CHAPTER 2 – LITERATURE REVIEW

2.0 Introduction

The four distinguishing characteristics of service; inseparability, variability, intangibility and perishability (Kotler, 2003) suggest that in any particular service consumption experience, the cultural characteristics of the customer are likely to interact with these service characteristics. Literature reveals that different aspects of service delivery mean different things to different people. For instance, a consumer's race or socio-economic circumstances can impact on their service quality perceptions. Thus cultural norm can influence service encounter perceptions and behaviour (Winsted, 1997). Ueltschy and Krampf (2001) contended that differences in culture affect measure of quality in a service sector. Cultural factors are said to have greater influence on people's evaluation of services than on their evaluations of physical goods due to involvement of customer contact and interaction with employees while a service is delivered (Mattila, 1999). In relation to cultural influences on service quality, religion is one of the cultural elements that influence customers' perception on service quality. Religion as a sub-cultural element affects the way in which people behave (Sadler, 1970), and it is perceived that it may affect an individual's perception. Hence, in relation to cultural influences on service quality, religion is one of the cultural elements that influence customers' perception of service quality.

This chapter explains further details on the literature related to the research objectives. It starts with an overview of Islamic banks and the selection criteria and continues with review of literature on culture, religion and religiosity. This is followed by the discussion on the religious influences on consumer behavior. The next section covers the literature related to past studies on service quality and its dimensions. The link between religiosity and the service quality dimensions are also discussed, in addition to the findings of previous research on this subject matter.

2.1 Islamic Banking – A Review

Since the 1970s, Islamic banking has emerged as a new reality in the international financial scene. Its philosophies and principles are however, not new, having been outlined in the Holy Qur'an and the Sunnah of Prophet Muhammad (p.b.u.h.) more than 1,400 years ago. The establishment of Islamic banks is often associated with the Islamic revolution and the escalating awareness of Muslim society in embracing Islam as its way of life, in the fields of finance and banking as well as in other aspects. Islamic financial services industry has experienced a remarkable growth over the last four decades. Estimates suggest that global Islamic financial services grew at a rate of 10%-15% during 1995 to 2005 (Khan, 2009). Internationally, Islamic banks appear to have been more resilient to the primary effects of the global economic turndown and international financial crisis than conventional banks (Chapra, 2008). They tend to avoid the speculative investments, such as derivatives, that many analysts believe led to the financial crisis affecting conventional banks. For some observers, Islamic finance serves as a vehicle for recovering from the international financial crisis. As such the Islamic banking industry may be able to strengthen its position in the international market as investors and companies seek alternate sources of financing (Timewell, 2009)

The Islamic banking system in Malaysia started in 1983 when the first Islamic bank, Bank Islam Malaysia Berhad (BIMB) commenced its operations. The revival of Islam worldwide has paved the way for Islamic banking growth as more people consciously seek to lead their lives in accordance with the Syariah. In tandem with the global trend, Islamic banking in Malaysia has achieved a rapid expansionary performance since its inception in 1984. Its commendable performance and its presence as an alternative banking with excellent growth potential have in fact, been the hallmark for Islamic banking among many Muslim countries.

In 1993, the Islamic window concept was introduced when Bank Negara (BNM) established the Interest Free Banking Scheme which allowed existing commercial banks, merchant banks and finance companies to offer Islamic banking products and services

using their existing infrastructure and branches. With this, Malaysia has emerged as the first country to implement a dual banking system, whereby Islamic and conventional system co-exist and run concurrently in the financial system. Islamic banking windows have migrated their Islamic operations to full-fledged Islamic bank after the new concept of Islamic banks subsidiary introduced by Bank Negara in 1999. Since then the Islamic banking system in Malaysia started to flourish and become more competitive that it paved the way for foreign banks such as Kuwait Finance House, Asian Finance Bank and Al-Rajhi Bank to set up their Islamic banking operations in Malaysia.

In brief, some of the salient features of Islamic banking and finance which make it distinctive and unique from its conventional counterparts include (i) the prohibition of *riba* (usually interpreted as usury or interest) and the removal of debt-based financing; (ii) the prohibition of *gharar*, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk-taking; (iii) the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and casino); (iv) an emphasis on principle of brotherhood and cooperation, the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and losses; (v) the desirability of materiality, a financial transaction needs to have 'material finality', that is a direct or indirect link to a real economic transaction; and (vi) consideration of justice, a financial transaction should not lead to the exploitation of any party to the transaction (El-Gamal, 2000; Warde, 2000; Lewis and Algaoud, 2001; Iqbal and Llewellyn, 2002; Iqbal and Molyneux, 2005).

Islamic banks in Malaysia provide various types of banking products in order to cater to the diverse financial needs among Muslim and non Muslim customers. There are a wide range of Islamic financial products and services that may be offered by the banks using various Islamic concepts such as *Mudharabah* (profit sharing agreement between a capital provider and an entrepreneur), *Musyarakah* (joint venture where profits/losses made are shared on an agreed ratio) *Murabahah* (cost plus which includes a profit margin agreed by both parties), *Wadiah* (safekeeping where bank is the trustee of funds), *Bai'*

Bithaman Ajil (selling of goods on a deferred payment basis), *Qard Hassan* (benevolent loans offered interest free), *Ijarah* (financing in the form of operating leases) and *Wakalah* (a person appoints a representative on his/her behalf).

