

# A Study of Retail Islamic Banking: The Relationship between Customer Knowledge and Service Quality

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**Abstract** - This paper encompasses on the relationship between customer knowledge function and service quality dimension and the effect on customer satisfaction in the context of Malaysian retail Islamic banking. As one of the challenges faced by retail Islamic banking is the customer satisfaction where the level of services rendered and knowledgeable front liners are the concerns, retail Islamic banking needs to improve on their quality of customer services and its measurement should consist of interaction quality and outcome quality. The issues of lack of customer knowledge, awareness and information on retail Islamic banking could be the resulted from the low interaction and outcome of the quality of knowledge supply. Meanwhile, distinctive attention is actually required from the Islamic banking staff due to the complexity of retail Islamic banking products. The customer knowledge function in retail Islamic banking itself should be therefore emphasized alongside with the service quality dimension in order to ensure that the supply of knowledge to the customer will in turn help to increase the customer satisfaction.

**Keywords**— *Service quality, customer knowledge, customer satisfaction, retail Islamic banking, knowledge supply.*

## Introduction

In its noble duty to fulfilling the societal needs, delivering of the knowledge and understanding of Islamic banking products to the general public are important and should not be taken for granted as this would in a way affect customer satisfaction.

customers either Muslims or non-Muslims would have their perceptions that Islamic banking products are merely replication and modification of conventional product designs and that put it as the norm that Islamic banking are providing cover for the taking of interest through the back door [1]. Studies conducted in the Malaysian context have shown that generally the customers had a low level of knowledge of Islamic finance and banking concept [2]. Meanwhile, through a previous article written in The Star Online dated 24<sup>th</sup> January 2011, it was reported that market share for Malaysian Islamic finance deposit is between 15 to 17 per cent and only 20 per cent of these deposits are contributed from the general public and the bulk are from the government and corporations [3]. Based on the report, it shows that the scenario is not much encouraging as most average individuals are reluctant to have their deposits with Islamic bank since they are unsure of the principles and benefits that can be obtained as compared to the conventional bank. This has indicated that the retail customers are still lacking in term of knowledge in Islamic banking and it has becoming part of the challenges that Islamic banking has to face as it continues to expand globally [4].

Besides, many researches have looked into the study on customer satisfaction criteria and service quality dimension in retail Islamic banking, however there are still lack of studies conducted in the area of customer knowledge.

Studies conducted have indicated that in general, the level of customers' knowledge and understanding on Islamic banking is still low [5][6]. Table 1 below extracted the findings from previous studies conducted.

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This is due to the fact that most of the retail

**Table.1.** Understanding of the Islamic finance terminology

Islamic banking terminology	Degree of Understanding Respondents (Percentage)				
	Fully understand (%)	Understand (%)	No idea (%)	Do not understand (%)	Do not understand at all (%)
Riba'	14.0	64.2	2.4	17.7	1.7
Gharar	0.6	8.3	4.6	77.8	8.7
Mudarabah	1.2	19.1	5.2	67.4	7.1
Musyarakah	1.4	16.1	4.7	71.1	6.7
BBA	0.9	10.3	4.2	76.2	8.4
Salam	5.6	26.4	3.1	58.7	6.2
Istisna'	0.7	6.2	5.0	80.0	8.2
Qard Hassan	1.1	13.2	3.5	74.4	7.7
Bay' Al-Inah	1.4	10.6	4.0	76.1	7.9

It is suggested that the Islamic banking institutions need to educate their customers and to have the supply of knowledge transcended beyond the normal marketing and advertisement plan in order to extend the maslahah (benefits) to the society [7]. The lack of information and knowledge pertaining to the Islamic banking function has affected on the customers' interest to purchase the Islamic banking product. The customers are much more interested in purchasing the Islamic banking products on the grounds that relevant benefits and access are duly provided. However, there were some concerns over the knowledge of Islamic banking where the issues like basic rules and principles of Islamic banking are not properly clarified. The fundamentals like asset-backed system and profit and loss sharing in the stipulated contract could cause such confusion to the customers and these need to be addressed in a manner that effective knowledge supply takes place.

