

# Service Quality Evaluation of Islamic Banks in UAE: An Importance-Performance Analysis Approach

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## Abstract

The landscape of modern financial institution has seen its dominance not only by conventional banks but also Islamic banking system. The intense competition brought about due to this development has earned service quality an important determinant of customer loyalty. As such this study is aimed at evaluating the service quality of Islamic banks, particularly in the UAE. The analysis is done using descriptive statistics and importance-performance analysis method. The finding shows that attributes plotted in quadrant “concentrate here” are speedy approval of financing proposal, speedy approval of opening new account, cost of services and products, and Islamic working environment. It shows that the performance of those attributes needs to be improved in order to maintain existing and attract new customers. Meanwhile, attributes plotted in quadrant “possible overkill” are internet banking and variety of the banking products. Hence, effective and efficient services are still considered as the main factors affecting customer satisfaction and bank management should wisely and carefully manage those attributes in the future.

*Keywords:* Service quality, importance-performance analysis, Islamic banks, UAE

## 1. Introduction

Total asset of Islamic banking industry is expected to maintain its current growth momentum in the future. Numerous surveys indicated that Islamic banking assets with commercial banks globally grew to \$1.3 trillion in 2011, suggesting an average annual growth of 19% over the past four years. The proponents of Islamic banking forecast that the growth continues to be positive at a growing rate of 50 percent above the overall banking sector.

The development of the modern Islamic banking system can be traced from the establishment of Dubai Islamic Bank in United Arab Emirates (UAE) in 1975 which is considered as the first full-fledged Islamic commercial bank. Since its inception, the number of financial institutions operating in line with *sharia* has mushroomed. Dubai Islamic Bank was the only existing Islamic bank for some period until the incorporation of Sharjah Islamic bank in 1976. In 1997 and afterwards, many new

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Islamic banks were established through conversion from conventional to Islamic, or by incorporation of new Islamic banks. Table 1 highlights the detail about the establishment years of Islamic banks Incorporated in UAE.

The number of Islamic banks in UAE currently amount to eight banks namely Abu Dhabi Islamic Bank, Ajman Bank, Dubai Islamic Bank, Emirates Islamic Bank, Sharjah Islamic Bank, Dubai Bank, Noor Islamic Bank, and AL-Hilal Bank with total branches is 260 all around UAE. By the end of 2010, the collective assets of the eight Islamic banks in UAE was estimated at Dh269 billion, accounting for around 16.2 per cent of the overall banking assets in UAE which is Dh1.66 trillion (Dubai Chamber, 2011). The Islamic banking industry controlled about Dh198bn of the total banking deposits and accounted for around 10.9% of the total deposits comprises of 23 national banks and 28 foreign units. According to Dubai Chamber of commerce (2011), Islamic banks in the UAE have recorded steady growth because of the rising demand for shariah-compliant banking business and it is expected to continue in the coming years due to an increase in income and population.

Table 1. Establishment year of Local Islamic banks in U.A.E

<b>Islamic Banks</b>	<b>Year of Establishment</b>
Dubai Islamic bank	1975
Sharjah Islamic bank	1976
Abu Dhabi Islamic bank	1997
Dubai bank	2002
Emirates Islamic bank	2004
Noor Islamic bank	2007
Al Hilal Islamic bank	2008
Ajman Islamic bank	2008

Based on the fact that Islamic banking operation is avoiding interest based activities and promotes more on the profit and loss sharing concepts, one of the major concerns is its ability to maintain stable deposits while ensuring that it is growing. For a country with dual banking system like UAE, Islamic banks are facing greater possibility of customers switching action since other banks are also offering similar products and services. The situation becomes worsened when other banks are offering better services and higher returns on deposit. The service quality issue, therefore, deserve considerable attention by Islamic bank practitioners in order to

maintain stability and sustainable volume of deposits required by Islamic banks. In line with this, the current study is aimed at assessing the service quality of Islamic banks in UAE from the customers' perspective. The finding is expected to provide better understanding towards customers banking behaviour in UAE Islamic banking industry that could benefit both academics and practitioners.

