

CHAPTER III

LITERATURE REVIEW

3.1 INTRODUCTION

This chapter provides a review of the relevant literature regarding the conceptualization of customer satisfaction, importance and definition of customer satisfaction, theories and measurement of customer satisfaction, and the disconfirmation model, concepts of service and quality, definition of service quality, service quality and models of service quality, empirical studies on service quality, customer expectations, customer perception, the relationship between service quality and customer satisfaction, customer awareness of service and products provided by Islamic banks, measurement of customer awareness, the relationship between customer awareness and customer satisfaction, and finally, summary of the chapter.

3.2 CUSTOMER SATISFACTION: IMPORTANCE, DEFINITIONS, THEORIES AND MEASUREMENT

Numerous studies have examined the subject of consumer satisfaction, its definition, and its measurement. The following sections present a review of how consumer satisfaction has been conceptualised and measured. Previous studies on the antecedents and consequences of satisfaction are also discussed.

3.2.1 Importance of Customer Satisfaction

Customer satisfaction has long been recognised as essential to success and survival in today's competitive environment. Customers are the lifeblood of any organisation, for both private and public ones, because customer satisfaction is the key to continued organisational survival. Satisfaction is particularly important in relation to organisations that deliver services rather than goods (Nicholls, Gilbert, & Roslow, 1998).

Customer satisfaction with services is often seen as the key to the success and long-term competitiveness of banks. The satisfaction is a short-term emotional result of interpersonal comparisons of customer expectations with an assessment of a single product or service to encounter (Lovelock, Patterson, & Walker, 2001; Brady & Robertson, 2001; Oliver, 1981). Customer satisfaction has been conceptualized as the individual's sense of pleasure or disappointment resulting from the comparison of the performance of the product with respect to his/her expectations. Numerous researchers have substantially focused on customer satisfaction in the service industry, as the customer is the ultimate source of income for any industry. The banking industry has spent the last one and half decades focusing on customer satisfaction due to the competition in the banking industry and the perception of some banks that customer satisfaction is the principal component of their marketing strategy. With the competition, the ultimate customer typically benefits. Several financial institutions are attempting to increase customer satisfaction and their retention toward the financial institution by improving the quality of the services and the products they offer to its customers to achieve their desired objective. Customer satisfaction is defined as a result of cognitive

and affective evaluation, in which a certain organizational standard is compared to the actual perceived performance. Lin (2003) states that if the perceived performance is lesser than expected performance, the customer will be dissatisfied. Conversely, if the perceived performance exceeds expectations, then the customer will be satisfied. According to Lin (2003), increased customer satisfaction results to higher customer retention rate, increased customer repurchase behavior, and ultimately higher bank profitability.

For over two decades, customer satisfaction has been extensively discussed in the areas of consumer research and marketing. In recent years, customer satisfaction has gained new attention within the context of the quantum leap from transaction marketing to relationship marketing (Martin, Adrian, & David, 2002). Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Yi & La, 2004). According to Kotler and Armstrong (2006), customer satisfaction depends on the perceived performance of the service relative to buyer expectations. If service performance falls short of expectations, the customer is dissatisfied. If the performance matches expectations, the customer will be satisfied. If the performance exceeds expectations, the customer will be highly satisfied. Highly satisfied customers make repeat purchases and tell others about their pleasant experiences with the service. Smart banks aim to delight customers by promising only what they can deliver, then delivering more than they promise. A dissatisfied customer will tell seven to 20 people about their negative experience, whereas a satisfied customer will only tell three to five people about their positive experience.

Therefore, in this study, we use the customers to evaluate service quality by considering several important quality attributes in Libyan commercial banks that work under Islamic windows. We also explore the awareness of customers toward Islamic products provided by these banks, and suggest improvements for attributes that demonstrate a low level of satisfaction. Furthermore, this study considers customer satisfaction on specific dimensions of service quality to identify the aspects that satisfy customers.

3.2.2 Definition of Customer Satisfaction

Customer satisfaction has long been recognised to play an essential role for success and survival in today's competitive environment. Customers are the lifeblood of both private and public organisations because customer satisfaction is the key to the continued survival of an organization. Satisfaction is particularly important in relation to organisations that deliver services rather than goods (Nicholls, Gilbert, & Roslow, 1998). Customer satisfaction has been defined in various ways. Zeithaml, Berry, and Parasuraman (1993) suggest that customer satisfaction is a function of the customer's assessment of service quality, product quality, and price. Rust and Oliver (1994) define customer satisfaction as the summary of cognitive and affective reactions to a service mishap that result from the comparison of customers' perceptions of service quality with their expectations of service performance. Churchill and Surprenant (1982) define customer satisfaction as an outcome of the purchase and use resulting from the buyer's comparison of the rewards and costs of the purchase in relation to its anticipated consequences. Other researchers view satisfaction as an on-going process. Yi (1990)

suggests that the process-oriented approach seems useful in that “it spans the entire consumption experience and points to an important process which may lead to customer satisfaction with unique measures capturing unique components of each stage.” This definition is also supported by Tse et al. (1990); they view consumer satisfaction as a subjective process of the consumption experience. The emerging consensus in the literature views satisfaction as an affective or emotional response resulting from a cognitive evaluation. Consumers compare their expectations to their perceptions of performance (Westbrook, 1987; Oliver, 1980; Rust and Oliver, 1994; Woodruff et al., 1983). There are some theories related to customer satisfaction explained in the next section.

3.3. PSYCHOLOGICAL THEORIES

A number of theories in the literature have attempted to explain the impact of expectations and disconfirmation on perceived product or service performance and satisfaction. Anderson (1973) discussed the four psychological theories. The following subsections summarises the theories.

3.3.1 Contrast Theory

Contrast theory suggests that if the perceived performance is below expectations, then it would result in lower evaluations of performance. However, if the perceived performance exceeds expectations, then it would result in a higher evaluation of performance.

3.3.2 Cognitive Dissonance (Assimilation Theory)

Cognitive dissonance theory assumes that when an individual receives two ideas that are psychologically dissonant, they attempt to reduce their mental discomfort by changing or distorting one or both of the ideas to make them more consonant. If consumers feel that the product or service performance does not match their expectations, they will attempt to reduce this psychological tension either by adjusting their perceptions of the performance to make them more consistent with expectations, or by revising their expectations until they are closer to perceptions.

