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EXPLORING SERVICE QUALITY IN THE ISLAMIC BANKING INDUSTRY IN KUWAIT: ANALYSIS OF CUSTOMER PERCEPTIONS

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EXPLORING SERVICE QUALITY IN THE ISLAMIC BANKING INDUSTRY IN KUWAIT: ANALYSIS OF CUSTOMER PERCEPTIONS

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ABSTRACT

Exploring Service Quality in the Islamic banking Industry in Kuwait: Analysis of Customer Perceptions

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Service quality management is an important organizational factor, through which organizations differentiate themselves, compete, and take the lead in the marketplace. It is even more challenging for banks and financial services which, by and large, offer products and services that are difficult for customers to differentiate. Improvements in service quality are expected to increase customer satisfaction, which, in turn, will increase the banks' ability to retain their customers, broaden their market share, and increase profitability.

This study, hence, is an attempt to measure the perceived service quality of three Islamic banks in Kuwait; Kuwait Finance House, Kuwait International Bank, and Boubyan Bank. Additional dimensions are added to the service quality model (SERVQUAL) to measure the perceived service quality and the customers' perceptions. Dimensions such as; *Shari'ah* compliancy, the competitiveness between Islamic banks in Kuwait, the technology factors, and the general customer satisfaction were incorporated to the respective model. The study aims to identify those dimensions that influence the level of customers' perceptions in the sampled banks, examine the effect of service quality on customer satisfaction and assess the correlation between the Islamic banking variables and the SERQUAL dimensions. To attain these aims the study utilized a sample of 700 responses across the three Islamic banks.

The study findings demonstrate an above-average level of satisfaction among the Islamic banks' customers. 'Compliance', 'empathy', and 'assurance' were the most important dimensions as perceived by the Islamic banks customers in Kuwait. The results showed a significant relationship between customer satisfaction and some of the modified SERVQUAL dimensions namely; 'empathy', 'assurance', 'compliance', and 'competitiveness'. The study also found that demographic factors have significant effect on the perceptions of service quality in Kuwaiti Islamic banks.

Based on these results and findings, it could be concluded that in Kuwaiti Islamic banks customers are satisfied with the quality of services depending on their bank being *Shari'ah*-compliant and assured to deliver the promised services, employees being considerate and understanding, and finally being competitive by offering the best service with competitive charges. The study also confirmed that the avoidance of interest and other religious motives are the most important reasons why customers prefer to patronize the Islamic banks in Kuwait in general. However, when testing each bank individually, differences accrued in ranking the religious factor and being compliant with Islamic *Shari'ah* principles.

The results are expected to provide both theoretical and practical contributions in the area of service quality management and customer behavior in Islamic banking. The overall findings are important for service quality managers to identify efficient and effective approaches for improving quality in their banks.

DECLARATION

The author of this thesis declares that this study is his own original work, conducted under the supervision of Dr. Mehmet Asutay. All sentences or passages quoted in this dissertation from other peoples' work have been specifically acknowledged by clear cross-referencing to author, work and page(s). None of the materials in this thesis has been submitted in support of an application for another degree qualification in this or any other university.
Tahani Al-Adwani

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List of Abbreviations

KBA: Kuwait Banking Association
BKME: Bank of Kuwait and Middle East
BOT: Building, Operating and Transfer
BSI: British Standards Institution
BSQ: Banking Service Quality
CBK: Central Bank of Kuwait
DEA: Data Envelopment Analysis
EP: Evaluated Performance
EPS: Earning Per Share
GATS: General Agreement for Trade and Service
GB: Gulf Bank
GCC: Gulf Cooperation Council
IDB: Islamic Development Bank
ISO: International Standards Organisation
IT: Information Technology
KFH: Kuwait Finance House
KIB: Kuwait International Bank
KIBS: Kuwait Institute of Banking Studies
KSE: Kuwait Stock Exchange
LCs: Letters of Credit
LGs: Letters of Guarantee
NBK: National Bank of Kuwait
NQ: Normed Quality
PAF: Principle Axis Factoring
ROA: Return on Assets
ROE: Return on Equity
SQ: Service Quality
SQP: Service Quality Performance
TQM: Total Quality Management
TSQM: Total Service Quality Management
WTO: World Trade Organisation
HSBC: Hongkong and Shanghai Banking Corporation
KREB: Kuwait Real Estate Bank

ACKNOWLEDGMENTS

DEDICATION

To those who showed me the meaning of love and sacrifice;
My family
My friends

Chapter 1
INTRODUCTION

1.1 INTRODUCTION

Service quality is an important organizational factor, through which organizations differentiate themselves, compete, and take the lead in the marketplace. As noted by (Parasuraman *et al*., 1991) delivering high quality in the service industry has been recognized as the most effective means of ensuring that a company's offerings are uniquely positioned in a market full with 'look-alike' competitive offerings. High quality service could grant organizations a leading edge in a competitive environment which is marked by trends towards deregulation, intense global competition, and more intelligent consumers. The intensified competition, as well as trends in globalization and increased consumer choice, has led to quality of service being perceived as a key differentiation factor for many organisations (Boaden and Dale, 1993).

Service providers, such as telecommunications, airlines, hospitals, hotels, and many others are making a great effort to improve their service standards. Superior quality is proving to be a wining competitive strategy; leading companies such as McDonald's, Federal Express and IBM are very obsessed with service excellence. They use their high standards of quality to be different.

Due to the fierce and competitive nature of the environment, this is even more challenging for financial services providers such as banks, insurance companies, and credit unions which, by and large, offer products and services that are difficult for consumers to differentiate (Stafford *et al.*, 1998). For this reason, service quality plays an important role in banking and financial services, as excellent service quality is not an optional competitive strategy anymore which may, or may not, be adapted to differentiate one bank from another; instead it becomes an essential element to any corporation aiming at profitability and survival.

According to Sadek (2010), excellent service is the quintessential way to differentiate between one bank and another to build a long term relationship with employees and customers, to create real value instead of competing on price, to inspire employees to do better work, and to generate substantial increases in profits.

Since providing customers with good service is an important corporate strategy for maintaining and increasing market share, banks must continually ensure that they are maintaining their quality of service, strengthening their customer loyalty, and responding to their needs and demands. For this, effective service quality strategies can be developed by designing a system for gathering information about customers' expectations (Parasuraman *et al.,* 1991), and by understanding the complexity of applying service quality concepts and assessment methods to respond effectively to the change in the global service environment (Yousapronpaiboon, 2000).

Improving the quality of service requires managing the service itself, its environment, and the way it is delivered. Effectively managing service quality requires a clear understanding of what service quality really means, how one could judge whether or not the service obtained is of good quality, how it could be improved, how the service has been delivered to the customer, how the interface employee did in handling the service (i.e. was he or she competent, polite, and professional), whether the service meet the customers' expectations, and what was really behind their expectations and perceptions. It is questions such as these (and many others) that are addressed in this study which offers an exploration of the realities of service quality in the case of Kuwaiti Islamic banks.

Since Islamic banking is a new reality and taking root all over the world but in particular in the Gulf Cooperation Council (GCC)'s member countries (and particularly in Kuwait), this study evaluates and assesses the perceptions of Islamic banking customers of three Kuwaiti Islamic banks in order to address service quality practices among these banks.

Procedures related to service management in Islamic banking are also in an early stage of development. One barrier, in particular, to a successful implementation of quality

initiatives in this industry is the general lack of understanding of issues relating to service quality perception and customer satisfaction. These concepts are subjective and occur in the customers' mind, but they also drive client retention and the attraction of new customers. For this reason, it is important for Islamic banks to adopt service quality programmes to improve ways of providing products and services to their customers, instead of counting only on religious affiliation as the primary factor for retaining and attracting customers. The provision of customer-oriented financial services would provide a cutting edge to Islamic banks when dealing with the strong competition from the conventional banks and competing with new local and foreign rivals to the market which offer identical Islamic services. The Islamic banks in Kuwait, hence, need to consolidate their position by diversifying their banking products, providing a high quality of services, working in accordance with international standards, and operating within a clear strategy towards providing the customers with the best possible service any bank could offer.

The contribution of this study, therefore, lies in investigating and assessing customer perceptions of service quality in the case of the Islamic banking industry in the state of Kuwait.

1.2. AIM AND OBJECTIVES

The aim of this study is to explore and evaluate the service quality practices in three Islamic banks in the state of Kuwait by assessing the perceptions of customers using CARTER model. CARTER is an instrument which was developed by (Othman and Owen, 2002a) to measure service quality perceptions in Islamic banks. Originally, CARTER is a development of (Parasuraman *et al.*, 1988)'s SERVQUAL model.

Adopting CARTER model with the creation of new dimensions, the study measures the quality of services according to the customers' perceptions in local Islamic banks in Kuwait. The sampled banks are Kuwait Finance House (KFH), the pioneer of the Islamic financial services in Kuwait, which was instituted in 1977; the newly established Boubyan Bank, which become operational in 2005; and, finally, Kuwait International

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Bank (KIB), which converted from a specialized real estate conventional bank to an Islamic bank in 2007. Thus, this study is expected to highlight the perceived differences, if any, of the customers of these banks with regard to their customer satisfaction with the service quality offered by their service providers.

1.2.1. Research Objectives

To fulfil the identified aims of the study, the following research objectives are developed:

   (i)   to develop a better understanding of service quality management in Islamic banking;

   (ii)   to evaluate and measure service quality performance of the Islamic banks in Kuwait;

   (iii)   to identify any differences between the respective banks in their perceptions to service quality;

   (iv)   to identify the service quality dimensions that are most important as perceived by the Islamic banks customers;

   (v)   to assess the overall customer satisfaction in the case of Islamic banks as perceived by their customers;

   (vi)   to investigate and assess customer satisfaction with the overall service quality, employee performance, and range of products and services offered by each Islamic bank;

   (vii)   to evaluate the relationship between Islamic banking variables and the service quality dimensions;

   (viii)   to identify any differences between the sampled banks in their perceptions to Islamic banking variables;

   (ix)   to evaluate the relationship between service quality dimensions and customer satisfaction using path analysis;

   (x)   to test the relationship between applicants' profiling characteristics and service quality dimensions; and lastly

(xi)   to evaluate the financial performance of the three Islamic banks: Kuwait Finance House, Boubyan Bank, and Kuwait International Bank with the objective of developing a better understanding of the financial position of these banks.

1.2.2. Research Questions

The aim of this study is to investigate customers' perceptions of the quality of services offered by KFH, KIB and Boubyan Bank in order to validate the service quality theory adopted in these banks.

The following research questions are investigated throughout as follows:

(i)   How do Islamic banks in Kuwait perceived service quality?

(ii)   Are there any differences between KFH, KIB and Boubyan Bank customers in their perception of service quality?

(iii) What are the most important service quality dimensions according to the participants' responses in the three Kuwaiti Islamic banks?

(iv)   Is there a relationship between the customers' satisfaction and the service quality dimensions?

(v)   Are there any differences between KFH, KIB and Boubyan Bank customers in their perception to customer satisfaction entities?

(vi)   Is there a relationship between customers' perceptions of service quality dimensions and the applicants' demographic and profiling characteristics?

(vii) Is there any correlation between the service quality dimensions and customer satisfaction?

(viii) Is there any relationship between Islamic banking variables and service quality dimensions?

(ix)   Are there any differences between KFH, KIB and Boubyan Bank customers in their perception to Islamic banking variables?

1.3. PROBLEM STATEMENT

Modern Islamic Institutions are relatively a recent development of the financial industry; the first attempt to establish an Islamic financial institution took place in Pakistan in the late 1950s (Wilson, 1983). Since then Islamic banks have been operating alongside conventional banks. They mobilize deposits and generate loans in similar ways as the conventional banks, but adhere to the prohibition of interest either paid or taken; their forms of transactions are based on Islamic *Shari'ah* Law, from the Holy *Quran* and *Sunnah.*

The number of banks offering Islamic finance products and services has grown quickly since the early 1970s and the market has now reached a size of more than US.1 trillion (The Banker, November 2009). According to Vayanos *et al.* (2008) there are now more than 500 Islamic financial services institutions worldwide. The supply grew to meet the demand for Islamic finance and the growth is driven by the pressure of funds looking for *Halal* or 'lawful or clean' investments. In choosing Islamic banking, customers and investors want to combine a good return on their money with banking and financial practices that conform to their religious principles (Dudley, 2002).

Islamic financial services, hence, respond to this demand by providing a new outlook for the role of banking by promoting investments and productive activities, as well as by influencing distribution of income and adding stability to the economy. Islamic financial services are viable options in the long term because they fit very well with the retail banking and borrowing needs of a growing population eager to rapidly improve their living standards.

It is often noted that Islamic finance is a fast-growing sector with increasing importance on the global stage; major financial institutions, including HSBC, Citibank, Deutsche Bank, UBS, Standard Chartered and dozens more, have introduced Islamic products and services through Islamic windows and see such business lines as key potential engines of growth. In addition, major business publications feature news, articles, and reports on 'Islamic finance' with increasing frequency and financial professionals are encountering

the term more often. In fact, a Harvard Business Review on the rise of Islamic finance as a global player was featured in the journal's" Breakthrough Ideas" issue in 2008.The term is quickly becoming a part of the lexicon of global business (Rehman, 2010:90).

Although the roots of the modern Islamic finance sector are broad and diverse, the largest manifestation of the sector today is the Gulf Cooperation Council (GCC) Countries. The Gulf region today represents the largest addressable cluster of the global Islamic finance sector, and is the home of its most dynamic institutions.

According to a review of banking assets published in the Magazine 'The Banker', using 2009 data, the GCC region held more Islamic assets (despite its small population relative to the overall Islamic world) than the rest of the Middle East, Asia, Africa, or any other region (cited from Rehman, 2010). Although the second largest Islamic banking market (after Saudi Arabia) is Malaysia, five of the top six Islamic banks are in the GCC. In addressing the size of the Islamic financial assets, it is unusual to find that the United Kingdom, despite being outside the Muslim-majority world, holds more Islamic banking assets than Turkey and about the same amount as Qatar (Rehman, 2010:108).

Within the GCC, Saudi Arabia holds the largest share of Islamic banking assets, and Kuwait has the largest number of financial institutions offering Islamic financial services as shown in Table 1.1. Thus it is not acceptable for a country like Kuwait, which is known for is substantial Islamic finance institutions, to provide low standards of products and services, nor to manage their services badly and underestimate or neglect customer satisfaction.

Therefore, the contribution of this study lies in exploring ways of enhancing the standards of the quality of service offered by the Islamic banks and consequently satisfying their customers.

Table1.1. Islamic Assets and Financial Institutions in the GCC

Country	% of Total GCC Islamic Assets	No. Islamic Finance Institutions
Saudi Arabia	35%	17
Kuwait	24%	29
UAE	19%	12
Bahrain	14%	27
Qatar	8%	14

Source: The Banker, November 2008

It should be noted that Islamic banking in the GCC has been expanding at double digit annual growth rates over the past decade. Today Islamic banks in the Gulf control a market share close to 15% of the regional banking assets, and have become part of mainstream financial intermediation in this part of the world (Bahrain Tribune, 2008). Moody's noted that the Islamic banks in the GCC have also become the main drivers with large pioneers established since the 1970s; they co-exist with new entrants, former conventional financial institutions which have recently been converted to full- fledged *Shari'ah*-compliant banking entities, and other Islamic windows of conventional banking providers (cited from Hassoune, 2008).

In the past five years alone, more than 50 Islamic financial institutions have been launched. In particular, the Middle East has witnessed an explosion in the number of these institutions, including both banks and non-banking institutions. For example, Boubyan Bank was launched in Kuwait, and more recently Warba Bank was launched. Bank Al Bilad was established in Saudi Arabia along with Bank Al Inma, and Noor Islamic Bank, Ajman Bank, and Al Hilal Bank were formed in the United Arab Emirates. The total capital of these banks alone in the region is $15 billion (Vayanos *et al.,* 2008).

On the other hand, many conventional banks have been converted to Islamic ones: in Saudi Arabia for instance, Bank Al Jazira transformed its entire operations into Islamic one, and in the more competitive banking market of the UAE, the National Bank of

Sharjah (NBS) has also selected this option, with the help of the well-established Kuwait Finance House which owns 20% of NBS's capital.

Lately, Kuwait Real Estate Bank (KREB) has adopted an Islamic model in its operations, which seems rational, as real estate financing is very well adapted to profit from two main strengths of Islamic banks: customer loyalty and access to cheap funding. KREB has changed its name to Kuwait International Bank (KIB) after its conversion to an Islamic bank. It should be noted that in April 2010 the Bank of Kuwait and the Middle East has converted its operations according to *Shari'ah* Islamic rules and has changed its name to Ahli United Bank. Additionally, Al Rayan Bank, Al Masref, Boubyan Bank, and Bank Al-Bilad are examples of institutions that could reshape the entire industry in the region, given the relatively large size of their capital bases by regional standards and their well-focused strategies (Hassoune, 2008).

The Gulf region may witness more banks converting to Islamic finance in a bid to tap into the rising demand for *Shari'ah*-compliant products and to avoid the heavy investment required to launch new banks. However, the idea of Islamic banking is relatively young and many are unaware of it, as people tend to deal with highly experienced conventional banks that offer a wide range of financial instruments. It is therefore unlikely to see them switching to Islamic banking unless it offers them something extra. Accordingly, it is important for Islamic banks to be heavily involved in marketing their products and services and educate people about what they really offer (Shafie *et al*., 2004) rather than just relying on religiosity as patronizing factors.

There are 19 Islamic banks operating in the GCC region (KIBS, 2009); nonetheless, the Islamic banking market in the Gulf is not yet crowded, with only one or two midsize Islamic banks competing in each domestic market, compared to the conventional spread. The reason is that most conventional banks had not wanted to invest a large amount of resources in Islamic banking because of its short track record, the higher returns in the conventional market, and the uncertainties about its legal and regulatory environment. Yet as a result of the supportive government policies in the GCC countries, along with Bahrain's encouragement of Islamic finance as part of its offshore banking and financial

activity, the UAE, Qatar, Saudi Arabia, and Kuwait are all participating in changing the picture and in emphasizing the importance of a sound legal framework of Islamic banking transaction.

In sum, all the GCC states except for Oman have passed legislation which has facilitated the development of Islamic finance (Wilson, 2009). It should be noted that only the Bahrain Monetary Authority has an explicit, separate, and advanced framework for licensing, regulating, and supervising Islamic banks, called the Prudential Information and Regulatory Framework, or PIRI. The PIRI covers areas such as capital adequacy and asset quality (Hassoune, 2004).

In contrast, Kuwait has updated and augmented its banking legislation to ensure healthy competition between Islamic banks in its domestic market. The Central Bank of Kuwait initiated the Islamic Banking Law; Section 10/ 2003 of the amendment of the initial Central Bank Law in 1963 pursued the suit.

Working with this law, the Central Bank of Kuwait had issued a provisional license in 2003 for establishing new Islamic bank in Kuwait (Boubyan Bank). The Kuwait Investment Authority (the investment arm of the Kuwaiti government) will own a 24% stake, and the remaining shares will be traded at the Kuwait stock market. The newly-launched Bank will certainly grow rapidly and benefit from government support. Boubyan Bank starts operating in 2005.

By this law the Central Bank also allowed an existing bank, namely the KREB, to operate in accordance with *Shari'ah* Islamic law; as mentioned above, KREB had changed its name to KIB to reflect its conversion to an Islamic bank. KIB starts operating as an Islamic bank since July 2007.

KFH was the only bank that had been operating in the country for 26 years based on Islamic principles without been properly regulated before the Islamic Banking Law; Section 10/2003 was commenced. Thus, this amendment eventually brought KFH under the regulatory authority of the Central Bank of Kuwait.

In response to the increasing competition stemming from the entrance of new players into the market, existing Islamic banks have started to leverage on their natural competitive advantages, which include customer loyalty, sensitivity to religious practices, and a stable base of cheap deposits. In particular, it can be observed that customers in this region are considering and encouraging Islamic banking transactions regardless of the higher return offer by the conventional banks due to its stability, especially after the financial crisis of 2008. This further increases the competition between Islamic and conventional banks, forcing Islamic banks to enhance their commercial entrenchment, develop relevant business models, strengthen their brands and reputation, and provide innovative solutions to a growing number of clients attracted by the concept of interest-free banking (Bahrain Tribune, 2008).

In addition, with the lowering of entry barriers and moving towards financial integration and liberalization, banks are functioning under increasing pressure from their competitors; hence it is imperative that banks maintain a loyal customer base in order to improve their market position. Consequently, as the practice demonstrates, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Moreover, with the advent of international banking and innovations in the market place, customers are having greater difficulty in selecting one financial institution from another.

Shari'ah-compliant or Islamic banks are extremely competitive within Kuwaiti market, which necessitates great customer service as a must. The development of Islamic banks in Kuwait is becoming increasingly challenging with more conventional banks, such as National Bank of Kuwait (NBK) and Commercial Bank of Kuwait (CBK), participating and offering banking products and services based on Islamic principles (Islamic Funds).

Thus, it is very important for Kuwaiti players in the Islamic banking industry to better position them self in order to confront and respond vigorously to robustness of the local financial environment. This makes service quality and customer satisfaction a superior strategic choice to compete through in the Kuwaiti financial market.

Competing through quality and satisfaction will help in maintaining their customer base and attracting new ones. Especially with the increase in customer awareness and the tremendous choices available to select a certain financial institution or bank over another, plus the deregulation of the financial service industry that granted the foreign banks presence in the local market have all contributed to increased recognition that service quality is centrally an important determinant shaped customer satisfaction in the case of banks.

However, GCC Islamic financial institutions are taking an increasingly international perspective and becoming more globally minded. The clearest examples are Al Rajhi and KFH, which have taken advantage of Malaysia's policy of opening its doors to foreign entrants to establish itself as the global hub for Islamic finance. KFH commenced its operations in Malaysia in February 2006 (Wright, 2008) and also expanded its expansion in Turkey, KFH is the country largest Islamic bank, and with eighty-eight branches more than it has in Kuwait (Wilson, 2009).

With the rapid expansion and improvement in the types of Islamic products and services that are being offered by Kuwaiti financial institutions, it is essential to analyse service quality dimensions of its Islamic banks. The increase in competition between Kuwaiti Islamic banks has made service quality a key differentiating factor for those banks to improve their market shares, their profits positions, and the satisfaction of their customers.

Howcroft (1991) stated that banking service quality implies consistently anticipating and satisfying the needs and of customers. Tracking customers and developing creative strategies to retain them is very profitable. If service providers knew how much it actually costs to lose a customer, they would make a greater effort to retain them (Allred and Addams, 2000). For this reason, continuously improving customer service quality needs to become a top priority for any financial institution.

Thus, the goal of this study is to identify and evaluates customer perceptions towards the quality of services offered by the sampled banks, based on CARTER model. The reason

for adopting the CARTER model is because it emphasises compliance with Islamic *Shari'ah* law. According to Gait and Worthington (2008), customers appreciate Islamic banks' profits based on religious belief rather than quality services, since in Islam work and the quality of that work are considered to be a type of worship.

As a final point, the market for Islamic banking in Kuwait shows rich potential; the question facing both the current and new entrants is how to win in this market. However, as the competitive intensity increases, the winning players will be those that are able to deploy differentiated capabilities in addressing the existing challenges that are unique to Islamic banks. The growing tendency towards favouring Islamic banking in Kuwait requires upgrading its financial services, designing effective performance evaluation system and understanding the needs of their customers.

1.4. RATIONALE OF THE RESEARCH

The significance of this study lies in the fact that there has been a lack of research and studies on service quality management in the banking sector in the Arab and Muslim world. The issues with service quality management and concepts are not well addressed in the Arab context (including Islamic banking), as little is known about these concepts. For example, few books have been translated into Arabic in this field and few papers have been written about service quality. Having said that, there is a limited number of published studies which have been conducted to assess service quality in the Islamic banking industry; the issue of service quality in the Islamic banking is largely an unknown factor, making this study exploratory in nature. An additional significance of this study is the importance it gives for Islamic banks to be customer oriented.

Furthermore, this is the first study conducted since that of Othman and Owen in 2002 on Kuwait to assess KFH customers' perceptions towards service quality. Thus, this research presents evidence concerning the customers' perceptions of all of the three Islamic banks operating in Kuwait in a way that has not been studied before. The outcomes derived in this study from applying the modified SERVQUAL and CARTER model with the novel additional dimensions have not been studied in such a substantial manner in Islamic banking literature. Therefore, the main aim of this study is to enrich the Islamic finance

literature with an empirical study in managing the quality of their services. A large body of theory and empirical research in this domain has been devoted to identifying the role that service quality plays in shaping the customer satisfaction and attitudes in conventional banks and financial institutions; on the other hand lack and insufficiency accrue in the Islamic financial literature.

Another factor that shaped the importance of this research is the timing of the study, as it comes at a critical point in time after the international financial crisis hit the global economy in 2008, which shattered customer confidence in capitalism and its ideology; consequently, some of the customers and clients of the conventional banking turned their heads to a substitute of the capitalist financial system and drew attention to the Islamic economic system as a new approach towards banking and financing systems.

Therefore, Islamic finance experts, scholars, and policy makers should seize the opportunity to generate a better level of understanding of the principles of Islamic finance and their significance. As Sheikh Yusuf Al-Qaradawi has recently stated in a conference in Doha: "The collapse of the capitalist system based on usury and securities rather than commodities in markets, shows us that it is undergoing a crisis and that our integrated Islamic philosophy – if properly understood and applied – can replace the Western capitalism" (cited from Goodenough, 2008).

In addition, while the financial sector as a whole recorded historic drops in activity and profit over the last two years, a WTO report on trade levels predicted aggregate asset growth of Islamic banks to reach an impressive 15-20 % in 2009 – down from the optimistic 20-30% predicated in 2008, but far from disappointing (cited from CIBAFI, 2010).

The global growth of Islamic finance remained strong in 2009, just when the majority of the world's financial systems found themselves delivering amid the capital market dislocation and its spread to economies around the world. Assets of the top 500 Islamic banks expanded 28.6% to $822 billion at year-end 2009. Standard & Poor estimate that

Shari'ah-compliant assets have currently totalled about $1 trillion worldwide (Islamic Finance Outlook, 2010).

However, the study focuses on a country that was slightly hit by the financial crisis through its second largest conventional bank. Kuwait's Gulf Bank (GB) was the first financial firm in the Kuwait that needed the Central Bank intervention and halted it shares trading in the Kuwait stock market after the bank suffered losses estimated at up to 200 million Kuwaiti dinars due to forfeitures on currency derivatives contracts. Accordingly, the government guaranteed deposits at local banks after the Central Bank was forced to step in and support GB, which would probably have gone bankrupt after it was hit by derivatives trading losses if the Central Bank had not interfered.

The GB incident had shaken the customers and investors' confidence in dealing with conventional banks and financial institutions, given that trading with derivatives is prohibited in Islamic finance which is governed by *Shari'ah* principles that inhibit speculation and specify that income must be derived as profit from shared business risk rather than interest or guaranteed return.

As explained previously, Islamic banks are demonstrating a robust development and growth in the Kuwaiti financial system. Despite their growth, Islamic financial institutions need to improve the level of their services and constantly measure their customer perception of the quality of service being offered. The study, thus, investigates the customers' perceptions of the service quality offered by the sampled banks in Kuwait and provides significant insight into the actual service management and development taking place in GCC region in general and in Kuwait in particular.

This study also reveals the high achievers in customer satisfaction with service quality among its sample banks and thereby reveals strengths and weaknesses of players in the industry. New players and existing operators as a result might gain benefit by learning from the experience of proficient players in the industry, as revealing customer preferences can help Islamic banks in Kuwait with designing an effective and efficient customer segmentation plan and marketing mix strategy.

Kuwaiti banks and financial economy are a good case to be analysed, because it is a small, open, liquid, and a developing economy, with six listed Islamic banks operating in the country after Warba Bank registered with the Central Bank of Kuwait in April 2010 to operate as an Islamic bank. It should be mentioned that the new Islamic bank would boost competition which would in turn be in the best interest of both clients and the state's overall economy. Thus, the Islamic banks in the country include: KFH, Boubyan Bank, KIB, Ahli United Bank, Al-Rajhi Bank as a foreign operator, and the latest addition, Warba Bank.

With two conventional banks converted to Islamic ones (KIB and Ahli United Bank), it is always the case to try and maintain their customer base and keep their customers as loyal as possible through outstanding service performance. According to Abdi (2010) it is estimated that up to 15% of existing customers could leave a converted bank, not necessarily because they disapprove of the switch to *Shari'ah* but because the bank might struggle to maintain its service level during a difficult transaction period.

Therefore it is interesting to see how important service quality dimensions are to the customers, how they perceive the level of the service quality offered by the banks, and whether their bank is satisfying their expectations. In an attempt to explain the banking environment in Kuwait, one senior Kuwaiti banker noted that "*we are still living in a world where some financial institutions seem to exist to provide their boards with prestige and salaries rather than their customers with services*" (Dudley, 2002:3). However, some of the Kuwaiti banks had undergone a major restructuring in the last couple of years, and now their focus is customer driven and determined to be a customer organization.

Since Kuwait is one of the leading financial players in the Islamic financial industry, this study is expected to provide an accurate picture of the latest findings concerning the service management as well as the financial performance of the Islamic banks in the country. The study is therefore essential for benchmarking purposes.

Furthermore, the findings of the study are important for guiding the banks and highlighting throughout the study the weaknesses that could occur in the banks. In addition, the results may be useful to many other countries wishing to add a compliance dimension to their assessment when converting a bank to an Islamic one or when opening an Islamic window for one of their conventional banks.

Previous studies concentrated on banking regulations and the operational side of Islamic banking; in doing so they disregarded the marketing strategy and management of those banks. Thus, the significance of the present study relates to the empirical approach to measuring the perceived service quality level of Islamic banks.

Lastly, the study also located the nature of Islamic banks and the challenges confronting them in the current environment of open markets and globalization in relation to customer satisfaction and service quality.

1.5. RESEARCH METHODOLOGY

The aim of this study is to investigate the service quality dimensions in the Islamic banking industry in Kuwait using data collected from the customers of the three Islamic banks that operate in the country, namely, KFH, KIB, and Boubyan Bank. The aim is to identify the most influential determinants of proposed service quality dimensions on the perceived customer satisfaction.

To achieve this aim the study used an explorative case study with an inductive approach. The case study surveys all of the local Islamic banks operating in the state of Kuwait, using a quantitative method. The study collected primary data via a questionnaire that was distributed to the target population, who were asked about their perceptions regarding the service quality offered by their Islamic bank branch. The questionnaire includes and addresses the service quality constructs, namely 'compliance, assurance, reliability, tangibility, empathy, responsiveness, technology, competitiveness and customer satisfaction'.

The questionnaire was divided into three sections: the first section is designed to answer demographic and profiling characteristics questions, such as age, gender, nationality, marital status, place of work, income, and the education level. Within this section two extra questions have been asked as to which Islamic bank the respondents are dealing with and for how long they have been patronizing this bank. The second section is the main body of the questionnaire where the respondents answer the 42 statements shaping the nine service quality dimensions. The questionnaires were distributed to the respondents to assess their approval of the statements using five Likert scale. The third and last section was used as an open-ended question for feedback and remarks about the service quality offered by their financial service provider.

In order to get the answers to the research questions and test the research hypotheses, more than 800 questionnaires were randomly distributed to Islamic banks customers in the branches of the sampled banks. The targeted population includes customers of all the three Islamic banks branches operating in all of the six cities in Kuwait, in an attempt to obtain a broad geographic and demographic sample. It should be noted that the valid number of questionnaires analysed was 700.

The study employed a modified version of CARTER model. CARTER model measure service quality and is used for analysing sources of quality problems and for helping management to understand how service quality can be improved in Islamic banks. The applied modified model used a measurement scales consistency of nine dimensional structures: tangibility, reliability, responsiveness, assurance, empathy, compliance, technology, competitiveness, and customer satisfaction to measure Kuwaiti Islamic banking service quality.

The analysis used descriptive statistics along with exploratory factor analysis to search for patterns and test the adequacy of the measurement in measuring the constructs. Stepwise regression analysis was used to build up the relationship between the different dimensions of services quality and customer satisfaction. Path coefficient analysis was used also to test the relation effect of the constructs.

In addition to the primary data, the study also used secondary data to analyse the financial performance of the banks through the published financial statements and annual reviews of KFH, KIB and Boubyan Bank to develop a better understanding of the financial position of these banks.

1.6. OVERVIEW OF THE RESEARCH

The research consists of ten chapters: after the introductory chapter with the aim and objectives of this study, Chapter 2 starts with a substantial review of the literature on service quality theory, defining service and why it is difficult to manage and measure; how customers perceived service quality; what role employees play in shaping customer service quality; whether there is a link between customer satisfaction and service quality; and how service quality could help to sustain the current customer base and attract new patrons. The chapter also discusses the development of service quality models followed by substantial literature review of the empirical studies from several countries concerning service quality and customer satisfaction in conventional banks and financial institutions.

Chapter 3 starts with the special characteristics of Islamic banking and how it is different from conventional banking by presenting the main governing rules and regulations for Islamic banking services. This chapter also discusses why Islamic banks need to adopt service quality initiatives and why they need to provide services beyond those that appeal to the religiosity of the customers. A substantial literature review of the empirical studies concerning service quality and customer satisfaction related to Islamic banks and financial institutions is presented. The chapter primarily focused on service management within the Islamic finance literature and analyses how the literature has developed. After the substantial literature survey presented for both Islamic and conventional banks, the chapter suggests a modified model of service quality that could be used in the Islamic banking and financial industry.

Chapter 4 reviews Kuwaiti Islamic banks and the country's banking sector in general, its structure, features, the role of the Kuwait Central bank, and most of all the liberalization and deregulation movement with the Central Bank Law Amendment of 2003 concerning

rules and regulations related to Islamic banks. The chapter also produces a historical overview on the origin of the banking system in Kuwait.

Chapter 5 presents the methods employed in the study, the sample size and data collection process. The chapter also presents the appropriate statistical analysis to build a model that tests the research hypotheses, using descriptive statistics, factor analysis, and stepwise regression to test the significance of the respondents' perceptions towards the quality of services offered by their Islamic bank.

Chapter 6 presents an overview of the three Islamic banks operating in Kuwait with a considerable financial analysis for each Islamic bank: KFH, KIB, and Boubyan Bank and closely examines the profile of the three Islamic banks and explains in detail the products and services offered by each of the three sampled banks to their customers; it also considers whether there were any differences for particular products and services provided b y the banks.

Chapter 7 presents substantial descriptive analysis of the data collected via the questionnaire and investigate the sample characteristic and featuring profile. The chapter also analyzes the mean and standard deviations for each entity or statement which forms each dimension of the modified SERVQUAL model to assess the differences in mean values of the respondents' perceptions when answering the questionnaire. This is followed by an analysis of the average importance of the respondents' answers to each question for each bank individually to compare the service performance in each bank.

Chapter 8 provides the empirical results from addressing and exploring the customers' attitude towards the service quality offered by their Islamic bank and examines if there were any significant correlation between SERVQUAL dimensions and the Islamic banking variables. The chapter also present cross tabulation analysis to test if there were any significant relationship between respondents' profile and the SERVQUAL dimensions. The chapter then assesses the relation between the SERVQUAL dimensions and customer satisfaction. An exploratory factor analysis technique is used in this chapter to assess the sufficiency and reliability of the concerned constructs of the SERVQUAL

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dimensions. Afterwards and by using the Principle Axis Factoring (PAF) in the exploratory factor analysis method to analyze the shared variance amongst the items, the study provides the new established structure of the constructs as concluded by the study results and explore the differences between the empirically generated dimensions and the theoretically imposed.

Chapter 9 aims to contextualizing the study findings and tests the research hypotheses after presenting the findings and results of this study in the previous chapters. As well as produce the study general and sub-models.

Chapter 10 brought the study to an end with the conclusion and recommendation presented in this chapter.

Chapter 2

SERVICE MANAGEMENT IN THE BANKING SECTOR: SURVEYING THE CONCEPTS, MODELS, AND EMPIRICAL LITERATURE

2.1. INTRODUCTION

Today's marketing environment is characterized by increased competition, uncertain economic conditions, and shifts in global trading relationships; with such dynamics, the pressure to understand market conditions and customer requirements is growing to the point where organizations will be compelled to exceed, rather than simply meet customer expectations. The pressures of competition are forcing the organizations not only to look at the processes but also at the way in which they are delivered (Seth *et al.*, 2005). The focus areas for organizations are also changing from profit maximization to maximizing profit through increased customer satisfaction.

In adapting to such pressure and change, organizations are looking to service initiatives as a method to create or sustain competitive advantages. In this sense, banks and financial institutions are no different from other organizations: the quality of their products and services is not an optional competitive strategy which may, or may not, be adopted to differentiate one bank from another, but it is essential for its corporate profitability and survival. Today, service quality has become a principal competitive weapon in the banking war: products can very easily be duplicated, whereas service levels cannot (Stafford, 1994).

Therefore the focus of this chapter lies on analyzing and evaluating the current knowledge of service quality theory in general and in the banking industry in particular. The chapter refers to eighteen conceptual service quality models covering the aspects of conventional services to web-interactive services to help with developing a theoretical framework. The chapter also highlights the differences between manufacturing and service organizations in order to define the term 'service quality'.

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This chapter also summaries the reasons behind the increased attention paid to the service quality phenomenon, how customer perceptions and expectations shape service quality, the relation between customer satisfaciton and service quality, and the role that employees play in forming a successful service quality implementation. After discussing the service quality models, this chapter also provides an overview of the retail customer perceptions in conventional financial services, as well as a survey of studies that focused on service management principles and customer satisfaction in the conventional banking sector.

2.2. THE IMPORTANCE OF SERVICE QUALITY

Customer service quality and its measurement is a recent but extensively documented field studied by numerous academic and business professionals (Duncan and Elliott, 2002). The ABI's information database '*Global Edition'* (September 1994), for instance, reported that service quality has been a key word in some 1,447 article publications in the period of January 1992 to April 1994 alone (cited from Buttle, 1996). Without doubt, service quality has become an important research topic because of its apparent relationship to cost (Crosby, 1979), profitability (Buzzell and Gale, 1987); (Kordupleski *et al.*, 1993), customer satisfaction (Bolton and Drew, 1991); (Boulding *et al.*, 1993), customer retention (Reichheld and Dawkins, 1990, Reichheld and Sasser, 1990) and positive word of mouth. Service quality is widely regarded as a driver of corporate marketing and financial performance.

In the banking field, for instance Soteriou and Zenios (1998) proposed that service quality is a factor that has an impact on financial institution performance as measured by profitability. Several other researchers (Dawkins and Reichheld, 1990); (Payne and Rickard, 1993) , on the other hand, have indicated in their studies that service quality improvement implies increased spending by organizations, which has an immediate impact on lowering profitability. However, it is argued that there will be long-term gains in the firm's ability to attract new customers and retain current ones. These studies found

that service quality has a measurable impact on customer retention, market share, and profitability (Duncan and Elliott, 2002).

The benefits of quality improvement manifest in two forms: one effect is the improved ability of the firm to attract new customers, due to the word of mouth, as well as the firm's ability to advertise the quality of its offerings. This effect is in many ways comparable to product repositioning and is part of 'offensive marketing', i.e. those actions that seek to attract new customers (DeSarbo *et al.*, 1994); (Green and Srinivasan, 1978);(Green and Srinivasan, 1990); (Wind *et al*., 1989). The second result is that when current customers are more satisfied with the products they buy, they become repeat customers. A small increase in retention rates can have a dramatic effect on the profits of a company (Dawkins and Reichheld, 1990); (Fornell and Wernerfelt, 1987); (Fornell and Wernerfelt, 1988);(Payne and Rickard, 1993, Reichheld and Sasser, 1990) for several reasons: existing customers tend to purchase more than new customers(Rose, 1990), and the efficiency in dealing with them is also greater. Retaining current customers through higher levels of satisfaction is called 'defensive marketing' (Fornell and Wernerfelt, 1988).

AlSahan (1994), on the other hand, summarized other factors which contribute to the increased attention to service quality and its importance among scholars and business organizations. These factors are (cited from Obaid 2006:42).

(i) The growing role of the service sector in economic development and the change from industrial to service societies.

(ii) The special characteristics that distinguish services from commodities, which make the administration of a quality a more complicated process.

(iii) The increasing importance of a quality strategy in the face of a competitive market distinguished by high levels of organization and efficiency.

(iv) The increasing role of quality in realizing customer satisfaction and loyalty; and the emergence of the term 'service competition'.

(v) The recognition that service is a key element in achieving a competitive edge.

Therefore, to ensure the right quality, organizations must do better in understanding their environment and building up the competence and ability to change. In particular, they need to understand that quality techniques and control systems. However, quality control systems do not work on their own; they are created by the people in those organizations, who are aided by techniques, methods, systems, and who can achieve the right service quality but must want to do so and eventually gain satisfaction from giving and improving service quality.

In order to gain competitive advantage, organizations must use technology to gather information on market demands and customers perceptions and preferences for the purpose of service quality improvements. Researchers and managers must be keen to learn details about components of service quality in their organization for reasons of customer satisfaction, increased profitability, and many other factors which will be thoroughly discussed below. In these contexts models of measuring service quality are of vital interest for business managers to sustain a competitive edge and ensure their customer base. In particular, conceptual models in service quality enable management to identify quality problems and thus help with planning for the launch of a quality improvement program with the aim of improving efficiency, profitability, and overall performance.

Owing to factors such as the opening up of new markets and the increase in use of information technology, as well as increased customer knowledge and awareness etc., it becomes a must for service organizations to deliver the services better than their competitors at the agreed price. In this context, the subject of service quality needs a fresh understanding in the current business scenario. This study can help to identify gaps in the service quality literature, especially in Islamic banks and financial institutions. The study thus hopes to provide benefits to practicing managers and researchers in general. To do so it is always useful to shed light on the conceptual definition and meaning of service, its quality, and how it could be managed and improved. The next section discusses these concepts and other related issues before surveying the different models of measuring the quality of services.

2.3. DEFINING SERVICE: A CONCEPTUAL UNDERSTANDING

Service is generally defined as a set of intangible activities exist as a result of the interaction between customer and service provider in addition to the material resources and the organizational system (Lovelock, 1983). In a similar manner, Gronroos (1990) defines service as an activity or series of activities of more or less intangible nature that normally, but not necessarily, takes place in interactions between the customer and service employees and physical resources, goods, or systems of the service providers, or all three. In this regard, Palmer and Bejou (1994) notes that service is intangible because, unlike goods, it has no physical presence that may be measured and therefore makes the customer highly uncertain about choosing between two competing service providers. Achrol and Kotler (1999) in addition of the above, defines service as any act of performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Thus, there is no singular definition, but rather each definition makes references to a particular dimension of the subject. However, whatever the particular focus of a given definition is, the 'intangibility' feature remains as an important aspect.

2.4. MANAGING SERVICES

Services are performances, not objects. Managing services is one of the greatest challenges facing virtually every organization. As markets mature, service becomes a powerful competitive weapon, and, indeed, in some cases the only form of differentiation. Nonetheless, it should be noted that the historical lack of interest in service can be partly explained by the fact that there was little understanding of the differences between the management of services and the management of manufacturing organizations (Bitran and Lojo, 1993). However, it is true that basic management principles are similar for both types of organizations; however, services have some characteristics that require a different emphasis from management on some of these principles. The characteristics that differentiate services from manufacturing in terms of quality are described by many authors (*e.g.* (Bitran and Lojo, 1993);(Parasuraman *et al.*, 1993); and (Zeithaml *et al.*, 1996) as follows:

(i) *Nature of products*: products are basically intangible in services including a tangible action, so customer satisfaction in services in not only influenced by objective measures of performance but also by intangible aspects during the service performance;

(ii) *Heterogeneity*: this creates another challenge for quality management in services because quality in service is not just ensuring conformity to standards. It also takes into account service diversity of customers while the service delivery is taking place, the behaviour and expectations of the customer being served, and the need to customize the service delivery accordingly;

(iii) *Simultaneity*: most services are produced and consumed at the same time. This presents a difficulty in quality management of services because it is not usually feasible to actively monitor all service deliveries that are taking place and the service cannot be inspired before its consumption;

(iv) *The human contact*: services are often characterized by the existence of human contact between employee and the customer;

Thus, the quality revelation has spread through manufacturing and service industries as customers have begun to demand more and better levels of performance, and mangers have found that growing, highly competitive markets require that customers must be satisfied by their purchases or they will go elsewhere (Rice, 1990). Quality programs have been adopted in manufacturing sectors since quality first became a concern in the 1960s, when Japan began to introduce quality circles; the practice has been widely adopted by the Japanese industry since 1962 (Dunford and McGraw, 1986). The original objectives were to improve leadership abilities, encourage self-development, increase workers' morale, and increase everyone's awareness of quality and the need for its improvement. Dale (1984) defines the quality circle as a team of up to 12 people who usually work together and who meet voluntarily on a regular basis to identify, investigate, analyze, and solve their work-related problems (cited by Millson and Kirk-Smith,1996). However, quality circles have not enjoyed the same success in Western countries as they have in Japan; this may be due to a lack of management support, lack of training, and inadequate resources (Field and Swift, 1996) or due to a perception of inadequate

empowerment. In Western countries, the members of quality circles were usually not empowered to act on their ideas and were required to report to management before making any changes. Unfortunately, most of the arguments and research related to the quality of goods prove inadequate for understanding service quality because of the above fundamental differences in the ways in which services are produced, consumed and evaluated (Zeithaml *et al*., 1990).

Zeithaml (1988) identified that there are many unique characteristics of the service business that contribute to the complexities involved in assessing and managing service quality. It is a complicated scenario and involves both the consumers' assessment of service quality and the provider's ability to control it. For example, the intangibility of services and the simultaneity of service production and consumption make it difficult for the customer to assess the quality of the desired service before it is rendered (Schneider and White, 2004).

2.5. QUALITY: A CONCEPTUAL DEFINITION

As a result of the above differences, many concepts of quality have been invented by practitioners and researchers, such as total quality management (TQM), quality control, and service quality (SERVQUAL). Despite the fact that the term quality is found to be a vague concept in literature, many attempts to define quality are observed. The simplest definition is discharging the right tasks in the right way. Two elements in this definition are observed: the performance of the right tasks means the fulfilment of the customer's request, and performing the job in the right way from the start (Rust and Oliver, 1994).

The International Standards Organization (ISO), for instance, defines quality as: "the totality of features and characteristics of a product or service that bears on its ability to satisfy or imply customers' needs" (Samuel, 1999). Quality represents the totality of features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs (Achrol and Kotler, 1999).

However, and from the customer's point of view, quality is defined as the disparity between a customer's expectation or desire and his or her perception. Expectation is

defined by Parasuraman *et al*. (1989), as the ideal standard, want or desire, while perception is defined as what customers get in reality or their feelings as the service is consumed.

In expanding, Johnson and Chavala (1996) explain that quality must provide goods and services that completely satisfy the needs of both internal and external customers, meaning quality serves as a bridge between the producer of goods or services and their customer. In other words, quality is how the offer gains uniqueness and value in the eyes of customer. Quality is both the act of making the offer different and its evaluation by customers (Christopher *et al.,* 1991). It is fulfilling expectations and needs – those of the customer, of the staff, and of the owners. Guaranteeing the right quality is ensuring that the customers, staff, and owners are satisfied.

TQM is one of the quality concepts invented by scholars to manage quality. The British Standards Institution (BSI) described TQM (1992) as a management philosophy and company practice that aims to control the human and material resources of an organization in the most effective way to achieve the objectives of the organization. However, if we look at the meaning of each word of TQM, we find, as Samuel (1999) notes, that "total" means that everyone linked with the company is involved in continual improvement (including customers and suppliers, if feasible); "quality" indicates that customers' expressed and implied requirements are fully met; and, finally, "management" signifies that executives are fully committed (Othman and Owen, 2002b). Additionally, Goetsch and Davis (1995) looked at TQM as "an approach of doing business that attempts to maximize the competitiveness of an organization through the continual improvement of the quality of its products, services, people, processes and environment".

Martin (1993) believes that quality means the best for certain customer conditions, which include the actual use and the selling price. This is highly applicable in American business and commerce sectors. In the American industry, the issue of quality has come to the forefront for one reason only: the rise of an attitude of customers wanting to "get their money's worth". According to a Whirlpool Corporation study in 1983, nearly four

out of five American consumers claim to be more demanding about quality now than in previous years(Corporation *et al.*, 1983).

(Gronroos, 1990) defines quality as a comparison between a buyer's expectations and a seller's performance, and both propose that quality is the degree of excellence at an acceptable cost. On the other hand, (Juran and Gryna, 1988) defines quality as fitness of use. To help us in understanding quality, he divides the concept into five different categories, where each category consists of special characteristics. These are:

(i) *Psychological*: this includes recognition of regular customers, comfort, and beauty of surroundings.

(ii) *Time oriented*: this includes queuing and repair time.

(iii) *Contractual*: this includes guarantees of satisfaction.

(iv) *Ethical*: this includes honesty, courtesy and truth.

(v) *Technology*: this includes clarity of service and user friendly outlets

By and large, the majority of researchers on service quality, such as (Buzzell and Gale, 1987) are in line with the definition that quality is "what the customer says it is". This directly implies the hegemonic nature of the customers, and therefore, in the case of a bank, implies that the bank needs to know whether their services fully satisfy all their customers. They would ask and observe the customers themselves in order to develop an understanding as to whether, for example, the customers recommended the bank to others.

2.6. QUALITY AND SERVICE QUALITY

Service quality is defined by (Gronroos, 1993) as the fulfilment of customers' expectations. As explained earlier, expectations are viewed as desires and wants of the consumers. On the other hand,(Zeithaml and Gilly, 1987) explains that "service quality is the consumer's judgment about an entity's overall excellence or superiority. It is a form of attitude, and results from a comparison of expectations of performance received". Similarly,(Lewis and Booms, 1983) define service as "a measure of how well the service

level delivered matches customer expectations. Delivering quality service means confirming to customer expectation on a consistent basis."

Service quality is aim at providing a better service, meeting the customer's expectations. It certainly extends beyond the service delivered to include every aspect of the relationship that grows between the organization and the customer (Elliott and Edwards, 1994). Farmer (1981) defines service quality in terms of subjectivity, attitude, and perception, confirming that intangibility may make it very difficult to turn around a poor service because it may be hard to convince dissatisfied customers that the service has already changed for the better. Besides, achieving the right quality means that the service provider has met the specifications or requirements which were laid down for the service on the basis that the customers' expectations have been fulfilled.

Therefore, a focus on the customers is the key to adopting and delivering service quality or total service quality management (TSQM), as Peters (1999) named it. In the context of the banking industry, any financial institutions, including Islamic banks, must think about quality in this manner because by giving customers what they expect and really deserve, not to mention by delivering it accurately and timely, customers will come back and recommend the bank's services and products to other. For the bank, this is an effortless and cost-free way of marketing their products and services.

In emphasizing the importance of the service delivery and service encounter, Marcus once remarked to a group of bankers that, "The dollar bills the customers get from the tellers in four banks are the same. What makes a difference are the tellers" (Berry *et al.*, 1989:114). What, however, makes the tellers different, is the quality of the service they provide. Although quality has received much attention in the last decade, many service firms continue to have trouble not only in delivering it but also defining it (Berry *et al.,* 1989). Quality is conformance to customers' specifications, not to those of the management, since defining quality as 'conformance to specifications' can only be misleading.

It is true that competing organizations provide the same types of service, but they do not provide the same quality of service. No-one knows this better than customers. To customers, competing service enterprises may look alike, but they don't feel a like. Consequently, the service quality has become the greatest differentiator, the most powerful competitive weapon most service organizations possess.

2.7. CUSTOMER EXPECTATION AND PERCEPTION OF SERVICE QUALITY

Customers' perceptions of service quality result from comparing expectations prior to receiving the service and actual experiences with the service. If expectations are met, then service quality is perceived to be satisfactory, if unmet, less than satisfactory, if exceeded, more than satisfactory. Customers' perceptions of quality level vary frequently, for many reasons: competition strategies or promotional efforts of other companies; changing customer tastes; and whether or not a customer has acquired detailed information about products and services (Zeithaml *et al.,* 1995). Table 2.1 illustrates the different stages of quality perceptions by customers during the purchase process.

Table 2.1 Takechi and Quelch table of quality perception factors

Before Purchasing	At point of Purchasing	After Purchasing
Company's brand	Performance	Ease of installation and use
Name and Image	Specifications	Handling of repairs, claims and warranty
Previous Experience	Comments of sales people	Spare parts availability
Opinions of friends	Warranty provisions	Service effectiveness
Store reputation	Service and repair policies	Reliability
Published test results	Support programs	Comparative performance
Advertised price for performance	Quoted price for performance	

Source: (Juran and Gryna, 1988)

In order to compete successfully, a firm must have an understanding of consumer perception of quality and the way service quality is influenced. Managing perceived

service quality means that the firm has to match the expected service and perceived service to each other so that consumer satisfaction is achieved.

(Zeithaml et al., 1988) defined expectations as "desires or wants of consumers, i.e. what they feel a service provider should offer rather than would offer". The original definition of expectation is somewhat vague in terms of the meaning of should. However, (Berry and Parasuraman, 1992) explain that the service expectations concept is intended to measure customers' normative expectations and that these expectations represent an ideal standard of performance.

Customers' expectations are based on their needs, their earlier experiences of service in question and the reputation of the service in the market (Edvardsson et al., 1994). It is important to keep in mind that each customer has personal ideas, suggestions, and feelings, and that he or she will behave differently from another customer, but the same customer may also behave differently on different occasions.

In explaining the original source of service expectations, Pyo (1998) indicated that the desired service expectations operate when the customers have better quality experiences, and the adequate service expectation dominates when the perceived service level is low. The expectation minus perceptions (E-P) for adequate service increases more, although the adequate expectation level is still lower than the desired expectation level. The expectations should be managed by considering the perception-expectation segments to improve the service quality.

Customers reach satisfaction by comparing product or service performance with prior expectations of how products or services would or should be performed. Each customer is assumed to have expectations about how each individual service or product will perform. These expectations are compared with actual perceptions of performance as the product or service is consumed. If the expectation exceeds the performance, dissatisfaction will result. When expectations are met, or when performance actually exceeds expectations, satisfaction results.

Additionally (Parasuraman *et al.*, 1994) suggest that expectation should be influenced by personal needs, word-of-mouth communication, and past experiences. Therefore, the key to providing superior service is to understand and to respond to customer expectations (Parasuraman *et al.,* 1991). Through their research, two different kinds of expectations emerged, both of which can change over time and from one service encounter to the next for the same customer. Firstly, the desired level, which reflects the expected level of quality of the service, and secondly, the adequate level, which reflects the acceptable level of service quality from the customers' point of view. Thus, customers' expectation is used as a standard of comparison in two different ways, which reflect their prediction and their desire concerning the quality level of the service.

Customers' expectations for a particular service shape their assessment of the quality of that service. When there is a discrepancy between the customers' expectations and the management understands of customer expectations, perceived service quality will suffer. The management's failure to identify customer desires accurately is one kind of quality gap. Even when the management fully understands customer expectations, service quality problems may occur. For one thing, the management may believe that it is impossible or impractical to meet all of the expectations (Zeithaml *et al.*, 1988).

(Boulding *et al.*, 1994) argue that expectations of service quality are based on many sources, including a number of objective factors for each service quality attribute. These include, for example, delayed departures of planes, accuracy of monthly account statements, and waiting time at the checkout line. (Parasuraman *et al.,* 1991) therefore suggest that, to keep customers' expectations from rising, it is critical to perform the service properly the first time. Customers' expectations for the service are likely to rise when the service is not performed as promised. When service shortfalls occur, customers' tolerance zones are likely to shrink and their adequate and desired service levels are likely to rise for both the outcome and process dimensions of recovery service. However, researchers generally agree that expectations serve as a reference point in customers' assessment of performance (Boulding *et al.*, 1993) and (Teas, 1993).

2.8. SERVICE QUALITY AND CUSTOMER SATISFACTION

Satisfaction loosely means "enough" or "enough to excess" (Oliver, 1993). Thus, customer satisfaction can be defined as the customer's fulfilment response. (Cronin and Taylor, 1994) explain the differences between service quality and customer satisfaction by stating that the former is about long term attributes, while the latter is a transitory judgment of service quality. According to (Webster 1991: 6) service quality represents the longer-term component of service satisfaction; therefore it is "a measure of how well a delivered service meets customer expectations". Customers demand a greater service quality; they want to be treated as valued customers. Therefore, meeting the needs of the customers means adjusting the services to the requirements, needs, and expectations of customers selected for the service, as well as avoiding dissatisfied customers. This is particularly important, since, as stated by Fortuna (1992), a satisfied customer tells only a few people, while dissatisfied one will, on average, tell 19 others.

At the same time, organizations should make it easier for the customers to comment, complain, or criticize. An ongoing dialogue with the customer provides the service provider with important information for making improvements and adjustments, and in turn living up to the customer-oriented businesses theories which are now leading the market in today's highly competitive conditions. Those customer-oriented businesses are often banks, which, in particular, rely on the service quality approach to identify customer segmentation, the need for new banking services, the need to develop existing products, and the setting of the marketing mix. Banks are keenly aware that both globalization and the rise in importance of customer oriented service make it imperative that attention be paid to service quality, customer satisfaction, and customer loyalty.

According to Skelcher (1992), the success of service providers may be attributed to

(i)   Having a bias towards problem solving and acting effectively and quickly.

(ii)   Being very close to their customers; listening and learning from customer feedback to improve service quality.

(iii) Having employee autonomy and entrepreneurship, which give employees the authority to make decisions.

(iv)   Having people-oriented productivity, in which a company devotes an adequate portion of its investment towards developing employee commitment to enhancing quality.

(v)   Encouraging top management to set an example in hands-on and value-driven work.

(vi)   Always concentrating on their core business and doing what they know best.

By establishing a correlation between service quality and customer satisfaction, Lassar *et al*., (2000) consider service quality as an important indicator of customer satisfaction. However, service quality can be described as a form of attitude, related but not equivalent to satisfaction (Anderson and Zeithaml, 1984; Parasurman *et al.* 1985).

The importance of service quality and customer satisfaction has been the subject of extensive research carried out, among others, by Cadotte *et al.* (1987), Fornell (1992), Oliver (1980), Oliver and DeSarbo (1988), and Oliver and Swan (1989). In addition, several researchers in the service quality area continue that satisfaction is the result of comparison of predictive expectations (Bitner, 1990; Bolton and Drew, 1991; Oliver, 1993; Rust and Oliver, 1994; Zeithaml *et al*., 1993).

Although service quality has been identified as a determinant of market share, return on investment, and cost reduction (Burch *et al*., 1995), in their study, Devlin and Dong (1994) have ultimately linked the concept of service quality to customer satisfaction, as it is customer satisfaction that leads to market share and profits. To substantiate this, Cronin and Taylor (1992) support the theory that service quality is an antecedent of customer satisfaction, and customer satisfaction exerts a stronger influence on future purchase of the highest quality service; other contributing factors may be convenience, price, and availability.

Customers assess service quality by comparing what they want or expect to what they actually get. To earn a reputation for quality, an organization must meet or exceed customer expectations. Measuring customers' satisfaction is, therefore, critical to the process of serving the customer and responding faster and better than their competitors.

According to Stewart (2001), in general, there are at least four theories that explain the occurrence of customer satisfaction

(i) *Equity theory*: customer satisfaction happens when the output is equal to inputs such as cost, time, and effort.

(ii) *Attribution theory*: satisfaction is formed by a combination of external and internal factors, such as the ability to buy, people's efforts, luck, and the accessibility of the buying process.

(iii) *Performance theory*: satisfaction is achieved when the quality of the product equals its value or price.

(iv) *Expectancy disconfirmation*: the expectation, which is formed prior to the purchase, is compared with the actual result.

Researchers such as Oilver and Swan (1989), Cronin and Taylor (1992) and Bitner and Hubbert (1994) recognized that customer service satisfaction occurs at various levels in the organization, including satisfaction with the contact person or front office staff, satisfaction with the core service experienced, and overall satisfaction with the organization. Thus, overall satisfaction is viewed as customer satisfaction with multiple experiences or encounters within the same organization. The following section will discuss issues related with employee performance and service encounter.

2.9. SERVICE QUALITY AND EMPLOYEE PERFORMANCE

Services are often produced in the presence of the customer and staff, and because of the labour intensity of many services, quality can vary considerably from one firm to another, and from one situation to the next within the same firm. Service quality suffers when employees are unwilling or unable to perform a service at the level required. Willingness to perform maybe described in terms of discretionary effort, *i.e.* the difference between the maximum amount of effort and care that an individual could bring to his/her job, and the minimum amount of effort required to avoid being fired or penalized (Berry *et al.,* 1988). Maintaining service quality, then, depends not only on recognizing customer

desires and establishing appropriate standards but also on maintaining a work force of people both willing and able to perform specified levels.

The literature related to service quality and customer satisfaction has emphasized the idea that consumers make a comparison between the performance of the product or service and some assumed standard. The service quality literature has also maintained that the distinction between perceived service quality and customer satisfaction is that customers use different standards of comparison (Bitner, 1990; Parasuraman, *et al.,* 1988, 1994a, b; Zeithaml *et al.*, 1993).

Several service satisfactions' studies suggest that the human interaction component of service delivery is essential to the determination of satisfaction/dissatisfaction. A study of relationship marketing in the life insurance industry found clients' satisfaction with their contact person to be a significant predictor of overall satisfaction with the service (Crosby and Stephens, 1987). Other researchers have found the human interaction component to be of importance in evaluating professional services (Bearden and Teel, 1983) (Day and Bodur 1978; Quelch and Ash 1981). Jones (2001) indicated that customers frequently felt that they were not respected or valued by front office staff and the performance of branch staff was the area of highest customer dissatisfaction.

A survey conducted in 1985 by Gallup in the USA looked at the banking, insurance, hospital, and auto repair industries. The results indicated that 67% of middle managers agreed that employee attitude, behaviour, or competence are the main factors contributing to quality of service, and that the same factors are the cause of 80% of poor service quality.

In the banking industry (including Islamic banks), most personal contact between the customer and the bank occurs through those employees at a low level in the hierarchy, such as bank tellers. No matter how low the status of these employees is in the hierarchy, it is usually their performance that will determine the customer perceptions of quality of the service provided (Lovelock, 1992). Therefore, satisfied employees have a positive outlook and can take a pride in their work. This has a potential to result in being able to

deal positively with customers. In addition, well treated customers are likely to stay customers for the bank and will not move to another. In other words, when employees understand and regard the customers as the reasons for their jobs, they will treat customers with dignity and serve them quickly.

2.10. THE SERVICE ENCOUNTER

The service encounter is defined as the period of time in which the consumer and service firm interact in different ways, including the telephone and media (Bitner et al., 1994). (Solomon *et al*., 1985) suggest that service encounters are role performances in which both customers and service providers have roles to enact. This issue of the term 'service encounter' focuses on the interpersonal element of service firm performance. (Shostack, 1985) renders a broader definition of service encounter as a period of time during which a consumer directly interacts with a service. Her definition encompasses all aspects of the service firm with which the consumer may interact, including its personnel, its physical facilities, and other visible elements.

Shostack's definition does not limit the encounter to interpersonal interactions between the customer and the firm and in fact suggests that service encounters can occur without any human interaction element (Bitner *et al.,* 1990). It is the interaction that takes place where the service is delivered to the customer, and during this interaction most the customers' perception of the bank service is shaped. Therefore, the service encounter is considered to be the most critical moment for the success of the bank. The elements of the service encounter are waiting time, personal interaction, customer expectations and perceptions. In order to manage the quality of the service being provided by banks and financial institutions, Othman (2002:108) presents six phases of service encounter;

(i) *Customer access:* there are a number of ways which customer can gain access to the banking service (e.g. telephone, walk in, ATM, making an appointment, internet, etc.);

(ii) *Customer check-in:* this is where customer identifies himself / herself; it can be by name, opening an account by filing application form, etc. It is important at this

stage for the bank to make the customer feel welcome and to let them know that he/she is important to the bank;

(iii) *Diagnosis:* the bank here identifies the needs of the customer and the reason why the customer has come. This phase is important because the bank has the opportunity to sense the customer's overall expectations of its service and decide the best way to serve him/her;

(iv) *Service delivery:* this is critical for overall satisfaction because the customer's needs and perceptions are met and shaped during this period or in this phase;

(v) *Disengagement phase*: to make sure that all customers' needs have been fulfilled during the service encounter. It is the assessment phase to correct potential mistakes that might have been made during service delivery and to obtain feedback from the customer about the service he/ she received;

(vi) *Follow-up:* this is important because improved service quality follows form customer complaints and suggestions to improve service quality in the bank.

Thus, the key elements of the service encounter are waiting time and personal interaction, which shapes customer's expectations and perceptions. Generally speaking, banks offer a comprehensive range of modern banking products and services which meet their customers' needs. The key issue is not the product range but with the delivery in terms of customer satisfaction (Jones, 2004).

2.11. MODELING SERVICE QUALITY AND ITS DIMENSIONS

Many researchers and quality scholars have recognized the need to develop a valid and distinct measure of service quality given the rise of service development in the last few decades. During the past few decades service quality has become a major area of attention to practitioners, mangers and researchers owing to its strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability (Leonard and Sasser, 1982; Cronin and Taylor, 1992; Gammie, 1992; Hallowell, 1996; Chang and Chen, 1998; Gummesson, 1998; Lasser *et al*., 2000; Silvestro and Cross, 2000; Newman, 2001; Sureshchander *et al*., 2002; Guru, 2003 *etc.*). There has been continued research on the definition, modelling, measurement, and data collection

procedure, data analysis, and other issues related to service quality, leading to the development of a sound base for researchers (Seth *et al*., 2005). It is envisaged that conceptual models in service quality enable the management to identify quality problems and thus help with planning for the launch of a quality improvement program, thereby improving efficiency, profitability, and overall performance.

Based on Seth *et al*. (2005), nineteen conceptual service quality models were recorded during the period 1984-2003, each of which represents a different construct related to services. The following section reviews and appraises these different service models, analyzes them for sustainability, and identifies issues for modification. The models are presented using a standard chronological order, covering brief discussion and the major observations regarding the models.

2.11.1. Technical and Functional Quality Model (Gronroos, 1984)

(Gronroos, 1984) identified three components of service quality, namely: technical quality, functional quality, and image as explained in Figure 2.1. 'Technical quality' is the quality of what a customer actually receives as result of his/ her interaction with the service firm and important to his/her evaluation of service quality; functional quality, on the other hand, is related to how he/she obtains the technical outcomes; the last component is the image of the service provider. (Gronroos, 1984) stated that image is very important to service firms and it can be expected to build up mainly through technical and functional quality of service, as well as other factors (tradition, ideology, word of mouth, pricing, and public relations). These elements are important to the customer's views of the service he or she received.

As the service is produced in interaction with the consumer, the technical quality dimension will not count for the total quality that the consumer perceives and gets. Obviously, he will also be influenced by the way in which the technical quality is transferred to him functionally. The consumer is not only interested in what he receives as an outcome of the production process, but in the process itself. How he gets the technical quality – functionally –, is also important to him.

Since customers do not have much information about the technical aspects of service, functional quality is usually the major factor used to form perceptions of service quality (Donabedian, 1980). However in service sectors, knowledge of the technical quality of services remains largely the domain of service professionals (Bopp, 1990).

Figure 2.1.Technical and Functional Quality Model
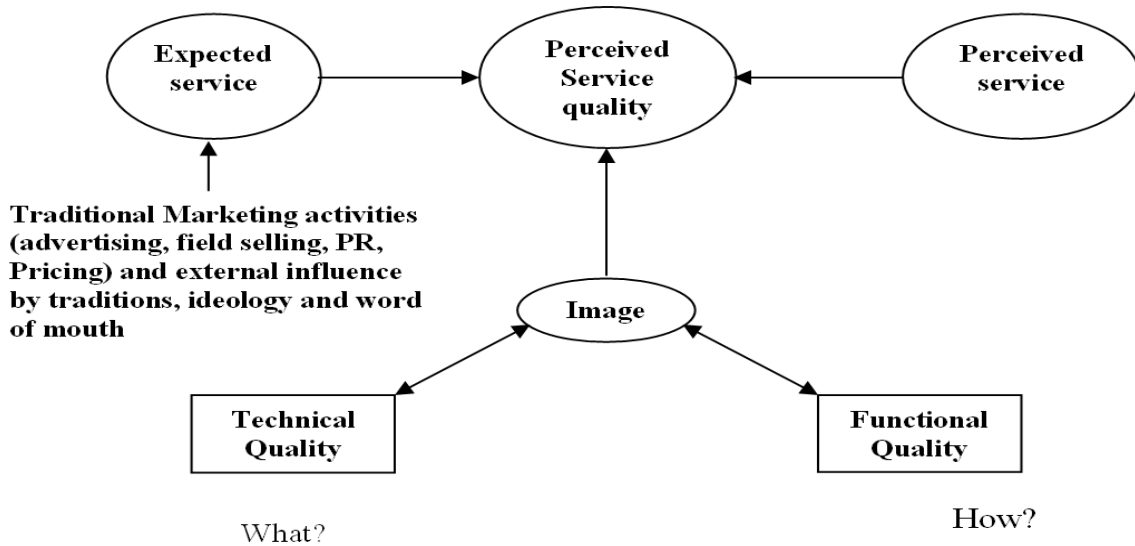
Source: (Gronroos, 1984)

2.11.2. GAP Model (Parasuraman *et al.* 1985, 1988)

The concept of perceived service quality was picked up by researchers in North America, first and predominantly by Parasuraman *et al.,* (1985, 1988). Parasuraman *et al.* (1985) define service quality as the degree and direction of discrepancy between customer's perceptions of service and expectations (GAP model). The authors considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service, proposing that service quality is a function of the differences between expectation and performance they developed a service quality model (Figure 2.2) based on gap analysis.

Figure 2.2 the GAP Model
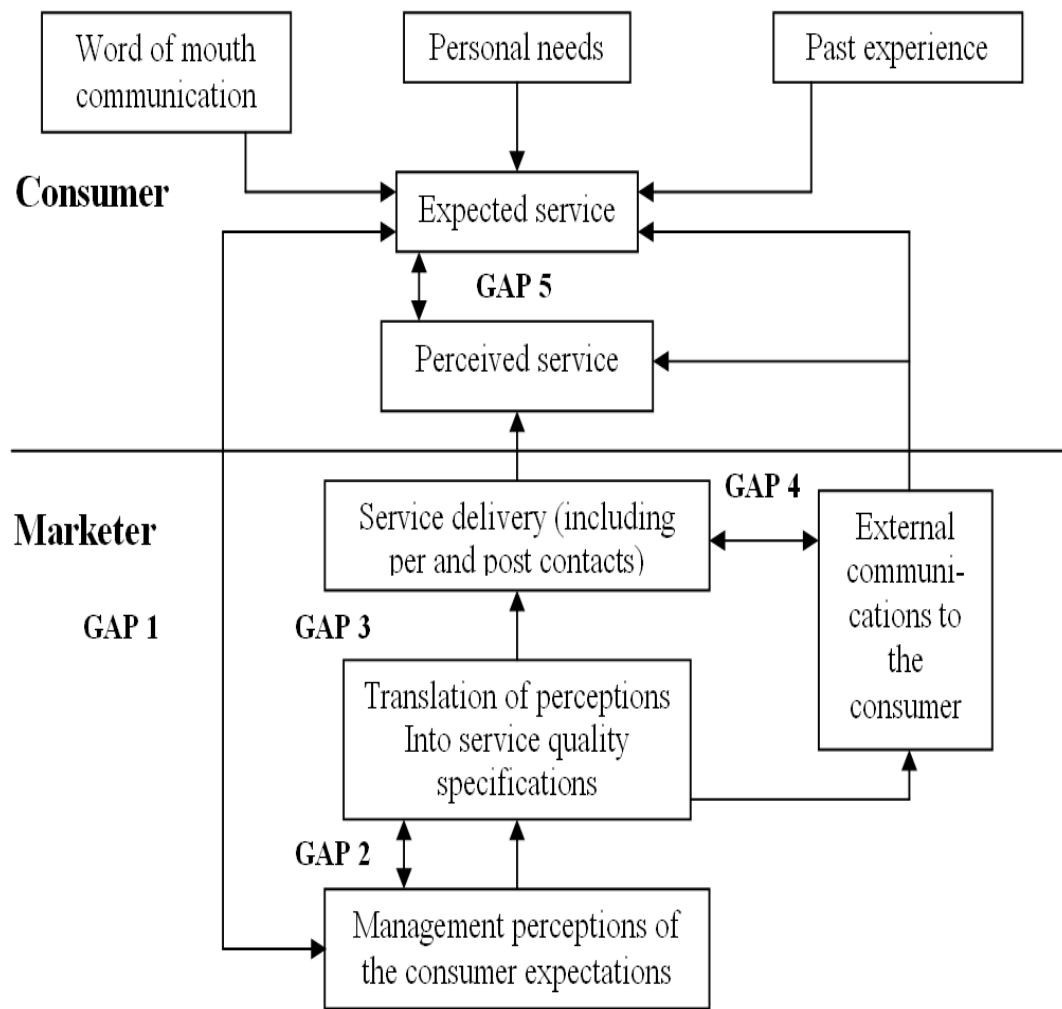
Source: Parasuraman *et al.* (1985)

Based on the idea that service quality is derived from the difference between customer expectations about performance and their assessment of the actual performance, they proposed SERVQUAL model, which is a two-scale measurement model with ten dimensions (Table 2.2). The basic assumption underlying the SERVQUAL scale is that performance below expectation (obtaining a negative score) leads to a perception of low service quality, while exceeding expectations (obtaining a positive score) leads to a perception of high service quality.

