

Perception of islamic banks versus conventional banks finance essay

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Chapter 1: Introduction

Background of the Study

Islamic banking industry has gained wide popularity in the recent days among Muslims and non-Muslims as well. This has pronounced heightened competition for the conventional banking industry as more customers shift their attention to Islamic banking services. In some countries such as Pakistan, a number of multinational conventional banks have established Islamic banking branches that are Shariah compliant to respond to the growing demand of Islamic banking services. It is also emerging that customer's attitudes and perceptions of the services or the nature of banking affects their acceptance and customer loyalty towards Islamic and conventional banks. It is difficult for players in the banking industry to understand the attitudinal differences that exist between customers and how they affect their loyalty to the bank Hoq, Sulatana & Amin (2010). For instance, it is important to establish the effect of religious perception on the choice of a conventional or Islamic banking. Banks within the Omani financial system account for more than 90% of total assets and liabilities of the country's whole financial sector. Therefore, the study of banking is a significant area of concern as the country's witness significant growth in the sector due to increased oil prices, economic diversity, enlarging private sector, enormous industrial base and real estate and infrastructure projects. For the period between 2004 and 2009, the assets of banks grew by 38% in Omani to reach 1. 2 billion Rials from 4. 9 billion Rials. This paper seeks to establish whether the services offered by both conventional and Islamic

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banks affects the attitudes, beliefs and perception of customers and whether it has an overall effect on customer loyalty. The study will investigate Omani customers and particularly Omani Al Ahli Bank customers.

1. 1 Rationale of the Study

Banks play a pivotal role in the economic development of the Omani and hence the understanding of factors affecting their performance will be an area of interest for a number of stakeholders. This study is important for players in the banking industry who seek to understand the differentials in customer loyalty and how they are influenced. Banks will be interested in understanding factors that influence bank selection among customers and ways of enhancing customer loyalty through image, products or quality of services. Policy makers at the national level will also benefit from this study in an effort to establish a strong and resilient banking system for economic development in an open and oil dependent nation. The policy makers will need to understand the beliefs, attitudes and perception that affect the development of individual banks.

1. 2 Purpose of the Study

To investigate the impact of services offered by conventional and Islamic banks on customers' attitudes, beliefs and perceptions, and evaluate whether that affects customer loyalties or selection of a bank.

1. 3 Research Questions

What are the factors affecting customer loyalty or selection of bank in Omani with reference to bank image, bank products, service quality, cultural factors and religious aspects? How do bank customers in Omani view Islamic banks

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versus conventional banks and does the image affect customer loyalty or selection of a bank? What kinds of bank products attract Omani customers? If a conventional bank opened an Islamic bank branch or offered an Islamic product will it change the customer's attitude and loyalty?

1. 4 Scope of the Study

The study will focus on customers within the Omani market including existing customers and potential customers that do not hold an account with the bank. The study will also require a population of customers that is knowledgeable about various bank products. The study will examine key variables with customer loyalty and bank selection as dependent variables on service quality, beliefs, attitudes, cultural factors and religious aspects.

Chapter 2: Literature Review

In demand and supply theory, cultural background and taste and preferences of the customer are one of the most important and intricate variables influencing demand for a product. At industry level, perceptions and attitudes of customers have become so important that the players must understand how they affect their business. Esmailpour, Zadeh & Hoseini (2012) explains the concept of service quality from three dimensions in terms of what consumer obtains, the process of delivering service and the perception of the consumer about the bank and its services. Furer, Ching-Liu, Sudharshan, (2002) in Haque (2010) pointed to evidence that the values and beliefs of customers create a perception or an image of the customer with reference to service-quality, and so these beliefs vary from one nation to another. According to Haque (2010), there may be no consensus in literature

in terms of service-quality uniform-dimensions amongst researchers because of the diverse demographics, geography, cultural, and religious attributes. Abdullah, Sidek & Adnan (2012) conducted a study to establish the perception of non-Muslim customers towards Islamic bank in Malaysia. They found that there is no particular demographic profile affecting the selection of Islamic banking products among non-Muslim customers. This study is inconsistent with other studies like those of Saad (2012), done in the same field as they have shown that there are demographic factors affecting selection of banks. In the study it was established that male customers are more particular with the banks reputation and image when selecting an Islamic bank (Laghari, et. al 2011). There is also a relationship between education and religion of a customer and their perception of Islamic banking. The educated customers had a notion that Islamic banking will dominate conventional banking in the context of Malaysian economy (Metwally 2002: Saad 2012). Quresh, Hussain & Rehman (2012) compared Islamic banking and conventional banking in Pakistan and found out that consumers do not just choose Islamic banking by the virtue of religion. They noted that the attractiveness of conventional banking was higher among Pakistan customers and established that this could be fuelled by products and service quality (Laghari 2011). Pakistan consumers value their comfort and ease of transaction when selecting a bank. Religious perspective is significant, but it cannot be used to execute customer's needs thus it must be supplemented by other factors (Esmailpour, Zadeh & Hoseini 2012, p. 1153). Subhani, et. al (2012) did another study in Pakistan and established that high profit and low service charges is the most highly perceived factor for bank selection.

