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Service Quality from Customer Perception: Comparative Analysis between Islamic and Conventional Bank

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Abstract
The present study explores the relationship between service quality and customer perception. Service quality and customer perception of leading Islamic and conventional banks in Brunei is analyzed through comparative analysis. The comparative analysis on customer perception of service quality between both bank customers is done by deploying Carter's service quality model. The quantitative data was collected from 255 Islamic and conventional bank customers through purposive snowball sampling using self-administrated questionnaire. The findings of the study revealed that Islamic bank customers had better service quality perception and were more satisfied towards the provided services compared to conventional bank customers. Islamic bank customers' perceived tangibles and assurance as the most significant components of an exceptional service quality whereas conventional bank customers perceived assurance and innovation as the most significant components of service quality. There are certain limitations associated with this study such as small sample size and data collection in specific geographical locations. This study has various practical implications for professional bankers, financers, regulators and policy makers. The regulators and policy makers 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 context of Brunei.

Key words: *Service quality, customer perception, Carter, Comparison, Brunei*

1. Introduction

Service quality is an evasive theoretical concept and its intangible, variable and inseparable characteristics have unique impact on services (Zaithmal et al, 1990). Service quality is a deceptive issue in the current marketing world. Relinquishing the exceptional service quality is the key to success in today's competitive global business arena (Al-Hawary and Metabis, 2012). Marketing experts have categorized it as the most popular trend in modern day marketing in shaping the business (Abdullah, 2006). Service quality enables financial institutions such as banks to substantiate competitive advantage, maximize profit and augment market share (Buzzell and Gale, 1987). Customers' perception analysis helps financial institutions to provide excellent products and services in order to appease their needs (Wang and Pho, 2009).

The corporates continuous survival in the market is highly dependent on its ability to cope with the fluctuations in business environment and persistently interact with potential customers through management of fluctuations in business environment. As the business environment fluctuates, customers' needs and requirements are reshaped through changes in economic, social and civilization conditions. Researchers, corporates and marketing professionals actively incriminate to understand, analyze and measure customers' perceptions and expectations to attract new and retain existing customers (Pariseau and McDaniel, 1997). Service providers face significant challenges of quality improvement and management to retain its position in the competitive business world (Al-Dweeri et al, 2017). The measurement and provision of service quality has become exceptionally significant for proper and effective bifurcation of corporate resources (Kearney, 1999). In modern services oriented business world service quality is no more a mere business slogan, rather it is a depiction of corporates perpetual sustainable commitment in managing and meeting its customers' variety of needs and wishes. Analyses and measurement of customers' fluctuating needs and satisfying these needs is the responsibility of corporates' management and its employees.

The development in Islamic finance was more dynamic than the stagnant total assets suggest (IFSI report, 2017). The Islamic financial market share has increased 18% with an estimated assets of USD 1.89 trillion representing a strong indication of global acceptance and growth of its three main sectors (banking, capital markets and Takaful) not only in Muslim but also in non-Muslim countries (IFSI report, 2016). However like other financial industries, Islamic and financial industry in Brunei is facing exceptional challenges in its growth due lack of opportunities representing the global fluctuations in hydrocarbon prices. The lack of opportunities in the growth

of banks was triggered because of contraction in spending by Brunei government and oil & gas companies (Baiduri annual report, 2015). In addition, technological advancements have empowered customers to choose between the banks. Modern day customers' thought has shifted from banking for religious constrains to banking with excellent service quality provider (Hidayat and Akhmad, 2015). The customers' surge for better service quality provider has drawn the attention of leading financial institutions (Bank Islam Brunei Darussalam & Baiduri Bank) to analyze and assess its customers' perception at regular intervals (BIBD annual report, 2016).

