

Analysis of Banking Service Quality Perception: A Comparative Study for Islamic and Conventional Banks

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ABSTRACT

This paper presents a comparative study of Islamic banking as against conventional banking in terms of service quality taking Malaysia as a case study. The study utilises a 300 - sample survey on three major banks: Bank Islam Malaysia Berhad (BIMB), Bumiputra Commerce Berhad (BCB), and MAYBANK. The first bank has been chosen to represent Islamic banks while the last two represent conventional banks, even though they partly provide Islamic services. The survey has been carried out in Kuching Sarawak where questionnaires were handed over to equal sample-sizes of the banking customers of the three banks. The questionnaire has been deliberately developed to capture twelve factors taken in the current literature to qualify customer perception, using SERQUAL dimensions. A remarkable 71% response rate has been achieved from the planned survey. As expected, the factor which turns out to be the most powerful in affecting customer perception has been the 'quality of professional staff who understand what customers want and willing to help'. Interestingly, BIMB scored the best measures of service quality, almost uniformly for all the twelve SERQUAL dimensions. This finding points to a commendable progress in the quality of Islamic banking service in Malaysia.

INTRODUCTION

This study aims at exploring customer preferences in the selection of banking products and services in Malaysia with special reference to the difference between conventional and Islamic banks. The study utilises survey data to inquire into the nature of customer preferences, reasons for such preferences and the actual patterns of choosing banking products and services. Bank Islam Malaysia Berhad (BIMB) is taken to represent a fully fledged Islamic Bank while Bumiputra Commerce Berhad (BCB) and MAYBANK Berhad are chosen to represent conventional banks which provide Islamic services through special windows. Given that Islamic products are also provided by the two conventional products, the result of the comparison should reveal differences in service quality more than just the preference of Islamic products.

Notably, the Malaysian banking sector is becoming increasingly competitive in terms of quality of service while customers are increasingly becoming quality-conscious as regards the choice banking services. Malaysian Islamic Banking, in Particular, has grown remarkably over the last few years. Nearly 30 institutions including Islamic banks, conventional banks, finance companies, merchant banks and discount houses have been involved in offering Islamic banking services. With the steady expansion and growth in the Malaysian financial sector, banks are striving to come out with appealing ideas to satisfy customer needs.

The paper consists of five major sections: The first section, below, is an overview of the banking sector in Malaysia with a background on the above three participating banks. The second section gives a brief background on the research methodology adopted. The third section discusses the relevant literature on consumer behaviour, customer satisfaction service quality and factors which affect Islamic banking services. The results of the analysis are demonstrated in the fourth section while the fifth section highlights important policy recommendations.

I. Method of analysis

The research method adopted in this study consists of both quantitative and qualitative approaches. A structured questionnaire consisting mostly of close-ended questions has been developed for the study. The questionnaire is divided into three sections as follows:

- Section A: Personal details of sample respondents
- Section B: Factors affecting choice of bank's products and services
- Section C: Special questions about Islamic banking products and services

The data employed in this paper relates only to the first two sections. Section B is the most important section as it elicits customer information about service quality of the banks. Respondents are faced with a list of statements to qualify the state of satisfaction given by different banking products and services. Each respondent is asked to rank the listed items in terms of different grades of satisfaction or dissatisfaction. Each item is then evaluated on a five-point Likert scale starting from 1

(Strongly Disagree) to 5 (Strongly Agree). Respondents from BCB and MAYBANK were given the same questionnaire while respondents from BIMB are given a questionnaire with special Islamic banking questions which were not relevant to the two conventional banks. The questionnaire was originally prepared in English and translated into Malay with the help of an assistant who was fluent in both languages. The sample size was determined in terms of Slovin Formula (Guilford and Fruchter, 1973), using the formula:

$$n = \frac{N}{(1+Ne^2)}$$

Where: n = Sample size
 N = Population size
 e = Desired margin of error (percent allowance for non-precision due to the use of sample instead of population)

The above formula yielded equal allocations of 100 questionnaires per bank. Respondents were then randomly selected from the population of customers who carried out financial transactions with BIMB, BCB and MAYBANK. The actual role of distributing questionnaires to customers was assigned to each of the three bank's representatives with clear instructions to hand back the turn out to the field supervisor within a stipulated time frame. The response rate of the survey turned out to be 71% which is a remarkably good rate in social surveys.

The survey was conducted within the state of Kuching, Sarawak, or more specifically Kuching North with an area of 53.19 kilometres square and Muslim Malay majority (DBKU, 2006). This is believed to be an ideal area for this study as all the banks chosen exist in the area. Although the study focussed mainly on Muslim customers, non-Muslims were also included. The information gathered from non-Muslim customer was relevant to the extent of indicating what attracted them to the Islamic banking products and services. Secondary data has also proved important in relation to past track records of the participating banks as well as related information from library research such as books, online journals, published journals, newspaper articles and websites, including financial institutions' annual reports, pamphlets and brochures.

Mean Score Analysis has been used to analyze data gathered from section B of the questionnaire. The data is evaluated on a five-point Likert scale and the strength of answers by every respondent is being ranked. To calculate the mean score, every rank value is multiplied with its frequency and divided by the total of frequency. The formula is as follows:

