

CHAPTER 1 - INTRODUCTION

1.0 Introduction

The construct of culture and subculture have become increasingly central to the consumer behavior literature. According to McCort and Malhotra (1993), culture has been considered by researchers to be the most difficult construct to investigate because of its pervasive nature. Culture has been defined variously as values, norms, rituals, beliefs and symbols shared by members of a group or society. It includes patterns of behaviour, learned responses, basic assumptions, habits and traditional ways of thinking, feeling and reacting (Shweder, 1991). Cultural variations have significant impact on the way people view the world and these views ultimately affect their behaviour (Manstead, 1997).

There is growing body of extant literature focused on culture and its influence on various aspects of consumer behavior (e.g. Schouten and McAlexander, 1995; Thompson and Tambyah, 1998). However, religion as an element of culture has received little attention from consumer behavior researchers. Instead, researchers have mainly focused on other sub cultural factors such as ethnicity, nationality and values as important predictors of consumer behavior.

Religion is an important cultural factor to study because it is one of the most universal and influential social institutions that have significant influence on people's attitudes, values and behaviors at both the individual and societal levels (Mokhlis, 2009). As one of the foundations of moral teaching in the society, religion provides its adherents with a set of principles by which to live, and those believers will be strongly influenced by the religion in which they have faith, in their daily activities (Bowen, 1998). Furthermore, it is argued that religiousness or religiosity is an important value in the individual's cognitive structure and can influence an individual's behavior (Delener, 1994). As such, it is expected that individuals with high level of religious commitment would likely to align their behavior in compliant with their religious belief and practices (Muhamad, 2006).

Islam is a religion that guides Muslims in every aspect of life, not just in specific acts of worship. Some other guidance which have been provided for by Islam are how and what to trade, how to interact with others and what can be consumed. Hence, it is expected that religiosity will have an influence on the behaviour and decisions made by Muslims. In addition, the global phenomenon of Islamic resurgence throughout the Muslim world has witnessed an increase in religious commitment among the Muslim who want to adhere to the Islamic beliefs and practices in their daily activities. According to Muhamad and Mumin (2006), this development has resulted in greater emphasis on Islamic law or *Shariah* as the main source of guidance in every aspect of a Muslim's life. Islam is a complete way of life (or *ad-din*) thus the impact of Islamic religion on different aspects of the believers' behaviour is considered quite substantial (Muhamad et al., 2006).

This study examines the relationship between Islamic religiosity and the perception on service quality in the Islamic banking industry in Malaysia. In particular, this study focuses on the impact of different levels of religious commitment on the perception of service quality dimensions among Malay Muslims in Malaysia. The study investigates if there is any difference between the different level of religious commitment among Malay Muslim customers and their perception on service quality in the context of the Islamic banking industry in Malaysia.

This chapter briefly provides an introduction to the research and some overview on Islamic banking; it discusses the background to the study, the problem statement and follows by the main objectives of the research and the research questions. The subsequent section covers the purpose and significance of the study and last section provides the description on the organization of the chapters in this research.

1.1 Overview of Islamic Banking

The establishment of Islamic banks has grown rigorously for the past four decades at an estimated growth rate of 15- 20 percent per annum (Haque et al., 2007). It has spread across the whole universe and received wide acceptance by both Muslims and non-Muslims (Iqbal and Molyneux, 2005). There are now over 300 Islamic banks and financial institutions worldwide and the estimated assets of between US\$200 – US\$300 billion (Henry and Wilson, 2004; Pollard and Samers, 2007). Islamic banks perform the same essential functions as banks do in the conventional system, except that the need for them to carry out their transactions in accordance with the rules and principles of Islam (Henry and Wilson, 2004; Iqbal and Mirakhor, 2007). Islamic financial services are currently very popular among the non-Muslims in different parts of the world. Observing this increasing demand, multinational conventional banks such as HSBC and Citibank are opening Islamic banking windows providing interest free services to widely scattered population across the globe.