2. Literature Review

2.1 Service quality

The concept of quality has been flitted from manufacturing sector to service sector and it is known as a primacy competitive strategy (Pariseau and McDaniel, 1997). Quality achievement has become an essential component of competitive advantage for the organizations aspire to focus on efficiency. The quality definitions vary from "conformance to specification" to "quality is value" to "quality is excellence" quality is meeting or exceeding customers' needs (Reeves and Bednar, 1994). Gronross (1982) elaborated service quality concept as, "the procedure containing succession of more or less intangible diversion usually but not necessarily always, through the interaction between consumers and service provider personnel or resources focus to meet customers' needs". The service quality definitions differ in the words setting; collectively service quality determines the corporates failure or success in meeting customers' needs (Cronin and Taylor, 1992; Oliver, 1993). In a nut shell, service quality is sketched as organizational assessment of customers' perception and its success or failure in meeting customers' expectations (Zeithaml et al, 1990).

Service quality is further defined as: the gap between expectations and perceptions" (Berry and Zeithaml, 1988). Additionally, service quality was defined as "universal judgment or attitude towards specific service" (Fogli, 2006). The universal judgment defines customers' actual attitude towards the superiority or inferiority of organization and its services. American Customer Satisfaction Index (ACSI) defined service quality as the level and reliability of a product or service in meeting customers' requirements (customization) (Fornell et al, 1996). Service quality perception indicates consumers' opinion regarding the superior or global excellence of a product or service (Zeithaml, 1988). Over the years various models were constructed to measure customer perception of service quality (Gronross, 1982: Parasuraman et al, 1985; Stafford, 1996; Bahia and Nantel, 2000). Parasurman et al. (1985) SERVQUAL model is the most popular and widely adopted model for service quality perception measurement and comparison (Bashir, 2013; Ali and Raza, 2015; Faisal et al, 2016; Lone and Rehman, 2017). This model contains five dimensions known as assurance, reliability, tangibility, empathy and responsiveness.

2.2 Customer perception

Gronross, (1982); Parasuraman et al, (1985) have suggested that service quality perception among customers depends on the comparison between expectations (what they feel service provider should offer) and performance of services. The literature on satisfaction and service quality suggested that perception is viewed differently (Parasuraman et al, 1988). Satisfaction literature describes perceptions as 'predictions' by customers about the likely outcome during a particular transaction. Service quality literature describes perceptions and expectations as the desires or wants of consumers (what they feel a service provider 'should' offer instead of 'would' offer.

The present study assumes service quality perception as desires and needs of customers as it will allow discovering what exactly service providers should offer based on customer past experience and interaction (Douglas and Connor, 2003). Negi (2009) suggested that, it is mandatory for organizations to understand measure and evaluate customer's perceptions and expectations for the identification of significant gaps in service delivery to ensure customer satisfaction.

2.3 Perceptions of service Quality

Perception and expectations are correlated in the formation of actual service quality (Zeithaml and Bitner, 2003). Customers' inclusive assessment towards provided quality of the services forms services perception. The level of satisfaction towards these services determines customers' perception which might be positive (satisfied) or negative (dissatisfied) (Zeithaml and Bitner, 2003). The study suggested that customers' perceptions are time dependent therefore perceptions assessment and measurement at regular intervals is mandatory for organizations (Zeithaml and Bitner, 2003).

2.4 Review of past studies

The literature presents several studies on service quality analyses and measurement by dint of comparison between Islamic and conventional banks. The comparison is furnished based on service quality perception and satisfaction. Ahmad et al, (2010) investigated service quality effects on customer satisfaction through assessment of magnitude between selected variables. The study adopted SERVQUAL model and findings suggested the existence of positive relationship between service quality and customer satisfaction of Islamic bank customers compared with conventional bank customers. Shariff (2012) explored and examined service quality perception level between Islamic and conventional bank customers in Malaysia. The study adopted SERVQUAL and Carter model to analyze and compare perceptions of both bank customers. The study suggested that both Islamic and conventional banks service quality was below customers' expectations.

Akhtar and Zaheer (2014) identified the key dimensions of Islamic banks service quality based on customer perception of United Arab Emirates and Saudi Arabian banks. Carter service quality model was adopted to explore and identify the key dimensions. The findings revealed that reliability, assurance and empathy significantly impact customers' perceptions and satisfaction whereas, responsiveness negatively impact customers' satisfaction. Al-Jazzazi and Sultan (2017) determined difference in banking service quality perceptions across demographic subgroups of Islamic and conventional bank customers in Jordan. The study found that banking service quality perceptions significantly differ based on demographic variables however the variables of age and income do not impact customers' perception.