2.2 Selection Criteria of Islamic Banking

Bank patronage and selection criteria studies on Islamic banking largely focused on the combination of various religious, reputation, service satisfaction, staff, confidentiality and convenience. Omer (1992) in a survey-based study, found that the religious reason was the primary motivation for Muslims in the UK to deal with Islamic financial institutions. This finding is further validated by Metwally (1996) who found that the most important factor in determining attitudes of Muslims towards Islamic banks was religion followed by convenience of the services. In addition, Metawa and Almossawi (1998) and Naser et al. (1999) asserted that adherence to Islamic tenets and *Shariah*-based principles were the primary criterion for selecting Islamic banks in Bahrain and Jordan. Likewise Othman and Owen (2002), Wakhid and Efrita (2007) and Osman et al. (2009), shared the same findings in their studies in Kuwait, Indonesia and Malaysia respectively. The study of Wan Ahmed et al. (2008) that relates to the issue of the degree of Muslim religiosity and its impact on the choice of bank showed that the more religious customers were more likely to choose an Islamic bank for their deposit or financing needs.

Contradictory to these findings, there is a point of view that religious beliefs are not the sole reason to select an Islamic bank. Erol and El-Bdour (1989) found that customers who patronized Islamic banks perceived that the three most important criteria in bank selection were the provision of a fast and efficient service, bank's reputation and image and confidentiality. Interestingly, they also observed that religious motivation is not a primary criterion but banks customers are profit motivated. Furthermore, Haron et al. (1994) in a comparative analysis of Muslim and non-Muslim customers of Islamic banks found that Muslim customers believe that investing in an Islamic bank can give higher returns. In a study comparing Islamic and conventional banks, Hegazy (1995) provided evidence that the selection criteria of these two kinds of banks are different. More

specifically, word-of-mouth and advice by relatives and friends tends to favor Islamic banks rather than the conventional ones. Gerrard and Cunningham (1997) study Muslim and non-Muslim customers' perceptions of Islamic banking in Singapore and their results showed that there is no significant difference between the selection criteria between the two categories of customers. Dusuki and Abdullah (2007) explained that Islamic bankers can no longer depend on promoting the Islamic factor but also service quality. Their survey among 750 respondents found the three most important factors were competence, friendliness and customer service quality.

According to Muhamad (2011), the market segmentation for the Islamic banking industry reveals that ascribed values such as religiosity, ethical and economic can influence the consumer purchase decision. For the religious conviction group, the main concern underlying their decision is the *Shariah* compliance. This can be seen based on the interview conducted among the key players in Islamic banking industry that indicate, the customers may opt for other bank if they believe the bank is more stringent in *Shariah* compliance procedures although they have to pay higher price. Both the *Shariah* compliance and economic criteria such as pricing, returns and services quality are given equally important consideration by the religious conviction and economic rationality group in making their purchase decision. It is suggested that the consumers that belong to this group are high income earners from urban areas that have better level of education. The third group, ethical values group make decisions based on ethical criteria and they are more concern on the ethical and socially responsible investments especially for the non-Muslim. For the economic rationality group, their decisions to purchase the services are solely based on their personal financial gains regardless whether it is *Shariah* compliance or not.

2.3 Culture, Religion and Religiosity

Hofstede (1980) defines culture as the norms, values and beliefs of a particular group or community in a particular area or geographic location and shared by its members. Cultures are developed within countries as a product of national patterns of early

childhood and formative experiences as well as education, language, religion and geography. At the core of every culture, there exists a common set of values, ideals and assumptions about life that are widely shared by members of a society. The values are transmitted from one generation to the next through the process of learning and interacting with one's environment, rather than through the genetic process (Ferraro, 1994). These learned values influence the members of the society to behave and act in a particular way considered socially acceptable by the other members in the group.

One important element of a cultural phenomenon that has considerable influence on people's values, habits and attitudes is religion. Religion plays an eminent ethical role in contemporary life. From a religious standpoint, the divinity's laws are absolutes and shape the whole of an individual's life. Faith rather than reasoning and knowledge, provides the foundation for a moral life built on religion (Vitell and Paolillo, 2003). Religion provides the most basic building block for an individual's cognitive world by instilling innate value that defines how to do things right and provides a series of tools and techniques for social behaviour (Delener, 1994).

According to Johnstone (1975), religion is a system of beliefs and practices on how people responds and interprets what they feel is supernatural and sacred. Religion influences people's goals, decisions, motivations, purpose and satisfaction (Zimbardo and Ruch, 1979). Huffman (1988) confirms in his study that religion is a strong determinant of values than any other predictor. Foxall and Goldsmith (1994) assert that religious beliefs are intertwined with cognitive components to form the basis of knowledge that justify and control attitude and behaviour. Religion affects individual behaviour through two sources. First, religion stipulates rules and obligations as well as sanctions that directly control and influence individual's behaviour (Harrell, 1986). One example might be the prohibition of gambling and consumption of liquor for Muslims. Second, as an influential social institution religion has an indirect role in shaping culture, norms, attitudes and values in society (Al Habshi and Syed-Agil, 1994).

According to Delener (1994) the pro-religious (or highly religious) individuals are likely to be more dogmatic and more conservative than the non-religious (or least religious) subjects. As such, it is expected that the more religious person would more likely to align their behavior in compliant with their religious belief and practices. It is further suggested that those who are strongly committed to religion are both attitudinally and behaviorally capable of making decisions consistent with moral conscience (Delener, 1994). Values based on religious orientation not only are a powerful force in forming one's attitudes and behaviour but also serve as important guiding principles in one's daily life.

Religiosity is defined as "the extent to which an individual's committed to the religion he or she professes and its teachings, such as the individual's attitudes and behaviors reflect this commitment" (Johnson et al., 2001). According to Magill (1992), religiosity offers an interpretation to the nature of ethical behavior. The influence of religion on individual's ethical orientation stems from its highly personal nature. Hunt and Vitell (1993) and Phau and Kea (2007) found that religiousness could affect an individual's perception of an ethical situation and other components of ethical decisions. Both studies discovered that people who practiced their religion tended to consider themselves more ethically minded than those who did not. People who are more religious is said to give more weight to deontological considerations when evaluating situational ethical content (Hunt and Vitell, 1993). Hence the strength of religiousness might lead to differences in one's decision making process. Furthermore, Weaver and Agle (2002) reported that individuals formed a religious self-identity based on the teachings of religion, which in turn shaped their behaviour and attitudes.