The SERVQUAL model is a technique that can be used for performing a gap analysis of an organization's service quality performance against customer service quality needs. SERVQUAL is an empirically derived method that may be used by services organizations to improve service quality. The method involves the development of an understanding of the perceived service needs of target customers. The various gaps emphasized in the model are:

Gap 1: Difference between consumers' expectation and management's perceptions of those expectations, *i.e.*, not knowing what consumers expect;

Gap 2: Difference between the management's perceptions of consumer's expectations and service quality specifications, *i.e.* improper service quality standards;

Gap 3: Difference between service quality specification and service actually delivered, *i.e.* the service performance gap;

Gap 4: Difference between the service delivery and the communication to the consumer about the service delivery, *i.e.* whether promises match delivery;

Gap 5: Difference between consumer's expectation and perceived service. It is the overall measure of service quality from the customer's point of view; this gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side.

According to this model, service quality is a function of perceptions and expectations and can be modeled as:

$$SQ = \sum_{j=1}^{k} (P_{ij} - E_{ij})$$

Where;

SQ= overall service quality; k= number of attributes.

P_{ij}= Performance perception of stimulus i with respect to attribute j.

E_{ij}= Service quality expectation for attribute j that is the relevant norm for stimulus i.

Table 2.2 Determinants of Service Quality

	Dimension	Definition	Example
1	Reliability	Involves consistency of performance and dependability; it means that the firm performs the service right the first time. It also means that the firm honors its promises.	Accuracy in billing; Keeping records correctly; Performing the service at the designated time
2	Responsiveness	Concerns the willingness or readiness of employees to provide service. It involves timeliness of service.	Mailing a transaction slip immediately; Calling the customer back quickly; Giving prompt service (e.g., setting up appointments quickly).
3	Competence	The possession of the required skills and knowledge to perform the service.	Knowledge and skill of the contact personnel; Knowledge and skill of operational support personnel Research capability of the organization, *e.g.* securities brokerage firm
4	Access	Involves approachability and ease of contact	It means that the service is easily accessible by telephone (lines are not busy and they customers are not put on hold); waiting time to receive service (*e.g.*, at a bank) is not extensive; convenient hours of operation; - convenient location of service facility
5	Courtesy	Involves politeness, respect, consideration, and friendliness of contact personnel (including receptionists, telephone operators, etc.).	consideration for the consumer's property (*e.g.*, no muddy shoes on the carpet); Clean and neat appearance of public contact personnel.

6	Communication	Means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers by increasing the level of sophistication with a well-educated customers and speaking simply and plainly with a novice.	explaining the service itself; explaining how much the service will cost; explaining the trade-offs between service and cost; Assuring the consumer that a problem will be handled.
7	Credibility	Involves trustworthiness, believability, honesty. It involves having the customer's best interests at heart	Company reputation Company name; personal characteristics of the contact personnel; The degree of hard sell involved in interactions with the customer.
8	Security	It is the freedom from danger, risk, or doubt.	Physical safety (Will I get mugged at the automatic teller machine?); - Financial security (Does the company know where my stock certificate is?); - Confidentiality (Are my dealings with the company private?).
9	Understanding/ Knowing customer	Involves making the effort to understand the customer's needs.	learning the customer's specific requirements; - providing individualized attention; - recognizing the regular customer
10	Tangibles	Include the physical evidence of the service	physical facilities; -appearance of personnel; -tools or equipment used to provide the service; -physical representations of the service, such as a plastic credit card or a bank statement; - Other customers in the service facility.

Source: Parasuraman *et al.* (1985)

Service quality is presented as a multidimensional construct. In their original formulation Parasuraman *et al*. (1985) identified ten determinants of service quality, as seen in Table 2.2. In their 1988 work, these components were collapsed into five dimensions: reliability, assurance, tangibles, empathy, and responsiveness (RATER). As defined in Table 2.3, reliability, tangibles, and responsiveness remained distinct, but the remaining seven components were collapsed into two aggregate dimensions: assurance and empathy. Parasuraman *et al*. developed a 22-item instrument (Table 2.4) with which to measure customers' expectations and perceptions (E and P) of the five RATER dimensions. Four or five numbered items are used to measure each dimension. The instrument is administrated twice in different forms, first to measure expectations and second to measure perceptions. Zeithaml *et al*. (1988) characterized and further delineated the four gaps identified in their research of 1985. This led to extended service quality model (Figure 2. 3). According to this extended model, most factors involve communication and control processes implemented in organizations to manage employees.

Table 2.3 SERVQUAL Dimensions

Dimensions	Definition	Items in Scale
Reliability	The ability to perform the promised service dependably and accurately	4
Assurance	The knowledge and courtesy of employees and their ability to convey trust and confidence	5
Tangibles	The appearance of physical facilities, equipment, personnel, and communication materials	4
Empathy	The provision of caring, individualized attention to customers	5
Responsiveness	The willingness to help customers and provide prompt service	4

Source; Buttle (1996)

SERVQUAL provides a model for measuring and managing service quality since 1985, when the model was first published. Parasuraman *et al*., have further developed, promulgated, and promoted the model through a series of publications (Parasuraman *et*

al., 1985; 1986; 1988; 1990; 1991b; 1992a; 1993; 1994; Zeithaml *et al*., 1990; 1991; 1992; 1993). The approach developed by Parasuraman *et al*. (1985; 1988) first represents the customer's expectations of performance on the service dimensions, and then observes performance and later forms performance perceptions. Thus, the SERVQUAL model illustrates the core of what service quality may mean, namely a comparison of excellence in service by customers.

Thus, the methodology of SERVQUAL is originally based around five key dimensions which have been consistently ranked by customers to be most important dimensions for service quality as explained below;

(i)   *Tangibles*: the appearance of physical facilities, equipment, personnel, and communication materials; these may include physical facilities and the appearance of personnel, tools or equipment used to provide the service, and physical representations of the service, such as a plastic credit cards;

(ii)   *Reliability:* the ability to perform the promised service dependably and accurately. It may include, accuracy in billing and performing the service at the designated time;

(iii)   *Responsiveness:* the willingness to help customers and provide prompt service; it may involve mailing transaction slips immediately, calling the customer back quickly, and giving prompt service;

(iv)   *Assurance*: the knowledge and courtesy of employees and their ability to convey trust and confidence; this may include courtesy (politeness, respect, consideration and friendliness, also clean and neat appearance of public contact personnel), competence, (knowledge and skill of the contact personnel), and communication (explaining the service itself and how much the service will cost, explaining the trade-offs between service and cost and assuring the consumer that a problem will be handled. And finally,

(v) *Empathy*: the caring individualized attention the institution provides to its customers; this includes security, which may involve physical safety, financial security, and confidentiality; credibility involving the company's name and reputation; personal characteristics of the contact personnel; and access, which may include the service being easily accessible by telephone, waiting time not being extensive. It may also include convenient hours of operation and a convenient location of the service facility.

2.11.2.1. Critics of SERVQUAL

The SERVQUAL instrument has been widely used since the mid-eighties; the Gap model was designed to be applicable for all industries, but it has also been widely criticized. Buttle (1996) argued that SERVQUAL has some critics in term of theories and operations, as he noticed that SERVQUAL fails to draw on established economic, statistical, and psychological theory and that there is little evidence that customers assess service quality in terms of perceived service minus expected service gaps. He added that SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter. The criticisms as explained by Buttle (1996) are presented in Table 2.4.

Moreover, Carman (1990) noted that, while SERVQUAL generally showed good stability, its five dimensions were not always generic. Indeed, the various dimensions can vary depending on the type of service industry surveyed (Lee and Hwan, 2005).

(Babakus and Boller, 1992; Brown et al., 1993; Asubouten et al., 1996) argued that SERVQUAL's dimensionality has not proven universal, and empirical studies have produced a variety of dimensions. For instance, Babakus and Boller (1992) confirmed two SERVQUAL dimensions and added two from the original ten dimensions model.

Buttle (1996) also stated that item composition may be criticized because four or five items cannot capture the variability within each service quality dimension.

Table 2.4 SERVQUAL Criticisms

Theoretical Criticisms	
Paradigmatic Objections	SERVQUAL is based on a disconfirmation paradigm rather than an attitudinal paradigm, and SERVQUAL fails to draw on established economic, statistical, and psychological theory.
Gaps Model	There is little evidence that customers assess service quality in terms of P-E gaps.
Process Orientation	SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter.
Dimensionality	SERVQUAL's five dimensions are not universal, the number of dimensions composing service quality is contextualized, items do not always load on the factors which one would expect *a priori*, and there is a high degree of inter-correlation between the five RATER dimensions.
Operational Criticisms	
Expectations	The term expectation is polysemic, consumers use standards other than expectations to evaluate service quality, and SERVQUAL fails to measure absolute service quality expectations.
Item Composition	Four or five items cannot capture the validity within each service quality dimension.
Moment of Truth (MOT)	Customers' assessment of service quality may vary from MOT to MOT.
Polarity	The reversed polarity of items in the scale causes respondent error.
Scale Points	The seven-point Likert scale is flawed.
Two Administrations	Two administrations of the instruments cause boredom and confusion.
Variance Extracted	The overall SERVQUAL score accounts for a disappointing proportion of item variances.

Source: Buttle (1996)

SERVQUAL modification is done by adding, deleting, or rewording items to ensure suitability for a particular research context. Lam (2002) argued that an application of SERVQUAL in retail banking found problems with its dimensionality and the usefulness of expectation scores. SERVQUAL modifications have led to discussions about the universal versus context-specific character of the model, and whether changes to fit a specific context result in better predictive validity. Parasuraman *et al*. (1988) however, recognize that SERVQUAL can be adapted to the specific research needs of a particular organization (Abdullrahim, 2010).

In addition, according to Carrillat *et al*. (2007), the use of SERVQUAL in an international context raises a legitimate concern about validity across borders because research has shown that cultural values influence customer response. Service quality research conducted internationally can be affected both by construct bias (*i.e*. the construct studied differs across countries) and item bias (*i.e*. items are distorted when used internationally).

Many researchers have attempted to test SERVQUAL's robustness cultures (Zhang *et al*. 2005). A study by Carillat *et al*. (2007) reported that there is a general acceptance of the need to modify the model items to make the SERVQUAL model appropriate for the study's context when it is used outside the USA. This is because differences of national culture or language require not only modified items but also create distraction in how respondents perceive the constructs under investigation.

The predictive validity of SERVQUAL has also been questioned, as SERVQUAL fails to measure absolute service quality expectations. Cronin and Taylor (1992) and Babakus and Boller (1992) criticized SERVQUAL's reliance on the two scales measuring perceptions and expectations, when one scale (perceptions) would be shorter, simpler, and more effective, and could be sufficient as an evaluation of the global quality judgment. In addition, Cronin and Taylor, (1994) argue that SERVQUAL actually does not measure either customer satisfaction or service quality, but rather it "appears at best an operationalization of only one of the many forms of expectancy - disconfirmation." They also insist that the scale can provide a reliable, valid, and useful tool for measuring overall service quality levels or attitudes.

Cronin and Taylor (1994) developed a measurement model based on measuring the performance of service quality (SERVPERF) they have tested this model in different industries (banking, dry cleaning, and fast food), and the findings showed that SERVPERF explained more of the variance in an overall measure of service quality than SERVQUAL did. However, SERVPERF is composed of the 22 perception items in the SERVQUAL scale, and, therefore, excluded any consideration of expectations.

In a later revision of their argument (1994) for a perception-only measure of service quality, they admit that it is possible for researchers to infer consumers' disconfirmation through arithmetic means (the PS-EX gap), but that "consumer perceptions, not calculations, govern behaviour". On the other hand, Angur *et al.* (1999) examine the applicability of alternative measures of services quality in two major Indian banks. Their results support a multidimensional construct of service quality and suggest that the SERVQUAL scale provides greater diagnostic information than the SERVPERF scale. Likewise, it was reported by Robinson (1999) that Quester *et al.* (1995) performed a similar analysis to Cronin and Taylor, and their initial result was that the SERVQUAL should perform better than SERVPERF because the SERVQUAL measurement scale is a more scientific approach to scale development and is more firmly based on the literature than the SERVPERF scale.

In spite of the discussions and several arguments provided by researchers about the superiority of SERVPERF over SERVQUAL (Cronin and Taylor, 1992, 1994), the results of meta-analysis by Carrillat *et al.* (2007) suggest that both scales are adequate and equally valid predictors of overall service quality. Because of the high statistical power of meta-analysis, these findings could be considered as a major step towards ending the debate whether SERVPERF is superior to SERVQUAL as an indicator of overall service quality (Abdullrahim, 2010).

Gronroos (1990) also criticized the use of expectations in arguing that, firstly, if expectations are measured after the service experience or at the same time as the experience, then what is measured is not relay expectations but something that has been biased by the experience; secondly, it does not necessarily make sense to measure expectations prior to the service experience because the expectations which customers have beforehand may not be expectations to which they compare their experiences; and, finally, measuring expectations may not be the correct thing to do since experiences are perceptions of reality, and inherent in these perceptions are the prior expectations.

Thus, SERVQUAL has indeed proved to be the most popular instrument for measuring service quality because it affords technological techniques for measuring and managing service quality and has been developed to face most critics. Accordingly, as seen, the SERVQUAL instrument itself witnessed a series of changes since its formation: first the reduction from ten dimensions down to five, and, subsequently, in the early 1990s, the original SERVQUAL instrument has been revised and redefined, and the original 22 items have been reduced to 21, excluding one item proving to be lacking discriminatory power (Parasuraman, *et al*., 1991, 1993; Parasuraman, et al., 1994a, b). In another study conducted in 1994; Parasuraman *et al.* reduced the responsiveness, assurance, and empathy items by collapsing them into one factor. As a result, SERVQUAL contained three dimensions of service quality, reliability, single factor, and tangibles.

As stated by Newman (2001) all the criticism has not reduced SERVQUAL's usage among scholars and leading US banks; on the contrary, it is heavily promoted by management consultants as a basis for monitoring and managing banking service quality development as explained in Figure 2.3. Moreover, Buttle (1996) reported that despite the criticisms that have been levelled against SERVQUAL, it remains an instrument that is used in all areas of business and industry.

Figure 2.3 Extended Model of Service Quality
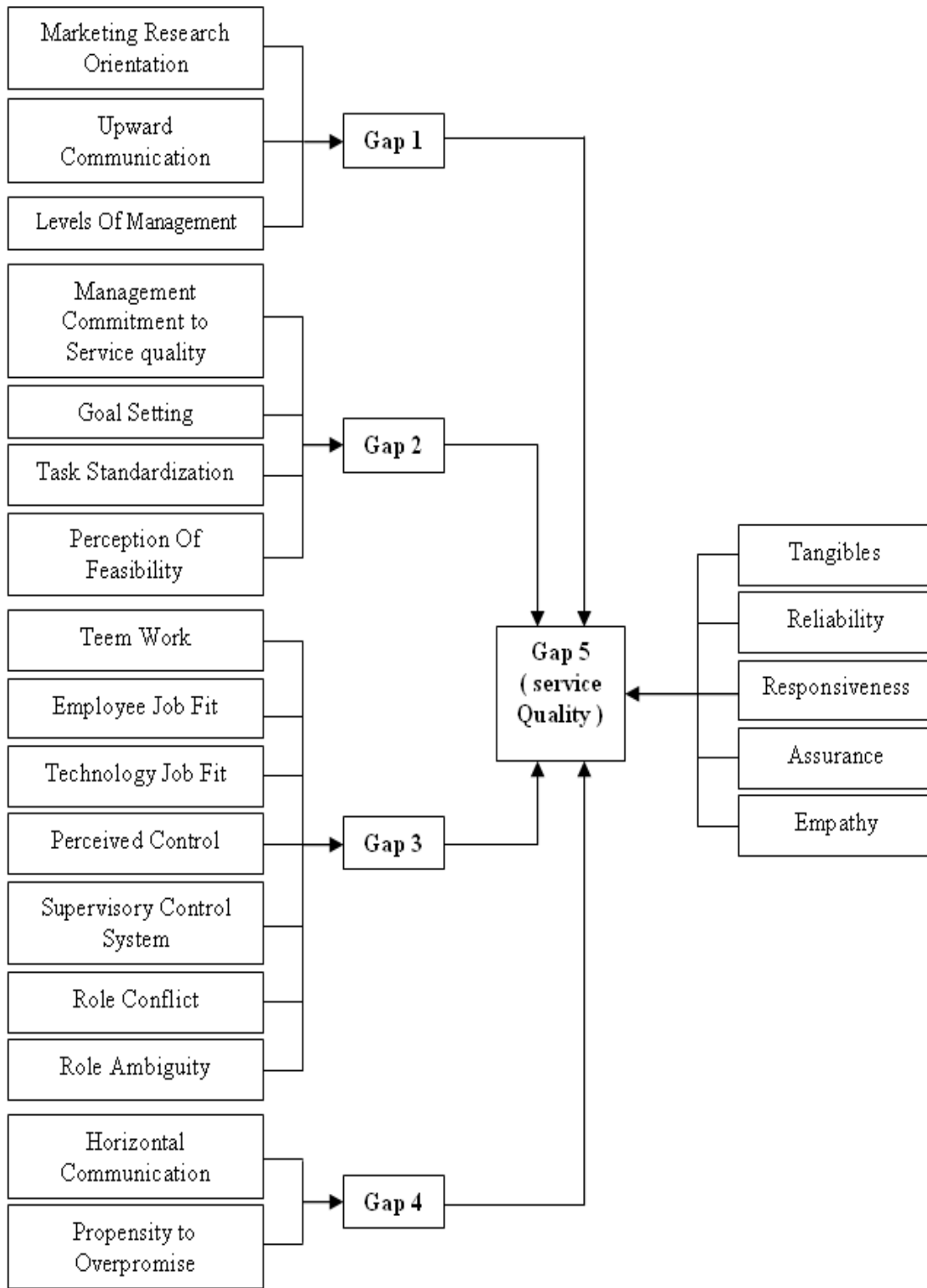
2.11.3. Attribute Service Quality Model (Haywood-Farmer, 1988)

The characteristics of services make it difficult to define what any one customer expects. Separation of the attributes into groups is a useful start towards reducing this complexity and developing a model to describe service quality more carefully. Earlier studies (such as Farmer *et al*., 1986; Maister, 1984; Martin 1986) suggest that services have three basic components called the "three Ps" of service quality: physical facilities, process and procedures; personal behavior; and professional judgment. To get good quality service, the appropriate mix of these three elements must be found and carefully balanced. Examples of the three groups are listed in Table 2.5 as explained by Haywood-Farmer (1988).

Table 2.5 Three Ps of Service Quality

Physical Facilities, Processes and Procedures	People's Behaviour and Conviviality	Professional Judgment
Location, layout Size, décor Facility reliability Process flow, capacity balance, control of flow Process flexibility Timeliness, speed Range of services offered Communication (written, other)	Timeliness, speed Communication (verbal, non-verbal) Dress, neatness, politeness Attentiveness, anticipation Handling complaints, solving problems	Diagnosis Advice, guidance, innovation Honesty, confidentiality Flexibility, discretion Knowledge, skill

Source: Haywood -Farmer (1988)

The model as depicted in Figure 2.4 states that a service origination has "high quality" if it meets customer preference and expectations consistently. According to this, the separation of attributes into various groups is the first step towards the development of a service quality model. In general, services have their basic attributes, physical facilities and process, people behaviour and professional judgment. Each attribute consists of several factors. In this model each set of attributes forms an apex of the triangle as shown in Figure 2.4. It should be stated that too much concentration on any one of these elements to the exclusion of others would be inappropriate. It could lead to disaster. For

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example, too much emphasis on procedures may give an impression to the customer that he will be processed as per his sequence:

Figure 2.4 Attribute Service Quality Model


```
                    ┌─────────────────────────────┐
                    │ Professional Judgment       │
                    │ Diagnosis competence, Advice,│
                    │ guidance, innovation, Honesty,│
                    │ confidentiality, Flexibility,│
                    │ discretion, Knowledge       │
                    └─────────────────────────────┘
                                4
                            5
                              (pentagon)
                                          3
                          1         2
```

┌──────────────────────────────┐   ┌──────────────────────────────┐
│ **Physical facilities and**   │   │ **Behavioral aspects :**   │
│ **Processes :**   │   │ Timeliness, speed   │
│ Location, layout, décor, Size,│   │ Communication (verbal, non- │
│ Facility reliability Process │   │ verbal),courtesy, warmth,   │
│ flow. Capacity Balance Control│   │ friendliness, tact, attitude,│
│ of flow Process flexibility,│   │ tone of voice, Dress, neatness,│
│ Timeliness, speed Ranges of │   │ politeness, Attentiveness,   │
│ services offered Communication│   │ anticipation, Handling   │
│   │   │ complaints, solving problems │
└──────────────────────────────┘   └──────────────────────────────┘

┌───┐
│ 1. Short contact/interaction intensity-low customization, for e.g. Hardware/grocery shop │
│ 2. Medium contact/interaction intensity-low customization   │
│ 3. High contact/interaction intensity-low customization, for e.g. Education │
│ 4. Low contact/interaction intensity-low customization, for e.g. Clubs │
│ 5. High contact/interaction intensity-low customization, for e.g. Health care services │
└───┘

Source: Haywood-Farmer (1988)

2.11.4. Synthesized Model of Service Quality (Brogowicz *et al.*, 1990)

A service quality gap may exist even when a customer has not yet experienced the service but learned about it through word of mouth, advertising or through other media communications. Thus, there is a need to incorporate potential customers' perceptions of

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service quality, as well as actual customers' perceptions of service quality experienced. This model attempts to integrate the traditional managerial framework, service design, and operations and marketing activities. The purpose of this model is to identify the dimensions associated with service quality in a traditional managerial framework of planning, implementation, and control. The synthesized model of service quality in Figure 2.5 considers three factors, namely: company image, external influences, and traditional marketing activities as the factors influencing technical and functional quality expectations.

Figure 2.5 Synthesized Model of Service Quality
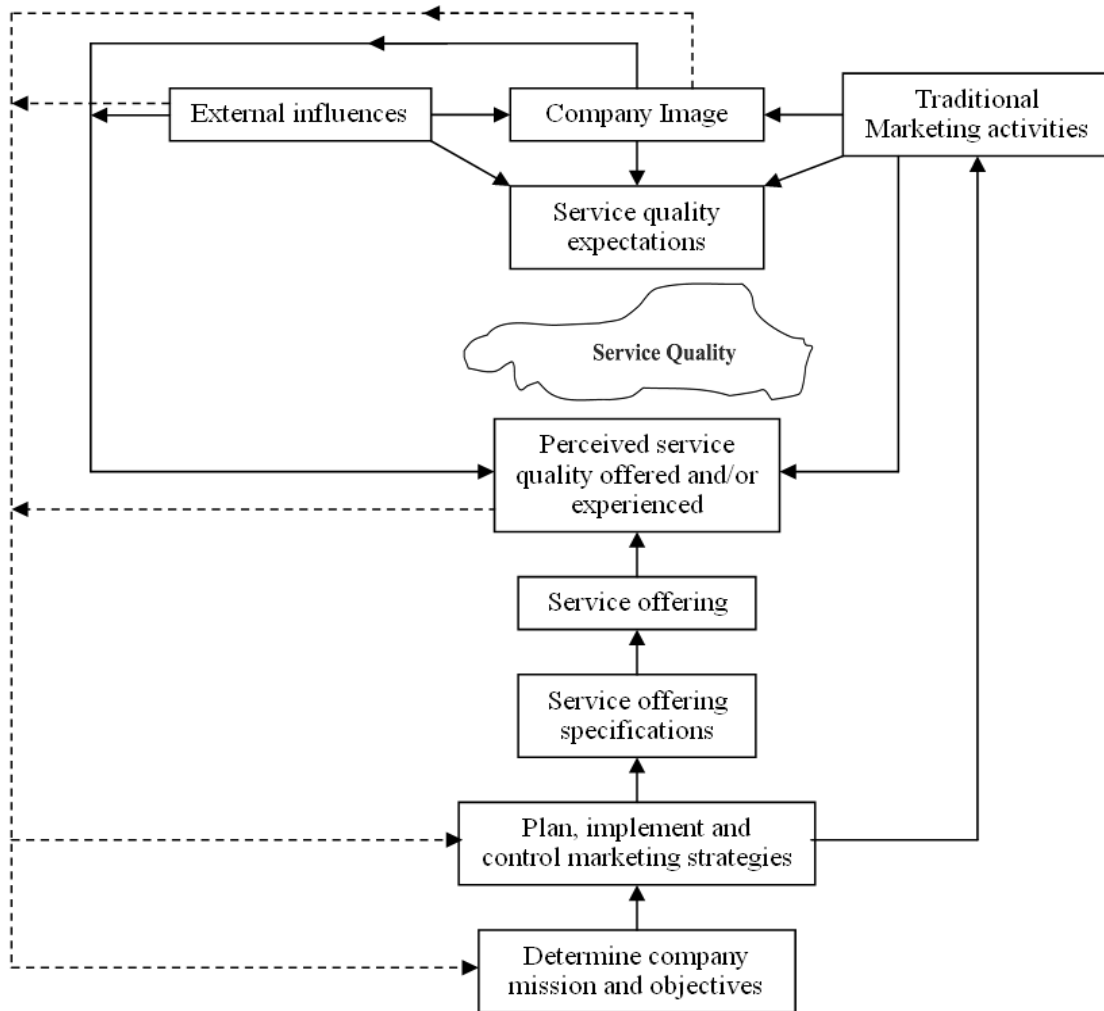
Source: Brogowicz *et al*. (1990)

2.11.5 Performance-Only Model (Cronin and Taylor, 1992)

Cronin and Taylor (1992) investigated the conceptualization and measurement of service quality and its relationship with consumer satisfaction and purchase intentions. They compared scores of conceptual differences with perception scores to conclude that perceptions alone are a better predictor of service quality. They discussed the framework of Parasuraman *et al.* (1985) with respect to conceptualization and measurement of service quality, and developed a performance-only measurement of service quality called SERVPERF by illustrating that service quality is a form of consumer attitude and that the performance-only measure of service quality is an enhanced means of measuring service quality. They argued that SERVQUAL confounds satisfaction and attitude. They stated that service quality can be conceptualized as "similar to an attitude" and can be operationalized by the adequacy-importance model. In particular, they maintained that performance instead of "performance-expectation" determines service quality. According to this model, service quality is evaluated by perceptions only, without expectations and without importance weights according to the formula:

$$SQ = \sum_{j=1}^{k} P_{ij}$$

Where:

SQ= Overall service quality;

K= the number of attributes;

P_{ij} =performance perception of stimulus *i* with respect to attribute *j*

2.11.6. Ideal Value of Service Quality (Mattsson, 1992)

In the majority of the studies on service quality, expectation is treated as belief about having desired attributes as the standard for evaluation. However, this issue needs to be examined in the light of other standards, such as experience-based, ideal, minimum tolerable, and desirable. The model argues for a value approach to service quality, modelling it as an outcome of the satisfaction process. This value-based model of service quality suggests the use of a perceived ideal standard against which experience is compared. As can be seen in Figure 2.6 implicit negative disconfirmation on a pre-

conscious value level is hypothesized to determine satisfaction on a higher attitude level. This negative disconfirmation is the major determinants of consumer satisfaction.

Figure2.6.Ideal Value of Service Quality
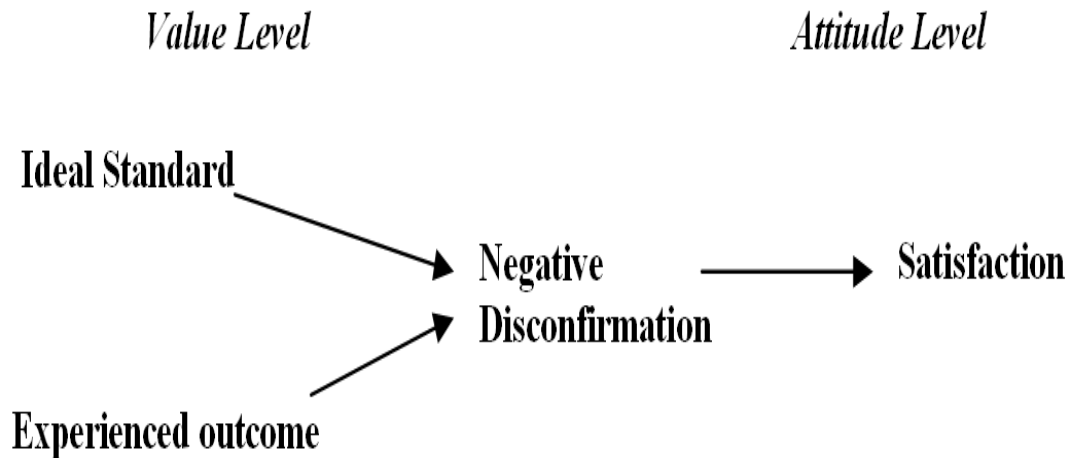
Source: Mattsson (1992)

**2.11.7. Evaluated Performance and Normed Quality Model (Teas 1993*)*

Teas (1993) examined, developed, and tested alternative models of consumers' perceptions of quality to overcome some of the problems associated with the P-E gap conceptualization of service quality. The examination of the P-E service quality model indicates a number of problems, particularly with respect to the conceptual and operational definitions of the expectations (E) and revised expectation (E*). Conceptual and operational definitions problems create ambiguity concerning the interpretation and theoretical justification of the P-E perceived quality concept, and on the basis of these problems an evaluated performance (EP) model and a normed quality (NQ) model of perceived quality were developed and empirically tested along with the P-E model. The results of criterion and construct validity tests indicate that, when compared to SERVQUAL P-E and normed quality (NQ) frameworks, the evaluated performance (EP) framework is characterized by greater concurrent and construct validity of the evaluated

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performance model, and that this was higher than both SERQUAL and normed quality model (Teas 1993:31). This model was tested on a limited sample size and for a narrow retail setting. Therefore the findings cannot be generalized.

Evaluated Performance (EP) framework: with the assumption that an individual evaluates object *i* with perceived certainty and that the object I has a constant amount of each attribute. The perceived quality is modeled as:

$$Q_i = -1 \left[\sum_{j=1}^{m} w_j \left| (A_{jk} - I_j) \right| \right]$$

Where:

Q_i= The individual's perceived service quality of object *i*.

wi = Importance of attribute as a determinant of perceived quality.

A_{ij}= Individual's perceived amount of attribute *j* possessed by object *i*.

I_j =The ideal amount of attribute *j* as conceptualized in classical ideal point attitudinal models.

m = Number of attributes.

Normed quality model: if the object I is defined as the excellence norm that is the focus of revised SERVQUAL concept, the above equations can be used to define the perceived quality of excellence norm *Qe* in terms of the similarity between the excellence norm and the ideal object with respect to 'm' attributes. The quality of another object *i,Qi* relative to the quality of excellence norm then normed quality (*NQ*) is:

$$NQ = [Qi - Qe]$$

NQ = Normed quality index for object *i*.

Q_e= The individual's perceived quality of the excellence norm object.

For infinite ideal points, normed quality is:

$$NQ = \sum_{j=1}^{m} wi(Aij - Aej)$$

Aej = Individual's perceived amount of attributes "*j*" possessed by the excellence norm "*e*".

2.11.8 Information Technology Alignment Model (Berkley and Gupta, 1994)

The IT alignment model developed by Berkley and Gupta (1994) described how information technology (IT) can be used to improve customer service along key service quality dimensions including reliability, responsiveness, competence, access, communications, security, and understanding the customer. This model can help the organizations to realize the complete benefit of using information systems for delivering improved quality of service. It also allows managers to understand the commonly used technologies in their industry and determine the appropriate technology which suits their requirements. The limitations with this model are that it only highlights the impact of IT on service quality and does not offer a way to measure and monitor service quality. This model is silent about the level of IT use for particular service settings.

Figure 2.7: Information Technology Alignment Model
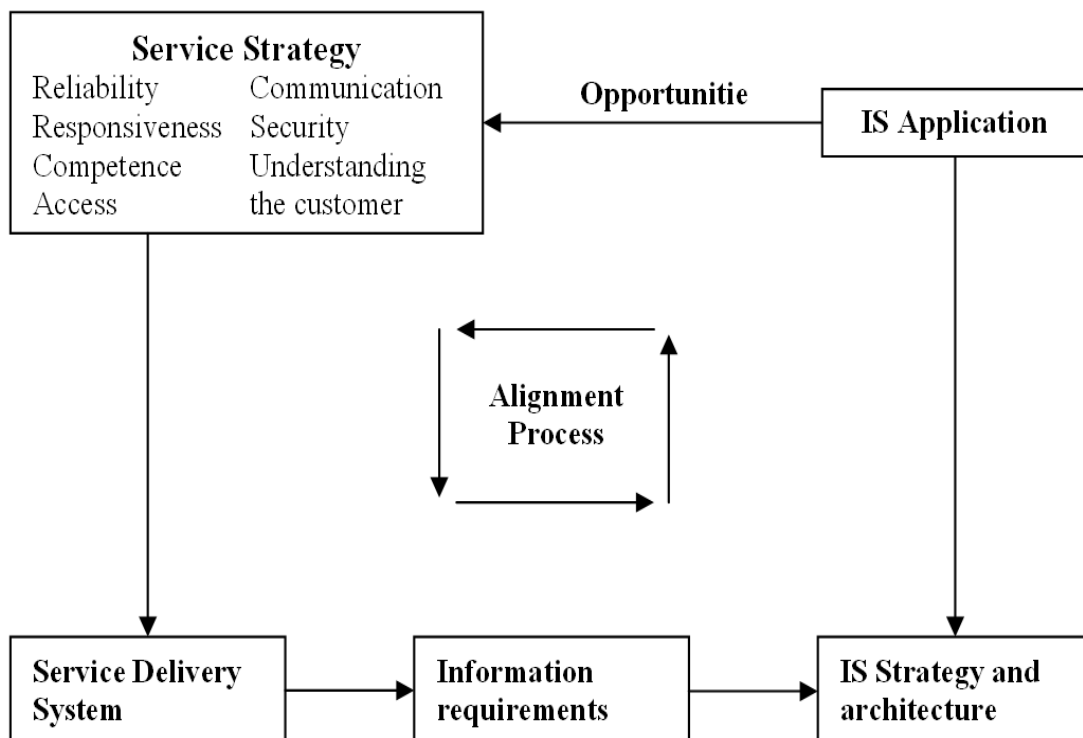
Source: Berkley and Gupta (1994)

2.11.9 Attribute and Overall Affect Model (Dabholkar, 1996)

Dabholkar (1996) proposed two alternative models of service quality for technology-based self-service options, which is becoming more popular day by day owing to the high cost of labor in service deliveries. The attribute model (Figure 2.8a) is based on what customers would expect from such options. It is based on a cognitive approach to decision-making, where customers would use a compensatory process to evaluate attributes associated with the technology-based self-service options in order to form expectations of service quality. The attribute-based model is favoured for informing the evaluations of service quality for technology-based self-service options. The overall effect model, as can be seen in Figure 2.8b, is based on the customers' feelings towards the use of technology. It is based on an effective approach to decision-making, where customers would use overall predispositions to form expectation of self-service quality for technology-based self-service options. In both models the expected service quality would influence intentions to use technology-based service options. The model needs to be generalized, for different self-service options, the effect of demographic variables, price, and physical environment are not considered in this model(Seth *et al.,* 2005).

2.11.10 Perceived Quality and Satisfaction (Spreng and Mackoy's, 1996)

Spreng and Mackoy's model (1996), as depicted in Figure 2.9, attempts to enhance the understanding of the constructs of perceived service quality and consumer satisfaction. The model highlights the effect of expectations, perceived performance desires, desired congruency, and expectation disconfirmation on overall service quality and customer satisfaction. The model shows that service quality and satisfaction are distinct and that the congruency of desires does influence satisfaction. In the model, a key determinant of service quality and customer satisfaction is meeting customers' desires. Rising expectations have a positive effect on customer satisfaction perceptions of performance, but they also have a negative effect on satisfaction through disconfirmation. This model, however, does not highlight how the service quality is achieved and operationalized. It should be noted that researchers, including (Seth *et al*., 2005), consider the model is weak in providing direction for improvement in service quality.

Figure 2.8 Attributes and Overall Affect Model

Expected Speed of Delivery

Expected Ease of Use

Expected Reliability

Expected Enjoyment

Expected Control

Expected Service Quality of technology based self-service option

Intention to use self-service option technology based

(a) Attribute Based Model

Attitude toward using Technological Products

Need for interaction with Service Employee

Expected Service Quality of technology based self-service option

Intention to use technology based self-service option

(b) Overall Affect Model

Source: Dabholkar (1996)

Figure2.9 Satisfaction Service Quality Model
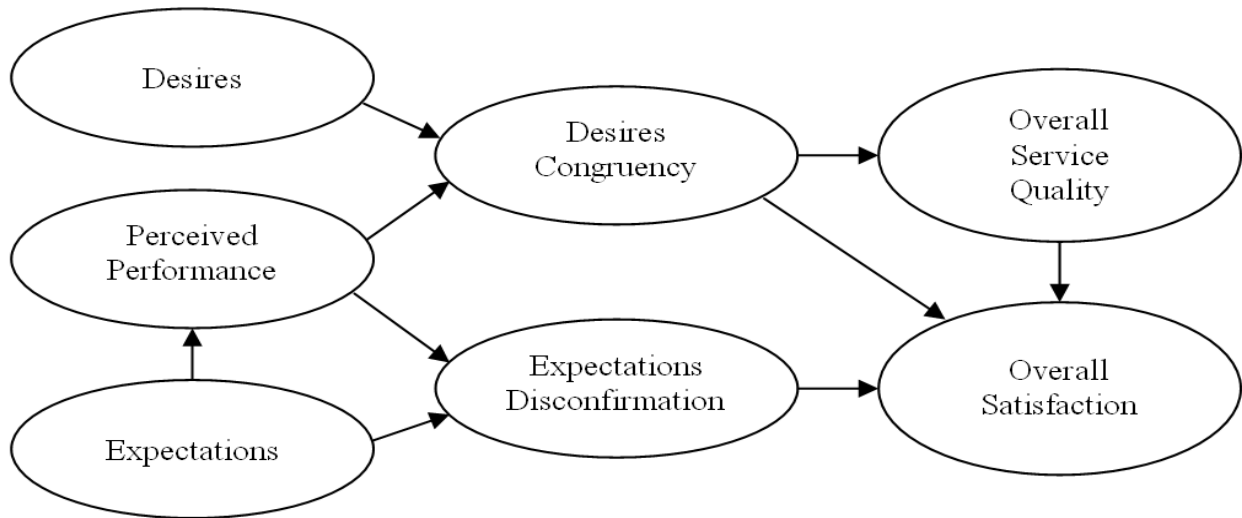
Source: Spreng and Mackoy (1996)

2.11. 11. PCP attribute model (Philip and Hazlett, 1997)

The PCP attribute model is based on three main classes of attributes, namely pivotal, core, and peripheral. According to the model, every service consists of three overlapping areas, where the vast majority of the dimensions and concepts are used to define service quality. These ranked levels are defined as pivotal (outputs), and core and peripheral (jointly representing inputs and processes).

The model, which provides a simple and effective general framework for assessing service quality in any service sector, highlights the area of improvements for service quality depending on the frequency of encounter. When a customer makes an evaluation of any service encounter, he is satisfied if the pivotal attributes are achieved, but, as the service is used more frequently, the core and peripheral attributes may began to gain importance. The model lacks general dimensions to three levels of attributes and lack of empirical validation.

Figure 2.10 PCP attribute model

Increasing
Important of
weighing of
attributes

**The service environment
Peripheral attributes**
Incidental extras of frills designed to add
a roundness To the service encounter and
the whole experience a complete delight

Core Attribute
The people, process, And organizational
Structure with which a consumer must
Interact and/or negotiate in order to achieve
And receive the pivotal attributes

Pivotal Attributes
The end product or output from
the service encounter, that is,
what the consumer expects to
achieve and perhaps take away
from the service process

Source: Philip and Hazlett, 1997

2.11.12 Retail Service Quality and Perceived Value Model (Sweeney *et al*. 1997)

Sweeney *et al*. (1997) indicated that functional and technical service quality perceptions influence value perceptions, such as "value for money". The influence of service quality on value and willingness to purchase a specific service is influenced by two alternative models: one highlighted that, in addition to product quality and price perceptions, functional service quality and technical service quality perceptions both directly influence value perceptions. The other model highlighted that functional service quality perceptions directly influence consumers' willingness to buy through product quality and value perception. However, it has an influence on the willingness to buy that is independent of product assessment (poor staff manners). The model, on the other hand, considers only one value construct (*i.e.* value for money). Fewer items per construct are taken into consideration in this study.

Figure 2.11 Modified model
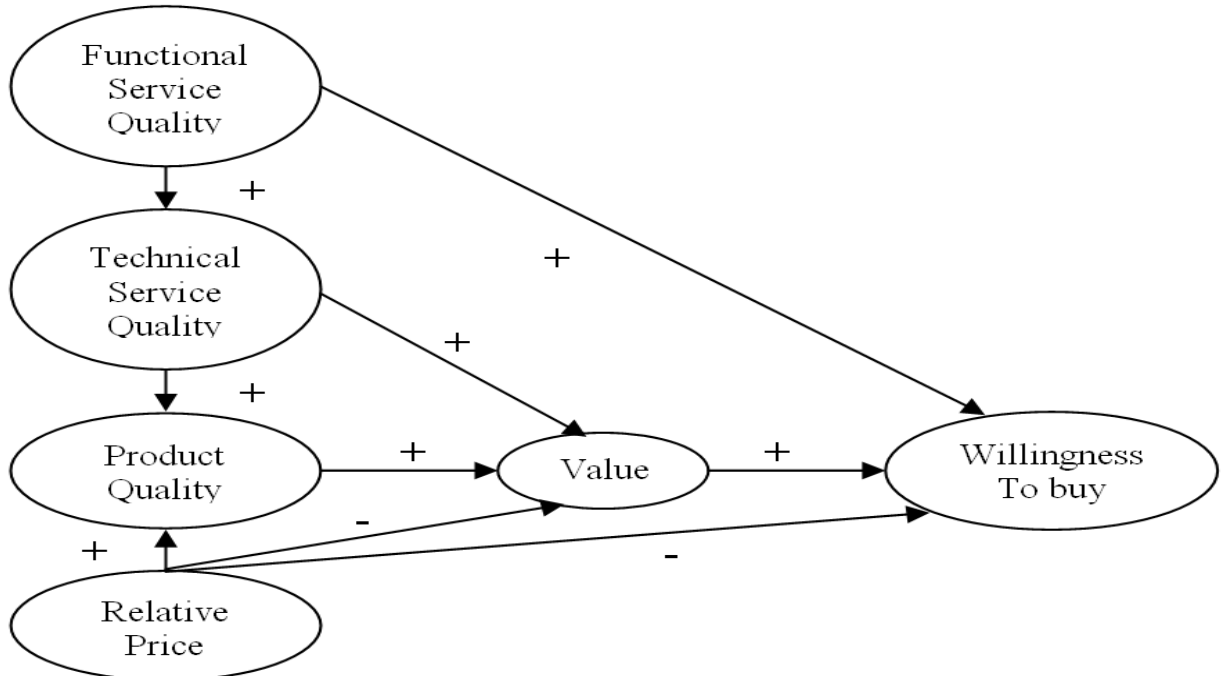
Source: Sweeney *et al*.(1997)

2.11.13 Model of Service Quality, Customer Value, and Customer Satisfaction (Oh, 1999)

The author proposed an integrative model (Figure 2.12) of service quality, customer value, and customer satisfaction. The model focuses mainly on the post-purchase decision process. The model can be used as a framework for understanding consumer decision processes as well as for evaluating company performance. The model provides evidence that customer value has a significant role in the customer's post-purchase decision-making process. It is an immediate antecedent to customer satisfaction and repurchases intentions. Results also indicate that perceived price has a negative influence on perceived customer value and no relationship with perceived service quality. The model needs to be generalized for different types of service settings. This model provides directions and targets for customer-oriented company efforts.

Figure 2.12 Model of service Quality, Customer Value and Customer Satisfaction
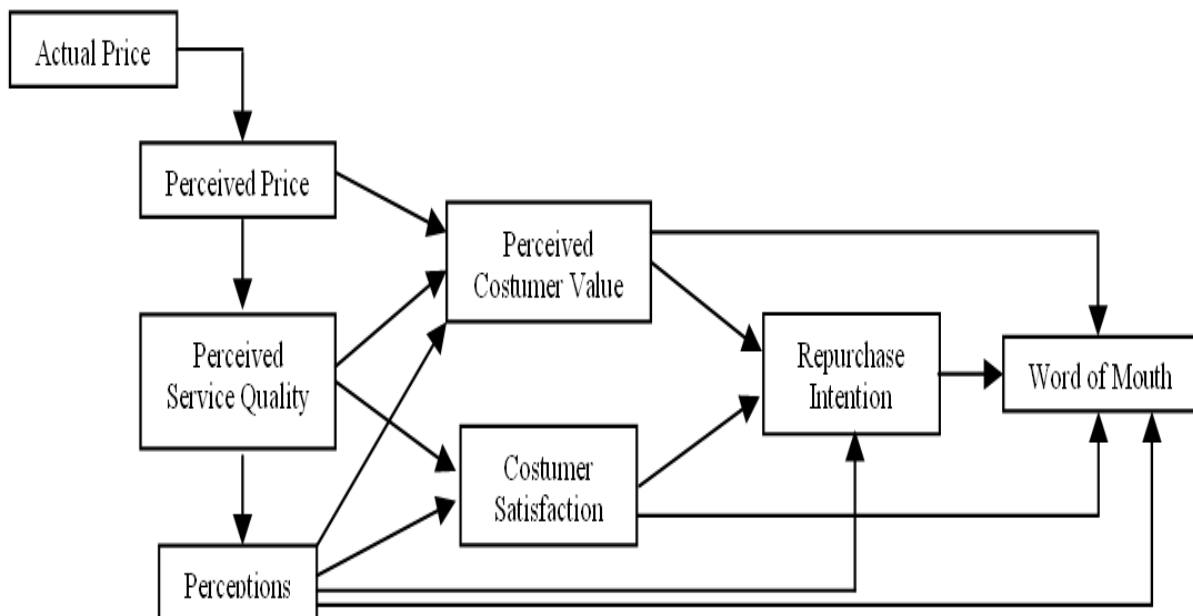
Source: Oh (1999)

2.11. 14. Antecedents and Mediator Model

According to the antecedents and mediator model of Dabholkar *et al.* (2000), consumers evaluate different factors related to service but also form a separate overall evaluation of service quality. The model can provide a complete understanding of service quality and how the evaluations are formed. In the model, customer satisfaction is considered as a better predictor of behaviour intentions. A strong mediator role was found, confirming that it is important to measure customer satisfaction separately from service quality when trying to determine customer evaluations of service. On the other hand, antecedents of customer satisfaction have not been explored. The model measures behavioural intention rather than actual behaviour and needs to be generalized for different settings.

Figure 2.13 Antecedents and Mediator Model
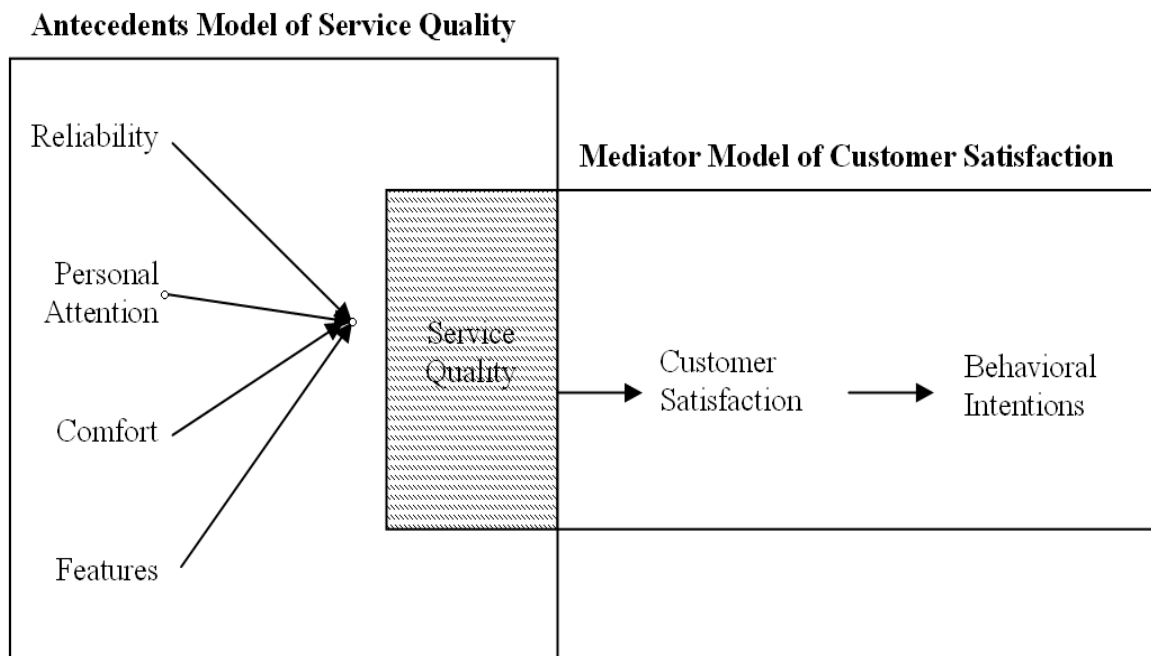
Source: Dabholkar *et al.* (2000)

2.11.15: Internal Service Quality Model

Frost and Kumar (2000) developed an internal service quality model based on the concept of the GAP model (Parasurman *et al*., 1985). The model, as depicted in Figure 2.14, evaluated the dimensions and their relationships that determine service quality among internal customers (front line staff) and internal suppliers (support staff). The perceptions and expectations of internal customers and internal suppliers play a major role in recognizing the level of internal service quality perceived. The model needs to be generalized for all types of internal environment. The effect of changes in the external environment on the model is not considered.

Figure 2.14 Internal Service Quality Model
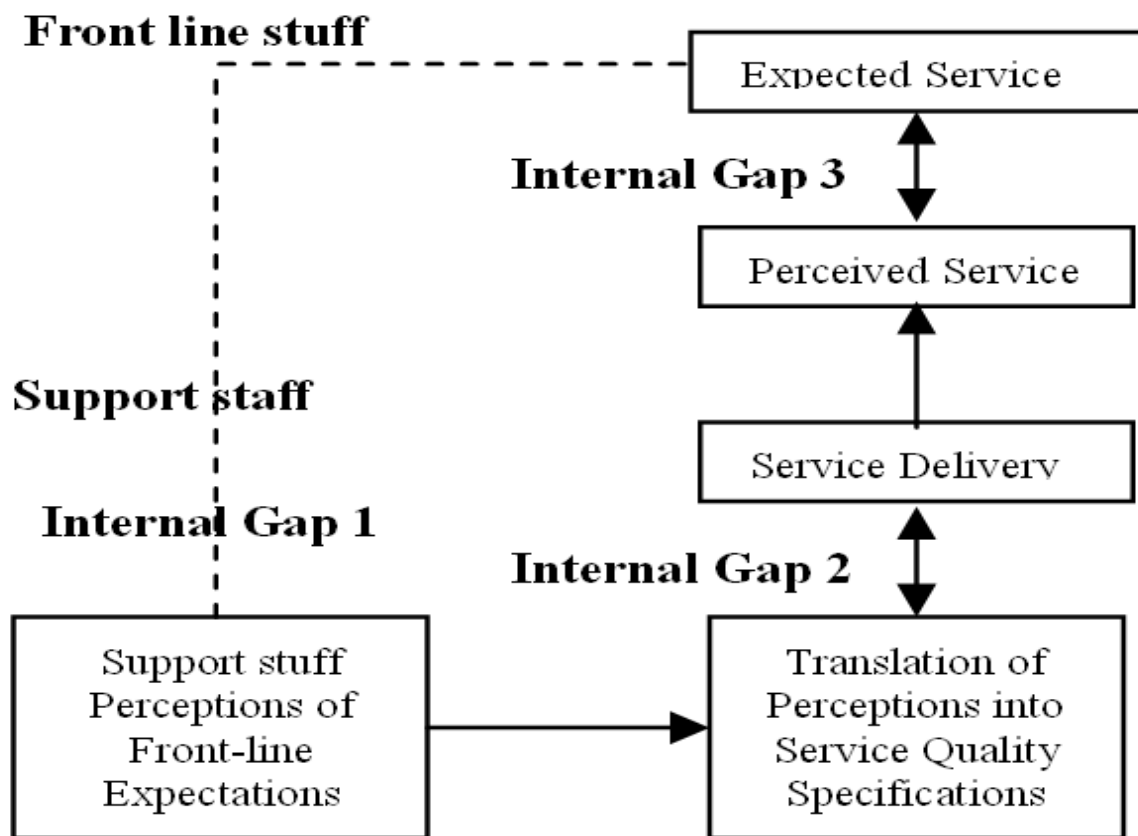
Source: Frost and Kumar (2000)

2.11.16 Internal Service Quality DEA Model

Soteriou and Stavrinides (2000) present a service quality model that can be used to provide directions to a bank branch for optimal utilization of its resources. The model does not aim to develop the service quality measures; rather, it guides how such measures can be incorporated for service quality improvements. The model mediates the resources, which can be better utilized to produce higher service quality levels. The model consists of two sets, consumable resources such as personnel, space, time, etc., and the number of accounts in different categories. The output of the model is the level of service quality perceived by the personnel of the branch. The data envelopment analysis (DEA) compares branches on how well they transform these resources (inputs) to achieve their level of service quality (output) given the client base. The model identifies under-performers and suggests ways for their improvement. The model does not provide the measurement of service quality and ignores other banks' performance measures.

Figure 2.15 Internal Service Quality DEA Model
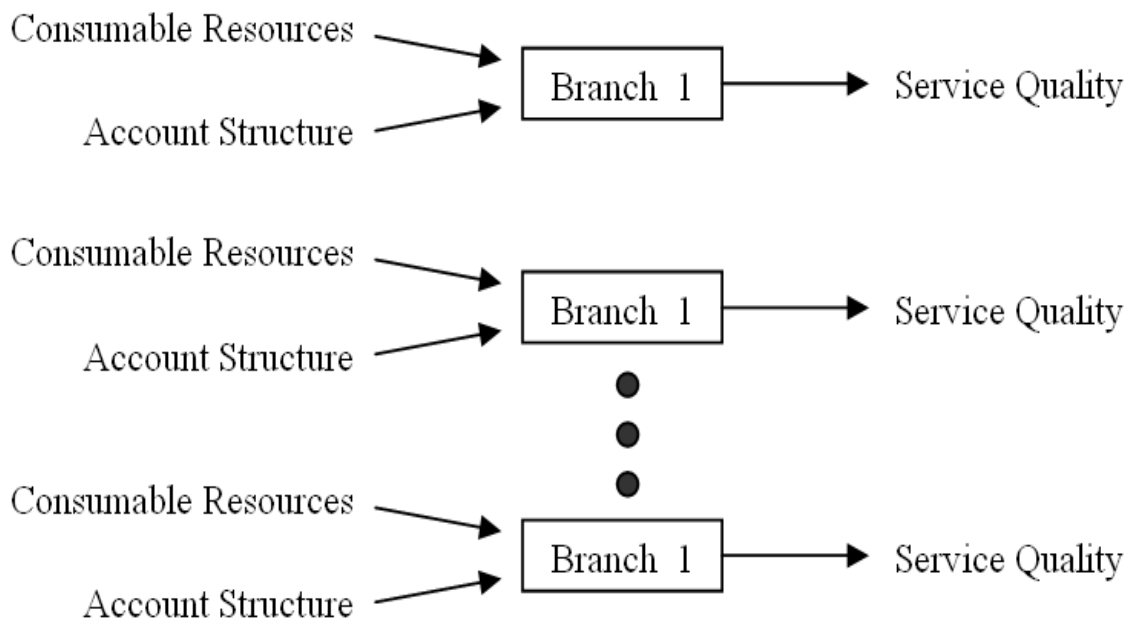
Source: Soteriou and Stavrinides (2000)

2.11.17 Internet Banking Model

Broderick and Vachirapornpuk (2002) propose and test a service quality model of internet banking. The application of the management of quality in internet banking services is located within the service interface and within the management of increased customer role. The level and nature of customer participation had the greatest impact on the quality of service experience and issues such as customers' "zone of tolerance" and the degree of role understanding by customers and perceived service quality. Not much empirical work is carried out; the model is based on the experience of one website only, and needs to be validated with other experiences.

Figure 2.16 Internet Banking Model
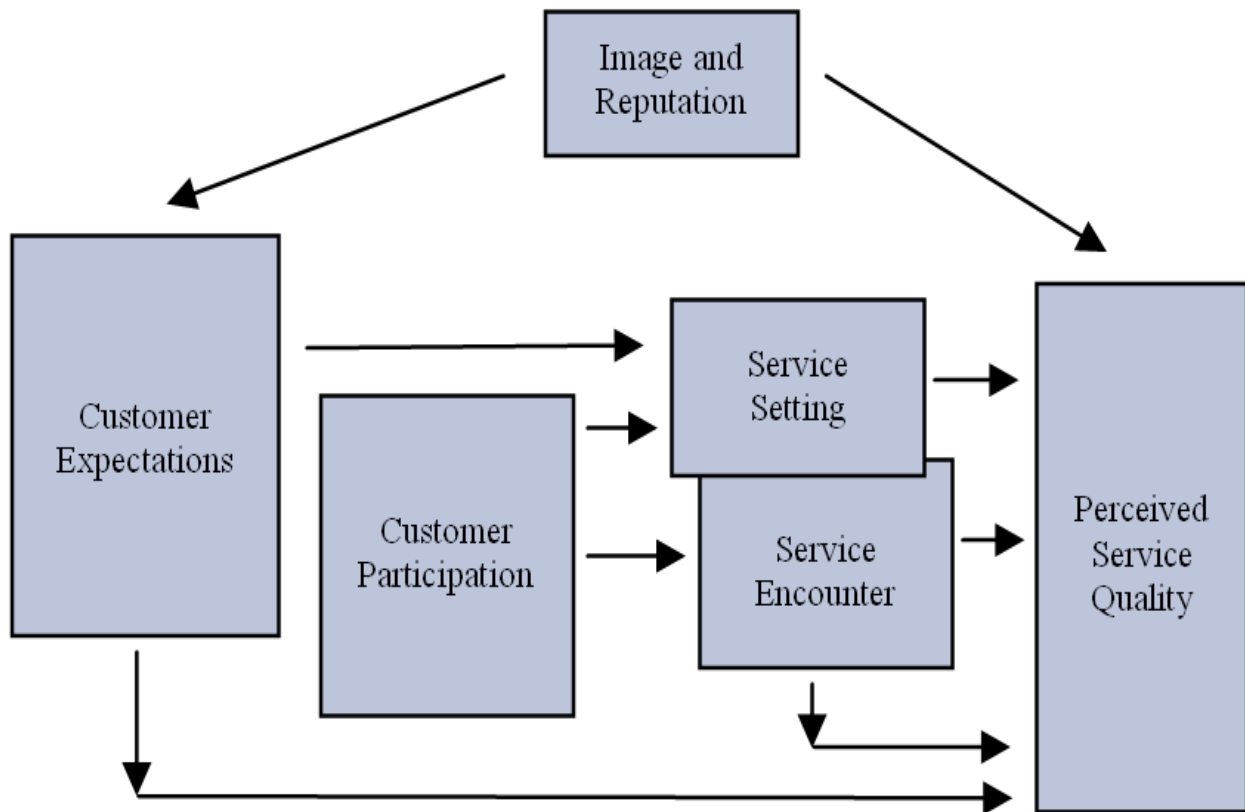
Source: Broderick and Vachirapornpuk (2002)

2.11.18 IT Based Model (Zhu *et al.,* 2002)

Zhu *et al.'s* (2002) model highlights the importance of information technology (IT)-based service options. Service providers are using IT to reduce costs and create value added services to their customers. It proposes a service quality model that links customer's perceived IT-based service options to traditional service dimensions. IT-based services have a direct impact on the reliability, responsiveness, and assurance dimensions and an indirect impact on customer satisfaction and perceived service quality. It can help service providers achieve higher levels of customer satisfaction. The customer evaluation of IT-based services is affected by a preference towards traditional services, past experience in IT-based services, and perceived IT policies.

Figure 2.17 IT-Based Model
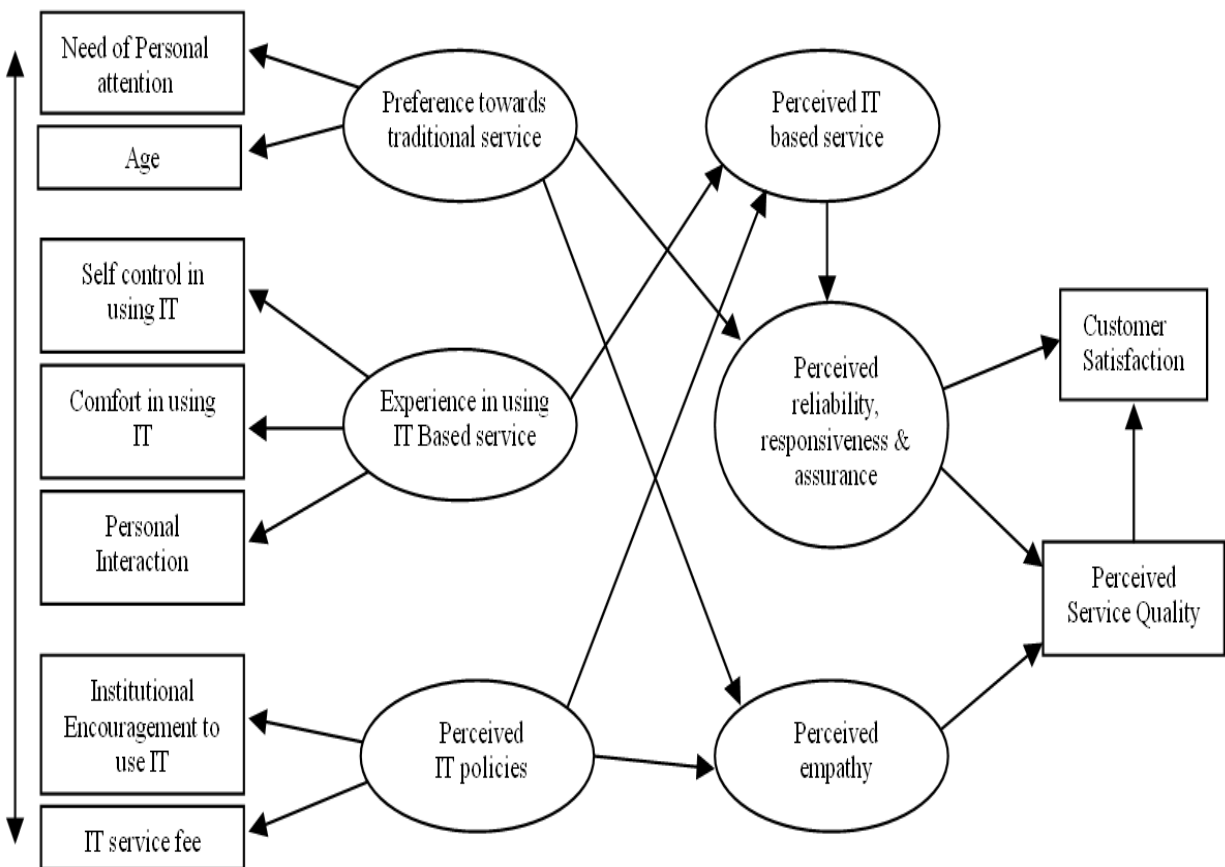
Source: Zhu *et al*. (2002)

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2.12. OVERVIEW OF THE MODELS

After reviewing various service quality models covering the domains from conventional personalized to internet-enabled services, it may be noted that the development of service quality models since 1984 highlights the change in the process of delivering services from conventional to IT-based services. It is further observed that the service quality outcome and measurement is dependent on type of service setting, situation, time, need, and other factors.

In addition to this, even the customers' expectations towards a particular service are also changing with respect to factors like time, increase in the number of encounters with a particular service, competitive environment etc.

From the revision of these models, it appears that the key ingredients to service quality improvements are:

(i)   Clear market and customer focus.
(ii)   Motivated staff.
(iii)   Clear understanding of concepts of service quality and factors affecting the same.
(iv)   Effective measurement and feedback systems.
(v)   Effective implementation systems.
(vi)   Effective customer care systems.

2.13. SURVEYING EMPIRICAL STUDIES ON SERVICE QUALITY MANAGEMENT AMONG CONVENTIONAL BANKS AND FINANCIAL INSTITUTIONS

A significant and substantial body of literature on individual consumers' attitudes towards conventional financial products and services is already in place, especially concerning selection criteria and customer satisfaction. The following is a review of the related literature according to different attributes, *e.g.* banking selection criteria, customer satisfaction with banking offers, customer satisfaction with employee performance, and how these affect customers' perceptions of the quality of services, service quality satisfaction and customers' retention, banks' image and financial performance, and its relation to service quality perceptions, Internet banking as a service delivery channel. A review of the studies that critically analyze and assess service quality models is also included in this chapter.

As far as the customer selection criteria are concerned, (Kaynak and Whiteley, 1999) for instance, aim to determine and evaluate the importance of selected patronage motives used by Australian retail bank customers in choosing commercial banks. They observed that convenience was the primary motivation for Australian customers for selecting a specific bank or financial institution. The convenience factor includes aspects such as location and service quality.

Al Mossawi (2001), on the other hand, concludes that a bank's reputation was the most significant factor in the use of conventional banking services in the Kingdom of Bahrain. Yavas (2007) also surveyed consumers' banking behaviour in the Kingdom of Saudi Arabia with the objective of gaining insight into the selected aspects of banking behaviour in the Kingdom. The results suggest that a bank's experience, reputation, services, and personnel quality largely affect Saudi choice of bank. Two convenience-related factors, namely closeness to work and operating hours were found to be important to some respondents.

Moreover, reputation, price, and service were the most important variables that influence customer choice for Polish banking customers, as stated by Kennington *et al*. (1996) in their study of consumer banking habits in Poland. They also compared their results with other case studies from other countries to determine whether bankers need to adopt different strategies in the relatively new free market economies. They concluded that Poles generally have the same straightforward reasons for choosing banks as consumers studied in other countries, and very clear ideas as to how the banks could treat them better. Reputation and pricing concerns, on the other hand, are more important to consumers in Poland than in other countries. Moreover, Poles are still relatively conservative in adopting new financial products and services.

Across Europe, Mols *et al*., (1997) examine the choice of domestic cash management banks among corporate customers from 20 European countries and indicate that service quality is the most important criterion for the choice of domestic cash management banking, followed by pricing and relationship. Service quality is either the first or the second most important criterion in every country (with the exception of Hungary) when choosing a domestic cash management bank. Service quality seems to be especially important to corporate customers in Switzerland and Poland.

In his study, (Owusu-Frimpong, 1999) aims to ascertain the characteristics looked for when Ghanaian bank customers open a bank account. The results are based on 225 questionnaires filled in during customer interviews inside 50 bank branches. The results show that 73% of account holders in Ghana are male, and that Ghanaian bank customers choose a bank based on the efficient services, understanding of customers, and high rates of interest.

Using the marketing mix characteristics of the four Ps (price-product-place-promotion) to study bank selection decisions among undergraduate customers in Singapore,(Ta and Har, 2000) indicated that undergraduates place high emphasis on the pricing and product dimensions of bank services. The product dimension includes overall quality of service and availability of self-banking facilities. The price dimension includes high interest

rates, low service charges, and low interest rates on loans. The place/delivery dimension includes convenient location and long operating hours. The promotion dimension includes recommendations by parents/ friends and the availability of undergraduate privileges. The study concluded that respondents place more than twice the emphasis on the pricing aspects of the bank than on its delivery of services and promotion strategy.

As an illustration of the banks' financial performance and perceived service quality, (Alhawari and Ward, 2006) investigate the relationship between customer perception of service quality and banks' financial performance in the new context of the automated banking environment in Australia. The results revealed that customer satisfaction is confirmed as a mediator in the relationship between automated service quality and financial performance

Likewise, (Duncan and Elliott, 2002) explored empirically the relationship between customer service quality and financial performance among a representative cross-section of Australian banks and credit unions by correlating customer service quality scores from a sample of retail customers with financial performance measures over a five year period. Results show that all financial performance measures (interest margin, expense, income, return of assets, and capital adequacy) are positively correlated with customer service quality scores. They also show that the credit unions strongly out-perform the banks in customer service quality and also in some measures of financial performance (interest margin and return on assets).

Schneider *et al.*, (2009) in their study of 200 companies from diverse service sectors, investigate the climate of services and customer satisfaction. They found out that the path analyses support full mediation for customer satisfaction in the link between service climate and corporate financial and market performance.

After reviewing a bank's financial position and its relation to service quality and customer preferences, service quality also showed a significant relation with customer loyalty and retention. According to much of the marketing literature, satisfied customers are loyal customers. Pont and McQuilken (2005) conclude that the high level of

customers' satisfaction impact positively on the continued loyalty of a customer towards a particular bank. Yet the customers' changing needs may influence their intention to remain as a loyal customer of a specific service provider regardless of whether they are satisfied with that service provider. This is clearly presented in Al-Wugayan *et al.* (2008) findings on 700 customers of Kuwaiti bank loan services, where they conclude that loyalty is not derived from customer satisfaction, but is rather based on factors such as price, special deals, or bank-customer relationships. In certain industries such as banking, the level of customer satisfaction with a service or product may actually lead him or her to seek out other providers; the lack of perceived differentiated competitors may be a factor that influences a customer's intention to remain a loyal customer, and service recovery in this regard can negate or reduce the impact of dissatisfaction on loyalty (Bennett *et al.*, 2004).

Castelo (2000) tests the relationship between customer satisfaction/dissatisfaction and the impact of a new variable, namely usage rate, on customer loyalty in the context of retail banking in Spain. The data used the path model from a cross-sectional survey of 384 retail banking customers from north-western Spain. The only variable found to have direct impact on customer loyalty is disconfirmation when both direct and indirect effects are accounted for. Performance also impacts on customer loyalty through disconfirmation, while the usage rate does not seem to have any effect.

Meng and Elliot (2009) illustrated that the relationship between service quality and switching cost is significant and positive. Enhancing perceived service quality to consumers will also increase the perceived cost to consumers of switching from one service firm to another. The study also revealed that perceived switching costs do not appear to lead to customer dissatisfaction.

In exploring the employees' effect on the perceived service quality, Li-Jun Sun (2009), on the other hand, found out that there is a notable positive relationship between employee satisfaction and customer satisfaction, generated by the positive relationship between the external service quality and customer satisfaction. In other words, satisfied customers are the result of satisfied employees. Likewise, the results of multiple

regressions implemented by Maddern *et al.* (2007) showed that staff satisfaction and both components of service quality (technical and functional) are significant factors in determining customers' satisfaction. However, the simple linear linkage between staff satisfaction, service quality, and customer satisfaction is challenged. The data does not support the generally accepted relationship; there is no evidence to suggest what does drive functional service quality. On the other hand, the findings suggest that the effective management of the process is critical to technical service quality, which in turn contributes, significantly, to customer satisfaction. Both the qualitative and quantitative data suggested that, first and foremost, service providers must deliver on their operational promises to ensure customers satisfaction. No matter how friendly and informed staff maybe, they cannot compensate for poor operational performance.

Paulin and Ronald (2000) explored the commercial banking relationship in France, using a sample of 100 companies randomly drawn from a major French bank; their data demonstrates the importance of contact personnel and the social interpersonal aspects of commercial banking relationships. The study revealed that, despite the current emphasis on new technology, contact personnel remain important for the success of professional business to business services. When account managers are changed, the business clients feel that their relationship with the bank is weaker and they judge the bank to be less client-oriented. In addition, business clients, who change account managers, express a greater likelihood of switching banks.

Devlin (2002), on the other hand, showed that professional advice was the most significant motivation for the choice of a home loan institution by customers in the United Kingdom. Likewise, the American Bankers Association undertook research in 1999, which showed that the major factors that have an impact on total customers' satisfaction are effective problem solving, personnel that are attentive and interested in customers' problems and satisfactory problem resolution over the telephone.

Howcroft (1993), in his survey on the staff perceptions of service quality in a UK clearing bank, clearly indicates that clerical staff in branches is actually aware of the importance of providing a quality customer service and to some extent this 'awareness'

must be attributed to the endeavours of the organisation as a whole. Survey staff; however, did tend to associate the issues of customer service primarily with themselves rather than with the organization as a whole.

Yavas (2007) on the other hand surveyed female bank customers and female bank employees in Turkey using the SERVQUAL instrument to investigate the extent of congruence between the underlying configurations of customer evaluation of service quality as perceived by front line female employees, and as reported by female customers. As a conclusion, it appears thatmost bank frontline employees in Turkish banks are unaware of how the customers really see them. On the other hand, this may reflect an erroneous "we know we are doing a good job, our customers are satisfied" attitude on their part. An overall conclusion that readily surfaces from the results indicates that customers' and employees' perceptions of service quality do not correspond.

Anthony (2001) indicated that credit union customers are more satisfied with service quality than bank customer. The study also suggests that service quality and employee satisfaction are linked to customer satisfaction. Surveys were administrated to bank and credit union employees about service quality they receive from their managers. The results did not support the study hypothesis that credit union mangers would receive higher scores than bank managers. Analysis of bank and credit union employees showed that they were more satisfied with the management service quality than credit union front line employees. The survey results suggest that, when it comes to service quality behaviour, bank managers are perceived by their employees to be more competent, credible, and fair than credit union managers. When it comes to overall summary of the way managers treat their employees, bank managers consistently outscore credit union managers. In contrast to credit union managers, bank managers are also perceived to be more liable and to do a better job of identifying the needs of their employees. Bank managers also offer more tangible evidence of service to their employees.