On the other hand, having the appropriate approach in increasing the retail banking customer satisfaction through imparting of the knowledge of Islamic banking in an integrated manner such as knowledge-building program can be seen as a helping tool to create a relationship equity basis. Undoubtedly, a higher customer loyalty would regard in higher customer equity while a higher customer satisfaction would result to high customer loyalty. Hence, one of the tenets in increasing the

customer satisfaction is through the conceivable customer knowledge function and as a matter of fact, the sufficient supply of knowledge is part of the items assessed by customer in the service quality gap analysis. In a nutshell, an item of understanding of Islamic banking concept should be included as part of criteria since the willingness of customers to establish a relationship with the Islamic bank is also determined by the complete understanding about Islamic banking concept [8].

## 2. Literature Review

### 2.1 Malaysia Retail Islamic Banking Overview

As Malaysia is one of the Islamic countries, the roots of Islamic banking went back to 1963 when the government established Tabung Haji or Pilgrims Management and Fund Board. The main purpose of established the institution for those Muslim who are intended to perform pilgrim (Hajj) and invest the savings of the local Muslims in interest free places. The growth of Islamic banking can be attributed to the desire of retail banking customers who were striving to invest their money in accordance with their personal belief. Islamic banks today exist in all parts of the world and are looked upon as a viable alternative system which has many banking products to offer. Islamic banking is conducted on the basis of Islamic principles, particularly the prohibition of giving or taking interest. Islamic banking is no longer regarded as a business entity striving only to fulfil the religious obligations of the Muslim community, but more significantly, as a business that is ineluctably in need for winning over new customers and at the same time retaining the old one. Gradually, Islamic banking has played such an important role for the overall Malaysian financial market and in sustaining the acquired market share it should entail the high customer satisfaction feedback [9]. The assessments of some of the key antecedents of customer satisfaction in retail banking have examined some dimensions to the formation of overall customer satisfaction namely through service quality (SQ) dimensions [10]. Those dimensions found in the service quality (SQ) are the key contributors that affect to the customer satisfaction.

On the other hand, in a previous Bank Negara Malaysia Financial Master Plan 2001, it was recommended that under the Institutional Capacity

Enhancement, a complementary measure should also be undertaken in order to increase the awareness and knowledge of the public on the Islamic banking operational and product offerings. Regular promotional and knowledge sharing should be undertaken so as to facilitate the continuous supply of knowledge in Islamic banking. This initiation could be achieved through the innovative and capable strategic management team that can provide the effective knowledge supply. In view of the above scenarios, it is important to have the support for the Islamic banking growth through the mechanism of applied customer knowledge (CK) function that can produce the outcome of increased customer satisfaction as a result from the increase of knowledge. Therefore, this study is undertaken in the backdrop of the government of Malaysia's aspiration of becoming the main Islamic financial hub and with the focus on the dynamics of continuous knowledge supply through the concerted medium of CK and SQ function.

## 2.2 Service Quality in Retail Islamic Banking

In most of the previous undertaken studies on customer satisfaction, it was suggested that service quality dimension (SQ) and service features are the determinant criteria that influence the customers' decision over the choices in the banking selection. The most critical part would include items such as assurance, reliability, responsiveness and tangible dimension of service quality [11]. Based on Parasuraman's service quality dimension and as applied to the service industries perspective, further explanation on the elements of service quality is provided as per below Table 2. [12][13].

**Table 2.** Service quality dimensions in Service Industry

Service Quality Dimension in Service Industry	Definition
Tangibility	The physical appearance of the service facility and people involved in the service delivery. E.g. Appearance of employees, equipment or facilities.
Responsiveness	The ability of the service provider to be prompt in delivering the service. E.g. Willingness, prompt and courteous.

Knowledge	The knowledge and competence of service provider and possession of necessary skills. E.g. Knowledge on bank equipment and products.
Accessibility	The ability to design and provide service that capable of adapting to the customers demand in a flexible manner. E.g. Operating hours and operational system.
Reliability	The degree where the customers can be ensured of the service provider keeping up the promises and serve the best interest of the customers. E.g. Error-free transactions and accurate verification.
Assurance	The ability of the service provider to inspire trust and confidence. E.g. Competence, courtesy, credibility and knowledge.

