

CHAPTER 1

INTRODUCTION

6.0 Introduction

Malaysia is leading as a global pioneer in Islamic Banking since 1980s and is aggressively developing its Islamic Banking system with an aim to become an international Islamic financial hub. The Islamic Banking assets currently worth about RM434.4 billion which is about 22.4% of the total assets of banking sector in 2011 (Bank Negara Annual Report, 2011). However, some argues that Islamic Banking in Malaysia do not receive a satisfactory support and participation from the public mainly due to poor awareness on Islamic Banking products and services, misconception against Islamic Banking system and lack in terms of brand recognition (Khan and Bhatti, 2008; Samat, 2009).

Furthermore, Islamic Banking and Finance Institute of Malaysia (IBFIM) have highlighted that lack in knowledge of Islamic Banking as well as the need for promotion, marketing and branding as the main two challenges or issues faced by Islamic Banking in Malaysia. Hence, it is timely to study the consumers' awareness and their perspectives on Islamic Banking as well to discover the brand equity of Islamic Banking that will provide a useful strategic indication and aid marketing plan.

This chapter presents the background of this study which consists of an overview of Islamic Banking – Islamic Banking in Malaysia, Islamic Banking principles, differences between Islamic Banking and conventional banking and Islamic Banking products; the

research questions and objectives; the motivation and contribution of this study; the scope of this study as well as the organization of this study.

6.1 Overview of Islamic Banking

This section provides an overview of Islamic Banking in order to provide a clear understanding on the important basic aspects related to this study.

1.1.1 Islamic Banking in Malaysia

According to Section 2 of Islamic Banking Act 1983, Islamic Banking is defined as banking business whose aims and operations do not involve any element which is not approach by religion of Islam and is based on *Shariah* law. Bank Islam Malaysia Berhad which was established in 1983 was the first Islamic Bank in Malaysia. Currently there are 16 Islamic banks in the country which include full-fledged Islamic banks and commercial banks offering Islamic windows. There are 10 local Islamic banks and 6 foreign banks offering Islamic Banking products and services. Maybank Islamic Bank Berhad is the largest with an asset size of RM59.6 billion followed by Bank Islam Berhad with RM31 billion. The following table shows the list of banks offering Islamic Banking services in Malaysia (Bank Negara, 2012):

Table 1.1: The list of banks offering Islamic Banking services in Malaysia

No.	Name	Ownership
1	Bank Islam Malaysia Berhad	Local
2	Bank Muamalat Malaysia Berhad	
3	CIMB Islamic Bank Berhad	
4	Hong Leong Islamic Bank Berhad	
5	Maybank Islamic Berhad	
6	Public Islamic Bank Berhad	
7	RHB Islamic Bank Berhad	
8	Affin Islamic Bank Berhad	
9	Alliance Islamic Bank Berhad	
10	AmIslamic Bank Berhad	
11	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
12	Asian Finance Bank Berhad	
13	HSBC Amanah Malaysia Berhad	
14	Kuwait Finance House (Malaysia) Berhad	
15	OCBC Al-Amin Bank Berhad	
16	Standard Chartered Saadiq Berhad	

(Source: Bank Negara, 2012)

1.1.2 Islamic Banking Principles

The following are the governing principles of Islamic Banking which is based on Shariah laws and governed by the Islamic Banking Act 1983 (Samad et al., 2005; Islamic Banking Act 1983; Bankinginfo, 2012):

a) The prohibition of interest (*riba*) based transactions

This is the main difference between Islamic and conventional banking. Islam prohibits all forms of *riba* (interest) as it is a form of exploitation and inconsistent with the notion of fairness. In the Islamic perspective, it is fairer to share profits and losses and is based on equity rather than debt.

b) The prohibition of uncertainty (*maisir*) and chance (*gharar*)

Gambling and games of chance are prohibited in Islamic Banking. *Maisir* is defined as uncertainties that are not part of everyday life which are unnecessary. In Islamic perspective, increasing one's wealth without effort should not be rewarded. On the other hand, *gharar* refers to decisions made without sufficient information or taking excessive risk.

c) The prohibition of illegal (*haram*) activities

Islamic banks only finance legal (*halal*) activities and do not finance to individuals or companies that involved in illegal (*haram*) activities as it gives negative impacts to society.

d) Payment of *zakat* from part of the banks' profit for socio economic justice

This is a form of giving which is one of the tenets of Islam which says that justice and equality in opportunity is crucial for society to function and redistribution of income is needed to provide a minimum standard of living for the poor.

1.1.3 Differences between Islamic and Conventional Banking System

Table 1.2 summarises the difference between Islamic Banking system and Conventional Banking system based on their function, deposit, loan/finance, interest, act/law and other aspects (Husain et al., 2007; Islamic Banking Act, 1983, Bankinginfo, 2012).

Table 1.2: Differences between Islamic and Conventional Banking System

Aspects	Islamic Banking	Conventional Banking
Function	Custodian of good Entrepreneur Financier	Lender Borrower
Deposit	Safe custody Investment	Interest based deposit
Loan/Finance	Debt financing Equity financing	Interest based loan
Interest	Interest free Profit is the main income	Interest as the main income
Act/Law	Islamic Banking Act 1983 <i>Shariah</i> Law	Bank and Financial Institution Act 1992, Civil Law
Others	Free from prohibited elements	-

The functions of Islamic Banks are as custodians of goods, entrepreneurs and financiers whilst Conventional Banks function as lenders and borrowers. In terms of deposit and loan/finance, Islamic Banks offer safe custody and investment services; and debt and equity financing on interest free and profit/loss sharing basis whilst Conventional Banks offer interest based deposit and interest based loan services. Islamic Banking system is governed by Islamic Banking Act 1983 in accordance to *Shariah* law and principles whilst Conventional Banking system is governed by Bank and Financial Institution Act, 1992 in accordance to Civil law.

