

A Study of Retail Islamic Banking in Malaysia: The Relationship Between Knowledge of Customer Roles and Service Quality

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ABSTRACT

This conceptual paper encompasses on the relationship between knowledge for customer roles and service quality dimensions and the effect on customer satisfaction in the context of Malaysian retail Islamic banking. One of the challenges faced by the retail Islamic banking is the customer satisfaction which relates to the level of services rendered and knowledgeable front liners. As such, retail Islamic banking needs to improve on their quality of customer services and its measurement should consist of interaction quality and outcome quality. The issues of lack of customer knowledge, awareness and information on retail Islamic banking could be resulted from the low interaction and outcome of the quality of knowledge transfer. Meanwhile, the complexity of the retail Islamic banking products itself needs distinctive attention of the Islamic banking staff since it would affect the quality of knowledge transfer to the customers. The knowledge of customer roles in the retail Islamic banking itself should be therefore emphasized alongside with the service quality dimensions in order to ensure that the transfer of knowledge to the customer will in turn help to increase the customer satisfaction.

KEYWORDS: Service Quality, Knowledge For Customer, Customer Satisfaction, Retail Islamic Banking, Knowledge Transfer.

INTRODUCTION

As Malaysia is one of the Islamic countries, the roots of Islamic banking went back to 1963 when the government established Tabung Haji or Pilgrims Management and Fund Board. The main purpose of established the institution for those Muslims who are intended to perform pilgrim (Hajj) and invest the savings of the local Muslims in interest free places. The growth of Islamic banking can be attributed to the desire of retail banking customers who were striving to invest their money in accordance with their personal belief. Islamic banks today exist in all parts of the world and are looked upon as a viable alternative system, which has many banking products to offer. Islamic banking is conducted on the basis of Islamic principles, particularly the prohibition of giving or taking an interest. Islamic banking is no longer regarded as a business entity striving only to fulfil the religious obligations of the Muslim community. But more significantly, as a business that is ineluctably in need for winning over new customers and at the same time retaining the old one.

In its noble duty of fulfilling the societal needs, delivering of the knowledge and understanding of Islamic banking products to the general public is also deemed as important and should not be taken for granted as this would in a way affect customer satisfaction (CS). This is due to the fact that most of the retail customers either Muslims or non-Muslims would have their perceptions that Islamic banking products are merely replication and modification of conventional product designs and implying that Islamic banking are providing cover for the taking of interest through the back door [1]. A few studies conducted in the Malaysian context have shown that generally the customers have a low level of knowledge of Islamic finance and banking concept [2, 3, 4, 5]. Meanwhile, through a previous article written in The Star Online dated 24th January 2011, it was reported that the market share for Malaysian Islamic finance deposit is between 15 to 17% and only 20% of these deposits are contributed from the general public and the bulk are from the government and corporations [6]. Based on the report, it shows that the scenario is not much encouraging as most average individuals are reluctant to have their deposits with an Islamic bank since they are unsure of the principles and benefits that can be obtained as compared to the conventional bank. This indicates that the retail customers are still lacking in term of knowledge in Islamic banking. It is becoming part of the challenges on CS that Islamic banking has to face as it continues to expand globally [7].

LITERATURE REVIEW

Customer Satisfaction in Retail Islamic Banking

CS comes from the notion of meeting of customer expectation from the products purchased or services rendered. It is a state of positivity from the customers' point of view as a result of a product or service purchased

or rendered, and that is able to meet their needs through the features or attributes created [8, 9]. On the other hand, customer dissatisfaction lies within negative gesture from the customers as the needs are unmet. Additionally, it is also can be stated that satisfaction will increase when the product or service performance is higher than expected and it will decrease when it fails to meet the expectation [10]. In general, CS is described as an individual's state of pleasure or disappointment resulting from the comparison between a product and service perceived performance with the expected performance [11]. It is a manifestation of an overall evaluation on the product or service performance based on the purchases and consumption experiences [12], while having a relative difference between pre-purchase expectations and post-consumption evaluations. Meanwhile, it can also be implied that a CS is indicated by having a good relation and communication between the customers and the business entity [13]. In a nutshell, it is about the organization's ability to perform in its productions or service activities that create value to the customers in both the short and long run. The consistency in delivering quality products or services to the customers would instill the confidence and loyalty from the customers as portrayed in their satisfaction testimonial.

