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Elixir of the Service Quality of Islamic Banking Sector in Bangladesh

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Abstract

Islamic Banking Sector (IBS) is the most influential domain in the economic development of Bangladesh. In the 21st century, IBS has passed thirty years glorious journey creating huge competition considering its service quality and achieved a remarkable growth. Service Quality (SQ) is the most significant affecting factor for remarkable growth of IBS in Bangladesh from 1983 to 2013. Thus, this research work attempts to determine the elixir of the service quality of Islamic Banks existed in Bangladesh as Islamic Banking Sector using Structural Equation Modelling (SEM). This research uses modified CARTER model (Compliance of Islamic Shariah, Reliability, Assurance, Tangibility, Empathy and Responsiveness) consisting of 34 (thirty four) dimensions with 6 (six) constructs. A total of 396 samples have been used from 6 (six) full pledged Islamic banks in Bangladesh. This study reveals that 20 (twenty) factors have found as the elixir of service quality of Islamic banks in Bangladesh where assurance is the most significant construct followed by reliability, tangibility, empathy, responsiveness and tensely compliance of Islamic Shariah.

Index terms— islamic banking sector (IBS), elixir, service quality (SQ), carter, and vision-21.

1 Introduction

ustomers are the mainframe of banking industry; therefore, customer satisfaction is the principle account of any bank through delivering quality service.

Service quality is a judgment of expectations from providing service performed by the banks which are required to meet customer's needs and desires. For sustainability of performance, creation of modified, improved or developed service quality is required since competitive gain is depends on the nature of service quality (Nicholls, 1998). From the inception, Islami banks perform better than conventional banks in Bangladesh. Islamic banking system have passed thirty-year glorious journey and achieved substantial growth in Bangladesh (Shohrowardhy, 2015). At present, Bangladesh has II.

2 Literature Review

Service quality is needed for creating customer satisfaction and service quality is connected to customer perceptions and customer expectations (Kabir, 2010). Service quality is described as the comparative result from customer expectations about the services provided by the banks (Oliver, 1994). And service quality is depended on the perception of customer towards the organizational service providing dimensions **??**Parasuraman, et.al., 1998;Othman and Owen, 2001). Customers are the driver of organizational loyalty by which a systematic design has been developed to deliver quality services for corresponding to the market demand. System loyalty is highly moderated factor of sustaining operational performance of Islamic banks (Uddin, 2015). Therefore, standard benchmark of service quality of Islamic banks is required to make loyalty in favor of Islamic Banks in Bangladesh for sustaining their operational performance.

A number of devoted scholars contribute a lot in the different aspects of Islamic banking i.e. philosophy and economic explanation **??**Chopra, 1985), service quality **??**Haron, 2010), indication of growth (Munawar, 2005), CARTER dimensions in KFH model (Othman and Owen, 2001), factorial impact of service quality on business performance between IBS and CBS (Hasan, 2009), SERVQUAL model; applying in the Islamic banking using structural equation modeling (Khafafa, 2013) etc.

From 1974, Bangladeshi scholars also drew their contribution to the establishment and development of Islamic banking in Bangladesh (Ahmed, 1978) i.e. accounting practice in Islamic banking **??**Mohiuddin & Rashid, 1993), religious impact on the performance of Islamic banks (Mohiuddin, 2001), Poverty alleviation and RDS of IBBL **??**Hawladar, 2004), RATER Model applied in the Islamic banking (Shafie, 2004), comparative performance analysis between IBS and CBS **??**Misir, 2005), behavioral impact on the performance of Islamic banks impact (Rashid and Hassan, 2008), Compliance of Islamic Shariah (Rashid, 2008), Selection criteria of Islamic Banks (Rashid, 2008); **??**han, 2008), technological advancement by Islamic banks in Bangladesh (Jahiruddin & Haque, 2009), Customer perception on Islamic Banking (Rashid, 2010), Islamic banking as the moderate variable of customer loyalty legal system (Uddin, 2015), Elixir of growth of Islamic banking system (Shohrowardhy, 2015) etc.