The Islamic resurgence which swept many parts of the Muslim countries was the starting point of the modern Islamic banking system. The main idea of these revivals was the application of Islamic teachings in all aspects of life. Since then various factors have fuelled the development of the industry and continue to contribute towards its potential growth. According to Muhamad et al. (2011) the rise of the world's Muslim population, estimated at 1.7 billion in 2009 and expected to increase to 1.9 billion by 2015 has created a large untapped potential market and this can be seen as an opportunity for the Islamic finance industry to further progress across the globe. The current challenges caused by an unsteady global financial system also provide an opportunity for the Islamic finance industry to highlight the virtues of *Shariah* compliant financial system. Krichene and Mirakhor (2008) argue that Islamic financial system that based on no interest and *zakat* will be immune to instability and that a system based on interest is inherently unstable and prone to repeated crisis and losses. Hence, Islamic financial institutions have remained quite secured from the global financial downturn because *Shariah* law strictly forbids them from trading with interest-based financial products and instruments (Chapra,

2008; Ebrahim, 2008). Furthermore, *riba* (interest) free and *gharar* (uncertainty) free nature of Islamic banking together with real asset/service-backed transaction, guarantee that strong risk management device is in place in Islamic financial institutions (Damak et al., 2009; Khan, 2009) which make them immune from the financial crisis.

Islamic banking is distinct and unique from conventional banking because of some of its salient features. Islamic banking products and services are banking products and services that are structured in compliance with *Shariah* law that governs the economic, social, political and cultural aspects of Islamic societies. The basic principles in structuring these products and services are prohibition of interest; risk sharing; individual rights and duties; property rights; money as potential capital; prohibition of speculative behaviour; sanctity of contracts and *Shariah* approved activities (Muhamad et al., 2011). Islamic banks offer various kinds of products, which may be broadly classified as deposit, investment and financing products. The common products used in Islamic banking products and services are *mudharabah* (profit sharing), *wadiah* (safe keeping), *musyarakah* (joint venture), *murabahah* (cost plus), and *ijarah* (leasing).

In Malaysia, customers' positive perception towards Islamic banking is far more crucial mainly due to the fact that Islamic banks have to compete with the long established conventional banks in a dual-banking system (Dusuki and Abdullah, 2007). In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers.

Evidently, the Islamic banking and finance has contributed to the growth and sustainability of the Malaysian economy since its establishment in 1983. Since then the Islamic banking in Malaysia continue to grow with new players joining the bandwagon in relation to the strong demand for *Shariah*-compliant financial products and services. In terms of profitability, Islamic banking institutions have registered a steady and sustained

income. Total income increased from RM9.71 billion in 2009 to RM11.80 billion at end 2010. Similarly, total deposits have increased from RM235.94 billion to RM277.55 billion for the same period. This represents a 22.6 percent market share of the total banking deposits in the country rising up from 20.7 percent in the previous year and a healthy 15.7 percent increase on the previous year (Bank Negara Malaysia, 2010). Today, there are seventeen Islamic banking institutions in Malaysia of which six are wholly foreign-owned.

As one of the most important players in service industry today, Islamic banking can no longer be regarded as a business entity striving only to fulfill the religious obligations of the Muslim community, but more significantly, to be as competitive as possible side by side with the conventional system in alluring more customers and retaining them. This necessitates Islamic banks to really understand the perceptions of their customers towards their business operations in terms of service quality rendered to increase customer satisfaction and ultimately their loyalty (Dusuki and Abdullah, 2007).

1.2 Background to the Study

Services have some exceptional characteristics that make them different from physical products. To produce a service it may or may not require the use of tangible goods. There are some fundamental characteristics of services like intangibility, inseparability, heterogeneity, and perishability (Zeithaml and Bitner, 1996). The most notable thing is that it is often difficult for customers to evaluate services at pre-consumption, consumption and post-consumption stage. On the other hand, due to intangible nature of services, provider of the services may also face difficulty to understand how its customers perceive and evaluate the quality of its services.