Facilitating the CS in the delivery of Islamic banking products and services may involve tedious process. Most importantly the application of reliable implementation in measuring the level of satisfaction and the methodology in increasing their level of satisfaction is in place. The analysis and translations of various customer behaviors and fulfilling the satisfaction must be designed in such a way that it could help to achieve the primary objectives of sustaining the upward growth trend. The challenges now lie in the enhancement process and improve product delivery as well as adapting of marketing and customer proposition to Shari'ah principles. In addition, with regards to knowledge, services and products, and the relations to customer satisfaction, it is suggested to be paralleled with innovation orientation and the elementary knowledge-based growth is to be a key dimension that needed close attention.

Pertinent to the customer perception, having the appropriate approach in increasing the retail Islamic banking CS through imparting of the knowledge of Islamic banking among them in an integrated manner such as knowledge-building program can be seen as helping to create a relationship equity basis. It is the tendency of a customer to remain loyal to a brand name, above and beyond objective and subjective assessments of its worth [11]. Undoubtedly, a higher customer loyalty would regard in higher customer equity while a higher CS would result to high customer loyalty. Hence, one of the tenets in increasing the customer satisfaction is through the conceivable knowledge of customer roles (KC) and as a matter of fact, knowledge is part of the items assessed by the customer in the service quality gap analysis.

On another note, Table 1 has summarized on the factors that may influence the customer satisfaction in the retail Islamic banking sector.

Table 1: Customer satisfaction factors in retail Islamic banking

Author	Customer Satisfaction Factors in Retail Islamic Banking
Dusuki and Abdullah, 2007.	Knowledgeable and competent personnel, reputation and image, working environment, friendly personnel, customer service quality, location, convenient and product price, and social responsibility.
Hossain and Leo, 2009.	Reliability, competence, tangibles and empathy.
Amin et al., 2011.	Response and prompt service, financial services advice, variety of products and services, and better profit.
Echchabi and Olaniyi, 2012.	Service quality, convenience, religious motivation, knowledge and competency.
Alhemoud, 2010.	Availability, safety, accessibility, efficacy, convenience, prices and rates, and e-banking quality service.
Ahmad et al., 2011.	Customer interaction, brand and recommendations, technology and physical facilities, convenience and financial benefits.
Amin et al., 2013.	Response and prompt services, financial services advice, products and services provided.
Osman et al., 2009.	Compliance, assurance, reliability, tangibles, empathy and responsiveness.
Al-Eisa and Alhemoud, 2009.	Fast service, courtesy, convenience, helpfulness, self-banking service, service charges, handling of complaints, location, parking space, range of services, cleanliness and privacy.
Amin and Isa, 2008.	Tangibles, reliability, responsiveness, assurance, empathy and compliance.
Kumar et al., 2010.	Tangibility, reliability, competence and convenience.
Estiri et al., 2011.	Empathy, assurance, tangibles, responsiveness and reliability.

With the Islamic banking CS dimension analyzed, the perspective stress out on the significance of each element in order to fulfil the customer satisfaction. Many aspects have been taken into effect and the focus is drawn on these attributes which reflects the retail Islamic banks' effort in establishing its large customer base. One of the items drawn out is the dimension of knowledge which has been mentioned in some of the studies undertaken, and it is therefore important that it is to be further explored in the light of its relation to customer satisfaction.

Service Quality in Retail Islamic Banking

In most of the previous undertaken studies on customer satisfaction, it was suggested that service quality dimensions (SQ) and service features are the determinant criteria that influence the customers' decision over the choices in the banking selection. The most basic part would include the items of assurance, reliability,

responsiveness, empathy and tangible dimensions of service quality [14]. Based on Parasuraman’s service quality dimension and as applied to the service industry perspective, further explanation on the elements of service quality is provided as per below Table 2 [15, 16].