$$x = \frac{\sum fi \cdot wi}{\sum fi}$$

Where: x = mean score
 fi = frequency
 wi = rank

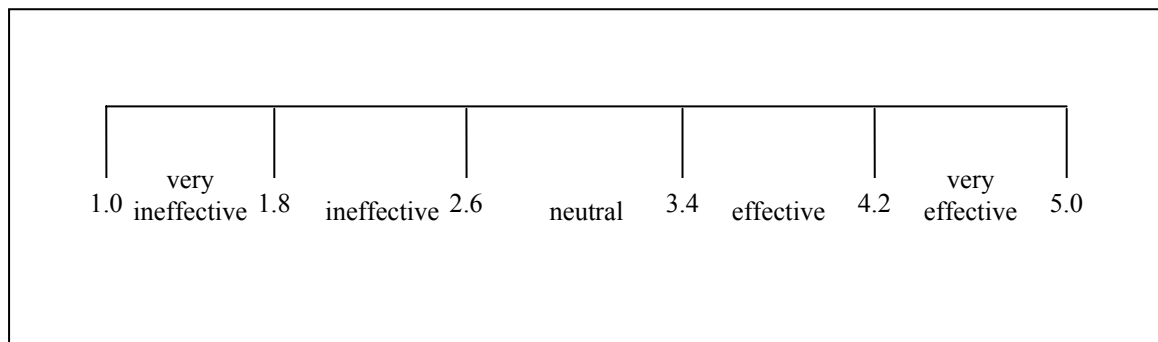
Based on the mean score, an effective scale has been defined within the 1 to 5 range to capture the position of the score value from the very negative to very positive. Then, the effective scale for each particular variable of interest is calculated as follows:

$$R_s = \frac{R(\text{rank})}{M}$$

Where: R (rank) = Range of rank (the highest rank minus the smallest rank)
M = sum of rank category

Based on the Likert scale, there are 5 rank categories and the alternative scale calculated produced effective scale as follows:

Figure 2.1: Effective Scale



II. Review of the literature

Knowledge about customers' satisfaction is particularly important to service-oriented organisations which deal directly with individual clients. A great deal of attention has been paid in the current re to the comparison of customers' expectations and their evaluations of products or services' performance, which confirms that customer satisfaction is an important measure of the degree to which a product or service meets the customer's expectations (Goode & Moutinho, 1995; Kohli & Jaworski, 1990).). Although it has been long thought that customer satisfaction was sufficient to promote customer loyalty, further research indicates that satisfied customers may defect and dissatisfied customers may remain loyal (Buttle, 1999). This indicates that customer satisfaction alone is not a cause of relationships between the buyer-seller. Reicheld compounded this statement by stating that an aspect of commitment is needed to bring the loyal customers into a relationship plan (1993).

Most experts see measures of customer satisfaction as short-term and transaction-specific whereas service quality seems more of a long-term outlook to the overall evaluation of performance (Hoffman, 2000; 314). Unlike the evaluation of physical which relates to the finished products, service relates to both the quality of the service process and the final outcome. Nightingale (1986) stated four reasons why the management of the service provider keeps on disappointing their customers:

- Management perceptions of quality of service frequently differ from the perceptions of customers, colleagues, and staffs especially in times of fast and wide-ranging change.
- Managers often failed to realize this when it happened.
- Managers find it difficult to maintain a realistic picture of quality of service being achieved by a unit or department, hour by hour and day by day.
- Managers may not fully appreciate the importance of their role as facilitators in helping to maintain service quality by providing advice, information and resources.

Service quality dimensions (SERVQUAL) have been identified by researchers on the basis of various studies in different fields such as banking and hospitality industry. Factors such as the existence of cultural differences, regions, religions and ethnic groups reinforce the importance of building an additional dimension for service quality if necessary. Parasuraman, Zeithaml and Berry (1991) studied the determinants of service quality by reference to differences between consumers' expectations about service providers and consumers' assessment of the actual performance of the firm. Five dimensions of service quality are then defined as follows:

- **Tangibility:** The appearance of physical facilities, equipments, personnel and materials used by a service firm.
- **Reliability:** The ability to provide accurate and perform the promised service dependably.
- **Responsiveness:** The willingness of the employees to help customers, respond to their request and provide prompt service.
- **Assurance:** The knowledge and courtesy of employees and their ability to convey trust and confidence.
- **Empathy:** The provision of understanding customer problem, caring and giving individualized attention to customers.

Service firms such as banks can excel themselves by concentrating their efforts on the above five service quality dimensions, namely Tangibles, Reliability, Responsiveness, Assurance and Empathy. In this study, service quality dimensions have been translated into 12 statements which reflect the possible factors perceived by Malaysian banking customer. Hence, the following 12 statements are proposed as framework for accessing customer preference in choosing banking products and services:

1. Polite, friendly and professional staff that understand what customer wants and willing to help.
2. Knowledgeable and experienced staff that knows about banking products and services (ease of access of banking information).

3. The bank is willing and ready to give financial advice and connect the customer fast to the right bank personnel.
4. Clean, comfortable and interesting interior and external bank appearance.
5. Location (strategic with ample parking spaces and within reach via public transportations).
6. The availability of internet and phone banking.
7. Many branches with ATM, deposit and financial statement machine.
8. Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation.
9. More choices and better products and services.
10. Easy and interesting financing and overdraft facilities.
11. Bank profile (well-known bank with strong image, assets and financial structure).
12. Confidence and trust in bank (high security and confidentiality in vital information).

Lots of other factors can still be considered such as reputation of the bank, location, friendliness of bank staff and customer profile (age, gender, religion, cultural background). A recent study by Karim and Affif (2005) adopted Focus Group Discussion (FGD) and in depth interview an effort to examine Islamic Banking consumer behaviour in Indonesia. They came to the finding that the religious value of Islamic banks was the main factor of patronizing them rather the quality of products and services. Yet, more far reaching results about the importance of service quality to Islamic banks have been established in Jordan by Naser, Jamal and Al-Khatib (1999) on the basis of a 206 sample survey to answer research questions about the degree of customer satisfaction, awareness as well as factors of choosing Islamic or conventional banking schemes. The study revealed that the degree of customer loyalty towards Islamic banks was greater compared to conventional banks. Most of the respondents chose reputations as the reason for them to patron Islamic banks, followed closely by religious matters. It was found that 75% of respondents chose to hold their business and personal accounts in conventional banks and with Islamic banking products and services as their intention to diversify their investments. The majority of the respondents agreed that Islamic banks had some limitation in terms of products, facilities, services, operating hours and branches.