Lone et al, (2017) explored the level of customer satisfaction between Islamic and conventional bank customers through comparative study in Saudi Arabia. The study found equal level of satisfaction between both bank customers from different regions in the country. A similar comparative study on customer satisfaction between fully fledged Islamic and conventional banks in Pakistan was administrated by Lone and Rehman (2017). The study measured and compared service quality adopting SERVQUAL model. The study found that fully fledged Islamic bank customers have positive service quality perception and satisfaction compared to banks with Islamic banking windows. The study found Islamic bank customers possess higher service quality expectations towards tangibles, empathy and responsiveness.

The literature presents several studies on service quality perception and comparison between Islamic and conventional banks in different countries. The findings of prior studies suggest variable results pertaining to relationship between service quality, customer perception and comparison of Islamic and conventional bank service quality. Therefore, it is contemporary to explore and compare the relationship between Islamic and conventional banks. Furthermore, literature does not present any perspective study on service quality perception and comparison in context of Brunei. Conforming to variable impact of service quality on customers' perception, this study aims to explore and compare service quality perception of Islamic and conventional bank customers postulating following hypotheses.

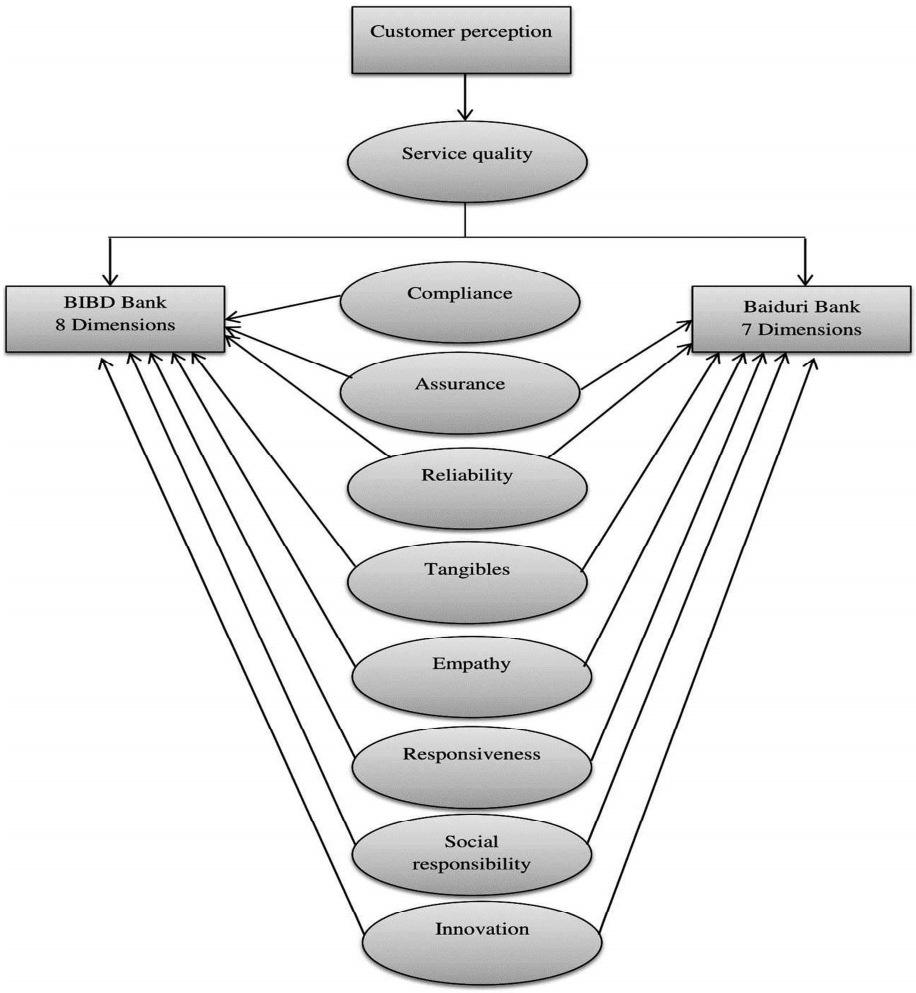
H1: Islamic banking service quality is better than conventional in Brunei based on Carter Model.

