

**A SURVEY OF CUSTOMER SATISFACTION AND PREFERENCES TOWARDS  
ISLAMIC BANKING. A CASE OF FIRST COMMUNITY BANK IN KENYA.**

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## DECLARATION

This research project report is my original work and has not been presented for an academic award in any other university or institution of higher learning. Information from other sources has been duly acknowledged.

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## DEDICATION

This research project is dedicated to my lovely mum Zeynab Billow, for her inspiring prayers.

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## ABBREVIATIONS AND ACRONYMS

AUT	Auckland University of Technology
BBK -	Barclays Bank of Kenya
BMA -	Bahrain Monetary Authority
CBK -	Central Bank of Kenya
CMA -	Capital Markets Authority
DJIM -	Dow Jones Islamic Market Index
FCB -	First Community Bank
FTSE -	Financial Times Stock Index
FSA -	Financial Services Authority
HSBC -	HSBC Bank
IMF -	International Monetary Fund
NSE -	Nairobi Stock exchange
NYSE -	New York Stock Exchange
PLS -	Profit and Loss Sharing
UK -	United Kingdom
US -	United States of America

## ABSTRACT

Islamic banking refers to a financial system which is consistent with principles of Islamic law (or '*Shariah*') and guided by Islamic economics. In particular, Islamic law prohibits 'riba' or usury, (the collection and payment of interest). In recent years, a number of Islamic banks have been created to cater to the growing demand, driven by globalization and the vast wealth of the Muslim society. Many international conventional banks have started to operate in accordance with the Islamic Shariah principles to offer interest-free financial services in various countries including Kenya.

The main objective of this study was to investigate the degree of customer satisfaction and preferences towards Islamic banking. The study looked at the factors that influence customers when choosing to bank with both an Islamic bank as well as a conventional bank, looking at the factors that determine the degree of customer satisfaction of various aspects of an Islamic bank and looking at the level of awareness of activities and facilities offered by an Islamic bank. The researcher reviewed previous studies with a view to establish academic gaps which the present study sought to bridge and the areas to be investigated.

This study employed quantitative research as the main approach to guide the study. Focus group discussion guide was used to gather information from the bank branch managers on products and services offered by the bank. The target population included all customers of retail Islamic banks in Kenya. Questionnaires were administered to a sample of 200 randomly selected customers who visited First Community Bank during the last week of March 2010.

The analysis of their responses revealed a certain degree of satisfaction of many of the Islamic banks facilities and products. The respondents expressed their dissatisfaction with some of the Islamic banks services. Although the respondents indicated that they are aware of a number of specific Islamic financial products like Murabaha, Musharaka and Mudaraba, they show that they do not deal with them.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

In Islam, there is no separation between faith and state. Islamic banking, similarly, cannot be separated from the Islamic religion. The Shariah (Islamic law) governs every aspect of a Muslim's religious practices, everyday life and economic activities. In Islamic banking, interest (*riba*) is prohibited, that is, banks are not allowed to offer a fixed rate of return on deposits and are not allowed to charge interest on loans (Linda, 200). A unique feature of Islamic banking is its profit-and-loss sharing (PLS) paradigm, which is predominantly based on the *Mudarabah* (profit sharing) and *Musharakah* (joint venture) concepts of Islamic contracting. Under the PLS paradigm, the assets and liabilities of Islamic banks are integrated in the sense that borrowers share profits and losses with the banks, which in turn share profits and losses with the depositors (Chong & Liu, 2007).

The PLS paradigm, moreover, subjects Islamic banks to greater market discipline. Islamic banks, for example, are required to put in more effort to distinguish good customers from bad ones (defaulters) because they have more to lose than conventional banks (Dar & Presley, 200). The banks also need to monitor their investments and borrowers more closely to ensure truthful reporting of profits and losses. Islamic bank depositors, furthermore, are required to choose their banks more carefully and to monitor the banks more actively to ensure that their funds are being invested prudently (Graffikin, 1997). A primary advantage of PLS banking is that it leads to a more efficient allocation of capital because the return on capital and its allocation depend on the productivity and viability of the project (Khan, 1986).

The concept of Islamic banking has been applied in various countries. The first modern experiment with Islamic banking can be traced to the establishment of the Mit Ghamr Savings Bank in Egypt in 1963 (El-Gamal, 2000). In the past four decades Islamic banking has grown rapidly in terms of size and the number of players. Islamic banking is currently practiced in more than 50 countries worldwide. In Iran, Pakistan, and Sudan, only Islamic banking is allowed. In other countries, such as Bangladesh, Egypt,

Indonesia, Jordan and Malaysia, Islamic banking co-exists with conventional banking. Islamic banking, moreover, is not limited to Islamic countries (Badaway, 2005).

According to Kariuki, (2007), Islamic banking is slowly taking shape in Kenyan banking landscape with a number of players rolling out Muslim-friendly products. He also observed that a number of banks have already embraced this phenomenon as a strategy to increase their customer base and bring new levels of efficiency by widening variety of banking products. Barclays Bank introduced the *La-riba* (Interest Free Accounts) concept in 2006. This was followed by the Kenya Commercial Bank which introduced a similar Islamic window in 2007. So far at least six Kenyan Banks provide Islamic finance facility, with two banks, First Community Bank and Gulf African Bank claiming a position of being completely Islamic. The main objective of introducing interest-free financial products is to fulfill the evolving needs and demands of the Muslim customers by respecting their faith (Zaher & Hassan, 2001). This will make it possible for Muslims in Kenya who constitute about thirty per cent of the population to obtain and utilize financial services (Kariuki, 2007).

In modern competitive environments, services are gaining increasingly more importance in the competitive formula of both firms and countries. Globalised competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers will be (Petruzzellis, D'Uggento and Romanazzi, 2006).

Adoption of Islamic financial services in mixed systems is likely to face competitive pressures from existing conventional financing systems. Hence it is of paramount importance to assess the degree of customer satisfaction towards Islamic banks operating in non-Islamic countries like Kenya.

## 1.2 Statement of the Problem

Financial services in Kenya have experienced several changes over the last decades with a growing attention to customer needs. Financial institutions realized the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships. Traditional product-oriented bank has become more and more customer-oriented, focusing on protecting and retaining actual customers' loyalty as the main source of competitive advantage. Traditional financial services providers have to work even harder to retain customers that they once took for granted. Since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings. However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers (Gummerson, 1998).

As far as the Islamic banking system is concerned, there was no study on customer satisfaction towards Islamic banking products and services in Kenya. Naser and Moutinho (1997) have recently assessed the marketing effectiveness of the Islamic banks and indicated that the Islamic banking system needs to do more to activate its marketing effectiveness. They concluded that the Islamic banks should put more coherent efforts to improve their long-term competitive position. Another study conducted by Gerrard and Cunningham (1997) investigating the degree of awareness of the Islamic banking system in Singapore revealed that there was a general lack of awareness of the culture of Islamic banking in both Islamic and non-Islamic communities.

When competition intensifies and when banks start to offer more or less similar products and services, it is the customer's satisfaction that can influence the performance of an Islamic bank and determines its competitiveness and success (Naser and Moutinho, 1997). Hence it was of paramount importance to assess the degree of customer satisfaction towards Islamic banks operating in non-Islamic countries. In this context, a number of questions can be raised. For example, in a country where a substantial number

of the population are Muslims and where both Islamic as well as conventional banks operate, “what are the main factors that motivate customers to deal with either a Kenyan Islamic bank or a conventional bank or both?”; and “to what extent customers are satisfied with their banks?”.

In this study, an attempt was made to assess the degree of customer awareness and satisfaction towards Islamic banking products and services offered by First Community Bank. The study also reports on the reasons for banking with the Islamic bank as well as with conventional banks in Kenya. Furthermore, the study reports on the extent to which Muslims in Kenya are aware of the Islamic bank’s products and services. The study discusses the implications of these for the Islamic banks in Kenya.

### **1.3 Purpose of the Study**

This study sought to assess the degree of customer awareness and satisfaction towards Islamic bank products and services offered by First Community Bank.

### **1.4 Research Objectives**

The study was guided by the following objectives:

- i. To determine the factors that influence customers when choosing to bank with an Islamic bank.
- ii. To establish the factors that influence customers when choosing to bank with both an Islamic bank as well as a conventional bank.
- iii. To determine the degree of customer satisfaction of various aspects of an Islamic bank.
- iv. To investigate the level of awareness of products offered by an Islamic bank.

## **1.5 Research Questions**

The study sought to answer the following questions:

- i. What are the factors that influence customers when choosing to bank with an Islamic bank?
- ii. What are the factors that influence customers when choosing to bank with both an Islamic bank as well as a conventional bank?
- iii. What is the degree of customer satisfaction of various aspects of an Islamic bank?
- iv. What is the level of awareness of activities and facilities offered by an Islamic bank?

## **1.6 Significance of the Study**

The introduction of Islamic Finance is of immense importance to various sectors in the Kenyan economy. This study is among the first of its kind in Kenya where research attempts to look into the customer awareness and satisfaction of products and services offered by Islamic banks.

The study will be of immense importance to researchers as a basis of further research into the area of Islamic banking and customer satisfaction and awareness.

The study provides important information for marketing personnel of banks who need to understand factors that lead to the satisfaction of customers. This helps in trying to predict the next wave of financial services and products to come to the market and the demands of marketing them.

The study is very useful to the banking industry especially the banks which have not yet introduced the interest free products into the market since they will be able to know the role of products innovativeness to grow their business volume and market share.

## **1.7 Delimitation of the Study**

The fact that FCB is one of the first generation of Islamic banks established in Kenya and has a relatively large branch network of 12 branches and over 30,000 customers means that there is enough population where a representative sample can be selected. This also



increases the likelihood of selecting respondents who are well acquainted with the theory and practice of Islamic banking in Kenya.

### **1.8 Limitations of the Study**

Some limitations were inherent in the present study and are acknowledged here. Data were collected from a convenient sample, implying that the generalizability of this study's results to the population of the customers of retail banks in Kenya should be viewed with caution. In addition, a self-administered questionnaire was used as a medium for data collection in this study. This method of data collection has been criticized for being inherently susceptible for the possibility of subject response bias. To overcome these challenges, a sample of 200 customers who visited the bank branches towards the last week of March 2010 was taken. Such a large sample is deemed to be quite representative of the population.

Only a small number of attributes related to the retail banking industry were selected in this study to measure the overall level of customer satisfaction. Several attributes can serve as candidates to be included in this study, and thus their inclusion might have led to different results. Examples of such attributes include ease of obtaining loans, interest charges on loans, interest on deposits and saving accounts, ease of obtaining credit cards, and interest on credit cards.

Requests for completion of questionnaires were rejected by some respondents while time constraint could not allow for others to complete them satisfactorily. Moreover, Limited period of time and small sample size was a limitation in this study. Results may not be indicative for the target respondents at large. To overcome this challenge, well trained and motivated research assistants were employed to help in the data collection.

Some respondents, who have limited knowledge of Islam or no knowledge about the financial modes of conventional and Islamic banking, also answered the questions hence the replies of some answers may be based on their own imagination or thoughts.

Finally, financial limitations were inherent in this study. To overcome this challenge, both the researcher and the research assistants walked to the banks and at times used public transport instead of driving or hiring a cab.

### **1.9 Assumptions of the Study**

This study assumed that Islamic banking has been growing rapidly in Kenya as is the trend in other parts of the world. It also assumed that the selected sample of customers will be representative of the population and therefore, the responses can be generalized.

### **1.10 Definitions of Key Terms**

**Islamic banking** refers to financial services that meet the requirements of the Shari'ah or Islamic law. While designed to meet the specific religious requirements of Muslim customers, Islamic banking is not restricted to Muslims: both the financial services provider and the customer can be non-Muslim as well as Muslim. It is also called Islamic finance or Islamic financial services.

**Shariah** refers to the principles of Islamic law.

**Riba (usury)** refers to the prohibition of collection and payment of interest.

**Mudarabah** refers to the profit sharing arrangements described in Islamic law.

**Udarib:** The mudarib is the entrepreneur or investment manager in a mudarabah who invests the investor's funds in a project or portfolio in exchange for a share of the profits. For example, a mudarabah is essentially similar to a diversified pool of assets held in a Discretionary Asset Management Portfolio.

**Musharakah** – refers to joint venture by parties participating in a project.

**Haram** means unlawful or illegal in Islamic religion.

**Zakat** refers to the religious levy prescribed under the Islamic law.

## **1.11 Summary**

In summary the chapter defines the meaning of Islamic banking, introduces the unique feature of interest free service based on Islamic Shariah and explores the growth of Islamic banking. It also advances the problem to be investigated and culminates in the formulation of specific objectives to guide the investigation. The significance of the study, the limitations and the delimitations inherent in the study and the assumptions of the study are described. Finally, operational definitions of key terms used in the study were given.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The literature will be reviewed in five sections. The first section reviews literature related to customer satisfaction in relation to banking. The second section involves review of studies on bank selection criteria used by customers. The third section reviews literature on customer satisfaction and service quality. The fourth section looks at the principles guiding Islamic banking and the various Islamic banking products and services on offer by banks globally and in Kenya. Finally, a conceptual framework has been formulated to provide clear links from the literature to the research goals and questions.

#### 2.2 Customer satisfaction and Banking

Service quality has been viewed as a significant issue in the banking industry by Stafford (1994). Since financial services are generally undifferentiated products, it becomes imperative for banks to strive for improved service quality if they want to distinguish themselves from the competition. Positive relationship between high levels of service quality and improved financial performance has been established by Roth and van der Velde (1991) and Bennet (1992). Similarly, Bowen and Hedges (1993) documented that improvement in quality of service is related to expansion of market share. In the current marketing literature, much attention on the issue of service quality as related to customers' attitudes towards services has focused on the relationship between customer expectations of a service and their perceptions of the quality of provision. This relationship known as perceived service quality was first introduced by Gronroos (1982). Gronroos suggested that the perceived quality of a given service is the result of an evaluation process since consumer makes comparison between the services they expect with perceptions of the services they receive. Hence, he concluded that the quality of service is dependent on two variables: expected service and perceived service.

Parasuraman et.al (1985) considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service. Thus, the key to managing perceived service quality is to minimize this gap. Zeithaml (1988) defined

perceived service quality as the customers' assessment of the overall excellence of the service. Bolton and Drew (1991) described service quality as a form of attitude that results from the comparison of expectations with performance. Berry et. al (1990) pointed out that since customers are the "sole judge of service quality", an organization can build strong reputation for quality service when it can constantly meet customer service expectations.

Banks have to actively manage the customer's service usage in order to benefit from the different strengths of its portfolio. In doing so, banks need to understand the ways in which customers may choose between the portfolio and the circumstances under which this choice is made, thus identifying the relevant factors which influence customer choice and their respective importance for the choice decision (Bhatnagar and Ratchford, 2004). The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new "product" (Eastlick and Liu, 1997) that is its adoption depends on the value the "product" can provide to a customer. Such a value is identified by: the "product" service quality (Montoya-Weiss et al., 2003), the convenience it offered (Black et al., 2002; Devlin and Yeung, 2003), the risk involved in conducting transactions through the "product" (Black et al., 2002; Grewal, Levy, and Marshall, 2002; Reardon and McCorkle, 2002), and the costs of conducting business through it (Devlin, 2002; Fader, Hardie and Lee, 2003). Moreover, the bank attributes such as perceived convenience, service quality and price (Bhatnagar and Ratchford, 2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 1982). Hence, the importance of a bank attribute for the choice decision might vary for different situations and customers.

