

**COMPARATIVE STUDY OF CUSTOMER'S AND SERVICE
PROVIDER'S ORIENTATION TOWARDS ISLAMIC
BANKING: WITH REFERENCE TO SELECTED BANKS IN
DAR ES SALAAM(NBC,KCB AND AMANA BANK)**

**COMPARATIVE STUDY OF CUSTOMER'S AND SERVICE
PROVIDER'S ORIENTATION TOWARDS ISLAMIC
BANKING: WITH REFERENCE TO A SELECTED BANKS
IN DAR ES SALAAM (NBC, KCB AND AMANA BANK)**

By
Carren Beatus

**A research proposal submitted for approval to carry out a research for partial
fulfilment of the requirements for the Degree of Masters of Business
Administration of Mzumbe University**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled *Comparative study of Customers and Service providers orientation towards Islamic Banking; A study with reference to selected Banks in Dar es Salaam*, in fulfillment of the requirements for the award of the degree of Master of Business Administration of Mzumbe University.

Major supervisor

Internal examiner

Accepted for the board.....

DEAN/DIRECTOR,FACULTY/DIRECTORATE/SCHOOL/BOARD

DECLARATION AND COPYRIGHT

I, Carren Beatus, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature _____

Date _____

© 2013

This dissertation is a copyright material protected under the Berne Convention, the Copyright Act 1999 and other international and national enactments, in that behalf, on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

ACKNOWLEDGEMENTS

First and foremost, I thank the Almighty God whose love and grace made this work done. I wouldn't have made it through without his grace considering all the challenges i have encountered. And for him, his name shall be Glorified.

With most love, I thank my family, my parents Mr & Mrs Beatus Kombole for all the love and care they put on me, my brother Dr.Israel and his wife Advocate Nyimila and their daughters Vasilisa and Angel for all the support, my sisters Catherine and Dr.Beatrice, my young brothers Henry and Lewis for the support all way through. However i would like to thank my best friend Pierre for the support and encouragement to accomplish this work, my colleague Amon, and my friends Daniel and JohnKip for their help, encouragement and moral support throughout my academic career.

I finally extend my special thanks to my supervisor Prof Shiv Tripathi for the endless support and assistance throughout my work, my colleagues, the 2011 Master of Business Administration (Cooperate management) for their moral and material support which contributed a lot to the success of this study.

LIST OF ABBREVIATIONS AND ACRONOMYS

BOT	-	Bank of Tanzania
IMF	-	International Monetary Fund
IMF	-	International Monetary Fund
KCB	-	Kenya Commercial Bank
NBC	-	National Bank of Commerce
PLS	-	Profit and Loss Sharing

ABSTRACT

This study has been carried out to identify customer's and service provider's orientation towards Islamic Banking. Islamic Banking is a financial institution that operates with the objective to implement and materialise the economic and financial principles of Islam in the banking arena. Islamic banking like any other banking system, must be viewed as an evolving system. No one dispute that there is a definite desire amongst muslim savers to invest their savings in way that are permitted by the islamic Shariah.

The Islamic banking system is currently gaining momentum. Many international conventional banks have started to open branches which operate in accordance with the Islamic Shariah principles including Tanzania. The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well-established conventional banks offering Islamic products and services. In this study, an attempt was made to assess customers and service providers orientation towards Islamic Banking services.

A sample of 50 respondents took part in this study with three different organisations (Banks) in Dar es Salaam, being KCB, NBC, and Amana Bank. The analysis of their responses revealed that Islamic Banking not only deal with muslim customers but also non muslim customers even though most Muslim customers seems to be grateful for the services due to riba free system which is against their faith. And both bank employees and the customers are very much aware of the Islamic banking services. However being Sharia compliance, these banks also generate profit like other conventional banks, even though there is a certain degree of involvement on religious belief of many of the Islamic banks facilities and products.

The big challenge was associated with the training and experience of staffs, and sometimes the Muslims themselves are not very much aware of islamic principles involved in islamic banking. The managers have admitted that this product helps to increase profitability and also it is another new way of ensuring customer retention. In general findings have indicated that there is an increase in the use of Islamic Banking services as well as increase in the customer's awareness about the product.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENTS	iii
LIST OF ABBREVIATIONS AND ACRONOMYS	iv
ABSTRACT	iv
TABLE OF CONTENTS	vi
LIST OF TABLES	vii
LIST OF FIGURES	viii
CHAPTER ONE	1
PROBLEM SETTING	1
1.0 Introduction	1
1.1 Background of the study	1
1.2 Background information	2
1.3 Statement of the problem	3
1.4 Research objectives	4
1.4.1 General objectives	4
1.4.2 Specific objectives	4
1.5 Research questions	5
1.6 Scope of the study	5
1.7 Significance of the study	5
1.8 Limitation of the Study	6
1.9 Delimitation	7
1.10 Organisation of the study	8
CHAPTER TWO	8
LITERATURE REVIEW	9
2.0 Introduction	9
2.1 Theoretical Literature Review.....	9
2.2 Empirical Literature Review	10
2.3 Research Gap	15
2.4 Conceptual framework	15

CHAPTER THREE	16
RESEARCH METHODOLOGY	16
3.0 Introduction	16
3.1 Research Design.....	17
3.2 Study Area.....	17
3.3 Sample size and Sampling Procedure	18
3.4 Type and Source of Data.....	19
3.5 Data Collection	19
3.5.1 Documentary Review	20
3.5.2 Interview	20
3.5.3 Observation	20
3.5.4 Questionnaire	20
3.6 Data analysis Plan	21
CHAPTER FOUR	21
DATA PRESENTATION AND ANALYSIS	21
4.0. Introduction	21
4.1 Demographic Characteristics of Respondents	22
4.1 The Age of Respondents	22
4.1.2 Education Level	23
4.1.3 Marital Status	24
4.2 Customer’s Awareness on the benefits of Islamic Banking.....	25
4.3 Employees perception on training and experience.....	26
4.4 Employees views on qualified stuffs at the Bank	27
4.5 Customer’s preferences towards Islamic Banking.....	28
4.6 The future prospect of Islamic banking	29
4.7 Islamic banking products competitiveness to conventional banking products	30
4.8 Islamic Banking preferences towards religion and profit	31
CHAPTER FIVE	32
DISCUSSION OF THE STUDY FINDINGS	32
5.1 Introduction	33
5.2 Implication of the Objective to the Study Findings	34
5.3 Findings from the research objectives.....	35

5.4.1 Customer’s preferences towards religion in reference to use of Islamic banking among NBC, KCB and Amana Bank.	35
5.5. Findings from research objective two.	36
5.5.1 Customer’s preferences towards profit on Islamic banking.....	36
5.6 Findings from research objective three.	39
5.6.1 Service provider’s orientation towards religion.	39
5.7 Findings from research objective four	43
5.7.1 Service provider’s orientation towards profit	43
5.7 Findings from research objective five.....	44
5.8.1 Advantage of Islamic Banking to conventional banking.	45
5.8.2 Challenges facing Islamic Banking in NBC,KCB and Amana Bank.	46
5.8.2.1 Introduction:.....	46
5.8.2.2 Legal Support.....	47
5.8.2.3 Teaching training research and development.....	47
5.8.2.4 Competition.....	47
5.8.2.5 Globalization.....	48
5.8.2.6 Islamic prudential regulations.....	48
5.8.2.7 Risks.....	49
5.8.2.8 Shariah based product.....	49
5.8.2.9 Nature of Islamic banking.....	49
5.8.2.10 Some other Sharia issues.....	49
CHAPTER SIX	50
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	50
6.0 Introduction.....	50
6.1 Summary of the Study.....	50
6.2 Summary of the study findings.....	50
6.3Conclusion.....	51
6.4 Recommendations.....	53
6.5 Moment of truth.....	57
6.6 Scope for future work.....	58
REFERENCES.....	59
APPENDECES	67

LIST OF TABLES

Table 1. Distribution of Sample Size by Location	18
Table 4.1: Age of respondents	22
Table 4.2: Level of Education	23
Table 4.4: Respondents awareness.....	25
Table 4.5: Respondents perception	26
Table 4.6: Respondents views.....	27
Table 4.7: Customers preferences	28
Table 4.8: Respondents prospects	29
Table 4.9: Respondents views.....	30
Table 4.10: Respondents(Stuffs) views	31

LIST OF FIGURES

Figure 4.1 Age of respondents	23
Figure 4.2 Respondents education level	23
Figure 4.3 Respondents marital status	24
Figure 4.4 Customer's awareness on benefits of islamic banking.....	26
Figure 4.5 employees peception on training and experience	27
Figure 4.6 Employees views on qualified staffs at the bank.....	28
Figure 4.7 customer's preferences towards Islamic banking.....	29
Figure 4.8 The future prospect of Islamic banking	30
Figure 4.9 Islamic banking products competitiveness	31
Figure 4.10 Bank's preference towards religion and profit	32

CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter entails to presents the background of the study, statement of the problem, objectives of the study, research questions, significance of the study and limitation of the study.

