

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

BY

FAUZ MOH'D KHAMIS

**Research paper submitted to the
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
In Partial of the Requirement for the
Master in Islamic Finance and Banking**

2014

PERMISSION TO USE

In presenting this thesis in partial fulfilment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that University library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor or in his absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that copying or publication or use of this thesis or parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Requests for permission to copy or make other use of materials in this thesis, in whole or part should be addressed to:

**Dean of Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
06010 UUM Sintok,
Kedah Darul Aman.**

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

ACKNOWLEDGEMENT

In the Name of Allah, the Most Gracious and the Most Merciful. First of all I thank Allah (S.W) who granted me the ability and willingness to proceed with my Master programme. I am grateful to Allah the Almighty for everything He has granted me, the Most Merciful who has granted me the ability and willing to start and complete this study. I always pray to His Greatness to inspire and enable me to complete this dissertation on time. Without Allah, for sure I cannot make it possible.

My most profound thankfulness goes to my supervisor, Dr Rosemaliza Ab Rashid for all her patience, scientifically proven creativity, encouraging guidance, and many discussions that made this study to be completed. Without her understanding, consideration and tireless advice, this dissertation would not have been completed successfully.

Many thanks also goes to Dr Said Seif (ZIFA) for useful advice during the early stage of developing this study. My additional thanks and gratitude goes to all my dearest friends and family members especially my lovely wife for being by my side at all studying period.

Lastly, I am thankful to my dignified university (UUM) for giving me an opportunity to conduct this research in a very conducive environment.

Thank you.

TABLE OF CONTENTS

CERTIFICATON OF RESERCH PAPER.....	ii
PERMISSION TO USE.....	iii
ABSTRACT.....	iv
ACKNOWLEDGEMENT.....	v
LIST OF TABLES.....	ix
LLIST OF FIGURE.....	x
LIST OF ABBREVIATIONS.....	xi
CHAPTER ONE.....	1
BACK GROUND OF THE STUDY.....	1
1.1 Introduction.....	1
1.2 Research Problem.....	7
1.3 Research Objective.....	10
1.4 Significance of the Study.....	11
1.5 Study limitations.....	11
CHAPTER TWO.....	13
LITERATURE REVIEW.....	13
2.1 Introduction.....	13
2.2 Review of Related Literatures.....	13
2.3 Theoretical framework.....	26
2.4 Hypothesis formulation.....	27
CHAPTER THREE.....	29
METHODOLOGY.....	29
3.1 Introduction.....	29
3.2 Research design.....	30
3.3 Operational Definitions.....	31
3.4 Data Collection Procedures.....	37
3.5 Population and Sample Selection.....	39
3.6 Measurements/Instrumentation.....	41

3.7	Data Analysis Techniques	42
3.8	Reliability, Normality and Multicollineraity tests	44
	CHAPTER FOUR	46
	FINDINGS AND ANALYSIS	46
4.1	Introduction	46
4.2	Respondents' Profile	47
4.3	Validity and Reliability of data	49
4.4	Test for Data Normality	50
4.5	Multicollinearity Test	52
4.6	Descriptive Analysis	53
4.7	Correlation Analysis	54
4.8	Regression Analysis and hypothesis Testing	55
4.9	Discussion of the results	60
	CHAPTER FIVE	63
	CONCLUSION AND RECOMMENDATIONS	64
5.1	Conclusion	64
5.2	Implication of the study	66
5.3	Recommendations	67
5.4	Suggestion for future researches	68
	REFERENCES	70
	APPENDICES	79
	APPENDIX A: Questionnaire	80
	APPENDIX B: Test for data normality	89
	APPENDIX C: Multicollinarity and reliability Test	96
	APPENDIX D: Respondents' profile and Descriptive statistics	99
	APPENDIX E: Correlations	102
	APPENDIX F: Regression Analysis	104

LIST OF TABLES

Table	Title	Page no.
Table 2.1	Determinants of service quality	20
Table 2.2	Five dimensions of service quality	21
Table 4.1	Respondents' profiles	48
Table 4.2	Reliability statistics	49
Table 4.3	Test for normality of data	51
Table 4.4	Multicollinearity analysis	52
Table 4.5	Descriptive Statistics	53
Table 4.6	Regression Model Summary	56
Table 4.7	ANOVA of Regression Model	56
Table 4.8	Regression Coefficient analysis	57