3 III.

4 Problem of the Statement

Problem of the statement has been developed on the basis of real scenario and status of the growth indicators of Islamic Banking Sector (IBS) in Bangladesh. The above table explains the growth of IBS considering 10 (Ten) growth indicators suggested by Bangladesh Bank, the central bank of Bangladesh where every indicators show the better performance than overall banking sector during the 30-years experiences.

Service quality and business performances are correlated and co-integrated **??**Ahmed, 2009; **??**aron, 2010 **??**aron, , khafafa, 2013;;Shohrowardhy, 2015). Therefore, the specific question has been raised that what influencing factors are attached behind the growth Islamic Banking Sector in Bangladesh? Thus, this study attempts to examine factors (Elixir) that effect define as philosopher stone regarding the growth of Islamic banking sector in Bangladesh.

5 IV.

6 Conceptual Framework a) Elixir

The term 'Elixir' usually used in the medical science as combination of ingredients of medicine In Bangladesh, no empirical research has ever addressed the issue of sustainability of Islamic Banking System. However, there are some fragmented literatures regarding individual institution's reflection of Islamic banks i.e. comparative analysis about products/ services, riba and interest etc. performance analysis, perception, customer preference and satisfaction have been explained but there is a scarcity of structural studies of ever all Islamic Banking System. Moreover, **??**0-year-experience (1983-2013) is enough to evaluate the service quality of Islamic Banking Sector for its sustainability in Bangladesh.

(Products) for solution of specific disease. It is an ancient term not used frequently in the academic purpose. Elixir is originated from the Arabic word 'Al-Eksar' where 'Al' mean 'the' and 'Eksar' means xerion (Greek Word), the powder for drying wounds. Another way, it is defined as 'sweet-flavored liquid used for medical purpose' (The Oxford Dictionary), 'A sweetened aromatic solution' (The American Heritage® Dictionary), 'Philosopher's Stone' (The US Dictionary), 'Solid used to convert metal into gold' (The GNU Webster 1913, Word Net 3.0). In 1995, for the first time, Minford, P., Riley, J., and Newell, E. used the term 'The Elixir' in academic purpose to explore the integrating factor involved in the trade, non-trade product and development in European counties. The study is used the term 'Elixir' as combined driven forces, dimensions of service quality that enhances growing operational performance of Islamic Banking Sector in Bangladesh. In this study, 34 dimensions with 6 construct of CARTER Model (Othman and Owen, 2001) are considered as the proposed elixir of the service quality of Islamic Banking Sector in Bangladesh.

7 b) CARTER Model

The CARTER is an instrument that might be used to define and measure the service quality of Islamic Banking System. Othman and Owen (2001) has been developed CARTER model to measure service quality of Islamic Banking System. They noted that Islamic banks had to adopt service quality program to their customers and to cope with well-built competition from conventional banks both existing and new arrivals to the financial market. CARTER model is quality assessment tools compelled with six dimensions i.e. compliance-Islamic Shariah (COM)-4 dimensions, assurance (ASU)-5 dimensions, reliability (REL)-4 dimensions, tangibility (TAN)-4 dimensions, empathy (EMP)-4 dimensions, and responsiveness (RES)-4 dimensions.

8 c) Vision-21

Bangladesh started itself as independent country from 1971. Yet, after 40 years of independence, Bangladesh remains a low-income country (LIC), almost two third of population remains below poverty line (Buru, 2013). For improving the situation and recognizing the long-term development challenges, the present Government has been adopted the Vision 2021. The Vision 2021 calls for Bangladeshi socio-economic environment to be transformed from a low income economy to the first stages of a middle-income country by the year 2021 which also marks as the 50 th anniversary of Bangladesh independence called golden jubilee of the nation. Moreover, Vision 2021 lays down a development scenario where citizens will have a higher standard of living, better educated, will have a more equitable socio-economic environment, and the sustainability of development in all respects will be ensured through better protection from climate change and disasters both materialistic and non-materialistic. There sustainability of the progress in every economic aspect is basic issue in modern time. Finally, the vision-21 is formed for reaching the country as a middleincome country (MIC) replete with the sign of economic progress (GED, 2012). Islamic banking sector is the most influential factor of economic progress and top most successive micro-financer in Bangladesh (UNDP, 2012). Experimentally, IBS have passed crucial time in Bangladesh, but question is its sustainability in the financial market in Bangladesh.

