



Identifying Service Quality Priority of Islamic Banks in Malaysia

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Abstract

Service quality remains a focal issue in banking industry as banking institutions are providing heterogeneous products, including Islamic banks. Particularly when the competition becomes more intense, providing superior service quality provided competitive advantage to the organizations in order to remain relevant in the industry. Accordingly, the purpose of this paper is to identify not only the importance of service quality on customer satisfaction but also to examine the performance of each service quality dimensions in satisfying the customers. Using survey method, data of 413 respondents have been analysed using PLS-SEM. The study used PARKSEV model which is enhanced with “compliance” dimension to measure service quality as it is developed in a non-Western cultural context which better suits Malaysia environment. The result shows that the service quality dimensions that contribute significantly to customer satisfaction are “reliability”, “sincerity”, “compliance”, “convenience” and “responsiveness”. In terms of performance, “compliance” and “sincerity” are well executed as they are classified in the first quadrant. However, another two dimensions which are “convenience” and “responsiveness” fell in the fourth quadrant which should be taken corrective actions as both dimensions are important but do not performing well. “Reliability” is nearing the third quadrant indicating that though it is significant, but the dimension is relatively less critical as it has been appropriately delivered. Using the Importance-Performance Matrix Analysis (IPMA), the findings provide insights to Islamic bank managers on resource allocation priority and further investment in technology to enhance service quality performance.

Keywords: Customer satisfaction, IPMA, Islamic banks, PAKSERV, Service quality

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1. Introduction

The Islamic banking sector worldwide has witnessed remarkable expansion over the past several years (Mahdzan et al., 2017). This is shown by the industry steady growth in terms of size and geography (Khamis and AbRashid, 2018), and also stable and resilient performance during the last financial crisis, which is better than the capitalist financial system (Smolo and Mirakhor, 2010). The growth and good performance is influenced among others by the ability of the bank to attract participation not only from the Muslim group, but also from the non-Muslim consumers (Khamis and AbRashid, 2018). However, in the context of Malaysia, the banks operate in a ‘dual-banking system’ in which Islamic and conventional banks are operating side-by-side. For the Islamic banking industry alone, there are a total of sixteen players of which six are foreign (Bank Negara Malaysia, 2020). Apart from two Islamic banking institutions from the Middle East, another three are locally incorporated foreign banks that have established their full-fledged Islamic subsidiaries. Being multinationals, these banks further add to the stiff rivalry hence surviving in a competition to attract both groups of consumers is not an easy task. Therefore, improvement of service quality is important as it would enhance customer satisfaction (Cronin and Taylor, 1992) and retain bank’s competitiveness and attractiveness (Shariff, 2013).

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Indeed various studies have been conducted related to the service quality of Islamic banks. However, most of the studies conducted used measurement scales developed in the Western context such as SERVQUAL which have been questioned on its applicability to suit different country situations (Famiyeh et al., 2018; Haron et al., 2020). Consequently, this has caused inconsistent findings (Famiyeh et al., 2018) and led to unsatisfactory and unsuitable marketing strategies (Laroche et al., 2004). In order to overcome this problem, Raajpoot (2004) has developed a non-Western cultural context model called PAKSERV, which is based on the argument that service quality and customer satisfaction is a cultural phenomenon (Malhotra et al., 2005). However, despite the proof that PAKSERV is an appropriate scale in considering culture, customers' religious affiliation is absent. Therefore, in fulfilling this gap, first, this study aims to employ this cultural approach with the consideration of 'compliance' dimension (Othman and Owen, 2001) in examining the service quality of Malaysian Islamic banks.

Secondly, most studies on service quality do not present the importance-performance measure in their research. In the early service recipient satisfaction assessment models, past studies provide basic information about the importance or accumulated dimensions' attribution on satisfaction without pointing out its real performance. However, measuring existing performance to develop an appropriate strategy for achieving the optimal level is a key element in quality assurance (Fathi et al., 2011). As such, Importance-Performance Matrix Analysis (IPMA) is utilised as it is an efficient tool for prioritizing service indicators, enhancing service quality and for addressing customer satisfaction as well as concentrate resources to achieve improved performance (Khalifeh and Razavi, 2012). These outcomes give beneficial information so that researcher could suggest appropriate opportunities for improving Islamic bank services.

Accordingly, the remaining part of this article is organised as follows: First, literature related to service quality is presented. Then, the hypotheses development and research methodology are explained, followed by data analysis and result of the study. Finally, the article is closed with discussion and conclusion, limitations of the study also suggestion for future studies.

2. Literature review

2.1 Service Quality

Service quality is usually defined from the perspective of end users. For example, according to Grönroos (1984), service quality refers to "a perceived judgment, resulting from an evaluation process where customers compare their expectation with the service they have received". In the same view, Parasuraman et al. (1985) defined service quality as "the difference between expectations and performance of the service", which could be interpreted as the gap between customers' expectation, and their perception upon receiving the service. In other words, service quality is the function of pre-purchase customer expectations, perceived process quality, and perceived output quality.

On the other hand, from the Islamic perspective, quality or in Arabic language '*itqan*' refers to the act of arranging or disposing things in an artistic manner in order to obtain the perfect result or high quality (Shariff, 2013). Al-Thabrani reported that Prophet Muhammad (peace be upon him) said "*Allah* loves to see one's job done at the level of *itqan*" (Al-Dimasqi, 2006). As such, an effort to do so is essential and particularly relevant with Islamic principle as the goal to attain perfection is regarded to be a form of duty towards the society (Al-Zaabi, 2006) and also considered to be a type of worship (Shariff, 2013). In the context of Islamic bank, as the bank operation and principles is according to the Islamic law (Shariah), products and services offered by the bank as such is expected to be of high quality.

In order to measure the perceived service quality of an organisation, it is important to use an appropriate tool. To date, there are several existing service quality models, such as the disconfirmation of expectations model by Oliver (1977), the Nordic model by Grönroos (1984), the SERVPERF model by Cronin and Taylor (1992), the three components model by Rust and Oliver (1994) and the integrated model by Brady and Cronin (2001). However, the most popular measurement model used in various empirical studies is SERVQUAL created by Parasuraman et al. (1988). Despite its popularity, over the last ten years, scholars have questioned the applicability of SERVQUAL to suit different country context (Amin and Isa, 2008; Famiyeh et al., 2018). Not only that, other service quality model developed in individualistic cultural settings also have been criticised as it could not be replicated in a collectivist cultural context (Strandberg et al., 2012). As such, a culturally specific service quality scale is needed to correctly and comprehensively report the state of service quality (Prakash and Mohanty, 2013).