The rest of the paper is organized as follow. Section two is the review of past studies showing the importance of conducting research in service quality area. Section three involves the discussion of the samples, methods and findings from the analysis. Section four presents the conclusions while section five provides suggestions and directions for future research.

## **2. Literature Review**

Customer satisfaction is central to optimal performance and financial returns. With better understanding of customers' perceptions, companies can determine the actions required in meeting the customers' needs. Particularly they can identify their own strengths and weaknesses (Khattak & Rehman, 2010). A key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services. Thus, both product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers (Amin and Isa, 2005). Furthermore, Amin and Isa (2008) found that the relationship between service quality and customer satisfaction was significant.

Nasser et al (1999) found that customer satisfaction is often related to factors such as service quality and service features e.g. convenience, competitiveness, and location of service provider. Al-Tamimi and Jabnoun (2002) examined service quality at UAE commercial banks by using SERVQUAL model and included thirty attributes in the five dimensions of SERVQUAL. They found that the customer satisfaction only be driven by three significant dimensions i.e. reliability, assurance, and tangibility. In Qatar, Hossain and Leo (2009) conducted a survey upon 120 bank customers and found that tangibles area had received highest appreciation from the customers and the competence area received the lowest.

Okumuş (2005) evaluated the customer satisfaction towards Islamic banking service quality in Turkey and found that the factor of "speedy in completing a transaction", "quality of the advise offered by the employees", and "staff friendliness" received the highest satisfaction scores. The findings suggested that the bank should improve their products since the relationship between customers and the bank relies heavily on the efforts of the staff, not with the products offered. Similar findings also provided by Rashid et.al (2009) who done the study in Bangladesh and found that other than

religion, factors like depositors' desire to achieve highest return, convenient financial transactions system, consistency in service with uniformity, and higher cost-benefit implications were substantial to clients for choosing their intended services.

In a related study, Abu Bakar and Tahir (2007) employed descriptive statistics analysis to evaluate the level of service quality of commercial banks in Malaysia. Five key dimensions of commercial banks' service quality were analyzed, namely tangibility, reliability, responsiveness, assurance, and empathy. The results indicated that the overall service quality level provided by the commercial banks was below customers' expectations. In addition, responsiveness was rated as the most important dimension followed by reliability, tangibility, assurance, and empathy.

Regarding the increasing competition between Islamic and conventional banks to attract new customers, Awan et.al (2011) investigated the service quality and its relationship to customer satisfaction among the customers of conventional and Islamic banks in Pakistan. They identified five service quality dimensions namely empathy, service architecture, convenience service encounter, employee service criteria, and customer focus and five customer satisfaction dimensions namely responsiveness, competency, safe transaction, competitive services and knowledge for overall banking industry. The results validated the importance of service quality aspects in bank patronizing behaviour for conventional and Islamic banks' customers. Similarly, Ahmad et.al (2010) also examined the perception of bank customers upon the quality level of products and services offered by Islamic and conventional banks in Pakistan. Interestingly, they concluded that customers of Islamic banks have greater expectations towards service quality of their banks as compared to the customers of conventional banks.

Rehman (2012) investigated the relationship between customer satisfaction and six dimensions of service quality (CARTER model) in Islamic banks of Pakistan, UK and UAE. It was found that Islamic bank customers in Pakistan and UK have considered the dimensions of assurance, reliability and empathy as significant factors for customer satisfaction, whereas Islamic bank customers in UAE consider assurance and tangible as significant dimensions affecting their banking satisfaction.

Abduh (2011) has taken Islamic banks in Indonesia as a case to evaluate the service quality and exploring the withdrawal behaviour of depositors based on their perspective toward service quality. The result of the empirical survey reveals that:

1. There are five important dimensions in Islamic banking services namely reliability, bank-customer relationship, tangibles, shariah, and rates and charges.

2. Depositors have positioned 'shariah' as the most important dimension which violation done upon it by Islamic bank could lead them to the withdrawal action
3. The next important dimensions are 'tangibles' and 'rates and charges'. He asserted that withdrawal risk can be the most potential risk to be taken into account.