1.1.4 Islamic Banking Products/Services

This section briefly describes the main products offered by Islamic Banking to provide a basic understanding (Bankinginfo, 2012; Samad et al, 2005; Razak, 2009):-

a) Al Wadiah

It refers to safekeeping or saving with guarantee. It is a contract between the owner and custodian (bank) of the goods (assets, money, valuables, documents, etc) to protect and to ensure safe custody of the goods. It is generally applied in saving and current account.

b) Al Mudharabah

It refers to profit sharing. It is a contract between the owner (depositor) of the capital and the entrepreneur (bank) for the purpose of participating in the profits made from utilisation of the fund. The profit made will be shared according to the agreed profit distribution ratio between the owner and entrepreneur. However, in the event of loss, the customer will bear all the losses. It is generally applied in project financing, Mudharabah Investment account and saving account.

c) Al Musyarakah

It refers to joint venture. It is a general partnership between two or more parties into a contract to jointly exploit their capital and to share the profits and losses of the partnership.

It is generally applied in project financing.

d) Al Bai' Bhitaman Ajil

It refers to deferred payment sale. It is the sale of goods on a deferred payment basis at a price inclusive of profit margin agreed by both parties. It is generally applied in home financing and land financing.

e) Al Ijarah

It refers to lease or rent. It is a contract to lease the benefit (use or service) of an asset for an agreed rental. It is generally applied in vehicle leasing and equipment leasing.

f) Bai Al Salam

It refers to deferred delivery sale. It is a forward contract whereby advance payment is made for the goods to be delivered in the future. It is generally applied in agriculture and project financing.

g) Bai Al Murabahah

It refers to cost plus mark-up sale. It is a contract whereby the bank finance the purchase of an asset on behalf of a customer and the customer will need to settle the payment for the asset on installment basis. It is the most widely used product and generally applied in working capital requirement and goods financing.

h) Bai Al Inah

It is a contract whereby financier sells an asset to the customer on a deferred payment and then financier immediately repurchases the asset for cash at discount. It is generally applied in cash line facility and personal financing.

6.2 Research Questions

Islamic Banking has established in Malaysia for about 29 years. Currently, Malaysia is in aggressive mission to promote Islamic Banking in the international market (Bank Negara, 2011). However, little efforts have been taken to strengthen the adaptation of Islamic Banking among Malaysians.

Prior studies reveal that there is a lack of awareness about Islamic Banking system and its products among Malaysians and a lack of marketing studies on Islamic Banking services. Furthermore, demographic variables such as age, gender, race/religion, education level, occupation and income level have been found to influence consumer behaviour in the marketing of banking and financial services (Chen and Volpe, 1998 and 2002; Dellande and Saporoschenko, 2004; Perry, 2008; Phau and Woo, 2008). In addition, prior studies indicate that service brand equity leads to service satisfaction (Schuler, 2002; Pappu and Quester, 2006; Ghazizadeh et al., 2010). Hence, the following research questions are to be addressed in this study:

1. Does awareness on Islamic Banking products is affected by demographic variables?
2. Does perspectives on Islamic Banking is affected by demographic variables?
3. Does service brand equity (brand awareness and brand meaning) is affected by demographic variables?
4. How well do the service brand equity dimensions predict service satisfaction and which dimensions are the best predictor of service satisfaction?

6.3 Research Objectives

The followings are the objectives of this study:

1. To explore the awareness towards Islamic Banking products across the demographic variables
2. To explore the perspectives towards Islamic Banking across the demographic variables
3. To explore the service brand equity (brand awareness and brand meaning) across the demographic variables
4. To investigate the relationship between service brand equity and service satisfaction

6.4 Motivation of the Study

Islamic Banking has established in Malaysia since 1983. Since then numerous studies have been undertaken to examine service quality and customer satisfaction on Islamic Banking and comparative study between Islamic Banking and conventional banking. However, very few studies have been undertaken to examine the awareness and perspectives on Islamic Banking.

Ahmad and Haron (2002) indicate that Islamic Banking has not done enough in educating customers and marketing of their product. Khattak and Rehman (2010) also indicate that Islamic Banking system need to improve their marketing strategy. It also mentioned that Islamic Banking do not receive a satisfactory support and participation from the public mainly due to poor awareness on Islamic Banking products and services, misconception

against Islamic Banking system and lack in terms of brand recognition (Khan and Bhatti, 2008; Samad, 2010; Roslan, 2009).

Furthermore, past literature revealed a lack of marketing studies in the context of Islamic Banking and the service brand equity has not been studied in the context of Islamic Banking.

6.5 Contributions of the Study

The findings of this study will provide a holistic and comprehensive marketing insight to improve and strengthen Islamic Banking. From the evaluation on awareness of products and perspectives on Islamic Banking system, it will give an insight on the shortages or weaknesses that need to be improved. On the hand other hand, the findings on the service brand equity will provide a vital strategic indication and aid marketing decision making. The findings will help marketing managers to understand and focus on the dimensions that drive their brand equity.

Besides that, this study also contributes to research study gap of inadequacy of exploration study on the Islamic Banking and its marketing assessment across demographic variables for better decision making and provides a foundation for future research.

1.6 Organisation of the Study

The followings are the organisation structure of this study which consists of five chapters:

Chapter 1 introduces the background of this study with an overview on Islamic Banking which briefly discusses about Islamic Banking in Malaysia, Islamic Banking principles, differences between Islamic Banking and Conventional Banking and Islamic Banking products/services. This chapter also includes the research questions and research objectives as well as the motivation and contribution of the study.

Chapter 2 presents the synthesis of previous literatures on awareness on Islamic Banking products, perspectives on Islamic Banking, service brand equity, the relationship between service brand equity and service satisfaction as well as consumer behaviours based on demographic variables to form the theoretical basis of this study.

Chapter 3 explains the research methodology adopted to undertake this study. It provides the research model and research framework together with hypothesis generated from the literature review. This chapter mainly discusses on the research design, measurements of research variables, sampling design, data collection procedures as well as elaborates in detail the data analysis procedures.

Chapter 4 discusses in depth the results from the data analysis. This chapter begins with details on pre-analysis data analysis, followed by results from factor analysis and reliability test. Then the analysis and results for each research objectives are presented and discussed.

Chapter 5 provides the conclusion and recommendation based on the findings of this study. The theoretical and managerial implications of the study as well as the limitation and future research suggestions are presented.