1.1 Background of the study

Islamic banking, also known as Sharia banking, refers to the type of banking activities which is based on the principles of Islamic law (*Sharia of Shariah* in Arabic). It also involves the application of the Sharia principles through the development of Islamic economics. Basically, the Sharia forbids the imposition of loan interest rates (usury or *Riba* in Arabic). In addition to that, investing in businesses that do not operate according to the principles of Islamic law is considered *Haraam* (Arabic for 'forbidden'). The Sharia principles of economics have been practiced for centuries, and their history can be traced back as far as the 8th century AD. The concept of Sharia banking itself was introduced only near the end of the 20th century (Saeed 1996)

In the late 19th century modern banking system was introduced into the Muslim countries at a time when they were politically and economically at low ebb. Thus the main banks in the home countries of the imperial powers established local branches in the capitals of the subject countries and they catered mainly to the import export requirements of the foreign businesses. Furthermore the banks were generally confined to the capital cities and the local population remained largely untouched by the banking system (Iqbal & Molyneux 2005). The local trading community avoided the “foreign” banks both for nationalistic as well as religious reasons. However, as time went on it became difficult to engage in trade and other activities without making use of commercial banks. Even then many confined their involvement to transaction activities such as current accounts and money transfers, such that borrowing from the

banks and depositing their savings with the bank were strictly avoided in order to keep away from dealing in interest which is prohibited by religion(Khan 1987).

After liberalizing banking and finance sector, Tanzania is among the countries in Africa experiencing new ways of banking to satisfy the needs of the market. From Mobile banking to Islamic banking, Tanzanians are witnessing new business ideas in the make of banking history. With old aged conventional banking dominating world economies, Islamic banking is growing very fast and it has established itself to be the alternative way to do banking business in a just and fair terms.

With about half the population being Muslims there is a huge confusion among other remaining half population on the impact of the Islamic banking in Tanzania because the Islamic Banking is not well known among these groups and so it is very difficult for them to make decisions whether or not to exploit it. However this study is motivated by the importance of knowing about this situation as it is crucial to understand customers preferences towards islamic banking, and also to understand the service providers oriantation towards Islamic Banking system.

1.2 Background information

In 1970, Islamic banking was almost unknown and considered to be wishful thinking. By the early years of twenty-first century, however, Islamic banking has become a reality that cannot be ignored, for it is growing at a steady pace (Rammal, H. G. and Zurbruegg, R. (2007). The size of the industry, which amounted to a few hundred thousand dollars in 1975, had reached billions of dollars by 2004. The value of *Shariah*-compliant accounts worldwide is estimated betweenUS\$200 billion and US\$500 billion and is growing at an average annual rate of 10-15 percent.

This banking system is based on the principles of Islamic law and Islamic economics. It aims at ensuring that banking services and products appeal to all customers regardless of their belief system or background. Under Islamic banking, products and governing contracts are structured with strict observance of Islamic law on just and fair business transactions.

Nevertheless this does not mean there are no profitability factors involved in Islamic Banking system, as generating profit is one fundamental factor of any private sector of financial institution.

The two basic principles behind Islamic banking is about the sharing of profit and loss and, and the other is about prohibition of the collection and payment of interest. Interest collection is not permissible under Shariah law. Rather Islamic Banks it pays the investor profit-sharing dividends and offers borrowers fixed repayment rates. Conventional interest rates are deemed not “*halal*” or legitimate by Islamic laws.

In Tanzania, there is a great demand that drives changes in the field, not for the benefit of the few but the whole community spiritually and materially. Therefore, this description of Islamic banking system would help to make my approach easy so that to embark on the research the customers and service providers porientation towards religion and profit at large.

1.3 Statement of the problem

Islamic banks are not different from other financial institutions in terms of their legal modalities, constitutive structures, objectives and means of achieving those objectives. The only difference lies in their description as Islamic. The Islamic banks have enjoined on themselves to conduct their affairs within the limit of the rulings of Shari’ah and to comply with its overall objectives Therefore It must be realized that maximization of profit is the objective of the highest priority for all investment institutions created by private individuals. Consequently, all private-sector financing institutions have one fundamental objective: to make as much profit as they can.

Since the Islamic banking system is gaining momentum in Tanzania. Many banks have started to open branches which operate in accordance with the Islamic Shariah principles. For example KCB Bank, NBC Bank and Amana Bank. This systems expectes to face strong competition not only from the Islamic banks but also from well-established conventional banks offering Islamic products and services.

With some of the banks in Tanzania that are now offering Islamic banking products or facilities in order to be competitive, determining the marketing strategies for the

products is crucial. Therefore the study purposely focuses on customers in order to see how attractive the facilities are among in the society. It is imperative to know whether consumers engage in the Islamic banking facilities do have factors that influence them in choosing the facilities. Also, this study will examine to what extent do the external variables for examples, religiosity and knowledge of the Islamic banking facilities, influence their behavior towards this whole system.

Therefore to fill the knowlegde gap that need to be addressed, an attempt was made to assess customer's orientation towards islamic banking system, as well as the service provider's (Banks) orientation towards this system at large.

1.4 Research objectives

1.4.1 General objectives

The general objective of this study was to determine customers preferences towards Islamic Banking system and as well the service providers preferences towards Islamic Banking system at the mentioned banks.

1.4.2 Specific objectives

- i. To examine the customer's preferences towards religion in reference to use of Islamic banking
- ii. To examine customer's preferences towards profit on Islamic banking
- iii. To examine the service provider's orientation towards religion while delivering Islamic banking services
- iv. To examine the service provider's orientation towards profit while delivering Islamic banking services
- v. To suggest information pertaining the use of Islamic banking system

1.5 Research questions

In an attempt to carry out this comparative study on customers and service providers orientation towards Islamic Banking system at KCB Bank, NBC Bank and Amana Bank, the study addressed the following research questions.

- i. What are the customer's preferences towards religion in reference to the use of Islamic banking?
- ii. What are the customer's preferences towards profit on Islamic banking?
- iii. What could be the service provider's orientation towards religion while delivering Islamic banking services?
- iv. What are the service provider's orientation towards profit in Islamic Banking services?
- v. Are there any suggestions pertaining the use of Islamic banking service?

1.6 Scope of the study

The research covered three organisations being KCB Bank, NBC Bank and Amana Bank. The study was conducted in Dar es Salaam but unfortunately data were not able to be collected at two branches in all the three Banks as planned, but rather in only one branch for each, except at NBC whereby data collected were one being at the city centre and the other one at Kariakoo area. Therefore (i.e. being case study), the results of this study may not be representative to all organisations in Tanzania.

1.7 Significance of the study

The study of customer's and service provider's orientation towards Islamic banking in Tanzania is supposed to be of benefit not only to the those with Islamic Religious beliefs but for the whole society in general. Awareness of it would take out existing doubts among people on the notion of it belonging to just a group of certain religious belief.

The principal of this study was to improve the new work environment of the banking industry and also hopes to highlight the benefits as well as challenges associated with

Islamic banking from the customers and the service providers, making it easier for everyone being able to assess it without a doubt.

Nevertheless wanted to ensure that banking services and products appeal to all customers regardless of their belief system or background. Under Islamic banking, products and governing contracts are structured with strict observance of Islamic law on just and fair business transactions.

The success of Islamic banking in formulating effective marketing plans largely depends on maintaining up to date and complete profile information on their customers. The availability of such a comprehensive profile provide the bank management with a solid basis for making a plausible and effective decision regarding the marketing of their products and services. It is hoped that the findings presented in this study will provide some useful and pertinent information for Islamic Bank managers in formulating their marketing strategies.

Finally this study would inform the society the need to have to enquire information to their specific bank on certain new product, before they register themselves to that banking service hence being attentive to what they were getting themselves into regardless of their beliefs or what the society articulate.

1.8 Limitation of the Study

The following were the limitations that the researcher encountered in the time of researching;

- i. Availability of Data: Some respondents refused to respond to the researcher due to lack of time on particular days when consulted by the researcher for information or hiding information for confidentiality reason.
- ii. Funds: Lack of enough funds to use for the case study such as funds for costs on transportation upon visiting the field area regularly for interviews and other ways of collecting data, also funds to buy, print and photocopy materials e.t.c

on seeking data from each branch, as well as expenses on airtime for making appointments to some customers that would need privacy. This has seen to limit the researcher on accomplishing her target during her field research.

