importance.
Millson, et al. (1996)	Survey	Midland's quality program has a common weakness that it ran it informally and without clearly defined programs for implementation and measurements. Also, this study indicates that members of quality committees, QCs, were positive in their views towards QCs' effectiveness. A change in actual performance is the most relevant measure.
Royne, (1996)	Survey	Findings from this study provide initial direction in determining the proper SQ attributes to focus on during promotional efforts when banks have a target market at least partially defined by gender and age. Further, gender and age are not the only characteristics on which marketing efforts should be based. Therefore, other segmentation variables, such as psychographics, geographies and benefits sought, must be considered when developing marketing and advertising strategies.
Stafford, (1996)	Discussion and survey	Identifies the distinct elements of bank SQ and ascertains which of those elements are most important to different demographic groups of customers.

Yavas, et al. (1997)	Survey	It Concludes that the ultimate success of any SQ program implemented by a bank can only be gauged by creation and retention of satisfied customers.
Angur, et al. (1999)	Discussion and survey	The result supports the multidimensional construct of SQ and suggests that the SERVQUAL scale provides greater diagnostic information than the SERFPERF scale.
Anthony, et al. (2000)	Survey and discussion	The findings indicate that credit unions rate significantly higher than banks on 11 of the 14 SQ questions: access; courtesy; communication; credibility; security; empathy; tangibles; basic service; fairness; fixing mistakes; and guarantees. Also they indicate that neither banks nor credit unions do a good job of surveying customer needs or retaining customers.
Kamila, and Nantel, (2000)	Case study and survey	This study has suggested an alternative scale to measure perceived SQ in the banking industry. The authors try to develop a reliable and valid scale for that measurement.
Lassar, et al. 2000	Discussion and survey	Examines the effects of SQ on customer satisfaction by utilizing a sample of international private banking customers where SQ is operationalized via two measures SERVQUAL and Technical/Functional Quality.
Oppewal, et al. (2000)	Discussion and survey	Provides a model for measuring perceived SQ by using integrated conjoint experiments.
Paulin, et al. (2000)	Empirical study	The findings report that changing account managers was negatively associated with the bank's external effectiveness as measured by: the customers' judgments of satisfaction and SQ, their purchase intentions and their willingness to recommend the bank.

Theoretical Structure for SQ Dimensions

Many researchers and quality scholars have recognised the need to develop valid and distinct measures of SQ given the rise of service development in the last few decades.

Gronroos (1984) tried to explain in his model of SQ how customers perceived SQ based on three points. First, functional quality or how the service is performed and delivered (concerned with the outcome of the service encounter), second, building the image of the firm during buyer-seller interactions (a reflection of the corporate image of the service organization), and finally the overall perception of quality as a function of the customers' evaluation of the service (concerned with the process of service delivery). In his 1988's work, he developed a five key dimensions of SQ represented below: 1- professionalism and skills; 2- reputation and credibility; 3- behaviour and attitudes; 4- accessibility and flexibility; and 5- reliability and trustworthiness.

Le Blanc, et al. (1988) stated that Lethinen identified three dimensions of quality: first, physical quality (equipment, premises, tangibles); second, corporate quality (image and profile organisation); and finally, interactive quality (customer contact with service personnel and other customers).

However, among the most popular assessments tools of SQ is SERVQUAL, an instrument designed by the marketing research team of Parasuraman, Berry and Zeithaml (1985, 1988, 1990, 1991, 1993, 1994). They began their work with qualitative research, which suggested 10 dimensions of SQ (reliability; responsiveness; competence; access; courtesy; communication; credibility; security; understanding/knowing the customer and finally tangibles) and through numerous qualitative researches, they evolved a set of five dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy) which have been consistently ranked by customers to be most important for SQ, regardless of service industry. These dimensions are defined in appendix 1. They developed a 22-item instrument with which to measure customers' expectations and perceptions (E and P) of the five dimensions, see appendix 1. The measurement is managed by using two different forms one to measure expectation and the other to measure perception.

The basic assumption underlying the SERVQUAL scale is that performance below expectation (obtaining a negative score) leads to a perception of low SQ, while exceeding expectations (obtaining a positive score) leads to a perception of high SQ.

Therefore, perceived SQ is the result of the customer's comparison of expected service with the service received. They identify the differences between customers' expectations and perceptions using three possible scenarios to define how SQ is perceived by customer:

- 1- Expectations of SQ are exceeded (quality exceeds expectations)

$$\mathbf{PS > EX \text{ or } PS - EX > 0}$$

- 2- Expectations of SQ are met (quality is acceptable)

