

# Comparative Study on Customer Satisfaction of Islamic and Conventional Banking in Sri Lanka

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## Introduction

There are two banking systems that exist in Sri Lanka namely Islamic banking and conventional banking. Islamic and conventional banks formed a sustainable competition among banks to meet customers' expectations for long term welfare and benefits. The Islamic banks and conventional banks are distinguished on the basis of objectives, Riba and risk sharing practices. Islamic banks are doing their business based on the principles of Sharia'h law. Islamic banks generates revenue as profit that is flexible while conventional bank earns from the interest that is fixed; risk is shared among lender, borrower and bank in Islamic banks while conventional bank transfers the whole risk to others; Islamic banks is trade oriented unit while conventional bank works as a pure financial intermediary to covenant on the basis of interest. Islamic banks have great opportunities in several regions with a higher population of Muslims. Islamic banks are facing many challenges meantime increasing number of conventional and Islamic banks created a healthy competition for the delivery of quality products and service to retain satisfied customers for sustainable benefits but in the recent past, Islamic banks are booming with new products, services and braches to attract their existing customers and new customers. This is the outstanding growing of an industry still in the infancy stage of branding carries a significant message to the world that Islamic banking has indeed established a valuable alternative to that of conventional banks further understanding of the economic, social, and cultural background which underlies this growth necessitates further study and research.

The banking industry experienced a development due to broadening and modernization and innovation of products and services. Both Islamic banks and conventional banks are introducing new products and services by attractive combination of traditional facilities and modern technology to attract number of customers that leads to healthy state in their business.

## Research Scope

There are many studies are available regarding different aspects of conventional banking system meantime very limited literature regarding Islamic banking system stimulated the researchers to conduct a comparative study in Sri Lanka. Further this study surveys how quality of services affects the customers' decisions towards satisfaction of the conventional banking system as well as Islamic banking system in Sri Lanka. This research is giving an effort to fill the gap was identified in the literature. This study attempts to investigate the factors which determine a customer's choice of a particular bank as a provider of their needed financial services. Further this study aims to analysis the both Islamic banking and conventional banking in Sri Lanka and giving a cleat cut idea about service quality and customer satisfaction in recent past. This study may help the consultants, bank managers, and academician and policy makers to find out the good design of satisfaction for bank customers in Sri Lanka.

## Literature Review

Islamic banks are determined to capture the maximum number of customers to compete with conventional banks by providing a greater number of products as an alternative for interest based products. Islamic banks showed outstanding progress because it has captured a reasonable market share with excellent growth rate. The increasing number and size of Islamic banks is also a positive sign of development and success. In Sri Lanka, banks are providing a wide range of products and services and facing intensive competition to attract potential customers. Persuraman et al. (1985, 1991b) devised SERVQUAL model and investigated the service quality. They have identifies ten dimensions of service quality and developed into five dimensions. It was accepted that an increase in service quality and professional behavior resulted a greater customer satisfaction and reduced customer erosion (Leeds, 1992). The relationship between service quality and customer satisfaction is becoming crucial with the increased level of awareness among bank customers (Sureshchander et al. 2002).Mishkin (2001) reported that banking and financial services are the integral part

of services industry and its contribution is increasing with the passage of time. However, expansion of global and integrated banking sector has to face many challenges of legislation, technological and structural changes (Angur et al. 1999). The relationship between service quality and customer satisfaction is investigated by a number of researchers across the globe. It is concluded that there is strong association between dimensions of service quality and overall customer satisfaction. It is found that the banking industry has a link between service quality and customer satisfaction (Avkiran, 1994). Islamic banking practices resulted into a notable increase in the supply of loans. It is found that government intervention played an important role to manage funds besides other economic factors in the economy (Makiyan, 2003).