H2: Carter model is best to suit the dual banking system in Islamic and conventional banking in Brunei.

3. Methodology

Based on the literature review and research hypotheses, this study adopted Carter service quality model to analyze the customer perception of both bank customers. The model was modified with inclusion of two new dimensions; social responsibility and innovation pertaining to significance of these dimensions in formation of positive service quality perception among customers. The Carter model was adopted as the measurement instrument because of its dual nature of being the most reliable instrument to measure service quality (Othman and Owen, 2001; Faisal et al, 2016). Another rational of deploying Carter model for this study is; it had never been adopted previously in Brunei for customer perception analysis and comparison which fulfills the research gap on service quality and customer perception. The theoretical framework of the study is illustrated in figure 1.

Figure 1: Theoretical Model



The data was collected through two sets of self-administrated questionnaires from 255 (155 Islamic; 100 conventional) bank customers. The first questionnaire aimed to measure service quality perception of Islamic bank customers, comprising of three sections; section one, depicted demographic information, section two contained 27 sub items of service quality dimensions. Each item was provided with 5-Likert scale; 1 (strongly disagree), 2 (disagree), 3 neutral, 4 (agree) and 5 (strongly agree). Section three comprised of three questions measuring customers' satisfaction level. The second questionnaire aimed to measure service quality perception of conventional bank customers comprised of three sections; section one, contained demographic information, section two contained 21 sub items of service quality dimensions. Each item was provided with 5-Likert scale; 1 (strongly disagree), 2 (disagree), 3 neutral, 4 (agree) and 5 (strongly agree). Section three comprised of three questions measuring customers' satisfaction level. The study adopted purposive snowball sampling technique due to limited knowledge of banks' actual customers.

4. Findings and Discussion

The descriptive statistics present the snapshot of demographic analysis. Table 1 exhibits the demographic analysis of both bank customers. The table shows that male respondents are 36.47 percent (93) and female are 63.52 percent (162). Bruneian customers are 72.54% and non-Bruneians including expatriates are 27.45%. The customers' age varies from below 19 to above 50 years and customers aged from 20 to 39 years were collectively 75.68%. Most of the customers' (57.25%) marital status is single. Customers' income ranged from

below 1,000 to above 10,000 Brunei Dollars. 33.33 percent customers were using banks' products and services more than five years. Both bank customers held saving and current account; personal and vehicle financing and held credit cards.

Prior to factor analysis it is mandatory to measure the validity, reliability and adequacy of collected samples. Cronbach's alpha is the most appropriate test to find the internal consistency between variables (Sekaran, 2000). Table 2 represents the computed Cronbach's alpha values. The values range from '0' to '1', 0.60 is considered as the minimum threshold value to represent acceptable internal consistency. Table 2 represents that the overall values of Cronbach's alpha are 0.943 for Islamic bank and 0.909 for conventional bank. It represents the significant validity and reliability of collected samples. The sampling adequacy is measured through Kaiser-Meyer- Olkin (KMO) and Bartlett's test. Table 3 presents the results of KMO and Bartlett's test. The value of KMO test for all the items is .912 (91.20%) indicating the sampling adequacy of this study against the benchmark 0.5(50%) value of acceptable sampling adequacy (Leech et al, 2005).

The comparative analysis of service quality perception is browned by computing the average mean scores of each sub item utilized for perception measurement of respective bank. Table 4 exhibits the average mean score values of each dimension utilized to determine service quality perception of both bank customers. The comparison of mean score values suggest that Islamic bank customers have better service quality perception compared to conventional bank customers. The analysis further reveals that Islamic bank customers perceived tangibles and assurance as the most significant components of service quality whereas conventional bank customers perceived assurance and innovation as the most significant components of exceptional service quality. The overall customer satisfaction analysis is illustrated in table 5. The table represents that Islamic bank customers are better satisfied towards provided services compared to conventional bank customers.