$$\mathbf{PS = EX \text{ or } PS - EX = 0}$$

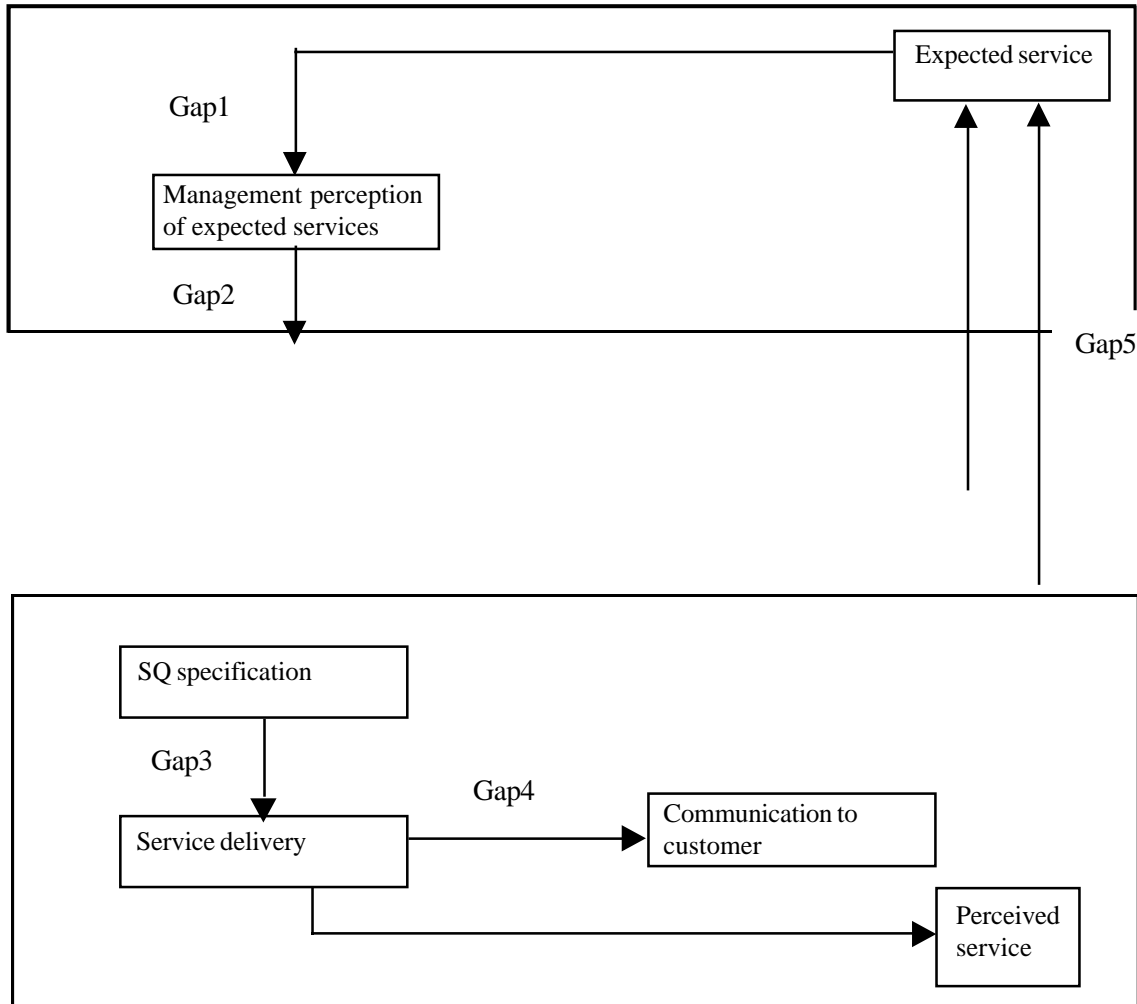
- 3- Expectations of SQ are not met (quality is unacceptable or not less than satisfactory)

$$\mathbf{PS < EX \text{ or } PS - EX < 0}$$

The approach of Parasuraman represents the customer entertaining expectations of performance on the service dimensions, observing performance and later forming performance perceptions. Thus, the SERVQUAL instrument illustrates the core of what SQ may mean, namely a comparison to excellence in service by customers. Furthermore, their model identifies five opportunities for quality failure, or what are called "Gaps", which can be perceived as a process for the design of a service. Figure 1 shows this model and how management can develop an understanding of customer expectations and ensure that the service is designed and operated to meet customer's expectation and quality standards.

The gap model in figure 1 highlights the four banking failures (gaps) which contribute to gap five, namely the inconsistency between the external customer's perceptions and expectations. Four gaps stand in the way of delivering a service perceived by customers as being of high quality:

Figure 1 Five Gaps Model



- Gap one: Customer expectations – management’s perceptions.
- Gap two: Management’s perceptions – SQ specifications.
- Gap three: SQ specifications – service delivery.
- Gap four: Service delivery – external communications.
- Gap five: Perceived service gap.

Gap five is an overall measure of SQ from the customer’s point of view. It is the difference between perceived and expected levels of service.

The SERVQUAL instrument has been widely used since the mid eighties, but it has also been widely criticized. It has been criticised by many researchers, such as Francis Buttle (1996) who argued some critics in terms of theories and operations. In terms of theories, he noticed that SERVQUAL fails to draw on established economic, statistical and psychological theory, and there is little evidence that customers assess SQ in terms of P – E gaps. He added that SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter.

Finally, SERVQUAL's five dimensions are not universals. Whereas the operational critics were in the following areas: first, the term expectation is polymeric because SERVQUAL fails to measure absolute SQ expectations, secondly, item composition because four or five items can not capture the variability within each SQ dimension. Third, moments of truth (MOT): customers' assessments of SQ may vary from MOT to MOT. Fourth, scale points: the seven-point Likert scale is flawed. Finally, two administrations of the instrument cause boredom and confusion.