Table 2: Service quality dimensions in service industry

Service Quality Dimensions in Service Industry	Definition
Tangibility	The physical appearance of the service facility and people involved in the service delivery. E.g. Appearance of employees, equipment or facilities.
Responsiveness	The ability of the service provider to be prompt in delivering the service. E.g. Willingness, prompt and courteous.
Knowledge	The knowledge and competence of service provider and possession of necessary skills. E.g. Knowledge on bank equipment and products.
Accessibility	The ability to design and provide services that capable of adapting to the customers demand in a flexible manner. E.g. Operating hours and operational system.
Reliability	The degree where the customers can be ensured of the service provider keeping up the promises and serve the best interest of the customers. E.g. Error-free transactions and accurate verification.
Assurance	The ability of the service provider to inspire trust and confidence. E.g. Competence, courtesy, credibility and knowledge.

From the given Table 2, it can be seen that in relation to the service quality dimensions (SQ) and CS, knowledge dimension could also be considered as an important item since it portrays the level of intention to provide or ensure a long term relationship with the customers. The concept of knowledge which is under the item measurement of assurance in the SERVQUAL model and knowledge dimension in the mass service context would entail for another management commitment to high quality customer service, where it would reflect the image of an organization and customers’ perception on service quality rendered. However, the question that needs to be addressed is how in general the SQ dimensions can be seen as providing the sufficient transfer of knowledge and how it benefits the customers in the retail Islamic banking scenario.

Since the view of KC has not been mentioned very often in the studies undertaken, it is therefore important that this item is to be further explored in the light of its relation to service quality and customer satisfaction. Moreover, as the interaction between the customer and business entity especially in the financial institutions becomes more advanced, the attainment of the KC would be much beneficial in the sense that it would provide as another platform for customer satisfaction.

Knowledge for Customer in Retail Islamic Banking

This conceptual paper will also put another further discussion on one of the elements of CK which is KC and its relation towards increasing customer satisfaction through the SQ dimensions. CK can be basically defined as the process of understanding the customers’ current and future needs and preferences through the interaction, observation and analysis of their demand and purchase behavior [17, 18]. It is more on acquiring the valuable information that surrounds the customers that could help to provide new business direction and strategy. On the other hand, the other perspective of CK is the level of customer knowledge itself. It is a contributing factor to which extent the customer process and analyze the product or service related features [19]. This is where the relative transfer of knowledge takes place and the needs of the strong support from service quality are imperative. In general the CK can be classified into three components namely knowledge of customers, knowledge about customers and knowledge from customers [20, 21, 22]. The essence of customer knowledge can be broadly categorized as Table 3.

Table 3: Customer knowledge category

Customer Knowledge Category	Definition
Knowledge about customers (KAC)	Customers’ background, motivation, expectation and preferences on products or services. Customers’ past, present and future needs, desire, taste and trends. Information regarding the customers’ purchases, payment, motivation, habits and demand pattern.
Knowledge for customers (KC)	Customers’ needs for knowledge on products and services. In support for customers’ decision making and assist in their buying cycle. Information or knowledge of the product or service that is given to the customers upon their utilization or usage.
Knowledge from customers (KFC)	Customers’ information and knowledge sharing. Knowledge acquisition from customers for product and service enhancement. Information or knowledge that the customer shares with the company through their feedbacks.

On the other hand, CK can also be further dissected into four dimensions namely objective, subjective, specific and general knowledge [24] where each of the components are expected to be affected from the process of knowledge transfer. The details can be further explained in given Table 4.

Table 4:Customer knowledge dimensions

Customer Knowledge Dimensions	Definition
Objective knowledge	Measure of how much factual knowledge a consumer has about the products, their attributes and linkages between differing product attributes and their relationship to performance.
Subjective knowledge	Measures consumers' perceptions about how much they think they know about a product.
Specific knowledge	More detailed type of knowledge than general knowledge.
General knowledge	General (basic) level knowledge comprises knowledge about the shared features of a product class, including information about the product group, and the potential benefits/risks of the products belonging to it.