Therefore, consistently with the literature, it is possible to distinguish two loyalty dimensions: (1) a past loyalty (Zins, 1998) which associates more to the consumer's behavioural loyalty (Snehota and Söderlund, 1998; Chaudhuri and Holbrook, 2001) and represents the relative importance of a specific banking service in the previous customer's transactions decisions; and a (2) cognitive loyalty, defined as the behavioural

intention of using the bank service in future (Methlie and Nysveen, 1999; Van Rail et al., 2001). The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Banks should assure a high quality in the services offered to be able to survive in the highly competitive markets and to achieve a sustainable advantage in the long term (Mefford, 1993; Jun and Cai, 2001).

A positive association, especially in the service context, between relationship switching costs and relationship commitment exists (Patterson and Smith, 2001). In particular, the impact of satisfaction on commitment is weaker in conditions of high switching costs than in alternative situations (Sharma and Patterson, 2000), therefore customers will tend to continue the current relationship despite less than ideal satisfaction if they perceive that the economic and psychological costs of developing a new relationship are too high. Since satisfaction has been defined as a post purchase evaluation of a service following a consumption experience (Sharma and Patterson, 2000) and in the relationship literature as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm (Frazier et al., 1989), higher levels of satisfaction are a natural consequence of more positive experiences with a firm. This leads to sharing these experiences with other customers, recommending a firm, which provides exceptional service, and exerting additional effort to utilize a superior firm over competitors (Cronin and Taylor, 1992; Jaishankar et al., 2000).

The importance of satisfaction in literature is shown by its significant impact on the repurchase intentions of a product or service. The relationship marketing literature indicates a positive relationship between satisfaction and commitment. Higher satisfaction levels increase the attractiveness of a relationship to customers and hence, their commitment to the relationship (Morgan and Hunt, 1994). In the marketing literature a great variety of loyalty models outline different ways of relationships between the perceived quality, satisfaction and loyalty variables. Given the complexity of these relationships, it has been hypothesized:

H1: Bank attributes directly affect the customer comfort/acceptance of the new service fostering service extensions.

H2: Product attributes positively influence the loyalty dimensions; the higher the satisfaction the stronger the commitment, thus reducing risk perception and uncertainty in experiencing new bank services.

Moreover, since relational switching costs are built due to the psychological factors and investments in relationships (Burnham et al., 2003), these barriers often referred to as social bonds (such as: a comfortable and friendly relationship with an individual service provider; being instantly recognized; being treated almost like a friend rather than a customer) are so high as to trap the individuals into a relationship. Thus:

H3: Social bonds influence the service use and perception, through the joint positive effects (direct and indirect) of product and bank attributes.

The customer involvement in the production has evolved from *servuction* (Eiglier and Langeard, 1987) to *prosumption* (Sigala, 2005), which has two dimensions, namely the willingness to be involved and the competences to take part in designing and projecting the service output. Its obvious consequence is customer satisfaction (Cermak, File and Prince, 1994), and it takes place together, or interacting, with other customers (Kelley, Skinner and Donnelly, 1992). Moreover, customer inputs and their co-production performance considerably affect productivity, added value and efficiency of the provider; thus highlighting the profitability of customer loyalty.

H4: Customer loyalty is function of product, customer and bank attributes, and of a multiplicative value of product and bank attributes.

### **2.3 Bank selection criteria**

The bank selection criteria are expected to affect a customer's overall satisfaction towards his or her bank (Levesque and McDougall, 1996). Many studies have investigated the bank selection criteria or the reasons on the basis of which customers choose to bank with specific banks (Anderson *et al.*, 1976; Denton and Chan, 1991; Erol and El-Bdour, 1989; Erol *et al.*, 1990; Khazeh and Decker, 1992; Kaynak *et al.*, 1991; Laroche and Taylor, 1988; Levesque and McDougall, 1996; Tan and Chua, 1986). These

studies have identified a number of such factors: convenience (that is, the location), friends' recommendations, reputation of bank, availability of credit, competitive interest rates, friendliness of bank staff, service charges, adequate banking hours, availability of ATM, special services and the quality of services on checking accounts. The relative importance of these factors varies from one country to another depending upon the age, gender, income, marital status, occupation and cultural background of customers as well as the type of bank (Islamic or conventional bank). For example, convenient location has been identified as a critical factor influencing the choice of a bank by customers (Anderson *et al.*, 1976; Laroche and Taylor, 1988). However Tan and Chua (1986) found that convenient location was not a critical factor for the Singapore respondents. Rather, for the Singapore respondents, courteous personnel was the most dominant factor in the selection of a bank. On the basis of this Tan and Chua (1986) argued that, in an Oriental culture, customers desired to have a more intimate and close interaction with the bank personnel.

Kaynak *et al.* (1991) reported differences in bank selection criteria according to gender, age and educational background of bank customers in Turkey. They reported that factors like the bank's reputation and its image, business hours, parking facilities, a wide range of services offered, recommendations of friends and relatives, fast and efficient service, being able to pay utility bills and financial counselling services were considered as more important by male customers than the female customers in their selection of a commercial bank in Turkey. Furthermore, the bank location played a more important role for bank customers under the age of 40 as compared to other age groups that were studied. Kaynak *et al.* (1991) also reported that bank customers who had more than a primary school education considered friendliness of bank employees, fast and efficient service, the bank location and availability of credit more important than the customers who only had a primary school education.

In their study, Levesque and McDougall (1996) looked into the major determinants of customer satisfaction in the retail banking sector in Canada. They collected information from 325 respondents who rated their respective banks on various aspects such as service



quality, service problem recovery, service features, product usage, satisfaction and future intentions. Their study found that customer satisfaction in retail banking was driven by a number of factors. These factors included service quality, the bank's features (like location), the competitiveness of the bank's interest rates, the customers' judgement about the bank employees' skills and whether the customer was a borrower or not. The study also found that whether the customer was a single or multiple bank user was not a significant factor. The study confirmed and reinforced the idea that unsatisfactory customer service would lead to a drop in customer satisfaction and willingness to recommend the service to a friend. This could result in increased switching by customers.

Researchers have looked into attitudes towards Islamic banking and the criteria used by customers to select a particular bank (Erol and El-Bdour, 1989; El-Bdour *et al.*, 1990; Shook and Hassan, 1988; and Sudin *et al.*, 1994). Erol and El-Bdour (1989) and Erol *et al.* (1990) have specifically looked into the bank selection criteria used by Jordanian customers to bank either with an Islamic bank or a conventional bank. These studies reported that customers who only banked with the Islamic banks chose to do so because of the provision of a fast and efficient service; the bank's reputation and image; and confidentiality of the bank.

However there were no such studies conducted in Kenya. Therefore, it was felt appropriate to investigate the bank selection criteria adopted by Islamic bank customers using Kenya as an illustration.

As far as the Islamic banking system is concerned, no attempt is made to study customer satisfaction. Naser and Moutinho (1997) have recently assessed the marketing effectiveness of the Islamic banks and indicated that the Islamic banking system needs to do more to activate its marketing effectiveness. They concluded that the Islamic banks should put more coherent efforts to improve their long-term competitive position. Another study conducted by Gerrard and Cunningham (1997) investigating the degree of awareness of the Islamic banking system in Singapore revealed that there was a general

lack of awareness of the culture of Islamic banking in both Islamic and non-Islamic communities.

## 2.4 Customer satisfaction and Quality

Customer satisfaction often depends on the quality of product or service offering. In the context of services, some describe customer satisfaction as an antecedent of service quality (Bitner, 1990; Cronin and Taylor, 1992). Service quality is thus related, though not equivalent, to satisfaction (Oliver, 1980). For this reason, research on customer satisfaction is often closely associated with the measurement of quality (East, 1997). Service quality has been described as a form of attitude that results from the comparison of expectations with performance (Cronin and Taylor, 1992; Parasuraman *et al.*, 1985). Gronroos (1982) argued that customers, while evaluating the quality of a service, compare the service they expect with perceptions of the services they actually receive.

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It has been argued that the quality of service is not a unidimensional construct. Rather, service quality incorporates various dimensions that relate to both core and augmented service offerings (Bitran and Lojo, 1993; Gronroos, 1984; Lewis, 1993). Parasuraman *et al.* (1985, 1988) initially described five dimensions of service quality: reliability, tangibles, responsiveness, assurance and empathy. However the core or outcome aspects of the service and the relational or process aspect of the service have been identified as the two overriding dimensions to service quality (Levesque and McDougall, 1996; McDougall and Levesque, 1994; Parasuraman *et al.*, 1991). Parasuraman *et al.* (1991) argued that reliability was mainly concerned with the outcome of service whereas tangibles, responsiveness, assurance and empathy were concerned with the service delivery process. The customers not only judge the accuracy and dependability (i.e. reliability) of the delivered service but they also judge the other dimensions as the service is being delivered (Parasuraman *et al.*, 1991). Customer satisfaction can thus be based not only on the judgement of customers towards the reliability of the delivered service but also on customers' experiences with the service delivery process. This is the reason why in the services literature, we find strong emphasis on the importance of service quality

perceptions and the relationship between customer satisfaction and service quality (see for example Cronin and Taylor, 1992).

## 2.5 Principles of Islamic Banking

Islamic finance is an alternative financial prototype distinct and separate from the conventional financial system. Islamic finance is controlled by Shari'ah, the legal framework of Islam and its Qur'anic interpretation, along with the teachings of Sunnah (Gait and Worthington, 2002). Islamic Finance is unique; religious doctrines are avowed in the commercial and financial conducts, transactions and sectors. The presumption that finance and economics are independent of religious considerations is challenged to the extent that an Islamic financial industry is thriving in the local market and internationally. Definitions of Islamic finance found in the literature range from the relatively simple definitions for specific aspects such as Islamic banking to more complex definitions covering all financial operations. Islamic financial institutions are those that are based, in their objectives and operations, on Qur'an's (Warde 2000). Shari'ah requires the adjustment of all aspects of Muslims' lives and the formation of a complete moral system. While the prevailing Western financial system focuses on the capitalistic features of economic and financial processes, Islamic finance aims to make an actual moral and equitable distribution in resources and social fairness in all Muslim societies (Iqbal 1997).

The Islamic finance principles are based on the following set of prohibitions:

- i. The prohibition of *Riba* (usury or interest) therefore removal of debt-based financing from the economy.
- ii. The prohibition of *Gharar* (Excessive risk and uncertainty), encompassing the full disclosure of information, and removal of any asymmetrical information in a contract.
- iii. Prohibition of *Maysir* (gambling and games of chance). Gambling and games of chance are specifically prohibited in Islam.
- iv. The exclusion of financing and dealing in sinful and socially irresponsible activities and commodities such as production of alcohol, production of pork,

production of illegal armaments.

- v. Risk-sharing and profit and loss sharing; the provider of financial funds and the entrepreneur share business risk in return for shares of profits and losses. Materiality or real economic value is also an important consideration in the Islamic economic system. A financial transaction needs to have a 'material finality', that is a direct or sometimes indirect link to a real economic transaction. Justice in business is an end goal of any economic transaction. A financial transaction should not lead to the exploitation of any party to the transaction.

## **2.6 Islamic Banking Services**

The applicability of Islamic financial contracts is unique. Islamic financial instruments not only need to afford the different parties a feasible profit but to do so in a manner compliant with the Islamic law. There are a number of traditional Islamic financial contracts, and through financial engineering new contracts can be designed in compliance with the prohibition of Riba and Gharar.

### ***Mudarabah (capital trusts)***

The Mudarabah is a profit or loss sharing model used by tradesmen in Mecca before the advent of Islam. Distribution of profits and losses is an equitable approach that conforms to Islamic Shari'ah. In a financial intermediation form, the rabb-al-mal is a customer who deposits capital in a bank, representing the mudarib, to invest according to Mudarabah. Mudarabah deposits could be compounded in a public pool for investment, which is a permissible way for the bank to mix Mudarabah deposits with its own funds (Aljarhi and Iqbal, 2001). The profits would then be distributed according to an agreed formula, but losses once again remain the liability of the capital providers. This is an extension of what is essentially a trade practice into formal banking environment. It can be argued that the profit sharing Mudarabah was practiced in Arabia when the labour or management owner or the mudarib has the idea and skills of business but no capital of his own.

### ***Musharakah (full partnerships)***

Musharakah is an arrangement where two or more parties establish a joint commercial enterprise and all contribute capital as well as labour and management as a general rule (Iqbal and Molyneux 2005). Both profits and losses from Musharakah are shared among the parties on a pre-agreed ratio. Musharakah is mostly used for financing private or public companies and project financing. In Islamic banking, Musharakah is viewed as a joint venture between an Islamic bank and a customer or business firm for certain operations. The Islamic bank can potentially act as the fund provider to finance an industry, trade and any legal enterprises through either equity investment or direct participation.

### ***Murabaha (mark-ups on sale)***

This is an Islamic instrument for buying and reselling the purchase or import of capital goods and other commodities by institutions, including banks and firms. In Murabaha arrangement, the customer provides the bank with the descriptions and prices of the goods to be purchased or imported. The Islamic bank studies the application and collects information about the specifications and prices of the goods, focusing especially on the price and conditions for payment. When the bank and its client agree on the terms of the deal, the bank purchases the goods or commodities and resells them to the customer. The profit that accrues to the bank is mutually agreed upon as a profit margin (mark-up) on the cost of purchase (Metwally 2006).

### ***Bai muajjall (deferred payments)***

Bai muajjall is a sale on a deferred payment basis that allows business or individuals to receive products now and pay for their value in the future. Credit sales could include Bai muajjall-Murabaha since all deferred payments are in instalments or a lump sum (Lewis and Algaoud 2001). However, there is a significant difference between Bai muajjall and Bai muajjall-Murabaha, since in any kind of Murabaha the buyer must know the cost price of the commodity as a prerequisite to an acceptable contract (Obaidullah 2005). There is a consensus among Islamic jurists and scholars about the permissibility of Bai muajjall as a form of finance that excludes *Riba*. Islamic jurists have generally permitted

sales where the price has increased with deferment, but have forbidden sales where the amount of the debt increased with deferment (El-Gamal 2000).

### ***Bai salam (prepaid purchases)***

Bai salam is a sale contract in which the price is paid in advance at the time of contracting against delivery of the purchased goods/services at a specified future date (Iqbal and Molyneux 2005). In Islam the sale and purchase of nonexistent goods are prohibited because of *Gharar*. Bai salam is a permissible activity that is adopted by the Sunna to facilitate certain activities in agriculture and industry. One example is the following Hadith narrated on the authority of Ibn Abbas: The Messenger of Allah came to Madinah and found its inhabitants entering salam contracts with the price paid in advance in fruits for one, two, and three years. He said: Whoever enters into a salam contract, let him specify a known volume or weight, and a known term of deferment".