Also Cronin and Taylor (1992; 1994) criticize Parasuraman work for their uncertainty to define perceived SQ in attitudinal terms, even though Parasuraman *et al.* (1988) had earlier claimed that SQ was "similar in many ways to an attitude". They observe:

Researchers have attempted to differentiate SQ from consumer satisfaction, even while using the disconfirmation format to measure perceptions of SQ... this approach is not consistent with the differentiation expressed between these constructs in the satisfaction and attitude literatures.

They have developed in their 1992 work a measurement model based on performance measure of SQ (SERVPERF). They have tested this model in four industries (banking, pest control, dry cleaning and fast food) and the findings showed that SERVPERF explained more of the variance in an overall measure of SQ than did SERVQUAL. However, SERVPERF is composed of the 22 perception items in the SERVQUAL scale, and therefore excludes any consideration of expectations. In a later defense of their argument (1994) for a perceptions-only measure of SQ, they admit that it is possible for researchers to infer consumers' disconfirmation through arithmetic means (the P – E gap) but that "consumer perceptions, not calculations, govern behavior".

It was reported by Stewart Robinson (1999) that Quester *et al.* (1995) performed a similar analysis to Cronin and Taylor and their initial belief was that the SERVQUAL should perform better than SERVPERF because the SERVQUAL measurement scale is a more scientific approach to scale development and is more firmly based on the literature than the SERVPERF scale.

Thus, SERVQUAL has indeed proved to be the most popular instrument for measuring SQ because it affords technology techniques for measuring and managing (SQ).

Set for SQ Dimensions in Islamic Banks

As we know, SERVQUAL dimensions have been identified by researchers studying different service categories, such as banking, telephone services, securities brokers, and credit cards companies.

According to discussion and the critics above, new studies in SQ should be based on the original ten or new five dimensions, and should be modified to be suitable for each industry by suggesting or examining new dimensions. That is because of the existence of cultural differences between countries, regions, religions, or ethnic groups which reinforce the importance of building additional dimensions for SQ in the Islamic banking industry. Therefore, the set of quality dimensions defined for our study is based on previous research, banks' internal and external environment and culture that guide the researcher to add a new dimension called "Compliance with Islamic law" to Parasuraman's five dimensions. This dimension includes such items as Run on Islamic law and principles, no interest paid nor taken on savings and loans, provision of Islamic products and services, provision of free interest loans and provision of profit-sharing investment products.

Hence, the following dimensions compliance, assurance, reliability, tangibles, empathy, and responsiveness (CARTER) were conceptualised as a proposed framework for this study (see appendix 2 for items).

D1: Compliance (1-5 items) which means the ability to fulfil with Islamic Law and operate under the principles of Islamic banking and economy.

D2: Assurance (items 6-10) 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 (items 11-14) ability to perform the promised service, dependability and accuracy.

D4: Tangibles (items 15-19) that means the appearance of physical facilities, equipment, personnel, and communication materials.

D5: Empathy (items 20-28) caring, individualised attention which the Islamic bank provides for its customers.

D6: Responsiveness (items 29-33) is the willingness to help customers and provide prompt service.

Survey Administration

This survey is conducted in Kuwait Finance House (State of Kuwait) during September and October 2000. KFH is the second largest retail bank in Kuwait employing about 1,300 people. It has around 22 branches and a market capitalization of some KD1.75 billion (US\$ 5.7 billions) which puts it among the 10 largest banks in Arabic region. In addition to its Islamic banking products, its principal activities are no different from other banks but all these activities are based on Islamic Law (Shari'ah) that differentiate it from other banks in the State.

The questionnaire was originally prepared in English and then translated into Arabic by using the back-translation method with great assistance from an expert who is fluent in both languages. Five hundred surveys were distributed to customers and only 360 were returned to the researcher which are a sufficient number of statistical reliability. Customers were contacted in their offices, houses and in the front offices of the head office of KFH and its 22 branches. The sample reflects the life stage of KFH customers (gender, age, education, income, marital status, nationality, occupations, and place of work).

Personal details of sample respondents showed that 81% and 17.5% of them were male and female respectively, 82% were married and more than 65% were between 30-50 years old. Their incomes were very high because 48% of them said they receive more than KD12,000 (nearly US\$39,000) annual income, and 28% said their annual incomes were between KD 7,212 and KD12,000. Also 67% hold Kuwaiti nationality and 71% had university degree. Their employment field were: (22% professionals, 14% administrative, 16% academic and education, 15% own businesses, 8% marketing and sale and finally 5% clerk/police and army) and (42% in private sector, 37% in public sector, 12% were self employed and 3.3% in semi-government agency).

The survey questionnaires covered a very wide range of issues but only the relevant questions will be analysed in this study and they are shown in appendix 3. These questions have been organised under the proposed framework based on the SERVQUAL model and the author has added the Compliance with Islamic law dimension to complete the picture of Islamic banking SQ dimensions (CARTER). CARTER model includes a 34-item instrument that was customised for the Islamic bank and a further refinement was attempted; findings from a qualitative study commissioned to establish quality service standards (quoted by Avkiran, 1994) were used in reviewing the suitability of the original SERVQUAL items to the Islamic banks.

Each item was surveyed directly on the five point Likert scale starting at 1- not important, 2- somewhat not important, 3- neutral, 4- somewhat important and 5- very important.