- iii. Time consuming; Since the study involved three different organisations in Dar es Salaam, and the collection of data required visiting to each branch. The researcher could not accomplish her plan due to indefinite appointments given by respondents in each Bank. Therefore data collected were not equal in each bank as planned considering the number of respondents involved were not much as planned. And more attention was given to the interviewees regardless of their differences in attitudes. Therefore such problems was of inconvenience to fulfill the expected results.

1.9 Delimitation

The following were the delimitations for the study;

- i. Availability of Data: The researcher had to use the primary data collection and personal interview and observation in business premises. Official introduction letter and student identity card had been used in order to convince the respondents who are hesitant to give out information.
- ii. Funds: In order to save costs the researcher had to concentrate on only four branches of all the three Banks instead of concentrating on all of the six branches, whereby the researcher considered one branch from KCB Bank, one from Amana Bank and two branches from NBC Bank.
- iii. Time consuming: In order to save time the researcher had to choose only four branches of all banks instead of six branches, and also to conduct an interview whenever meets a relevant respondent so as to avoid regular visits to the banks in vain just to have a formal meeting with the respondents.

1.10 Organisation of the study

Chapter 1 of this study introduced background of the study, background information, the problem statement and described the general and specific objectives of the study. It further addressed the scope of the the study, significance of the study, limitations as well as delimitations of the study.

Chapter 2 presents a review of theoretical and empirical literature, the research gap as well as the conceptual framework.

Chapter 3 presents the methodology and procedures used for data collection and analysis. It also provides for the study area and the sampling procedure.

Chapter 4 contains an analysis of the data and presentation of the results. In this chapter the researcher used tables and figures to represent the percentage of information results so as to be used in analysing data.

Chapter 5 comprises the implication of the study, and discussion of the researcher's findings in consideration to the objectives of the study. It also provides for the advantages of islamic banking as well as challenges facing Islamic banking services.

Chapter 6 offers a summary, conclusion, recommendations, the moment of truth and scope for future research.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter contains theoretical literature review, empirical literature review and research gap.

2.1 Theoretical Literature Review

The Quran, the Muslim Holy book, explicitly deals with economic related matters and how they apply in Islam (Phillip Gerrard and J. Barton Cunnigham, 1997). The Shariah, being the Islamic law of human conduct is derived from the Quran. The Sharia prohibits what is called Riba, (that is payment over and above what is been lent which causes the payment of interest and usury which is not permitted). What Sharia does not prohibit is profit obtained from trading activity, the reason behind this positive stance being that there is a risk of loss involved in any trading activity. With Riba in theory there is no risk of loss.

Because of Riba Islamic Banks have to develop financial products which are not in conflict with the Sharia. (Ali and Ali 1994) With each of those products , the parties (the depositors and borrowers) can be considered as operating in partnership to which a risk is attached. Both will receive a rate of return which is based on performance rather than pay the interest or receive interest at a pre determined rate.

The applicable Islamic principles (Sudin Haron, Norafifah Ahmad, Sandra L. Planisek 1994) are called Mudharabah, Musyarakah, Murabahah, Al-Bai Bithaman Ajil, Al-Ijrah, Al-Takriji, Qard Hasan, Al-Wakalah, Al-Kafalah, and Wadiah. The distinction and features of these products are briefly described below:

- *Mudharabah*; This is basically an agreement between a lender and an entrepreneur, in which the lender agrees to finance the entrepreneurs project on a profit sharing basis according to a predetermined ratio agreed on in the negotiation between the two parties. The lender will bear any loss incurred.

- *Musyarakah*; This is a partnership for a specific business activity with the aim of making profit where by the lender not only provide the capital but also participate in the management. As in the case of Mudharabah all parties agree through negotiation, on the ratio of distribution of profit generated from business activities, which need not coincide with the ratio of participation in the financing of the activity. However in the event of a loss, all parties bear the loss in proportion to their shares in the financing.

It appeared that, Islamic banking also known as participant banking is banking or rather banking activity which is consistent with the principles of Islamic Law (*Sharia*) and its practical application through the development of Islamic economics. Likewise *Sharia* prohibits the fixed or floating payment or acceptance of specific interest or fees also known as *riba* or usury for loans of money. Therefore investing in businesses that provide goods or services is considered contrary to Islamic principles.

However while these principles may have been applied to historical Islamic economies, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

2.2 Empirical Literature Review

There are few numbers of studies about customers' preferences toward Islamic banking services. The studies of Erol and El-Bdour (1989) and Erol et al. (1990) are considered as the earliest which investigated the factors that influence customers to choose Islamic banking. Using both conventional and Islamic bank customers as the respondents, the study found that the provision of a fast and efficient service, bank's reputation and confidentiality were the most important bank selection criteria for customers who patronize Islamic banks. In their studies, religion was found to play a less important role in customers' decisions to transact with the Islamic bank.

Recent years have brought an increasing flow of empirical studies of Islamic banking. The earliest systematic empirical work was undertaken by Khan (1983). His

observations covered Islamic banks operating in Sudan, United Arab Emirates, Kuwait, Bahrain, Jordan, and Egypt. Khan's study showed that these banks had little difficulty in devising practices in conformity with Shariah.

He identified two types of investment accounts: one where the depositor authorized the banks to invest the money in any project and the other where the depositor had a say in the choice of project to be financed.

Khan's study revealed that Islamic banks have a preference for trade finance and real estate investments. The study also revealed a strong preference for quick returns, which is understandable in view of the fact that these newly established institutions were anxious to report positive results even in the early years of operation.

According to Zeithaml and Bitner (2000), organizations nowadays have to effectively compete and maintain their competitive edge by accentuating service quality and, consequentially, increased customer satisfaction. It also has been stated by Peters (1999) that:

“Quality can be a “magic bullet” which provides lower cost, higher customer service, better products and services, and higher margins. Without managing quality, asserting and adding value become an impossible proposition.”

Zeithaml (2000) stress that the inside customer and outside customer have a similar view regarding the service dimension and the way a customer accesses the services. The outside customer is an individual or business entity that purchases or uses the service from suppliers, while the inside customer refers to the organization's staff. Hence, service quality is an important factor in creating a competitive advantage; a bank must acknowledge its customers' perception and then provide the desired service to meet the customers' needs. This statement is further supported by Donnelly et al. (1985), who urge that:

“... employees who make the discretionary effort – who are friendly and responsive, who ask the extra question or suggest the extra services, who take time to listen - provide the competitive edge!.”

Nevertheless, employees can better deliver excellent services to customers when the organization provides them with the necessary resources, including logistic, administrative, equipment, and management support (Schneider and Bowen, 1985). Zeithaml (2000) also confirm this by stating that,

“satisfied employees make for satisfied customers (and a satisfied customer can, in turn, reinforce employees’ sense of satisfaction in their jobs).”

From the Islamic banking viewpoint, Haron (1996) emphasizes the contradictory objectives in conventional banks versus Islamic banks. The objectives of Islamic banks are based on two fundamental objectives: the religion factor and the profitability factor. If the religion factor alone is accentuated, the banks will be driven into insolvency and bankruptcy, thus damaging the situation of the depositors and Muslim society as a whole. Conversely, if the profitability factor is given more priority, it will certainly divert from the true Islamic line that is based on the concepts of justice.

The IMF study referred to earlier by Iqbal and Mirakhor (1987) also contains extremely interesting empirical observations, although these are confined to the experience of Iran and Pakistan, both of which have attempted to islamize the entire banking system on a comprehensive basis. Iran switched to Islamic banking in August 1983 with a three-year transition period. The Iranian system allows banks to accept current and savings deposits without having to pay any return, but it permits the banks to offer incentives such as variable prizes or bonuses in cash or kind on these deposits. Term deposits (both short-term and long-term) earn a rate of return based on the bank’s profits and on the deposit maturity.

No empirical evidence is as yet available on the interesting question as to whether interest or a profit-share provides the more effective incentive to depositors for the mobilization of private saving. Where Islamic and conventional banks exist side by

side, central bank control of bank interest rates is liable to be circumvented by shifts of funds to the Islamic banks.

Haron (1996) also further reaffirms that, in line with the objective of establishment, all business activities associated with financial transactions and Islamic banking must be conducted in accordance to Islamic principles and Islamic legal practices. As such, Islamic banks are prohibited from engaging in any business that is based on Riba.

