



An Empirical Study Of Customer Perceptions Of Service Quality Dimensions: A Comparison Between Islamic And Conventional Banks In UAE

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ABSTRACT

Purpose – In the dynamic landscape of modern banking, ensuring exceptional service quality stands as a cornerstone of success, influencing customer loyalty, satisfaction, and overall organizational performance. This empirical study delves into comparing the dimensions of service quality of Islamic and conventional banking institutions in the United Arab Emirates (UAE).

Methodology– A descriptive research design has been applied to the present study. The sample was selected using a stratified random sampling technique from banking customers of the UAE. Sample customers were surveyed through a self-administered questionnaire. 200 questionnaires were forwarded equally to each stratum (conventional banks and Islamic banks) via social media, out of which 162 questionnaires were considered fit for final analysis. Finally, the data were analyzed using an Independent Samples t-test.

Findings – The study has analyzed and compared the service quality perception of Islamic and conventional bank customers. The service quality perception analyses of both banks revealed that conventional bank customers possess better service quality perception compared to Islamic bank customers. Islamic banks need to provide better service quality as desired by customers. Banks should continue gaining customers' trust and satisfaction. This can be achieved by showing concern for the security of transactions, delivering quality services, showing respect for customers through frontline staff, fulfilling commitments and performing to develop customers' confidence toward the banks and its services. Islamic banks need to upgrade their physical facilities, such as employing modern equipment, convenient seating and waiting arrangements for customers, and better infrastructure to attract a larger segment of banking customers. Islamic banks can offer innovative products based on the market segmentation analysis to meet specific needs of customers e.g., education, health care, retirement benefits, etc.

Research limitations–Firstly, it is confined to banks located in the UAE only. Secondly, the number of selected banks can also be increased to get better results. Thirdly, principles of Islamic banking were ignored in the present study which can be included further to know the working of these banks.

Keywords – Service quality, Islamic banking, Conventional banking, UAE

Paper type- Research paper

1. Introduction

In an era of heightened competition, where consumers exhibit an elevated preference for superior service providers (Parasuraman et al., 1985), the significance of service quality as a strategic differentiator cannot be overstated. It denotes the variance between customers' service expectations and their actual service encounters (Oliver, 1980), encapsulating the overarching impression of an organization's service excellence (Bitner et al., 1990). The realm of banking, much like other service industries, witnesses its growth contingent on the calibre of service provision to customers (Shetty et al., 2022). The ascendancy of service

quality has exerted substantial pressure on the banking sector, compelling not only the adoption of novel technologies but also an elevation in service quality standards and customer contentment (**Kumar et al., 2009**).

Within this milieu, banks are earnestly endeavouring to decode the dimensions of perceived service quality by their clientele. These dimensions wield significant influence in shaping a favourable perception of banking services in customers' minds (**Izah and Zulqurnain, 2005; Jabnoun and Khalifa, 2005**), consequently enhancing customer satisfaction and contributing to amplified profitability (**Nomran et al., 2018; Ali and Naeem, 2019**).

Thus, in the dynamic landscape of modern banking, ensuring exceptional service quality stands as a cornerstone of success, influencing customer loyalty, satisfaction, and overall organizational performance. This empirical study delves into a realm of significant importance, examining the dimensions of service quality within the distinctive contexts of Islamic and conventional banking institutions in the United Arab Emirates (UAE). It is a matter of fact that Islamic and conventional banks are extremely different in products and in basic principles as the former is based on a Shariah law (Islamic principles), leading to many operational differences compared to conventional banking (**Al-Tamimi et al., 2016**).

By rigorously comparing and contrasting the service quality experiences offered by these two distinct banking paradigms, this research aims to shed light on the complex interplay between religious and conventional practices in shaping customer perceptions and preferences. Further, the study aims to provide valuable insights for banking practitioners, policymakers, and researchers alike, fostering a deeper understanding of the intricate relationship between service quality, religious values, and customer preferences in the UAE's banking sector.

2. Literature Review

The comparison of service quality of Conventional banking and Islamic banking has been observed in several researchers' work. Some of them relevant to our study have been discussed below-

Kashif et al. (2015) used PAKSERV to investigate the service quality of Islamic banks in Malaysia. In their study, personalization and sincerity significantly influence customers' satisfaction with Islamic banking services. However, reliability is found to be not significant in affecting customers' satisfaction with Islamic banking in Malaysia. **Jabnoun and Khalifa (2005)** conducted a study focusing on service quality factors in UAE banks. They found that, for customers of Islamic banks, personal skills and values played a vital role in determining service quality, whereas image and values were more significant factors for customers of conventional banks. **Estiri et al. (2011)** examined customer satisfaction with Islamic banks in Iran. The findings showed that customer satisfaction was positively influenced by service quality, with empathy having the highest impact, followed by other components like responsiveness, assurance, and intangibles. **Janahi and Almubarak (2017)** utilized the CARTER model to investigate the relationship between service quality dimensions and customer satisfaction in Islamic banking in Bahrain. The study revealed positive relationships between the selected factors and customer satisfaction with Islamic banks. **Haron et al. (1994)** found that the most important factors in bank selection were fast and efficient services, speed of transactions, friendliness of bank personnel, and confidentiality of the bank. They also reported that 40 per cent of the respondents said that religion was a prime reason for using Islamic banking services. Although there was a high level of awareness of Islamic products among customers, they did not understand the differences between Islamic and conventional banking services.