2.3.1 Measures of Religiosity

Studying religiosity is very complex and not an easy task as there is no single quality describing whether an individual is religious or as relatively or more religious than another individual (McGuire, 2002). According to Scutte and Hosch (1996), religiosity is a difficult construct to measure since there are several definitions of religiosity. Mookherjee (1993) defines religiosity in terms of public or participatory (based on

church membership and the frequency of church attendance) and private or devotional religious behavior (based on the frequency of prayer, bible reading, and a cumulative score of devotional intensity).

Caird (1987) proposes that religiosity could be measured based on three dimensions: cognitive (focuses on religious attitudes or beliefs), behavioral (measures that seek to evaluate church attendance or private prayer) and experiential (query that relates to mystical experiences). Wilkes et al. (1986) contend that the use of a multi-item measurement of religiosity provides a better understanding of its true nature. In their study, the dimensionality of religiosity construct was assessed with four items: frequency of church attendance, confidence in religious values, importance of religious values and self-perceived religiousness.
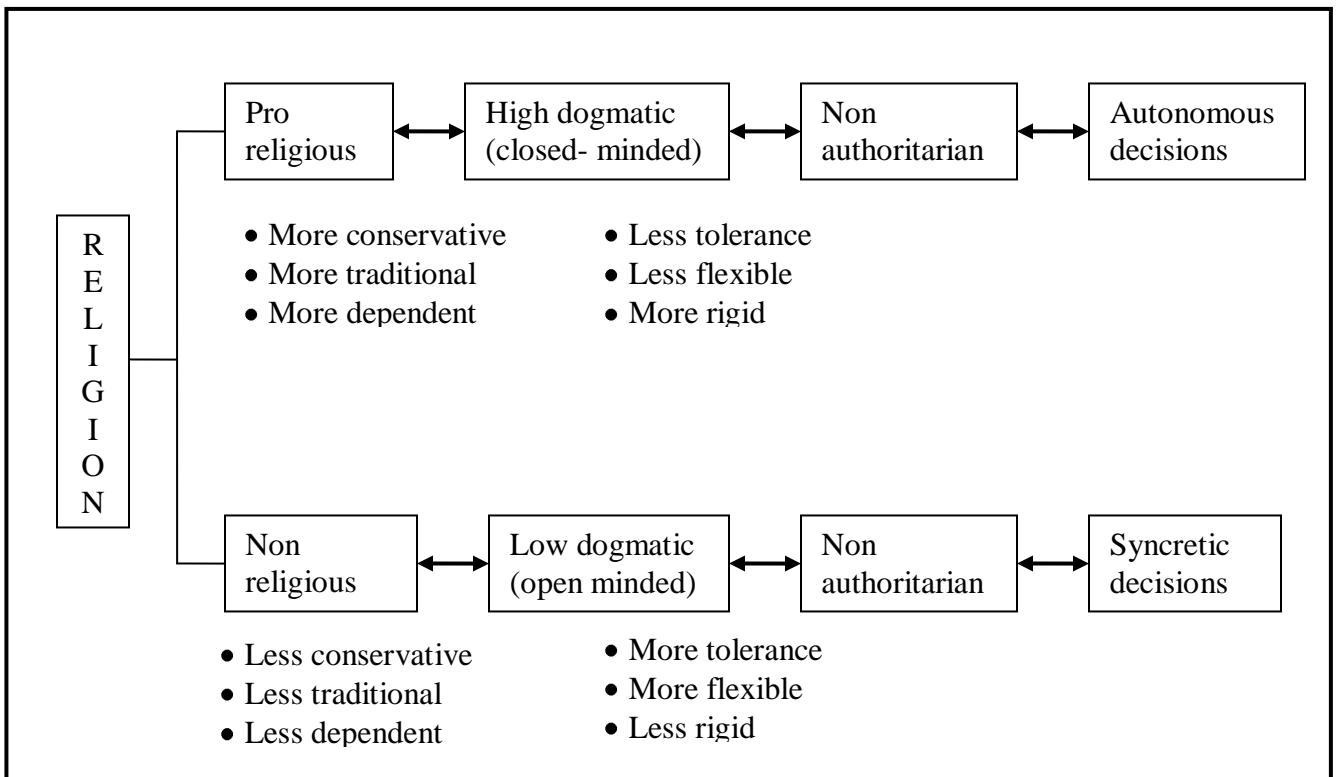
Renzetti and Curran (1998) suggest that one's religiosity can be measured from the five dimensions of religion, namely ritualistic, experiential, ideological, consequential and intellectual. As the term suggests, ritualistic religiosity looks at the religious rites observed by a person such as attendance in mosque, church or temple. Experiential religiosity measures how strongly a person feels attached to his or her religion. Ideological religiosity concerns with the degree of commitment to religious doctrine or teachings. The extent to which religion affects the way a person conducts his or her daily life is best described as consequential religiosity, and intellectual religiosity measures a person' knowledge of the history and teaching of his or her religion.

A study by Rokeach (1969) demonstrated that religious persons have value systems that differ from those of the less religious and the non-religious. Regardless of religious affiliation, codes of behaviour are dissimilarly respected between devout and casually religious individuals. Individuals who are highly religiously committed may feel obligated to behave in a manner that does not contradict with their religious creeds. This is in stark contrast to those who expressed a weak commitment to his/her religion. Because their credence in religious precept is less strong, they might feel unencumbered by the religious principles and thus free to behave in other ways. This difference levels in

the degree of religiosity was seen to determine cognitive and behavioural differences in individuals' consumer behaviour.