To assist in further testing the validity of this model, three questions were added to the survey regarding overall satisfaction, personal contact with KFH staff and satisfaction with quality service.

Coefficient α was calculated to measure the reliability of the survey that based on internal consistency (Peter, 1979). Avkiran (1994) stated that “ Coefficient alpha sets an upper limit to the reliability of tests constructed in terms of domain-sampling model. If it proves to be very low, either the test is too short or the items have very little in common”. In fact, alpha for the model showed very high reliability (0.95) and the alpha for CARTER dimensions were also high (0.70, 0.81, 0.79, 0.89, 0.77 and 0.79 respectively) as shown in table (2) which supports the reliability of these instruments.

Results and Discussion

KFH’s customers were asked about the importance of proposed quality items model which were based on the CARTER six dimensions as shown in table (2). Respondents, in essence, ranked the CARTER dimensions by rating the importance for each item and their satisfaction and dissatisfaction with overall services and quality. They were particularly consistent in their assessment because they clearly judged Compliance, Assurance and Responsiveness as; the most important while Tangibles, Reliability and Empathy were the least important (see table 2). As shown in table (2) KFH’s customers placed more emphasis on the Compliance dimension (3.95 average scale): because 93 per cent of them said that it is important for KFH to run on Islamic law principles. The provision of Islamic products and services item has also shown a high importance percentage of 91 percent, while 73 per cent of them said it is important that KFH should not pay nor take interest on saving and loans. Finally, the item concerned with the provision of profit-sharing investment products items ranked by 68 per cent. The provision of free interest loan was the least important (28 per cent) because KFH does not provide this service to its customers. Most of them complained about that when interviewed and ranked this item accordingly as it is not available to them. There was less emphasis on tangible (3.38 average) but it is still on the important scale.

Also table 2 shows the dimensions’ and their items’ average importance ranks.

Table 2: Survey Results

Dimen-sions	Items	Average importance	Percentages	Items rank	Dim. Rank
Compli- ance	1. Run on Islamic law and principles.	4.60	93%	1	a= 0.70 M= 3.95
	2. No interest paid nor taken on savings and loans.	3.99	73%	3	
	3. Provision of Islamic products and services.	4.62	91%	2	
	4. Provision of free interest loans.	2.71	28%	34	
	5. Provision of profit-sharing investment products.	3.83	68%	7	

Assurance	6. Politeness and friendly staff	3.40	54%	23	ra=1	
	7. Provider of financial advice	3.04	36%	30		
Reliability	8. Interior comfort of KFH	3.64	3%	11		
	9. Ease of access to account information	3.47	61%	17		
	10. Knowledgeable and experienced management team	3.83	72%	6		
		3.41	53%	22		
	11. Convenience (short time for service anywhere)	2.96	33%	32		
Tangible	12. Integrated value-added services using	3.78	54%	19		a= 0.81 M= 3.51
	13. Wide range of products and services provided	3.45	50%	27		
	14. Security of transactions	3.33	52%	26		
		3.67	54%	15		
	15. More tills open on peak time	3.37	59%	13		
	16. External appearance	3.53	29%	33		
		3.66	62%	10		
	17. Speed and efficiency of transactions	2.65	66%	9		
	18. Opening hours of operations	2.65	66%	9		
	19. Counter partitions in Bank and its branches	2.65	66%	9		
Empathy	20. Overdraft privileges on current account	3.72	39%	28		
	21. Bank location (easy to getting to the bank)	3.76	48%	25		
	22. Bank's familiarity, reputation and image.	3.08	47%	16		
	23. Bank size in assets and capital	3.39	72%	5		
	24. Parking available	3.53	54%	20		
	25. Confidentiality of Bank	3.84	39%	31		
	26. Confidence in Bank's management	3.44	33%	29		
	27. Products and service profitability	2.96	55%	21		
	28. Lower service charge	3.03	59%	14		
	29. Knowledge on customer's business or willing to help	3.44	54%	24		
		3.64	74%	4		
	30. Able to fulfil individual/personal needs	3.64	74%	4		
	31. Way staff treat customers	3.40	53%	18		
	32. Availability of credit on favourable terms	3.94				
	33. Branching	3.49				
34. Fast and efficient counter services						

a=alpha, M= the average dimension mean, ra= dimension rank based on importance percentage.

However, relative importance weights were calculated for all 34 items and six dimensions that based on the highest scale number 5 as shown in tables (3, 4). KFH's customers showed that all items are important because the minimum weight is 53 for Overdraft privileges on current accounts, which is above 50. In other words, 29% of the customers said this item is important but, because KFH dose not provide it, most customers who were interviewed were surprised by the question and asked, "Where is this product?"

Also table (3) showed whether CARTER items represented process or outcome issues. This clearly shows that the model includes 80% "Processes" and 20% "Outcomes" which illustrates the expected pattern that service customers attach considerably more significance to the process elements of the bank, rather than to the outcomes, when judging quality.