In the effort to fill this void, Othman and Owen (2001) introduced alternative measure for service quality by developing a model called the CARTER model, which is well-known in the Islamic banking studies. This model has been implemented in many subsequent studies on the Islamic bank of different countries (Shafie et al., 2004; Tahir and Bakar, 2007). However, CARTER model is based on SERVQUAL with an additional dimension called ‘Compliance’, which is still not culturally specific.

In the context of Malaysia, an analysis using Hofstede’s dimension reveals a huge difference between the Malaysian culture and the Western paradigm. For example, one of the Hofstede’s dimensions known as the ‘power distance’ states that each individual in a society is not equal. It expresses the cultural attitude towards inequalities among us. Malaysia scores very high on this dimension (score of 100); which indicates that people accept a hierarchical order in an organisation which is different with Western culture. On the other hand, Malaysia scores 36 on the dimension of ‘uncertainty avoidance’ and thus has a low preference for avoiding uncertainty which means that the Malaysian society maintains a more relaxed attitude where practice counts more than principles, and deviance from the norm is more easily tolerated.

These differences between Asian and Western cultures or specifically how Malaysia differs from the West indicated the need to find and use a culturally sensitive service quality measurement. Therefore, scholars proposed to complement new dimensions that can increase the comprehensiveness of service quality measurements (Choudhury, 2013). Furthermore, in the context of bank, extensive competition in today’s world forces banks to struggle to sustain market share where aspects like obtaining context-specific information and culturally sensitive scales are imperative to provide practical solutions for respective service organisations (Ganguli and Roy, 2011).

Thus, in this light, Raajpoot (2004) developed a cultural context model named as PAKSERV to best suit the collectivist culture of Pakistan. Considering its applicability, scholars have called for other researchers to test the model in different country and culture (Ladhari, 2008). Haron et al. (2020) also found that PAKSERV scale fit Malaysian Islamic banking industry very well. Nevertheless, for this study, the ‘compliance’ dimension is added as past literature show that compliance is significant in measuring the Islamic bank’s service quality and it is in line with cross-cultural and religious differences between two key customer segments, Muslims and non-Muslims (Amin and Isa, 2008). As such, it is imperative to add this dimension into the PAKSERV model as in Malaysia, forty percent of Muslims were motivated to use product and service of Islamic banks due to the ‘compliance’ factor (Haron et al., 1994).

2.2 Customer Satisfaction

Over the past decade, most research on service quality pays particular attention on its ability in creating customer satisfaction. This is because, customer satisfaction is said to be a key aspect for organisations that wish to develop and maintain their competitive advantage (Fonseca, 2009). Not only that, meeting customers’ need and satisfaction also has been said to be the key of business survival (Khamis and AbRashid, 2018) and the reason of customer’s loyalty (Janahi and Al Mubarak, 2017).

Customer satisfaction according to Fonseca (2009) is defined as “an overall assessment of the performance of various attributes that constitute a service”. In order to understand satisfaction, it is important to understand the factors or attributes that lead to greater customer satisfaction (Sayani, 2015). In relation to this, various studies have constantly repeated the role of service quality in determining customers’ satisfaction (Kassim and Bojei, 2002). This relationship is underpin by the social exchange theory which stated that “voluntary actions of individuals are motivated by the return they are expected to bring from others” (Blau, 1964). Thus, customers’ satisfaction is motivated by the quality of service provided by the bank. In the context of this study, the explanation of proposed hypotheses below point out the role that might be possessed by each service quality dimensions in influencing customer’s satisfaction.

3. Hypotheses Development

3.1 Reliability

Parasuraman et al. (1985) defined reliability as an organisation’s ability to maintain the consistency of their performance and dependability. In the same view, Raajpoot (2004) conceptualised reliability as the ability to perform the promised service dependably and accurately, which dependability refers to fulfilling promises including time commitment, while accuracy refers to making a minimum number of mistakes (Dahari et al., 2015; Islam et al., 2015; Kashif et al., 2016).

Recent studies show that reliability is one of service quality dimensions which significantly contribute towards customer satisfaction (Famiyeh et al., 2018; Haron et al., 2020; Kashif et al., 2016; Narteh, 2018). On the other hand, Dahari et al. (2015) included reliability and found that it is the least important dimension considered by banks' patrons in Jakarta, Indonesia. In contrary however, studies on the Malaysian Islamic bank conducted by Kashif et al. (2015) revealed that the hypothesised relationship between reliability and customer satisfaction was not supported. Despite this contradictory finding, since most studies have found positive and significant relationship between reliability and customer satisfaction, therefore, this study hypothesised that:

H1. Reliability positively influences customer satisfaction towards Islamic banks.

3.2 Tangibility

Tangibility is one of the SERVQUAL's dimensions stated in Parasuraman et al. (1985). Tangibility includes the physical evidence of the service such as physical facilities, the appearance of personnel, tools or equipment used to provide the service and physical representations of the services such as plastic credit card or a bank statement (Dahari et al., 2015; Islam et al., 2015; Kashif et al., 2016; Parasuraman et al., 1985; Raajpoot, 2004).

Various studies have been conducted on the relationship between tangibility and customer satisfaction. For example, Rehman (2012) performed a comparative study on the relationship between tangibility and customer satisfaction in Pakistan, the United Kingdom (UK) and the United Arab Emirates (UAE). Result of the study showed that tangibility significantly affects satisfaction in Pakistan and UAE, but was insignificant in the UK. This insignificant relation is supported by Khamis and AbRashid (2018) which reflects a similar finding in his study. However, in contrary, a positive and significant relationship between tangibility and satisfaction was found in the context of Malaysian Islamic bank (Haron et al, 2020; Kashif et al., 2015) This is also supported by Dahari et al. (2015), Kashif et al. (2016), and Narteh (2018) which found similar results. Thus, the study hypothesises:

H2. Tangibility positively influences customer satisfaction towards Islamic banks.