Haron, et al. (1994) conducted a study on the factors of bank patronage among Muslim and non-Muslim customers in Malaysia, using samples of Muslim and non-Muslim customer in northern part of Malaysia. The samples were taken from conventional bank customers with no Islamic banking services. The study concluded that the majority of Muslims preferred “fast and efficient service” while non-Muslim respondent preferred “friendliness of bank personnel”. The study also showed that almost 100% of Muslims were aware of Islamic banking as compared to 75% of non-Muslim. The conclusion of the study was that both Muslim and non-Muslim have common perception in choosing banks, like time value, friendliness and efficiency of the banks’ personnel in handling customers.

Another study by Ahmad and Haron (2002) looked at the perception of corporate customer towards Islamic products and services. Samples were selected from practitioners responsible for financial affairs of companies listed in the Kuala Lumpur Stock Exchange (KLSE). The study came to the finding that Islamic banking services

were unpopular among Malaysian corporate customer who preferred conventional products and services such as overdraft and bank guarantee. Most of the respondents indicated that their knowledge in Islamic banking was limited and believed that Islamic banking had a good potential to be accepted by the customer. It was found that 75% of the respondents stated that Islamic banks in Malaysia have not done enough marketing to promote their product as well as services. This shows that the corporate customers are emphasizing on the products offered rather than the services and facilities available which were highly favoured in the previous study.

In a separate study about the reasons why consumers are not opting for Islamic financing products, Mohd Abbas et al. (2003) used a questionnaire which was distributed to respondents with commercial bank accounts in Malaysia. The findings agreed with Haron et al. (1994) on the importance of 'staff factor' which contributed around 30% of the reason for not choosing Islamic financing products. The 'staff factor' stood for insufficient staff and no knowledge on Islamic banking. The factors next in importance were 'application process', 'customer awareness and knowledge' and 'customer preference'.

Othman and Owen (2001) applied CARTER Model to measure service quality in Islamic bank industry (Kuwait Financial House). CARTER stands for Compliance, Assurance, Reliability, Tangibles, Empathy and Responsiveness. The result of the survey showed that customers chose Compliance, which means the ability to fulfil Islamic law and operate under the principles of Islamic banking, at the top ranks of other dimensions. The CARTER provides benefits to Islamic banks as it is the first approach to add and mix customers religious belief and cultural values with other quality dimensions.

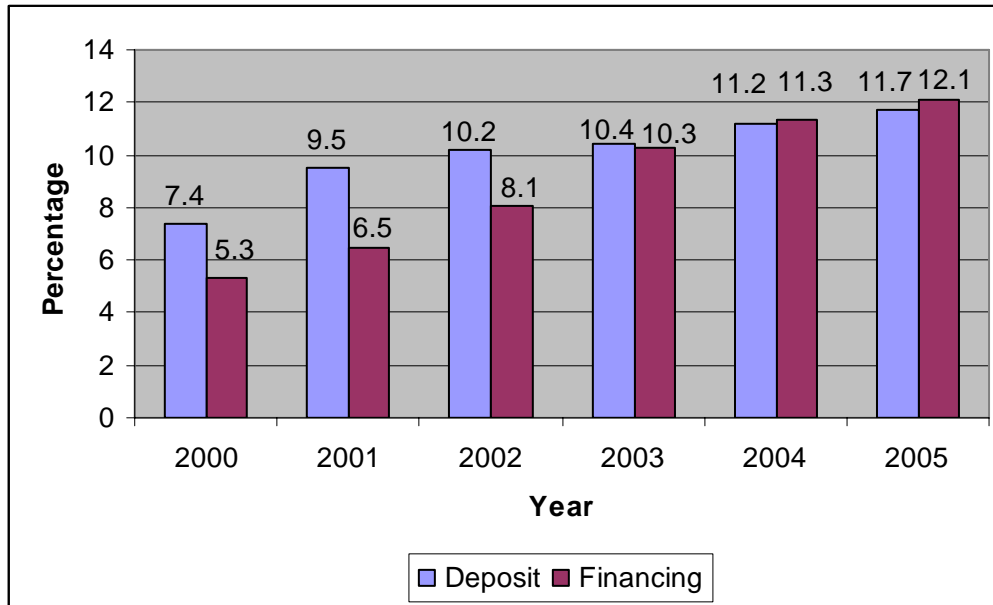
III. Background of Participating Banks

In Malaysia, the Islamic banking industry proves to command many advantages over its conventional counterpart as it can easily be judged from the impressive performance of Malaysian Islamic banks over the last two decades. It is reported by the Central Bank of Malaysia that the Islamic banking industry has been growing since year 2000 at an average rate of 19 per cent per annum in terms of assets (BNM, 2004: 158). At the end of 2005, the total assets of the Islamic banking sector increased to RM 111.8 billion, which accounted for 11.3 per cent of the total assets in the banking system. In the latest Malaysian budget 2007, significant focus was given to the Islamic banking sector, where various tax incentives were proposed to help accelerate the sector's development (Business Times, September 3, 2006). These measures were a positive move in helping Malaysia to become more competitive in the area of Islamic finance.

The Islamic banking sector showed an impressive progress in terms of customers, deposits, financing base and range of products and services. As at October 2005, there were 29 financial institutions offering Islamic products which included fully fledged Islamic banks, conventional banks with Islamic banking schemes, finance companies, merchant banks and discount houses (BNM, 2005). Six fully fledged Islamic banks are now operating as compared to only two banks before the year 2000. Figure 1 and

2 shows the total deposits and financing by Islamic banking sector as compared to the conventional banking at the end of 2004.