1.7 Scope of the study

Due to time and financial restrictions, the scope of this study is limited to students in the Main Campus, University of Malaya who are users of banks.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This section reviews the previous literatures to form the theoretical basis of this study on awareness and perspectives of Islamic Banking as well as on service brand equity and its relationship with service satisfaction. Relevant parts of the previous literatures are described in the four sections below. In the first section, the awareness towards Islamic Banking products is described; in the second section, perspectives towards Islamic Banking is reviewed; in the third section, perceptions on service brand equity (brand awareness and brand meaning) are described; and in the fourth section, the literatures on relationship between service brand equity and service satisfaction are reviewed.

2.1 Awareness towards Islamic Banking Products

Awareness is defined as knowledge and understanding of a subject, issue or situation as well as the ability to notice thing (Macmillan Dictionary). This section reviews previous studies on consumers' awareness about Islamic Banking products. Generally, there are limited studies on awareness on Islamic Banking products done in Malaysia and other parts of the world.

A study by Gerard and Cunningham (1997) which is conducted in Singapore explores the knowledge on specific Islamic financial terms which refer to Islamic Banking products such as Ijara, Mudaraba, Musharaka and Murabaha among Muslims and non-Muslims. The results indicate that there is a complete lack of knowledge on Murabaha and only 1

Muslim respondent indicates to possess knowledge for each of the other products which prove that the overall knowledge on Islamic Banking products is poor. Meanwhile, a study by Naser et al. (1999) in Jordan reveals that most of the respondents are aware of products such as Murabaha, Mudharaba and Musharaka but only a small percentage of the respondents are aware of Ijara and Ijara Waktina. This study also shows that although the respondents are aware of the products but they are not users of those products. Hence, this study proves that it is possible for consumers to have the knowledge about Islamic Banking products although they do not deal with them. However, in a study by Khattak and Rehman (2010) on awareness of Islamic Banking products and services in Pakistan, the findings reveal that respondents generally aware of Islamic Banking products but they are users of those products or services. This study evaluates the awareness on Islamic Banking products such as Mudarabah, Musharakah, Ijara, Murabaha and other common products such as current account, overdraft and letter to credit.

A study by Bley and Kuehn (2004) explores knowledge of Islamic finance concepts and products among business students in United Arab Emirates (UAE). Although this study do not specify the products' names but it reveals that the labelling of Islamic Banking products using Arabic language terminologies actually hinder understanding for non-Arabic language population who mainly consist of Muslims. Hence, this study implies that Muslims do not necessarily possess knowledge on Islamic Banking products. In another study done among Muslims in Australia by Rammal and Zurbruegg (2007), about 56% of the respondents indicate that they are aware of halal banking products. Similar to Bley and Kuehn (2004) study, this study do not specify the Islamic Banking products' names and therefore the results might not be an accurate reflection of true knowledge level.

In the context of Malaysia, a study by Hamid and Nordin (2001) also reveals that commercial bank consumers in Malaysia have poor knowledge on specific Islamic products. This study also highlights that the Arabic labelling of the products cause misunderstanding to both Muslims and non-Muslims.

A study on perception of Malaysian corporate customers of Islamic Banking by Ahmad and Haron (2002) highlights that about 65% of them have limited knowledge on Islamic Banking products or services. On the other hand, Marimuthu et al. (2010) in their study using respondents from Klang Valley highlights that in terms of knowledge on Islamic Banking products and facilities, only 6.2% of the respondents indicates that they have knowledge, 40.4% of the respondents indicates do not know and 53.3% indicates they have little knowledge.

In another study by Thambiah et al. (2011) on awareness on Islamic Banking terms among Muslims and non-Muslims bank consumers in urban and rural areas reveals that urban respondents have higher awareness compared to rural respondents. This study highlights that respondents are aware of Islamic Banking terms and products such as Riba, Shariah and Al-Wadiah. However, products such Mudarabah, Musyarakah, Bai' Bithman Ajil, Murabahah and Ba Inah records lower awareness.

Overall, the previous studies indicate that the public generally possess low awareness towards Islamic Banking products/services.

2.1.1 Demographic Variables and Awareness on Islamic Banking Products

Demographic variables such as age, gender, race/religion, education level, occupation and income level have been found to influence consumer behaviour in the marketing of banking and financial services (Chen and Volpe, 1998 and 2002; Dellande and Saporoschenko, 2004; Perry, 2008; Phau and Woo, 2008). This section shows in detail the findings on awareness of Islamic Banking products across demographic variables such as gender, age, religion/ethnic, education, income and occupation. Those findings are generally exacted from the earlier mentioned prior studies in Section 2.1 and few addition studies on consumer behaviour.

a) Gender

Study by Bley and Kuehn (2004) shows that male students are more knowledgeable than female students in terms of knowledge on Islamic Banking concepts and products. Haque (2010) indicates that male exhibit greater positive attitude relative to female. In addition, Worthington (2006) also indicates that male have more financial knowledge and interest compared to female. Chen and Volpe (1998) and Nga et al. (2010) also supports that male have more financial knowledge compared to female. However, in a study by Khattak and Rehman (2010) reveals that there is no significant difference between awareness on Islamic Banking products and gender.

b) Age

Khattak and Rehman (2010) indicate that there is a significant difference between awareness on Islamic Banking products and different age groups. However, Nga et al. (2010) indicate that age does not significantly influence financial product awareness.

c) Religion or Ethnic

Gerard and Cunningham (1997) indicate that Muslims and non-Muslims are equally unaware of specific Islamic financial terms such as Ijara, Mudaraba, Musharaka and Murabaha. A study Hamid et al. (2011) also shows that there is no significant difference between race and religion of the respondents in their awareness on Islamic home financing products provided by Islamic Banks in Malaysia. However, a study by Bley and Kuehn (2004) show that Muslims relatively have more knowledge on Islamic Banking concepts and products compared to non-Muslims. Khattak and Rehman (2010) also indicate that there is significant difference between awareness on Islamic Banking products and different religion groups.

d) Education

Khattak and Rehman (2010) indicate that there is a significant difference between awareness on Islamic Banking products and different education level groups. Nga et al. (2010) also indicates that education level have significant influence on financial awareness. In addition, Chen and Volpe (1998) also support that education levels have significant impact on financial literacy.

e) Occupation

Khattak and Rehman (2010) indicate that there is a significant difference between awareness on Islamic Banking products and different occupation groups. Perry (2008) also indicate that one's socioeconomic background have an impact on financial knowledge. Chen and Volpe (1998) also support that working experience have significant impact on financial literacy.

f) Income

Khattak and Rehman (2010) indicate that there is a significant difference between awareness on Islamic Banking products and different income groups. Phau and Woo (2008) also indicate that income levels have influence on consumer behaviour in financial services.