The increasingly competitive environment in which conventional banks operate has seen customer satisfaction become the focus of increasing attention. Generally, there is a

consensus and harmony among many studies that service quality is the primary factor in customers' satisfaction with conventional bank services (Taylor and Baker 1994; Levesque and McDougal 1996; Jamal and Naser 2002).

Sureshchandar *et al.,*(2002 b) investigated the relationship between service quality and customer satisfaction and showed that, although there is a strong contribution between service quality and customer satisfaction, the two constructs are indeed different, which means that it becomes imperative for the service providers to view the two constructs separately. Previous research has shown that, while customer satisfaction reflects the customers' feelings about multiple encounters and experience with service providers, service quality may be tempered by perceptions of value or by the experiences of others that may not have been as good. According to (Bitner and Hubbert, 1994) service quality is more abstract than customer satisfaction and is likely to be influenced by variables such as advertising, other forms of communication, and the experience of others.

In an attempt to compare customers' perceptions in public and private banks, Angelis *et al.* (2005) found out that customers of public or state-controlled banks in Athens, Greece, enjoy a higher perceived value in the case of marketing efficiency, mainly due to the wider network and the favourable pricing policy, whereas private bank customers enjoy a higher perceived value in the case of professional service and effective communication. In addition, they stated that customers of state-controlled banks are older and have lower education and income levels. State-controlled banks register lower proportions of very pleased customers and higher proportions of displeased customers.

Nadiri *et al.* (2009) studied the youth market in South Korea to formulate long-term strategies because young customers tend to keep themselves up to date with the latest technological developments. Their findings reveal that young customers have a narrow zone of tolerance with regard to the service provided by the banks. The result with respect to gap analysis reveal that there was a shortfall in the service quality provided by banks, with the largest gap being found in the tangibility and empathy of service quality dimensions. The results of exploratory factor analysis also reveal that the SERVQUAL model is found to be unidimensional in this study.

Mersha *et al*. (1992) indicated that the consumers have well-conceived ideas about service quality, including banking services, and that the presence and absence of certain attributes are considered important determinants for both good and poor quality of services. It was also noted that employee indifference or "I don't care" attitude is ranked very high as an attribute of poor quality, but it's opposite (*i.e.* enthusiasm/ helpfulness) is ranked rather low as attribute of good quality among postgraduate participants in the US.

At the same time, Yavas *et al*. (1997) believe that the ultimate success of any service quality programme implemented by a bank can only be gauged by the creation and retention of satisfied customers when investigating the relationship between service quality customer satisfaction and compliant behaviour and commitment. The manager of Service quality in the Gulf Bank in Kuwait found that service quality measurement should focus on customers' perceptions of the bank's performance and what the customer really wants, since these are the drivers of satisfaction and retention (Jones, 2004). These factors address the importance of scorecard information and improve the service excellence programme that was formulated in 2003. The customer satisfaction survey used by Jones is presented in Table 2.6.

Table 2.6 Drivers of customers' satisfaction

	Principal Factors	Components
1	Excellent Staff	Speed and efficiency of service by staff, including expert of products and processes/procedures. Politeness and friendliness of staff Confidentiality of staff service
2	Efficient Operations	Accuracy of transactions and statements Availability of full range of services Efficient and effective handling of complaints
3	Convenience	Convenience of branch location and parking Minimum waiting time for service Comfortable, tidy branch environment Reliable and effective remote banking services Convenient methods of resolving problems
4	Competitive Costs	Lowest charges for loans/overdrafts Lowest service charges/fees/commissions Highest interest on deposits
5	Excellent Image	Excellent overall reputation and corporate image

Source:(Jones, 2004)

Millson and Kirk-Smith (1996) on the other hand, investigated whether Quality Committees (QCs) have a role to play in service quality programmes. A questionnaire was used to investigate the perception of staff in selected branches with and without QCs at the Midland Banks during its pilot QC programme; it found out that Midlands Bank's quality programme has a common weakness in that had been run informally and without a clearly defined programme for implementation and measurement. The aim of the programme was to give staff a voice and to provide the means for changing both the work environment and service quality. The results indicated that the QC branches were generally more positive about the effect of QC than were non-QC branches, indicating that experience improves the perception of the benefits of QC.

Moreover, Al-Eisa and Alhemoud (2009) identified the most important attributes that influence customer satisfaction by using the multiple-attribute approach proposed by

Shin and Elliott (2001). They found out that the most crucial attributes for predicting customer satisfaction with retail banks in Kuwait were fast service, courtesy and helpfulness of employees, availability of self-banking services. 81% of the sample was either satisfied or very satisfied with the services in their banks.

An earlier study had been conducted by the Institute of Banking Studies (IBS) in Kuwait and the Kuwait Foundation for Advancement of Sciences (KFAS) with a primary focus on the competitiveness of Kuwaiti banks in the GCC regional context. This research compared the Kuwaiti banks' operational efficiencies to those of other banks in the GCC region. The study had identified the competitive strengths and weaknesses of Kuwaiti banks vis-à-vis the banks from the GCC countries. Their major conclusions were that the relative size of Kuwaiti banks is smaller and the competitiveness of Kuwaiti banks is somewhat less compared to banking sectors of UAE, Bahrain, and Saudi Arabia, but better their counterparts in Oman and Qatar. The study also concluded that some of the areas of strengths in the Kuwaiti banks are average net profit, level of education of the local employees, duration of employees' experience, and serving customers over the internet. On the other hand, areas of weaknesses of Kuwaiti banks vis-à-vis other GCC banks are return on assets, inadequate awareness of implications of WTO and regional agreements, low ratio of human resources development expenses to total assets, and low level of readiness to face future competitive threats (Ghanem et al., (2002).

In their study to evaluate the service quality in retail banking in Qatar, Hossain's (2009) results indicate that customers' perceptions are highest in the tangibles areas such as infrastructure facilities, followed by the empathy area such as timing of bank and return of deposits. On the other hand, the lowest perceptions are in the competence area such as the method of imposing service charges followed by reliability such as customer guidance. This aligns with (Owusu-Frimpong, 1999), Ta and Har (2000) and Kaynak and Harcar's (2005) findings that profitability factors, such a low service charges and high interest rate, were the major reasons why customers chose a particular bank. Kaynak and Harcar (2005) also concluded that a fast and efficient service was also an attractive feature valued by current and potential customers. (Gerrard and Cunningham, 2001a)

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considered that for most customers, the most important factor for bank selection was feeling secure.

(Mengi, 2009) compares perceptions of service quality of public and private banks of Jammu, India, and found out that public sector bank customers are more satisfied with the service quality than those of private sector banks, and that tangibility and reliability provides maximum satisfaction to customers of private as well as public banks. (Mengi, 2009) believes that banks need to focus on other dimensions of SERVPERF such as responsiveness, assurance, and empathy which play an important role in service quality. His opinion aligns with (Ravichandran *et al.,* 2010) study which identified the key dimensions of received service quality in Indian banks. They concluded that responsiveness was the only factor in the SERVQUAL model found to be significant in predicting the overall satisfaction with the banking services. Their study examined the influence of service quality on customer satisfaction, as being responsive means being attentive to the needs of customers in a timely manner.

Likewise, (Johnston, 1995) investigated whether there are some quality determinants that are predominantly satisfiers and others that are predominantly dissatisfiers in a major bank in the UK. He found out that the predominantly satisfying determinants are attentiveness, responsiveness, care, and friendliness, and the dissatisfiers are integrity, reliability, responsiveness, availability, and functionality. Responsiveness in this regard is identified as a crucial determinant of quality, as it is a frequent source of satisfaction and the lack of it is a major source of dissatisfaction. (Mengi, 2009) also found that superior SERVQUAL performance will ensure maximum customer satisfaction and will also help in attaining customer loyalty. Improved customer satisfaction through SERVQUAL would result in positive word of mouth and consequently better acquisition and retention of customers.

Yavas *et a*l. (2004) examine the nature of relationships between service quality, background characteristics, satisfaction, and selected behaviour outcomes by studying retail banking in Germany. Results show that service quality is at the root of customer satisfaction and that it is linked to such behaviour outcomes as word of mouth, complaint,

recommending, and switching. However, different aspects of service quality and different consumer characteristics seem to be associated with different outcomes. For instance, the results suggest that tangible elements of service quality and being female are more closely associated with positive word of mouth and commitment. On the other hand, "timeliness" aspects of service delivery are more closely related to customer satisfaction, complaint, and switching behaviour.

Lewis *et al.* (1994) carried out an empirical study among a sample of university students to gain insight into their attitudes towards the services provided by their banks and building societies. A survey questionnaire with an incorporated graphic positioning scale was developed, and the student expectations and perceptions were presented with respect to features of banks and building societies in general, and loan/ over draft facilities in particular. The results suggested that the majority of students are very satisfied with the quality of services they receive; however, the measurement of their expectation and perceptions reveals a number of service quality gaps and shortfalls. The students were pleased with the "people"-related dimensions of service, but perceived some shortfalls with respect to aspects of service delivery, *e.g.* product knowledge and experience, speed and efficiency of dealing with queries, and opening hours. The results suggest a number of areas where the banks and building societies might pay attention to improve their relationships with student customers.

Stafford (1994) presents a list of characteristics of bank quality as perceived by customers, identifies the underlying dimensions of bank quality, and assesses the importance of the characteristics as perceived by customers. Seven factors were found to determine bank quality. They include employees and employee/customer interactions, the number of accessible and working ATMs, company structure, and available services. Over 82% of the respondents felt that banks provided quality service.

Another study was conducted by (Stafford, 1996) to identify the distinct elements of bank service quality, and which of these elements are the most important ones to different demographic groups in the US. Using a comparison of the factor score measurement, the study revealed that females find several service quality dimensions more important than

men do; only two of the factors, bank atmosphere and relationships, seem equally important to both genders. The study also revealed that honesty and reliability have the highest mean scores, indicating that men believe these items to be markedly important in terms of bank service quality.

A survey of 32 top managers, 100 employees, and 200 external customers of a major bank in Ghana was undertaken to assess the impact of internal marketing on the perception of service quality. The results suggest that internal marketing can have an influence on service quality and that the importance of external customer satisfaction and external marketing strategy. This indicates that the bank encourages quality service through marketing techniques, and that there is a belief that this influences external customer satisfaction (Opoku et al., 2009).

Allred and Addams (2000) indicate that credit unions rank significantly higher than banks on 11 of the 14 service quality dimensions, namely access, courtesy, communication, credibility security, empathy, tangibles, basic services, fairness, fixing mistakes, and guarantees. They also indicated that neither banks nor credit unions do a good job of either serving customers' needs or retaining customers in the USA.

Avkiran (1994) designed and examined the six dimensions model for service quality in the banking industry (responsiveness, empathy, staff contact, access, communication, and reliability) with 27 items, which were empirically reduced to 17 items across four factors. The dimensions to emerge are staff conduct, credibility, communication, and access to teller services. The instruments reliability dimensionality and validity have been empirically tested; the results are encouraging both in their own right and when compared with other studies.

Bahia and Nantel (2000) performed a study in Canada to develop a reliable and valid scale for the measurement of the perceived service quality of bank services. A sample of retail banking customers were questioned using the proposed scale of banking service quality 'BSQ', which comprises 31 items which span the following dimensions: effectiveness and assurance, price, access, tangibles, service portfolio, and reliability.

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Seth *et al*. (2005) critically appraise various service quality models and reveal that service quality outcome and measurement is dependent on the type of service setting, situation, time, need, and other factors. In addition to this, customers' expectations towards particular services are changing with respect to such factors as time, increase in the number of encounters with a particular service, and competitive environment.

Pantouvakis (2010) assesses the relative importance of various service quality dimensions by analyzing whether this assessment is affected by the measurement instrument that is used. A new "servicescape" model for directly measuring the physical and interactive features of a service is proposed and tested against the SERVQUAL model. Data were collected from a structured questionnaire survey of 434 from Greece to explore the relationship between service dimensions and customer satisfaction by comparing different measurement models. The findings reveal that the widely used SERVQUAL fails to fully capture the role tangibles plays in determining the overall customer satisfaction. The new proposed servicescape model attached more importance to the role of physical environment attributes than has been reported in most previous studies.

In addition to studies examining service quality in the case of conventional or physical banking, due to the growing importance of internet in every aspect of life and as a service delivery channel, a number of studies also explore the customer satisfaction and service management in the case of internet banking. For instance, Yap *et al.* (2010) examine the role of situation normality cues (online attributes of the e-banking website) and structural assurance cues (size and reputation of the bank, and quality of traditional services at the branch) in a customer evaluation of the trustworthiness of e-banking and subsequent adoption behaviour among a sample of faculty and administrative staff at a large Australian university. They conclude that traditional service quality builds customers' trust in the e-banking services and that the size and reputation of a bank provides structural assurance in its e-banking services but not in the absence of the traditional service quality.

Using the same sample of applicants studied above, Wong et al. (2009) investigated whether a consumer's perception of risk in transacting on the internet (perceived risk) would have an influence on their trust of a bank's e-banking website (specific trust) and their willingness to use e-banking. The results showed that perceived risk has a positive moderating influence on the relationship between perceived risk and a consumer's willingness to use e-banking. Consumers who have low perceived risk of transacting on the internet are generally more willing to use e-banking. This primarily depended on their perception of risk in transacting on the internet, and trust in the specific e-banking websites was secondly.

In the same regard, Rod *et al.* (2009) examined the relationship among service quality dimensions that influence overall internet banking service quality and its subsequent effect on customer satisfaction in New Zealand and found out that there is a significant relationships between online customer service quality, online information system quality, banking service products quality, overall internet banking service quality, and customer satisfaction.

In the same internet banking literature domain, Chau and Ngai (2010) investigate the perception attitudes and behaviour of the youth market for internet banking services in the UK, and found that young people age (16-29) have more positive attitudes and behavior intentions towards using internet banking services than other user group. They have also found that there is a positive impact of internet banking services quality on satisfaction and loyalty.

According to elderly banking customers comments in the USA, as studies by Sarel and Marmorstein (2003) suggest, there is no problem with the old fashion method of banking services and paying bills by writing cheques. In addition, there is no good reason to change and adopt online services now, not to mention their fear of fraud and consequences of relinquishing control over their accounts. A qualitative consumer study, conducted on US banks to develop online capabilities, revealed significant differences in attitudes and opinions between early users and those that banks hope will adopt next. Most importantly, future prospects could be characterized as indifferent about online

banking; many were not convinced about its benefits and the value it provides. Also, several customers reported difficulties with using online banking on their current home or work computer and raised concerns about slow internet connections, incompatible software, security issues, and other problems (Sarel and Marmorstein, 2003).

Joseph *et al.* (1999: 182) investigated the role that technology plays in Australian banking and its impact on the delivery of the perceived service quality with a sample of 300 useable questionnaires by using the model developed by Hemmasi *et al.* (1994). Their results indicated that consumers have perceptual problems with some aspects of electronic banking. Therefore, banks need to address customers' concerns about the service complexity. As long as customer perceived the online service to be complex, adoption is likely to be quite slow.

Gurau (2003) also investigated the complexity and the challenges of introducing online banking services in Romania and conclude that successful implementation and development of online banking is influenced by many inter-related factors such as institutions, including the quality and security of internet network, the level of internet knowledge of the population, the government support, as well as the internet strategy of the bank, and the quality/reliability of online banking services.

Also, Mattila *et al.* (2003b) investigated internet banking adoption among mature customers in Finland and found out that internet banking was the third most popular mode of payment among mature customers after the over-the-counter and ATM mode. The data also indicated that mature customers are late adopters of e-banking; over half of the mature customers (54.5%) belong in the group of late adopters in terms of their internet banking adoption. The performed factor analysis indicates four main reasons for this: practical problems in using e-banking, concerns about the expensive start-up, security, and lack of personal service.

Another study conducted by Mattila *et al*. (2003a) to explore the effect of different factors affecting attitude formation towards internet banking in Finland came to the conclusion that prior experience of computers and technology, as well as the attitude

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towards computers influence both attitude towards online banking and actual behaviour. The results also propose that demographic factors impact heavily on online banking behaviour. Specifically, occupation and household income were significant variables. The results suggest that a typical online banking user is relatively young, well-educated with a high level of income, a family man with a good job. In addition, positive personal banking experience seemed to have an effect on both attitude and usage. This is to say that satisfied customers tend to keep up with their current delivery channel.

Akinci *et al.* (2004) analyze internet banking adoption among sophisticated consumer segments in an advanced developing country and describe the internet banking phenomenon primarily by analyzing the attitudes, behaviour, and preference of highly educated consumers. The distinguishing demographic attitudes and behaviour characteristics of internet banking users and non-users were investigated in an academic institution. The analysis provided evidence that there were significant differences between the two groups with respect to demographic profiles, attitudinal properties, and preferences for service delivery channels. While the internet banking users were middle-aged, male, more technology-oriented and easy to convince customers, non-users were 30 years of age or older, more traditional channel-oriented, and hesitant consumers, lacking confidence in Internet banking services compared to the services delivered at bank branches.

While the banks in developed countries are working primarily via internet as non-branch bank, Saudi banks use the internet as an information delivery tool to improve their relationship with their customers. Among the Saudi banks, some are using websites as an electronic brochure, very few are using them as banking channels, and some still prefer a "wait and see" stance. Online banking is still a very managerial activity in Saudi Arabia; the internet is currently being used by Saudi banks mainly for brand awareness and promotion (Jasimuddin 2001:4).

Another study conducted by (Al-Ashban and Burney, 2001) assesses customers' adoption of tele-banking technology in Saudi Arabia and reveals that, in general, Saudi consumers' income and education levels play a vital role in their adoption and usage of tele-banking

services. And customers increasingly extend their use of tele-banking as their experience grows with the system.

Mols *et al.* (1999) examined the distribution channel strategies in Danish retail banking, based on the response from 42 retail banks in Denmark. Their distribution channel strategies are described and their relation to selected marketing mix elements is examined. The study revealed that most Danish retail banks attach decisive importance to offering a customer-friendly PC banks services, whereas fewer of them attach the same importance to telephone, internet and branch banking; a multiple channel strategy combining several channels is the most popular approach.

Kaynak and Harcar (2005) for instance, considered customers' satisfaction with human and automated banking services in three branches of a major UK bank and provided clear evidence that customers' attitudes towards human and automated banking have a mediating effect on the relationship between the need for providing fast and easier banking services and perceived overall satisfaction. The study also revealed that the customers' attitude towards human and automated banking did have considerable indirect effects on customers' loyalty through its positive relationship with customer satisfaction.

2.14. CONCLUSION

The chapter discussed what service quality means from different points of view, why it is important for organizations to understand service quality, and how customers evaluate it. In addition, this chapter addressed the link between perceived high service quality and customer satisfaction. The chapter also identified the different service quality conceptual models and issues around those models, whereby it established that SERVQUAL is the most influential and common model is utilized in the literature.

This chapter also surveys a comprehensive literature on service management in banks and financial institutions in the conventional banking industry in different countries, including developed and developing countries, assessing their service quality and underlying relationships between the customers' perceived service quality, customer satisfaction, loyalty, employee awareness, and many other attributes that interfere with

customer satisfaction and preference to deal with one bank instead of other. Also, the chapter surveyed the most influential dimensions in the SERVQUAL model that influence the customers' preference and satisfaction and found that there were some dimensions of SERVQUAL found to be dominating factors in conventional banks, such as convenience and competence.

The next chapter focuses on Islamic banking, and, in particular, on the rationale for service quality in Islamic banking by contextualizing the service quality models in the context of Islamic banking.

Chapter 3

ISLAMIC BANKING AND SERVICE QUALITY DIMENSIONS: SURVEYING THE CONCEPTUAL, MODEL ING AND EMPIRICAL LITERATURE

3.1. INTRODUCTION

After the literature survey presented in the previous chapter, this chapter suggests a modified model of service quality that could be used in the Islamic banking and financial industry. The chapter is primarily focused on service management within the Islamic finance literature and analyses how the literature has developed since 1989, which saw (Erol and El-Bdour, 1989)'s study, which is considered being the first study discussing consumer attitudes and behaviours in Islamic banks.

The chapter highlights many related studies on Islamic and non-Islamic banks, both conventional and interest-free banks. The aim is to identify the literature gap and locate several dimensions and items that could be used and applied in the proposed instrument of this study to measure service quality satisfaction in Kuwaiti Islamic banks, using the data collected from three Kuwaiti Islamic banks based on modifying the CARTER model built by (Othman and Owen, 2002) and the SERVQUAL model.

This chapter also discusses why Islamic banks need to adopt service quality initiatives and why they need to provide services beyond those that appeal to the religiosity of the customers. Before discussing the importance of service quality management in the Islamic banking industry, one must consider the special characteristics of Islamic banking and how it is different from conventional banking by presenting the main governing rules and regulations for Islamic banking and services.

3.2. THE GOVERNING RULES AND REGULATIONS FOR ISLAMIC BANKING SERVICES

The establishment of Islamic banks has grown rigorously in the past four decades. During this time, the Islamic banking sector has spread across the globe and has gained wide acceptance by both Muslims and non-Muslims (Iqbal and Molyneux, 2005). This is because Islamic banks play a role similar to conventional banks, except that they have to conform to the Islamic principles and regulations (Henry and Wilson, 2004). Siddiqui (2001:2) defines Islamic bank as "a financial institution which identifies itself with the spirit of Shari'ah as laid down by the Holly Quran and Sunnah, as regards its objectives, principels, practices and operations". Like any other traditional interest-based bank, Islamic banks mobilize deposits and produce loans but their forms of operation, based on Islamic law (*Shari'ah*), are different from conventional interest-based banks.

Within the Islamic banking scheme, these laws are derived from the primary sources of *Shari'ah; Quran* and *Sunnah*. The underling spirit of *Shari'ah* has laid down in the Holly Quran (the transcription of God's message to the prophet of Islam Mohammed, Peace Be upon Him) and *Sunnah* (the living tradition of the prophet Mohammed (PBUH) which forms the basis). Afterwards, the *Shari'ah* developed through four main Islamic juristic schools (Hanafi, Maliki, Shafi and Hanbali), in addition to two dependent sources; *Ijma* (consensus) and *Ijtihad / Qiyas* (individual reasoning by analogy).

Islamic finance offers an alternative financial paradigm. The Islamic finance paradigm is based on a set of prohibitions: transactions in unethical goods and services, earning returns from a loan contract (*Riba* or what called interest), compensation-based restructuring of debts, excessive uncertainty and speculation in contracts (*Gharar*), gambling and chance-based games, trading in debt contracts at discount and finally forward foreign exchange transactions.

Islamic banking differs from non- Islamic banking in several ways; the following are the governing rules and regulations for all Islamic banking services:

(i)   Money does not produce money, but money is used to produce legitimate profit from economic activity

The trading instruments of Islamic finance, such as participating finance *(Musharaka),* leasing (*Ijara*), services, or any *Shari'ah*-compliant investment, are based on the assumption that contracts are a valuation measurement for assets, and that money is stable, as per Islamic *Shari'ah*. Following these assumptions, "Usury of Debts" is not permitted. To support this, the Accounting and Auditing Organizations for Islamic Financial Institutions states that "money does not grow unless a work should be added".

(ii)   Profitable return is subject to a risk and return profile

Defined as participation finance in the form of *Musharaka* and *Murabaha* contracts based on profit- and risk-sharing, Islamic financing cannot impose a fixed profit return without risk; the same is true for leasing (*Ijara* contracts, where it is impermissible to rent a tangible asset with the condition of not accepting primary maintenance or potential loss of the rented assets.

(iii)   Avoidance of "interest" in all trades

Interest-based debt is the result of lending money with the stipulation of an inevitable increase or fixed return, regardless of the achievement of a successful balanced economic development. Due to the fixed nature of return, interest is prohibited.

(iv)   Investment in Islamic-compliant fields

Every sinful economic activity as defined by the *Shari'ah*, such as monopoly, gambling, liquors, adultery, usury, entertainment clubs, and other well-known *Shari'ah* transgressions, are impermissible to trade, regardless of high profits.

(v)   Contracts must be free from spoiling and annulling conditions

Such conditions conflict with contents of *Shari'ah*-compliant contracts, such as "ignorance" (*Jahala*), "deceit" (*Gharar*), and others.

These *Shari'ah*-compliant rules distinguish Islamic banking and investment operations from conventional banking and financing. Despite such differences, both types of banks operate in the same similar competitive environment and regulated in the same way in most countries. It is possible that Islamic and conventional banks display similar financial characteristics as stated by (Zoubi and Olson, 2007). As explained by Table 3.1, Islamic banks offer the same range of financial products and services any conventional bank would offer but definitely they are not providing the same type of morality and integrity as the Islamic perspective and surely not the same quality of services.

Working on these differences and being guided by the Islamic *Shari'ah* spirit, Islamic scholars have approved certain basic types of contracts as being compliant with the principles of Islamic finance, which Islamic banks can use to attract funds and provide financing in an Islamic way. They rely on two main sources of funds: transaction deposits, which are risk free but yield no return and investment deposits, which carry the risk of capital loss for the promise of variable return. In all, there are four main types of accounts in the Islamic banking: current accounts, saving accounts, investment accounts and special investment accounts which will be verified in more details with their special characteristics when discussing the banks profiles and the accounts and type of deposits each of the Islamic banks present.

Table 3.1: Islamic Financial Products and Services

Group	Products
Deposits Services	Current Deposits, Saving Deposits General and Special Investment Deposits
Retail/ Consumer Banking	Housing and Property Finance, Hire Purchase Working Capital Finance Credit Cards
Corporate Banking / Trade Finance	Project Finance, Letter of Credit, Financing Syndication Revolving Financing Working Capital Finance, Leasing Export / Import Finance Advisory Services and Construction Finance
Treasury/ Money Market Investment Products	Sell and Buy back Agreements Islamic Bonds (*Sukuk*) Government Investment Issues
Other Products and Services	Stock- Broking Services, Fund Transfer Safe- Keeping Management of Property and Estates Traveler's Checks ATM Services and Tele-Banking

Source: Kuwait Institute of Banking Studies (2002)

Accordingly, there are three main principles that form the benchmark of Islamic economics and distinguish Islamic finance from its conventional counterpart; the prohibition of usury or interest (*Riba*), profit and loss sharing and *Gharrar* or what can be referred as uncertainty and speculation. Prohibition of interest is the most significant principle of Islamic finance. In Islam, lending money should not generate unjustified income. In fact the Islamic bank does not lend money except interest free loans, which are termed as *Qardhassan*. A good example of this terminology is the current account and sight deposits in any Islamic banks; these accounts are considered as *Qard Hassan* from the client to their bank. As far as the profit and loss sharing (PLS), it is a form of partnership, where partners share profits and losses on the basis of their capital share and effort. In this mode of financing, the losses are shared by the financer along with the entrepreneur in the ratio of their respective capitals where the profits are shared in an agreed ratio. Unlike conventional finance, there is no guaranteed rate of return. Any

transaction that involves *Gharrar* is prohibited. Parties to a contract must have knowledge of the subject matter of the contract and its implications. An example of an agreement tainted with *Gharrar* is an agreement to sell goods that have already been lost.

Trying to deal with the rising market, demand and preference for Islamic financial services from their clients, many conventional banks operate their Islamic financial services through windows. These can be no more than separate counters within conventional branches. Regulators on the other hand have concerns about windows and do not allow them, Kuwait and Lebanon would be examples in this case, and that explain the CBK rejection of the Kuwait Commercial Bank request to establish Islamic financial windows through their conventional branches. Nonetheless, it has become successful route to conversion from conventional to Islamic based banking for a number of Kuwaiti banks, such as KIB and Ahli United Bank.

Islamic banks succeeded in providing a wide variety of financial products and services which was summarized in Table 6.1. Some Islamic products are similar to those provided by conventional banks but others are different, which makes it a must for Islamic banks to develop products and service that achieve the goal of *Shari'ah* banking and financing, and at the same time meets the economic needs and wants of their customers and their society in general. However, products and services innovation in the Islamic finance is one of the major challenges faces the Islamic market industry along with the preservation of its excellence in providing services acceptable on financial standards, expanding the scope of its financial activities, and exploiting in a beneficial way the developments in the financial markets (Al-Salem, 2009). Thus, since Islamic finance is a recently emerged paradigm, it is imperative that products and services are developed on a continuous basis. And therefore focus on the quality of services offered and diversity of these products and services provided by the Islamic banks, and any major challenges that they faces in this regard.

Generally speaking, all interest-free banks agree on the basic principles. However, individual banks differ in their application. These differences are due to several reasons,

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including the laws and regulations of the country, objectives of the different banks, an individual bank's circumstances and experience and the need to interact with other interest-based banks (Sadek, 2010).

Abdul Gafoor (1995), Siddiqui (2001) and Hourani (2004) described the salient features common to all banks Islamic banks;

(i)   All the Islamic banks have three kinds of deposit account: current, savings, and investment. The current accounts are demand deposit accounts. Just like in all conventional banks deposit is guaranteed.

(ii) Savings accounts are savings deposit accounts and operate in different ways. In some banks, the depositors allow the banks to use their money but they obtain a guarantee of getting the full amount back from the bank. Banks adopt several methods of inducing their clients to deposit with them, but no profit is promised. In others, savings accounts are treated as investment accounts but with less stringent conditions as to withdrawals and minimum balance. Capital is not guaranteed but the banks take care to invest money from such accounts in relatively risk- free short-term projects. As such, lower profit rates are expected.

(iii) Investment accounts: Investment deposits are accepted for a fixed or unlimited period of time, and the investors agree in advance to share the profit (or loss) with the bank in a given proportion. Capital is not guaranteed.

(iv) As far as the modes of financing, banks adopt several modes of acquiring assets of financing projects. These can be broadly categorized in to three areas: investment, trade, and lending.

Investment financing can be implemented through three main contracts; *Musharaka, Mudarabah* and through financing on the basis on an estimated rate of return. In the *Musharaka* investment, a bank may join another entity to set up a joint venture, with both parties participating in various aspects of the project in varying degrees. Profits and losses are shared in a pre-arranged fashion. This is not very different from the joint venture concept. The venture is an independent legal entity and the bank may withdraw gradually after an initial period. In the *Mudarabah,* the bank contributes the finance and

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the client provides the expertise, management, and labour. Profits are shared by both parties in a pre-arranged proportion, but when a loss occurs, the total loss is borne by the bank. Financing on the basis on an estimated rate of return scheme, the bank estimates the expected rate of return on the specific project it is asked to finance and provides financing on the understanding that at least that rate is payable to the bank. If the project ends up in a profit that is higher than the estimated rate, the excess goes to the client. If the profit is less than the estimate, the bank will accept the lower rate. In case a loss is suffered the bank will take a share in it.

Trade financing is also done through several contracts. *Murabahah* or mark-up, where the bank buys an item for a client and the client agrees to repay the bank the price and an agreed profit later on. *Ijara* or leasing, where the bank buys an item for a client and leases it to him for an agreed period; at the end of the period the lessee pays the balance on the price agreed at the beginning and becomes the owner of this item. Hire-purchase, where the bank buys an item for the client and hires it to him for an agreed rent and period, and at the end of that period the client automatically becomes the owner of the item. Sell and buy back, where a client sells one of his properties to the bank for an agreed price payable now on condition that he will buy the property back after certain time for an agreed price. And finally Letters of credit, where the bank guarantees the import of an item using its own funds for a client, on the basis of sharing the profit from the sale of this item or a makeup basis.

The main forms of lending are; loans with a service charge, where the bank lends money without interest but they cover their expenses by levying a service charge. This charge may be subject to a maximum set by the authorities. *Qard Hassan* or no-cost loans, where each bank is expected to set aside a part of their funds to grant no-cost loans to needy persons such as small farmers, entrepreneurs, products, etc. and to needy customers. And finally, Overdrafts services and are subject to a certain maximum free of charge.

Other banking services, such as property management and appraisal, money transfers, bill collections, trade in foreign currencies at spot rate etc., where the bank's own money is not involved, are provided on a commission or charges basis.

After presetting the special characteristic and the governing rules of the Islamic banking and financial services, Table 6.2 classifies the main and common facilities and financial services offered by the Islamic banks in general.

Table 3.2 Islamic Financial Instruments

	Islamic Instruments	Definition
1	*Murabaha*	Trade with mark up or cost, plus sale. And it is the most popular form of Islamic financing, with the *Murabaha* contract, the bank agrees to buy an asset or goods from a third part at the request of its client, and then resells the goods to its client with a mark up profit. The client then purchases the goods either against immediate payment or for a deferred payment.
2	*Mudaraba*	Profit sharing agreement in which one partner (*Rab al Mal)* provides the capital required for a project while the other party (*Mudarib*) manages the investment using his expertise. The profit in *Mudarbah* contract is distributed according to a fixed predetermined ratio. *Rab al Mal* carries the loss in unless it was due to the *Mudarib's* negligence or misconduct.
3	*Musharaka*	Equity participation or can be defined as finance by way of partnership. Although it is similar to *Mudarabah*, it is different in that all parties involved in a partnership provide capital towards the investment.
4	*Ijara*	Renting for beneficial use, or can be defined as sale of *Manfa'a* (the right to use goods) for a specific period. It is similar to conventional lease. Under Islam, leasing began as a trading activity and then much later became a mode of finance. *Ijara* is a contract under which a bank buys and leases out an assets or equipment required by its client for a rental fees. Under *Ijara* contract, the client does not have the option to purchase the assets during or at the end of the lease term.
5	*Salam*	In general, the sale of non- existent objects is forbidden in Islam due to *Gharrar*. However, to facilitate certain types of business, exceptions were given to *Salam* and *Itisn'a. Salam* is a sale whereby the seller undertakes to supply the buyer at a future date in exchange of an advance price fully

		paid. In *Salam* contract, the price is paid in full, and the well-defined object of the sale is delivered after a specific time. Example of *Salam* contract usually used by farmers, this prepayment of the price allowed the farmers to buy seeds, spend for their own sustenance in order to be able to produce the fruits.
6	*Istisn'a*	It is the second kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser, it is necessary for the validity of the *Istisna'a* that the price is fixed with the consent of the parties and that the necessary specification of the commodity (intended to be manufactured) is fully settled between them. As it is necessary for the price to be paid in full and in advance in *Salam* contract, it is not in *Istisna's*, the price in this contract is paid in instalments as the work progress in manufacturing.
7	*Sukuk*	Trust certificate or can be seen as the Islamic equivalent of a bond, AAOIFI defines *Sukuk* as certificates, of equal value put to use as common shares and rights in tangible assets, usufructs, and services or as equity in a project or investment activity. *Sukuk* are not debts of the issuer; they are a form of commercial paper that provides an investor with ownership in underling assets.
8	*Tawarruq*	Reverse *Murabaha*, with *Tawarruq* contract, the client buys an object on deferred payment from the bank or financial institution and sells the item for a cash amount less than deferred price to a third party.
9	*Wakala*	Usually defined as a contract of agency on a fee for services basis with an agent known as (*Wakil*). In Islamic banks *Wakala* is usually refers as a type of investment deposits with notified return

Source: El-Gamal (2000), Hourani (2004), Usmani (2005), McMillen (2006), Siddiqi (2007), Hassan and Lewis (2007), Kettell (2010)

3.3. THE RATIONALE FOR THE IMPORTANCE OF SERVICE QUALITY IN ISLAMIC BANKS

Liberalization, deregulation, and technological advancement have led to an integrated banking industry all over the world. This created a highly competitive marketplace, and since the products and services provided by Islamic banks are generally undifferentiated from conventional banks, they have to be seen as banks that offer high quality products and services. For this reason, the management of Islamic banks must be sensitive to its customers' satisfaction when using their services and facilities rather than just relying on customers "banking on religion" (Shafie *et al.*, 2004).

Market research in general indicated a high level of customers' dissatisfaction with services in branches; both with the transactions themselves, the time spent queuing for service, and with the behaviour of the branch staff (Jones, 2004). It is undeniable that there are certain banks that can do their work faster than others, but the number of these banks still remains small (Sadek *et al.,* 2010).

Observing current practice in the Islamic banking industry, however, it can be stated that the quality of service is not afforded due attention. It is unfortunate that a few banks still provide poor service quality. For example, the time allocated for every transaction is too long and there is a long queue for other people waiting to be served (Metawa and Almossawi, 1998; Al-Sultan and Wollongong, 1999). Without good quality of services practiced, they will not be able to perform their work effectively. Othman (2002), therefore, suggests the following reasons for answering the question as to why Islamic banks need to be aware of service quality;

First, Islamic bank products and services are perceived as a high quality by customers because, in Islam, work and the quality of that work, are considered to be a type of worship. The concept of quality in the Islamic institutions has its roots in Islamic literature where quality is synonymous with *Itqan*.The Prophet said: "Allah loves to see one's job done at the level of *Itqan*" (Sabeq,1988). The word *Itqan* means to arrange and

dispose of things in a scientific and artistic way in order to obtain the most perfect results or to do something in high quality way with wisdom (Othman, 2002:60).

Secondly, adopting service quality in Islamic banks has become important because of it apparent relationship to costs (Crosby, 1979), profitability (Buzzell and Gale, 1987; Rust and Zahorik, 1993), customer satisfaction (Bolton and Drew, 1991; Boulding *et al*, 1993; Reichheld and Sasser, 1990) and positive word of mouth. Not to mention that service quality is widely regarded as a driver of corporate marketing and financial performance in banking (Wong and Perry, 1993; Kwon and Lee, 1994) which is highly relevant to Islamic banks.

Finally, service quality has become particularly important for Islamic banks worldwide (and Kuwait in particular) for many reasons. Firstly, there is a lack of knowledge in managing Islamic banking services in the way that satisfy their customers and without jeopardising the customers' believes regarding their financial tractions being *Shari'ah* compliant, there is also shortage in the scope of researches and publications that deal with service quality issues in the financial institutions in the region in general and most importantly in the local market.

The importance of the service quality becoming more intense especially with the noticeable growth and the consequent increase in competition between the new players in the market KIB and Boubyan Bank and the well-positioned Islamic services provider KFH which makes service quality an important matter in the customer eyes when patronising one Islamic bank over another. The competition will be highly intense even more as the National Bank of Kuwait (NBK) the country's largest conventional bank, has raised its stake in Boubyan Bank to 60% in March 2010 and became the biggest shareholder in Boubyan Bank. No doubt, Boubuan Bank will benefit from the NBK's skilled management and professionalism.

The competition will be even more extreme when the newly established and converted local banks like Warba Islamic Bank and Ahli United Bank, respectively start operating. Four new Islamic banks are competing with the large expert, competent KFH whom has

been operating as monopoly in the local market for more than 25 years. These four new comers will definitely grab a share from KFHs' customers and clients' base. Therefore, it is important for KFH to maintain their customer stand by pleasing them and enhance their service incentives. At the same time, it is important also for the new entrants to develop their services to gain and attract new customers, which makes service quality a key differentiating factor.

In addressing the role that service quality plays in Islamic banks and the increased attention paid by Islamic banks executives to service quality and customer satisfaction, Mr. Al-Othman, General Manager of KFH in 2006, stated that 'Successful institutions are those who can create a distinct image for its employees through the service extended to customers'. Since its inception, KFH has adopted this methodology as a tool for enhancing its concept. Since the commencement of the service quality project in 2004, KFH has achieved continuous relative growth in enhancing the concept of quality by developing the staff performance (Al-Othman 2006:1).

KFH's strategy to undertake the concept of service quality required the initiation of a department specialization in this area by identifying the goals of studying customers' needs in the scope of service, and meeting their requirements in order to build a bridge of positive relationship to ensure a loyal customer for KFH. There are several factors that boost responsiveness and interaction between KFH and its customers; these include activating the geographic expansion policy by opening more branches in addition to introducing a set of integrated services in the branch nearest to the customer via the "Comprehensive Branch" concept. In addition, technology utilization has been deepened in all services. KFH provides over 140 online services on its website, which provides the customers with numerous 24/7 banking, commercial and real estate services.

3.4. CONSIDERING ADDITIONAL SERVICE QUALITY DIMENSIONS IN ISLAMIC BANKING: CARTER INSTRUMENT FOR THIS STUDY

In recent years, there has been a rise in the number of studies seeking to develop a service quality instrument for Islamic banks in the developing world, since the service quality concept is a multidimensional construct. The majority of these studies used the SERVQUAL model to measure service quality and customers' satisfaction as a starting point, amending items to reflect the differences between countries and cultures (Abdulrahim, 2010). Only a few studies have applied the CARTER instrument to measure service quality perceptions since its formation by Othman and Owen (2001), among these are (Shafie *et al.*, 2004; Obaid, 2006; Osman *et al.,* 2009; Sadek *et al.* 2010) who took into consideration the compliance dimensions and its constructs as fundamental points in shaping the Islamic principles and cultural aspects.

Bearing in mind that there exist cultural differences between countries, regions, religions, and ethnic groups, it is imperative to consider additional dimensions for service quality, especially in the Islamic banking industry. For instance, neither cultural nor religious influences are defined by the SERVQUAL model. New studies in service quality, which might be based on the original ten or new five dimensions of the SERVQUAL instruments, are recommended to be modified to be suitable for each industry by suggesting or examining new dimensions. This is because of the existence of cultural differences between countries, regions, religions, or ethnic groups which reinforce the importance of building different dimensions.

Taking this into consideration when analysing service quality (Othman and Owen, 2001) developed an instrument called CARTER which is based on 35 items. This is the first approach to including customers' religious beliefs and cultural values among the quality dimensions.   The set of quality dimensions defined for this study is aligning with the research conducted by (Othman and Owen, 2001), where they developed new dimensions related to Islamic banks' internal and external environment and culture. They called this "Compliance with Islamic law" and added it to Parsuraman's (1988) five dimensions, which include items such as "Islamic law and principles", "no interest neither paid nor

taken on saving and loans", "provision of Islamic products and services", "provision of free interest loans" and "provision of profit-sharing investment products".

Hence, the following dimensions (D), namely compliance, assurance, reliability, tangibles, empathy, and responsiveness are combined to define the CARTER model. These dimensions are defined in the following manner:

D1: *Compliance,* which means the ability to comply with Islamic Law and operate under the principles of Islamic banking economy;

D2: *Assurance*, which is the knowledge and courtesy of employees and their ability to convey trust and confidence. It is also includes verbal and written communication between bank staff and customers;

D3: *Reliability*, which is the ability to perform the promised service, dependability and accuracy;

D4: *Tangibles*, which means the appearance of physical facilities, equipment, personnel, and communication materials;

D5: *Empathy*, which means caring, individualized attention provided to the customers by the Islamic bank;

D6: *Responsiveness*, which is the willingness to help customers and provide prompt service.

As discussed above, service quality is multidimensional, and this is perceived as such by customers in Islamic banks along the CARTER dimensions. However, in order to achieve customer satisfaction, it is not enough for Islamic banks to deliver high quality service, but they should successfully shape the customers' expectations as well. In other words, they should establish a quality culture inside the bank.

The contribution of this study, hence, is building on the CARTER and SERVQUAL instruments by introducing three more dimensions, which are considered as vital in the current competitive banking environment. These additional dimensions are: technology, competitiveness, and building a customer-oriented business by reinforcing the customers' voice and opinion.

Hence, the following are the dimensions involved in this study, which bring together customer satisfaction and service encounter because of their positive relationship with the service quality:

Compliance:

1.1 I trust the Islamic Bank I deal with where all the Banking transaction is in accordance with Islamic *Shari'ah* Law;

1.2 I have a confidence in the *Shari'ah* board of the Islamic Bank I deal with, and whom I would expect to be strict in their interpretation of the *Shari'ah.*

1.3 There is a complete separation between the men's section and women's section in the Islamic Bank I deal with;

1.4 *Shari'ah-c*ompliant Contracts in the Islamic Bank I deal with are free from J*ahala* and *Gharar*.

Assurance:

2.1 The employees in the Islamic Bank I deal with have the ability to solve problems promptly;

2.2. There are fast and efficient counter services in the Islamic Bank I deal with;

2.3. The Islamic Bank I deal with is consistent in its dealings regardless of the branch I enter;

2.4. There is a presence of the Islamic Bank I deal in several places such as (Car agents, Malls, Universities, and different exhibitions);

2.5. The employees in the Islamic Bank I deal with offers different types of products and services that I have not tried (cross selling);

2.6. The Islamic bank I deal with provides more ATMs and branches to open up.

Reliability:

3.1. There are an adequate number of employees in the Islamic bank I deal with to provide the promised service to its clients;

3.2. My enquiries to the Islamic Bank I deal with are always answered promptly;

3.3. In the Islamic Bank I deal with, no mistakes are made;

3.4. Cash is always available at the ATM machines in the Islamic Bank I deal with;

3.5. The Islamic Bank I deal with is reliable and has a good financial reputation.

Tangibility:

4.1 In the Islamic Bank I deal with, the size of customer space is large and extended with facilities like seats, videos, and leaflets;

4.2 In the Islamic Bank I deal with, employees are dressed well and formally;

4.3 The Islamic Bank I deal with has an attractive external appearance;

4.4 There are enough parking spaces in the Islamic Bank that I deal with;

4.5 The Islamic Bank I deal with, counter partitions available in its branches to enhance privacy and confidentiality of transactions.

Empathy:

5.1 The employees in the Islamic Bank I deal with understand my needs;

5.2 Employees in the Islamic Bank Ideal with always show signs of recognition and willingness to help;

5.3 Coffee and tea are served in the Islamic Bank I deal with;

5.4 The employees in the Islamic Bank I deal with are competent to provide adequate financial services according to Islamic *Shari'ah* rules.

Responsiveness:

6.1 The employees in the Islamic Bank I deal with are treating their customers equally;

6.2 If errors have been made they are always found and corrected quickly in the Islamic Bank I deal with;

6.3 There is a friendly relationship between employees of the Islamic Bank I deal with and customers.

Technology:

7.1 The Islamic bank I deal with encourages the use of Internet Banking services;

7.2 The website design of the Islamic Bank I deal with is simple, easy to use, and highly secured;

7.3 In the Islamic Bank I deal with self-service facilities are available;

7.4 I am always informed when my business is transacted (by means of text msg., phone calls, email, *etc.*);

7.5 The Islamic Bank I deal with provides drive-through withdrawal services.

Competitiveness:

8.1. The profits that the Islamic Bank I deal with request for financing real estate projects through (*Ijarah*, *Murabaha*, diminishing *Musharakah* and *Istisnaa*) are low;

8.2. The Islamic Bank I deal with offers flexibility and facilities for financing real estate projects;

8.3. The Islamic Bank I deal with offer real estate appraisal and property management with low charges;

8.4. The Islamic Bank I deal with receives a low profit rate when financing customers' needs such as cars, furniture and other commodities according to *Murabaha* contracts;

8.5. The service fees in the Islamic Bank I deal with are reasonable;

8.6. The Islamic Bank I deal with pays a competitive return on Investment deposits in relation to other local banks.

Customer Satisfaction:

9.1. I am satisfied with employees' performance in general.

9.2. I am satisfied with products and services provided by the Islamic Bank I deal with

9.3. The quality of service in the Islamic Bank I deal with is excellent.

9.4, The Islamic bank I deal with considers "Customer Satisfaction" as one of its main priorities.

The CARTER instrument used in this study is a reapplication of an earlier study conducted by Othman and Owen (2002a), with the aim of redefining some of their constructs and adding three new extra dimensions. The new dimensions and constructs were generated from a focus group with branch managers from one of the Islamic banks under study. The study applied the compliance dimension with a slight adjustment from the original constructs as observed in the constructs dimensions earlier, while retaining the first construct (that of the Islamic bank offering products and services in accordance with *Shari'ah* Law). The remaining constructs were transferred to a new dimension

called competitiveness. This was considered for inclusion, since there is now more than one Islamic bank and financial institution in Kuwait offering the same range of products and services, which were offered by KFH exclusively before the new entrants had their footprints in the market. The newly added three constructs are:

(i) I have a confidence in the *Shari'ah* board of the Islamic Bank I deal with, whom I would expect to be strict in their interpretation of the *Shari'ah*;

(ii) 'There is a complete separation between the men's section and the women's section in the Islamic Bank I deal with';

(iii) *Shari'ah*-Compliant Contracts in the Islamic Bank I deal with are free from *Jahala* and *Gharar*.

These have been included due to their importance in shaping customers perception. As far as the first statement regarding the trustworthiness of the *Shari'ah* board in the Islamic banks is concerned, Islamic banks have various mechanisms to ensure *Shari'ah*-compliance in the products and activities of the institution. The first and most obvious body is the *Shari'ah* supervisory board. This body produces judgment or *Fatwas* on products or structures that the bank intends to provide. All Islamic banks and financial institutions offer the same basic products (mainly *Murabaha* and *Ijarah*), but the problem is that each institution has its own group of Islamic scholars on the *Shari'ah* board to approve the products. Consequently, the very same product may have different features and will be subject to different kinds of rules in these institutions. The multiplicity of *Shari'ah* boards and judgments leads to a lack of homogeneity for some products, and a lack of certainty by clients and customers as to whether a product developed in one jurisdiction is *Shari'ah*-compliant in a neighbouring jurisdiction. Even after a new product is put into use, a process of *Shari'ah* auditing of the operation of the financial institution is very important to ensure that the actual practice complies with the requirements of the *Shari'ah*. This is important not only for religious reasons but also for purely business considerations, because the clients of the Islamic banks will not have confidence in their operations unless *Shari'ah* scholars work in transparency as required by Islamic corporate governance. By and large, *Shari'ah* boards have to demonstrate that

they are operating effectively and are taking their responsibilities seriously if clients' confidence has to be won and maintained (Wilson, 2009).

What still remains is the concern over the lack of qualified *Shari'ah* scholars. While there will probably always be some who become experts, and whose opinion is most often sought for, there needs to be a wider pool of names. However, the skill required can only be obtained after many years of study in *Shari'ah* law, and finance, which can be a daunting process. Banks will continue to need people who can monitor *Shari'ah*-compliance in practice and ensure that there is a working system of governance in the institution (Moore, 2009).

The need for more qualified staff is frequently highlighted as being one of the major reasons that Islamic finance has not developed any further or any faster. Conversely, others may argue that Islamic banking has been growing so fast that it has been difficult for banks to find enough skilled or qualified staff. However, there are now a large number of courses and qualifications available worldwide. It is increasingly possible for institutions to send employees on these courses and there are also funds available to pay for students to study for higher degrees.

The fourth statement in the compliance dimension '*Shari'ah*-Compliant Contracts in the Islamic bank I deal with are free from *Jahala* and *Gharar'* appears to be important to the customers. Many customers complain about the length and ambiguity of the contracts, as stated by the branch managers involved in the focus group. However, it is true that the level of standard financial contracts and products can be a cause of ambiguity and a source of dispute and cost. In addition, without a common understanding of certain basic foundations, further development of banking products is hindered. There is no proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as provided by the *Shari'ah* (Karimi, 2006).

It is important to note that the questions pertaining to service quality in this study do not employ GAP analysis based on Parasuraman *et al.* (1988) when measuring the perceptions of customers against their expectations to the quality of service; instead, the

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researcher decided that measurement based on perceptions alone is adequate in this context. Similarly, Othman and Owen (2002a, 2002b) and Othman (2002) did not measure customer service quality in KFH based on the expectations but merely adopted the questions based on perceptions. Hence, the present study adopted Othman and Owen's measurement, which is based on process inputs and overall satisfaction outputs.

3.5. SURVEYING THE EMPIRICAL STUDIES ON SERVICE QUALITY MANAGEMENT IN ISLAMIC BANKING

In a sharp contrast to the voluminous work on consumers' perceptions, patronage and satisfaction with conventional bank services, relatively little research has been undertaken on Islamic banks and financial institutions(Gait and Worthington, 2008). The literature in this section will be arranged chronologically, following on from (Erol and El-Bdour, 1989) study, which is considered to be the first study revealing customers' perceptions and attitudes in Islamic banking. The authors studied the attitudes, behaviour, and patronage factors of 434 Jordanian customers from Islamic and conventional banks in Jordan. The study indicated that religion was not the primary motivation for customers to patronage Islamic banks in Jordan. However, the main findings was that factors such as fast and efficient service, confidentiality, and the bank's reputation and image were the primary selection criteria, regardless of whether the bank was an Islamic or a conventional one. The study also found that bank customers in Jordan were generally aware of Islamic banks' methods of finance and that relative and neighbours played a significant role in the formation of respondents' knowledge of Islamic banking.

In an effort to study the implication of Islamic beliefs and practice on Islamic financial institutions in the United Kingdom, Omer (1992) surveyed three hundred Muslims in the UK about their patronage factors and awareness of Islamic financing methods offered through Islamic banking windows run by conventional banks at that time. The main findings were that a high level of ignorance prevailed among Muslims in the UK concerning Islamic finance principles. This is generally consistent with findings elsewhere in the literature that Muslims living in a nationally Muslim country have greater awareness and knowledge of Islamic banking than immigrant Muslims.

Regardless of their lack of Islamic financing, religious motivation comprised the most significant factor in the preference for Islamic banking services for British Muslims, as evidenced by Omer (1992). By comparison, living in a nationally Muslim country and being fully or partly aware of Islamic financial methods of finance does not guarantee Muslims' preferences for Islamic banking and financial services, as seen in (Erol and El-Bodur, 1989), whose study of Jordanian customers demonstrated that the majority were fully aware of the availability of Islamic finance services, but that religion was still religion not the primary motive for their selection of Islamic banks.

Later on (Haron *et al.,* 1994) highlighted the differences in the patronage of Islamic and conventional banks in their study of three hundred Muslims and non-Muslims in Malaysia, where factor analysis showed that religious motivation was not the primary motive for Muslims in dealing with Islamic banks. The study also revealed that Muslims and non-Muslims have similar perceptions in selecting their preferred bank, with the provision of fast and high quality bank services being the most significant factor for Muslims and non-Muslims alike, as both groups value their time highly and expect their banking transactions to be completed as quickly as possible. For this reason, Islamic banks should not over-emphasize and rely on religious factors as a strategy to attract more customers.

Haron et *al.* (1994) findings also suggested that, while Malaysian Muslims and non-Muslims were aware of the existence of Islamic banks, they were usually uninformed of specific Islamic financing methods. Therefore, efforts should be taken by Islamic banks to market products and services in addition those basic commercial facilities and activities conducted on a daily basis by their customers; otherwise the banks would lose the potential and viable market to other financial institutions such as companies and savings banks, which will be pleased to offer products such as travellers' cheques, personal overdrafts, or personal fixed loans and housing loans.

As a consequence, (Kelley and Davis 1994) suggest that service quality and customer organizational commitment as well as customer satisfaction have a direct effect on service recovery expectations. The customer sees and experiences what is happing during

the co-service. He or she notices any change in the service factory and can hear the staff speaking ill off the customers, or sense lack of motivation in the staff. Customers also interacted with each other, a further incontrollable factor in co-service.

According to Edvardsson *et al.* (1994), the customer often participates directly and actively in the production process as co-producer. Therefore it is important to make sure that service staff and customers can have an effective dialogue, and that their relationship is kept to the forefront of everything that is done; in particular, it must be kept in mind that word of mouth plays a crucial role in forming the expectation of service quality, and that this has been found by many researchers to be the most effective method of communications in business. Its effectiveness results from the direct exchange of comments and information between customers and employees.

In Egypt, Hegazy (1995) used parametric tests and factor analysis to determine how different or similar Islamic and conventional banks' selection attributes are in Egypt by analysing and comparing the demographic variables and selection criteria of four hundred Egyptian customers of Fasial Islamic Bank and the (conventional) Bank of Commerce and Development. His findings showed that most of the Islamic bank customers were Muslims choosing to comply with Islamic law, who ranked the speed of delivering banking services and efficiency at the top of their selection criteria. On the other hand, Bank of Commerce and Development customers included a mixture of Christian and Muslims, who ranked the rates of the offered return highly in their selection criteria. This indicates that the choice of dealing with Islamic banks is partly driven by religious motivations and beliefs and partly by the bank's efficiency to serve their customers with the least possible amount of time, as suggested by Haron *et al*. (1994) and Erol *et al*. (1989).

In an attempt to analyse Muslims bank customers' attitudes towards Islamic banking in a dual-banking system, Metwally (1996) conducted 385 telephone interviews with respondents from three Arab Countries: Kuwait, Saudi Arabia, and Egypt. He found that the most important factor determining attitudes of Muslims towards Islamic banks were religion, convenience, and traditional services. Similarly to Omer (1992), it was

concluded that religion was the primary factor for the choice of an Islamic banking institution. Metwally (1996) also revealed that Muslims within a dual banking system choose their banks for religious reasons. His results also indicated that Islamic banks do not differ from conventional banks in term of staff competence and speed of services.

In Singapore, (Gerrard and Cunningham, 1997) considered attitudes towards Islamic banking, taking into account selected patronage factors by Muslims and non-Muslims, and knowledge of Islamic banking basic terms; at the time of their study, Islamic banks were not yet present in Singapore. The study established that, while a small proportion of Muslims have an awareness of the culture of Islamic banking; non-Muslims have an almost complete lack of awareness of Islamic methods of finance. The study also illustrates that Muslims and non-Muslims differ in their attitudes towards Islamic banks concerning religion and profitability motivations, new branches, and the usefulness of interest-free loans. In assessing their attitudes towards Islamic banking, respondents revealed that religion and profitability are the main factors behind their motivation to deposit monies with an Islamic bank. Many respondents hold the opinion that an increase in the number of branches would lead to a greater use of Islamic financial services. The results of the study indicate that Islamic banks should aim to be as or even more profitable as their conventional counterparts; if an Islamic bank does not generate sufficient profits to enable a distribution to take place in any one year, 66.5% of the non-Muslims respondents indicated that they would withdraw their deposits, while 20.7% of Muslims respondents indicated they would do likewise. As a consequence, an outflow of funds would result if reasonable profits were not made or generated. The study once again illustrates that fast and efficient service and confidentiality were the primary motivation for bank selection as in Haron' *et al.*'s (1994) study on Malaysian bank customers.

Edris and AlMahmmed (1997) investigated the Islamic financial institutions in the Kuwaiti market in an attempt to provide the various parties with more information on their attributes, benefits, usage, behaviour, and preferences. The study indicated that 24% of the sampled respondents were users of Islamic financial services, 48% were users of

the traditional or the conventional financial services, and the remainder (28%) were users of both systems. The study also revealed that the individual consumers in Kuwait market have little knowledge about most of the Islamic financial services and that the most well-known ones are current accounts, savings and investment accounts, or *Murabaha* contracts. The main sources of information among Kuwaiti consumers are word of mouth and public media. The majority of individual customers use one or more of the Islamic financial services provided in Kuwait (52%), whereas (11%) use one or more service abroad – mainly in the UAE, Saudi Arabia, and Egypt. It was found that both Islamic banking practice and the availability of special branches for dealing with women are likely to have a significant influence on the customers' decision process. Furthermore, a preference for dealing with conventional banks was found to be influenced by the availability of international branches, knowing the interest rate in advance, and the variety of multi-purpose loans.

Once again Edris and AlMahmmed (1997) designed a different approach to examine the bank selection criteria among business firm and not among individual consumers. Their study is considered to be the first one that focused on business firms' attitudes towards Islamic banks in a dual banking system. Edris *et al*. (1997) investigate the relative importance of banking services as perceived by Kuwaiti, non-Kuwaiti and joint business firms to identify the key determinants of bank selection decision made by business customers in Kuwait. More than three hundred business customers of commercial, specialized, and Islamic banks in Kuwait were selected. The study found that the majority of business firms deal with commercial banks more than with specialized and Islamic banks. The study indicated also that Islamic banking practices ranked highly among patronage factors and most of the business firms in Kuwait are multiple bank users.

According to Johnston (1997), the challenge for banks wishing to satisfy their customers is to get their staff to demonstrate genuine warmth and empathy to their customers. Conversely, Berry *et al.* (1994) believe that poor service quality is a system design problem, not an employee problem.

Metawa and Almossawi (1998) carried out a profile analysis and non parametric statistical tests of three hundred customers of Islamic banks in Bahrain to illustrate the perspectives and implications of the banking behaviour of Islamic bank. They found that religion and profitability were the most important factors in determining the attitudes of Islamic banks' customers; most Bahraini bank customers were satisfied with the quality of Islamic bank services, especially investment accounts. At the same time, customers were less satisfied with the relatively high cost of more complex Islamic financing schemes. They suggested that contact persons must have adequate motivation and be equipped with the state of art technology in order to serve the customers better. They also recommended the measurement and evaluation of the antecedents that affect the service quality in Islamic banks. For instance, factors such as the availability of credit, professional advice, convenient location, the variety of bank services, the quality of bank services, the availability of ATMs, opening hours, return on investment, the friendliness of the banks' personnel, understanding customers' financial needs, special services for women and the banks' reputation were crucial to customers.

In Jordan, Naser *et al.* (1999) extended the early work by Erol *et al.* (1989) with different findings. They conducted a self-administrated questionnaire-based survey of more than two hundred Jordanian Islamic banks customers. Using a descriptive analysis, they found that the bank's reputation and the customers' religious believes were two of the most important factors motivating the use of Islamic banks services, whereas in Erol *et al.*'s (1989) findings, religion was never considered as the primary motive in dealing with Islamic banks in Jordan. Naser *et al.*'s (1999) study demonstrates that the majority of customers were satisfied with Islamic banks' products and services, and that most of them had a high level of awareness of at least some Islamic methods of finance; a limited number of respondents used Islamic financing methods elsewhere.

In Kuwait, Al-Sultan and Wollongong (1999) considered the socioeconomic demographic factors and reasons for preference or attitudes of almost four hundred customers towards the products and services offered by Kuwait Finance House using factor analysis. Similar to (Metwally, 1996), Al-Sultan and Wollongong (1999) confirmed that devotion and loyalty to their religion was the primary motivating factor

for Kuwaiti dealing with an Islamic bank. Based on Al-Sultan and Wollongong (1999) findings, slightly more than half of the respondents, about 52%, preferred to deal with a conventional bank because of the better service record.

In order to examine the attitudes of business firms towards Islamic banking and finance, Jalaluddin (1999) surveyed three hundred and eighty five small business firms in Sydney about their attitudes towards the profit and loss sharing methods of finance employed by Islamic banking. The results indicated that factors other than religion were relevant, including the degree of risk-sharing relative to the degree of business risk, the cost of borrowing funds from other lenders, and the expected rate of return. Generally, the probability of applying profit and loss sharing schemes was positively correlated with the level of business risk, interest rate, and expected rate of return. A mitigating factor, which acted against the use of such scheme, was the extent of management intervention on a day- to-day basis by the funding body.

Jalaluddin and Metwally (1999) focused on small business firms once again to assess their perceptions towards Islamic profit and sharing method of finance. He found that some sixty percent of the respondents had an interest in profit and loss schemes as an alternative to conventional debt finance, even though the decision makers in those firms were non-Muslims. On the other hand, the lack of knowledge of the terms and conditions of those methods of finance was the primary reason for firms to reject the possibility of using the profit and loss sharing method of finance.

In Malaysia, Hamid and Nordin (2001) focused on the awareness of Malaysian customers concerning Islamic banking. They found that most Malaysians did not differentiate between Islamic and conventional bank products and services, despite the fact that the majority had sufficient knowledge of the existent services offered by Islamic banks in Malaysia. The study illustrated that even though half of respondents dealt with Islamic banks, they were in need of extra understanding of Islamic banking tools.

A study conducted by Othman and Owen (2002) measured customer service quality of Kuwait Finance House (KFH) by applying their CARTER instrument based on the

SERVQUAL model. The researchers believe that it is important for Islamic banks to put cultural differences at the front when adopting service quality; therefore they designed the new CARTER model, which is based on 34 items constructed in six dimensions.

This CARTER model focused on full compliance with Islamic law and principles, assurance, reliability, tangibles, empathy, and responsiveness. The development of the CARTER model is based on previous studies in service quality which intended to build and test the validity of service quality measurement models. They found that the CARTER model showed significant validity for all CARTER items which have appeared as important items in both weight and percentage. The results obtained from this study also revealed that the KFHs' customers evaluate service quality dimensions such as compliance with Islamic *Shari'ah*, assurance and responsiveness as the most important dimensions, while dimensions such as tangibles, reliability, and empathy were rated as the least important. Obviously and undoubtedly religion is still the main and primary motive driving the Kuwaiti consumer to deal with Islamic banks and financial institutions, as had been revealed earlier in Metwally's (1996) and Al-Sultan's (1999) studies. Nonetheless, this motive is not a solid platform; KFH should not take for granted, nor rely on to generate profits and retain their customers or attract new customers. Therefore, Othman *et al*. (2002) stressed on a scenario plan for KFH to adopt service quality, and showed the importance of training to do so.

In a different study (Metwally, 2002) conducted telephone interviews with nearly four hundred bank customers in Qatar in an attempt to analyse the impact of demographic factors on consumers' selection of a particular bank in a dual system. The results suggested that females, the elderly, and public servants preferred to deal with Islamic banks over conventional banks, as did those with relatively low incomes and a moderate level of education. In contrast, conventional bank were favoured by young and well-educated Qatari working professionals, highly paid public servants, and foreign conventional banks were favoured over domestic conventional banks by the relatively well-educated and wealthy.

A study conducted by (Al-Tamimi and Al-Amiri, 2003) to measure and analyse the service quality of two Islamic banks operating in the United Arab Emirates (UAE) used the original SERVQUAL dimensions on a sample of three hundred and fifty of Dubai and Abu Dhabi Islamic bank customers. Their study showed that there was a positive and statically significant relationship between overall service quality and the SERVQUAL dimensions in the UAE Islamic banks, as shown by the linear regression analysis. As the findings revealed, empathy and tangibles were the most important dimensions for the customers of those banks; the study also demonstrated that the duration of the banking relationship, customers' age, and education level had a considerable influence on customer evaluation of service quality.

Jamal and Naser (2003) conducted a survey on the First Woman Bank in Pakistan to shed light on the factors that influence customer satisfaction in the retail banking sector. With a sample of 165 respondents, using factor analysis and correlation matrix, they illustrate that there was a strong relationship between service quality and customer satisfaction. However, there was no relationship between customer satisfaction and the tangibles aspects of service environment.

Zainuddin *et al.* (2004) surveyed Malaysian bank customers to illustrate the different perceptions of users and non-users of Islamic banking products and services. They concluded that most Islamic bank users were older than thirty with a relatively stable family income, whereas most of the non-users were single and below thirty year of age, with low incomes.

To investigate the relationship between university students' knowledge of relevant financial concepts and terms in conventional and Islamic banking and the impact of religion and language on preferences for financial services, a study was conducted by Bely and Kuehn (2004) who surveyed business students' knowledge of financial aspects of Islamic and conventional banks in the United Arab Emirates. The sample included a relatively high proportion of students being knowledgeable of general financial practice and comprised students of both an Arabic and non-Arabic Muslim background. The major findings was that the personal banking preferences are largely based on students'

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level of religious sincerity, meaning that Muslim students preferred Islamic banking services because of religious motivations. Non-Arabic Muslim students had a higher level of knowledge of conventional banking. Conventional finance knowledge was the highest for those students with poor to no Arabic language fluency who majored in finance. The level of Islamic finance knowledge was generally the highest among male Muslim students with a high level of Arabic fluency. The study here supported other studies which found that a primary reason for choosing Islamic financial services and products is religious in nature and not based on any specific understanding of products those selves.

Concerning the main problems and challenges confronting Islamic banking in the UK, Karbhari *et al*. (2004), used a focused interview with six executives across four Islamic financial institutions in London. The study illustrated that all respondents were convinced about involving Islamic banks products and services in conventional banks to promote Islamic banking and to improve customers' understanding of these new services. Most respondents replied that UK Muslims were generally unaware of Islamic banking.

Sadek *et al.* (2010) conducted a study to compare the customers' perceptions and expectations of service quality of both the Islamic Bank of Britain (IBB) and the Cooperative bank (CB) using the CARTER model. In the case of IBB, compliance issues were given a high priority ranking; however, the CB customers gave a lower ranking for the most of compliance items. Responsiveness items were more valued by CB customers than IBB in terms of service quality. The study also found that there is a similarity in the lower-ranking factors chosen by the respondents of both banks, such as parking availability and number of branches

Another study conducted by Okumus (2005) on customer satisfaction with interest-free banking and bank selection criteria in Turkey. The researcher used a descriptive analysis technique on more than one hundred and fifty Islamic bank customers in Turkey. The analysis focused on the degree of satisfaction and awareness of customers dealing with a special finance house offering Islamic banking products and services. Again the most important finding was that the majority of the customers responded that religion was the primary motivation in the use of Islamic products, just as concluded by Omer (1992),

Metwally (1996), Metawa and AlMossawi (1998), AlSultan (1999), and Bley and Kuehan (2004). Okumus' (2005) study also revealed that most customers were aware of basic Islamic products and services, but there was a lack of knowledge of the more advanced Islamic financing facilities. Overall, 90% of respondents were satisfied with the services and products offered by Islamic banks.

Dusuki and Abdullah (2007) drew attention to the demographic characteristics and bank selection criteria within two Islamic banks operating in Malaysia. The selection of Islamic banks appears to be predominantly a combination of Islamic and financial reputation and quality of services offered by the bank, other factors reveals to be important as well, such as good social responsibility practices, convenience and product price. The researchers suggested that there is a vital need to intensify public education and awareness towards the distinctive characteristics of Islamic banks.

Obaid (2006) investigated and measured the perceived service quality in three Islamic banks in the UAE, namely Abu Dhabi Bank, Dubai Islamic Bank and Sharjah Islamic Bank, using CARTER dimensions to analyse Islamic banking variables such as return on investment, competitive service fees, and financing compliance with Islamic *Shari'ah*, and other independent variables (*Riba*, customers awareness and demographic factors). The study illustrated that the CARTER model proved to be reliable and viable to measure the perceived service quality in Islamic banks, and proved that the level of customers' familiarity with Islamic banks' services and Islamic banking variables has a significant effect on customers' perception of the service quality offered by the UAE Islamic banks. The study also proved that reliability, tangibles, and assurance have extreme importance over the remaining dimensions. The study demonstrated that the distinction of providing high quality banking services will result in achieving high profitability, customer loyalty, and steady growth.

Amin and Isa (2008) examined the relationship between service quality perception and customer satisfaction in Malaysian Islamic banking and found that the relationship between service quality and customer satisfaction was significant. Their study applied the

CARTER model to measure the perceptions of Malaysian Islamic banks' retail customers and found that the level of satisfaction is significant. The results of this study support the works of Othman and Owen (2002a, 2002b).

Abdullah and Kassim (2009) investigated the service quality dimensions of Islamic banking services. Data were obtained via a cross-sectional survey involving a sample of 163 Islamic bank customers in Doha. The findings indicated that two service quality dimensions, human skills and empathy, were both indirectly related to retention via satisfaction.

Osman *et al*. (2009) identified the relative significant criteria in selecting an Islamic bank, in which choices are adopted from the CARTER model to investigate service quality and customer satisfaction between full-fledged Islamic banks and conventional banks offering Islamic banking services in Malaysia. The study revealed that Bank Islam Malaysia Berhad (BIMB) was ranked top under the compliance attribute. It is not surprising as the bank carries the word 'Islam' in its name; as such it is expected to perform and operate fully under Islamic principles. However, for assurance, it was ranked as fifth, which is indeed poor and implies low scores for the knowledge and the courtesy of the employees and their ability to convey trust and confidence. For attributes, reliability, tangibles, and responsiveness, the respondents ranked the services rendered by (BIMB) as dissatisfactory. It could be inferred that the (BIMB) has taken little effort to improve their services, knowing that customers will still come to their bank because Muslim customers, in particular, are looking primarily at the compliance factor. As for attributes such as reliability, empathy, responsiveness, and assurance, respondents ranked Citibank Berhard as a top provider; this indicates that Citibank Berhad has been doing very well in order to satisfy its customers.

In their study to assess the dominant factors in the modified SERVQUAL model in Malaysia, Kumar *et al*. (2010) reveal that the expectations regarding competence and convenience are significantly different between Islamic and conventional banks, whereas the perceptions of tangibility and convenience are found to be significantly different between these two types of banks. The application of the dominance analysis in the

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SERVQUAL model indicates that the difference between the two types of banks is in terms of degree and not pattern. Competence and convenience are found to be the relatively more dominating factors in both types of banks. These two dimensions together can help to reduce the overall service quality gap to 72% in case of conventional bank and 85% in Islamic bank.

Abdullrahim (2010) developed service quality measurement scale suitable for English Islamic banks aiming to measure their service quality in England. Using the EIBSQ model, the study indicated that in England, compliance with *Shari'ah* law is not sufficient to ensure good service quality, as English Muslim customers rate responsiveness as the most important dimension. EIBSQ showed that a significant factor of customer dissatisfaction was found to be credibility, which relates to *Shari'ah* law and customer security and confidentiality. This is in line with Naser *et al*. (1999), who reported that customers in Jordan rely heavily on criteria like confidentiality when choosing a bank. Responsiveness was the second dimension given as a reason for customer dissatisfaction with EIBSQ; in this case, the main reason for the gap was found to be related to the knowledge of the employees. Karbhari *et al.* (2004) argued that Islamic banking in the UK is facing problems in recruiting professional staff not only in technical banking but also in awareness of the basic principles and ultimate goals of Islamic banking.

3.6. CONCLUSION

This chapter intended to provide a survey of Islamic banking principles with the objective of rationalizing why service quality is important in the Islamic banking sector. In addition, this chapter also aimed at demonstrating the rationale for modifying the existing service quality evaluation model in responding to cultural and religious dimensions of Islamic banking, which is not a concern in the existing models developed for the cases of conventional banking.

As the discussion in the preceding section indicates, this research has adopted SERVQUAL and CARTER models to develop a modified service quality instrument to measure customer perceptions of service quality in Kuwaiti Islamic banks. Overall, a

number of studies in the banking and financial services quality, mainly from the Islamic banking sector, have been reviewed and analysed in order to develop a proper service quality model and select attributes used to build up the questionnaire items that were used in this study.

It has become clear that both service quality dimensions and their constructs are subject to change from one study to another; often, the name of the dimension, the number of the dimensions, the rank of each dimension, the name of items or constructs that are included under each dimension, or the number of constructs under each dimension are different from one study to another.