Hamid and Nordin (2001) conducted research to determine the importance of education in Islamic banking, and a viable strategy by which Islamic banks could face the new millennium. They discovered that customers possess very limited knowledge of Islamic banking, in that 60% of the respondents could not differentiate between Islamic banking products and conventional banking products.

Interestingly, a study completed by Hassan and Ahmed (2002) on the customers and employees of the Islamic bank in Dhaka, Bangladesh, found that the respondents were not interested in conducting banking transactions in Islamic banks because they believed that only the name of the bank had been changed to reflect that it was an Islamic-based bank; they believed that interest, which is prohibited in Islam, was still practiced.

Overall, the researchers determined that the customers' and employees' understanding of the concepts and practices of Islamic banking is still vague. The authors recommend that to prevent any misunderstanding, adequate training must be given to the employees, future researchers and also the customers. This issue came up again in research completed by Makiyan (2002), who revealed that the infrastructure problem experienced by banks' employees in Iran was due to inadequate knowledge and training.

Additionally, Haron and Ahmad (2002) have highlighted that nearly 65% of corporate banking customers clarified that they had very limited knowledge of Islamic banking. The authors further stressed that the banks do not put much effort into marketing their

products or educating their customers. Thus, based on the aforementioned issues and the importance of Islamic banking in Tanzania, the current research has been conducted to assess the impact of the Islamic banking in Tanzania.

The IMF study, however, expressed considerable uneasiness about the concentration of bank assets on short-term trade credits rather than on long-term financing. This the authors found undesirable, not only because it is inconsistent with the intentions of the new system, but also because the heavy concentration on a few assets might increase risks and destabilize the asset portfolios.

The study also drew attention to the difficulty experienced in both Iran and Pakistan in financing budget deficits under a non-interest system and underscored the urgent need to devise suitable interest-free instruments. Iran has, however, decreed that government borrowing on the basis of a fixed rate of return from the nationalized banking system would not amount to interest and would hence be permissible. The official rationalization is that, since all banks are nationalized, interest rates and payments among banks will cancel out in the consolidated accounts.

The studies also show that the profit-sharing ratios and the modes of payment vary from place to place and from time to time. Thus, for example, profits are provisionally declared on a monthly basis in Malaysia, on a quarterly basis in Egypt, on a half-yearly basis in Bangladesh and Pakistan, and on an annual basis in Sudan.

The two main problems identified by the case studies are the absence of suitable non-interest-based financial instruments for money and capital market transactions and the high rate of borrower delinquency. The former problem has been partially redressed by Islamic banks resorting to mutual inter-bank arrangements and central bank cooperation, as mentioned.

Nienhaus (1988) suggests that the relative profitability of Islamic banks, especially in the Middle East in recent years, is to a large extent due to the property (real estate) boom. He has cited cases of heavy losses which came with the crash of the property

sector. He concludes that Islamic banking is viable at the microeconomic level but dismisses the proponents' ideological claims for superiority of Islamic banking as 'unfounded'. Nienhaus points out that there are some failure stories, and he noted that the high growth rates of the initial years have been falling off, but he rejects the thesis that the Islamic banks have reached their 'limits of growth' after filling a market gap.

Bley and Kuehn (2004) studied 667 business graduate and undergraduate students' knowledge and perception of conventional and Islamic finance in the United Arab Emirates (UAE). Non-Muslim students viewed Islamic finance as inherently appealing to Muslims, and did not perceive Islamic finance as provider of superior products.

2.3 Research Gap

Islamic banks should not take for granted the expectation of their clients by assuming that they are prompted to deal with Islamic banks solely based on their religious consciousness, rather they should also promote quality services that can satisfy their clients regardless of their religious beliefs as they may be the cause of unsatisfactory banking record.

2.4 Conceptual framework

One of the most important success factors that lead to the spread of Islamic banking was the adherence of these financial institutions to Sharia rules in all their transactions where Sharia disciplines are the main pillar with which Islamic banks deal with their clients.

In this study, knowledge dimensions are the attractive factors of Islamic banking and understanding of Islamic banking as shown in Table 4.4. However, the findings have showed that it is Shariah -ruled and ethical-based operation and activities with additional social function . These definitions in short, implicitly highlight the premier direction of Islamic banking; in which the former is more to profit orientation and the latter is Shariah –orientation

Therefore this study is embarked on to identify the relative significance assigned to selection criteria in deciding a bank that has an Islamic banking system. More importantly, it would evaluate customer preference of the choices of a bank that is adapted from that model. Secondly, it would investigate service provider's orientation towards religion and profit as shown in table 4.10 . It is hoped that the study would facilitate the management of the banks in developing their marketing strategies which is very important for the survival of the bank specifically due to intense competition arising from the conventional banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presented how the research was designed, how the fieldwork was conducted, what was the source and types of data, how data was collected and analyzed, as well as showing the sample size and sampling techniques. To achieve the intended objectives of this study the chapter was divided into eight sections as discussed in the following paragraphs.

3.1 Research Design

Dalen (1999) defines research design as the roadmap or blueprint according to which one intends to conduct a research and achieve his/her research goals and objectives. Design of the study depends on the nature of the study and its objectives (Kothari, 2004).

This research focused on customers and service providers orientation towards Islamic Banking, with a case of KCB, NBC and Amana Bank. It has employed descriptive cross section method. Descriptive studies are appropriated when the nature of the problem is well known and the objective is clearly specified (Churchill 1996). A descriptive study is concerned with either determining the frequency with which something occurred or the relationship between two variables, Churchill (1996). Also descriptive research relied on individuals' self-expressions of their knowledge attitude behavior or feelings, (Kothari 1990).

The stability of descriptive method lied on its capability of gathering data at a particular time. It involved assessment of attitudes, opinions, demographic information conditions and procedure. It was argued that descriptive data were usually collected through questionnaires, interviews and observations (Nisbert 1970). The study design applied less expensive approach, easy data collection methods as it accommodated interviews, questionnaires, documentaries and observations.

3.2 Study Area

The study was conducted in Dar es Salaam, at KCB Bank, NBC Bank and Amana Bank, with each bank one branch, but with NBC it was with two branches being kariakoo. The selection of these branches is based on the fact that these are the most populated areas where customers may be easily reached, due to volume of business, type and number of customers served. Respondents from each branch are considered to represent banks management, customers and employees. Although, in real cases customer's choice of branches are influenced by personality and locations hence this results may not necessarily be generalized to all bank's branches.

3.3 Sample size and Sampling Procedure

In considering the study area and sample size, a note was taken in regards to affordability, adequacy for representation and accuracy of the results for the purpose of the study. As Saunders, (2000) pointed out a mere size alone does not ensure representative thus a small sample, but well selected may be superior to a large but badly selected one.

Hence the sample size should neither be too small nor too large. However, a consideration of optimum size was mandatory for better results which fulfilled the requirement of efficiency, representative reliability and flexibility. Thus, for an extensive and continuous study, a small sample was suitable as the aim was to get an “experience” of a problem. Based on objectives of the study and taking into consideration the observation discussed above, a sample of 50 respondents was considered and the distribution of this sample among the selected Banks sites (NBC, KCB, Amana Bank) was as indicated below:

Table 1. Distribution of Sample Size by Location

Sample	City Centre (Branch)	Kariakoo(Branch)	Total
NBC Bank Officers	5	3	8
Customers	8	5	13
KCB Bank Officers	5	0	5
Customers	4	3	7
Amana Bank Officers	5	0	5
Customers	7	5	12
Total			50

Sampling frame is the list of elements from which the sample is drawn. The method used was cluster sampling method. This is because the selected Banks are scattered, and each Bank represent huge number of customers hence the research sample selected two branches from one Bank (NBC), and with the other two Banks (KCB and Amana bank) one branch each. Thus 32 customers and 18 Bank officers of all branches. Non-probability judgmental sampling method was applied in this study when selecting some customers and employee respondents. However selection of members depended on their accurate information. Thus, judgement may either be subjective or objective.

3.4 Type and Source of Data

Type of data that was used in this study is primary data which was collected through structured questionnaires distributed to bank Employees and Customers. Interviews with bank employees and customers were conducted to elaborate on some of the matters. Samples of questionnaires that were used have been attached at the end of this dissertation. Also few secondary data were used.

3.5 Data Collection

Data collection refers to gathering of information to prove some facts. Nkpa (1997) defines data collection as the process of obtaining evidence in a systematic manner so as to ascertain answers to the research problem. Data was obtained from both primary and secondary sources. Primary data constitutes information gathered directly from the respondents. Leedy and Ormrod (2001) assert that primary data are first hand information which was collected through various methods such as observation, interview and questionnaires.