9 V. Theoretical Framework and Methods

In this study, a theoretical framework has been developed on the basis of evidence available in the above-mentioned literature. The dependent variable is service quality and the independent variables are compliance of Islamic Shariah, assurance, reliability, tangibility, empathy and responsiveness on the basis of CARTER Model (Othman and Owen, 2001) expressed by the function and equation: SQ= ? (COM, ASU, REL, TAN, EMP, RES)

And equation under restricted model isSQ= ? 1 COM + ? 2 ASU + ? 3 REL + ? 4 TAN + ? 5 EMP + ? 6 RES + ?

Where, SQ expresses the service quality of Islamic banking sector in Bangladesh, ? n?1 n=6 express the standard weight, the explanatory power of the variables and ? notes the standard error of the respective model.

10 VI.

11 Objectives of the Study

The broad objective of this study is to identify the dimensions of service quality that drives the growth of Islamic Banking Sector in Bangladesh. The more specific objectives in this regards are as follows:

1. To determine the relationship among the dimensions of CARTER with its constructs in Bangladesh perspective.

2. To measure the effect of CARTER constructs with service quality of islamic banking sector of Bangladesh, and 3. To construct the integrated factors (ELIXIR) that drive the growth Islamic Banking sector in Bangladesh.

VII.

12 Data Collection Method

For this study, data was collected via a self administrative questionnaire, which consisted of three major sections. The first section has been designed to collect the information about the respondents regarding their demographic and socio-economic characteristic along with some other factors such as name, address, gender, religion, marital status, living status, age, education, profession, income levels, while second section consists of some specific information regarding the respondents attachment with Islamic banking system, namely name of the bank, use of banking system, customer status (depositor or investor), length of relationship with the Islamic bank and opinion regarding satisfaction in a dichotomic form and finally third section consists of 34 dimensional questions of service quality with six constructs. The responses of the respondents were collected by using the Likerts noncomparative five-point scale of the range of attitude; from 1-strongly disagree to 5-strongly agree.

13 VIII.

14 Sampling

A total of 500 questionnaires were distributed of which only 396 questionnaires were received from six full fledged Islamic banks i.e. Islami Bank Bangladesh Limited (IBBL), Al-Arafah Islami Bank Bangladesh limited (AAIBL), Export-Import Bank Bangladesh Limited (EXIM), First Security Islami Bank Limited (FSIBL), Shahjalal Islami Bank limited (SJIBL), and Social investment bank Limited (SIBL) where 77% response rate is calculated. Specifically, questionnaires were distributed to every customer considering the working hour of the respective banks (Usually from 9 AM to 5 PM) or their convenience time. However the data were collected from two cosmopolitan city of the country, namely Dhaka and Chittagong. The principal premise in this regard is that the sample will bear the representative characteristic of the population. Besides, Islamic Banking system provided equal services irrespective of location.

15 IX. Statistical Tools used in the Study for Analyzing

The statistical techniques employed in this study are as follows: descriptive and frequency analyses were conducted to represent the respondents' demographic and socio-economic characteristic. In addition, a reliability test to check for the "internal consistency" of the questionnaire by applying Cronbach's Alpha test and Mahalanobis Distance coefficient is used to test the individual consistency of the respondent's responses. Normality distribution was tested using Skewness and kurtosis finally, structural equation modeling (SEM) is used to determine the relationship between dimensions and constructs. The researcher then performed the confirmatory factor analysis (CFA) to test the measurement model specifying the posited relations of the observed variables to the underlying construct.