### ***Istisna (manufacturing contracts)***

Istisna is defined as a manufacturing contract which allows one party to obtain industrial goods with either an upfront cash payment and deferred delivery or deferred payment and delivery. It is a relatively new method in Islamic banking and it has been translated as commission to manufacture usually used to cover work progress in the manufacturing and building industries (El-Gamal 2000). The cost price is prepaid or is deferred as installments to create a product at a lower price than the cost of buying the complete product or building. In the context of Islamic banking, individuals or firms request their bank to facilitate a contract of production for a good, and the bank concludes an Istisna contract with a third party, the manufacturer, to produce and deliver the specific item under particular requirements (Lewis and Algaoud 2001). The permissibility of Istisna is adopted by the use of analogy (Qiyas) among most Muslim jurists with the permissibility of Bai salam (El-Gamal 2000).

### ***Ijarah (lease financing)***

Ijarah is the proceeds from a rental contract between two parties, where the lessor leases capital asset to the lessee. Ijarah literally means "...to give something on rent" (Lewis

and Algaoud 2001). There are two forms of leasing in Islamic Finance. Direct leasing finance (*Ijarah*), is whereby the lessor allows the lessee to use capital assets owned by the lessor for a specified period of time ranging from a few days to years depending on the type of asset. In return, the lessee pays the rental fee monthly or annually. However, the ownership of the capital assets cannot transfer to the lessee in this type of leasing and insurance on the capital assets remains the responsibility of the lessor (Zaher and Hassan 2001). In contemporary Islamic banking, *Ijarah* has been adapted to provide a form of hire purchase (*Ijarah wa-Iqtina*), whereby an institution or individual customer requests the bank to purchase equipment with the intention of leasing it to the customer. In turn, the Islamic bank rents the asset to the client who pays a certain fixed rent and promises to purchase the asset within a specified period to transfer ownership from the bank to the customer (Al-Jarhi and Iqbal 2001).

### ***Quard Hassan (benevolent loans)***

Islam does not prohibit the lending of money; *Riba* is prohibited in the process of lending. *Quard Hassan* means a benevolent loan without interest to assist the needy in an attempt to alleviate hardship. Individuals and firms may lend money on an interest-free basis to any number of beneficiaries for many purposes, including expenses relating to education and marriage. The amount paid by the lender is considered an interest-free loan from the time of payment until the date of the settlement. The borrower's payment of any amount over and above the principal to the lender is permissible so long as it is at the borrower's discretion (Metwally 2006, and Lewis and Algaoud 2001). It is also permissible for the lender to request assets as collateral and charge administrative expenses on the loan (Obaidullah 2005).

## **2.7 Theoretical Framework**

Service quality is a vital antecedent of customer satisfaction (Cronin and Taylor, 1992). Service quality is commonly noted as a critical prerequisite for establishing and sustaining satisfying relationship with customers (Lassar et al., 2000). In this way, the association between service quality and customer satisfaction has emerged as a topic of great concern (Cronin and Taylor, 1992) definitions of service quality indicate that it is

the result of the comparison customers make between what they actually want and expect (expectation) on the service and what they actually receive (perception) from the service (Lewis and Booms, 1983; lehtinen, 1982; Cronroos, 1984; Parasuraman et al., 1985, 1988, 1994).

Parasuraman *et al.* (1985) identified 97 attributes which were found to have an impact on service quality. These 97 attributes were the criteria that are important in molding customers' expectations and perceptions on delivered service. However, all these attributes fit into ten dimensions and later being condensed into five dimensions of service quality (Parasuraman *et al.*, 1988) because of the overlap across the ten criteria (Jannadi and Al-Saggaf, 2000). The five dimensions of service quality are: tangibility, reliability, responsiveness, assurance and empathy. The original five dimensions consisted of 22 statements and are taken from the SERVQUAL model by Parasuraman *et al.* (1985). An additional dimension, convenience (additional four statements), is added, as it is one of major concern for the bank customers. The perception of service “convenience” may affect customers' overall evaluation of the service, including satisfaction with the service and perceived service quality and fairness (Berry *et al.*, 2002).

In term of the development of CARTER model, many researchers and quality scholars have agreed on the need and importance to develop valid and distinct measures of service quality given the rise of service development in recent years in general, and in banking industry in particular (Othman and Owen, 2001). And due to significant weaknesses in the SERVQUAL model in which referring to in its ability to capture certain aspects of cultural differences between countries, religious or ethnic groups, Othman and Owen (2001) have decided that it is important to build new additional dimensions for that model in the Islamic banking industry through the development of CARTER model in which a new dimension called “Compliance with Islamic law” has been added to SERVQUAL five dimensions.



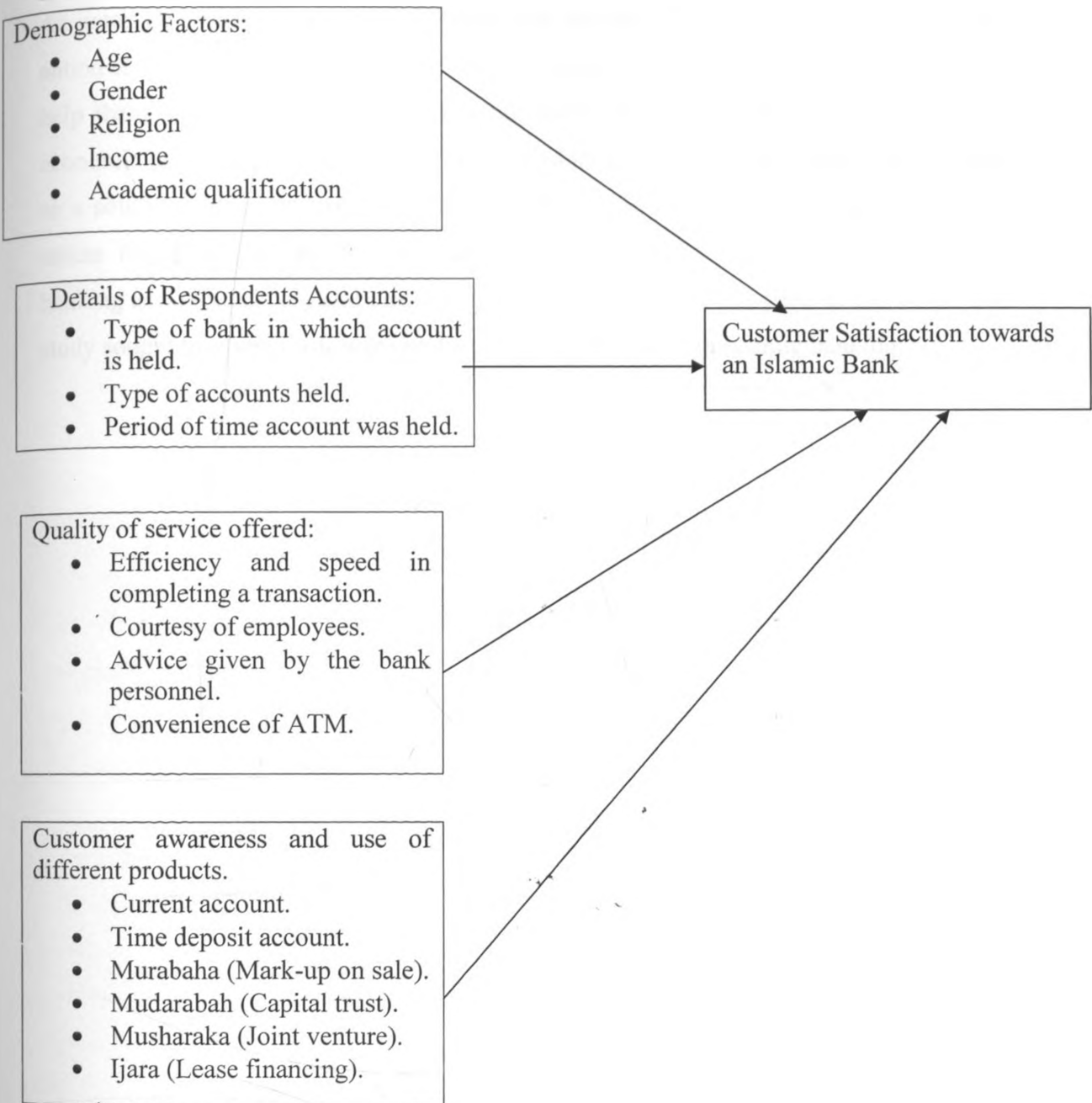
## 2.8 Conceptual Framework

Customer satisfaction is generally described as the full meeting of one's expectations (Oliver, 1980). Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. Customer satisfaction is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behaviour. For instance, if customers are satisfied with a particular service offering after its use, then they are likely to engage in repeat purchase and try line extensions (East, 1997). Customer satisfaction is widely recognised as a key influence in the formation of customers' future purchase intentions (Taylor and Baker, 1994).

Satisfied customers are also likely to tell others about their favourable experiences and thus engage in positive word of mouth advertising (Richens, 1983; File and Prince, 1992). This positive word of mouth advertising is particularly useful in collectivist Middle Eastern cultures like that of Abu Dhabi where social life is structured in a way to improve social relationships with others in the society (see Hofstede, 1980; Hall and Hall, 1987). Dissatisfied customers, on the other hand, are likely to switch brands and engage in negative word of mouth advertising. Furthermore, behaviours such as repeat purchase and word-of-mouth directly affect the viability and profitability of a firm (Dabholkar *et al.*, 1996). A recent study conducted by Levesque and McDougall (1996) confirmed and reinforced the idea that unsatisfactory customer service leads to a drop in customer satisfaction and willingness to recommend the service to a friend. This would in turn lead to an increase in the rate of switching by customers

## Independent Variables

## Dependent Variable.



**Figure 2.1: Conceptual Framework**

## **2.9 Conclusion**

As noted by Sarker (1999), Islamic banks can provide efficient banking services to the nation if they are supported with appropriate banking laws, and regulations. This will help them introducing PLS modes of operations, which are very much conducive to economic development. It would be better if Islamic banks had the opportunity to work as a sole system in an economy. That would provide Islamic banking system to fully utilize its potentials. On the basis the reviewed concepts and paradigms of Islamic banking as well as theory and practice of Islamic banking in other parts of the world, this study sought to assess customer satisfaction and preferences in Islamic banking.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methods which were employed to provide answers to the research questions in this study as listed in chapter one. The following aspects of research methodology are discussed; research design, target population, sample, sampling procedure, research instruments, validity and reliability, data collection procedure and data analysis.

#### **3.2 Research Design**

This study adopted descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The study aimed at investigating the degree of customer satisfaction of a sample of an Islamic bank's customers. More specifically it sought to collect information on the factors that customers utilize when choosing to bank with an Islamic bank, the factors that customers utilize when choosing to bank with both an Islamic bank as well as a conventional commercial bank, the degree of customer satisfaction of various aspects of an Islamic bank and the degree of awareness of activities and facilities offered by an Islamic bank. Borg and Gall (1989) recommend descriptive Survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers. The design was chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected. Furthermore, descriptive survey design raises concern for the economical completion of the research study. The method is rigid and focuses on the objectives of the study.

#### **3.3 Target Population**

The target population of this study included all customers of retail Islamic banks in Kenya. Ideally, to make generalizations about such a population, one should start with a sampling frame from which a random sample would be drawn. However, due to the

absence of the prospect for obtaining lists of existing customers and their contacts, a convenient sampling approach was followed as the best possible alternative. A branch-intercept approach was intentionally disregarded mainly because the interest was not in evaluating transaction-specific satisfaction but in cumulative satisfaction-related judgments formed by customers as a result of collective encounters with their retail Islamic banks. The study was carried out in Nairobi, Kenya. The population comprised of all the customers of First Community Bank visiting the retail branches during the chosen period of time.

### **3.4 Sample**

Within a quantitative survey design, determining sample size and dealing with non-response bias is essential. According to Holton and Burnett (1997), one of the real advantages of quantitative methods is their ability to use smaller groups of people to make inferences about larger groups that would be prohibitively expensive to study. In this study, data from previous studies of similar population is used to determine the variance estimate which is recommended by Cochran (1977) and 5% margin of error is acceptable. From the sample determination table developed by Barlett, Kotrlik and Higgins with a 5% margin of error, a sample of 200 respondents is appropriate for the study. Therefore, a total of 200 questionnaires were distributed to customers visiting Islamic bank's branches during the last week of March 2010. It was noted that customers in Kenya tend to visit their banks towards the end of a month, checking their accounts (for payment of salaries) and making deposits/withdrawals. Given that any customer who visits the Islamic Bank within the chosen period of time could take part in the survey, it is fair to say that the sample was randomly distributed. Sampling male and female was unnecessary since a limited number of Muslim females are expected to deal with banks. It is important to note that in the Islamic faith, dealing with a bank is mainly undertaken predominantly by males.

### **3.5 Sampling Procedure**

Purposive sampling has been used to select Nairobi as the study site since it has the headquarters of the Islamic banks in Kenya. In addition, more than half of the total

branches of the Islamic banks are in Nairobi. First Community Bank was chosen for the purpose of the study for a number of reasons. For instance, the bank is one of the first generation of Islamic banks established in the Kenya in June 2008. Between June 2008 and March 2010, the number of the Islamic bank's branches increased from one to fourteen and thus occupies the first place among the banks offering Islamic products and services. According to First Community Marketing manager, the bank's customers have grown to over 30,000 during the same period. This implies that the bank is making a steady growth in terms of both customer base and branch network. It was therefore appropriate to study a sample of customers of the bank.

Kenya was chosen for the study because the country is viewed as one of the major players in the economic and political stability of the Eastern African region (Kariuki, 2007). Kenya has adopted a liberal economic policy attracting both local investors and investors from different countries in the World. Moreover, Kenya runs one of the most lively and busiest stock exchanges in the region. Two hundred (200) questionnaires were distributed utilizing a convenience sample from walk-in customers at the banks premises during the specified period to achieve the objectives of the study.

Best and Khan (1999) warn that "there is no fixed number of percentages of subjects that determine the size of an adequate sample." To them, the ideal sample is "large enough to serve as an adequate representation of the population about which the researcher wishes to generalize and small enough to be selected economically in terms of subject availability, expense in terms of time and money and complexity of data analysis."

### **3.6 Research Instruments**

Primary as well as secondary data was collected. Secondary data was obtained from relevant literature review from dissertations/thesis, journals and the internet. Primary data was collected using a questionnaire in English designed with a set of questions that were mainly generated from the literature and meant to answer the research questions. The questionnaires were addressed to all the customers visiting the branches of First Community Bank during the chosen time period. The data collection process took one

week. To ensure that the purpose of the study was achieved, the researcher gave the questionnaire to each customer entering the bank branch so that it can be completed as the customer waits in the queue and collected after it was completed.

### **(a) Questionnaire**

To achieve the purpose of this study, a self-administered questionnaire was developed on the basis of an extensive review of the literature related to service quality and customer satisfaction in retail banking (e.g. Amin and Isa, 2008; Cronin and Taylor, 1992; Kassim and Souiden, 2007; Olorunniwo *et al.*, 2006; Parasuraman *et al.*, 1985 and 1988). The review of the extant literature on service quality initially led to the identification of an expanded list of 25 attributes as related to retail banking. However, due to its exhaustiveness and length, this pool of attributes were inspected further and shortened. Recent literature from a focus group session for the purpose of selecting the most important attributes of the products and services that banks deliver from four branch managers of different domestic banks in Kenya indicate the following 12 attributes as the most significant. These were as follows: efficiency and speed in completing a transaction; Courtesy of employees; advice given by the bank personnel; the cost of services offered by the bank; number of branches; Opening hours; Customer confidentiality; Wide range of facilities offered; Bank's name and image; efficiency in handling Complaints and advertising of existing products.