Table 6 and 7 presents the factor analysis of service quality dimensions extracted from the customer perception comparison of both banks. Principal Component Analysis (PCA) test was deployed to confirm the fitness of constructed dimensions to represent the customer perception of both bank customers. Hair et al. (2006) suggested that if the proposed model has an acceptable fit to whatever criteria applied, the study does not prove the propose model, but only confirms that is it one of the several possible acceptable models. Tables 6 and 7 contain the PCA test results for the individual items of Islamic and conventional bank's service quality dimensions. The factor loading for the each item is greater than the benchmark value of 0.50 representing the convergent validity for each dimension of modified Carter model is established and provided the evidence of construct validity. The objective of constructing the structural model was to test whether Bank Islam Brunei Darussalam (BIBD) and Baiduri bank service quality is multidimensional construct comprising of 27 and 21 sub items.

The stepwise multiple regression analysis is implemented to further explore the relationship between continuous dependent variable and numerous independent variables (Pallant, 2007). The regression equation for the selected variables is as follows;

$$CPn = \alpha + \beta 1COMn + \beta 2ASUn + \beta 3RELn + \beta 4TANn + \beta 5EMPn + \beta 6RESn + \beta 7SRn + \beta 8INVn + 1n$$

Symbol CP, COM, ASU, REL, TAN, EMP, RES, SR and INV denotes customer perception, compliance, assurance, reliability, tangibles, empathy, responsiveness, social responsibility and innovation, whereas 1 is the error term. The summary of regression analysis and ANOVA results for both banks is presented in table tables 8, 9, 10 and 11.

The tables 8 and 9 exhibit the regression analysis for service quality perception of Islamic bank customers. The table shows that the two models are used to confirm the fitness of proposed model. Both models generated the values of R and R square .999 and 1.000. The results of both models suggested 99% and 100% fitness of proposed model. The ANOVA analysis results are presented in table 9 to further confirm the fitness of deployed model. The total sum of squares is almost equal to (154 and 154 for both ANOVA models) the number of Islamic bank customers deployed for this study.

The tables 10 and 11 exhibit the regression analysis for service quality perception of conventional bank customers. The table 10 shows that the two models are implemented to confirm the fitness of proposed model. Both models generated the values of R and R square .999 and 1.000. The results of both models suggested 99% and 100% fitness of proposed model to represent the conventional bank customers' service quality perception. The results of ANOVA analysis exhibited in table 11 to further confirm the fitness of the model. The total sum

of squares is almost equal to (99 and 99 for both ANOVA models) number of conventional bank customers used for this study.
The descriptive analysis represent that current study utilized 255 customers to depict the service quality perception of Islamic and conventional bank. The findings show more female participants as Brunei's female population is higher compared to males (DEPD, 2016). The females in Brunei work side by side with males to contribute in household income and consequently equally use banking services. The age analyses represent that most of the customers aged from 20-49 years. These findings are consistent with Mahdzan et al. 92017). The recent study have proved that people aged from 20-49 belong to generation X and Y actively consume banking products and services (Mahdzan et al, 2017). Similarly past study on Islamic banking products and services awareness found more female participants whose age ranged from 20 to 49 years (Bashir, 2013).

The mean score values computation and overall customer satisfaction analysis predicts the customer perception of both Islamic and conventional customers and highlights the service quality perception difference. The mean score values of customer perception comparison and satisfaction is presented in tables 4 and 5. The analysis determines that Islamic bank customer's service quality perception is better than conventional bank customer's service quality perception. It determines the acceptance of the first hypothesis of this study which is "Islamic banking service quality is better than conventional in Brunei based on Carter Model". The results are consistent with prior studies of (Ahmad et al, 2010; Shariff, 2012; Lone and Rehman, 2017) in literature on comparison between Islamic and conventional bank service quality. These studies suggested better service quality of Islamic banks compared with conventional banks based on Carter model.