Most studies on religiosity focus on Christianity with an emphasis on rituals like church attendance or participation and private prayers, belief like religious attitudes and trust in the church (Caird, 1987). There is a clear difference in religious degrees when studying Muslims. Several works have attempted to measure the religiosity of a Muslim (Muhamad, 2006; Wilde and Joseph, 1997). From these studies, some general conclusions can be drawn: a consumer's religiosity is a distinct concept which can be measured from various perspectives. While there is some disagreement in the literature regarding the precise number of dimensions to employ in measuring it, most researchers agree that religiosity is multidimensional in nature.

Figure 2.1 Religiosity and Decision Makings (Source: Delener, 1994)

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+-------------------------------------------------------------------------------------+
|                                                                                     |
|          +-----------+     +-----------------+    +-------------+   +-------------+  |
|          | Pro       |<--->| High dogmatic   |<-->| Non         |<->| Autonomous  |  |
|          | religious |     | (closed- minded)|    | authoritarian|   | decisions   |  |
|   +---+  +-----------+     +-----------------+    +-------------+   +-------------+  |
|   | R |                                                                             |
|   | E |        • More conservative      • Less tolerance                           |
|   | L |        • More traditional       • Less flexible                            |
|   | I |        • More dependent         • More rigid                               |
|   | G |                                                                             |
|   | I |                                                                             |
|   | O |                                                                             |
|   | N |  +-----------+     +-----------------+    +-------------+   +-------------+  |
|   +---+  | Non       |<--->| Low dogmatic    |<-->| Non         |<->| Syncretic   |  |
|          | religious |     | (open minded)   |    | authoritarian|   | decisions   |  |
|          +-----------+     +-----------------+    +-------------+   +-------------+  |
|                                                                                     |
|             • Less conservative     • More tolerance                               |
|             • Less traditional      • More flexible                                |
|             • Less dependent        • Less rigid                                   |
|                                                                                     |
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2.3.2 Islam and Its Worldview

Islam is the second largest religion in the world and is one of the fastest growing religions in the world (Muhamad et al., 2006). In Islam, the basic belief is that God (Allah) is one and Muhammad is the last in a series of prophets sent by God and that there can be no other after him. The Quran is the final word of God in which is written all that has happened and all that will happen. It provides definite guidelines for people in all walks of life to follow and thus anything not mentioned in the Quran is quite likely to be rejected by the faithful. The guidance is comprehensive and includes the social, economic, political, moral and spiritual aspects of life. It states clearly the halal (lawful) and haram (forbidden). The Quran was supplemented by the Hadith and Sunnah, which contain the reported words and actions of the Prophet Muhammad. These works contain the primary sources of guidance for all Muslims on all aspects of life.

Islam is a complete was of life comprising three fundamental elements, which are *Tawheed* (articles of faith), *Shariah* (Islamic law) and *Akhlaq* (ethic) (Ismail, 1990). *Tawheed* or Aqidah is concerned with all forms of faith in Allah and his will that need to be translated into actions. *Shariah*, on the other hand is the Islamic law governing the actions of human beings. Based on the Quran and Hadith, the *Shariah* gives details of required duties and outlines all types of human interactions. The third element of Islam is *Akhlaq*. This aspect lays the behavioral, attitudinal and ethical patterns upon which Muslims should base their practical actions. *Akhlaq* is shaped and developed in the light of a Muslim's belief and conviction in all articles of faith. Thus, *Akhlaq* reflects a believer's lifestyle and behavioral pattern in terms of belief, thought and actions.

In Islam, one finds many verses of the Quran that stress the relationship between having faith (*Iman*) and honouring it through man's conduct ('Amal). Once a person has the awareness of God's unlimited power across time and that nothing can be concealed from Him, he becomes compelled to follow the path paved by Him. With the presence of fear and a sense of awe (*Taqwa*), man would accordingly perform the expected *Ibadah* and other worldly conduct as stated by the Islamic teachings, even when it comes to his

virtues and vices (*Akhlaq*) (Wan Ahmed et al. ,2008). Being a Muslim means submitting one's life by following His dictates and guidance, which not only encompass one's rituals (*Ibadah*) but also one's worldly conduct. Islam is a religion of submission, which requires a fully conscious and willing effort to submit namely, *Iman* (faith), *Shariah* (includes *Ibadah* and worldly conducts) and *Akhlaq*.

Muslims believe that since humans are accountable and responsible directly to Allah, they have to surrender themselves to the will of Allah (Rice, 1999). This realization also leads to a belief that one's success in the afterworld (i.e. after death) depends on one's performance in this life on earth (Rice, 1999). Guidance for performing a daily life according to Islamic norms and values (*Shariah*) is taken from the Quran and Hadith with the objective of bringing wisdom and welfare to the people (Siddiqui, 1997).

With the current wave of strong Islamic resurgence globally, the Muslims are reviving and reaffirming their Islamic practices in all those realms of life in accordance to *Shariah*, as a main source of guidance. *Shariah* gives guidance as to what is and what is not acceptable behaviour in all areas of a Muslim's life; this includes economic and financial life. These laws and rules are binding and must be observed at all time, in all places by all Muslims.

2.4 Religion and Consumer Behavior

A series of studies on religious affiliation and its effects on consumer behaviour was done by Hirschman in the early 1980's. Her studies mainly focused on the similarities and differences in consumption-related activities among consumers affiliated with Catholicism, Protestantism and Judaism religions. Her studies showed that: Jewish consumers tend to be more innovative and less brand and store loyal than non-Jewish consumers (Hirschman, 1983), Catholic consumers are more influenced by price, location, transportation, and mood in making entertainment related choices than are Protestant consumers (Hirschman, 1983) and Jewish, Catholic, and Protestant consumers

use different evaluation criteria in making entertainment, residential, transportation, and pet choices (Hirschman, 1983).