Figure 3.1: Market Share of Islamic Banking Deposits and Financing in the Banking Sector



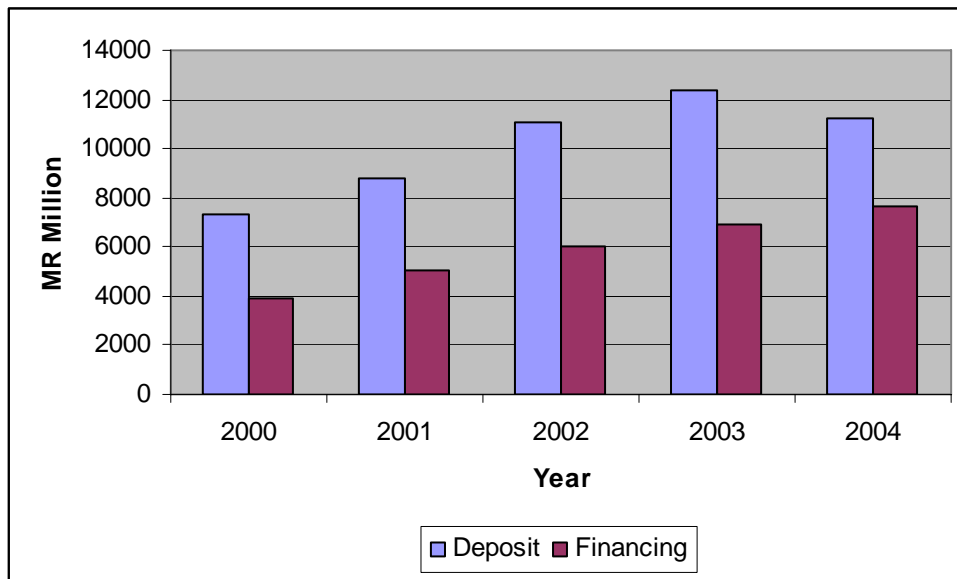
Source: Central Bank of Malaysia Annual Report (Various Years)

It can be seen that the market share of Islamic deposits and financing are increasing every year. Deposits increased from 7.4 per cent in year 2000 to 11.2 per cent in year 2005. Meanwhile, the market share for financing increased from 5.3 per cent in year 2000 to 11.3 per cent in 2005. This percentage might seem too small compared to the conventional banking but it shows that Islamic banking sector in Malaysia are on the rise with vast potential for future growth.

3.1 Bank Islam Malaysia Berhad (BIMB)

Bank Islam Malaysia Berhad (BIMB) remains to be the trendsetter of Islamic banking in Malaysia as it has continued to lead the way for other Islamic banks in the country. It has been incorporated as a limited company under the Companies Act 1965 on 1st March 1983, with the primary objective to cater for the financial needs of Muslims in the country and to further extend its services to the Malaysian people at large. BIMB showed a remarkable start when its total assets doubled from RM 170.7 million at the end of 1983 to RM 369.8 million at the end of 1984 (Haron and Wan Azmi, 2005:21).. With more than 80 branches and 50 product and services, BIMB has been listed in the Kuala Lumpur Stock Exchange (KLSE) since 17th January 1992 .

Figure 3.2: Deposits and Financing of BIMB



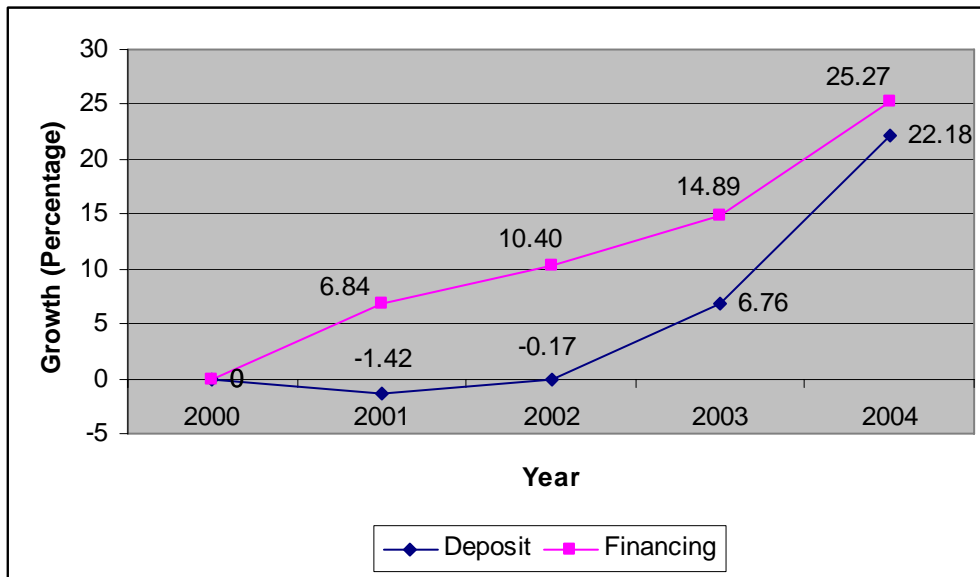
Source: BIMB Annual Report 2004

Figure 3.2 shows the deposit and financing performance of BIMB. Overall, it can be seen through the deposits from customers increased from MR 7295 million in year 2000 to MR 11269 million end of 2003 (69.5 per cent increment). Meanwhile, financing activity shows a steady performance throughout the period between 2000 and 2004. The total financing rose from MR 3887 million in 2000 to MR 7640 million in 2004. Although the deposit activity showed a decline in year 2004, the overall performance of BIMB in terms of deposit and financing showed a promising development and indicate that they are capable to attract more customers every year.

3.2 Bumiputra Commerce Berhad (BCB)

Bumiputra Commerce Bank Berhad is a 99.99% subsidiary of CIMB group. The CIMB group is transforming itself into a "universal" financial services provider by integrating the group's commercial and investment banking operations. Being the second-largest financial services provider in Malaysia, BCB now have combined staff strength of more than 11,000. It was originally incorporated in December 1972 as United Asian Bank Berhad ("UAB"). Following the merger of Bank Bumiputra Malaysia Berhad and Commerce (M) Berhad in October 1999, the Company changed its name to Bumiputra Commerce Bank Berhad. It is most popular among Muslims in Malaysia as it has a subsidiary stand-alone Islamic bank (Commerce Tijari Bank). Although Commerce Tijari Bank serves as an Islamic bank, BCB still provide Islamic banking products and services under their conventional bank operation.