Saleh et al. (2017) examined service quality dimensions and found varying effects on client satisfaction mediated through the perceived image of banking services. Islamic bank customers' perceptions of the level of reliability, responsiveness, security and reputation were significantly higher than those of conventional banks. **Ali (2018)** revealed that Islamic bank customers had a better service quality perception and were more satisfied towards the provided services compared to conventional bank customers. Islamic bank customers perceived tangibles and assurance as the most significant components of exceptional service quality whereas conventional bank customers perceived assurance and innovation as the most significant components of service quality. The findings on the factors influencing banking selection criteria revealed that 'religious obligation' was the most important criterion for Islamic banks' customers, while 'courteous and competent personnel' was identified as the most important criterion for conventional banks' customers. **Abdul (2017)** concluded that customers of Islamic banks have a greater perception towards service quality than customers of conventional banks. The results showed that there is a significant difference in the perception of male and female customers of Islamic banks while there is no difference in the service quality perception among customers of conventional banks on the basis of gender.

Tahir et al. (2001) indicated that overall, the service quality of Islamic banks fell below customers' expectations. There were ten attributes in Quadrant I and IV with high service gaps that need corrective actions whereas ten attributes in Quadrant II and III can be accorded a lower priority as the service gaps were low. Therefore, considering these findings, the present study aims to compare customer perceptions of service quality dimensions of conventional banks and Islamic banks with special reference to the UAE.

3. Research Objective

To compare customer perceptions of various service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) between Conventional banking and Islamic banking.

4. Hypotheses

H₁: There is no significant difference between the Tangibility score of conventional banks and Islamic banks.

H₂: There is no significant difference between the Reliability score of conventional banks and Islamic banks.

H₃: There is no significant difference between the Responsiveness score of conventional banks and Islamic banks.

H₄: There is no significant difference between the Assurance score of conventional banks and Islamic banks.

H₅: There is no significant difference between the Empathy score of conventional banks and Islamic banks.

5. Research Method

A descriptive research design has been applied to the present study. The sample was selected using a stratified random sampling technique from banking customers of the UAE. Sample customers were surveyed through a self-administered questionnaire. 200 questionnaires were forwarded equally to each stratum (conventional banks and Islamic banks) via social media, out of which 162 questionnaires were considered fit for final analysis. Finally, the data were analyzed using an Independent Samples t-test.

6. Data Analysis

H₁: There is no significant difference between the Tangibility score of conventional banks and Islamic banks.

Table 1 Comparison of Mean Tangibility Scores of Conventional Banks and Islamic Banks

Variables	Type of Bank	N	Mean	Std. Dev	T Test	P Value	Result
Tangibility Score	Conventional Bank	76	22.17	2.312	8.275	0.000	Sig
	Islamic Bank	86	18.10	3.691			

Table 1 shows the comparison of mean tangibility scores between Conventional and Islamic Banks. The difference between the mean scores of Customer perceptions about the tangibility was found to be statistically significant ($P < 0.05$). The mean score of respondents belonging to Conventional Banks (22.17) was significantly higher than that of Islamic Banks (18.10). It implies that customers of conventional banks better rated their banks on the tangibility dimension in comparison to customers of Islamic banks. Thus, the null hypothesis gets rejected and it is accepted that there is a significant difference between the tangibility score of conventional banks and Islamic banks.

H₂: There is no significant difference between the Reliability score of conventional banks and Islamic banks.

Table 2 Comparison of Mean Reliability Scores of Conventional Banks and Islamic Banks

Variables	Type of Bank	N	Mean	Std. Dev	T Test	P Value	Result
Reliability Score	Conventional Bank	76	19.03	3.655	2.714	0.007	Sig
	Islamic Bank	86	17.56	3.231			

Table 2 shows the comparison of mean reliability scores between Conventional and Islamic Banks. The difference between the mean scores of Customer perceptions about reliability was found to be statistically significant ($P < 0.05$). The mean score of respondents belonging to Conventional Banks (19.03) was significantly higher than that of Islamic Banks (17.56). It implies that customers of conventional banks better rated their banks on the reliability dimension in comparison to customers of Islamic banks. Thus, the null hypothesis gets rejected and it is accepted that there is a significant difference between the reliability score of conventional banks and Islamic banks.

H₃: There is no significant difference between the Responsiveness score of conventional banks and Islamic banks.