LLIST OF FIGURE

Figure	Title	Page no.
Figure 2.3	Research framework	26

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

The contents of
the thesis is for
internal user
only

REFERENCES

- Ahmed, A., & Rehman, K.-u. (2010). An imperical investgaion of islamicbanking in Pakistan based on perception of service quality. *Aferican Journal ofBusiness Management*, 1185-1193.
- Akhtar, M. N., Hunjra, A. I., Abkar, S. W., Rehman, K.-U., & Niazi, G. S. (2011). Relationship between customer satisfaction and service quality of islamic banks. *World Applied Sciences Journal* 13 (3) , 453-459.
- Akkizidis, I., & Khandelwal, S. K. (2008). *Financial Risk Management for Islamic Banking and Finance*. New York, N.Y.10010: Palgrave Macmillan.
- Al-Hawari, M., & Ward, T. (2006). The effect of automated service quality on Australian banks' financial performance and the mediating role of customer satisfaction. *Marketing Intelligence and Planning*, 24(2), 127-47.
- Ali, A., & Ijaz, A. T. (2013). Assessing Service Attitude: Service Quality Measures Taken by Islamic Banks in Pakistan. *Journal of Business and Management (IOSR)*, 61-68.
- Amin , M., & Isa, Z. (2008). An examination of the relationship between service quality perception and customer satisfaction A SEM approach towards Malaysian Islamic banking. *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 1 No. 3., 191-209.
- Amoah-Mensah, A. (2010, 09 17). *Customer satisfaction in banking industry: A comparative study of Ghana and Spain*. Retrieved from Universitat de Gerona: handle.net/0803/22657
- Ananth, A., Ramesh, R., & Prabakaran, B. (2011). "Service Quality GAP Analysis in Private Sector Banks A Customer Perspective". *Internationally Indexed Journal*, Vol. II, Issue.1, 245-252.
- Ariss, R. T. (2010). Competitive conditions in Islamic and conventional banking: A global perspective. *Review of Financial Economics*, Vol. 19, No. 3, 101–108.

- Bashir, M. S. (2012). Analysis of Customer Satisfaction with the Islamic Banking Sector: case of Brunei Darussalaam. *Asian Journal of Business and Management Sciences*. Vol. 2 , No 10, 38 - 50.
- Bitner, M. J., & Hubbert, A. R. (1994). *Service Quality: New Directions in Theory and Practice*. Thousand Oaks: CA:Sage.
- Bowen, J. W., & Hedges, R. B. (1993). Increasing service quality in retail banking. . *Journal of Retail Banking*, 15 (3), 21-28.
- Central Intelligence Agency (US). (2012, 5 19, 09:53). Retrieved from CIA World Factbook: [http:// www.cia.gov](http://www.cia.gov)
- Chalu, H. (2014). Exploring the distinguishing features of Islamic banking in Tanzania. *Journal of Islamic Economics, Banking*. Vol-10, No.1, 110-138.
- Čihák, M., & Hesse, H. (2008). “Islamic Banks and Financial Stability: An Empirical Analysis”: *IMF Working Paper 08/16* . Washington: International Monetary Fund.
- Coakes, S. J. (2011). *SPSS: Analysis without anguish: Version 18.0 for windows*. 42 McDougall Street, Milton,Qld 4064: John Wiley & Sons Australia, Ltd.
- Cronin, J. (2003). Looking back to see forward in services marketing: some ideas to consider. *Managing Service Quality*, 13(5), 332-337.
- Cronin, J. J., & Taylor, S. A. (1994). SERVPERF versus SERVQUAL: reconciling performance- based and perceptions-minus-expectations measurement of service quality. *Journal of Marketing*, 58(1), 125–131.
- Der Velde., M. V. (1991). Customer-perceived quality drives retail banking in 90s. *Bank Management*, 29–35.
- Dusuki , A. W., & Abdullah , N. I. (2007). Why do Malaysian customers patronize Islamic banks? *International Journal of Bank Marketing*, 25(3) , 142-160.