Secondary data are the data which was already collected and analyzed by someone else (Kombo and Tromp, 2006). They either may be published or unpublished. This study employed secondary data through documents (journals, buying and selling records) so as to analyse customers and service providers orientation towards Islamic banking.

In this study the researcher had used documentary review, interview, observation and questionnaire. The researcher employed a combination of techniques so as to obtain adequate and relevant information that create a broad understanding of the topic under study, due to the fact that there was no one instrument better than another.

Employing a variety of techniques was to enable the researcher to present the information obtained from each approach to ensure validity and reliability of the data.

3.5.1 Documentary Review

This technique was used to get information from published and unpublished materials regarding Islamic Banking. Published sources include journals, newspapers articles and unpublished sources. These mainly were obtained from the Bank's office library where official documents are preserved.

3.5.2 Interview

Interview was a face to face discussion whereby an interviewer was seeking information from interviewees. It involved presentation of verbal stimuli and reply in forms of verbal responses. It created an opportunity for respondents to express their feelings freely, Kothari (1990). Also See Appendix 2

3.5.3 Observation

The researcher employed observation as one of data collection and observed the day to day activities at the bank offices. The researcher was acting as a participant observer. Thus, the researcher observed the interaction between the customers and the bank staff and how each one reacts after or before a service.

3.5.4 Questionnaire

Two sets of questionnaires were used to collect data from selected customers and employees at the selected areas respectively. Both open and close ended questionnaires were employed in obtaining information from the respondents. See Appendix 1.

3.6 Data analysis Plan

The data collected in this study was analyzed both qualitatively and quantitatively. Leedy (1980) states that there is more than one style for reporting the findings of qualitative research. The reason for using both approaches is that, they were complemented each other. Data collected was processed and analyzed through qualitative methods supplemented by a simple statistics (quantitative) specifically cross tabulation to describe patterns of some information. The open-ended questions from interviews were analyzed through qualitative methods. This entailed continuous manual ordering and coding of field data.

Data from questionnaire based on views and opinions were summarized, tabulated and percentages was calculated and information was put together in a tabular form, others were given detailed explanations. Data from interview was expressed by themes in the form of statement describing customers and service providers orientation towards Islamic banking. Data from documents was collected and recorded in statement or numerical forms depending on the type of information found.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0. Introduction

This chapter provides, firstly characteristics of the respondents such as age, level of education possessed, marital status, customers awareness on the benefits of islamic banking. However employees perception on training and experience, employees views on qualified staffs at the bank as well as customers preferences on islamic banking. Secondly, the chapter provides for the advantages of islamic banking to conventional banking and also the challenges that face islamic banking system in Tanzania.

4.1 Demographic Characteristics of Respondents

4.1 The Age of Respondents

Age is an important demographic variable in this study because it enables the researcher to find out whether the respondents understanding and involvement with such banks was influenced by their age.

The age of the respondents who were interviewed were Staffs ranging between 20 to 50 and above years.

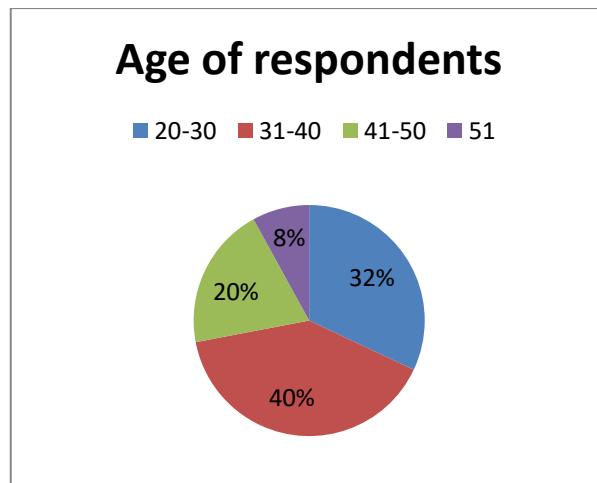
Table 4.1: Age of respondents

Age of respondents	Respondent	Percentage
20-30	16	32
31-40	20	40
41-50	10	20
51+	4	8
Total	50	100

Source: Researchers analysis, 2012

Table 4.1 shows that 16(32%) of respondent out of 50 were of the age of 20-30 years, while 20(40%) of respondent out of 50 were of the age between 31-40 years, and 10(20%) respondents out of 50 fall in the age group between 41 and 50 years, while only 4(8%) out of 50 were above 50 years.

Figure 4.1 Age of respondents



4.1.2 Education Level

The study indulged into the education background of the staffs The objective of this was to discover the education status among bank Staff.

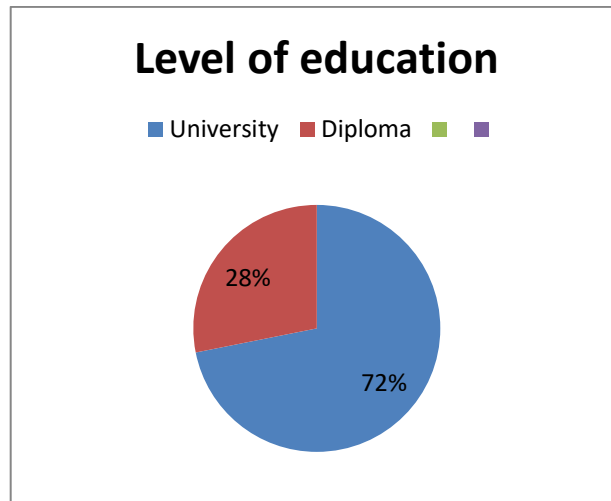
Table 4.2: Level of Education

Level of education	Respondent	Percentage
University	23	71.88=72
Diploma	9	28.13=28
High Level	0	00
O level	0	0
Primary level	0	0
Total	32	100

Source: Reasearchers analysis 2012

From the Table 4.2 it shows that out of 50 respondents 23(71.88%) had attained University Education. Also 9 (28.13%) , thus majority staffs shows that they have attained university level of education.

Figure 4.2 Respondents education level



4.1.3 Marital Status

Marital status was another important demographic variable in this, as enabled the researcher to find out whether the respondents views were influenced by their marital status.

Marital status of the staffs respondents at KCB Bank were 8 married and 12 single, at Amana Bank 5 were married and 8 single, and at NBC bank 15 were single and 10 were married

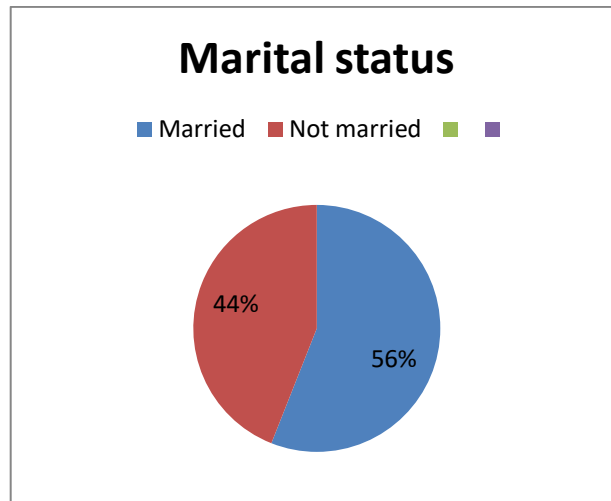
Table 4.3: Respondents Marital Status

Status	No of respondents	Percentage
Married	28	56
No married	22	44
	50	100

Source: Researchers analylis , 2012

Therefore Table 4.2 shows that 28(56%) respondents out of 50 were married and 22(44%) out of 50 were single.

Figure 4.3 Respondents marital status



4.2 Customer’s Awareness on the benefits of Islamic Banking

Customers awareness on the benefits of Islamic Banking services was meant to know the extent in which people are aware of the benefits gained by the islamic banking services, and what drive them to join those services. Therefore the table below shows the respondents views on the awareness of the benefits of islamic banking system as follows;

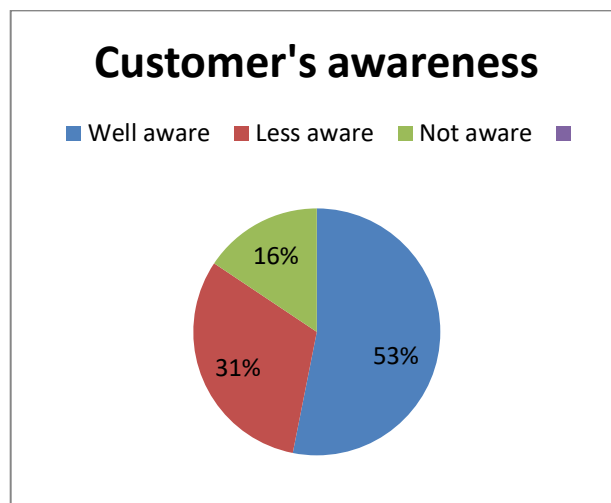
Table 4.4: Respondents awareness

Status	No of respondents	Percentage
Well aware	17	53.13
Less aware	10	31.25
Not aware	5	15.63
Total	32	100.01

Source: Researchers analysis, 2012

From the above table it shows that out of 32 respondents 17 (53.13%) are well aware of Islamic banking services, 10 (31.25%) are less aware of islamic banking services and 5(15.63%) are not aware at all about Islamic banking services.

