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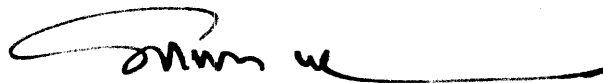
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**ADOPTING AND MEASURING CUSTOMER SERVICE QUALITY (SQ) IN
ISLAMIC BANKS:
A CASE STUDY IN BANK ISLAM MALAYSIA BERHAD (BIMB)**

A dissertation submitted to the Graduate School in partial
fulfillment of the requirements for the degree
Master of Science in Banking
Universiti Utara Malaysia

By

Shahril Bin Shafie

DECLARATION

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree or qualification.

I certify that any help received in preparing this thesis, and all sources used, have been acknowledged in this thesis.

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ABSTRAK

Operasi bank Islam lahir daripada undang-undang Islam yang membezakannya dari segi semangat, latarbelakang budaya dan praktikal dengan bank konvensional. Persaingan yang hebat, pelanggan yang berharap menerima kualiti perkhidmatan yang tinggi serta pantas dan perubahan teknologi yang rancam menyebabkan bank Islam mesti memikirkan strategi bagi menyediakan produk yang berkualiti tinggi serta layanan yang memuaskan kepada pelanggan. Kajian ini bertujuan untuk menunjukkan peri pentingnya bank Islam meletakkan perbezaan budaya di hadapan apabila mengadaptasikan kualiti perkhidmatan dan menggunakan model baru untuk mengukur kualiti perkhidmatan yang dikenali sebagai CARTER. Model CARTER ini berteraskan 35 perkara. Kajian ini menunjukkan kebolehterimaan untuk semua perkara dalam CARTER dari segi pemberat dan juga peratusan.

ABSTRACT

The operation of Islamic banks is derived from the Islamic Law and thus differs in spirit, cultural background and practice relative to conventional bank operations. Because of the strong competition, customer expectation to receive high quality services and quick changes of technology, Islamic banks must therefore strategically think of ways to provide 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 using a new model to measure SQ called CARTER, which is based on 35 items. The study shows significant validity for all CARTER items that have appeared in both important items' weights and percentages.

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LIST OF ABBREVIATIONS

Agriculture Bank of Malaysia	BPM
Assistant General Manager	AGM
Bank Industri	BI
Bank Islam Malaysia Berhad	BIMB
Bank Islam Malaysia Berhad	BIMB
Bank Negara Malaysia	BNM
Bank Pembangunan dan Infrastruktur Malaysia Berhad	BPIMB
Banking and Financial Institutions 1989	BAFIA
Chief Executive Officer	CEO
Compliance, Assurances, Reliability, Tangible, Empathy and Responsiveness	CARTER
Export credit refinancing	ECR
Fund for Small and Medium Industries	SMI
Government Investment Issues	GIIs
Guidelines on Islamic Negotiable Instruments	GINI
International Journal of Islamic Financial Services	IJIFS
Islamic Banking Act 1983	IBA
Islamic Banking Division	IBD
Islamic Banking Fund	IBF
Islamic Banking Unit	IBU
Islamic cheque clearing system	ICCS
Islamic commercial papers	Islamic CPs
Islamic Development Bank	IDB
Islamic Negotiable Instrument of Deposits	INID
Moment of truth	MOT
Mudharabah inter-bank investments	MII
Mudharabah money market tender	MMT
National Syariah Advisory Council for Islamic Banking and Takaful	NSAC
Negotiable Islamic Debt Certificate	NIDC
Peace be upon him	pbuh
	PFB @
Pilgrims Fund Board or popularly known as Tabung Haji	LUTH
Quality Leadership Team	QTL
Repurchase Order	REPO
Sanadat (bonds) Mudharabah Cagamas	SMC
Securities Commission	SC

Service Quality	SQ
Skim Perbankan Islam @ Islamic Banking Scheme	SPI
Skim Perbankan Tanpa Faedah @ Interest-free Banking Scheme	SPTF
Special Scheme for Low and Medium Cost Houses	SLMH
Syarikat Takaful Malaysia Berhad	STMB
Takaful Nasional Sdn. Berhad	TNSB
The Association of Islamic Banking Institutions Malaysia	AIBIM
The Bai' AI-Einah Contract	BAEC
The development finance institutions	DFIs
The Islamic accepted bills	IAB
The Islamic debt securities	IDS
The National Savings Bank	NSB
The Treasury Housing Loan Division	THLD
Total Service Quality Management	TSQM
Wholesale payments system	SPEEDS now RENTAS
Yayasan Pembangunan Ekonomi Islam Malaysia	YPEIM

Chapter 1

BACKGROUND OF THE STUDY

1.1 Introduction

During the past decade, the financial services sector has undergone drastic changes, resulting in a market place which is characterised by intense competition, little growth in primary demand and increased deregulation. In the new market place, the occurrence of committed and often inherited relationships between a customer and his or her bank is becoming increasingly scarce (Levesque and McDougall, 1996)¹. Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Meidan, 1996)².

Quality is sought by all organizations, especially in the service sector. This is particularly true in the banking sector (Bahia and Nantel, 2000)³. Excellent service quality is not an optional competitive strategy, which may, or may not, be adopted to differentiate one bank from another; today it is vital to corporate profitability and survival (Newman and Cowling, 1996)⁴. Recent cost-accounting studies indicates that "quality costs" can consume between 30 and 50 per cent of sales revenue in

¹ Levesque, T., McDougall, G.H.C., (1996), "*Determinants of customer satisfaction in retail banking*", International Journal of Bank Marketing, 14, 7, 12-20.

² Meidan, A., 1996, Marketing Financial Services, MacMillan Press, Houndmills.

³ Kamilia Bahia, Jacques Nantel (2000), "*A reliable and valid measurement scale for the perceived service quality of banks.*" The International Journal of Bank Marketing, Volume 18 Number 2, pp. 84-91.

⁴ Karin Newman, Alan Cowling (1996), "*Service quality in retail banking the experience of two British clearing banks.*" International Journal of Bank Marketing, Volume 14 Number 6, pp. 3-11.

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