Delivering good service to customers is the main goal that every service business strives to accomplish from time to time. The ability for a service provider to deliver quality service is considered an essential strategy for success and survival in today's competition.

As the service industry grew, problems started to arise within the service production of today's competitive business environment. In order to be successful, the businesses in the service industry must maintain competitive advantage and must try to increase the importance of quality improvement rather than the price which is similar to what the firms are activating in the manufacturing industry. The delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets. In contrast, high quality of service leads to customer satisfaction and loyalty and positive word of mouth, reduction in customer complaints, and improved customer retention rates to a great extent (Zeithaml et al., 1996).

Studies by Parasuraman et al. (1985), and Zeithaml et al. (1996), noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. Accordingly, Newman and Cowling (1996) believes that excellent service quality is vital to business profitability and survival. Quality in service is not just ensuring conformity to standards, but taking into account service diversity of customers while the service delivery is taking place, the behaviour and expectations of the customer being served and to customize the service delivery accordingly (Othman and Owen, 2001).

Numerous studies and investigations on service quality have been carrying out across various service industries after the pioneering work by Parasuraman et al. (1985) such as healthcare sector (Lam, 1997; Kilbourne et al., 2004), banking (Othman and Owen, 2001, Chi Cui et al., 2003), dental services (Carman, 1990), travel and tourism (Fick and Ritchie, 1991), hospitality (Saleh and Ryan, 1992), higher education (Ford et al., 1993), accounting firms (Freeman and Dart, 1993), construction professionals (Hoxley, 2000), public services (Wisniewski, 2001; Brysland and Curry, 2001; Agus et al., 2007), and mobile communications (Kung et al., 2009; Negi, 2009).

Since financial services, particularly banks compete in the marketplace with generally undifferentiated products thus service quality becomes a primary competitive weapon (Stafford, 1996). Banks that excel in quality service can have a distinct marketing edge

since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins 1988), and expanded market share (Bowen and Hedges 1993). Likewise, provision of high quality services enhances customer retention rates, helps attract new customers through word of mouth advertising, increases productivity, leads to higher market shares, lowers staff turnover and operating costs and improves employee morale, financial performance and profitability (Lewis, 1993; Julian and Ramaseshan, 1994). Therefore, delivering quality service to customers is a must for success and survival in today's competitive banking environment (Julian and Ramaseshan, 1994). Given these significant findings in the financial services industry, it is important to understand specifically how service quality is perceived by the customer, and what are the those elements considered to be important to different customers.

A great deal of research exists on service quality in the banking sector. To measure service quality and identify the dimensions that customers consider in evaluating bank services, the most commonly used research instrument is SERVQUAL (Parasuraman et al., 1988). This generic scale for measuring service quality in a variety of service sectors is used extensively in most studies of bank service quality (Othman and Owen, 2001; Lassar et al., 2002; Chi Cui et al., 2003; Arasli et al., 2005). Studies on bank service quality have been conducted in a variety of countries, including: the UK (Newman and Cowling, 1996), Canada (Bahia and Nantel, 2000); the United Arab Emirates (Jabnoun and Al-Tamimi, 2003); China (Wang et al., 2003; Zhou, 2004); India (Angur et al., 1999; Mukherjee and Nath, 2005), Cyprus (Arasli et al., 2005), South Korea (Chi Cui et al., 2003); South Africa (Mels et al., 1997) and Malaysia (Amin and Isa, 2008), to name just a few. Most of these studies have been focusing on measuring the service quality dimensions and the relationship between service quality and customer satisfaction and loyalty.

In addition, 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 responses and measures of service quality as 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) (Carrillat et al., 2007). There have been studies on the effect of culture on SERVQUAL (Anderson and Fornell, 1994; Collier, 1994) as well as the influence of cultural dimensions on satisfaction and perceived SERVQUAL in service encounters and service industries (Winsted, 1997; Donthu and Yoo, 1998; Mattila, 1999).