Bailey and Sood (1993) examined the effects of religious affiliation on consumer behavior of six religious groups in Washington DC: Buddhism, Hinduism, Islam, Judaism, Catholic and Protestant. The results identified statistically significant differences in the consumer behavior of different religious groups. They found that Muslim consumers were relatively more impetuous shoppers but less likely to be informed or risky shoppers. Hindus were found to be in rational shopper group while Catholics were less likely to be informed shoppers. Buddhists are the only minority religious members in the sample to report consumer behavior similar to the societal norms.

Evidence suggests that the influence of religious affiliation on consumer behaviour is not restricted to consumer decision-making of purchasing durable goods but also on their choice and evaluation of service providers. In an examination of hospitals, it was found that religious affiliation of a hospital is important in influencing hospital selection and contributes to overall patient satisfaction (Nix and Gibson 1989). A study by Haron et al. (1994) on bank patronage factors of Muslim and non-Muslim customers in Malaysia showed that about 39 per cent of the Muslim respondents believe that religion is the only reason that motivates people to patronise the Islamic bank.

Fam et al. (2004) conducted a large-scale study that analyzed the influence of religion and intensity of religious belief on attitudes towards the advertising of four controversial product groups. These include gender/sex-related products, social/political products, healthcare products and addictive products. Student samples from four main religious groups namely Buddhism, Islam, Christianity and non-religious believers (mainly Taoism and Confucianism) across six different countries were included in their study. The researchers found that the followers of these four religious denominations have different attitudes towards the four controversial product groups. The study showed that the followers of Islamic faith were more likely to find advertising of all four product groups

most offensive relative to the other three groups. The study also indicated that the religiously devout followers were more likely to find advertising of gender/sex-related products, health and care products and addictive products more offensive than the less devout followers.

It has been argued that religion is highly personal in nature and therefore its effects on consumer behavior depend on individuals' level of religious commitment or the importance placed on religion in their life. Wilkes et al., (1986) studied the role of religiosity in shaping the lifestyles of the consumers. Four items were used in this study to assess religiosity namely church attendance, importance of religious values, confidence of religious values and self-perceived religiousness. Findings show that consumers with greater religious commitment were less likely to use credit and more likely to prefer national brands of products. Results from their study also show that religiosity influences several aspects of consumer's lifestyle, which eventually may affect choices and/or choice behaviour.

Delener (1990) examines the effect of religion and religious orientation possessed by Catholic and Jewish families on one aspect of marketing namely, the perceived risk in durable goods purchase decisions. The result shows that Catholic consumers were more sensitive to any potential negative consequences of their purchase decisions. This sensitivity was more apparent among consumers with a high degree of religiosity. This attitude relates to the tendency of highly religious individuals to be less secure and low in self-confident as compared to less religious individuals. The findings further suggest that religion and religious orientation should be viewed as variables having great potential influences on consumption.

McDaniel and Burnett (1990) investigated various aspects of the relationship between consumer religiosity and retail store evaluative criteria held by consumers. In this study religiosity was viewed from two perspectives; religious commitment and religious affiliation. The results of this study show that one aspect of religiosity, religious commitment particularly measured by cognitive religiosity and one aspect of behavioral

religiosity which is church attendance is significant in predicting the importance individuals place on certain retail evaluative criteria. Consumers with a high degree of religious commitment viewed sales personnel friendliness, shopping efficiency, and product quality as being of greater importance in selecting a retail store than those having lower level of religious commitment.

LaBarbera and Stern (1990) explored the impact of religiosity on repeat purchase behaviour. Specifically, the study investigated whether highly religious Jews engage in a higher level of repeat purchase behaviour as compared to their less religious Jewish counterparts. Repeat purchase behaviour was measured by three distinct components: proportion of total purchases of a particular brand, individual's reaction to the absence of their favourite brand and the size of price incentive to induce brand switching. Using six non-durable products as the items of investigation, they found that Orthodox and non-Orthodox Jews were differed significantly in their repeat purchase behaviour.

The impact of religion on consumer behaviour can differ from one culture or country to another. Sood and Nasu (1995) conducted a cross-cultural comparison of the effects of religiosity on general purchasing behaviour for a sample of Japanese and American consumers. The findings of the study suggested that there is no difference in consumer shopping behaviour between devout and casually religious Japanese individuals. This could be attributed to the fact that religion is not an important element in the overall Japanese culture. On the other hand, the study found that there was a difference between devout and casually American Protestant consumer shopping behavior.

The empirical findings reviewed above provide some evidence of a causal link between religion and consumption, both in terms of religious affiliation and religiosity. Different religions have different impacts on some aspects of consumer behaviour. These differences are thought to result from divergent values and beliefs concerning consumption held by different religious ideologies. In addition, there is ample evidence to support that religiosity plays a significant role in influencing several aspects of consumer behaviour. If the followers strongly accept the doctrine of their religion, they tend to

abide by the rules and codes of conduct set by their religious doctrines, for example, attending regularly weekly worship services and being strictly committed to the religious practices and membership of the group. If, on the other hand, their belief in religious tenet is weak, they might feel free to behave in other ways. Hence, how strongly consumers committed with their religion should be considered in understanding the nature of consumer behaviour. In general, religion influences the consumption activities and consumers' behaviour through three different ways; it affects the structure of consumption; it creates and communicates meaning in products and services and it influences how individuals make their decision.

2.5 Service Quality

Gronroos (1984) categories service quality into two types, one being technical or output quality and the other functional or process quality. Technical quality refers to what the customer actually gets from the service and functional quality refers to the manner in which the service is delivered. Service quality refers to overall judgment of the excellence or superiority of a product or service to a customer (Parasuraman et al., 1988). This judgment is the result of the difference between customer's expectations of services provider's performance and their evaluation of the services they received (Parasuraman et al., 1988). On the other hand, Asubonteng et al. (1996) defined service quality as "the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received".