Table 3: Items and Weights

	Items	Dimension	Weight	Process/Outcome
1.	Run on Islamic law and principles.	Comp.	92	P
2.	Provision of Islamic products and services.	Comp.	92	P/O
3.	No interest paid nor taken on savings and loans.	Comp.	80	P
4.	Branching	Respon.	79	P/O
5.	Confidence in Bank's management	Empathy	77	O
6.	Provision of profit-sharing investment products	Comp.	77	P/O
7.	Knowledgeable and experienced management team	Assurance	76	O
8.	Wide range of products and services provided	Reliability	75.6	O
9.	Bank's familiarity, reputation and image.	Empathy	75.2	O
10.	Ease of access to account information.	Assurance	75	P
11.	Bank location (easy to getting to the bank).	Empathy	74.4	P/O
12.	External appearance	Tangible	73.4	O
13.	Interior comfort of KFH	Assurance	73	P/O
14.	Counter partitions in Bank and its branches	Tangible	73	O
15.	Way staff treat customers	Respon.	72.8	P
16.	Opening hours of operations	Tangible	71	P
17.	Confidentiality of Bank	Empathy	70.6	O
18.	Fast and efficient counter services	Respon.	69.8	P
19.	Security of transactions	Reliability	69	P
20.	Able to fulfil individual/personal needs	Respon.	68.8	P
21.	Products and service profitability	Empathy	68.8	P/O
22.	Politeness and friendly staff	Assurance	68	P
23.	Convenience (short time for service anywhere)	Reliability	68	P
24.	Availability of credit on favourable terms	Respon.	68	P
25.	Parking available	Empathy	67.8	P/O
26.	Speed and efficiency of transactions	Tangible	67.4	P
27.	More tills open on peak time	Reliability	66.6	P
28.	Bank size in assets and capital	Empathy	61.6	O
29.	Provider of financial advice	Assurance	61	P
30.	Knowledge on customer's business or willing to help	Respon.	60.6	O
31.	Integrated value-added services using	Reliability	59	P
32.	Lower service charge	Empathy	59	P/O
33.	Provision of free interest loans.	Comp.	54	P
34.	Overdraft privileges on current account	Tangible	53	P

According to the survey findings, the Islamic banking SQ dimensions are shown in table 4 as they were ranked based on the importance of their items.

Table 4 Ranking of SQ Dimensions by KFH’s Customers

SQ Dimension	Relative weight based on Compliance av.3.95	Relative weight based on the highest scale point (5)
Compliance	100	79
Assurance	89	70
Responsiveness	88	69.8
Empathy	87	69.4
Reliability	85	68.2
Tangible	85	67.6

The findings show that the CARTER model to measure SQ in the Islamic banking industry is valid and has been judged by KFH’s customers who fairly proved its highly significant importance for the bank.

SQ and Customer Satisfaction

As noted by Rust et al. (1994); understanding of the concept of satisfaction is necessary for managing SQ effectively.

Satisfaction loosely means “enough” or “enough to excess” (Oliver, 1993). Thus, customer satisfaction can be defined as the customer’s fulfilment response. It has also been described as a process by (Rust, et al., 1994) and the most widely adopted of process theories is that of expectancy disconfirmation in which satisfaction is viewed as largely based on meeting or exceeding expectations.

The characteristics discussed in the introduction make the concept of quality in service different from in manufacturing goods. That means quality should be a measure of customer satisfaction in services. Therefore, a bank that committed to deliver high quality service must pursue consistent customer satisfaction.

However, adopting SQ effectively in Islamic banking management requires a clear understanding of what SQ means to their customers. Thus, Islamic bank management must measure the overall customers’ satisfaction and understand the nature of SQ and customer value and how these features interact.

This study also assists further testing of the validity of the CARTER model by adding three questions to the survey: Over all satisfaction, Satisfaction with personal contact and Satisfaction with SQ. The findings were shown in table 5 below.

Table 5 demonstrates that KFH’s level of overall satisfaction and personal contacts with staff were 78 and 65 per cent respectively. That means KFH is doing well to satisfy its customers. However, more than 45 per cent of respondents stand in a dissatisfied or neutral position with regard to quality services. Thus, KFH should build quality culture by adapting a quality system in its managerial and operational sides.