Figure 3.3: Growth in Deposits and Financing of BCB



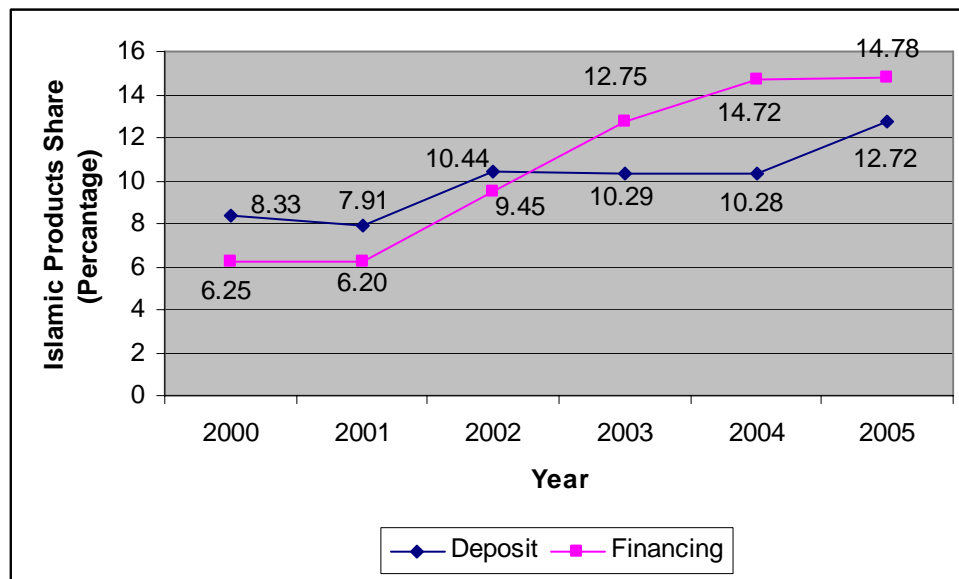
Source: BCB Annual Report (Various Years)

Table 3.3 shows the growth of deposit and financing of BCB. From that figure, it can be seen that financing activity showed better performance in terms of growth, where by year 2005, the growth rate since year 2004 is 25.27 per cent. The deposit activity showed a fall in growth by year 2001, but redeemed momentum in year 2004. The growth rate since year 2000 has been 22.18 per cent.

3.3 Maybank Berhad (MAYBANK)

MAYBANK is the largest bank and financial group in Malaysia as it has been leading the banking industry in Malaysia for over three and a half decades. Maybank Berhad has over 400 branches with a network span over 13 countries. In terms of service quality, MAYBANK has been successful in improving the waiting time for transactions at most of their branches as well as enhancing turnaround time for various loan categories (MAYBANK, 2005: 23). MAYBANK also plays an important role in the development and promotion of Islamic Banking and Islamic insurance via its Takaful subsidiary. It is reported that Islamic banking operations contributed 15 per cent to the bank's profit before tax (MAYBANK, 2005: 41).

Figure 3.4: Islamic Products Share (Deposits and Financing) of MAYBANK



Source: MAYBANK Annual Report (Various Years)

Figure 3.4 shows the share of Islamic products in the total deposit and financing activity of MAYBANK. It can be seen that the share of Islamic financing increased steadily every year since year 2000, from 6.25 per cent to 14.78 per cent in year 2005. Islamic deposit share also shows a substantial in 2001 and again in 2004. Overall, it can be said that Islamic financial products attract more

IV. Empirical Findings

At the outset, it is illuminating to look at the personal characteristics of respondents who contributed to this research by answering the questionnaires. The characteristics are age, gender, ethnic groups, employment, education, profession, household income and products taken from each respective bank. Most of the respondents were males (53.27 per cent) and most of them fell between 25 and 35 years of age, with 37.38 per cent. The majority of the respondents were Malay (71.96 per cent) and 76.17 per cent of them are Muslim. Most of the samples (35.51 per cent) were single and a total of 33.80 per cent of respondent had diploma qualifications. In terms of profession, 55.29 percent worked with the government and 74.30 were employed. Most of the respondents (28.77 per cent) had approximate yearly household income in the range of Malaysian Ringgit (MR) 15000 to MR 20000. The detailed characteristic or information of the respondent is shown in table 4.1.

Table 4.1: Profile for BIMB, BCB and MAYBANK Customers

Characteristic	Category	BIMB		BCB		MAYBANK		TOTAL	
		n	%	n	%	n	%	n	%
Age	Below 18	6	10	9	11.69	1	1.30	16	7.48
	18-25 Years	19	31.67	13	16.88	11	14.29	43	20.09
	25-35 Years	27	45	26	33.77	27	35.06	80	37.38
	35-45 Years	6	10	22	28.57	19	24.68	47	21.96
	50-65 Years	2	3.33	5	6.49	19	24.68	26	12.15
	Above 65 Years	0	0	2	2.60	0	0	2	0.93
Gender	Male	32	53.33	44	57.14	38	49.35	114	53.27
	Female	28	46.67	33	42.86	39	50.65	100	46.73
Ethnic Origin	Malay	49	81.67	41	53.25	64	83.12	154	71.96
	Chinese	9	15	15	19.48	7	9.09	31	14.49
	Iban	0	0	7	9.09	1	1.30	8	3.74
	Bidayuh	2	3.33	3	3.90	1	1.30	6	2.80
	Melanau	0	0	4	5.19	0	0	4	1.87
	Orang Ulu	0	0	1	1.30	0	0	1	0.47
	Indian	0	0	6	7.79	3	3.90	9	4.21
	Punjab	0	0	0	0	1	1.30	1	0.48
Religion	Islam	50	83.33	47	61.04	66	85.71	163	76.17
	Christian	5	8.33	19	24.68	2	2.60	26	12.15
	Buddha	5	8.33	7	9.09	5	6.50	17	7.94
	Hindu	0	0	4	5.20	3	3.90	7	3.27
	Sikh	0	0	0	0	1	1.30	1	0.47
	Marital Status	Single	22	36.67	30	38.96	24	31.17	76
Educational Qualification	Married With Children	13	21.67	17	22.08	30	38.97	60	28.04
	Divorced	21	35	28	36.37	18	23.38	67	31.31
	Widowed	4	6.67	1	1.30	4	5.20	9	4.21
	Primary School	0	0	1	1.30	1	1.30	2	0.93
	Lower Secondary Examination (PMR)	0	0	2	2.60	0	0	2	0.94
	Malaysian Certificate of Education (SPM)	0	0	8	10.39	3	3.95	11	5.16
	Malaysian Certificate of Higher Education (STPM)	18	30	18	23.38	14	18.42	50	23.47
	Diploma	11	18.33	12	15.58	5	6.58	28	13.15
	Bachelor Degree	25	41.67	26	33.77	21	27.63	72	33.80
	Masters	3	5	7	9.09	22	28.95	32	15.02
Profession	PHD/Post Doctoral	3	5	2	2.60	9	11.84	14	6.57
	Education	0	0	2	2.60	2	2.63	4	1.88
	Business	9	16.67	11	14.29	1	1.30	21	10.10
	Service	8	14.81	12	15.58	7	9.09	27	12.98
	Housewife/ Househusband	12	22.22	21	27.27	10	12.99	43	20.67
	Government	2	3.70	0	0	0	0	2	0.96
Status of Employment	Employed	23	42.59	33	42.86	59	76.62	115	55.29
	Self-Employed	40	66.67	48	62.34	71	92.21	159	74.30
	Student	7	11.67	15	19.48	5	6.49	27	12.62
	Retired	5	8.33	11	14.29	1	1.30	17	7.94
	Unemployed	2	3.33	3	3.90	0	0	5	2.37
Approximate	Below MR 10000	6	10	0	0	0	0	6	2.80
		4	6.90	15	19.48	19	24.68	38	17.92