16 X.

17 Respondents' Demographic and

Socio-Economic Profile In this research work, we have composed the respondents' responses to find their patterns of usage the services provided by Islamic banks. The demography and socio-economic information shows the justification of respondent's responses involved in this study. For instrumental experiment, we used a modified CARTER model (Othman and Owen, 2001) consisting of 34 dimensions with six constructs using 5-points noncomparative scale and found average mean scores ranging from 2.62 to 4.28. The standard deviation of these mean scores is comprised in the interval 0.750 to 1.189. The skewness does not show extreme value ±3 (-1.650 to 0.629) and kurtosis is 0.231 to 2.514, not exceeding the rule of thumb of kurtosis ±8. The descriptive statistics express the normal distribution nature of the responses of the respondents.

Reliability test of the administrative questionnaire is varied to measure the impact of the respondents' perception on service quality of Islamic banks in Bangladesh (Wei and Nair, 2006). Cronbach's Alpha Coefficient of six constructs i.e. compliance of Islamic Shariah, assurance, reliability, tangibility, empathy and responsiveness are 0.790(4), 0.649(5), 0.593(4), 0.597(6), 0.687(9) and 0.719(**??**) respectively. The overall coefficient of Cronbach's Alpha of 34 dimensions is 0.847 (34). This statistics show the accepted reliability nature of the customer perception on service quality of Islamic banks in Bangladesh (Finn and Lamb, 1991).

18 XII.

19 Test of the Consistency of Respondent's Responses using Mahalanobis Distance Coefficient

In this study, we incorporate 41variables (34 observed and 7 constructed unobserved variables). The sample size of study stances to 396 indicates optimum level in SEM. A set of standard normally distributed random variables is required for SEM. Mahalanobis dsquire coefficient is used in this study to test of the consistency of 396 respondent's responses. The P 1 shows the assuming normality, the probability of individuals and the P 2 shows, still assuming normality. Small value for P 1 and P 2 are to be expected. It is indicated that the observations are incredibly far from the centroid under the hypothesis of normality (Bollen, 1987). It is evident that the highest value of Mahalanobis Distance Coefficient is d 2 HV = 83.948 (P 1 = 0, P 2 = 0) and the lowest value is d 2 LV = 25.558 (P 1 =0.181, P 2 = 0.000). Considering the coefficient of d 2 of respondent's responses it can be concluded that the requirement of random normality of consistency of respondent's responses is satisfied.

20 XIII.

21 Analysis

Basically, the research work is designed to find out the influencing factors on the growth Islamic banking sector in Bangladesh. We use Structural Equation Modeling (SEM) on SPSS-AMOS version 21.0 to determine the relationship between observed variables (Responses of the respondents on 34 dimensions) and unobserved variables (CARTER constructs with service quality -SQ of Islamic Banking Sector). To analysis these factors, 1 st Order Conformity Factor Analysis (CFA) and 2 nd Order CFA were run and dimensions were tested.

22 a) First Order Conformity Factor Analysis (CFA) of

Service Quality 1 st order CFA is used to determine the correlation among the factors and appropriateness of variables to the model through deduction or Factor Loading (Kline, 2011). Factor loading is defined as the regression weights in standardized format that indicate the hidden power (strength) and direction of factors on measured variables (Fabrigar, 1999; **??**line, 2004;Byrne, 2010). Figure-1 expresses the factor loading of 20 dimensions that are competent for 2 nd Order CFA (Fornell and Larcker, 1981;Byrne, 2010).

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24 b) Correlation

From the result of 1 st order CFA, correlation among the constructs has been found. Correlation usually explores the degree of association of defined constructs and expresses the linear relationship between two constructs considering direct causation or statistical change (Ferdousi, 2009). Table-5 indicates the results of correlation among constructs used in this study and found that correlations of reliability, tangibility and responsiveness with assurance are more powerful than others respective of Islamic banking sector in Bangladesh. . To determine the elixir of service quality of Islamic Banking Sector, 20 dimensions of CARTER model are jurisdicted and 14 dimensions are deducted due to inconstancy of respondents' responses (Low factor loading, below 0.50). Top influential construct of the elixir of service quality of Islamic banking sector in Bangladesh is Assurance (? ASU = 0.922) consisting of three factors, followed by reliability (? REL = 0.901) with two, tangibility (? TAN = 0.768) with three, responsiveness (? RES = 0.699) with five factors, empathy (? EMP = 0.495) with three factors and finally compliance of Islamic Shariah (? COM = 0.458) compelled with four factors.