3.3 Assurance

Raajpoot (2004) has also included assurance, which is adapted from SERVQUAL as one of the PAKSERV service quality dimensions. Assurance refers to employee's knowledge, courtesy, and ability to convey trust and confidence (Berry et al., 1998). The relationship between assurance and customer satisfaction has been tested in several studies. For example, Ebrahimi and Moghadam (2012) conducted a survey to recognise the most important dimensions of the service quality in Iran's commercial banks. The outcome of this study clearly stated that assurance is the most important dimension in determining service quality among Iran's commercial banks' customers. The results proven that the employees' courtesy and confidence are valued by customers the most. This finding is similar with Haron et al. (2020) who found that assurance is the most important dimension for service quality for Malaysia Islamic banks. However, Narteh (2018) and Kashif et al. (2016) indicates that even though assurance significantly contributes towards customer satisfaction, it is the least important dimension. On the contrary, other recent studies are unable to find a significant relationship between assurance and customer satisfaction (Famiyeh et al., 2018; Khamis and AbRashid, 2018). In view of these, in the context of this study, it is hypothesised that:

H3. Assurance positively influences customer satisfaction towards Islamic banks.

3.4 Sincerity

Specifically, Raajpoot (2004) defined sincerity as consumer's evaluation of the genuineness of service personnel. Kashif et al. (2016) had simplified the definition by saying that, sincerity is the attitude of personnel for being genuine and original while providing the service. In the context of Islamic bank, sincerity could be portrayed by having bank personnel who are knowledgeable and always ready in providing solutions and answers concerning Islamic banking products and services (Hamzah et al., 2015). Few studies have been conducted on the effects of sincerity towards customer satisfaction. Among others, Grönroos (2000) acknowledged that employee's sincerity and personal knowledge about customers is a key to satisfaction. In addition, Kashif et al. (2016) applied PAKSERV model in Pakistan and Haron et al. (2020) in Malaysia

where both studies found that sincerity significantly contributes towards customer satisfaction. This leads the study to hypothesise:

H4. Sincerity positively influences customer satisfaction towards Islamic banks.

3.5 Personalisation

Personalisation refers to customisation and individualised attention, and to some extents, it is addressed in the empathy dimension of SERVQUAL (Raajpoot, 2004). Karami et al. (2016) asserted that personalisation involves how customers measure service company employees on their aptitude to recognise customers' place in society and the importance they hold for the service provider. Personalisation is important in measuring service quality in Eastern context due to the fact that Asians scored high on power distance which translates as the customers' desire for individual identity despite being parts of a group (Winsted, 1997). Although Asian is known as a collectivist people, one's need to be recognised or individually treated is still important as each individual is still open to maintaining the status quo, hence, public recognition of one's social status is very important in societies with high power distance (Hofstede, 1980). Based on this, a personalisation strategy could be used by Islamic banks to attract customers. In this light, offering highly customised solutions to customers have been found to help marketers to attract more customers (Imrie, 2013). Interestingly, Haron et al. (2020) found that in Malaysia, personalisation is the second most critical dimension of service quality after assurance. Therefore, it is hypothesised that:

H5. Personalisation positively influences customer satisfaction towards Islamic banks.

3.6 Formality

Formality is largely being discussed in terms of social distance, role deference, forms of address, and ritual (Raajpoot, 2004). Specifically, formality is defined as consumer's evaluation of how well social distance is being maintained and cultural rituals are being performed (Kashif et al., 2015; Kashif et al., 2016). Karami et al. (2016) proposed that, formality denotes how customers evaluate service company employees' aptitude to uphold their social distance by demonstrating decorous behaviour, acknowledging families and showing total courtesy to customers. Among others, dressing appropriately, addressing customers by their family names, being attentive, and restricting conversation to a minimum, are some of the behaviours that depict formality (Winsted, 1997).

Result on the significance of formality in influencing customers' satisfaction has been mixed. Raajpoot (2004) provides empirical evidence that formality was the most significant factor in the Pakistan context. However, study by Haron et al. (2020) and Kashif et al. (2016) for example show that although the "formality" dimension was significant, it is the least important compared to the other dimensions. This is similar to Saunders (2008) who replicated the PAKSERV model in the African banking context and found that formality was a less desirable service quality dimension. In this light, it is imperative to conduct a current study on this aspect from time to time. Hence, this study hypothesises:

H6. Formality positively influences customer satisfaction towards Islamic banks.

3.7 Compliance

Compliance, as defined by Othman and Owen (2001) refers to the ability of the bank to adhere to the Islamic or Shariah law and operate under the principles of Islamic banking and economy. Among others, bank is expected to comply to the Shariah rule that prohibits *riba* (usury), *gharar* (uncertainty) and *maisir* (gambling), also forbid involvement with other businesses considered unlawful or *haram* such as brewery and casino (Badara et al., 2013).

Studies show that fear of divine punishment is the second most significant determinant of one's attitude on Islamic banking. Several researches have shown the relationship between fears (in general) and attitude (Eadie et al., 2009; Johnston and Warkentin, 2010), in which maintaining the 'fear' has a considerable effect on individuals and their attitudes toward certain situations or certain objects. Thus, the more a person is afraid of doing something *haram*, the more favourable their attitude would be towards Islamic banking. This is proven by (Rehman, 2012) which found that compliance is the most important factor for selecting Islamic bank in the context of Pakistan, UK and the UAE. However, similar to Badara et al. (2013), Rehman (2012) could not found a significant relationship between compliance and customer satisfaction in the three countries. Despite this, Shariff (2013) stated that religious beliefs play an assertive role to induce customers

to use Islamic bank. Similarly, Khamis and AbRashid. (2018) and Dahari et al. (2015) revealed that Shariah compliance is an important dimension in evaluating an Islamic bank service quality. Therefore, based on these arguments, it is hypothesised that:

H7. Compliance positively influences customer satisfaction towards Islamic banks.

3.8 Responsiveness

Responsiveness describes the desire, willingness and readiness of service providers to assist customers and to deliver prompt service (Abdullah et al., 2011). Responsiveness is a critical factor in the evaluation of service quality, and as such bank should ensure that their personnel are responsive in all dealings with customers (Abdullah et al., 2011). In retail banking, Ravichandran et al. (2010) and Ladhari et al. (2011) have found a significant role played by responsiveness in predicting customer satisfaction. The same result was also revealed by Ravichandran et al. (2010) who used SERVQUAL scale to study service quality in India and found that responsiveness was the only significant factor in predicting customer satisfaction. However, some other studies found a contradictory result that does not support the relationship between responsiveness and satisfaction. Thus, in order to investigate the nature of relationship between responsiveness and satisfaction in the context of Islamic bank in Malaysia, it is hypothesised that:

H8. Responsiveness positively influences customer satisfaction towards Islamic banks.

