

**QUALITY SERVICES FROM CUSTOMER PERCEPTION:
COMPARATIVE ANALYSIS BETWEEN ISLAMIC &
CONVENTIONAL BANK**

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**FACULTY OF ISLAMIC ECONOMICS AND FINANCE
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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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CONVENTIONAL BANK**

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**An academic exercise submitted in the fulfilment of the requirements for the degree
of MASTER OF ISLAMIC BANKING AND FINANCE (BY RESEARCH)**

**FACULTY OF ISLAMIC ECONOMICS AND FINANCE
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SUPERVISION

QUALITY SERVICES FROM CUSTOMER PERCEPTION: COMPARATIVE ANALYSIS BETWEEN ISLAMIC & CONVENTIONAL BANK

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DECLARATION

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ANALYSIS BETWEEN ISLAMIC & CONVENTIONAL BANK**

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ABSTRACT

QUALITY SERVICES FROM CUSTOMER PERCEPTION: COMPARATIVE ANALYSIS BETWEEN ISLAMIC & CONVENTIONAL BANK

The primary objective of this study is to analyse service quality perception of Brunei's Islamic and conventional bank customers through a comparative approach. The Carter service quality model was deployed as a measurement instrument to analyse, measure and compare the perception of both bank customers. The quantitative data was collected from 255 Islamic and conventional bank customers through purposive snowball sampling using self-administrated questionnaire. The data analysis revealed that Islamic bank customers perceived tangibility as the first, assurance second, empathy third, social responsibility fourth, innovation fifth, Shariah compliance as sixth, reliability as seventh and responsiveness as the eighth dimension of service quality. Whereas, conventional bank customers perceived assurance as first, innovation second, tangibility third, social responsibility as fourth, reliability fifth, responsiveness sixth and empathy as seventh based on their service quality perception. The comparison of mean analysis predicted that Islamic bank customers had better service quality perception compared to conventional bank customers. Similarly, satisfaction analysis found that Islamic bank customers are more satisfied with the provided services compared to conventional bank customers. The findings further predicted that modified Carter model is the most suitable instrument to determine service quality perception of the dual banking system in Brunei. There are certain limitations associated with this study such as small sample size and data collection from specific geographical locations. This study has various practical implications for professional bankers, financiers, regulators and policymakers. The regulators and policymakers of Islamic and conventional banks may implement the findings of this study to improve customer perception through better quality assurance. The study has significantly contributed towards the knowledge on service quality and customer perception particularly in the context of Brunei Darussalam.

ABSTRAK

Objektif utama kajian ini adalah untuk menganalisis persepsi kualiti perkhidmatan pelanggan perbankan Islam dan konvensional di negara Brunei melalui pendekatan secara perbandingan. Model kualiti perkhidmatan Carter telah digunakan sebagai instrumen pengukuran dalam menganalisis, mengukur dan membandingkan persepsi kedua-dua pelanggan bank. Data kuantitatif dikumpulkan daripada 255 pelanggan perbankan Islam dan konvensional melalui persampelan bola salji dengan menggunakan soalan kaji selidik. Hasil analisis data mendedahkan bahawa pelanggan perbankan Islam menekankan kepentingan tanggungjawab sebagai perkara utama, kedua adalah jaminan, ketiga adalah empati, keempat adalah tanggungjawab sosial, kelima adalah inovasi, keenam adalah pematuhan Syariah, ketujuh adalah kebolehpercayaan dan responsif sebagai dimensi kelapan kualiti perkhidmatan. Manakala pelanggan bank konvensional menekankan kepentingan jaminan sebagai perkara utama, kedua adalah inovasi, ketiga adalah ketajaman, keempat adalah tanggung jawab sosial, kelima adalah kebolehpercayaan, keenam adalah responsif dan empati sebagai perkara ketujuh berdasarkan persepsi kualiti pelayanan mereka. Perbandingan analisis min meramalkan bahawa pelanggan perbankan Islam mempunyai persepsi kualiti perkhidmatan yang lebih baik berbanding pelanggan bank konvensional. Begitu juga, analisis kepuasan pelanggan mendapati bahawa pelanggan bank Islam lebih berpuas hati dengan perkhidmatan yang disediakan berbanding pelanggan bank konvensional. Penemuan selanjutnya meramalkan bahawa model Carter yang diubahsuai adalah instrumen yang paling sesuai untuk menentukan persepsi kualiti perkhidmatan sistem dwi perbankan di Brunei. Terdapat batasan tertentu yang berkaitan dengan kajian ini seperti saiz sampel yang kecil dan pengumpulan data dari lokasi geografi tertentu. Kajian ini mempunyai pelbagai implikasi praktikal untuk ahli perbankan profesional, pembiaya, pengawal selia dan pembuat dasar. Pengawal selia dan pembuat dasar perbankan Islam dan konvensional boleh melaksanakan penemuan kajian ini untuk meningkatkan persepsi pelanggan melalui jaminan kualiti yang lebih baik. Kajian ini telah menyumbang kepada pengetahuan tentang kualiti perkhidmatan dan persepsi pelanggan terutamanya dalam konteks negara Brunei Darussalam.