For the case of Islamic banking in UAE, Al-Tamimi and Al-Amiri (2003) evaluated service quality in the UAE Islamic banks and made a comparison of service quality between Dubai Islamic Bank and Abu Dhabi Islamic Bank. They found a significant and positive relationship between customer satisfaction and the overall service quality from the SERVQUAL dimensions. In addition, they also indicated that empathy and tangibles are the most important dimensions to maintain the satisfaction of the customers.

In the current banking scenario, the bank must have a positive reputation in term of providing excellent services. As a result, banks nowadays must aim of becoming world-class standard, committed to excellence in customers' satisfaction, and to play a major role in economic growth and investment diversification. This is a remarkable change that currently witnessed in the banking industry as compared to the last few decades. Today, customers are increasingly becoming conscious of international standard service quality from banks. In addition, with various choices available, customers are not willing to compromise quality. Therefore, banks must be able to recognize the needs and aspirations of the customers regarding banking. Consequently, service quality is a critical motivating force to drive the bank up in the contemporary high technology ladder which obviously has become one of the most interesting research areas.

### **3. Data and Methodology**

#### **3.1. Data**

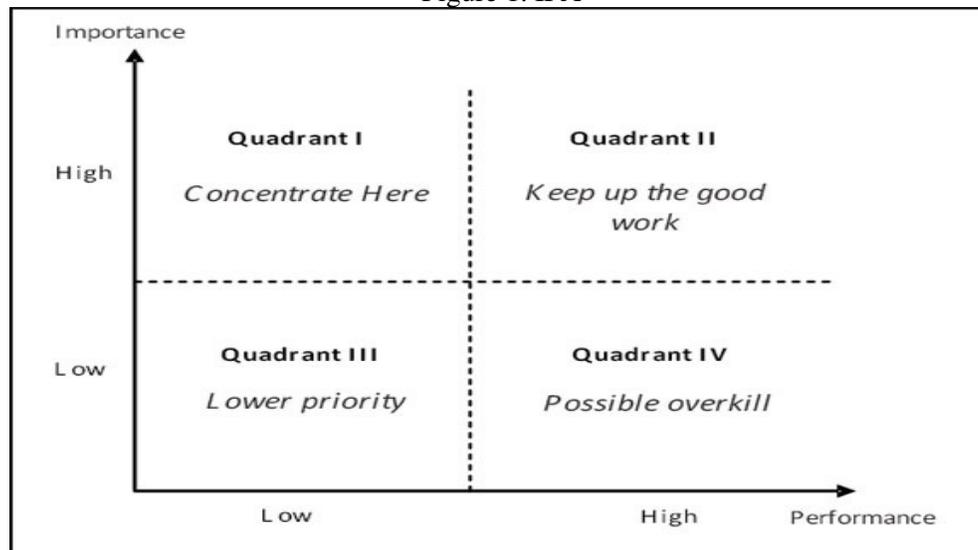
Sample are collected within 1 month period i.e. February 2013 to March 2013 and the questionnaire used to collect data is adapted from Abduh (2011) and distributed to about 300 potential respondents who are Islamic bank customers in Abu Dhabi, Dubai, Sharjah, and Ajman. We were able to collect back all the distributed questionnaires, however, due to many missing responses; there were only 120 usable questionnaires that were subsequently used in the analysis.

### 3.2. Importance and Performance Analysis (IPA)

Importance and performance analysis (IPA) is used in this paper in order to provide a visual analysis of customers' assessment upon Islamic banking services. Customers' views are plotted onto importance-performance grids which offer banking strategists a straightforward, graphic illustration of service dimension that customers considered to be salient and well-addressed by current installations of Islamic bank services. The points will fall into one of four quadrants labelled "keep up the good work", "possible overkill", "low priority", and "concentrate here" (see figure 1). The four quadrants in importance-performance analysis are characterized as:

- I. Concentrate here - high importance, low performance: requires immediate attention for improvement and are major weaknesses.
- II. Keep up with the good work - high importance, high performance: indicate opportunities for achieving or maintaining competitive advantage and are major strengths.
- III. Low priority - low importance, low performance: are minor weaknesses and do not require additional effort.
- IV. Possible overkill - low importance, high performance: indicate that business resources committed to these attributes would be overkill and should be deployed elsewhere.