3.9 Convenience

Kumar et al. (2009) and Taap et al. (2011) found that convenient banking facilities contribute towards customer satisfaction. Thus, convenience dimension is also included in this study. According to Berry et al. (2002), the perceptions of service convenience affects customers' evaluation of the service and the perceived service quality. Kumar et al. (2009) found that the convenience factor plays a substantial role in the delivery of bank service quality in Malaysia. Studies also found that bank users always look for convenience when performing banking transactions (Dhar and Kushwah, 2009). Based on the empirical results, customers expect banks to provide a variety of channels to enhance service convenience, which encourages repeat patronisation (Moghavvemi et al., 2018).

Previous study was conducted by comparing the convenience variable between conventional and Islamic banks in Malaysia found that conventional bank should improve their services towards elderly, pregnant ladies and disabled customers, while Islamic bank should provide more ATMs facilities to ease banking transaction (Taap et al., 2011). The same assumption applied to the banking industry in Pakistan, where researchers proved that convenience was ranked as a third important contribution in determining the overall service quality after customer focus and employee service variables (Muhammad Awan et al., 2011). Though convenience is a known contributing factor, it is still tested in this study as convenience is based on customers' terms and not the terms of the bank. Hence, the following hypothesis is proposed:

H9. Convenience positively influences customer satisfaction towards Islamic banks.

4. Methodology

4.1 Measurement and Scaling

A quantitative study was conducted to investigate the role played by service quality dimensions in determining customer satisfaction. A structured questionnaire was designed to obtain response from the targeted respondents. The first part of the questionnaire consists of general questions related to the respondents' relationship with Islamic bank. The second part of the questionnaire covers items related to the service quality dimensions and customer satisfaction. Lastly, the questionnaire ended with section on the respondents' demographic profile such as gender, age and educational level. Specifically, the items measuring service quality were adapted from Rajpoot (2004) and Othman and Owen (2001) while items related to customer satisfaction were adapted from Amin and Isa (2008). A six-points Likert-type scale was used as it gives higher reliability than the five-points Likert's scale (Chomeya, 2010).

4.2 Sampling

The questionnaire was administered within Islamic banking customers. Three criterions were used to ensure the eligibility of the respondents. First, the selected respondents must be adult, as they have the capacity to make their own wise decision on their preferred banks (Dusuki and Abdullah, 2007; Osman, 2011). Second, the respondents should have used the bank services for at least six months as it is considered an adequate duration for consumers to make evaluation pertaining to his or her experiences with the bank (Dagger et al., 2009). Finally, the respondents need to live or work within the Kuala Lumpur and Selangor area as these areas have more Islamic banks branches compared with other states in Malaysia (Maulan et al., 2016). The questionnaires were distributed in offices around these areas as it is considered as one of the common public places where respondents can be easily accessed as compared to other places such as a home (Cooper and Schindler, 2014; Maulan et al., 2016). In total, 450 questionnaires were distributed but only 424 questionnaires were returned. After the questionnaires were filtered, 413 questionnaires were valid for further analysis resulting to an adjusted response rate of 91.78 per cent. Table 1.1 shows the detail breakdown of the demographic profile.

Table 1.1: Respondents' Profile

Demographic Profile		Frequency (n=413)	Percentage
Gender	Male	155	37.5
	Female	258	62.5
Age	18 to 25 years	107	25.9
	26 to 35 years	159	38.5
	36 to 45 years	85	20.6
	46 to 55 years	48	11.6
	56 years and above	14	3.4
Religion	Islam	357	86.4
	Buddhist	25	6.1
	Hindu	13	3.1
	Christian	17	4.1
	Others	1	0.2
Education	SPM and below	46	11.1
	Diploma/Matriculation/A-Level	68	16.5
	Bachelor degree	199	48.2
	Master	65	15.7
	PhD	31	7.5
	Others	4	1.0
Monthly Income	Less than RM 2000	101	24.5
	RM 2,001 - RM 4,000	120	29.1
	RM 4,001 - RM 6,000	78	18.9
	RM 6,001 - RM 8,000	38	9.2
	RM 8,001 – RM 10,000	18	4.4
	More than RM 10,001	25	6.1
Bank Accounts	No Income	33	8.0
	Islamic banking only	135	32.7
Length	Islamic banking and conventional banking	278	67.3
	6 months to 2 years	86	20.8
	2.1 to 5 years	96	23.2
	5.1 to 10 years	112	27.1
	10.1 years and above	119	28.8
Services/ product used	Saving Account	377	91.3
	Current Account	103	24.9
	Investment Account	38	9.2
	Vehicle Financing	90	21.8
	Home Financing	72	17.4
	Personal Financing	44	10.7
	Credit Card/Charge Card	53	12.8
	Others	4	1.0

5. Data Analysis and Findings

Partial Least Square Structural Equation Modelling (PLS-SEM) analysis was used to analyse the data. Primarily, PLS-SEM consists of a two-step approach. At the first step, a comprehensive valuation of the measurement model at the item level was conducted, followed by a higher order level analysis of the posited structural relationships. The process involves separate assessments which are known as measurement models and the structural model (Hair et al., 2014).

5.1 Measurement Model

At the first stage, an analysis on the measurement model was performed which focused on the reliability and validity of the construct measures (Hair et al., 2014). Table 1.2 shows result of the convergent validity where all value of alphas (CA) and composite reliability (CR) exceed the recommended threshold value of 0.7 indicating that all the constructs have high level of internal consistency reliability (Hair et al., 2010). In addition, the outer loadings and the average variance extracted (AVE) were also examined. Upon investigation, two items were deleted (Conv7 and Per1) as the loadings for both items are lower than 0.7. The remaining outer loadings were higher than the cut off value 0.708 (Hair et al., 2014) indicating that all constructs have high levels of internal consistency reliability. Besides that, the result shows that that the AVE values surpass 0.60 which is above the required minimum level of 0.50.

