



**ENHANCING SERVICE QUALITY OF ISLAMIC  
BANKS IN BANGLADESH: AN APPLICATION OF  
QUALITY FUNCTION DEPLOYMENT (QFD)**

**BY**

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## ABSTRACT

Globalization has resulted a highly competitive business environment and organizations are looking for providing progressively better service quality to drive their organizations to compete successfully in the marketplace. The prospect and growth potentials of Islamic banks in Bangladesh is perceived to be huge as there is a high demand for interest-free banking services from the people of Bangladesh who have a strong propensity to abide by the rules and principles of Sharia'h. However, apart from the external pressure by the conventional banks, the Islamic banks are also facing enormous problems internally. It is the views of many scholars that presently the level of service quality of Islamic banks in Bangladesh is not as much as it is supposed to be. Further, according to the feelings of general public, there is a potential room for further improvement of service quality of Bangladesh Islamic banks. Obviously, if the Islamic banks can enhance their overall service quality, they will be able to stay competitive in the forefront of today's marketplace in the banking and financial sector. It is noted that the Islamic banks are striving to improve service quality, but they are still struggling to reap the desired benefits. The main purpose of this study is to identify the customers' requirements, the corresponding technical requirements and aligning both of these requirements by using a well-known service quality improvement tool, namely, Quality Function Deployment (QFD). In this study, questionnaires survey and interviews were conducted for data collection. Data were collected from customers, employees and executive officers (altogether 347 in number of respondents) from seven Islamic banks on personal contact basis. From the data analysis in the first stage, this research revealed that customers' perceived expectations are higher than the services delivered. Later on, the researcher compiled altogether 45 customers' requirements and 47 technical requirements for further enhancement of service quality of Islamic banks in Bangladesh. Finally, the QFD exercise was carried out to prioritize the technical requirements ('hows'), which will eventually guide implementation of the necessary measures to improve the overall quality of the Islamic banks. This research contributes to the existing body of knowledge in field of academics and findings are expected to provide guidelines for enhancing satisfaction level of customers of the Islamic banks in Bangladesh.

## خلاصة البحث

لقد أدت العولمة إلى بيئة تجارية تنافسية للغاية، وإن المنظمات في محاولة توفير أفضل خدمات تدريجياً لتكون في المنافسة بنجاح في السوق. وقد لوحظت الإمكانية والتوقعات للنمو الهائل في القطاع المصرفي الإسلامي في بنغلاديش، كما أن هناك طلباً كبيراً على الخدمات المصرفية بدون فوائد من شعب بنغلاديش، الذين لديهم نزوع قوي إلى الالتزام بالقواعد والمبادئ الشرعية. ومع ذلك، وبصرف النظر عن الضغوط الخارجية من قبل البنوك التقليدية، فإن المصارف الإسلامية تواجه أيضاً مشاكل هائلة داخلياً. فمن وجهة نظر كثير من العلماء أن مستوى جودة الخدمة للمصارف الإسلامية في الوقت الحاضر في بنغلاديش ليست بنفس القدر كما هو المفترض أن يكون. وأيضاً، وفقاً لمشاعر عامة الناس، هناك إمكانية كبيرة لزيادة تحسين جودة الخدمة للمصارف الإسلامية في بنغلاديش. ومن الواضح، إذا كان يمكن للبنوك الإسلامية تعزيز جودة الخدمة الشاملة أهما ستكون قادرة على الحفاظ على قدرتها التنافسية في طليعة السوق اليوم في القطاع المصرفي والمالي. ويلاحظ أن المصارف الإسلامية تسعى جاهدة لتحسين نوعية الخدمة، لكنها لا تزال تكافح من أجل جني الفوائد المرجوة. فالهدف الرئيسي من هذه الدراسة هو تحديد متطلبات العملاء، وتحديد المتطلبات الفنية للاتصال ومواءمة كل من هذه المتطلبات باستخدام أداة تحسين جودة الخدمة المعروفة بـ نشر وظيفة الجودة (QFD). في هذه الدراسة، أجريت دراسة استقصائية الاستبيانات والمقابلات لجمع البيانات. وقد تم جمع البيانات من العملاء والموظفين والمسؤولين التنفيذيين (الكل 347 من المحييين)، من سبعة مصارف الإسلامية على أساس الاتصال الشخصي. ومن تحليل البيانات في المرحلة الأولى قد كشفت الدراسة بأن توقعات العملاء ينظر أعلى من الخدمات المقدمة. وفي وقت لاحق، قام الباحث بتجميع المتطلبات لـ 45 عميلاً، و47 متطلبات تقنية لمواصلة تعزيز جودة الخدمة للمصارف الإسلامية في بنغلاديش. وأخيراً، قد أجريت عملية QFD لإعطاء الأولوية للمتطلبات 'التقنية' ('كيف')، والتي ستوجه في نهاية المطاف إلى تنفيذ التدابير اللازمة لتحسين الجودة الشاملة للمصارف الإسلامية. ويساهم هذا البحث في الهيئة الموجودة من العلم في مجال الأكاديميين. ويتوقع أن النتائج ستقوم بتوفير المبادئ التوجيهية لتعزيز مستوى رضا عملاء البنوك الإسلامية في بنغلاديش.