The findings of this chapter, together with the surveyed literature for conventional banks in the previous chapter, illustrate that, whether they are Islamic or conventional bank customers, private or public bank customers, individual or business bank customers, service quality with all its different dimensions plays an important role in selecting their preferred bank. Previously, religious motivation was considered to be the main factor and driver for selecting an Islamic bank among Muslims, yet compliance with Islamic principles is no longer sufficient for attracting customers in the absence of good service quality. It is true that Islamic bank customers, for instance, give more importance for religious factors in selecting their bank, yet business firm customers turn to banks with better services and finance facilities.

Overall, it is obvious from most of the empirical studies presented in this chapter that relying and depending on religion only will never sustain any Islamic bank growth in the long run. Focused attention on product and service quality improvement, marketing mix efficiencies, and customer satisfaction measurements are the best ways to obtain profitable growth. Generally speaking, without any doubt, marketing strategies that focus on customer satisfaction cannot be developed effectively and efficiently without depicting customer' motives for choosing a specific banking institution. Such insight into bank selection process can help to improve the quality of banking services presented and in turn ensure customer satisfaction.

Chapter 4

KUWAIT BANKING INDUSTRY DEVELOPMENT

4.1. INTRODUCTION

This chapter offers a review of Kuwait's Islamic banking sector in particular, and the country's banking and financial structure in general, the role of the Kuwait Central Bank, and, above all, the liberalization and deregulation policies which were introduced as a result of the Central Bank Law amendment in 2003 concerning Islamic banks. The chapter begins with a summary of the country's geographic, economic, and demographic background. A historical overview of the development of Kuwait's banking industry and the main obstacles faced by it are briefly discussed; at the same time the chapter covers the last economic boom and financial surplus and how this helps the country in navigating the recent international financial crisis. The chapter highlights two types of obstacles currently facing Kuwait and its financial sector: self-generated obstacles, which are directly emanating from the banking and financial sector, and across-the-board obstacles faced by the national economy in general, which impact on the performance of the banking and financial sector.

4.2. OVERVIEW OF THE ECONOMY AND HISTORY OF THE KUWAITI BANKING INDUSTRY

Kuwait is a small constitutional State (17.818 sq km) at the top of the coast of the Arabian Gulf, flanked by large and powerful neighbours, Saudi Arabia to the south and southwest, Iraq to the north and the northwest and Iran to the east across the Arabian Gulf. Data published by the Public Authority for Civil Information (PACI) shows that Kuwait's total population stood at 3.44 million at the end of June 2009. Just under a third of the population is made up of Kuwaiti nationals (NBK, 2010).

Petroleum accounts for nearly half of Kuwait Gross Domestic Product (GDP), 95% of export revenues, and 80% of the government income. Kuwait has the fourth largest proven reserves of crude oil in the world and is among the world's largest oil producers (Doing Business in Kuwait /NBK Report, 2010). The oil wealth typically enables the state to run a fiscal surplus; the budget surplus for 2007-2008 (ending March 2008) rose 59% to KD11.4 billion ($42.6bn) before the allocation of 10% of revenues to the reserve fund for future generations (NBK, 2010). Even in the middle of the financial crisis, Kuwait managed well, thanks to a surplus from previous years and a financial boom where the oil prices continue to rise and reached $170 in 2008. The government successfully used the boom years to invest heavily in infrastructure projects and will continue to do so with the country's development plan. According to Al-Saka (2009) the Kuwaiti oil reserves are estimated to last for no more than 150 years at the present level of extraction.

Kuwait's GDP stood at KD 39.79 billion (USD 148 billion) in 2008. Nominal GDP rose 22% in 2008, boosted largely by a rapid increase in the oil price. Non-oil output rose to KD 14.8 billion (USD 55 billion), growing at a rate of 3.5% in 2008. As such, and with relatively underdeveloped non-oil sectors, Kuwait is highly vulnerable to exogenous shocks, especially in relation to world oil prices. The heavy reliance on oil outputs has meant that economic performance has depended on changes in oil price, which have often been quite volatile. However, government policy has ensured that this volatility does not result in large changes in activity in the non-oil sectors and in household income. Even when revenues from oil have declined during the financial crisis, government spending has continued to grow. This has been possible due to the vast foreign reserves accumulated by the government over the years, which allow for the financing of a substantial deficit without having to incur any debt.

The government has attempted to address the economy's dependence on oil revenue by promoting investments in other sectors. As result of the over-dependence on oil and the public sectors, it was difficult to develop many profitable investment opportunities outside the limited scope of real estate, trade, and stock market activities. This has

translated into the concentration of bank lending into consumer loans, real estate, construction, and trade finance at the expense of lending to the industrial sector.

The greatest government success to reduce its dependency on oil was its strategy to increase investment in downstream oil industries, including refining and petrochemical production. Another strategy to diversify the economy has been to promote the role of the private sector, especially through the privatization of the public sector enterprises and BOT projects (Building, Operating and Transfer). During the last 15 years, the government has successfully sold off interest in many commercial companies, in sectors such as telecom, investment, business services, and banking. The government has also promoted the role of the foreign investment in diversifying the economy. A foreign direct investment was enacted in 2001, allowing for 100% ownership of business for the first time.

However, according to Al-Omar (2003), the Kuwaiti economy still lacks the level of diversification that would seriously enable the country to reduce its dependency on the oil sector; there are no clear and specific plans to guide the country through the anticipated non-oil future.

The Kuwaiti government is heavily promoting the banking and financial sector. It is noticeable that during the past couple of years, the banking sector in Kuwait experienced remarkable development and growth. Advanced IT applications and communication technology, together with banking deregulation, have altered the way banking is conducted. Not to mention, that features like the average net profit, the level of education of the local employees, employees' experience, and serving customers through the internet were some of the main strengths of Kuwaiti banks when compared with other GCC countries (KIBS, 2002).

Hence, Kuwait banks in general have some advantages over the regional banks in GCC. Table 4.1 illustrates the ranking of Kuwaiti banks both regionally and internationally. The National Bank of Kuwait (NBK), the leading domestic bank in the country maintain its

number one position since its ascertain, and is ranked the largest in the state in term of assets, deposits, loans, net profit and equity.

Table 4.1.The Ranking of Kuwaiti Banks

Bank	Assets $ Billion	Rank Country	Rank Arab	Rank World
NBK	43,380	1	7	245
KFH	38,203	2	11	708
CBK	15,604	3	30	479
Burgan	14,178	4	33	501
Al-Ahli	10,847	5	39	589
BKME	8,105	6	47	-
KIB	3,472	7	78	926
Boubyan	2,732	8	82	952

Source: The Banker (July, 2009) * No available data for Gulf Bank in the mentioned source.

NBK opened for business in 1952, ending a decade's monopoly for the British Bank of the Middle East (previously known as Imperial Bank of Iran), which, despite what its name might suggest, was wholly British owned. It was the first modern Bank which opened for business in Kuwait on 28 February 1942. The bank's operational headquarters were in Tehran, with most of its staff being Iranian nationals, along with British mangers. The bank decided to concentrate its expansion in the Arabian Gulf after it changed its name to the 'British Bank of The Middle East' because of the criticisms and disapproval they had faced in their operational headquarters in Tehran during the war (Wilson and Presley, 1991).

NBK took over much of the central banking functions of the British Bank of the Middle East and surpassed it in terms of local deposits in the mid-1950s (Wilson and Presley, 1991). In 1960, two more banks were established, the Commercial Bank of Kuwait and the Gulf Bank, both of which are owned by local private interest. By 1967, Kuwait was well established as major oil exporter, which facilitated the formation of Al-Ahli Bank of Kuwait.

Following the 1970 legislation which required that all Kuwaiti Banks should be under majority local ownership, the British Bank of the Middle East sold its entire equity to Kuwaiti interest with the government taking 49%. By 1971, the British Bank of the Middle East became known as the Bank of Kuwait and the Middle East.

After the mid-1970s a kind of competition took place among the local banks with the formation of Burgan Bank and Kuwait Finance House in 1975 and 1977, respectively, after the oil price boom of 1973-1974.

4.3. DEVELOPMENTS IN THE MODERN BANKING STRUCTURE AND THE ECONOMY

The local banking sector in Kuwait is currently limited to five commercial banks in addition to the Central Bank, namely National Bank of Kuwait, Gulf Bank (GB), Burgan Bank, Commercial Bank of Kuwait and Al-Ahli Bank of Kuwait; in addition, four Islamic banks, namely Kuwait Finance House, Boubyan Bank, Kuwait International Bank, and Ahli United Bank operate in the country, as well as one specialized bank (the Industrial bank of Kuwait). Appendix 1 depicts, the banking and financial structure in Kuwait and showed that the number of Islamic banks exceeds the conventional banks.

The banking sector in Kuwait is fairly concentrated. The National Bank of Kuwait (NBK) is more than twice the size of the next largest conventional bank (Gulf Bank) in terms of assets and deposits, compared to conventional banks. Over the past years, these two banks had the best record in terms of profitability and financial positions, before Gulf Bank was hit by the financial crisis in October 2008. When considering the Islamic counterparts, both NBK and Kuwait Finance House (KFH) dominate the banking sector. The two banks jointly hold 47% of the sector's assets and 55% of private sector deposits.

Although the retail banking sector has been dominated for a generation by NBK and KFH, there are signs of competition in this sector and signs that other institutions are trying to cast off their inferiority complex and will present the toughest challenges to NBK's and KFH's pre-eminence for years. At present, all the banks, without exception, are developing more competitive products and services, including internet banking and Islamic banking. Islamic banks, which until now have been dominated by KFH, are expected to be more competitive as well with a growing number of investors looking to place their money in Islamic banks.

One of the main features of Kuwaiti banks is the mixed nature of ownership. Except for National Bank of Kuwait, which is almost entirely owned by the private sector, the government is a shareholder of varying percentages in the remainder of the banks. The government's percentage in NBK is 1.67%, Commercial Bank and Al-Ahli Bank share the same percentage 8.50%, Gulf Bank stands at 17.60%, Burgan Bank at 60.99%, Kuwait and Middle East Bank at 58.80%, Kuwait Finance House at 32.58%, Boubyan Bank at 33.68% and finally Kuwait International Bank stands at 1.6% after converting to Islamic bank.

Table 4.2 Local Commercial, Islamic, and Specialized banks operating in Kuwait

	Bank	Incorporation Year	Government Ownership	Bank Type	Local Branches
1	NBK	1952	1.67%	Commercial	74
2	CBK	1960	8.50%	Commercial	52
3	GB	1960	17.60%	Commercial	51
4	Al-Ahli Bank	1967	8.50%	Commercial	25
5	BKME	1971	58%	Commercial	31
6	KIB	1973	1.6%	Islamic	13
7	Industrial Bank of Kuwait	1974	43.8%	Specialized	1
8	Burgan Bank	1976	60.99%	Commercial	24
9	KFH	1977	32%	Islamic	51
10	Boubyan Bank	2004	33%	Islamic	19
11	Warba Bank	2010		Islamic	-

BKME % is before its conversion to Islamic bank and named 'Ahli United Bank'.

Thus, although the majority of the banks are privately owned, the role of the public sector remains substantial. Whether through equity participation in several banks or through a number of government-owned specialized credit institutions that provide financing to public and private sector enterprises at subsidized rates, the public enterprises continue to have a prominent role in the banking industry in Kuwait.

The Kuwaiti government has always been involved in shaping and regulating its banking system and ensured the soundness of the banks and the safety of deposits, and has also intervened to assist banks during crises. Government financial support has been provided to the banking sector to overcome the crash of 'Souk Al-Manakh' in 1982 and the

difficult debt problems caused by the Iraqi invasion in 1990. More recently, the government launched the deposit guarantee scheme as a response to the international financial crisis. Not long ago protection from foreign competition has also been provided by the government. Foreign banks were not authorized to own financial institutions or operate in the local financial market.

The lack of business diversity, coupled with excess liquidity resulting from substantial oil export windfalls, has generated many speculative bubbles. The stock market crash Souk Al-Manakh in 1982, which was the result of the bursting of one of the worst speculative bubbles in the history of Kuwait, has left the banking sector with a crippling portfolio of non-performing loans. The situation of the banking sector has worsened following the invasion of Kuwait by the Iraqi regime. The government then intervened to bail out the financial system through the 'Difficult Debt Settlement Program'. Under this scheme, non-performing loans were swapped for government debt bonds with maturities ranging from ten to twenty years. In 1990, Kuwait's infrastructure was left in bad shape and had to be rebuilt: the expenses of the Iraqi invasion and post-war reconstruction placed a heavy economic burden on the country.

Oil exports stopped for a time, yet the country earned more from its foreign investments. Kuwait's foreign investments come from a fund that is based upon 10% of oil reserves, but by the mid-1990s Kuwait had resumed its pre-invasion prosperity. These events and crises were accompanied by substantial fluctuations in world oil prices, which reflected negatively on the general economic performance, and consequently on the performance of the banking and financial sector.

Such challenges are likely affecting the bank's ability to grow and operate within a more competitive environment. Subsequently, the Kuwaiti economy continues to rely on oil as its major driving force. In addition, its public sector dominates the economic landscape in terms of ownership and management of most of its activities. Even the performance of the private sector and non-oil related activities are linked to government intervention in terms of subsidized loans and input prices, equity injection, bailouts, and preferences in government procurements. In addition, the political scene is also full of conflicts

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between the government and the parliament, which consequently affect the country's development.

Nonetheless, deregulation and new regulations by the Central Bank of Kuwait (CBK) helped to renovate Kuwait's banking sector from a highly protected and closed sector into an increasingly open, developed, and dynamic player in the Kuwaiti economy. In addition, the strong performance of the oil-based economy which generates cash flows and enables the upgrading of investments opportunities in the country, especially after the collapse of Sadam Hussein's regime, gives strong confidence in the region for the prospect of economic re-evaluation. Kuwait, for instance, is undergoing a broader economic reform programme developed by the government to stimulate growth and liberalize its economy in a way that is consistent with the objectives of the World Trade Organization (WTO), which Kuwait joined in 1995.

Being a member of the WTO obliged Kuwait to re-evaluate its banking sector structure and to strengthen its position to compete effectively with international banks. As stated in The Banker (2002), the fragmented banking sector in the GCC region will be unable to put up a good fight when markets eventually open up. Yet, and as suggested by Al-Muharrami (2007), minimizing cost, pursuing potential scale efficiencies, and achieving given output levels more efficiently are all likely to become issues of highest concern for the GCC banking industry, which will face potentially fierce competition.

Being highly dependent on the oil export revenues did not prevent the banking sector from greatly benefitting from the recent oil boom. The economy doubled between 2003 and 2006, with the business and consumer sector having abundant cash, and credit quality reaching record highs. Ever-increasing assets prices and a number of large-scale developments in construction have kept the demand for project financing strong and have boosted returns on the equity market and corporate sector investments. As a result, the banks' profitability reached record levels in 2007, with profit growth averaging 30% per year between 2004 and 2006. This has caused some concern for authorities who are keen to keep a cap on credit growth. Despite this, Kuwait maintains its reputation as having

one of the most accomplished and well-managed banking sectors in the region. As Sheikh Salem Al-Sabah, Governor of the CBK, stated:

> "in the past few years, Kuwait's economic performance has been exceptionally good: record oil revenues, rising gross domestic product, widening budget and current account surpluses, and low inflation have combined to secure an economic boom that is expected to continue in the foreseeable future; however, these strong indicators are mostly outcomes of external forces and facing the long-standing challenges, such as economic diversification and employment generation". (The Banker, June 2006:1)

With the economic boom that Kuwait experienced in the last few years, the banking sector excelled due to high oil prices, strong equity and real estate markets. In addition, Kuwait received large United Nations Compensation Commission (UNCC) payments for the first Gulf war. A large amount of extra government funds have entered the banking sector through direct government deposits. The strong interest in the local equity and real estate market produced a strong demand to borrow funds after the fall of Saddam Hussein and country's risk dropped. In view of that, lending for real estate and construction grew during 2003 and 2004 by 17.9% and 12.6%, respectively (NBK Equity Research, 2005).

Because of this economic boom, which guaranteed fiscal surpluses over the past years, Kuwait was not tragically affected by the international financial crisis. While the world economy recovers in the aftermath of its most serious crisis since the 1930s, Kuwait and the Gulf region are in a very interesting place indeed. Kuwait in particular was affected relatively mildly by the world crisis, thanks to vast financial resources accumulated over the years, and thanks to prudent economic practices that left it largely free of major excesses. To confront the impact of the international financial crisis on the domestic banking system and the financial market, CBK adopted a full package of processes since October 2008, which includes the injection of liquidity in the banking system. In November 2008 the Bank Deposit Guarantee Law was issued, a response move, especially after the Gulf Bank (GB) disclosed a $1billion loss stemming from bad foreign exchange bets. In an attempt to keep the GB from collapsing, the government took a 16% stake in the bank, and, finally, the CBK drafted the Financial Stability Law that was issued by Decree in March 2009.

Growth momentum is likely to be sustained by an investment boom that reflects a rising confidence in the economy's future prospects: private capital outflows that have typically gone overseas slowed down. Kuwaiti investors, like many other Gulf investors, were biased to look at local and regional investment opportunities; the picture now is changing, especially after the international financial crisis, which makes them unwilling to expose their investments abroad in foreign markets and reconsider heavily investing regionally.

Kuwait is currently on its way to implementing mega projects: the Parliament passed a $104 billion four-year development plan in February 2010 – the first for decades proposed by the government. Such a development plan, along with the prospect of a healthy economic atmosphere, will definitely help with spending in various sectors of the economy over the next five years, as planned. This would include projects in the oil and gas sector, energy and several infrastructure projects, and real estate, as well as an investing in SILK CITY, the largest real estate development project in the region. Not to mention that the Kuwaiti government is vying to become a regional financial and trade centre, and that government has embarked on an ambitious 5-year plan to reach this goal. The vision exists for a financial centre that will have internationally recognized financial institutions providing world-class financial services and serving the needs of the broader Middle East region.

According to the CBK Governor (2010), Kuwaiti local banks are capable of meeting the demands and challenge of the State's five-year plan and of financing the States' projects involved. The Governor stated: 'we have no doubt that the banks are well up to the task of financing State projects and meeting demands through execution. Mega projects, of course, require several years to complete, and this allow a good time for the banks to adjust'. It is usually the case for companies and bodies executing such projects to seek bank funding until the government pays up, which in turn provides an opportunity for the banks to make profit (KUNA).

4.4. KUWAITI BANKING LAW

4.4.1. Kuwait Central Bank Law 32/1968

The CBK is the government's sole agent for control over the country's monetary policy and for supervising the commercial banks and investment companies; it also the channels relations with international financial institutions, functions as a banker for the government and all other banks, and prints and issues the currency.

The role of the government is to ensure that financial institutions and banks serve their functions efficiently. This role of the government is being performed by the Kuwaiti Central Bank's regulatory and supervisory functions in order to enhance the solvency and the stability of their banking sector. The CBK is responsible for regulating the activities of commercial banks and other financial institutions in the country. The objectives of the CBK, according to its establishment law of 32/1968, are as follows:

i. to issue the national currency 'Kuwaiti Dinar' on behalf of the State of Kuwait and maintain its stability and convertibility to other currencies,
ii. to supervise the banking sector to maintain financial soundness,
iii. to direct an effective credit policy that assists economic and social progress,
iv. assist and enhance the growth of the national income in the country,
v. to serve as a banker and financial adviser to the government,
vi. and to control the banking system.

The CBK conducts these objectives by setting reserve requirements, the discount rate, loan fees, and exchange rates, and by controlling interest rates and changing the money supply to assure price stability through open market operation as shown in Table 4.3.

The CBK now seeks greater openness and global integration, aiming thereby to, first, promote the spirit of competition, which will raise the efficiency of the banking and financial institutions operating in the domestic market in delivering their principal function, namely the extension of financial intermediation services to savers and investors, which leads to the allocation of financial and economic resources to the

society; secondly, makes an appropriate environment to the establishment of the regional financial centre, which would strengthen the elements of sustainable economic growth and further diversify the sources of national income.

In January 2004, The National Assembly approved an amendment to the 1968 Banking Law, thereby permitting foreign banks to set up operations in Kuwait. The government has been more serious in promoting the role of foreign investment in diversifying the economy. The foreign direct investment law was enacted in 2001, allowing for 100% ownership of business for the first time. Foreign investment were also allowed to own shares of domestic companies listed on the local stock exchange market with a new portfolio investment law introduced in 2000. Accordingly, eight foreign banks commence to conduct their activities in Kuwait.

However, and according to EIU (2004a), the implications of this legislation should not be overstated, given that it restricts foreign banks to one branch only and requires that half of the workforce is to be composed of Kuwaiti nationals for a period of three years. Furthermore, new foreign entrants are unlikely to want to compete in the traditional banking areas in which competition is already fierce; they are instead more likely to focus on areas such as asset management.

At the same time, the CBK issued new licenses to Islamic banks section 10/2003 after The National Assembly enacted the initial CBK draft law No.32 of 1968 concerning currency, the CBK, and the organization of banking business. The legislation enabled the CBK to bring Islamic banking, which had not been regulated for years until then, into its supervisory fold. It also allows CBK to formally develop its supervisory framework concerning Islamic best practice and standards for conventional finance, with adaptations to suit the Islamic finance business.

Table 4.3. Kuwait Central Bank Law 32/1968

Chapter I Currency	Chapter II Central Bank of Kuwait	Chapter III Organization of Banking Business
Section 1 Unit of Currency and Par Value. Section 2 Notes and Coins. Section 3 Withdrawal of Notes and Coins. Section 4 Currency Cover.	Section 1 Establishment of the Central Bank. Section 2 Central Bank. Section 3 Capital and Reserves. Section 4 Management. Section 5 Operations of the Central Bank. Section 6 Accounts and Statements.	Section 1 Establishment of Banks. Section 2 Registration of Banks. Section 3 Deletion from Register and Liquidation of Banks. Section 4 Activities Not to be Undertaken by Banks. Section 5 Supervision. Section 6 Specialized Banks. Section 7 Inspection of Banks and Institutions subject to Supervision by the Central Banks. Section 8 Accounts and Statements. Section 9 Administrative Penalties. **Section 10** Islamic Banks.

Source: Central Bank of Kuwait

4.4.1.1. Towards Financial Liberalization in the State of Kuwait

The law strengthens the ability of CBK to carry out consolidated supervision by allowing it to exchange data and information with supervisory authorities abroad and to inspect external branches and subsidiaries of Kuwaiti banks. It imposes limits on the ownership concentration in Kuwaiti banks by setting the maximum ratio of any individual ownership (direct or indirect) in a bank at 5% of the bank's capital, unless prior permission is obtained from CBK.

The Law also eliminates the legal restrictions concerning the entry of the foreign banks into the local market that existed prior to this Law, and which required participation of Kuwaiti government or Kuwaiti banking and financial institutions in the capital of these foreign banks. This elimination conforms to the liberalization of financial services within the context of the General Agreement on Trade in Services (GATS).

The CBK Governor stated that:

> "The issuance of law amendments represents an important stride toward enhancement of banking regulation in Kuwait to conform to international developments in the field of banking supervision on one hand, and the liberalization of financial services within the context of the (GATS) and the (WTO) on the other hand." (Sheikh Salem Abdulaziz Al-Sabah, 2004:1)

To reinforce the capital base of local banks in the face of competition from international banks, the minimum capital of banks has been raised to seventy five million Kuwaiti dinars, and the minimum capital for a branch of a foreign bank has been raised from three million to fifteen million dinars. To achieve the desired discipline in the local market, the Law prohibits any entity, other than banks and investment companies registered with CBK, from receiving funds from others for investment, while it increases the penalty on violation of this provision and on banking practiced by entities other than banks registered with CBK to a maximum of two years of imprisonment and one hundred thousand Kuwaiti dinars in fines.

Most recently, CBK Board of Directors, agreed to license Muscat Bank of the Sultanate Oman to open a branch in the State of Kuwait. This is the fifth such approval extended to a national bank of a Gulf Cooperation Council Country to open a branch in the state of Kuwait since the recent amendment of the CBK Law which removed the restriction on the entry of foreign banks in the local market.

Prior to this instance, four licenses were extended to branches of each the National Bank of Abu Dhabi, the National Bank of Qatar, the Doha Bank, and Al-Rajhi Bank. Two of the branches have already been registered in the Banks' Register of CBK and are now fully operational in the state of Kuwait. These are the National Bank of Abu Dhabi and National Bank of Qatar. It may be noted that the CBK Board of Directors also approved

licensing branches of three international banks: BNP Paribas, HSBC, and Citibank, which started its operations in 2005 and 2006.

The presence of foreign banks in Kuwait would lead to the expansion of the banking system and reinforce competition that would in turn lead to the development of the banking business in the interest of banks, customers, and the national economy; this, in turn, will have a positive impact on the quality of the services offered. In addition, the presence of foreign bank branches will result in diversification of the banking system units and enhance the basis for developing the State of Kuwait into a financial centre by strengthening the country's financial and trade relations with the outside world, and opening new and diversified investment horizons for the private sector, including the area of wealth management (The Banker, June 2006).

4.4.1.2. Towards More Developments and Integrations of Islamic Banks

The licensing policy aimed at allowing three Islamic banks (including KFH) to operate in the first stage in order to promote a competitive environment for Islamic banking in the local market, avoid any negative repercussions of having too many Islamic banks operating at this early stage, allow time for developing indigenous expertise in Islamic banking that would satisfy the demand on skilled workforce in the next stage, and allow CBK to test , evaluate and, if necessary, adjust its supervisory policies and instructions regarding Islamic banking. The registration of Kuwait International Bank (KIB) in the Islamic Banks' Register at the CBK, along with the Kuwait Finance House and Boubyan Bank, enhanced the experience of implementing the law concerning Islamic banks in the State of Kuwait.

The law ensures regulations of both existing and future Islamic banking business on sound bases that take into account not only the special characteristics of Islamic banks entrusted to CBK, which shall carry out this supervision in the context of achieving its objectives and discharging its responsibilities in the area of both managing monetary and credit politics and supervision over units of the local banking system. The law allows local conventional banks to practice Islamic banking activities through affiliates in which the principal bank owns at least 51% of the capital, and that each bank is allowed to

establish one affiliate that has only one headquarters with a capital of not less than KD 15 million (1 KWD=USD 3.6026).

The law also allows existing local banks to convert into Islamic banks in accordance with terms and conditions set forth by CBK Board of Directors. It also provides for Islamic banks to engage in direct investment according to CBK conditions. In addition, it allows CBK to introduce Islamic instruments to deal with Islamic banks in order to regulate banking liquidity. (For more details about the Law amendments see Appendix).

Initially, CBK was cautious in expanding the Islamic banking scene until it was assured of the success of the implementation of the Islamic law 30/2003. The picture now is changing in that the number of Islamic banks operating in Kuwait has risen from three to six. Three new entrants, Al-Rajhi Bank, Al-Ahli United Bank, and, just recently, Warba Bank registered with CBK on the 'operating Islamic banks' list, and have become operational as of April 2010. The registration is carried out in accordance with the provisions of Law No.32/1986, amended by Law No.30/2003 by adding a special section on Islamic banks to the third section of the mentioned Law. Warba is the sixth bank registered in CBK's Islamic bank register, which broadens the application of the Law concerning Islamic banks in the State, and strengthens the competitive principle in a manner which serves the customers in particular and the national economy in general.

According to Nash (2007), Kuwait continues to prove itself as one of the dominant markets for Islamic financial services, spurred in largely by the expansion plans of Kuwait Finance House, which recently announced plans to bolster its regional market share and global network. KFH had been given a license and started business in Malaysia. Such a regional expansion, although risky could open the gates of Muslim in Asia to the Gulf banks which have the technical expertise and long track record on innovation in structuring Islamic banking products. In this context Islamic banking can be used like a trademark or even a brand to obtain access to new territories or markets, provided size and know–how are sufficient (Hassoune and Volland, 2004).

Conversely, and although Islamic banking is growing fast, with new Islamic financial institutions emerging and conventional banks switching over their operations, Standard & Poor's does not expect this phenomenon to spread significantly outside the Gulf frontiers. Islamic banking, although important conceptually and practically, will remain a complement to, not a substitute for, conventional banking in the longer term (Hassoune and Volland, 2004).

4.4.2. The Legal Framework of Islamic Banking in Kuwait

The Islamic banking institutions in Kuwait are regulated by the CBK, which was established in 1968 under the Central Bank of Kuwait Law (Act no. 32 of 1968); it regulates currency and the organization of banking business. CBK Law provides the legislation for the Islamic banking regulatory and supervisory framework and sets the requirements for the *Shari'ah* governance framework.

The Law comprises 4 chapters where in Islamic banking provisions, which were part of the amendment in 2003, are placed under section 10 of chapter 3 as shown in Table 4.3 which deals with the organization of banking business.

What is interesting about the CBK Law is that it explicitly defines Islamic banking business and provides the *Shari'ah* principles which are part of that business. This is clear from Article 86 of section 10. The law states that:

> "Islamic banks exercise the activities pertaining to banking business, and any activities considered by the law of Commerce or by customary practice as banking activities, in compliance with the Islamic *Shari'ah* principles. Islamic banks ordinarily accept all types of deposits, in form of current, savings, or investment accounts, whether for fixed terms and purposes or otherwise. These banks carry out financing operations for all terms, using *Shari'ah* contracts, such as: *Murabaha*, *Musharakah* and *Mudarabah*. Furthermore, these banks provide various types of banking and financial services to their customers and to the public. They conduct financial and direct investment operations whether on their own account or on the account of other parties or in partnership with others, including establishment of companies or holding equity participation in existing companies or companies under establishment, which undertake various economic activities, in accordance with both Islamic *Shari'ah* principles and controls laid down by the Board of Directors of the Central Bank, and all that in compliance with the provisions of this Law."

It is shown that Islamic banking legal framework in Kuwait adopts the contemporary requirements of the Islamic banking business required and the CBK Law provides a commendable legal structure of the Islamic banking in Kuwait. Within the scope of the Islamic banking business, which focuses on deposit taking, financing activities, direct investment and equity participation and such other business as may be prescribed by the Central Bank, the Law has indeed covered most of the Islamic banking regulatory and supervisory requirements with a distinctive flexibility for future expansion of such scope of business.

4.4.3. The *Shari'ah* Framework of Islamic Banking in Kuwait

Islamic banks in Kuwait are required to have an independent *Shari'ah* Supervisory Board (SSB) at the point of applying for registration. This is what Article 93 of the CBK Law 30/2003 provides. The structure and governance of the SSB are as follows; The SSB shall be comprised of at least three members appointed by the Islamic Bank's General Assembly. The SSB shall annually submit to the bank's General Assembly a report comprising its opinion on the bank's operations in terms of their compliance with the Islamic *Shari'ah* principles and any comments it may have in this respect. This report shall be part of the bank's Annual Report. Even though the establishment of the SSB is provided under the CBK Law, the Central Bank does not have any role in its governance, and as a result, the SSB reports directly to the Ministry of Awqaf and Islamic Affairs.

The framework for banking supervision and regulation in Kuwait has proven successful in addressing the country's needs following liberation. Nonetheless, given substantial changes over the past five years, it is still fairly new and developing and the regulator would need to ensure that it continues to adapt to the changing industry demands, particularly as the sector evolves and the nature of Kuwaiti financial institutions' business becomes more complex.

4.5 OBSTACLES FOR THE BANKING AND FINANCIAL SECTOR IN KUWAIT

After addressing examples of the general obstacles faced by the national economy in Kuwait (such as the dominance of the public sector in the overall economic activity, the Al-Manakh market crisis, the Iraqi occupation of the country in the early 1990s, regulations for safe guarding against foreign competition, and dealing with the international financial crisis), it is also useful to address the self-generated obstacles which are directly emanating from the banking and financial sector itself. These obstacles are mainly exemplified by the following issues as stated by one of the economist in a conference held in Kuwait and organised by the CBK and the Diplomatic Center of Strategic Studies (2002);

1. **The Structure of the Banking and Financial Sector**

A look at the number of banking and financial system units in Kuwait reveals an excess in these units, which is also termed as "over-banking" in light of capacity of the local banking and financial market. Most of these units are small in size, which limits their ability and financial system. Local economists consistently advocate restructuring the banking and financial system units through mergers to create strong banking and financial units capable of withstanding competition and providing more efficient banking and financial services. Based on KFAS and KIBS (2000) study on GCC banks, the major conclusions were that the relative size of Kuwaiti banks is small and the competitiveness of Kuwaiti banks is lower than that of the banking sectors of the UAE, Bahrain, and Saudi Arabia.

2. **The Lack of Efficient Managers and Professionals in Some Banking and Financial System Units**

Sound management is a critical element in the success of any economic institution. Management has an increased importance in banking and finance due to the fact that these operations are of a particularly technical and ever-developing nature. However, the lack of staff possessing the technical and practical qualifications required for key

positions has led some banking and financial units over a period of time to into unsound credit, investment policies lacking appropriate vision, and non-compliance with sound professional practices such as efficient follow-up of the uses of funds in credit and investments. These issues became noticeable in the eighties, in the aftermath of Souk Al-Manakh crisis, and reached such a magnitude that the state was forced to intervene through the Difficult Debt Settlement Program in 1986.

3. The Failure to Develop Internal Policies and Systems with the Required Speed and Efficiency

For banking and financial institutions to keep abreast of the ever-accelerating changes in the profession, they have to develop their policies and systems with regard to credits and investments, and financial adequacy and liquidity, as well as internal supervisory systems, risk assessment, and management systems for all their activities. However, the fact is that some of the banking and financial units are unaware of these requirements and have not taken the initiative to develop their internal financial systems due to the lack of sufficient technical cadres and their hesitation towards shouldering the cost of modernizing their systems.

4. The Prevailing Impression on the Part of the Banking System that the Government will Support the Bank

By end of 1985, the State had committed itself to safeguarding the financial position of Kuwaiti banks, including the protection of shareholders' rights. It had further announced that it would guarantee depositors' rights in these banks by virtue of the 1986 programme for the settlement of difficult debts. This led to the erroneous conception by some banking and financial units that the State would be ready to rescue them in case of any difficulty whatsoever. The result was slackness on the part of most of these units in development of appropriate risk measurement and assessment system, as well as in adopting the required precautionary measures with regard to confronting such challenges on a sound basis.

Although the government had withdrawn its guarantee of shareholders' rights, however, it still guarantees depositors' rights. In fact, such previous commitment by the State was exceptional and temporary, and was dictated by particular circumstances. They cannot therefore be expected to last forever. As a result, these units should seriously consider taking appropriate action to develop and modernize their method of work, setting up the needed systems for the assessment and management of risks they may face in the conduct of their activities, and laying down the necessary plans for confronting crises and emergency situations.

The importance of addressing these kinds of obstacles came from and was driven by the important role boasted by the banking sector. The banking and financial sector can attract and increase national savings and direct them to best investment outlets, so they can effectively contribute to an optimum allocation of economic resources. This will in turn enhance the possibility of achieving stable and sustained economic growth. In this regard it is also well-known that the increase in the efficiency of financial intermediation reflects positively on the growth rates and development patterns of the national economy.

Kuwaiti banking and financial units have done well so far in terms of rationalizing their positions and strengthening their capital structures, yet the challenges of globalization and financial market liberalization are so intense that these units have no option but to confront these challenges in the best achievable ways. Challenges such as technological advances in the sector, along with the international banking scene, reflect the diversification, increase, and evolution in the requirements of bank customers. Banks have to continue investing in the development of their technological capabilities, so as to be able to meet the ever-increasing needs of their clients and to achieve efficiency in their operations at the lowest possible cost and effort.

Owing to its particular nature, capabilities and government's encouragement agenda for becoming a regional financial and trade centre, this sector is likely to assume a position of leadership among the other sectors in the period ahead within the context of economic reform efforts and long-term development strategy. The sector therefore has to prepare itself to provide a larger contribution with regard to accommodating and developing the

various national managers and executives in the banking and finance area, especially with the government's 'Kuwaitisation' policy for private sector employment of up to 60% in banking.

4.6. SERVICE QUALITY RELATED STUDIES IN KUWAIT

In an earlier chapter, a review of the empirical studies related to service quality management is presented. In order to contextualise the research, this section aims to provide a brief understanding of the empirical studies on Kuwait.

Researchers such as Edris (1997), Al-Sultan and Wollongong (1999), Othman and Owen (2002) considered the banks' service quality and customer satisfaction in the local market. Edris (1997) for instance investigated the relative importance of banking services as perceived by Kuwaiti, non-Kuwaiti and joint business firms to identify the key determinants of bank selection decision made by business customers in Kuwait. The study found that the majority of business firms deal with commercial banks more than with specialized and Islamic banks. The study indicated also that Islamic banking practices ranked highly among patronage factors and most of the business firms in Kuwait are multiple bank users.

Al-Sultan and Wollongong (1999) on the other hand considered the socioeconomic demographic factors and reasons for preference or attitudes of almost four hundred customers towards the products and services offered by Kuwait Finance House using factor analysis and confirmed that devotion and loyalty to their religion was the primary motivating factor for Kuwaiti dealing with an Islamic bank. Based on their findings, slightly more than half of the respondents, about 52%, preferred to deal with a conventional bank because of the better service record.

Othman and Owen concluded that the KFHs' customers evaluate service quality dimensions such as compliance with Islamic *Shari'ah*, assurance and responsiveness as the most important dimensions, while dimensions such as tangibles, reliability, and empathy were rated as the least important.

In addition, Al-Eisa and Alhemoud (2009) identified the most important attributes that influence customer satisfaction by using the multiple-attribute approach and found out that the most crucial attributes for predicting customer satisfaction with retail banks in Kuwait were fast service, courtesy and helpfulness of employees, availability of self-banking services. 81% of the sample was either satisfied or very satisfied with the services in their banks.

4.7 CONCLUSION

The chapter discussed the origins and history of Kuwait's banks, with NBK being the first local bank to operate in the country since 1952, presenting the development of the banking structure since 1940s until recent time. The chapter briefly discussed the challenges faced by this sector, and discussed the Central Bank's role in providing a comprehensive framework of regulatory and supervisory rules that organize the business of banks registered which it.

Kuwait has a strong, respected, well-structured banking sector, despite the standstill it encountered in the face of many difficulties. However, compared with other countries, Kuwait has a relatively short history in the field of banking: the oldest bank in Kuwait has no more than 58 years of experience.

The prospects of the sector are glowing, with the passage of the privatization bill that will reduce the State's dominance of the economy which will improve the overall efficiency, open up new investments and create job opportunities, passing the four-year development plan which will enhance banks' financing, not to mention the country's agenda of transforming Kuwait to financial centre. In all, the business environment in Kuwait is attracting potential investors.

The continuous development in Kuwait's economic environment alone is not enough to assure the development of the banking sector. It should be parallel with a continuum of technological advancement, competent quality of services, new financial and banking instruments, and new operations occurring in the banking industry at an ever-accelerating

pace. Therefore, the ability of any country's banking sector to develop and assimilate advances in the banking industry play a preponderant role in its development.

Chapter 5

RESEARCH METHODOLOGY

5.1. INTRODUCTION

The previous chapters have thoroughly reviewed and synthesized the literature on service management in banks and financial institutions with specific reference to service quality dimensions, service quality models, methods of measuring service quality, and service quality in relation to customer satisfaction. Secondly, empirical results relating to service management among both conventional and Islamic banks and financial institutions were examined. Thirdly, the study investigated Kuwait's banking industry and its regulatory system. This chapter discusses the methods employed in this research and presents the appropriate statistical analysis to build a model that could be employed for measuring service quality in Islamic banking. The chapter presents the research hypotheses with the objective of testing the significance of the respondents' perceptions towards the quality of services in three Islamic banks operating in Kuwait.

The discussion in this chapter has been divided into eight sections: the next section presents a reminder of the research objectives as an introduction to the research hypotheses; the third section considers the research methodology, while the fourth reviews the research design; the fifth section describes the research strategy, while section six discusses the research methods (data collection, data analysis and model). Finally, section seven presents the reliability test, followed by the difficulties and limitations of the study.

5.2. RESEARCH OBJECTIVES AND HYPOTHESES

The aim of the research is to evaluate and measure the service quality performance of the three main local Islamic banks operating in the Kuwait, namely Kuwait Finance House (KFH), Kuwait International Bank (KIB), and Boubyan Bank, using the modified SERVQUAL model to measure the perceptions of their respective customers by also identifying any differences between the perceptions of the customers in relations to the identified three banks. To achieve this aim, a structured questionnaire was prepared and validated. The questionnaire includes and addresses the service quality constructs discussed previously in chapter three, namely: 'compliance', 'assurance', 'reliability', 'tangibility', 'empathy', 'responsiveness', 'technology', 'competitiveness', and 'customer satisfaction'.

The following hypotheses are developed as the focal centre of the study in relation to aim, objectives and the research questions:

Group 1 Hypotheses: Testing the differences in customers' perception between the three Islamic banks according to the modified SERVQUAL model.

$H_{01.1}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the compliance dimension.*

$H_{01.2}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the assurance dimension.*

$H_{01.3}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the reliability dimension.*

$H_{01.4}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the tangibility dimension.*

$H_{01.5}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the empathy dimension.*

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$H_{01.6}$: There are no significant differences between the Kuwaiti Islamic banks regarding responsiveness dimension.

$H_{01.7}$: There are no significant differences between the Kuwaiti Islamic banks regarding technology dimension.

$H_{01.8}$: There are no significant differences between the Kuwaiti Islamic banks regarding competitiveness dimension.

$H_{01.9}$: There are no significant differences between the Kuwaiti Islamic banks regarding the customer satisfaction dimension.

Group 2 Hypotheses: Testing the differences in customer satisfaction among the three Islamic banks.

$H_{02.1}$: There are no significant differences between the three Islamic banks in their perceptions towards employees' performance.

$H_{02.2}$: There are no significant differences between the three Islamic banks in their perceptions to the range of products and services provided by the Islamic bank.

$H_{02.3}$: There are no significant differences between the three Islamic banks' customers in their perceptions of the quality of services provided by the Islamic bank they deal with.

$H_{02.4}$: There are no significant differences between the three Islamic banks' customers in their perceptions regarding the importance of the customer satisfaction principle in their bank.

Group 3 Hypotheses: Testing the differences between customers' perceptions of Islamic banking variables in the Kuwaiti Islamic banks.

$H_{03.1}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of their bank being compliant with Islamic Shari'ah principles.

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$H_{03.2}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the Shari'ah board's trustworthiness.

$H_{03.3}$: There are no significant differences between the Kuwaiti Islamic banks in Shari'ah-compliant contracts being free from Jahalah and Gharar.

$H_{03.4}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of employee awareness of Islamic banking services and transactions.

$H_{03.5}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception to the availability of low rate of profit required for financing through Murabaha.

$H_{03.6}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of real estate appraisal and property management services.

$H_{03.7}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of low rate of profits required for financing real estate projects.

$H_{03.8}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of reasonable service fees.

$H_{03.9}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of competitive rate of return on investment accounts.

Group 4 Hypotheses: Hypotheses testing the significant relationship between the modified SERVQUAL dimensions and customers' demographic characteristics in Islamic banks.

H$_{04.1}$: There are no significant differences between the respondents' gender and SERVQUAL dimensions.

H$_{04.2}$: There are no significant differences between the respondents' nationality and the SERVQUAL dimensions.

H$_{04.3}$: There are no significant differences between the applicants' age and the SERVQUAL dimensions.

H$_{04.4}$: There are no significant differences between the respondents' social status and the SERVQUAL dimensions.

H$_{04.5}$: There are no significant differences between the applicants' place of work and SERVQUAL dimensions.

H$_{04.6}$: There are no significant differences between the respondents' education and the SERVQUAL dimensions.

H$_{04.7}$: There are no significant differences between the applicants' income and the SERVQUAL dimensions.

H$_{04.8}$: There are no significant differences between the duration of dealing with the same bank and SERVQUAL dimensions.

Group 5 Hypotheses: Testing customer satisfaction in relation to the modified SERVQUAL model in Kuwait Islamic banks.

H$_{05.1}$: There is a no significant relationship between the compliance dimension and customer satisfaction in Kuwait Islamic banks.

H$_{05.2}$: There is no significant relationship between the assurance dimension and customer satisfaction in Kuwait Islamic banks.

$H_{05.3}$: There is no significant relationship between reliability dimension and customer satisfaction in Kuwait Islamic banks.

$H_{05.4}$: There is no significant relationship between the tangibility dimension and customer satisfaction in Kuwait Islamic banks.

$H_{05.5}$: There is no significant relationship between the responsiveness dimension and customer satisfaction in Kuwaiti Islamic banks.

$H_{05.6}$: There is no significant relationship between the empathy dimension and customer satisfaction in Kuwait Islamic banks.

$H_{05.7}$: There is no significant relationship between the technology dimension and customer satisfaction in Kuwait Islamic banks.

$H_{05.8}$: There is no significant relationship between the competitiveness dimension and customer satisfaction in Kuwait Islamic banks.

Hypothesis 6: There are no differences in the SERVQUAL importance as perceived by the Islamic banks customers.

Hypothesis 7: There is no significant relationship between SERVQUAL dimensions and the Islamic banking variables as perceived by the Islamic banks customers.

$H_{07.1}$: There are no significant relationship between the Islamic bank's compliance with Islamic Shari'ah law and the SERVQUAL dimensions.

$H_{07.2}$: There are no significant relationship between the SSB's trustworthiness and the SERVQUAL dimensions.

$H_{07.3}$: There are no significant relationship between the Shari'ah-compliant contracts being free from Jahala and Gharar and the SERVQUAL dimensions.

$H_{07.4}$: There are no significant relationship between the employees being competent in Islamic banking transactions and the SERVQUAL dimensions.

$H_{07.5}$: There is no significant relationship between the low rate of profit the Islamic bank required for financing through Murabaha and the SERVQUAL dimensions.

$H_{07.6}$: There are no significant relationship between the low charge for real estate appraisal and property management and the SERVQUAL dimensions.

$H_{07.7}$: There are no significant relationship between low service fees charged in the Islamic bank and the SERVQUAL dimensions.

$H_{07.8}$: There are no significant relationship between the competitive rate of return on investment deposits in the Islamic bank and the SERVQUAL dimensions.

$H_{07.9}$: There are no significant relationship between the availability of low rate of profit required for financing real estate projects in the Islamic bank and the SERVQUAL dimensions.

Hypothesis 8: There is no correlation between the service quality performance in the sampled banks and the banks' financial performance.

5.3. RESEARCH METHODOLOGY

Research methodology is defined as the study of methods and principles and their application in a given field of academic inquiry (Saunders *et al*., 2009). In a more systematic manner, it is defined as "a controlled investigation of theoretical and applied aspects of measurement mathematics and statistics, and ways of obtaining and analysing data" (Kerlinger, 1973:703). The term 'methodology' therefore, may be taken to be inclusive of research design, theoretical frameworks, the selection and analysis of literature relevant to the nominated topic, and justified preferences for particular types of data gathering activities" (Murray and Lawrence, 2000: 218).

According to McNeill and Chapman (2005), choices of research methodology and particular methods are influenced by the nature, context, objectives, number and kind of people who carry out the study, and the amount of money available to the research. Since

the research in hand, which intends to measure and investigate the service quality dimensions in Kuwaiti Islamic banks, is based on the perceptions of individuals, it should be located within the qualitative research methodology framework.

It should, hence, be noted that there are two main research methodologies: qualitative and quantitative methodologies. Quantitative research is based on methodological principles guided by a positivist philosophy. The researchers believe that there is an objective reality that exists separately from the perceptions of those who observe it; thus the goal of science is to better understand the reality. Qualitative research studies, on the other hand, usually emphasize words rather than quantification in the data collection and analysis. Therefore the method aims towards the exploration of social relations and describes reality as seen by respondents (Bryman, 2001).

It needs to be taken into account that qualitative and quantitative studies do not merely constitute a different way of doing research, but indeed different ways of doing thinking. And since the research in hand is considered to be an explorative case study, it should be classified as qualitative, as it explores the opinions and evaluates the perceptions of Kuwaiti Islamic bank customers in relation to service quality dimensions and other competitiveness issues in relation to Islamic banks' operations.

The goal of qualitative and quantitative researchers may differ. Quantitative researchers generally accept the goal of developing an understanding that correctly reflects what is actually happening in the real world, while some qualitative researchers instead emphasize the goal of developing an "authentic" understanding of a social process or social setting (Gubrium and Holstein, 1997). In the words of Bryman (1988:46), qualitative research is defined as; "an approach to the study of the social world which seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied" (Maykut and Morehouse, 1994:2). Therefore, this paradigm can be described as an approach, which depends on examining people's words and actions in a narrative or descriptive way more closely representing the situation as experienced by the participants.

5.4. RESEARCH DESIGN

Research design focuses upon turning research questions and objectives in to a research project. It considers research strategies, choices, and time horizons. It is a framework for a certain set of criteria that would generate suitable evidence for the researcher in the desired area of investigation. It provides a structure for the collection and analysis of data (Bryman, 2008). In other words, according to Trochim's (2001: 171) definition, research design is the glue that is used to structure the research, to show how all the major parts of the research project, the samples or groups, measures, treatments or programs, and methods of assessment, work together to address the central research questions. In a straightforward definition research design is the structure that define the operations carried out by the researcher for data collection and analysis in order to highlight the results, which are related to the research questions (Creswell, 2009).

Research design is very much related to the research process, where the researcher can organize all parts of the research project, such as methods of collecting and analysing data and samples, and link them together. In the absence of research design, researchers usually have access to weak findings as a result of the inability to answer the research questions as required (Vaus, 2001).

Vaus (2001:9) stated that the function of research design is "to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible". This definition is supported by Yin (2003:20), who defines research design as "the logical sequence that connects the empirical data to the study's initial research questions and, ultimately, to its conclusions". Therefore, studies should be designed and organized as a research project prior the process of data collection and analysis in order to obtain significant results.

Research studies are undertaken for different purposes; these can be classified as exploratory, descriptive, and explanatory types of research (Saunders *et al*., 2009). The choice of the research strategy employed should enable the researcher to answer the

research questions and meet the research objectives. The way and method chosen to answer the research questions forms the choice of research strategy.

The following section describes the main features of each strategy:

i. Exploratory studies

An exploratory study is a valuable means of finding out "what is happening; to seek new insights; to ask questions and to assess phenomena in a new light" (Robson, 2002:59). An exploratory study is known for its flexibility and adaptability to change. If the researcher is conducting an exploratory study, he must be willing to change his direction as a result of new data that appear and new insights that occur. Adams and Schvaneveldt (1991) stated that the flexibility inherent in exploratory research does not mean the absence of direction to the enquiry; it simply means that the focus is initially broad and becomes progressively narrower as the research progresses.

ii. Descriptive studies

The object of descriptive research is to "portray an accurate profile of persons, events or situations" (Robson, 2002: 59). It could be an extension of, or a forerunner to, a piece of exploratory or explanatory research. With a descriptive study, it is necessary to have a clear picture of the phenomena prior to the data collection phase. The concept here is to go further than the descriptive view and draw conclusions and synthesize ideas from the data that were described.

iii. Explanatory studies

Studies that establish casual relationships between variables may be termed explanatory studies. The emphasis here is on studying situations or problems in order to explain the relationship between variables. An example of an explanatory study using the qualitative method would be to collect data to explain the reasons why customers of a certain company rarely pay their bills according to the prescribed payment terms. A quantitative method could be used as well as an explanatory one; we may find that a cursory analysis

of quantitative data on manufacturing scraps rates shows a relationship between scraps rates and the age of the machine being operated (Saunders *et al.,* 2009).

Some of these strategies clearly belong to the deductive approach, others to the inductive approach. The deductive approach owes much more to what we would think of as scientific research. It involves the development of a theory that is subject to a rigorous test. Within the deductive approach, the researcher develops a theory and hypothesis and designs a research strategy to test the hypothesis, while in the inductive approach the researcher would collect data and develop a theory as a result of the data analysis.

Whether the researcher decided to use deductive or inductive strategy approach, he should approach it through one on the different types of research strategies that are discussed in the following section.

5.5. RESEARCH STRATEGY

i.   Case study strategy

Robson (2002:178) defines case study as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". Yin (2003) also highlights the importance of context, adding that, within a case study, the boundaries between the phenomenon being studied and the context within which it is being studied are not clearly evident. This is the complete opposite of the experimental strategy, where the research is undertaken within a highly controlled context. It also differs from the survey strategy where, although the research is undertaken in context, the ability to explore and understand this context is limited by the number of variables for which data can be collected (Saunders *et al.,* 2007).

The case study strategy has the ability to generate answers to the question 'why?' as well as the 'what?' and 'how?'; for this reason the case study strategy is most often used in explanatory and exploratory research. The data collection techniques employed may be

various and are likely to be used in combination. They may include, for example, interviews, observation, documentary analysis, and questionnaires.

The present research is designed to be an explorative case study using an deductive approach, given that it intends to explore perceptions and measure service quality dimensions in certain and specific institutions in a specific country. The case employed was all of the local Islamic banks operating in the state of Kuwait, namely Kuwait Finance House, Kuwait International Bank, and Boubyan Bank.

Although the research used a case study strategy, it is useful to provide a brief discussion of other research strategies, especially when knowing that one should not think of these strategies as discrete entities, as they may be used in combination in the same research project. Yet each type of research strategy has its own rational area of function, and researchers should be more careful in terms of choosing the appropriate type of research that would guide them to correct result and conclusions.

   ii.   Experiment research strategy

Experiment is a classical form of research that owes much to the natural sciences, although it features strongly in much social science research, particularly psychology. The purpose of an experiment is to study casual links, *e.g.* whether a change in one independent variable produces a change in another dependent variable (Hakim, 2000).

Experiments tend to be used in exploratory and explanatory research to answer 'how' and 'why' questions.

   iii.   Survey research strategy

The survey strategy is usually associated with the deductive approach. It is a popular and common strategy in business and management research and is most frequently used to answer 'who', 'what', 'where', 'how much', and 'how many' questions. It therefore tends to be used for exploratory and descriptive research. Surveys are popular as they allow the collection of large amounts of data from a sizable population in a highly economical way.

The data is often obtained by using a questionnaire administrated to a sample; these data are standardized allowing easy comparison (Saunders *et al*., 2009).

iv.   Action research strategy

The theme of this research strategy focuses upon and emphases the purpose of the research; it is research in action rather than action research. For example, the research might be concerned with the resolution of organizational issues, such as the implications of change, together with those who experience the issues directly (Coghlan and Barmnick, 2005). Action research differs from other research strategies because of its explicit focus on action, in particular on promoting change within the organization. It is therefore particularly useful for 'how' questions (Saunders *et al*., 2009).

v.   Grounded theory

According to Glaser and Strauss (1967), grounded theory is often thought of as the best example of the inductive approach. Yet it is better to think of it as 'theory building' through a combination of induction and deduction. A grounded theory strategy, as indicated by Goulding (2002), is a helpful strategy to predict and explain behaviour, where the emphasis is upon developing and building theory. In grounded theory, data collection starts without the formation of an initial theoretical framework. Theory is developed from data generated by a series of observations. These data lead to the generation of predictions, which are then tested in further observations that may or may not confirm the predictions.

Since the present research is an explanatory study, it benefits from a survey research strategy. A questionnaire survey was used to gather the primary data to measure the individuals' perception of service quality in Islamic banking in Kuwait.

5.6. RESEARCH METHODS: DATA COLLECTION

Cohen *et al*. (2007) and Payne and Payne (2004) define research methods as a set of tools that can be used by the researcher to identify research questions, collect and analyse data. Jankowicz (2000:209), on the other hand, defines research method as "a systematic and

orderly approach taken towards the collection and analysis of data so that information can be obtained from those data'". In a more formal manner, Payne and Payne (2004:149) define research methods as "the technical practices used to identify research questions, collect and analyse data and present findings". The method might be described as a systematic procedure for doing something. It is a specific research technique and is best thought of as tools of trade. Kerlinger (1973:696) considers methods in a functional manner as "the function of the methodology-data collection section of the research is to tell the reader what was done to solve the problem". Method refers to data collection, data analysis, and the definition of analytical methods to test the hypothesis put forward by the study in addition to the sampling of the variables.

According to Casebeer and Verchoef (1997), there are two types of research methods, which are identified in the form of qualitative and quantitative techniques, depending on the nature of the data to be collected. Since the method defines the way information or data is collected, it includes quantitative techniques, (*e.g.* statistical correlation), as well as qualitative techniques (*e.g.* observation, interviewing and audio recording) (Silverman, 2000:79). "Choice of method (qualitative or quantitative) should reflect the overall research strategy" (Silverman, 2000:88) and form coherence with the methodology of the study.

The present research used a quantitative method in gathering primary data in the form of a questionnaire, since its aim is to assess and measure customers' perceptions and attitudes towards the quality of service using a case study strategy in three Islamic banks in Kuwait.

5.6.1. Primary Data Collection: Questionnaire

The study collects primary data via a questionnaire that was distributed to the target population, who were asked about their perceptions of service quality offered by their bank's branch. As part of the research process, structured questionnaires were distributed to customers or account holders in one of the three Islamic banks.

Questionnaires are considered to be the most important technique used to collect data on certain phenomena or problems requiring study, particularly with regard to sociological research (Forces and Richer, 1973). According to Rugg and Petre (2007:142), a questionnaire "is, in essence, a list of questions which you have prepared beforehand; respondents can answer these questions either in their own words, or by choosing from a set of responses that you have prepared beforehand". In addition, Collis and Hussey (2003:173) define a questionnaire as "a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable response from a chosen sample. The aim is to find out what a selected group of participants do, think or feel".

This method of data collection provides a relatively cost-effective means of obtaining information from a large sample. Questionnaires could be designed as various types such as the common self-administrated example (*e.g.* where the person conducting the survey is able to help with the interpretation of questions). It should be noted that extreme care must be taken in the design of the questionnaire to avoid misleading, ambiguous, or leading questions.

5.6.2. Questions Format

David and Sutton (2004) state that there are two different types of questions used in the formation of different types of questionnaires: "open-ended" and "close–ended" questions. Firstly, open-ended questions refer to the questionnaires, which allow the respondents to answer the questions by choosing any methods he or she deems appropriate. Secondly, close-ended questions refer to questionnaires, which give choices to the respondents in term of choosing a quick answer among a number of alternatives.
This research utilized closed-ended questions as a style of questionnaire. In addition, the Likert scale formatting based on five categories ('strongly disagree', 'disagree', 'neutral', 'agree' and 'strongly agree') was utilized in the questions of the second section of the questionnaire, while the first section was mainly focusing on questions regarding personal demographic variables.

5.6.3. Questionnaire Design

Payne and Payne (2004) stated that there are a number of issues that must be taken into account when designing the questionnaire. The questions must be as short as possible; the similarity of questions addressed to all respondents, the clarity of the questions by avoiding ambiguity, and should take into account the capabilities of respondents.

Hence, the study seeks to evaluate customers' perceptions towards service quality in three Islamic banks in Kuwait. To achieve this aim and the objectives of the research, the literature review helped in extracting the important points and issues the questionnaire obtained in this research.

The questionnaire is divided to three sections: the first section is designed to answer demographic characteristics questions, such as; age, gender, nationality, marital status, place of work, and income and education levels. Within this section, two extra questions have been asked related to the particular Islamic bank customers are dealing with and the duration of the relationship. The second section as seen in Table 5.1 is the main body of the questionnaire; it contains 42 statements and was presented to the respondents to assess his/her approval of the statements given.

The statements present the service quality dimensions and were sectionalized to nine main categories: 'compliance', 'assurance', 'reliability', 'tangibility', 'empathy', 'responsiveness', 'technology', 'competitiveness' and 'customer satisfaction'. Within the last dimension 'customer satisfaction' the researcher aimed to assess the respondents' overall perception on the modified SERVQUAL model through groups of statements measuring the respondents' assessments of the employees' performance, the products and services provided, and the overall quality of services. The third and final section contains an open-ended question, where the researcher intended to ask the respondents for any further comments and suggestions to improve the quality of the services in the Islamic bank they deal with.

Table 5.1 Service Quality Dimensions

	Service Quality Dimensions	Statements
1	Compliance	1- 4
2	Assurance	5-10
3	Reliability	11-15
4	Tangibility	16-20
5	Empathy	21-24
6	Responsiveness	25-27
7	Technology	28-32
8	Competitiveness	33-38
9	Customer Satisfaction	39-42

It should be noted that the questionnaire design follows the model that has been employed by Othman and Owen (2002), which was discussed in details in chapter three with three additional dimensions. A sample of the questionnaire can be found in the appendix.

5.6.4. The Pilot Study

To ensure the validity and reliability of the data collected, the researcher conducted a pilot study test on a smaller sample (10%) of the target sample with the objective of measuring the validity and reliability. According to Collis and Hussey (2003:233), the term 'validity' refers to 'the capacity of research techniques to encapsulate the characteristics of concepts being studied, and so properly to measure what the methods were intend to measure'. 'Reliability', on the other hand, means that 'the same measure can be used again and again by the same different researchers, and the same results will be obtained' (Forcese and Richer, 1973:71).

The role of the pilot study test is to allow the researcher to obtain feedback related to a number of elements such as the clarity of the questions and instructions, length and difficulty of the questionnaires, etc. (Cohen *et al*., 2005). Piloting test aims to detect and correct any confusion and difficulties that might face the interviewees and/or respondents (Bell,2005).

For this research, a pilot study was conducted with 80 valid questionnaires answered by selected random applicants, which represents 10 % of the whole sample with a reliability test of 93%, which represents an acceptable level of consistency between the questions. Having analysed the pilot sample, the researcher revised the questionnaire by rewriting and shortening the statements, and changing the complicated statements to simpler statements to avoid any vagueness, redirecting each statement to serve one issue at a time and removing any conjunctions that might lead to misunderstanding.

5.6.5. Sampling and Administration

In order to get the answers to the research questions and test the research hypotheses, 800 questionnaires were randomly distributed to 800 Islamic bank customers in the branches of the mentioned banks in Kuwait. The questionnaire was designed in two versions, Arabic and English.

The targeted population included customers of all the three Islamic banks Branches operating in all six cities of Kuwait, in an attempt to cover a broad geographic presence of the community. From the 800 questionnaires, 700 responses were received, representing an effective response rate 87.5%. This high response rate was a result of the firm coordination and serious supervision during the time of distributing to answer the respondents' questions and to ensure that the applicants have not left any questions without an answer. This is in line with the literature on the advantages of conducting personally administrated questionnaires. Sekaran (2003) for instance, believes that personally administrating questionnaires helps in clarifying and removing possible doubts, motivating the respondents to answer the questionnaire and reducing the expenses of administrating a large number of questionnaires at the same time.

5.7. DATA ANALYSIS METHODS

Practically, the data collected using the questionnaire was edited by a comprehensive check to make sure that there the questions asked are clear for the respondents understanding. In addition, after the process of editing data, the questionnaires were coded for computer input.

According to Sekaran (2003), data collected using questionnaires are considered as raw data, which have to be entered in to the computer using the Statistical Package for Social Science (SPSS), a computer software which is widely used for the analysis of quantitative data in order to obtain the study final results. The statistical methods are used in order to analyse the data collected. The SPSS aims at transforming of the raw data into a form that will make them easy to understand and interpret. Accordingly, in this research the questionnaire data were codified and entered into a spreadsheet in SPSS version 17.0 to analyse the data. Consequently, the coding process was in the form of Likert scale: 'number 1' for 'strongly disagree', 'number 2' for 'disagree', 'number 3' for 'neutral', 'number 4' for 'agree' and 'number 5' for 'strongly agree'.

After coding the data, the following statistical methods through SPSS were utilized to analyse the data:

The analysis used descriptive statistics in forms of percentages, means and standard deviations for of the questionnaire's questions, tabulation and cross tabulation to elaborate on demographical characteristics of the study sample. Overall and internal reliability was tested along with exploratory factor analysis to search for patterns and test the adequacy of the measurement in measuring the constructs. The methods of data analyses as statistical test can be summarized as follows;

(i) Descriptive analysis

Descriptive analysis is considered as the most common statistical tool, which is used by the researcher to summarize, organize and describe data that have been gathered (Cohen and Holliday, 1996). The aim of such analysis is to organize the respondents' answers into the language of numbers such as frequencies and percentages. Moreover, to make that data useful, it must be transferred to figures (Siegel and Morgan, 1996). In addition, mean value is calculated to establish the general tendencies.

(ii) Cross- tabulation

Another data analysis method is cross-tabulation, according to Barghoon (1996), the cross-tabulation method is considered as a method of data analysis collected through a questionnaire. The questionnaire consists of a number of variables divided into independent and dependent variables. Hence, the purpose of cross-tabulation analysis is to identify the relationship between the two variables. The independent variables are those variables which influence the dependent variables (Zikmund, 1991; Norusis, 1991). Therefore, cross-tabulation allows the researcher to explore the correlation between the study variables to determine the statistical correlation between respondents' demographic variables and their perceptions towards service quality provided by their Islamic bank.

(iii) Exploratory Factor Analysis

The main applications for factor analysis techniques are to reduce the numbers of variables and to detect structure in the relationship between variables and to classify these variables. The term factor analysis was first introduced by Thurstone (1931). Factor analysis is the procedure of removing redundancy from a set of correlated variables and also representing the variables in a smaller set of derived variables known as 'factors, or constructs'. In other words, it is a technique for removing a duplication of information from among a set of variables and identifies factors that statistically explain the variation and co-variation among measures and, consequently, represent a set of measures.

Where different sets of measures reflect different dimensions of a broader conceptual system, factor analysis can yield factors that represent these dimensions. More specifically, the factors can correspond to constructs (*e.g.*, unobservable latent variables) of a theory that helps us understand behaviour.

(iv) Stepwise Regression

The study attempts to examine the relationship between service quality perception and customer satisfaction in Kuwaiti Islamic banks using the Stepwise regression approach. The basic procedures in the Stepwise model involve; identifying an initial model,

iteratively 'stepping', that is repeatedly altering the model at previous step by adding or removing a predictor variable in accordance with the 'stepping criteria', and terminating the search when steeping is no longer possible given the stepping criteria, or when a specified maximum number of steps has been reached.

Stepwise regression analysis was used to in the study to build up the relationship between the different dimensions of service quality in relation to the customer satisfaction dimensions. Path coefficient analysis used to test the cause and relation effect of the constructs; tangibility, reliability, responsiveness, assurance, empathy, compliance, technology, competitiveness, and customer satisfaction in the Kuwaiti Islamic banks.

5.8. RELIABILITY TEST FOR QUESTIONNAIRE

Reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings (Easterby-Smith *et al*., 2002:53). In order to measure the study reliability, a reliability test was conducted in the form of measuring Cronbach's Alpha in the Statistical Package for Social Sciences (SPSS) software package, which produced a significant value of (0.98), which indicates high reliability and indicates the internal integrity of the questionnaire.

5.9. LIMITATIONS AND DIFFICULTIES

Firstly, data collection from Kuwait was a challenging issue. While the research aimed at the target sample of 1000 questionnaire, it took more than three months to manage and get 800 questionnaires back from the sampled banks (only 700 were suitable for analysis).

It should also be mentioned that the researcher was aiming for 300 valid questionnaires back from each bank, however, it was hard getting the target number from KIB and Boubyan Bank and this could be because of their relatively smaller customer base when comparing to KFH.

In addition, it was hard to get an official information and documentation from the sampled banks on how actually they manage their service quality and assured their customer satisfaction.

Furthermore, some of the respondents did not know and asked about some of the facilities mentioned in the questionnaire, which are offered by their Islamic bank. In such cases, the researcher had to give brief explanation about these Islamic services. This demonstrated that there is a lack in the awareness of the quality management and customer satisfaction terminologies found while conducting and distributing the questionnaire.

Chapter 6

ISLAMIC BANKS IN KUWAIT:
OPERATIONS AND PERFORMANCE

6.1 INTRODUCTION

This chapter aims at presenting and discussing the operations and performance of Islamic banks in Kuwait, which is divided into two main sections: the first one closely examines the profile of the three Islamic banks which operate in Kuwait and explains in detail the products and services offered by each of the three banks to their customers; it also considers whether there were any preferences among customers for particular products and services. The second section compares these three Islamic banks in terms of certain criteria believed to have an influence on customers' preference of one bank over another. The chapter starts with an analysis of the profile of Kuwait Finance House (KFH), the first Islamic financial institution operating in the market since 1977, which offers *Shari'ah*-compliant products and services; this is followed by the profile of Kuwait International Bank (KIB). It is worth mentioning that the KIB was launched in 1973, before the KFH was established. However, it was set up as specialized bank offering real estate financing services in the market and was previously known as Kuwait Real Estate Bank (KREB). Only recently (July 2007) did the KREB fully convert to an Islamic bank and was renamed Kuwait International Bank (KIB). The chapter also analyzes Boubyan Bank's profile, a newly established Islamic bank operating in the market since 2005. While profiling these banks, their financial performance, their regional and international expansion, their associated companies and subsidiaries, their evaluation of service quality, the attention they give to training their staff, the state of technology they implement, the awards and prizes they have been awarded, and many other related issues will be presented. As a final point, the chapter provides a summary of the data.

6.2. KUWAITI ISLAMIC BANKS

The Islamic financial services industry has been the subject of continuous development in the recent years, as has been explained in the previous chapters. The most obvious among these developments is the increasing number of Islamic financial institutions operating in Kuwaiti market from one to six Islamic banks, with one of them being a foreign Islamic bank. This expansion not only includes the banking institutions but also investment companies and investment funds. Islamic investment companies have increased during the last four years from 26 to 54 as shown in Table 6.1; the expansion of Islamic institutions exceeded that of the conventional ones. This increase is expected to continue as some conventional banks may also be authorized to establish independent institutions (subsidiaries) for providing Islamic financial services in the future.

Table 6.1 Expansion in Islamic Financial Institutions Number in Kuwait

	Islamic Institutions				Conventional Institutions			
Year	2006	2010	Change	%	2006	2010	Change	%
Banks	2	5	+3	150%	8	5	-3	-37.5%
Investment Companies	26	54	+28	107%	35	46	+11	31.4%
Investment Funds	26	55	+29	111%	44	57	+13	29.5%

Source: The researcher's input based on CBK data for the year 2010, AlSaka (2007) for the year 2006

Given the interest in Islamic finance, the Commercial Bank of Kuwait (CBK) has decided as part of its expansion plan to put forward a request to the Central Bank of Kuwait to offer Islamic banking services. And CBK is still waiting for the Central Bank's decision. Under the Central Bank Law 30/2003 regarding Islamic banks, conventional and Islamic banks are separate entities, but the Central Bank of Kuwait can give permission to conventional banks to establish a subsidiary to practice and perform Islamic banking as has been explained in the previous chapter.

As shown in Table 6.2, there are two converted banks which have been operating in the market since the issue of the CBK Law 30/2003 regarding Islamic banks: KIB and Ahli

United Bank. The CBK in 2004 also agreed to sanction the principles, rules, and regulations for the licensing and operation of foreign banks' branches in the State of Kuwait according to the amended article (56) of Law No. 32 of 1968 concerning currency, the role of the Central Bank of Kuwait, and the organization of the banking business. As a result, there are eight foreign conventional banks and one foreign Islamic bank operating in Kuwait.

Table 6.2 Local and Foreign Banks operating in Kuwait

Local Islamic Banks	Foreign Islamic Banks	Local Conventional Banks	Foreign Conventional Banks
KFH	Al-Rajhi	National Bank	HSBC
KIB**		Commercial Bank	BNP PARINAS
Boubyan		Gulf Bank	Muscat Bank
Ahli United Bank**		AlAhli Kuwait Bank	AlMashreq Bank
Warba Bank		Burgan Bank	Doha Bank
		Industrial Bank*	Abu Dhabi Bank
			Qatar Bank
			Citibank

Source: The researcher's input based on 2010 Data. * Specialized Bank ** Converted to Islamic bank

The developments on the supply side of the Islamic financial institutions have been driven by a substantial demand for Islamic financial services in this market. Accordingly, the environment in which these institutions are working is becoming more competitive than ever before. In such an intense environment the quality of services provided and the excellence in customer service is becoming increasingly important.

Kuwait has had a pioneering role in Islamic finance since 1977, when the country's first Islamic bank KFH was established. KFH is the second biggest pure Islamic bank in the world after Al-Rajhi Saudi Banking and Investment Corporation in terms of assets; it is regarded as one of the most conservative banks. Both Al Rajhi and KFH are taking a global stance and are transferring their expertise to other Islamic countries in the Middle East, Eastern Europe, and Asia.

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Being one of the major producers of the Islamic financial services in the Middle East offers Kuwait a unique opportunity to develop an area of specialization: the country could benefit from its pioneering experience and expertise in Islamic banking and develop a competitive advantage in a market which is highly in demand for Islamic products and services. The newcomers will also benefit from competing with a pioneer bank like KFH.

The Islamic banks share has been growing quickly in the last few years, accumulating 30.5% of the total assets having the biggest market share for KFH with 25.7% in 2009 as shown in Table 6.3 leaving the remaining share 4.8 % distributed between KIB and Boubyan Bank. The market share of Islamic financial institutions is growing significantly and reflects the growing demand for financial and investment solutions provided by this sector. Taking to account the growing number of Islamic institutions, the Islamic financial sector is forming a strong competitor to conventional financial institutions.

After the Central Bank Law 30/2003 regarding Islamic banks, KREB was converted to an Islamic-compliant bank now known as KIB, along with Ahli United Bank; in addition, the newly established players in the market are Boubyan Bank with a paid up capital of KD 100 million and, more recently, Warba Bank with a capital of KD 100 million, a 76% stake of which will be held by citizens. Other banks such as National Bank of Kuwait and Commercial Bank of Kuwait have applied to set up Islamic banking subsidiaries. Initially, CBK reported holding off on granting new licenses until the recently established Islamic banks have been given enough time to develop themselves.