XIV.

25 Conclusion

The study has exposed the combined driven forces of service quality of Islamic banking sector in Bangladesh which is introduced as the elixir of service quality. It is worth mentioning here that compliance of Islamic Shariah, assurance, reliability, tangibility, empathy and responsiveness are significantly correlated in Bangladesh perspective. The results of this study also found that the assurance is the most influential construct of service quality followed by reliability, tangibility, responsiveness, empathy and compliance of Islamic Shariah. For suitability of the Islamic Banking Sector in Bangladesh, the devoted authorities should concentrate themselves to construct the Islamic banking system loyalty ensuring more accountability of complying Shariah principle in all scope of Islamic banking operation in Bangladesh. It should mention here that some specific factors are not loaded by respondents' responses i.e. cognitive knowledge, trustee on customer transaction, corporate service, team work, parking facility, charge against service, networking location that too important for optimum level of the service quality of Islamic banking in Bangladesh. .

26 XV.

27 Limitation of the Study

In this study, as organizational sample, six fullfledged Islamic banks have been considered as Islamic banking sector in Bangladesh. And data have been collected from two cosmopolitan cities as assuming that equal services are provided for all customers by Islamic banks.

28 XVI.

29 Scope of Further Research

This study may have a few limitations to explore the scope of further research i.e. as organizational sample considering all banks practicing Islamic banking in branching or window form, reconstructing sampling design considering the rural and urban area. [1] [2]

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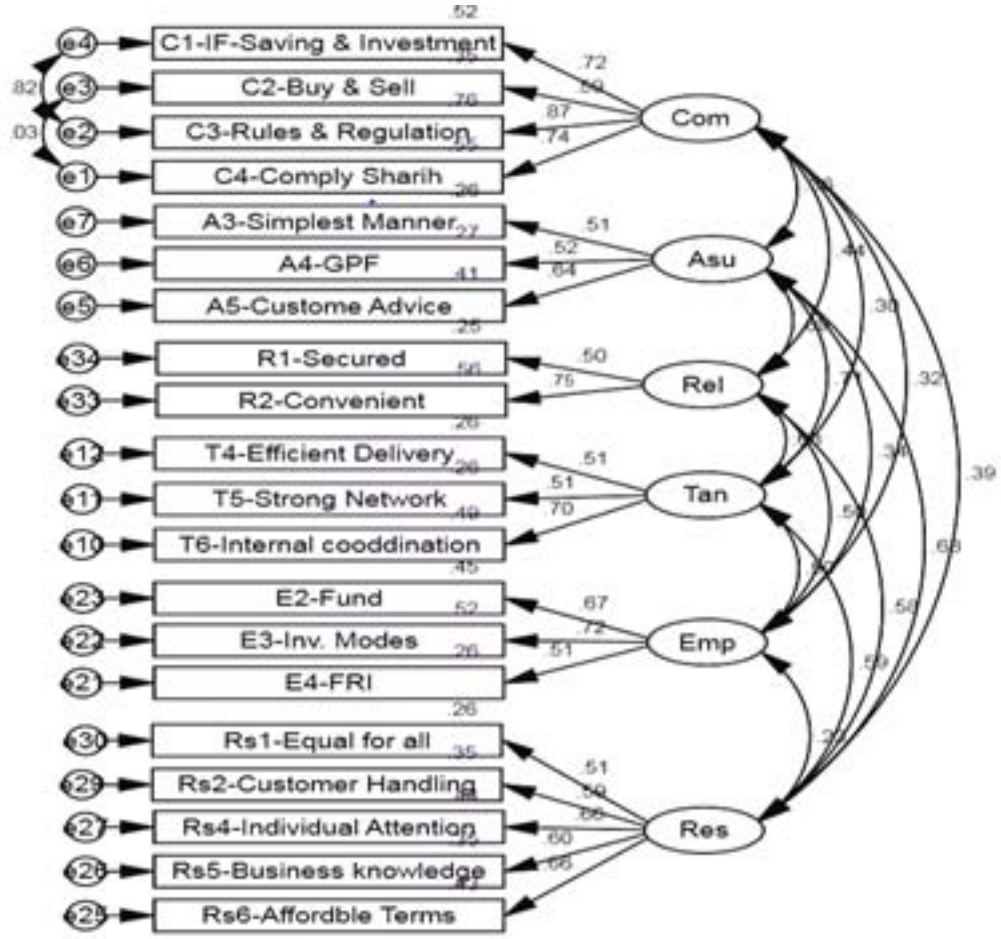
Figure 1: 2 .



