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**CUSTOMER RELATIONSHIP OF ISLAMIC BANKS**

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### **IZJAVA O AUTENTIČNOSTI RADA**

Ja, Mirza Babić, student/studentica drugog (II) ciklusa studija, broj index-a \_\_\_\_\_ na programu Islamsko bankarstvo, smjer , izjavljujem da sam završni rad na temu:

#### **CUSTOMER RELATIONSHIP OF ISLAMIC BANKS (The case of Bosnia and Herzegovina)**

pod mentorstvom Prof. Dr. Alija Avdukić izradio/izradila samostalno i da se zasniva na rezultatima mog vlastitog istraživanja. Rad ne sadrži prethodno objavljene ili neobjavljene materijale drugih autora, osim onih koji su priznati navođenjem literature i drugih izvora informacija uključujući i alate umjetne inteligencije.

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## **ABSTRACT**

This paper investigates the key aspects of relations with customers in Islamic Bank, which operates on the market of Bosnia and Herzegovina. It is primarily concerned with research into establishing and maintaining positive relationships with clients and how these relationships can improve client satisfaction and loyalty towards the bank. The paper examines the importance of building trust through transparency, security and consistent adherence to the highest ethical standards. The paper contains two questionnaires, one filled in by clients and the other by customers of the bank. In both studies questionnaire participants were contacted directly. Questionnaire participants were selected by sampling - probability method. 200 questionnaires were distributed to bank employees, 160 were properly filled out and returned, 200 were also distributed to customers, and 146 were filled out and returned. When we talk about research related to employees, the findings reveal that a majority of respondents agreed to all statements related to organizational and technological factors, which affect the CRM implementation. We used the CARTER model in the research related to customers. The results of the research showed that customers value "Reliability" the most, and compliance the least. Compliance is an important component of CARTER model and this is the only variable which measures the Islamic aspect of banks. Bosna Bank International should pay more attention towards compliance. Building a positive relationship with customers is not only a strategic goal, but also a fundamental pillar of successful bank operations in today's competitive environment. BBI Banka is the only Islamic bank on this market, therefore compliance is a major competitive advantage of this bank.

**Key Words** : Islamic banking, service quality, customer relationship management, CARTER model,

## SAŽETAK

Rad istražuje ključne aspekte odnosa s klijentima u Islamskoj banci koja posluje na tržištu Bosne i Hercegovine. Prvenstveno se bavi istraživanjem uspostavljanja i održavanja pozitivnih odnosa s klijentima, te kako ti odnosi mogu poboljšati zadovoljstvo i lojalnost klijenata prema banci. Rad ispituje važnost izgradnje povjerenja kroz transparentnost, sigurnost i dosljedno pridržavanje najviših etičkih standarda. Rad sadrži dva upitnika, jedan ispunjavaju klijenti, a drugi klijenti banke. U oba su istraživanja sudionici upitnika kontaktirani direktno. Učesnici upitnika odabrani su metodom uzorka – vjerovatnosti. Zaposlenicima banke podijeljeno je 200 upitnika, uredno popunjeno i vraćeno 160 upitnika, 200 također podijeljeno klijentima, a popunjeno i vraćeno 146 upitnika. Kada govorimo o istraživanju vezanom uz zaposlenike, nalazi pokazuju da se većina ispitanika slaže sa svim tvrdnjama vezanim uz organizacijske i tehnološke čimbenike koji utječu na implementaciju CRM-a. U istraživanju vezanom uz kupce koristili smo CARTER model. Rezultati istraživanja pokazali su da kupci najviše cijene dimenziju "Reliability" a najmanje dimenziju "Compliance". Compliance je važna komponenta CARTER modela i to je jedina varijabla koja mjeri islamski aspekt banaka. Bosna Bank International d.d. bi trebala više pažnje posvetiti ovoj dimenziji. Izgradnja pozitivnog odnosa s klijentima nije samo strateški cilj, već i temeljni stup uspješnog poslovanja banke u današnjem konkurentskom okruženju. BBI Banka je jedina islamska banka na ovom tržištu, stoga je ova dimenzija konkurentska prednost ove banke.

**Ključne riječi:** Islamsko bankarstvo, kvaliteta usluge, upravljanje odnosima s klijentima, CARTER model.

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# 1. INTRODUCTION

## 1.1. Research background

The development of Islamic finance and banking has been very dynamic in last decades. This is because Islamic banks play a role similar to conventional banks, except that they have to conform to the Islamic principles and regulations (Henry and Wilson, 2004). It is driven by incentive of Muslim society to restructure their life and all its aspects according to Islamic rules and principles (Usmani, 1998) . Today, Islamic banking and finance is not just an alternative to conventional approach, it became an efficient and productive way of financing methodology that takes place in world financial systems (Iqbal and Molyneux, 2005 ). There are more than 300 different Islamic financial institutions today operating in more than 50 countries, on all continents, especially in Middle East, Asia, North America and Europe (Siddiqi, 2002)

The globalization of the financial sector in the last twenty years has caused strong changes with unforeseeable consequences for small and underdeveloped countries and their economies. The intensified competition, as well as trends in globalization and increased consumer choice, has led to quality of service being perceived as a key differentiation factor for many organisations (Boaden and Dale, 1993). Due to the fierce and competitive nature of the environment, this is even more challenging for financial services providers such as banks, insurance companies, and credit unions which, by and large, offer products and services that are difficult for consumers to differentiate (Stafford *et al.*, 1998). In the last two decades, the global financial system has undergone major structural changes. There is a strong growth and interconnection of financial flows around the world, which, driven by liberalism, privatization and diversity of financial services, have completely changed the financial environment and its laws.

Bearing in mind all the negative consequences of global financial processes, there is a need to affirm alternative and more efficient financial systems that in essence give greater meaning to the concept of risk-sharing and financial insurance based on real assets, which are the main features of Islamic banking. Riba refers to the interest - all extra amounts paid above the initial debt. It may be defined as a cost of borrowed money (Hadžić, 2013) . Islamic banking based on real assets contributes to a fairer distribution of resources and profits, greater social justice, equality, protection of property rights, prohibition of interest (*Riba*) and the impact of rules on the economic behavior of individuals, society and the state, guided by moral, ethical and spiritual norms which derive from the Islamic legal system and code of conduct (Sharia) which corresponds to man's real being and his nature.

When it comes to customer relationship management, Islamic banks can effectively promote products, update all benefits proportionately, and efficiently convey offers. As customer relationship management is designed to satisfy consumers, Islam always strives to provide services of excellence as much as possible. Customer service quality and its measurement is

a recent but extensively documented field studied by numerous academic and business professionals.

The first bank in Bosnia and Herzegovina that worked according to Islamic law in volume that state law allows was Orient bank d.d. in Sarajevo. This bank was offering non-interest credit services and bringing foreign investors in order to make its capital stronger. This bank was closed after the census of minimal needed capital for banks in Federation of Bosnia and Herzegovina. After this, Orient bank was incorporated to the conventional ABS bank d.d. in Sarajevo (Štulanović and Hadžić, 2007). Today the only Islamic bank in BIH is Bosna Bank International (BBI). BBI founders were Islamic Development Bank 45,46%, Dubai Islamic Bank 27,27%, and Abu Dhabi Islamic Bank 27,27% (Štulanović and Hadžić, 2007)

## **1.2. Problem statment**

The main problem of the research is that CRM in islamic banking is relatively unexplored, especially when it comes to the context of Bosnia and Herzegovina. BBI bank is the only Islamic bank in BIH. However, no previous study explored CRM and CS in BBI Bank.

Today, many companies such as banks, insurance companies and other service industries understand the importance and potential of Customer Relationship Management in attracting new customers, retaining existing ones and increasing their value. The bank is increasingly customer-oriented and their relationship is generally becoming different. Clients used to go to the bank, and now the bank comes to them, to the house or to the workplace. The client-bank relationship is much more complex, it is no longer just service-sales but also emotional. The subject of this final paper is to present certain specifics of customer relationship management in Islamic banking.

## **1.3. Purpose of the thesis**

Customer service quality and its measurement is a recent but extensively documented field studied by numerous academic and business professionals (Duncan and Elliott, 2002). In fact, various service industries such as hotels, banking and non-banking financial institutions, insurance, travel, healthcare, education and local government agents strive to increase service quality, satisfy their customer and improve their profits (Yoo and Park, 2007). Essential success and survival for every single business is the ability to deliver a high quality service to customers, and Islamic banks are no an exception to this (Akhtar and Zaheer, 2014). Today, service quality has become a principal competitive weapon in the banking war: products can very easily be duplicated, whereas service levels cannot (Stafford, 1994). Creating new value and long-term customer satisfaction is the foundation for the development and success of Islamic banks. The only possible way to maintain the already existing market position, and the opportunity to conquer new markets is a satisfied and happy customer. In a time and environment where customers are very demanding, Islamic bank has

an additional challenge as it faces many stereotypes and aggravating circumstances primarily legal constraints.

The task of this paper is to theoretically explain the management of customer relations in Islamic banking, to investigate the satisfaction of customers who do business with the only Islamic bank in Bosnia and Herzegovina, Bosnia Bank International. This paper also deals with researching employees and their perceptions of Islamic banking and economics. When we talk about employees, it is important to emphasize that every employee must be aware that regardless of position and job description, he participates in the process of managing customer relationships.

#### **1.4. Objective of the thesis**

In accordance with the problem and the subject of the research, the goals of the research are determined.

- The main goal of the paper is to critically and objectively analyse the management of customer relations in Islamic banking.

Auxiliary goals are as follows:

- Present the condition of Islamic banks and financial institutions in economic and social development.
- Clarify the attitude of the Islamic bank towards the environment in a more decisive way.
- Define the term service quality
- Present the principles and instruments in Islamic banking.
- Define customer relationship management in Islamic banking
- Explain at what level of service quality should be in Islamic banking.
- Investigate the perception of bank employees about the level of service provided
- Research clients' perceptions of the level of service received.

#### **1.5. Hypothesis**

Bearing in mind the complexity of the problems and subjects of the research work, the main research hypothesis of the research is:

- H1: there is a statistically significant difference in customer perceptions regarding CARTER dimensions of islamic banking service quality.
  - H1a: there is a statistically significant difference in customer perceptions between compliance and other dimensions
  - H1b: there is a statistically significant difference in customer perceptions between assurance and other dimensions

- H1c: there is a statistically significant difference in customer perceptions between reliability and other dimensions
  - H1d: there is a statistically significant difference in customer perceptions between tangibility and other dimensions
  - H1e: there is a statistically significant difference in customer perceptions between empathy and other dimensions
  - H1f: there is a statistically significant difference in customer perceptions between responsiveness and other dimensions
- H2: there is a statistically significant difference in employees perceptions regarding CRM components in islamic banking.
    - H2a: there is a statistically significant difference in employees perceptions between customer orientation measures and other measures.
    - H2b: there is a statistically significant difference in employees perceptions between training orientation measures and other measures.
    - H2c: there is a statistically significant difference in employees perceptions between customer data measures and other measures.
    - H2d: there is a statistically significant difference in employees perceptions between integration of CRM measures and other measures.

## **1.6. Structure of the thesis**

- The introduction will present the background, problem, purpose, objectives and hypothesis.
- The second part of the literature review will aim primarily to present a comparison of Islamic economic system with other economic systems, as well as to present the role of Islamic banks and financial institutions in economic and social development. In addition, the second chapter will discuss more the principles and foundations of Islamic banking.
- The third chapter or theoretical background, customer relationship management in Islamic banking will aim to primarily define the concept of quality of service provided, and the need for quality service and quality control in Islamic banking. Also, this section aims to present how and on what principles an Islamic bank should build a relationship with clients, how this Islamic bank differs from the conventional bank when it comes to customer relationship strategies, and what should be the primary goal of an Islamic bank in relation to the customers.
- In the fourth chapter (research methodology) the following will be presented:
  - Participant and procedure
  - Instrument design and measurement
  - Analysis

- In the fifth chapter, this work will present an analysis of the questionnaire in perception of bank employees (cashier, sales , branch manager, other) about customer relationship management in Bosna Bank International.
- The sixth chapter explores customer perception and will specifically deal with customer satisfaction..
- The seventh and the final chapter is a discussion where conclusions and recommendations will be presented.

## **2. LITERATURE REVIEW**

### **2.1. The Islamic economy system compared to the conventional system**

In choosing Islamic banking, customers and investors want to combine a good return on their money with banking and financial practices that conform to their religious principles (Dudley, 2002). All financial operations have to comply with Shari'ah and to meet the intentions of Shari'ah - Maqasid Al-Shari'ah" (Ayub, 2007). Islamic banks should take more care about society and should give more effort in field of Corporate Social Responsibility. (Mohammed, 2007). The main difference between these two systems is reflected in the fact that the Islamic Economy system is based on Sharia, which means that every transaction must be allowed and in accordance with the norms and regulations of Sharia. Shariah orders both financial and social responsibility, while conventional model is tightly connected to capitalistic approach which makes profit maximization the only goal in business operations (Dusuki, 2005). Understanding the Islamic economic system is not possible without understanding the Sharia - a set of norms and rules, as the basis for the emergence of the Islamic economy and its development. "The Shari'ah comprises two things: injunctions and rules. The first signify the do's and don'ts in the Quran and the Sunnah while the second are those set of principles which the Fuqaha have derived from the first injunctions. (Zaman Hasanuz 1984). Sharia is a comprehensive set of norms derived from God's revelation, which apply to all spheres of human life through a system of prohibitions and orders. The regulations and norms deriving from Sharia are immutable and obligatory for application to every Muslim believer, and acting according to them enables a person to be happy in both worlds, and is valid for any time and place. Islamic Economics is the branch of science that helps to realize human welfare through the allocation and distribution of resources which are scarce in accordance with maqasid (Chapra, 2000). Thus, Islamic Economics has a different task with conventional economics. The goals of the Islamic economic system show that material well-being based on the unshakable foundation of spiritual values constitutes an indispensable plank of the economic philosophy of Islam. (Lone 2016). Duties in addition to studying the reality of the behavior of economic agents, both domestic producers, domestic consumers, and governments, must also formulate the concept of ideal behavior according to Islamic teachings should be made by economic agents, as well as its effects are possible for the economy. Concretely, this science in addition to explaining the variables

involved, which may cause a discrepancy between the real behavior with the ideal behavior also served recommend appropriate strategies to guide the behavior of economic agents to the ideal behavior can be realized (Chapra, 2000).

A study conducted by Efendić and Avdukić (2017) proves that the Islamic economy is by its nature a socially responsible economy. In this research, the authors took as a basis for analysis the previously presented dimensions of social responsibility according to Carroll (1979, 1991), and compared them with the principles of Islamic economics according to Efendić (2014). For each of the principles of Islamic economics, the authors in this study identified a corresponding principle of Carroll's social responsibility.

The Islamic system is, moreover, unflinchingly dedicated to human brotherhood accompanied by social and economic justice and the equitable distribution of income, and to individual freedom within the context of social welfare (Chapra, 1979) Islamic economy is a tool of the Islamic system and as such it has to be analyzed as a part of the Islamic system, and any approach that separates these two is incorrect, (Sadr, 1982). Islamic economics is an integral part of Islam, and every Muslim has rights but also obligations in his economic sphere of life. A human being who in his part of life concerning economic issues does not follow and does not respect the norms prescribed by Sharia becomes an insatiable machine that seeks as a priority to maximize only its interests, not looking at how to reach that goal. This ambience, unfamiliar with Islam and Islamic teaching throughout history, gave birth to the "man of economy - homo oeconomicus", which served as the main element of the emergence of modern economy.

Conventional Bank, the interest rate is set at the time the contract with the guidelines must always be in favor of the bank. (Wulundari, D., Subagio, A.. 2015). Islam orders that all financial activities have to be implemented in accordance with the commands of Allah s.w.t. This means that all general principles of Islam such as justice, honesty, knowledge, expertise, and others have to be respected when doing economic activities (Elati, 2002). Islamic banking can be distinguished from conventional banking on three crucial grounds, namely, no earning of extra interest (Riba); no interest rates and practicing Islamic principles in business activity (Ebrahimi and Moghadam, 2012). The authors states that business must be in accordance with the fundamental teachings of Islam, which is completely different from the secular philosophies of capitalism and Marxism. Islamic economy has to create a balance between the material and spiritual needs of human beings, as one scale, and between the interests of the individual and the social community, as the other. In essence, there is nothing wrong or impermissible in an individual pursuing his or her own self-interest, but there must be a clear mechanism that will prevent him or her from exceeding the limits of what is permissible and without compromising the rights of others. Marxism, on the one hand, relies entirely on the government as a collective governing body tasked with ensuring balance in the social community. However, it is obvious that they have failed to create a better society. Capitalism, on the other hand, as a secular environment, believes that the market economy system, with minor state government interventions, is sufficient for the desired balance in

society. But social unrest, protests, economic fluctuations, financial crises tell us that the government, after all, must have a much bigger role in the economy of a country. Larger state interventions in the economy have had positive results, but at the same time there is a budget deficit and an increase in external debt. In principle, the economic problem remains unresolved. Is the problem in the private-public sector ratio, or is it the human factor that plays a key role in both of these sectors? Very often it is not sufficiently understood that the individual man is an essential element of both the private and public sectors. If the individual does not play his or her role fairly, accurately, adequately, the public sector suffers as much as the private sector. There is clear evidence that a market economy cannot create the desired harmony on its own. A pioneer of capitalism and Marxism, he strives to make big money as soon as possible and thus maximize his interest, without choosing the means by which he will reach his selfish goal. The child of capitalism and Marxism is deprived of moral codes, does not acknowledge the soul and spirituality, determines the rules of conduct for himself, does not know the guilt of conscience, tramples everything in front of him. Money becomes a measure of all values, he is an excessive consumer and tries to accumulate as many material goods as possible. A Muslim, a follower of the teachings of Islam - "homo islamicus" is different from a Western man - "homo oeconomicus". He strives, above all, to maximize Allah's pleasure, following God's instructions and the Sunnah of Muhammad, as he believes in life after death and account for all his deeds, strives for balance of body and soul, this and future life, and constantly re-examines his actions and his business.