The questionnaires were preferred in this study because respondents of the study are literate and quite able to answer items asked adequately. It contained a mix of questions, allowing for both open-ended and specific responses to a broad range of questions. Kothari (2004) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization (Orotho 2000). It is for the above reasons that the questionnaire has been chosen as an appropriate instrument for this study.

The questionnaire was checked for accuracy, completeness and edited where necessary. Thereafter the questionnaires were sorted in accordance with the similarity of response given to different questions and considering the objectives of the research. Secondary information was collected from financial reports, magazines, banking diaries and other relevant materials from the specific banks.

### **(b) Focus group Discussion**

Focus group methodology traditionally calls for an individual, trained moderator who personally elicits information in accord with some pre-defined purpose. The information is obtained from an assembled group, often comprised of six to 12 eligible participants. Group participants are selected to be sufficiently diverse to generate lively and innovative ideas, but sufficiently similar to bring common discourse to the session (Morgan, 1996). Participants of focus groups are also expected to convene only once (Zmud, 1988). Accordingly, participants are typically exposed to a single moderator or facilitator who engages one or several groups to discuss directed research topics. Since moderators vary in their training, personality and leadership styles, and interests, focus groups are open to moderator bias.

In this study, a focus group session was held with seven branch managers of FCB from Nairobi, Mombasa, Garissa and Wajir for the purpose of selecting the most popular products and services offered by the bank and the important attributes of the products and services that banks deliver to customers.

### **3.7 Validity and Reliability.**

According to Patton (2001), validity and reliability are two factors which any qualitative researcher should be concerned about while designing a study, analyzing results and judging the quality of the study. This corresponds to the question that 'How can an inquirer persuade his or her audiences that the research findings of an inquiry are worth paying attention to?' (Lincoln and Guba, 1995). To ensure reliability in qualitative research, examination of trustworthiness is crucial. Seale (1999), while establishing good quality studies through reliability and validity in qualitative research, states that the



'trustworthiness of a research report lies at the heart of issues conventionally discussed and reliability'. According to Winter (2000), reliability and validity are tools of an essential positivist epistemology.

### **3.7.1 Validity of the Research Instrument**

Validity as defined by Borg and Gall (1989) refers to the degree to which the sample of a test items represent the content that it is designed to measure. That is, the instrument measures the characteristics or traits for which it is intended. For Kothari (2004), validity is the most critical criterion of sound measurement and indicates the degree to which an instrument measures what it purports to measure. This study adopts content validity which is the extent to which a measuring instrument provides adequate coverage of the topic under study. Kothari (2004), states that if the instrument contains a representative sample of the universe, the content validity is good.

To ensure validity, the questionnaire was examined by experts in this field to ensure that all the relevant information regarding the satisfaction of customers towards Islamic products in Kenya was covered. In addition, the research supervisors who are competent in the area being studied assessed the relevance of the content used in the developed questionnaire. The feedback was used in the revision and modification of the instrument and therefore enhanced the validity of the instrument.

### **3.7.2 Reliability of the data collection Instruments**

Reliability is a measure of the degree to which a research instrument yields consistent result or data after repeated trials (Mugenda and Mugenda 2003). The tendency toward consistency found in repeated measurements is referred to as reliability (Carmines and Zeller, 1979). To ensure a high degree of reliability of instruments in this study, a pilot study was carried out by the researcher by administering the questionnaire to a total of 20 randomly selected customers. The wording of the various parts of the questionnaire was tested to achieve a high degree of clarity, and the average time for completing the questionnaire was computed. This was done so as to revise and improve the questions

and notes if there were any items that were frequently left blank or answered in an unexpected manner.

In addition, the researcher personally collected the data and only in a few cases was assistance sought from well-trained and motivated research assistants. Such research assistants were clearly instructed by the researcher and this improved investigator consistency and reliability (Emory, 1985). The data was collected from customers visiting the branches of First Community Bank during the last week of March .In many cases, the questionnaires were completed while the researcher waited; thereby providing clarification where necessary thus raising the reliability.

To examine the relationship between the degree of customer satisfaction and other factors related to the respondents (age, gender, level of education, income etc.)  $\chi^2$  was computed. To see whether the average perceptions (of the issues or variables under investigation) were identical for all groups involved in this survey, the Kruskal-Wallis Test was used. The test was used to measure any significant difference in responses, since there are different groups involved in this survey. This non-parametric test is appropriate when measurement of the variables under investigation is in an ordinal scale (Grimm and Wozniak, 1990). All the respondents regardless of their age, gender, religion, income and level of education, expressed a certain degree of satisfaction towards most aspects of the Islamic bank.

### **3.8 Data Collection Procedure**

The researcher first obtained a research permit from the Office of the President (Ministry of Education) and then paid a courtesy call to the Chief Executive Officer of First Community Bank to get permission to collect data from the branches of the commercial bank, after which the researcher personally delivered the questionnaire to the banks and had them filled in his presence. The researcher also used trained and qualified research assistants to assist with the questionnaire distribution. To collect data from the bank customers, a total of 200 questionnaires were randomly distributed to those customers visiting an Islamic bank's branches during the last week of March 2010 and the customers were asked to complete the questionnaire as the researcher waited.

Document analysis was done continuously throughout the study in order to compare the findings.

### 3.9 Operational Definition of Variables

To achieve its objectives, the study investigated the degree of customer awareness and satisfaction towards Islamic bank products and services in Kenya offered by First Community Bank. This was achieved through the questionnaire which had questions outlined as per the needs of every objective (Appendix 2). The table below shows how the variables will be operationalized in the study so as to make them measurable.

**Table 3.1: Operational definition of variables Table.**

OBJECTIVES	VARIABLES	INDICATORS	MEASUREMENT SCALE	TOOLS OF ANALYSIS	TYPES OF TOOLS
i. To determine the factors that influence customers when choosing to bank with an Islamic bank.	<p>a) <b>Independent Variable:</b> Demographic Factors (Age, Gender, Income, Academic Qualification, Profession).</p> <p>b) <b>Dependent Variable:</b> Customer Satisfaction towards Islamic bank.</p>	<ul style="list-style-type: none"> <li>• Age (years)</li> <li>• Gender</li> <li>• Religion</li> <li>• Income (ksh. per month)</li> <li>• Academic Qualification</li> <li>• Type of employment</li> </ul>	<p>Interval</p> <p>Nominal</p> <p>Nominal</p> <p>Interval</p> <p>Ordinal.</p> <p>Nominal</p>	<p>Measures of Central Tendency</p> <p>Non-parametric inferential statistics.</p>	<p>Mean.</p> <p>Frequencies, cross tabulation</p> <p>Chi-square.</p> <p>Kruskal-Wallis One-Way Anova.</p>
ii. To establish the factors that influence customers when choosing to bank with both an Islamic bank as well as a conventional bank.	<p>a) <b>Independent Variable:</b> Details of respondents accounts.</p> <p>b) <b>Dependent variable:</b> Customer</p>	<ul style="list-style-type: none"> <li>• Type of bank(s) in which respondents hold their accounts.</li> <li>• Type of accounts held by respondents</li> <li>• Period of time the account was held.</li> </ul>	<ul style="list-style-type: none"> <li>• Islamic bank only.</li> <li>• Conventional bank only.</li> <li>• Conventional and Islamic Banks.</li> </ul> <p>Nominal</p> <ul style="list-style-type: none"> <li>• Islamic</li> <li>• Conventional</li> </ul>	<p>Measures of Central tendency.</p>	<p>Mean.</p>

	satisfaction towards an Islamic bank	<ul style="list-style-type: none"> <li>• Reasons for dealing with the Islamic bank.</li> <li>• Reasons for dealing with both types of banks.</li> </ul>	Nominal  Interval.  Nominal		
iii. To determine the degree of customer satisfaction of various aspects of an Islamic bank.	<b>Independent variables:</b> services Quality offered by the Islamic bank.	Quality of services: <ul style="list-style-type: none"> <li>• Efficiency and speed.</li> <li>• Courtesy of employees.</li> <li>• Cost of services.</li> <li>• Opening hours.</li> <li>• Number of ATMs.</li> <li>• Name and image of Bank.</li> </ul>	Ordinal	Measure of Central tendency.	Mean frequencies.
iv. To investigate the level of awareness of the products offered by an Islamic bank.	<b>Independent variable:</b> customer awareness and use of different products and services offered by Islamic banks in Kenya.	<b>Products.</b> <ul style="list-style-type: none"> <li>• Current account.</li> <li>• Time deposit account.</li> <li>• Mudarabah</li> <li>• Musharaka</li> <li>• Murabahah</li> <li>• Ijara</li> <li>• ATMs.</li> <li>• Letters of credit.</li> <li>• Bank statements.</li> </ul>	Ordinal.	Measures of Central tendency.	Mean.

### 3.10 Data Analysis

The process of data analysis involved several stages namely; data clean up, data reduction, data differentiation and explanation. Data clean up involved editing, coding, and tabulation in order to detect any anomalies in the responses and assign specific numerical values to the responses for further analysis. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any

errors and omissions (Kothari, 1990). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) programme to analyze the data.

The responses from the open-ended questions were listed to obtain proportions appropriately; the responses were then reported by descriptive narrative. Descriptive analysis that is, the descriptive mean and standard deviation were used for Likert-Scale responses; Descriptive statistics (mean, mode and standard deviation) and inferential statistics (correlation and chi-square) were used in the analysis.

### **3.11 Summary**

To summarize, research methodology established the rules and procedures that were used to achieve the objectives of the study. The research methodology identified the data needed and methods of data collection. It also established the variables to be measured and finally culminated in the methods of analysis and presentation.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

The main purpose of this study was to investigate the degree of customer satisfaction and preferences towards Islamic banking in Kenya. Questionnaires were administered to a sample of 200 randomly selected customers who visited First Community Bank during the last week of March 2010. The analysis of their responses using descriptive statistics revealed a certain degree of satisfaction towards many of the Islamic banks facilities and products. The complete analysis and interpretation of the data is made in this chapter.

This chapter is presented in four sections. The first section is the fact finding sheet which looks at the background information of the respondents which examines the factors that influence customers when choosing to bank with an Islamic bank. These are the age of respondent, gender, religion, income level, education level and type of employer. The second section looks at the the factors that influence customers when choosing to bank with both an Islamic bank as well as a conventional bank. The third section looks at the factors that determine the degree of customer satisfaction of various aspects of an Islamic bank and the final part looks at the degree of awareness of products and services offered by an Islamic bank.

#### **4.2 Questionnaire Return Rate**

Out of 200 questionnaires which were administered to the interviewees, 180 of them were returned for data analysis. This translates to 90.0 percent return rate, a response rate considered sufficiently large for statistical reliability and generalisability (Tabachnick and Fidell, 1996; Stevens, 2002). The data has been presented in tables and bar graphs. The responses were analyzed using descriptive and inferential statistics.

#### **4.3 Background information of the respondents**

In order to carry out the data analysis, descriptive statistics were employed. Part A of the questionnaire included a section on customers' profile as various demographic factors

were likely to influence the degree of customer satisfaction towards products and services offered by a bank. Because the study focused on bank customers, it was found necessary to analyze the demographic information as people are very diverse in their backgrounds.

**(a) Age of Respondents**

Respondents were asked to indicate their age. The findings are presented in the table below.

**Table 4.1: Distribution of Respondents by Age.**

Age in Years	Frequency	Percent (%)
20 or less	6	3.3
21-30	96	53.3
31-40	51	28.3
41-50	27	15.0
51-60	0	0.0
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated from table two, all the participants were aged 20 years and above. Majority of the respondents 53.3% were aged between 21-30 years, followed by 28.3% between 31-40 years and 15.0% between 41-50 years then 3.3% of the respondents were aged 20 years and below. This could give an implication that majority of First Community bank customers are middle aged people. The age bracket 21-40 years is a prime age and most of the people in this age bracket are learned preferring banking to other traditional forms of saving money. In addition, the people in this age group have sources of income both in the self employment and formal employments. Moreover, the finding confirms the fact that a very high proportion of Kenya’s populations are youths (that is, below 35 years). In contrast, most people older than independent Kenya do not have formal education and might use traditional saving methods like keeping their money under the pillow. Also most of the older Muslim citizens do not see the essence of keeping money in the banks. They still hold the myth that they may be coned and lose their money in the process. Others could be of the view that all banks are interest bearing institutions and hence ‘*haram*’ (unlawful in Islamic law).

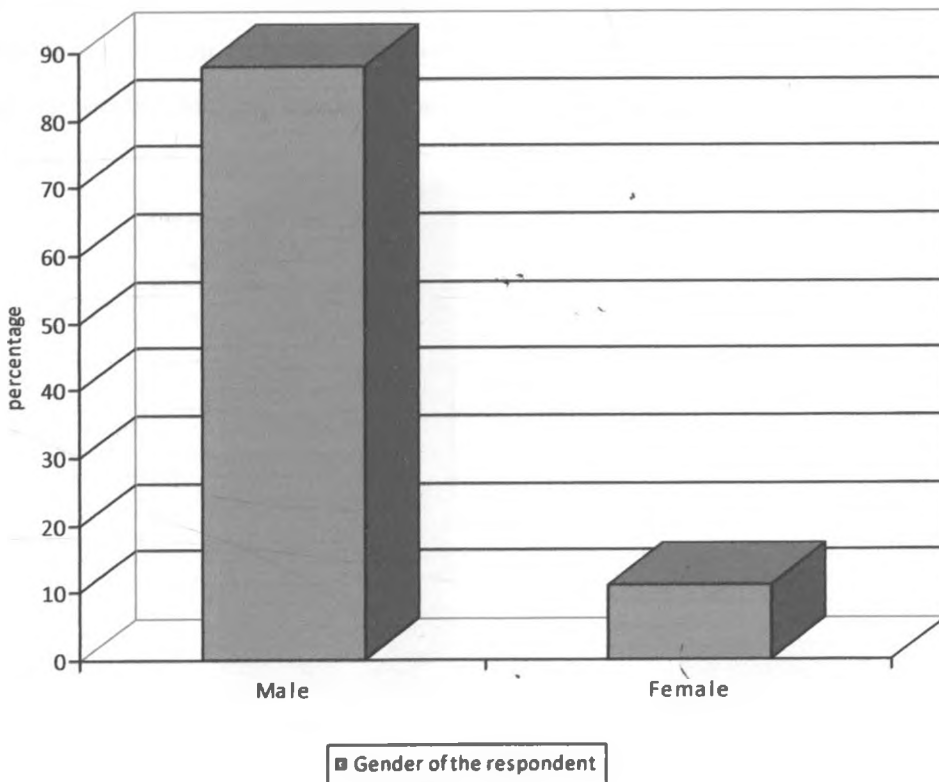
**(b) Gender of Respondents**

The researcher sought to find out the gender of the respondents to see which gender banks more than the other.

**Table 4.2: Distribution of respondents by Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent (%)</b>
Male	159	88.3
Female	21	11.7
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated by table three above, it is clear that 88.3% were males while females were 11.7% only. It is important to note here that in the Islamic faith, dealing with a bank is mainly undertaken predominantly by males. The Islamic faith requires that females be under the care of either their husbands or an immediate family member who cannot legally be married to them.