Table 1.2: Reliability and Convergent Validity

Construct	Item	Loadings	AVE	CR	CA
Reliability	Rea1	0.794	0.650	0.917	0.892
	Rea2	0.879			
	Rea3	0.774			
	Rea4	0.810			
	Rea5	0.811			
	Rea6	0.764			
Tangibility	Tan1	0.818	0.689	0.930	0.909
	Tan2	0.851			
	Tan3	0.769			
	Tan4	0.808			
	Tan5	0.880			
	Tan6	0.850			
Assurance	Ass1	0.793	0.664	0.922	0.899
	Ass2	0.782			
	Ass3	0.782			
	Ass4	0.830			
	Ass5	0.859			
	Ass6	0.839			
Sincerity	Sin1	0.885	0.777	0.946	0.928
	Sin2	0.883			
	Sin3	0.888			
	Sin4	0.862			
	Sin5	0.888			
Formality	For1	0.785	0.642	0.899	0.860
	For2	0.856			
	For3	0.868			
	For4	0.702			
	For5	0.784			
Personalization	Per2	0.864	0.770	0.944	0.925
	Per3	0.882			
	Per4	0.867			
	Per5	0.892			
	Per6	0.883			

Compliance	Com1	0.800	0.665	0.908	0.874
	Com2	0.820			
	Com3	0.824			
	Com4	0.830			
	Com5	0.802			
Responsiveness	Resp1	0.794	0.749	0.937	0.916
	Resp2	0.879			
	Resp3	0.774			
	Resp4	0.810			
	Resp5	0.811			
	Resp6	0.764			
Convenience	Conv1	0.707	0.600	0.899	0.866
	Conv2	0.747			
	Conv3	0.849			
	Conv4	0.766			
	Conv5	0.776			
	Conv6	0.793			
Customer Satisfaction	Cus1	0.916	0.839	0.954	0.936
	Cus2	0.919			
	Cus3	0.901			
	Cus4	0.927			

Then, in order to ensure that the constructs are distinct between one and another, a discriminant validity assessment was conducted. Table 1.3 shows the results of the Fornell-Larcker criterion assessment. Overall, the square roots of the reflective constructs AVE are higher than the correlations of these constructs with other latent variables in the path model (Hair et al., 2014) indicating that the discriminant validity was established for the study constructs.

Table 1.3: Discriminant Validity (Fornell-Larcker Criterion)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Reliability (1)	0.806									
Tangibility (2)	0.680	0.830								
Assurance (3)	0.719	0.755	0.815							
Sincerity (4)	0.683	0.681	0.778	0.881						
Personalization (5)	0.624	0.605	0.674	0.777	0.878					
Formality (6)	0.623	0.674	0.745	0.808	0.762	0.801				
Compliance (7)	0.556	0.533	0.599	0.625	0.591	0.584	0.815			
Responsiveness (8)	0.609	0.614	0.692	0.763	0.824	0.759	0.611	0.866		
Convenience (9)	0.488	0.547	0.556	0.552	0.581	0.566	0.558	0.631	0.774	
Satisfaction (10)	0.641	0.623	0.677	0.751	0.737	0.698	0.665	0.777	0.636	0.916

Note: diagonal represents the square root of the AVE and the off-diagonal represent the correlations

However, the ability of Fornell and Larcker’s criterion in assessing discriminant validity reliably has been criticised (Henseler et al., 2015). As such, the HTMT ratio of correlations has been proposed as a better measurement of discriminant validity. Table 1.4 shows the result of discriminant validity assessment using HTMT developed by Henseler et al. (2015). All the values stated are lower than the required threshold of HTMT of 0.90 (Gold et al., 2001), indicating that discriminant validity is established for the studied constructs.

Table 1.4: Discriminant Validity (HTMT)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Reliability (1)										
Tangibility (2)	0.756									
Assurance (3)	0.808	0.834								
Sincerity (4)	0.749	0.740	0.730							
Personalisation (5)	0.685	0.659	0.732	0.838						
Formality (6)	0.707	0.758	0.842	0.895	0.846					
Compliance (7)	0.630	0.597	0.673	0.693	0.656	0.676				
Responsiveness (8)	0.668	0.671	0.750	0.825	0.894	0.846	0.682			
Convenience (9)	0.550	0.611	0.624	0.610	0.642	0.649	0.634	0.701		
Satisfaction (10)	0.700	0.673	0.730	0.806	0.791	0.768	0.734	0.837	0.701	