ملخص البحث

حللت هذه الدراسة مفهوم جودة الخدمة لعملاء البنوك الإسلامية والتقليدية من خلال منهج مقارن. تم نشر نموذج جودة خدمة كارتر كأداة قياس لتحليل وقياس ومقارنة مفهوم كل من عملاء البنوك. تم جمع البيانات الكمية من 255 عميل من البنوك الإسلامية والتقليدية من خلال أخذ عينات من كرة الثلج الهادف باستخدام استبيان ذاتي الإدارة. وقد كشف تحليل البيانات أن عملاء المصارف الإسلامية ينظرون إلى ما هو ملموس أولاً، والثقة ثانياً، والتعاطف ثالثاً، والمسؤولية الاجتماعية رابعاً، والابتكار خامساً، والالتزام بالشرعية سادساً، والاعتماد سابعاً، والاستجابة باعتبارها البعد الثامن لجودة الخدمة على أساس إدراكهم. وحيث إن عملاء البنوك التقليدية يعتبرون الثقة أولاً، والابتكار ثانياً، والملموس ثالثاً، والمسؤولية الاجتماعية في المرتبة الرابعة، والاعتمادية الخامسة، والاستجابة السادسة والتعاطف كمركز سابع على أساس إدراك جودة خدماتهم. وتوقعت المقارنة من خلال التحليل المتوسط أن عملاء البنوك الإسلامية يتمتعون بإدراك أفضل لجودة الخدمة مقارنة بعملاء البنوك التقليدية. مثلاً، خلص التحليل المرضي إلى أن عملاء البنوك الإسلامية أكثر رضى عن المقدمين لعملاء البنوك التقليدية. وتنبأت النتائج أيضاً بأن نموذج كارتر المعدل هو الأداة الأنسب لتحديد إدراك جودة الخدمة للنظام المصرفي المزدوج في بروناي. هناك بعض القيود المرتبطة بهذه الدراسة مثل حجم العينة الصغير وجمع البيانات في مواقع جغرافية محددة. هذه الدراسة لها آثار عملية مختلفة للمصرفيين المحترفين، والممولين، والمنظمين وواضعي السياسات. يمكن للهيئات التنظيمية وصانعي السياسات في البنوك الإسلامية والتقليدية تنفيذ نتائج هذه الدراسة لتحسين إدراك العملاء من خلال ضمان جودة أفضل. ساهمت الدراسة بشكل كبير في معرفة جودة الخدمة وإدراك العملاء خاصة في سياق بروناي.

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ABBREVIATION

HSBC	Hong and Shanghai Banking Corporation
BIBD	Bank Islam Brunei Darussalam
UOB	United Overseas Bank
ACORN	Accelerated Community Oncology Research Network
KMO	Kaiser-Mayer-Olkin
ISO	International Standards Organization
TQM	Total Quality Management
SERVQUAL	Service Quality
SERVPERV	Service Perceived
ATM	Automated Teller Machine
UAE	United Arab Emirates
AMBank	Arab Malaysian Bank
Maybank	Malaysian Banking Berhad
CIMB	Commerce International Merchant Bankers Berhad
GCC	Cooperation Council
MBA	Masters of Business Administration
UK	United Kingdom
DEPD	Department of Economic Planning and Development
GDP	Gross Domestic Product
BND	Brunei Dollar
USD	United states Dollar
IDB	Islamic Development Bank
TAIB	Tabung Amanah Islam Brunei
IBB	International Bank of Brunei
IBB	Islamic Bank of Brunei
IBB	International Bank of Brunei
IDBB	Islamic Development Bank Berhad
OSPD	Outlines of Strategies and Policies for Development
AMBD	Autoriti Monetari Brunei Darussalam