- Eagle, L. (2009, May 14). *Banking on Sharia principles: Islamic banking and the financial industry*. Retrieved from Banker's Academy Briefings: http://www.bankersacademy.com/pdf/Islamic_Banking.pdf
- El Saghier, N., & Nathan, D. (2013). Service Quality Dimensions and Customers' Satisfactions of Banks in Egypt. ISBN: 978-1-922069-22-1. Dubai, UAE,; Proceedings of 20th International Business Research Conference.
- Ernst, & Young. (2013). *World Islamic Banking Competitiveness Report 2013–14*. 2013 Ernst & Young.
- Erol, C., & Radi El-Bdour. (1989). Attitudes, Behavior, and Patronage Factors of Bank Customers Towards Islamic Banks. *International Banking & Marketing* Vo 7, No.6, 31-70.
- Farooq, U., Raza, A., Saddique, U., Awan, S., & Amin, A. (2012). Customers' Satisfaction towards Islamic: Pakistan's Perspective. *Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 1, No.6.*, 71-79.
- Fen, Y. S., & Lian, K. M. (2002). Service Quality and customer Satisfaction: Antecedents of customer's re-patronage intentions. *Sunway Academic Journal* 4, 59-73.
- Giese, J. L., & Cote, J. A. (2002). Defining Consumer Satisfaction. *Academy of Marketing Science Review, Volume 2000 No. 1*.
- Hair, J. F., Babin, W. C., Anderson, R. E., & Babin, B. J. (2010). *Multivariate Data Analysis: A Global Perspective*. Upper Saddle River, New Jersey 07458: Pearson Education, Inc.
- Hamzah, N., Ishak, N. M., & Mohd Nor, N. (2014). Customer Satisfaction on Islamic Banking System. *Journal of Economic, Business and Management, Vol. 3, No. 1*, 140-144.
- Haque, A., Osman, J., & Hj Ismail, A. Z. (2009). Factor Influences Selection of Islamic Banking: A Study on Malaysian Customer Preferences. *American Journal of Applied Sciences* 6 (5), 922-928.

- Haron, S., Ahmad, N., & Planisek, S. (1994). Bank patronage factors of Muslim and non- Muslim. *International Journal of Bank Marketing*, 12(1), 32- 40 .
- Haroon, R., Amin, W., & Ahmed, A. (2012). An Evaluation of Bank Customer Satisfaction in Pakistan, Comparing Foreign and Islamic Banks. *International Journal of Academic Research in Business and Social Sciences*, Vol. 2, No. 7, 177- 184.
- Hedges, R. (1993). Increasing service quality in retail banking. *Journal of Retail Banking*, Vol. 15, 21- 28.
- Hossain, M., & Leo, S. (2009). “Customer perception on service quality in retail banking in banking in Middle East: the case of Qatar”. *International Journal of Islamic and Middle Eastern Finance and Management*, vol.2, no.4, 338-350.
- Hossein, V., & Sahel, F. (2013). Factors influencing customer satisfaction with the success factors identified in the insurance industry. *African Journal of Business Management*, Vol. 7(21), 2026-2032.
- Karimi , A. (2005). *Techniques of selling professional insurance selling*. Iran: Iran Central research Center Publications, first edition.
- Keuhn , K., & Bley , J. (2004). Conventional Versus Islamic Finance: Student Knowledge and Perception in the United Arab Emirates. *International Journal of Islamic Financial Services*, 5(4).
- Khafafa, A. J., & Shafii, Z. (2013). Measuring the Perceived Service Quality and Customer Satisfaction in Islamic Bank Windows in Libya Based on Structural Equation Modelling (SEM). *Afro Eurasian Studies*, Vol. 2, Issues 1&2, Spring & Fall, 56-71.
- KKhattak, N., & Kashif-ur-Rehamn. (2010). Customer satisfaction and Awareness of Islamic Banking in Pakistan. *AfricanJournal of BusinessManagement*, 662-671.

- Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. *EDUCATIONAL AND PSYCHOLOGICAL MEASUREMENT*, 30, 607-610.
- Kumra, R. (2008). " *Service quality on rural tourism*" : A perspective Approach, *Conference on Tourism in India-Challenges Ahead*. India.
- Mamun, R., Hassan, M. K., & Ahmad, A. U. (2008). Quality Perception of the Customers towards Domestic Islamic Banks in Bangladesh. *Journal of Islamic Economics, Banking and Finance, Volume-5 Number-1*, 109-131.
- Maruak, D. S., Anuar, A., & Zainal, N. S. (2011). *A comparative study on Service Quality in Bank Islam (BIMB): Sngai Petani, Kedah*. 40450 Shah Alam, Selangor, Malaysia: Istitut Pengurusan Penyelindican;Universiti Teknologi Mara,.
- Maruak, D., Sadek, Z. N., Taher, M. S., Yahya, F. A., Shaharudin, R. M., Noordin, N., . . . Jusoff, K. (2010). Service Quality Perceptions between Cooperative and Islamic Banks of Britain. *American Journal of Economics and Business Administration* 2 (1), 1-5.
- Metawa, S. A., & Almosawi, M. (1998). Banking behaviour of Islamic bank customers: perspectives and implications. *International Journal of Bank Marketing*, 16(7), 299-313.
- Mihelis, G., Grigoroudis, E., & Siskos, Y. (2001). Customer satisfaction measurement in the private bank sector. *European Journal of Operational Research*, vol. 130, 347–360.
- Miller, K. F. (2008). *Service Quality in Academic Libraries: An Analysis of LibQUAL+™ Scores and Institutional Characteristics*. Orlando, Florida: Department of Educational Research, Technology, and Leadership in the College of Education at the University of Central Florida.
- Mostaghel, R. (2006). *Customer Satisfaction: service quality in online purchasing in Iran*. Iran: Lulea University of Technology, Department of Business Administration and Social Sciences-Division of Industrial Marketing and E-Commerce MSc.

- Msoka , C. M., & Msoka , E. M. (2014). Determinants of Customer Retention in Commercial Banks in Tanzania. *Journal of Finance and Bank Management*, Vol. 2, No. 1, 09-30.
- Mtui, E. G. (2011). *Assesment of customer service quality and customer satisfaction in the banking sector: The case study of National Microfinance bank Ltd Arusha*. Dar-es-Salaam: Edwin G. Mtui.
- Mudassar, K., Talib, S., Cheema , S., & Raza, M. S. (2013). The impact of service quality on customer satisfaction and the moderating role of word-of-mouth. *African Journal of Business Management*, Vol. 7(18), 1751-1756.
- Naser , K., Jamal , A., & Al-Khatib, L. (1990). Islamic banking: a study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing*, 17(3). , 135-150.
- Okumus, H. S., & Genc, E. G. (2013). Interest free Banking in Turkey : A study of Customer Satisfaction and Bank selection . *European Scientific Journal edition vol.9, No.16*, 144 -166.
- Oliver, R. L. (1981). Measurement and evaluation of satisfaction process in retail settings. *Journal of Retailing*, No 57, 25-48.
- Ombati, T. O., Magutu, P. O., Nyamwange , S. O., & Nyaoga, R. B. (2010). Technology And Service Quality in the Banking Industry Importance and Performance of Various Factors Considered In the Electronic Banking Services. . *African Journal of Business Management*, Vol. 1, 151-164.
- Osman, I., Ali, H., Zainuddin, A., Wan Rashid, W., & Jusoff, K. (2009). Customers Satisfaction in Malaysian Islamic Banking. *Intenational Journal of Economics and Finance*, Vol 1, No. 1, 197-202.
- Othman, A. Q., & Owen, L. (2001). The Multi Dimensionality of CARTER Model to measure customer Service Qaulity (SQ) in Islamic Banking Industry: A study in Kuwait Finance House. *International Journal of Islamic Financial Services Vol. 3 No. 4*, 1-12.