As the international marketplace is diverse culturally, it is important to have a good understanding of how culture exerts influence on service quality evaluation (Imrie, et al., 1999; 2000). Review of cross-cultural studies suggest that there have been quite a number of existing research focusing on studying the effect of culture on service quality from the customer perspective. Some studies have found, for example, that cultural values might provide customers with unique rules and customs to guide service quality evaluation (Strauss and Mang, 1999; Imrie, et al., 2002). If cultural issues can be accommodated in the service quality and delivery, the behavior of customers can be predicted with greater accuracy (Donthu and Yoo, 1998), which might improve customer satisfaction retention. Accordingly, service performance perceptions, filtered through the lens of culture have been found to directly affect perceived service quality and satisfaction (Halstead et al., 1994). Several studies have argued that perceived service quality varies across cultural groups (e.g. Espinoza, 1999; Smith and Reynolds, 2002).

Religion, being an aspect of culture has considerable influence on people's values, habits and attitudes and it greatly influences life style which in turns affects consumer decision behavior (Hirschman, 1983; Delener, 1994). Furthermore, it is argued that religiosity or religiousness play a significant role in the problem-solving and decision-making processes of an individual (Delener, 1994). More specifically, religion represents a significant element in many, if not all, the problem-solving and decision-making phases as religious beliefs and practices may serve as a guide to an individual in the process of selecting solutions to problems in hand. In Islam, every Muslim's activities in life must be in accordance with *Akhlaq*, good moral conduct, as prescribed in the teaching of Islam. As such, it is expected to have a significant impact on the behaviour of Muslims since

Akhlaq provide a framework that shapes the ethical and moral of Muslims in all aspects of life (Muhamad et al., 2009).

Religion, as one of the critical elements in cultural environment (Sood and Nasu, 1995) affects the way in which people behave and it is perceived that it may affect an individual's perception as suggested by Sadler (1970). The degree to which religion affects one's beliefs and behavior depends on the individual's level of religiosity and the importance one places on the religion itself (Sood and Nasu, 1995). Harell (1986) claim that religion affects individual behavior directly through the rules and taboos it inspires. According to Sood and Nasu (1995), religion indirectly affects behavior by classification of all phenomena, development of code of conduct and the establishment of priorities among these codes. Specifically, in Islam where the *Shariah* governs conducts in all aspects of life in Islamic societies. Therefore, it is reasonable to presume that the Islamic religion could directly or indirectly influence the perception on service quality.

The reality with Islam is that it is a religion that embraces all the realms of human activities. It is not just a religious belief pertaining to a God with a collection of personal or communal rituals restricted to some religious occasions and celebrations. Islam is a way of life with revealed laws and injunctions that govern and embrace the whole of mankind's activities individually as well as collectively (Musa, 2010). It embraces all activities at the levels of the family, community, society, nation-states as well as the whole humanity. Hence, in Islam the whole life is governed and regulated by the revealed law of God called the *Shariah*, and one's life is deemed to be Islamic when the *Shariah* is completely adhered to.

With the current wave of strong Islamic resurgence, the Muslims are reviving and reaffirming their Islamic practices to return to their basic fundamental faith and beliefs and construct an Islamic society in accord with the Quran and Sunnah. Besides political activism, there is a growing consciousness of Muslims toward Islam both in social and individual lives. In social life, this can be seen in the establishment of various Islamic institutions such as Islamic banks, organizations, social welfare services and educational

institutions. Likewise, in individual life, this can be seen in the increasing attention to religious observances such as mosque attendance, prayer and Islamic dress code (Rifki, 2007). These political, social and individual manifestations of the Islamic resurgence can be seen throughout the Muslim world, in a variety of political, social and cultural settings including Malaysia.