Yearly Household Income	MR 10000 – MR 15000		MR 15000 – MR 20000		MR 20000 – MR 30000		MR 30000 – MR 50000		MR 50000 – MR 100000		More Than MR 100000	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
	17	29.31	16	20.78	11	14.29	44	20.75				
	31	53.45	24	31.17	6	7.79	61	28.77				
	3	5.17	8	10.39	14	18.18	25	11.79				
	2	3.45	7	9.09	14	18.18	23	10.85				
	1	1.72	5	6.49	10	12.99	16	7.55				
	0	0	2	2.60	3	3.90	5	2.36				

The banking products and facilities taken by respondents are demonstrated in Table 4.2. As for BIMB, the majority of respondents used halal mutual fund or unit trust, with 26.47 per cent of the whole products taken. Amanah Saham Bank Islam (ASBI) is an Islamic unit trust funds established by BIMB to provide a channel for investors to pool and invest their money in investments that follows the Shariah principles. This was followed by the Islamic deposit and financing, which accounted to 24.26 and 22.06 percent respectively. 20.59 per cent of BIMB respondent used Islamic insurance products (Takaful) offered by Takaful Malaysia Berhad, a subsidiary of BIMB. The least popular products are the Islamic credit card, which scored only 6.62 per cent of the overall total of the BIMB respondent.

Respondents of conventional banks, represented by BCB and MAYBANK, showed that Islamic products were the most popular. The majority of BCB respondents used Islamic deposit products, while for MAYBANK the Islamic financing product was the most popular. Both conventional banks' respondents considered conventional products as less preferred to Islamic products. Conventional financing products were also favoured in both banks, with a margin of 20.14 and 21.64 per cent respectively, compared to conventional deposit product. Based on the findings, it seems that the Islamic banking products are most popular among Malaysian banking customers. This result is due to the fact that the majority of respondents in this study were Muslim, and do reflect that the level of awareness about Islamic banking among Muslim customers are increasing.

Table 4.2: Products and Services Taken by BIMB, BCB and MAYBANK Customers

Products and Services Taken	BIMB		BCB		MAYBANK	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Conventional Deposit	-	-	26	18.06	23	17.16
Conventional Financing	-	-	29	20.14	29	21.64
Islamic Deposit	33	24.26	46	31.95	40	29.85
Islamic Financing	30	22.06	43	29.86	42	31.34
Halal Mutual Funds (BIMB)	36	26.47	-	-	-	-

Takaful (BIMB)	28	20.59	-	-	-	-
Credit Card (BIMB)	9	6.62	-	-	-	-
Grand Total	136	100	144	100	134	100

Items which represent service quality are listed below in Table 4.3 together with the mean value (average importance) and rank of each item. Mean values are ranked in descending order (1 for the most important and 12 for the least important) to establish the priority given to each item by the respondents. The results gathered from the analysis may show two possibilities, namely it is the respondents' pattern in choosing the various banking products and services as well as how they ranked the service quality of each banks involved in this study. Mean comparison is, therefore, used to reveal the strength of answer to each item included in the questionnaire. As mentioned above, the average important value will be compared to the effective scale to measure the effectiveness of the items.

Table 4.3: Mean Values and Ranking of Items Indicating the Factors of Choosing Banking Products and Services

No	Item	BIMB		BCB		MAYBANK		OVERALL TOTAL	
		Average Importance	Ranking	Average Importance	Ranking	Average Importance	Ranking	Average Importance	Ranking
1	Polite, friendly and professional staff that understand what customer wants and willing to help	4.77	1	4.09	5	3.96	5	4.27	1
2	Knowledgeable and experienced staff that knows about banking products and services (ease of access of banking information)	4.37	9	4.01	10	3.96	6	4.11	7
3	The bank is willing and ready to give financial advice and connect the customer fast to the right bank personnel	4.37	7	4.07	6	3.77	11	4.07	10
4	Clean, comfortable and interesting interior and external bank appearance	4.37	8	4.23	1	3.92	7	4.17	5
5	Location (strategic with ample parking spaces and within reach via public transportations)	4.48	4	3.92	12	3.78	10	4.06	11
6	The availability of internet and phone banking	4.37	6	4.03	9	4.22	2	4.21	4
7	Many branches with ATM, deposit and financial statement machine	4.32	11	4.17	2	4.26	1	4.25	3