BAB	Brunei Association of Banks
CIBFM	Centre for Islamic Banking, Finance and Management
Sdn.Bhd	Sendirian Berhad
S&P	Standard & Poor
BNP	Banque National Events de Paris
SME	Small Medium Enterprise
BIGS	Baiduri Internet Gateway Services
SGX	Singapore Stock Exchange
HKEx	Hong Kong Stock Exchange
UNISSA	Universiti Islam Sultan Sharif Ali, Brunei
PCA	Principal Component Analysis
CDM	Cash Deposit Machine
ANOVA	Analysis of Variance

CHAPTER 1:
INTRODUCTION TO THE RESEARCH

1.1 Introduction

The Islamic banking system has been adopted and accepted worldwide and has gained huge momentum over the past few years. Recently there are 180 Islamic banks and financial institutes operating all over Asia, Africa, Europe and America comprising more than 8,000 branches with an estimated worth of US\$2.1 trillion.¹ The existence and acceptance of Islamic banking system in non-Muslim countries like Europe, America, and Hong Kong proves that the Islamic banking system is not entirely limited to Muslim territories. Many reputable conventional banks such as Citibank Hong and Shanghai Banking Corporation (HSBC) and Standard Chartered have opened its branches in Muslim majority countries like Bahrain and Sudan and are operating under Shariah compliance. Similarly Muslim majority country such as Brunei Darussalam has undergone huge structural changes in the banking system. Currently Brunei has a dual banking system comprised of Islamic (Bank Islam Brunei Darussalam BIBD) and conventional (Baiduri) banks. The dual banking system of Brunei is the backbone of country's financial system with estimated assets of BND20.7 billion at the end of the year 2015 and accounts 82.0% of cumulative financial assets in the country.²

The peculiarity of conventional banks in Islamic countries operating under Shariah compliance fosters a stiff competition for Islamic banks in the subsequent country not only from local Islamic banks but also from conventional banks. Even though conventional banking system is utterly different from Islamic banking, however it still has the tendency to offer the similar benefits and services to the customers without introducing any non-Shariah compliance.³ Both Islamic and conventional banks are speculated to offer similar nature of services to its customers, the only potential determinant of differentiation and customer switching behaviour is the service quality and its ability to satisfy customers' needs. When competition is stiff and service providers are providing homogeneous products and services, the ultimate success determinants are competitive advantage through service quality. Service providers operating in a competitive market face the uphill challenge of survival, as the service

¹ World Islamic Banking Competitiveness Report. (2016), available at: <http://www.ey.com/Publication/vwLUAssets/ey-world-islamic-banking-competitiveness-report-2016/%24FILE/ey-world-islamic-banking-competitiveness-report-2016.pdf> (accessed 1 March 2018).

² A.M.B.D. (2015). "BIBD Annual Report. Retrieved from [https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT 2015ENGLISH.pdf](https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT%2015ENGLISH.pdf) on July, 11 2017.

³ Dean, A. (2013). Enhancing service-for-service benefits: potential opportunity or pipe dream? *Journal of Service Theory and Practice*, 27(1), 193–218.

quality becomes fundamental mainspring of customer satisfaction. The importance of the relationship between service quality, customer perception, and satisfaction in a highly competitive market is momentous in almost every marketing textbook emphasizing the service providers on the gist of differentiation from competitors and rival brands.⁴

During the past few decades, the concept of service quality has remained an area of concern in literature and research. Numerous researchers have investigated the concepts, designs, and issues of service quality in the past.⁵ However, latterly the issues associated with this concept such as service quality perception, expectation, satisfaction and service quality gaps have mesmerized the attention of researchers. Consequently, researchers in the past have identified different definitions, dimensions and methodologies to measure, distribute and utilize it according to need. The earlier study suggested that quality is dependent on tangibility and physical attributes of a product or service.⁶ The emergence and transformation of industry into services prospective have transformed the definition and designs of service quality. However, the classical definition of quality remains the same, which is known as conformance to specifications.⁷

The services perspective signifies that the conformance to specifications definition is invalid in services context as it involves a significant human interaction.⁸ Moreover considering service quality from the human point, it is defined as ultimate judgment developed towards delivered services comparing its expectation against actually received services and finally aptness of received services to satisfy the needs. In a simplified notion, it is a perceived judgment towards services developed through evaluation during consumption process.⁹ The term expectations transform the entire concept of service

⁴ Hui, S. A. B. D. T. X. (2013). Customer Perception on Service Quality of Commercial Banks: A Case Study in Penang, Malaysia. In published on Academic Research International, 4.