3.3.3 Generalised Negativity

Generalised negativity theory suggests that a positive or a negative discrepancy between expectations and performance will result in a generalised negative hedonistic state, causing the product or service to receive a more unfavorable rating than if it had coincided with expectations. Even if the actual performance of the product or service exceeds the expectations of consumers, they will evaluate it less favorably than if they

had no prior expectations. This theory suggests that organizations should create expectations that are consistent with the actual product or service performance.

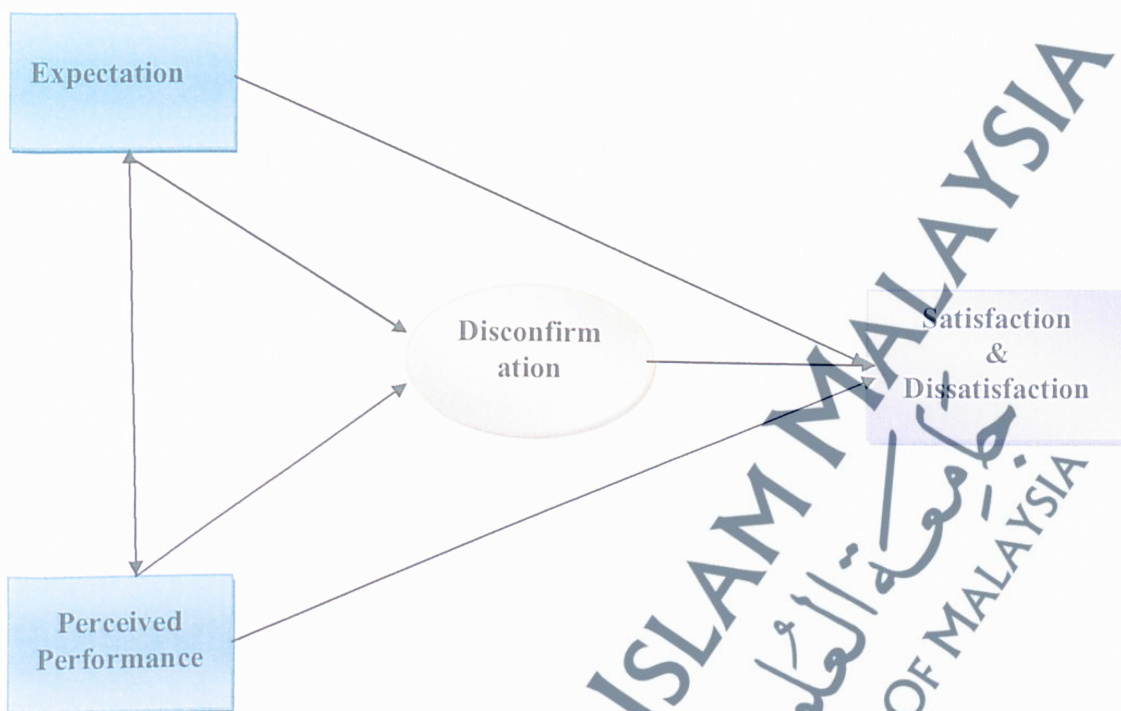
3.3.4 Assimilation–Contrast Theory

Assimilation–contrast theory combines both theories of assimilation and contrast by assuming that zones or latitudes of acceptance and rejection exist in consumer perceptions. If the disparity between expectations and product or service performance falls into the acceptance latitude of consumers, they will tend to assimilate the difference by rating the product or service more consistently with expectations. However, if the discrepancy between expectations and perceived performance is so large that it falls into the rejection zone, then a contrast effect comes into play, and the consumer magnifies the perceived disparity between product or service performance and expectations.

3.3.5 Disconfirmation Model

The expectancy–disconfirmation paradigm posits that customer satisfaction is determined by expectations and the direction and magnitude of disconfirmation. Disconfirmation is considered to have an independent, additive effect on satisfaction. Oliver (1980) argued that disconfirmation is treated as a cognitive, psychological construct that encompasses a consumer's subjective assessment of the difference between his/her expectations and his/her perception of the performance of a product or service. The model assumes that

satisfaction is the result of a four-step process. First, expectations are formed prior to purchasing a product or service. Second, the performance of a product or service is assessed. Third, expectations are compared to the perceived performance. Fourth, the degree of disconfirmation determines the level of satisfaction based on adaptation level theory, which provides a frame of reference for the evaluative judgments of consumers (Oliver, 1980). Perceived performance is compared to prior expectations. Thus, if the perceived performance exceeds expectations, then positive disconfirmation occurs, which in turn, raises the satisfaction level. If the perceived performance is below expectations, negative disconfirmation occurs, which reduces the satisfaction level. Therefore, disconfirmation has a positive effect on satisfaction. Oliver (1997) explained the existence of a direct link between expectations and satisfaction. The relationship between expectations and perceived performance is less clear. Oliver (1997) stated that the actual correlation between expectations and performance cannot be specified beyond the assumption that a relationship exists, as the relationship between expectations and performance is idiosyncratic to the product or service being investigated. The expectancy disconfirmation paradigm is shown in Figure 3.1.



Source: Adapted from Oliver 1997

Figure 3.1 the Expectancy Disconfirmation Paradigm

Thus, two opposing theories have been used to explain the effect of expectations on perceived performance. Contrast theory suggests that the evaluation of performance moves in the opposite direction, whereas assimilation theory suggests that the evaluations of performance will move in the same directions as those of expectations. The relationship between expectations and perceived performance may depend on the type of product or service being investigated, the usage situation, and the degree of importance or level of involvement that the consumers attach to the product or service. Based on the expectancy disconfirmation paradigm the researcher will establish his model of the study.

3.4 MEASUREMENT OF CUSTOMER SATISFACTION

A number of studies used a single item to measure consumer satisfaction. LaBarbera and Mazursky (1983) used an overall satisfaction scale with “completely satisfied” and “not satisfied” as the extremes, with the rationale that this would improve response rate. Conversely, Oliver (1980) argued that satisfaction may not be a unidimensional concept and that it ought to be measured via a set of questions that tap different forms of satisfaction. Westbrook (1980) criticised the use of a single item rating scale to measure consumer satisfaction, and argued that such measures commonly yielded a highly skewed distribution of responses. Yi (1990) cautioned researchers about using single item measures because reliable estimates obtained in previous studies were lower than those obtained with multi-measures. Thus, marketing researchers prefer using multi-item measures to their single item counterparts, which would also reduce measurement errors and enhance reliability. In this study, we will measure customer satisfaction based on some of the aforementioned studies to enable us to test the new model that integrates expected service quality, perceived service quality, and customer awareness. The following table we show some related studies to our study, which have used a set of items to measure customer satisfaction such as (N. Ragavan & R. Mageh, 2013; Lee. H. S, 2013; Singh A, 2013; Zacharias. Al. el, 2009; Huh J, 2006; Shu X, 2010).