Islamic economic model is a good alternative to conventional approach since it incorporates business success, profit maximization, ethics and social responsibility together (Efendić, 2014), and business entities, but also dictates: "to profit but not to the detriment of others, to profit but not at any cost, to profit but under condition that goal does not justify the means. Based on the fact that Islamic banking operation is avoiding interest based activities and promotes more on the profit and loss sharing concepts, one of the major concerns is its ability to maintain stable deposits while ensuring that it is growing.( Abduh, M. and Othman A. 2014) So, in order not to be misunderstood, we must state that to realize our profit is not a completely wrong mission, but on the condition that the other side is also observed with profit.

## **2.2. Principles of Islamic economy**

Islam as a system represents a very comprehensive unit that offers solutions for all human needs and problems (Nomani and Rahnema 1994). The Principles of Islamic Economics as an uncovered religion to spread the gift for the universe, Islam gets the standards and fundamental qualities in different fields; lawful, social, convictions, morals, financial aspects, etc. (Kamla and Alsoufi, 2015) The principles of Islamic economics differ in many ways from the principles of conventional economics. Everything belongs to the Creator, and people are only users of these goods and as such they have not only the right to use those goods, but also the responsibility. Every good that an individual possesses is inherited according to inheritance law, or is earned by legitimate and honest work. Private property is



protected by God's law and as such must be protected by society as well. Fairly acquired material goods are seen as the basis of social progress, and its useful use is an obligation for all Muslims.

The basic task of Islamic economics is to increase the well-being of humanity, reduce poverty by following the norms and rules based on Sharia. The principles and norms of Islamic economics should ensure the protection of the individual and his interests, but also ensure the protection of the public interest.

The strict prohibition of interest in the Islamic financial system confirms that Islam does not accept the principle of reproduction of money per se because the essence of Islamic finance is reflected in the participation of partners in the distribution of risks which should by no means pass only to the debtor. The principles of transactions must be based on a fair distribution of risk, profit and loss.

The conventional and Islamic approach to interest is explained by Rodney Wilson (1997) in his study. The author notes that interest to most economists contains three elements that "justify" the payment of compensation to savers:

- Time factor - the saver sacrifices current spending and deserves to be compensated:
- Opportunity cost - the saver thus sacrifices his comfort and liquidity and should be rewarded for that sacrifice;
- Risk factor - the saver faces the risk of banking transactions, inflation, etc.

When we talk about the time factor, some Islamic scholars believe that time is a gift of God and that based on time it is not allowed to realize material benefits, while another part of Islamic scholars believe that the opposite but with the service that material benefits cannot be determined in advance and that earnings must be linked with actual transactions. Islam allows trade and forbids interest, however this does not in any way mean that the legitimacy of the risk-taking fee is disputed but the risk must be distributed fairly and it is not allowed for only one party to bear the risk. Islam forbids any kind of monopoly as well as the retention and freezing of capital, and approves the collection of compensation for capital that is distributed on the market under Sharia conditions.

#### 2.2.1. The role of man on Earth (Caliphate)

Ultimate ownership refers to the absolute power of Allah subhanahu wa ta'ala Who possess and controls every single process in the Universe. He is an Owner of everything. All resources are under His control and ownership. Humans are His representatives on Earth and they have to act according to His will and orders (Efendić, 2014) Man's special and unique position stems from the fact that he was created as God's vicar on earth, meaning God's trust that gives man responsibility in accordance with the rights and obligations that flow from it.

In order to facilitate the successful realization of the rights and obligations given to him, the Islamic-oriented man has at his disposal material and spiritual ways in accomplishing these tasks. Endowed with human intelligence, man recognizes and chooses between good and evil, between the just and the unjust, between the true and the false, between the real and the illusory.

In addition to man's relationship with God, relationships between people are also standardized. Achieving justice among people is by no means an easy task, for man is by nature selfish, greedy, accumulative, occupied with earthly pleasures, and prone to competition. These qualities undermine his morals and ethical beliefs, separate him from his spiritual aspirations, and direct him toward the satisfaction of material transient desires.

The economic behavior of an Islamic-oriented individual is relatively complex. Satisfaction of all his desires and needs is not limited only by his economic strength (budget), but also by the limitations arising from the Sharia on what he can and cannot do (Halal-Haram) because man is not allowed all material pleasures, as he is not allowed or acquiring permitted goods in the wrong and prohibited manner. This does not mean that Islam encourages man to live a life of poverty and misery. On the contrary, he should enjoy material and other pleasures as long as such a way of life does not separate him from human and spiritual values such as justice, morality, ethics and orientation according to the Creator.

#### 2.2.2. The concept of justice

Islam regulates wealth to minimize conflict between rich and poor groups, through fair distribution of wealth (Rahman, 2017). The main priority of Islam and its teachings on economics is "justice and equality" from production to the distribution of created values. The concept of justice can be understood as the behavior of an Islamic-oriented man and economic institutions in Islam, bearing in mind that justice causes God's pleasure, and injustice causes His dissatisfaction.

Sharia establishes and implements the Islamic conception of justice in which individuals have secured rights, including their right to pursue their economic interests primarily as a right and obligation as long as they are capable of doing so. However, if an individual is no longer able to pursue his or her economic interests, he or she still retains his or her rights that belong to him or her through Zakat and Sadaqah, which are rights to basic needs and living above the poverty line.

The notion of economic justice is especially important in the establishment of an Islamic economic system whose rules of what is allowed and forbidden govern the economic behavior of consumers, producers and the state, as well as issues of ownership, wealth creation and distribution.

The concept of economic justice in Islam means that:

a) Islamic economic practice values the moral and spiritual framework above material possession and well-being.

b) The Islamic economic system does not challenge the individual's own interests and private interests, as long as they do not adversely affect or harm the community as a whole.

c) Islam recognizes private property, the market economy, and encourages the enrichment and aspiration of the individual to maximize profit and satisfaction, but solely on the principles of what is allowed or forbidden (Halal or Haram) by discouraging waste and prescribing the obligation of the rich to help poorer members. d) The prohibition of interest (Riba) in Islam is the prevention of injustice and the prohibition of the transfer of all risk to the debtor.

### 2.2.3. Trust

In Islamic economics, the importance of trust is especially emphasized, and the reliability of an individual is considered his main trait. Special attention is paid to respecting the contract (agreement) and fulfilling the obligations and promises given to other members of the community. In many parts of the Qur'an, it emphasizes the qualities of a true believer and the importance of belief-trust and the fulfillment of contractual (written or oral) obligations and promises. Trust and reliability as well as adherence to treaties and promises in Islam are binding and inviolable (except in exceptionally prescribed cases).

Scholars say that emanation is mentioned in the Qur'an in three ways.

The first refers to the obligations that Allah subhanahu wa ta'ala has prescribed from worship, as in His words:

يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَخُونُوا اللَّهَ وَالرَّسُولَ وَتَخُونُوا أَمْنَكُمْ

"Oh you who believe, do not deceive Allah and the Prophet and do not lose conscious mutual trust, (Al-Anfal, 27)"

This includes every worship performed with the body and organs, hence the emanate is sight, speech and hearing, etc.

The second refers to the trust given to one part of the Muslims by the community.

Says Allah 'azze we jalla:

إِنَّ اللَّهَ يَأْمُرُكُمْ أَنْ تُؤَدُّوا الْأَمَانَ إِلَىٰ أَهْلِهَا وَإِذَا حَكَمْتُمْ بَيْنَ النَّاسِ أَنْ تَحْكُمُوا بِالْعَدْلِ إِنَّ اللَّهَ نِعْمًا بِعِظَمِكُمْ بِهِ إِنَّ اللَّهَ كَانَ سَمِيعًا  
ب

"Allah commands you to entrust responsible services to those who are worthy of them and when you judge people to judge fairly. Truly Allah's advice is wonderful! - Indeed, Allah hears and sees everything. (En-Nisa ', 58)"

Scholars say this applies to every responsible service. So, from the responsibility of the imam in the masjid and the mosque, through the emanation of running the company to the management of the ministries, the state and the people, - to entrust every responsible thing to the one who is consistent.

The third concerns honesty, integrity, protection and responsibility in keeping things, as in the words of the Lord:

قَالَتْ إِحْدَاهُمَا يَا أَبَتِ اسْتَجِرْهُ إِنَّ خَيْرَ مَنِ اسْتَجَرْتَ الْقَوِيُّ الْأَمَّ

"Oh my father," said one of them, "hire him, it is best to hire a strong and reliable one." (Al-Qasas, 26)"

As for our Prophet Muhammad sallallahu 'alaihi wa sallam, it is known that even before the Prophethood he had the nickname El Emin - trustful. The people of Mecca trusted him. What's more, they chose him to keep things of value to them. Then, when he performed the Hijrah in Medina, he authorized Ali radiyallahu'anhu to return their things to the people, - he acted like this because he was trustful.

Confidentiality is of great importance in Islam that embezzlement of emanations is considered a sign of nifaq / hypocrisy.

The Prophet (peace and blessings of Allah be upon him) said in a hadith narrated by Abu Hurayrah,:"There are three signs that someone is a hypocrite – if someone is lying, if someone makes a promise and doesn't fulfill it, and if someone was confided to but chose to embezzle that person." What can be seen in all three characteristics is that they are all based on lies. (Bukhari)

#### 2.2.4. Evaluating work in Islam

The valuation and conception of work and work ethic in Islam has multiple and much broader meanings than in a conventional economy. In Islamic economics, labor and the division of labor rise to a high place and are considered an integral part of the religion itself. Healthy, physically and mentally fit people are encouraged to do useful work in order to earn a living and must not be a burden to their family or the state due to laziness or voluntary unemployment.

Islam denies all class differences, so no work that is in accordance with Sharia is considered less valuable than another. The difference should be manifested only in natural talent, education, skills and motivation. Bearing in mind that individuals have different abilities and motivation and their work results will be different.

### **2.3. Economy and social development**

Every economic system, at least in theory, aims to ensure the well-being of all market participants by evenly distributing all available resources. However, we are witnessing that the results in practice are very often the opposite. Is there a perfect economic system at all - one that will enable a normal and consistent life of every member of the social community, and if there is why there is no practical application of the same, why does the theory say one thing and the results of the application quite another? Of course, not all economic systems are of the same quality or offer comprehensive solutions, and in most cases they are not implemented in the right way.

Some "economic experts" justify the lack of necessary resources as an excuse and justification for the impossibility of creating a life environment that will enable a comfortable life for all people on Earth. We simply cannot accept this, because in some places on planet Earth there are resources in abundance, luxuries, waste, and in others, extreme poverty, struggles for a crust of bread and a drop of water. The problem is absolutely not in the resources; there are more than enough of them to meet the needs of all. On the contrary, the problem lies in the egoism of individuals and powerful people who do not want as much for others as for themselves, and therefore exclude others from the resource allocation process. The problem is in not understanding the message sent by the value system, but also in the misapplication of the same. Unfortunately, very often the problem lies in the poor response and total disregard for the message that advocates an even distribution of resources.

### **2.4. The role of Islamic banks and financial institutions in economic and social development**

Shariah principles require Islamic banks to balance profit motivation with social objectives; it is considered unjust if they are unable to provide sufficient returns to depositors and shareholders who have entrusted them with their money on the one hand, but on the other hand they should not make excessive profits at the expense of their customers or by neglecting their social responsibility (Chapra, 2008). Islamic economy is not only a theoretical science, it has been applied and implemented practically in order to enhance economic development among Muslim societies and countries (Štulanović & Hadžić, 2007). Islamic financial institutions should lead and promote ethical values in business (Dusuki and Abdullah, 2007). Many authors state in their works that the goal (IFI) is a positive impact on economic and social development. First of all, IFIs improve the real economy by focusing on real asset-based transactions that help increase the productivity and stability of society. The moral principles and models on which business is based ensure stability and security for all those involved in financial business. The authors further emphasize social responsibility in business, which is reflected in the partnership with clients with whom they share risk, profit and loss. Immoderate risk and profit at all costs are prohibited, and the primary task is to fulfill developmental and social tasks.

Islamic financial institutions (IFI) bring ethical values to the financial industry because they are obliged to act and operate in accordance with Islamic law (Dusuki & Abdullah, 2007). The authors state that Sharia as the basis on which business (IFI) is based is the first and basic reason why (IFI) should have a positive impact on the economic and social development of society. How will, believing in the One and Only God, and how will believing in the abstract world help solve the world's economic problems? The life of a human being, according to the teachings of Islam, rests on three fundamental pillars: tawhid (unity of the Creator), caliphate (commission to human beings) and adalet (socio-economic justice). These three pillars are interconnected and together they seek to change the worldview of the human being. These concepts allow man to reform in three directions.

The first direction, by taking care of his behavior because one day he will be held accountable for his deeds / deeds before God the Exalted. By believing in the Creator, man will significantly change his life, his treatment of everyone, himself, his family, neighbors, even nature, plants and animals. In the other direction of the caliphate (commission to human beings), man is convinced that all human beings are brothers, created from one man and one woman, and that all human beings enjoy equal rights to life, faith, property, dignity and reason, be they white or colored , rich or poor, men or women. A Muslim is convinced that he is not the true owner of the resources at his disposal, he knows that he is only a trustee, and that he has a responsibility before God and men; resources must be used responsibly, rationally, fairly and justly, and work for the benefit, not only of oneself and one's family, but of all of Allah's creatures. According to the word of Islam, competition among people is allowed, but competition in charity and nobility, not in snobbery, selfishness, greed and dishonesty. A Muslim should provide everyone with the basic necessities of life, develop human potential and enrich humanity. A Muslim is convinced that he will live eternal life after death and that he will be held accountable for his actions in this world.

"And do not diminish the rights of the people and do evil on earth, by making a mess, do not do ..." (Ash-Shu'ara, 183). Socio-justice is also reflected in the equal opportunity of all to use resources, the gifts of Allah, and absolutely no one has the right to a monopoly on anything. The exploitation and abuse of people and resources by Islam is illegal. Islamic society has an obligation to provide a just environment in which all people will be able to express their potential and live from legal work. The moral responsibility of Islamic society is to provide basic living conditions for all those who are unhappy or unable to make a living from their own work. Therefore, in Islam, there are institutions of zakat and sadaqah, as obligatory and voluntary activities of Muslims. Zakat is defined as an obligatory tax on certain categories of property, paid in precisely described amounts, and transferred to precisely defined categories of people and activities. Zakat is strictly ordered by the Qur'an (Tuhmaz, 2002). "Zakat belongs only to the poor and needy, and to those who gather it, and to those whose hearts are to be won, and for redemption from slavery, and the over-indebted, and for purposes in the way of Allah, and the traveler. Allah has ordained so! And Allah is All-Knowing, All-Wise. (At-Tawba, 60).

Islamic financial institutions cannot be exclusively profit-oriented financial institutions, like conventional FI, but their business must have a strong focus on economic development and social well-being. However, the institutionalization of Islamic banking and the entry of Islamic banks into the international financial market have identified numerous obstacles to harmonizing the principles of Islamic banking and the aspirations of Islamic banks to be competitive and financially stable. In that situation, Islamic banks accepted the postulates of the neoclassical economic model, which significantly deviate from the postulates of Islamic moral economy. Guided by capitalist premises, Islamic financial institutions have significantly reduced all activities that can be an obstacle to maximizing profits. This includes socio-economic development, which is what Islamic financial institutions should be recognizable by. Although Islamic financial institutions in countries with predominant operations are often leaders in the field of socio-economic development, the current relationship (IFI) with regard to socio-economic development is not satisfactory.

### **3. THEORETICAL BACKGROUND**

#### **3.1. Trust- foundation for good relationship with customers**

Amin and Isa (2008) stated that Islamic banks need to improve the relationship between bank and customers by building customer trust through following Islamic principles and law. The term trust can be defined as the one's expectation that the other party shall behave in a manner acceptable to him. General trust represents general level of trust which is built by the customer since there is no need or reason for doubt. This is trust withdrawn from social norms. Greater level of general trust affects one's readiness to work together in order to fulfil some goals. Consumer's trust can easily and very often be under the influence of some institutions which control banks and their operations, as well as under the influence of laws and regulations. The source of the process-based trust aren't general social norms, nor laws but individual's expectations which are developed because of two (or more) parties in some transaction process. This type of trust depends on the behaviour of all the parties involved into the interaction, as well as it depends on some earlier transactions related to the same parties. There is a general consensus among researchers that trust-based processes are the most fragile and that they are the first to suffer if there is a disruption in relations between the parties building the relationship. When it comes to financial services, the initial service meeting is of critical importance in creating a first impression, since the next step in building a relationship depends on the first meeting but only if it has been successfully realised. The last dimension of trust is based on the personal preference of individuals to feel trust especially towards the bank staff. Leading world banks invest a lot in process-based trust, while at the same time often have a problem with trust on an individual basis, since their employees often do not fulfill their promises. Due to this, Islamic banks should look for their opportunity if we go with the assumption that their employees follow Islamic rules and postulates, and therefore do not lie.

## **3.2. Financial services**

Service is generally defined as a set of intangible activities exist as a result of the interaction between customer and service provider in addition to the material resources and the organizational system (Lovelock, 1983). With this simple definition, there are a number of more or less similar service definitions. Services are numerous and diverse, so it is not surprising that discussions on this topic lead to numerous disagreements, and ultimately to different definitions of service.