⁵ Gronroos, C. (1982). An Applied Service Marketing Theory. *European Journal of Marketing*, 16 (7), 30–41.

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Cronin, J. J., Brady, M. K., & Hult, G. T. M. (1992). Measuring Service Quality - A Reexamination and Extension. *Journal of Marketing*, 56(3), 55–68.

⁶ Berry, L. L., Parasuraman, A., & Zeithaml, A. V. (1988). The Service Quality Puzzle. *Business Horizon* (September-October), 35–43.

⁷ Ibid, pp. 35–43.

⁸ Reeves, C. A., & Bednar, A. D. (1994). Defining Quality: Alternatives and Implications. *Academy of Management Review*, 19(3), 419–445.

⁹ Grönroos, C. (1984). A service quality model and its marketing implications. *European Journal of Marketing*, 18(4), 36–44.

quality as it denotes the ability of a service to satisfy individual needs signifying that services differ according to the needs and values of the customers.

Several researchers have accentuated the conspicuousness of the service quality management in literature.¹⁰ An effective management of service quality enables corporates in differentiating them from rivals through delivered services. The differentiation elements enhance the probabilities to achieve competitive advantage and it results in extortionate sales and profits for service providers. The differentiation yields unique products and services having an ability to satisfy customers' needs and meet the desired expectations. Service quality management is a complete process, it starts with the assimilation of customers, needs evaluation, delivering required services to satisfy needs and eventually discovering the effectiveness of services to facsimile needs. The measurement of service quality effectiveness results in a positive relationship between customers and service provider.¹¹

Synchronously, the phenomena of service quality have also gained a huge significance in Islamic banking, which is relatively at the flourishing stage as compared to its rival in the industry.¹² The implication of service quality and its measurement in Islamic banks requires an insight of service quality from the Islamic context. The global acceptance and growth of Islamic finance have attracted many countries including Western world to reassess its banking operation and strategies according to Islamic banking business. The tremendous development and growth of Islamic banking products have resulted in the emergence of new Islamic banks along with conventional banks making an effort to establish Islamic banking windows.¹³ The growths of Islamic banks and conventional banks' strategies in offering Islamic banking products and services have resulted in stiff competition for Islamic banks from conventional banking giants. The aggravated competition signifies the exigency of knowledge about actual customer perceptions so

¹⁰ Gronroos, C. (1982). An Applied Service Marketing Theory. *European Journal of Marketing*, 16(7), 30–41.
Berry, L. L., Zeithaml, V. A., & Parasuraman, A. (1985). Quality Counts in Services, *Business Horizon*, 44-52.
Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). Servqual - a Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. *Journal of Retailing*, 64(1), 12–40.
Cronin, J. J., Brady, M. K., & Hult, G. T. M. (1992). Measuring Service Quality - A Reexamination and Extension. *Journal of Marketing*, 56(3), 55–68.

¹¹ Storbacka, K., Strandvik, T. & Gronross, C. (1994). Managing customer relationships for profit: The dynamics of relationship quality. *International Journal of Service Industry Management*, 5(21), 38-51.

¹² Shariff, R. A. (2012). *Service Quality in Islamic and Conventional Banks in Malaysia: An Explorative and Comparative Analysis*. Durham theses, Durham University. Available at Durham E-Theses Online. Retrieved from <http://etheses.dur.ac.uk/7315/>.

¹³ Amiri, M. A. R. (2008). Islamic Investment Management: The Way Forward. *Islamic Finance Review*, 17–19.

that Islamic banks enable to produce the right products and services to satisfy the needs of Islamic bank customers.