## **APPOVAL PAGE**

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature .....

Date .....

**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

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BANGLADESH: AN APPLICATION OF QUALITY FUNCTION  
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*This Thesis Dedicated To*  
*Most Loving Parents*  
*Whose Compassion for Me Flows Like a Waterfall*  
*That Continually Nourishes My Soul*

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## LIST OF ABBREVIATIONS

AHP	Analytic Hierarchy Process
AIBL	Al-Arafah Islami Bank Limited
ATM	Automated Teller Machine
BIBA	Bangladesh Islamic Bankers Association
CE	Customers' Expectations
CP	Customers' Perceptions
CR	Customer Requirements
CS	Customer Satisfaction
CWQC	Company-Wide Quality Control
EFQM	European Foundation for Quality Management
EXIM	Export Import Bank of Bangladesh Limited
FSIBL	First Security Islami Bank Limited
GNP	Gross National Product
HOQ	House of Quality
HR	Human Resource
HRD	Human Resource Development
HRM	Human Resource Management
HSBC	Hong Kong and Shanghai Banking Corporation
HSC	Higher Secondary School Certificate
IBBL	Islamic Bank Bangladesh Limited
ICBIBL	ICB Islamic Bank Limited
IDB	Islamic Development Bank
IERB	Islamic Economics Research Bureau
IT	Information Technology
JIS	Japan Industrial Standards
MBNQA	Malcom Baldrige National Quality Award
NCB	Nationalized Commercial Banks
NGO	Non-Government Organization
OECD	Organization for Economic Cooperation and Development
PhD	Philosophy of Doctorate
QCC	Quality Control Circle
QFD	Quality Function Deployment
RSB	Religious Supervisory Board
SIBL	Social Islamic Bank Limited
SJIBL	Shahjalal Islamic Bank Limited
SQ	Service Quality
SSC	Secondary School Certificate
TBE	The Benchmarking Exchange
TQM	Total Quality Management
TR	Technical Requirements
VOC	Voice of the Customer

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Quality of service plays an important role to attract and retain customers and this has been recognized as a strategic requirement in highly competitive business environment (Parasuraman et al., 1985; Zeithaml et al., 1990). Therefore, in achieving sizeable market share and increase profits, organizations deliver superior service quality (Buzzell and Gale, 1987).

According to Parasuraman et al. (1985), service quality can be defined as the difference between customer's expectation for the performance of service before the service is rendered and their perception of the service received. Similarly, Edvardsson (1998) states that customer's overall perception of the service has its basis on his/her perception of the service provided and how it was provided – whether the outcome of the service may either be value added or quality with the customer assuming the role of the process.