From the given table, it can be seen that in relation to the service quality (SQ) and customer satisfaction, knowledge dimension could also be considered as important item since it portrays the level of intention to provide or ensure a long term relationship with the customers. The concept of knowledge which is under the item measurement of assurance in the SERVQUAL model and knowledge dimension in the mass service context would entail for another management commitment for high quality customer service where it would reflect the image of an organization and customers' perception on service quality rendered. However, the question that needs to be addressed is how in general the service quality (SQ) can be seen as providing the sufficient supply of knowledge and how it benefits the customers in the retail Islamic banking scenario.

Since the view of customer knowledge function (CK) has not been mentioned very often in the studies undertaken it is therefore important that this item is to be further explored in the light of its relation to service quality and customer satisfaction. Moreover, as the interaction between the customer and business entity especially in the financial institutions becomes more advance, the attainment of the customer knowledge function (CK) would be beneficial in the sense that it would provide as another platform for customer satisfaction.

## 2.3 Customer Knowledge Function

This conceptual paper will also put another further discussion on one of the elements of customer knowledge which is knowledge for customer (KFC) and its relation towards increasing customer satisfaction through the dimension of service quality dimension (SQ). Customer knowledge can be defined as the process of understanding the customers' current and future needs and preferences through the interaction, observation and analysis of their demand and purchase behavior [14][15]. It is more on acquiring the valuable information that surrounds the customers that could help to provide new business direction and strategy. On the other hand, the other perspective of customer knowledge is the level of customer knowledge itself. It is a contributing factor to which extent the customer process and analyze the product or service related features [16]. This is where the relative supply of knowledge takes place and the needs for the strong support from service quality is imperative. In general the customer knowledge can be classified into three components namely knowledge for customers, knowledge about customers and knowledge from customers [17][18][19]. The essence of customer knowledge can be summarized as Table 3 below.

**Table 3.** Customer knowledge items.

Customer Knowledge Items	Definition
Knowledge about customers (KAC)	Customers' background, motivation, expectation and preferences on products or services. Customers' past, present and future needs, desire, taste and trends. Information regarding the customers purchases, payment, motivation, habits and demand pattern.
Knowledge for customers (KFC)	Customers' needs for knowledge on products and services. In support for customers' decision making and assist in their buying cycle. Information or knowledge on product or service that is given to the customers upon their utilisation or usage.
Knowledge from customers (KFrC)	Customers' information and knowledge sharing. Knowledge acquisition from customers for product and service enhancement. Information or knowledge that the customer shares with the company through their feedbacks.

Customer knowledge can also be further dissected into four dimensions namely objective, subjective, specific and general knowledge where each of the components are expected to be correlated [20]. The details can be further explained in Table 4 below.

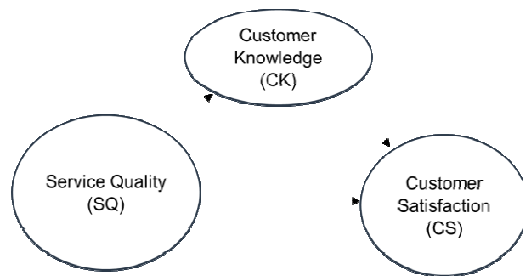
**Table 4.** Dimensions of customer knowledge

Customer Knowledge Dimensions	Definition
Objective knowledge	Measure of how much factual knowledge a consumer has about products, their attributes, and linkages between differing product attributes and their relationship to performance.
Subjective knowledge	Measures consumers' perceptions about how much they think they know about a product.
Specific knowledge	More detailed type of knowledge than general knowledge.
General knowledge	General (basic) level knowledge comprises knowledge about the shared features of a product class, including information about the product group, and the potential benefits/risks of the products belonging to it.

Generally, the focus of the study will be on the operational aspect of customer knowledge function (CK) in the retail Islamic banking of which it should be able to ensure that it can deliver its role for the purpose of information needs [17], problem solving [12] and customer education [9]. These three purposes should be closely related to service quality dimension (SQ) since it can be the relevant platform to supply the knowledge and information on retail Islamic banking effectively.

### 3. Conceptual Model

The conceptual model to describe the relationship of customer knowledge function (CK) and service quality dimension (SQ) is depicted in the Figure 1 below.



**Figure 1.** Conceptual Framework

Service quality dimension (SQ) namely responsiveness, assurance, tangible, and reliability would be the basic adopted process combined with the customer knowledge function (CK) in assisting to increase customer knowledge in retail Islamic bank. Table 5 below further explains on the proposed conceptual relationship matrix between service quality dimension (SQ) and customer knowledge function (CK).