Service quality has become an important topic for marketing practitioners and researchers over the past number of decades. Much of the academic interest in service quality has been directed toward service quality measurement. The intangibility, heterogeneity, perishability on inseparability of service makes it difficult to measure service quality objectively. The work of Parasuraman et al. (1985, 1988) has lead to identification of various criteria to measure service quality, irrespective of the type of the service. Initially, they propose ten key dimensions which later reduce to five dimensions. These

dimensions, known as the SERQUAL, are the most popular and widely applied for measuring service quality in service literature.

Of these five dimensions,

- **Reliability** is the ability to perform the promised service dependably and accurately. It is mainly concerned with the outcome of service, and means that the firm honours its promises. Reliability involves consistency of performance and dependability.

- **Responsiveness** is the willingness to help customers and provide prompt services. It is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customer needs.

- **Assurance** is the knowledge and courtesy of employees and their ability to convey trust and confidence. It reflects employee attitudes and behaviour in providing a competent, confidential and courteous service and staff ability to provide friendly service.

- **Empathy** is the caring, individualized attention provided to the customer. The essence of empathy is conveying, through personalized or customised service, that customers are unique and special. This dimension refers to the level of caring and individualized attention the bank provides for its customers.

- **Tangibles** are the appearance of physical facilities, equipment, personnel and communications materials. It provides the physical image of the service that new customers will use to evaluate quality. Therefore, tangibles will include: physical facilities, tools or equipment used to provide the service, physical representations of the service, such as a bank statement and speed with efficiency of transactions.

Consisting of a 22-item, SERVQUAL is based on the idea that the difference between consumer's perceptions and expectations of the service drives the judgment of the customer regarding the overall quality of the service. Parasuraman et al. (1985) considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service. The instrument (SERVQUAL) measures service quality by calculating the gap between customer expectations and perceptions based on above five dimensions. Hence the service quality can be measured by subtracting the customer's perception from the customer's expectations.

The SERVQUAL model has provided a comprehensive conceptualization of service quality with an instrument to measure perceived service quality. This method has been very popular with academics and researchers to assess the customer perception of service quality for a variety of service industries. SERVQUAL has been applied to a wide variety of service industries including banking (Mukherjee and Nath, 2005), telecommunication (Van der Wal et al., 2002); health care (Kilbourne et al., 2004) and libraries (Cook and Thompson, 2001). The SERVQUAL instrument has been used successfully across many countries that include the US (Kilbourne et al., 2004; Lai, 2006), China (Zhou et al., 2002), Australia (Baldwin and Sohal, 2003), Hong Kong (Lam, 1997), Cyprus (Arasli et al., 2005) and Malaysia (Kumar et al., 2009).

Although the SERVQUAL model has greatly contributed to the literature on service quality it has been have been subjected to a number of theoretical and operational criticisms (e.g. Buttle, 1996; Newman 2001; Cronin and Taylor, 1992, 1994). Generally, critics have questioned the multidimensional nature of the instrument, measurement scales and the feasibility of SERVQUAL as a framework in measuring service quality. These criticisms have given rise to the introduction of new service quality measures.

Cronin and Taylor (1992) introduce another model called SERVPERF to measure service quality. SERVPERF is a one-scale measurement for measuring service quality performance. It eliminates the expectation part on the twenty-two items and measures

only performance on the original version of SERVQUAL. Cronin and Taylor (1992) criticize SERVQUAL's reliance on the two scales measuring perceptions and expectations, when one scale (perceptions) would be shorter, simpler, more effective and can be sufficient as an evaluation of the global quality judgment. Furthermore, Cronin and Taylor (1992) suggest that there is no real evidence to support the concept of a performance minus expectation gap as a basis for measuring service quality. Cronin and Taylor have tested SERVPERF in four industries; banking being one of them and the findings showed that SERVPERF explained more of the variance in an overall measure of service quality than did SERVQUAL. They argue that SERVPERF (performance only) gives a better measure of service quality. Cronin and Taylor concluded that the SERVQUAL measurement (1988) appeared to have a good fit in only two of the industries examined, whereas SERVPERF had an excellent fit in all four industries examined. However, despite the criticisms that have been made against SERVQUAL, it still remains an instrument that is used by academicians and practitioners in various industries across different countries (Buttle, 1996).

Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service. Service quality is one of the most attractive areas for researchers over the last decade in the retail banking sector. In the banking industry, the study on service quality has been undertaken for example by Yavas et al., 1997, Bahia and Nantel, 2000; Lassar et al., 2002; Jabnoun and Al-Tamimi, 2003 and Arasli et al., 2005. Most of these studies have measured service quality by replicating or adapting the SERVQUAL model.

Newman and Cowling (1996) in their study in the UK found that reliability comprises of a mixture of both hard and soft quality elements and find a degree of overlap between empathy and assurance. Lasser et al. (2002) in their study in the USA and South America propose that technical/functional quality-based model of service quality is better suited compared to SERVQUAL-based model.

Chi Cui et al. (2003) undertook a study using both model of SERVQUAL and SERVPERF in South Korea banking sectors. The findings show that measurement of service quality in the banking industry is dependent on the cultural context and there is evidence of overlapping between its identified dimensions. Their study has shown three dimensions, the third dimension includes some of the items measuring reliability and responsiveness in the original SERVQUAL. The overlapping between the dimensions is also reported in the study done by Jabnoun and Al-Tamimi (2003) in UAE commercial banks. When they tested the SERVQUAL instrument for reliability and validity, they found that the instrument had only three dimensions – human skills, tangibles and empathy. Beerli et al. (2004) adapted the SERVPERF scale to 20 items and used it for their study in Spain and mention that the dimensionality of the service quality scale varies from industry to industry.

Arasli et al. (2005) studied service quality perceptions of Greek Cypriot bank customers using SERVQUAL model. They however, extend the study by looking at the relationship between service quality, customer satisfaction and positive word of mouth. They found that the expectations of bank customers were not met where the largest gap was obtained in the responsiveness-empathy dimension. In addition, the reliability items had the highest effect on customer satisfaction, which in turn had a statistically significant impact on the positive word of mouth.