In summary, prior studies reveal that awareness towards Islamic Banking products especially Mudarah, Musharakah, Ijara, Bai' Bithman Ajil, Murabahah and Ba Inah are poor. Generally, there are differences in the level of awareness on the Islamic Banking products across demographic variables such as gender, age, income, education and occupation although some studies suggest no differences in some demographic variables. Based on the prior studies findings, this present study proposes the following hypothesis:-

H1: Awareness on Islamic Banking products is affected by demographic variables.

- a) There is a significant difference between different gender groups*
- b) There is a significant difference between different age groups*
- c) There is a significant difference between different religion groups*
- d) There is a significant difference between different education groups*
- e) There is a significant difference between different occupation groups*
- f) There is a significant difference between different income groups*

2.2 Perspective towards Islamic Banking across demographic variables

Perspective is defined as a way of thinking about something and a sensible way of judging how good, bad and important something is in comparison with other things (Macmillian Dictionary). Previous studies on consumers' perspective towards Islamic Banking are reviewed and this section highlights those studies.

a. Willingness/Preference for Islamic Banking

Study by Omer (1992) highlights that people with higher religious commitment and lower education level are more inclined toward Islamic Banking over conventional banking.

Boyd et al. (1994) reveals that gender and occupation have impacts on consumers' preference for financial services. Male perceives fast service and convenience as their main banking preference while female emphasis on long term aspects for financial security. In terms of occupation, white collars emphasis on reputation while blue collars emphasis on availability of core banking services and cost benefit.

Mamunur and Kabir (2009) on their study on how customer demographics affect Islamic bank selection criteria in Bangladesh reveal that females are inclined toward availability core banking services, while male and age group of less than 30 focuses on corporal efficiency. On the other, age group between 31 to 40 years perceived compliance to Islamic principles as the main factor and age group above 40 years incline toward confidence of the bank.

A study by Gerard and Cunningham (1997) indicates profit as a main reason for people to establish relationship with Islamic Banking. This study also highlights that there is no difference in bank selection between Muslims and non-Muslim. In addition, Haron et al. (1994) discovers that only 12% of the Muslims and 32% of the non-Muslims indicates religion is the only reason for them to be a consumer of Islamic Banking. However, Haque (2010) reveals that there is a significant relationship between race and perception toward Islamic Banking.

Metawa and Almoassawi (1997) in their study conclude religious factor as well as the rate of return is perceived as the important factor by the consumers in their selection of Islamic Banking system in Bahrain. On the other hand, Naser et al. (1999) reveals that consumers in Jordan perceive bank reputation as the most important factor in dealing with Islamic Banking, followed by mainly religious reasons and Shariah principles. A study by Bley and Kuehn (2004) also highlight that religion sincerity has significant impacts on preference and perceptions towards Islamic Banking.

A study by Marimuthu et al. (2010) on opinion about Islamic Banking reveals 40% of the respondents indicate both religion and economics are the reason for choosing Islamic Banking. This study also highlights that perception that Islamic Banking is only for Muslims is one of the reasons for not accepting Islamic Banking. On the other hand, Loo (2010) indicate that Muslims mainly regard religion as the most attractive factor while non-Muslims regard product and services as the most attractive factor. This study also highlights that 72% of non-Muslims agreed that Islamic Banking will not conflict with

their religious belief and only 25% of the non-Muslims are willing to do business with Islamic Banking.

b. Understanding of Islamic Banking system

Haron et al. (1994) highlights that only 63.3% of the Muslims and 19.2% of the non-Muslims understand the difference between Islamic Banking and conventional banking. Abdul Hamid and Nordin (2001) also indicate that commercial bank consumers indicate that they do not understand the difference between conventional and Islamic banking.

In another study by Amin (2008) highlights the important choice criteria for Islamic home financing in Malaysia are shariah principles, lower monthly instalment, transparency practice, interest free practice, 100% financing as well as peer group influence. On the other hand, Loo (2010) in his study on attitudes and perceptions towards Islamic Banking, indicates that Muslims have higher understanding compared to non-Muslims.

c. Knowledge on Islamic Banking

Study by Haron et al (1994) highlights that majority of the respondents indicates that they will establish relationship with Islamic Banking if they have complete knowledge and understanding about the system. In another study by Ahmad and Haron (2002) highlights that 60% of the Malaysian corporate customers have limited knowledge of Islamic Banking. A study by Bley and Kuehn (2004) shows business students relatively have more knowledge on conventional banking system compared to Islamic Banking system.

Marimuthu et al. (2010) highlights that lack of understanding or information as the main reason for not accepting Islamic Banking followed by perception that Islamic Banking is only for Muslim.

d. Influence/Reference to use Islamic Banking

A study by Haron et al. (1994) indicates that 100% of Muslims and 75% of non-Muslims are aware about the existence of Islamic Banking whereby the main sources of knowledge for the Muslims are newspapers, magazine, television, radio and family. On the other hand, the main sources of knowledge for non-Muslims are newspapers and magazines.

Amin (2008) highlights the important choice criteria for Islamic home financing in Malaysia includes peer group influence. This study reveals that cost benefit, service delivery, convenience and influence by friends are the main criteria for acceptance of Islamic Banking which shows that race and religion do not have significant impact in choosing Islamic Banking. On the other hand, Loo (2010) reveals both Muslim and non-Muslims indicate that there will be little change in attitude towards Islamic Banking despite promotional campaigns.

e. Prospect for Islamic Banking

A study by Ahmed and Haron (2002) highlights that although the Malaysian corporate customers have limited knowledge of Islamic Banking but they think Islamic Banking has a good prospect. Marimuthu et al. (2010) reveals that about 80% of the respondents feel

Islamic Banking has potential and only 6% feels Islamic Banking has no potential. On the other hand, Loo (2010) indicates that Muslims view a stronger prospect than non-Muslims where only 20% view Islamic Banking has a good prospect and mainly consist of Gen-X.