5.2 Structural Model

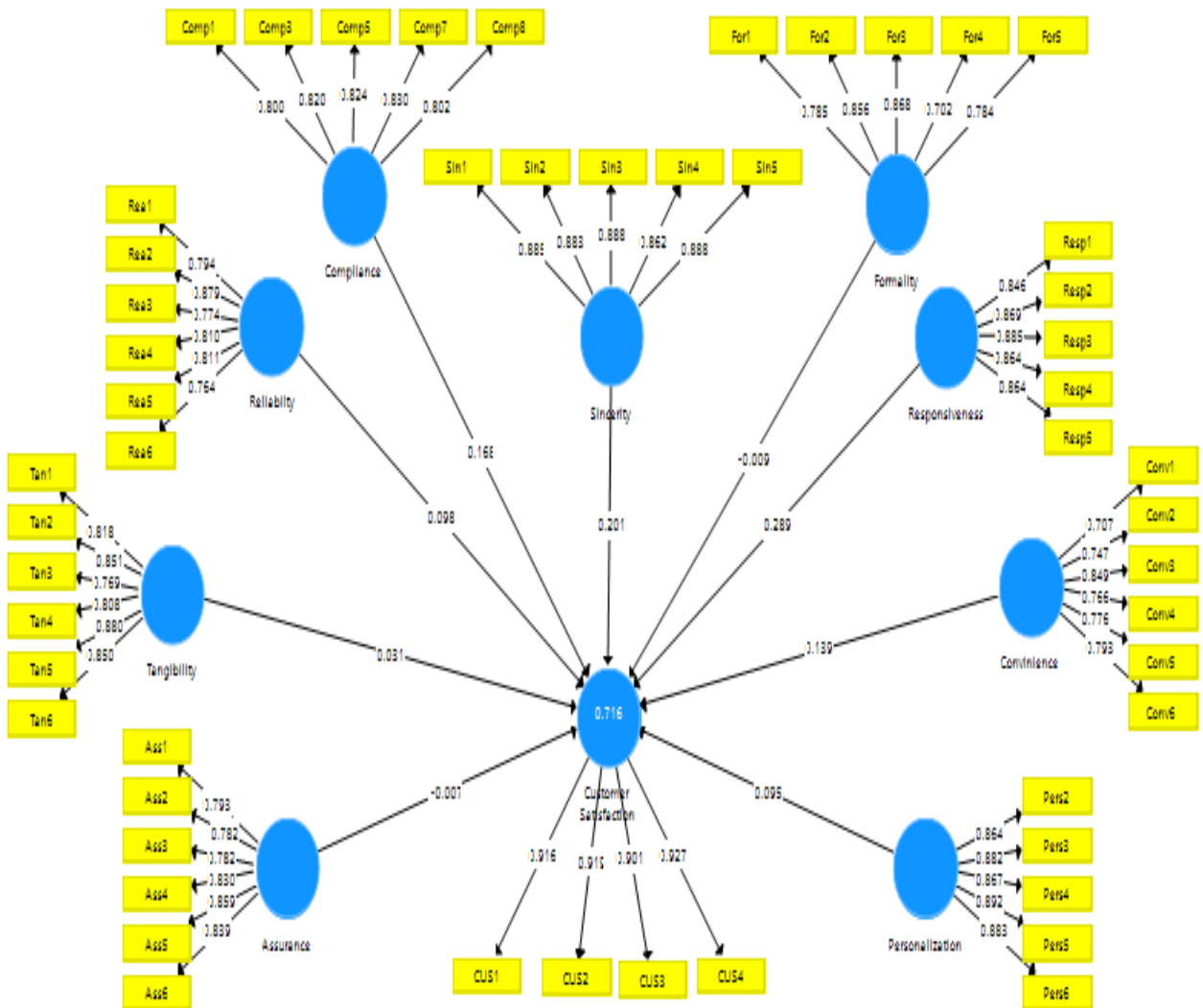
The structural or inner model represents the relationship between constructs or latent variable as hypothesised in the research model (Hair et al., 2014). First, collinearity assessment was conducted and the result shows that all the VIF values are below the threshold of 5 (Hair et al., 2017) indicating that collinearity among the predictor constructs is not an issue. Then, the structural path of the model was examined. Table 1.5 describes the summarised results of the proposed structural model. Critical values for a two-tailed test are 1.65 (significance level=10%), 1.96 (significance level=5%) and 2.57 (significance level=1%) (Hair et al., 2014). However, in application, researchers should consider path coefficients with a 5% or less probability error as significant (Hair et al. 2014). Based on this, the results show that five service quality dimensions are significant in determining customer satisfaction towards Malaysian Islamic banks. Among the five significant dimensions, responsiveness demonstrates the largest path coefficient ($\beta = 0.289$, $p < 0.01$), followed by sincerity ($\beta = 0.201$, $p < 0.01$), compliance ($\beta = 0.168$, $p < 0.01$), convenience ($\beta = 0.139$, $p < 0.05$) and reliability ($\beta = 0.112$, $p < 0.05$). Finally, as shown in Figure 1, the R^2 value for customer satisfaction is 0.716 where following the rules of thumb, the R^2 value is considered as substantial (Hair et al., 2014).

Table 1.5: Hypotheses Testing Results

Hypothesis	Path Coefficient.	t- statistics	p-values	Decision
H1: Reliability \rightarrow customer satisfaction	0.112	2.121**	0.034	Supported
H2: Tangibility \rightarrow customer satisfaction	0.031	0.482 (n.s)	0.630	Not supported
H3: Assurance \rightarrow customer satisfaction	-0.007	0.104 (n.s)	0.917	Not supported
H4: Sincerity \rightarrow customer satisfaction	0.201	3.216***	0.001	Supported
H5: Formality \rightarrow customer satisfaction	-0.009	0.167 (n.s)	0.867	Not supported
H6: Personalization \rightarrow customer satisfaction	0.095	1.511 (n.s)	0.131	Not supported
H7: Compliance \rightarrow customer satisfaction	0.168	2.933***	0.003	Supported
H8: Convenience \rightarrow customer satisfaction	0.139	2.466**	0.014	Supported
H9: Responsiveness \rightarrow customer satisfaction	0.289	3.913***	0.000	Supported

Note: *** $p < 0.01$, ** $p < 0.05$, n.s. not significant

Figure 1: PLS Generated Result: Coefficient of Determination (R²)



5.3 Importance-Performance Matrix Analysis (IPMA)

Importance-performance matrix analysis (IPMA; also known as importance performance map analysis or priority map analysis) is one of the analytical tools in PLS-SEM (eg: Höck et al., 2010). The purpose of using IPMA is to identify relatively low performance attributes with high importance value towards targeted constructs (Ringle and Sarstedt, 2016). In the context of quality, Fathi et al. (2011) mentioned that measuring existing performance to develop an appropriate strategy is a key element in quality assurance. Generally, IPMA provides guidance for the prioritization of important managerial activities underlying the selected target, which require performance improvements.

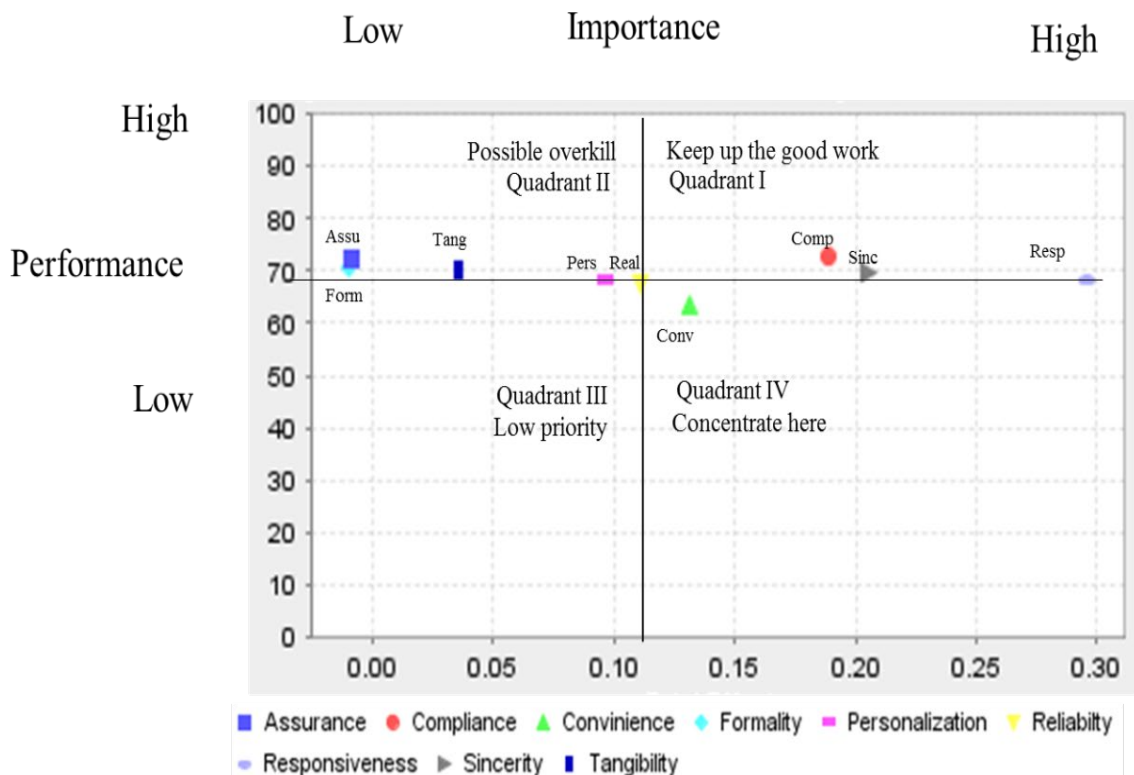
In this study, customer satisfaction is a target construct, which predicted by nine variables namely: reliability, tangibility, assurance, sincerity, personalization, formality, compliance responsiveness and convenience. Table 1.6 provides result of importance-performance values score. It displays that ‘responsiveness’ has the highest importance score, 0.295. This could be interpreted that an increase by one-unit point in responsiveness quality by the Malaysian Islamic banks will increase the overall customer satisfaction by 0.295 (*ceteris paribus*). However, the performance ranks seventh (68.19) after compliance (72.64), assurance (72.40), formality (70.56), tangibility (69.96), sincerity (65.59) and personalization (68.53).