Mukherjee and Nath (2005) in their study in India suggest that 25 items (four more than SERVQUAL) were needed to suit the Indian banking context. Also, pattern of loading of each item did not exactly follow the five-dimensional structure of SERVQUAL and had to be reorganized among the five dimensions. Wang et al. (2003) in their study in China found that apart from 21 items over five dimensions in SERVQUAL, other dimensions like product convenience (three items), product availability (three items), overall product quality (three items) and bank reputation (two items) needed to be included. The findings also indicate that not all antecedents contribute equally to quality and their contributions might be subject to variation in different industries and different countries at different times. Angur et al. (1999) findings in India indicate that implications of culture,

marketing and service quality in the country-context need to be considered in the service quality instrument. This compilation of literature study reiterates the contention that the dimensionality of SERVQUAL varies with the cultural context even within the banking industry. Hence, a generic instrument for measurement of service quality or even one specifically developed for banking may not be applicable in its original form.

Changes in the order of importance of the SERVQUAL dimensions have been reported in the different studies. The original study of Parasuraman et al. (1988) in the USA found reliability as the most critical dimension followed by assurance, tangibles, and responsiveness and last was empathy. A study in Singapore (Kwan and Hee, 1994) rated responsiveness and reliability as most important and tangibles as the least important. Newman and Cowling (1996) in their study in the UK found reliability, assurance and responsiveness to be the three most critical and tangibles to be least valued by customers. Yavas et al. (1997) find tangibles, responsiveness and empathy to be significant predictors of consumer satisfaction in Turkey. Angur et al. (1999) from their study in India report the following order – reliability and responsiveness were the most important followed by empathy, tangibles and last came assurance. Lasser et al. (2002) found that empathy was found to be significantly and positively related to overall satisfaction in the USA and South America. According to Wang et al.'s study in 2003 in China, assurance and responsiveness were found to be the two most important drivers of overall service quality and tangibles and reliability to be most significant drivers of overall product quality. In Spain, Beerli et al. (2004) found reliability, responsiveness and assurance to be the most important followed by empathy and then tangibles. Yavas et al. (2004) in Germany found reliability and responsiveness to be positively related to satisfaction. Tangibles and empathy were found to influence consumer commitment and positive word-of-mouth. Tahir and Abu Bakar (2007) in Malaysia found responsiveness to be most important followed by reliability, tangibles, assurance and empathy. The significantly varying order of importance of the dimensions draws attention to the fact that the importance of the dimensions needs to be assessed for each and every study on service quality pursued in a country and for the specific industry at that time. Even within

the banking sector due consideration must be given to whether the banking system is conventional or Islamic.

Service quality is viewed as an important issue in the banking industry (Stafford 1994) and in recent years, there has been a proliferation in the number of studies seeking to develop a service quality instrument for Islamic banks. The majority have used SERVQUAL as a starting point, amending and/or adding items to reflect locations and organizations' differences (e.g. Othman and Owen, 2003, Jabnoun and Khalifa, 2005).

According to Othman and Owen (2001), SERVQUAL has proven to be the most popular instrument for measuring service quality because it affords technology techniques for measuring and managing service quality. However, since the Islamic banking industry operates under different principles and cultures as compared to other service industries, they argued that an additional dimension should be added to the SERVQUAL method. The authors recognized the existence of cultural differences between countries, regions, religions and ethnic groups when they 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. This dimension includes such items as run on Islamic law and principles, no interest neither paid nor taken on savings and loans, provision of Islamic products and services, provision of free interest loans and provision of profit-sharing investment products (Othman and Owen, 2001). CARTER includes 34 items across six dimensions, namely compliance, assurance, reliability, tangibles, empathy, and responsiveness. In their study conducted on Kuwait Finance House, they found a positive link between quality, satisfaction and service encounter. The finding proved the validity of this model for measuring quality of services in Islamic banks (Othman and Owen, 2001).

Osman et al. (2009) investigate service quality and customer satisfaction between the full-pledged Islamic banks and the conventional banks offering Islamic banking products and services in Malaysia based on CARTER model (Othman and Owen, 2002). The findings from the study show that the relative importance of each dimension is differ

from one bank to another depending on the type of institution (fully pledged Islamic bank or conventional bank offers Islamic window). Bank Islam Malaysia Berhad (BIMB) was ranked top under the compliant attribute. As for the reliability, tangibles and responsiveness, the respondents have ranked the services rendered by BIMB as dissatisfactory. In justification to this statement, the study asserts that it could be inferred that the BIMB has taken little effort to improve their services knowing that Muslim customers particularly the devout Muslims will still go to their bank because the compliance of financial services with *Shariah* rules and principles is a primary concern for them in using the services. Earlier study done by Shafie et al. (2004) using the CARTER model to examine the service quality in Bank Islam Malaysia Berhad (BIMB) also indicates that compliance dimension was the most significant dimensions for BIMB bank customers. Wakhid and Efrita (2007) exploited CARTER model in *Shariah* banks in Indonesia and concluded that in addition to six dimensions of CARTER model, two more dimensions should be considered, namely competence and customer intimacy that these two dimensions are dimensions of professional hospitality.

Sharif and Mirzaee (2011) conducted a study to compare between Muslims' and non-Muslims' satisfaction towards Islamic banks in Malaysia by using SERVQUAL and CARTER model. The research also investigates the importance of compliance term in CARTER model by comparison between two models. Findings of this research show that by employing the CARTER model, Muslims are more satisfied than non Muslims towards Islamic banks. It is asserted that Islamic banks operate under Islamic laws and principles and as this issue is deemed important for Muslims thus they will be more satisfied to opt for banking with Islamic banks. Another interesting finding from the study is that even when compliance term is excluded from Islamic banks, it means by employing SERVQUAL model, Muslims still are more satisfied with Islamic banks. It is concluded that the name of Islamic banks play an important role in the mind of Muslim customers and it will increase their satisfaction towards that bank.