Earlier studies on bank patronage and selection criteria on Islamic banking pointed that religion (Islam) as the main reason for choosing Islamic banks, which has been grounded under the principles of the Quran and the Hadith (Omer, 1992; Metawa and Almosawi, 1998; Bley and Kuehn, 2004). Nevertheless, these researchers also affirm that other factors like bank's name and image, confidentiality, friends and family influences and provision of quality services are equally important for customers when making decision on their choice of bank (Metawa and Almosawi, 1998; Naser et al., 1999). However, some studies have found that religion is not the main motivation and that fast and efficient services, the bank's reputation and image, and confidentiality are the primary motives in the decision of consumers to use Islamic banking products and services (Erol and El-Bdour, 1989; Erol et al., 1990; Hegazy, 1995; Haron et al., 1994).

It is widely accepted that *Shariah* compliant feature is the distinctive/unique criteria of Islamic banking institutions. For an Islamic bank, non-compliance with *Shariah* law is considered as damaging to the bank's reputation and makes the bank susceptible to irreversible loss of religiously sensitive depositors and investors which is the major source of its funds (Muhamad et al., 2011). As suggested by Delener (1994), religiosity would influence behavior and decisions made by individuals. Hence, it is expected that the compliance of financial services with *Shariah* rules and principles will be a primary concern for devout Muslim in using the services offered by Islamic banks.

Muhamad et al. (2009) explain that in the context of Islamic banking, religion and religiosity appear to explain the underlying motive of consumers when opting for the services and thus, aid the managerial understanding concerning the type of consumers who will purchase the services. In another study Muhamad et al. (2011), examines the

different consumers' segmentation for the Islamic banking industry, namely, (1) the religious conviction group that is guided by their religious commitments in making their purchase decision; (2) the religious conviction and economic rationality group which decision making is based on both the religious values and economic rationalism); (3) the ethical observant group that make decisions based on ethical criterion and (4) the economic rationality group which make decisions solely for their personal financial gain based on economic rationalism. The findings reveal that that for the religious conviction consumer segment, the *Shariah* compliant is the only criteria been considered in their purchasing decision. The motive for this group of individuals to opt for Islamic banking products and services is bounded primarily by their religious commitment. This is contrast with the economic rationality group where the only motive in purchasing Islamic banking products and services lies in the economic criteria such as pricing, returns and services quality. In the case of the religious conviction and economic rationality group, both the *Shariah* compliance and economic criteria such as pricing, returns and services quality are relevant in their purchasing decision. Ethical issues such as fairness and justice for all, socially responsible behaviour, accountability and transparency are among the criteria that may be considered by the ethical observant group in deciding whether to purchase Islamic banking products and services.

Othman and Owen (2001) have developed an instrument called CARTER to measure service quality in Islamic banking. CARTER has six dimensions constructed from the existing SERVQUAL and a new dimension called compliance with Islamic law. Similar with studies using SERVQUAL, studies conducted based on CARTER model also have been focusing on the relationship between customer satisfaction and service quality (Shafie et al., 2004; Osman et al., 2009; Sharif and Mirzaee, 2011). The literature that investigates the influence of religiosity on service quality dimensions is still very scant. Therefore, this study aims to examine the influence of religiosity on the perception on service quality among Malay Muslims in Islamic banking industry in Malaysia.

1.3 Problem Statement

Over the last 20 years, research on service quality has grown extensively and substantively. Researchers in service quality believed that the values in different cultural groups could lead customers in specific circumstances to evaluate the quality of services differently (Furrer et al., 2000; Imrie et al., 2002; Lewis, 1993). The relative importance of each of the service quality dimensions is subjective in the sense that this importance is based on customers' values and beliefs that might change from one culture to another. Some of the determinants of customer expectations of services identified by Zeithaml et al. (1996) are customers' personal needs - physical, social and psychological. These determinants are strongly influenced by the social and cultural environment of customers. Thus, culture is said to have an important influence on service quality expectations and the relative importance of its five dimensions.