Table 3.1: Studies Have Used a Set of Items to Measure Customer Satisfaction.

Items	Authors					
	N. Ragavan & R.Mageh (2013)	Lee. H. S, (2013)	Singh. A, (2013)	Zacharias. Al. el, (2009)	Huh J, (2006)	Shu X, (2010)
How satisfied are you with the services provided by the bank?		✓	✓			
Are you satisfied with your financial transactions with the bank?						✓
How is your overall satisfaction level with regard to your bank?	✓	✓	✓	✓	✓	✓
Banking services offered by the bank that I deal with it meet my expectations.					✓	

As mentioned above in table 3.1 all researchers asking respondents about overall satisfaction level such as (N. Ragavan & R.Mageh 2013,; Lee. H. S, 2013,; Singh. A, 2013,; Zacharias. Al. el, 2009,; Huh J, 2006 and Shu X, 2010), while others asking about how satisfied are you with the services provided by the bank as (Lee. H. S, 2013 and Singh. A, 2013) and Shu X, 2010), enquired the respondents to answer whether they are satisfied with the financial transactions with the bank. Huh J, (2006) asked his respondents to evaluate whether the banking services offered by the bank meet

their expectations. In this study, the researcher tried to use multi-items to avoid making measurement mistakes (Westbrook, 1980).

3.5 SERVICE QUALITY: CONCEPT, MODELS AND MEASUREMENT

3.5.1 Concept of Service

The 21st century is considered the service industry. Service industries have been playing an increasingly important role in the overall economies of both developed and developing countries; thus, a number of researchers have attempted to define service and explain its elements. For instance, Parasuraman et al. (1985) stated that services are deeds, processes, and performances. Gronroos (1983) defined service as “an activity or series of activities of more or less intangible nature that normally, but not necessarily, takes place in interactions between the customer and service employees and/or physical resources, goods, or systems of the service provider, which are provided as solutions to customer problems.” Service is defined as follows: “Any primary or complementary activity that does not directly produce a physical product, that is, the non-goods part of the transaction between customer and provider” (Payne, 1993). According to Sasser et al. (1978), “a service is a package of explicit and implicit benefits performed in a supporting facility and using facilitating goods.” Kotler et al. (1999) defined service as any activity or benefit that one party offers to another, which is essentially intangible and does not result in the ownership of anything; the service may or may not be tied to a physical product. Service includes all economic activities that are intangible. Furthermore, services are evident in almost in every part of our lives, from eating to other entertainment activities

such as travelling and sports. Service is bound not only to service-based businesses such as telecommunications, banks, hotels, and restaurants; products also heavily rely on their services to acquire a competitive advantage and satisfy customer needs.

3.5.2 Concept of Quality

According to marketing scholars, quality should not be restricted to meeting customer expectations. Monroe and Krishnan (1985) defined perceived product quality as the perceived ability of a product to provide satisfaction “relative” to the available alternatives. This definition suggests that quality is an antecedent of satisfaction and that “available alternatives” serve as bases for comparison. Others have defined quality as a customer’s evaluation of the performance of a product relative to the performance of competing products. They contend that quality is assessed by customers (Buzzell & Gale, 1987). According to Kotler and Armstrong (1996), quality consists of two dimensions, namely, level and consistency. They claimed that few customers would want or would be able to afford high levels of quality, and that organisations should strive to deliver quality that consistently matches the needs of the target market and the quality of competing products.

Conversely, several scholars defined quality as customer perceptions of excellence or superiority (Holbrook & Corfman, 1985; Zeithaml, 1988; Bitner, 1990). According to Zeithaml (1988) perceived quality is a consumer’s judgment about the superiority or excellence of a product, and quality is viewed as a higher order construct and a global

judgment similar to attitude. Despite the number of researchers who have different views about the conceptualisation of quality, the consensus among them is that quality is a relative concept and should thus be user-based rather than manufacturer-based.

3.5.3 Definition of Service Quality

Service quality is an elusive and abstract construct that is difficult to define and measure (Parasuraman et al., 1988; Brown & Swartz, 1989; Carman, 1990). Evaluating service performance is difficult because of its unique features, namely, intangibility, heterogeneity, inseparability, and perishability (Parasuraman et al., 1985). Service quality is an important tool in an organization's struggle to differentiate itself from its competitors (Ladhari, 2008). Furthermore, the relevance of service quality to institutions is emphasized here, especially the fact that it offers a competitive advantage to institutions that strive to improve it and satisfy customers.

Service quality has received more attention from both practitioners and academicians (Negi, 2009). Service marketing literature defined service quality as a customer's overall assessment of a service (Eshghi et al., 2008). According to Ghylis et al. (2008), by defining service quality, institutions will be able to deliver better services, thus increasing customer satisfaction. To understand service quality, the following characteristics of service should be noted: intangibility, heterogeneity, and inseparability. In this manner, service quality would be easily measured. According to Negi (2009), customer perception of service quality has been given increased attention in recent years for its specific

contributions to business competitiveness and developing satisfied customers. Service quality is thus a very significant construct to be understood by institutions. They must know how to measure it and attempt to make necessary improvements in its dimensions where appropriate, especially in areas with wide gaps between expectations and perceptions. Furthermore, a number of studies have defined service as a set of intangible activities that result from the interaction between customers and service providers. Kotler, quoted by Boulton, J. and Com, L. (2008) defines service as “any activity or benefit that one party can offer to another that is essentially intangible.”

Parasuraman, Zeithaml, and Berry (1985) suggested three underlying themes after reviewing the previous literature on services:

1. Service quality is more difficult for customers to evaluate than the quality of goods.
2. Service quality is a comparison between expectations and performance.
3. Quality evaluation involves outcomes and processes.

The following are other important definitions of service quality:

According to Asubonteng et al. (1996), service quality can be defined as the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received. Zeithaml, Parasuraman, and Berry (1990) have defined service quality as the extent of discrepancy between the expectations or desires of customers and their perceptions.