**Figure 4.1: Distribution of respondents by Gender**



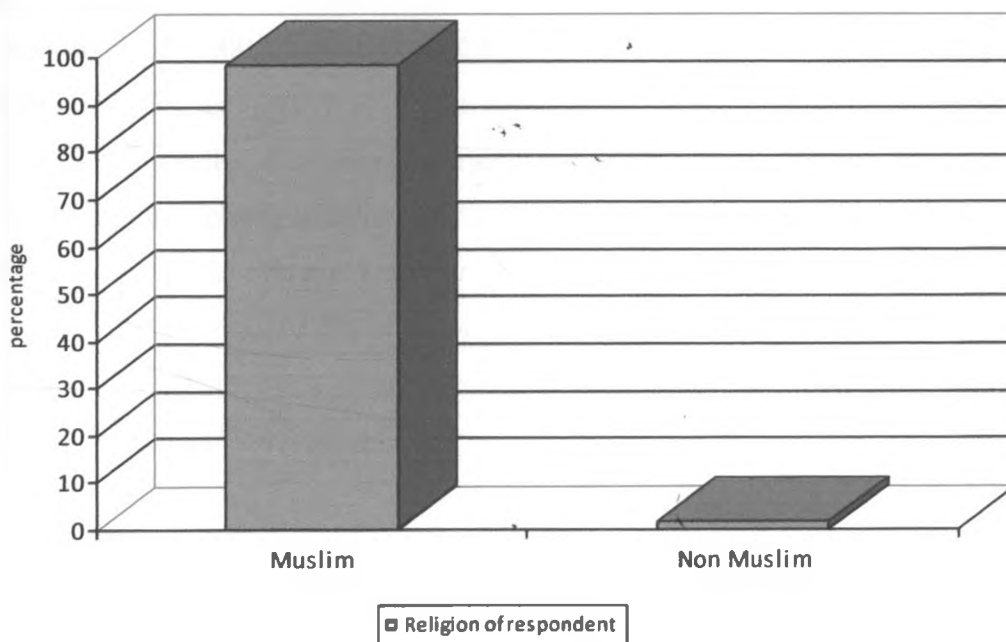
**(c) Religion of the respondents**

Since the study focused more on Islamic banking there was need to find out if there are non-Muslims customers who were visiting the bank for services. The findings are in the table 4 below and a graphical presentation follows.

**Table 4.3: Distribution of respondents by Religion**

Religion	Frequency	Percent (%)
Muslim	177	98.3
Non Muslim	3	1.7
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated by table four above, 98.3% of the respondents were of Muslim faith while 1.7% were non-Muslims. This implies that FCB has a customer base composed mainly of Muslims but there were few non-Muslim customers who bank with FCB possibly because of the bank's need to remain competitive and relevant to all customers regardless of their faith considering that Muslims in Kenya form around thirty percent of the total population only. In addition, the bank seemed to have come out strongly to capitalize on the banking needs of the vast majority of wealthy Muslims in Kenya.



**Figure 4.2: Distribution of respondents by Religion**

**(d) Income level**

The level of income was also a factor in finding out the background information of FCB customers. This was so because people are diverse and that not all income groups bank their savings. The findings are in the table below.

**Table 4.4: Distribution of respondents by Monthly Income level**

<b>Income level (Kshs)</b>	<b>Frequency</b>	<b>Percent (%)</b>
Less than 20,000	33	18.3
20,001-40,000	72	40.0
40,001-60,000	33	18.3
60,001-80,000	18	10.0
80,001-100,000	6	3.3
More than 100,000	18	10.0
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated by table five above, 40.0% of the respondents had a monthly income level of between Ksh 20,001-40,000, whereas 18.3% of the respondents earn either less than Ksh 20,000 or between Ksh 40,001 and 60,000. This was followed by 10.0% who earn either Ksh 60,001-80,000 or more than Ksh 100,000. A paltry 3.3% earn between Ksh 80,001-100,000. The fact that 76.6% of the respondents had a monthly income of 20,000-60,000 could indicate that these were salaried people who visited the bank during the last week of the month to check whether their salaries have been posted to their accounts. In addition, these are the average monthly incomes of most Kenyans who bank their incomes. The fact that only 13.3% of the respondents had an income of more than 80,000 confirms the old adage by a famous political economist "*in Kenya, there are ten millionaires and ten million beggars.*"

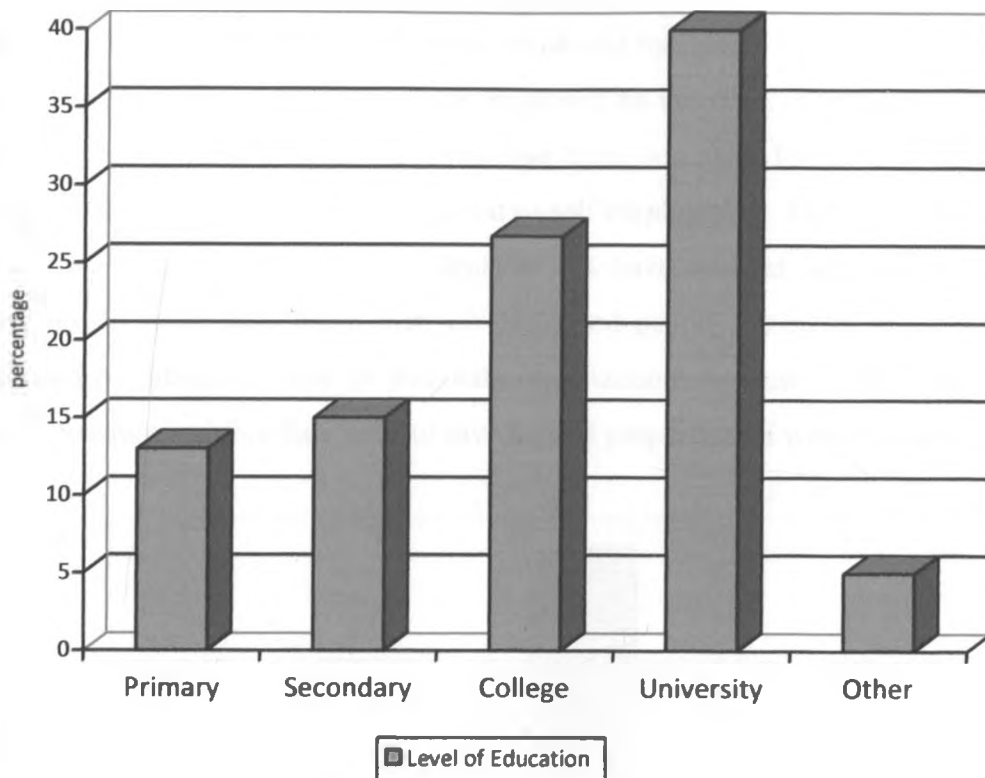
*(e) Education levels of respondents*

Question of business book keeping also became of importance to find out relation between business management and growth. The findings are shown in the table below:

**Table 4.5: Distribution of respondents by Education level**

<b>Education level</b>	<b>Frequency</b>	<b>Percent (%)</b>
Primary	24	13.3
Secondary	27	15.0
College	48	26.7
University	72	40.0
Other	9	5.0
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated in table six above, 40.0% of the respondents have attained university education followed by 26.7% who have attained college education while 15.0% and 13.3% attained secondary and primary level education respectively. Only 5.0% were illiterate or had no basic education represented by other. This could confirm the earlier conclusion that most of the bankers of FCB, 81.7% have a post primary education with more than half of them 40% having attained University education. This confirms the fact that Kenya has an educated labour force. These people are considered elites of the society in terms of education and income. The majority of people who have either no basic education or with only primary education keep do not keep their money in banks because of the belief in traditional cultural myths and therefore keep their money under the pillow or in home- made safes.



**Figure 4.3: Distribution of respondents by Education level**

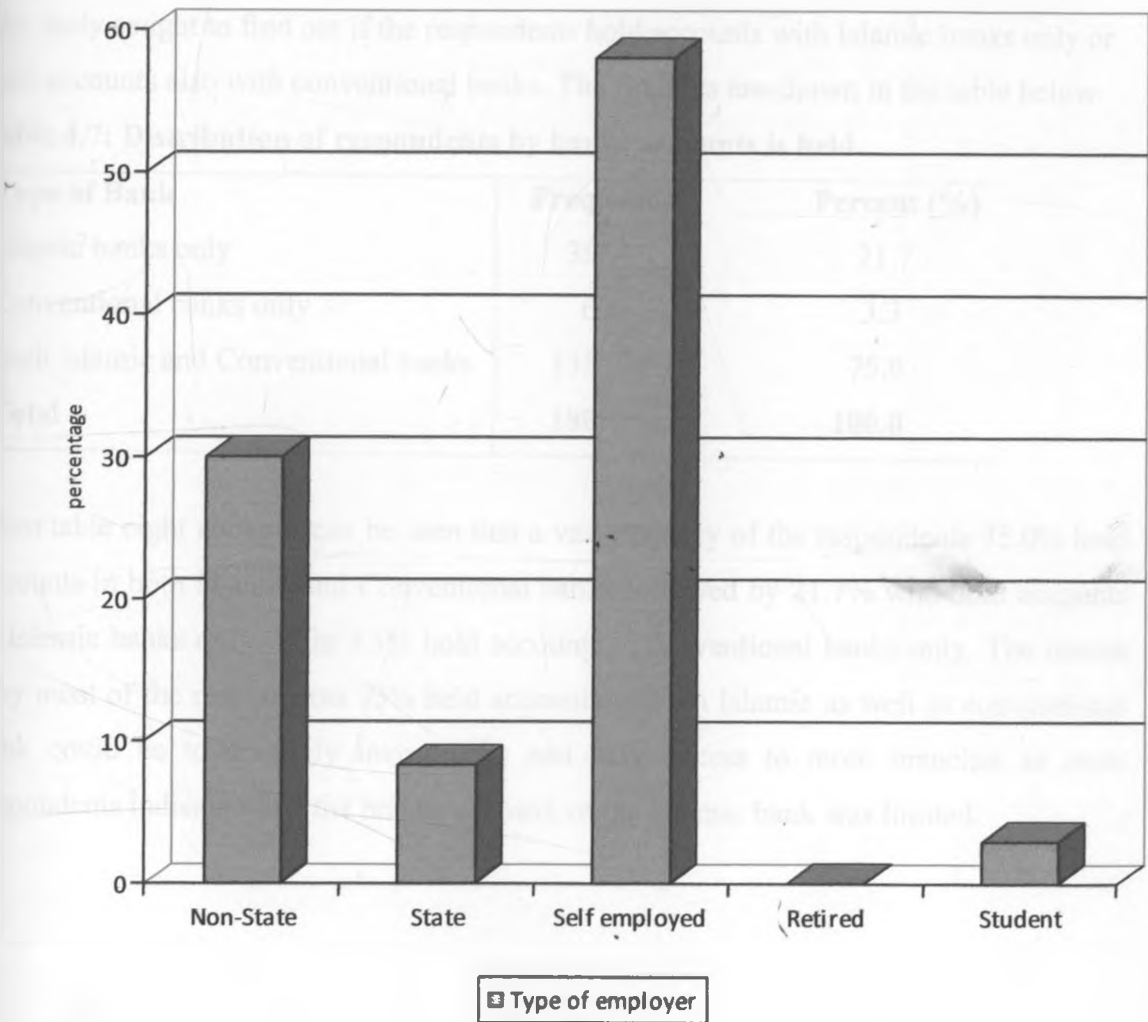
**(f) Type of employer**

There was need to find out what type of employment the respondents were engaged in. That is, whether they were employed and if so by whom or whether respondents were self employed, retired or were students. The findings are in table below.

**Table 4.6: Distribution of respondents by Type of employer**

Type of employer	Frequency	Percent (%)
Non-State Organization	54	30.0
State	15	8.3
Self employed	105	58.3
Retired	0	0.0
Student	6	3.3
<b>Total</b>	<b>180</b>	<b>100.0</b>

As indicated by table seven above, the majority of respondents 58.3% were self employed, followed by 30.0% who were employed by private or non-state organizations and only 8.3% of the respondents were employed by the state. A few of the respondents 3.3% were students. These results reveal that there is a mass formal employment in the country and that many people have turned to self employment. This seems to be the case considering that most of the respondents 81.7% have attained post primary education. These results might also mean that self employed people are better savers than people employed by either the state or non-state organizations because possibly their incomes are not constant and that they need to save a good proportion of what they get.



**Figure 4.4: Distribution of respondents by Type of Employer**

#### 4.4 Type and duration of Banking

In order to investigate customer satisfaction towards an Islamic bank, it was important to explore where respondents held their accounts. For instance, holding accounts in both an Islamic as well as a conventional bank enables customers to make useful comparisons while evaluating service quality. Although gathering information on whether the respondents held accounts in Islamic and conventional banks was useful, it was also important to explore types and duration of accounts held by the respondents with the Islamic bank as well as a conventional bank.

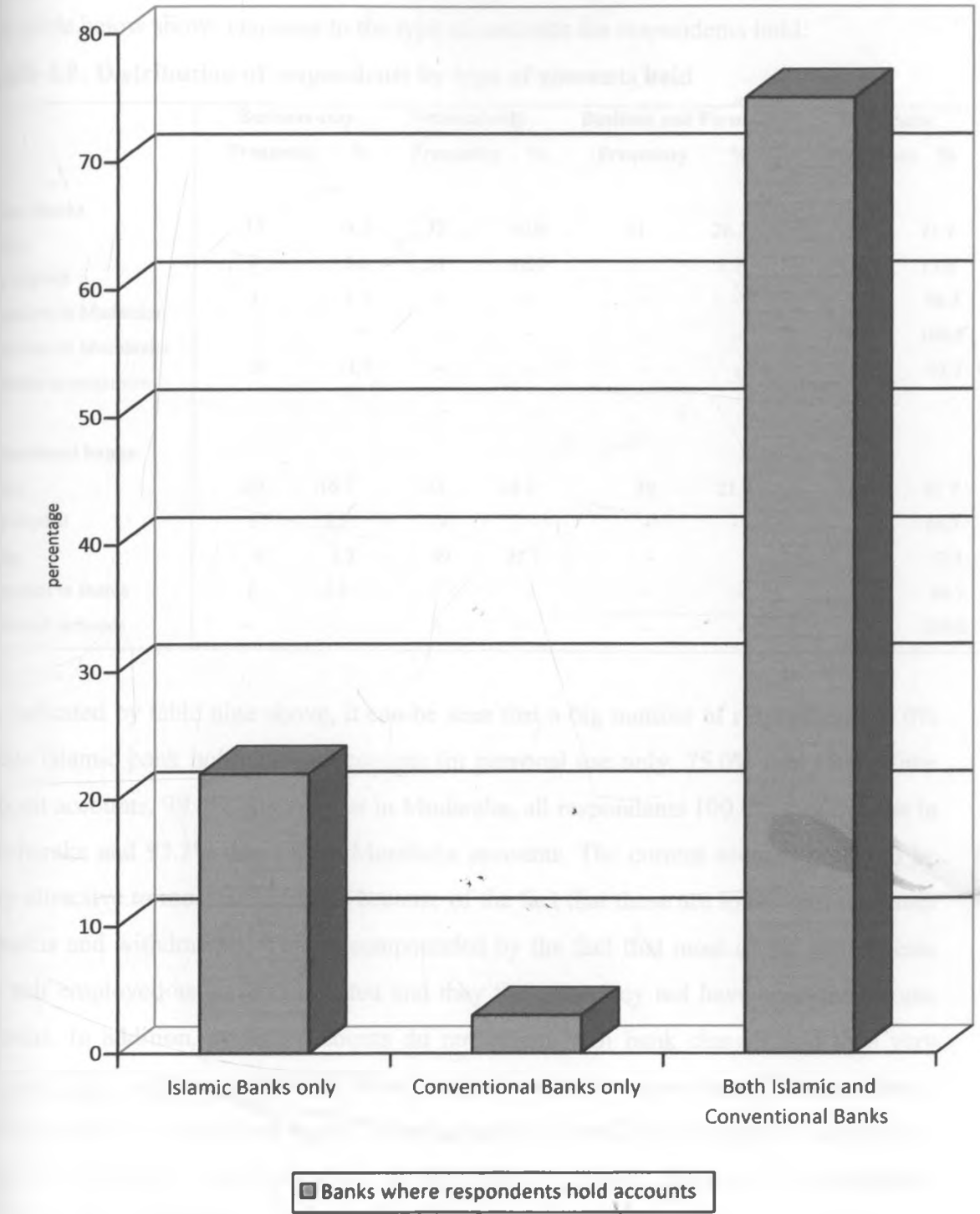
##### *(a) Banks where Respondents hold accounts*

The study sought to find out if the respondents hold accounts with Islamic banks only or have accounts also with conventional banks. The findings are shown in the table below.