Competition is bound to intensify with the increasing number of players in the market. While greater rivalry will affect both newcomers and established players, their respective challenges may differ. For instance, full-fledged Islamic financial institutions may have a higher reputation and standing for being truly Islamic than conventional banks which are only just entering the scene. On the other hand, conventional banks wanting to enter the Islamic banking sector may have a competitive edge due to their financial expertise and

the state of their banking operations, but may struggle to even get the basics of Islamic banking right in order to obtain an Islamic banking license.

Table 6.3 Assets distribution share among Kuwaiti banks as of 31 December 2009

Conventional Banks	Assets Share	Islamic Banks	Assets Share
NBK	25.7%	KFH	25.7%
Gulf Bank	10.8%	KIB	2.6 %
Burgan Bank	9.3%	Boubyan Bank	2.2%
Commercial Bank	8.2%		
Al Ahli Bank	6.7%		
BKME*	5.1%		
Total	**69.5 %**		**30.5%**

Source: Based on Association of Kuwaiti Banks Data * as of 2010 it is known as Ahli United Bank

Given the growing competition, the question of how to achieve or maintain a competitive advantage is becoming increasingly important for all participants and contributors in the Islamic finance market in Kuwait. Islamic banks should understand customers' preference with respect to *Shari'ah* compliance versus superior returns and services besides the religious aspects. This deeper understanding of customer preference will differentiate Islamic banks from their competitors. A good reputation and brand image of the bank are likely contributors to high customer satisfaction, which can only be reached if banks deliver on their promises. This puts leaders in stark contrast to the often lamented poor service quality in Islamic banking.

Being customer-oriented is one of the recent strategies in the retail banking industry across GCC countries. The significance of this strategy and other strategies related to service excellence had been the focus of attention of many bankers and academics in this field. One of the studies was conducted by the Kuwait Institute of Banking Studies (KIBS) in cooperation with the Kuwait Foundation for the Advancement of Science (KFAS) in 2004. Its aim was to assess these issues in the GCC Islamic and conventional banks, and it recommended that the branch and ATM network should be expanded to

increase customer convenience, as the networks of Islamic banks as yet are relatively weak compared to their conventional counterparts. Both banks, leaders and followers in the GCC region, stated that they are relatively weak in their branch and ATM network. This might put them at a disadvantage compared to conventional banks, but it also provides an opportunity for further improvement.

Improvements begin with service quality initiatives and an attitude that is focused on customer satisfaction. In order to enhance service quality and customer experience, Islamic banks and financial institutions need to diversify the range of their services and products and be more innovative without moving away from the spirit of *Shari'ah*. They also need to put particular emphasis on staff qualification and skills. This can be done through training current staff as well as by attracting new human resources with higher competence from competitors or business schools.

Although the number of the Islamic financial and investment instruments is relatively large, as can be seen in Table 6.4, the Islamic financial institutions in Kuwait are primarily using only a few of those tools, mainly *Murabaha* and *Ijara*. The other instruments are used in a very limited manner. This reflects the need to develop the other Islamic financial tools and to use them with the aim of providing a wider mix of services to satisfy the needs of customers, and of increasing the customers' awareness of the availability of these tools. Otherwise the customers will easily shift to other financial local institutions which offer Islamic financial services in the market, such as Osuol and Aayan and many other Islamic financial institutions, which may serve them better due to fewer complications and better after-sale services. The Islamic tools and facilities have been modernized and standardized to meet the various needs of customers, while maintaining the ethical boundaries embodied in the tenets of Islamic faith.

Table 6.4 Islamic Financial Facilities

Islamic Institution Name and Islamic instruments	KFH	KIB	Boubyan	Investment Dar	A'ayan	First Investment	Osoul	Aref
Murabaha	√	√	√	√	√	√	√	√
Ijara	√	√	√	√	√	√	√	√
Istisna'a	√	√	√	-	-	-	-	√
Wakala	√	√	√	√	-	-	√	-
Mudaraba	√	√	√	-	-	-	√	-
Musharaka	√	√	√	-	-	-	-	√
Tawarruq	√	-	√	-	√	-	-	-
Portfolio Management	√	√	√	√	√	√	√	-
Real Estate Investment	√	√	√	√	√	√	√	√
Investment in Association	√	√	√	√	√	√	√	√
Available for sale investment	√	√	√	√	√	√	√	√
Investment in associate companies	√	√	√	-	√	√	√	-

Source: KIBS and the Individual Banks' Websites

6.3 KUWAIT FINANCE HOUSE (KFH)

KFH is a pioneer in the Islamic finance sector; it is an exemplary Islamic bank that operates within a clear strategy towards providing the customers with the best possible services, meeting their expectations, innovating state-of-the-art products, and improving the service quality. KFH was established in 1977 as the first bank operating in accordance with the Islamic *Shari'ah*. Today, KFH is one of the foremost Islamic financial institutions in the world. It provides a wide range of Islamic *Shari'ah*-compliant products and services, covering banking, real estate, trade finance, investment portfolios, and project construction for its own account as well as for third parties, the purchase and sale of properties, leasing, and other products and services without practicing usury as

shown in Table 6.5, all activities are approved by the Institute's *Fatwa* and *Shari'ah* supervisory board.

6.3.1 KFH'S MISSION AND CORPORATE VALUES

KFH's mission, as stated in their documentation, is as follows: "To be the leading Islamic financial institution in the world by providing competitive and *Shari'ah*-compliant banking, financing and investment products to exceed the expectations of our customers, to motivate our employees and to meet the objectives of our shareholders" (KFH website, 2010). KFH's describes its core values as follows:

  (i)   To uphold Islamic principles and values among all activities of the organization;

  (ii)   To support ongoing initiatives of the global Islamic finance industry;

  (iii)   To participate in and assist the socio-economic endeavours of local communities as a responsible corporate citizen.

These values are continually reinforced and adhered to in all aspects of the corporate operations. Their integrity and sincerity has maintained quality service at all times. The employees of KFH are constantly encouraged to be efficient, creative, and above all successful to create a healthy professional environment.

6.3.2. KFH'S PRODUCTS AND SERVICES

As shown in Table 6.6, a variety of products and services are provided by KFH, covering commercial and personal banking, private banking, real estate management and financing, investment opportunities, and many others.

Table 6.5 Range of Products and Services Offered By KFH

Retail Banking	Commercial Banking	Private Banking
KFH has introduced a variety of methods for their customers to conveniently satisfy their banking needs. An extensive network of branches in each locality to provide face to face customer care. A secure online website that allows for 140 different banking services which can be conducted with ease from home or office. ATMs that over-arch the State of Kuwait, strategically located for easy access. A state-of-the-art voice recognition call centre called 'SAWTAK' that operates 24/7 – the first of its kind in Kuwait. Through such services, KFH has attained 30% of the retail banking market share in Kuwait (the largest share in country). **Accounts and Deposits** Accounts: Current Account, Savings Account. Electron Account and *Baiti* Account for Minors. Investment Deposits: *Al-Kawthar*, Continues, *Thulathiya, Al-Sedra* and Investment deposits in foreign currencies. Cards: Credit Cards and Prepaid Cards. Customer Segment: *Al-Rubban* for men, *Al-Sundus* for ladies, *Al-Tamayoz*, *Baiti* for minors and *Hessabi* for youth.	KFH provides the clients with a wide range of commercial banking services such as buying and selling of new and used cars, furniture and home appliances, construction materials, marine equipment; commercial and industrial deals through a wide network of KFH branches expanding all over Kuwait; and KFH showrooms to enable clients to acquire *Shari'ah* compliant commodities and services in the consumer finance market. The commercial sector in KFH presents after-sale services which include transfer of debts, providing certificates such as discharge from debt certificate, guarantor's release from debt, certificate to the General Traffic Department, and debt certificate. **Banking Services** Travellers Cheques, Demand Draft, Foreign Currencies, Funds Transfers, Letters of Guarantee, Safe Deposit Boxes and *Takaful* (Islamic Insurance). **Other Services** Internet Banking, ATMs, SMS Banking, SMS on time, SMS Instantly, Allo *Baitak*, KFH voice service and Mobile Phone Recharge.	KFH cater to their clients through an experienced team of portfolio managers, who privately mange the banking and investment accounts of clients, in addition to supervising all their personal transactions and affairs at KFH. **Real Estate Banking** Having extensive experience in the real estate business, KFH is concerned with providing real estate financing to clients, trading and investing in real estate in Kuwait and abroad in addition to exchanging and developing properties, and managing real estate portfolios. KFH offers services include lease to own, property evaluation, refinancing, and *Ekar* call service. **Investment** Direct Investment Department, International Real Estate Department, Treasury Department, Assets Management and Follow-up, International Relations and Financial Institutions, Major International Projects Finance, and Investment *Wakala* Contract with a minimum investment amount of KD 25000 or equivalent in foreign currency.

6.3.3 KFH'S FINANCIAL INDICATORS

KFH was first listed in the Kuwait Stock Exchange (KSE) in 1984; as of 31 December 2006, its market capitalization stood at KD 3.133 billion. KFH holds a leadership position in both profitability and total assets. Their total assets (as of 2009) reached KD 11.291 billion, with an increase of KD 747 million as compared to 2008. This equals an increase of 7% compared to the previous year. Its customer deposits amount to KD 7.261 billion, representing the largest share of the total clients' deposits in the Kuwaiti market (about 27.7%), with an increase of KD 650 million (equal to an increase of 10% over the previous year). These figures reflect the trust and the strength of its relationship with its clients. KFH proves its ability to attract new customers by offering them savings and investments vessels that suit various clients segments. KFH is now a market leader not only in the Islamic banking industry, but also in the banking sector as a whole and continues in achieving profits despite the global economic recession.

Table 6.8 shows that KFH net profits of the year 2009 reached KD 71.82 million with an average growth of -63 % over 2006. A significant and remarkable percentage growth in KFH's net profit happened in 2006-2007 during the economic boom that hit the whole economy due to the high oil prices, as was explained in the previous chapters. KFH continued to gain profits since, albeit with lower percentage growth; the lowest was in the year of the international financial crisis 2008/ 2009, where the net profit growth reached 10%, which also explained the drop in the return on assets (ROA) and return on equity (ROE) with a negative percentage growth. During the severe recession that hit the global capital markets, KFH has been affected to a lesser extent by the adverse repercussions of the economic downturn, due to its reliable instruments and sound investments.

However, KFH retains its remarkable assets and equity growth and demonstrates its successful business model: it enlarged its base of assets to KD 11.291billion by the end of 2009 and total equity to KD 1.565 billion, with an increase of KD161.26 million in 2008. Unwilling to be tempted by the abnormal returns over the last years, KFH puts its strength during the international financial crisis down to prudent and cautious strategy. In reality, KFH's response to the crisis was to maintain its geographic diversification policy,

monitor the performance of its subsidiaries, increase allocations to risk-limited and fixed-income investment instruments, increase liquidity ratios, maximize revenues, rationalize expenditure, and promote KFH's financial, income, and social roles. The approach worked: KFH maintained its pioneer financial position strongly, while most of the local banks, except for NBK, attained either losses or a superior drop in their financial performances in 2009.

As shown in Table 6.6, KFH's receivables, which principally comprise *Murabaha* and *Instisna'a*, recorded a steady growth over the last few years. This growth is mainly driven by local *Murabaha* and *Wakala;* recently, the international *Murabaha* has been highly contributing to KFH's balance sheet with KD 1,221,442 billion in 2009, a 68.4% growth over 2008. KFH's net investments in leased assets also witnessed a large growth: the highest increase was in 2007 with 43.6 % over the previous year, recording KD 930,657million. The gross growth in leased assets for the years 2006-2009 was 98.7%, as shown in Table 6.6.

Table 6.6 KFH Balance Sheet/ Assets

	2006	**2007**	**Growth (%)**	**2008**	**Growth (%)**	**2009**	**Growth (%)**	**Growth 06-09(%)**
Receivables	2,778,166	3,988,13	43.5	4,779,788	19.85	5,090,39	6.50	83.2
Leased Assets	647,939	930,657	43.6	1,181,825	26.99	1,288,06	8.99	98.7
Total Assets	6,313,79	8,797,91	39.3	10,544,14	19.85	11,291,6	7.09	78.8

As for the bank's liabilities due to banks and financial institutions, KFH sustained a moderate growth in this regard from 2006 to 2008 and dropped by -8.4% in the following year, with KD 1,460,925 million and 1,261,332 being *Murabaha* payable, and KD 1,938 million as current accounts. The depositors' accounts of the bank include investment and non-investment deposits. The non-investment deposits are in the form of current accounts; these deposits are not entitled to any profits, nor do they bear any risk of loss as

the bank guarantees to pay the related balances on demand. As explained in Chapter 3, these deposits are considered *Qardhassan* from depositors to the bank under Islamic *Shari'ah* rules. With investment deposits like *Mustamera* and *Sedra* deposits and *Tawfer* (savings) accounts, the investment deposits receive a proportion of the profit as determined by the board of directors, or bear a share of the loss, based on the results of the financial year. KFH generally invests approximately 90% of investment deposits for *Mustamera*, 70% of investment deposits for *Sedra*, and 60% of investment saving accounts. The depositors' accounts recorded 94.69% growth over the years 2006-2009 on the liability side, a matter of continued confidence and evidence for the strong bond between KFH and its customers. In all, the liabilities side recorded a substantial growth increase of 82.11% over the past few years and realizing KD 9,286,203 million in 2009, as shown in Table 6.7.

Table 6.7 KFH Balance Sheet / Liabilities

	2006	2007	Growth (%)	2008	Growth (%)	2009	Growth (%)	Growth (%) 06-09
Banks & Financial institutions	1,080,004	1,186,391	9.85	1,595,45	34.4	1,460,925	-8.43	35.27
Depositors' Accounts	3,729,930	5,361,155	43.73	6,611,55	23.3	7,261,827	9.84	94.69
Total Liabilities	5,099,259	6,928,399	35.87	8,601,04	24.1	9,286,203	7.97	82.11

KFH's total realized revenues for the year 2009 have reached KD 766 million; the bank's operating income recorded a reasonable growth from year 2006- 2008 and dropped by 13.35% by the year 2009. The highest growth was in the year 2007 with 40.44 %, realizing KD 813,148 million operating income due to the substantial income generated from financing revenues such as *Murabah*, *Wakala*, *Istisna'a* and leasing along with the bank's investment income; jointly, these aggregate KD 733.290 million as revenue for the year 2007, leaving the remaining revenues generated from the fees and commissions

and other income. The bank manage to put a cap on its expenses for staff cost. *Murabaha*
and *Ijarah* costs and other general and administrative expenses increase in 2009, with a
growth of 1.91% over the previous year, which on the other hand was the highest in this
regards with 92.24 % as shown in Table 6.8.

Table 6.8 KFH Income Statement

	2006	**2007**	**Growth (%)**	**2008**	**Growth (%)**	**2009**	**Growth (%)**	**Growth (%) 06-09**
Operating Income	578,987	813,148	40.44	844,853	8.82	766,703	-13.3	32.42
Operating Expenses	204,107	253,747	24.32	487,808	92.24	497,109	1.91	143.55
Operating Profit	374,880	577,401	54.02	397,045	-31.24	269,594	-32.1	-28.09
Net Profit	193,230	325,395	68.40	174,652	-46.3%	71,820	-58.8	-62.83%
Earnings Per Share	102	166	62.75	68.1	-58.98	52.0	-23.6	-49.02

Accordingly, KFH's net profits of the year 2009 reached KD 71.82 million, with an
average growth of -63 % over 2006. A significant and remarkable percentage growth in
KFH's net profit occurred in the year 2006-2007 during the economic boom that hit the
whole economy due to the high oil prices, as explained in the previous chapters. KFH
continued to gain profits in following years, albeit with lower percentage growth; the
lowest was in the year of the international financial crisis 2008/2009, where the net profit
growth reached 10%; this also explained the drop in the bank's earnings per share as
shown in Table 6.8.

During the severe recession that hit the global capital markets, KFH has been affected to
a lesser extent the adverse repercussion of the economic downturn, due to its reliable
instruments and sound investments as their financial statements indicates. This in fact has

influenced KFH positively, enhanced its efficiency of performance and contributed to strengthening Kuwait's leadership as a sincere advocator for the Islamic financial service industry, which have become a successful business model worldwide in terms of containing the adverse repercussions of the global turmoil that hit the entire global banking system.

6.3.4 STATE-OF-THE-ART TECHNOLOGY

KFH has endeavoured to use the state-of-the-art techniques and gain several evaluations and recognized ratings from prestigious rating agencies in the areas of Islamic banking services. KFH continues the incentive for further progress on all levels as well as the service development policy while launching new innovative products and services with global standards to enhance the technological concept.

Once of these innovated services KFH launched exclusively in the local market is KFH Trade. Since it was listed in the Kuwait Stock Exchange market (KSE), KFH addressed the importance of providing their customers with trading in the market and of diminishing any associated problems that could face them while trading in KSE. Hence, KFH launched the 'KFH Trade' service for trading the stocks of Kuwaiti companies listed in the Kuwait Stock Exchange (KSE) via online and phone services, which operate in accordance with the Islamic *Shari'ah* rules. KFH Trading is part of the e-service series provided by KFH to its customers. The service was launched in cooperation with Al-*Muthanna* Investment Company, a company entirely owned by KFH and established in 1999. A *Diwaniya*-type lounge in KFH's Kaifan branch area hosts dealers, with a view to expanding the scope of the service at a later stage, to include Gulf and global markets and to cover more KFH branches.

KFH Trade comes in line with KFH's trend to cope with the modern technologies that facilitate customers' trading on KSE, while mitigating the daily problems facing investors in the conventional trading methods. The new e-service features fast and simple trading without adding fees, and helps with avoiding many problems most of traders encountered. The main problems are the difficulty to contact the broker during the daily

trading sessions, causing loss of opportunities, and sometimes causing the investors to incur losses that could be avoided at the right time.

In addition, technology utilization has been deepened in all KFH services, and fresh techniques have been adopted to cope with the development in equipment and automated payment systems, such as bankcards, ATMs, and other new developments in banking. KFH provides over 140 online services on its website and through the KFH Online service, which provides the customers with numerous 24/7 banking, commercial, and real estate services. In addition, through their call centre, KFH managed to secure the "Best Middle East Evolutionary Call Centre" prize, due to its role as fastest developing and most interactive centre with an eye to recurring needs and requirements of customers. Since it launched in 2004, 'Allo *Baytak'* employed the latest technology and systems used in call centres, which qualified it in the first two years of operation for the Award of Excellence by the American Purdue University. It is worth mentioning that KFH is the first bank in the Middle East which provides a voice telephone service through which services are completed via voice commands.

More recently, KFH launched its implementation of a new technology that aims to link all KFH systems through one central authority called thin client. KFH is considered to be one of the first local banks to use such technology. The new technology is based on one server for all networks and computers, which meets KFH's expansion and business diversification requirements. Moreover, the thin client technology reinforces the security and the data confidentiality and minimizes the exposure risk of the data used by the employees.

6.3.5 AWARDS AND RATING AGENCIES

KFH has become one the world's major Islamic financial institutions that maintain the highest levels of rating by reputed global parties. It has won more than 15 awards from financial institutions which monitor the development and performance of the major financial institutions around the world. The world's major rating agencies have always highly positively rated KFH, which commended its success. This reflects a factor of success in confidence-building with customers.

Table 6.9 KFH AWARDS

	The Award	The Agency	The year
1	Best Bank in kuwait	The Banker (Financial Times)	2007
2	Best Islamic Bank in the Middle East	Euromoney	2008
3	Best Islamic Real Estate Finance House	Euromoney	2008
4	Best Islamic Products Awards	Asian Banker (Credit Card Chip)	2008
5	The Most Trusted Bank Award	World Finance Magazine	2009
6	Most innovative Islamic Bank	London Sukuk Summit Awards	2009
7	Best Islamic Bank in Kuwait	Asia Money	2010
8	Best Islamic Bank in the Gulf	Global Finance	2010

Source: KFH Website

Recently, KFH won the title of 'most trusted bank' during the year 2009; the award comes as recognition of KFH's great steps in Islamic finance and its leading status, which it reached after more than three decades of commitment, integrity, honesty, and not to mention high standards of professionalism and remarkable qualitative accomplishment that underscored its success, which is evident in the trust of its clients and corporations.

Table 6.10 KFH RATING

	Rating	Agency
1	A+	Capital Intelligence
2	A+	Fitch Ratings
3	A-	Standard & Poor's
4	Aa3	Moody's

Source: KFH Website

The reason for KFH's success story of being the Harvard of Islamic finance could be attributed to several factors: one could be associated with the early years of their institute, when they were faced with their most challenging obstacle – the lack of knowledge and awareness of Islamic financial tools and transactions. This emphasizes KFH's determination to overcome this obstacle via publications explaining the concept of

Islamic transactions and through arranging several Islamic forums for the clients and the public and thus turning KFH into a model for Islamic banking worldwide.

6.3.6 KFH'S SERVICE QUALITY EVALUATION

KFH believes that successful institutions are those who can create a distinct image for their employees through the service extended to customers. Since its inception, KFH has adopted this methodology as a tool for enhancing its concept. Since the commencement of the Service Quality Project in 2004, KFH has achieved continuous relative growth in enhancing the concept of quality by developing staff performance. The growth reflects KFH's successful application of the project, which put it into the lead ahead of the competitors. KFH's strategy to develop the concept of service quality was put into practice by identifying customers' needs in the scope of service and meeting their requirements in order to build a bridge of positive relationship, thus making the customers loyal to the bank in the developing banking market.

Competition in improving staff performance is achieved by periodic monitoring of the business and constant visits to the branches by a team that specializes in implementing the quality concept; this approach differs from that of the mystery shopper in that the identity of the individual is acknowledged. The purpose is to measure the development rates and recognize any positive as well as negative aspects which can then be remedied in order to increase staff efficiency at the bank.

KFH supports outstanding performers, including young employees, by constant honouring, provision of awards, and incentives, which contribute to encouraging them and creating a competitive spirit among the employees in general. The purpose is to develop customer service performance. Honoured employees are selected in accordance with standards and accredited criteria, based on the outcome of individual staff appraisal. These are standards applicable to all the world's major banks. They are divided into branch standards and employee standards. They accurately identify what should be done by each employee, covering all customer service pivots, from the beginning to the end of the service transaction.

During the summer travel season, KFH, in collaboration with MasterCard Worldwide, launched a Westfield London VIP Pass as a special privilege exclusively aimed at KFH MasterCard holders: upon presenting their KFH MasterCard to the Westfield London Shopping mall concierge, cardholders receive a VIP pass that entitles them to a 25% discount across the mall's various retail outlets.

6.3.7 KFH'S EXPANSION

KFH has always endeavoured to expand its local branch network, currently featuring 51 branches, in addition to opening special sections for ladies since its launch. It adopts the out-of-branch client concept. KFH has maintained its foothold as a pioneering entity in utilizing the latest technologies to meet the requirements of the various activities in which it operates, using online, SMS, as well as phone service (Allo Baitak), which has received the highest accreditation from US-based Purdue University for outstanding customer service level. KFH has been awarded by The Banker magazine as the world's Best Islamic Financial Institution of 2001, and for three successive years it has been awarded by Euro Money magazine as the best bank. KFH is proud of its manpower skills. It employs a number of outstanding human resources and is a pioneer in manpower Kuwaitization.

There are several factors that boost responsiveness and interaction between KFH and its customers; these include activating the geographic expansion policy by opening more branches as shown in Table 6.13, in addition to introducing a set of integrated services in the branch nearest to customer, via the 'Comprehensive Branch' concept. This concept derives its business methodology from the basic nature of KFH, which includes providing a basket of diversified services that tackle all aspects of individual life.

Table 6.11 Local Islamic Bank Branch expansion in Dec. 2009

<u>Banks</u>	2008	2010	Increase	% Change
Total Islamic Banks	67	81	14	20.8%
Kuwait Finance House	46	51	5	10.8%
Kuwait International Bank	9	12	3	33.3%
Boubyan Bank	12	19	7	58.3%

Note: Warba Bank and AlAhli United Bank is excluded as they were not operating in 2009

KFH's expansion exceeded the local market, and since the 1980s KFH witnessed an increase of activity in international expansion; it established independent banks in Turkey, Bahrain, and Malaysia, as shown in Table 6.15. KFH used those countries as a base to focus on investment banking service opportunities in Eastern Europe, the Middle East, and Asia, as well as Australia. Furthermore, KFH will begin investing in Saudi Arabia once it gains the approval for its Saudi subsidiary.

In addition to these ventures, KFH recently established a subsidiary with a pair of Chinese firms to explore real estate investments in the Chongqing province of central China. Its investment activities in the US, Europe, South East Asia, and the Middle East contributed tremendously to achieving the ever-growing profit of KFH, in collaboration with the world's leading companies and banks, such as Citibank, Deutsche Bank JP Morgan, Chase, BNP Parisbas, ABN Amro, HSBC, and the Islamic Development Bank (IDB).

Moreover, KFH-Bahrain, a subsidiary of KFH, unveiled plans to establish its own subsidiary in Amman, called KFH-Jordan. According to KFH chairman and managing director, Bader al-Mukhaizeem, KFH-Jordan will increase the reach of KFH's worldwide network, focusing not only on investment banking but also on private equity and tourism investment.

One of KFH investments internationally was the Pavilion project, one of the biggest real estate developments in Malaysia. The project involved the building of two residential tower blocks in Kuala Lumpur containing 368 units. KFH succeeded in diversifying its investment portfolio to not only include real estate projects but also to embrace different projects such as power, gas, transportation, education, medical care, technology and project management, and construction.

Meanwhile, KFH continued to expand globally by operating in more than 20 countries with 175 branches around the world, which prompted many nations to ask KFH to operate in their country. However, the local market remains a priority to KFH, which prompts it to reinforce its market share and strengthen its competitive status.

Table 6.12 KFH Subsidiaries and Affiliates

	Company Name and Activity	**Company Logo**
1	KFH Bahrain (Commercial and Investment Banking Services)	
2	KFH Malaysia (Banking Services)	
3	Kuveyt Turk (Banking Services)	
4	Human Investment Corporation (Education)	
5	Public Service Company (Administrative Services)	
6	KMC Holding (Project Management and contracting)	
7	Liquidity Management House (Financial Services)	
8	Development Enterprises Holding Company	

9	Nakheel United Real Estate Company	
10	Muthanna Investment (Investment Bank)	
11	Al Salam International Hospital (Health Care)	
12	ALFACO Aviation Lease and Finance House (Aircraft Leasing and Finance)	
13	Al Enmaa Real Estate Company	
14	International Turnkey System (Technology)	
15	AREF Investment Group (Investment Bank)	
16	Gulf International Automobile Trading	

Source: KFH website

6.3.8 STAFF TRAINING

KFH believe that the local and regional market is currently witnessing fierce competition in the field of Islamic banking, which requires upgrading the skills of employees through training and academic courses. KFH focuses on training to accomplish that objective through overcoming any obstacles that might hinder training, in addition to making the atmosphere conducive. KFH highly contribute to building their employees' development through various training tools, such as e-learning and professional training opportunities in investment, *Shari'ah*, client services, sales skills, administration, supervision, and several other modern fields in the banking domain. Only recently, in October 2010, KFH conducted a training course to prepare 50 banking sector employees to receive the Certificate Islamic Banking (CIB) certificate for employees who work as banking

supervisors and who directly interact with clients and customers in the field of banking products and services. The CIB certificate grants it holder professional accreditation in the field of offering *Shari'ah*-compliant banking services, which makes it a popular certificate among many Islamic banks around the world. KFH expands its support beyond their employees and contributes to support students, teaching staff, universities, and private and governmental institutions, and this is based on its firm belief that economic growth is linked to educating and mentoring the human elements.

It is worth mentioning that KFH appointed the new employees at KFH's branches after passing an extensive training course in conjunction with the Human Investment Company and the Restructuring of National Labour program. KFH believes that their qualified employees are its most valuable assets, and especially that their staff had the opportunity to get exposure to a variety of substantial kinds of banking services, which adds to their experience and eventually leads to better services and products.

6.4 BOUBYAN BANK

Boubyan bank is a public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the state of Kuwait, by Amiri Decree No. 88 with a paid-up capital of 100 million KD for the purpose of exercising all activities of the banking business (financial and commercial) in accordance with the rules and regulations of the Central Bank of Kuwait, Law No.30 passed in 2003. More than 90% of Kuwaiti citizens are the bank's shareholders, owning 76% of Boubyan Bank shares. The remaining shares are owned by Kuwait Investment Authority (KIA) with equity of 20% and the Public Institution for Social Security (PIFSS) with equity of 4%.The bank's shares was listed in the Kuwait Stock Exchange on 15 May 2006. The Bank was licensed by the Central Bank of Kuwait on 28 November 2004; the bank is principally engaged in providing banking services, in accordance with regulations of the Islamic *Shari'ah,* as approved by the Bank's *Shari'ah* Supervisory Board.

6.4.1 BOUBYAN BANK VALUE-DRIVEN VISION

Boubyan Bank's mission statement states as follows "We foresee an integral role for Islamic banking in the mainstream industry internationally. We envision a global standardization phenomenon which will establish universally understood and accepted standards, systems, procedures and modes for Islamic banking operations. To this effect, we are working towards establishing co-operation channels for Islamic banks across the globe" (Boubyan Bank website, 2010).

"Our endeavor is to establish clear differentiators to classify the operational standards of *Shari'ah* principles and practices, the effective distributions of profits between shareholders and depositors, establishing guidelines for the development of *Shari'ah* compliant investment instruments and capital mobilization vehicles, and promote awareness of credit rating requirements and standards" (Boubyan Bank website, 2010).

Boubyan Bank is built on the ideal of establishing socio-economic equity by influencing the business environment and society in which it operates through the sincere application and ethical practice of Islamic banking and value creation for its customers, partners, and shareholders.

6.4.2 BOUBYAN BANK's STRATEGY

Boubyan Bank implements an interactive and dynamic strategy, which defines the character as a learning organization. It promotes interactively by adopting a bottom-up approach within the organization engendering debate and analysis of the domestic, regional, Arab, and Islamic markets to identify *Shari'ah*-compatible business opportunities; it encourages active testing of procedures on a regular basis; and it aligns work processes to market developments and customer expectations. Boubyan Banks' strategy is critically based on their unique business architecture, a culture that promotes learning organization dynamics and the solid foundation of good corporate citizenship principles.

Boubyan Bank promotes a culture that enables and infuses their business architecture with vitality and the ability to rejuvenate itself in relation to changing market trends. Their corporate policies are strongly based on the ideology of Islamic banking and finance which govern every aspect of their operations, and they predate the recent importance attributed to good corporate citizenship and its indispensable link to positive and profitable business performance. Boubyan Banks' action-specific performance benchmark reflects their human resource management policies aimed at inspiring and motivating employees.

Boubyan Bank understands that the Islamic banking and finance industry is growing in most Islamic countries both in terms of size and sophistication so as to progressively dominate the domestic banking landscape. This however, may only materialize through a unique combination of focusing on its true spirit of ethics and dynamics, cultivating a far-sighted belief in an ideal scenario of banking and business partnerships and a broad perspective of business adaptation and application that transforms challenges into opportunities. Therefore, the primary challenge of Islamic banking today is to reconcile its dual roles as a business facilitator and as a financial institution. Boubyan Bank understands this very well. The bank creates a perfect combination of comprehensive knowledge dynamics and a financial environment conducive to the development of profit-friendly and risk-mitigating Islamic products and instruments.

6.4.3 BOUBYAN BANK'S PRODUCTS AND SERVICES

As seen in Table 6.14, Boubyan Bank's management had dedicated themselves to present and launch into the market a new innovate and developed banking service aligned with Islamic *Shari'ah* principles such as *Manas'a* educational finance and *Abna'ee* fixed deposit and Bobyan credit express pay to cope with the local market requirements. The bank will continue to produce multiple banking services and finance and investment instruments that will add value to Islamic banking. The bank continues to develop its products and services: more recently the bank launched their new product known as *Musawama* (bargaining) to ensure again its ability to innovate and provide clients with new services that fulfil their requirements.

Table 6.13 Range of Products and Services Offered by Boubyan Bank

Accounts and Deposits	Personal Banking	Investment sectors and products
Current Account: Flexibility, speed and high percussion in a day by day banking with the option to open the account in local or foreign currency. Salary Account: Enjoy special and flexible banking services by transferring your salary, available only in Kuwaiti Dinars. Saving Accounts: Deposit your money and earn a monthly profit with a safe Islamic investment with a minimum opening balance KD 50. Investment Deposits: *Mudaraba Deposits:* Invest in *mudaraba* deposits and earn competitive profits with flexible investment terms. With a minimum deposit amount KD 3000. *Wakala Deposits;* Benefit from a profitable return notified in advance and flexible deposit terms from 7 to 365 days with a *wakala* deposit with a minimum deposit amount KD 5000. *Abna'ee Fixed Deposits*: A charity fixed deposit to help the orphans, the profit generated from the deposit will be match by another donation from the bank. The minimum deposit is KD 5000, the deposit available in Kuwaiti Dinars only. The profit and donation will be determined in advance.	Personal Finance: Finance the customer's different financial needs through: Cars Finance up to KD 15000, Boats and Marine equipment Finance up to KD 15000, Furniture and electronics finance up to KD 15000, Construction Material financing up to KD 70000 and *Manfa'a* Educational Finance up to KD 15000 with any private educational sectors inside Kuwait with no salary transfer required. **Corporate Finance**: Corporate Finance Group provides a wide range of finance services for small, medium and large companies. These services include: Investment Finance, Real Estate Finance, Project and Contracts Finance and Working Capital Finance. Trade Services: Import and Export letters of credit-*murabaha* L/C- Documentary Collection- Letters of Guarantee. Capital leasing (*ijara*) and foreign Exchange (Spot). **Treasury/ Money Market** Structured *murabaha* transaction, structured project finance (*musharaka*, *istisna'a* & *salam*) lease finance (*ijarah*) sukuk issues and placement of funds through *wakalah* deposits	Direct Investment, marketable securities, international real estate and external business development. Boubyan Financial Fund (KWD) and (USD). Global Real Estate Fund: To provide investors with medium to long term capital growth and cash returns through investment in premier global real estate opportunities. *Sukuk* Fund: To provide investors with the unique opportunity to invest in the booming Mecca hotel industry during the Hajj season. **Cards** Debit Cards with the benefit of cash withdrawals up to KD 2000 per day and local point of sale payments up to KD 15000 per day, Credit Cards (Classic and Gold) monthly interest charged dues and options of monthly payments of 8.33%, 20%, 33% and 100%. And finally the two types Prepaid Cards (Reloaded and Gift Cards). **Other Banking Services** Stock-broking service Fund transfer and Safe-keeping Management of property and estates, Traveler's checks ATM services Tele-banking Private Banking Internet Banking, Call Center, SMS Services. Tele Services (International Calls, Prepaid Calls Recharge, Internet Prepaid cards) and Boubyan Credit Express Pay.

Source: Boubyan Bank Website

6.4.4 BOUBYAN BANK'S FINANCIAL INDICATORS

Since its corporation, Boubyan Bank has been facing tough competition with the conventional and Islamic banks in the country, whose capital basis and strong presence on local, regional, and international levels are well recognized. Nevertheless, the well-established policies and strategies adopted by the banks' management had exceeded the expectations and achieved the goals and objectives, and the bank has leaped from the stage of evaluation and incorporation into the stage of products and services development and broad geographical range with 19 branches across the country, as previously shown in Table 6.14.

Table 6.14 Financial Indicator Growth in Boubyan Bank's Balance Sheet - Assets

	2006	2007	%	2008	%	2009	%	06/09
Receivables	115,689	197,7	70.89	475,43	240.4	576,55	21.2	398.37
Leased Assets	7,781	67,38	766.0	1,092	-98.3	1,608	47.2	-79.3
Total Assets	504,33	745,9	47.90	840,46	112.6	964,77	14.7	91.30

The banks' total assets amounted at KD 964,779 million as of 31 December 2009, with a growth rate of 14.8% over 2008 and gross average growth of 91.3% over the years 2006 to 2009 as shown in Table 6.16.The banks' receivables recorded a steady growth of 21.27% in the year 2009 with KD 576,558 million, distributed between financial institutions' receivables as the biggest share with KD 255,116 million, constructions and real estate comprising 172,244 million, trading and manufacturing with a share of KD 60,95 million and KD 148,709 million classified as other receivables. Boubyan Bank increased its investments in leased assets through the years to reach KD 1,608 million in the year 2009 with an annual growth of 47.2% over the previous year.

**Table 6.15 Financial Indicator Growth in Boubyan Bank's Balance Sheet -
Liabilities**

	2006	2007	%	2008	%	2009	%	06-09 %
banks & financial institutions	111,42	287,50	158.02%	118,13	41.09%	156,78	32.72%	40.7%
Depositors' Accounts	264,32	307,45	16.32%	569,63	185.27%	708,95	24.46%	168.2%
Total Liabilities	383,92	606,43	57.96%	702,92	115.91%	875,67	24.58%	128.0%

The liability side also recorded a 32.7% growth in the year 2009 due to banks and financial institutions, with KD 156,781 million divided between investment and non-investment accounts, KD 132,352 million and KD 24,429 million respectively. Likewise, depositors' accounts reached KD 709 million in the same year with KD649, 960 million and KD 58,997 million representing investments and non-investments deposit accounts. Generally speaking, Boubyan Bank increased its liability base over the few past years with an average growth of 128% as Table 6.17 shows.

Bank Boubyan managed to maintain its stability with a positive operating income of KD47,508 million at year-end 2009, 34,960 million of investment in *murabaha* and other Islamic financing income, and KD 7,325 million as investing income due to gain on money market funds, *sukuk* income, and rental income from investment properties. The bank achieved appositive level of growth as of 43% for the years from 2007 to 2009. After the first year of incorporation the bank managed to gain more than twice of its operating profit in the year 2008 comparing to year 2007 with a percentage growth of 77.6%. In general, the bank did well in the first two years of its establishment with the exception of the years 2008 and 2009 which are globally accepted as being exceptional years. The banks' expenses in the year 2009 are KD -19,625 million, KD 10,446 million being staff costs and KD 7,674 million as general and administrative expenses.

Table 6.16 Financial Indicator Growth Boubyan Bank -Income Statement (KD, 000)

	2006	2007	%	2008	%	2009	%	06-09%
Operating Income	33,21	54,295	63.46	63,411	116.7	47,508	-25.08	43.02
Operating Expenses	8,997	14,637	62.69	-17,48	-119.4	-19,625	12.26	-318.13
Operating Profit	18,72	33,268	77.65	17,873	53.72	-40,738	-327.9	-317.54
Net Profit	10,31	18,632	80.65	1,932	10.36	-52,013	-2792.	-604.30
Earnings Per Share	9.68	17.52	80.99	1.58	4.40	-44.36	-2907.	-558.26

Provisions made by the bank to address the impact of the international financial crisis amounted to KD 66.9 million, leading to unrealized loss of KD 52 million. In a prudent effort the bank has taken further precautionary actions to reinforce its financial position in the local market by making the required provisions for certain investments affected by the crisis, such precautionary provisions affected the bank's financial results.

Boubyan Bank announced a profit of KD 4.5 million for the nine months period ending 30 September 2010 out of which KD 1.5 million for the third quarter compared to a net loss of KD 17.2 for the nine months period ending 30 September 2009. This assured that Boubyan Bank was right when it expected that the year 2010 brings a new phase of the bank backed with several factors which will contribute to the expected developments over the coming years:

(i) the entry of new shareholders in to the bank's equity structure, chief among them being the NBK,

(ii) completion of capital increase,

(iii) the new bank strategy developed by the top international consulting firm in coordination with the board of directors and executive management,

(iv)   Hiring a professional team with long banking experience.

6.4.5 STATE OF ART TECHNOLOGY

Due to the massive use of the online banking, and internet use in general in Kuwait, the bank has updated its website and made it more attractive and much more comprehensive in terms of the number of services that clients can obtain at the earliest convenience and with the least amount of effort.

The bank's call centre received a special appreciation from the international Call Centres Association in 2009, in addition to the certificate obtained from "Charisma Business Consultancy and Training Solutions" through the banks' collaboration with their partners in the United States" The Call Centre School".

The bank succeeded in realizing its prime objective and applies more technological innovations to the business requirements, which reflected on the bank's customer service such as express credit payment. The Banks' IT group has developed a series of services and applications, such as a comprehensive automated system to calculate the provisions and control reports in addition to a system with high security features for corporate clients for all their trade finance needs.

Moreover, the improvements included an automated system to support the new generation of internet browser and payment browsing, while also developing the self-service capabilities for human recourses. The group also improved its abilities to deal with probable catastrophes through alternate operations rooms in Kuwait and abroad which can be used in emergencies.

6.4.6 AWARDS AND RATINGS

Boubyan Bank wins the best Islamic bank in Kuwait Award for the year 2010, awarded by Arabian Business. The award was given to Boubyan Bank due to its achievements in the transitional period after NBK joined the list of large shareholders, followed by an evaluation and assessment of the Bank's status for two months and led to the launch of operations through a series of balanced steps. The first of these steps was contacting a

global consultant house, McKinsey, to place the strategy that the Bank is currently implementing, raising the Bank's capital by 50%, and boosting the Bank's human resources and their efficiency.

6.4.7 BOUBYAN BANK SERVICE QUALITY EVALUATION

To evaluate the quality of their services, Boubyan bank used two main approaches (both through employee assessment), as they believe that satisfied customers are derived mainly from competent employees. According to the researcher's observation, Boubyan Bank highly acknowledged the service quality issue, yet conducted very basic tools to measure it. For example, Boubyan Bank used a mystery shopper to assess and evaluate how good the employee was in delivering the service to the customer and neglecting the customer's say in this issue. Also Boubyan Bank traced new clients, who recently opened accounts with the bank, through the direct sale team and asked them if the employee was one of the reasons that influenced him/ her to open the account; they also distributed a short list of other criteria the bank believes count in attracting new customers.

Having said that, this does not mean that the bank does not appreciate the importance of the customer satisfaction concept, but there is no a clear strategy of assessing their customer satisfaction with the services and products provided. This is particularly noticeable since the bank's strategy's centre line is innovation in producing new products and services that meet the customers' expectations of the Islamic banking in the market. To provide new products and services means that it is essential to assess the outlook and prospect of these innovations in the eyes of customers.

6.4.8 BOUBYAN BANK'S EXPANSION

The year 2009 witnessed a remarkable growth in the bank's presence in the local market by virtue of inaugurating a number of branches to cover the most congested areas so that the number of branches totalled 15 by the year end; Boubyan focused on creating branches designated for women for more privacy and convenience, in addition to increasing the number of ATMs to cover the strategic areas in Kuwait. As to supporting the commercial movement in the country, the bank has increased the points of sale

appliances, and has inaugurated more marketing offices in the showrooms of most prominent vehicle dealers. Meanwhile, the direct sales team has played a major role in penetrating the market through offering the bank's services and products in several governmental locations as well as in the entities that are considered main target to solicit more clients.

6.4.9 STAFF TRAINING

Boubyan Bank believes that the staffs are the pillars of any institution that aims to realize accomplishments; they state that the human element is always the drive of their plans and strategy. Boubyan Banks' human resources closely cooperate with other groups and section inside the bank to realize their objectives and purposes thorough an effective contribution to human resources and training management. Boubyan bank has several levels of training activities for their staff. The bank's attention is to follow up with the latest developments on the professional level in different positions of the bank's sector and to coordinate internationally approved job qualifications such as the certificated banker certificate and the certificated credit manger certificate for a number of their employees.

6.5 KUWAIT INTERNATIONAL BANK (KIB)

On the first of July 2007, the Kuwait Real Estate Bank (incorporated in 1973) was renamed to 'Kuwait International Bank', to carry out its business as an Islamic bank after the approval of Kuwait Central Bank for the conversion of the bank to an Islamic Bank on December 3, 2006. The Amiri Decree was issued on 25 May 2007, approving the conversion. The Bank carries out all banking and investment transactions in compliance with provisions of Islamic *Shari'ah* and in adherence to the instructions and regulations issued by the Central Bank of Kuwait.

KIB is the first bank in Kuwait which converted from a conventional to a *Shari'ah*-compliant bank. It is also deemed the first bank throughout the Gulf area converting from a specialized bank to a comprehensive Islamic bank performing in accordance with Islamic *Shari'ah*. The bank began its conversion process depending on certain well-

considered concepts establishing the conversion methodology with special emphasis on gradual progression, setting priorities, ensuring optimal utilization of available human resources, providing staff with adequate training to develop their capabilities so that they can efficiently perform the new required tasks, defining the new Islamic banking products, and accommodating transactions of the bank's customers with the new system. The conversion has been implemented in several stages, each characterized by accurate and technical details, specific features, requirements and tasks, as well as legislative banking, financial, and organizational regulations. To record their successful conversion process, KIB documented the experience through a book entitled "Conversion… Approach… Achievement", which acts as guidance for other banks aiming to convert to Islamic and *Shari'ah* banking. By and large KIB obtained a leadership role in the conversion process in the GCC as whole.

In the three years since its conversion, KIB was able to achieve diverse objectives, the most prominent of which are the following:

(i) Reinforcement of the bank's financial position, whereby assets exceeded KD 1 billion total;

(ii) Maintaining shareholder's equities;

(iii) Increasing deposits of customers and financial institutions by 1.5 times compared to pre-conversion deposits;

(iv) Management of the financing portfolio – increase of 60% – through prudent management based on credit standards which focuses on liquid and profit-making investments;

(v) Introduction of numerous investment products and advanced banking services based on the latest State-of-The-Art banking technologies and applications;

(vi) Expansion of the branches network so as to reach thirteen branches;

(vii) Development of the staff's capabilities within an advanced structuring framework.

6.5.1 KIB'S MISSION STATEMENT

"The success of any bank rests solely on its products, offerings and customers services. At Kuwait International Bank we understand this well. This is why we are constantly working towards offering our valued customers innovative and *Shari'ah* compliant products and practical services, with Trust and Ease" as stated at KIB mission statement (KIB website, 2010)

6.5.2 KIB'S PRODUCTS AND SERVICES

The bank's business covers all banking services, including acceptance deposits, exercising various Islamic financing transactions, carrying out direct investment transactions, issuing letters of credit (LCs), letters of guarantee (LGs), incorporation of companies, management of properties to the account of third parties, and the purchase of lands and real properties. The bank also provides its customers with a variety of Islamic banking facilities which cover several Islamic products and solutions, such as *wakala* investment, *murabaha* (auto, real properties, commodities) lease-to own (*ijarah muntahia bittamleek*), and *istisn'a* as shown previously in Table 6.2.

KIB offered new and developed products and services which witnessed significant demand by customers, including, for example, Salsabeel accounts, and Al Jood and Haboob children's accounts. Al Jood is one of the distinguishing products KIB managed to deliver to its clients; the bank has been awarded for it in 2009. Table 6.19 summarized the range of products and services offered by KIB.

Table 6.17 Range of Products and Services Offered By KIB Bank

Retail Banking	Credit Cards	Real Estate Banking
Retail Banking *Real Estate Murabah* Provides customers with private residences villa, an apartment or even a plot of land for private residential unit with a maximum financing KD 70,000 *Goods Murabah* KIB provides its customers with a wide range of a daily use consumer's products in compliance with Islamic *Shari'ah* principles with a maximum financing KD 15,000 *Vehicles Murabah* The bank offers a wide of diversified finance new and used cars, boats and marine equipment. *Salsabeel* *Salsabeel* is designed to serve customers' needs for purchase of commodities, services, or real estate; the main purpose is to settle existing financial commitments to other banks under conventional contracts. The repayment of their existing indebtedness is made using *Tawarruq* via installments in accordance with *Shari'ah*. **Accounts and Credit Cards** Accounts Current Account, Saving Account. *Al Aamel* Account for labor salary transfer, *Habboub* Account for minors and more recently *Rimas* and *Al Nafees* Account which is adapted for women and men respectively	**Credit Cards** *Al Maysara* Credit Cards (Gold and Classic) with a minimum payment option of 33%. *Al Dawli* Visa Charge Card where you can settle the total outstanding on payment due date. Available in (Gold and Classic). **Investment** *Al Joud* Deposit Expected competitive profits rates from one month to one year, with a minimum opening account of KD 5000 *Investment Deposit* There are two types of investment deposits; one is the term investment deposit with one- there- six month and minimum deposit of KD 5000. And the other type is the KD1000 deposit with a one year term investment deposit. In both types, the profits will be distributed at the end of the financial year. **International Banking** KIB offers a wide range of facilities internationally; the international banking department develops and maintains correspondent banking relationships with major banks and financial institutions worldwide. KIB is also is in the process of developing structure and corporate finance transactions.	**Real Estate Banking** *Real Estate Murabaha* Financing is granted through *Murabaha* for the purchase of income generating real estate which include investment, commercial buildings and compounds, residential units, and lands, such financing is envisaged to fulfil the needs of long term real estate investments secured through the mortgage of the same or other real estate. *Real Estate Ijara* Financing is granted through *Ijara Muntahiya blitamalul* for the purchase of income generating real estate which include different types mentioned in the Real Estate *Murabaha*, *Real Estate Istisna'a* *Istisna'a* facilities are granted to corporate and retail customers for real estate constructions in commercial or investment purposes. The land or building to be constructed is the collateral in such process, or any other securities acceptable by the bank. *Istisna'a* can also be granted for the purpose of restorations, additions, or alterations to certain complementary items. KIB also provides a property management facilities and Real estate appraisal.

6.5.3 KIB'S FINANCIAL INDICATORS

KIBs' total assets reached KD 1, 140,336 billion with a reasonable growth in its assets side in 2009 with a 5.31% increase over the previous year, as shown in Table 6.20. The increase is mainly due to KD 761,893 million distributed between *Murabaha* and *Jjarah* receivables and KD 267,160 million of banks and financial institutions receivables via *Murabaha*. Both *Murabaha* and *Ijarah* recorded a noticeable growth over the years with an average of 31.63% and 20.31, respectively.

Table 6.18 KIB's Balance Sheet/ Total Assets Growth

	2007	2008	2009	% 07-08	% 2008-2009	% 07-09
Murabaha Receivables	473,387	555,572	623,137	17.36	12.16	31.63
Ijara Receivables	88,179	196,354	198,764	122.68	1.23	125.41
Total Assets	947,862	1,082,845	1,140,33	14.24	5.31	20.31

Regarding the liability side of the balance sheet, KIB's total liabilities accounted for 967,133 million in 2009, with an increase of 5.35% over the previous year. The bank's depositor accounts reached KD713, 284 million, divided between investment and non-investment deposit accounts. The bank's liability due to banks and financial institutions witnessed a drop in 2009 over 2008 with -11.64%, as shown in Table 6.21.

Table 6.19 KIB Balance Sheet/ Liabilities Growth

	2007	2008	2009	% 07-08	% 08-09	% 07-09
Due to banks & financial institutions	198,173	263,128	232,513	32.78	-11.64	17.33
Depositors' Accounts	573,337	636,269	713,284	10.98	12.10	24.41
Total Liabilities	790,010	918,027	967,133	16.20	5.35	22.42

As far as the income statement, KIB generated KD 34,708 million in 2009 as operating income – a decrease of 17.9% over the previous year, of which KD 29,598 million were

financing revenues, KD 2,473 million were considered as fees and other charges, and KD 2,430 million as investment revenues. The bank's expenses on the other hand showed an increase of more than 99% compared with the previous year; this is mainly due to the bank's cautious provisions, which accounted for KD 27,399 million in 2009 (compared with KD 9,438 million in 2008) to avoid adverse implications that might have occurred as a result of the global financial crisis. The bank cut 3.4% of the staff expenses in the year 2009 from KD 11,534 million to KD 11,135 million. Accordingly, the bank recorded an unreleased loss of KD 8.235 million in 2009 with more than 140% drop over 2008, when the bank generated KD 19,800 million as net profit.

Table 6.20 KIB Income Statement

	2007	2008	2009	%07-08	%08-09	% 07-09
Operating Income	29,728	42,309	34,708	42.32	-17.97	16.75
Operating Expenses	-10,878	-21,551	-42,943	98.12	99.26	294.77
Operating Profit	18,850	20,758	-8,235	10.12	-139.67	-143.69
Net Profit	17,982	19,800	-8,235	10.11	-141.59	-145.80
Earnings Per Share (Fils)	21.18	23.33	-8.82	10.15	-137.81	-141.64

6.5.4 STATE OF THE ART TECHNOLOGY

Less than one year after converting to an Islamic bank, KIB launched its internet banking channel (Al-Dawli Online), providing full banking services to its clients at their convenience. The online services include account enquires, local and international transfers, utility payments, charge cards accounts, financing facilities enquires, cheque book requests, statements, etc. The banking services will be delivered through secure and efficient channels over the internet. KIB provides its clients and customers with drive-through ATM facilities at four of its branches, and self-service facilities in selected branches.

KIB will continue to invest in information technology to enhance its product offerings and competitive positing, and to demonstrate the required flexibility to ensure a fast response to new business opportunities and the changing market conditions.

6.5.5 AWARDS AND RATING

KIB was rated (A-) by Fitch International Rating Agency with a stable long-term outlook, which reflects the distinguished performance and the successful procedures and strategies followed by the bank's management in converting from a conventional bank to an Islamic one.

The bank also won the Best Banking Product Prize in 2009 granted by the Banking Magazine for *Al-Jood Al-Muthmira* Deposits, for being greatly flexible in terms of duration which varies from one month to one year and for being available not only in Kuwaiti Dinars but also in the other main currencies with a minimum of KD5000/- or equivalent.

6.5.6 KIB'S SERVICE QUALITY EVALUATION

In 2009 KIB introduced the service quality unit with the objective of constantly assessing customers' requirements and needs, as well as assessing the quality of their services along with monitoring the employee performance. Not only was this a late step, but the bank also started with a small unit with no more than two employees. One can argue that the step was just at the right time, since the bank was a specialized bank before the conversion to an Islamic bank, and there was no necessity to establish a service quality department that manages the services provided up to that point. The role of the service quality unit's staff is to organize for mystery shoppers to visit the branch staff and to present reports on how the staff delivers the service for their clients. Also, the service quality employees regularly check the box of complaints raised by the customers and try to address the common complaints and draft a report for the retail executive with the aim of solving these issues and complaints. The service quality staffs also conduct random visits to the branches to assess the branch appearance and that all in all everything looks satisfactory.

To approach their potential customers, KIB always conducts a massive campaign to market their products and services in governmental institutions, education centers, exhibitions, and universities. KIB succeeded in attracting new customers and having 400 customer transfers from local banks to KIB in 2009 only.

One of the services offered by the bank is the safe lockers in KIB branches. The new service enables branch staff to allocate safe deposit lockers to clients and maintain them securely.

Due to its experience in the real estate sector, having been a specialized real estate bank before converging to Islamic one, KIB is working hard to have the comparative advantage and to secure the niche market in this area. To this end, the bank is establishing a limited liability real estate company, which will assume the task of appraisal, management, sale, and purchase of real estate properties. The incorporation of a real property company is deemed a considerable move to provide excellent service to its customers and to speed up the execution of transactions, as well as to enhance the confidence between the bank and its customers.

6.5.7 KIB'S EXPANSION

It is noticed that KIB has been determined since its conversion in 2007 to open no fewer than five branches per year to serve its customers and expand its local geographic distribution. By end of 2009, KIB had managed to open 13 branches providing full services to its clients. All of KIB's branches serve both male and female clients. Moreover, KIB is always present in most of the car dealers and agents to provide easy *Murabaha* transactions for customers. KIB is also participating in all of the real estate exhibitions that take place in Kuwait or across the region.

6.5.8 STAFF TRAINING

KIB is keen to attract staff with high expertise and skills to join the bank. The bank recently completed the second line staff project in order to ensure reserve staff members possess the necessary leadership capabilities and attributes and to provide them with the suitable training to assume such responsibility.

KIB provides more than 186 in-house and external training courses to upgrade the efficiencies of their staff. The training division in KIB adopted two projects, namely the development of quality service in the retail banking department and the project for qualification for newly graduated employees. The first project was introduced in April 2008 and lasted until February 2009. The project aimed for developing the skills of retail managers and staff as well as the Tele-banking staff. The second project was directed at newly graduated employees and lasted for 20 months, during which trainees were provided with the essential skills required in the banking sector and their sound understanding of the Islamic banking business. KIB also carried out overall training during the last couple of years for all retail banking department staff to ensure the quality service delivered to customer.

6.6 CROSS-COMPARING INDICATORS

The section present a cross sectional comparison between the three Islamic banks operating in Kuwait. The focus lies on attributes believed to have a strong influence on customers' preference for dealing with one bank over another. These are: first, financial performance, second a general comparison of the *Shari'ah* Board Committee, and last, a general services and products comparison. After analyzing the main financial indicators for each bank separately, the tables below produce a comparison of the main financial indicators between the three banks such as customers' deposits, assets growth, ROE, and ROA.

6.6.1 FINANTIAL INDICATORS

When considering the customers' accounts as an element of comparison, there was no doubt that KFH was going to win the biggest share among the other Islamic players; nonetheless it is always useful to see how each of the banks manages to increase their customer base over the years, and it is always beneficial to benchmark how the others are doing – whether the approach they are using is really helping them to expand their customer base and attract new clients, which, in the end will help with forming the bank's strategy to go forward and do better.

During the year 2007, KFH increased their customer deposits by 44% and Boubyan managed to increase its customer deposits by only 16%. KIB on the other hand lost about 6% of their customers' deposits, as some of their clients, who felt intimidated by the conversion process and were not sure of its implications, withdrew their deposits to other banks as shown in Table 6.21. The biggest change among all the banks was in 2008, with Boubyan Bank accomplishing an 85% increase in their customer deposits base. Boubyan Bank's percentage growth is higher in that year, which reflects Boubyan Bank as a potential strong rival for KFH; it will be much stronger after NBK had the biggest share in it with more than 60%.

Table 6.21 Deposit Growth Indicator

Bank	2006	2007	2008	2009	% 2006-2009
KFH	3,729,930	5,361,155	6,611,556	7,261,827	
% Growth	-	44%	23%	10%	95%
KIB	613,000	573,337	636,269	713,284	
% Growth	-	-6%	11%	12%	16%
Boubyan	264,328	307,459	569,636	708,957	
% Growth	-	16%	85%	24%	168%

It can be seen that the over the years Boubyan Bank had the highest average growth percentage in assets compared to KFH and KIB. As is evident from Table 6.22, the average growth was 91%.

Table 6.22 Assets Growth Indicator

Bank	2006	2007	2008	2009	% 2006-2009
KFH	6,313,791	8,797,916	10,544,142	11,291,640	
% Growth	-	39%	20%	7%	79%
KIB	803,557	947,862	1,082,845	1,140,336	
% Growth	**-**	**18%**	**14%**	**5%**	**42%**
Boubyan	504,339	745,928	840,461	964,779	
% Growth	**-**	**48%**	**13%**	**15%**	**91%**

The return on assets was the highest in Boubyan Bank over the years 2006 to 2009 with an average positive growth of 163%; KFH and KIB on the other hand recorded a negative ROA with -80% and -41% respectively as shown in Table 6.23.

Table 6.23 ROA Growth Indicator

Indicator	2006	2007	%	2008	%	2009	%	2006-2009
KFH	3.06	3.7	21%	1.66	-55%	0.6	-64%	-80%
Boubyan	2.05	2.5	22%	0.23	-91%	5.4	2248%	163%
KIB	1.18	1.9	61%	1.83	-4%	0.7	-62%	-41%

The return on equity was the highest in Boubyan Bank over the years 2006 to 2009 with an average positive growth of 578%; KFH and KIB on the other hand recorded a negative ROE with -58% and -28% respectively as shown in Table 6.24.

Table 6.24 ROE Growth Indicator

Indicator	2006	2007	%	2008	%	2009	%	2006-2009
KFH	23.01	23.14	1%	10.95	-53%	9.6	-12%	-58%
Boubyan	8.75	13.36	53%	8.57	-36%	59.3	592%	578%
KIB	6.66	11.39	71%	12.01	5%	4.8	-60%	-28%

6.6.2 *SHARI'AH* SUPERVISORY BOARD

Article 93 of Section 10 of the Law 32/2003 regarding Islamic Banks in Kuwait stated that each Islamic bank shall have an independent *Shari'ah* Supervisory Board (SSB), comprised of no fewer than three members appointed by the bank's General Assembly. In case of a conflict of opinions among members of the SSB concerning *Shari'ah* rules, the Board of Directors of the designated bank may transfer the matter to the Fatwa Board in the Ministry of Awqaf and Islamic Affairs, which shall be the final authority on the matter. The SSB shall annually submit to the bank's General Assembly a report comprising its opinion on the bank's operations in terms of their compliance with the Islamic *Shari'ah* principles, and any comments it may have in this respect; the report shall be included in the bank's Annual Report.

To ensure that their banking services are in conformity with *Shari'ah* law, SSBs are mandatory for Islamic banks and Islamic financial institutions. The SSB is there to guarantee, and certify, that the banking activities are *halal* (permissible). SSB is merely an advisory body, but nevertheless it has an authoritative and respected function as the bank entrusts the SSB with questions as to the permissibility of its activities.

The function and responsibilities of SSB, as mentioned by Kettell (2010), are:

(i) To ensure that the banking facilities and services are in accordance with Islam;
(ii) To guarantee that the bank's investment and involvement in projects are *Shari'ah*-compliant
(iii) To ensure that the bank is managed in conformity with Islamic values; and
(iv) To issue *fatwas*.

Members of SSB have to be experts in the interpretation of *Shari'ah* law and its application in modern-day Islamic financial institutions. They have to be world-leading scholars representing a wide spectrum of the Islamic faith and they ensure that *Shari'ah*-compliance is at the heart of everything their institution does. The SSB has to ensure *Shari'ah*-compliance in the products and activities of their institution. As discussed in the previous chapter, the multiplicity of *Shariʼah* boards and judgments leads to a lack of homogeneity for some products and services offered by banks and institutions. Added to that, it leads to the lack of uncertainty by clients and customers as to whether a product developed in one jurisdiction are *Shari'ah*-compliant or not. To overcome this dilemma it is usual and common to see the same SSB members' names in most of the operating banks. In Kuwait, out of the five or six members in SSB, some members are common to all of the three Islamic banks as shown in Table 6.25. This means that every bank is keen to appoint the best qualified and experienced members in their *fatwa* and supervisory committee. Alternatively, it could be due to the lack and shortage of the Scholars and experts in this field.

Table 6.25 *Shari'ah* and Supervisory Board Committee Members

KFH	KIB	Boubyan
Sheikh Ahmad Bazie Al-Yaseen	Sheikh Ahmad Bazie Al-Yaseen	Sheikh Ahmad Bazie Al-Yaseen
Sheikh Dr. Khaled Al-Mathour	Sheikh Dr. Khaled Al-Mathour	Sheikh Dr. Ajeel Al-Nashmi
Sheikh Dr. Ajeel Al-Nashmi	Sheikh Dr. Abdulaziz Al Qasar	Sheikh Dr. Mohammad Tabtabae
Sheikh Dr. Mohammad Tabtabae	Dr. Mustafa Al Zalzalah	Sheikh Dr. Abdulaziz Al Qasar
Sheikh Dr. Anwar Abdulsalam	Ali H. Al Saleh	Sheikh Dr. Esam AlAnezi
Sheikh Dr. Mubarak AlHarbi		Sheikh Dr. Saud Al Rabea

In addition, developing products according to Islamic *Shari'ah* principles is burdensome and more difficult than creating traditional products. Development is not an easy task because these *Shari'ah* committees need to do their work and approve the new products and services and assure their alignment with Islamic *Shari'ah* principles. The larger the

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Islamic banks or institutions are, the more advanced and capable their *Shari'ah* committees. They also have the proper infrastructure, capabilities, experiences, and resources to carry out their role effectively. All of these elements and factors permit growth in developing their products (Al-Salem, 2009).

6.6.3 General Comparison between the three Islamic banks

According to customers, banks must possess certain crucial attributes in order to fulfil their role and serve their customers effectively. Some of these attributes are presented in Table 6.26. As can be seen, the banks charge almost the same service fees; it is known that Islamic banks in general do not count on fees and charges as a main source of income and revenues, unlike conventional banks, where service charges are the second biggest source income after interest revenues. In 2009, conventional banks in Kuwait accounted 13% revenues generated from service charges and fees, 80% from interest revenues, and 3% investment revenues, while Islamic banks had 8.2% as service fees, 72.9% as financing revenues and 11.2% as investment revenues (AKB, 2010).

One important attribute is the availability of branches for ladies, and each bank has its own theme and strategy for the provision of this service. KFH, for example, tries to allocate a completely separate ladies branch for most of its main branches, including the commercial and trading branches. KIB on the other hand tends to have a small section of all its branches serving their female customers. This could be a way of cutting the cost associated with rebuilding or extending the branch to operate as an external ladies branch, especially since some of KIB's branches are not newly built buildings and the matter of tailoring them to requirements is sometimes difficult. Boubyan Bank, by contrast, has 7 ladies branches; the remainder of the branches serve both male and female customers.

Table 6.26 Comparison between the three Islamic banks

		KFH	KIB	Boubyan
1	Service Fees	Reasonable service charges, and many are free	KIB follows KFH in this regard	Boubyan Bank follows KFH also
2	Ladies Branches	17 of the 51 branches	All of the branches	7 of the 15 branches
3	Drive-Through ATMs	Available in most of the branches	Only in 4 of the branches	Not available
4	Safety Boxes	Available	Available	Not available
5	Real Estate Appraisal	Available	Available	Not Available
6	Car Showrooms	15 car dealers' shop floor	Most of the Car dealers	12 car dealers' shop floor
7	Self-Service Machine	Available in all branches	Available in selected branches	Not available
8	Deposits Segments	5 types of deposits	2 type of deposit plus *AlJood*	3 types of deposit
9	Credit Cards	9 Kinds of CCs	4 Kinds of CCs	4 plus the prepaid and gift card

Boubyan Bank still lacks some of the services offered by its competitors, such as the drive-through ATM machines, self-service machines or what could be called deposit machines, safety boxes in their branches, and the real estate appraisal division which is considered very profitable in the market. Boubyan Bank and KIB need to work more on developing their deposits range and their credit cards variety.

6.7 CONCLUSION

The chapter addressed certain issues relating to the Islamic banks' financial performance over the last few years and how some Islamic banks are more innovative in their offering of products and services than others in the local Islamic banking industry in Kuwait. The analysis of the financial performance of these banks showed without any doubt that KFH was performing better than its counterparts. The chapter also discussed the range of services and products offered by the respective banks and offered an overview of how the banks deal with issues of staff competence.

As increasing competition in the product markets is becoming the norm for the Islamic banking and finance industry. There is a need to innovate and practice new ideas based on Islamic foundations and, at the same time, to make sure that they are in harmony with the demands of modern markets. The need to further develop financial products and services in compliance with Islamic *Shari'ah* is essential to the survival and growth of the Islamic finance industry. In order to compete efficiently, Islamic banks and financial institutions must continually advance their offering by improving products and processes, and increase the quality of these offerings.

To do so, it is crucial for Islamic banks to understand the market and the competition. Efficient financial institutions study their markets, carve out a niche for themselves, and gain a clear understanding of how they can best compete. Once a bank defines its market, a strategy can be put in place.

To assure their competitiveness, strength, and survival, and to maintain their customer base, Islamic banks need to ask themselves questions such as these: do they succeed in gaining the customers' trust and confidence in being a full-fledged Islamic bank? Is there an under-served group residing within the market? Are there gaps in the products and services offered by competitors? Has the bank effectively branded itself to communicate its niche to the community? Islamic banks in Kuwait need to consider customer focus strategy, understand the way markets operate, and how to locate demand.

In today's hyper-competitive market the best banks take it upon themselves to understand and address the needs and requirements of the customer; this should be driving the policies and direction of the bank. Since customers are interwoven into the fabric of the market, efficiency cannot be achieved, maintained, and improved without accurate tracking and measurement of performance and assessing customers' satisfaction.

There is no doubt that the effective management of developing financial products and services is critical to ensure the future survival and profitability of any bank and financial institution. The absence of mature management and a failure to invest in delivering a high quality of services by using modern technology will have a negative impact on the performance of this industry; these factors will ultimately make its survival impossible. However, adopting state-of–the-art technology by itself is not enough. Technology does not drive process – process drives technology; efficient banks understand this better than their competitors. There is no best technology; there is only technology that best addresses the goals and objectives of the organizations.

Chapter 7

LOCATING THE PROFILES OF THE RESPONDENTS AND SERVEQUAL DIMENSIONS: A DESCRIPTIVE ANALYSIS

7.1. INTRODUCTION

After reviewing and modelling the service quality management in banks and financial institutions and examining Kuwait Islamic bank's profile and financial performance, this chapter along with the following chapters presents the main part of the research in terms of its outcomes and results.

This chapter provides descriptive statistical analysis to investigate the sample characteristic and featuring profile, which starts with analyzing the respondents' profiles such as age, gender, nationality, education, place of work, income, the Islamic bank they are dealing with, and the duration of dealing with this Islamic bank. The chapter then analyzes the mean and standard deviations for each entity or statement which forms each dimension of the modified SERVQUAL model separately and then analyzes the mean and standard deviation comparison testing for all SERVQUAL dimensions in general to assess the differences in mean values of the respondents' perceptions when answering the questionnaire. This is followed by an analysis of the average importance of the respondents' answers to each of the questions for each bank individually to compare the service performance in each bank.

7.2. PROFILING THE RESPONDENTS

This section focuses on describing the sample characteristics and respondent profiles using descriptive and inferential analysis to describe the level of service quality of the three Islamic banks, KFH, KIB, and Boubyan Bank, using the modified SERVQUAL instrument in which customer's perceptions of the service performance of those banks is compared. Recalling that the questionnaire consists of 42 statements divided to 9 dimensions as can be seen in Table 7.1, the respondents answered according to their perception of the level of service quality offered by their bank.

Table 7.1 Dimensions Covered in the Study

	Quality Dimensions	Statements
1	Compliance	Statements 1- 4
2	Assurance	Statements 5-10
3	Reliability	Statements 11-15
4	Tangibility	Statements 16-20
5	Empathy	Statements 21-24
6	Responsiveness	Statements 25-27
7	Technology	Statements 28-32
8	Competitiveness	Statements 33-38
9	Customer Satisfaction	Statements 39-42

The descriptive analysis begins with the first section of the questionnaire which was distributed to the Islamic banks' customers. This section deals with demographic and profiling characteristics such as gender, age, nationality, education, place of work, the Islamic bank the customers are dealing with and the duration of their relationship with this Islamic bank. As appears in the following tables missing values had been treated by SPSS under the category 'system' which represents the missing answers of respondents.

Table 7.2: Profiling the Gender of the Respondents

	Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	387	55.3	55.9	55.9
	Female	305	43.6	44.1	100.0
	Total	692	98.9	100.0	
Missing	System	8	1.1		
Total		700	100.0		

According to Table 7.2, the sample study consists of 55.9% male respondents and 44.1% female respondents who formed the sample size of respondents to the 700 questionnaires that were distributed to Kuwait's Islamic banks namely, KFH, KIB, and Boubyan bank.

While profiling the nationality of the respondents, Table 7.3 shows that 69.6% of the 700 sample size was Kuwaiti nationals and 30.4% were non-Kuwaiti nationals. It should be

noted that, during the conduct of the questionnaire, it was observed that the nationals visit their bank branch much more frequently than non-Kuwaiti nationals.

Table 7.3: Profiling the Nationality of the Respondents

	Nationality	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Kuwaiti	476	68.0	69.6	69.6
	Non-Kuwaiti	208	29.7	30.4	100.0
	Total	684	97.7	100.0	
Missing	System	16	2.3		
Total		700	100.0		

Table 7.4 shows the age categories among the samples that were distributed on KFH, KIB, and Boubyan Bank. As can be seen, the majority of respondents fell into the age group of 22-35 years of age, contouring 45.4% of the whole sample, leaving the minimum percentage for over 65-year olds at 0.3%. The examination of customers' demographic characteristics revealed that 45 % of all customers of the Islamic banks in Kuwait are relatively young and 32.2% are adults with an average age between 35-45 years.

Table 7.4: Profiling the Age Distribution of the Participants

	Age	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	≤ 21 yrs.	54	7.7	7.8	7.8
	22-35 yrs.	314	44.9	45.4	53.2
	35-45 yrs.	223	31.9	32.2	85.4
	45-55 yrs.	88	12.6	12.7	98.1
	55-65 yrs.	11	1.6	1.6	99.7
	≥ 65 yrs.	2	.3	.3	100.0
	Total	692	98.9	100.0	
Missing	System	8	1.1		
	Total	700	100.0		

As stated by Table 7.5, 66.5% of the sample is married and 33.5% were single participants; not surprisingly more than half of the sample were adults and mature. A

small proportion and percentage of 7.8 % were 21 years old and younger as mentioned in Table 7.3.

Table 7.5: Profiling the Marital Status of the Participants

	Marital Status	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	225	32.1	33.5	33.5
	Married	446	63.7	66.5	100.0
	Total	671	95.9	100.0	
Missing	System	29	4.1		
Total		700	100.0		

Table 7.6 Profiling the Place of Work of the Participants

	Work	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	G. Sector	276	39.4	40.1	40.1
	P. Sector	247	35.3	35.9	76.0
	Retired	41	5.9	6.0	82.0
	Private B.	27	3.9	3.9	85.9
	Student	68	9.7	9.9	95.8
	Housewife	29	4.1	4.2	100.0
	Total	688	98.3	100.0	
Missing	System	12	1.7		
Total		700	100.0		

As per Table 7.6, the majority of the Islamic banks sampled as expected are working in the government sector with 40.1% of the sample, while respondents from the private sector are 35.9%, leaving a very modest percentage ranking between 3.9% and 6% to represent retired customers, housewives, and private business respondents. Student respondents on the other hand came third after the government and private sectors with 9.9%.