Parasuraman et al. (1985, 1988) state that service quality is determined by the differences between customers' expectations of the service provider's performance and their evaluation of the services they received.

Parasuraman et al. (1985) identified 10 determinants of service quality through focus group studies, namely, reliability, communication, access, tangibles, responsiveness, competence, courtesy, credibility, security, and understanding/knowledge of the customer. Later, these 10 dimensions were further purified and categorized under five dimensions, namely, tangibles, responsiveness, reliability, assurance, and empathy, SERVQUAL (Parasuraman et al., 1988).

Reliability refers to the ability to dependably and accurately perform the service. Responsiveness pertains to the willingness to help customers and provide prompt service. Tangibles refer to the physical facilities, equipment, and appearance of personnel. Assurance pertains to the employee's knowledge, courtesy, and ability to convey trust and confidence. Empathy refers to the level of caring and individual attention provided to customers. Thus, customers require better services, and the goals of all banks must be to make the customers feel special. Doing so would result in the customers' perceptions exceeding their expectations and customers themselves achieving greater satisfaction.

3.5.4 Service Quality Models

3.5.4.1 SERVQUAL Model

The concept of service quality is considered for the measurement of customer satisfaction. It involves a large number of theories with different definitions that have been developed by a number of researchers. The most well-known model of service quality is that of Parasuraman et al. (1985) because it is widely utilized in the literature. They wrote that the fundamental and basic aspect of service quality is how the customer evaluates his/her expectation of the service provided by the organization with his/her perception of the service received. These evaluations are attempts to demonstrate the prominent activities of the service organization that influence the perception of quality.

Furthermore, the model shows the interaction among these activities and identifies the connections among the main activities of the service organization or marketer, which are pertinent to the delivery of a satisfactory quality of service. A systematic assessment must be performed to measure the quality of service from the customer viewpoint. Thus, Parasuraman et al. (1985) established a conceptual service quality model that identifies five gaps that could impact a consumer's evaluation; these gaps are shown in Figure 3.2 below. Hence, service quality is a function of the differences between expectations and performance along the quality dimensions, as discussed below:

Gap 1: Customer expectation–management perception gap

This gap occurs when a difference exists between consumer expectations and the management's perceptions of service quality.

Gap 2: Management perception–service quality specifications gap

This gap occurs when a difference exists between the management's perceptions of consumer expectations and service quality specifications of any improper service quality standards.

Gap 3: Service quality specifications–service delivery gap

In this gap, the employees act as important players in delivering good service quality perceptions that cannot be standardized because organizations could have certain rules of performing the task and treating customers. This aspect creates an impact on how customers perceive service quality.

Gap 4: Service delivery–external communication gap

This gap occurs when a difference exists between service delivery and the communication to consumers about service delivery. This gap depends on whether promises match delivery.

Gap 5: Expected service–perceived service gap

This gap is the key to ensuring that good service quality is met or exceeds what is expected from the service. The judgment of how high and how low the service quality is depends on how the customer perceives the actual performance of the service deliverer. The SERVQUAL scale was proposed by Parasuraman et al. (1988) for measuring Gap 5. Parasuraman et al. (1985) suggested 10 dimensions for evaluating service quality,

including reliability, tangibility, responsiveness, courtesy, credibility, security, accessibility, understanding the customer, and communication.

These 10 dimensions were simplified and reduced to the following five dimensions (Shahin, 2006):

1. Tangibility is represented by the various types of material facility, including equipment, appearance of personnel, logos, and the means of contact used by the organization.
2. Reliability is represented by the ability to fulfill promises of efficiency in providing the same level of quality of service and the ability to dependably and accurately perform the service. Parasuraman et al. (1991) subsequently refined this dimension and recommended dividing it into two sub-dimensions, with one representing the physical facilities and equipment of the organization, and the other representing employees and communication tools.