**Table 4.7: Distribution of respondents by banks accounts is held.**

Type of Bank	Frequency	Percent (%)
Islamic banks only	39	21.7
Conventional banks only	6	3.3
Both Islamic and Conventional banks	135	75.0
<b>Total</b>	<b>180</b>	<b>100.0</b>

From table eight above it can be seen that a vast majority of the respondents 75.0% hold accounts in both Islamic and Conventional banks followed by 21.7% who hold accounts in Islamic banks only while 3.3% hold accounts in conventional banks only. The reason why most of the respondents 75% held accounts with an Islamic as well as conventional bank could be to diversify investments and have access to more branches as most respondents indicated that the branch network of the Islamic bank was limited.



**Figure 4.5: Distribution of respondents by banks where accounts is held**

*(b) The type of Accounts held by Respondents.*

The table below shows response to the type of accounts the respondents hold:

**Table 4.8: Distribution of respondents by type of accounts held**

	Business only		Personal only		Business and Personal		Don't have	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
<b>Islamic Banks</b>								
Current	15	8.3	72	40.0	51	28.3	39	21.7
Time deposit	9	5.0	30	16.7	3	1.7	135	75.0
Investment in Mudaraba	3	1.7	-	-	-	-	177	98.3
Investment in Musharaka	-	-	-	-	-	-	180	100.0
Murabaha arrangement	3	1.7	-	-	-	-	168	93.3
<b>Conventional banks</b>								
Current	30	16.7	33	18.3	39	21.7	75	41.7
Time deposit	6	3.3	-	-	-	-	174	96.7
Saving	6	3.3	39	21.7	-	-	132	73.3
Investment in shares	6	3.3	-	-	-	-	174	96.7
Investment in bonds	-	-	-	-	-	-	180	100.0

As indicated by table nine above, it can be seen that a big number of respondents 40.0% under Islamic bank hold current accounts for personal use only, 75.0% don't have time deposit accounts, 98.3% don't invest in Mudaraba, all respondents 100.0% don't invest in Musharaka and 93.3% don't have Murabaha accounts. The current account seems to be very attractive to most respondents because of the fact that these are lower cost customer deposits and withdrawals. This is compounded by the fact that most of the respondents are self employed as earlier indicated and they therefore may not have constant income streams. In addition, current accounts do not attract high bank charges and thus very popular. Time deposit accounts do attract interests which are considered "Riba or Usury" in Islam and is unlawful and therefore not attractive to most of the Islamic customers. It is also evident that most customers do not invest in Islamic products like Mudaraba, Musharaka and Murabaha accounts because they do not know how these products work. Under conventional banking, majority 41.7% of the respondents don't have or hold current accounts, 96.7% don't have time deposit, 73.3% don't hold savings accounts, 96.7% don't invest in shares while all respondents 100.0% of them don't invest in bonds.



The fact that most of the respondents under this category do not hold current accounts could imply that they have transferred their accounts to the Islamic banks. The reason why 96.7% and 100% of the respondents do not have time deposit accounts and do not invest in bonds respectively is because these are interest based products and thus unlawful for Muslim customers. The reason why most respondents 96.7% do not invest in shares is because of lack of Islamic based shares in the capital markets in Kenya. In addition, following the global economic and financial meltdown, most investments in the capital markets were not attractive during the period.

*(c) The Number of years as account holder.*

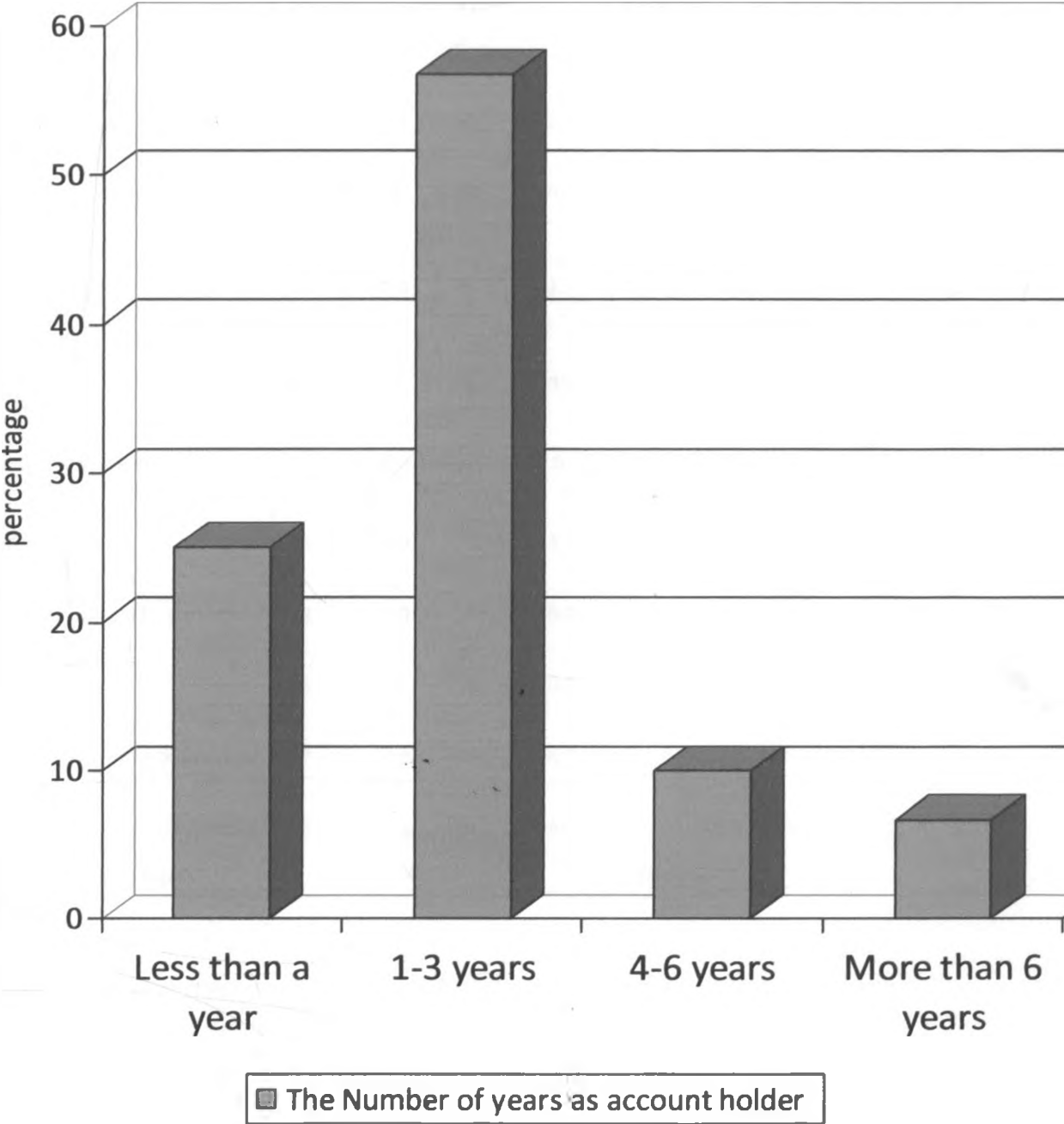
There was need to find out how long the respondent has held the accounts. The findings are shown in the table below.

**Table 4.9: Distribution of respondents by the Number of years as account holder.**

<b>Number of years</b>	<b>Frequency</b>	<b>Percent (%)</b>
Less than a year	45	25.0
1-3 years	102	56.7
4-6 years	18	10.0
More than 6 years	12	6.7
<b>Total</b>	<b>180</b>	<b>100.0</b>

From table ten above, it can see that majority of the respondents 56.7% have held the accounts for 1-3 years, 25.0% have held for less than a year, 10.0% have held for 4-6 years while the least 6.7% have held accounts for more than 6 years. Most of the respondents have held their accounts for 1-3 years because that is the period during which Islamic banks were introduced in Kenya (that is, the First fully fledged Islamic bank became operational in June 2008). The respondents who have held their accounts for more than four years 16.7% had their accounts in the conventional banks even before the coming up of Islamic banks and have opted to maintain those accounts and in addition open new accounts in the Islamic banks so as to diversify investment and have access to a wider branch network. Moreover, having customers holding accounts for more than 2

years might imply there is some degree of customer loyalty towards an Islamic bank and reflect a level of satisfaction. The results can also be seen in the graph below.



**Figure 4.6: Distribution of respondents by the Number of years as account holder**

*(d) The reasons for dealing with the Islamic bank*

Table 11 below shows the respondent's reasons for dealing with the Islamic banks.

**Table 4.10: Distribution of respondents by reasons for dealing with the Islamic bank**

STATEMENT	Strongly Agree		Agree		Disagree		Strongly Disagree		Rank*
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Religious reasons only.	93	51.7	60	33.3	15	8.3	9	5.0	1
Profitability reasons (high returns on investments)	9	5.0	36	20.0	99	55.0	33	18.3	9
Religious and profitability reasons	18	10.0	96	53.3	57	31.7	6	3.3	3
Advice from relatives	6	3.3	48	26.7	66	36.7	45	25.0	8
I am confident the bank treats my personal information as confidential	36	20.0	0	0.0	105	58.3	36	20.0	10
Advice from friends	18	10.0	78	43.3	48	26.7	33	18.3	5
Wide range of facilities offered by the bank	18	10.0	54	30.0	93	51.7	12	6.7	6
Low service charges	15	8.3	54	30.0	96	53.3	12	6.7	7
Bank effectiveness in completing transactions	27	15.0	84	46.7	63	35.0	3	1.6	4
Islamic bank offers the same facilities offered by a commercial bank but Islamic bank also observes Sharia'h principles	78	43.3	66	36.7	37	15.0	6	3.3	2

**NOTE:**

\* The ranking which appears on this table is based on the level of agreement of the respondents. For example the level that received the highest degree of agreement (the highest number of respondents who either strongly agreed or agreed) is ranked number one.

From table eleven above, it can be seen that majority of the respondent's 51.3% strongly agreed to religious reasons only as reasons why they deal with Islamic banks which is also ranked as the number one showing it received highest degree of agreement. This is

also backed by the fact that more than 98% of the respondents were of the Islamic faith. This factor also displays how Muslims are strongly attached to their religion and how faith cannot be separated from religion. This study supports that the research done by Othman and Owen (2001) based on the fact that compliance to Islamic principles is perceived as the most significant criteria.

Ranked number two with 43.3% of the respondents strongly agreeing to Islamic banks offering the same facilities offered by a commercial bank but Islamic bank also observes Sharia'h principles. Here, the reasoning is about Islamic principles and is the same as above.

Ranked number three with 53.3% of the respondents indicating they agree to deal with Islamic banks due to both religious and profitability reasons. In this case the respondents argued that in terms of profitability, there is no much difference between Islamic banks and conventional banks because the profits are only shared by the shareholders or investors and that Muslims do not pay or take interest. In addition, most of the respondents were of the view that they have not invested in profit bearing Islamic products.

Ranked number four were 46.4% of the respondents agreeing to the Islamic banks effectiveness in completing transactions, 43.3% agreed to advice from friends as reason for dealing with the Islamic bank hence ranked number five. Ranked six were 30.0% of the respondents agreeing to bank offering a wide range of facilities. About 30.0% agreed to low banks charges from Islamic banks hence rank seven. This is followed by 26.7% agreed to advice from relatives as reason for dealing with Islamic banks, while 20.0% agreed to high profitability or return on investment as reason for dealing with Islamic banks. The lowest rank number ten was allocated to banks confidentiality with customer's information with only 20.0% of the respondents strongly agreeing.

The results indicate that factors like advice from relatives and from friends and bank's confidentiality did not appear to play a major role in banking choice of customers who used Islamic bank. Therefore religion as a single factor stands out as the main factor in

the choice of the Islamic bank with more than 85% of the respondents basing their decision on religion. The respondents indicated that the bank charges especially in current account is more or less the same in both Islamic and conventional banks and therefore does not matter so much.

**(e) Reasons for dealing with both Islamic bank and Conventional bank**

Table 12 below shows degree of respondent's agreement to reason of dealing with both Islamic and Conventional banks.

**Table 4.11: Distribution of respondents by reasons for dealing with both Islamic bank and Conventional bank**

STATEMENT	Strongly Agree		Agree		Disagree		Strongly Disagree		Rank*
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
The Islamic bank does not offer me some of the products or facilities offered by commercial banks	24	13.3	84	46.7	45	25.0	24	13.3	2
Islamic bank does not offer many of the products or facilities offered by commercial banks	6	3.3	51	28.3	90	50.0	30	16.7	4
Opening hours of Islamic banks are limited	0	0.0	15	8.3	93	51.7	69	38.3	5
Opening two accounts gives me the Opportunity to diversify the investment	24	13.3	108	60.0	36	20.0	9	5.0	1
Both types of banks have a limited number of branches and opening two accounts gives me access to more branches	48	26.7	78	43.3	39	21.7	12	6.7	3

**NOTE:**

\* The ranking which appears on this table is based on the level of agreement of the respondents. For example the level that received the highest degree of agreement (the highest number of respondents who either strongly agreed or agreed) is ranked number one.

As indicated by table twelve above, majority of the respondents 60.0% agreed to open two accounts gives the respondents the opportunity to diversify the investments they make hence ranked number one. This could be in tandem with the paradigm of '*not putting all your eggs in one basket*' considering the global financial meltdown and the banking crisis that led to the collapse of the great **Lehman Brothers Bank** in the USA which ensued the evaporation of confidence in financial markets. Furthermore, a vast majority of respondents 46.7% chose to bank with both types of banks as some products or services offered by their conventional banks were not available to them through their Islamic bank and this was ranked number two. These products could include insurance services, credit cards, utility bills payment services, tax payment account and internet banking. This could be attributed to tough sha'riah compliance rules required before a bank introduces interest-free finance because the Muslim clients demand assurance that the products are sha'riah compliant before they get subscribed to these products. In addition, significant income of commercial banks are derived from interest on loans, but in contrast, interest-free banking system advocates for free interest loans hence banks might find it unworthy investment to launch interest-free.