In summary, the prior study on the perspectives on Islamic Banking mainly are studies on perception and attitudes which focuses on the comparison between conventional and Islamic Banking, bank selection criteria, perceived knowledge or understanding on Islamic Banking systems, reasons for dealing or not dealing with Islamic banking, willingness to use Islamic Banking and on prospect for Islamic Banking. Generally, all these studies used demographic variables such as religion/race, age, gender, occupation, education level and income. On top of that, there many consumer behaviour literatures that supports that demographic factors have great impact on behaviours and knowledge as discussed in section 2.1.1. Based on the prior studies findings, this present study proposes the following hypothesis:-

H2: Perspective towards Islamic Banking is affected by demographic variables.

- a) Perspectives are significantly different between different gender groups*
- b) Perspectives are significantly different between different age groups*
- c) Perspectives are significantly different between different religion groups*
- d) Perspectives are significantly different between different education groups*
- e) Perspectives are significantly different between different occupation groups*
- f) Perspectives are significantly different between different income groups*

2.3 Service Brand Equity

Brand equity is defined by Aaker (1991) as a set of assets such as name awareness, loyal customers, perceived quality and associations that are linked to the brand and add value to the product or service being offered. On the other hand, Keller (1993) defines brand equity as the effect of the brand on the consumers response to the marketing activities associated with a particular product or service. Another common term used is customer-based brand equity (CBBE) which represents the added value of the brand to the consumers and is defined as the overall functional and symbolic utilities that the consumer associates with the use and consumption of the brand (Farquhar, 1989; Kamukara and Russell, 1993).

According to Keller (2001), strong brand equity can create strong customer loyalty and increases marketing effectiveness as well as to gain competitive advantage and is regarded as the most valuable asset. It also works as a tool for differentiation and ease consumers' selection process by creating distinctiveness. Hence, it is important to fully understand the sources of service brand equity as it provides a useful strategic function and guide marketing decisions.

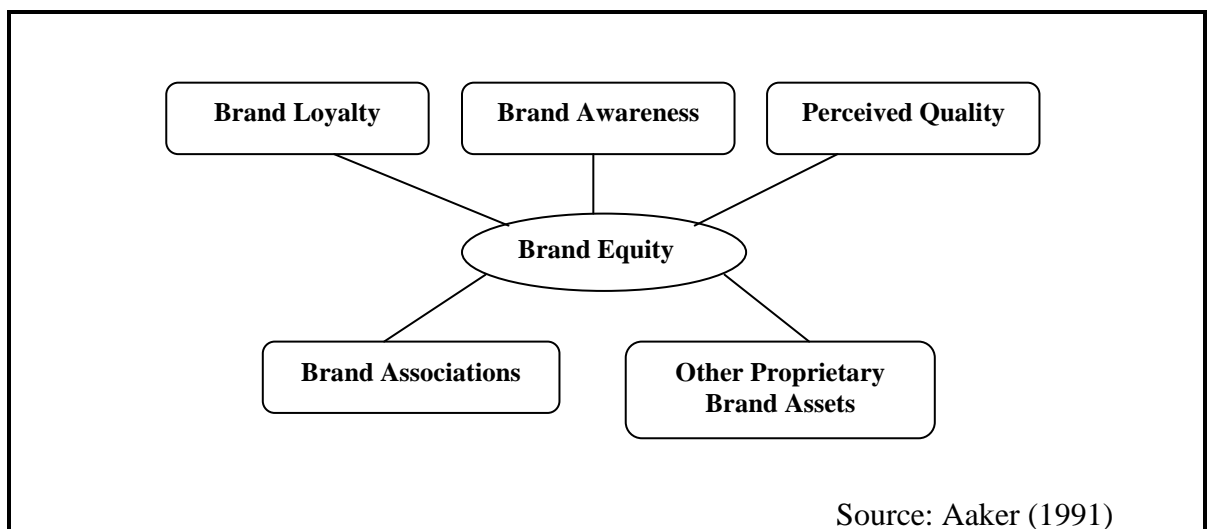
There are only small numbers of studies that have explored service brand equity in banking services (O'Cass and Grace, 2004; Marinova et al., 2008; Ghazizadeh et al., 2010). Hence, literatures from other services such as hotel, retail services and education are also reviewed to form a strong basis for this study (Kevin and King, 2009; Kayaman and Arasli, 2007; Kim and Kim, 2005; Kim et al., 2003, 2008 and Jones et al., 2002).

2.3.1 Service Brand Equity Models

This section synthesises the service brand equity models which are commonly used for the purpose of understanding the elements of customer based brand equity (Aaker, 1991; Keller, 1998 and Berry, 2000). This section also explains the service brand equity concept introduced by O’Cass (2002 and 2004) which is relevant in the context of this study as it has used to survey users of banks.