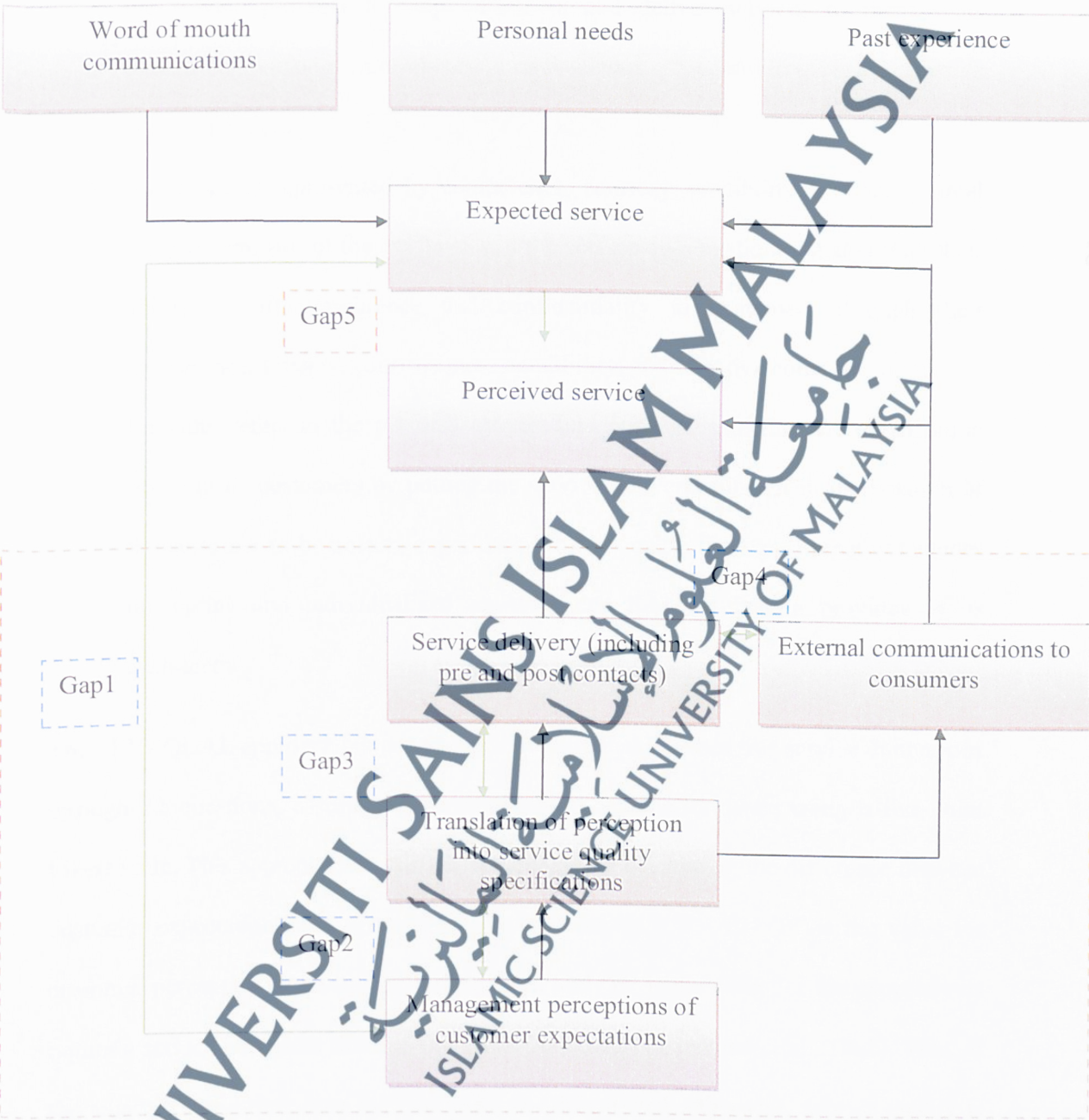


Figure 3.2 Model of service quality gaps by Parasuraman et al. (1985).

3. Responsiveness is represented by the expressions of the desire or willingness of the service provider to help customers and deliver services to them. This dimension includes promptness, convenience, accessibility, and effective communication.
4. Assurance is represented by competence, courtesy, credibility, and the general security behavior of the employees of the service organization, together with their ability to offer assurance and confidentiality to customers through their competence, privacy, courteousness, credibility, and effective communication.
5. Empathy refers to the personal interest and personal care that the organization offers to its customers by putting the service deliverer himself in the position of the customer to be able to experience the customer's feelings. Empathy includes the caring and individualized attention that the organization provides to its customers.

The SERVQUAL approach contains a questionnaire that assesses five service dimensions through 22 questions, assessing both expectations and performance using a five-point Likert scale. This approach assesses service quality by calculating the difference between customer expectations and perceptions (Service quality = $P - E$). "P" is the value for customer perception of service or performance, and "E" is the value for the expectations before a service encounter delivers the actual service (Parasuraman et al., 1985). Thus, if the answer is negative, then the customers are dissatisfied; otherwise, service quality is achieved. According to Zahari et al. (2008), this equation is typically called gap analysis. Conversely, Zeithaml et al. (1993) argued that reliability is the most important of the five dimensions, whereas the dimension of tangibles is the least important. Parasuraman and

Berry also drew attention to the relative significance of the SERVQUAL dimensions, and listed them as reliability, responsiveness, assurance, empathy, and tangibles, in that order. They added that consistency in the dimension of reliability is the key to engaging in effective competition and in building goodwill and a good reputation (Valarie A. et al., 1990).

In summary, the significance of the SERVQUAL dimensions has been examined in previous studies, one of which lists them in order of importance as responsiveness, reliability, tangibility, assurance, and empathy (Tahir & Abu Bakar, 2007).

3.5.4.2 The Nordic Model

Gronroos (1984) develops and tests the first perceived service quality model, commonly referred to as the Nordic Model (See Figure 3.3), suggesting that perceived service quality results from the gap between perceived service performance and expected service performance, and that technical and functional quality are two service quality dimensions that contribute to overall perceived service quality.

Technical quality is referred to as what customers get after the service delivery process and the buyer-seller interactions, whereas functional quality is referred to as how the service is simultaneously experienced by customers and delivered by the service provider (Gronroos, 1984).

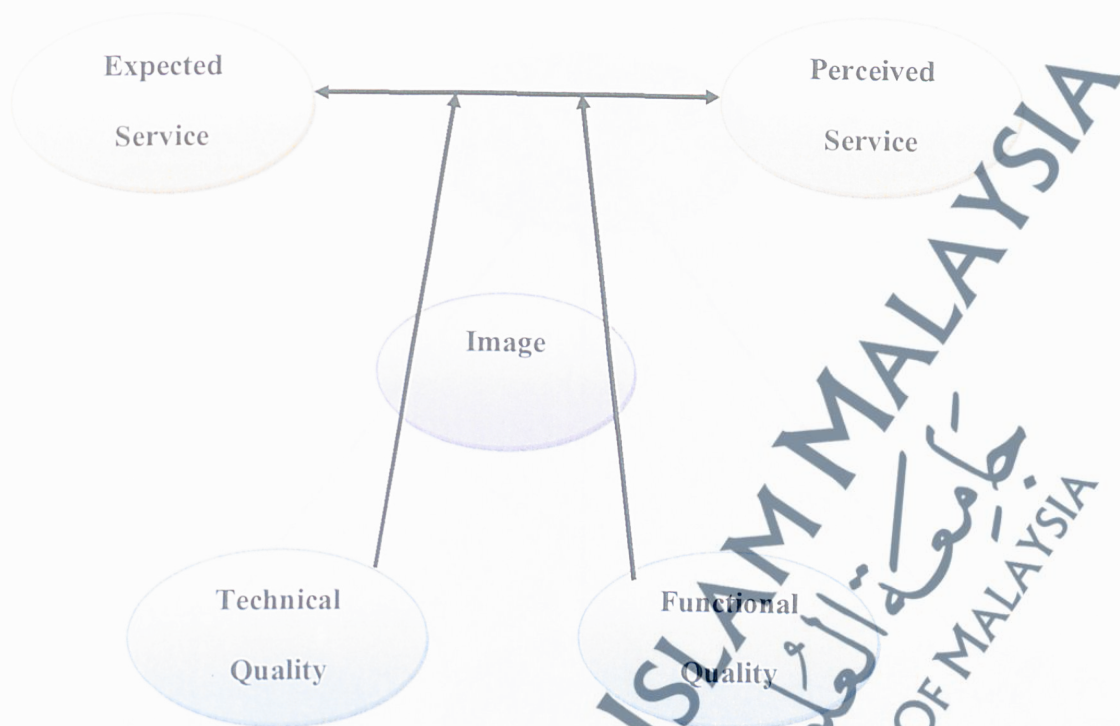


Figure 3.3 the Nordic Model of service quality by Gronroos, 1984

3.5.4.3- The Three-Component Model

Rust and Oliver (1994) propose the Three-Component Model (See Figure 3.4) as an expansion of Gronroos's (1982) two dimensional service quality model, suggesting that the perceptions of service quality stem from three service quality dimensions—the service product or technical quality, the service delivery or functional quality, and the service environment.