### **Services' characteristics**

What's specific about services and their characteristics is that those particular characteristics are the ones that affect the occurrence of problems regarding marketing, challenges that firm faces while making marketing strategies, as well as implementation of those strategies.

#### **3.2.1. Intangibility**

The basic difference between services and tangible products is the very fact that services are intangible – one can not touch them. The service is used in a different manner than the product, it is not physically possessed, it cannot be seen, felt, tasted or touched as tangible goods can. There are only few elements that one can inspect before purchasing the service. In some cases, one can not be aware of the performance of the service due to its complexity, (eg. surgery). One can not know the success of a particular performance until after it is done. Sometimes not even then. The lack of a physical dimension can cause difficulties in understanding the service process, which can lead to uncertainties and a higher risk of using the service. The solution to this problem may be relying on tangible elements of the service such as people (doing the service), process, and place of service. The unit cost of performing a service is also difficult to determine, so determining prices of services is much more complex than determining the price of a product.

#### **3.2.2. Heterogeneity**

Heterogeneity describes a state in which a service provider can not provide a customer with two identical services. This relationship between the service provider and the service consumer is unique, because it depends on who is providing whom with a service, when and where. Services are hard to standardize since all the clients have different needs and requests. Predictably, physical and mental state of whoever is the service provider is important since it affects the final performance. On the other hand, the heterogeneity of the service can be viewed in a positive light because it allows personalization of the service and adaptation to the needs of individual clients. In modern banking, one of the ways to standardize services and maintain constant quality is certainly a greater use of technology, because, this way, the human impact is reduced. Another way of quality control is the selection of quality



employees, education, motivation, control of work and monitoring the level of customer satisfaction.

### 3.2.3. Indivisibility of production from use

Production and consumption of tangible products are separate activities. This feature facilitates many activities of the manufacturing company, as it allows production to be centralized in countries with lower production costs. The manufacturer is also able to produce when it suits him, and provide the consumers with a product at a time that suits them. Unlike tangible products, the use of the service is inseparable from its production, which means that the user of the service should be present at the time of the service. Indivisibility occurs regardless of whether the service provider is human, such as e.g. in performing a medical service or machine (ATM). Withdrawing money from an ATM is only possible if there is an interaction between the user and the ATM. There is a tendency to reduce the impact of this feature of the service with the increasing the use of technology, which is particularly noticeable in banking. Users today do not need to visit the branch office for many services, but can perform them through numerous technological solutions, which means that the interaction between providers and users still exists and becomes much more flexible.

### 3.2.4. Inability to Store

Services, unlike tangible products, cannot be stored and used in deferred time. Supply is tied to a specific moment and unused supply capacity can't be stored for future demand. There is small number of services that have a constant demand over time, but many variations already occur (daily, weekly, seasonal or with an unpredictable pattern). This causes the need to monitor demand and carefully plan capacity, in order to try to match supply. The service also can't be returned or resold, so service companies must take care of the quality of service and correct errors that occur when providing the service.

### 3.2.5. Fiduciary responsibility

This feature is specific for financial services, and according to Mckechni and Harrison, it refers to the implicit responsibility of financial institutions to manage clients' funds, and to provide financial advice. Trust in the bank and its staff is extremely important in finance, because clients often entrust their life savings to banks, so it is imperative for every financial institution to build a reliable image in the eyes of clients and the public.

### 3.2.6. Two – way flow of information

By using financial services, all kind of information about client appears, such as client's account balance, transaction records, savings, loans etc. This data can significantly improve the process of serving, as well as it can improve production of banking products which might

suit the client better. Awareness of the misuse of personal data among clients is also growing these days, so financial institutions need to take better care of the proper use of such data. The development of service marketing was mainly driven by the needs of service industries such as banking, transport and healthcare. These industries developed rapidly, competition grew, and business conditions became increasingly complex. Therefore, the need for more efficient management of marketing activities has developed. Today, more and more manufacturing and technology companies recognize the importance of providing services and thus want to increase the value and competitiveness of their products in the global market.

### **3.3. Specifics of financial services**

Marketing of financial services can be considered unique since the very financial market and its environment is very competitive and highly complex. There are several factors that have shaped today's financial market and created a strong need for marketing in financial institutions, and these are:

#### **3.3.1. Regulation**

One of the main changes in many service industries, and especially in finance, is the deregulation measures implemented in many countries. Deregulation created an environment that fostered competitiveness, and erased a number of boundaries that existed among different financial institutions before deregulation. The erasure of borders has caused market consolidation and concentration, as well as numerous mergers among different financial service providers, which has significantly changed the picture of the financial market. Deregulation has also allowed a number of marketing decisions that were previously strictly controlled by regulators to now be fully or partially controlled by financial institutions. The reduction of legal restrictions has caused an increase in risk in the financial system, and a special challenge for regulatory bodies today is the protection of system users.

#### **3.3.2. Customer loyalty**

It has been proven that the rate of consumers who replace their old financial service providers with the new ones is lower than the rates related to other businesses. There are several reasons for such a strong link between financial service providers and clients, so an extremely high retention rate in this sector does not necessarily reflect a high satisfaction rate. High customer retention rates may also be the result of a lack of will to find a better offer, or a lack of knowledge to accurately assess the quality of the offer. In some cases, if the client is also aware of the better offer of the competitor, it may happen that he will refuse to switch due to the inconvenience he might experience. Disadvantages associated with the transfer may be the need to go to the branch, waiting in line, monetary costs, contracts to be re-examined, negotiated and signed. With the increase of financial literacy of clients, the rate

of client retention is decreasing, and continuous improvement of the service process in the banking sector is needed.

### 3.3.3. Economic strength

Economic strength can highly affect the financial market, so it is impossible to exclude the financial sector from its economic environment and observe it that way. There are numerous of economic factors that can affect the financial sector such as unemployment rate, exchange rates, trends in the world economy. Thus the level of interest rates and inflation rates will play a key role in the supply of savings services. The influence of economic forces can have a crucial impact on the attractiveness of financial products and services and thus on marketing.

### 3.3.4. Technology

Changes in technology in recent decades have had a tremendous impact on the banking sector. Modern information technology has made business easier, accelerated business processes and provided a real wealth of customer information stored in databases. Technology has also changed the relationship between users and service providers, enabling new channels of communication, such as ATMs, the Internet and mobile banking. New technologies in the banking sector were very quickly adopted and implemented, as they ensured a significant reduction in operating costs and maximized profits of financial institutions. Encouraging users to increasingly use modern channels such as ATMs and mobile banking achieves a number of savings but reduces human contact. Bank clerks have traditionally known their clients and their needs well, as they have developed long-term relationships with clients, and the use of modern technology could jeopardize those relationships. Therefore, maintaining relationships and ensuring customer satisfaction in the future will be a major challenge for financial institutions.

## **3.4. Decision – making process**

The decision-making process when purchasing a financial service is unique and different from the decision-making process when purchasing other goods or services. Advertising financial services is less effective and inspiring because financial products and services are more difficult to visualize and present their benefits. Another reason is the complexity of financial services, which makes their assessment difficult for the average user. Financial service possesses a large number of attributes, many of which are unknown to the user who needs to make a decision based on these attributes. Thus e.g. a mortgage loan, or even a standardized service like a checking account can have a large enough number of attributes, that the user is unable to fully assess the difference between multiple offers. The complexity of financial services often leads to users trying to simplify the selection by focusing only on part of the information available to them, while ignoring the rest. It is important to note that

this decision-making process when choosing financial services can very often result in misjudgment and wrong choice.

#### 3.4.1. Rational process of the decision – making

This model is based on theories regarding information processing and problem resolving. This was developed by Blackwell, Minard i Engel. Rational decision – making process model consists of the following steps:

- Need recognition
- Information research
- Pre – purchase evaluation
- Purchase
- Consuming
- Post – purchase evaluation

The first step of this model is to recognize the need. Here customer realizes that he is in an actual situation which is far away from the ideal state in which he would like to be. After cognition, the consumer starts the decision-making process in order to find a solution that will bring him closer to the ideal state. As an example we can take a young person who recognizes the need for an independent home, that person is in the current state where he/she lives in the parental home, and the ideal condition is to have your own apartment. Financial institutions can communicate with this client by advertising housing loans for young people, by which they want to encourage him to take action.

Next step represents looking for informations, where the consumer tends to collect some data on the products and services offered. Advertising of financial institutions plays an important role in this step, because if a potential client does not recognize the advertising message, that bank will not participate in the process of seeking information, and will fall out of the further decision-making process.

In the pre-purchase assessment phase, the client considers all the information he or she has obtained in the previous phase and decides which alternatives best suit his or her needs. Thus, a person taking a home loan will examine a number of factors, such as monthly installments, the complexity of the application process, processing time to make a final decision.

The fourth stage of the decision-making process is the purchase, which in the financial sector mostly refers to the harmonization of conditions and the signing of contracts.

After purchasing the service, then comes consumption of it. While using the service, clients gather experience, which will result in a post-purchase assessment of the financial service. In this last stage, the client makes the final assessment of whether the financial service

provider has met his expectations. It is characteristic of most financial services that it is difficult to make a realistic assessment of the service provided even after its use. The service provided may be too complex for the average user, so that these users will make a decision about the quality of the service based on the visible components of the service, such as courtesy of staff, speed of service and cleanliness of the branch.

#### 3.4.2. Heuristic decision-making

It is traditional that the customer's decision-making behavior, within economy and finances, was described rationally, hence customer is rational when making decisions, has no emotions and is well informed. However, numerous studies have proven otherwise. Researches have brought to question the ability of customer to solve simple mathematical problems needed to assess simple financial services, as well as one's lack of ability to assess risk, which is certainly of the basic components of financial services.

Consumers go through two phases in the decision – making process.

First phase is discriminatory processing, which refers to a mental strategy of simplifying some tasks when choosing financial services. Due to a large number of factors, which the customer is not able to process completely. So the consumer narrows the number of services offered. For example, a person who wants to open an account in a bank, narrows them down to banks which have branches that are near to the consumer. Providers of financial services, it is very important that they know which factors are key to their customers, and then, make their offer accordingly. This way of decision making doesn't always end well for the customers since eliminating some services doesn't mean that you're making the right one.

The other phase is called compensatory decision – making. This phase includes choosing between choices that were left after the first phase. Consumer studies and thinks about them in order to make the right choice. But this phase differs from the previous one, given in this phase the consumer might know all the weaknesses, but chooses to compensate that weakness with some strength. This way, consumer shall choose a bank for its great online banking, even though that bank doesn't offer many branches. Researches have shown that, while narrowing down their choices, consumers use three heuristic principles. First principle represents human brain and its boundaries when it comes to solving mathematical problems, which is the reason why they only take one part of the informations into consideration. According to the second principle, consumers often approach the financial decision – making emotionally, so they will, while they think about spending it, think about how they earned that money. The third principle shows us that consumers, while in the decision – making process, remain rather uninformed because they don't feel motivated to search for the informations they need.

### **3.5. Quality of banking services and customer satisfaction**

#### **3.5.1. Definition and importance of quality of services**

Customer satisfaction represents a modern approach for quality in organizations that serves the development of a truly customer-focused management and culture. ( Hamzah, N., Ishak, M.N., Nor, I.N., 2015). Quality is the most significant characteristic of a service offer. Quality service means decrease of expenses, an increase of productivity, sales, market participation, profitability and business performances. Analysis of the quality implies the analysis of different categories: defining problem and banking service quality measurement, understanding quality as a strategy, quality role in the concepts of value for the consumers and for the bank. Strong competition has forced banks to focus on service and market strategies.

When it comes to employees, their contribution and commitment to the bank's operations are crucial for the provision of quality services and consequently, for making a profit in the bank. However, with the growth of banks and the increase in the number of employees, procedures often become alienated, which negatively affects the sense of belonging and their willingness to engage in contact with customers. Therefore, the problem of service quality must be viewed from the perspective of changes that occur among employees and within the bank. In the process of managing customer relations, management must be involved, like all employees, and appropriate systems must be formed. Only in this way can a quality service be provided for external users.

The concept of quality is not an easily achievable corporate goal, since users are the ones who define quality, not the bank. Moreover, each of them will define quality in a different way, depending on age, education, income, wealth, lifestyle, etc. In order to accept and apply the concept of service quality, it is necessary for banks to be "customer-led", to respond to their requests and needs instead of relying on their own perception of what customers require. Quality measurement is significantly hampered, not only due to problems in measuring service parameters, but also due to difficulties in identifying quality factors relevant to the user. The key problem that arises here is related to the fact that the difference in objective and subjective measurement in services is much more pronounced and affects the final quality assessment much more than it was the case with products and production entities. It should also be taken into account that the experience implies total / total experience with the bank, ie not only the experience in the branch or during the use of some of the services, but the experience formed by all contacts and interactions with the bank. In addition, perhaps the biggest problem is the fact that customers can often evaluate services only after the service process is completed, and only on the basis of comparing the services received in relation to their initial expectations when they first contacted the bank.

### 3.5.2. Provider and user gap

The service quality gap model is a model that provides a framework and provides a better understanding of the service quality structure. This model includes the user gap and the service provider gap. The model was developed by Parasuraman in 1985, and was further expanded by several authors with three new gaps.

**The service user gap** is the difference between expectations and perceived service quality. Expectations mainly consist of beliefs about how the service should be performed, they are the starting point in this process, and they can be based on subjective assessment or previous experiences. The difference between expectations and the way the service is provided is the basis of the model, so it is extremely important that the provider knows its user and his expectations.

The service provider gap arises within the service organization and consists of four gaps.

#### a) **The Listening Gap**

The first gap of a service provider is the listening gap, and it refers to the difference between a client's expectations and the provider's understanding of those expectations. One of the main reasons for not meeting the client's expectations may be their ignorance. The reason for not knowing these expectations may be a lack of interaction with the client or an unwillingness to record knowledge. There are four key factors that increase the first gap:

- Wrong orientation in market research - the first gap is widened by the lack of willingness of management or employees to gather information about customer expectations. Therefore, it is extremely important to increase the quality of service by developing formal and informal methods of collecting customer data.
- Lack of communication between employees and management - employees may have excellent information about clients, but if they do not reach decision makers, this gap will remain large.
- Poor customer relationship building - service providers often just conduct transactions, instead of trying to develop customer relationships and thus retain them. Relationship marketing is becoming increasingly important in banking because, as noted earlier, numerous studies have shown that it is much easier to keep an existing one than to attract a new customer.
- Correction of errors - it is very important to listen to the client after the service, especially if there are complaints, because in this way the organization can improve quality and retain customers.

#### b) **The Service Design and Standards Gap**

The second gap relates to standards and the way the service is designed. Once an organization is aware of customer expectations, the next challenge is to translate those

expectations into service quality specifications that employees can understand and execute. Often the reason for increasing this gap is rationalization, because to management their creation may seem too complicated.

Factors that increase this gap are:

- Poor service design - the design of a new service is particularly sensitive, where it is extremely important that everyone involved in providing the service, from management to counter staff, is involved and shares the same vision. The easiest way to reduce the second gap is to design the service without oversimplifying, incomplete, subjectivity, and bias.
- Absence of client-based standards - standards should be a signal to staff that prioritize business. If the standards do not include customer expectations, the result is very likely to be unsatisfactory quality of service.
- Inadequate physical dimension of the service - the physical dimension of the service includes physical facilities, equipment and other physical elements that enable the provision of the service. In banking, the physical dimension plays an important role because it encompasses the meeting places of the client and staff, and can play a key role in shaping the overall experience of using the service.

### **c) The Service Performance Gap**

The third gap relates to service performance, it marks the difference between standards created based on expectations and actual service delivery by the organization. If the performance of the service deviates from the set standards, then it certainly deviates from the expectations of the user.

Factors affecting the third gap are:

- Deficiencies in the human resources department - the most common mistakes of this department are poor selection of employees, poor payment and reward system, lack of teamwork and lack of understanding of their own role in the organization by employees.
- Failure of the client to fulfill his role - one of the characteristics of the service is that the user also participates in the provision of the service, so it is logical that his participation will affect the final quality of the service. The reason for not fulfilling the role of the user may be the lack of information and knowledge about their own role in the process of providing the service. Individuals can also negatively affect the quality of service of other users.
- Problems with intermediaries - a common case in today's globalized world is the use of intermediaries such as sellers, franchisors and brokers, in providing services. When using an intermediary, it is important to achieve as much control as possible over the provision of the service, because the interaction between the franchisor and the client will affect the perception of the quality of the



franchisor. Supervising an intermediary is more difficult than supervising your own organization, and it is rarely possible to achieve complete control over the provision of a service.

- Synchronization of supply and demand - Services, unlike tangible products, cannot be stored and used in a delayed time. Therefore, the application of marketing strategies, such as discounts and promotions, is extremely important in order to more adequately manage capacity.

#### **d) The Communication Gap**

The fourth communication gap represents the difference between the delivered service and the external communication of the provider. External communication implies promises of quality given by the provider through advertising, personal sales and other communication channels. The greater the difference between what is provided and what is promised, the greater the communication gap.