Religion is also an important variable in bank selection as Muslim customers observe banks that are compliant with shariah regulations (Metwally 2002). Cheriya, et. al (2010) established that selection of Islamic bank's products and services was typically influenced by the bank's tangibility, reliability and responsiveness and reliability. From customer's perception, the general service quality does have impact on selection and selection. These findings are also in line with those of Misbach, et. al (2013) on relationship with customers in terms of service quality and trust. These findings concur with those of Mosahab, Mahamad & Ramayah (2010) and Ahmad & Asif (2011) who assert that perception of reliability, responsiveness, empathy, tangibles and assurance by a customer is likely to increase customer satisfaction and loyalty. A lot of studies have focused on the role of perceptions and attitudes of customers towards Islamic and the effect on bank selection Hoq, Sulatana & Amin (2010). However, there are very few studies focusing on a comparative approach between conventional banking and Islamic banking that has left a wide gap in literature. Conventional banking has particularly escaped the attention of researchers as far as the influence of perception, attitudes and beliefs affect customer loyalty and bank selection. Therefore existing literature does not provide an understanding on whether these perceptions affect both conventional banking and Islamic banking or are one-sided. It is also evident that Omani has not attracted the attention of researchers in the banking industry in spite of growth in oil sector and dominant banking industry, a lot of focus has been directed and Pakistan. There is need to examine the Omani banking industry before the results can gain acceptance for generalizations for the whole of MENA region.

Chapter 3: Research Methodology

Research methodology is the blueprint of any search project as it acts as the nuts and bolts that hold various components of the research together. It guides the researcher on the activities to be carried out, the duration of time for each activity and interpretation of data obtained in the research process (Broom, Barnes & Tovey 2004, p. 27). The aim of this project is to evaluate the effect of customer's perception on Islamic vis a vis conventional banks and how it affects brand loyalty and selection of a bank. Given the nature of the research question as depicted in the objective, this paper will take a form of both qualitative and quantitative research.

3. 1 Research Strategy

A qualitative research is used to understand and interpret abstract situations such as beliefs, attitudes, behavior and emotions that cannot be measured statistically using scientific tools. Quantitative research is used to measure and interpret results that can be generalized to the whole population using statistical methods (Muskat, Blackman & Muskat 2012, p. 10-12). The research will be both correlational and explanatory as it attempts to justify or establish the existence of a relationship between variables and at the same time it will seek to clarify how and why there is a relation between the variables or situations. This study aims at establishing a causal relationship in order to develop logic on whether customer perceptions affect customer loyalty and selection of a bank or not by collecting data to answer the research questions and test hypothesis. As a result, this study will adopt a deductive approach in data collection, analysis and interpretation. The objective of this study is to establish the existence of a relationship between

customer's perception of a conventional and Islamic bank and how the perceptions affect customer's selection of banks and customer loyalty to the selected bank. Therefore, this study will find a correlational research more appropriate to achieve ends of establishing this relationship and developing tangible solutions. A correlational research or regression analyses is the methodical examination or statistical investigation of relationships existing between two or more variables. Most of the variables examined through correlational research do not readily tender themselves to tentative manipulation (Creusen, Hultink & Eling 2013). A correlational research can take a form of experimental study or a survey. This study will draw upon survey method since it seeks to get people's opinions and compare the findings that will take a form of a cross-sectional study. A cross-sectional survey is used to collect information in a given sample of a population a certain point in time. Cross-sectional survey under a correlational research enables the researcher to collect information from multiple subjects at once, and makes it possible to examine a variety of variables and interrelationships. It also gives the researcher an opportunity to examine variables that are not observable in an experiment or laboratory (Muskat, Blackman & Muskat 2012, p. 18).

3. 2 Sampling Strategy

Sampling strategy is part of the project that determines collecting units or cases, the selection process of the units, the sampling techniques to be used and justifies the choice of sampling technique. Sampling strategy is charged with the responsibility of ensuring reliability and validity of the study due to sample selection. Sampling is the process of collecting the units of study that

will be under investigation or analysis to answer the research questions. The sampling units of this study will be customers on the banking industry.