Figur 4.4 Customer’s awareness on benefits of islamic banking



4.3 Employees perception on training and experience

Many employees respondents had the following perceptions pertaining training and experience gained by the respondents.

Table 4.5: Respondents perception

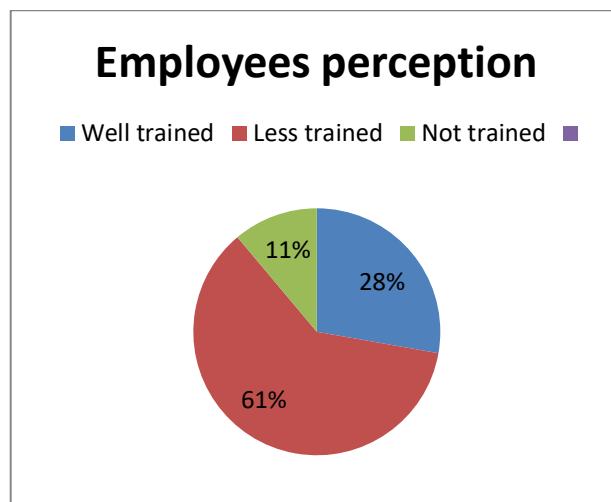
Status	No of respondents	Percentage
Well trained	5	27.77
Less trained	11	61.11
Not trained	2	11.11

Total	18	100.65
-------	----	--------

Source: Researchers analysis, 2012

From the above table it shows that out of 18 respondents only 5 (27.77%) agree that employees are well trained with the Islamic banking activities, 11 (61.11%) are less trained and only 2 (11.11%) are not trained at all. Therefore it is clearly showing that majority employees are less trained with islamic banking system

Figure 4.5 employees peception on training and experience



4.4 Employees views on qualified stuffs at the Bank

The respondents had the following views regarding qualified stuffs at the bank. The table below shows the results as follows;

Table 4.6: Respondents views

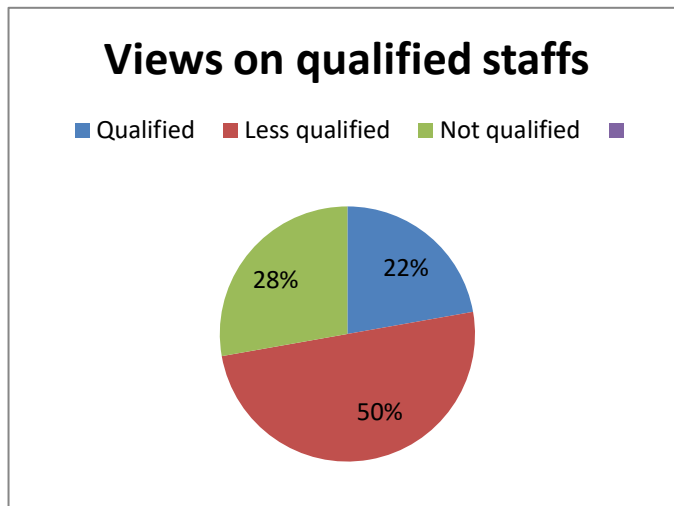
Status	No of respondents	Percentage
Qualified	4	22.22
Less qualified	9	50

Not qualified	5	27.78
Total	18	100

Source: Researchers analysis, 2013

From the above table it shows that out of 18 respondents only 4 (22.22%) agree that employees are qualified to practice with Islamic banking activities, 9 respondents (50%) are less qualified and only 5 (27.77%) out of 18 are not qualified at all. Therefore it is clearly showing that majority employees are less qualified to practice the islamic banking services.

Figure 4.6 Employees views on qualified staffs at the bank



4.5 Customer’s preferences towards Islamic Banking

The respondents had the following views on their preferences on joining Islamic banking. This is important because the researcher need to know what exactly influences customers to join Islamic banking. The table below shows the results as follows;

Table 4.7: Customers preferences

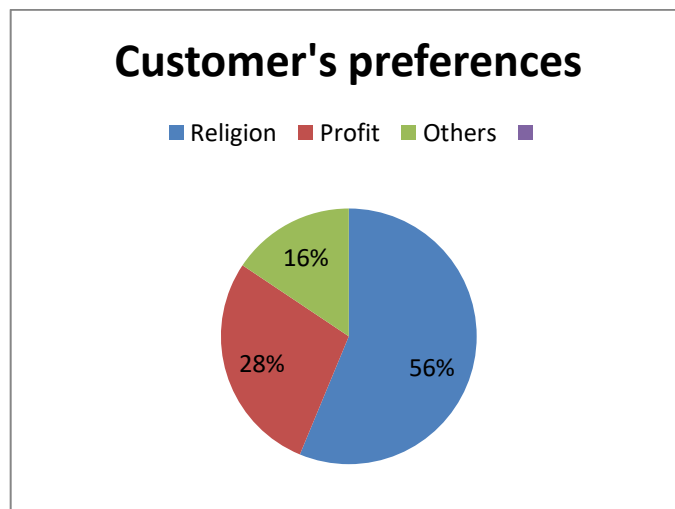
Status	No of respondents	Percentage
Religion	18	56.25
Profit	9	28.13

Others	5	15.62
Total	32	100

Source: Reseachers analylis, 2012

From the above table it shows that out of 50 respondents 30 (60%) agree that customers preferences towards islamic banking is influenced by religion, 15(30%) out of 50 are influnced by profit and 5(10%) out of 50 are influenced by their othe reasons. Therefore it is clearly showing that majority customers orientation lies on their religious beliefs rather than other factors.

Figure 4.7 customer’s preferences towards Islamic banking



4.6 The future prospect of Islamic banking

The respondents had the following views on the future prospect of Islamic Banking in Tanzania. This is helpful for the reseacher to know whether the respondents see the growth of Islamic banking or not.

Table 4.8: Respondents prospects

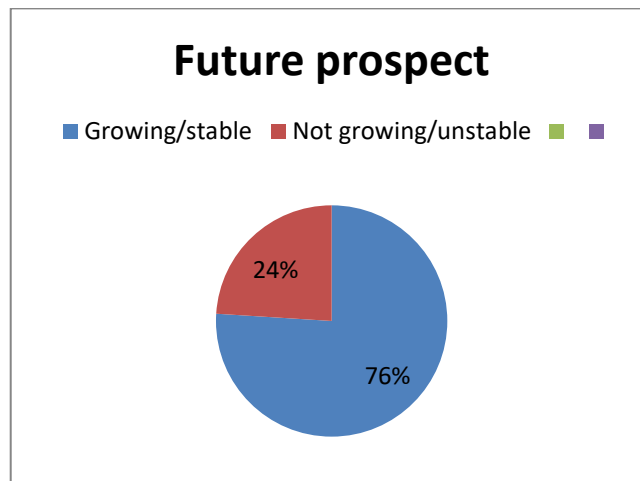
Status	No of respondents	Percentage
Growing and stable	38	76

Not growing and unstable	12	24
Total	50	100

Source: Researchers analysis , 2012

From the table above, it shows that out of 50 respondents 38(76%) sees the future prospect of islamic banking growing and stable, while 12(24%) sees the future prospect of Islamic banking in tanzania not growing and not stable.

Figure 4.8 The future prospect of Islamic banking



4.7 Islamic banking products competitiveness to conventional banking products

The respondents had the following views regarding competitiveness of islamic banking products to conventional banking products.