2

Figure 2: Figure- 2 :

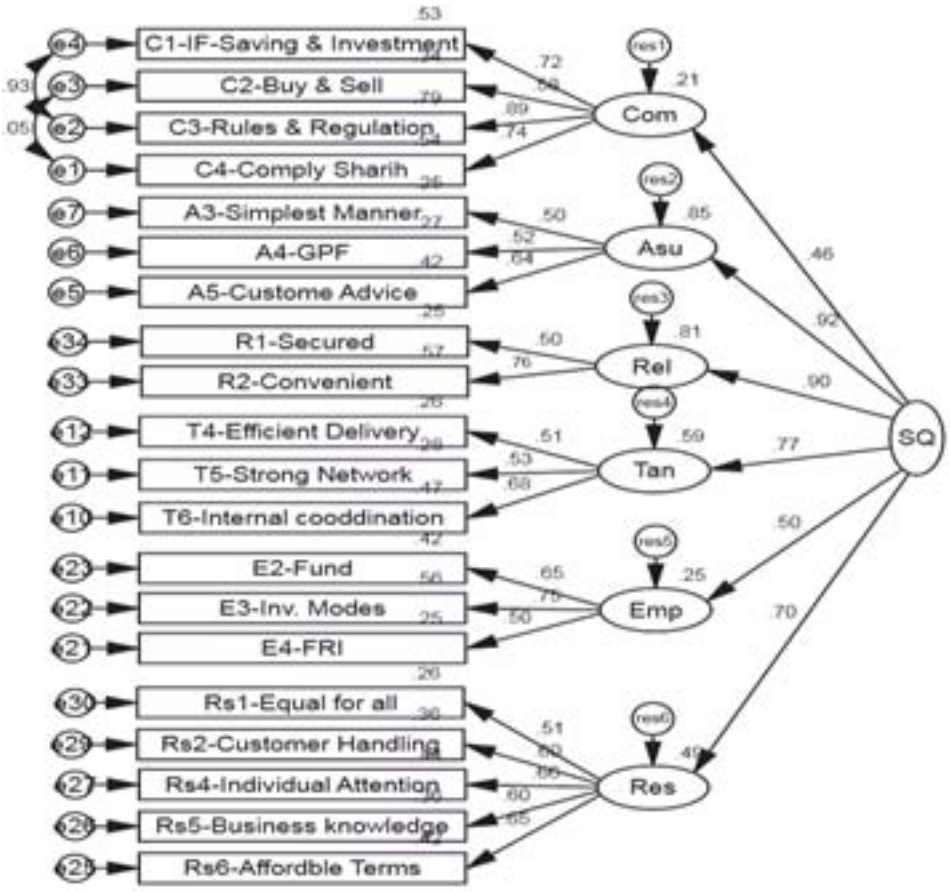

C1-IF-Saving & Investment
C2-Buy & Sell
C3-Rules & Regulation
C4-Comply Sharih
A3-Simplest Manner
A4-GPF
A5-Custome Advice
R1-Secured
R2-Convenient
T4-Efficient Delivery
T5-Strong Network
T6-Internal cooddination
E2-Fund
E3-Inv. Modes
E4-FRI
Rs1-Equal for all
Rs2-Customer Handling
Rs4-Individual Attention
Rs5-Business knowledge
Rs6-Affordble Terms
Com
Asu
Rel
Tan
Emp
Res
SQ
2nd Order CFA of S
χ2 = 535.661,
df= 162,
P= 0.000,
CMIN/DF=3.307 (P=0.
GFI=0.876,
AGFI=0.839,
CFI=0.827,
RMR=0. 068,
RMSEA=0.076
PCLOSE=0.000