The key factors that increase the communication gap are:

- Lack of integrated marketing communication - often service providers view external communication separately from other marketing activities, which leads to an increase in the communication gap, because communication is not integrated into the marketing plan.
- Inadequate management of customer expectations - if a customer enters the service process with unrealistic expectations, it is quite certain that they will be dissatisfied with the service. Therefore, the organization should use all forms of communication to keep customer expectations within acceptable limits.
- Too many promises - if the organization overdoes the promises when advertising, the result will be a user with high expectations. This situation is common when the service is promoted by an employee who does not understand the way the service is performed and is therefore unable to properly promote the service.
- Inadequate horizontal communication - reducing the communication gap requires successful communication between various departments or branches within the organization. Without quality communication within the organization it is impossible to coordinate external communication with service performance.
- Unadjusted prices - it is much easier for users to consider the price offers of ordinary products than services, because it is much more difficult to collect data for services before using it. Therefore, pricing techniques for services are much more complicated than for tangible goods. What is certain is that the high price of the service will result in high customer expectations

### **3.6. Consumer satisfaction**

Simply put, satisfaction is the result of a customer's assessment of a product or service that has met their expectations and needs. The most commonly used definition in service marketing is one that compares the expectations and perceptions of users at each encounter with the service.

$$\text{SATISFACTION} = \text{PERCEPTION} - \text{EXPECTATIONS}$$

A positive difference between perception and expectations results in customer satisfaction, while dissatisfaction arises when expectations are higher than perceived service quality. Satisfaction is a dynamic, variable over time, variable that is influenced by a large number of factors, especially when it comes to using the service, which takes a long time to use or form an experience. During the cycle of using the service, the user may develop several experiences, some of which will be good and some bad, and all of them will ultimately affect the final satisfaction.

Other factors that affect consumers' satisfaction:

- Product properties - the factors that influence the formation of satisfaction will vary depending on the properties of the product or service. Thus, e.g. when performing a transaction in a branch, the key factors are the waiting time and kindness of the staff, and in an online transaction, the ease of use of the system.
- Emotions - the emotions with which users approach the service significantly affect the final perception of the service. For example, a customer who enters the bank service process frustrated by the large traffic jams. He will certainly react more violently if he encounters a queue at the bank than a calm person who is in no hurry.
- Success or failure attributes - when a service happens to surprise a user with its performance (much better than expected or much worse than expected), users then look for a reason. The reason for the success or failure of the service, after thinking, can be attributed to good or bad performance, accidental circumstances or one's own engagement.
- Perception of equality or fairness - after using the service, users will be asked about the way they were treated. The key questions clients ask themselves are: Was the price of the service fair? Have I been treated like other users? The answer to these questions is often the central point of determining satisfaction or dissatisfaction.
- Other consumers, family members and co-workers - the formation of customer satisfaction is often influenced by other people. Humans are social beings, so in interacting with each other, they have a strong influence on each other

### **3.7. Quality measurement models**

Measuring quality in banking services is one of the biggest challenges for managers. As already emphasized, the quality of services has become an indispensable component in

communicating with customers, suppliers, clients and employees. There is no question about the importance of service quality on business goals aimed at retaining customers, increasing market share, building loyalty with statuettes, etc. Measuring quality in the area of creating new value in the service sector is a key challenge for management and employees. In the field of banking services, the possibility of measuring quality is further complicated because in most cases neither the service nor the service process can be standardized. In order to adequately monitor the quality of services in banks, we must take into account the following:

- Service encounter is the interaction of the user with the living (service staff) and non-living elements (physical environment) of the service encounter. We must emphasize that despite the accelerated development of technology, this is still the dominant form of realization of services between the bank and its customers.
- Banking services require the existence of a service delivery system, which must provide quality service (successfully completed transaction) with efficient functioning of the process, as other dimensions of service quality (in terms of the quality of relationships that staff show to customers)
- Service productivity - the relationship between the quality of services provided on the one hand, and the resources used to provide them, on the other hand.
- Bank culture - the organizational culture of the bank affects its employees, customers and users.

### 3.7.1. Total quality management model (TQM)

If we observe possibility of application in modern environment, where comes to the significant transformation of position, role and way of fulfilling some expectations which clients place before their banks, we can conclude that total quality management model, after several changes, can be applied in the banking services sphere. If we want to define TQM, then we can say that TQM represents quality management with a goal of developing efficient and effective attitudes, relationships, flexibility and competitiveness of the whole organization. In the banking industry, TQM should be seen as “a way of managing the entire business process in order to ensure the satisfaction of internal and emergency customers at all levels.

TQM is actually an integration of several basic dimensions that are included in the model:

- Overall means that each person in the bank is involved in the creation of the quality process and its implementation. When we talk about interactive service delivery, this dimension is especially important because the interactive service process implies the active role of the client in the service process. Given that a large number of banking services require basic prior knowledge of procedures and processes, and clients are active participants in the service process, it is necessary to educate clients about the process (transaction) and the consequences of the service process.

- Quality - includes quality for users, but also requires respect for the expectations and requirements of employees, which are one of the key dimensions of quality. Therefore, it is necessary to first satisfy the requirements of those who are in a position to meet user requirements, banking staff that is. By participating in the interaction process, employees directly affect the quality of the process and thus the quality of banking services. Banking service that is highly rated by employees is a key prerequisite for the same service to be highly rated by customers.
- Management - all, and especially higher levels of management are fully responsible for the implementation of quality programs. Special emphasis should be placed on creating an atmosphere of support for staff who interact with customers.

There are two concepts of total quality management:

- a) the first aimed at eliminating errors, omissions and problems, called "zero defects TQM",
- b) the second model, "continuous improvement of services" provided to users

### 3.7.2. Zero defects TQM

According to the author Crosby, P.(1979) the concept of "zero defects" is most often applied in industry, and is based on the assumption that the production of defective products is a waste of time and resources invested in the product, and that their repair increases costs. This way, the rejection of products that do not meet accepted quality standards or an attempt to improve them, will increase all costs, which is absolutely unacceptable from the perspective of managerial efforts to increase business efficiency.

In the context of banking services, this would mean an effort to perform the prescribed service processes without error in the first attempt and to complete the process itself as soon as possible. This means that this model implies standardization of the process and directly leads to the acceptance of banking output as the dominant dimension and a key factor in measuring success in assessing the quality of banking services. This model contradicts the nature of banking services because it negatively affects the ability to communicate and provide specific types of banking services in the form of information and consulting advice. We must also consider that one of the key features of banking services is the fact that they cannot be tested before the service delivery process and it is impossible to predict all the problems that may arise. It is also not possible to repurchase or replace a broken service. If the funds are transferred to the wrong account by mistake, they can be corrected, but this is not a repair of the previous service, but a completely different process. Therefore, in the banking industry it is necessary to ensure an urgent response at the time of the problem in an effort to eliminate the problem, as much as it affects the increase in costs through additional time, effort, obtaining information or other forms of cost increase. "It follows that its application is often not possible in the case of banking services. If viewed from the perspective of the specifics of banking services, this concept is generally not even desirable.

### 3.7.3. The concept of continuous improvement

According to this concept, the focus is on developing and improving the banking offer and its quality. Strict insistence on every phase of the service process and every service provided to the client, and its complete correctness is not what will ultimately ensure a positive perception of quality. Instead, the concept focuses on providing the necessary attention focused on system quality and on the monitoring and control process. This will take less time and provide much greater effects. Therefore, it is important to ensure the quality of the service process and system, and not the quality of individual results, since the quality of the system will be a guarantee of increasing the quality of individual results and reducing the number of conflict situations.

The causes of problems and omissions should be identified first. By analyzing the structure and frequency of the problem, it is necessary to determine the levels at which they occur, the causes and the carriers. First of all, it implies the identification of omissions on the part of employees, management, users, lack of information. Only after that it is possible to take measures and actions that will, by the nature of this concept, ensure continuous quality improvement, ie movement in a continuous cycle aimed at increasing the perceived quality and customer satisfaction.

This process consists of several action levels:

- a) Integration and involvement of all levels of management, their responsibility and commitment to the problem of managing the quality of banking services.
- b) Creating a system of motivation that will ensure an increase in the interest of all employees in banks to improve the quality of services provided.
- c) Continuous education, training and coaching of staff involved in the service process, and those involved in designing new dimensions of the offer, and creating creative solutions
- d) Continuous communication with customers which will enable their education and, over time, increase the level of knowledge about the procedures and processes of banking operations that await them. This will directly affect the reduction of the number of conflict situations caused by ignorance of the restrictions that banks must comply with due to legal and other regulations.
- e) Motivating clients to make suggestions and comments regarding the existing service process and participate in the conception of ideas for improving the bank's operations, where possible.
- f) Continuous research among employees and clients on attitudes, quality perception and satisfaction.
- g) Creating clear procedures and instructions, specifying obligations and delegating authority to staff involved in the service process to ensure the preconditions for resolving problems that arise and to ensure continuous improvement of process quality.

#### 3.7.4. ServQual model

ServQual model that measures the previous expectations of users, and then their experience during and after the service delivery process. Based on the comparison of quality performance and previous expectations, the perceived quality is formed. The service quality model enables the identification of the most important dimensions of the quality of banking (and other) services that users use to make decisions on the choice of bank and in assessing the quality of banking services. The aim of the measurement is to create a marketing strategy and an interactive process based on the analysis of key quality dimensions, which will maximize the perception of high quality and customer satisfaction, and create preconditions for building long-term relationships and customer loyalty. The model requires the identification of basic factors that users analyze and evaluate at the time of decision making.

In scope of ServQual model, Parasuraman, Berry i Zeithaml identified 10 basic dimensions of quality which affect the level of quality perceived, influencing expected and perceived service:

- **TANGIBILITY:** The emergence of physical dimensions, equipment, personnel and communication materials
- **RELIABILITY:** Ability to provide the promised service reliably and accurately
- **KINDNESS:** Willingness to help customers and provide prompt service
- **ADEQUACY:** Possession of the required skills and knowledge to provide services
- **COURTESY:** Politeness, respect, courtesy and friendship of contact staff
- **CREDIBILITY:** Trust, discretion, honesty of service providers
- **SAFETY:** Absence of danger, risk or suspicion
- **APPROACH:** Accessibility and ease of contact
- **COMMUNICATION:** Informing customers in a language they can understand and listen to
- **UNDERSTANDING OF CUSTOMERS:** Make an effort to get to know customers and their needs

Given the operability of the model is a very important factor for its successful use, the authors reduced these dimensions to five dimensions. The opinion of the authors is that this grouping did not affect the end effects of the model application.

- **Reliability** – the ability to perform the service as promised reliably and accurately.
- **Safety** – knowledge and helpfulness of employees and their ability to provide trust and reliability. Security can also be defined as a sense of trust of the client, that the service provider will be able to protect his rights and property. This dimension is extremely important in industries where there is a higher risk, or it is difficult for the client to assess the final outcome of the service. Typical examples of such activities are banking, insurance, banking services and healthcare.

- **Tangibility** – appearance of exteriors and interiors, equipment, staff and communication materials. For the bank, tangible elements can be the cleanliness of the branch, the tidiness of the staff, the availability of parking, but also the ease of use of internet banking. Organizations that do not pay enough attention to tangible elements can thus jeopardize their good work in other areas of quality.
- **Customer orientation (empathy)**– showing customer care and individualizing the service. When using the service, the user should feel that the provider cares about his needs, and strives to meet them. This dimension is very important in finance, especially in categories where clients are at risk of loss. According to the authors, this grouping did not affect the effects of applying the model.
- **Kindness**– a desire to help clients and provide prompt service. It includes the time it takes a client to make an inquiry or request, and to receive a response or solution to a problem. Thus e.g. friendliness in finance can mean the time it takes to open a current account in a branch.

Numerous studies conducted on different types of services have shown that the greatest importance for customers is the dimension of reliability. So the fact is that clients, regardless of how and in what form they express their requests to banks, when deciding between the different variants available to them, first and foremost analyze the reliability of the bank (and its employees). This points to the need for synchronized action within the bank in order to ensure a situation in which promotional material and offer of new services will be created in accordance with the real possibilities available to the bank, so as not to put the bank in a position to make a promise. At the same time, the maximum commitment of those bank employees who are in direct interaction with customers in order to provide efficient and effective service is required.

### 3.7.5. Gap model

This model is based on the assumption that the quality of service for the user is the difference between the perceived service (as it is experienced by the customer at a given moment) and the expected service (expectations with which the user enters the service process). The level of expected service depends on the mutual oral communication of users and communication with potential customers, other influential persons in the process of deciding on the purchase, and on the previous experience that the user had with the observed or some other bank. The difference between perceived and expected service is a mismatch and depends on a number of factors and mismatches that are formed during the service process.

The first discrepancy that arises relates to the difference between user expectations and the managerial perception of those expectations. Therefore, it is necessary for banks to pay more attention to customer perception when defining the category of quality of banking services. Understanding between management and users depends on the communication that management establishes with the first line staff in the bank, as well as on the intensity and quality of marketing research, and the use of the results obtained by this research. The

greatest disparities in customer perception and management occur in those banks where marketing research is barely applied or not at all, i.e. where research efforts are not focused on understanding the dimensions of quality that customers consider as the most important, nor on understanding their expectations and desires. Even though research has been adequately organized and conducted, inappropriate use of information may be present. Often there is no direct link between managers and users, and it is impossible for managers to notice problems or positive reflections on their management decisions. An additional problem here is the inadequate use of the potential that the intelligence marketing subsystem has for the bank. Given the position in the service process and direct contact with users of banking services, banking staff is in a position to provide a significant inflow of information about the requirements and needs of users of banking services. If this information is not passed on to a higher level to decision makers, an extraordinary opportunity to make decisions based on useful information from the field is missed. Since the way in which management perceives customer needs and expectations is transformed into a process of servicing the bank, all managers should keep in mind the following statement: "The customer is the person who brings us their wishes. Sometimes management has the view that some user requirements are unfulfillable, and very often they give up trying to meet certain customer requirements, even without their careful analysis.

In order to improve the service process, the bank's goals must be:

- Designed to meet customer's expectations - timeliness, accuracy and responsibility as the most important dimensions of quality for their customers
- Specified - to ensure that the provider (bank employee) understands what is required of him
- Acceptable to employees so as not to jeopardize or degrade their interests. Management cannot make a request to employees that is contrary to their moral principles, as would be the case in granting a loan without appropriate security instruments, just because of the personal ties that one of the managers has with the applicant.
- Important dimensions of the job - it is necessary to set priorities if employees are not able to do everything at once, in order to facilitate their selection and increase self-confidence in managing the service process. For example, it must be clearly defined that customer service at the branch is a priority over making telephone calls.
- Measurable and monitored because employees do the jobs they are monitored for, not those that are expected of them.
- Challenging since it's the only way to motivate staff

In addition to problems resulting from misdefined instructions for banking staff, the problem may be in the consistency or inconsistency of staff in implementing what is required of them. In this case, maintaining the quality of services depends not only on the knowledge of consumer preferences and the establishment of appropriate standards, but also on the ability and willingness of banking staff to provide the service in the right way. Main reason that can



affect the appearance and spreading of this phenomenon is clash of the roles that the staff “plays”, incorrectly defined roles and responsibilities of the staff, lack of support given to the staff which should “play” the main role in the banking service offering process. It is necessary to ensure an appropriate system of motivation and control of staff, such as appropriate education, all in order to maximize the quality of service provided.

The next problem occurs if there is a difference between things bank promised to its clients and things that it does. Sincere communication- advertising, personal sales and public relations, which are not delusional- are the first assumption for creating realistic expectations among consumers of banking services. Customers who "come" with realistic expectations are likely to perceive the service provided by banks as quality or "in line with what they expected." That is why the approach of "big" promises to potential customers is wrong, although often used. This approach has the effect of raising the level of expectations among users who "enter into a relationship with a particular bank for the first time". However, high expectations can make the perception of low quality of service even stronger, if the bank does not fulfill the given promises. In order to reduce this problem, constant communication between the marketing department and sales staff is necessary in order to create accurate and realistic information and promises that will reflect the capabilities and ability of the bank to provide a service of appropriate quality. Staff who are in direct contact with customers must actively participate in creating the appropriate promotion. In this process of communication it is necessary:

- use the dimensions and quality characteristics that users consider most important
- present exactly what customers will receive during the service contact in the banks
- help customers understand their role in providing banking services and quality assurance

The opinion that users form about the bank, which is based on the service process, will directly affect the possibility of achieving the goals set by the bank in the field of building marketing relationships, and on that basis to increase business profitability, ensure growth and strengthen public reputation. Therefore, the analysis of user perception of the quality of the service process in banks is sometimes more important than the objective measurement of performance.

#### 3.7.6. The Kano model of service quality measurement

This model is based on the consumers' perception, but still takes some objective performances of banking services into consideration. The Kano model measures three groups of attributes: basic, differentiating, and delightful. According to this model, banks must firstly provide basic attributes, in order to prevent the outflow of users, and then differentiate in order to "separate" from the competition and act in the direction of retaining users who were attracted to the "first rehearsal". Finally, exciting attributes are used to build long-term relationships and create positive oral presentation.

At the same time, the model focuses on the "real dimension", id est the level of objectively measurable performance of service quality, which are subject to established standards on the one hand, while at the same time paying extremely significant attention to the "subjective dimension", id est individual experience. The model implies that the level of users' satisfaction of banking services is conditioned by the level of fulfillment of their requirements, but that it varies depending on the type of services and differences between users. In addition, customer expectations differ for the same service in different situations. Clients are much more sensitive to services that have a higher level of risk, and expect a higher level of empathy from the bank's staff and management, and reliability in this case is the most important dimension of quality. It is necessary to identify the bank's users, define their requirements and priorities because users are particularly sensitive to some dimensions of banking services and service processes, while others they understand as something completely "natural", and expected in relations with the bank. Without understanding the priorities in the requirements set by the user, the bank risks:

- Waste of limited resources by providing too high a level of quality of those dimensions of banking services and service process that users do not consider significant.
- To delight users in one area, while disappointing them in another and thus drive them away from competitors, or to, by delighting users in one area, raise the level of expectations in another to the extent that it jeopardizes the perception of the quality of services provided. It is possible that clients will create unrealistic expectations that cannot be met, which negatively affects the client's perception.
- Focus only on what users say, not what they really think. This risk is especially related to the fact that users in certain situations are not ready to express their views, or that they themselves are not always aware of them. The second dimension is especially related to situations in which some services are implied for users.