Table 4.9: Respondents views

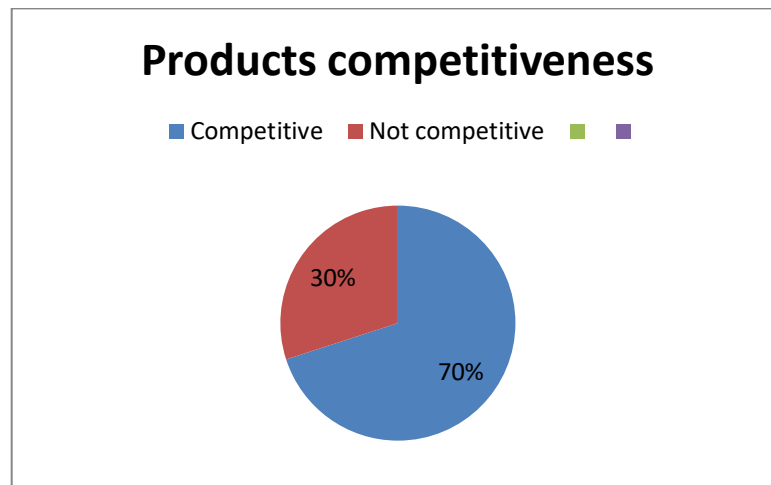
Status	No of respondents	Percentage
Competitive	35	70

Non competitive	15	30
Total	50	100

Source: Researchers analysis , 2012

From the above table it shows that out of 50 respondents 35(70%) agrees that islamic banking products are competitive to conventional banking products, while 15(30%) agrees that islamic banking products are not so competitive to conventional banking products.

Figure 4.9 Islamic banking products competitiveness



4.8 Islamic Banking preferences towards religion and profit

Respondents views on preferences towards religion and profit were as follows

Table 4.10: Respondents(Stuffs) views

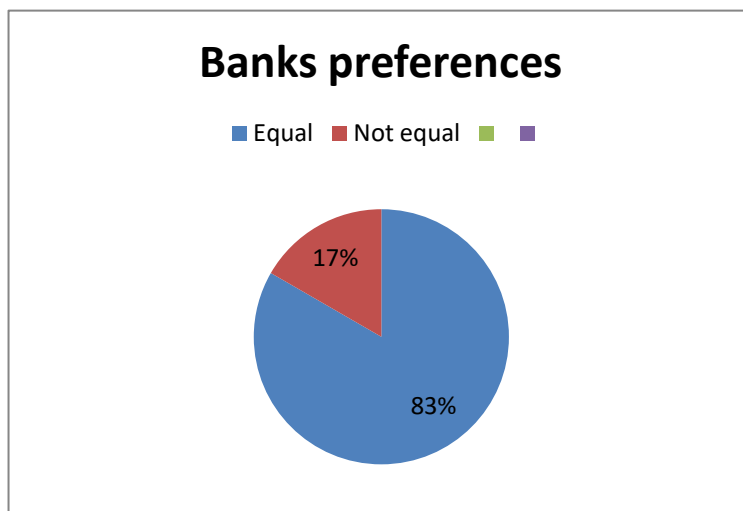
Status	No of respondents	Percentage
Equal	15	83.33

Not equal	3	16.67
Total	18	100

Source: Researchers analysis , 2012

From the above table, out of 18 stuffs who were interviewed by the reseacher, 15(83.33%) agreed that islamic banking preferences towards religion and profit are equal, while 3(16.67%) out of 18 said that their preferences towards religion and profit are not equal.

Figure 4.10 Bank’s preference towards religion and profit



CHAPTER FIVE

DISCUSSION OF THE STUDY FINDINGS

5.1 Introduction

Islamic Banking is simply banking with Shariah (Islamic Sacred Law) in mind. Under Islamic banking, products and governing contracts are structured with strict observance of the principles derived from Islamic Law on business transaction (Fiqh Muamalat). These principles of sharing profit and loss, Principle of interest free arrangement, Principle of ethical business investment, and Principle of no speculations. It is only under Islamic banking where one will find interest based banking relationship and principle of justice and fair dealing is held with sincerity and utmost commitment. This system is now gaining a global popularity although historically it is not a new system. Islamic financial institutions are becoming popular even more (Aikaeli 2008).

The system has been growing rapidly in developing and developed countries in recent years. The strong growth is likely to continue in the coming years despite the recent financial crisis. Despite Amana Bank which is the first fully Sharia compliant bank in Tanzania, The National Bank of Commerce (NBC) and KCB Bank Tanzania have also launched Islamic banking services to meet market needs. This system aims at ensuring that banking services and products appeal to all customers regardless of their belief system or background. Under Islamic banking, products and governing contracts are structured with strict observance of Islamic law on just and fair business transactions.

It is operated free of interest and any ambiguity under the principle of profit-risk-sharing. Business transactions under Islamic finance require underlying genuine trade and assets.

Many banks across the world are now changing from conventional to Islamic banking although some are introducing islamic services in partly. Tanzania is part of this change to do the same. There is need to raise public awareness on this banking system and how to utilise it.

This comparative study on customers and service providers preference towards Islamic Banking to selected banks in Dar es Salaam was conducted at KCB Bank, Amana

Bank and partially in NBC bank. Data were gathered from the respective sample population which included Customers, employees and management staffs. In this chapter therefore findings are presented to indicate what exactly these banks and customers prefer so as to make use of the Islamic Banking System. The results of the study suggest that both banks have to adapt quickly to changing market conditions, in order to compete with public, private/foreign banks. This is particularly due to the wide difference in their credit policy, customer service, ease of access and adoption of their services in their banking system.

5.2 Implication of the Objective to the Study Findings

The findings of this study have managed to respond to every objective which the study has planned to accomplish. It is on this respect that the researcher has decided to group the findings in a way which indicate how each objective was accomplished by considering the responses from all the three sample groups of Customers, Employees and Management.

On an overall view the findings indicates that banks have started to realize the importance of Islamic Banking as one of the product which helps to increase their profitability. KCB is not one of the founder banks in Tanzania to adopt this product, but Amana Bank and National Bank of Commerce adopted Islamic Banking system earlier in 2000's than others. This indicates that the product keeps on gaining popularity and the findings from these banks grinds this facts as it appears in the following evidence.

Therefore this chapter contains analysis and discussion of the research findings. The analysis and discussion relate to the purpose of the study as well as the research findings. The researcher's point of view and comments are also given. This study revealed that generally there seems to be lack of awareness on Islamic banking services, also employees are less trained and have little experience and as well have less qualifications on issues of Islamic banking services. On top of that, the results also show that, customer's preferences towards Islamic banking lies mostly in their religious beliefs rather than profit gained in the services provided. Nevertheless,

services provider's orientation towards Islamic banking seem to be based on both religious belief as well as profit making.

However, there is no significant difference between Islamic banking services and conventional banking services so long as they both work for profit, even though Islamic banking services operates under the rules of Sharia.

5.3 Findings from the research objectives

Research objective one: To examine the customer's preferences towards religion in reference to use of Islamic banking.

The researcher aimed to find out customer's preferences towards religion in reference to use of Islamic banking.

5.4.1 Customer's preferences towards religion in reference to use of Islamic banking among NBC, KCB and Amana Bank.

Findings have showed that most respondents agree that their preferences towards Islamic banking is influenced by religion. Therefore it is clearly showing that majority customer's orientation lies on their religious beliefs rather than other factors. These results are as well related to (Amana Banks, 2011) which comment that generally, the Islamic Bank benefit the users by having Sharia Compliant Banking products and services; these benefits include lawful profits for deposits as a result of halal investments as well as lawful channels and structures of different business deals.

Moreover, the users will have the peace of mind dealing with the bank that follows full Shariah principles, avoid unethical and anti-social practices. These results also corresponds with (Hunt (1978) who studied about customer's satisfaction and dissatisfaction upon the need to use Islamic banking services.

Customers agreed that some of them prefer Islamic banking due to religious beliefs since there will be no interest as interest is contrary to Islamic principles. However for

the Muslims, they are very grateful for these banks because for years they have been living against Allah for they were forced to enter into secular banking systems (Ayub, (2002).

They also believe that all investments made under Islamic Banking are never associated with any of the traditional 'sin' industries, such as alcohol, tobacco, gambling or pornography; as a result the product stands on an individual's faith, ensuring not only financial security but also moral and mental satisfaction (Oliver (1997).

Thus, quantitative approach reveals that the preference for Islamic banking attributes is a combination of the quality of services offered by the Islamic banks, as well as the convenience associated with it. On the other hand, the qualitative approach revealed that choosing Islamic banks was mainly due to the religious motivation of the customers.

5.5. Findings from research objective two.

Objective two: To examine customer's preferences towards profit on Islamic banking. The researcher aimed to examine the customer's preferences towards profit on Islamic banking.

5.5.1 Customer's preferences towards profit on Islamic banking

Respondents at NBC Bank as well prefer various accounts like the Cheque Account and Saving Account with an embedded Death Benefit that is built around the Shariah Laws which govern the way in which Muslims live their lives and conduct their daily business including their financial affairs(Walid, Mohamed & Omar 2010). And also the service will be managed in line with the clear guidelines Shari'ah lays down for the management of money, one of these guidelines being the absence of interest on current and savings accounts. The Shariah Law forbids the earning of interest. Funds deposited in the accounts will be invested in businesses that are approved under Shariah Law.