Figure 3:

	Banking Industry of Bangladesh			
	No. of Banks	% of Share	No. of branch	% of Share
Conventional Banking Sector	48	85.71%	5313	84.70%
Full Fledged Islamic	8	14.29%	916	14.60%
Branching Islamic	9	16.07%	19	0.30%
Windows Islamic	8	14.29%	25	0.40%
Islamic Banking Sector	25	44.64%	960	15.30%
Overall Banking Industry	56		6273	

Source: DIBB Report, 2015

From the inception in 1983, Islamic banks have shown better performance (IBBL, 2014) and growth is substantial (Shohrowardhy. 2015) and remarkable (BBR, 2014). Table -2 explores the comparative growth position of Islamic Banking Sector considering th overall performance from FY2005-06 to FY 2013

Table-2 : Growth of Islamic Banking Sector in Bangladesh

Growth Indicators	Islamic Banking Sector	Overall Banking Sector
Deposits	18.00%	82.00%
Investment	21.00%	79.00%
Classified Investment	4.20%	8.90%
Equity	15.00%	85.00%
Classified Equity	39.90%	59.30%
Asset	17.00%	83.00%
Remittance	28.00%	72.00%
Import	21.00%	79.00%
Export	24.00%	76.00%
Capital Adequacy Rate	12.16%	11.50%

Source: DIBB Report, 2015

Figure 4:

-

Assurance		Empathy	
ASU5	Cognitive Knowledge	EMP20	Qualified Mgt Team
ASU6	Trustee	EMP24	Attractive Location
Reliability		EMP25	Confidentiality Maintenance
REL12	More service in Pick time	EMP26	Profitability Trends
REL13	Reasonable Waiting Time	EMP27	Parking Facility
Tangibility		EMP28	Min Charge
TAN14	Team Work	Responsiveness	
TAN15	Modern Technological Equipment	RES31	Service Demo
TAN16	Flexible Operation Time		

Source: Generated by Authors

Figure 5: Table - 4

-

Asu	<–>	Emp	0.344
Asu	<–>	Res	0.679
Asu	<–>	Rel	0.889
		5 : Correlation	
Estimate			
Com	<–>	Asu	0.360
Com	<–>	Tan	0.300
Com	<–>	Emp	0.325
Com	<–>	Res	0.392
Com	<–>	Rel	0.437
Asu	<–>	Tan	0.712

Figure 6: Table -

-

Reliability SQ= ?(Rel) where ? REL = 0.901 2		
REL11 Convenient	0.748	0.758
REL10 Secured	0.502	0.495
Tangibility SQ= ?(Tan) where ? TAN = 0.768 3		
TAN19 interior decoration	0.699	0.684
TAN18 Strong Network	0.513	0.526
TAN17 Effective Delivery	0.512	0.515
Responsiveness SQ= ?(Res) where ? RES = 0.699 4		
RES32 Individual Attention	0.661	0.664
RES34 Affordable terms	0.658	0.645
RES30 Customer Handling RES33 Business Knowledge	0.589	0.600
	0.596	0.597
RES29 Equal for All Empathy SQ= ?(Emp) where ? EMP = 0.495 5	0.508	0.509
EMP22 Investment Modes	0.723	0.747
EMP21 Available Fund	0.668	0.652
EMP23 Reputation & Image Compliance of Islamic Shariah, SQ= ?(Com) where ? COM = 0.458 6	0.509	0.

		Factor Loading from 1 st Order CFA	Standard Weight (?) from 2 nd Order CFA
Assurance SQ= ?(Asu) where ? ASU = 0.922 1			
ASU9	Custom Advice	0.639	0.644
ASU8	Gentle, Polite & friendly	0.523	0.523
ASU7	Simple st Manner	0.506	0.499

[Note: Source: Generated by Authors]

Figure 7: Table - 6

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