Table 1.6: Importance, Performance and Mean Value

	Importance	Performances
Responsiveness	0.295	68.19
Sincerity	0.206	69.59
Compliance	0.189	72.64
Convenience	0.131	63.43
Reliability	0.111	67.79
Personalization	0.096	68.53
Tangibility	0.035	69.96
Assurance	0.009	72.40
Formality	0.010	70.56
<i>Mean Value</i>	<i>0.120</i>	<i>69.23</i>

For a better orientation, Figure 2 shows the mapping of the dimensions into four quadrants with importance and performance values below and above the average (mean value). Figure 2 demonstrates that two significant dimensions: compliance and sincerity are performing well as they are classified in the first quadrant. However, another two dimensions which are convenience and responsiveness fell in the fourth quadrant which should be taken corrective actions as both dimensions are important but do not perform well. On the other hand, assurance, formality and tangibility are classified in the second quadrant or ‘possible overkill’. This shows that these factors are less important but have been treated in an utmost significant. Meanwhile, reliability and personalization are nearing the third quadrant known as ‘low priority’ indicating that both attributes are of less importance and have been treated as they are.

Figure 2: Importance-Performance Map (Construct Level) of Satisfaction



6. Discussion and Conclusion

This study examines nine service quality dimensions to identify their capabilities in enhancing customer satisfaction towards Malaysian Islamic banks. The results show five dimensions have significant relationship with customer satisfaction namely reliability, responsiveness, sincerity, compliance, and convenience. This is in line with the previous studies who have also found a significant relationship between the five variables and customer satisfaction. For example, the relationship between reliability and customer satisfaction has been proven positive and significant in various context before (Janahi and Al Mubarak, 2017; Haron et al. 2020; Kashif et al., 2016; Khamis and AbRashid, 2018). The same goes to responsiveness where Khamis and AbRashid (2018) have also found the same significant result in the context of Islamic bank in Tanzania, while Janahi and Al Mubarak (2017) found it to be significant in influencing customer satisfaction in Bahrain's Islamic bank. On the other hand, similar with other studies that applied PAKSERV model before, sincerity also has been found positive and significant in influencing customer satisfaction (Haron et al., 2020; Karami et al., 2016; Kashif et al., 2016). In addition, in line with Anouze et al. (2019) who found a significant relationship between convenience and satisfaction in the context of Islamic banks in Jordan, this study also found the same, indicating the importance of the distance and time taken by banks in serving customers. Finally, as expected, compliance also has been found positive in influencing customer satisfaction which is similar to the findings of Anouze et al. (2019) and Janahi and Al Mubarak (2017).

In contrary, there are four variables found to be insignificant in influencing customer satisfaction which are tangibility, assurance, personalisation and formality. The insignificant relationship between tangibility and customer satisfaction is inconsistent to some studies such as Haron et al. (2020), Kashif et al. (2015) and Kashif et al. (2016) but in line with Rehman (2012), Badara et al. (2013) and Khamis and AbRashid (2018). This insignificant relationship could be due to several factors among others it is said that the bank physicality such as the building, equipment and employee appearance are expected by customers to be in good condition but their presence does not make the customers more satisfied. However, the failure of the bank to provide the expected basic tangible features could cause negative perception.

Meanwhile, despite past researchers' claim that assurance is an important dimension (Fauzi and Suryani, 2019; Haron et al., 2020; Janahi and Al Mubarak, 2017), this study however found that assurance is not significant in influencing customers' satisfaction towards Islamic bank. This result nevertheless is similar with Shariff (2013) as well as Khamis and AbRashid (2018). In this regard, a conceivable explanation is that majority of the respondents in this study merely held savings and current accounts with Islamic banks. These products are actually basic services offered by Islamic bank which require minimal explanation by bank personnel compared to other complex financial services such as property, auto and personal financing (Mahdzan et al., 2017). In general, customers will interact closely with bank personnel for financial products, which are considered more complicated as opposed to savings or current account. Therefore, respondents in this study may not often have inquiries with the employees.

On personalisation and formality, these two variables can be regarded as new dimensions that have been introduced by Raajpoot (2004). Past studies that applied PAKSERV as their main model for service quality proved both dimensions to be significant in influencing customer satisfaction (Karami et al., 2016; Kashif et al., 2015; Kashif et al., 2016; Raajpoot, 2004; Saunders, 2008). Studies conducted in Malaysia also signify personalisation and formality as contributors to customer satisfaction (Haron et al., 2020; Kashif et al., 2015). Historically, personalization has been added by Raajpoot (2004) in replacing responsiveness. One of the reasons for such result may be due to the existing responsiveness dimension. Customers prefer employees being more responsive rather than the service being personalized individually. Apart from that, due to compliance factor, most customers will abide by all Islamic banking service and product. Even though Malaysia is well known as an Islamic hub globally and majority of the population are Muslims, consumers' knowledge and understanding of Islamic banking is very much lacking (Mahdzan et al., 2017). Most customers seem to put trust towards Islamic banks in handling their financial process as Muslims believe business practices of Islamic banks are part of their worship where all products and services are based on religion (Janahi and Al Mubarak, 2017). Thus, rather than personalizing the service or product by themselves, it is better to follow the advice and recommendations given, as the products are somewhat standardized. The same goes to formality as the customer seems to know their priority in choosing Islamic bank due to its Islamic financial system, thus formality is seen as unimportant compared to other elements.