Figure 1. IPA



matrix

To confirm which of the attributes tested are important and which are non-important, initially mean importance rating were computed for each attribute. For example, for 'internet banking', we compute the mean for importance rating. Afterwards, we

compute the mean for all attributes and these mean scores were summed across attributes and divided by the number of attributes to get the grand mean. The attributes which had averages exceeded the grand mean were designated as 'high importance' and those which had lower means compared with the grand mean were labelled as 'low importance' attributes. Similar procedures applied to determine the higher and the lower performance.

#### 4. Findings and Discussion

##### 4.1. UAE Islamic Banks Attributes Ranking Analysis

Table 2 presents most important attributes and their performance level from the perspective of the Islamic banking customers in UAE. As can be seen, customers ranked Location of ATM (Q8); Speedy approval of financing proposal (Q11); Speedy approval of opening new account (Q10); Shariah compliance banking products (Q14) and; Fast and efficient services (Q2) as the most important attributes that drive them to use Islamic banking services. However, some attributes which have been perceived high importance are assessed with low performance level such as Speedy approval of financing proposal (Q11); Speedy approval of opening new account (Q10). Interestingly, Shariah compliance banking products (Q14) and Islamic working environment (Q13) which are carrying Islamic identity are not placed as most importance attributes. This implies that professionalism is still considered as the main factors affecting customer satisfaction.

**Table 2. Ranking of 'Importance' and 'Performance' by Respondents**

Question Item / Attributes	Mean Imp.	Rank Imp.	Mean Perf.	Rank Perf.
8 Location of ATM	3.9464	1	3.6429	4
11 Speedy approval of financing proposal	3.9286	2	3.5089	9
10 Speedy approval of opening new account	3.9196	3	3.4911	12
14 Shariah compliance banking products	3.8661	4	3.6875	3

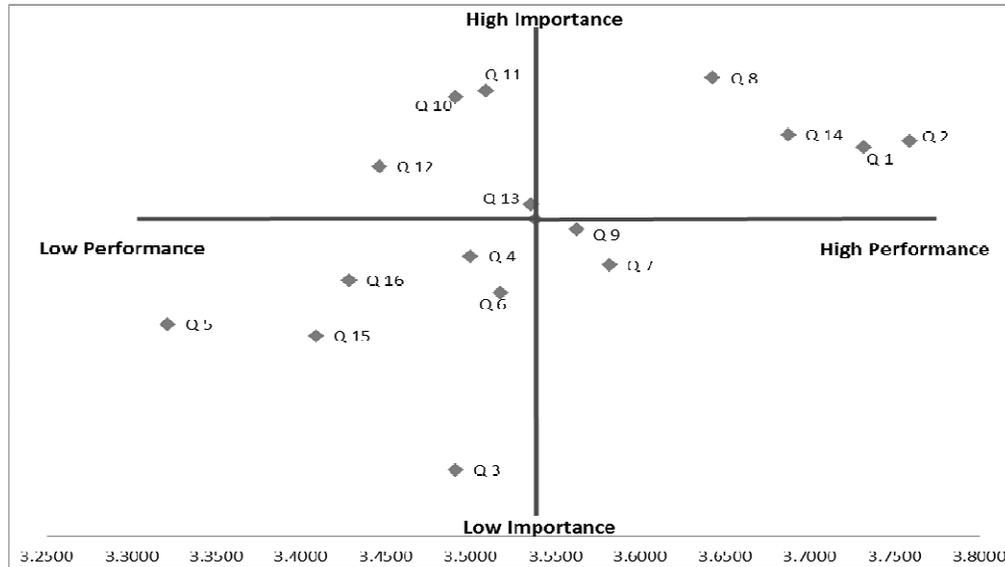
Question Item / Attributes		Mean Imp.	Rank Imp.	Mean Perf.	Rank Perf.
2	Fast and efficient services	3.8571	5	3.7589	1
1	Friendly personnel	3.8482	6	3.7321	2
12	Cost of services and products	3.8214	7	3.4464	13
13	Islamic working environment	3.7679	8	3.5357	7
9	Internet Banking	3.7321	9	3.5625	6
4	Comfort in the waiting/queue area	3.6944	10	3.5000	10
7	Variety of the banking products	3.6818	11	3.5818	5
16	Service on financial counselling	3.6607	12	3.4286	14
6	Bank's advertisement	3.6429	13	3.5179	8
5	Parking facilities and accessibility	3.5982	14	3.3214	16
15	Info on Banks' CSR activities	3.5818	15	3.4091	15
3	Rate of return	3.3929	16	3.4911	11