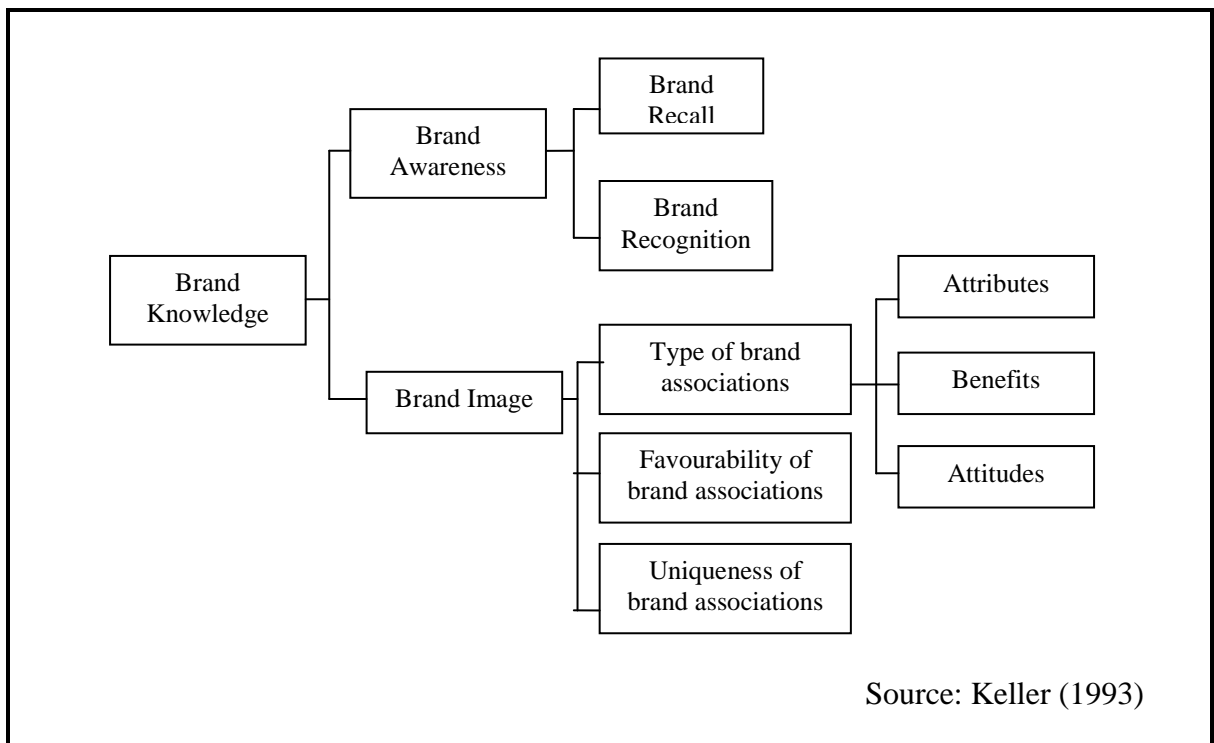
Aaker’s brand equity model (1991) as shown in Figure 1, is the first brand equity model used to measure brand equity. It consists of five components – brand loyalty, brand awareness, brand associations, perceived quality and other proprietary assets. Prior studies such as Kayaman and Arasli (2007), Kim and Kim (2005) and Kim et al., (2003, 2008) have used this model to measure brand equity in hotel services. Although, this model can be used to both products and services, Kevin and King (2009) have criticised that this model has overlooked the experiential aspects of service brands such as servicescape, service employees and core services.

Figure 2.1: Aaker’s Brand Equity Model



On the other hand, Keller's model (1998) as shown in Figure 2.2 consist of two components – brand knowledge and brand image. Brand knowledge refers to brand awareness which is the ability to recall and brand recognition through marketing stimuli, meanwhile brand image refers to brand associations held by consumers. This model is applicable to both products and services (Torres and Bijmolt, 2009; Kuhn et al., 2009 and Chi, 2007). However Kevin and King (2009) have criticised this model to be bias and is more manufacture based as opposed to services.

Figure 2.2: Keller's Brand Knowledge Model



Berry's service branding model (2000) is the first brand equity model specifically focuses to service organisation. This model as shown in Figure 2.3 comprises six key components namely, brand equity, brand awareness, brand meaning, company's presented brand, external brand communications and customer experience with company. According to this model, brand meaning is the main source of brand equity and brand awareness (advertising, promotion, word of mouth, communication and publicity) is the secondary source of brand equity. According Kevin and King (2009), this is the appropriate model for services. O'Cass and Grace (2004) have included inputs from this model in their study to explore service brand and then developed Service Brand Verdict Model as shown in Figure 2.4 in 2005. According O'Cass and Grace (2005), variance in brand attitude can be explained by brand hearsay (i.e. brand awareness), brand evidence (i.e. brand meaning) and satisfaction which then explain variance in the brand verdict.