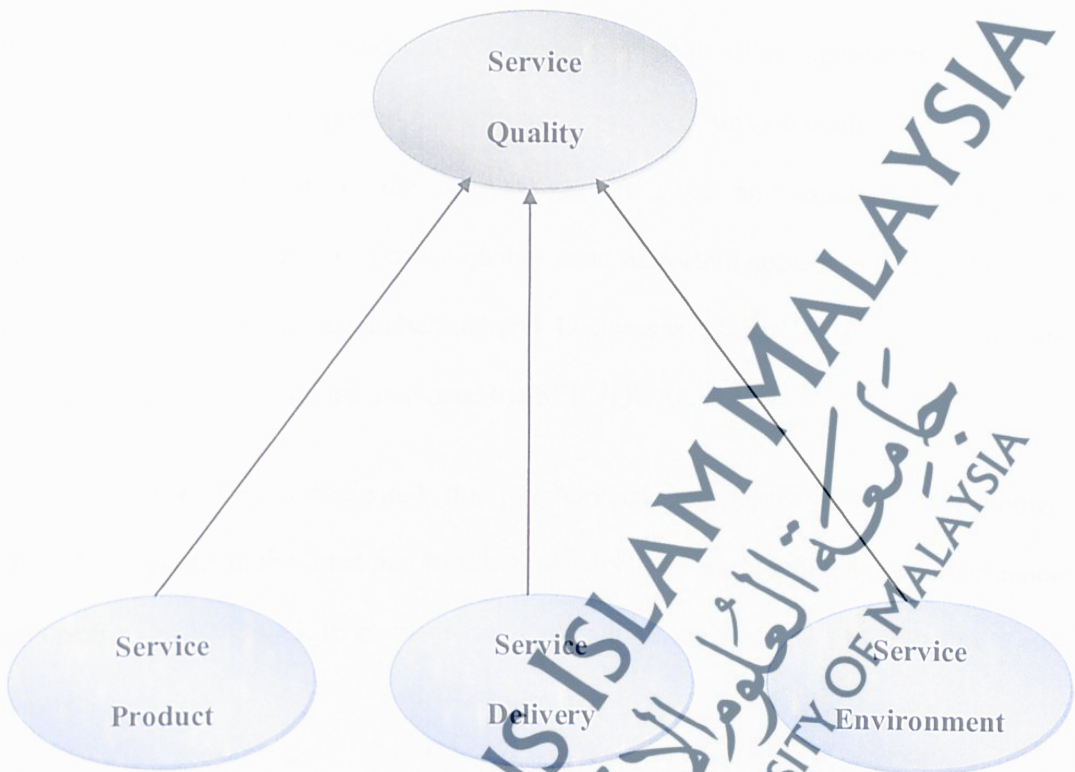


Figure 3.4 the Three Component Model of service quality by Rust & Oliver, 1994

However, Rust and Oliver (1994) do not empirically test their proposed model. McDougall and Levesque (1994) subsequently empirically confirm the existence of the three components in the retail banking industry.

3.5.5 Empirical Studies on Service Quality

Service quality has been considered a critical dimension of competitiveness (Lewis, 1989). Hung et al. (2003) reported that providing excellent service quality and achieving high customer satisfaction is the most important issue and challenge facing the contemporary service industry. Service quality is an important subject in both public and private sectors and in service industries and businesses (Zahari et al., 2008). In this section, we show several studies that used the SERVQUAL model.

Riadh Ladhari (2008) investigated the psychometric properties of the well-known SERVQUAL model in the Canadian banking industry. The study utilized the performance component of SERVQUAL in an empirical survey conducted among 193 Canadian bank customers.

He reported that responsiveness and empathy are the most important dimensions of overall service quality in the Canadian banking. Furthermore, the results indicated that the service provided by employees largely contributes to bank customer satisfaction. In view of the study's findings, Canadian bank managers must recognize that frontline employees are important in establishing and maintaining a competitive position for their institution. Furthermore, SERVQUAL is a suitable instrument for evaluating bank service in the Canadian banks; therefore, they should confidently use this instrument to perform continuous evaluations of their service quality.

The main objective of Taraneh et al. (2013) was to evaluate Islamic Azad University. Their sample was created through stratified random sampling. The data were collected

using the SERVQUAL instrument. The study reported a significant difference between the respondents' expectations and perceptions in all five dimensions of service quality. The respondents' expectations had a higher level than that of perceptions, and the highest and the lowest levels of service quality were given to tangibility and empathy, respectively.

Asad et al. (2013) attempted to determine the service quality in banks; they gave a questionnaire to every third customer. The SERVQUAL questionnaire was used; it consisted of two parts, Expectation and Perception, both with 22 questions each determining five dimensions of service quality (tangibles, reliability, responsiveness, assurance, and empathy). Empathy had the highest value in expectation, followed by assurance and responsiveness. The highest values (from highest to lowest) in the perception side were reliability, responsiveness, and assurance, respectively. They also revealed that males were satisfied with intangibles, but females were dissatisfied with intangibles, as the gap was negative. For responsiveness, females were satisfied but males were dissatisfied. Thus, the perceived service quality varies gender-wise.

Based on the literature review, a significant number of factors influence customer satisfaction, such as having knowledgeable employees, having helpful employees, being competitively priced, having excellent service quality, and having efficient service (Hokanson, 1995). Studies conducted in other countries indicate that service quality is the key construct affecting customer satisfaction with banking services. Thus, building customer relationships is a backbone for all organisations in general and banking services in particular. The studies also revealed that issues such as customer satisfaction, service

quality, customer perception, customer expectation are the main concerns that can improve the performance of banks and earn them higher profits (Angelova & Zekiri, 2011).