Service quality therefore is unavoidable for Islamic finance to maintain its growth and market share. Even though the recent economic crises triggered due to decreasing oil prices have imposed devastating impacts on banking industry especially the countries highly depending on oil and gas resources yet, the Islamic banking industry was still able to grow and managed to further penetrate, and elevate its market share.¹⁴ There are serious concerns over the ability of Islamic banking products and services to fulfill the needs of customers. The myth of Islamic finance growth is still under research by practitioners to discover whether Islamic financial institutions and its products and services have the ability to satisfy customer needs better than conventional banks. Similarly, it is worth to indicate further that Islamic financial institutions might be able to deliver expected services and satisfy customer needs. However, academicians have predicted that in a long run there are multiple obstacles to growth, fairness, and sustainability of Islamic banking industry.¹⁵

1.2 Research Problem

The negative deflection in hydrocarbons prices has created a challenging environment for the banking industry in Brunei. As the oil and gas prices remain low around the globe and Brunei is no exception to it therefore government, oil, and gas companies in Brunei have contracted its expenditures. Additionally, the enhanced credit control regulations by the authorities have limited the growth opportunities for the banks. The limitations in opportunities have created fierce competition among banks in Brunei signifying the survival of premium service quality provider in the market.¹⁶

Furthermore, both BIBD and Baiduri Bank has invested lavish capital to upgrade its premises, retail sector, initiatives to enhance customer experience, employee development and corporate social responsibility. Recently, Baiduri bank purchased retail sector of United Overseas Bank (UOB) and HSBC in Brunei to play a leading role for the development of Brunei's financial sector and to reinforce the impact of its retail banking

¹⁴ Damak, M. (2016). *Islamic Finance Outlook*. 2017th Ed.

¹⁵ Klein, O. (2008). Islamic Real Estate Finance: An Update. *Islamic Finance Review*, 35–36.

¹⁶ Baiduri Bank Annual Report. (2015). Published by Autoriti Monetari Brunei Darussalam, Retrieved from www.baiduri.com.bn/documents/baiduri_annual_report_2015_english_31082016.pdf, on July 11 2017.

business. The impacts of Baiduri bank's recent efforts of premises upgrade with a brand new concept of Café branch, installation of new technology, employee training & development programmes and corporate social responsibility efforts of community development are minimal on Brunei customers.¹⁷ Despite disbursing such a lavish expenditure, it was unable to compete and defeat Islamic bank (Bank Islam Brunei Darussalam, (BIBD) in capturing market share, as the bank did not make any formal attempt to understand and evaluate its customers' perception and quality of provided services.

The previous study predicted that sparingly, Islamic banks have the tendency of losing focus on service quality especially in the market where it can exert its monopolistic control.¹⁸ It may become an ideal scenario for BIBD, as it is the only fully fledged Islamic bank in Brunei. Therefore, having an advantage of being a sole provider of Islamic banking products and services, it enjoys the highest customer base of 200,000.¹⁹ Majority of the population (78.8%) in Brunei is Muslim Malays and keen on the management of their financial issues according to Islamic philosophies. The religious norms are perceived as reasons for exercising monopolistic control. Hidayat and Akhmad²⁰ predicted that religious norms are an important factor for customers to adopt Islamic banking services.

Latterly, the emergence of new Islamic banks and conventional banks' strategic implementation to offer Islamic banking products and services hindered these banks in practicing monopolistic policies. These days, it is essential for Islamic banks to improve its service quality to survive and gain market share. In today's highly competitive environment if Islamic banks do not provide the right products and services and satisfy customer needs, it will immediately perish from industry.²¹

Islamic banking products and services are perceived unique and different compared to conventional banking products and services. However, the issues connected with the

¹⁷ Baiduri Bank Annual Report. (2015). Published by Autoriti Monetari Brunei Darussalam, Retrieved from www.baiduri.com.bn/documents/baiduri_annual_report_2015_english_31082016.pd. On July 11 2017.

¹⁸ Saleem, M. (2005). "Islamic Banking: a \$300 billion deception. United States". Xlibris.

¹⁹ AMBD. (2017). "BIBD Annual Report, 2016 (Accessed on 10 May, 2017), Available at: <https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT2017ENGLISH.pdf>

²⁰ Hidayat, R., & Akhmad, S. (2015). The Influence of Service Quality, Religious Commitment and Trust on the Customers' Satisfaction and Loyalty and Decision to do the Transaction in Mandiri Sharia Bank of Jawatimur. *Al-Ulum*, 15(1), 57-90. ISSN 2442-8213.

