

**THE RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMERS'
SATISFACTION IN ISLAMIC BANKS IN TANZANIA**

BY

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ABSTRACT

This study was intended to examine the relationship between service quality and customers satisfaction in Tanzania Islamic banks. The study applied six service quality dimensions of CARTER model developed by Othman and Owen, (2001) to achieve the intended objectives. Dar-es-salaam and Zanzibar have been selected as the study areas and three Islamic banks (Amana bank, KCB and PBZ) were selected. The study used convenience sampling to get the questionnaire respondents from selected banks. 384 questionnaires were randomly distributed to customers and a total of 255 questionnaire were able to be collected and used for analysis for this study.

With the help of SPSS version 19, descriptive analysis, correlation analysis and regression analysis have been used in this study in order to meet research objectives. The findings indicate significant relationship between service quality and customers' satisfaction. In addition, service quality found to be significant predictor of customers' satisfaction. However, empathy, compliance and reliability were found to be the only significant predictors of customers' satisfaction compared to other dimensions.

Banks are recommended to improve quality of their services, and provide knowledge to the community about Islamic banking and its products and services. Strong emphasis should be put on those areas that are directly associated with customers service. Moreover, banks must focus on complying with Islamic principles, improving reliability and empathy as these were found to have high effect on customers' satisfaction.

Key words: Customers' satisfaction, Service quality, Tanzania Islamic banking

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LIST OF ABBREVIATIONS

ANOVA	Analysis of variance
ATM	Automatic Teller machine
BOT	Bank of Tanzania
KCB	Kenya Commercial Bank
PBZ	People's Bank of Zanzibar
SPSS	Statistical Package for Social Science
TZS	Tanzania Shillings
VIF	Variance Inflation Factor
ZIFA	Zanzibar Institute of Financial Administration

CHAPTER ONE

BACK GROUND OF THE STUDY

1.1 Introduction

Introduction of Islamic finance is directly connected with the need for Islamic financial system that can satisfy demands of Muslim customers. Muslims demand an alternative banking because the conventional banking system is totally involved in *riba* transactions which are prohibited by Islamic law (Ahmed & Rehaman, 2010). Islamic finance is an alternative to conventional finance desired to provide equitable and sustainable distribution of wealth. It has strong root on sustainable society with focus on welfare, equity and justice. The system does not neglect social implications in commercial activities because social responsibilities are given strong emphasis in financing. Profit is the motive for Islamic finance, however, Islamic finance activities are not purely materialistic but supported by strong social responsibilities and accountabilities (Akkizidis & Khandelwal, 2008).

For the past three decades, Islamic banking has experienced popularity around the world (Čihák & Hesse, 2008). From its establishment in the 1970's, Islamic finance and banking industry has experienced a steady growth trend in both size and geographic coverage. Indeed, Islamic banking has become a reality that cannot be ignored (Raza et al, 2012). According to Ariss, (2010), Islamic banking grows at the

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