Generally, the focus of the study will be on the operational aspect of KC in the retail Islamic banking of which how it should be able to ensure that it can deliver its role for the purpose of information needs [17, 23, 25], problem solving [17, 25] and customer education [23, 25]. These three purposes should be closely related to SQ dimensions since it can be the relevant platform for the transfer of knowledge and information on retail Islamic banking effectively.

CONCEPTUAL MODEL

The derived conceptual model to describe the relationship of CK function and SQ dimension is depicted in the Figure 1 and 2.

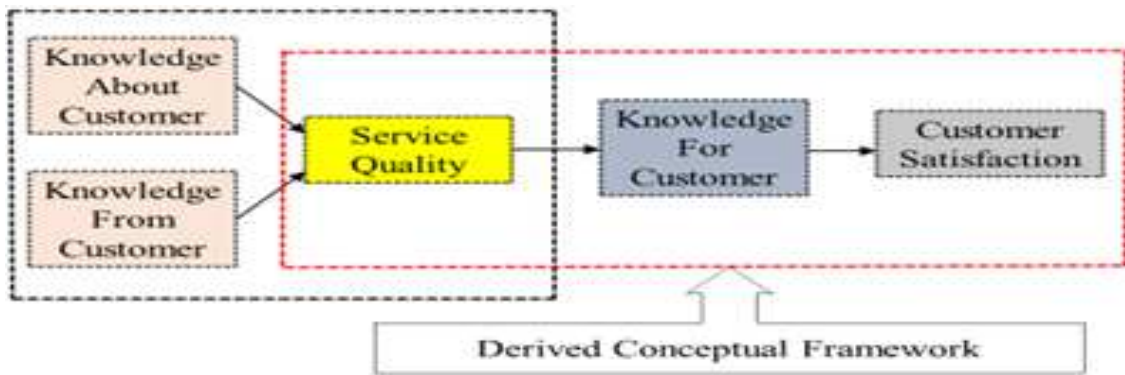


Figure1: Derived conceptual framework

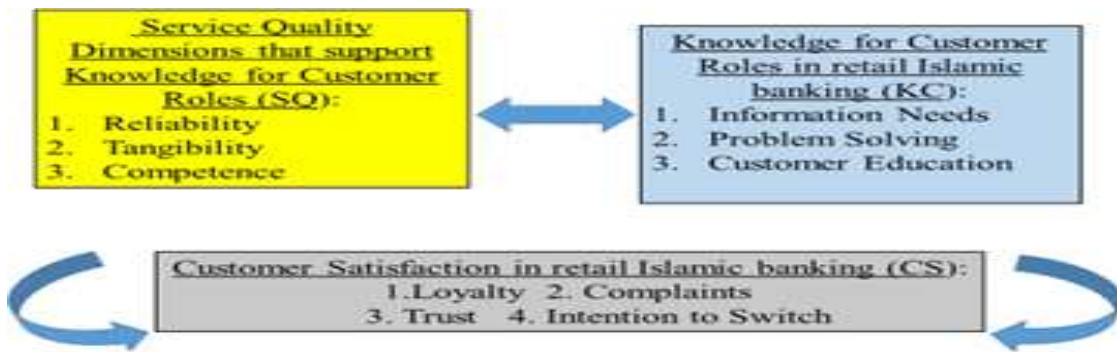


Figure 2: Conceptual framework

SQ dimensions namely responsiveness, assurance, tangible, empathy and reliability would be the basic adopted process combined with the KC in assisting to increase customer knowledge in retail Islamic bank. However, for the purpose of this study, the dimensions of service quality are grouped into three components namely reliability, tangibility and competence. The items of empathy, assurance and responsiveness are bundled together under the component of competence. Table 5 further explains on the proposed conceptual relationship matrix between SQ and KC.