**Table 5.** Conceptual Relationship Matrix

Service Quality Dimension	Information Needs	Problem Solving	Customer Education
Reliability	Reliability dimension can help increase the information needs of customers.	Reliability dimension can assist on the customer problem solving.	Reliability dimension can assist on the customer education.
Assurance	Assurance dimension can help increase the information needs of customers.	Assurance dimension can assist on the customer problem solving.	Assurance dimension can assist on the customer education.
Tangible	Tangible dimension can help increase the information needs of customers.	Tangible Dimension can assist on the customer problem solving.	Tangible dimension can assist on the customer education.
Responsive	Responsive dimension can help increase the information needs of customers.	Responsive dimension can assist on the customer problem solving.	Responsive dimension can assist on the customer education.

## 4. Methodology

This study will deploy the use of questionnaire as instrument for data collection under survey method of study. Three main geographical areas in the West Coast of Malaysia will be the designated location for questionnaire distribution at the Islamic bank branches. Target population comprises of the existing customers in the local full-fledged Islamic bank while the sampling procedure will be on a convenient sampling. In this study, primary data are collected through self-administered questionnaires from the retail customers who have been with the Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB) and RHB Islamic Bank branches. Independent variable in the current study is service quality (SQ) while dependent variable will be customer satisfaction (CS) and each item will be examined thoroughly. In this study, the survey on retail Islamic banking customers are broken down into subgroups based on occupation and education background as well as type of financing. The data form the subgroups will be then analyzed to see whether there are any similarities or differences among the subgroups.

Multiple regression analysis will be used to answer the research question which is to determine whether the role of customer knowledge function (CK) will mediate the relationship between items in service quality dimension (SQ) with customer satisfaction (CS). In this study, the data will be analysed using path analysis for simple multiple regressions and lastly using multiple linear regressions. Before the models are generated, the assumptions of multiple regressions have to be tested. These assumptions would be normality of the distribution, linearity of the relationship between dependent and independent variables, absence of multi collinearity, homoscedasticity or independence of the errors.

## 5. Discussion

Supplying of the knowledge for both customers and staff can be seen as sort of *fard kifayah*. Therefore, in the Islamic economic system which has some faith-based social implications, it is on the high ground that the education and training on effective knowledge supply of Islamic banking to be reformed so as to commensurate with societal requirements. The socialisation activities with the customers would create ambience of knowledge supply via the use of tacit knowledge and it would

also portray on how the assurance is given in servicing the customers effectively. It is also closely related to the concept of *tabligh* (to convey) in Islamic where the knowledge of Islamic banking is conveyed to the public in a manner that would create trust and loyalty to the industry.

On the other hand, the service quality dimension (SQ) and customer satisfaction (CS) which are closely related to each other incorporates the components of attitude and cognition [21]. The service quality dimension (SQ) is found to be an important contribution to customer satisfaction (CS) it has two overriding dimensions namely outcome and process aspects of the service [22]. The outcome aspect of the services is reflected in the outcome of the services act where the customers' response behaviour will determine their satisfaction level. Alternatively, the process aspects of the service quality are portrayed in the way how the services are delivered. Customers are more concerned on how the services quality deliveries take place such as relevant information provision, contract content explanation, and employee flexibility and employee knowledge. The interpersonal interactions in the services delivery often have the utmost influence on the customer's quality perceptions. Hence, the tacit knowledge could be the accompanying or complementing factor to increase the service quality effort especially in retail Islamic banking sector since effective knowledge supply is equally important in Islamic economics sustainability.

## 6. Conclusion

The application of customer knowledge function (CK) to suit in the retail Islamic banking in Malaysia would in a way instil the level of confidence, trust and loyalty of the customer and eventually could capitalise bigger market share in the banking industry. The information needs, problem solving and customer education which would serve as the functional purposes of customer knowledge (CK) would become the bridge for the service quality dimension (SQ) to the supply of knowledge which in turn could increase the customer satisfaction. Therefore, an empirical study needs to be undertaken in order to show that by enhancing the application of customer knowledge function (CK) with service quality dimension (SQ) for a strong customer knowledge model based, a good vehicle in facilitating the uptrend growth of Islamic banking is being driven

on a right track eventually and would also hold significant importance since the value derived from both aspects would provide competitive advantages for the firms.

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