The multidimensional customer requirements analysis contained in Cannes' model enables:

- Identifying key criteria for assessing the quality dimensions that have the greatest impact on customer satisfaction.
- Classification of the requirements that the banking service must meet in order to ensure a certain level of customer satisfaction and their importance, in order to focus the bank's efforts on priorities.
- If two or more requests cannot be met at the same time due to financial, technical or other constraints, these criteria will help identify those that have the greatest impact on customer satisfaction

Within the analysis of the Kano model, three groups of dimensions have been identified, which measure the quality of services and determine user reactions:

- Basic factors of service quality that “must be present” in order for the service and the service process to be considered realized in a satisfactory manner,
- Differentiating factors that operate on the principle of "the more the better" and which are the basis for distinguishing the services provided by the bank in relation to competing services and
- Exciting or “exciting” factors whose presence provokes extremely positive reactions from users, since users did not expect or ask for them

**Basic factors** in the process of providing banking services must be present. If some of the basic factors are not insured, it will cause a high level of dissatisfaction among users. However, if all the basic factors are satisfied, even at an extraordinary level, it will have limited effects on customer satisfaction. So this is about the quality that customers certainly expected to get through the service process itself. It is important to note that there is a problem of identifying the underlying factors using some of the market research methods, aimed at detecting and measuring customer attitudes. Since users rarely emphasize their need for the existence of these factors because, in their opinion, they are taken for granted. For example, the client assumes that the bank will fulfill its promise. Banks can only on the basis of complaints and grievances can identify customer expectations that were not met, and are taken for granted, so we will say that the basic quality can be measured only by the number of complaints that the bank receives from its customers.

**Differentiating factors** usually already exist, but the level of satisfaction with these factors will depend on their intensity and the way they are provided to users. These include factors such as the speed and quality of service interactions, the speed of resolving a loan application, the way in which information is provided to users by the bank, and so on.

**Delight / attraction factors** are those that create a high level of satisfaction, regardless of the intensity in which they manifest. Excitement is due to the fact that users receive elements of a service or service that they did not expect, did not ask for or did not even know were possible. Users will not usually make requests for these attributes in surveys undertaken by banks because they are unaware of them. In order to create enthusiasm among customers, banks must be creative and innovative. These factors become a special reason why customers prefer a bank over its competitors and keep coming back to it.

It is characteristic of the Kano model that the "status" of factors changes under the influence of time, so the experience and "knowledge" that the client acquires while doing business with the bank will result in an increase in his expectations. The user experience influences the transformation of:

- Certain factors from “attractive”, ie those that cause enthusiasm, to factors that are only the basis for differentiating the offer in relation to other banks
- Differentiating into base factors, as a consequence of a “habit” that is formed over time.

On the other hand, it is also possible that the negative experience that the client experiences will be influenced in such a way that certain factors that were considered differentiating or basic, in the following period of time are transformed into attractive or differentiating.

### 3.7.7. Grönroos model of quality measurement

According to this model, quality of the service consists of two dimensions:

- a) Functional, id est quality of the process of providing banking services, (relationship of banking staff to customers)
- b) Technical, meaning quality of the output, result gained by the interaction that client has with a bank

The user's perception is the difference between what the user eventually "gets" and his experience during the process of using the services in the bank. Taking into account the complexity of the banking service and the fact that users are often unable to understand the essence of the banking offer, they often consider functional quality dominant, since its performance (empathy, speed, efficiency ...) can be easily assessed, as opposed to output (the final amount to be repaid for the loan and its actual value). The specificity of this model is reflected in the inclusion of the category of image as a "catalyst" in the perception of quality. Grönroos expects that users of banks with a positive public image will be less critical of certain problems and omissions that arise during the service process, while banks with a bad image will "suffer" even if they "do their part well". Namely, in the first case, users will think that it happened by accident, that the bank is generally good, but that the employee "had a bad day", while in the second case, the influence of perception formed earlier will diminish the positive results achieved by the bank. This can often "seduce" banks and direct them to strengthen public image and ignore the basic preconditions for fulfilling promises, banking staff and operational processes, which can be very dangerous for the bank and the use of this model should be approached very carefully.

### 3.8. Model of service quality in Islamic banks ( CARTER MODEL )

CARTER is an instrument which might be used for defining and measurement of Islamic banking service quality and for making tools that can help with these processes.. CARTER define customer satisfaction as perceived service quality, which actually represents the gap between expected and actually received service. The dimensions of CARTER are conceived as a proposed framework for measuring the quality of services in Islamic banks, and the findings published in recent papers reveal the importance of banks adopting a service quality program. Othman and Owen (2001) defines 6 following dimensions:

- D1: Compliance, which means the ability to comply with Islamic law and work under the principles of Islamic banking and economics.

- D2: Insurance is the knowledge and kindness of employees and their ability to convey trust. It also includes oral and written communication between bank staff and clients
- D3: Reliability reflects the absence of errors in banking transactions. This depends on the education and training of bank employees. Reliability attributes relate to providing services on time, meeting deadlines, and keeping promises
- D4: Tangible material that means the appearance of physical objects, equipment, personnel and communication materials
- D5: Caring for empathy, the individual attention that an Islamic bank provides to its clients.
- D6: Responsiveness is a willingness to help customers and provide prompt service. Responsiveness embodies the willingness to help customers and provide prompt service (Othman and Owen, 2001). Janahi and Almubarak (2015) stated that fast and efficient frontliner staffs, the availability of banks' branches and ATM are all examples of good responsiveness. Responsiveness is an essential element that must be considered by Islamic bank to improve the level of its customer satisfaction (Misbach and Hadiwidjojo, 2013).

CARTER can produce the following benefits for Islamic banks:

- It is the first approach to adding and mixing customers' religious beliefs and cultural values with other dimensions of quality.
- Provides a multifaceted analysis of customer satisfaction
- Relates quality to the satisfaction of customers
- It is a proven approach, resulting in useful responses that meet customer needs.
- It is empirically grounded, systematic and well documented.

## **4. RESEARCH METHODOLOGY**

### **4.1. Participant and procedure**

In this work, two studies were conducted. The first survey refers to employees of Bosna Bank international and the participant in the questionnaire are employees of the bank. The second survey refers to customers of Bosna Bank International (CARTER MODEL). In both studies questionnaire participants were contacted directly. Questionnaire participants were selected by sampling – probability method. Probability sampling is defined as a sampling technique in which the researcher chooses samples from a larger population using a method based on the theory of probability. In order to get the answers to the research questions and test the research hypotheses, 400 questionnaires were distributed to Islamic banks employees and customers. For research related to employees 200 questionnaires were distributed, 160 were properly filled out and returned. For the research where the clients were questioned, 200 questionnaires were also distributed, and we received back 146

properly filled ones. In both studies, we used cross – sectional survey design. In this design the investigator measures the outcome and the exposures in the study participants at the same time.

## **4.2. Instrument design and measurement**

There are two basic goals in questionnaire design: (1) to obtain information relevant to the purposes of the survey and (2) to collect information with maximal reliability and validity. These goals may be called "relevance" and "accuracy". It provides a structure for the collection and analysis of data (Bryman, 2008). To ensure relevance, the researcher must be clear about the exact kind of data required in the study. Accuracy is enhanced when the wording and sequence of the questions are designed to motivate the respondent and to facilitate recall (Warwick and Lininger, 1975). As most of the respondents are Bosnian speakers questionnaire was translated into Bosnian language for their better understanding. Here we used Back Translation method.

### **4.2.1. Questionnaire design for the Employees of Islamic Banks**

The questionnaire for the employees contained three parts. The first part of the questionnaire was designed to measure the demographic profile such as : nationality, age, education, religion and marital status. The second part of the questionnaire consists of 10 questions.

( 6 – 15 ). The purpose of these questions was to elicit information about previous banking experience, reasons for joining Islamic bank, adopting to Islamic banking operations and transactions. Also in this part we want to find do the employees think that the Islamic bank affects the economic and social development of this country. Some of question should be accompanied by follow-up questions that are determined by the individual's initial response. If the subject answered "Yes" then a relevant follow-up question would be asked. The third part was designed on five-point scale, ranging from strongly agree to strongly disagree. The second part of the questionnaire consists of 17 questions. ( 16 – 32 ). There are seventeen questions related to organizational and technological factors of CRM. Out of 17 Questions, questions from 1 - 6 are related to customer orientation, 7 - 11 are related to training orientation, 12 – 14 are related customer data service, and 15 – 17 measures integration of CRM.

### **4.2.2. Design of the Questionnaire for Clients of Islamic Banks**

Questionnaire was designed on five-point scale, ranging from strongly agree to strongly disagree. The first part of the questionnaire was designed to measure the demographic profile of respondents and second part measured their response level to various dimensions of CARTER model. The respondents were directed to tick mark the relevant option while responding to the survey questions. Then, the questionnaire consisted of 33 questions in total related to Islamic finance, which have been put in numbers starting from 1 to 33 in a

chronological order so as to make interpretation and analysis of the data easy. Out of 33 Questions, questions from 1 to 5 measure the compliance, 6 to 10 measure assurance, 11 to 14 measure reliability, 15 to 19 measure tangibility, 20 to 28 measure empathy and 29 to 33 measure responsiveness

## 5. ANALYSIS OF THE EMPLOYEES SURVEY

### 5.1. Introduction

This chapter shows the results of a questionnaire related to employees of Bosna Bank International d.d. A total of 200 questionnaires were distributed, and 160 were properly filled out and returned..

### 5.2. The Demographic Profile

*Table 1. Profile of employees*

Response Categories		NO.	%
<b><u>Nationality</u></b>	Bosnian	160	100,0
	Non - Bosnian	0	0
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b><u>Age</u></b>	Less than 25	2	1,3
	25-32	52	32,5
	33-40	58	36,2
	41-50	36	22,5
	Over 50	12	7,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b><u>Education</u></b>	Primary school	1	0,6
	Intermediate school	10	6,3
	University	103	64,4
	Postgraduate	45	28,1
	Other	1	0,6
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b><u>Religion</u></b>	Muslim	156	97,5
	Non - Muslim	4	2,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b><u>Marital status</u></b>	Single	46	28,7
	Married	114	71,3
	<b>Total</b>	<b>160</b>	<b>100,0</b>

*Source: Author*

The first table of this paper presents information about the personal characteristics of the employees who participated in the research. The representation of those with Bosnian nationality is 100 per cent of the total sample. The majority of the respondents, 70 per cent, were younger than 41 years old. 1,3 % were defined as under 25 years, 32,5% were within the bracket for 25-32, 36.2% of participants were within 33-40, 22,5% were 41-50 years and 7.5 % were above 50. More than 90% of the respondents are highly educated, of which 64.4% have university degrees, and 28.1% of the employees who participated in this research have master's degrees. This shows the extremely high level of education of BBI Bank employees. The majority of the respondents, 97,5 were muslims. The majority of the respondents were married with a frequency of 71,3 per cent.

### 5.3. Questions about Islamic banking

#### Those Who Worked for a Conventional Bank before Joining the Islamic Bank Institution.

Table 2. (Q1)

Statement	YES		NO		TOTAL	
	No.	%	No.	%	No.	%
Worked for a conventional bank before joining the Islamic Bank	60	37.5	100	62.5	160	100

Source: Author

Table two presents data related to the previous work experience of the employee. out of a total of 160 interviewed employees, 60 of them worked in a conventional bank before employment in an Islamic bank, which is 37.5 percent. 62.5 percent of the surveyed employees of BBI Bank did not work in a conventional bank before joining the Islamic bank.

Table 3. (Q2) Reasons for Joining the Islamic Bank Institution

Reasons group	First Rank		Second		Third		Fourth		Fifth				Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Religious reasons	46	28,7	24	15	35	21,9	14	8,8	41	25,6	160	100,0	160	100,0
Job opportunity	53	33,1	23	14,3	18	11,3	34	21,3	32	20	160	100,0	160	100,0
Moral satisfaction	37	23,1	33	20,6	26	16,3	29	18,1	35	21,9	160	100,0	160	100,0
Higher salary	25	15,6	36	22,5	40	25	30	18,8	29	18,1	160	100,0	160	100,0
Other	27	16,9	24	15	49	30,6	20	12,5	40	25	160	100,0	160	100,0

Source: Author



For each reason, a 1 to 5 scale was used to describe the strength of the suggested reason, 1 being the strongest. Table 3. shows that 28.7 per cent of the employees rated religious reasons as first rank. 33.1 per cent of employees choose „ Job opportunity „, as a first priority, 15.6 per cent ranked high salaries with first rank, while 23.1 per cent ranked moral satisfaction with first rank. This results shows that religion is important factor, and higher salary is not so important reason for joining BBI Bank.

*Table 4. (Q3)*

Statement	YES		NO		Total	
	No.	%	No.	%	No.	%
Do you find operating according to the Islamic banking transactions difficult?	55	34,4	105	65,6	<b>160</b>	<b>100,0</b>

*Source: Author*

The table 4 shows that 65.6% of employees do not think that transactions in Islamic banking are difficult, which is generally a good indicator. However, for a bank that wants to be among the top five banks on the market, this percentage is very low.

*Table 5. (Q4)*

Difficulties that you face when you work at IB	No.	%
A new type of transaction has to seek the approval of the Sharia Board which takes time	22	13,8
A lack of understanding of Islamic transaction	37	23,1
More documents required	62	38,7
Others	39	24,4
<b>TOTAL</b>	<b>160</b>	<b>100,0</b>

*Source: Author*

Table 5 shows an analysis of the difficulties faced by workers working in IB. The largest number of them, 62 or 38.7 percent, believe that the biggest difficulty is "More documents required". The smallest percentage, 13.8, says that the time they waste in seeking permission from the Sharia Board for the implementation of new transactions is a major difficulty.

Table 6.

Difficulty Statement	Employees Banking background	Employees number	
		No.	%
A new type of transaction has to be approved by Sharia Board which takes time.	Worked for CB before	12	7,5
	Did not work for CB before	10	6,3
	<b>Total</b>	<b>22</b>	<b>13,8</b>
A lack of understanding of islamic transactions.	Worked for CB before	19	11,9
	Did not work for CB before	18	11,2
	<b>Total</b>	<b>37</b>	<b>23,1</b>
More documents required	Worked for CB before	21	13,1
	Did not work for CB before	41	25,7
	<b>Total</b>	<b>62</b>	<b>38,7</b>
Others	Worked for CB before	8	5
	Did not work for CB before	31	19,4
	<b>Total</b>	<b>39</b>	<b>24,4</b>
<b>TOTAL</b>		<b>160</b>	<b>100</b>

Source: Author

This table shows Employees' Opinions according to Banking Background regarding the difficulties they face when working in an Islamic Bank. Analyzing the results of the previous table, we can see that the biggest difficulty faced by workers is abundant documentation. In this table, we can see that of the 62 employees who states this difficulty as a basic one, more than 50% had not worked at Islamic Bank before, even 41 of them. The data confirms that Islamic banks have much more demanding procedures that require more extensive documentation than conventional ones.

Table 7. (Q5)

Statement	YES		NO		Total	
	No.	%	No.	%	No.	%
Did you receive training when you get job in Islamic Bank ( BBI Bank )	138	86,3	22	13,7	<b>160</b>	<b>100,0</b>

Source: Author

86.3 percent of employees received training when they were employed at BBI Bank. the data shows that this institution has a very well-developed strategy, and that the management understands the advantages of a well-trained employee. Such a large percentage shows that the bank's management has a well-developed employee training strategy, which is encouraging because in today's business, although technology has advanced greatly, people are still an extremely important factor that further improves the business of a company. We will be free to say that this is additionally expressed when we talk about companies that deal with service activities such as insurance companies and banks.

*Table 8. (Q6)*

<b>If yes, where did you get training ?</b>	<b>No.</b>	<b>%</b>
Internal training (BBI academy)	127	79,4
Various technical courses	8	5,0
External course	7	4,4
Conferences or seminars	18	11,3
<b>TOTAL</b>	<b>160</b>	<b>100,0</b>

*Source: Author*

Table 8 shows that 79.4 percent of employees received training in Bosna Bank International d.d. and 4.4 percent of employees stated that they received training at an external course.

*Table 9. (Q7)*

<b>Statement</b>	<b>YES</b>		<b>NO</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
In your opinion do Islamic bank contribute to the economic and social development ?	152	95	8	5	<b>160</b>	<b>100,0</b>

*Source: Author*

Table 9 shows that 95 percent of employees stated that Islamic Bank contribute to the economic and social development. Out of 160 employees who participated in this questionnaire, only 8 or 5 percent declared that in their opinion the only Islamic bank operating on the market of Bosnia and Herzegovina does not affect the economic and social development of this country.

Table 10. (Q8)

If yes, would you state how BBI Bank contribute to these fields in your opinion	First Rank		Second		Third		Fourth		Fifth		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
By financing the industrial projects	46	28,75	28	17,50	37	23,13	26	16,25	23	14,38	<b>160</b>	<b>100,0</b>
By financing small business	50	31,25	29	18,13	27	16,88	23	14,38	31	19,38	<b>160</b>	<b>100,0</b>
By giving mortgage or loans to build houses	34	21,25	34	21,25	43	26,88	29	18,13	20	12,50	<b>160</b>	<b>100,0</b>
By giving loans to buy furniture / household/ vehicles	29	18,13	26	16,25	50	31,25	26	16,25	29	18,13	<b>160</b>	<b>100,0</b>
By organizing SBF and SHF	53	33,13	18	11,25	22	13,75	24	15,00	43	26,88	<b>160</b>	<b>100,0</b>

Source: Author

Table 10 shows the projects and investments of BBI Bank, and the employees gave their opinion to how each of them contribute to economic and social development. Therefore, we offered them the project, and the employees ranked it from 1-5

- Financing the industrial projects - 28.75% of employees ranked first, 17,50% to second place, 23,12 third, 16,25 fourth, 14,38 on last fifth.
- Financing small business – 31,25 % ranked first, 18,13 % second and so on.