Despite these findings, interestingly, the IPMA analysis shows that two of the important dimensions, namely convenience and responsiveness, fell in the fourth quadrant or 'concentrate here'. This indicates that customers regarded such attributes as significant, but were not satisfied with their performance, so this area demands for special attention. Thus, it is vital for the management to provide immediate attention in responsiveness and convenience dimensions in delivering their services so that customer satisfaction could be improved. On the other hand, compliance and sincerity are significant in contributing towards customer satisfaction as they fell in the first or 'keep up the good work' quadrant. This indicates that Malaysian Islamic banks have performed well on keeping the high value of sincerity and compliance criteria. As such, the performance of both dimensions need to be maintained and even can be further improved in order to continuously create customer satisfaction. Meanwhile, this study also reveals that few dimensions (assurance, formality and tangibility) are in the second or 'possible overkill' quadrant. This provides insights to managers that these dimensions are less important but have been treated more than what is required. As such, resources committed to these attributes could be better used to improve performance of other more important dimensions. As for reliability and personalization which fall in the third or low 'priority quadrant' indicates that managers of Islamic banks manage these two dimensions effectively.

6.1 Implications

This study offers several implications. Theoretically, this study has integrated several service quality dimensions which come from SERVQUAL, CARTER and PAKSERV models. As the SERVQUAL dimensions measure service quality especially from the Western's perspective, while CARTER looks into the Islamic elements and PAKSERV contain cultural aspects, this study specifically has developed a new set of service quality dimensions that could test the significance of both religion and cultural aspects in predicting customer satisfaction. In addition, this study also showed that two dimensions from SERVQUAL namely tangibility and assurance, have an insignificant relationship with customer satisfaction, while another SERVQUAL dimension which is reliability was deemed the least important dimension in determining customer satisfaction. This reaffirms Islam et al. (2015) statements on how SERVQUAL dimensions have failed to reach a standard in measuring service quality. Similarly, Prakash and Mohanty (2013) disputed SERVQUAL capability by highlighting the need to employ cultural specific quality scales in reporting service quality. Besides that, the results of this study also have shown that the relationship between religion and culture as compliance is the most significant service quality dimension which influences customer satisfaction. This is followed by other three PAKSERV dimensions sincerity, personalisation and formality. It seems Malaysian Islamic bank customers have reacted towards both factors. Halman and Luijkx (2006) stated that, dominant religion has presumably left a long-lasting imprint on cultures and may shape people's attitudes even if they are not religious.

Practically, the study findings suggest that Islamic banking practitioners can devise several strategies in creating satisfaction via service quality. First, compliance and sincerity need to be maintained as these two dimensions are the most significant and are performing well. While observing operations to strictly follows the Shariah (Islamic laws) by avoiding elements of *riba* (interest), *gharar* (uncertainty) and *maisir* (gambling) is regulatory prerequisite, communicating these aspects via strong brand image need to become a continuous effort. Islamic banks could take proactive action to educate customers by organising more talks sharing on *muamalat* (Islamic transactions), sponsoring relevant television programme or CSR related activities so that the Shariah compliant image could be further enhanced. Whereas, in conveying the characteristics of sincerity, the employees need to show honesty and project a sincere behaviour by having a good knowledge and extending useful advice. Helping customers to have clear understanding and wipe out their worries on the Islamic banking system will lead them to be satisfied on Islamic banks. In order to ensure that employees could interact well with customers, Islamic bank as such is recommended to properly educate and train them, especially on Islamic banking products and services. This step is a 'double-sword strategy' where it helps the organisations to improve quality of services and at the same time, to further enhance customer's awareness and knowledge about the Islamic banking system (Maulan et al., 2016).

On top of that, Islamic bank managers should focus to improve the convenience and responsiveness dimensions as these elements are vital yet underperform. In this digital era, Islamic banks must intensely invest in technologies to transform the way they conduct and distribute banking services (Bernama, 2019). Leveraging on technologies increase responsiveness and provide more convenience to the customers. For

example, automated response systems and direct extension options can route calls to appropriate employee faster while technology services channels such as chat box, e-mail and text messages could address service issue more quickly thus improves customer service responsiveness. It is no longer adequate to simply put up a website but in order to thrive in today's environment, Islamic banks need to evolve together with the rapid technological advances. Since more than sixty percent of the respondents are below 35 years old, this provides insights that as more millennials come to the forefront of the society, newer service technologies such as electronic transfer, online banking and mobile apps are becoming more important. The embrace of internet-of-thing, mobile devices, social media integration, big data analytics and artificial intelligences will make banking transactions more automated, user friendly and more convenient, thus giving customers superior service quality delivery.

As for policy makers, Malaysian Islamic banking landscape has been well supported with regulatory, prudential, legal and accounting framework. Initiatives to promote greater education and awareness are also reinforced by numerous education and research institutes. Nevertheless, as Malaysia is practicing a dual banking system, continuous benchmarking exercise within the industries may be put in place. Appreciating the dynamic changes of the industries not only locally but also globally, practitioners and regulators will need to be kept abreast with expectations from all stakeholders. For instance, the national and global recognition and awards will make the presence of the Islamic banks be felt not only locally but also regionally and internationally. This exercise also should shed some light on what is being practiced on other parts of the globe in search of the best way to serve the clients.

6.2 Suggestions for Future Studies

Nevertheless, more research needs to be done in the future. This effort will contribute not only to the academic field, but to the Islamic banking practitioners. This study is conducted in Malaysia, specifically the Klang Valley. Future research may replicate this study in different contexts particularly in *halal* industries where compliance to Shariah is an important dimension. Replicating this study for Islamic banks in different countries may also yield interesting findings. Indeed identifying service quality priority may assist Islamic banks managers to further enhance the performance of Islamic banking industry so that it will sustain for many more years ahead.

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