In the past three decades, it has been noted that academics (Goronoos, 1984; Parasuraman et al., 1985; Cronin and Taylor, 1992; and Teas, 1993) have increasingly examined the significant features of service quality and its measurement as any organization that hopes to successfully thrive should understand customers' expectations and perceptions of service quality. This in turn impacts the customers' choice of service provider, satisfaction as well as their loyalty.

## 1.2 SERVICE QUALITY DIMENSION

To satisfy customers' overall expectations through quality service, various authors, academicians and scholars have engaged commendable efforts in finding service quality dimensions and have provided different conceptualizations over the time (Sachdev and Verma, 2004). In service marketing literature, service quality is known to be based on multiple dimensions (Gronroos, 1982, 1990; Parasuraman et al., 1985), and there is no general agreement as to the nature or content of the dimensions (Brady and Cronin, 2001). However, according to the researchers over the last three decades, following are the dimensions of service quality.

Table 1.1 Service quality dimensions

No.	Author(S)	Year	Number of Dimensions	Dimensions
1	Gronroos	1984	3	Technical quality, functional quality and reputational quality
2	Lehtinen and Lehtinen	1982	3	Interactive, physical and corporate quality
3	Hedval and Paltschik	1989	2	Willingness and ability to serve
4	Leblan and Aguyen	1988	5	Corporate image, internal organization, physical support of the service producing system, staff-customer interaction, and the level of customer satisfaction
5	Garvin	1988	8	Performance, features, conformance, reliability, durability, service, response, aesthetics, and reputation
6	Rust and Oliver	1994	3	Functional quality, technical quality and environment quality
7	Parasuraman et al.	1988	5	Reliability, responsiveness, assurance, empathy and tangibles
8	Osman and Owen	2001	6	Compliance, reliability, responsiveness, assurance, empathy and tangibles

## 1.3 CUSTOMER SATISFACTION (CS)

Business organizations have long acknowledged the importance of quality and customer satisfaction in their survival and success in a highly competitive market. As

a result, a considerable amount of researches (Fen and Lain, 2010) has been carried out to examine these two concepts, a major portion of which is directly related to customer behavioral intentions including customer purchase and loyalty, the resolution of the customer to spread positive word of mouth, referral and complaint intention (Olsen, 2002; Kang et al., 2004; and Soderland and Ohman, 2005). The most common studies were pertained to customer satisfaction, service quality, perceived value and behavioral intentions.

Since the 1970s, customer satisfaction has garnered a lot of attention from both marketing practitioners and academicians (Churchill and Surprenant, 1982; Jones and Suh, 2000) as it facilitates the company's increase in profitability and prosperity. Companies and researchers alike have tried in measuring customer satisfaction since the 1970s on the basis of the theory linking between customer satisfaction and performance (Coyles and Gokey, 2005). Following that decade, and throughout the 80s, researchers used findings from customer satisfaction and quality studies to monitor their performance, to compensate their workers and to allocate resources (Bolton, 1998). They also initiated investigations for further actions they could take to determine customer satisfaction (Swan and Trawick, 1981; Churchill and Surprenant, 1982). The adverse effects of customer dissatisfaction would pose negative impact on the organizational financial performance. The 1990s brought the advent of the organizations and researchers' concerns of customer satisfaction for various financial implications (Rust et al., 1995; Bolton, 1998).

The banking industry falls under the service sector/ category of business. Currently, the sector occupies a great portion of the market in several countries. For instance, in the U.S. 79% of all the employees work in the service sector and it accounts for 76% of GDP in the country's economy (Kotler et al., 2009). Moreover,

according to the Organization for Economic Cooperation and Development (OECD), over 70% of the workforce are working in the service sector.