8	Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation	4.35	10	4.04	8	3.83	9	4.07	9
9	More choices and better products and services	4.43	5	4.07	7	3.9	8	4.13	6
10	Easy and interesting financing and overdraft facilities	4.52	3	3.99	11	3.66	12	4.06	12
11	Bank profile (well-known bank with strong image, assets and financial structure)	4.02	12	4.14	3	4.07	3	4.08	8
12	Confidence and trust in bank (high security and confidentiality in vital information)	4.67	2	4.1	4	4.01	4	4.26	2
13	The overall performance of the bank is good	4.72	-	4.38	-	4.05	-	4.38	-

Overall, the results show a different pattern in ranking for each item in each bank. As it can be seen in table 4.3, BIMB respondents ranked item 1 as the most important factor and it scored the highest mean value of all the combined results (4.77). This item also ranked the first in the overall analysis, which made it “very effective” in the effective scale analysis. Apart from that, it is interesting to see that there is a couple of items that scored the same mean value, and that the ranking is done on the basis of the highest concentration of “strongly agree” in the Likert scale, of each item. For BIMB, there are 4 items that have the same mean value (4.37) and ranked 6 until 9 respectively. This value indicates that the item falls under “very effective” category. The lowest ranking chosen by BIMB respondents was item 12 (bank profile) with 4.02 and considered “effective”. Overall, out of the whole 12 items, only one item falls under the “effective” category, while the other 11 items falls under “very effective” category. This may indicate that the respondents from BIMB give very high value to good service quality and may also be the indication of service quality offered by BIMB itself.

On the other hand, the respondents of BCB chose item 4 (bank appearance) as the most important factor in choosing banking services, with a mean value of 4.23 and made it “very effective” in the effective scale analysis. The lowest ranked item was item 5 (bank location) with a mean value of 3.92. From the table, it can be seen that there is only 1 item that falls under the “very effective” range, which is the top priority item, and the rest of the item falls under “effective” range. This indicates that BCB respondents did not put high a standard in choosing banking product and services, as compared to those of BIMB respondents. It also can be concluded that BCB respondents give even priority for almost the entire items, which means that all the items are of equal importance.

For MAYBANK, item 7 was given the highest priority, with a mean value of 4.26. This was followed by item 6 (the availability of internet and phone banking) with a mean value of 4.22. The two items fall under “very effective” in the effective scale

analysis. The rest of the items are under the “effective” range, where the range mean value is between 3.4 and 4.2. It can be seen that the range of the mean value set by the respondents of MAYBANK is high, where the priority was recorded for item 10, with a mean value of 3.66. This indicates that the respondents of MAYBANK give varying strength to their answers when asked about their preference in choosing the various banking products and services.

In a nut shell, the lowest mean value for the whole item was 3.66, which was recorded for item 10 (Easy and interesting financing and overdraft facilities) by MAYBANK’s respondents. In the mean comparison when averaging between all banks, item 1 was the highest ranked with a mean value of 4.27 and the lowest ranked was item 12 with a mean value of 4.06. It can be concluded that for the overall mean comparison, 4 items falls under the “very effective” category and 8 items in the “effective category”. It can also be indicated that the BIMB respondents show a high standard in choosing banking services or ranked the service quality of the bank better as compared to the two conventional banks.

Table 4.4: The Highest Ranked Items

Ranking	BIMB	BCB	MAYBANK	OVERALL TOTAL
1	Polite, friendly and professional staff that understand what customer wants and willing to help	Clean, comfortable and interesting interior and external bank appearance	Many branches with ATM, deposit and financial statement machine	Polite, friendly and professional staff that understand what customer wants and willing to help
2	Confidence and trust in bank (high security and confidentiality in vital information)	Many branches with ATM, deposit and financial statement machine	The availability of internet and phone banking	Confidence and trust in bank (high security and confidentiality in vital information)
3	Easy and interesting financing and overdraft facilities	Bank profile (well-known bank with strong image, assets and financial structure)	Bank profile (well-known bank with strong image, assets and financial structure)	Many branches with ATM, deposit and financial statement machine
4	Location (strategic with ample parking spaces and within reach via public transportations)	Confidence and trust in bank (high security and confidentiality in vital information)	Confidence and trust in bank (high security and confidentiality in vital information)	The availability of internet and phone banking
5	More choices and better products and services	Polite, friendly and professional staff that understand what customer wants and willing to help	Polite, friendly and professional staff that understand what customer wants and willing to help	Clean, comfortable and interesting interior and external bank appearance

Analysis of the highest priority items is shown in Table 4.4. As mentioned earlier, the top priority item by BIMB is the same as the one shared by the overall mean comparison of all banks. This results show that ‘customer service’ is very important. Interestingly, the second highest rated item by BIMB, which is the high confidence and trust in the bank, is also ranked second in the overall comparison. Apart from that, there are similarities between the priority set by BCB and MAYBANK respondents. It can be seen that in item 11 (bank profile), both banks ranked it 3rd. The similarity can also be found in item 12 (confidence and trust in bank), where both banks rank it 4th and for item 1, it was ranked 5th by both banks. This result shows that there are remarkable similarities in the conventional banks’ respondents when choosing banking products and services.

Overall, it can be seen that the pattern of respondents in this study shows that the quality of service given by banks’ personnel ranks at the top priority when choosing banking products and services. This revealed that the respondents value their relationship with banks’ personnel. The items ranked 3 to 5 generally show that it is important for a bank to offer good facilities in order to attract customers to deal with them. Most of the respondents value the convenience of having many branches with ATM, deposit and financial statement machines. This is important as most of the respondents in this study are working, and their time is precious and they expect their banking transactions to be completed as quickly as possible. Internet banking is fast developing in Malaysia, and its evidence can be seen in the table, where this element ranked 4th alongside phone banking. These facilities enable the banks’ customer to do banking transactions anywhere and at anytime they want, and this is important to the respondents in this study. Lastly, the appearance of the bank is equally important as the customer want to do their financial transaction in an attractive, clean and organized environment.