Similarly, 43.3% of the respondents banked with both type of banks because both had a limited number of branches so that banking with both types provided them with more choice of branches and this was ranked number three. This could be the issue of accessibility and flexibility in terms of branches and opening hours. This could also have a big implication on the need to have 24 hour economy proposed in Kenya by the government. This was followed by 28.3% of the respondents who mentioned that they banked with both type of banks because the Islamic bank does not offer many of the products or facilities offered by conventional banks. A dismal 8.3% of the respondents agreed to banking with both type of banks because the opening hours of the Islamic bank is limited thus ranking it reason number five.

These findings have serious implications for the Islamic banks in Kenya. The bank needs to provide a full range of services and show flexibility in terms of opening hours in order to remain competitive in the market place.

#### 4.5 Degree of Customer Satisfaction towards the Islamic bank.

The respondents were asked to express their degree of satisfaction towards various aspects of the service provided by the bank.

**Table 4.12: Distribution of respondents by the Degree of Customer Satisfaction towards the Islamic bank.**

STATEMENT	Strongly Agree		Agree		Disagree		Strongly Disagree		Rank*
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Efficiency and speed in completing a transaction	45	25.0	93	51.7	39	21.7	0	0.0	4
Courtesy of employees	30	16.7	102	56.7	42	23.3	3	1.7	5
Advice given by the bank personnel	21	11.7	99	55.0	42	23.3	15	8.3	7
Convenience of ATM locations.	9	5.0	66	36.7	75	41.7	27	15.0	11
The cost of services offered by the bank.	21	11.7	111	61.7	42	23.3	3	1.7	6
Number of branches.	3	1.7	45	25.0	96	53.3	33	18.3	12
Opening hours.	54	30.0	99	55.0	18	10.0	6	3.3	3
Customer confidentiality	36	20.0	114	63.3	24	13.3	6	3.3	2
Wide range of facilities offered.	6	3.3	78	43.3	87	48.3	6	3.3	9
Bank's name and image.	42	23.3	111	61.7	18	10.0	6	3.3	1
Efficiency in handling Complaints.	12	6.7	99	55.0	51	28.3	15	8.3	8
Advertising both existing and new products	12	6.7	69	38.3	81	45.0	15	8.3	10

#### NOTE:

\*The ranking which appears on this table is based on the level of satisfaction of the respondents. For example the level that received the highest degree of satisfaction (the highest number of respondents who is either very satisfied or satisfied) is ranked number one.

From table thirteen above, it can be seen that 61.7% of the respondents were either strongly satisfied or satisfied with the bank's name and image ranked number one. This was followed by 63.3% of the respondents who indicated that they were either strongly

satisfied or satisfied with the bank's ability to ensure customer confidentiality ranked number two. Furthermore, 55.0% of the respondents indicated that they were either very satisfied or satisfied by the bank's opening hours ranked number three. Only 51.7% of the respondents, however, expressed their satisfaction towards efficiency and speed in completing transactions ranked number 4. As far as the performance of bank employees was concerned, the majority 56.7% of the respondents were satisfied about most aspects of customer-client interaction like the advice given by the bank personnel and their sociability and friendliness while 56.7% were satisfied with the bank employees courtesy ranked number five.

Wide range of facilities offered and advertising both existing and new products did not get a better response from customers scoring only 43.3% and 38.3% respectively. This means that Islamic banks need to work on the facilities they offer their customers to be diverse for their selection and look into more effective ways of marketing and enabling their customers are aware of existing and new products they offer.

Moreover, 53.3% of the respondents were not satisfied with the number of branches of the Islamic bank followed by 41.7% who were not satisfied with the convenience of ATM locations. A good number of respondents 45% showed dissatisfaction towards the Islamic bank's policy of advertising existing and new products.

#### **4.6 Customer awareness and use of the products offered by Islamic banks.**

In this study, the extent to which Muslims living in Kenya were aware of the basic Islamic financial terms like *Mudaraba*, *Mushara* and *Ijara* were explored. The respondents were asked whether they actually used these products if they were aware of its existence. The findings are shown in the table below:



**Table 4.13: Distribution of respondents by Customer Awareness and the use of different products and services offered by the Islamic bank.**

	Not aware of it		Aware of it and don't use it		Aware and use it	
	Frequency	%	Frequency	%	Frequency	%
Current Account	6	3.3	33	18.3	138	76.7
Time deposit Account	30	16.7	99	55.0	48	26.7
Mudarabah (Capital trust)	81	45.0	90	50.0	3	1.7
Murabaha (Mark ups on sale)	96	53.3	78	43.3	3	1.7
Musharaka (full partnerships)	108	60.0	69	38.3	0	0.0
Ijara (lease financing)	126	70.0	51	28.3	0	0.0
Travelers' Cheques.	93	51.7	78	43.3	6	3.3
Bankers Cheque	39	21.7	105	58.3	33	18.3
ATMs	6	3.3	45	25.0	126	70.0
Letters of Credit	69	38.8	105	58.3	3	1.7
Specially ordered bank statements	36	20.0	45	25.0	96	53.3

As indicated by table fourteen above, it can be seen that 76.7% of the respondents were aware and were using conventional banking services like current account. This was followed by 70% of respondents who were aware and used ATM cards. More than half of the respondents, 53.3% were aware and used specially ordered bank statements. All these three products are not only offered by the Islamic banks but are also offered by the conventional banks.

On the contrary, the respondents showed a good level of awareness of some products offered by both type of banks. For instance, 58.3% and 55% of the respondents were aware but do not use Bankers cheques and time deposit accounts respectively. This could be attributed to the fact that time deposit accounts or fixed deposit accounts attract high interest which is regarded unlawful by the Muslims. In addition, following the introduction of Real Time Gross Settlement (RTGS) by the Central Bank of Kenya on October 2009, Bankers cheque method of payment is getting phased out. The RTGS method requires that any payment above Kenya shillings one million should be paid through an electronic funds transfer.

About specific fundamental financial Islamic terms, 70% of the respondents were not aware of *Ijara* (lease financing). This was followed by 60% of the respondents who were not aware of *Musharaka* (Full partnerships). This could be attributed to the fact many of the customers are unfamiliar with the Arabic language and most of these products are advertised in Arabic language. However, a sizeable number of the respondents mentioned that they were aware of specific Islamic terms of *Mudarah* and *Murabaha* but do not use these specific types of Islamic banking products. These were represented by 50.0% of the respondents who said they were aware but do not use *Mudarabah* (Capital trust) and 43.3% of the respondents who said they were aware but do not use *Murabaha* (Mark up on sales).

#### **4.7 Customer satisfaction and demographic factors**

To examine the relationship between the degree of satisfaction and other factors related to the respondents (age, gender, religion, income and level of education)  $\chi^2$  was computed. To see whether the average perceptions (of the issues or variables under investigation) were identical for all groups involved in this survey, the Kruskal-Wallis Test was used. The test was used to measure any significant difference in responses, since there were different groups involved in this survey. This non-parametric test is appropriate when measurement of the variables under investigation is in an ordinal scale (Grimm and Wozniak, 1990). The results are shown in table 15 below.

**Table 4.14: Kruskal-Wallis One-Way Anova**

Variable	Age		Gender		Religion		Income		Education	
	$\chi^2$	Significance	$\chi^2$	Significance	$\chi^2$	Significance	$\chi^2$	Significance	$\chi^2$	Significance
Efficiency and speed in completing a transaction	4.558	0.645	3.004	0.952	0.335	0.574	4.928	0.120	2.975	0.028
Courtesy of employees	3.198	0.897	4.833	0.032	0.368	0.882	0.698	0.627	0.310	0.278
Advice given by the bank personnel	3.886	0.454	1.003	0.321	0.017	0.713	2.191	0.326	13.392	0.249
Convenience of ATM locations	1.579	0.205	2.768	0.007	0.468	0.396	0.395	0.241	4.352	0.263
The cost of services offered by the bank.	5.899	0.447	1.003	0.958	1.731	0.183	12.568	0.185	4.352	0.841
Number of branches.	3.201	0.319	2.669	0.417	0.345	0.884	2.274	0.290	3.087	0.373
Opening hours.	6.222	0.881	1.024	0.876	1.760	0.236	0.038	0.405	4.679	0.609
Customer confidentiality	3.962	0.418	2.500	0.226	3.948	0.138	2.357	0.838	2.367	0.258
Wide range of facilities offered	1.205	0.317	2.925	0.340	2.229	0.449	2.536	0.039	3.276	0.892
Bank's name and image.	5.141	0.935	0.312	0.042	2.719	0.922	1.273	0.039	5.126	0.354
Efficiency in handling Complaints.	14.528	0.067	1.269	0.265	0.034	0.059	2.656	0.161	9.081	0.375
Advertising both existing and new products	5.993	0.126	1.509	0.022	0.47	0.035	1.710	0.148	8.142	0.088

As indicated by table fifteen, the respondents regardless of their age, gender, religion, income and level of education, expressed a certain degree of satisfaction towards most aspects of the Islamic bank. It is also clear that a factor like religion did not make any significant difference in the degree of customer satisfaction towards Islamic banks as reflected by the reported table 15. The resultant  $\chi^2$ , however, pointed to marginal significant differences between the age of the respondents and the degree of satisfaction in the Islamic bank's efficiency in handling complaints.

The gender variable also revealed marginally significant differences between the respondents on the degree of satisfaction with the courtesy of employees by the Islamic bank's personnel and their efficiency in completing transactions. In addition, table 15 indicated a marginally significant difference between the religion variable and the respondents' confidence in the Islamic bank's name and image, customer confidentiality and wide range of facilities offered.

Furthermore, the education variable registered significant differences as regards the suitability of the advice given to customers by bank personnel and efficiency in handling complaints. Given the number of variables given to the respondents to express their level of satisfaction, differences in the respondents' answers reported can be considered as minimal. There was a total agreement on the level of satisfaction of various activities and facilities offered by the Islamic bank by a significant proportion of respondents.

The outcome of the Kruskal-Wallis One-Way Anova emphasized earlier results in that a significant number of the respondents have been dealing with the Islamic bank for a relatively long period of time. Although this does not *per se* provide direct evidence of satisfaction or loyalty, when considered alongside other evidence it is certainly consistent with a degree of success in satisfying customers.

#### **4.8 Focus Group Discussion for Branch Managers**

The group discussion was composed of six males and a female participant between the age of 28 years and 40 years. They represented different branches of FCB namely: Eastleigh two branch, South C branch and Wabera Street branch in Nairobi; Digo road branch in Mombasa; Garissa branch, Habaswein branch and Wajir branch. Their experiences in the same bank ranged from one and three years but four of them have worked in other banks at different capacities.

According to the focus group session, the most popular product among customers in FCB is the current account both for personal and business purposes. This was followed by bankers' cheques, Mark -up on sale and Islamic investment funds. The group concluded that time deposit account was the least popular because of the fact that it attracts interest which is unlawful in the Islamic faith.

Four of the five focus group members agreed that efficiency and speed in completing transactions was the most important attribute regarding service quality and customer satisfaction in FCB. They said most customers are very busy and do not want to spend long hours queuing and in fact the customers complain if they spend more than ten

minutes in a queue on average. This was followed by opening hours and number of branches. The group discussion agreed that more than two third of their clientele are business people who run their business across several towns and for long hours and hence regard the two attributes as very crucial towards their satisfaction. Moreover, banks name and image was considered important considering the fact that many small family owned banks are susceptible to crisis as compared to reputable banks with strong financial base. Attributes about employees attracted the least in terms of importance and was ranked number twelve. The group said this was so because of the fact that services and products offered are homogeneous and intangible and this attribute might not be quantified immediately.

The group discussion agreed that more than 65% of the bank's customers are Muslims and they regard the religion as the backbone in their choice of where to bank. In addition, there is a lot of mutual trust between the customers and bank and hence customers prefer to call their branches on phone to do transactions like transfer of money to different accounts, clearance of cheques and making of deposits considering the tight schedules of many of the customers.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### **5.1 Introduction**

The basic purpose of this chapter is to give the summary, conclusions and recommendation of the study. This was based on the research findings that is presented and discussed in the previous chapters.

#### **5.2 Summary of the Study Findings**

This study was carried out to determine the degree of customer satisfaction and preferences towards Islamic banking in Kenya. Respondents were randomly chosen from one of the largest local Islamic bank, First Community Bank. Descriptive statistics was used to determine customer satisfaction and preferences while Analysis of Variance (ANOVA) was applied to determine possible differences in customer satisfaction on Islamic banking between different demographic factors like age, gender, religion, income level, education level and type of employment. The findings of the study are summarized as follows.

##### ***Respondents' profile***

The study found that more than 96.7 per cent of the respondents were between 21 and 50 years old and almost 88.3 per cent of the respondents were males. This may be due the nature of Muslim society where males are expected to carry out dealings with the banks. A vast majority of the respondents were Muslims. Almost half of the respondents earned a monthly income of between Ksh 20,001 to 40,000. More than 40 per cent of the respondents held a bachelor degree with another 15 per cent having at least a high school qualification. The study also found that most of the customers were self employed.

### ***Type and duration of banking***

The study found out that:

- I. More than 75.0 per cent of the respondents held accounts with an Islamic as well as a conventional bank. The reason for this could be to diversify investments and have access to more branches as revealed in the next section.
- II. A reasonable proportion of the respondents 28.3 per cent hold business and personal current accounts in the Islamic Bank. What attracts one's attention is that a limited number of those who took part in the survey indicated that they invested in Islamic products such as *Murabaha*, *Musharaka* and *Mudaraba*. On the other hand, a small proportion of the participants revealed that they hold accounts in conventional banks. Their accounts are either personal or held for business and personal purposes.
- III. A high proportion of the respondents (both in the case of the Islamic and conventional banks), held current accounts for at least one to three years. However, a proportion of those who indicated that they held accounts with an Islamic bank were dealing with the bank for more than three years. This might imply the degree of customer loyalty towards an Islamic bank and reflect a level of satisfaction.
- IV. A significant majority of the respondents who banked with the Islamic bank did not invest in specific Islamic accounts like *Mudaraba*, *Musharaka* and *Murabaha*. This finding needs to be looked into in connection with the following section where a report on the degree of awareness among the respondents about products and services offered by Islamic banks in Kenya is given.

### ***Customer awareness and the use of different products offered by the Islamic bank***

The study revealed that a high proportion of the respondents were aware of and were using conventional banking services like current account products. That is, 76.7 percent. Thus, this finding may highlight the fact that although the respondents showed a good level of awareness of some of the Islamic bank's products and services, a limited number of the respondents indicated that they used them.

### ***Reasons for banking with the Islamic bank***

- I. The study revealed that more than half of the respondents agreed or strongly agreed that religious reasons were important in their choice of Islamic bank. This revelation supports an earlier research done by Othman and Owen (2001) based on the fact that compliance to Islamic principles is perceived as the most significant criteria.
- II. It is interesting to note that the study revealed that 43.3 per cent of those who banked with the Islamic bank did so because the bank not only provided conventional banking but also observes *Sharia*'h principles.