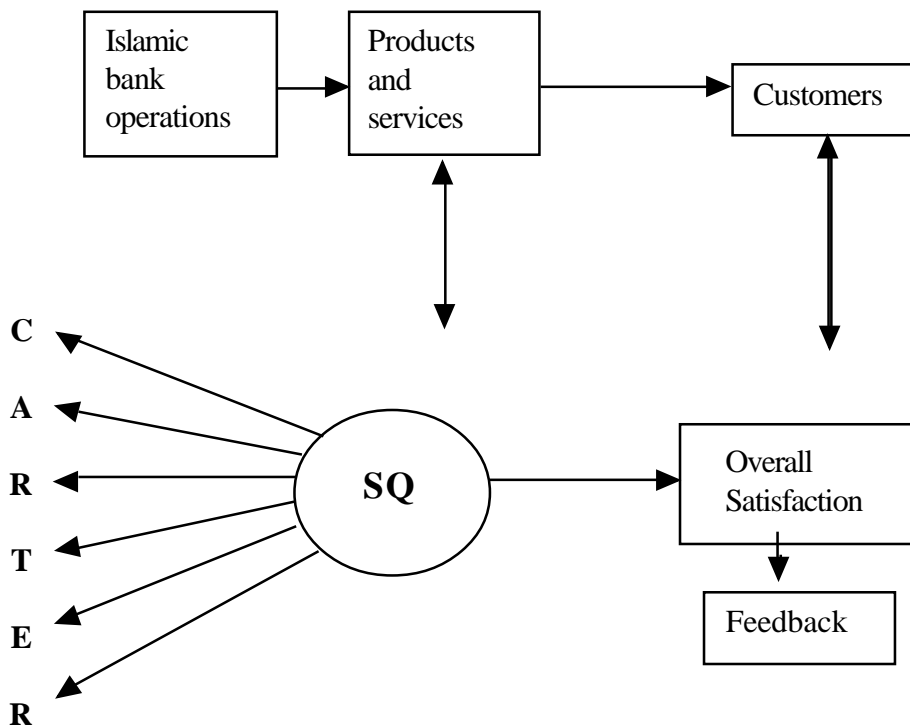
Table 6: KFH' customers' satisfaction

Satisfaction Questions	Average Importance	Importance Percentage*
Over all	3.82	77.8
Personal contact with staff	3.70	65
SQ	3.49	54.7

* the total valid percentage for some what important and very important responses.

As a result of the above discussion, the SQ and customer satisfaction can be define as a system of CARTER-items processes inputs and overall satisfaction outputs as shown in figure 2.

Figure 2 SQ and Customer Satisfaction



Scenario Plan for KFH to Adapt SQ

As seen by the author and as a result of interviewing managers, KFH has not adapted or implemented any kind of quality system or programme since its establishment in the late seventies. No department responsible for quality measure or control was found in its organisational structure. Thus, there is a lack in quality knowledge and practise in both its managerial and operational sides. The following scenario will represent a plan or highlight a plan for KFH to adopt SQ and develop quality culture in its divisions, departments, and branches. This plan must include the following stage in the first tier inside the bank:

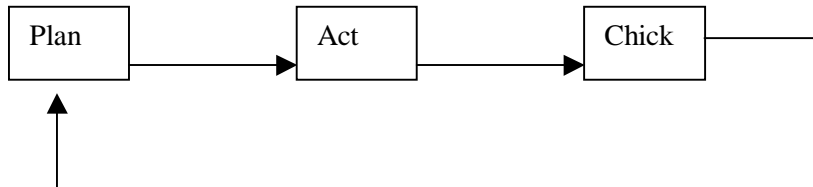
- 1- KFH Board of Directors might take a decision to adapt and implement SQ within a defined period of time and pass it to the General Manager.

- 2- General Manager will announce the establishment of the Quality Leadership Team (QLT). The quality literature stresses the importance of strong leadership, commitment, and support by top management to ensure the success of the quality effort. The QLT should be involved with the General Manager or/and one of his assistants and the division and some department managers. Its primary role is to ensure that quality is integrated into management processes and into provision products and services to customers. This will help to establish quality not as a separate initiative but rather through the way every employee's job is done each day. QLT's activities includes:
 - Leading quality programs and teaching managers and employees the quality values.
 - Developing strategic quality initiatives and guiding the creation of division goals and work units, teams, and individual objectives and measurements.
 - Ensuring the development and implementation of quality training programs aligned with the bank's Mission, Vision, and Quality Excellence Initiatives
 - Ensuring the development and maintenance of quality documentation.
 - Developing a quality performance indicators report.
 - Making sure that the programs will lead to continuous improvement in terms of satisfaction, internal and external customers, performance, productivity and profitability.
3. QLT must take decisions to first, train managers in different divisions, departments, and branches on conducting self-assessment test using well-known criteria, such as ISO or any other award, second to perform it using the ideal criteria and third, to establish self-assessment committees or teams to complete and analyze it and develop strategies from the addressing results. Self-assessment might include BEST and SWOT analyses. Finally, short and long term self-assessment improvement must be identified to be accomplished over years.
4. In the light of self-assessment, it is time to define KFH's SQ, its objectives, and the benefits of its implementation. In this point quality teams must be named to develop a systematic approach which will enable and integrate quality into operations. All teams' objectives and goals should be identified.
5. QLT should introduce quality initiative and programs to decision, departments, and branch managers, through them to all the staff in the bank, and discuss it in the planned meetings with the General Manager or one of his assistants. Divisions, departments, and branches should set goals for quality which must be accepted by the QLT.
6. Employees' and customers' satisfaction surveys must be conducted by quality teams from time to time and when they believe it is satisfactorily improved, they might let an external body judge the quality program.
7. In all these stages, the QLT must engage some quality experts and professionals to consult them and to train managers and employees in how to implement this program. Also, a program documentary for procedures, training courses and continuous training course is very important for success.

In the second tier, administrative SQ can be measured by designing the CARTER positive and negative Questionnaires to record customers' expectations and perceptions and to find out whether or not level of quality is satisfactory or not.

An evaluation of the quality program must be carried out after every single act on the basis of plan-act-chick as shown in figure 3.

Figure 3: Plan-Act-Chick



Over all evaluation must be done after SQ measurement results, productivity and profitability analyses in order to measure the level of improvement.

Importance of Training when SQ is Adopted

Adopting SQ is worthless without training and motivation. Bank QLT must train employees, reinforce the importance of customer service, and set standards that are regularly reinforced. Supervisors and managers must model, coach, and reinforce the skills they expect their subordinates to put into practice. Without this active support, the cost of training customer service-driven employees is a risky investment.