Levesque and McDougall (1996) explored the effect of key factors of service quality on customer satisfaction in financial institutions. They found a significant impact of service problems on customer satisfaction and their intentions to switch. It is suggested that service quality is an essential determinant of customer satisfaction (Yavas et al., 1997). Islamic banks are playing major role in their performance in reference to service quality and customers' responses. Bahia and Nantel (2000) developed an alternative scale for measurement of service quality in retail banking. They developed BSQ and compared with SERVQUAL. They found that BSQ dimensions are more reliable than SERVQUAL dimensions. Another study was conducted to measure customer awareness and satisfaction by using a sample of 206 respondents towards Islamic banking in Jordan. It is observed that customers have awareness about products of Islamic banks but expressed a sense of dissatisfaction towards some of the services (Naseer, Jamal and Al-Khatib, 1999). In another study SERVQUAL is compared with Technical/Functional quality of services in private banks. Results showed that Technical/Functional quality model is better (Lassar et al., 2000). A survey of 801 customers indicated that customers' perception of service quality differs in terms of demographic characteristics (gender, ethnicity, education and income) of the respondents (Urban and Pratt, 2000). Oppewal and Vriens (2000) empirically investigated the relationship between service quality and customer satisfaction by using original SERVQUAL instrument with ten dimensions as devised by Parasuraman et al. (1985). This study gave a direction to relate service quality and customer satisfaction. They found a significant relationship between perceived service quality and customer satisfaction. They suggest that organizations should concentrate on service quality as an input to customer satisfaction for long-term benefits and business success. In recent past both Islamic banks and conventional banks in Sri Lanka have understood the importance of service quality for successful survival in today's global

and highly competitive banking industry. Jamal (2004) investigated the behavior of the customer in retail banking in cop with service quality and its results. It was perceived that customers have diversified experiences of satisfaction and dissatisfaction in using of self-service technologies. Banking industry is becoming more cognizant about the performance evaluation regarding quality of products and services according to customers' prospects. In another study, findings reveal a positive correlation between financial performance and customer service quality scores (Duncan and Elliott, 2004).

Curry and Penman (2004) studied that service quality is inevitable for differentiation to compete in the banking sector. They recommended that the exact service could retain the customers for sustainable benefits. So, Banks should maintain the level of services by proper allocation of resources to meet customer requirements.

Literature results are showed that both Islamic and Conventional banks need reasonable measures to evaluate the total satisfaction of their customers. But, understanding of changing needs and expectations of customers is an essential prerequisite for the financial sector (Joseph et al. 2005). Jabnoun and Khalifa (2005) tested and recommended a measure of quality of service to compare Islamic banks and conventional in United Arab Emirates. The study indicated that four dimensions were significant in case of conventional banks. While only personal skill and values were essential in defining service quality in Islamic banks. It is found that bank-customer relationship quality is evident between satisfied and dissatisfied customers. Both types of customers have clearly distinctive feelings regarding their service experience (Nelson and Chan, 2005). On the basis of present literature, this study examines the impression of bank customers regarding service quality and customer satisfaction in Sri Lankan banking sector, the researchers derived the following hypotheses.

H1: There will be positive relationships between service quality and customer satisfaction regarding Islamic banks in Sri Lanka.

H2: There will be positive relationships between service quality and customer satisfaction regarding Conventional banks in Sri Lanka.

### **Methodology**

This study examines the satisfaction of both Islamic and conventional banks customers in Sri Lanka. The population of this research is customers of Islamic banks and conventional banks operating in Sri Lanka. The sample selected was representative of the population. The sample size were selected in a way that allows the statistical analysis to be conducted and also to be representative of the population. The researchers

decided to conduct 200 clients from Islamic banks and conventional banks in the South East part of Sri Lanka. This study used stratified random sampling technique. The stratification has been done based on the nature of bank which are Islamic banks or conventional banks. Both Islamic and conventional banks customers were selected randomly from Islamic banks and conventional banks to measure their responses. A structured questionnaire was issued to record their responses. The data collection process was quite easy for a number of reasons; ultimate customers were approached to collect data by self-administrated questionnaires forms at the specific bank when they come to access their banking activities such as account opening, deposit, withdrawals, ATM access and other banking activities. The researchers clarified the objective of survey and structure of the questionnaire by explaining its purpose. The researchers used structured questionnaire in English to collect data from customers of Islamic banks and Conventional banks. Each questions is assessed by a five point Likert scale as it stands for 1 is strongly disagree to 5 is strongly agree. Satisfaction of customers was judged by a modified version of research instrument applied by Sureshchnader et al. (2002). Responses of customers were measured on a five point Likert scale ranging from 1 to 5; this reflects to highly satisfy to highly dissatisfied. The data were collected from the respondents residing in the South Eastern region. A total of 300 questionnaires were distributed among respondents to gather their responses. Out of completed questionnaires 23 questionnaires were removed for several reasons including illegible questionnaires, inconsistent responses and incorrect information. Finally there were 200 completed and useable questionnaires were taken for data analysis.