Table 5: Conceptual relationship matrix

Service Quality Dimensions	Information Needs	Problem Solving	Customer Education
Reliability	Reliability dimension could help to achieve and increase the information needs of customers	Reliability dimension could assist on the customer problem solving.	Reliability dimension could assist in the customer education.
Tangibility	Tangible dimension could help to achieve and increase the information needs of customers.	Tangible dimension could assist on the customer problem solving.	Tangible dimension could assist in the customer education.
Competence	Competence dimension could help to achieve and increase the information needs of customers.	Competence dimension could assist on the customer problem solving.	Competence dimension could assist in the customer education.

METHODOLOGY

This correlational type of study to assess the relationship between SQ with KC on the CS in retail Islamic banking. The purpose is to establish a relationship that signifies the importance of having the support from SQ for the purpose achieving the specific roles for KC which in turn would increase the CS. This study will deploy the use of questionnaire as instrument for data collection under the survey method of study. Three main geographical areas on the West Coast of Malaysia will be the designated location for questionnaire distribution at the Islamic bank branches. Target population is comprised of the existing customers in the local full-fledged Islamic bank, while the sampling procedure will be at a convenient sampling. In this study, primary data are collected through self-administered questionnaires from the retail customers who have been with the Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB) and RHB Islamic Bank branches. Independent variable in the current study is SQ while dependent variable will be CS and KC will be the mediating variable. In this study, the survey of retail Islamic banking customers is broken down into subgroups based on occupation and education background as well as type of financing. The data from the subgroups will be then analyzed to see whether there are any similarities or differences among the subgroups.

Multiple regression analysis will be used to answer the research question which is to determine whether the role of KC will mediate the relationship between items in SQ with CS. In this study, the data will be analyzed using path analysis for simple multiple regressions and lastly is using multiple linear regressions. Before the models are generated, the assumptions of multiple regressions have to be tested. These assumptions would be normality of the distribution, the linearity of the relationship between dependent and independent variables, absence of multi collinearity, homoscedasticity or independence of the errors.

DISCUSSION

Transferring of the knowledge for both customers and staff can be seen as sort of fard kifayah. Therefore, in the Islamic economic system which has some faith-based social implications, it is on the high ground that the education and training on effective knowledge supply of Islamic banking to be reformed so as to commensurate with societal requirements. The socialization activities with the customers would create an ambience of knowledge supply via the use of tacit knowledge and it would also portray on how the assurance is given in servicing the customers effectively. It is also closely related to the concept of tabligh (to convey) in Islam, where the knowledge of Islamic banking is conveyed to the public in a manner that would create trust and loyalty to the industry.

On the other hand, the SQ and CS which are closely related to each other incorporates the components of attitude and cognition [26]. The SQ which found to be an important contribution to CS have two overriding dimensions, namely outcome and process aspects of the service [27]. The outcome aspect of the service quality is reflected in the outcome of the services act where the customers' response behavior will determine their satisfaction level. Alternatively, the process aspects of the service quality are portrayed in the way how the services are delivered. Customers are more concerned on how the service quality deliveries take place such as relevant information provision, contract content explanation, employee flexibility and employee knowledge. The interpersonal interactions in the service delivery often have the utmost influence on the customer's quality perceptions. Hence, the tacit knowledge could be the accompanying or complementing factor to increase the service quality effort especially in the retail Islamic banking sector since effective knowledge transfer is equally important in Islamic economics sustainability.

CONCLUSION

The application of KC to suit in the retail Islamic banking in Malaysia would instill the level of confidence, trust and loyalty of the customer and eventually could capitalize bigger market share in the banking industry. The information needs, problem solving and customer education components which would serve as the

functional purposes of KC would become the bridge for the SQ to the effective transfer of knowledge which in turn could increase the CS. Therefore, an empirical study needs to be undertaken in order to show that by enhancing the application of KC with SQ for a strong customer knowledge model based, a good vehicle in facilitating the uptrend growth of Islamic banking is being driven on a right track eventually and would also hold significant importance since the value derived from both aspects would provide competitive advantages for the firms.

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