²¹ Dusuki, A. W., & Abdullah, N. I. (2007). Why do Malaysian customers patronize Islamic banks? *International Journal of Bank Marketing*, 25(3), 142-160.

delivery of these services are similar in nature. BIBD is relatively new (established in 2005) compared to conventional banking (Baiduri Bank), it gives an opportunity to learn much more from its counterpart. BIBD aimed rules are still unclear in the transformation of its marketing strategy to provide better service quality. Despite enjoying the highest customer base and comparatively higher market share of 53% publically BIBD customer perception is still unclear.²²

The significance of service quality ideology has been stressed in Islamic doctrine and Islam lays an exceptional focus on delivering one's task with the utmost care and quality. Islamic doctrine suggests, "human beings actions must yield benefit and induce improvement for the fellow humans and it should improve their lives in a nutshell".²³ Therefore, in regards to Islamic banking context service quality delivery is not only moral allegiance for financial perspective but also a religious obligation. The above rational emphasizes the exigency to gain service quality knowledge for Islamic banks to further concrete the phenomena along with associated concepts and issues. Thus, this study focuses on the service quality knowledge, issues, and strategies, which were previously studied by many researchers and drawn the focus of several corporates.²⁴

The further additional drivers triggered the initiation of the present study are, latterly the business environment has become exceptionally challenging and competitive compared to earlier times. Therefore in modern days, organizations are required to redesign their products and most importantly its service quality to stay competitive and meet globalization requirements²⁵. These days service quality has become an important tool to decide the fate of service providers. The brisk development in technological-related services especially related with the internet has forced many organizations to respond accordingly to stay competitive. It is very important for the organizations to respond to these technological changes because the customers have become more knowledgeable

²² AMBD. (2017). "BIBD Annual Report, 2016, Available at: <https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT2017ENGLISH.pdf>, Accessed on 10 May, 2017.

²³ Asutay, M. (2010). "An Introduction to Islamic Moral Economy". Paper presented at the Durham Islamic Finance. Summer School 2010, School of Government and International Affairs, Durham University.

²⁴ Fisk, R. P., & Grove, S. J. (1995). Service Performance as Drama: Quality Implications and Measurement. *Managing Service Quality*, (pp. 107–119). London: Paul Chapman Publishing Ltd.

²⁵ Yasin, M., Alavi, J., Kunt, M., & Zimmerer, T. (2004). "Tqm practices in service organizations: an exploratory study into the implementation, outcome and effectiveness, *Managing Service Quality*, 14(5), 377–389.

Rodie, A., & Martin, C. (2001). Competing in the service sector-the entrepreneurial challenge. *International Journal of Entrepreneurial Behaviour & Research*, 7(1), 5–21

due to technological advancements. These days' customers gravitate to compare and analyse the provided service quality through the internet and other authentic sources.²⁶

The services are intangible in nature hence; it is difficult for the organization to measure the effectiveness of the provided services. It is mandatory for the corporates to discover how customers perceive and evaluate its services.²⁷ Even though BIBD customer perception and satisfaction survey were conducted by ACORN in 2015, however the survey report is publically unavailable.²⁸ The existence of technological improvements abruptly affects customers' perception and due to frequent fluctuations in customers' perception, previous ACORN survey is considered obsolete. Therefore, it is imperative for the banks to respond to customers' demands with technological savvy products and services. Predominantly customers evaluate services after experiencing it, which represents that, even though corporates ensure that the services are delivered through effective methods still, it is impossible for the service providers to measure the effectiveness without discovering customer perception. The measurement of service quality has gained huge significance over the years due to its impacts on customer satisfaction and corporates financial outputs such as profit.²⁹

Due to its impacts on corporates financial outcomes, service industries have changed its trend towards fulfilling the customer demands. In order to remain customer focused and meet customer expectation, service industries face a number of challenges to retain their customer loyalty. Even though customer satisfaction and service quality are two different phenomena, however these are interconnected in the long run as it affects the profit maximization by retaining the customer loyalty.³⁰ Therefore, customer satisfaction must be the center point of all the corporates dealing in the service sector as it determines the organization's performance. Customer loyalty and satisfaction are deduced to be the

²⁶ Hong, S. C., & Goo, J, Y. (2004). A causal model of customer loyalty to professional service firms: An empirical study. *International Journal of Management*, 21(4), 531–41.

Nguyen, N., & Leblanc, G. (2002). Contact personnel, physical environment and the perceived corporate image of intangible services by new clients. *International Journal of Service Industry Management*, 13(3), 242–262.