Analyzing „Organizing SBF (Sarajevo business forum ) and SHF ( Sarajevo halal fair) it can be seen that 33,13% of employees chose as first option, which is the highest percentage in the entire table.

Table 11. (Q9)

What do you think of the relationship between the bank and other Islamic financial institutions in the world?	No.	%
Poor	9	5,6
Reasonable	53	33,1
Good	72	45,0
Don't know	26	16,2
<b>TOTAL</b>	<b>160</b>	<b>100,0</b>

Source: Author

Table 11 shows that 45 percent of employees believe that the relations between the bank and other Islamic institutions in the world are good, 33.1 percent of them think that these relations are reasonable, while only 5.6 percent think that the relations are poor.

Table 12. (Q10)

What do you think of the relationship between the bank and other Islamic institutions in BIH ?	No.	%
Poor	22	13,8
Reasonable	59	39,6
Good	69	43,1
Don't know	10	6,3
<b>TOTAL</b>	<b>160</b>	<b>100,0</b>

Source: Author

Table 12 shows what the employees thought regarding the relationships between their Islamic Bank and other Islamic Institutions : 43,1 per cent thought these were good, and 39,6 per cent thought them reasonable, while 13,8 per cent thought they were poor, and 6,3 per cent did not know.

## 5.4. CRM

This part of the questionnaire consists of 17 questions.

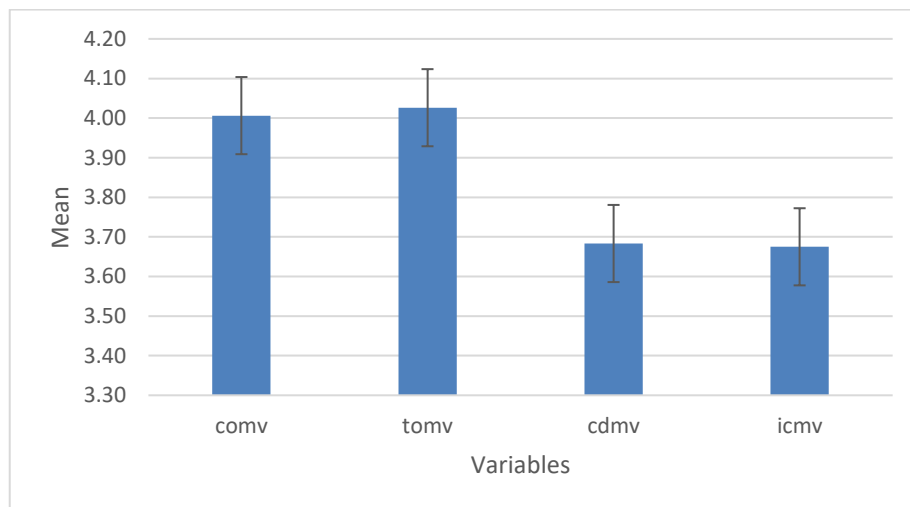
Table 13. Each variable with mean score, std. deviation and cronbach alpha (CRM)

Variable	Mean	Standard deviation	Cronbach alpha
<i>Customer orientation measures - (comv)</i>	4,01	0,58	0,88
<i>Training orientation measures - (tomv)</i>	4,03	0,60	0,89
<i>Customer data measures - (cdmv)</i>	3,68	0,62	0,79
<i>Integration of CRM Measures – (icmv)</i>	3,68	0,65	0,81

Source: Author

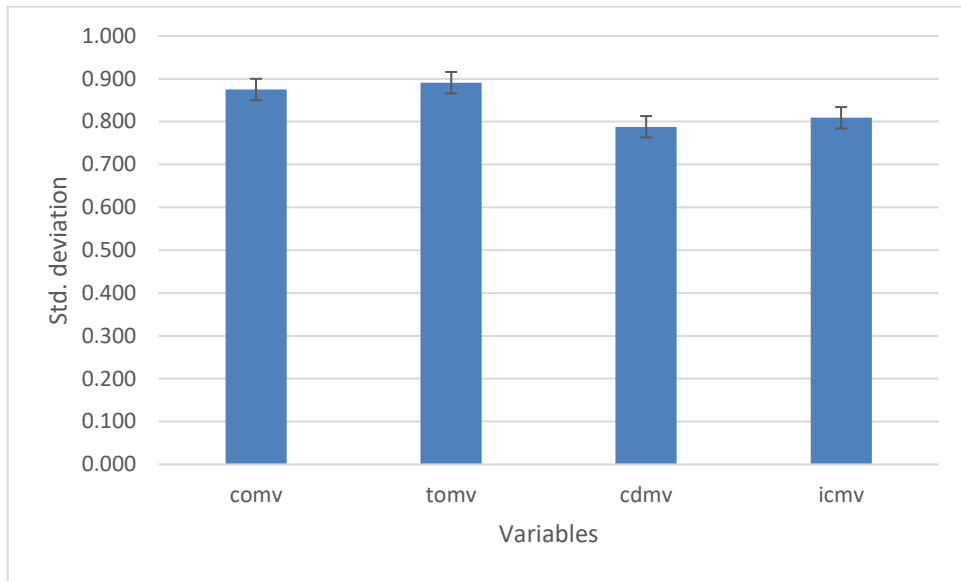
The first two variables belong to organizational factors, and the others to technological ones. Highest mean score of 4,03 is of training orientation measures which shows that respondents value this variable the most. Small std. deviation in all elements which shows that the answers are close to each other.

Figure 1. Mean score of each variables



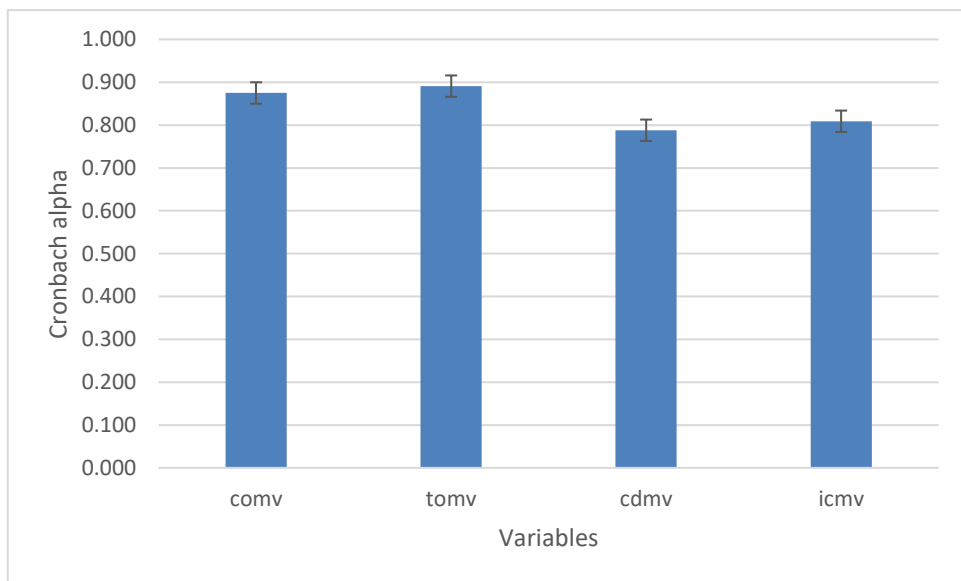
Source: Author

Figure 2. Standard deviation of each variables



Source: Author

Figure 3. Cronbach alpha of each variables



Source: Author

Table 14. Customer orientation measures

<b>(Q1) BBI Bank strive to improve the value that provide to customers</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	1	0,63
	Disagree	2	1,25
	Neutral	29	18,3
	Agree	100	62,50
	Strongly agree	28	17,50
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q2) Customer satisfaction is an important business objective</b>			
Valid	Strongly disagree	2	1,2
	Disagree	1	0,6
	Neutral	19	11,9
	Agree	76	47,5
	Strongly agree	62	38,8
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q3) BBI Bank attempt to understand customer needs</b>			
Valid	Strongly disagree	1	0,6
	Disagree	4	2,5
	Neutral	18	11,3
	Agree	98	61,3
	Strongly agree	39	24,4
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q4) BBI Bank pay close attention to customer service</b>			
Valid	Strongly disagree	2	1,2
	Disagree	2	1,2
	Neutral	29	18,1
	Agree	93	58,1
	Strongly agree	34	21,3
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q5) In BBI bank, retaining customers is considered to be a top priority</b>			
Valid	Strongly disagree	2	1,2
	Disagree	6	3,7
	Neutral	39	24,4
	Agree	85	53,1
	Strongly agree	28	17,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q6) Bank's employees are encouraged to focus on customer relationships</b>			
Valid	Strongly disagree	0	0
	Disagree	4	2,5
	Neutral	28	17,5
	Agree	89	55,6
	Strongly agree	39	24,4
	<b>Total</b>	<b>160</b>	<b>100,0</b>

Source: Author



The table 14 shows the results of organizational factors, more precisely customer orientation measures. From the answer to the first question in this table, we can see that 62.5 percent of employees believe that Bosna Bank international d.d. strives to improve the value it provides to employees. 47.5 of them stated that customer satisfaction is an important business goal. The answers to the third question show that 61.3 percent of employees think that the bank tries to understand the client's needs, while 2.5 percent of them think the opposite. 58.1 percent of respondents say that the bank really pays attention to customer service, while only 1.2 percent disagree with this statement. The majority of respondents 53.1% believe that retaining customer is considered to be a top priority, while 3,7 of them disagree with the statement. 55.6 percent of employees who participated in this questionnaire agree that the employees are encouraged to focus on customer relationships.

Table 15. Training orientation measures

<b>(Q7) Training facilitates employee's learning of effective ways to address customer complaints</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	1	0,6
	Disagree	5	3,1
	Neutral	32	20,0
	Agree	91	56,9
	Strongly agree	32	20,0
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q8) Training helps employees to understand customer needs.</b>			
Valid	Strongly disagree	0	0,0
	Disagree	3	1,9
	Neutral	20	12,3
	Agree	90	56,3
	Strongly agree	47	29,4
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q9) Bank's training facilitates interpersonal skill training to build customer relationships</b>			
Valid	Strongly disagree	1	0,6
	Disagree	3	1,9
	Neutral	31	19,4
	Agree	94	58,8
	Strongly agree	31	19,4
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q10) Bank's training helps improve employee's team building skills to enhance company operations</b>			
Valid	Strongly disagree	1	0,63
	Disagree	3	1,88
	Neutral	26	16,25
	Agree	94	58,75
	Strongly agree	36	22,50
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q11) Bank's training facilitates learning to promote the quality of our products/services</b>			
Valid	Strongly disagree	0	0,0
	Disagree	1	0,6
	Neutral	25	15,6
	Agree	85	53,1
	Strongly agree	49	30,6
	<b>Total</b>	<b>160</b>	<b>100,0</b>

Source: Author

Table 15 shows training orientation measures. It is clear from responses of all questions that employees understand importance of the training and also considered training as a very important component. Responses to Question 7 shows that 56,9% of respondents agree that the training facilitates employee’s learning of effective ways to address customer complaints, while 3,1% of them disagree with the statement. 56.3 percent of employees believe that training helps employees to better understand the needs of customers. 58,8 percent of empoleey think that training facilitates interpersonal skill training to build customer relationships. 58,75 percent stated with agree that training helps improve employee’s team building skills to enhance company operations., while 1,88% of them disagree with the statement. Finally, the majority of respondents 53,1% agree and 30,6 strongle agree that training facilitates learning to promote the quality of products/services.

*Table 16. Customer data measures*

<b>(Q12) Bank’s employees can get access to the quality data on time</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	2	1,2
	Disagree	7	4,4
	Neutral	48	30,0
	Agree	93	58,1
	Strongly agree	10	6,3
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q13) Quality data are available to employees, managers, and supervisors up to a great extent</b>			
Valid	Strongly disagree	2	1,2
	Disagree	7	4,4
	Neutral	48	30,0
	Agree	88	55,0
	Strongly agree	15	9,4
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q14) Employees use customer database information to develop attractive offerings</b>			
Valid	Strongly disagree	1	0,6
	Disagree	14	4,4
	Neutral	33	25,0
	Agree	96	60,0
	Strongly agree	16	10,0
	<b>Total</b>	<b>160</b>	<b>100,0</b>

*Source: Author*

This table 16 shows customer data measures. From the question 12 we can see that 58,1% of respondents agree and 6.3 percent strongly agree that bank’s employees can get access to the quality data on time. Question 13 shows, 55,0% 55 percent of the employees who answered the questions from this questionnaire agree that quality data are available to employees, managers, and supervisors up to a great extent, while 4,4% of them disagree with the statement. In the last question about customer data measures 4,4 percent of respondents disagree that they use customer database information to develop attractive offerings, while majority of them 60 percent agree and 10 percent strongly agree with the statement.

*Table 17. Integration of CRM Measures*

<b>(Q15) BBI Bank provide sales force with adequate customer information</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	1	0,6
	Disagree	14	8,8
	Neutral	33	20,6
	Agree	96	60,0
	Strongly agree	16	10,0
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q16) Bank provide customized offers to sales people in the field</b>			
Valid	Strongly disagree	4	2,5
	Disagree	4	2,5
	Neutral	46	28,7
	Agree	95	59,4
	Strongly agree	11	6,9
	<b>Total</b>	<b>160</b>	<b>100,0</b>
<b>(Q17) Sales department assist the marketing department in generating customized offers</b>			
Valid	Strongly disagree	0	0,0
	Disagree	10	6,3
	Neutral	49	30,6
	Agree	85	53,1
	Strongly agree	16	10,0
	<b>Total</b>	<b>160</b>	<b>100,0</b>

*Source: Author*

Table 17 shows integration of CRM measures. Question 15 indicates that a considerable number of respondents 60,0% stated that BBI Bank provide sales force with adequate customer information. Furthermore, 59.4 percent of the questionnaire participants in question number 16 declared that they agree that BBI Bank provide customized offers to sales people in the field, while only 2,5 percent of them disagree. Finally the last question of this part shows that 53,1% of respondents agree and 10 percent strongly agree that sales department assist the marketing department in generating customized offers.

Table 18. Comparative analysis of CRM components

Pair	Variables	Mean	SD	SE	Lower	Upper	t	df	Two-Sided p
1	comv - tomv	-0,020	0,392	0,031	-0,081	0,041	-0,645	159	0,520
2	comv - cdmv	0,323	0,519	0,041	0,242	0,404	7,871	159	0,000
3	comv - icmv	0,331	0,623	0,049	0,234	0,429	6,725	159	0,000
4	tomv - cdmv	0,343	0,569	0,045	0,254	0,432	7,620	159	0,000
5	tomv - icmv	0,351	0,660	0,052	0,248	0,454	6,734	159	0,000
6	cdmv - icmv	0,008	0,459	0,036	-0,063	0,080	0,229	159	0,819

95% Confidence Interval of the Difference

Source: Author

This table show the relationship of one element paired with every other.

- **Customer orientation measures ( comv )** - the difference between customer orientation measures and other indicators is statistically significant in the case of customer data measures and integration of CRM measures therefore there is evidence for partial support of the hypothesis H2 (a).
- **Training orientation measures (tomv)** - the difference between training orientation measures and other indicators is statistically significant in case of customer data measures and integration of CRM measures therefore there is evidence for partial support of the hypothesis H2 (b).
- **Customer data measures – (cdmv)** the difference between this and other indicators is statistically significant in the case of training orientation measures , and customer orientation measures therefore there is evidence for partial support of the hypothesis H2 (c).
- **Integration of CRM measures – (icmv)** the difference between this and other indicators is statistically significant in the case of training orientation measures , and customer orientation measures therefore there is evidence for partial support of the hypothesis H2 (d).

## 6. ANALYSIS OF THE CUSTOMERS SURVEY

### 6.1. Introduction

This chapter shows the results of a questionnaire related to customers of Bosna Bank International d.d. A total of 200 questionnaires were distributed, and 146 were properly filled out and returned. Using SPSS, the data collected through the questionnaire is measured by descriptive analysis

## 6.2.The Demographic Profile

Table 19. Profile of customers

Response Categories		NO.	%
<b><u>Nationality</u></b>	Bosnian	142	97,3
	Non - Bosnian	4	2,7
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b><u>Age</u></b>	Less than 25	32	21,9
	25-32	66	45,2
	33-40	28	19,2
	41-50	18	12,3
	Over 50	2	1,4
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b><u>Education</u></b>	No Qualification	0	0,0
	Primary school	2	1,4
	Intermediate school	11	7,5
	University	97	66,4
	Postgraduate	36	24,7
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b><u>Religion</u></b>	Muslim	143	97,9
	Non - Muslim	3	2,1
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b><u>Gender</u></b>	Male	53	36,3
	Female	93	63,7
	<b>Total</b>	<b>146</b>	<b>100,0</b>

Source: Author

This table presents information about the personal characteristics of the Bosna Bank International d.d. customers who participated in the research. The representation of those with Bosnian nationality is 97,3 per cent of the total sample. With regard to the groupings for the age of the participants, 21,9% of them were classed as under 25, 45.2% were defined as 25-32, 19,2% were within the bracket for 33-40, 12.3% of participants were within 41-50, and just 1,4% were above 50. More than 90% of the respondents are highly educated, of which 66.4% have university degrees, and 24.7% of the customers have master's degrees. This shows the extremely high level of education of customers who participated in this research. The majority of the respondents were muslim 97,9 per cent. The majority of the participants taking part in the survey were female, with a frequency of 63,7%, where the male frequency was 36.3%.