Figure 2.3: Berry's Service Branding Model

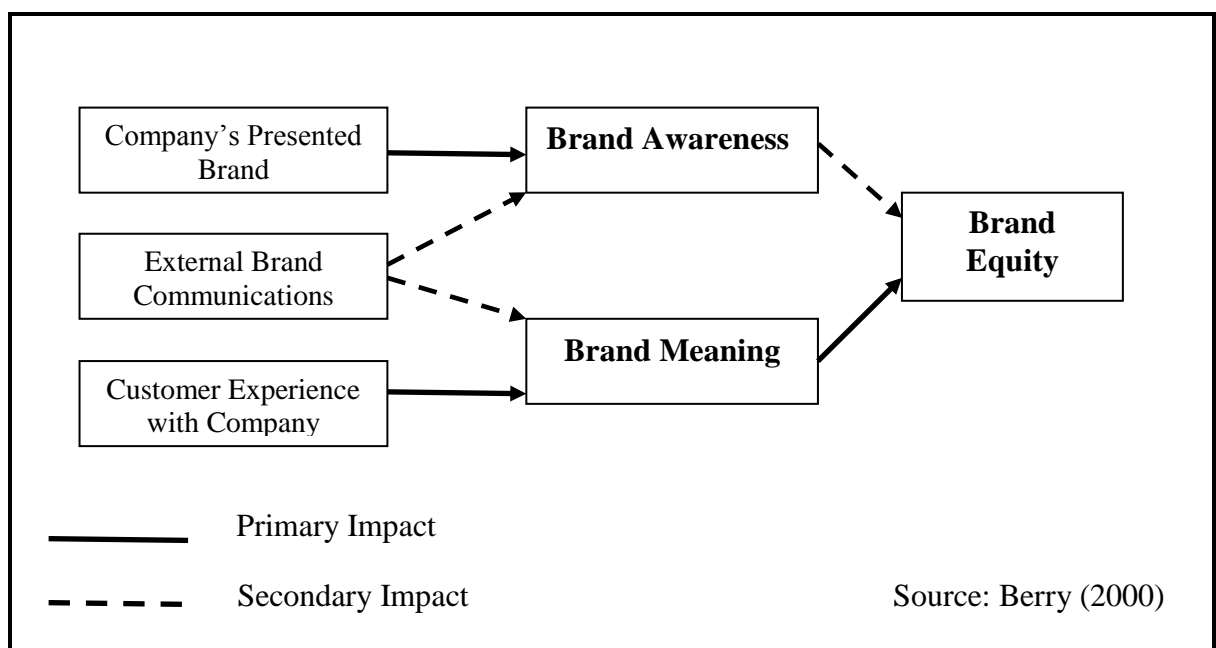
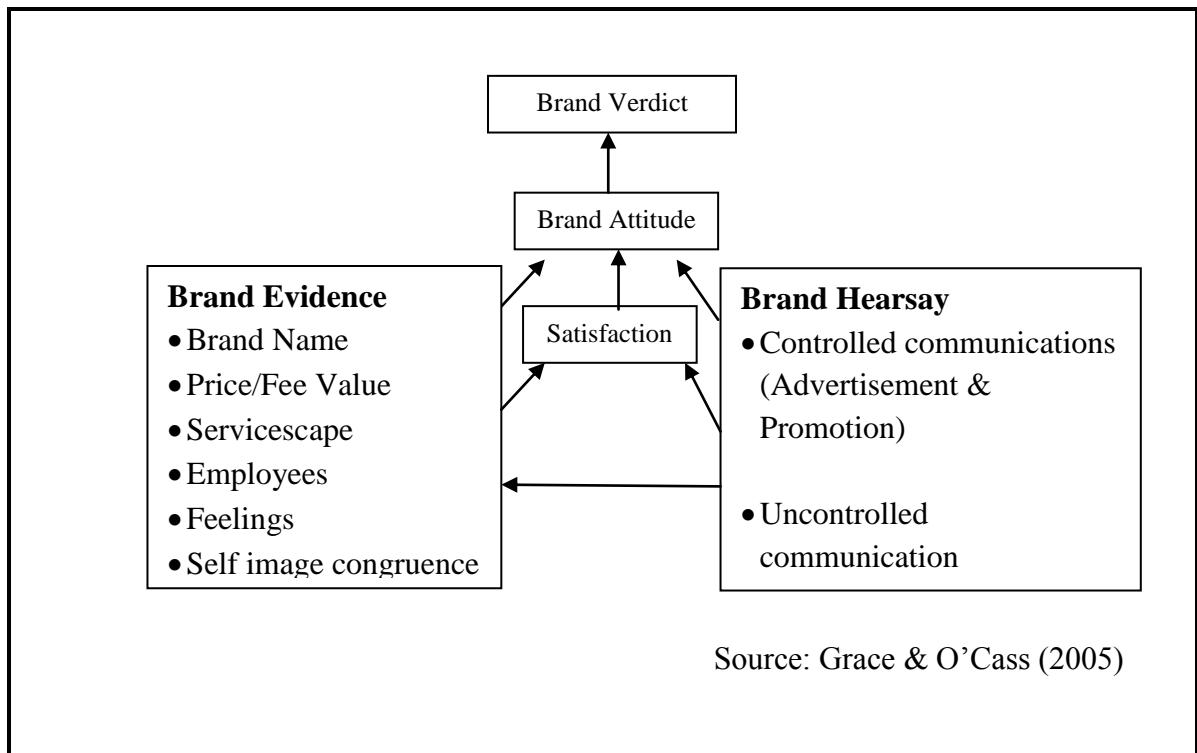


Figure 2.4: Grace and O’Cass’s Service Brand Verdict Model



2.3.2 Brand Awareness and Brand Meaning

This study uses the Berry’s brand equity model to measure the overall value of Islamic Banking concurrent with O’Cass (2002 and 2004). The two components of brand equity - brand awareness and brand meaning are discussed below:-

Brand awareness is defined as the extent and ease to which customers recall and recognise the brand and can identify the products and services with which it is associated (Keller, 1993). According to Ross (2006), brand awareness is experience induced antecedents that strengthen brand’s presence in the mind of the consumers. This implies that brand awareness is needed to strengthen brand meaning. A high level of brand awareness leads

to a higher level of perceived quality and customer based brand equity (McDonald and Sharp, 2000). Basically, the components of brand awareness are as follows (Berry, 2000):

a) Advertisement

According to Arens (1996), advertisement is defined as a communication, marketing, economic, social, information and persuasion process. On the other hand, Etzel et al. (1997) defines advertisement as all the activities involved in presenting audience a non-personal, sponsor-identified and paid for message about products or the organisation. An advertisement primary goal is to attain prospective customers and influence their awareness, attitudes and purchasing behaviour (Ayanwale et al., 2005). The intangibility of the service requires organisation to promote their brand and advertisements are always common tool used to influence brand equity (Balmer and Wilkinson, 1991). Furthermore, it is very important for marketers to assess the influence of their advertisement in consumer brand preference for its effectiveness and cost benefit.

b) Brand name

American Marketing Association defines brand name as name used to distinguish a product from its competitors which can be applied to a single product, entire product line and an organisation. According to Arora et al. (1996), a good service brand name cannot be easily defeated by competition and contribute success to the organisation. Hence, a strong brand name is a source for competitive advantage and it is important for service organisations to build a strong brand name.

c) Country of origin

Country of origin refers to the country where corporate headquarter of the service brand is located (Keller, 1998). According to Cateora and Graham (1999), country of origin is the effect of any influence that the country has on a consumer's positive or negative perception of a product/service. Hence, it is important for marketers to be sensitive and alert on consumers' perception on country of origin of a service.

d) Word of mouth

According to Anderson (1998), word of mouth is the extent to which customers inform their friends, relatives and colleagues about the service brand. It is essential due to the characteristics of service which is intangible and inseparable. Furthermore according to Knight (2012), 90 percent of consumers trust recommendations that come from their friends. Therefore, a good word of mouth is an important tool to assist brand engagement and promotion.

e) Public relation

American Marketing Association defines public relation as a form of communication management that seeks to utilise publicity and other nonpaid forms of promotion and information to influence the feelings, opinions and beliefs about the organisation and its products/services to buyers, prospects and stakeholders.