## Results and Discussion

Descriptive statistics are used to have an initial idea about demographic characteristics of the sample. While Pearson correlation and regression test is applied to examine the relationship between service quality and satisfaction of customer in the banking sector in South Eastern region, Sri Lanka. Demographics of the respondents reflect that male customers are greater than female customers. In case of Islamic banks 86% are male customers and 14% of the sample is represented by female customers. While the Conventional banks reflects that 74% respondent are male and 26% are female. Male customers are more persuaded towards Islamic banks as compared to Conventional banks but higher numbers of female customers are having touch with Conventional banks as compared to Islamic banks. It is reliable with the literature as men and women are differentiated due to role and perception in the society (Woldie and Adersua, 2004). Social, cultural and religious factors also influence the banking activities. Men are responsible for financial activities outside the home while female performs domestic duties inside the

home (Obbe, 1980). The age distribution of customers shows that the age between 25-40 are more interested to interact with Islamic banks while young customers between ages 18-27 are inclined towards Conventional banks. It is again consistent that the majority of primary bank customers are male between 20 to 55 years old in Nigeria (Ojo, 1994). While most of the customers of Islamic banks fall in the age group of 25-35 years (Khan, Hassan and Shahid, 2008).

A summary of relationship between service quality and satisfaction of customer reflect the relationship between service quality of Islamic banks and the customer satisfaction of Islamic banks. This results show that there is strong positive relationship ( $r$  value is 0.8250) between service quality of Islamic banks and the customer satisfaction of Islamic banks. It reinforced the hypothesis that service quality is positively related to customer satisfaction in Islamic banks working in South East region, Sri Lanka. It is again reliable with the present literature review as it is reported that there is a positive relationship between service quality and customer satisfaction (Razak, Chong and Lin, 2007). Further on the other side findings reveal that there is a strong positive correlation ( $r$  value is 0.812) between service quality of Conventional banks and the customer satisfaction of Conventional banks. It reinforced the hypothesis that service quality is positively related to customer satisfaction in conventional banks functioning in South East region in Sri Lanka. It is found that there is positive relationship between service quality and customer satisfaction in Sri Lanka (Jamal and Naseer, 2003). The results show that the service quality leads to better satisfaction among bank customers. It is described that the meeting of customers' expectation is crucial to increase customers' satisfaction by delivery of better quality services. However, results show that service quality offered by Islamic banks leads to better satisfaction among Islamic banks customer as compared to customer of conventional bank since the Islamic banks are trying to attract more new customers and keep up their existing customers. Further it is evidenced that the numbers of customers of Islamic banks are significantly increasing year by year from 2011 to 2013. There is highly significant relationship ( $p=0.000$ ) between service quality and customer satisfaction in Islamic banks. F-statistics value (208.595) shows that variation of Independent Variable of service quality of Islamic banks is explained in the dependent variable of customer satisfaction of Islamic banks. There is highly significant relationship ( $p=0.000$ ) between service quality and customer satisfaction in Conventional banks. F-statistics value (545.714) shows that variation of Independent Variable of service quality of Islamic banks explained in the dependent variable customer satisfaction of Islamic banks.

## Conclusion

Therefore, it can be concluded that there is a positive relationship between service quality and customer satisfaction is greater in Islamic banks as compared to conventional banks. The findings reinforced the hypotheses being consistent with the present literature (Sureshchneider et al. 2002; Jamal, 2004; Arasli et al., 2005; Al-Hawari and Ward, 2006; Razak et al., 2007). Bankers can attract new customers and keep up their existing by launching effective marketing strategies to enhance attentiveness towards quality of their banking services. Further it can be helped to enhance the good relationship and better understanding of bank customers about service quality regarding Islamic and conventional banks in South Eastern region, Sri Lanka. Bank managers of both Islamic and conventional banks should take innovation on quality to improve their banking products and service by considering demographic characteristics of the customers.

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