### 6.3. CARTER MODEL ( data analysis )

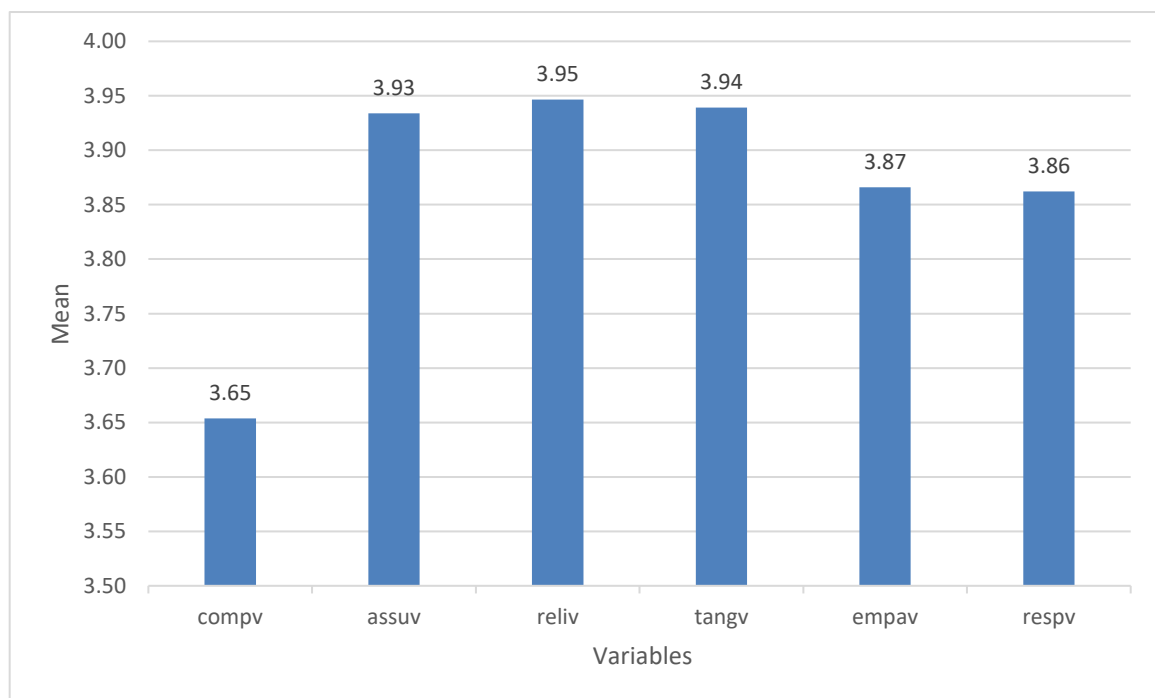
Table 20. Each variable with mean score, std. deviation and cronbach alpha (CARTER)

Variable	Mean	Standard deviation	Cronbach alpha
<i>Compliance</i>	3,65	0,71	0,84
<i>Assurance</i>	3,93	0,73	0,86
<i>Reliability</i>	3,95	0,72	0,85
<i>Tangibility</i>	3,94	0,72	0,88
<i>Empathy</i>	3,87	0,69	0,91
<i>Responsiveness</i>	3,86	0,78	0,89

Source: Author

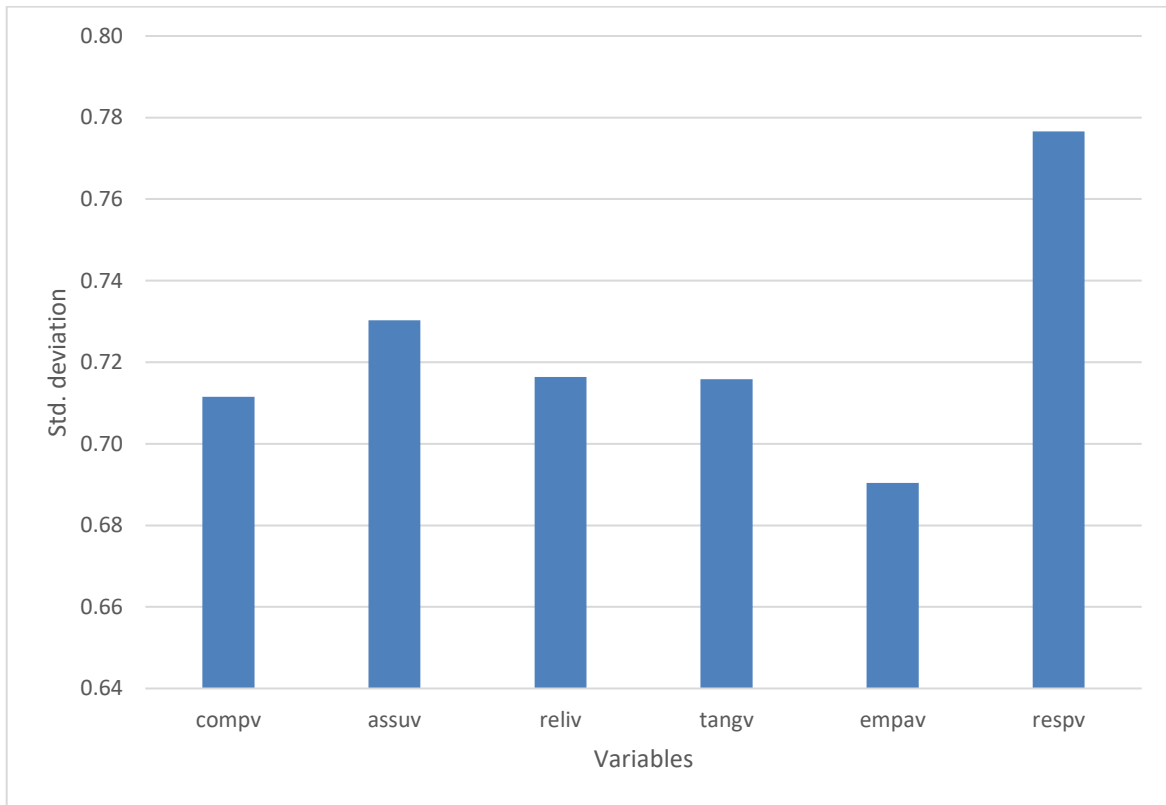
Table 20 shows the mean, std. deviation and Cronbach alpha of six variables. Highest mean score of 3,95 is of reliability which shows that respondents value this variable the most, and lowest mean score is of the compliance variable, which is 3,65. Other variables have mean score ranging from 3,65 to 3,94. Small std. deviation in all elements which shows that the answers are close to each other. Cronbach alpha checks the reliability or consistency of the answers.

Figure 4. Mean score of each variables ( CARTER )



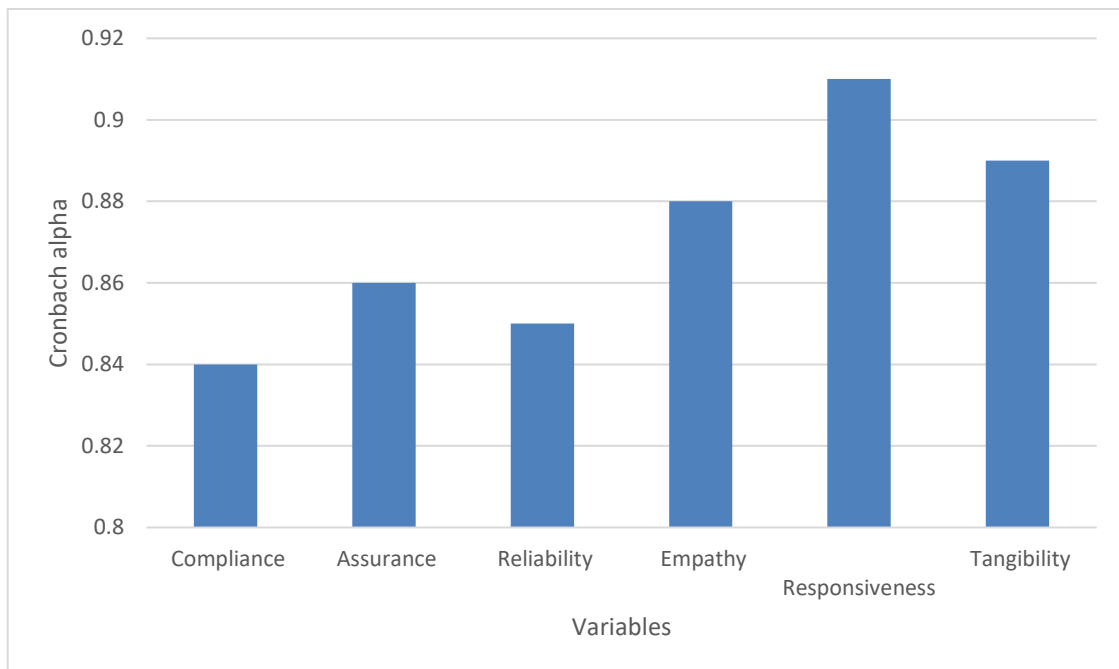
Source: Author

Figure 5. St. Deviation of each variables (CARTER)



Source: Author

Figure 6. Cronbach alpha of each variables (CARTER)



Source: Author



In order to develop Islamic banking system in Bosnia and Herzegovina, it is necessary to measure the perception of customers towards the working Bosna Bank International d.d. For this purpose CARTER model serves as an important research tool. An overview of the research findings of the six dimensions : compliance, assurance, reliability, empathy, responsiveness and tangibility.

- **Compliance** - means the ability to comply with Islamic law and work under the principles of Islamic banking and economics. This is a very important component in the model because it precisely measures the part that concerns Islamic banking. So, with the help of this dimension, we can get an answer to the question: Do the participants of the questionnaire ( customers ) consider that Bosna Bank International d.d. operates in accordance with the Islamic law.
- **Insurance** is the knowledge and kindness of employees and their ability to convey trust. It also includes oral and written communication between bank staff and clients.
- **Reliability** reflects the absence of errors in banking transactions. This depends on the education and training of bank employees. Reliability attributes relate to providing services on time, meeting deadlines, and keeping promises
- **Tangible** material that means the appearance of physical objects, equipment, personnel and communication materials
- **Empathy** - the individual attention that an Islamic bank provides to its clients.
- **Responsiveness** is a willingness to help customers and provide prompt service.

Table 21. Dimension 1 – Compliance

<b>(Q1) Work on Islamic law and principles</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	2	1,37
	Disagree	4	8,51
	Neutral	47	32,19
	Agree	55	37,67
	Strongly agree	38	26,03
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q2) Provision of free interest loans</b>			
Valid	Strongly disagree	5	3,42
	Disagree	12	8,22
	Neutral	50	34,25
	Agree	53	36,30
	Strongly agree	26	17,81
	<b>Total</b>	<b>146</b>	<b>100,00</b>
<b>(Q3) Investment products are of profit and loss sharing basis</b>			
Valid	Strongly disagree	1	0,68
	Disagree	7	4,79
	Neutral	54	36,99
	Agree	57	39,04
	Strongly agree	27	18,49
	<b>Total</b>	<b>146</b>	<b>100,00</b>
<b>(Q4) There is a provision of Islamic products and services in my bank</b>			
Valid	Strongly disagree	1	0,68
	Disagree	11	7,53
	Neutral	54	36,99
	Agree	55	37,67
	Strongly agree	25	,17,12
	<b>Total</b>	<b>146</b>	<b>100,00</b>
<b>(Q5) No interest is paid nor taken on savings and loans in my opinion but some amount is charged for time value of money</b>			
Valid	Strongly disagree	2	1,37
	Disagree	12	8,22
	Neutral	60	41,10
	Agree	48	32,88
	Strongly agree	24	16,44
	<b>Total</b>	<b>146</b>	<b>100,00</b>

Source: Author

Very interesting fact is that a significant number of surveyed clients (35% - 40%) chose "neutral" as the answer to every question in this dimension. This shows that the population in Bosnia is not familiar with Islamic banking, and that in the future Bosna Bank International d.d. must work much harder to educate the entire population and not just bank staff.

Table 22. Dimension 2 – Assurance

<b>(Q6) Access to account information is easily</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	2	1,37
	Disagree	6	4,11
	Neutral	32	21,92
	Agree	57	39,04
	Strongly agree	49	33,56
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q7) Provide financial advice</b>			
Valid	Strongly disagree	2	1,37
	Disagree	3	2,05
	Neutral	40	27,40
	Agree	60	41,10
	Strongly agree	41	28,08
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q8) Knowledgeable and experienced management team</b>			
Valid	Strongly disagree	2	1,37
	Disagree	7	4,79
	Neutral	42	28,77
	Agree	56	38,36
	Strongly agree	39	26,71
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q9) Interior comfort in the bank</b>			
Valid	Strongly disagree	1	0,68
	Disagree	6	4,11
	Neutral	36	24,66
	Agree	58	39,73
	Strongly agree	45	30,82
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q10) Politeness and friendly staff</b>			
Valid	Strongly disagree	2	1,37
	Disagree	8	5,48
	Neutral	35	23,97
	Agree	49	33,56
	Strongly agree	52	35,62
	<b>Total</b>	<b>146</b>	<b>100,0</b>

Source: Author

This dimension analyzes how clients evaluate the knowledge employees and their ability to inspire trust. The table shows a very high level of client satisfaction, which implies that bank employees are well trained and always available to clients.

Table 23. Dimension 3 – Reliability

<b>(Q11) Security of transactions</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	1	0,68
	Disagree	1	0,68
	Neutral	24	16,44
	Agree	56	38,36
	Strongly agree	64	43,84
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q12) More tills open at peak time</b>			
Valid	Strongly disagree	2	1,37
	Disagree	3	2,05
	Neutral	52	35,62
	Agree	52	35,62
	Strongly agree	37	25,34
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q13) Many products and services are provided by bank</b>			
Valid	Strongly disagree	0	0,00
	Disagree	2	1,37
	Neutral	39	26,71
	Agree	63	43,15
	Strongly agree	42	28,77
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q14) Convenience (short time for service anywhere)</b>			
Valid	Strongly disagree	1	0,68
	Disagree	14	9,59
	Neutral	42	28,77
	Agree	52	35,62
	Strongly agree	37	25,34
	<b>Total</b>	<b>146</b>	<b>100,0</b>

Source: Author

This dimension is about providing services on time, security of transaction and keeping promises. It is clear that Bosna Bank International d.d. carry out their services to a relatively satisfactory level. We can see that the participants of the questionnaire in each of the 4 questions that were part of this dimension predominantly answered with "agree" and "strongly agree". these two statements together in each of the questions carry more than 70% of the answers.

Table 24. Dimension 4 – Tangability

<b>(Q15) Counter partitions are available in branches</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	0	0,00
	Disagree	3	2,05
	Neutral	43	29,45
	Agree	58	39,73
	Strongly agree	42	28,77
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q16) Opening hours of operations</b>			
Valid	Strongly disagree	0	0,00
	Disagree	4	2,74
	Neutral	38	26,03
	Agree	57	39,04
	Strongly agree	47	32,19
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q17) Overdraft privileges on current account</b>			
Valid	Strongly disagree	1	0,68
	Disagree	4	2,74
	Neutral	49	33,56
	Agree	52	35,62
	Strongly agree	40	27,40
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q18) Speed and efficiency of transactions</b>			
Valid	Strongly disagree	2	1,37
	Disagree	9	6,16
	Neutral	34	23,29
	Agree	56	38,36
	Strongly agree	45	30,82
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q19) External appearance of the bank</b>			
Valid	Strongly disagree	0	0,00
	Disagree	6	4,11
	Neutral	36	24,66
	Agree	59	40,41
	Strongly agree	45	30,82
	<b>Total</b>	<b>146</b>	<b>100,0</b>

Source: Author

Tangibility is the presence of physical facilities in the bank. On three questions out of a total of five that measure this dimension, none of the respondents did not chose "strongly disagree" as an answer. The highest frequency of 59 answers is "agree" which is in the last question.

Table 25. Dimension 5 – Emphaty

<b>(Q20) Lower service charge</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	5	3,42
	Disagree	9	6,16
	Neutral	56	38,36
	Agree	42	28,77
	Strongly agree	34	23,29
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q21) Products and service profitability</b>			
Valid	Strongly disagree	0	0,00
	Disagree	2	1,37
	Neutral	58	39,73
	Agree	54	36,99
	Strongly agree	32	21,92
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q22) Provision of financial advices</b>			
Valid	Strongly disagree	2	1,37
	Disagree	3	2,05
	Neutral	55	37,67
	Agree	52	35,62
	Strongly agree	34	23,29
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q23) Parking available</b>			
Valid	Strongly disagree	5	3,42
	Disagree	13	8,09
	Neutral	41	28,08
	Agree	48	32,88
	Strongly agree	39	26,71
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q24) Bank size in assets and capital</b>			
Valid	Strongly disagree	2	1,37
	Disagree	5	3,42
	Neutral	40	27,40
	Agree	63	43,15
	Strongly agree	36	24,66
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q25) Confidence in Bank's management</b>			
Valid	Strongly disagree	1	0,68
	Disagree	12	8,22
	Neutral	41	28,08
	Agree	48	32,88
	Strongly agree	44	30,14
	<b>Total</b>	<b>146</b>	<b>100,0</b>

<b>(Q26) Confidentiality of Bank</b>			
Valid	Strongly disagree	0	0,00
	Disagree	5	3,42
	Neutral	34	23,29
	Agree	57	39,04
	Strongly agree	50	34,25
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q27) Well-known bank</b>			
Valid	Strongly disagree	1	0,68
	Disagree	5	3,42
	Neutral	31	21,23
	Agree	59	40,41
	Strongly agree	50	34,25
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q28) Bank location is easily accessible</b>			
Valid	Strongly disagree	1	0,68
	Disagree	4	2,74
	Neutral	31	21,23
	Agree	51	34,93
	Strongly agree	59	40,41
	<b>Total</b>	<b>146</b>	<b>100,0</b>

*Source: Author*

This dimension shows how a bank treats its customers through care and individualised attention. Empathy contains the largest number of questions to which clients must provide their answers. While other dimensions contain four or five questions, this one has as many as eight. Clients need to feel that the organization providing the services prioritizes them. Empathy means caring and paying personal attention to the customer. The core of empathy is conveying the feeling that the customer is unique and special. From the table we can see that customers are generally satisfied, but we can also notice a large percentage of "neutral" responses. this data reveals that the bank has an opportunity to improve this dimension. Namely if we take into account that under this dimension it is also considered the importance which the bank gives to its customers, the management of the bank should primarily work on creating a better image of the bank, by strengthening the bank's position on the market, as well as emphasizing that Bosna Bank International d.d. is the only Islamic bank in the country where the population is mostly muslims.