Stepwise multiple regression analysis is performed to discover whether suggested Carter model is suitable for the dual banking in Brunei. Regression analysis and ANOVA test analysis confirmed the excellent fitness of model to determine the customers' perception of service quality for both bank customers. The results determine the acceptance of second hypothesis "Carter model is best to suit the dual banking system in Islamic and conventional banking in Brunei" of this study. These findings are consistent with prior studies of (Shariff, 2012; Ahmad et al, 2010; Akhtar and Zaheer, 2014). These studies suggested that Carter model is the most suitable instrument to measure service quality and customer perception of Islamic and conventional banks.

The overall findings suggest that Islamic bank customers have better service quality perception compared to conventional bank customers based on Carter model. Furthermore, customer satisfaction analysis predicts that Islamic bank customers are better satisfied towards the service quality compared with conventional bank customers. The stepwise multiple regression analysis predicts that proposed Carter model is suitable to represent service quality perception of dual banking system in Brunei. The findings revealed that both hypotheses *H1* and *H2* are accepted.

5. Conclusion

The study has analyzed and compared service quality perception of Islamic and conventional bank customers. The measurement instrument was modified Carter model containing eight dimensions for Islamic bank customers. These dimensions are known as compliance, assurance, reliability, tangibility, empathy, responsiveness, social responsibility and innovation. However in contrast to Islamic bank, seven dimensions were adopted to measure customer perception of conventional bank customers. The service quality perception analyses of both banks suggest that Islamic bank customers possess better service quality perception compared to conventional bank customers. This study has also deliberately attempted to measure and compare the overall satisfaction of both bank customers. The study found that conventional bank customers are less satisfied compared to Islamic bank customers. The implemented statistical tests proved that proposed measurement model (modified Carter model) was the right choice to represent both bank customers' service quality perception.
The empirical findings of this research have substantially contributed for various sectors of the society. The most important contribution of this study is towards the existing knowledge on service quality and customer perception in context of Brunei, for professional Islamic bankers and financers, for regulators and policy makers and for educational institutions. The regulators and policy makers of Islamic and conventional banks may implement the findings of this study to achieve their objectives of sustaining in a stiff competitive financial industry. The professional bankers and financers may implement the findings of this study to design suitable marketing strategy representing better service quality.

Despite of an exclusive effort to comprehensively explore customer perception of Islamic and conventional bank customer there are still number of limitations associated with this study. The major limitation was the identification of suitable respondents representing the entire Islamic and conventional banks in Brunei. Even though measurement instrument covered all the possible features of service quality however open ended

questions may transform the outcomes of this research. Another major limitation of this study is, data collection was limited from specified geographical locations. The primary data of this study is collected in Brunei's capital district Muara. This district has highest population with more bank branches; however the opinion of customers from other districts may produce different results. The future studies may expand the geographical scope of primary data collection to other countries having similar banking environment such as Malaysia and other Muslim countries to cross validate the findings. Additionally, the future studies may consider including longitudinal data through repetition of similar survey questionnaire over fixed period of time to observe the dynamics of fluctuations in customer behavior.

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Table 1: Descriptive analysis

Demographic Items	Frequency	Percentile %
Gender		
Male	93	36.47
Female	162	63.52
Total	255	100
Bruneian	185	72.54
Non Bruneian	70	27.45
Age		
Below 19	27	10.58
Between 20-29	140	54.90
Between 30-39	53	20.78
Between 40-49	28	10.98
Above 50	07	2.74
Marital Status		
Single	146	57.25
Married	96	37.64
Divorced	06	2.35
Others	07	2.74
Occupation		
Government Sector	76	29.80
Private Sector	41	16.07
Academic Staff	11	4.31
Student	121	47.45
Others	06	2.35
Income (BND)		
Below 1,000	63	24.70
Between 1,001-5,000	88	34.50
Between 5, 001-10, 000	31	12.15
Above 10, 000	14	5.49
Duration with Bank		
Less than 1 year	42	16.47
1-3 years	72	28.23
3-5 years	56	21.96
More than 5 years	85	33.33
Type of account		
Saving account	77	30.19
Current account	67	26.27
Others	111	43.52