3. 3 Sample Size of the Study

The sample size of a study should be representative of the whole population under examination. The sample size of the study will take in 400 respondents that will be divided into two distinct groups. The first group (Group A) will be made up of Omani Al Ahli Bank customers while the other group will include non-customers of both Muslim and non-Muslim religion. The first group will carry a sample size of 280 (70 per cent) customers of Omani Al Ahli Bank; 180 (64. 2 percent) males and 100 (35. 8 percent) females. The remaining 30% (Group B) will be made up of respondents that are not customers of the bank but are within the income earning bracket and may hold or may not hold an account with another bank. The age of the respondents will vary in a cohort of between 20 and 65 years. The study will also include students, business people and other professionals in order to develop a sample that is representative of the whole population. The age cohort for the group of respondents will be between 25 and 55 years of age.

3. 4 Sampling Techniques

Sampling technique refers to the procedure used by the researcher to develop a sample of required units that is representative of the whole population. Sampling technique is crucial for any study because it determines whether the right questions reach the right respondents while at the same time avoiding bias that could lead to inaccurate results. This study will apply a combination of convenience sampling and probability sampling

specifically simple random sampling. Convenience sampling also known as accidental, opportunity or grab sampling is a non-probability technique that collects information from the available sample or sample that can be easily accessed. It is convenient because of the ease of obtaining information especially through random sampling and in the case of tight research budget (Venable 2011). A simple random sample is a subset of units or sample that is selected from a larger set known as population. Each unit is selected randomly and purely by chance to give every individual an equal chance to be selected in a subset of other individuals. Convenience sampling for non customers of the Omani Al Ahli Bank as a form of enhancing the comparison of the findings obtained from customers of Omani Al Ahli Bankas. Simple random sampling will be used to develop a sample of customers of Omani Al Ahli Bankas.

3. 4 Data Collection Methods

Methods of collecting data vary between researchers depending on the nature and goals of research. For instance, some studies collect data by evaluating existing data or literature in books, journals, libraries and other publications (Venable 2011, p. 123). This form of data is referred to as secondary data because it is not collected by the researcher from the source. Other researchers go out to the field and interview people, observe units of study or experiment the variables at source. This is called primary data because it is collected from the field by the researcher. This study will rely on primary data collected from the field or customers through a cross-sectional survey. However, secondary data may be relied on in the interpretation of the results obtained from the field and comparison of

obtained results. The survey will use a combination of open-ended questionnaires and rating scale questions to collect data from customers. Open-ended questionnaires allow the respondents to give a wide range of responses. This method is well suited for this study because it involves collecting views, beliefs, attitudes and perceptions of customers and closed-ended questionnaire would limit the response of the participants. The questionnaire is divided into four sections with three sections containing open-ended questions and the last section carrying rating scale segment. The first segment builds on service quality and bank products as a determinant of customer perception, the second one sought to establish issues of factors influencing selection of a bank, the third section dealt with customer loyalty, while the fourth part helped summarize the overall performance of the bank as per customer's perceptions. The questionnaires provided to non-customers were different and contained only one section with the main aim of establishing whether they would change their banks if Omani Al Ahli Bank introduced some products.

Chapter 4: Data Analysis

Data analysis involves the process of examining, extracting, transforming and modeling data using systematic and logical reasoning with the aim of interpreting it into useful information and arriving at conclusions that have implications for research, business, profession and education (Suri & Clarke 2009, p. 398). The aim of the study is to establish the effect of customer's perception on bank loyalty; therefore, the method of analysis will be required to show the relationship between the two. This study will use regression analysis for data interpretation because of its ability to establish relationship

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between variables through various methods such as ANOVA and F-Stat (Zalanga 2011). The study will be looking at a number of variables that are enveloped in customer's perception. The study will divide these variables into six areas of observation for customers namely; service quality, bank products, religion, bank image and reputation, and performance and impact on banking. This is meant to allow coding of collected data in an easier way.

Validity

Validity is the degree to which a study or methodology used in a study objectively measures what it intended to measure (Venkatesh, Brown & Bala 2013, p. 48). The sample size of the study is representative of the population, which is 35% of the population that is above the required 15%.

Reliability

The researcher has in mind that some of the approaches taken in the research strategy may lead to a certain degree of biasness if the researcher is not objective in the research process. The use of convenient sampling is one of the techniques that are predisposed to bias if not applied objectively (Suri & Clarke 2009, p. 405). Therefore, the researcher will use random sampling of the reachable participants. The method used for decoding data in this study is aimed at having 92% reliability and 99% population representation.

Access

The study will be accessible to the participants who may want to monitor the findings of the study. As a result, it will become possible to negotiate the study with the participants in terms of giving response.

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Gantt Chart

A Gantt Chart Showing the Time Plan and Scope of the Project

Task

Duration

Week 1

Week 2

Week 3

Week 4

Week 5

Week 6

A feasibility study of area of research

3 days

Assessment of the financial capability as shown by feasibility study

4 days

Visit the bank and ask for assistance

2 days

Formulation of questionnaires

1 week

Collection of data

3 weeks

Data analysis

1 week

The preparation of the final draft of the project

1 week