Table 7.7: Profiling the Educational level of the Respondents

	Education	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	≤ High school	121	17.3	17.4	17.4
	Diploma	216	30.9	21.1	48.6
	Bachelor	333	47.6	48.0	96.5
	Master	18	2.6	2.6	99.1
	PhD	6	.9	.9	100.0
	Total	694	99.1	100.0	
Missing	System	6	.9		
Total		700	100.0		

Table 7.7 shows the respondents' educational level to determine whether the educational level has any significant impact on their perception of service quality in the Islamic bank they deal with. The table shows that the majority of the respondents hold a bachelor's degree (48%); 21.1% hold a diploma certificate, leaving 2.6% for master's degree holders and the lowest percentage for PhD holders with .9%.

Table 7.8: Profiling the Monthly Income of the Participants

	Income	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	≤ 300 KD	108	15.4	15.9	15.9
	301-800KD	195	27.9	28.7	44.6
	801-1200	190	27.1	27.9	72.5
	1201-2000	139	19.9	20.4	92.9
	≥ 2000	48	6.9	7.1	100.0
	Total	680	97.1	100.0	
Missing	System	20	2.9		
Total		700	100.0		

As indicated in Table 7.8, it is clearly shown that the majority of the sample have a monthly income between 301-800KD (28.7 %); 27.9% are within the range of 801-1,200KD monthly. On the other hand, the minority of the sample (7.1%) fall into the category of more than 2,000KD per month.

Table 7.9: Profiling the Duration of Being a Customer

	Bank	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	KFH	372	53.1	56.0	56.0
	KIB	205	29.3	30.9	86.9
	Boubyan	85	12.1	12.8	99.7
	Total	664	94.9	100.0	100.0
Missing	System	36	5.1		
Total		700	100.0		

Table 7.9 shows the sample segments according to the Islamic bank the respondents deal with: no doubt the majority of the sample is driven and dominated by the pioneer KFH Islamic bank, with 56.0% representing more than half of the sample. KIB's respondents represented 30.9% of the sample, leaving Boubyan Bank with 12.8% of the whole sample.

Table 7.10: Profiling the Time duration in dealing with the bank

	Duration	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	≤ than 3 yrs	264	37.7	39.6	39.6
	3-5 years	140	20.0	21.0	60.6
	5-10 yrs	120	17.1	18.0	78.6
	≥ 10 yrs.	142	20.3	21.3	99.9
	Total	667	95.3	100.0	100.0
Missing	System	33	4.7		
Total		700	100.0		

Table 7.10 presents the duration of dealing with the same Islamic bank. This was assembled with the objective of finding out how the number of years and history of dealing with a particular Islamic bank could affect the respondents' perceptions of service quality. 39.6% of the respondents had been dealing with the same Islamic bank for three years or even less and 21.0% of the respondents had been dealing with the same bank for

three to five years. On the other hand, 18.0% of the respondents had been dealing with the same Islamic bank for five to ten years.

7.3. DESCRIPTIVE RESULTS FOR SERVEQUAL DIMENSIONS

This section presents the participants' responses in accordance with the modified SERVQUAL dimensions in more detail by expressing every single entity and statement of each of the nine modified SERVQUAL dimensions (compliance, assurance, reliability, tangibility, empathy, responsiveness, technology, competitiveness, and customer satisfaction) using the mean comparison test. Table 7.11 present the reliability constructs of the 42 questionnaire results. The reliability test was conducted in the form of measuring Cronbach's Alpha in the Statistical Package for Social Sciences (SPSS) software package, which produced a significant value of 0.981, which indicates high reliability and therefore indicates the internal integrity of the questionnaire.

Table 7.11: Reliability Statistics

Cronbach's Alpha	No of Items
.981	42

Table 7.12 presents the results of the mean comparison test for the compliance dimension. This dimension contains four constructs as shown below; the third construct had the highest mean of 4.15 compared to the other constructs. This construct assess the Islamic bank's compliance with separating the men's and women's section in the bank. The participants, however, expressed a slightly dissatisfaction with their Islamic bank's compliance with the ambiguous and long complicated contracts (3.69).

Table 7.12: Mean Analysis of the Compliance Dimension

Statements	Mean	Std. Deviation	Total
I trust the Islamic bank I deal with were all banking transaction are in accordance with Islamic *Shari'ah* law.	3.99	1.223	
I have a confidence in *Shari'ah* board of the Islamic bank I deal with whom I would expect them to be strict in their interpretation of *Shari'ah*.	3.81	1.090	
There is a complete separation between the men's and women's section in the Islamic bank I deal with.	4.15	1.182	
Shari'ah-compliant contracts in the Islamic bank I deal with are free from *Jahala* and *Gharar*.	3.69	1.127	
Total			**675**

According to Table 7.13, participants responded to the six assurance constructs by giving the fourth construct the highest mean among the other assurance constructs, namely 4.14. It should be noted that the construct assess the respondents' satisfaction with the accessibility of their Islamic bank in different locations and places. Although the respondents rated all of the constructs above average, yet the first construct which assess the employees' bank ability to solve problems has the lowest mean among the assurance dimensions, with a mean value of 3.69.

As shown on Table 7.14, participants responded to reliability constructs by giving a high mean value of 4.15 for believing that their Islamic bank is a reliable Islamic bank and has a good financial reputation. The mean comparison test also shows a lower mean value among the rest of the reliability constructs (3.77) for the question of whether there are adequate numbers of employees to serve them in their Islamic bank.

Table 7.13: Mean Analysis of the Assurance Dimension

Statements	Mean	Std. Deviation	Total
The employees in the Islamic Bank I deal with have the ability to solve problems promptly	3.69	1.164	
Fast and efficient counter services in the Islamic Bank I deal with	3.98	1.047	
The Islamic Bank I deal with is consistent in its dealings regardless of the branch I enter	3.88	1.046	
There is a presence of the Islamic Bank I deal in several places such as (Car agents, Malls, Universities and different exhibitions)	4.14	1.170	
The employees in the Islamic Bank I deal with offer different types of products and services that I have not tried (cross selling)	3.82	1.126	
The Islamic I deal with provides more ATMs and branches to open up	3.93	1.184	
Total			**684**

Table 7.15 shows the mean test comparison for the tangibility dimension answered by the respondents of the study sample; the respondents gave a high mean value of 4.03 for the internal design of the Islamic bank they deal with and the suitable use of the partitions to enhance the privacy between the customer and the bank employee during the service transaction. In contrast, the respondents gave a modest mean value of 3.33 to the availability of enough parking spaces at the Islamic bank they deal with.

Table 7.14: Mean Analysis of the Reliability Dimension

Statements	Mean	Std. Deviation	Total
There are an adequate number of employees in the Islamic I deal with to provide the promised service to its clients	3.77	1.248	
My enquiries in the Islamic Bank I deal with are always answered promptly	3.93	1.109	
In the Islamic Bank I deal with , No mistakes are made	4.02	1.026	
Cash is always available at the ATMs machine in the Islamic Bank I deal with	3.82	1.164	
The Islamic Bank I deal with is reliable and has a good financial reputation	4.15	1.154	
Total			**685**

Table 7.15: Mean Analysis of the Tangibility Dimension

Statements	Mean	Std. Deviation	Total
In the Islamic Bank I deal with, the size of customer space is large and extended with facilities like seats, videos, and leaflets	3.88	1.190	
In the Islamic Bank I deal with, employees dressed well and formally	4.00	1.145	
The Islamic Bank I deal with has an attractive external appearance	3.85	1.047	
There is enough parking space in the Islamic Bank that I deal with	3.33	1.177	
At the Islamic Bank I deal with, Counter partitions are available in its branches to enhance privacy and confidentiality of transactions	4.03	.978	
Total			**661**

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Table 7.16 illustrates the respondents' reaction towards constructs formed to assess their perceptions of empathy dimensions by giving less than 4 to all of the empathy constructs that assess the employees' understanding and compassion with their customers. Signs of recognition by the Islamic bank employees had a mean value of 3.95, while only 3.73 was given as a mean value to the Islamic banks' hosting services.

Table 7.16: Mean Analysis of the Empathy Dimension

Statements	Mean	Std. Deviation	Total
The employees in the Islamic Bank I deal with understand my needs	3.91	1.033	
Employees in the Islamic Bank Ideal with always shows signs of recognition and willing to help	3.95	1.071	
Coffee and tea are served in the Islamic Bank I deal with	3.73	1.193	
The employees in the Islamic Bank I deal with are competent to provide adequate financial services according to Islamic *Shari'ah* rules	3.79	1.056	
Total			**667**

Again in Table 7.17 the respondents show a mean value below 4 for staff responsiveness to three constructs listed above. A low mean value of 3.69 resulted from participants when responding to the statement "errors are found and restored quickly in the Islamic bank I deal with". The respondents believe that the staff in the Islamic bank they deal with treat their customers equally and in a friendly manner (3.72 and 3.91, respectively).

Table 7.17: Mean Analysis of the Responsiveness Dimension

Statements	Mean	Std. Deviation	Total
The employees in the Islamic bank I deal with treat their customers equally	3.72	1.121	
If errors have been made they are always found and restored quickly in the Islamic bank I deal with	3.69	1.006	
There is a friendly relationship between employees and customers in the Islamic bank I deal with	3.91	1.074	
Total			**676**

Table 7.18: Mean Analysis for the Technology Dimension

Statements	Mean	Std. Deviation	Total
The Islamic Bank I deal with encourages the use of Internet Banking services	3.87	1.166	
The website design of the Islamic Bank I deal with is simple, easy to use, and highly secured	3.91	1.114	
In the Islamic Bank I deal with, self service facilities are available	3.84	1.100	
I am always informed when my business is transacted through (text msg., phone call, email)	3.93	1.119	
The Islamic Bank I deal with provides drive-through withdrawal services	4.21	1.056	
Total			**669**

Table 7.19: Mean Analysis for the Competitiveness Dimension

Statements	Mean	Std. Deviation	Total
The profits that the Islamic bank I deal with request for financing real estate projects (*Ijarah*, *Murabaha*, *Musharakah* and *Istisna'a*) are low	3.40	1.148	
Flexibility and facilities are offered by the Islamic bank I deal with for financing real estate projects	3.57	1.021	
The Islamic bank I deal with offers real estate appraisal and property management with low charges	3.49	1.055	
The Islamic bank I deal with receives low profit rates for financing customers' needs such as cars, furniture and other commodities according to *Murabaha* contracts	3.49	1.180	
The service fees in the Islamic bank I deal with are reasonable	3.39	1.147	
The Islamic bank I deal with pays a competitive return on investment deposits in relation to other local banks	3.56	1.011	
Total			**656**

Table 7.18 presented the respondents' perception of constructs related to the technology dimension; the respondents gave construct four the highest mean ever among all different dimensions over the modified SERVQUAL model (4.21), when explaining their approval of the availability of the ATM drive-through withdrawal services offered by their Islamic bank. Conversely, the respondents expressed their dissatisfaction about the lack of self-service facilities machines in their local Islamic bank branch (3.84). The respondents also gave a modest mean value of 3.87 when stating whether their Islamic bank encourages the use of internet banking services.

According to Table 7.19, in relation to the competitiveness dimension, the respondents assessed all of the constructs with a mean value below 4; the highest mean value among the above-listed constructs was given to their perception of the competitive rate of return

the Islamic bank pays on investment deposits (3.56) and also of the flexibility and facilities offered by the Islamic bank to finance real estate projects and developments (3.57). On the other hand, the lowest mean value was expressed towards the service fees charged by the Islamic bank (3.39).

Table 7.20: Mean Analysis of the Customer Satisfaction Dimension

Statements	Mean	Std. Deviation	Total
I am satisfied with employees performance in general in the Islamic bank I deal with	3.97	1.082	
I am satisfied with products and services provided by the Islamic bank I deal with	3.96	1.067	
The quality of service in the Islamic bank I deal with is excellent	3.98	1.026	
Customer satisfaction is one of the main priorities in the Islamic bank I deal with	3.93	1.070	
Total			**661**

In accordance with Table 7.20, the respondents expressed their perceptions when asked about their satisfaction in general with the staff's performance, the range of products and services, the quality of the services provided by the Islamic bank and finally whether their Islamic bank cherishes and appreciates the customer and his/her satisfaction. The respondents highly valued the quality of service offered by their Islamic bank with a mean value of 3.98, followed by their appreciation of the staff's performance and the range of services and products offered by their Islamic bank with mean values of 3.97 and 3.96, respectively. On the other hand, the respondents showed a slightly lower mean value of 3.93 when expressing their perceptions and beliefs about the customer satisfaction principle as a priority principle considered by the Islamic bank they are dealing with.

From Table 7.21 and by analyzing the mean values, it is clearly obvious that all of the nine SERVQUAL dimensions showed positive mean values, with a stronger emphasis on

the compliance, empathy, assurance, and reliability dimensions (4.04, 3.96, 3.86, and 3.86, respectively) in relation to the other SERVQUAL dimensions which showed moderate positive mean values (e.g. technology 3.57 and competitiveness 3.42).

Table 7.21: Descriptive Statistics for SERVQUAL Dimension

	N	Minimum	Maximum	Mean	Std. Deviation
Compliance	675	1.00	5.00	4.0470	.75401
Assurance	684	1.00	5.00	3.8614	.88434
Reliability	685	1.00	5.00	3.8604	.88020
Tangibility	661	1.00	5.00	3.6122	.92822
Empathy	667	1.00	5.00	3.9661	.81250
Responsiveness	676	1.00	5.00	3.8425	.81556
Technology	669	1.00	5.00	3.5724	1.03222
Competitiveness	656	1.00	5.00	3.4231	.86180
Satisfaction	661	1.00	5.00	3.8447	1.01095
Overall Mean				**3.781089**	

7.4. COMPARING THE RESPONDENTS' PROFILES AND RESPONSES TO THE SERVQUAL DIMENSIONS

This section of the chapter presents the mean comparison for all dimensions and the items of the dimension to develop a better understanding of the results. Secondly, it presents the mean ranking for the dimensions in relation to each sampled bank. This is expected to provide a comparative understanding in relation to the service quality performance by the banks in question.

7.4.1 Profiling the Respondents According to the Sampled Banks

This part of the chapter focuses on each sampled bank individually by showing the sample characteristics and respondent profiles and presenting each factor of the demographic variables as explained in Table 7.22 (percentages are shown in beginning of this chapter). This kind of analysis and inference will help later in the discussion chapter and will enhance the interpretation of the findings in and help in drawing the conclusion and presenting the recommendations for each bank individually**.**

Table 7.22 Profile and Characteristics of Participants According to the Banks

Profile		KFH	KIB	Boubyan
Gender	Male	45.5	69.8	57.5
	Female	54.5	30.2	42.5
Nationality	Kuwaiti	74.0	69.3	57.5
	Non-Kuwaiti	26.0	30.7	42.5
Age	<21 yrs	12.7	1.5	3.4
	22-35 yrs.	39.2	60.6	34.5
	35-45 yrs	32.7	28.6	40.2
	45-55 yrs	13.0	9.4	19.5
	55-565 yrs	1.9	1.5	2.3
	>65 yrs	.5	60.6	-
Social Status	Single	34.4	34.4	57.5
	Married	65.6	65.6	42.5
Place of Work	Gov. Sect.	46.9	31.2	31.0
	Private	22.6	59.3	37.9
	Retired	5.2	3.5	12.6
	Priv. Busi.	3.0	5.5	4.6
	Student	16.9	.5	3.4
	House Wife	5.4	-	10.3
Education Level	< high Sco.	17.3	13.4	25.3
	Diploma	29.6	26.9	52.9
	Bachelor	50.1	54.2	20.7
	Master	1.9	5.0	1.1
	PhD	1.1	.5	25.3
Mothly Income	< 300 KD	19.3	7.0	20.7
	301-800 KD	27.1	33.8	24.1
	801-1200KD	24.9	37.3	16.1
	1201-2000KD	20.4	17.9	28.7
Bank Choice	KFH	100.0	-	-
	KIB	-	100.0	-
	Boubyan	-	-	100.0
Time History	< 3 yrs	17.8	58.5	94.2
	3-5 yrs	25.8	20.7	5.8
	5-10 yrs	25.5	12.8	-
	>10 yrs	31.0	8.0	-

7.4.2. Mean Comparison of Bank Performance in SERVQUAL Dimensions

Table 7.23 summarizes and contextualizes the main findings, which present the respondents' perceptions on the SERVQUAL's nine dimensions, using mean comparison as a method to disclose the strength of respondents' answer to each items in each dimension included in the questionnaire. By finding the mean value for each item, respondents' preference strength and the dimensions' average importance can be established.

As can be seen in Table 7.23, in the case of KFH, the compliance issues were given high priority ranking for only two of its items, giving the highest ranking score to the complete separation between men and female specialized branches in KFH; this means that their customers highly valued this issue. KFH has the highest mean value of 4.22 among the other entities in the compliance dimension for trusting the bank to be a full-fledged Islamic bank. KIB and Boubyan Bank, on the other hand, scored 4.11 and 4.08 respectively for the same entity. In addition, all of the three banks scored more than average mean value in relation to the trust they have for the *Shari'ah* Supervisory Board (SSB). This is expected, as all the sampled banks have almost the same SSB committee as has been mentioned above in Chapter 6. The *Shari'ah* contracts entity scored a modest value among the three banks, all being less than 4.

Regarding the assurance dimension, customers of two of the banks, KFH and Boubyan Bank highly appreciate the accessibility and the presence of their Islamic bank by providing more ATMs across the country and having a presence in the main real estate exhibitions and car dealers' show rooms (mean value of 4.13 and 4.23 respectively). Only Boubyan Bank customers scored more than 4 as a mean value when asked about the cross-selling feature.

KIB customers highly valued the unceasing availability of cash in the ATMs cash machines, with a mean score of 4.13 (the highest ranked among all items questioned). KIB believe that their bank is reliable in this matter, yet one can argue that the

availability of cash in their machines is associated with the withdrawal limit they permit. Unlike KFH and Boubyan Bank, they allow more than KD 2,000 withdrawal per day.

As far as the availability of staff to serve the customers of the bank, KIB scored the lowest mean with 3.29. The highest was Boubyan Bank with 4.11 mean values, indicating that there are always an adequate number of employees and staff in the branches to serve the customers. As being financially reliable, KFH scored the highest mean value of 4.29 leaving KIB and Boubyan Bank with 3.17 and 3.92 respectively.

When considering the tangibility dimension, KFH and Boubyan Bank customers are more concerned about the external appearance than KIB's customers for all of the items shown in Table 7.23, with 3.90 and 4.09 respectively. KIB was ranked as the lowest among all of the 42 items on the availability of the car parking space.

Regarding the empathy dimension, KFH and Boubyan Bank again scored the higher mean values than KIB. Boubyan Bank scored the highest mean value among all its items and ranked number one for their hospitality and generosity offering tea and coffee for their branch customers and visitors. Ranked as number two in Boubyan Bank was their banks' employee showing signs of recognitions for their customers with a mean value of 4.21.

Table7.23. Comparing the mean value for each item for the sampled banks

Dimensions		Items of Customer Perceptions	KFH		KIB		Boubyan	
			Average	Ranking	Average	Ranking	Average	Ranking
Compliance	1	The banking transactions are in accordance with Islamic *Sharia* Law.	4.22	4	4.11	3	4.08	13
	2	Confidence in *Sharia* board of the Islamic.	4.11	8	4.13	2	4.09	10
	3	A complete separation in branches.	4.36	**1**	3.13	36	2.88	42
	4	Free from *Jahala* and *Gharar* contracts.	3.85	33	3.77	9	3.84	26
Assurance	5	Employees with ability to solve problems.	3.90	29	3.73	11	4.02	18
	6	Fast and efficient counter services.	3.96	20	3.71	12	4.04	17
	7	Consistent in its dealings regardless of the branch.	3.92	28	3.47	25	4.00	19
	8	The bank's presence in several places.	4.23	3	2.46	40	3.76	30
	9	The employees in offer cross selling.	3.89	32	3.40	28	4.09	9
	10	More ATMs and branches to open up.	4.18	6	3.02	38	4.13	3
Reliability	11	Adequate number of employees in the branches.	4.02	14	3.29	32	4.11	4
	12	My enquiries are always answered promptly.	3.96	22	3.61	18	4.11	5
	13	No mistakes are made.	3.99	18	3.62	16	4.09	7
	14	Cash is always available at the ATMs machine.	3.97	19	4.13	**1**	3.82	27
	15	A reliable and a good financial reputation.	4.29	2	3.17	35	3.92	24
Tangibility	16	Large size of customer space with seats.	4.12	7	3.70	13	3.98	21
	17	Employees dressed well and formally.	4.06	11	4.00	4	4.05	15
	18	An attractive external appearance.	3.90	30	3.27	34	4.09	8
	19	Enough parking spaces.	3.62	37	2.42	42	3.28	41
	20	Counter partitions available in branches.	4.02	16	3.61	17	4.05	16
Empathy	21	The employees understand my needs.	4.01	17	3.85	8	4.08	12
	22	Employees always show signs of recognition.	4.02	12	3.93	5	4.21	2
	23	Coffee and tea are served in the Islamic bank.	3.93	26	3.54	20	4.33	**1**
	24	The employees are	3.96	24	3.86	7	4.08	11

		competent to provide adequate financial advice.						
Responsiveness	25	The employees treating their customers equally.	4.06	10	3.87	6	4.06	14
	26	Errors restored quickly.	3.84	34	3.64	14	3.93	23
	27	Friendly relationship between employees & customers.	3.93	27	3.76	10	3.81	28
Technology	28	Encourage the use of Internet Banking services.	3.96	23	3.52	21	3.67	32
	29	The website design is simple and secured.	3.96	21	3.36	31	3.61	35
	30	Self service facilities are available.	3.89	31	2.56	39	3.62	34
	31	Informed through text msg., phone call, email.	4.09	9	3.63	15	3.88	25
	32	Availability of drive through ATMs.	4.19	5	2.44	41	3.38	39
Competitiveness	33	Low profits for financing real estate projects.	3.60	39	3.27	33	3.63	33
	34	Flexibility and facilities offered for financing real estate projects.	3.54	41	3.40	29	3.33	40
	35	Low charge real estate appraisal & property management.	3.62	38	3.46	26	3.42	38
	36	Low profit rate on financing customer needs.	3.57	40	3.47	24	3.77	29
	37	Reasonable service fees.	3.51	42	3.40	30	3.49	36
	38	Competitive return on investment deposits.	3.64	36	3.07	37	3.45	37
Customer Satisfaction	39	I am satisfied with employees' performance	3.94	25	3.55	19	3.70	31
	40	I am satisfied with products and services.	4.02	15	3.52	22	3.95	22
	41	Excellent quality of services.	4.02	13	3.44	27	4.10	6
	42	Priority of customer satisfaction	3.77	35	3.50	23	4.00	20

7.4.3. Comparing the ranking of SERVQUAL Dimensions in the Sampled Banks

After analyzing the differences in mean values in establishing the most preferred items in customer preferences in relation to service quality, comparing the ranking of the mean value is also important as it provides an understanding of how the customer prioritizes the items. Such prioritizing can render further meaning not only within the bank itself but also between the banks' service quality management. The results are presented in tables 7.24 and 7.25. As can be seen in Table 7.24, the highest valued items preferred by customers are listed among the five highest items. Also, the lowest ranking listed items are listed in Table 7.25 as answered by the three banks' customers. The highest and the lowest items was listed to find out which items are more preferred by customers and which items are less appreciated by customer.

KFH customers, on the other hand, ranked one of the compliance dimensions as most important item: the banks' customers appreciated KFH efforts of establishing a total separation of branches between men and women. The second highest rank followed is the reliability dimension ('good and reliable financial reputation'). There is no doubt that KFH has a really good financial reputation in the local market and is strongly competitive in its position of prestige, not only among the Islamic banking and financial institutions but also among the conventional ones; therefore it is not surprising for KFH to obtain the top ranking for this construct, leaving Boubyan Bank and KIB to hold the 24th and 35th position, respectively. The respondents in KFH gave the fourth highest ranking to one of the compliance dimensions, after ranking their bank's presence in many agents, dealers, and cars show rooms third. The respondents in KFH ranked 'being compliant with Islamic rules and principles' fourth in importance. This could be due to the fact that KFH has been operating in the market for more than 30 years and they do not feel that they need to assure its compliance, as they take it for granted. KFH customers appreciated their bank's effort to provide drive-through withdrawal services and ranked it number 5 in the top five constructs.

Table 7.24 The items receiving the highest ranking from respondents in each bank

	KFH	KIB	Boubyan
1	**Compliance Dimension:** There is a complete separation between men's section and women's section in the Islamic Bank I deal with	**Reliability Dimension**: Cash is always available at the ATMs machine in the Islamic Bank I deal with	**Empathy Dimension:** Coffee and tea are served in the Islamic Bank I deal with
2	**Reliability Dimension**: The Islamic Bank I deal with is reliable and has a good financial reputation	**Compliance Dimension:** I have a confidence in *Sharia* board of the Islamic Bank I deal with whom I would expect them to be strict in their interpretation of *Sharia*	**Empathy Dimension:** Employees in the Islamic Bank Ideal with always shows signs of recognition and willing to help
3	**Assurance Dimension:** There is a presence of the Islamic Bank I deal in several places such as (Car agents, Malls, Universities and different exhibitions)	**Compliance Dimension:** I trust the Islamic Bank I deal with where all the Banking transactions are in accordance with Islamic *Shari'ah* Law.	**Assurance Dimension:** The Islamic I deal with provides more ATMs and branches to open up
4	**Compliance Dimension:** I trust the Islamic Bank I deal with where all the Banking transactions are in accordance with Islamic *Shari'ah* Law.	**Tangibility Dimension:** In the Islamic Bank I deal with, employees dressed well and formally	**Reliability Dimension**: There are an adequate number of employees in the Islamic I deal with to provide the promised service to its clients
5	**Technology Dimension:** The Islamic Bank I deal with provides drive through withdrawal services	**Empathy Dimension:** Employees in the Islamic Bank Ideal with always shows signs of recognition and willing to help	**Reliability Dimension:** My enquiries in the Islamic Bank I deal with are always answered promptly

In the case of Boubuan Bank, the top five items revealed that customers' preferences included constructs related to hospitality factors such as offering and serving coffee and tea while waiting and having friendly staffs that are willing to help constantly. This

confirms the bank's strategy as a friendly and culturally promoting institution. It is obvious that three of the five top items ranked by Boubyan Bank customers related to employee behaviour of showing signs of recognition and willingness to help, as well as to the presence of an adequate number of employees in the branches to answer their enquires and serve them promptly. Boubyan Bank customers also appreciate their bank's expansion steps to open new branches and provide ATMs machines. Compliance is less appreciated by Boubyan Bank's customers than by those of KFH and KIB. None of the top five constructs ranked by Boubyan Bank customers were of the compliance dimension. Boubyan Bank respondents ranked the first two items in compliance dimension 13 and 10 respectively; the lowest among all dimensions was given to item number 3, 'separation between men and women in branches'.

However, KIB customers highly ranked and positioned two of the compliance dimensions, 'assured that their bank is operating in accordance with Islamic *Shari'ah'* and 'the bank is employing a highly professional, trust worthy *Shari'ah* board'. The top rank was given to one construct in the reliability dimension, 'cash is always available in the ATMs machine'. The respondents in KIB ranked position 4 and 5 to constructs related to the employees of the bank dressing formally and being kind and considerate towards their customers.

Table 7.25 illustrates the lowest ranked constructs as ranked by the three banks' customers. KFH's lowest ranking mean constructs were restricted to the competitiveness dimension for all the five lowest positions. The lowest construct was given to the service fees charged by the bank. KFH customers do not consider the banking fees as reasonable. The bank's customers also believe that the there is not much flexibility with facilities offered for the real estate financing projects. Again the customers expressed their disagreement with statements related to the low profit rate obtained by the bank through *Murabaha* financing contracts and through profit-sharing contracts. The customers also expressed their disagreement with the statement 'the bank offers real estate appraisal and property management with low charges'. It is obvious that the competiveness dimension with its constructs in KFH is as a source of dissatisfaction as perceived by their customers.

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Table 7.25 The lowest ranked items by the respondents in each bank case

	KFH	KIB	Boubyan
1	**Competitiveness Dimension:** The service fees in the Islamic Bank I deal with are reasonable.	**Tangibility Dimension:** There are enough parking spaces in the Islamic Bank that I deal with.	**Compliance Dimension:** There is a complete separation between men section and women section in the bank
2	**Competitiveness Dimension:** Flexibility and facilities offered by the Islamic Bank I deal with for financing real estate projects.	**Technology Dimension:** The Islamic Bank I deal with provides drive-through withdrawal services.	**Tangibility Dimension:** There are enough parking spaces in the Islamic Bank that I deal with.
3	**Competitiveness Dimension:** The Islamic Bank I deal with receive low profit rate when financing customers needs such as cars, furniture and other commodities according to *Murabaha* contracts.	**Assurance Dimension:** There is a presence of the Islamic Bank I deal in several places such as (Car agents, Malls, Universities and different exhibitions).	**Competitiveness Dimension:** Flexibility and facilities offered by the Islamic Bank I deal with for financing real estate projects.
4	**Competitiveness Dimension:** The profits that the Islamic Bank I deal with request for financing real estate projects through (*Ijarah*, *Murabaha*, Diminishing *Musharakah* and *Istisna'a*) are low.	**Technology Dimension:** In the Islamic Bank I deal with self service facilities are available.	**Technology Dimension:** The Islamic Bank I deal with provides drive through withdrawal services.
5	**Competitiveness Dimension:** The Islamic Bank I deal with offer real estate appraisal and property management with low charges.	**Assurance Dimension:** The Islamic I deal with provides more ATMs and branches to open up.	**Competitiveness Dimension:** The Islamic Bank I deal with offer real estate appraisal and property management with low charges.

KIB on the other hand was free of competiveness constructs when ranking the bottom five and end up with a mix of tangibility, technology, and assurance dimensions. KIB

was limited to much more practical and basic customer needs constructs. The bank's customers resented the lack of parking spaces, the lack of the drive-through ATMs services and self-service facilities such as deposit machines. KIB's customers also resented the less presence of their bank in several vital places like shopping malls and universities and the scarcity of the bank branches and its ATMs.

As far as Boubyan Bank is concerned, the lowest five dimensions were a combination of compliance, tangibility, technology, and competitiveness dimensions. The bank's customers ranked the separation of men's and women's branches as construct number 42 which enhances the banks' strategy in providing a two types of branches (mixed branches and completely separated branches), and this is why this item did not reveal much apart from being in the end position, as customers are used to what the bank actually offers to them. The customers of Boubyan Bank also resented the lack of the parking space and drive-through withdrawal services. Like KFH customers, Boubyan bank customers expressed their disagreement with the bank's service charges regarding real estate appraisal and property management and the facilities and the flexibility associated with real estate projects.

7.5. CONCLUSION

The chapter thoroughly reviewed the study sample using descriptive statistics such as frequencies, descriptive and also mean comparison test. Frequencies were used to profile the whole sample study to cover aspects such as gender, nationality, age, income, social status, educational level, the bank they are dealing with, and for how long they have been a customer with this bank. The reliability test in this study for the 42 questions revealed a significant value of 0.98, which indicates high reliability and implies the internal integrity and consistency of the questionnaire.

By and large from the mean comparison test applied for evaluating the service quality management in each of the three Islamic banks, it was concluded that KFH came first with 3.89 and KIB last with 3.42. Boubyan Bank was not much different from KFH, as it scored 3.85 as mean value. This indicates the potential that Boubyan Bank has in this area to compete with the well-established and experienced KFH.

The next chapter thoroughly discusses the relations between the different variables and attributes, such as the SERVQUAL dimensions, customer satisfaction attributes, Islamic banking variables, and the respondents' demographic variables.

Chapter 8

EXPLORING CUSTOMERS' ATTITUDE TOWARDS SERVICE QUALITY IN KUWAITI ISLAMIC BANKS: EMPIRICAL ANALYSIS

8.1. INTRODUCTION

The chapter provides empirical findings resulting from an exploration of customers' attitude towards service quality offered by Kuwaiti Islamic banks. As regards qualifying service quality, the answers given by the responds can be used to assess the level of service quality; the mean score of the service quality dimensions are being considered as the level of service quality (Robinson, 1999). The level of service quality encountered by the customer then determines the level of customer satisfaction (Philip and Hazlett, 1997). On these grounds, the descriptive statistics analysis showed that the level of service quality offered by Kuwaiti Islamic banks, as perceived by their customers, was reasonable and recorded an average mean score of 3.78,as indicated in Chapter 7.

This chapter begins by testing the normality of the nine modified SERVQUAL dimensions and by systematically showing how it was distributed. This is followed by cross-tabulation analysis to test whether any significant relationships exist between the study variables, respondents' profiles and the modified SERVQUAL dimensions.

The chapter also extends the analysis to examine whether there were any significant relationships between SERVQUAL dimensions and the Islamic banking variables, which include Islamic banking in accordance with Islamic *Shari'ah*, trustworthiness of the *Shari'ah* board, availability of profit-sharing financing, reasonable service fees, competitive return on investment deposits, and competent employees in Islamic banking transactions. Liner regression analysis was used to examine how Islamic banking variables could affect customers' perceptions of service quality. The chapter also

examines whether there are any significant differences between the sampled banks in relation to Islamic banking variables.

The chapter then assesses the relation between the nine SERVQUAL dimensions and customer satisfaction entities, which include the customers' satisfaction with products and services offered by their Islamic bank, their satisfaction with the quality of services provided by their Islamic bank, their satisfaction with the employee performance in general in their Islamic bank, and finally whether their Islamic bank considers customer satisfaction principles as a priority in day to day work according to their experience and perception.

An exploratory factor analysis is used here to assess the sufficiency and reliability of the new modified version of the SERVQUAL dimensions, namely compliance, assurance, reliability, tangibility, empathy, responsiveness, technology, competitiveness, and customer satisfaction. This factor analysis presents the variation of the components which was identified according to the respondents' answers in the questionnaire. The Principle Component (PC) method in this factor analysis is used to reduce the items to some composite scores for subsequent analysis. Afterwards, Principle Axis Factoring (PAF) is employed to analyse the shared variance amongst the items and to provide a new structure of the dimensions to explore the differences between the empirically generated dimensions and the theoretically imposed dimensions.

The empirical analysis and tests in this chapter include stepwise regression and path analysis to model the relation between the customer satisfaction dimension and the service quality. Regression analysis is also used to assess the correlation between the Islamic banking variables and the SERVQUAL dimensions.

8.2. TESTING THE NORMALITY OF THE SERVQUAL DIMENSIONS

In order to conduct the statistical tests mentioned above, the normality condition has to be fulfilled. The distribution of scores came out skewed to the left, but this does not indicate a problem with the scale but rather reflects the nature of the constructs being measured. (Pallant, 2007)indicated that scales and measures used in the social sciences have scores that are skewed either positively or negatively, and that it is not unusual that many of the attributes intended to be measured are in fact not normally distributed.

Kolmogrov-Smirnov statistical test assesses the normality of the distribution of scores. The test approved a non-normality condition as shown in Table 8.1, and since the parametric assumption is noT met, the study utilized non-parametric tests (e.g. Kruskal-Wallis and Mann-Whitney U). As far as the mean comparison of two independent groups is considered, the study used the Mann-Whitney test; for more than two independent groups Kruskal-Wallis test was employed to validate the hypothesis under consideration; both are non-parametric tests.

A non-significant result indicates normality (significant value of .000). In this case, the test showed significant values of more than (.05) in all of the SERVQUAL dimensions, as explained in Table 8.1, thus suggesting a violation of the assumption of normality. This is quite common in larger samples. It is clearly evident from Table 8.1 that none of the 9 dimensions considered are normally distributed. Therefore, non-parametric tests are suitable to draw inferences from the available data.

Table 8.1 Sample Kolmogorov-Smirnov Test

		Compliance	Assurance	Reliability	Tangibility	Empathy	Responsiveness	Technology	Competitiveness	Satisfaction
N		675	684	685	661	667	676	669	656	661
Normal Parameters (a,b)	Mean	4.0470	3.8614	3.8604	3.6122	3.966	3.842	3.572	3.4231	3.8447
	Std. Dev	.75401	.88434	.88020	.92822	.8125	.8155	1.0322	.86180	1.0109
Most Extreme Differences	Absolute	.154	.163	.165	.129	.148	.196	.135	.121	.165
	Positive	.103	.099	.098	.067	.102	.133	.083	.086	.127
	Negative	-.154	-.163	-.165	-.129	-.148	-.196	-.135	-.121	-.165
Kolmogorov-Smirnov Z		3.993	4.266	4.317	3.310	3.824	5.107	3.502	2.491	1.856
Asymp. Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000	.000	.002

a Test distribution is Normal.b Calculated from data.

8.3 CROSS-TABULATION ANALYSIS

This section of the research used cross-tabulation analysis to assess whether there were any significant relationship exists between the study variables;respondents' profile and the modified SERVQUAL dimensions. Respondents' profiles consist of gender, nationality, age, education level, and place of work, monthly income, thebank the respondent dealing with, and the number of years of being a customer in this bank.These profiles are correlated with the nine modified SERVQUAL dimensions, compliance, assurance, reliability, tangibility, empathy, responsiveness, technology, competitiveness, and customer satisfaction.

The following tables gave summary statistics of the results of testing whether significant differences (P-value≤ 0.05) exist between different demographical levels in their perception to each dimension. A substantial analysis of these results will be discussed thoroughly in Chapter 9 with more interpretation on the research hypotheses.

Table 8.2: Cross tabulation of gender and modified SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Gender	Male	4.0464	.629	3.8019	.482	3.8287	.639
	Female	4.0456		3.9341		3.9052	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Gender	Male	3.6059	.947	3.9012	.085	3.8383	.497
	Female	3.6272		4.0521		3.8552	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Gender	Male	**3.4830**	**.041**	3.4036	.783	3.6250	.096
	Female	**3.6977**		3.4451		3.9709	

Table 8.2 showed that there is a significant difference between the male respondents and the female respondents in their perceptions of the technology dimension only with a p-value=.041. As indicated by the table above, both were positive towards the technology, yet males were less satisfied than females in their rating of technology constructs (3.4830 and 3.6977).

As far as nationality is concerned and as illustrated in Table 8.3 there are significant differences between nationality classifications when it comes to compliance, p-value=.026, where non-Kuwaiti nationals showed 4.1737 as mean perception, while Kuwaiti nationals showed a lower mean perception of 3.993. Moreover, non-Kuwaiti nationals seems to be more assured than Kuwaiti nationals (p-value=.002)with mean perceptions of 4.0243 and 3.7897, respectively, and this could be because non-Kuwaiti nationals may use the local Islamic Banks for transactions purposes only and tend to deal

with their home country's banks for saving, depositing, financing, and investing purposes.

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Table 8.3: Cross-tabulation of nationality and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Nationality	Kuwaiti	**3.993**	**.026**	**3.7897**	**.002**	**3.7904**	**.006**
	Non-Kuwaiti	**4.1737**		**4.0243**		**4.0404**	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Nationality	Kuwaiti	**3.5474**	**.013**	3.9477	.363	**3.7870**	**.021**
	Non-Kuwaiti	**3.7998**		4.0269		**3.9750**	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Nationality	Kuwaiti	3.5504	.595	3.3712	.056	3.8547	.438
	Non-Kuwaiti	3.6501		3.5518		3.8019	

It is always the case with non-Kuwaiti respondents, where they show a higher mean perception than their counterpart (the Kuwaiti nationals) in all constructs, for instance, the reliability construct illustrates that non-Kuwaiti nationals present a higher mean perception than Kuwaiti nationals (4.0404 and 3.7904 respectively with p-value=.006). Conversely, the Kuwaiti nationals among the respondents are less assured, as indicated by their responses; this could be due to the lack of trust in their banking and financial sector, especially with the collapse of the second largest Bank in Kuwait "Gulf Bank" as a result of the financial crises that hit the world at the end of 2008 and the losses associated with two of the Islamic Banks operating in the market, KIB and Boubyan Bank in the first half of 2009.

In terms of tangibility constructs, the table showed that tangibility has a p-value=.013, with higher mean perception again associated with non-Kuwaiti nationals (3.7998) and a perception of 3.5474 for Kuwaiti nationals. The responsiveness construct also showed a significant difference between Kuwaiti nationals and non-Kuwaiti nationals (p-value=.021), with a mean perceived 3.7870 by Kuwaiti nationals, and a mean perceived 3.9750 for non-Kuwaitis.

Table 8.4: Cross tabulation of marital status and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Marital Status	Single	4.0212	.444	3.8458	.472	3.7855	.115
	Married	4.0699		3.8655		3.9097	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Marital Status	Single	**3.5266**	**.015**	3.9082	.177	3.8082	.140
	Married	**3.6718**		3.9889		3.8671	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Marital Status	Single	3.5665	.967	3.4483	.634	3.9524	.356
	Married	3.6053		3.4158		3.7143	

Additionally, Table8.4 illustrates that there are significant differences between marital status and the tangibility construct, where married respondents are more assured than single respondents in their perceptions of the tangibility construct, with a significant difference(p-value=.015) and mean perceptions of 3.6718 and 3.5266, respectively. The analysis also indicated that there are no significant differences between married and single respondents when it comes to compliance, assurance, reliability, empathy, responsiveness, competitiveness, and customer satisfaction.

As far as age is concerned, Table 8.5 showed that there is a significant difference in reliability and empathy perceptions among the survey sample (p-value: .036 and .018). The respondents who were 35 years old and over felt that they can rely on the Islamic Bank they deal with more than the younger respondents who were less than 34 years old.

To the degree that empathy, the respondents aged from 46-55 were more compassionate with the bank employees (with mean perception 4.0780) than the remaining age groups.

Table 8.5: Cross tabulation of age and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Age	≤21yrs	3.8978		3.8138		**3.7906**	
	22-34yrs	4.0381	.149	3.8213	.058	**3.7831**	**.036**
	35-45yrs	4.0992		3.8887		**3.9257**	
	46-54yrs	4.0130		3.9152		**3.9867**	
	≥55yrs	4.4348		4.3914		**4.2782**	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Age	≤21yrs	3.4782		**3.9197**		3.8462	
	22-34yrs	3.5773	.123	**3.8971**	**.018**	3.8040	.171
	35-45yrs	3.6548		**4.0102**		3.8280	
	46-54yrs	3.7320		**4.0780**		3.9464	
	≥55yrs	3.9001		**3.8806**		4.3282	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Age	≤21yrs	3.8765		3.5742		3.8859	
	22-34yrs	3.5176	.281	3.3662	.281	3.9033	.586
	35-45yrs	3.4863		3.4067		3.9494	
	46-54yrs	3.4957		3.5447		3.3569	
	≥55yrs	4.0691		3.4323		3.7406	

As for the classification of place of work with SERVQUAL constructs, Table8.6 showed a significant difference (p-value=.000) with assurance towards SERVQUAL constructs, retired respondents and house wives, where the highest mean perception supported these differences (4.1597 and 4.2309, respectively).As is always the case with the other constructs, i.e. reliability and tangibility (and apart from technology), it is not surprising to see the highest mean scores are for students and again for house wives.

Table 8.7 elaborated the differences in respondents' educational level and SERVQUAL dimensions: the cross-tab analysis showed that there is a significant relationship between

the empathy dimension and the level of education the applicant obtained(p-value=.004); it seems that respondents who hold high school and diploma certificates (4.1521) felt that the staff in the Islamic bank they deal with are more sympathetic and compassionate than their counterparts who hold a higher degree(3.4493) who felt that those staff are not that considerate or compassionate. Usually, highly educated people are more demanding than the others, and this could explain their different and more sophisticated kinds of financial transactions.

Table 8.6:Cross tabulation of place of work and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Place of work	Gov. Sector	4.0408	.452	**3.9372**	**.000**	**3.8799**	**.000**
	Pr. Sector	4.0907		**3.6934**		**3.7437**	
	Retired	4.1908		**4.2309**		**4.1359**	
	Pr. business	3.9800		**3.6890**		**3.7863**	
	Student	3.8507		**3.8733**		**3.8419**	
	House wife	3.9828		**4.1597**		**4.3429**	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Place of work	Gov. Sector	**3.6652**	**.000**	**3.965**	**.000**	3.8377	.118
	Pr. Sector	**3.4487**		**3.8313**		3.75573	
	Retired	**4.0417**		**4.3754**		4.1500	
	Pr. business	**3.6763**		**4.0707**		3.2672	
	Student	**3.5513**		**3.9211**		3.4794	
	House wife	**4.0783**		**4.5415**		3.3596	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Place of work	Gov.	**3.723**		3.4050		3.8052	
	Pr.	**3.3129**	**.000**	3.3669	.460		.719
	Retired	**3.7705**		3.8456		3.7406	
	Pr. Busi.	**3.4300**		3.2672			
	Student	**3.8876**		3.4794		3.9338	
	House wife	**3.5826**		3.3596			

Table 8.7: Cross tabulation of education and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Education	High sc.	4.1124		4.00314		3.9642	
	diploma	4.1216	.546	3.8791	.060	3.8972	.106
	bachelor	4.0018		3.7997		3.8242	
	master	4.0044		4.0622		3.9323	
	PhD	3.2317		3.1609		3.3207	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Education	High sc.	3.7140		**4.1521**		3.9056	
	Diploma	3.6001	.933	**4.0500**	**.004**	3.8558	.842
	bachelor	3.6052		**3.8685**		3.8225	
	Master	3.5357		**3.8183**		3.8235	
	PhD	3.7285		**3.4493**		3.5000	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Education	High sc.	3.5262		3.6690		3.9666	
	Diploma	3.5575	.412	3.3220	.073	3.6794	.457
	bachelor	3.6185		3.4198		3.8572	
	Master	3.3978		3.2309		3.4141	
	PhD	3.4122		3.5970		5.000	

When it comes to income (Table 8.8), it looks that there are a significant differences between all constructs apart from compliance, responsiveness, competitiveness, and customer satisfaction. Respondents whose income is up to 300 KD and above 2000KD showed a high degree of assurance (4.0028 and 4.0289, respectively).

Table8.9 also showed significant differences between the three Islamic Banks, KFH, KIB and Boubyan Bank, in all of the SERVQUAL constructs apart from competitiveness and customer satisfaction (compliance: p-value=.026; assurance: p-value=.019; reliability: p-value=.000; tangibility: p-value=.000; empathy: p-value=.002; responsiveness: p-value=.017; and technology: p-value=.000). All are in favour of Boubyan Bank, except for tangibility, responsiveness, and technology which were directed to the favour of KFH Bank. No doubt KFH got the lead in compliance and tangibility, being a pioneer in the market since 1977. As far technology is concerned, KFH showed a high mean perception of4.0176 compared to KIB's mean perception (2.7406) and Boubyan Bank's mean perception (3.5344). Technology fell to KFH with a mean perception of 3.8425 compared to 3.8059 (Boubyan Bank) and 3.0981 perceived by KIB respondents.

Table 8.8: Cross-tabulation of income and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Income	≤300KD	4.0211	.772	**4.0028**	**.002**	**4.0326**	**.007**
	301-800	4.0639		**3.9262**		**3.8601**	
	801-1200	4.0064		**3.6494**		**3.6942**	
	1201-2000	4.0673		**3.8525**		**3.9186**	
	≥2000	4.385		**4.0289**		**3.9759**	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Income	≤300KD	**3.7732**	**.001**	**4.0297**	**.002**	3.9623	.015
	301-800	**3.6160**		**3.9563**		3.8757	
	801-1200	**3.3886**		**3.7946**		3.6694	
	1201-2000	**3.7267**		**4.0806**		3.8540	
	≥2000	**3.8375**		**4.1256**		4.044	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Income	≤300KD	**3.8989**	**.002**	3.5982	.023	4.0832	.386
	301-800	**3.6047**		3.523		3.7665	
	801-1200	**3.4028**		3.1981		3.7564	
	1201-2000	**3.4849**		3.3865		3.3345	
	≥2000	**3.5755**		3.4710			

It is also clear as indicated in Table 8.10 that respondents who have been dealing with the same bank for 3 to 5 years find their Islamic bank satisfying in a tangible manner (p-value=.010) and a high level of responsiveness (p-value=.008). On the other hand, respondents dealing with the same bank for 5 years and above show much more significant differences towards technology with p-values= .000.

Table 8.9: Cross tabulation of the bank and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Bank	KFH	**4.0721**	**.026**	**3.9336**	**.019**	**3.9925**	**.000**
	KIB	**4.0077**		**3.6421**		**3.5122**	
	Boubyan	**4.0106**		**4.0290**		**4.1113**	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Bank	KFH	**3.8425**	**.000**	**3.9997**	**.002**	**3.8958**	.017
	KIB	**3.0981**		**3.7969**		**3.7077**	
	Boubyan	**3.8059**		**4.1748**		**3.8631**	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Bank	KFH	**4.0176**	**.000**	3.4700	.169	3.8894	.588
	KIB	**2.7406**		3.3051		3.4403	
	Boubyan	**3.5344**		3.3933		3.8317	

Table 8.10: Cross tabulation of duration and SERVQUAL dimensions

Descriptive	Level	Compliance		Assurance		Reliability	
		Mean	P. Value	Mean	P. value	Mean	P. value
Duration	≤ 3 yrs	3.9730		3.8207		3.8136	
	3-5 yrs	4.1345	.011	4.0288	.245	4.0288	.068
	5-10yrs	4.1039		3.7962		3.8107	
	≥ 10 yrs	4.0532		3.8097		3.8867	

Descriptive	Level	Tangibility		Empathy		Responsiveness	
		Mean	P. Value	Mean	P. value	Mean	P. value
Duration	≤ 3 yrs	**3.4877**		3.9659		**3.8024**	
	3-5 yrs	**3.7844**	**.010**	4.1464	.145	**4.0593**	**.008**
	5-10yrs	**3.6597**		3.9718		**3.7931**	
	≥ 10 yrs	**3.6741**		3.8252		**3.7482**	

Descriptive	Level	Technology		Competitiveness		Customer Satisfaction	
		Mean	P. Value	Mean	P. value	Mean	P. value
Duration	≤ 3 yrs	**3.2979**		3.3957		3.6363	
	3-5 yrs	**3.6369**	**.000**	3.4917	.763	4.1634	.274
	5-10yrs	**3.7940**		3.4942		3.8638	
	≥ 10 yrs	**3.9093**		3.3417		3.7381	

8.4. RELATIONSHIP BETWEEN ISLAMIC BANKING VARIABLES AND THE SERVEQUAL DIMENSIONS

In an attempt to develop the study outcomes and enrich the literature with further studies related to Islamic banks management, this study expanded the analysis to include the Islamic banking variables as dependent variables and to test the relation the SERVQUAL nine dimensions. For reasons of consistency, the study chooses statements from the questionnaire, which fit under the Islamic banking variables group. These variables are listed in Table 8.11. The exploratory factor analysis showed that the Islamic banking variables' load was above 70% for all of its statements (Table 8.13), which means that each of Islamic banking variables in the conceptual model is very important in shaping the customers' perceptions of the level of service quality offered by Kuwaiti Islamic banks. The results were in harmony with the mean score of customers' perception of

these variables, which was above 3.4 points on the five point LIKERT scales, as shown in Table 8.11.

Descriptive analysis is employed and presented in Table 8.11, using a one-way ANOVA test to examine how the perceptions were distributed across the sampled banks before testing the SERVQUAL/ Islamic banking relationship. The table clearly depicts the level of importance Kuwaiti bank customers attach to Islamic banking variables, with some of them definitely contributing significantly towards forming the customers' perceptions regarding the three Islamic banks in Kuwait. This indicates that these variables play an important role in shaping customers' perceptions of the quality of service in Kuwaiti Islamic banks.

As shown in Table 8.11, there are significant differences between the three sampled banks in two statements of the nine Islamic banking variables. KFH, KIB, and Boubyan Bank customers perceive the low rate of profits required for financing real estate projects (given as .003) as an indicator of significance. Also, there is a significant difference between these banks' customers in perceiving the rate of return on investment deposits offered by their banks as a significant factor(indicated as .000).These are significant differences which were found in only two of the nine Islamic banking variables.

In fact, there are no differences in the other seven variables as perceived by the sampled banks. The banks' customers believed that these remaining variables are offered in a similar way by their respective banks.

However, customers of the three Islamic banks in Kuwait (KFH, KIB, and Boubyan bank) showed a relatively high mean score (all above 4) for believing that their Islamic bank is a trustworthy Islamic bank, which operates according to Islamic *Shari'ah* principles. KFH had the highest value in this domain with a mean score of 4.22. On the other hand, KIB position themselves first when it comes to trusting the *Shari'ah* board; their customers believe they are strict in their interpretation of *Shari'ah* with higher mean value (4.13) than KFH. All of the three Islamic banks produced a low mean value of less than 4 when it comes to the customers' perception of the Islamic banks' contracts and

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how long and complicated they were on occasion, in particular in the case of *Jahala* and *Gharar*. Boubyan bank's customers believe that their bank's staffs are competent in giving adequate financial advice with mean value of 4.08, which is higher than that of KIB and KFH.

Table 8.11 Islamic banking variables across the sampled banks

Islamic Banking Variables	KFH		KIB		Boubyan		Sig.
	Mean	St.d	Mean	St.d	Mean	St.d	
I trust the Islamic bank were all banking services are in accordance with Islamic *Shari'ah*.	**4.22**	.925	4.11	.894	4.08	.468	.227
I have a confidence in SSB whom I expect to be strict in their interpretation of Islamic *Shari'ah*.	4.11	.942	**4.13**	.831	4.09	.629	.770
Sharia compliant contracts are free from *Jahala* and *Gharar*.	**3.85**	.950	3.77	1.01	3.84	.652	.745
Competent employees in providing adequate financial service according to Islamic *Shari'ah*.	3.96	.989	3.86	1.02	**4.08**	.711	.325
Low rate of profit required for financing real estate projects	3.60	1.04	3.27	1.09	**3.63**	.691	**.003**
Low charge for real estate appraisal and property management.	**3.62**	.950	3.46	.996	3.42	.643	.140
Low rate of profit required for financing through *Murabaha*	3.57	1.11	3.47	1.06	**3.77**	.642	.305
Low service fees charged	**3.51**	1.02	3.40	1.03	3.49	.718	.306
Competitive rate of return on investment deposits.	**3.64**	.978	3.07	1.25	3.45	.732	**.000**

After establishing the descriptive results of the Islamic banking variables, analytical tests were considered to establish the nexus between these variables and the SERVEQUAL dimensions. The linear regression analysis is used to assess the effect of the independent variables (the nine modified SERVQUAL dimensions) and the Islamic banking variables in the Kuwaiti Islamic banks. Table 8.12 illustrates the relationship between these variables.

As can be seen in Table 8.12, there is a high positive correlation between the items related to being a full-fledged Islamic bank and only two of the SERVQUAL dimensions, namely compliance and competitiveness. These dimensions are significant with P-values of .000 and .002, where R^2=.866 and significant at the level of .000, which is lower than the acceptable confidence level of 0.05.The table shows a statistically significant relationship between being a full-fledged Islamic bank and the compliance and competitiveness dimensions.

The Table also shows a high positive correlation between the item dealing with *Shari'a* Subervisory Board's trustworthiness and three of the SERVQUAL dimensions, namely compliance (significant at .000), assurance (significant at .017), and tangibility (significant at .045). The results show that for this R^2=.872; it hence shows a high degree of relationship and that the association is significant at the level of .000. Therefore there is a relation between the SSB's trustworthiness and the compliance, assurance, and tangibility dimensions.

As Table 8.12 indicates, there is a positive correlation between the item related to *Shari'ah*-compliant contracts being free from *Jahala* and *Gharar* and two of the SERVQUAL dimensions. Thus, the compliance dimension is significant at .012 and empathy at .000, with R^2=.778; this has full significance at the level of .000, meaning there is a relationship between *Shari'ah*-compliant contracts being free from *Jahala* and *Gharar* and the compliance and empathy dimensions.

The results also show a high positive correlation between the item dealing with the employees being competent in Islamic banking transactions and one of the SERVQUAL dimensions, namely compliance, which is significant at .000. The significance of the relationship is established at R^2=.736, which is significant at the level of .000.

Table 8.12 Islamic banking variables and its relation to SERVQUAL dimensions

Islamic banking variables	Adj.R^2 Significances	Comments
I trust the Islamic bank where all banking services are in accordance with Islamic *Sharia*	R^2=.866 Sig=.000	Significant in compliance .000 and competitiveness .002 only.
I have a confidence in the *Shari'ah* Board whom I expect to be strict in their interpretation of Islamic *Shari'ah*	R^2=.872 Sig=.000	Significant in compliance .000, assurance .017 and tangibility .045.
Shari'ah-compliant contracts are free from *Jahala* and *Gharar* in the Islamic bank I deal with	R^2=.778 Sig=.000	Significant at compliance .012 and empathy .000
Competent employees in the Islamic bank I deal with in providing adequate financial service according to Islamic *Sahri'ah*	R^2=.736 Sig=.000	Significant at compliance .000
Low rate of profit the Islamic bank required for financing through *Murabaha*	R^2= .823 Sig=.000	Significant at assurance .000, responsiveness .044 competitiveness .000
Low charge for real estate appraisal and property management	R^2=.763 Sig=.000	Significant at competitiveness .000
Low service fees charged in the Islamic bank I deal with	R^2 =.831 Sig=.000	Significant at tangibility .032 and competitiveness .000
Competitive rate of return on investment deposits	R^2 =.781 Sig=.000	Significant at competitiveness .000
Low rate of profit required for financing real estate projects	R^2=.613 Sig=.000	Significant at competitiveness .000

The relation in Table 8.12 shows a high positive correlation between the items dealing with the low rate of profit the Islamic bank requires for financing and three of the SERVQUAL dimensions: assurance is significant at .000, responsiveness at .044, and competitiveness at .000. The model produced a very high relationship, as can be seen in R^2=.823, which is significant at the level of .000.

As the table indicated, there is a high positive correlation between the item dealing with the low charge for real estate appraisal and property management and one of the SERVQUAL dimensions, namely competitiveness, which is significant at .000. The relationship is rather high at R^2=.763, and is fully significant at the level of .000.

As the results in Table 8.12 shows, there is a high positive correlation between the item dealing with low service fees charged in the Islamic banking and two of the SERVQUAL dimensions: tangibility is significant at .032 and competitiveness at .000. The model establishing the relationship is rather high with R^2=.831, and is significant at the level of .000.

The relation in Table 8.12 shows a high positive correlation between the item dealing with the competitive rate of return on investment in the Islamic bank and competitiveness, which is significant at .000. The model establishing the relationship shows high correlation R^2=.781, which is significant at the level of .000.

As the results in Table 8.12 shows a high positive correlation between the item dealing with the availability of a low rate of profit required for financing real estate projects in the Islamic banks and one of the SERVQUAL dimensions, namely competitiveness; it is significant at .000. The correlation coefficient indicates a modest relationship with R^2=.613; it is significant at the level of .000.

As the results in Table 8.12 show, there is a high positive correlation between the Islamic banking variables and some of the SERVQUAL dimensions, where some of the dimensions are significant and less than 0.05, which indicates a significant relationship. Overall, the results demonstrate that there is a significant relationship between the Islamic banking variables and some of the SERVQUAL dimensions, as explained in Table 8.5, with no more than three significant relations between each of the Islamic banking variables and the nine SERVQUAL dimensions. For instance, only two of these banking variables, namely SSB's trustworthiness and low rate of profit for financing have a correlation with three of the SERVQUAL dimensions. It can be concluded that the results showed the existence of a significant relationship between the Islamic banking

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variables and some of the SERVQUAL dimensions. For instance, when testing the relation between trusting the Islamic banks' operations as an entity of Islamic banking variables, the results show a significant effect on the compliance and competitiveness dimensions only and have no effect on the other seven SERVQUAL dimensions. The table also shows that there is a significant relation between trusting that the *Shari'ah* board in the Islamic bank is strict in it interpretations of *Shari'ah* and three of the SERVQUAL dimensions, namely compliance, assurance, and tangibility. The results found that the *Shari'ah* board's trustworthiness is not relevant to the remaining SERVQUAL dimensions.

8.5. EXPLORATORY FACTOR ANALYSIS: ESTABLISHING THE RANKING OF THE ITEMS IN EACH DIMENSIONS

Factor analysis, which is a data reduction technique, is used to serve several purposes. First, it is to reduce the number of questions in each dimension to a lesser number of questions per dimension; second it is to remove redundancy that might exist between questions within a dimension; and third to reveal any patterns that might exist between questions. Table 8.13 presents the results of the factor analysis for each dimension along with the most informative questions, which have high reliability and high contribution to the extracted variance of a dimension, as well as the factor loadings for each dimension.

Some questions were dropped for lack of reliability and for not providing an appreciable contribution to the variance explained by the construct. Also, some of the variables were dropped from the analysis while checking the reliability and exploring the factors due to their insufficiency and inconsistency, as indicated in Table 8.14. However, the remaining constructs listed in Table 8.13 were implemented for further subsequent analysis. As indicated in the table, all variance scores were greater than 60% and all the reliability was greater than 70%, which is statistically acceptable.

According to the results depicted in Table 8.13, compliance was measured by three instruments, explaining 70.45% of the total variation accounted for in compliance after the data reduction process was conducted through factor analysis. The reliability of compliance constructs is 78.5%, which is acceptable by statistical standards. It appears

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that the first factor within the compliance constructs has the highest communality loading, 87.6%, which means that the respondents shows a high degree of trust in their banks in terms of their compliance with the Islamic *Shari'ah* principles in their transactions.

Table 8.13 Exploratory Factors, Reliability and Explained Variance of Constructs

Dimensions	Explained Variance	Factor Loadings	Cronbachs' Reliability Coefficient
Compliance	%70.4		%78.5
I trust the Islamic bank I deal with where all banking transaction is in accordance with Islamic *Sharia* Law.		.876	
I have a confidence in SSB whom I would expect them to be strict in their interpretation of *Shari'ah*.		867.	
Shari'ah-compliant contracts are free from *Jahala* and *Gharar*.		.771	
Assurance	74.0%		82.3%
The employees in the Islamic bank I deal with have the ability to solve problems promptly		.879	
Fast and efficient counter services exist in the Islamic bank I deal with		.895	
The Islamic bank I deal with is consistent in its dealings regardless of the branch I enter.		.805	
Reliability	69.7%		77.8%
There are an adequate number of employees in the Islamic I deal with to provide the promised service to its clients.		.788	
My enquiries in the Islamic Bank I deal with are always answered promptly.		.883	
In the Islamic Bank I deal with, no mistakes are made.		.831	
Tangibility	65.1%		72.8%
The Islamic Bank I deal with has an attractive external appearance		.831	
There is enough parking space in the Islamic Bank that I deal with		.813	
The Islamic Bank I deal with, Counter partitions available in its branches to enhance privacy and confidentiality of transactions		.778	
Empathy	%69.0		84.6%
The employees in the Islamic Bank I deal with		.833	

understand my needs			
Employees in the Islamic Bank Ideal with always shows signs of recognition and willing to help		.859	
Coffee and tea are served in the Islamic Bank		.793	
The employees in the Islamic Bank I deal with are competent to provide adequate financial services according to Islamic *Shari'ah* rules		.836	
Responsiveness	79.0%		73.4%
If errors have been made they are always found and restored quickly in the Islamic Bank I deal with		.889	
There is friendly relationship between employees of the Islamic Bank I deal with and customers		.889	
Technology	70.6 %		79%
The website design of the Islamic Bank I deal with is simple, easy to use and highly secured		.778	
In the Islamic Bank I deal with self service facilities are available.		.884	
The Islamic Bank I deal with provides drive through withdrawal services.		.856	
Competitiveness	72.8%		87.5%
The profits requested for financing real estate projects through (*Ijarah*, *Murabaha*, Diminishing *Musharakah* and *Istisna'a*) are low.		.884	
Flexibility and facilities offered by the Islamic Bank I deal with for financing real estate projects.		.836	
The Islamic bank I deal with offers real estate appraisal and property management with low charges.		.832	
The Islamic bank I deal with receives low profit rates when financing customers' needs such as cars, furniture, and other commodities according to *Murabaha* contracts.		.860	
Customer Satisfaction	82.3%		92.8%
I am satisfied with employees' performance in general.		.916	
I am satisfied with products and services provided by the Islamic bank I deal with.		.941	
The quality of service in the Islamic bank I deal with is excellent.		.867	
Customer Satisfaction is one of the main priorities in the Islamic Bank I deal with		.904	

Assurance shows a higher variance than compliance, with 74.0%; this could be due to the nature of its constructs which measure the ability of staff and capability of management with a strong emphasis on the speed and efficiency of the bank's counter services of the assurance dimensions by 89.5%.

Reliability appears to be significantly contributing to the variance explained by the construct, presenting a reliability of 77.7% and a variance of 69.7%, which could be due to the fact that the respondents consider that the Islamic bank they are dealing with is highly reliable due to its religious intensity, where all its principles are guided by the Holy *Qur'an* and *Sunnah*.

Tangibility presents a lower variance contribution of 65.17% and a reliability of 72.8%, which is considered to be the lowest among all of the nine dimensions shown in the table above. Empathy on the other hand showed a very high reliability coefficient, 84.6%, and this could be due to the importance the respondents give to communication and transparency factors.

Responsiveness shows a reliability of 73.4% and an appreciable contribution to the variance explained by the constructs of 79.0%, with high emphasis on the friendly relationship between employees of the Islamic bank and the customers, with a factor loading off 88.9 %.

Technology, on the other hand, emphasises the availability of self-service facilities in the Islamic bank with 88.4%factor loading, a variance of 70.6%, and reliability of 79%. Moreover, competitiveness shows a high reliability of 87.5% and modest variances explained by the constructs of 72.8 %. A high factor loading of 88.4 %exists for the rate of profit charged by the Islamic bank. Customer Satisfaction, on the other hand, produced the highest reliability and variance for the entire dimensions, 92.8 % and 82.3%, respectively.

It can be concluded from the preceding analysis that the respondents put more emphasis on three factors: satisfaction with employees' performance, products and services provided by the Islamic bank they deal with, and the quality of service offered by the

Islamic bank in general. In addition, their satisfaction could be driven more by their internal satisfaction rather than by their tangible satisfaction with the quality of services presented in Table 8.13. This is obviously shown with reliability constructs that come right after the customer satisfaction.

As mentioned earlier in the introduction to this section, some constructs were dropped for lack of reliability, insufficiency, and inconsistency, as indicated in Table 8.14, which demonstrated constructs that were dropped out of the analysis at an earlier stage due to insufficient reliability. These were constructs number three in compliance, constructs number four, five, and six in assurance, and constructs number four and five in reliability and tangibility. These constructs were deleted and extracted because of the low factor loading which is less than 0.600, which is not expected to produce a significant result.

Based on exploratory factor analysis results, it was found that the discriminate validity of the instrument was low, which means that the items (questions) used in a given construct do overlap with other constructs, indicating that these items load on to more than one factor. This is not surprising, as respondents in the three Islamic banks might have a difficulty to differentiate between the concepts of service quality and customer satisfaction principles and they might have perceived it as one concept by itself and therefore answer the questions believing that service quality is all about their satisfaction with the service in general; this explained the overlap in the constructs that occur when exploring the factor analysis. And this is consistent with the opinion of Cronin Jr and Taylor (1992), when they stated that it is generally agreed that service quality is a multidimensional concept and that it may mean different things to different people.

Table 8.14 SERVQUAL constructs that were deleted

Dimension	Constructs Extracted	Factor Loading
Compliance	There is a complete separation between the men's and women's section in the bank branches.	.504
Assurance	There is a presence of the Islamic bank I deal with in several vital places such as car agents, malls, universities.	.350
Reliability	Cash is always available at ATMs machine.	.282
	The Islamic bank is reliable and has a good financial reputation.	.516
Tangibility	In the Islamic bank, the size of customer space is large and extended with facilities like seats, videos and leaflets.	.545
	In the Islamic bank I deal with, employees dressed well and formally.	.365
Responsiveness	The employees in the Islamic bank I deal with treating their customers equally.	.323
Technology	I am always informed when my business is transacted through text msg., call or email).	.480

8.6. CUSTOMER SATISFACTION ENTITIES ACROSS THE SERVQUAL DIMENSIONS

The study extends the analysis to examine the relation between the nine SERVQUAL dimensions and the customer satisfaction entities which include customer satisfaction with the employee performance in general; customer satisfaction with the products and services offered by the Islamic bank they deal with; customer satisfaction with the quality of services offered by the Islamic bank they deal with; and finally satisfaction with the attention that their Islamic bank gives to the customer satisfaction concept on a day to day basis. The one-way ANOVA test showed a significant correlation between the SERVQUAL dimensions and the customer satisfaction dimension for all of its entities, where the sig value =.000.Therefore, the study develops the analysis to depict how the bank customers' answers and perceptions were distributed over the SERVQUAL dimensions. Table 8.15 depicts the mean score given by the respondents when responding to the different dimensions of SERVQUAL. The tables clearly showed that the highest mean was always given to the statement 'customer satisfaction with the range of products

and services offered by the Islamic bank' across most of the SERVQUAL dimensions, and this indicated that the Islamic banking customers usually deal with the Islamic banks due to their products and services rather than the employees' performance and the quality of services. The key issue with these Islamic banks products and services is that they are *Shari'ah*-compliant. Hence, it could be concluded that Islamic banks' customers are basically dealing with the Islamic banks and financial institutions mainly for religious aspects and factors.

As indicated in Table 8.15, when responding to the statements regarding their perception of the customer satisfaction entities, they gave the highest mean values among the nine SERVQUAL dimensions to compliance with a mean value of 4.04 for the range of products and services offered by their Islamic bank and 3.98 to both their perception towards the employee performance and the quality of service in the Islamic bank they deal with. In correlating the respondents' perception of the assurance dimension, a lower mean value of 3.85 was recorded for the range of products and services offered by their Islamic bank.

Table 8.15 Customer Satisfaction and SERVQUAL dimensions in Islamic banks

Overall Satisfaction	Compliance		Assurance		Reliability	
Item	Mean	St.d	Mean	St.d	Mean	St.d
I am satisfied with employees performance in general	3.98	.840	3.77	.911	3.77	.918
I am satisfied with products and services in general	**4.04**	.753	**3.85**	.878	**3.85**	.877
The quality of services in the Islamic bank I deal with is excellent	3.98	.837	3.79	.898	3.79	.898
Customer satisfaction is one of the main priorities in the Islamic bank I deal with	3.78	.991	3.76	.944	3.78	1.00

Overall Satisfaction	Tangibility		Empathy		Responsiveness	
Item	Mean	St.d	Mean	St.d	Mean	St.d
I am satisfied with employees performance in general	3.55	.954	3.87	.853	3.81	.867
I am satisfied with products and services in general	**3.61**	.930	**3.97**	.810	**3.84**	.812
The quality of services in the Islamic bank I deal with is excellent	3.56	.952	3.87	.851	3.79	.876
Customer satisfaction is one of the main priorities in the Islamic bank I deal with	3.57	.984	3.75	.965	3.72	.965

Overall Satisfaction	Technology		Competitiveness	
Item	Mean	St.d	Mean	St.d
I am satisfied with employees performance in general	3.62	1.05	3.42	.860
I am satisfied with products and services in general	3.57	1.03	3.42	.862
The quality of services in the Islamic bank I deal with is excellent	3.63	1.05	3.40	.868
Customer satisfaction is one of the main priorities in the Islamic bank I deal with		1.00	3.40	.972

According to the mean value scored for the reliability dimension, the respondents gave a low mean value of 3.77 to their satisfaction and the reliability of the employee performance offered by their Islamic bank. Tangibility and competitiveness scored the lowest mean values among the nine SERVQUAL dimensions when correlated with the customer satisfaction entities, scoring mean values ranging between 3.40 and 3.55. In general, the relation between the customer satisfaction entities and SERVQUAL dimensions were all above 3.00, which is considered to be acceptable and shows a general satisfaction across the three Islamic banks in relation to the range of products and service, employee performance, the quality of services, and the customer satisfaction concept as a priority in their dealing bank.

8.7. CUSTOMER SATISFACTION AND SERVQUAL DIMENSIONS/ PATH COEFFICIENT ANALYSIS

In an attempt to analyse the relationship between customer satisfaction and the SERVQUAL dimensions, stepwise regression analysis technique was employed to model the relationship between the dependent variable (i.e. is customer satisfaction) with service quality and a set of independent variables including, reliability, tangibility, responsiveness, technology, empathy, assurance, compliance, and competitiveness. The analysis of variance in Table 8.16verifies the adequacy of the model (P-value = 0.000).

Moreover, the coefficient of determination R^2 came out as 80.4%, which is very satisfactory, and the adjusted coefficient of determination is79.6%. This explains the amount of variation in customer satisfaction explained by the dependent variables, and therefore the estimated value of R^2 indicates that the significant independent dimensions remaining in the model are capable of explaining 79.6% of the total variations allocated by customer satisfaction. Table 8.16 also shows that the explanatory power of the model is significant.

Table 8.16 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	77.969	4	19.492	98.454	**.000**
	Residual	19.006	96	.198		
	Total	96.976	100			

Dependent Variable: Customer Satisfaction

As indicated in Table 8.17, the four variables empathy, assurance, compliance, and competitiveness explained service quality dimensions with a P-value of less than 0.05, while the remaining four dimensions reliability, tangibility, responsiveness, and technology are not significant, as they cannot be accepted with a 5% level of significance. We would like to maintain that the variance inflation factor was always below 4.5, which indicates absence of multicolinearity.