The service sector like other sectors are linked with the economic activities which produces intangible products including education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical repair and maintenance (Heizer and Render, 2013). They are characterized as intangibles which cannot be evaluated until the services are performed. Hence, they are considered as important issues in the strategic, tactical and operational management segment of business activities in organizations mostly because of their intangible and heterogeneous characteristics with simultaneous processes of production, distribution and consumption. In other words, the core value of a service lies in the buyer-seller interactions (Suenssin, 2003).

In the past decade, various researchers have dedicated their studies to the service quality area and it has been increasingly acknowledged as one of the critical strategic values of service organizations (Cesarotti and Spada, 2009; Spohrer and Maglio, 2008; and Dusuki and Abdullah, 2007). The quality of service brings about various advantages to an organization. For instance, it enables the company to be differentiated from its rivals by increasing its sales and market shares, facilitating cross-selling opportunities, enhancing customer relations and improving the image of the company. As a consequence, it leads to increased customer and employee satisfaction and retention and leads decreasing rate of turnover. More importantly, through positive word of mouth, the company will attract new customers (Lewis, 1991; Newman, 2001; and Caruana, 2002).

Moreover, service quality is an important element of service organizations and is highly linked to customer satisfaction (Bolton and Drew, 1991; Cronin and Taylor,

1992; Taylor and Baker, 1994; and Spreng and MacKoy, 1996). A positive relation has been found between the two elements as increase in service quality increases the possibility of customer satisfaction and hence, the organizational competitiveness.

In turn, increasing customer satisfaction results in their behavioral outcomes including commitment, intent to stay, creation of a rewarding mutual relationship between the customer and the service provider (Gounaris et al., 2003; Heskett et al., 1997; Goode and Moutinho, 1995; and Newman, 2001). Several researchers including Avkiran (1994) and Blanchard and Galloway (1994) revealed that service quality in the context of banking industry has a similar relationship. Banks are now aware that quality service brings about success and survival in the competitive global banking environment (Wang et al., 2003).

Thus, service firms strive to stay in the forefront of today's marketplace by offering quality service in the presence of fierce competition. According to Chow and Luk (2005), service quality is an essential component for winning and retaining customers. While, Kandampully and Shuhartanto (2003) strongly claimed that in differentiating a service from its competitors and in fostering customer loyalty, the quality of service is more important than price.

Since the advent of globalization, monumental changes have taken place in the business world. In particular, banking and financial service sector has become an industry propelled by demand and constitutes an integral portion of the service industry (Mishkin, 2001). As such, various regulatory, structural and technological transformations are seen within the banking industry aligned with trends inclined to an integrated financial environment (Angur et al., 1999). The situation is such that banking services can be utilized by customers from any country in the world as these services are widespread with diverse offerings. Moreover, banks are competing to

offer services through the restructuring of their services in the hopes of coping with the technological advancement to meet the ever changing customers' needs worldwide. The customers on the other hand are on the lookout for a potential bank that offers the most efficient, user friendly and safe services.

Currently, the latest trend in the banking sector is the Islamic products and services. The Islamization of commercial banking represents the Muslim *Ummah's* (community) revival. Islamic banks offer to a broad variety of clientele including Muslims and non-Muslims. The potential for such banks has been acknowledged by conventional banks like Citibank and Hong Kong and Shanghai Banking Corporation (HSBC). These developments in the banking industry have paved the way for the creation of specific subsidiaries to meet customer's needs (Ebrahim and Joo, 2001), although there is a possibility of over extension which can be out of hand. The Islamic banking and financial system's primary objective is to implement the value system based on the *Qur'an* and the *Sunnah* (Prophet Muhammad's *SAW* tradition or practice) and its secondary one is to support the Muslim socioeconomic system and to facilitate the Muslim nations' development and growth through the development of their financial markets, institutions and instruments.

In carrying out these objectives, Islamic banks have to constantly be wary of the potential customers' changing behavior, attitudes and perceptions particularly in the retail sector as it occupies a major portion of the banking sector/ industries (Metawa and Almosawi, 1998).

The present research will focus on how to enhance customer satisfaction and overall service quality of the Islamic banks in Bangladesh.