Also, special training must be offered to the front-line employees because they deliver the service that satisfies the customers who buy the bank's products and services.

Therefore, it is very important for QLT to make sure that the right training opportunities are available to employees, to ensure that employees are supported in their development efforts, to adequately prepare new employees for job responsibilities, and ensure that everyone has the requisite skills to provide exceptional customer service.

Conclusion

As mentioned above, the banking industry today is moving toward the goal of integrated financial services because of the strong competition and quick changes of technology. Islamic banks must therefore pay attention to this movement and start to think strategically by providing high quality products and services to satisfy their customers. This study indicates that it is important for Islamic banks to put cultural differences at the front when adopting SQ, and suggests a new model to measure SQ called CARTER which is based on 34 items. The study shows validity significant for all CARTER items that have appeared in both important items' weights and percentages. Also, the strong link between SQ and customer satisfaction has been discussed and the study has defined it as a system of CARTER-items processes inputs and overall satisfaction outputs. Finally the study suggests a scenario plan for KFH to adopt SQ and shows the importance of training to do so.

Future Research

Up to date, very few models linking quality management and the banking industry have been developed and in terms of the Islamic banking industry, the author did not find any research which mentioned word quality in this industry.

A primary issue of concern is the need for an Islamic bank to work perfectly on the demand of, or response to, its customers' needs and wants. Models should be developed to determine where operating system breakdowns occur, why they occur and how they can be banned.

Islamic banks' managers can use the CARTER model and the information included in this paper to identify those areas where improvement should be made and resources can be allocated. For instance, they need to know the

level of SQ in their banks and they can manipulate to make bank-wide improvement in quality performance. Also they can use benchmarking to compare their performance and other banks' which adopt a quality programme, that will help to prioritise the quality management efforts academic researchers on the other hand can use CARTER model to build theories and new models which might be related to these issues of the Islamic banks' performance, environment and culture. More research needs to be carried out to ascertain how quality relates to the Islamic banking industry & who is responsible of implementing SQ in Islamic banks – the Board of Director, General Manager, mid management or all. In terms of implementation, research needs to be done to identify and eliminate the regulations, attitudes, policies, and so on, which may be an impediment to continued improvement.

Notes

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Appendix 1 SQ five dimensions' description:

Tangibles	is the appearance of physical facilities, equipment, personnel, and communication materials. <ul style="list-style-type: none">· Physical facilities and appearance of personnel;· Tools or equipment used to provide the service;· Physical representations of the service, such as a plastic credit cards
Reliability	is the ability to perform service dependably and accurately. It includes: <ul style="list-style-type: none">· Accuracy in billing.· Performing the service at the designated time.
Responsiveness	is the willingness to help customers and provide prompt service. It may involve: <ul style="list-style-type: none">· Mailing a transaction slip immediately· Calling the customer back quickly· Giving prompt service (e.g. setting up appointments quickly)
Assurance	is the knowledge and courtesy of employees and their ability to convey trust and confidence. <i>Courtesy</i> (politeness, respect, consideration, and friendliness, also clean and neat appearance of public contact personnel) <i>Competence</i> (knowledge and skill of the contact personnel, knowledge and skill of operational support personnel and research capability of the organization)

Communication (explaining the service itself and how much the service will cost, explaining the trade-offs between service and cost and assuring the consumer that a problem will be handled)

Empathy is the caring, individualized attention the institution provides its customers.

Security may involve:

- Physical safety;
- Financial security and confidentiality

Credibility: It involves:

- Company name and reputation;
- Personal characteristics of the contact personnel;
- The degree of hard sell involved in interactions with the customer.

Access **may includes:**

The service is easily accessible by telephone

Waiting time to receive service is not extensive

Convenient hours of operation and convenient location of service facility

SERVQUAL 22 items:

1. Modern looking equipment
2. Visually appealing physical facilities
3. Neat-appearing employees
4. Visually appealing materials associated with the service.
5. Keeping a promise to do something by a certain time
6. Showing sincere interest in solving a customers' problems
7. Performing the service the service correct at the first time.
8. Providing the service at the time the service was promised.
9. Insisting on error-free records.
10. Employees telling customers exactly what services will be performed.
11. Employees giving prompt service to customers.
12. Employees always being willing to help customers.
13. Employees are never being too busy to respond to customers' requests.
14. The behavior of employees instilling confidence in their customers.

15. Customers feeling safe in their transactions.
16. Employees being consistently courteous with their customers.
17. Employees having the knowledge to answer customers' questions.
18. Giving customers individual attention.
19. Operating hours convenient to all their customers.
20. Employees giving customers personal attention.
21. Having the customers' best interest at heart.
22. The employees understanding the specific needs of their customers.