- Owen, L., & Othman, A. Q. (2003). Adopting and measuring customer Service Quality (SQ) in Islamic banks: A case study in Kuwait Finance House . *International Journal of Islamic Financial Services, Vol. 3. No. 1*, 1-12.
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1985). A Conceptual Model of Service Quality and Its Implication for Future Research. *Journal of Marketing, Vol. 49*, 41-50.
- Raza, A., Saddique, U., Farooq, U., Awan, S., & Amin, A. (2012). Customers' Satisfaction towards Islamic Banking: Pakistan's perspective. *Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 1, No.6*, 71-79.
- Roscore, J. T. (1975). *Fundamental Reserach Statistics for the Behavioural Science. 2nd Edition*. New York: Holt Rnehart & Winston.
- Rose, P. S., & Marquis, M. H. (2006). *Money and capital markets: Financial institutions and instruments in a global marketplace. (9th ed.)*. New York : McGraw-Hill Irwin.
- Ruyter, K. (1997). Measuring service quality and service satisfaction: an empirical test of an integrative model. *Journal of Economic Psychology, 18*, 387-406.
- Salim, K. A. (2012, March 14). *Islamic Banking in Tanzania: Hopes and Challenges*. Retrieved from Islamic banking and Islamic Insurance: <http://khalfanabdallah.blogspot.com/2012/03/islamic-banking-in-tanzania-hopes-and-challenges.html>
- Sekaran, U., & Bougie, R. (2013). *Research Methods for Business: A skill-building Approach; Sixth Edition*. The Atrium, Soutern Gate, Chichester, West Sussex, PO 98SQ, United Kingdom: John Wiley & Sons Ltd.
- Seyyed , M. A., & Ghaedi, M. (2012). A survey on the relationships between customer satisfaction, image, trust and customer advocacy behavior. *African Journal of Business Management Vol. 6(8)*, 2897-2910.

- Sharma, A., & Mehta, V. (2005). Service quality perceptions in financial services-A case study of banking service. *Journal of services reasearch*, 4 (2), 205-223.
- Stafford, M. (1994). "How customers perceive Service Quality (SQ)", . *Journal of Retail Banking*, 17 (2), 29 – 38.
- Sureshchandar, Rajendran, & Ananthraman. (2002). The Relationship Between service quality and customer satisfaction. Factor Specific Approach. *Journal of Service Marketing*, Vol.16, (No.4), 363-379.
- Tabachnick, B. G., & Fidell, L. S. (2007). *Using Multivariate Statistics*. Boston ,New York ,San Francisco: Pearson.
- Tayyebi, A. (2008). "*Islamic Finance: An ethical alternative to conventional finance*". Retrieved from The Association of Chartered Certified Accountants:
http://www.acca.co.uk/pubs/general/activities/library/financial_reporting/other/tech_tp_if6pp.pdf
- Tripathi, S., Kasongwa, L., & Beatus, C. (2013). Important Issues in Growth of Islamic Banking Services in East African Context: Study of Selected Banks in Dar Es Salaam, Tanzania. *International Journal of Research in Business and Technology*, Volume 3 No. 2, 169 -176.
- Tsoukatos, E., & Rand, K. (2007). Cultural influences on service quality and customer satisfaction: Evidence from Greek insurance. *Manag. Serv. Qual.* 17(4), 467-485.
- Wan Muhammad, Z. W., Muhammad , R. A., & Shukor, S. A. (2013). *A Vehacle Financing comaparative study between Ijarah in Maybank Berhad and Bai bithaman Ajil in Bank Islam Malaysia Berhad*. Malaysia: University Sains Islam.
- Wan, A., Shafie, S., Nursofiza, W., & Haron, S. (2004). Adopting and measuring customer Service Quality in Islamic Banks: A case study of Banks Islam Malaysia Berhad. *Journal of Muamalat and Islamic Finance Research*, Vol. 1, No.1.

Wirtz, J., & Lee, M. C. (2003). An Examination of the Quality and Context-Specific Applicability of Commonly Used Customer Satisfaction Measures. *JOURNAL OF SERVICE RESEARCH*, 345 - 355.

worldpopulationreview.com. (2013, 12 6).
worldpopulationreview.com/countries/tanzania-population. Retrieved from
Tanzania Population 2013: <http://worldpopulationreview.com>

Zeithaml, V. A., Parasuraman, A., & Berry, L. L. (1990). *Delivering quality service: Balancing Customer perceptions and expectations*. Free Press, New York, NY.