²⁷ Zeithaml, V. A. (1981). 'How consumer evaluation processes differ between goods and services'. In Donnelly, J. (Eds.), *Marketing of Services*, *American Marketing*, 186–90. Chicago, IL.

²⁸ AMBD. (2015). "BIBD Annual Report. Retrieved from [https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT 2015ENGLISH.pdf](https://www.bibd.com.bn/pdf/annualrpt/BIBDANNUALREPORT%2015ENGLISH.pdf), on July 11, 2017.

²⁹ Zeithaml, V. A., Berry, L. L., & Parasuraman, A. (1996). The behavioural consequences of service quality. *The Journal of Marketing*, 31–46.

³⁰ Oliver, R. L. (2009). *Satisfaction: A behavioural perspective on the consumer*. ME: Sharpe Incorporation.

cardinal vindications for an organization survival and core component of competitive advantage.³¹

Customers directly comprehend in determining the fate of an organization in the service sector by expressing their sentiment whether the services and its quality meet their expectation. Corporates are constrained to continuously keep track of how do customers rate their services, the drawbacks in their services and what are the new services it can offer for the customers to retain loyalty. Based on these justifications it is worth to conduct a research on how do customers perceive the service quality of two different versions of service provider i.e. Islamic banks and conventional banks. Since the ultimate judges of provided services are customers, hence the research focuses on evaluating the perception of customers in the demographic region of Brunei Darussalam.

1.3 Research Objectives

The study establishes the following research objectives to solve the above described research problems.

- (i) To analyse and compare the customer perception on service quality of Islamic (BIBD) and Conventional (Baiduri) banking system.
- (ii) To analyse the viability of the Carter model to suit the dual banking system in Negara Brunei Darussalam
- (iii) To propose a new dimension of service quality for Islamic banking system in Brunei.

1.4 Research Questions

The detailed analysis of discussed research problems leads to the following research questions.

- (i) What are the differences of customer perceptions in terms of service quality between Islamic banks and conventional banks based on Carter's model of service quality?
- (ii) How is the Carter model relevant to suit the dual banking system in Brunei Darussalam?

³¹ Sakthivel, P. B., Rajendran, G. & Raju, R. (2005). TQM implementation: TQ implementation and students 'satisfaction of academic performance. *The TQM Magazine*, 17(6), 573–89.

- (iii) What is the best service quality model to suit the Islamic banking in Brunei Darussalam?

1.5 Scope of Study

This study primarily focuses on the retail customers of Islamic (BIBD) and conventional (Baiduri) banks. These banks provide services such as deposit and withdrawals of funds, borrowing from banks and cheque deposits. The study does not cover the customers of other Islamic financial corporations and conventional financial corporates. This study analyses customer perception based on quality services and it does not incorporate external factors such as GDP, inflation, bank stability and efficiency that may influence banks' ability to offer different quality services. The study deploys dimensions of Carter service quality model for measurement and comparison of customer perception of both bank customers. This study does not cover the customer behaviour based on other service quality models such as Gronroos, Cronin et al, Abdullrahim and Al-Zaabi. The study is limited in terms of compiled information and data validity as it renders customer perception of both bank customers from January 2017 to December 2018.

1.6 Significance of the Study

A unique contribution of this study is towards enhancing the knowledge of service quality for Islamic and conventional banks in Brunei Darussalam. Even though there are many studies on service quality and customer perception measurement of conventional banks,³² there are scarce studies in Islamic banking. Perhaps the industry is still at infant stage therefore, the significant contribution of this study is towards the knowledge and gap from Islamic banks' customer perspective is essential. In addition, the study is vital to evaluate the Islamic bank customer perception towards the delivered products and services, which will further clarify the service quality theories for Islamic banks. Similarly, another perceptible addition of this study is to facilitate the Islamic banks' customer to retrieve the complete value from the service provider coupled with the products for religious purposes.

³² Zeithaml, V. A., Parasuraman, A., & Berry, L. L. (1990). *Delivering Quality Service. Balancing Customer Perceptions and Expectation*. New York: The Free Press.

Fisk, R. P., & Grove, S. J. (1995). *Service Performance as Drama: Quality Implications and Measurement*. Managing Service Quality, (pp. 107–119). London: Paul Chapman Publishing Ltd.