In relation to cultural influences on service quality, religion is one of the cultural elements that influence customers' perception on service quality. A study of Taiwanese society has generated a new dimension of service quality drawn from Confucian beliefs (Imrie et al., 1999, 2000, 2002). Researchers have equated this Confucian influence on service quality as reflecting a general Asian influence. However, previous studies were mainly conducted in China and used Confucian beliefs as the research base (Imrie et al., 2000, 2002; Lam, 2002). None of the existing research explores the Asian Muslim customers' perspective of service quality. This potential gap provides an opportunity for research on the mechanism of the influence of culture on service quality, in the context of Muslim customers and from Islamic perspectives.

In general, the religions practiced in a society influence the emphasis placed on the material life and the attitudes toward owning and using goods and services. Religious traditions may prohibit the use of certain goods and services, for example, Islamic teachings forbid its followers from drinking liquor and eating pork. Religious values shape an individual's emotional experience, cognition and psychological well-being, which in turn, affect the consumption choices that consumers make. There have been

several investigations on the relationship between religiosity and consumer behaviour with the general conclusion that the association is real.

The link between religiosity and the extent to which the services of an organization fit the values of customers has not been clearly addressed in any research on service quality. The importance of values as determinant of service quality can be attributed to customers' desire for psychic needs fulfillment (Naceur et al., 2005). To devout Muslims, there is no value in what they consider forbidden in their religion. On the other hand, receiving a service that they consider to be allowed in their religion fulfills their psychic needs particularly in environments in which religiously allowed offerings are limited.

Islam is a religion that guides Muslims in every aspect of life, not just in specific acts of worship. It involves all aspects of lives, not only confined to eating and drinking, but also to dress code and dealing with others either in doing business and/or in the daily life. Following the wave of Islamic resurgence, there is an increase in the number of Muslims in Malaysia who have understood and show concern for the Islamic teachings and practices. The growth of Islamic teachings among Muslim should have given an impact on their ethical and moral values. Hence, it is expected that religiosity will have an influence on the behaviour and decisions made by Muslims.

This study aims to examine the influence of religiosity on the perception on service quality in the Islamic banking industry among the Malay Muslims in Malaysia because based on the extant literature very limited study has been done in this area.

1.4 Objectives of the Study

The study done by Muhamad (2011) on the different consumers' segmentation for the Islamic banking industry reveals that for religious conviction group, the *Shariah* compliance is the only criterion considered in their purchasing decision. Compliance to *Shariah* is one of the service quality dimension, thus it expected that for the highly religious Muslim, this dimension will be the most significant factor in their overall perception on the service quality provided by the Islamic banks. In addition, it is argued

that for moderate Muslims, aside for *Shariah* compliance, other factors such as reputation of the bank and the quality of the services as well as pricing and returns are relevant in their purchasing decision. For economic rationality group, criteria such as pricing, returns and services quality will be the main motive in purchasing the services at first place. This group of consumers can be classified as the casually religious Muslims as they are indifferent to both religious and moral dictates in their purchasing decision. According to Delener (1994), religiosity would influence consumer behaviour and behaviour in general. Since purchasing decision is considered to be part of consumer behavior thus it is expected that the level of religious commitment among Muslims would influence such decisions as well as their perception on the service quality.

The qualitative study done by Muhamad (2011) examines the issues on the market segmentation of Islamic banking consumers from the perspective of key market players through in depth interviews. The present study is an extension to the study and is based on consumers' perspective with regards to the service quality provided by the Islamic bank. The different consumers' segmentation for the Islamic banking as proposed by Muhamad (2011) suggests that the consumer segmentation could be based on combination of values (religion/religiosity) and benefit sought. Therefore, the study seeks to find whether the level of religious commitment among the Muslim consumers will influence their perception on the service quality provided by Islamic banks. The quantitative approach adopted for this study enables a larger sample of respondents for analysis. This data would enable the researcher to employ more rigorous analysis techniques in providing a comprehensive picture in assessing the of service quality from the consumer's perspective.

In particular, this study examines the influence of the degree of religiosity among Malay Muslims and their perceptions on service quality dimensions. The study explores if there is any difference between the perceptions on service quality among the devout, the moderately religious and the casually religious Malay Muslims in the Islamic banking industry in Malaysia. Consequently, the study seeks to examine which service quality

dimension is significant and highly related to the level of religious commitment among the Muslim customers.