Table 2: Reliability and validity results for Islamic and conventional bank

	Cronbach's (α)	Cronbach's α based on standardized Items	N of Items
Islamic Bank	.943	.945	27
Conventional Bank	.909	.907	21

Table 3: Kaiser-Meyer_Olkin (KMO) and Bartlett's test results

KMO measure of sampling adequacy	**.912**
Bartlett's test of Sphericity Approximately chi-square	**2606.807**
Degree of freedom (df)	**351**
Probability (sig.)	**.000**

Table 4: Service quality perception comparison based on mean score and ranking

Rank (r)	Islamic bank	Mean	Conventional Bank	**Mean**
1	Tangibility	4.10	Assurance	**3.56**
2	Assurance	3.94	Innovation	**3.31**
3	Empathy	3.83	Tangibility	**3.25**
4	Social Responsibility	3.72	Social Responsibility	**3.16**
5	Innovation	3.66	Reliability	**3.15**
6	Compliance	3.63	Responsiveness	**3.14**
7	Reliability	3.40	Empathy	**3.10**
8	Responsiveness	3.14		

Table 5: Overall customer satisfaction comparison

	Not satisfied at all	Not satisfied	Satisfied	Very satisfied	I do not care/I do not bother
Islamic Bank	22	19	62	50	2
Conventional Bank	15	15	29	38	3

Table 6: Principal Component Analysis test results for Islamic bank

Items	COM	ASU	RES	TAN	EMP	REL	SR	**INV**
COM1	0.817							
COM2	0.818							
COM3	0.847							
COM4	0.678							
COM5	0.780							
COM6	0.702							
ASU1		0.592						
ASU2		0.716						
ASU3		0.619						
ASU4		0.676						
REL1			0.716					
REL2			0.555					
REL3			0.632					
REL4			0.767					
REl5			0.525					
TAN1				0.543				
TAN2				0.658				
TAN3				0.740				
TAN4				0.655				
EMP1					0.517			
EMP2					0.633			
EMP3					0.714			
RES1						0.518		
RES2						0.517		
RES3						0.647		
SR							0.560	
INV								**0.565**

Table 7: Principal Component Analysis test results for conventional bank

Items	ASU	REL	TAN	EMP	RES	SR	**INV**
ASU1	.743						
ASU2	.767						
ASU3	.845						
ASU4	.883						
REL1		.867					
REL2		.745					
REL3		.788					
REL4		.787					
REl5		.765					
TAN1			.807				
TAN2			.821				
TAN3			.803				
TAN4			.743				
EMP1				.781			
EMP2				.767			
EMP3				.782			
RES1					.767		
RES2					.797		
RES3					.815		
SR						.871	
INV							**.847**

Table 8: Regression analysis for service quality perception among Islamic bank customers

Model	R	R- square	Adjusted R square	**Std. Error of the Estimate**
1	.999	.999	.999	**.498**
2	1.000	1.000	1.000	**.000**

Table 9: ANOVA for service quality perception of Islamic bank customers

Model	Sum of squares	df	Mean square	F	**Sig.**
1	Regression	1	25683.668	405.870	**.000**
	Residual	153	63.281		
	Total	154			
	Regression	2	15051.653	434.764	**.000**
2	Residual	152	34.620		
	Total	154			
Dependent Variable: customer perception					

Table 10: Regression analysis for service quality perception among conventional bank customers

Model	R	R- square	Adjusted R square	**Std. Error of the Estimate**
1	.999	.998	.998	**.693**
2	1.000	1.000	1.000	**.000**

Table 11: ANOVA for service quality perception of conventional bank customers

Model	Sum of squares	df	Mean square	F	**Sig.**
1	Regression	1	14378.806	173.007	**.000**
	Residual	98	83.111		
	Total	99			
	Regression	2	9206.994	217.309	**.000**
2	Residual	97	42.368		
	Total	99			
Dependent Variable: customer perception					