3.5.6 Customer Expectation

Customer expectations play an important role in satisfaction formation, and they refer to “beliefs about service delivery that serve as the standard against which performance is done” (Zeithaml, Bitner, & Gremler, 2006). Customer expectation is what the customers wish to receive from the services. Davidow and Uttal (1989) suggested that customer expectation is formed by many uncontrollable factors, which include customer background and values and the images of the purchased product, previous experience with other companies, customers’ psychological condition at the time of service delivery, the advertising of the bank, and other personal attitudes. Thus, different customers have different expectations based on customer knowledge of a product or service. Obviously, expectations play an important role in satisfaction formation. The extent to which a service or product fulfills customer need and desire may play a significant role in forming feelings of satisfaction due to the influence of confirmation or disconfirmation on satisfaction.

The term “expectations” has different uses in the literature on satisfaction; it is viewed as a prediction made by a consumer about what is likely to happen during an exchange or transaction. Thus, Oliver (1981) defined expectations as the consumer-defined probabilities of the occurrence of positive and negative events if the consumer engages in

certain behaviors. Conversely, expectations in the service quality literature denote desires and wants, that is, what a service provider should offer rather than what they would offer. According to Kotler (2000), customers form their expectations from their previous experiences, advice of marketers and friends, and competitors' information and promises. Thus, perceived service quality is viewed as the difference between consumer perceptions and expectations for the service provided. Parasuraman et al. (1988) highlighted the need for organisations to properly provide their services at the outset to prevent expectations from rising. Expectations serve as reference points in the customer assessment of performance (Cronin & Taylor, 1992). Thereby, retailers can increase customer satisfaction by decreasing customer expectations.

3.5.7 Customer Perception

Perception is an opinion about something viewed and valued. It varies from customer to customer, as every customer has different beliefs toward certain products and services that play an important role in determining customer satisfaction (Angelova & Zekiri, 2011). Customer perception is most often used in assessing how customers perceive the quality of the service they are offered. Customer perception of service quality can generally be divided into the perception of tangibles, reliability, responsiveness, assurance, and empathy; these aspects will be discussed further along with the SERVQUAL model. In numerous situations, customer perception is subjective, but sometimes it provides useful insights for the development of marketing strategies of organizations. Providing high-quality service has become the selling point for attracting

the attention of a customer, and it is the most important factor that results in satisfaction. Thus, customer perception and customer satisfaction are very closely linked together; similarly, if the perceived service is close to customer expectations, it would result in satisfaction (Wilson, et al. (2008).

3.6 RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER SATISFACTION

A number of studies have examined the effects of service quality on customer satisfaction, but relatively few have combined perceived service quality with the satisfaction formation model. In this section, we discuss several studies that investigate the relationship between service quality and customer satisfaction according to the SERVQUAL model and other models in the last three years. The relationship between service quality and customer satisfaction in many different industries was studied. Kazi Omar Siddiqi (2011) explored the interrelationships between the attributes of service quality and customer satisfaction in the retail banking sector in Bangladesh, and identified the most important attributes in bank settings that are used to review the characteristics of banks as experienced by customers. The researcher reported that all attributes of service quality were positively related to customer satisfaction in retail banking. Empathy showed the highest positive correlation with customer satisfaction, whereas tangibility showed the least positive correlation with customer satisfaction. The study suggests that the SERVQUAL service quality model is a suitable instrument for measuring bank service quality.

Jayaraman et al. (2010) measured customer satisfaction through the delivery of service quality in the banking sector in Malaysia. They studied the relationship between the dimensions of service quality and customer satisfaction. The researchers revealed that assurance had a positive relationship with but had no significant effect on customer satisfaction. Reliability had a negative relationship with but had no significant effect on customer satisfaction. Empathy had a positive relationship with but no significant effect on customer satisfaction. Tangibles had a positive relationship and a significant impact on customer satisfaction. Responsiveness had positive relationship with but no significant impact on customer satisfaction. The study recommended marketers in the banking industry for improvement in the delivery of service quality.

Ragavan, N. and Mageh, R. (2013) examined the influence of the dimensions of service quality on overall customer satisfaction. Their study also developed an instrument of service quality and explored the relationship between the perceived dimensions of service quality and customer satisfaction. The study indicated that the most important service quality practice on customer satisfaction was responsiveness, as it was perceived as a dominant service quality. Other findings were that the service quality dimensions of responsiveness, tangibles, assurance, and reliability were positive and significantly influenced customer satisfaction, whereas empathy was negative and significantly influenced customer satisfaction. Finally, the researchers recommended that managers emphasize the underlying dimensions of service quality, especially responsiveness, and start to improve service quality to raise overall customer satisfaction.

Asif, A. (2012) evaluated the dimensions of service quality and their impact on the satisfaction of customers of Islamic banks, which were located in the countries in the Middle East. They used a modified SERVQUAL scale to ascertain the functional dimensions of service quality. The study found that the Islamic banking industry pays more attention to the dimensions of service quality to remain more competitive with their traditional counterparts. The study also applied the five dimensional model of SERVQUAL to measure the service quality of Islamic banks. The tangibles dimension of Islamic banks had a direct impact on satisfaction. In financial transactions, the reliability of service providers was a vital factor of service quality. Assurance influenced the customer satisfaction of the banks, along with the empathy, as one of the constructs of service quality.

Lee, H.S. (2013) examined several major variables moderating the relationships of service quality, customer satisfaction, and customer loyalty. The results indicated that service quality positively influences customer satisfaction. Thus, customers with high perceived service quality have a strong customer satisfaction.

Irwan, M., Surachman, D.H., and Arman (2013) analyzed the influence of the service quality of Islamic banks on customer satisfaction and trust. They used more than one product and service of Islamic banking. Their results indicated that the service quality of Islamic banks had a significant influence on customer satisfaction and trust. The responsiveness of the Islamic banking service was the strongest attraction for customers to the banks. Furthermore, compliance was the weakest attraction for Islamic banks.

Marzouq A. Alqeed (2013) studied the relationship between service quality and customer satisfaction of the Royal Jordanian and the mediating relationships between service quality and financial performance by customer satisfaction. The study revealed a relationship between service quality and customer satisfaction and financial performance.

Aymn Sulieman (2013) identified the impact of the basic dimensions of the SERVQUAL model on the level of customer satisfaction in dealing with the Housing Bank. The researcher found an impact of the basic dimensions of the SERVQUAL model on the level of customer satisfaction at different levels. The study recommended the need for the continuous improvement of services provided to customers through customer behavior studies and work to predict customer expectations, thus ensuring the provision of better services.