Table 4.5: The Lowest Ranked Items

Ranking	BIMB	BCB	MAYBANK	OVERALL TOTAL
8	Clean, comfortable and interesting interior and external bank appearance	Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation	More choices and better products and services	Bank profile (well-known bank with strong image, assets and financial structure)
9	Knowledgeable and experienced staff that knows about banking products and services (ease of access of banking information)	The availability of internet and phone banking	Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation	Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation
10	Many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation	Knowledgeable and experienced staff that knows about banking products and services (ease of access of banking information)	Location (strategic with ample parking spaces and within reach via public transportations)	The bank is willing and ready to give financial advice and connect the customer fast to the right bank personnel
11	Many branches with ATM, deposit and financial statement machine	Easy and interesting financing and overdraft facilities	The bank is willing and ready to give financial advice and connect the	Location (strategic with ample parking spaces and within reach via public transportations)

			customer fast to the right bank personnel	
12	Bank profile (well-known bank with strong image, assets and financial structure)	Location (strategic with ample parking spaces and within reach via public transportations)	Easy and interesting financing and overdraft facilities	Easy and interesting financing and overdraft facilities

From table 4.5, the following results can be indirectly linked; from the pattern it may show how the respondents perceive the service quality of each bank. The lowest ranks items for all the banks may prove this indication. For BIMB, the lowest ranked item by their respondents is regarding the bank's profile. This might be due to two reasons:

- As an Islamic bank, there is still bias perception that it is not as good or as compatible as conventional bank, and
- The reputation of BIMB when the bank incurred losses of MR 480 million in 2005 due to bad financing, after years of successful operation (Leen and Velaigam, 2005: 65).

For BCB, the lowest ranked item is the location of the bank. From the researcher's observation, although the bank (where the questionnaires were handed out) is strategically located near to government offices and surrounded by villages, there is a shortage of parking spaces available and the location is quite far from the public transportation, which makes it inconvenient to the bank's customers. In the case of MAYBANK, the item is ranked the lowest and this may due to their experience in applying for financing and overdraft facilities. Interestingly, this item is also ranked the lowest in the overall comparison. This might indicate that the financing application process for banks in Malaysia is strict and that this might discourage the customers from applying for that product and facilities. Apart from that, item ranked 9 and 10 in the overall comparison deal with the service given to the customers. Most of the respondents ranked item 8 (many tills open for transaction, fast and efficient transactions as well as longer opening hours for operation) at its position may due to the long queues in the banking hall, many tills were closed during banking hours and shorter operational time. Item 3 was ranked the 9th position and this might be the cause for the lack of information given when asked and enquiries were not attended properly.

Finally, the mean comparison of the respondents' strength in answering the last item regarding the overall performance of the bank is shown in Table 4.3. While the first 12 items are the indications on their preference in choosing banking products and services, the last item is the indication of the performance for that particular bank. Based on the respondents' strength in answering the item "the overall performance of the bank is good", the result shows that the average importance for BIMB is 4.72, ahead of BCB (4.38) and MAYBANK (4.05). The mean value shown put both BIMB and BCB into "very effective" category and MAYBANK falls into "effective" category.

Overall, from the analysis made shows that BIMB is the best ahead of the two conventional banks in terms of determinant factors in choosing banking services based on CARTER service quality model. Furthermore, this is an indication that the Islamic bank is able to compete with other conventional banks in terms of service quality given to their customers.

V. Conclusions

Overall, BIMB was ranked the best in terms of service quality ahead of BCB and MAYBANK. This can be seen as BCB scored the highest mean value based on the evaluation from their respondents (4.72). The same pattern can be seen when the analysis is carried out on the overall score of the average importance the whole 12 items, BIMB had scored 4.42, while BCB and MAYBANK scored 4.07 and 3.95 respectively. The comparison shows that BIMB ranked “very effective” in the effective scale analysis (more than 4.2) for both respondents’ answer in overall performance of the bank and accumulative mean comparison. The second best performance based on the analysis is BCB which ranked “very effective” based on respondents’ answer and “effective” based on overall mean comparison. Meanwhile, MAYBANK is ranked “effective” for both comparisons. This indicates that Islamic bank is able to give excellent service quality compared to their conventional counterparts.

Based on the findings through analysis in section B, it can be seen that the most important factor in choosing banking products and services relates to the competence of banks’ personnel in winning the trust of their customer. Another interesting finding is that the similarity of the factor ranked first and second, between the overall ranking and BIMB. The finding also shows that bank profile (well-known bank with strong image, assets and financial structure) only ranked 8th in the overall ranking. However, for Islamic bank, this factor should be given sufficient attention as nearly 21 per cent of the respondents said that this factor can be improved in order to maintain the development of Islamic banking sector.

The findings also revealed that Islamic bank should improve on their image and financial performance to attract more customers. As it was shown above, the respondents on BIMB ranked the item bank profile the lowest and it was also mentioned by the bank personnel from BIMB that there used to have a perception that Islamic bank is just “welfare bank”. Islamic bank is still facing preconception that it is not as good or as compatible as conventional bank, and as mentioned earlier, the reputation of BIMB of incurring huge losses due to bad financing, add to that problem. This indicates that there is a perception that Islamic banks could not compete and sustain in the financial sector. Extra measures should be taken by Islamic bank, such as strengthen their management and venture into more profitable investments, to better position itself in meeting future expansion and growth in the financial sector.

It can be seen that both Islamic and conventional banks have their own strength and weaknesses in terms of products, services and facilities. As a conclusion, in order for Islamic banking sector to compete with conventional banking, they should not over emphasize the religious factor as a strategy to attract more customers, as they are capable to compete in the financial sector. This was proven by the findings that

Islamic banks do offer excellent service quality, if not better, than conventional bank. Therefore, Islamic banks should strive more and use the advantages to excel in the financial sector.

It can be concluded that in terms of customer factor in choosing banking products and services, all the banks have individual strengths and weakness, and the most important factor is how the bank personnel respond to their customer. It should always be remembered that in order to have better service quality, the weaknesses have to be improved, while strong points should be enhanced. Apart from that, it can be seen that the future of Islamic banking in Malaysia is bright and the development is in the right track. More effort must be placed by all the banks to promote and widen the Islamic banking market.

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