2.6 Relationship between Religiosity and Service Quality

In contrast with the depiction of the quality of goods that are tangible in nature the quality in services is a difficult construct to clarify (Parasuraman et al., 1988; 1985). The varying characteristics of services, mainly intangibility, perishability, variability and inseparability are believed to have compounded this difficulty in measuring the service quality (Gronroos, 1984; Parasuraman et al., 1985). Hence, in the case of physical goods produced before the consumption process began (outcome consumption); service is actually the simultaneous production-consumption process which is shaped during the transaction (process consumption) (Gronroos, 1990). The judgment on the service quality is commonly measured from the consumer view (Steenkamp, 1998). It relies on the consumer's intensive participation and perceptions. Therefore, the criteria of "good" or "bad" in terms of service quality is relative to the interaction between the object and subject of the exchange transaction (Steenkamp, 1998), i.e. it falls within the consumer-led definition or depends on customers' subjective evaluations.

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, 1991). Mattila (1999) argued that culture has more influence on service-based companies than goods-based companies in terms of consumer judgment. According to Kotler (2003), religion is part of culture that can shape people's behaviour. Specifically, people who have religion hold certain values that are able to influence their actions and decisions. In fact, researchers believe that religion is a systematic culture that can create strong beliefs or values for them (Clifford Geertz, 1973). In relation to this and satisfaction of customers' needs in service industry, marketers further believe that religion often influence customer behavior and decision when purchasing a product or service (Kotler , 2003)

It has been argued that religion is highly personal in nature and therefore its effects on human behaviour depend on individuals' level of religious commitment or the importance placed on religion in their life. Highly religious individuals typically exhibit a

strong sense of commitment to their belief system and thus they are expected to behave according to the norms as described by their religion. As noted by Stark and Glock (1968), "the heart of religion is commitment". Because of their strong commitment to their faith, highly religious individuals are sometimes characterized as being closed-minded or dogmatic (Delener 1994). As such, it is expected that the more religious person would more likely to align their behavior in compliant with their religious belief and practices.

In relation to this and satisfaction of customers' needs in service industry, marketers further believe that religion often influence customer behavior and decision when purchasing a product or service (Kotler, 2003). Relating this to Islamic banking, this explains why Muslim people who are sensitive about interest-based transaction of conventional bank – being one of the most common issues among Muslim banking clients moved to open account in Islamic banks.

Evidence suggests that the influence of religious affiliation on consumer behaviour is not restricted to consumer decision-making of purchasing durable goods but also on their choice and evaluation of service providers. In an examination of hospitals, it was found that religious affiliation of a hospital is important in influencing hospital selection and contributes to overall patient satisfaction (Nix and Gibson 1989). This finding is later supported by Andaleeb (1993) who found that hospitals of a particular religious affiliation were more likely to be recalled, preferred and selected by people of the same religious affiliation. He also found that religious affiliation influences hospital's quality-of-care evaluation such as the competency of doctors, helpfulness of administration staff, friendliness of nursing staff as well as overall quality of services

Gayatri et al. (2005) found that a Muslim who holds Islamic cultural values influence his or her evaluation criteria for restaurant, hotel and airlines service quality and in turn, the use of these services. Religiosity has been shown to influence one's lifestyle, information search, purchase risk aversion, attitude towards advertising, purchasing behaviour of major durables and selected aspects of retail store patronage behaviour. Thus, there is

ample evidence to support the application of religiosity in explaining consumer behaviour.

Generally, Muslim customers perceive many similar key issues when evaluating services as in Brady and Cronin's (2001) work. However, the Muslim customer also has some additional standards that are different from other (non-Muslim) customers when perceiving the quality of services. These additional key attributes relate to the Muslim values system – both in terms of religious practices and broader value positions and have the potential to significantly influence Muslim customers' service quality needs and their post purchase behaviour (Gayatri et al., 2005)

With five pillars of Islam (Rukun Islam) that regulate the religious life of the believers, and practically oriented legal system, *Shariah*, all Muslims share a common religious and social way of life. This is an important aspect for consumer behaviour. Moreover, regulation of lawful (Halal) and unlawful actions/behaviour (Haram) in Islam has created a fixed direction of a Muslim's social life, including handling business transactions (Al-Qaradawi, 1985). According to Sadler (1970) religion affects the way in which people behave as such it is perceived that it may affect an individual's perception (Muhamad, 2006).

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. This is consistent with some earlier studies that asserted religion was the primary motivation in the use of Islamic banking products and services (Omer, 1992; Metwally, 1996; Metawa and Almossawi, 1998; Bley and Kuehn, 2004). To devout Muslim, the main concern underlying their decision in choosing financial services is whether they are *Shariah* compliant even though they have to pay higher prices. This will directly influence their perception on the service quality of the Islamic banks.

2.7 Conclusion

This chapter reviewed the extant literature related to the objectives of the research. The extant literature indicates that religion is seen as a subsystem of culture and the values based on religious orientation not only are a powerful force in forming one's attitudes and behaviour but also serve as important guiding principles in one's daily life. The empirical findings reviewed in this chapter also provide some intriguing evidence of the effect of religiosity on several aspects of consumer behaviour which provide support and justification to develop the hypothesis for this study. This chapter also discusses previous research findings on service quality models, dimensions, and their components in both the non-Islamic banking industry and the Islamic banking industry. It reviews the literature on service quality, SERVQUAL, its criticisms, studies in service quality and SERVQUAL modified studies such as CARTER.

In the next chapter, the research methodology employed for this study is presented and the data collection methods, sampling, research framework and hypothesis are developed.