Table 3 Comparison of Mean Responsiveness Scores of Conventional Banks and Islamic Banks

Variables	Type of Bank	N	Mean	Std. Dev	T Test	P Value	Result
Responsiveness Score	Conventional Bank	76	26.25	3.713	7.470	0.000	Sig
	Islamic Bank	86	21.45	4.375			

Table 3 shows the comparison of mean responsiveness scores between Conventional and Islamic Banks. The difference between the mean scores of Customer perceptions about responsiveness was found to be statistically

significant ($P < 0.05$). The mean score of respondents belonging to Conventional Banks (26.25) was significantly higher than that of Islamic Banks (21.45). It implies that customers of conventional banks better rated their banks on the responsiveness dimension in comparison to customers of Islamic banks. Thus, the null hypothesis gets rejected and it is accepted that there is a significant difference between the responsiveness score of conventional banks and Islamic banks.

H₄: There is no significant difference between the Assurance score of conventional banks and Islamic banks.

Table 4 Comparison of Mean Assurance Scores of Conventional Banks and Islamic Banks

Variables	Type of Bank	N	Mean	Std. Dev	T Test	P Value	Result
Assurance Score	Conventional Bank	76	17.83	2.357	7.951	0.000	Sig
	Islamic Bank	86	14.42	3.012			

Table 4 shows the comparison of mean assurance scores between Conventional and Islamic Banks. The difference between the mean scores of Customer perceptions about assurance was found to be statistically significant ($P < 0.05$). The mean score of respondents belonging to Conventional Banks (17.83) was significantly higher than that of Islamic Banks (14.42). It implies that customers of conventional banks better rated their banks on the assurance dimension in comparison to customers of Islamic banks. Thus, the null hypothesis gets rejected and it is accepted that there is a significant difference between the assurance score of conventional banks and Islamic banks.

H₅: There is no significant difference between the Empathy score of conventional banks and Islamic banks.

Table 5 Comparison of Mean Empathy Scores of Conventional Banks and Islamic Banks

Variables	Type of Bank	N	Mean	Std. Dev	T Test	P Value	Result
Empathy Score	Conventional Bank	76	26.57	3.656	7.986	0.000	Sig
	Islamic Bank	86	21.55	4.267			

Table 5 shows the comparison of mean empathy scores between Conventional and Islamic Banks. The difference between the mean scores of Customer perceptions about empathy was found to be statistically significant ($P < 0.05$). The mean score of respondents belonging to Conventional Banks (26.57) was significantly higher than that of Islamic Banks (21.55). It implies that customers of conventional banks better rated their banks on the empathy dimension in comparison to customers of Islamic banks. Thus, the null hypothesis gets rejected and it is accepted that there is a significant difference between the empathy score of conventional banks and Islamic banks.

7. Results & Discussions

Service quality of both types of banks was measured using five variables viz., Tangibility, Reliability, Responsiveness, Assurance, and Empathy. For all the chosen variables, a statistically significant difference was found in mean scores given by banking customers' groups. Respondents belonging to conventional banks gave more positive opinions as compared to those of Islamic banks. The research outcome is in line with Riaz et al. (2014) who revealed that conventional banks provide better products and services than Islamic banks. Saad (2012) also suggested Islamic banks that to retain their customers they need to improve the quality of services and the physical space for the customer. In contrast, several researchers (Khan et al., 2007; Ahmad et al., 2010; Shariff, 2012; Ali, 2018) determined that Islamic banks customers' service quality perception is better than that of conventional banks because Islamic banks endeavour to consistently deliver better quality services to customers resulting in the building of higher levels of reputation for Islamic banks. Lone and Rehman (2017) also found that fully-fledged Islamic bank customers have positive service quality perception and satisfaction compared to banks with Islamic banking windows. Their study found that Islamic bank customers possess higher service quality expectations towards tangibles, empathy and responsiveness.

8. Conclusion

The study has analyzed and compared the service quality perception of Islamic and conventional bank customers. The service quality perception analyses of both banks suggest that conventional bank customers possess better service quality perception compared to Islamic bank customers. Islamic banks need to provide better service quality as desired by customers. Banks should continue gaining customers' trust and satisfaction. This can be achieved by showing concern for the security of transactions, delivering quality services, showing respect for customers through frontline staff, fulfilling commitments and performing to develop customers' confidence toward the banks and its services. Islamic banks need to upgrade their physical facilities, such as employing modern equipment, convenient seating and waiting arrangements for customers, and better infrastructure to attract a larger segment of banking customers. Islamic banks can offer innovative products based on the market segmentation analysis to meet specific needs of customers e.g., education, health care, retirement benefits, etc.

The present study is not devoid of certain limitations. Firstly, it is confined to banks located in UAE only which can be expanded to other Gulf countries. Secondly, the number of selected banks can also be increased to get better results. Thirdly, principles of Islamic banking were ignored in the present study which can be included further to know the working of these banks.

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