In summary, the objectives of the study are as follows:

- 1) To investigate the relationship between religiosity and the perception on service quality in the Islamic banking industry among Malay Muslims in Malaysia
- 2) To examine which dimension of service quality is highly related to religiosity
- 3) To examine the difference in the perception on service quality provided by Islamic banking industry between the different religious groups

1.5 Research Questions

Based on the above objectives, the below research questions are developed

1. Is there any relationship between Muslim religiosity and the perception on the service quality in the Islamic banking industry in Malaysia?
2. Which dimension of service quality is highly related to religiosity?
3. Is there any difference on the perception of service quality in Islamic banking industry between the devout, the moderately religious and the causally religious Muslims in Malaysia?

1.6 Purpose and Significance of the Study

Many studies conducted in national and international settings had succeeded in establishing links between cultures and various aspects of consumer behaviour. However,

religion as an element of culture has received little attention from consumer behavior researchers. In addition, earlier studies on religiosity had tended to focus almost exclusively on Christianity especially in the Western countries. The impact of religion on consumer behaviour in non-Western countries such as Malaysia has been relatively under-researched. This potential gap provides an opportunity for research on the influence of religiosity on service quality, in the particular context of Muslim customers and from Islamic perspectives. This study is therefore undertaken as a first step in understanding the influence of religion on consumer behaviour in a non-Western setting. Thus, the results from this study should add to the existing body of knowledge in the consumer behaviour field by explaining the relationship between an individual's religious background and his/her behaviour as a consumer.

Islamic banking is an area that has mushroomed to become an increasingly substantial segment within the global financial market. The growing phenomenon and substantial interest in Islamic banking and finance across the globe has generated renewed interest among the players in the financial world after the recent sub-prime and financial crisis. In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers. For this reason the management of Islamic bank must be sensitive to its customers' satisfactions when using their facilities as customers are becoming more sophisticated and demanding.

The finding of this research can carry significant managerial implications for marketing strategists. As religion and religiosity appear to be the underlying motive when opting for the services, this serves as an aid to the managerial in determining whether religion is justifiable for market segmentation. If larger market segments of the society can be identified on the basis of their religious profiles, the marketing strategists could develop programmes and policies that would maximally enhance the importance values of the consumers in each religious market. In addition, findings of this study should contribute

to niche marketing strategies by providing a framework within which religious consumer groups in Malaysia may be better understood and targeted by local marketers.

1.7 Organization of Chapters

This research is organized into five chapters as follows:

CHAPTER 1: INTRODUCTION

This chapter provides an overview of the research. It describes the background of the study, problem statement, research objectives and research questions. It also provides purpose and significance for the research as well as organization of the chapters.

CHAPTER 2: LITERATURE REVIEW

In this chapter, the relevant literatures on Islamic banking and selection criteria, religion and religiosity and religious influences on consumer behavior are reviewed and summarized. It follows by the studies and findings related to service quality in the banking industry. In addition, the relationship between religiosity and the service quality are also being addressed in the last section.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter discusses the research design and the methods used in this study. The chapter consists of seven sections that describes the research philosophy, outlines the research framework, explains the research hypothesis, specifies the instrument and measurement used in the research, discusses the sampling method used, details out the data collection procedure and overviews the data analysis techniques.

CHAPTER 4: RESEARCH FINDINGS

This chapter presents the results of the data analysis process and findings. It discusses the preliminary procedures before data analysis is conducted which includes data screening, normality test, factor analysis and reliability testing. This is followed by the demographic profile of the respondents and the results of the hypothesis testing being conducted for the research.

CHAPTER 5: CONCLUSION

This chapter summarizes the main findings based on the data analysis done in the previous chapter. Finally, the chapter concludes the study with implications, limitations of the study as well as suggestions for the possible area in future research.