### ***Reasons for banking with the Islamic bank as well as conventional banks***

- I. The study found out that a vast majority of respondents chose to bank with both types of banks as some products/services offered by their conventional banks were not available to them through their Islamic bank.
- II. The study also revealed that 60.0 per cent of the respondents chose to bank with both types of banks because they wanted to diversify their investments. This finding a serious implication for the Islamic bank in Kenya. As noted by Ariff (1988), if there is only one Islamic bank in a particular country, the complacency factor may set in. That is, the bank tends to behave as though it has captured a larger market especially catering to the Muslim masses since they will patronize an Islamic bank due to religiosity.

### ***Degree of customer satisfaction towards the Islamic bank***

- I. The study showed that a vast majority of the respondents expressed a high degree of satisfaction towards various aspects of the Islamic bank's products and services. For instance, 61.7 per cent of the respondents were either strongly satisfied or satisfied with their respective Islamic bank's name and image.
- II. As far as the performance of bank employees was concerned, the majority of respondents were satisfied about most aspects of customer-client interaction like the advice given by bank personnel and their sociability and friendliness. Wide



range of facilities offered and advertising both existing and new products did not get a better response from customers.

- III. The study revealed that most of the customers were satisfied with opening hours of the bank. Only 51.7 per cent of the respondents, however, expressed their satisfaction towards efficiency and speed in completing transactions. Furthermore, 53.3 per cent of the respondents were not satisfied with the number of branches of the Islamic bank followed by 41.7 per cent who were not satisfied with the convenience of ATM locations.
- IV. The respondents also showed a certain degree of dissatisfaction towards the Islamic bank's policy of advertising existing and new products.

### **5.3 Conclusion**

Based on the findings, the following conclusions were made.

The findings indicate that a vast majority of respondents were satisfied with most aspects of the Islamic bank's products and services. The Islamic bank thus had competitive advantage in terms of enjoying customer confidence. For example, in general, satisfied customers are likely to engage in repeat purchase and reflect strong loyalty towards the Islamic bank. As argued by East (1997) and Richens (1983), satisfied customers like these are likely to engage in positive word of mouth and try line extensions.

Since satisfaction is an important component of the total package of value required by customers, the Islamic bank can use a segment of satisfied customers in its promotional materials to attract new customers. The Islamic bank can also use images of its caring employees as the respondents in the study generally favoured the personnel of the Islamic bank. Employees are a significant part of the service delivery process and play a significant role in company-customer interaction.

Furthermore, the Islamic bank can promote its products using physical evidence in its promotional material as the respondents showed their satisfaction about most of the physical facilities provided by the Islamic bank.

According to the findings, a large majority of the respondents were satisfied with the Islamic bank's name and image and with the bank's ability to provide confidentiality. The findings also indicate that a large majority of the respondents banked with the Islamic bank because of its reputation. These findings are significant in the context of those reported earlier by Erol and El-Bdour (1989) and by El-Bdour *et al.* (1990). (Erol and El-Bdour, 1989) have shown that customers rely heavily on criteria like the bank's reputation and image and the confidentiality of the bank when choosing a bank. In the light of this finding, it means that customers of Islamic banks are more likely to remain with their banks as the banks are already successful in meeting their customers' criteria.

The findings, however, do highlight areas of concern for the Islamic bank. For instance low customer satisfaction about the limited number of branches and convenience of ATMs means the Islamic bank does need to pay attention to improve these aspects of its service features. Many of the respondents deal with both Islamic and non-Islamic banks which gives an indication about the inability of the Islamic bank to provide a substitute to the conventional counterparts. In this respect, the respondents showed that they tend to deal with both banking systems to make use of various products and facilities offered by the two banking systems.

The findings also indicate that a substantial number of the respondents banked with both because the opening hours of the Islamic bank were limited. Respondents were thus engaged in widening their choice. In order to keep its clients, the Islamic bank does need to be innovative in meeting customer needs and expectations. The Islamic bank could consider using the Internet to provide 24 hour online banking services to certain segments of the market.

According to this study, a large number of respondents were aware of the specific features of Islamic banking but they were not using those features. This is quite possible as all Muslims living in a non- Islamic country are not likely to invest in every type of Islamic banking only because they know that they exist. However the Islamic bank can persuade its customers to use its specific Islamic services using affordable promotional

facilities. Customers need to be reminded of Islamic bank products and services and assured of their quality and competitiveness.

The findings also indicate that some of the respondents were totally ignorant about some of the specific terms used in Islamic banking. The findings are thus partially in line with those reported by Gerrard and Cunningham (1997) whereby some Muslims show a total lack of awareness of the meaning of specific Islamic banking terms. This implies that Islamic banks operating both in Muslim as well as in non-Muslim countries need to educate their Muslim clients about the Islamic terminology of banking.

The findings reveal that a majority of customers banked with the Islamic bank because of religious reasons as the bank observed Islamic *Sharia'h* principles. In fact, the main three reasons that received support from the vast majority of the respondents can all be viewed as religious. Since the Islamic bank operates in line with the Islamic teachings, it maintains a good reputation and establishes clients' confidence in conducting its operation and disclosing information. On the other hand, conventional reasons for banking with a bank, such as profit, received little support from the respondents. Be that as it may, those who deal with the Islamic bank are prepared to accept any return so long as the bank observes Islamic *Sharia'h* principles and they trust the bank as regards their money and in its ability to satisfy religious concerns.

#### **5.4 Recommendations**

In line with the objectives of this study, the following recommendations can be deduced from the conclusions of the research:

- (i) The Islamic bank should put emphasis on marketing and advertising to enlighten their customers on existing and new products they offer. Islamic banks need to work on facilities they offer their customers to be diverse for their selection and look into more effective ways of marketing and enabling their customers are aware of existing and new products they offer.
- (ii) The Islamic bank should put into consideration opening more branches for convenience and also location of ATM to be put in more convenient places.

- (iii) The Islamic banks should work more on service delivery and engage new marketing techniques that will enhance loyalty and offer wider variety of Sharia'h compliant products and services to enable customers maintain Islamic bank accounts only rather than going to venture into conventional banks to complement what is offered by the Islamic bank.
- (iv) The bank should encourage and educate its customers more into customer's information confidentiality and also provide a wide range of facilities for the customers to choose from.
- (v) That in order for the Islamic banks to sustain their market positioning, they need to really ensure their service quality as this will entail customer satisfaction and ultimately customer loyalty.
- (vi) Islamic banks need to remain competitive especially with their international counterparts by offering good quality products and services as well not just only rely on their "Islamic" image and reputation to draw customers (Muslims and non-Muslims).
- (vii) The Islamic bank should open banking halls or sections within the main banking hall specifically dedicated for the female customers where products tailor made for female customers are offered and where services are also rendered by female employees. This will go a long way in encouraging women customers to bank with the banks. This is because of the fact that Muslim women are not allowed to freely interact with their male counterparts especially if they are not their spouses or close relatives.
- (viii) The Islamic banks should offer all the products offered by the conventional banks while remaining within the context of Islamic *shariah* so as to meet all the banking needs of their Muslim customers.
- (ix) The Islamic bank should work in close collaboration with telecommunication service providers like Safaricom, Zain and Orange so as to bank the unbanked members of the society. For instance, the MPESA (Mobile Money) is a success story in this field with over 9.5 million Kenyans who collectively transfer person-to-person KSh28.59 billion (US\$366.783 million) per month.

In addition, the success of M-PESA has encouraged people to look at a host of other ways it can be used, from paying wages, utility bills to mobile gambling.

### **5.5 Suggestions for further studies**

This study focused on the assessment of the degree of customer awareness and satisfaction towards an Islamic bank in Kenya. This was done in a general manner, so the study is not exhaustive enough in any aspect that is mentioned. Therefore, it should act as a base for further research on each of the mentioned degrees of customer satisfaction and Islamic banking. Some of the areas of further research include:

1. The relationship between attitude of Islamic bank employees and levels of customer satisfaction.
2. Differences in customer satisfaction towards Islamic banking between different geographical areas (towns). For instance, differences in customer satisfaction between Nairobi, Mombasa and Garissa.

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## APPENDICES

### Appendix 1: Transmittal letter

Mohamed M. Osmail

P.O Box 22417 - 00400

Nairobi.

15<sup>th</sup> March 2010.

To Whom It May Concern:

Dear Sir/ Madam:

**RE: A SURVEY OF CUSTOMER SATISFACTION AND PREFERENCES  
TOWARDS ISLAMIC BANKING. A CASE OF FIRST COMMUNITY  
BANK**

This questionnaire is designed to study the degree of customer satisfaction and preference towards Islamic banks in Kenya. The information provided by the customers will enable me to make conclusions concerning the above subjects.

Please note that the study will be conducted as academic research and the information you provide will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and report will not include reference to any individuals or organizations, in order to ensure comprehensive analysis of the findings, it is important that each questionnaire to be completed and returned.

The researcher requests the customers visiting the Islamic banks to complete the questionnaire. To facilitate the completion of the study, could you kindly please take the next 10 minutes to complete the attached questionnaire and they will be picked by researcher. Any questions should be addressed to the researcher on tel.0721827370 or e-mail osmailku@yahoo.com

Yours Faithfully

Mohamed M. Osmail.

## Appendix 2: Focus Group Questionnaire for Branch Managers only.

*(Kindly tick the relevant response to the question)*

I am carrying out a research on the assessment of the degree of customer awareness and satisfaction towards an Islamic bank in Kenya. You have been chosen as one of my respondents. Kindly fill in the following questions and use a tick (✓) where appropriate.

### 1. Gender

Male  Female

2. Which branch do you head? \_\_\_\_\_

3. How long have you been with the branch?

Less than 6months  one year  two years  three years

Other \_\_\_\_\_

3. How long have you worked with the bank?

Less than one year  1-2 years  2-3 years  3-4 years

Other \_\_\_\_\_

4. Which of the following Islamic banks products are most common with customers in your bank? Kindly rank with 1 being most important and 12 being the least important

[  ] Current Account

[  ] Time Deposit Account

[  ] Mudarabah (Capital trust)

[  ] Musharakah (Full partnership)

[  ] Murabahah (Mark – ups on sale)

[  ] Ijarah (Lease financing)

[  ] Bai-salaam (Prepaid purchases)

[  ] Bai-muajjil (Deferred payments)

[  ] Istisina (Manufacturing contracts)

[  ] Islamic Investment Funds

[  ] Foreign Drafts

[  ] Bankers cheques

5. Which attributes regarding service quality and customer satisfaction do you consider as important. Kindly rank by level of importance, with 1 being most important and 12 least important

- Efficiency and speed in completing a transaction.
- Courtesy of employees
- Advice given by the bank personnel
- The cost of services offered by the bank.
- Number of branches.
- Opening hours.
- Customer confidentiality
- Wide range of facilities offered.
- Bank's name and image.
- Efficiency in handling Complaints.
- Advertising of both existing and new products.

6. Any other information relevant to customer satisfaction towards Islamic Banking. Please discuss.

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### Appendix 3: Structured Questionnaire for all Respondents.

**Instructions:** *please complete the following questionnaire using the instructions provided for each set of questions.*

**Confidentiality:** *The responses you provide will be strictly confidential. No reference will be made to any individual(s) or organization in the report of the study.*

#### PART A (Back ground information)

1. Age

20 or less       21-30       31-40       41-50       51-60

2. Gender

Male       Female

3. Religion

Muslim       Non-Muslim

4. Income level

Less than 20,000       20,001-40,000       40,001-60,000  
 60,001-80,000       80,001-100,000       More than 100,000

5. Educational level

Primary       Secondary       College       University  
 Other \_\_\_\_\_

6. Type of employers

Non-State organization       State       Self employed  
 Retired       Student

#### PART B

9. Which banks do you hold accounts?

Islamic banks only       Conventional banks only  
 Both Islamic and Conventional banks

10. Which type of accounts do you hold?

<b>Islamic Bank Account</b>	<b>Business Only Yes (1) No (2)</b>	<b>Personal Only Yes (1) No (2)</b>	<b>Business and Personal Yes (1) No (2)</b>	<b>Don't Have Yes (1) No (2)</b>
Current				
Time Deposit				
Investment in Mudaraba				
Investment in Musharaka				
Murabaha arrangement				

<b>Conventional Bank Accounts</b>	<b>Business Only Yes (1) No (2)</b>	<b>Personal Only Yes (1) No (2)</b>	<b>Business and Personal Yes (1) No (2)</b>	<b>Don't Have Yes (1) No (2)</b>
Current				
Time Deposit				
Saving				
Investment in Shares				
Investment in bonds				



11. How long have you held the account with the Islamic bank?

- ( ) Less than a year
- ( ) 1-3 years
- ( ) 4-6 years
- ( ) More than 6 years

12. Kindly tick where appropriate your reasons for dealing with the Islamic bank;

No.	STATEMENT	Strongly	Agree	Disagree	Strongly
		Agree	Disagree	Agree	Disagree
1	Religious reasons only.	4	3	2	1
2	Profitability reasons (high returns on investments)	4	3	2	1
3	Religious and profitability reasons	4	3	2	1
4	Advice from relatives	4	3	2	1
5	Advice from friends	4	3	2	1
6	Wide range of facilities offered by the bank	4	3	2	1
7	Low service charges	4	3	2	1
8	Bank effectiveness in completing transactions	4	3	2	1
9	Islamic bank offers the same facilities offered by a commercial bank but Islamic bank also observes Sharia'h principles	4	3	2	1

13. Kindly tick where appropriate your reasons for dealing with both Islamic bank and conventional bank;

No.	STATEMENT	Strongly Agree	Agree	Disagree	Strongly Disagree
1	The Islamic bank does not offer some of the products or facilities offered by commercial banks	4	3	2	1
2	Islamic bank does not offer many of the products or facilities offered by commercial banks	4	3	2	1
3	Opening hours of Islamic banks are limited	4	3	2	1
4	Opening two accounts gives me the opportunity to diversify the investment	4	3	2	1
5	Both types of banks have a limited number of branches and opening two accounts gives me access to more branches	4	3	2	1

**PART C**

14. Please give your level of satisfaction with the following quality of service of Islamic bank;

No.	STATEMENT	Very Satisfied	Satisfied	Not Satisfied	Not Satisfied At all
1	Efficiency and speed in completing a transaction	4	3	2	1
2	Courtesy of employees	4	3	2	1
3	Advice given by the bank personnel	4	3	2	1
4	Convenience of ATM locations.	4	3	2	1
5	The cost of services offered by the bank.	4	3	2	1
6	Number of branches.	4	3	2	1
7	Opening hours.	4	3	2	1
8	Customer confidentiality	4	3	2	1
9	Wide range of facilities offered.	4	3	2	1
10	Bank's name and image.	4	3	2	1
11.	Efficiency in handling Complaints.	4	3	2	1
12.	Advertising both existing and new products.	4	3	2	1

**PART D**

15. Please indicate your awareness and use of the following products offered by Islamic banks;

<b>Description</b>	<b>Not aware of it (3)</b>	<b>Aware and don't use it (2)</b>	<b>Aware and use it (1)</b>
Current Account			
Time deposit Account			
Mudarabah (Capital trust)			
Murabaha (Mark ups on sale)			
Musharaka (full partnerships)			
Ijara (lease financing)			
Foreign drafts			
Bankers Cheque			
ATMs			
Letters of Credit			
Specially ordered bank statements.			