Ojo, O. (2010) investigated the relationship between service quality and customer satisfaction in a mobile telecommunication network in Nigeria. The study revealed that service quality has an effect on customer satisfaction and that a positive relationship exists between service quality and customer satisfaction. The researcher recommended that the organization pay more attention to service quality because of its effects on customer satisfaction. Furthermore, to ensure that customer satisfaction was high, organizations must initially know the expectations of customers and how they can meet such expectations. He also discovered that it costs more to attract new customers than to retain existing ones.

Manjunath, S.J. (2013) studied customer perceptions on the dimensions of service quality among consumers of banking services. The study indicated that service quality is a

variable that creates customer loyalty and results in customer satisfaction. Thus, in developing good service quality, bankers should be interested in evaluating the degree of customer service dependence.

Mu'azu et al. (2013) examined the direct effect of the dimensions of service quality on customer satisfaction and customer loyalty in the Nigerian Islamic Bank. The primary data that measured service quality consisted of six dimensions, namely, assurance, tangibility, reliability, responsiveness, empathy, and compliance (24 items); customer satisfaction (4 items); and customer loyalty (4 items). The study revealed that responsiveness is a significant predictor of customer satisfaction, whereas assurance is a significant predictor of customer loyalty. Customers will be satisfied when the bank staff are responsive and provide efficient banking services. Furthermore, to maintain loyal customers, Islamic banks should provide assurance in terms of Islamic banking compliance.

Zahir, O. and Ilham, S. (2013) developed an indirect effect for understanding service quality, customer satisfaction, and customer loyalty in Malaysian rural tourism. The study revealed that customer satisfaction has a significant and positive partial mediating effect on the relationship between service quality and customer loyalty in Malaysian rural tourism. Therefore, the relationship of service quality, customer satisfaction, and customer loyalty will result in the profitability of rural tourism operators. Thus, service quality and customer satisfaction play a crucial function within the Malaysian rural tourism industry.

In conclusion, several studies have investigated the relationship between service quality and customer satisfaction in different industries. However, limited studies were conducted to study the impact of perceived quality and expected quality towards customer satisfaction. Thus, this study aims to extend the empirical works on the impact of service quality towards customer satisfaction, by studying both the relationship between perceived service quality as well as expected service quality with customer satisfaction. In addition, we investigate the relationship between expected service quality and customer satisfaction mediated by perceived service quality.

3.7 CUSTOMER AWARENESS OF SERVICE AND PRODUCTS PROVIDED BY ISLAMIC BANKS

Consumer awareness is a marketing term that refers to the consumer's right to be aware of the product or service he/she purchases. It is also an ethical aspect for those responsible for the production and distribution of goods or services. Few studies have examined customer awareness in the banking sector. We will discuss several studies that have explored customer awareness.

H. Saduman Okumus (2005) evaluated the degree of customer awareness and satisfaction with this type of banking and defined the customer profile of the special finance houses. He based his study on a sample of 161 respondents; the study revealed a certain degree of satisfaction with the products and services of special finance houses. The respondents expressed their dissatisfaction with some of the facilities in special finance houses.

Despite their awareness of a number of specific services and products such as Mudarabah and Musharaka, they indicated that they did not deal with them.

Naveed, A. K and Kashif, R. (2010) analyzed the satisfaction and awareness level of customers toward the Islamic banking industry to investigate the relationship between different demographic variables and the satisfaction and awareness of customers. The respondents expressed their satisfaction with some of the services and expressed dissatisfaction with few. Furthermore, the customers indicated that they were aware of different products but did not adopt these products.

Yvonne et al. (2011) studied the level of customer awareness of Islamic banking products in South Africa. They reported that Muslims are aware of banks products, but their usage rate is low. Conversely, Muslim customers regard lower bank charges, availability of automatic teller machines, and an extensive branch network as important factors in terms of choosing a bank. Efficiency, rather than religious motivations, is the basis for compliance with Islamic conventions.

Hareem, N. K and Nadia, A. (2012) investigated customer awareness and customer attitude toward Islamic banking. A descriptive study involving five main variables was carried out; the study consisted of 32 items. The results demonstrated a need to educate the Muslim community regarding Islamic financial products. Service providers need to develop the information system within the communities, and Islamic banking institutions must work even harder for survival with conventional banking systems.

Faisal Karim (2012) evaluated the level of customer satisfaction and awareness of the Islamic banks of Pakistan. The data collected from the visiting customers of Islamic banks revealed different satisfaction levels for the services and products of Islamic banks. Some responses indicated dissatisfaction with Islamic banks. Furthermore, although consumers were somewhat aware of several Islamic banking products, they did not tend to deal with those products.

3.7.1 Measurement of Customer Awareness

Few studies have measured customer awareness in the banking sector, and they have used multiple items to measure customer awareness of Islamic products and services, as shown in Table 3.2.

Table 3.2: studies have used a set of items to measure customer awareness.

Items	H. Saduman. O (2005)	Faisal Karim (2012)	Seethaleetchumy,et al. (2011)	Naveed. & Kashif. (2010)
I realize (aware) that this bank offers interest-free banking services.			✓	
I realize (aware) that this bank offers windows Islamic system.				
I realize (aware) that this bank offers Mudaraba products.	✓	✓	✓	✓

I realize (aware) that this bank offers Musharaka products	✓	✓	✓	✓
I realize (aware) that this bank offers Murabaha products.	✓	✓	✓	✓
I realize (aware) that this bank offers Ijara financing products.	✓	✓		✓

3.7.2 Relationship between Customer Satisfaction and Customer Awareness

Studies conducted on customer awareness for Islamic services and products stop short at measuring the customer awareness level, without examining the relationship between customer awareness and customer satisfaction. To fill in the gap of studies on customer awareness for Islamic banking services, the present study investigates the relationship between customer awareness of Islamic products and services which provided by window Islamic banks and customer satisfaction in the banking sector. We are adopting the work conducted by Jin Huh (2006) in the hospitality sector, which investigated the relationship between destination awareness as an element of destination branding and tourist satisfaction.

3.8 CHAPTER SUMMARY

Chapter three covers the literature review. Start with customer satisfaction: importance, definitions, theories and measurement. The second section of this chapter provides the concepts of service and quality, definition of service quality, service quality and models of service quality. The section also provides empirical studies on service quality,

customer expectations, and customer perception. Third section provides the relationship between service quality and customer satisfaction, customer awareness of service and products provided by Islamic banks, measurement of customer awareness. The section also presents the relationship between customer awareness and customer satisfaction, and finally, summary of the chapter.