According to Bristow et al. (2002), public relations assist to create reputation which can be utilised to differentiate services. Due to services characteristics such as intangibility and inseparability, public relation activities are important to deliver information about a service to the consumers.

Brand meaning is defined as the perception and beliefs held by consumer (Kotler and Keller, 2009) and as the external form and observable characteristics of the market offering (Sherrym 2005). Brand image, brand evidence and brand associations are other terms used to refer brand meaning (Keller, 1998; O’Cass and Grace, 2005; Aaker, 1991). According to Berry (2000), brand meaning is the main source of brand equity and is primarily determined by consumer experience with the organisation. The components of brand meaning are as follows (Berry, 2000; O’Cass and Grace, 2004):

a) Service Operation

As banking services are highly interactive and process driven, service operation is regarded as important aspect that leads to customer satisfaction and loyalty (O’Cass and Grace, 2004). Service operations of a bank must be relevant, pleasing, favourable and meet the expectations of the consumers in order to create high customer satisfaction and to retain/attract customers.

b) Employees

The service provided by the employees and the relationship between customers and employees plays an important role in evaluation of service performance (DeChernatony et al., 2001). According to Davis (2012), employees are the brand ambassadors of an organisation to promote a business and its products/services as well as custodians of a brand and are responsible for delivering the brand promise. Hence, it is important for a service organisation such as banks to have competent, customer-driven, efficient and friendly employees.

c) Environment

According to Bitner (1992), service environment influence behaviour and communicates the service image and purpose to its customers as well as it affects the employees of the service organisation. Therefore, emphasis should be given on the service environment as to motivate employees and to satisfy customers. According to Arora et al. (1996), service settings such as layout, accessibility, cleanliness and display give impacts to customer satisfaction and therefore should be prioritised by the service organisation to provide superior service and to gain competitive advantage.

d) Features

According to DeChernatony et al. (1999), number of branches, technology and accessibility are considered important aspects in the service organisations like banks and retails. Hence, service organisations must provide up-to-date technology that will increase efficiency in service delivery as well provide ample of car parking for the customers. As for bank services, it is important to provide ample of automated teller machines (ATM) at strategic locations to further enhance service delivery.

e) Perceived Fees Value

According to Padgett and Allen (1997), price is important for consumers to make decision as well as plays a role a quality indicator. As services organisation charges fee or additional for the service delivery, it is important for the fees to be reasonable and market driven as well as to provide additional values.

f) Self Brand Image

According to Padgett and Allen (1997), a good image is an intangible asset for service organizations like banks. Self brand image is made up of attributes, functional consequences and symbolic meanings customers associate with a service.

g) Brand Aroused Feelings

Boles et al. (2001) indicates that feelings plays an important role in consumers' decision making and affect purchase intention. Hence, it is important for service organisations to create the right atmosphere to capture and retain customers.

h) Brand Personality

Aaker (1997) identifies five dimensions of brand personality which consists of sincerity, competence, sophistication, excitement and ruggedness which are human characteristics associated with the brand that will heighten emotional ties with the brand which is very important for service organisation such as banks.

In previous studies on service brand equity, some dimensions described above for brand awareness and brand meaning are omitted as the reliability is lower than .70. Ghazizadeh et al. (2010) have omitted perceived fee value (brand meaning) and country of origin (brand awareness) in their study on bank's brand equity. Prior studies also indicate that brand meaning dimensions gives stronger effect on brand equity compared to brand awareness (O'Cass and Grace, 2004; Ghazizadeh et al., 2010) which is concurrent with Berry's model. O'Cass and Grace (2004) and Ghazizadeh et al., 2010 also indicate that

employees, features, environment, service operation and word of mouth are the important dimensions for bank brand equity dimension.

According to Lindemann (2003), segmentation of consumers assists in the brand valuation. Therefore, this study attempts to assess service brand equity across demographic variables. Prior studies in service brand equity mainly focus on relationship between brand awareness and brand equity; brand meaning and brand equity as well as customers' perception on the service brand equity dimensions (Kevin and King, 2009; Kayaman and Arasli, 2007; Kim and Kim, 2005; Kim et al., 2003, 2008 and Jones et al., 2002). Hence, based on consumer behaviour studies on financial/banking services and inputs from section 2.1.1, this study proposes the following hypothesis:-

H3: Service brand equity (i.e. brand awareness and brand meaning) towards Islamic Banking is affected by demographic variables.

- a) Service brand equity is significantly different between different gender groups*
- b) Service brand equity is significantly different between different age groups*
- c) Service brand equity is significantly different between different religion groups*
- d) Service brand equity is significantly different between different education groups*
- e) Service brand equity is significantly different between different occupation groups*
- f) Service brand equity is significantly different between different income groups*

2.4 Relationship between Service Brand Equity and Service Satisfaction

Service satisfaction is defined as an overall evaluation on the consumption and experience (Anderson et al., 1994) and meeting consumers' needs and expectations (Zeithaml and Bitner, 2000). Service satisfaction is important as it helps customers' retention and promotes line extensions (East, 1997). According to Caruana (2002), banks should concentrate on service satisfaction to gain competitive advantage in the market. Schuler (2002) indicates that a strong brand equity leads to high service satisfaction. There are limited prior studies on relationship between service brand equity and service satisfaction. Ghazizadeh et al. (2010) discovers that service brand equity explains 63% variance in customer satisfaction with bank service operation, employees, bank aroused feelings and word of mouth are the important factors in explaining the relationship. A study by Pappu and Quester (2006) indicates that there is a positive relationship between service satisfaction and retail brand equity. On the other hand, literatures on service satisfaction on banks reveal that friend's recommendations (Word of Mouth), reputation of bank (Brand Name), friendly and courteous employees (Employees), fast and efficient service (Bank Operation) as the main predictor for service satisfaction (Kaynak et al.,1999; Levesque and McDougall, 1996; Erol and El-Bdour, 1989).

Hence, this study investigates the relationship between service brand equity and service satisfaction in the context of Islamic Banking to discover the predictive value and the important dimensions. Based on the prior studies, the following hypothesis is proposed:

H4: There is a significant positive relationship between service brand equity and service satisfaction.