Appendix 2: Islamic banking service quality measurement

Part one: Please indicate how much each of the following factors or criteria (were) are important to you or influence you to open an account or to do business with KFH by circling the number for each statement that is closest to your evaluation of the question using the following scale:

KEY:

1. = Not important

2. = Somewhat not important

3. = Neutral

4. = Somewhat important

5.= Very important

1. Runs in Islamic principles.	1	2	3	4	5
2. No interest neither paid nor taken on saving and on loans.	1	2	3	4	5
3. It is the only Bank in the country that provides Islamic Banking products.	1	2	3	4	5
4. To deal with products that are accepted by Islamic Law.	1	2	3	4	5
5. Opportunity to get free interest loans.	1	2	3	4	5
6. Profit sharing investments.	1	2	3	4	5
7. Friendliness of Bank personnel.	1	2	3	4	5
8. Financial counselling provided.	1	2	3	4	5
9. Interior comfort in KFH.	1	2	3	4	5
10. KFH has a wide and easy to use network.	1	2	3	4	5
11. Knowledgeable and experienced management team.	1	2	3	4	5
12. Convenience (short time for service anywhere).	1	2	3	4	5
13. Integrated value-added services used.	1	2	3	4	5
14. A wide range of services provided (for example; bill payment, account reconciliation).	1	2	3	4	5
15. Security of Transaction.	1	2	3	4	5
16. Many counters open at peak hours.	1	2	3	4	5
17. External appearance of KFH.	1	2	3	4	5
18. Quick service and Speed of transactions (transaction completed in a short time instead of a long time).	1	2	3	4	5

19. Hours of operations.	1	2	3	4	5
20. Counter partitions in KFH.	1	2	3	4	5
21. Overdraft privileges on current account.	1	2	3	4	5
22. Bank location.	1	2	3	4	5
23. Bank's familiarity, reputation and image.	1	2	3	4	5
24. The size of Bank (in terms of asset and capital).	1	2	3	4	5
25. Available parking space nearby.	1	2	3	4	5
26. Confidentiality of Bank.	1	2	3	4	5
27. Confidence in Bank's management.	1	2	3	4	5
28. Better profit comparing with the interest in traditional Bank.	1	2	3	4	5
29. lower service charge.	1	2	3	4	5
30. Knowledgeable about your business.	1	2	3	4	5
31. Able to fulfil individual/personal needs.	1	2	3	4	5
32. Courteous counter services.	1	2	3	4	5
33. Availability of credit on favourable terms.	1	2	3	4	5
34. The number of branches available.	1	2	3	4	5
35. Fast and efficient counter services.	1	2	3	4	5

Part two: Please rate KFH's services and performance by circling the number from the 5-point scale below that reflects your satisfaction level:

KEY:

1. = Extremely dissatisfied

2. = Somewhat dissatisfied

3. = Neutral

4. = Somewhat satisfied

5= Very satisfied

31. The overall satisfaction with KFH's services.	1	2	3	4	5
32. I am very satisfied with my personal contact with KFH's staff.	1	2	3	4	5
33. The Quality of Service.	1	2	3	4	5

Part three: Profile of Islamic Bank customers

We need information about you to enable us to make meaningful interpretation of the data obtained. Please circle your responses to the following questions.

31. Gender

- a) Male b) Female

32. Your age category:

- a) Less than 20 years b) 20-29 c) 30-39 d) 40-49 e) 50 or more

33. Which of the following describes your current qualification?

- a) No formal education
 b) Below secondary school
 c) secondary school
 d) university degree/Bachelor

e) Above College/Bachelor (Master or PhD).

f) Others specify _____

34. Your monthly income category:

a) Less than KD 200 b) KD200-400 c) KD401-600

d) KD601-1000 e) More than KD 1,000

35. Marital status:

a) Married

b) Single

36. Nationality:

a) Kuwaiti b) Arabic countries c) Asian

d) Others, please specify _____

37. Which of the following best describe your current occupation , please circle the number in the front of the statement:

1) Professional (Doctors, lawyers, engineers, journalist etc.).

2) Administrative/managerial and executive officers.

3) Banking and finance.

4) Clerk /Police /Army.

5) Academic/ educators.

6) Marketing and sales.

7) Student.

8) Technician.

9) Own business.

10) Housewife.

11) Other, specify _____

38. In which sector do you work?

a) Public sector

b) Private sector

c) Self employed

d) Semi-government agency

e) Other specify _____

Appendix 3 CARTER 34-items:

Compliance

-
1. Run on Islamic law and principles
 2. No interest paid nor taken on savings and loans
 3. Provision of Islamic products and services
 4. Provision of free interest loans
 5. Provision of profit-sharing investment products
-

Assurance

-
6. Politeness and friendly staff
 7. Provide of financial advice
 8. Interior comfort of KFH
 9. Ease of access to account information
 10. Knowledgeable and experienced management team
-

Reliability

-
11. Convenience (short time for service anywhere).
 12. Wide range of products and services provided
 13. Security of transactions
 14. More tills open at peak time.
-

Tangible

-
15. External appearance
 16. Speed and efficiency of transactions
 17. Opening hours of operations
 18. Counter partitions in Bank and its branches
 19. Overdraft privileges on current account
-

Empathy

-
20. Bank location (easy to getting to the bank).
 21. Well known bank
 22. Bank size in assets and capital
 23. Parking available
 24. Confidentiality of Bank
 25. Confidence in Bank's management
 26. Products and service profitability
 27. Lower service charge
 28. Provision of financial advices
-

Responsiveness

-
29. Knowledge of customer's business or willing to help
 30. Way staff treat customers
 31. Availability of credit on favourable terms
 32. Branching
 33. Fast and efficient counter services
-