Table 26. Dimension 6 – Responsiveness

<b>(Q29) Branching facility</b>			
		<b>Frequency</b>	<b>Percent</b>
Valid	Strongly disagree	0	0,00
	Disagree	4	2,74
	Neutral	40	27,40
	Agree	57	39,04
	Strongly agree	45	30,82
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q30) Availability of credit on favourable terms</b>			
Valid	Strongly disagree	4	2,74
	Disagree	6	4,11
	Neutral	43	29,45
	Agree	58	39,73
	Strongly agree	35	23,97
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q31) Fast and efficient counter services</b>			
Valid	Strongly disagree	3	2,05
	Disagree	10	6,85
	Neutral	44	30,14
	Agree	54	36,99
	Strongly agree	35	23,97
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q32) Way staff treat customers</b>			
Valid	Strongly disagree	2	1,37
	Disagree	7	4,79
	Neutral	40	27,40
	Agree	51	34,93
	Strongly agree	46	31,51
	<b>Total</b>	<b>146</b>	<b>100,0</b>
<b>(Q33) Knowledge of customer's business or willing to help</b>			
Valid	Strongly disagree	2	1,37
	Disagree	4	2,74
	Neutral	45	30,82
	Agree	47	32,19
	Strongly agree	48	32,88
	<b>Total</b>	<b>146</b>	<b>100,0</b>

Source: Author

Table 26 presents Responsiveness – or willingness to help customers and provide prompt service. (Q33) shows a large percentage of responses “Agree“ and „Strongly agree“. In the other questions also the same answers together carry over 60 percent, which shows that customers are generally satisfied.



Table 27. Comparative analysis of CARTER dimensions

Pair	Variables	Mean difference	SD	SE	Lower	Upper	t	df	Two-Sided p
1	compv - assuv	-0,280	0,748	0,062	-0,403	-0,157	-4,509	145	0,000
2	compv - reliv	-0,293	0,742	0,062	-0,415	-0,171	-4,749	145	0,000
3	compv - tangv	-0,286	0,723	0,060	-0,404	-0,167	-4,758	145	0,000
4	compv - empav	-0,212	0,696	0,058	-0,326	-0,098	-3,668	145	0,000
5	compv - respv	-0,208	0,742	0,062	-0,330	-0,086	-3,379	145	0,001
6	assuv - reliv	-0,013	0,483	0,040	-0,092	0,066	-0,318	145	0,751
7	assuv - tangv	-0,006	0,484	0,040	-0,085	0,074	-0,137	145	0,891
8	assuv - empav	0,068	0,562	0,047	-0,024	0,160	1,455	145	0,148
9	assuv - respv	0,072	0,482	0,040	-0,007	0,151	1,791	145	0,075
10	reliv - tangv	0,007	0,384	0,032	-0,056	0,070	0,227	145	0,821
11	reliv - empav	0,081	0,422	0,035	0,011	0,150	2,300	145	0,023
12	reliv - respv	0,084	0,497	0,041	0,003	0,166	2,047	145	0,043
13	tangv - empav	0,073	0,434	0,036	0,002	0,145	2,034	145	0,044
14	tangv - respv	0,077	0,483	0,040	-0,002	0,156	1,927	145	0,056
15	empav - respv	0,004	0,438	0,036	-0,068	0,076	0,105	145	0,916

95% Confidence Interval of the Difference

Source: Author

Table 27 show the relationship of one element paired with every other.

- **Compliance** is in all cases lower than other indicators and the difference is statistically significant, therefore there is enough evidence to support hypothesis H1 (a)
- **Assurance** - the difference between assurance and other indicators is only statistically significant in the case of compliance, therefore there is evidence for limited support of the hypothesis H1 (b).
- **Reliability** - the difference between reliability and other indicators is statistically significant in the case of empathy, responsiveness and compliance, therefore there is evidence for partial support of the hypothesis H1 (c).
- **Tangibility** - the difference between tangibility and other indicators is statistically significant in the case of empathy, and compliance, therefore there is evidence for partial support of the hypothesis H1 (d).
- **Empathy** - the difference between empathy and other indicators is statistically significant in the case of tangibility, reliability and compliance, therefore there is evidence for partial support of the hypothesis H1 (e).
- **Responsiveness** - the difference between responsiveness and other indicators is statistically significant in the case of reliability and compliance, therefore there is evidence for partial support of the hypothesis H1 (f).

## **7. DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

Today's people in Bosnia and Herzegovina find it very difficult to understand the difference between interest and profit margin. In simple language, in today's conventional banking, interest is money that is acquired without any effort, and according to the teachings of Islam, any business in which there is no effort and risk is not allowed. Profit margin is money that is earned through effort and risk sharing in a certain business. The Islamic bank shares with its client the profit (profit - today most often in the form of money) and the risk. Non-Islamic banks share only the profit but not the risk in business. Thus, an Islamic bank is not of a humanitarian nature like some charity organization, but rather a financial institution that shares profit and risk with its partners in joint projects and investments. Also, the Islamic bank has its social side through its special funds that are interest-free and humanitarian in nature. All products and contracts of BBI Bank are approved by the Shariah Committee and their application is monitored through an internal Shariah audit. The basic difference between conventional and Islamic banking is that in Islamic banking, money is covered by real material values and services and does not contain interest exploitation. This means that our client financing is directly linked to the object or object of trading, which inevitably creates additional value, and a part of that value is shared with the bank in the form of a profit margin. Therefore, despite the lack of appropriate regulation, BBI Bank has the ability to operate in accordance with the principles of Islamic banking, albeit with additional efforts. Of course, due to the Banking Law, she cannot use most of the products and is often unable to use the highest standards of Islamic banking. Despite this, given that the principles of Islamic law offer an appropriate solution for every situation, the Bank manages to operate in accordance with these principles, and at the same time to satisfy the legal frameworks governing banking operations in Bosnia and Herzegovina. Where this issue is not adequately regulated by law, Islamic banks are in an unequal position. We are pleased with the fact that many European countries have amended their legal regulations and thus enabled the work of Islamic banks.

From the results of the questionnaire related to bank employees, we can see that BBI Bank pays great attention to the education of its employees. It is very important for the only Islamic bank on the market that does not know Islamic banking to also educate clients as well as the entire population. Taking into account that Bosnia and Herzegovina is a secular state and that the average citizen does not know Islamic business rules, the management of the bank in the coming period must explain in a simple way the difference between interest and profit margin. The questionnaire also shows that a large percentage (95%) of employees believe that BBI Bank influences economic and social development. It would be interesting to ask the population the same question and then build a further strategy based on that. Based on the statements from the organizational factor ( Customer orientation measures, and training orientation measures) all 11 statements concluded that the BBI Bank is concerned on the CRM implementation. In this study it was not possible to investigate "Top management measures" and that is limitation, so in the future studies this factor should be included. . Based on the statements from the technological factor , all 6 statements concluded that the

BBI Bank is concerned on the CRM implementation. When we researched technological factors we also had limitations and in this case too, future studies should cover all factors. From the questions related to organizational factor, majority of respondents agreed on the imperative influence to CRM practices. Similarly is with the technological factors. The adoption of CRM creates more satisfied customers and CRM is complied with the shariah where more benefits can be obtained by the society.

The second research within this work is related to customers, and as mentioned earlier, we used the CARTER MODEL. Considering that we were surveying customers and not employees, it was not necessary to ask for permission from the bank's management, and there were no limitations in this questionnaire. Some of the previous studies reported responsiveness as the most important predictor of customer satisfaction (Ravichandran *et al.*, 2010). Rehman (2012) investigated the relationship between customer satisfaction and six dimensions of service quality (CARTER) in Islamic banks of Pakistan, UK and UAE and it was found that Islamic banks customer in Pakistan and UK have considered the dimensions of assurance, reliability and empathy as significant factors. Customers of Islamic banks of UAE consider assurance and tangible as significant dimensions while this study showed that Reliability has the greatest impact and „Compliance“ lowest on customer satisfaction. Ramdhani *et al.* (2011) conducted a study in Garut, West Java Province, Indonesia, and found that the dimension of compliance has a significant effect in influencing customer satisfaction of Islamic banks. Compliance is an important component of CARTER model and this is the only variable which measures the Islamic aspect of banks. Therefore, the Islamic banking institutions should pay more attention towards compliance dimension to increase the level of customer satisfaction (Lone *et al.*, 2017). The results of this study show that customers value this component the least. Future research should investigate in more detail why BBI Bank is the only Islamic bank in the country where the majority of the population is of the Islamic faith, and as such has a competitive advantage in this aspect. The management of the bank which does not work enough on this aspect of business, the population that is not educated and does not know the difference between Islamic and conventional banking, legal regulations that limit the implementation of all Islamic business models, all these are possible factors, and future research should investigate to what extent each of the mentioned factors has an influence. The results of the research showed that customers value "Reliability" the most, we can conclude that the bank has an excellent organization that provides services on time, keeping promises and meeting deadlines. From the results of the questionnaire filled out by the employees, we saw that 86.3 percent of them answered positively to the question "Did you receive training when you get job in Islamic Bank (BBI Bank) , , . The fact that customers value Reliability the most confirms that the employees of BBI Bank are well educated and that the training they have completed is of high quality.

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## **APPENDICES**

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## Appendix 1: Glossary of Relevant Terms

<b>Allah</b>	God
<b>Halal</b>	Refers to everything that is allowed according to Islamic law.
<b>Haram</b>	Refers to everything that is prohibited according to Islamic law.
<b>Islam</b>	Monotheistic religion that states there is only one God and Muhammad is God's messenger
<b>Khilafah</b>	Refers to the concept of governorship role that human beings have on Earth.
<b>Qur'an</b>	The book of Allah s.w.t. revealed to the Prophet Muhammad p.b.u.h.
<b>Riba</b>	Interest rate prohibited by Islamic law.
<b>Shari'ah</b>	Islamic law based on the teachings of the Qur'an and the traditions of the Prophet p.b.u.h (Sunnah).
<b>Sunnah</b>	Words and doings of the Prophet Muhammad p.b.u.h. taught by him verbally or practically.
<b>Zakat</b>	A tax that is levied on all persons having wealth above an exemption limit at a rate fixed by Islamic law to purify wealth.

## **Appendix 2: Cover letter**

Dear Sir /

The attached questionnaire is part of a research project for my master degree under the supervision of Professor Alija Avdukić . The objectives of the research are to investigate the clients and employees perceptions of the Islamic Banking in Bosnia and Herzegovina. You are among those who have been chosen in the group of Islamic banks' employees. I would be extremely grateful if you would answer all the questions included in the questionnaire. I assure you that all the information you provide will be dealt with in the strictest confidence and only the summarized data will be used in any publication of the research findings. If there are any queries concerning the questionnaire or the subject of the research, please do not hesitate to contact me at my address below. Finally, please accept in advance my sincere thanks and admiration for your assistance and co-operation

Mirza Babić

### Appendix 3: Questionnaire (employees)

<b>DEMOGRAPHIC</b>	
<b>Nationality</b>	Bosnian Non - Bosnian
<b>Age</b>	Less than 25 25-32 33-40 41-50 Over 50
<b>Education</b>	Primary school Intermediate school University Postgraduate Other
<b>Religion</b>	Muslim Non - Muslim
<b>Marital status</b>	Single Married

#### **PART TWO (Questions about Islamic banking)**

**1. Did you work with a conventional bank before joining this bank?**

- a) Yes
- b) No

**2. What are your reasons for joining this bank? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.**

- a) Religious reasons
- b) Job opportunity
- c) Moral satisfaction
- d) Higher Salary
- e) Others

**3. Do you find operating according to the Islamic banking transactions difficult?**

- a) Yes
- b) No

**4. Please specify the difficulties that you face when you work at IB (please tick W) where appropriate.**

- a) A new type of transaction has to seek the approval of the Shariah Supervisory Boards which takes time
- b) A lack of understanding of Islamic transactions
- c) More documents required
- d) Others

**5. Did you receive training, when you get job in Islamic Bank ?**

- a) Yes
- b) No

**6. If yes, where did you get your training?**

- a) Internal training (BBI academy)
- b) Various technical courses
- c) External course(s)
- d) Conferences or seminars

**7. In your opinion do Islamic banks contribute to the economic and social development of the country?**

- a) Yes
- b) No

**8. If yes, would you state how these banks contribute to these fields in your opinion ? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.**

- a) By financing the industrial projects
- b) By financing small business
- c) By giving mortgage or loans to build houses
- d) By giving loans to buy furniture / household/ vehicles
- e) By organizing SBF (Sarajevo business forum) and SHF (Sarajevo halal forum)

**9. What do you think of the relationship between the bank and other Islamic financial institutions in the world?**

- a) Poor
- b) Reasonable
- c) Good
- d) Don't know

**10. What do you think of the relationship between the bank and other Islamic institutions in BIH ?**

- a) Poor
- b) Reasonable
- c) Good
- d) Don't know

**PART THREE (Questions about CRM)**

Note: Please choose your option by taking the following into consideration:

- Strongly Agree = 5
- Agree = 4
- Neutral = 3
- Disagree = 2
- Strongly Disagree = 1

Please tick (  ) the number for each statement.

1)	BBI Bank strive to improve the value that provide to customers	5	4	3	2	1
2)	Customer satisfaction is an important business objective	5	4	3	2	1
3)	BBI Bank attempt to understand customer needs	5	4	3	2	1
4)	BBI Bank pay close attention to customer service	5	4	3	2	1
5)	In BBI bank, retaining customers is considered to be a top priority	5	4	3	2	1
6)	Bank's employees are encouraged to focus on customer relationships	5	4	3	2	1
7)	Training facilitates employee's learning of effective ways to address customer complaints	5	4	3	2	1
8)	Training helps employees to understand customer needs.	5	4	3	2	1
9)	Bank's training facilitates interpersonal skill training to build customer relationships	5	4	3	2	1
10)	Bank's training helps improve employee's team building skills to enhance company operations	5	4	3	2	1
11)	Bank's training facilitates learning to promote the quality of our products/services	5	4	3	2	1
12)	Bank's employees can get access to the quality data on time	5	4	3	2	1
13)	Quality data are available to employees, managers, and supervisors up to a great extent	5	4	3	2	1
14)	Employees use customer database information to develop attractive offerings	5	4	3	2	1

15)	BBI Bank provide sales force with adequate customer information	5	4	3	2	1
16)	Bank provide customized offers to sales people in the field	5	4	3	2	1
17)	Sales department assist the marketing department in generating customized offers	5	4	3	2	1

**Appendix 4: Questionnaire (customers)**

<b>DEMOGRAPHIC</b>	
<b>Nationality</b>	Bosnian Non - Bosnian
<b>Age</b>	Less than 25 25-32 33-40 41-50 Over 50
<b>Education</b>	No Qualification Primary school Intermediate school University Postgraduate
<b>Religion</b>	Muslim Non - Muslim
<b>Gender</b>	Male Female

**CARTER MODEL**

Note: Please choose your option by taking the following into consideration:

- Strongly Agree = 5
- Agree = 4
- Neutral = 3
- Disagree = 2
- Strongly Disagree = 1

Please tick ( ✓ ) the number for each statement.

<b>What is your opinion about Islamic banking in Bosnia and Herzegovina</b>					
1) Work on Islamic law and principles	5	4	3	2	1
2) Provision of free interest loans	5	4	3	2	1
3) Investment products are of profit and loss sharing basis	5	4	3	2	1
4) There is a provision of Islamic products and services in my bank	5	4	3	2	1
5) No interest is paid nor taken on savings and loans in my opinion but some amount is charged for time value of money	5	4	3	2	1
6) Access to account information is easily	5	4	3	2	1
7) Provide financial advice	5	4	3	2	1
8) Knowledgeable and experienced management team	5	4	3	2	1
9) Interior comfort in the bank	5	4	3	2	1
10) Politeness and friendly staff	5	4	3	2	1
11) Security of transactions	5	4	3	2	1
12) More tills open at peak time	5	4	3	2	1
13) Many products and services are provided by bank	5	4	3	2	1
14) Convenience (short time for service anywhere)	5	4	3	2	1
15) Counter partitions are available in branches	5	4	3	2	1
16) Opening hours of operations	5	4	3	2	1
17) Overdraft privileges on current account	5	4	3	2	1
18) Speed and efficiency of transactions	5	4	3	2	1
19) External appearance of the bank	5	4	3	2	1
20) Lower service charge	5	4	3	2	1
21) Products and service profitability	5	4	3	2	1
22) Provision of financial advices	5	4	3	2	1
23) Parking available	5	4	3	2	1
24) Bank size in assets and capital	5	4	3	2	1

25) Confidence in Bank's management	5	4	3	2	1
26) Confidentiality of Bank	5	4	3	2	1
27) Well-known bank	5	4	3	2	1
28) Bank location is easily accessible	5	4	3	2	1
29) Branching facility	5	4	3	2	1
30) Availability of credit on favourable terms	5	4	3	2	1
31) Fast and efficient counter services	5	4	3	2	1
32) Way staff treat customers	5	4	3	2	1
33) Knowledge of customer's business or willing to help	5	4	3	2	1