Table 8.17 Regression Coefficients

Mode		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta	t-Value	P-Value
	(Constant)	.164	.196		.837	.405
	Empathy	.350	.099	.336	3.519	**.001**
	Assurance	.323	.085	.318	3.794	**.000**
	Compliance	.171	.067	.180	2.547	**.012**
	Competitiveness	.161	.072	.162	2.238	**.028**
	Reliability	.058	.085	.058	.680	.498
	Tangibility	-.032	.073	-.032	-.435	.665
	Responsiveness	.031	.091	.031	.338	.736
	Technology	.079	.074	.079	1.061	.291

Table 8.18depicts path coefficient analysis, which provides a direct effect of exogenous constructs on service quality constructs. The Path analysis is a straightforward extension of multiple regressions. Its aim is to provide estimates of magnitude and significance of hypothesized casual connections between a set of variables. The path analysis can tell us what the more important and significant paths are. As can be seen, reliability has no direct effect on service quality satisfaction with the coefficient value of 0.58, P-value=0.498, a path coefficient is a standardized regression coefficient (beta weight).

According to the Path analysis test, it could be concluded that only four dimensions have a positive direct effect on customer satisfaction, namely empathy, compliance, competitiveness, and assurance. Empathy has the strongest effect among the other dimensions and this could be due to the friendly climate within the three Islamic banks operating in Kuwait (with a coefficient value of .336, P-value= 0.001) on service quality satisfaction, which supports the research hypotheses and is in line with the existing literature (such as: Othman and Owen, 2002; Obaid, 2006). Competitiveness, the

dimension newly added to the original SERVQUAL model, also has a significant direct effect on service quality satisfaction along with assurance and compliance.

The remaining dimensions; responsiveness, reliability, tangibility and technology on the other hand have no direct effect on customer satisfaction as perceived by the sampled banks.

Table 8.18 Path Coefficient Analysis

Path	Path coefficient	t-value	Standard Error	P-Value	Supporting or	Hypothesis
Reliability → customer satisfaction	.058	.680	.085	.498	NS	[H]5.3
Tangibility → customer satisfaction	-.032	-.435	.073	.665	NS	[H]5.4
Responsiveness →customer satisfaction	.031	.338	.091	.736	NS	[H]5.5
Technology → customer satisfaction	.079	1.061	.074	.291	NS	[H]5.7
Empathy →customer satisfaction	.336	3.519	.099	**.001**	S	[H]5.6
Assurance →customer satisfaction	.318	3.794	.085	**.000**	S	[H]5.2
Compliance →customer satisfaction	.180	2.547	.067	**.012**	S	[H]5.1
Competitiveness→ customer satisfaction	.162	2.238	.072	**.028**	S	[H]5.8

8.8 EXAMINING THE CONSTRUCTION OF SERVQUAL DIMENSIONS

In an attempt to substantiate the variation of the responses generated by the factor analysis results, the study expanded the analysis to locate the newly generated structures and constructs of the dimensions to establish whether the factor analysis is an appropriate method for the data used with the objective of seeing if the imposed dimension structure through questionnaire fits to the structure developed from the perceptions of the participants.

Kaiser-Meyer-Olkin (KMO) and Bartlett's test are utilised to establish the adequacy of the factor analysis for this purpose, and the results are presented in Table 8.19. Theoretically, KMO's measure of sampling adequacy varies between 0 and 1, and values closer to 1 are considered as producing better factorability. A value of 0.6 is the minimum in this regard. If the test result is higher than 0.6, then the data is fit for use in factor analysis.

Table 8.19 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		*.925*
Bartlett's Test of Sphericity	Approx. Chi-Square	4241.945
	df	861
	Sig.	.000

The Table 8.19 shows that the KMO measure of sampling adequacy of the SEVQUAL dimensions and its constructs, which shape the service quality perceptions in Islamic banking, produced a value of 0.925, which is far greater than 0.6. Also the Bartlett's test of Sphericity recorded a statistical significance of .000, which supports the factorability of the correlation matrix. Thus the results depicted in Table 8.19 shows that factor analysis is appropriate for the study.

From the results shown in Table 8.20, the analysis proceeds with Principle Axis Factoring (PAF) and Varimax rotation with Kaiser Normalization. According to (Howitt

and Cramer, 2003) the PAF is considered significant if it records an eigenvalue equal or greater than 1.0. Hence, PAF, as shown in Table 8.20, identifies the appropriate remaining factors.

Table 8.20 presented the Axis Factoring, showing the 42 items simply were reclassified to 6 factors. The acceptable factors are extracted because they have eigenvalues greater than 1.0. As a result, it can be seen that 6 factors with initial eigenvalues have values beyond 1; these are: 24.19 for the first factor, 2.64 for the second factor, 1.39 for the third factor, 1.22 for the fourth factor, 1.11 for the fifth factor and 1.01 as for the sixth and the last factor. In terms of explanatory power in relation to variance, factor 1 explains 18.87%, factor 2 explains 12.46%, factor 3 explains 11.99%, factor 4 explains10.58%, factor 5 explains 9.91% and finally factor 6 explains 7.42% of the variance. Thus, these six factors together explain a total variance of 71.25%, and as a result they constitute the most important factors in explaining the service quality dimensions as perceived by the respondents of the Kuwaiti Islamic banks.

Table 8.20 Total Variance Explained

Factor	Initial Eigenvalues Total	Initial Eigenvalues % of Variance	Initial Eigenvalues Cumulative %	Extraction Sums of Squared Loadings Total	Extraction Sums of Squared Loadings % of Variance	Extraction Sums of Squared Loadings Cumulative %	Rotation Sums of Squared Loadings Total	Rotation Sums of Squared Loadings % of Variance	Rotation Sums of Squared Loadings Cumulative %
1	24.191	57.598	57.598	23.913	56.935	56.935	7.927	18.874	18.874
2	2.643	6.294	63.891	2.379	5.664	62.599	5.234	12.463	31.337
3	1.394	3.319	67.210	1.090	2.595	65.194	5.038	11.995	43.332
4	1.220	2.905	70.115	.959	2.284	67.478	4.447	10.588	53.920
5	1.114	2.651	72.767	.857	2.040	69.518	4.164	9.914	63.833
6	1.012	2.410	75.177	.730	1.739	71.257	3.118	7.423	71.257
7	.925	2.202	77.379						
8	.879	2.092	79.471						
9	.711	1.693	81.164						
10	.678	1.615	82.780						
11	.645	1.536	84.315						
12	.550	1.310	85.626						
13	.524	1.248	86.874						
14	.497	1.182	88.056						
15	.442	1.051	89.108						
16	.394	.939	90.046						
17	.383	.912	90.958						
18	.362	.861	91.819						
19	.333	.792	92.612						
20	.317	.756	93.368						
21	.271	.645	94.012						
22	.252	.599	94.612						
23	.239	.569	95.180						
24	.222	.528	95.709						
25	.217	.516	96.224						
26	.185	.440	96.664						
27	.173	.413	97.077						
28	.149	.355	97.432						
29	.140	.333	97.765						
30	.125	.297	98.062						
31	.103	.244	98.306						
32	.099	.236	98.542						
33	.093	.222	98.764						
34	.086	.204	98.968						
35	.083	.197	99.165						
36	.070	.167	99.331						
37	.065	.154	99.486						
38	.058	.137	99.623						
39	.051	.121	99.744						
40	.049	.117	99.861						
41	.033	.079	99.940						
42	.025	.060	100.000						

Extraction Method: Principal Axis Factoring.

The scree plot graphs the eigenvalue against the factor number; the graph shows that the values in the first three columns of the table are immediately above. Afterwards the line is almost flat, meaning that each successive factor is accounting for smaller and smaller amounts of total variance.

Figure 8.1 Scree-Plot
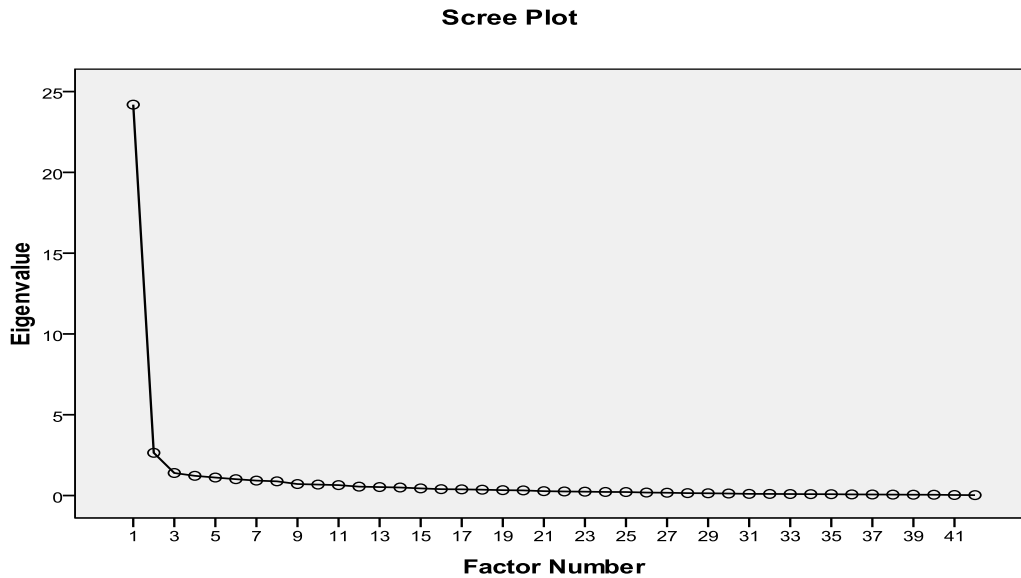
To identify and structure the remaining factors, rotated factor matrix is used. Table 8.21 contains the rotated factor matrix and depicts the correlations between the variable and the factor, illustrating correlations of 0.3 and above. Correlations ≤0.3 are not meaningful and therefore have been eliminated. As shown in the table, some of the items appear in more than one factor. In this case, that particular item is allocated to the factor under which it appears with the highest score. These kinds of items are known as complex or split loading.

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Table 8.21 Rotated Factor Matrix (a) on SERVQUAL dimensions

	Variable	Factor						Communality
		1	2	3	4	5	6	
1	Reasonable service fees	.852						.865
2	Low profits for real estate	**.827**		.327				.850
3	Low *murabaha* profits	.811						.756
4	Flexibility & facilities	.767						.792
5	Real estate appraisal and property management	**.752**	.327					.770
6	Competitive return on investment deposits	.700						.689
7	Satisfaction with products and services	**.523**	.390			.505		.829
8	Competent employees	**.520**			.342	.436		.719
9	Coffee and tea served	**.506**				.394		.556
10	Employees understand my needs	**.469**		.352		.462		.747
11	Employees treating customers equally	**.443**		.310		.359		.552
12	More ATMs and branches to open up		**.707**	.345				.748
13	A presence of the in several places		**.653**	.327				.747
14	Adequate number of employees		**.590**	.334				.668
15	Separation between men and women section		**.548**		.354			.571
16	Available self service facilities		**.540**	.301				.642
17	Available counter partitions	.349	**.511**	.340				.651
18	Drive through withdrawal services		**.496**	.389				.656
19	Informed when my business is transacted		**.483**		.357		.434	.660
20	Attractive external appearance		.301	**.679**				.682
21	Enquiries always answered promptly			.642				.685
22	Employees solving problems promptly	.351		**.527**	.344	.492		.778

#	Item							
23	Enough parking	.371		**.526**				.527
24	Employees dressed well and formally			**.505**				.469
25	Errors restored quickly	.430		**.484**	.323			.683
26	Cross selling	.338	**.410**	.452		.309		.655
27	No mistakes	.350	.368	**.425**		.418		.703
28	Islamic *Shari'ah* transactions				.759			.798
29	Confidence in *Shari'ah* board	.444			**.625**			.789
30	Friendly relationship			.393	**.571**	.342		.773
31	Simple website design			.321	**.547**		.377	.683
32	Contracts free from *Jahala* and *Gharar*	.489		.331	**.512**			.748
33	Encourage online banking services		.360		**.465**		.419	.625
34	Helpful employees	.461		.469		**.568**		.833
35	Eexcellent quality of service	.444	.414		.359	**.562**		.863
36	Fast and efficient counter services	.307	.323	.380		**.542**	.393	.819
37	Customer satisfaction is a priority	.451			.344	**.533**		.776
38	Satisfaction with employees	.425		.319		**.522**		.793
39	Consistent in its dealings regardless of the branch I enter		.368	.309	.347	**.372**	.301	.621
40	Cash available at the ATMs machine						.737	.736
41	Large size of customer space		.310	.338	.371		**.508**	.711
42	Good financial reputation		.316	.383	.400		**.490**	.711
	Eigenvalue	7.92	5.23	5.03	4.447	4.16	3.11	
	% of Variance	18.8	12.4	11.9	10.58	9.91	7.42	
	Cumulative %	18.8	31.3	43.3	53.9	63.8	71.2	

Extraction Method: Principal Axis Factoring.

a. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 9 iterations.

Based on the distribution depicted in Table 8.21regarding the SERVQUAL factor loading, a new Table 8.22 is established. The table mainly restructures the new set of factors and their correlated items according to the factor analysis. These factors were renamed according to the group of items they include and represent the new structure of SERVQUAL dimensions according to the empirical data generated by the respondents themselves.

Table 8.22 New GeneratedSet of SERVQUAL Dimensions

Dimensions Name	The Service Quality Constructs
Competitiveness	**Factor 1**
	Reasonable service fees
	Low profits request for financing real estate projects
	Low profit when financing customers needs such as cars, furniture, and other commodities
	Flexibility and facilities for financing real estate projects
	Low charges for real estate appraisal and property management
	Competitive return on investment deposits
	I am satisfied with products and services provided by the Islamic bank I deal with
	Competent employees to provide adequate Islamic financial services
	Coffee and tea served in the Islamic bank I deal with
	The employees in the Islamic bank I deal with understand my needs
	The employees in the Islamic bank I deal with treating their customers equally
Assurance and Technology	**Factor 2**
	The Islamic I deal with provides more ATMs and branches to open up
	There is a presence of the Islamic bank I deal in several places
	Adequate number of employees in the Islamic I deal with to provide the promised service to its clients
	Complete separation between men and women section in the Islamic bank I deal with
	In the Islamic bank I deal with self service facilities are available
	Counter partitions available in branches to enhance privacy and confidentiality of transactions
	The Islamic bank I deal with provides drive through withdrawal services

	Always informed when my business is transacted through (text msg., call, email, etc.)
	The employees offer different types of products and services that I have not tried (cross selling)
Tangibility and Reliability	**Factor 3**
	Attractive external appearance
	My enquiries are always answered promptly
	The employees have the ability to solve problems promptly
	Enough parking space
	Employees dressed well and formally
	If errors have been made they are always found and restored quickly
	No mistakes are made
Compliance	**Factor 4**
	I have a confidence in *Shari'ah* board whom I would expect to be strict in their interpretation of *Shari'ah*
	There is friendly relationship between employees and customers
	The website design is simple, easy to use and highly secured
	Shari'ah-compliant contracts are free from *Jahala* and *Gharar*
	The Islamic bank encourage the use of internet banking services
Customer Satisfaction	**Factor 5**
	Employees always shows signs of recognition and willing to help
	The quality of service in the Islamic bank I deal with is excellent.
	Fast and efficient counter services in the Islamic bank I deal with
	Customer satisfaction is a main priority in the Islamic bank I deal with
	I am satisfied with employees' performance in general
	The Islamic bank I deal with is consistent in its dealings regardless of the branch I enter
Tangibility and Reliability	**Factor 6**
	In the Islamic bank I deal with, the size of customer space is large and extended with facilities like seats, videos and leaflets
	The Islamic bank is reliable and has a good financial reputation

The first dimension was called 'competitiveness' because items related to competitiveness issues (such as reasonable service fees and low profits request for

financing real estate projects) load highly on it. The second dimension was called 'assurance and technology' because items related to these two dimensions also load highly on it (such as more ATMs and branches to open up,   adequate number of employees in the branch and the availability of self service facilities). The third dimension was called 'tangibility and reliability' because of items such as (Attractive external appearance, enough parking space and employees with the ability to solve problems promptly). The fourth dimension was called 'compliance' because of the dominance of the compliance items on this factor. Statements related to the confidence in *Shari'ah* board and the *Shari'ah*-compliant contracts were addressed under this factor. Factor five was the core of the 'customer satisfaction' constructs and included statements such as; 'the quality of service in the Islamic bank I deal with is excellent', I am satisfied with employees' performance in general' and 'customer satisfaction is a main priority in the Islamic bank I deal with'. Factor six on the other hand and was renamed 'tangibility and reliability' again. The same procedure was followed for the whole set of dimensions: whenever the related items listed under the factor loaded highly with a certain dimension, the dimension was named accordingly. In some cases an equal distribution accrued between the loading and the dimensions; in this case the factor will be named with the names of both dimensions. Therefore, the tangibility and reliability dimensions have been named for two factors, factor 3 and factor 6.

The first two factors of the new empirically generated SERVQUAL model clearly gave high importance to competitiveness issues with 11 items highly loading on and 10 items loading with the assurance and technology factor.

8.9 CONCLUSION

The chapter thoroughly discussed and examined the relations between the variables in the study and explored the unobservable latent variables that were reflected in the observed manifest variables using principle component analysis. The chapter highlighted the differences between the three sampled banks when assessing the Islamic banking variables and found out that there are significant differences between KFH, KIB, and Boubyan Bank in the rate of profit required for financing real estate projects and the rate of return on investment deposits as perceived by the respondents.

The chapter also presented the nature of the correlation between Islamic banking variables and the SERVQUAL dimensions as perceived by the Islamic banks customers in Kuwait; it concluded that there is a significant relationship between the Islamic banking variables and some of the SERVQUAL dimensions, with no more than three significant correlations between each of the Islamic banking variables and the nine SERVQUAL dimensions. For instance, only two of these banking variables, namely SSB's trustworthiness and low rate of profit for financing have a correlation with three of the SERVQUAL dimensions, namely compliance, assurance, and tangibility.

The chapter also examined the relationship between the SERVQUAL dimensions with both the respondents' profiles and the customer satisfaction perceptions of the sampled banks. The cross-tab analysis showed that the respondents' age has a significant relationship with assurance, reliability, and empathy, while the respondents' education level has a significant relation with empathy only. However, customer satisfaction has no significant relation with any of the respondents profiling categories. As far as the customer satisfaction relation with the SERVQUAL dimensions is concerned, the chapter showed a significant correlation for all of the customer satisfaction entities and SERVQUAL dimensions.

The results of this chapter also indicated a positive direct effect for four of the SERVQUAL dimensions, namely competitiveness, empathy, assurance, and compliance with the customer satisfaction of the Islamic banks in Kuwait. Also, the exploratory

factor analysis indicated that customer satisfaction, responsiveness, assurance, and competitiveness are the most important dimensions that had the most informative statements and had high reliability and high contribution to the extracted variance of a dimension as well as the factor loadings for each dimension.

After presenting the empirical findings of the study, the following chapter aims to contextualise these findings and test the research hypotheses.

Chapter 9

DISCUSSING AND CONTEXTUALISING THE FINDINGS

9.1. INTRODUCTION

After presenting the findings and results of this study in the previous chapters, this chapter aims at contextualizing the study's findings and testing the research hypotheses defined at the beginning of the study. To do so, six groups of hypotheses were formulated to answer the research questions and serve the research objectives. Group 1 hypotheses investigated the differences between the three Islamic banks' customers in their perceptions to the modified SERVQUAL dimensions; Group 2 hypotheses tested the differences between the three Islamic banks' customers' perceptions and the overall satisfaction. Group 3 hypotheses investigated the correlation between the modified SERVQUAL model and customers' satisfaction; Group 4 hypotheses assessed the differences between Islamic banks' customers in relation to the demographic characteristics. Group 5 hypotheses tested customer satisfaction in relation to the modified SERVQUAL model in Kuwait's Islamic banks. Group 6 hypotheses tested whether there are significant relationships between SERVQUAL dimensions and the Islamic banking variables as perceived by the Islamic banks customers.

In addition to the groups of hypotheses mentioned above, two additional hypotheses are tested in this chapter. Hypothesis 7 tests the SERVQUAL dimensions' importance as perceived by the Islamic banks' customers andhypothesis8 tests whether there is a correlation between the service quality performance in the sampled banks and the banks' financial performance.

The following is an in depth discussion of the study findings which aims to further contextualize the findings through the hypotheses testing. This chapter, thus, is structured in to eight sub sections according to the research hypotheses groups. In addition, the

chapter identifies the areas in which the hypotheses are valid or not validin relation to each of the SERVQUAL dimensions to draw a conclusion and present the research models.

9.2. THE STUDY FINDINGS AND TESTING THE HYPOTHESES

This section focuses on testing the proposed research hypotheses relating to any differences in service quality perceptions according to the modified SERVQUAL model, which was applied to the customers of the three Islamic banks operating in Kuwait (KFH, KIB, and Boubyan Bank). Mean scoring is used to differentiate between the respondents' perceptions regarding the service quality dimensions.

9.2.1. Group 1 Hypotheses: Testing the differences in customers' perception between the three Islamic banks according to the modified SERVQUAL model.

The hypotheses tested in this section are divided into sub-hypotheses in accordance with the nine dimensions reported in Table 9.1.

Table 9.1: Analysis of SERVQUAL Dimensions across Kuwait's Islamic Banks

SERVQUAL	KFH		KIB		Boubyan		
	Mean	St.d	Mean	St.d	Mean	St.d	P.Value
Compliance	4.07	.800	4.00	.758	4.01	.393	.026
Assurance	3.93	.848	3.64	1.01	4.02	.421	.019
Reliability	3.99	.835	3.1	.967	4.11	.484	.000
Tangibility	3.84	.830	3.09	1.00	3.80	.539	.000
Empathy	3.99	.832	3.79	.842	4.17	.546	.002
Responsiveness	3.89	.835	3.70	.850	3.86	.534	.017
Technology	4.01	.735	2.74	1.14	3.53	.514	.000
Competitiveness	3.47	.874	3.30	.841	3.39	.303	.169
Customer Satisfaction	3.88	1.01	3.44	.960	3.83	.145	.588

H_{01.1}: There are no significant differences between the Kuwaiti Islamic banks regarding the compliance dimension.

Table 9.1 shows that there are significant differences between the three Islamic banks in the compliance dimension according to the perceptions of the participants, as the P-value stands at 0.026 and is therefore lower than the critical level of 0.05. Therefore the null hypothesis is rejected, assuming that there was no difference regarding the compliance dimension among the three Islamic banks operating in Kuwait.

Based on the results, therefore, it can be concluded that there are statistically significant differences between the customers' perceptions of KFH, KIB, and Boubyan Bank regarding the compliance dimension as an indicator of service quality in the Islamic banking. This is evident with the mean values scored for each of the three banks: 4.07 for KFH; 4.00 for KIB; and 4.01 for Boubyan bank. This implies that KFH is the most trusted bank in terms of *Shari'ah*-compliance, followed by Boubyan and KIB. Although the mean scores are rather close to each other, the result shows that for the compliance dimension there is a statistically significant difference in the opinion of the customers.

The study's findings thus agree with most of the literature on Islamic banks' service quality management, such as Othman and Owen (2001) when concluded that compliance was one of the most important dimensions according to KFH's customer perceptions. On his study to measure service quality in the UAE Islamic banks, Obaid (2006) also concluded that there were significant differences between UAE Islamic banks in perceiving the compliance dimension. No doubt, compliance to Islamic *Shari'ah* principles plays a crucial role in forming a good assessment of the quality of service in Islamic banks. Al Sultan (1999) confirmed that devotion and loyalty to the religion was the primary motivation for Kuwaitis dealing with an Islamic bank. Thus, compliancy remains the most important dimension in this study as well, which scored the highest mean value in the case of two banks.

To recall on Othman and Owen's (2001) findings, one must state that their studies were conducted when KFH operated in the Kuwaiti market as the sole Islamic bank offering

Islamic financial services; thus customers found themselves obliged to choose this bank, considering religious motivation. However, the picture has changed and customers may find themselves dealing with other new local Islamic banks for other purposes beside religious belief. In this regard, Hegazy (1995) indicated that religion is not the main and only factor driving and motivating Muslims to deal with Islamic banking, as Islamic banking patronage is partly driven by religious motivations and partly by the banks' efficiency in serving their customers within the least possible amount of time. His findings also aligned with Haron*et al.*'s (1994) findings when indicating that the provision of fast and high quality banking services is the most significant selected factor for Muslims and non-Muslims in Malaysia. In the same regard, Abdullrahim (2010) indicated that in England, compliance with Islamic *Shari'ah* law is not sufficient to ensure good service quality, as English Muslim customers rated responsiveness as the most important dimension.

$H_{01.2}$: There are no significant differences between the Kuwaiti Islamic banks regarding the assurance dimension.

Table 9.1 also shows that there are significant differences between the perceptions of the customers of three Islamic banks regarding the assurance dimension, where the P-value= .019, which is significant since it is less than 0.05. Therefore, the null hypothesis is rejected and it is concluded that there are significant differences between the perceptions of customers of KFH, KIB, and Boubyan bank regarding the assurance dimension as an indicator of service quality.

As shown in Table 9.1, Boubyan bank seems to be the most assured bank in comparison to KFH and KIB with a mean value of 4.02. Boubyan Bank customers ranked the assurance entities more highly than customers of KIB and KFH did. This implies that Boubyan Bank customers believe that the bank's employees have the ability to solve problems promptly and the bank has fast and efficient counter services with consistency in transactions across all of the bank's branches. In the same regard, Haron*et al.* (1994) illustrated that fast and efficient counter services were the primary motivation for Malaysian bank's customers to select a bank to deal with.

However, Boubyan Bank have not been able to catch KFH's lead when it comes to the bank's ATM spread and their presence in several places such as malls, universities, and car show rooms as indicated in Table 6.28 of Chapter 6 and Table 7.32 of Chapter 7. KIB customers pointed out in the open-ended question that they wanted a higher presence of their bank in malls, shopping centers, and carshow rooms; they also complained about the low number of branches in suburban areas, as most of the branches are in commercial areas. Al-Fozan (2005) on the other hand stressed on the importance of assurance dimension as perceived by theSaudi Islamic banks' customers.

$H_{01.3}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the reliability dimension.*

Table 9.1 depicts that there are significant differences in the perceptions of the customers of the three Islamic banks in relation to the reliability dimension, which is evidenced from the P-value showing full significance (P-value= .000). Therefore, the null hypothesis is rejected and it is concluded that there are differences between the customers of KFH, KIB, and Boubyan Bank in regarding reliability dimensions as indicators of service quality. As the mean scores indicated in Table 9.1, Boubyan Bank obtained the highest mean value among its competitors 4.11.

Out of the five entities forming the reliability dimension, Boubyan Bank managed to get the highest mean score in relation to entities such as adequate number of employees in the branches, answering customers' enquires promptly, and error free transactions (as indicated in Table 7.32 in Chapter 7). The adequate number of employees in Boubyan Bank ensured the fast and efficient service encounters as mentioned earlier in the assurance dimension. Some of KFH's customers, on the other hand, complained in the open-ended question about service delays and the length of the waiting time in some of the bank's branches. KIB customers highly ranked the availability of cash in the ATMs machine with a mean value of 4.13, as shown in Table 7.32 in chapter 7; in fact, this was ranked number one across the 42 constructs forming the nine SERVQUAL dimensions. Boubyan Bank customers, on the other hand, complained in the open-ended question that

their bank's ATMs are sometimes out of cash in the seasonal occasions. According to Obaid (2006), reliability takes extreme importance over the remaining SERVQUAL dimensions.

$H_{01.4}$: There are no significant differences between the Kuwaiti Islamic banks regarding the tangibility dimension.

Table 9.1 shows that there are significant differences between perceptions of the customers of the three Islamic banks in relation to the tangibility dimension, as can be seen in the P-value, which shows full significance (P-value= .000). Therefore, the null hypothesis is rejected and it is concluded that there are differences between the customers of KFH, KIB, and Boubyan Bank regarding tangibility dimensions as indicators of service quality.

Out of the five tangibility entities, KFH scored the highest mean value by their customers in three entities, i.e. parking space availability, well dressed and presentable employees, and the large customer space with enough seats in their branches. However, all participants in the sampled banks, regardless of the bank they are dealing with, expressed their perceptions towards the availability of the parking space with a modest mean value of less than 4, as indicated in Table 7.32 in Chapter 7. All of the banks' customers expressed their dissatisfaction with the availability of the parking space in the open-ended question as well. KFH customers, for instance, stated that most of KFH's parking valley is shared with nearby cooperative supermarkets, which makes it difficult for them to find an available parking spot. KIB customers also suggested that the bank's branches should be built or rented in an independent building and not as part of big busy complex in very busy streets which make it harder for them to get easy access to their bank branch. KIB customers indicated that the design of the bank logo is not understandable and suggested to enlarge the size of it or even change it. The customers also find that the bank's external design is not attractive and sometimes is not noticeable between other buildings, which make it hard for the customer to locate branches.

$H_{01.5}$: There are no significant differences between the Kuwaiti Islamic banks regarding the empathy dimension.

As can be seen in Table 9.1, there are significant differences between the three Islamic banks in their perceptions of the empathy dimension, as indicated by the P-value (P-value= .002). Therefore, the null hypothesis is rejected and it can be concluded that there are differences between the customers' perceptions of KFH, KIB, and Boubyan Bank regarding the empathy dimension as indicator of service quality. It appears that Boubyan Bank customers had the highest mean value of 4.17 among its counterparts for all of the entities forming the empathy dimension.

Boubyan Bank scored the highest mean value in this regard. Being empathetic and considerate with their customers scored the highest mean value among all of the 42 SERVQUAL statements; it was given to the bank due to its hospitality (offering tea and coffee to their customers while waiting to be served). Boubyan Bank employees are working with the Banks' vision of being understanding and compassionate with their customers. Boubyan Bank's approach is clearly obvious building a close relationship with their customers. KFH customers, on the other hand, asked for better hosting service similar to what is being offered by other KFH branches. In a sense of being more compassionate with their customers, KIB customers wished that their bank would consider waving the monthly payments of their instalments for two months per year just like other banks to give the clients a relief of their financial obligations.

$H_{01.6}$: *There are no significant differences between the Kuwaiti Islamic banks regarding responsiveness dimension.*

Table 9.1 depicts that there are significant differences between the three Islamic banks in their perceptions of the responsiveness dimension, which is evidenced with the P-value (P-value= .017). Therefore, the null hypothesis is rejected and it maybe concluded that there are differences between the perceptions of the customers of KFH, KIB, and Boubyan Bank regarding responsiveness dimensions as indicators of service quality.

According to the customers' perceptions, KFH was ranked the highest with a mean value of 3.89, with a slight difference from Boubyan Bank in perceiving the responsiveness dimension in general. From the responsiveness entities, KFH and Boubyan Bank scored

an equal mean value of 4.6 with regard to employees treating the customers equally in the sampled banks. KFH customers have higher positive perceptions towards the friendly relationship between employees and customers. However, Boubyan Bank has the highest mean value when it comes to the staff's ability to restore errors quickly.

$H_{01.7}$: There are no significant differences between the Kuwaiti Islamic banks regarding technology dimension.

As the results in Table 9.1 show, there are significant differences between the perceptions of the customers of the three Islamic banks in relation to the technology dimension. The statistical significance of the alternative hypothesis can be seen in the P-value (P-value= .000). The alternative hypothesis is, therefore accepted, which implies that there are differences between the customers of KFH, KIB, and Boubyan Bank in regarding technology dimensions as indicators of service quality.

KFH succeeded in getting the highest mean value among its counterparts with regard to their website design being simple and easy to use, and the availability of drive-through ATMs and deposit cash machines. The perceptions also gave KFH a higher mean value when assessing the employees in the banks encouraging the bank customers to use the internet banking services. KIB customers complained about the scarcity of deposit machines and drive-through ATMs. The results indicated that KIB should follow up more with their customers through emails, text messaging, and calls as their customers perceived a very modest mean value of 2.74 while applying the technological dimension. Zhu *et al.'s* (2002) described how information technology (IT) can improve customer service quality and stated that IT-based services have an indirect impact on customer satisfaction and perceived service quality.

$H_{01.8}$: There are no significant differences between the Kuwaiti Islamic banks regarding competitiveness dimension.

Unlike the previous listed hypotheses, the findings in Table 9.1 showed that there are no statistically significant differences between the perceptions of the three Islamic banks in

relation to competitiveness dimensions, as the P-value is higher than the critical value of 0.05 (P-value=.169). In this case, the findings supported the research hypothesis when stating that there are no significant differences between these three banks and competitiveness dimensions as indicator of service quality. Thus, this result supports the expectations of the study when promoting the availability of these new Islamic banks in the local market as having the ability to serve the customer in the same way as KFH do, and to compete with KFH and consequently create a very competitive market which in the end drives to the interest of the customers.

$H_{01.9}$: *There are no significant differences between the Kuwaiti Islamic banks regarding the customer satisfaction dimension.*

As can be seen in Table 9.1, there are no statistically significant differences between the perceptions of the customers of the three Islamic banks in their perceptions of customer satisfaction dimension. This is clear from the P-value (P-value=.588), which is higher than 0.05. The findings, thus, support the study's hypothesis when stating that there are no statistically significant differences between these banks' customers and their perceptions of the customer satisfaction dimension. However, when comparing the mean average of the entities for each bank, KFH and Boubyan Bank shared the same average value of 3.93, while KIB stood at 3.50.

9.2.1. Group 2 Hypotheses: Testing the differences in customer satisfaction among the three Islamic banks.

This section primarily focuses on testing the proposed hypotheses Group 2, which tests the significance of the differences between the three Islamic banks' customers and their satisfaction with the employees' performance in general, the range of products and services offered by the Islamic bank and their satisfaction with the quality of service in the Islamic bank they deal with.

Table 9.2 Customer Satisfactions among Kuwaiti Islamic Banks

Customer Satisfaction	KFH		KIB		Boubyan	
Item	Mean	St.d	Mean	St.d	Mean	St.d
Satisfaction with employees' performance	3.94	.998	3.55	1.145	3.70	.657
Satisfaction with products and services	4.02	.948	3.52	1.212	3.95	.722
The quality of services is excellent	4.02	.956	3.44	1.156	4.10	.308
Customer satisfaction is a priority	3.77	1.180	3.50	.577	4.00	.000
Overall Mean	3.93		3.50		3.93	

The detailed examinations of the hypotheses are as follows:

$H_{02.1}$: *There are no significant differences between the three Islamic banks in their perceptions of employees' performance.*

Although Table 9.1 shows that there are no statistically significant differences between customers satisfaction dimension between the three Islamic banks, analyzing the dimension entities shows a relatively minor differences in customer perceptions in these banks as explained in the mean testing. Table 9.2 illustrates the differences between these banks in relation to customer satisfaction with employee performance.

As can be seen in Table 9.2, for customer satisfaction, KFH shows the highest mean scoring of 3.94, while KIB gets 3.55, and Boubyan Bank 3.70. Although Boubyan Bank did better than KIB in this entity, however, when ranking all 42 questionnaire entities that shaped the modified SERVQUAL, this item was ranked as 31st for Boubyan Bank and 19th for KIB as explained in Table 7.32 in Chapter 7.

It should be noted that KIB customers believe that the bank's staff should feel that they are part of their bank's success, and they did not sense this feeling in their staff. They also expect that more customer service training courses should be given to the KIB staff and that the bank should reassure that the right employee is in the right position as indicated by their customers in the open-ended question. The staff ought to take more initiative and be creative when serving their bank and their clients, since employee

competence and courtesy is a vital component in ensuring and delivering a high quality of services. As Abdullah and Kassim (2009) concluded, human skills and empathy were the two service quality dimensions related to customer satisfaction with the level of service quality obtained in Qatar Islamic banks.

$H_{02.2:}$ *There are no significant differences between the three Islamic banks in their perceptions to the range of products and services provided by the Islamic bank.*

Table 9.2 showed that KFH customers were more satisfied with the range of products and services offered by their bank more than KIB and Boubyan Bank customers with a mean score of 4.02, 3.52, and 3.95, respectively.

Although the three banks mainly offer the same range of products and services, as explained in Chapter 6, KFH remains a pioneer in product development and innovation. KIB' customers emphasize the importance of diversifying the bank's offering and developing products and services that satisfy their needs.

Al-Nasser (2010:1) reported that the most important management facet of the Islamic financial institutions is product development; in particular, since the Islamic finance industry is new when compared with the conventional counterparts, it is behind in the product assembly. Since Islamic finance industry is still in the development stage, its development requires more products that combine the objectives of *Shari'ah* and customer requirements, in addition to the ability to compete in a market that is dominated by its rivals.

$H_{02.3}$: *There are no significant differences between the three Islamic banks' customers in their perceptions of the quality of services provided by the Islamic bank they deal with.*

As can be seen in Table 9.2, and the findings indicate that the mean scoring is in favour of Boubyan Bank with mean value (4.10), where Boubyan bank customers believe that the service quality in their bank is excellent, while a very modest mean value of 3.44 is associated with KIB. KFH launched the service quality program in 2006; just one year after Boubyan Bank started operating in the market. This means that both KFH and

Boubyan Bank are new in the area of service quality incentives and implementation; therefore there is a comparative advantage for KFH in this regard. As observed during the data collection process and from the information obtained from an unstructured and informal interview with one of the staff in Boubyan Bank's Head Office, Boubyan Bank used a triangular approach when assessing their service quality. The bank uses questionnaires which are randomly distributed to their customers to assess the satisfaction with the quality of the services offered; a selected customer segment is asked to assess the quality of particular service the customer recently experienced; and a mystery shopper approach is used to assess the employee performance in delivering the service.

$H_{02.4}$: *There are no significant differences between the three Islamic banks' customers in their perceptions regarding the importance of the customer satisfaction principle in their bank.*

When respondents were asked if their bank valued their customers and believed in customer-oriented strategy, Boubyan bank customers highly express their positive perceptions with higher mean value of 4.00than KFH and KIB customers with 3.77 and 3.50 respectively. By pleasing their customers with an adequate number of understanding and competent employees, showing respectable signs of hospitality, and scoring high for many other entities, Boubyan Bank ensured the satisfaction of their customers across the different SERVQUAL dimensions. The bank's customers believe that their bank really does consider them as an asset and that their satisfaction is a priority.

In concluding, as can be seen in the last row of Table 9.2., KFH and Boubyan Bank scored the same overall mean value (3.9375) in terms of customer satisfaction, while KIB remained at overall mean score of 3.5025. This indicates rather significant differences.

9.2.3. Group 3 Hypotheses: Testing the differences between customers' perceptions of Islamic banking variables in the Kuwaiti Islamic banks

The study expands the analysis to include the Islamic banking variables and test their significance in relation to the nine SERVQUAL dimensions. For reasons of consistency,

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the study brings together the relevant variables from the questionnaire statements as listed in Table 9.3. As indicated in the table, there are significant differences between the three sampled banks in two statements of the nine Islamic banking variables; 'Low rate of profits required for financing real estate projects' and 'Competitive rate of return on investment deposits'.

These are significant differences, which were found in only two of the nine Islamic banking variables. In fact, there are no differences in the other seven variables as perceived by the sampled banks. The banks' customers believed that these remaining variables are offered in a similar way by their respective banks.

$H_{03.1}$: *There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of their bank being compliant with Islamic Shari'ah principles.*

Customers of the three Islamic banks in Kuwait (KFH, KIB, and Boubyan bank) showed a relatively high mean score (all above 4) for believing that their Islamic bank is a trustworthy Islamic bank which operates according to Islamic *Shari'ah* principles. KFH had the highest value in this domain with a mean score of 4.22.

$H_{03.2}$: *There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the Shari'ah board's trustworthiness*

KIB position itself first when it comes to trusting the *Shari'ah* board; their customers believe they are strict in their interpretation of *Shari'ah* with higher mean value (4.13) than KFH. However, as stated in Chapter 6, all of the three Islamic banks share almost the same SSB committee.

Table 9.3 Islamic banking variables across the three Islamic banks in Kuwait

Islamic Banking Variables	KFH		KIB		Boubyan		Sig.
	Mean	St.d	Mean	St.d	Mean	St.d	
All banking services are in accordance with Islamic *Sharia*.	**4.22**	.925	4.11	.894	4.08	.468	.227
I have a confidence in SSB	4.11	.942	**4.13**	.831	4.09	.629	.770
Sharia compliant contracts are free from *Jahala* and *Gharar*.	**3.85**	.950	3.77	1.01	3.84	.652	.745
Competent employees in Islamic financial service according to Islamic *Sahria*.	3.96	.989	3.86	1.02	**4.08**	.711	.325
Low rate of profits required for financing real estate projects	3.60	1.04	3.27	1.09	**3.63**	.691	**.003**
Low charge for real estate appraisal and property management.	**3.62**	.950	3.46	.996	3.42	.643	.140
Low rate of profit for financing through *Murabaha*	3.57	1.11	3.47	1.06	**3.77**	.642	.305
Low service fees charged	**3.51**	1.02	3.40	1.03	3.49	.718	.306
Competitive rate of return on vestment deposits.	**3.64**	.978	3.07	1.25	3.45	.732	**.000**

$H_{03.3}$: *There are no significant differences between the Kuwaiti Islamic banks in Shari'ah-compliant contracts being free from Jahalah and Gharar*

All of the three Islamic banks produced a low mean value of less than 4 when it comes to the customers' perception of the Islamic banks' contracts and how long and complicated they were. Metawa and AlMossawi (1998) assured that majority of their sampled banks were less satisfied with the complexity of financing schemes offered by the Islamic bank.

$H_{03.4}$: *There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of employee awareness of Islamic banking services and transactions*

Boubyan bank's customers believe that their bank's staffs are competent in giving adequate financial advice with mean value of 4.08, which is higher than that of KIB and KFH. As explained in Chapter 6, all banks start investing in training their staff on Islamic financial and *Shari'ah*-compliant transactions as they find it a crucial role for maintaining their customer base and their survival in the market. However, Al-Nasser (2010) indicated that having employees develop a better understanding and knowledge of the philosophy behind Islamic banking cannot be achieved through short training courses or workshops. The skills required can only be obtained after several years of experience or studying a combination of *Shari'ah* law and finance for a minimum of six months on intensive courses.

$H_{03.5}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception to the availability of low rate of profit required for financing through Murabaha.

As indicated in Table 9.3, there is no significant difference between the sampled banks regarding the availability of low rate of profit required for financing through *Murabaha*. Table 9.3 depicts modest mean values for all of the banks (less than 4) in relation to the availability of low rate of profit required for financing through *Murabaha*. In this item, KFH scored a lower mean value than Boubyan Bank (3.57 and 3.77 respectively). Both KIB and Boubyan Bank try and follow KFH in pricing their rates with a slight difference to attract more customers. However, most of the respondents regardless of the bank they are dealing with asked in the open ended question for a lower rate of profit and better facilities regarding the commercial banking services offered by their bank.

$H_{03.6}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of real estate appraisal and property management services

As showed in Table 9.3, KFH has the highest mean value with 3.62 (compared to KIB: 3.46 and Boubyan: 3.42) for the availability of real estate appraisal and property management service items. Boubyan came last in this item as the bank does not offer a

real estate appraisal service like KFH and KIB and only offers real estate and property management service.

H$_{03.7}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of low rate of profits required for financing real estate projects.

Table 9.3 shows a significant difference between the three Islamic banks as far as the availability of the real estate financing is concerned (given as .003) as an indicator of significance. While KFH and Boubyan Bank scored 3.60 and 3.63 respectively, KIB scored the lowest mean value with only 3.27, KIB should recruit managers who have the ability to undertake risk and optimize profits.

H$_{03.8}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of reasonable service fees.

The three Islamic banks scored a mean value of less than 4in relation to the service fees charged by the banks being low and reasonable. Boubyan Bank scored higher than other banks in this item. As explained in Chapter 6, there were no differences between the banks in terms of charging fees.

H$_{03.9}$: There are no significant differences between the Kuwaiti Islamic banks in their customers' perception of the availability of a competitive rate of return on investment accounts.

In these items, Table 9.3shows a significant difference between the three Islamic banks as far as the availability of a competitive rate of return on investment accounts(given as .000) KFH scored a higher mean value than both KIB and Boubyan Bank when it comes to the competitive rate of return offered to their customers. The mean score for this item for KFH is 3.64, while KIB and Boubyan Bank scored 3.07 and 3.45, respectively. This could be associated with the variety of the investment deposits KFH provides, as explained in Chapter 6.The customers in KIB also stated in the open-ended questions that

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a better and compatible rate of return of investment deposits is a must and is the ideal way to increase the customer base in KIB.

9.2.4. Group 4 Hypotheses: Hypotheses testing the significant relationship between the modified SERVQUAL dimensions and customers' demographic characteristics in Islamic banks.

$H_{04.1}$: *There are no significant differences between the respondents' gender and SERVQUAL dimensions.*

According to Table 8.2 in Chapter 8, there seems to be a significant difference between the male and female participants in their perceptions of the technology dimension only with p-value .041. Although both were positive towards the technology, males were less satisfied than females in their rating of technology constructs with mean values of 3.48 and 3.69, respectively.

$H_{04.2}$: *There are no significant differences between the respondents' nationality and the SERVQUAL dimensions.*

As far as nationality is concerned and as illustrated in Table 8.3 in Chapter 8, there are significant differences between nationality classifications when it comes to the compliance dimension, which is evidenced from the P-value (p-value=.026). Accordingly, non-Kuwaiti nationals scored 4.1737 as mean perception, while Kuwaiti nationals scored a lower mean perception of 3.993. Moreover, regarding the assurance dimension, non-Kuwaiti nationals seem to be more assured than Kuwaiti nationals with P-value 0.002 with mean perception of 4.02 and 3.78, respectively; this could be because non-Kuwaiti nationals may use the local Islamic Banks for transactions purposes only and tend to deal with their home country's banks for saving, depositing, financing, and investing purposes.

Non-Kuwaiti applicants always show higher mean perception scores than their counterpart (the Kuwaiti nationals) in all constructs; for instance, the reliability construct illustrates that non-Kuwaiti nationals scored a higher mean perception than Kuwaiti

nationals with 4.04 and 3.79respectively, with a statistically significant difference (p-value.006).

In terms of the tangibility constructs, as the table indicates, tangibility shows statistically significant differences with p-value.013 with higher mean perception again associated with non-Kuwaiti nationals (3.79 vs. 3.54 for Kuwaiti nationals). The responsiveness construct also shows a statistically significant difference between Kuwaiti nationals and non-Kuwaiti nationals with p-value.021; the mean scoring for Kuwaiti nationals is 3.787and 3.97 for non-Kuwaitis.

$H_{04.3}$: There are no significant differences between the applicants' age and the SERVQUAL dimensions.

As far as age is concerned, Table 8.5 in Chapter 8 demonstrates that there is a significant difference in reliability and empathy perceptions among the surveyed sample in relation to age, with p-values of .036 and .018. The applicants who are 35 years old and over felt that they can rely on the Islamic bank they deal with more than the younger applicants who are younger than 34. It should be noted that, regarding empathy, respondents aged between46 and 55 were more compassionate with the bank employees (with a mean perception of 4.07) than the remaining age groups.

$H_{04.4}$: There are no significant differences between the respondents' social status and the SERVQUAL dimensions.

As Table 8.4 demonstrates, there are significant differences between marital status and the tangibility constructs, with a significant p-value.015 and mean perception of 3.67 and 3.52, respectively, as married respondents are more assured than single applicants in their perceptions of the tangibility construct. The analysis also indicates that there are no significant differences between married and single applicants when it comes to compliance, assurance, reliability, empathy, responsiveness, competitiveness, and customer satisfaction.

H$_{04.5}$: There are no significant differences between the applicants' place of work and SERVQUAL dimensions.

As regards to the classification of place of work with the SERVQUAL constructs, Table 8.6 in Chapter 8 depicts a significant difference (p-value.000) with assurance towards SERVQUAL constructs; retired respondents and house wives applicants scored the highest mean perception with mean values of 4.15 and 4.23, respectively. As is the case with the other constructs (reliability and tangibility, except for technology), it is not surprising to see the highest means are for students and house wives.

H$_{04.6}$: There are no significant differences between the respondents' education and the SERVQUAL dimensions.

Table 8.7 in Chapter 8 shows differences in respondents' educational level and the SERVQUAL dimensions, as cross-tab analysis shows that there is a significant relationship between the empathy dimension and the level of education with p-value.004. It seems that applicants who are holding high school and diploma certificates scored mean value of 4.15and felt that the staff in the Islamic bank they deal with are more sympathetic and compassionate in comparison to the participants who hold a higher degree (scoring a mean value of 3.44), who felt that those staff are not that considerate or compassionate. Usually, highly educated people are more demanding than others, and this could be because they require different and more sophisticated kinds of financial transactions.

H$_{04.7}$: There are no significant differences between the applicants' income and the SERVQUAL dimensions.

When it comes to income groups and their perceptions of the SERVEQUAL dimensions, as can be seen in Table 8.8, there is a significant difference between all constructs apart from compliance, responsiveness, competitiveness, and customer satisfaction. Respondents with an income of up to 300 KD and applicants with an income of more than 2000KD show a high degree of assurance with mean values of 4.00 and 4.02, respectively.

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H$_{04.8}$: There are no significant differences between the duration of dealing with the same bank and SERVQUAL dimensions.

It is also clear from Table 8.10 that respondents who have been dealing with the same bank for 3 to 5 years find their Islamic bank satisfying in relation to tangibles with a p-value .010 and a high level of responsiveness p-value.008. On the other hand, respondents who have been dealing with the same bank for 5 years or more show more significant differences towards technology with p-values .000.

9.2.5. Group 5Hypotheses: Testing customer satisfaction in relation to the modified SERVQUAL model in Kuwait Islamic banks.

This section tests the direct effect of the modified SERVQUAL model on customer satisfaction. Each of the proposed hypotheses is verified with logical reasoning and an explanation of the nature of the relationship between different entities wherever relevant.

H$_{05.1}$: There is no significant relationship between the compliance dimensions and customer satisfaction in Kuwait Islamic banks.

As can be seen in Table 9.4, there is a direct relation between compliance construct and customer satisfaction with path co-efficiency of.180%, with a P-value of .012, which supports the research hypothesis that there is a significant relationship between customer satisfaction and compliance dimension. It might be indicative of the religious climate within the banking sector. This climate is characterized by the value placed on the preference of dealing with an Islamic bank to avoid paying or receiving interest on financial transactions.

H$_{05.2}$: There is no significant relationship between the assurance dimensions and customer satisfaction in Kuwait Islamic banks.

Table 9.4 shows that there is a direct positive relation between the assurance dimension and customer satisfaction, with a path coefficient value of .318% and p-value of .000,

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which supports the research hypothesis that there is a significant relationship between assurance dimension and customer satisfaction.

Table 9.4 Path Coefficient Analysis

Path	Path coefficient	t-value	Standard Error	P-Value	Supporting or not supporting hypothesis	Hypothesis
Reliability→ Customer Satisfaction	.058	.680	.085	.498	NS	^{H}5.3
Tangibility →Customer Satisfaction	-.032	-.435	.073	.665	NS	^{H}5.4
Responsiveness →Customer Satisfaction	.031	.338	.091	.736	NS	^{H}5.5
Technology →Customer Satisfaction	.079	1.061	.074	.291	NS	^{H}5.7
Empathy →Customer Satisfaction	.336	3.519	.099	**.001**	S	^{H}5.6
Assurance →Customer Satisfaction	.318	3.794	.085	**.000**	S	^{H}5.2
Compliance →Customer Satisfaction	.180	2.547	.067	**.012**	S	^{H}5.1
Competitiveness →Customer Satisfaction	.162	2.238	.072	**.028**	S	^{H}5.8

$H_{05.3}$: *There is no significant relationship between reliability dimensions and customer satisfaction in Kuwait Islamic banks.*

As can be seen in Table 9.4., there is no direct effect of service quality constructs on customer satisfaction (path coefficient .58% and P-value=.498) and therefore the research hypothesis is not supported.

$H_{05.4}$: *There is no significant relationship between the tangibility dimensions and customer satisfaction in Kuwait Islamic banks.*

Table 9.4 also shows that there is no direct effect between the tangibility dimension and customer satisfaction, with a path coefficient of -.032 and p-value .665, which is more than .05and therefore implies that there is no significant relationship between the tangibility dimension and customer satisfaction. The findings therefore do not support the research hypothesis.

$H_{05.5}$: *There is no significant relationship between the responsiveness dimensions and customer satisfaction in Kuwaiti Islamic banks.*

Responsiveness, as indicated in Table 9.4, does not seem to have a particular relation with customer satisfaction, with a non-significant responsiveness value .031% and P-value .736 and therefore the research hypothesis is not supported.

$H_{05.6}$: *There is no significant relationship between the empathy dimensions and customer satisfaction in Kuwait Islamic banks.*

However, the empathy dimension has a strong positive and significant effect on customer satisfaction with 33.6% and P-value= .081, which supports the research hypothesis and agrees with the literature (Othman and Owen 2002; Obaid, 2006, and Al-Tamimi *et al*., 2003), which also confirmed that empathy has the strongest effect on customer satisfaction among the other dimensions; this could be due to the friendly climate within the three Islamic banks operating in Kuwait**.**

$H_{05.7}$: *There is no significant relationship between the technology dimensions and customer satisfaction in Kuwait Islamic banks.*

Technology, one of the newly added dimensions to SERVQUAL, does not show any significant impact on customer satisfaction, as the path coefficient is only .079% and p-values do not provide any support (P-value=.291).

$H_{05.8}$: There is no significant relationship between the competitiveness dimensions and customer satisfaction in Kuwait Islamic banks.

Competitiveness, the other newly added dimension to the original SERVQUAL model, appears to have significant impact on customer satisfaction with a significant direct effect on customer satisfaction and therefore the research hypothesis is supported. The findings, therefore, emphasize on the importance of competing strategies being applied by Islamic banks, e.g. competing on price by offering low service charges, paying a higher rate of return on investments and deposits, or competing on services and products offered by distinguishing themselves from the other competitors by producing innovative and exclusive services to ensure customer satisfaction.

Hypothesis 6: There are no differences in the SERVQUAL importance as perceived by the Islamic banks customers.

The study extended the analysis by looking into the participants' perceptions regardless of the bank they are dealing with to demonstrate the importance of SERVQUAL dimensions and to test Hypothesis 6 using the mean values scorning.

Table 9.5 Exploring SERVQUAL Importance as Perceived by the Sampled Banks

SERVQUAL Dimensions	Mean	Mean Ranking	Std. Deviation
Compliance	4.0470	1	.75401
Assurance	3.8614	3	.88434
Reliability	3.8604	4	.88020
Tangibility	3.6122	7	.92822
Empathy	3.9661	2	.81250
Responsiveness	3.8425	6	.81556
Technology	3.5724	8	1.03222
Competitiveness	3.4231	9	.86180
Satisfaction	3.8447	5	1.01095
Overall Mean	**3.7810**		

As can be seen in Table 9.5 and by analyzing the mean values, it is clearly obvious that all of the nine SERVQUAL dimensions showed positive mean values, with a stronger emphasis on the compliance, empathy, assurance, and reliability dimensions (4.04, 3.96, 3.86, and 3.86, respectively) in relation to the other SERVQUAL dimensions which showed moderate positive mean values (e.g. technology 3.57 and competitiveness 3.42).

The study findings thus align with Al-Fozan's study (2005) as he stated that assurance was the most important factor the Islamic banks in Saudi Arabia. Othman and Owen (2001) and Obaid (2006) obtained the same findings for assurance among Islamic banks' customers. According to Obaid (2006), reliability takes extreme importance over the remaining SERVQUAL dimensions. However, reliability ranked in the fourth position when ranked by the Islamic banking respondents in Kuwait.

The respondents in these banks also consider compliance as an important factor for dealing with Islamic banks, as they expect that all transactions and services must be according to Islamic *Shari'ah* principles. In his study AlSultan (1999) also confirmed that religious beliefs were the ultimate motive for dealing with KFH in Kuwait. In addition, Bleyand Kuehn (2004) also supported this result.

Moreover, the study's findings disagree with Al-Tamimi*et al.*'s (2003) findings, as tangibility was one of the most important dimensions perceived by the UAE banking customers. Tangibility has 3.61 as a mean value as perceived by the sampled banks in Kuwait. It is a relatively fair score; however, it ranked seventh among the nine dimensions as shown in Table 9.5.

To substantiate of the study findings Table 9.6 is presented to illustrate the results of the factor analysis for each dimension along with the most informative questions, which have high reliability and high contribution to the extracted variance of a dimension as answered by the respondents in the sampled banks.

Table 9.6 Exploring Factor Analysis for SERVQUAL Dimensions

SERVQUAL Dimensions	Explained Variance	Explained Variance Ranking	Reliability Coefficient
Compliance	70.45	6	78.5
Assurance	74.07	3	82.3
Reliability	69.7	7	77.7
Tangibility	65.17	9	72.8
Empathy	68.95	8	84.6
Responsiveness	79.07	2	73.4
Technology	70.64	5	79.0
Competitiveness	72.8	4	87.5
Customer Satisfaction	82.33	1	92.8

As can be seen in Table 9.6 all the dimensions are fit for factor analysis due to scoring higher than 65 in the reliability coefficient. Although the table shows a relatively high scoring variance and high reliability coefficient for all of the SERVQUAL dimensions (all above 65%), respondents gave the highest loading percentage to the customer satisfaction factor with an explained variance of 82.33 and a reliability coefficient of 92.8. Therefore and according the variance of the given answers, it appears that respondents in these banks considered customer satisfaction as an important aspect of service quality; these findings are in line with Naser and Jamal's (2003) findings in Pakistan, as they revealed that there is a strong relationship between customer satisfaction and service quality.

As the factor analysis in Table 9.6 shows, the participants considered responsiveness second in its importance after customer satisfaction with 79.07, and this aligns with Othman and Owen's (2001) and Obaid (2006) results, as they found responsiveness was one of the top three most important dimensions customers pare in mind when assessing service quality in Islamic banks in Kuwait and UAE.

The assurance dimension came third after the customer satisfaction and responsiveness dimensions, as the factor analysis results shows that the explained variance in the case of assurance was 74.07, the competitiveness dimension explains 72.8of variance; hence its scores have a higher explanatory power than those of reliability, compliance, and empathy.

Hypothesis 7: There is no significant relationship between SERVQUAL dimensions and the Islamic banking variables as perceived by the Islamic banks customers.

A linear regression analysis was used to assess the effect of the nine modified SERVQUAL dimensions on the Islamic banking variables in the perceived service quality of the Kuwaiti Islamic banks. Table 9.7 illustrates the relationship between these variables. The results, thus, help to test the following hypotheses.

$H_{07.1}$: There are no significant relationships between the Islamic bank's compliance with Islamic Shari'ah law and the SERVQUAL dimensions.

As can be seen in Table 9.7, there is a high positive correlation between the items dealing with being a full-fledged Islamic bank and only two of the SERVQUAL dimensions: the compliance and competitiveness dimensions are significant with P-values of .000 and .002, where the R^2=.866 and is significant at the level of .000, which is lower than the acceptable confidence level of .05. Therefore the null hypothesis is rejected and therefore it is accepted that there is a statistically significant relationship between being a full-fledge Islamic bank and the compliance and competitiveness dimensions. It should also be noted that Table9.7 shows that the stated variable has no effect on the other seven SERVQUAL dimensions.

$H_{07.2}$: There are no significant relationships between the SSB's trustworthiness and the SERVQUAL dimensions.

The findings in Table 9.7 show a high positive correlation between the item dealing with the SSB's trustworthiness and three of the SERVQUAL dimensions, namely compliance significant at .000, assurance .017, and tangibility .045. The results show that R^2=.872; shows a high degree of relationship and that the association is significant at the level of .000. Therefore, the null hypothesis is rejected and the relation between the SSB's trustworthiness and the compliance, assurance, and tangibility dimensions is accepted. The results found that the *Shari'ah* board's trustworthiness is not relevant to the remaining SERVQUAL dimensions.

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H$_{07.3}$: There are no significant relationships between the Shari'ah-compliant contracts being free from Jahala and Gharar and the SERVQUAL dimensions.

As can be seen in Table 9.7, there is a positive correlation between the items stated that *Shari'ah*-compliant contracts are being free from *Jahala* and *Gharar* and two of the SERVQUAL dimensions. Thus, the compliance dimension is significant at .012 and empathy .000, with R^2=.778 and it has full significance at the level of .000. Therefore, the null hypothesis is rejected and it is established that the relation between *Shari'ah*-compliant contracts being free from *Jahala* and *Gharar* and the compliance and empathy dimensions is accepted.

H$_{07.4}$: There are no significant relationships between the employees being competent in Islamic banking transactions and the SERVQUAL dimensions.

The results in Table 9.6 shows a high positive correlation between the item dealing with the employees being competent in Islamic banking transactions and one of the SERVQUAL dimensions, namely compliance, which is significant at .000. The significance of the relationship is established at R^2=.736, which is significant at the level of .000. Therefore, the null hypothesis is rejected and the relation between the employees being competent in Islamic banking transactions and compliance dimension is accepted.

H$_{07.5}$: There are no significant relationships between the low rate of profit the Islamic bank required for financing through Murabaha and the SERVQUAL dimensions.

The relation in Table 9.6 shows a high positive correlation between the items dealing with the low rate of profit the Islamic bank required for financing and three of the SERVQUAL dimensions: assurance is significant at .000, responsiveness at .044, and competitiveness at .000. The model produced a very high relationship as can be seen in R^2=.823, which is significant at the level of .000. Therefore, the alternative hypothesis is accepted, stating that the relation between the low rate of profit the Islamic bank required for financing and the SERVEQUAL dimensions of assurance, responsiveness, and competitiveness is accepted.

H$_{07.6}$: There are no significant relationships between the low charge for real estate appraisal and property management and the SERVQUAL dimensions.

As Table 9.6 shows, there is a high positive correlation between the items dealing with the low charge for real estate appraisal and property management and one of the SERVQUAL dimensions, namely competitiveness, which is significant at .000. The relationship is rather high at R^2=.763, with being fully significant at the level of .000. Therefore, the null hypothesis is rejected and the relation to the low charge for real estate appraisal and property management and the SERVEQUAL dimension of competitiveness is accepted.

H$_{07.7}$: There are no significant relationships between low service fees charged in the Islamic bank and the SERVQUAL dimensions.

As the results in Table 9.7 show, there is a high positive correlation between the items dealing with the low service fees charged in the Islamic bank and two of the SERVQUAL dimensions: tangibility is significant at .032 and competitiveness at 000. The model establishing the relationship is rather high with R^2=.831 and significant at the level of .000. Therefore, the null hypothesis is rejected and the relation between low service fees charged in the Islamic bank and the SERVEQUAL dimensions of tangibility and competitiveness is accepted.

H$_{07.8}$: There are no significant relationships between the competitive rate of return on investment deposits in the Islamic bank and the SERVQUAL dimensions.

The relation in Table 9.6 shows a high positive correlation between the item dealing with the competitive rate of return on investment in the Islamic bank and competitiveness, which is significant at .000. The model establishing the relationship shows high correlation at R^2=.781, which is significant at the level of .000. Therefore, the null hypothesis is rejected and the relation between the competitive rate of return on investment provided by Islamic banks and competitiveness is accepted.

H$_{07.9}$: *There are no significant relationships between the availability of low rate of profit required for financing real estate projects in the Islamic bank and the SERVQUAL dimensions.*

As the results in Table 9.6 show, a high positive correlation between the item dealing with the availability of low rate of profit for financing real estate projects in the Islamic banks and one of the SERVQUAL dimensions, namely competitiveness, is significant at .000. The correlation coefficient indicates a modest relationship with R^2=.613; it is significant at the level of .000. Therefore, the null hypothesis is rejected and the relation to the competitive rate of return on investment and competitiveness is accepted.

Overall, the results in this section demonstrate that there is a significant relationship between the Islamic banking variables and some of the SERVQUAL dimensions as explained in Table 9.7, with no more than three significant relations between each of the Islamic banking variables and the nine SERVQUAL dimensions. For instance, only two of these banking variables, namely SSB's trustworthiness and the low rate of profit for financing have a correlation with three of the SERVQUAL dimensions. The study thus agrees with Obaid (2006) findings when resulted that there is significant relationship between the Islamic banking variables and SERVQUAL dimensions.

Hypothesis 8: There is no correlation between the service quality performance in the sampled banks and the banks' financial performance.

This hypothesis tests whether there is a correlation between the service quality performance (the overall mean score of each Islamic bank) and the banks' financial performance. Table 9.8 depicts each bank's overall score and the bank's return on assets (ROA) and return on Equity (ROE) for the year 2009 in an attempt to observe if there is a negative or positive association with the financial performance of the individual banks and their respective service quality performance (SQP) establisged by this study.

Table 9.7 Islamic Banking Variables and its Relation to SERVQUAL Dimensions

Islamic banking variables	Adj.R^2 Significances	Comments
I trust the Islamic bank where all banking services are in accordance with Islamic *Shari'ah*	R^2=.866 Sig=.000	Significant in compliance .000 and competitiveness .002 only.
I have a confidence in *Shari'ah* Board whom I expect to be strict in their interpretation of Islamic *Shari'ah*	R^2=.872 Sig=.000	Significant in compliance .000, assurance .017 and tangibility .045.
Shari'ah-compliant contracts are free from *Jahala* and *Gharar* in the Islamic bank I deal with	R^2=.778 Sig=.000	Significant at compliance .012 and empathy .000
Competent employees in the Islamic bank I deal with in providing adequate financial service according to Islamic *Sahri'ah*	R^2=.736 Sig=.000	Significant at compliance .000
Low rate of profit the Islamic bank required for financing through *Murabaha*	R^2= .823 Sig=.000	Significant at assurance .000, responsiveness .044 and competitiveness .000
Low charge for real estate appraisal and property management	R^2=.763 Sig=.000	Significant at competitiveness .000
Low service fees charged in the Islamic bank I deal with	R^2 =.831 Sig=.000	Significant at tangibility .032 and competitiveness .000
Competitive rate of return on investment deposits	R^2 =.781 Sig=.000	Significant at competitiveness .000
Availability of low rate of profits required for financing real estate projects	R^2=.613 Sig=.000	Significant at competitiveness .000

As can be seen in Table 9.8 KFH has the highest SQP but could not achieve the highest ROA and ROE in 2009.   This is indeed a partial analysis; it provides a basic understanding that there is positive or negative relationship between SQP and the finance performance.   Hence, the null hypothesis is accepted.   It should be noted that this hypothesis not statistically tested.

Table 9.8 Service Quality-Financial Performance Relation

Indicator	KFH	KIB	Boubyan
Return on Assets (ROA)	0.6	0.7	5.4
Return on Equity (ROE)	9.6	59.3	4.8
Service Quality Performance (SQP)	3.89	3.42	3.85

9.3. REFLECTING ON THE RESULTS

Table 9.9 depicts the overall results by identifying the valid and invalid hypotheses in connection to the SERVQUAL dimensions to draw a conclusion. Four of the eight hypotheses (Groups 1, 4, 5, and 7) are used to identify its relation to the SERVQUAL dimensions.

As stated in Table 9.9, and as the group of hypotheses revealed, in the first group of the hypotheses which deal with the Islamic banks' perceptions of the modified SERVQUAL dimensions, 7 of 9 valid hypotheses are significant; this indicates that the relation is strong and in line with the proposed model. Therefore the model related to this group of hypotheses is fulfilled as shown in Figure 9.1.

Group 4 hypotheses, which test the significant relationship between modified SERVQUAL dimensions and customers' demographic characteristics in Islamic banks, show a significant relation between its variables and the SERVQUAL dimensions and indicate that only one out the nine dimensions is not totally significant, which is the customer satisfaction dimension. Thus, it can be concluded that the model shows high performance as shown in both Figure 9.1 and 9.3.

Table 9.9 Verifying the Hypotheses of the Model

SERVQUAL Dimensions	Group 1 of hypotheses	Group 4 of hypotheses	Group 5 of hypotheses	Group 7 of hypotheses
Compliance	Significant	Nationality and duration are significant	Significant	Significant in 4 of the 9 Islamic banking (IB) variables
Assurance	Significant	Age-nationality and income are significant	Significant	Significant in 2 only of the IB variables
Reliability	Significant	Income-nationality and age are significant	Insignificant	Not significant
Tangibility	Significant	Income-nationality and duration significant	Insignificant	Significant in 2 only of the IB variables
Empathy	Significant	Age-education and income significant	Significant	Significant in 1 only of the IB variables
Responsiveness	Significant	Nationality-income and duration significant	Insignificant	Significant in 1 only of the IB variables
Technology	Significant	Gender-income and duration significant	Insignificant	Insignificant
Competitiveness	None significant	Nationality and income significant	Significant	Significant in 6 only of the IB variables
Customer Satisfaction	None significant	Insignificant	Not applicable	Insignificant
Overall Results: Validity of hypotheses	7out of 9 hypotheses are significant–Strong performance	Out of the nine SERVQUAL dimensions, only customer satisfaction is insignificant	4 out of 8 Modest performance	3 dimension of SERVQUAL proved not related to IB variables

As far as the second set of hypotheses Group 5 that deals with customer satisfaction in relation to the modified SERVQUAL model in Kuwait Islamic banks is considered, it shows that 4 out of the 8 dimensions are significant, therefore this model of relationships can be considered as modest as illustrated in Figure 9.2.

Group 7 tests the significance of the relationship between SERVQUAL dimensions and the Islamic banking variables as perceived by the Islamic banks' customers. The model shows that three of the SERVQUAL dimensions, namely reliability, technology, and customer satisfaction are not significant in this regard. Figure 9.2 illustrated this relation.
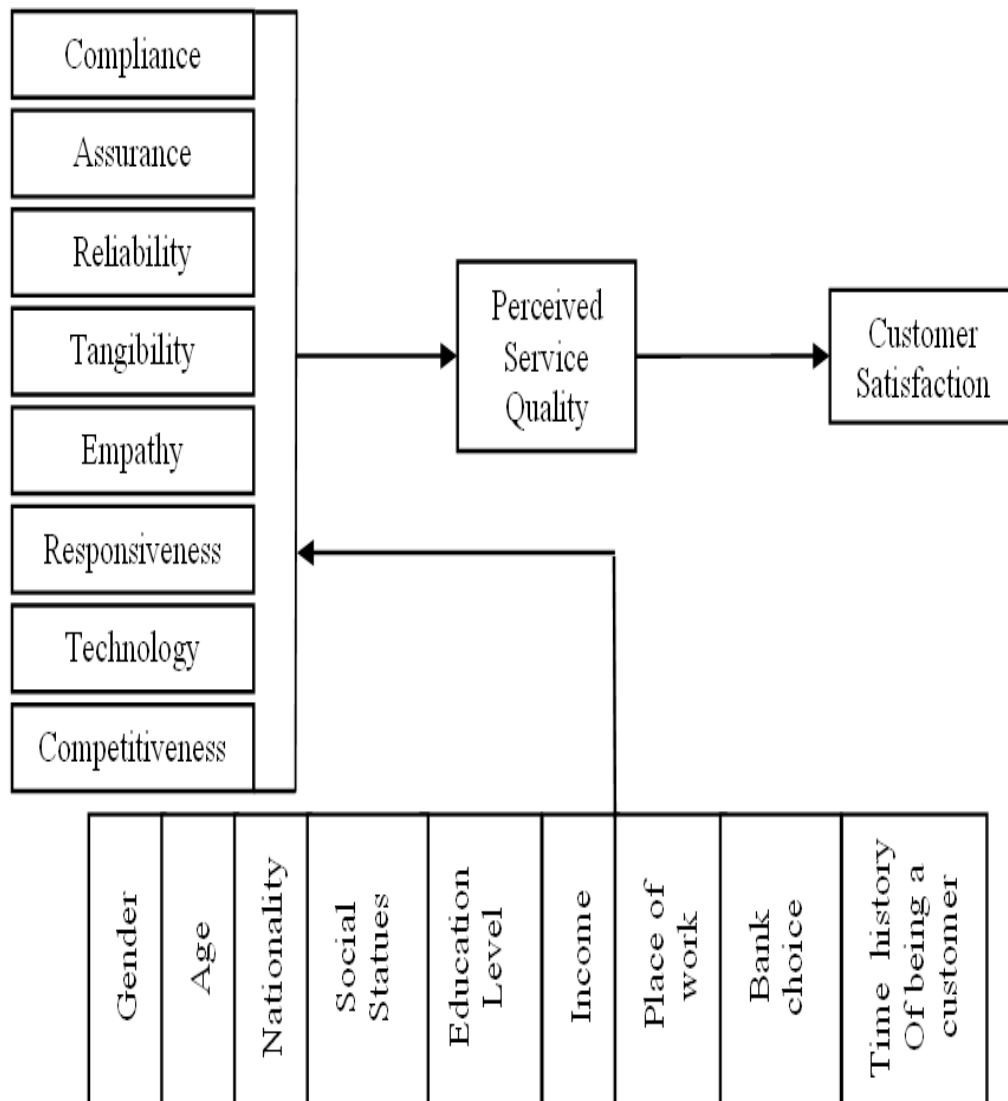
Figure 9.1 Service Quality Model

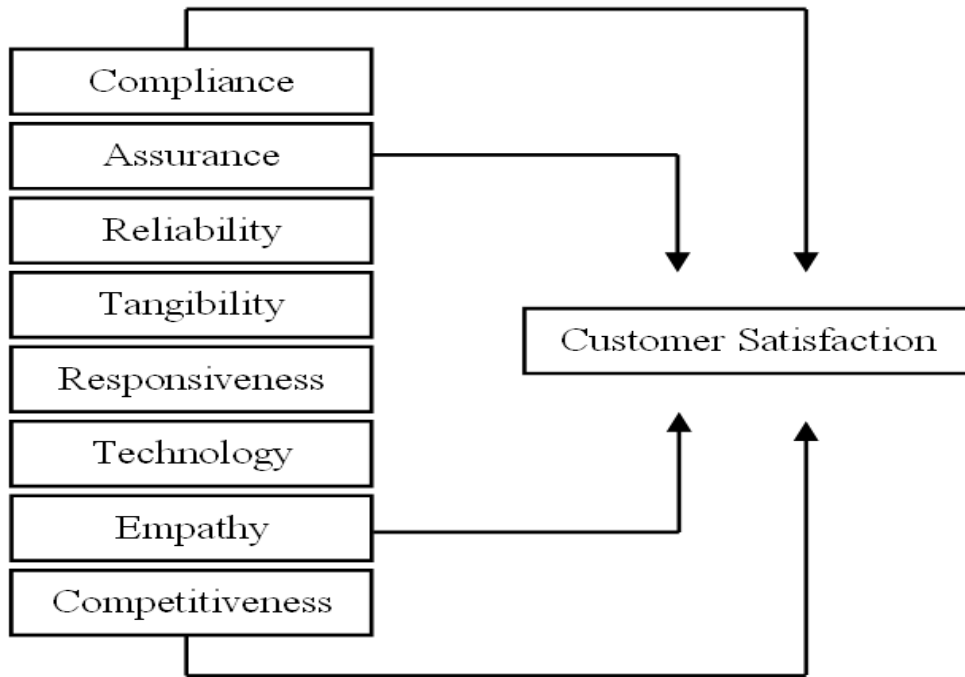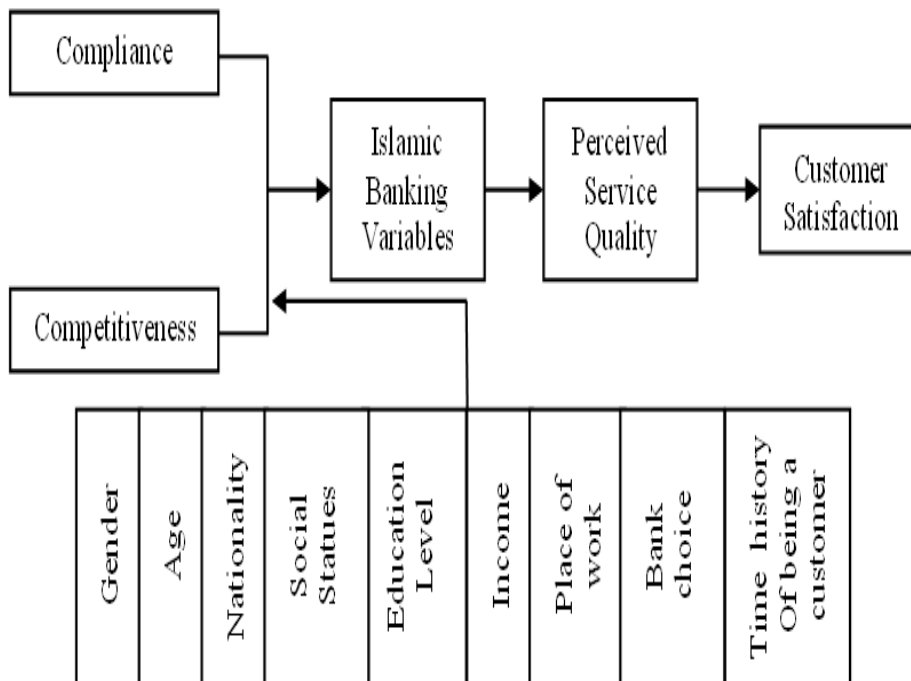**Figure 9.2 Modelling Service Quality- Customer Satisfaction**

Figure 9.3 Islamic Bank's Service Quality Model

9.4. CONCLUSION

The chapter thoroughly presented and contextualized the study findings with the research hypotheses and showed that the service quality dimensions in general are very important from the Islamic bank customers' view. However, the most important dimensions are compliance, empathy, and assurance, while the least important dimensions (according to the customers' perceptions) are competitiveness, technology, and tangibility.