Note: Imp. is 'importance'; Perf. is 'performance'.

#### 4.2. Importance-Performance Analysis

The intersection in the IPA is made available using the mean level of importance at 3.7463 and the mean level of performance 3.5385. In quadrant I, which is "concentrate here", customers perceive the attributes as very important, but the perceptions of performance levels are below average. Thus, further improvement efforts should be concentrated on the attributes of speedy approval of financing proposal (Q11), speedy approval of opening new account (Q10), cost of services and products (Q12), and Islamic working environment (Q13). In contemporary banking era where competition is very intense and many institutions are offering similar products and services, cost of services and service speed has become highly important for the customers and they are willing to move to other financial institutions whenever they feel that the services are very slow. Interestingly, Islamic working environment is considered very important for the customers and thus, management should pay an attention on this issue, for example the dressing style, behaviour and attitude of front liner female staffs.

**Figure 2. Customer IPA grid**



Attributes of location of ATM (Q8), shariah compliance banking products (Q14), fast and efficient services (Q2), and friendly personnel (Q1) are plotted in quadrant II, “keep up the good work”, which means that they are perceived to be very important and had achieved good performance from the customers’ perspective. These attributes are the strengths of the bank and managers should keep up the good work in maintaining their performance and delighting their customers, as otherwise, these attributes might risk falling into the “concentrate here” quadrant.

Some of the attributes that are perceived as “low priority” and plotted in quadrant III are comfort in the waiting/queue area (Q4), service on financial counselling (Q16), bank’s advertisement (Q6), parking facilities and accessibility (Q5), info on Banks’ CSR activities (Q15), and rate of return (Q3). One of the main reasons in plotting those attributes in “low priority” quadrant is because bank customers see those attributes as standard attributes and other banks are also offering similar facilities with similar quality level. Therefore, there is no urgent need for bank management to improve those attributes’ performance in the short term planning.

In quadrant IV, which is “possible overkill”, there are two attributes namely internet banking (Q9) and variety of the banking products (Q7) that are rated by customers to

be of low importance with high performance. Here, the customers are very satisfied with the bank's performance. However, all the continuous effort in delivering those services to the customers will be futile when customers are already contented. Therefore, present efforts on attributes plotted in this quadrant are exaggerated and bank management should consider allocating their resources elsewhere, especially on those attributes in the "concentrate here" quadrant, to maintain existing and attract new customers and thus yield a higher return.

## 5. Conclusion

This study is aimed at evaluating the level of service quality in UAE Islamic banking industry using importance and performance analysis technique. At the final analysis, all attributes are plotted in four possible quadrants namely "concentrate here", "keep up the good work", "low priority", and "possible overkill". Bank management should give more attention to attributes in quadrant of "concentrate here" and "possible overkill".

Attributes perceived to be in quadrant "concentrate here" based on the customers response are speedy approval of financing proposal (Q11), speedy approval of opening new account (Q10), cost of services and products (Q12), and Islamic working environment (Q13). Meanwhile, attributes perceived to be in quadrant "possible overkill" by the customers are internet banking (Q9) and variety of the banking products (Q7). In general, bank management should give more attention to attributes placed in these two quadrants in order to retain existing customers and prevent them from switching to other banks. This is because attracting new customers is more costly than maintaining existing customers. Therefore, any customers' complaints or disappointments upon bank's service quality must be treated wisely and carefully.

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