This cross tabulation analysis also assured that the customer profiling and demographic factors have significant effects on the formation of the perceived service quality in Kuwaiti Islamic banks. The Islamic banking variables have also a significant relationship with customers' perceptions of the quality of service offered by the sampled banks in some of the SERVQUAL dimensions.

The chapter also demonstrated the effect that service quality has on customer satisfaction and found that there is a positive direct effect between four dimensions of the modified SERVQUAL; compliance, assurance, empathy, competitiveness and customer satisfaction.

Chapter 10
CONCLUSION

10.1 REFLECTING ON THE RESEARCH

Many factors are responsible for the rapid changes that are taking place in the banking and financial services in the Kuwaiti Islamic banks. These include responding to the changes that have taken place in the financial and investment needs of customers, adopting cost-efficient technologies, navigating the requirements of new business potentials as well as responding to the regulations process, and diversifying banking activities into areas like, trading, leasing, and infrastructure finance.

Improvements in service quality are expected to lead to increased customer satisfaction, which, in turn, will increase the banks' ability to retain their customers, broaden their market share, and increase profitability (Rust et al., 1999). In this regard, many bankers and financial executives believes that improving the quality of services is the key to overcoming the sever competition in the Kuwaiti banking market.

In addition, good service quality is expected to result in valuable return, including repeat business, positive customer referrals, and an increase in profits. It also results in strengthened management practices which may include the enhancement of employees' morale, the development of a service quality culture, and the enhancement of productivity and communication within the bank. Furthermore, the continuous assessment of service quality has many benefits, such as supplying proof of a need for quality programs and pinpointing the areas that would benefit from it, providing a baseline for future measurement, and building management support and action plans (Fortuna, 1992).

This study, thus, aimed at studying customer service quality perspectives in the case of Kuwaiti Islamic banks. A detailed explanation and the analyses of the primary data were presented in the previous chapters. As explained in Chapter 6, each of the three Kuwaiti Islamic banks has its own way and method of measuring service quality and customer

satisfaction in their bank. Common to all are the mystery shopper, box of complaints, and the process of handing out unstructured short surveys from time to time. However, mystery shoppers for instance only measure the quality of the service being delivered by the employee and do not measure the customers' perception or satisfaction with the service delivered. The box of complaints is rarely used as a channel for approaching the bank to report a complaint in Kuwaiti banks in general, as customers usually prefer to deal with their bank in person in the case of faults and complaints regarding their bank account, as they will express themselves better and feel that their complaint is dealt with immediately if it was voiced in person rather than via being put in a complaints and suggestions box.

Service quality programmes are a new system adopted by Kuwaiti Islamic banks. KFH, the oldest Islamic bank, commenced with the implementation of these programmes only in 2004. Since its establishment in late seventies, no department in its organisational structure was responsible for measuring or controlling quality. Adopting the service quality project late does not mean that KFH is lagging behind in this issue. On the contrary, KFH has achieved continuous relative growth in enhancing the concept of quality by developing the staff performance. However, their service quality programme has to be associated more closely with customers' requirements, needs, perceptions, and satisfaction.

In addition, Boubyan Bank has had a service quality department in its organizational structure since its inception in 2005.Boubyan Bank used two main approaches as a checklist: mystery shopper and short survey. Accordingly, the service quality team approaches customers after the transaction is done to ask whether the employee who served them was competent in delivering the service. Boubyan Bank used to check the service quality through their employee assessment, as they believe that satisfied customers are derived mainly from competent employees who are able to deliver the service accurately. Nevertheless, Boubyan Bank should recognise that assessing the customers' perception and satisfaction is also important to ensure not only that the service was accurately delivered but also that it met the customers' requirements, standards, and perceptions.

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However, KIB only introduced its service quality unit in 2009. Not only was this a recent step, but also they started with a small unit with not more than few employees working in it. One can argue that the step was just at the right time since the bank was a specialized real estate bank before the conversion into an Islamic bank, and prior to this step there was no necessity to establish a service quality department that manages the services provided. The role of the service quality units to organize for mystery shoppers to visit the branch staff and present reports on how the staff deliver the service to the clients. Also the service quality employees regularly check the box of complaints raised by the customers, try to address the common complaints, and draw up a report for the retail executive with the aim of solving these issues and complaints. The service quality staff also conduct a random tour of the branches to assess the branch's appearance and that all in all everything looks satisfactory.

Consequently, it can be argued that there is a lack in quality knowledge and practice among Kuwait Islamic banks. These banks need to identify a clear strategy and approach of how to develop the concept of service quality and customer satisfaction. This is best done by identifying the customers' needs regarding the scope of service and meeting their requirements in order to build a bridge of positive relationship and thus making the customers loyal to the bank in a developing banking environment.

Having established the shortfalls outlined above, it does not mean that the Islamic banks in Kuwait do not appreciate the importance of the customer satisfaction concept or the quality of their services. On the contrary, this study argues that there is no clear strategy of assessing their customers' satisfaction with the services and products provided. Therefore, this study aims to identify the areas where improvements should be made, and works as a benchmark to compare performance of the competitors in the local markets.

Consequently, the study aims to measure the perceived service quality of the three Kuwaiti Islamic banks. In order to measure the perceived service quality and customer satisfaction of the Kuwaiti Islamic banks, the SERVQUAL model as developed by (Zeithaml et al., 1988)was employed. Additional groups of independent variables

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representing the special nature of Islamic banking, i.e. the competitiveness between Islamic banks in Kuwait, the technology factors, and finally the general customer satisfaction variables were incorporated in the SERVQUAL dimensions. The five dimensions of the original SERVQUAL model are generic and the number of dimension diggers depends on the nature of the service(Robinson, 1999, Parasuraman *et al*., 1994);(Boulding et al., 1993);(Freeman and Dart, 1993, Babakus and Boller, 1992). The model was tested with the primary data collected from the customers of the Kuwaiti Islamic banks. The findings were presented in the previous chapters. It could be concluded that there was an above-average level of satisfaction among the respondents in assessing the level of quality offered by their Kuwaiti Islamic banks. As the study indicated, compliance, empathy, and assurance were the most important dimensions as perceived by the sampled banks' customers.

This chapter, thus, being the conclusion chapter, aims to briefly present the results and their implications before bringing the study to a conclusion.

10.2. REFLECTING ON THE FINDINGS

The study demonstrates that the conceptual model used to measure the perceived service quality of the Kuwaiti Islamic banks is characterized by a high level of reliability and validity with a significant value of 0.981, which indicates the internal integrity of the questionnaire. It can therefore be relied on when measuring the perceived level of service quality in the Islamic banks.

The descriptive analysis shows that the level of service quality offered by the Kuwaiti Islamic banks as perceived by their customers was high; it recorded between 3.5 and 4 point mean values on a five point Likert scale. The customers' preference towards the service quality offered by the Islamic banks can be used to assess the level of service quality, with the mean score of the service quality dimensions considered to be the level of service quality. Consequently, a significant number of respondents were found to be satisfied with the service quality offered by their respective Islamic banks.

The descriptive analysis showed that the service quality dimensions in general are very important from the Islamic bank customers' view. However, the study's findings produced evidence that the most important dimensions are compliance, empathy, and assurance, while the least important dimensions (according to the customers' perceptions) are competitiveness, technology, and tangibility. When assessing the significant differences between the sampled banks in accordance with the competitiveness dimension, the result showed a non-significant value of .169, as shown in Table 9.1 in Chapter 9; this means that the banks' customers felt that all of these sampled banks offer somewhat identical products and services with almost the same fees being charged. Therefore this dimension has not been ranked as one of the most important factors. However, when assessing the technology dimension, the customers are genuinely cautious when it comes to conducting their financial transaction online or through self-service machines and felt more secure and safe when dealing with staff (human contact) rather than machines. This explained the fact that technology was ranked among the bottom three dimensions in terms of importance. According to respondents' ranking in relation to the tangibility dimension, the Kuwaiti banking customers usually care for the tangibles aspects, but not in the absence of more important issues which make them deal with a certain bank in the first place. In our case this is being compliant with Islamic *Shari'ah* law, ensuring of error-free transactions, and having a friendly face at their reception.

The study also showed the nature of the relationship between the SERVQUAL dimensions and customer satisfaction, using path analysis. The study found hat four dimensions had a direct positive effect on customer satisfaction: empathy, assurance, compliance, and competitiveness, while the remaining four dimensions reliability, tangibility, responsiveness, and technology were not significant. Empathy has the strongest effect among the other dimensions, and this could be due to the friendly climate within the three Islamic banks operating in Kuwait. In addition, competitiveness, the dimension newly added to the original SERVQUAL model, appears to have a significant direct positive effect on customer satisfaction.

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Thus, the result shows the existence of a significant relationship between customer satisfaction and some of the SERVQUAL dimensions, namely: empathy, assurance, compliance, and competitiveness.

Based on these results and findings, it could be concluded that in Kuwaiti Islamic banks customers will be satisfied with the quality of services, depending on their bank being *Shari'ah*-compliant and assured to deliver the promised service, employees being considerate and understanding, and finally being competitive by offering better service with minimum charges.

The study extends the analysis and measures customer satisfaction in further depth by assessing customers' perception towards the quality of the employees' performance in general, their satisfaction with the range of products and services offered by their bank, their satisfaction with the quality of service in the Islamic bank they deal with, and whether they feel that their satisfaction is a priority to be achieved by their bank. The findings showed that there are significant differences between the customers of the three Islamic banks in their perception and satisfaction with employee performance, with a significant value of .005: KFH customers show the highest level of satisfaction towards employee performance, with better scores than KIB and Boubyan bank customers. The study also shows that KFH customers were more satisfied with the range of products and services offered by their bank than KIB and Boubyan bank customers, with a significant value of .000. As far as the quality of service offered by their bank is concerned, the study found that Boubyan bank customers believed that the service quality in their bank is excellent, while KFH came second, leaving KIB in the third place with a significant value of .000. When respondents were asked if their bank valued their customers and believed in customer-oriented strategies, Boubyan bank customers came at the top with higher mean values than KFH and KIB; however, these differences are not statistically proven, where sig value=.945.

This study also found that the customer profiling and demographic factors have significant effects on the formation of the perceived service quality in Kuwaiti Islamic banks: a significant relationship between the compliance dimension and the respondents'

nationality and the duration of dealing with the bank is established. In addition, assurance is also significantly affected by the respondent's age, nationality, and income. Furthermore, it was found that reliability as a variable is significantly affected by respondent's income, nationality, and age. Moreover, tangibility and responsiveness are found to have a significant relation with respondent's income, nationality, and duration of their banking relationship, while empathy has a significant relationship with age, education, and income. Lastly, technology is found to have a significant relation with gender, income, and duration of the banking relationship; and the competitiveness dimension has a significant relation with nationality and income.

Female customers in the sampled banks formed 45% of the respondents. It should be noted that it seems that Boubyan Bank neglects this segment, as women are not being fully served as there is no specific account or product tailored to them. The sample revealed that young and married respondents accounted for more than half of the sample; they are expected to be interested in the modes of financing each of the Islamic banks' offers for *Murabaha* housing. In addition, the majority of the sample came from the age groups of 22 to 35 years of age (45.4%) and 35 to 45 years of age (32.2%). This reveals the importance of approaching the youngest customers via technological facilities – a fact that should be considered more strongly by Kuwaiti Islamic banks.

The study further shows that the Islamic banking variables have a significant relationship with customers' perceptions of the quality of service offered by the sampled banks in most of the SERVQUAL dimensions apart from reliability, technology, and customer satisfaction. The Islamic banking variables tested in the study include: believing that their Islamic bank is a trustworthy Islamic bank which operates according to Islamic *Shari'ah*; trusting the *Shari'ah* board and believing they are strict in their interpretation of *Shari'ah*; the complication of the Islamic banks' contracts; and that their bank staff are competent in giving adequate Islamic financial advice.

The study also confirms that the avoidance of interest and religious purposes is an important reason as to why customers prefer to patronise the Islamic banks in Kuwait in

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general. However, when testing each bank individually, differences accrued in ranking the religious factor and being compliant with Islamic *Shari'ah* principles.

To substantiate the variation of the answers provided by the respondents in the sampled banks, exploratory factor analysis was used to load the SERVQUAL dimensions and assess their importance. The results showed that the SERVQUAL dimensions are very important in the formation of the customers' perceptions of service quality in Islamic banks in Kuwait. The factor analysis of the SERVQUAL dimensions showed that the loading factor values for the items that were used to measure the SERVQUAL dimensions were above .50 and that these results are significant. The highest factor loading dimensions, as revealed by the factor, are: customer satisfaction, responsiveness, and assurance; the lowest factors loading, as revealed by the factor analysis, are; tangibility, empathy, and reliability. This indication is only applied to the variation of the answers given and not to the respondents' preferences when assessing the quality of services in their bank. In assessing their preference, the Islamic banks' customers attached great importance to compliance, empathy, and assurance, as revealed by the descriptive analysis and the indication of the mean value as perceived by the Islamic banks customers. The lowest dimensions perceived by the Islamic banks are: competitiveness, technology, and tangibility, as was explained at the beginning of this section.

The study expanded the analysis to locate the newly generated constructs of the dimensions, using the Principle Axis Factoring (PAF) as an extraction method of analysis to identify the appropriate factors. The study ends up with 6 main factors empirically generated against the initial theoretically employed model. The new dimensions are: competitiveness, assurance and technology, tangibility and reliability, compliance, satisfaction, and lastly tangibility and reliability again.

The study also concluded that there was no positive correlation between the service quality performance in the sampled banks and the banks' financial performance.

10.3. THE PREFERENCE OF CUSTOMERS IN THE SAMPLED BANKS

Based on the case study's results, it can be concluded that there are statistically significant differences between the perceptions of KFH, KIB, and Boubyan Bank customers regarding the compliance dimension as an indicator of service quality in the Islamic banking industry. KFH scored the highest mean value of 4.07, as perceived by the respondents, regarding being compliant with Islamic *Shari'ah* principles.

As for the assurance dimension across the sampled banks, Boubyan bank seems to be the most assured bank in comparison to KFH and KIB as perceived by the respondents. Boubyan Bank is ranked higher for the assurance entities than KIB and KFH with 4.02.

The study showed that there are significant differences between the sampled banks in terms of the perceptions of customers in relation to the reliability dimension. It was concluded that there are differences between the customers of KFH, KIB, and Boubyan bank regarding the reliability dimensions as indicators of service quality. Again Boubyan bank obtained the highest mean value among its competitors 4.11.

Also, the results indicated that there are significant differences between the three sampled banks in relation to the tangibility dimension as perceived by the customers of the respective banks. Therefore, this study concludes that there are differences between the customers of KFH, KIB, and Boubyan bank regarding the tangibility dimensions as indicators of service quality. KFH received the highest mean value of 3.84 in this dimension.

The study also finds that there are significant differences between the three sampled banks in their perceptions of the empathy dimension. The study concluded that there are differences between the customers' perceptions of KFH, KIB, and Boubyan bank regarding the empathy dimension as indicator of service quality. It appears that Boubyan bank customers had the highest mean value of 4.17 for all of the entities forming the empathy dimension.

The study also found that there are significant differences between the three sampled banks in their perceptions of the responsiveness dimension. The study concludes that there are differences between the perceptions of customers of KFH, KIB, and Boubyan bank regarding the responsiveness dimensions as indicators of service quality. According to the customers' perceptions, KFH scored the highest mean value of 3.89.

As for the technology dimension, the study revealed that there are significant differences between the customers of the three sampled banks in their perceptions related to the technology dimension. The study concluded that there are differences between the customers of KFH, KIB, and Boubyan bank regarding the technology dimension as an indicator of service quality. KFH scored the highest mean value with 4.01 due to their state of the art technology.

Unlike the other dimensions, the study revealed that there are no significant differences between the three sampled banks according to the perceptions of the customers in relation to the competitiveness dimensions. In this case the findings supported the study hypothesis when stating that there are no significant differences between these three banks and the competitiveness dimensions as indicator of service quality; therefore, the findings supported the study's expectations and prospects when promoting the availability of these new Islamic banks in the local market as having the ability to serve the customers in a way similar to that of KFH, and to compete with KFH, and consequently create a very competitive market serving the expectations of the customers.

Lastly, the study showed that there are no significant differences between the customers of the three Islamic banks in their perceptions of customer satisfaction. The findings thus support the study's hypothesis that there are no statistically significant differences between these banks and the perceptions of the customer satisfaction dimension. However, whilst testing the mean average of the entities for each bank, KFH and Boubyan Bank shared the same average value of 3.93, while KIB stood at 3.50. Thus, there is a difference in the customer satisfaction in the sampled banks. However, this is not statistically significant enough to draw a conclusion.

10.4. RECOMMENDATIONS FOR THE DEVELOPMENT OF SERVICE QUALITY PROGRAMMES IN KUWAIT ISLAMIC BANKS

To maintain a competitive edge in the local market, the managers of Islamic banks in Kuwait need to be updated about technological advances and invest in those technologies that are satisfactory and enhance the technological base of the respective banks such as deposit machine, drive-through ATMs, all-in-one machines where they can view their account details, print bank statements, pay pills, and transfer money.

The managers also need to focus on minimizing encounter failure in service delivery. For Kuwait Islamic banks, a sufficient recovery effort is a must so that dissatisfied customers do not end up to be defecting. Taking the lead and being able to compete technologically with their counterparts are skills that start with the core service itself and with the minor transactions being handled and delivered correctly from the start. Islamic banks have to realize that good service in the branches is a necessary condition for the promotion of potential services such as electronic banking, since they cannot rely on the bank's size and reputation to sell e-banking.

The study shows the importance of adopting and developing a quality culture in Islamic banks divisions, departments, and branches. These Islamic banks must make a decision to implement service quality within a definite period of time as well as forming quality leadership teams to ensure the success of the quality efforts. The team should be involved in all of the managerial and operational divisions and insure that the quality is integrated into the management process. This will help to establish quality not as a separate initiative but rather through the way every employee's job is done each day.

Consequently, putting together a special team to talk to customers and evaluate the bank's existing practices will bring new visibility of the customer's requirements into the bank. However, if the efforts were successful, the service designers can expect to develop a new customer service which creates satisfied and loyal customers, produces a more efficient organizational structure, and establishes a competitive advantage framework for the bank.

Considering each of the sampled banks individually, and as the empirical results revealed, KFH needs to do better in maintaining their customer base by constantly ensuring that they are delivering the quality of service that matches their strong leadership and financial reputation so that the bank can live up to its reputation of being called the Harvard of Islamic banking services. KFH needs to re-examine their service fees, as the respondents find them rather high and KFH scored the lowest mean among all of the 42 dimensions for this item. This gave us an indication that the customers in KFH are relatively unhappy with how much they have been charged. KFH also need to develop certain facilities and offer them to their customers and have more flexibility in their trading and commercial transactions. By and large, KFH has to do better in most of their competitiveness entities, as their customers ranked them with the lowest mean values, as shown in Table 7.34 in Chapter 7. Nonetheless, KFH has succeeded in satisfying their customers, especially their female customers, by providing ladies' branches in almost every single KFH branch and by designing special accounts and credit cards adapted for their special needs and requirements. KFH also succeeded in satisfying the broader customer base by assuring their compliance with Islamic *Shari'ah* law and by being present in almost every location across the country with their easily recognisable logo.

However, KIB needs to expand their parking valley to serve their customers, who are not satisfied with the lack of the parking spaces when visiting their bank. KIB also needs to do better in their technology and assurance dimensions, as these two dimensions witness a very low mean scoring from their customers. KIB respondents were not happy with the lack of the drive-through ATMs and self-service facilities in their bank. At the same time KIB needs to enhance its presence and participation in car agents and different exhibitions across the country. They need to market their products and service in several places such as universities and shopping malls. Nevertheless, KIB did well in having reliable cash machines where cash is always available even during high-demand seasons. KIB also managed to gain their customers' confidence in being a strictly *Shari'ah*-compliant bank and having friendly staff showing signs of recognitions to their customers.

Boubyan Bank on the other hand may need to consider establishing more ladies' branches as many respondents express their dissatisfaction with this statement and ranked it the lowest with a means score of 2.88. Also, the bank has to locate a better parking valley for their customers, as this is one of the main concerns of their respondents. Competitiveness and technology aspects are an area of improvement for Boubyan Bank to look after. The Bank has to offer a real estate appraisal and property management service to its customers similar to that offered by their counterparts. They also need to enhance the flexibility of their commercial transaction services and provide more facilities to the customers in this regard. Their customers asked for more drive-through ATM services. However, the bank succeeded in reflecting their friendly cultural vision to their customers with their generous hospitality and friendly compassionate employees who are always ready to provide the promised services to their customers.

10.5. LIMITATIONS OF THE STUDY

The study provides an additional contribution to the efforts that have been made to improve service quality in the financial industry in general and in Islamic banking and financial services in particular. Due to concerns about time and cost, the study has concentrated only on the three Islamic banks currently operating in Kuwait. Further research is therefore needed to cover the newly established and recently converted banks such as Warbah Islamic Bank and Ahli United Bank, along with other Islamic financial institutions which provide Islamic financial facilities in accordance with Islamic *Shari'ah* law, such as A'ayan, Osoul and Investment Dar, to give a better understanding of how the service quality is managed in the Islamic financial institutions in Kuwait.

Studying and assessing the employees' satisfaction and their perceptions of service quality in the selected banks would be an added value to fill of the gap and allocate any failures in the way the service quality programmes are being implemented and managed. To help with this, studying managerial attitudes towards the service quality incentives is a must.

In this study, the SERVQUAL dimensions were employed for assessing and measuring the customers' perceptions only of the Kuwaiti Islamic banks. Further researches could use the perceptions and expectations gap model, the synthesized model of service quality, or even extend the study to examine the customer behavioural intentions through the antecedents and mediator model of service quality.

10.6. IMPLICATIONS FOR FURTHER RESEARCH

In this study the problem of service quality has been fully and rigorously investigated; i t explored the factors affecting service quality within Islamic banks in Kuwait. Questions raised in this study should in the future focus on:

(i)Why the model rejected the other four dimensions; reliability, technology, tangibility and responsiveness when examine the relation between service quality and customer satisfaction?;

(ii) Is it lack of awareness in organizational terminologies that have been employed in this study and the difficulty to discriminate between service quality perception by itself and customer satisfaction among the sampled banks?;

(iii) Why the customers in those banks did not perceive the other service quality dimensions as they should be perceived?;

(v) Whether strong religious beliefs cause customers to feel obliged to choose Islamic banks, regardless of service quality, and whether this sense of obligation causes them not to question service quality.

In addition, a future study could consider conducting a comparative study between the performance of Islamic banks and the conventional banks in relation to service quality perceptions among the Kuwaiti customers. Furthermore, conducting a study focusing on the systematic and rigorous relationship between financial performance and service quality could be another important research area. Moreover, the study can be extended to investigate a larger concept of customer management strategies in Islamic banking, which has not been conducted by anyone so far, and therefore, can be an important contribution to the literature.

10.7 EPILOGUE

This study aimed at studying customer service quality perceptions in the case of Kuwaiti Islamic banks and developed a better understanding of service quality management in Islamic banking. As can be seen in the foundational and empirical chapters, the study fulfilled its aims and objectives by responding to all the research questions and by testing all the identified hypotheses. The study also established important results for Kuwaiti Islamic banking in particular and Islamic banking in general regarding service quality issues.

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APPENDIX

APPENDIX 1 SUMMARY OF SERVICE QUALITY MODELS

Model	Author (year)	Respondents/test audience	Method of Analysis	Measurement of service quality	Key findings/applications	Weaknesses/limitations
Technical and functional quality model	Gronroos (1984)	219/bank, insurance, restaurants, shipping, airline companies, cleaning and maintenance, car rental companies, travel agencies and a range of institutes from public sector	Basic statistical analysis (information compilation and presentation	Functional and technical quality	Service quality depends on technical quality, functional quality and corporate image of the organization in consideration. Functional quality is more important than the technical quality.	The model does not offer an explanation on how to measure functional and technical quality.
Gap model	Parasuraman *et al.* (1985)	Ranged from 298 to 487 across companies/telephone co., securities brokerage, insurance company banks And maintenance companies.	Principal-axis factor followed by oblique rotation.	Ten dimensions (reliability, security, responsiveness, access, communication, tangibles, courtesy, credibility, competence, understanding/knowing	The model is an analytical tool. It enables the management to identify systematically service quality gaps between a numbers of variables affecting the quality of the offering. This model is externally focused. It is capable of assisting the management to identify the relevant service quality factors from the viewpoint of the consumer.	Exploratory study. The model does not explain the clear measurement procedure for the measurement of gaps at different levels.
Attribute	Haywood-		Analysis not	Physical facilities and	This model provides a	It does not offer the

service quality model	Farmer (1988)		Reported	processes, people's behaviour and conviviality, professional judgement	base of segregating service organization on three dimensions for better management of quality. The model has the potential to enhance understanding of the concepts of service quality and help to guide about targeting towards the right customer segment. This model is useful both in the design stage and periodically as the service and possibly customer taste evolve.	measurement of service quality It does not offer a practical procedure capable of helping management to identify service quality problems or practical means of improving service quality
Synthesized model of service quality	Brogowicz et al. (1990)		Analysis not Reported	Through technical and functional quality defining planning, implementation and control tasks	The use of this model and related managerial tasks can help managers to improve the success of their service offerings in any industry. This model identifies key variables that require systematic management attention in planning, implementation and controlling service-marketing strategies that prevent or minimize service quality gap.	Needs empirical validation and need to be reviewed for different type of service settings.

Performance only model	Cronin and Taylor (1992	660/banking, pest control, dry-cleaning and fast food	Principal-axis factor followed by oblique rotation and LISREL confirmatory	22 items same as SERVQUAL but with performance only statements	Service quality should be conceptualized and measured as an attitude. The performance-based SERVPERF is efficient in comparison with SERVQUAL, as it directly reduces the number of items by 50 per cent and the results are better. Service quality is an antecedent of consumer satisfaction and may have a better effect on purchase intentions than service quality.	need to be generalized for all types of service settings Quantitative relationship between consumer satisfaction and service quality need to be established.
Ideal value model	Mattsson (1992)	40 guests while checking in and checking out/two large luxury hotels	Pearson moment correlation, pairwise intraand inter-sample median test and Chi square test	Through 18 items of value and nine items of customer satisfaction	This model incorporates and defines the importance of diverse components of the service encounter to be studied. This model provides a new learning perspective on how an ideal standard can be formed and how it can be sustained mentally. The model highlights attention to the importance of negative disconfirmation experience as a determinant for	Fewer number of items used for value and customer satisfaction. Needs to be defined for all types of service settings.

					satisfaction outcome.	
Normed quality and evaluated performance model	Teas (1993)	120/randomly selected from discount stores	Qualitative assessment, correlation and t-test	Limited subset of SERVQUAL items (two items each of five dimensio ns	The model raised a number of issues pertaining to conceptual and operational definitions of expectation and revised expectation. The criterion and construct validity of the EP model was higher than both the SERVQUAL and NQ model.	This model was tested for limited sample size and for narrow service setting (discount store)
IT alignment model	Berkley and Gupta (1994)		Analysis not Reported	The model does not cover the measurement of service quality	This model describes how IT can be used to improve customer service along key service quality dimensions including reliability, responsiveness, competence, access, communication, security and understanding the customer. This model can help the organizations to realize the complete benefit of using information systems for delivering improved quality of service. Allows managers to understand the commonly used technologies in their industry and determine	It only highlights the impact of IT on service quality. The model. does not offer a way to measure and monitor service quality. The model is silent about the level of IT use for particular service settings.

					appropriate technology suiting their requirements.	
Attribute and overall affect model	Dabholkar (1996	505 undergraduate students/fast food setting	Confirmatory factor analysis and structured equation modeling using LISREL VII	Through three items measuring expected service quality specifically of ordering situation	The attribute-based model is favored in forming the evaluations of service quality for technology-based self-service options. The overall affect,t model is also supported but it does not add further explanatory power to the attribute-based model.	Needs to be generalized for different self-service options Effect of demographic variables, price, physical environment etc. is not considered.
Perceived quality and satisfaction model	Spreng and Mackoy (1996	273 undergraduate students	Confirmatory factor analysis and structured equation modeling using LISREL	Through desires, perceived performance, expectations and desired congruency (each comprising ten attributes)	This model shows that service quality and satisfaction are distinct and desires congruency does influence satisfaction. A key determinant of service quality and customer satisfaction is meeting customer desires. Rising expectations have a positive effect on customer satisfaction perceptions of performance, but they also have a negative effect on satisfaction through disconfirmation.	The model does not highlight how the service quality is achieved and operationalized The model is weak in providing directions for improvements in service quality
PCP attribute model	Philip and Hazlett (1997		Analysis not reported	Pivotal attributes, core attributes and peripheral attributes	Provides a simple, effective and general framework of assessing service quality for any	The model is lacking in providing general dimensions to three levels of attributes.

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					service sector Highlights the area of improvements for service quality depending on the frequency of encounter. The dimensions to these three levels of attributes are individual sector- dependent and with reference to consumer.	Lacks empirical validation
Retail service quality and perceived value model	Sweeney et al. (1997):	1,016 respondents/electrical appliances stores	Confirmatory factor analysis using LISREL	Functional quality through five SERVQUAL items and technical quality through one SERVQUAL item	The technical service quality is an important contributor to product quality and value perceptions and hence influences willingness to buy. Functional service quality has indirect influence on willingness to buy through product quality and value perception; however. it has influence on willingness to buy that is independent of product assessment (poor staff manners).	The model considers only one value construct, i.e value for money. Fewer number of items per construct are taken in this study

Service quality, customer value and customer satisfaction model	Oh (1999)	545/two luxury hotels	Path analysis using LISREL VIII	Through single item for perceived price and eight items for perceptions for hotel Settings	The model can be used as a framework for understanding consumer decision process as well as evaluating company performance. This model provides directions and targets for customer-oriented company efforts.	Model needs to be generalized for different types of service Settings. Model variables are measured through relatively fewer items
Antecedent mediator model	Dabholkar et al. (2000)	397 undergraduate and postgraduate students	Regression structural equation modeling using LISREL	Through measurement of reliability, personal attention, comforts and features	Consumers evaluate different factors related to the service but. also form a separate overall evaluation of the service quality (which is not a straightforward sum of the components) The antecedent's model can provide complete understanding of service quality and how these evaluations are formed Customer satisfaction is a better predictor of behavioral Intentions. A strong mediating role was found, confirming that	Antecedents of customer satisfaction have not been explored. The model measures behavioral intention rather than actual Behavior. Needs to be generalized for different service settings.

					it is important to measure customer satisfaction separately from service quality when trying to determine customer evaluations of service.	
Internal service quality model	Frost and Kumar (2000)	724 at different levels/Singapore airline staff	Principal component factoring, reliability coefficient and split half Coefficient	SERVQUAL dimensions	The perceptions and expectations of internal customers and internal suppliers play a major role in recognizing the level of internal service quality perceived	Need to be generalized for all types of internal environments Effect of changes in external environment on model is not considered.
Internal service quality DEA model	Soteriou and Stavrinides (2000	194 responses/26 bank branches	Data envelope analysis	Measurement of perceptions of customers using SERVQUAL-based Instrument	Indicates the resources, which can be better utilized to produce higher service quality level	Does not provide the measurement of service quality. Model ignores other bank performance measures (continued)

Internet banking model	Broderick and Vachirapornpuk (2002	160 incidents on 55 topic episodes posted/UK internet web site community	Qualitative approach	Through service setting, services encounter, customer expectation and image	Implications for the management of quality in internet banking service arises in two areas a) within the service interface and be with the management of increased customer role. The level and nature of customer participation had the greatest impact on the quality of service experience and issues such as customers' "zone of tolerance" and the degree of role understanding by customers and perceived service quality.	Not much empirical work carried out The model is based on the experience of one web site only, needs to be validated with other experiences.
IT-based model	Zhu et al. (2002)	185/bank customers (with past experience of using IT-based service options like ATM, 24 hr call line etc.	Factor analysis and structured equation modeling using LISREL VII	SERVQUAL items with perceptions only statements	IT-based services have a direct impact on the reliability, responsiveness and assurance dimensions and an indirect impact on customer satisfaction and perceived service quality. IT can help service providers achieve higher level of customer satisfaction. The customer evaluation of IT-based services is affected by preference	Fewer number of items chosen to measure the feeling of self- control and comfort in using IT-based services. Does not provide a measure of service quality of IT-based transactions.

					towards traditional services, past experience in IT-based services and perceived IT policies.	
E-service quality model	Santos (2003)	30 focus groups comprising six to ten members	Qualitative analysis	Through incubative and active dimensions	It provides a better understanding of e-service quality and, therefore, to achieve high customer retention, customer satisfaction, and profitability. This e-service quality model can be of assistance to all companies that engage e-commerce or plan to do so	Exploratory study. Model did not provide specific measurement scales No statistical analysis carried out
Servicescape	Pantouvakis (2010)	a structured questionnaire survey of 434 from Greece customers		The physical and interactive features of a service are tested against the SERVQUAL model.	The findings reveal that the widely used SERVQUAL fails to fully capture the role tangibles plays in determining the overall customer satisfaction. .	The new proposed servicescape model attached more importance to the role of physical environment attributes than has been reported in most previous studies
BSQ	Bahia and Nantel (2000)	A sample of retail banking customers were questioned	Qualitative analysis	the scale 'BSQ', comprises 31 items and span the following;effectiveness ,assurance, price, access, tangibles, service portfolio, and reliability	The study indicated that the BSQ dimensions are more reliable than SERVQUAL dimensions and showed that the BSQ fits the validity criteria.	The scale has only been validated in French Language

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APPENDIX II: SUMMARY OF STUDIES CONCERNING ATTITUDES TOWARDS ISLAMIC METHODS OF FINANCE

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Erol and El-Bdour (1989)	Self-administered questionnaire	434 Jordanian Islamic conventional bank customers	Demographic factors, bank services and selected patronage factors.	Univariate and multivariate statistical techniques and factor analysis.	Religion is not the primary motivation for customers dealing with Islamic banks. More important factors are a fast and efficient service, the bank's reputation and image, and confidentiality. Relatives and neighbours play a significant role in the awareness of respondents with knowledge of Islamic banking.
Erol, Kaynak and El-Bdour (1990)	Self-administered questionnaire	434 Jordanian Islamic conventional bank customers	Demographic factors, bank services and selected patronage factors.	Multivariate techniques and factor analysis.	Important factors for those selecting Islamic banks are a fast and efficient service, the bank's reputation and image, and confidentiality. Significant differences between patrons of conventional banks' and those of Islamic banks in their pricing policies. No impact of religion on bank selection criteria.
Omer (1992)	Self-administered questionnaire	300 Muslims residing in the United Kingdom	Selected patronage factors.	Descriptive analysis.	High level of ignorance among UK Muslims about Islamic finance principles. Religious reasons are the principle motivation for Muslims in the UK dealing with Islamic financial institutions.
Haron, Ahmad and Planisek (1994)	Self-administered questionnaire	301 Muslims and non-Muslims in Malaysia	Demographic factors, bank services, selected patronage factors and knowledge of Islamic finance.	Univariate and multivariate statistical techniques and factor analysis.	Muslims and non-Muslims have similar perceptions in selecting bank services. Religious motivation is not the primary motivation for Muslims in dealing with Islamic banks. Both groups value the provision of fast service and the quality of services highly in their patronage factors. Most respondents have some awareness

					of Islamic banking but are unaware of specific methods and the differences between conventional and Islamic banks.
Kelly and Davis (1994)					Service Quality and customer organizational commitment as well as customer satisfaction has direct effect in service recovery expectations. The customer sees and experiences what is happing during the co-service. He or she notices any change in the service factory and can hear the staff speaking ill off the customers, or sense lack of motivation in the staff. Customers also interacted with each other, a further incontrollable factor in co-service.
Hegazy (1995)	Self-administered questionnaire	400 Egyptian customers of the Faisal Islamic Bank and the Bank of Commerce and development	Demographic elements (including sex, age, occupation, education, income level, religion and marital status). Selection criteria (including efficiency of personal, speed of service, ease of access, friendliness of personal, availability of parking, etc.).	Parametric tests and factor analysis.	Most Islamic bank customers were Muslims choosing to comply with Islamic law. Islamic customers also ranked speed of delivering banking services and efficiency at the top of their selection criteria. Conventional bank customers included mix of Christian and Muslims who ranked the rates of offered return highly in their bank selection criteria.
Metwally (1996)	Telephone interviews	385 respondents each in	Selected patronage factors, including religion, reputation,	Factors and correlation analysis.	The most important factors in determining attitudes of Muslims towards Islamic banks are religion, convenience and

		Kuwait, Saudi Arabia and Egypt	staff, statement, hours, profit, cost, easiness, speed, branches, and community.		traditional services. Most Muslims within a dual banking system choose their banks for religious reasons. Islamic banks do not differ from conventional banks in the returns and costs offered to customers. Staff competence and speed of services of Islamic banks same as conventional banks.
Edris (1997)	Self-administered questionnaire	304 business customers of commercial, specialized and Islamic banks in Kuwait	Dealing behaviour questions, bank services and selected patronage factors by business firms.	Descriptive analysis and multiple discriminant analysis.	Majority of business firms deal with commercial banks more than specialized or Islamic banks. Islamic banking practices highly among patronage factors. Most business firms in Kuwait are multiple-bank users.
Gerrard and Cunningham (1997)	Self-administered questionnaire	190 respondents in Singapore	Selected patronage factors by Muslims and non Muslims, basic terms Islamic bank knowledge.	Univariate and multivariate statistical techniques and factor analysis.	Muslims differ from non-Muslims in their attitudes towards Islamic banks concerning religious and profitability motivations, new branches and usefulness of interest-free loans. Fast and efficient services and confidentiality are primary factors in selecting banks services. Muslims more aware of the culture of Islamic banking than non-Muslims.
Metawa and Almossawi (1998)	Self-administered questionnaire	300 Islamic banks customers in Bahrain	Demographic factors, bank services, selected patronage factors of customers and knowledge questions.	Profile analysis and non-parametric statistical tests.	Most Islamic banks' customers in Bahrain satisfied with Islamic banks' services, especially investment accounts. Customers dissatisfied with high costs of services. The most important factors for the use of Islamic bank services is religious then profitability. Most Islamic banking customers were aware of

					fundamental Islamic terms, excepting more complex financing schemes.
Jalaluddin and Metwally (1999)	Self-administered questionnaire	385 small businesses in Sydney, Australia	Independent variables including risk sharing, cost of borrowing and profitability linkage, cost variability of finance, motivation for business expansion and management intervention.	Logit and Probit analysis.	Religion is not the only factor that motivates small businesses in Australia to use profit/loss sharing methods of finance. The probability of borrowing funds on a profit/loss sharing basis increases when business risk or interest rates are high. Expected rate of return and degree of intervention in management are considered more than financing in a profit/loss sharing system.
Jalaluddin (1999a)	In-person interview	80 financial institutions in Sydney, Australia	Favoured lending factors and independent variables.	Factor and multiple discriminant analysis.	41.2% of financial institutions indicated their readiness to lend on a profit/loss sharing basis. Business support is the main motivating financial institutions to apply profit/loss sharing methods of finance. Respondents suggested interest payments sometimes create difficulties for business. Management complication, unfamiliarity and risk sharing with borrowers are the main reasons for financial institutions being not prepared to lend on a profit/loss sharing basis. The growth in the demand for funds is the most significant factor in discriminating between financial firms who were prepared to lend on the basis of profit/loss sharing.

Jalaluddin (1999b)	Self-administered questionnaire	385 small business in Sydney, Australia	Favouring factors, rejecting factors and independent variables.	Factor and multiple discriminant analysis.	59.5% of small business firms interested in using profit/loss sharing methods of finance. Business support is the main motivation in applying profit/loss sharing methods of finance. Terms and some conditions of profit/loss financing are major reasons for the rejection of profit/loss sharing methods of finance. Risk sharing between borrowers and lenders is the most significant factor in discriminating between businesses who agree with profit/loss financing.
Naser, Jamal and Al-Khatib (1999)	Self-administered questionnaire	206 Jordanian Islamic banks customers	Demographic factors, Islamic banking services, reasons for dealing with an Islamic bank, reasons for banking with conventional and Islamic banks and degree of satisfaction with the services of the Islamic bank.	Descriptive analysis.	The most important factors determining attitudes towards Islamic banks were bank reputation then religion. Majority of customers satisfied with Islamic banks' products and services and most had a high level of awareness of at least some Islamic methods of finance. Limited number of respondents used Islamic financing methods elsewhere.
Al-Sultan (1999)	Self-administered questionnaire	385 respondents in Kuwait	Socioeconomic demographic factors, Islamic bank services and reasons for preference.	Factor analysis.	Adherence to Islamic religion is primary motivation for dealing with Islamic banks, though 52% of respondents prefer to deal with conventional banks because of better services. No difference between Islamic and conventional banks in cost and return to individual customers.

Hamid and Nordin (2001)	Self-administered questionnaire	967 bank customers in Kuala Lumpur	Demographic factors and knowledge questions.	Descriptive analysis.	Majority of respondents know about the existence of Islamic banks in Malaysia. Approximately 50% of respondents deal with Islamic bank but more than 60% of respondents cannot differentiate between Islamic and conventional banks' products.
Othman A. and Owen L. (2001)	Using modified SERVQUAL Model to measure SQ called CARTER	360 responds for KFH customers	Measure SQ variables and customer satisfaction.		It is important for Islamic banks to put cultural differences at the front when adopting SQ. Suggest new model to measure SQ called Carter. Show validity significant for all Carter items. There is strong link between SQ and customer satisfaction which has already given in related chapters in this study.
Ahmed and Haron (2002)	Self-administered questionnaire	45 financial directors, financial managers and general managers of finance in Malaysia	Demographic factors, Islamic and conventional banking services, knowledge questions and selected patronage factors by respondent and role.	Descriptive analysis	Most respondents indicated that economic factors and religion were important factors for selecting bank services. But even though most respondents were non-Muslims, most were aware about Islamic banks as an alternative to conventional banks. Most respondents had a low level of knowledge about Islamic banking products, especially financing. 75% of respondents agreed that Islamic banks in Malaysia need to promote their products and services better.
Metwally (2002)	Telephone interviews	385 bank customers in Qatar	Socioeconomic and demographic factors.	Multiple discriminant analysis.	Females, older people and public servants prefer to deal with Islamic banks. Banked customers with relatively low income and moderate education also prefer Islamic

					banks. Conventional banks favoured by mature, well-educated male professionals with relatively high incomes. Conventional banks also favoured by young well-educated males working as professionals or public servants.
Al-Tamimi H. and Al-Amiri A. (2003)	Developed 700 questionnaire with SERVQUAL Dimensions	Customers of two Islamic banks. 351 responses were received	SERVQUAL instrument used.	Linear regression analysis. Anova.	There was a positive and statistically significant relationship between overall SQ and the SERVQUAL Dimensions in the UAE Islamic banks as resulted by linear regression. The empathy and tangibles were the most important dimensions. Anova result showed that there were no significant differences between level of overall SQ in Dubai Islamic bank and in Abu Dabi Islamic bank. Anova results also indicate that there were no significant differences in the level of SQ in the UAE Islamic bank based on the customer gender and nationality. There was a significant difference in the level of SQ in Islamic bank based on customer age, education and number of years dealing with the bank.
Naser K. and Jamal A. (2003)	300 questionnaires randomly distributed on first woman bank in Pakistan	165 completed questionnaire resulted of the sample	Customer profits demographic factors. Type and direction of banking. SQ features and customer satisfaction and Customer	Factor analysis. Correlation matrix.	There was a strong relationship between Service Quality and customer satisfaction. There was, however, no relationship between customer satisfaction and tangibles aspects of service environment.

			satisfaction and demographic factors.		
Bley and Kuehn (2004)	Self-administered questionnaire	667 university business graduates and undergraduates	Perceptions of conventional and Islamic banking products and services, knowledge questions and demographic factors.	Principal components analysis, descriptive analysis and regression techniques.	Muslim students prefer Islamic banks' services. High-achieving students have a better level of knowledge of Islamic finance terms and concepts. High-achieving non-Arabic students had the highest level of conventional finance knowledge. Generally, student knowledge of both Islamic and conventional finance methods was relatively low.
Karbhari, Nasser and Shahin (2004)	Focused interviews	Six executive across four Islamic financial institutions in London, United Kingdom	Questions concerning the main problems and challenges confronting Islamic banking.	Qualitative analysis.	All respondents convinced about involving Islamic banks' products and services in conventional banks to promote establishing of Islamic banking and to improve customers' understanding about these new services. Most respondents replied that UK Muslims were generally unaware of Islamic banking products and services. Most respondents suggested that the UK government did not support the establishment of Islamic banks.
Zainuddin, Jahya and Ramayah (2004)	Structured questionnaire	123 bank customers in Penang, Malaysia	Socioeconomic and demographic factors, Islamic banking product information and perceptions of Islamic banking.	Descriptive analysis.	Most Islamic bank users were married, more than 30 years old with stable incomes. Most non-users were single, aged less than 30 years earning low incomes. Spouse, friends and relatives, as well as religion, impact on attitudes towards Islamic bank products.

Sadek D. (2010)	Self-administered questionnaires	144 customer: IBB 75 CB 69 of each bank	Asses the customers expectation and perception on SQ of CB and IBB. Testing the significance of bank difference on the answers of respondents through Anova analysis.	SERVQUAL – Carter. SPSS. Anova analysis.	The research is an attempt to assess customer's perception about SQ in Kuwait. In the case of IBB, the compliance issues were given high priority ranking and the CB customer indicates lower priority for the most of the compliance item. Responsiveness is items is more valued CB customers than IBB in terms of SQ, where the items knowledge of customers business or willing to do so.
Okumus (2005)	Self-administered questionnaire	161 Islamic bank customers in Turkey	Demographic factors, bank services and selected patronage factors of Islamic bank customers.	Descriptive analysis.	Most respondents agreed that religion was the primary reason for the use of Islamic bank products. A secondary motivation was interest-free principle. Most customers aware of basic Islamic products and services, but not more advanced Islamic financing techniques. More than 90% of respondents satisfied with the services and products offered by Islamic banks.
Al-Zaabi (2006)	Self-administered questionaaire and interview with managers	3 Islamic banks in UAE; Abu Dabi, Dubai and Sharjah	Islamic banking variables: return on investment account, service compliance with Islamic Shariah, financing compliance with Islamic Shariah, competitive service fees, competitive finance rate, and	SERVQUAL to measure customer perceptions of level of SQ. Performance based model to measure SQ.	The Islamic bank SERVQUAL Model proved to be reliable and viable to measure the perceived SQ in Islamic banks. The study proved that the level of customers familiarity with Islamic bank product and services, riba and Islamic banking variables have significant effect on customer perception of the SQ offered by UAE Islamic bank. The study

			availability of all banking services. Profit sharing finance employee awareness of Islamic banking services. Independent variables: avoiding interest, riba, customer awareness, and demographic factors. Service Quality dimensions: tangibles, awareness, reliability, responsiveness and empathy.		Empirical findings proved that Islamic banking variables: reliability, tangibles and awareness are important over the remaining dimension. The study demonstrated that the distinction of providing high quality banking services will result in achieving high profitability, customer loyalty and steady growth.

Dusuki A. and Abdullah N. (2006)	Self-administered questionnaire	750 respondents in Malaysia, two Islamic bank customers	Demographic characteristics. Bank selection criteria.	The Islamic banking criteria are analysed using Exploratory Factor Analysis was employed to explore the customer understanding of the banking criteria. By factor analysis these observable variables can be clustered into factors.	The selection of Islamic banks appears to be predominantly a combination of Islamic and financial repetition and quality of service offered by the bank. Other factor revealed to be important as well such as good social responsibility practices. Islamic banks depend on marketing strategies to attract religious customer who might only be concerned about Islamic of financial product.
Amin and Isa (2008)	Applying CARTER Model		The relationship between service quality perception and customer satisfaction in Malaysian Islamic banking.		The relationship between service quality and customer satisfaction was significant. Their study applied CARTER model to measure the perceptions of Malaysian Islamic bank's retail customers and found that the level of satisfaction is significant.
Abdullah and Kassim (2009)	Cross sectional survey	163 Islamic bank customers in Doha	The Service Quality dimensions of Islamic banking services.		Two service quality dimensions, human skills and empathy were both indirectly related to retention via satisfaction.
Osman (2009)	CARTER model		Investigate service quality and customer satisfaction between full pledged Islamic banks and	The relative significant criteria in selecting an Islamic bank, in which choices is	Bank Islam Malaysia Brrhard (BIMB) was ranked top under the compliance attribute. It is not surprising as the bank carries the word 'Islam' as such it is expected to perform and operating fully

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			conventional banks offering Islamic banking services in Malaysian.	adopted from the CARTER model.	under Islamic principles. However, for assurance, it has been ranked (5) which are indeed poor and it implies to the knowledge and the courtesy of the employees and their ability to convey trust and confidence. For attributes, reliability, tangibles, responsiveness, the respondents have ranked the services rendered by (BIMB) as dissatisfactory. It could be inferred that the (BIMB) has taken little effort to improve their services knowing that customers will still go to their bank because of the important factor that consumer are looking at especially the Muslims, and it would be that the bank must be fully adhere to the Islamic principles. As for attributes such as reliability, empathy, responsiveness and assurance, respondents ranked Citibank Berhard as a top provider; this indicates that Citibank Berhard has been doing very well in order to satisfy its customers.
Abdullrahim (2010)	Using the EIBSQ model		Measure SQ in England's Islamic banks.		In England, compliance with *Shari'ah* law is not sufficient to ensure good service quality as English Muslims customers rate responsiveness as the most important dimension. EIBSQ showed a significant level of customer dissatisfaction was found to be credibility. Responsiveness was the second dimension given as a reason for customer dissatisfaction with EIB, in this case the

					main reason for the gap was found to be related to the knowledge of the employees.
Kumar (2010)	Structured questionnaire of SERVQUAL (competence, convenience, tangibility and reliability)	308 bank customers of both Islamic and conventional banks in Malaysia	Consumer usage of banking channels and their banking behaviour. SERVQUAL 26 statement. Socio-demographic profiles of respondents.	The technique of dominance analysis is used to examine the relative importance of the critical factors in closing up the overall service quality gap.	The expectation on competence and convenience are significantly different between Islamic and conventional banks, where as the perceptions on tangibility and convenience are found to be significantly different between these two types of banks. The application of the dominance analysis in the SERVQUAL model indicates that the difference between the two types of banks is in terms of degree and not pattern. Competence and convenience are found to be the relatively more dominating factors in both types of banks. These two dimensions together can help to reduce the overall service quality gap to 72% in case of conventional bank and 85% in Islamic bank.
Sadek(2010)		A sample of Islamic Bank of Britin Customers and Cooperative Bank customers was surveyed through questionnaire	6 dimensions; compliance, assurance, reliability, tangibility, empathy and responsiveness	CARTER model scale was employed	The study to compare the customers' perceptions and expectations of service quality of both the Islamic Bank of Britain (IBB) and the Cooperative bank (CB) using the CARTER model. Finally, the study also found that there is a similarity in the lower-ranking factors chosen by the respondents of both banks, such as parking availability and number of branches.

APPENDIX III: QUESTIONNAIRE ON SERVICE QUALITY IN ISLAMIC BANKS

Part One:
Gender:
□ Male   *□ Female*
Nationality:
□ Kuwaiti   *□ Non- Kuwaiti*
Age:
□ 21 years and less   □ 22-34 years   □ 35-45 years   □ 46-55 years   □ 65 & above
Social Status:
□ Single   *□ Married*
Place of Work:
□ Government Sector □ Private Sector □ Retired □ Private Business □ Student □House wife
Education:
□ High School or less   □ Diploma   □ Bachelor   □ Master   □ PhD
Monthly Income:
□ Up to 300 K.D   □ 301-800 K.D   □ 801-1200 K.D   □ 1201-2000 K.D   □ More than 2000 K.D
Which of the following Islamic banks do you deal with?
□ KFH   *□ KIB*   *□ Boubyan Bank*
How long have you been dealing with this bank?
□ Less than 3 years   □ 3-5 years   □ 6-10 years   □ More than 10 years
Part Two:
Please circle the following statements related to your perceptions about the Islamic Bank you deal with. For each statement, please show the extent to which you believe the Islamic Bank you deal with has that feature:(5) means that you strongly agree, (4) agree, (3) neutral, (4)disagree, and (1) strongly disagree.

	Service quality dimensions					
Com 1.1	I trust the Islamic Bank I deal with were all financial and banking services are in accordance with Islamic *Sharia* Law.	5	4	3	2	1
1.2	I have confidence in *Sharia* advisory board of the Islamic Bank I deal with, whom I would expect them to be strict in their interpretation of *Shariah*.	5	4	3	2	1
1.3	There is a complete separation between men section and women section in the Islamic Bank branches I deal with.	5	4	3	2	1
1.4	*Shariah* Compliant Contracts in the Islamic Bank I deal with are free from *Jahala* and Gharar	5	4	3	2	1
Assurance 2.1	The employees in the Islamic Bank I deal with have the ability to solve problems promptly.	5	4	3	2	1
2.2	Fast and efficient counter services in the Islamic Bank I deal with.	5	4	3	2	1
2.3	The Islamic bank I deal with is consistent in its dealings regardless of the branch I enter.	5	4	3	2	1
2.4	There is a presence of the Islamic bank I deal with in	5	4	3	2	1

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	several places such as (car agents, malls, universities and different exhibitions).					
2.5	The employees in the Islamic bank I deal with offer different types of products and services that I haven't tried (cross selling).	5	4	3	2	1
2.6	The Islamic Bank I deal with provides more ATMs and branches to open up.	5	4	3	2	1
3.1 Reliability	There are an adequate number of employees in the Islamic Bank I deal with to provide the promised service to its clients.	5	4	3	2	1
3.2	My enquiries in the Islamic Bank I deal with are always answered promptly.	5	4	3	2	1
3.3	In the Islamic Bank I deal with, No mistakes are made.	5	4	3	2	1
3.4	Cash is always available at the ATMs machine in the Islamic Bank I deal with.	5	4	3	2	1
3.5	The Islamic bank I deal with is reliable and has a good financial reputation.	5	4	3	2	1
Tangibility 4.1	In the Islamic Bank I deal with, the size of customer space is large and extended with facilities like seats, videos, leaflets and hosting service.	5	4	3	2	1
4.2	In the Islamic Bank I deal with, Employees dressed well and formally.	5	4	3	2	1
4.3	The Islamic Bank I deal has an attractive external appearance.	5	4	3	2	1
4.4	There are enough parking spaces in the Islamic Bank I deal with.	5	4	3	2	1
4.5	In the Islamic I deal with, counter partitions available in its branches to enhance privacy and confidentiality of transactions	5	4	3	2	1
Empathy 5.1	The employees in the Islamic Bank I deal with understand my needs.	5	4	3	2	1
5.2	Employees in the Islamic Bank I deal with always shows signs of recognition.	5	4	3	2	1
5.3	Coffee and tea are served in the Islamic bank I deal with.	5	4	3	2	1
5.4	The employees in the Islamic Bank I deal with are competent to provide adequate financial services according to Islamic Sharia rules.	5	4	3	2	1
Responsiveness 6.1	The employees in the Islamic Bank I deal with treating their customers equally regardless the importance of the service acquired.	5	4	3	2	1
6.2	If errors have been made, they are always found and restored quickly in the Islamic Bank I deal with.	5	4	3	2	1
6.3	There is friendly relationship between employees of the Islamic bank I deal with and costumers.	5	4	3	2	1
Technology 7.1	The Islamic Bank I deal with encourage the use of Internet Banking Services.	5	4	3	2	1
7.2	The web site designed of the Islamic bank is simple, easy to use and highly secured.	5	4	3	2	1
7.3	In the Islamic Bank I deal with self service facilities are	5	4	3	2	1

	available.					
7.4	I am always informed when my business is transacted through (text, phone call, email, etc.)	5	4	3	2	1
7.5	The Islamic Bank I deal with provides drive through withdrawal services.	5	4	3	2	1
Competitiveness 8.1	The Islamic bank I deal charge low profits to finance real estate projects through (Ijarah , Murabaha …)	5	4	3	2	1
8.2	Flexibility and facilitates offered to customers to finance Real Estate projects by the Islamic Bank I deal with.	5	4	3	2	1
8.3	The Islamic bank I deal with offer real estate appraisal and property management with low charges.	5	4	3	2	1
8.4	The profit rate charged on finance according to Murabaha in the Islamic Bank I deal with is too low.	5	4	3	2	1
8.5	The service fees in the Islamic Bank I deal with are reaosonable	5	4	3	2	1
8.6	The Islamic Bank I deal with pays a competitive return on Investment deposits in relation to the other Islamic Banks operating in Kuwait.	5	4	3	2	1
Satisfaction 9.1	I am satisfied with products and services provided by the Islamic Bank I deal with.	5	4	3	2	1
9.2	I am satisfied with employees' performance in general.	5	4	3	2	1
9.3	The overall service quality provided by the Islamic Bank I deal with is excellent.	5	4	3	2	1
9.4	The Islamic Bank I deal with consider customer satisfaction as one of its main priorities.	5	4	3	2	1

In order to get better service from your bank, what do you suggest?

………………………………………………………………………………………………

……………………………………………………………………………………………..

Thank You

Section 10: Islamic Banks

Article 86

Islamic Banks exercise the activities pertaining to banking business, and any activities considered by the Law of Commerce or by customary practice as banking activities, in compliance with the Islamic Shari'ah principles. Islamic banks ordinarily accept all types of deposits, in the form of current, savings, or investment accounts, whether for fixed terms and purposes or otherwise. These banks carry out financing operations for all terms, using Shari'ah Contracts, such as: Murabaha, Musharakah and Mudarabah. Furthermore, these banks provide various types of banking and financial services to their customers and to the public. They conduct financial and direct investment operations whether on their own account or on the account of other parties or in partnership with others, including establishment of companies or holding equity participations in existing companies or companies under establishment, which undertake various economic activities, in accordance with both Islamic Shari'ah principles and controls laid down by the Board of Directors of the Central Bank, and all that in compliance with the provisions of this Law.

The Central Bank shall lay down the rules and controls that regulate the activities of branches of foreign Islamic banks authorized to operate in the State of Kuwait. Insofar as the provisions of this Law are concerned, the branches of any foreign Islamic bank operating in the State of Kuwait shall be considered as one bank.

Article 87

As an exception of the provisions of the Commercial Companies Law pertaining to the establishment of companies, and of the provisions of this Law (on Islamic banks)

pertaining to capital and share percentages of founders' subscription, Kuwaiti banks – with the approval of the Central Bank – may establish subsidiary companies to conduct activities of Islamic Banks in accordance with Shari'ah principles and the provisions of this Law. Each Kuwaiti bank may not establish more than one company with only one premises, and the capital of the company shall not be less than fifteen million Kuwaiti Dinars. The founder bank shall subscribe for a share of not less than 51% in the capital of the company, and shall maintain that percentage at all times after the establishment. The remaining shares shall be placed for public subscription. If placement is not entirely covered by public subscription, the remaining shares shall be covered by the founder bank itself.

Apart from the exception stipulated in the preceding paragraph, the subsidiary company mentioned in that paragraph, which conducts its activity in accordance with the Shari'ah principles, shall be considered an independent Islamic bank in the application of the provisions of this Law.

The bank shall not sell or transfer the property of its subsidiary company or any part thereof to any other party.

Article 88

Before starting the formalities of incorporation, applications for establishing Islamic banks shall be presented to the Central Bank, together with the following documents:

1- a statement citing the founders' names, nationalities, addresses, and shares in the bank's capital;

2- a draft of the Memorandum of Agreement and Articles of Association;

3- the feasibility study for establishing the bank; and

4- any other documents that the Central Bank may require.

Application forms for establishing branches of foreign Islamic banks shall be presented to the Central Bank, together with the following documents:

1- a copy of the Memorandum of Agreement and Articles of Association of the applicant bank;

2- the feasibility study for establishing the branch;

3- evidence that the Headquarters of the foreign Islamic bank is subject to the parent country supervisory authority, together with the relevant approval thereof to establish the branch applied for, and

4- any other documents that the Central Bank may require.

Applications to establish Islamic banks or a branch of foreign Islamic bank shall be submitted to the Board of Directors of the Central Bank for its approval in principle or refusal thereof.

The license given to establish a branch of a foreign Islamic bank shall not be transferable to any other party.

Article 89

Islamic banks shall be registered in a special register for Islamic Banks at the Central Bank, pursuant to applications presented to the Central Bank on relevant forms. Registration therein shall be effected by a decision of the Minister of Finance on recommendation of the Board of Directors of the Central Bank. Islamic Banks shall not start operation until they have been registered in that Register.

Islamic banks shall not establish branches inside or outside Kuwait without prior permission from the Central Bank, and before having these branches registered in the Islamic Bank Register.

The Minister of Finance shall, on the recommendation of the Board of Directors of the Central Bank, issue an Islamic Bank Register Bylaw that shall include rules, procedures and timings of effecting, amending and declaring Register entries.

Article 90

In keeping with the provisions of the Law of Commercial Companies, and without prejudice to the provisions of this Law, registration of Islamic banks in the Register shall require the following:

1- The bank takes the form of a joint-stock company that places its shares for public subscription. Branches of foreign Islamic banks, once permitted in the State of Kuwait, may be excluded from this provision by a decision of the Council of Ministers, upon the proposal of the Board of Directors of the Central Bank and the approval of the Minister of Finance.

2- The Central Bank approves the bank's Memorandum of Agreement and Articles of Association.

Article 91

Registration of branches of foreign Islamic banks in the Register, shall require provision of the following documents to the Central Bank :

(a) an affidavit by the Headquarters of the foreign bank declaring its commitment to any rights of depositors and creditors as well as all liabilities that may accrue on the branch;

(b) evidence of the transfer of the minimum amount of funds allocated for the branch operations in the State of Kuwait, as stipulated in this Law; and

(c) any other commitment, document or instrument that the Central Bank may require.

Article 92

Without prejudice to the provisions of Article 87 and the provisions of enforced laws, the paid-up capital of any Islamic bank shall not be less than seventy-five million Kuwaiti Dinars. The founders' share in the bank capital shall not recede below 10% nor exceed 20% .

With regard to the branches of foreign Islamic banks the amount of funds allocated for a branch in the State of Kuwait shall not be less than fifteen million Kuwaiti Dinars. The founders' share in the amount of funds allocated for a branch in Kuwait may be amended and so the amount of funds allocated for the branch increased by a decision of the Board of Directors of the Central Bank, when necessary.

If the capital of a bank or the amount of funds allocated for a branch of foreign Islamic bank fall below the required minimum limit as a result of operational losses or other reasons, the bank shall cover the difference within such a period as may be specified by the Central Bank.

Article 93

Each Islamic bank shall have an independent Shari'ah Supervisory Board, comprised of not less than three members appointed by the bank's General Assembly. The Memorandum of Agreement and Articles of Association of the bank shall specify the establishment of the Board as well as its formulation, powers, and workings.

In case of a conflict of opinions among members of the Shari'ah Supervisory Board concerning a Shari'ah rule, the board of directors of the designated bank may transfer the matter to the Fatwa Board in the Ministry of Awqaf and Islamic Affairs, that shall be the final authority on the matter.

The Shari'ah Supervisory Board shall annually submit to the bank's General Assembly a report comprising its opinion on the bank's operations in terms of their compliance with the Islamic Shari'ah principles and any comments it may have in this respect. This report shall be included in the bank's Annual Report.

Article 94

The Central Bank may:

1- open accounts denominated in Kuwaiti Dinar or foreign currencies with Islamic banks;

2- open accounts denominated in Kuwaiti Dinar or foreign currency for Islamic banks;

3- authorize Islamic banks to participate in the Clearing Chamber.

Such actions shall be performed in accordance with the terms and conditions that are not in contradiction with the Islamic Shari'ah principles and are as decided by the Central Bank.

Article 95

The Central Bank may carry out the following operations:

1- provide emergency finance to Islamic banks for a period not exceeding six months using instruments and methods that conform with the Islamic Shari'ah principles, and in accordance with the terms and conditions set by the Board of Directors of the Central Bank.

The term of such finance may be extended for a period not exceeding further six months.

2- sell to and purchase from Islamic banks securities and other instruments that comply with the Islamic Shari'ah principles.

3- issue instruments that comply with the Islamic Shari'ah principles, in accordance with the limits and conditions set by the Board of Directors of the Central Bank.

Dealing in these instruments, by sale and purchase, may be carried out with both Islamic banks and other institutions subject to the supervision of the Central Bank.

Article 96

Islamic banks shall be under the obligation to fully repay sight deposits to their depositors upon request, while such deposits shall not incur any losses.

Owners of investment deposits shall participate in the profits and losses from the bank's business in proportion to the amounts of their participation in the investment, pursuant to the contracts concluded with them in this regard, and in accordance with the provisions of this Law.

Article 97

The Board of Directors of the Central Bank shall set the rules and regulations for the supervision of Islamic banks with respect to liquidity, solvency, and business organization, including in particular:

(a) a system for liquidity and elements thereof;

(b) capital adequacy standards through specifying the ratio of capital to asset elements;

(c) rules for calculation of the required provisions for asset risks.

Article 98

The Board of Directors of the Central Bank may specify for Islamic Banks all or some of the following:

1- the maximum value of operations pertaining to a specific activity;

2- the maximum limit of a bank's equity holdings in companies that it incorporates, participates in establishment, or owns shares therein; and the rules and regulations thereof, in addition to the maximum limit of a bank's participation in any single project;

3- the maximum limit of a single customer's liability to the bank while granting a relative advantage to subsidiaries of the bank according to the conditions laid down by the Central Bank;

4- the amount of funds that must be invested in the local market;

5- the portion of deposits with the bank that must be deposited in cash with the Central Bank;

6- the rules and regulations that must be observed in a bank's relationship with its customers, and between its customers and shareholders.
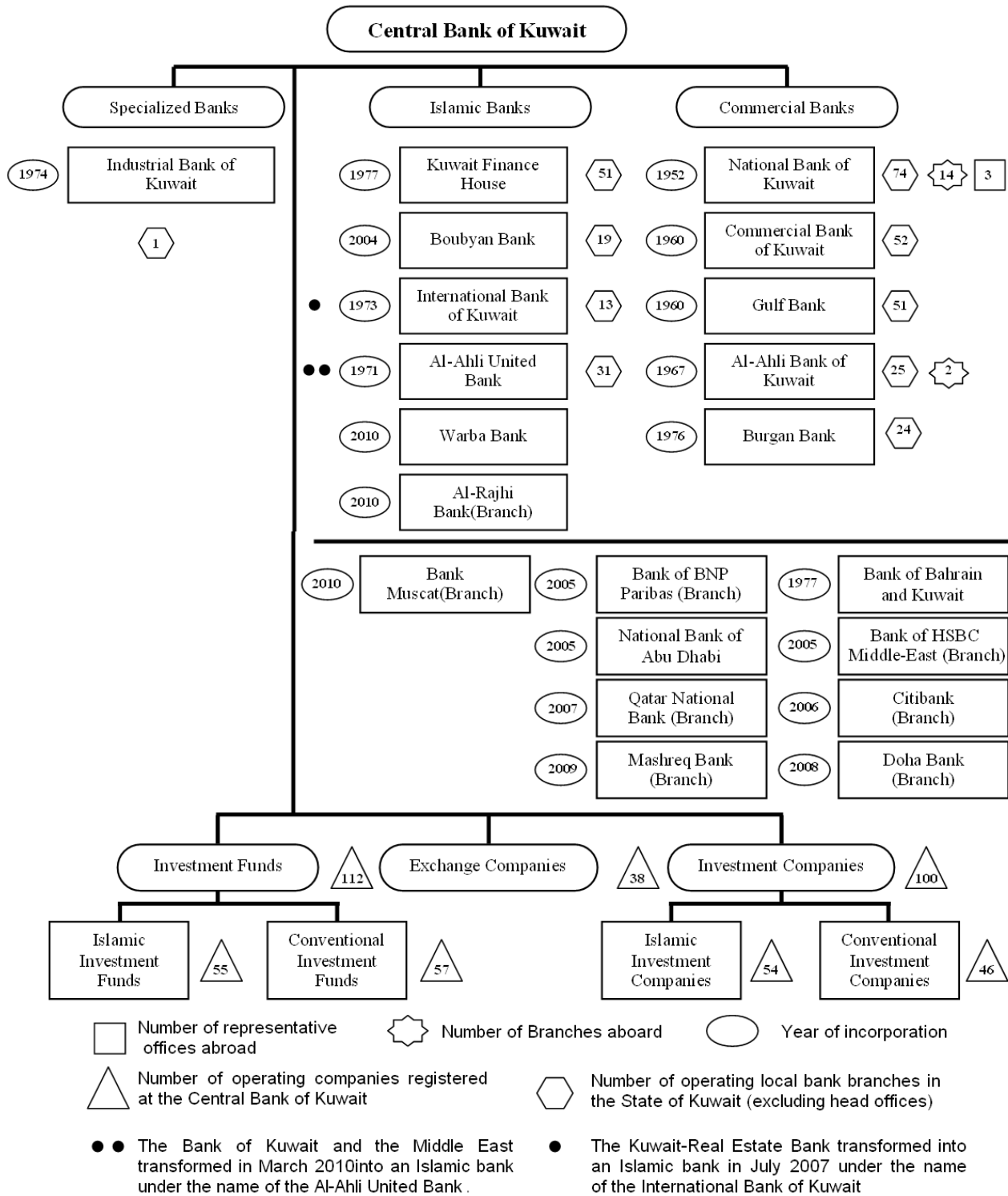
Article 99

Without prejudice to the provisions of Articles 97 & 98 of this Law, Islamic banks shall not own or deal in private residential buildings and plots in the State of Kuwait with the exception of those:

1- acquired or dealt in for the purposes of executing finance operations that have been agreed to or are being concluded with customers in accordance with the methods and forms of funding that are in compliance with the Islamic Shari'ah principles;

2- required for the conduct of their business or for the accommodation or recreation of their staff;

3- acquired by reversion of title in settlement of others' unfulfilled obligations towards them, provided that these are sold off within a period not exceeding three years from the date of reversion. The said period, however, may be extended by a decision of the Board of Directors of the Central Bank, when necessary.

Article 100

Unless otherwise stipulated in this section, Islamic banks shall be subject to the provisions of this Law (No. 32 of 1968) without prejudice to the Islamic Shari'ah principles.

APPENDIX V: BANKING AND FINANCIAL STRUCTURE IN KUWAIT

Source: CBK (2010)