However respondents said that they benefit from various accounts that are provided under Islamic banking which are riba free as shown in table 4.7. For example at Amana Bank there are *Personal savings accounts* which are completely riba free account product aimed at enabling customers to safely keep their funds. Also the *Hajj savings account* which is a special product aiming to promote the fifth pillar of islam and is first of its kind in Tanzania Islamic banking market. This account promotes a saving culture among muslim Tanzania so as to fulfill one of the most important pillars of islam in their lifetime. Nevertheless this is the most popular account that muslim clients prefer.

However respondents agreed that Biashara current account at Amana Bank is a special account designed to meet the needs of small and medium enterprises (SME). Biashara current account enables them to run their accounts through the use of cheque book in daily business transactions. It is safe as well as convenient.

Nevertheless customers benefit from amana account in Amana Bank. Easy to open and to operate, Attractive profits from savings, Twenty four seven access to your money through umoja switch, Free annual bank statements , Unlimited teller transactions, Free cash transfer within the bank, Low maintenance charges, No hidden costs and also customers gain peace of mind in placing funds with the bank that uses it for halal transactions. (Amana documents)

However it was possible to assess how Islamic Financial Institutions were viewed with respect to how satisfied customers were with the services that they have provided. Furthermore it shows that Reliability is perceived as the most important attributes in choosing the Islamic Financial Institutions followed by assurances and tangibles. The least important attributes are empathy, responsiveness and compliance, respectively.

In terms of the overall impression it is interesting to note that compliance is one of the most significant attributes that contribute to the criteria for choosing Islamic products and services in the market.

However, reliability is another aspect that customers prefer towards Islamic banking services., tangibles, responsiveness, assurance and empathy are as well important in islamic banking.

This study supports the research done by Othman and Owen (2001) based on the fact that compliance to Islamic principles is perceived as the most significant criteria. It is interesting to note that in general customers prefer to deal with islamic banks as it suits with their religious' values and principles.

The study also revealed that choices of these financial providers do not much correspond with their products which “offered free interest loan” as the mean observed in this study is the lowest.

Nevertheless, in order to compare the service quality between the full-pledged islamic banks and the conventional banks offering Islamic products and services, it shows that the relative importance of each selection criteria as adopted by (Othman and Owen, 2001) are differ from one bank to another depending on the type of institution (fully pledged Islamic bank or conventional bank offers Islamic window).

Besides, Banks that are fully Sharia compliant like Amana Bank, It is not surprising that it is expected to perform and operating fully under Islamic principles. However, as for assurance, it has been implied that employees have less knowledge and the courtesy of their ability to convey trust and confidence. This indicates that least attention is given by the bank as to ensure that their customers are satisfied with the services provided. As for other attributes such as Assurance, Reliability, Empathy and Responsiveness, the banks are the top provider.

This indicates that banks have been doing very well in order to satisfy its customers. The results may also suggest that consumer have a strong satisfaction level towards the conventional bank. Perhaps, this is because customers perceive that the conventional banks offer better services particularly in terms of quality. This can also be witnessed through banks offering Islamic window, yet it has been services knowing

that consumer will still go to their bank because of the important factor that consumer are looking at especially the Muslims, and it would be that the bank must fully adhere to the Islamic principles.

5.6 Findings from research objective three.

Research objective three: To examine the service provider's orientation towards religion while delivering Islamic banking services.

In this part the researcher aimed to find out the service provider's orientation towards religion while delivering Islamic banking services.

5.6.1 Service provider's orientation towards religion.

The objective of Islamic Banking is not only to earn profit, but to do good and bring welfare to the people, Islam upholds the concept that money, income and property belong to Allah and this wealth is to be used for the good of the society(Saeed, 1996) Therefore Islamic Banking works with no interest, but trading with profit. Islamic banks are not different from other financial institutions in terms of their legal modalities, constitutive structures, objectives and means of achieving those objectives. The only difference lies in their description as Islamic. The Islamic banks have enjoined on themselves to conduct their affairs within the limit of the rulings of Shari'ah and to comply with its overall objectives.

In all Banks the respondents agreed that Islamic banking is just like regular banking only with no interest what so ever. The interest in Islam is called "Riba" (Usury). Riba or Usury which is strictly forbidden in Islam because it is unfair.

The introduction of Islamic Banking in the Tanzanian market is aimed at ensuring that Banks offer products that appeal to all Tanzanians regardless of their faith or background. For example; The concept of NBC's Islamic Banking - which offers the options of the Cheque Account and Saving Account with an embedded Death Benefit - is built around the Shariah Laws which govern the way in which Muslims live their lives and conduct their daily business including their financial affairs.

The Shariah Law forbids the earning of interest. Funds deposited in the accounts will be invested in businesses that are approved under Shariah Law. “Though this service will mostly appeal to our Muslim clientele, it is completely open to everyone regardless of their faith” (NBC’s Managing Director Mr. Christo De Vries during an editor’s brief held at the Kilimanjaro Kempinski Hotel in Dar es Salaam) Islamic Banking services will be available to all who choose an alternative to conventional banking, “Muslims and non-Muslims globally are choosing to make use of Islamic Banking.

It is a service that gives them the assurance that their money will be invested well. This service is part of NBC’s business banking strategy, to provide innovative products to meet the needs of the market.

Moreover, unveiling the new accounts at the special Iftar courtesy organised by the bank in Dar es Salaam, the NBC managing director Lawrence Mafuru said the bank has listened to long-time cry by the Islamic society for such a special window for their business. “NBC, since its inception in 1967, understands the presence of Shariah and people who like to abide by it.

He said “We might have been a hindrance to them, but we are now starting afresh by launching Corporate Islamic Current Account.” He adds by saying that “In this service, those who like to follow Islamic banking rules will enjoy our services in both foreign and local currency...There will be no interest as the interest was a cry for Islamic society for years now,” said Mr Mafuru.(NBC Website)

However bank’s decision to launch the accounts saying Muslims in Tanzania were for years living against Allah for they were forced to enter into secular banking systems. The NBC decision is the best one as it will let Muslims in Tanzania live according to their religion ethics...I urge the bank to spread the service all over the country to serve Muslims and non-Muslims effectively.

Beside the Islamic law prohibits the payment or acceptance of specific interest or fees for loans of money. Mafuru urged Muslims to use this Holy Month of Ramadhan to

pray for the country as it was passing through challenges and different socio-economic hardships. However, Mafuru said those new products, apart from being operated by Shariah, they also following Tanzanian banking regulations of Bank of Tanzania (BoT). This shows how much service provider's care for their customers as well on regarding their religious beliefs in their financial management as well.

However at Amana Bank deposits and earn halal flexible returns from customers deposits . the funds will be used in lawfull and profitable investiments (assets) to earn profit and share with our valued customers based on the agreed predetermined weightages (profit sharing ratio) declared at the start of every month

Therefore Banks conduct Islamic banking for profit and spiritual purpose as well. For instance KCB Bank agreed that there are three motives that drove their intention to establish Islamic banking. *First*, to serve the under served market particulary Muslims with excellent banking products and services that comply with the Islamic Faith. *Second*, to prove to the market that their core value of 'ready to change' is not in papers, it is what they believe in. *Third*, to be part of an expanding network of banks that practice Islamic banking, winning the trust of their customers. (KCB Bank 2011).

Besides, as long as service provider's operates their business transactions in accordace to the rules of Sharia, they usually gain profit in either of the following ways;

- In an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit, while allowing the buyer to pay the bank in installments. However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment.
- In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. This arrangement is called Murabaha. Another approach is EIjara WA EIqtina, which is similar to real estate leasing. Islamic banks handle loans

for vehicles in a similar way (selling the vehicle at a higher-than-market price to the debtor and then retaining ownership of the vehicle until the loan is fully paid.) (Customers' Banking Requirements- Paper)

- An innovative approach applied by some banks for home loans, called Musharaka al-Mutanaqisa, allows for a floating rate in the form of rental. The bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower will then share the proceeds from this rent based on the current equity share of the partnership. At the same time, the borrower in the partnership entity also buys the bank's share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended. (Khan, S. R. (1987).
- If default occurs, both the bank and the borrower receive a proportion of the proceeds from the sale of the property based on each party's current equity. This method allows for floating rates according to the current market rate such as the Base Lending Rate, especially in a dual-banking system like in Malaysia.
- There are several other approaches used in business transactions. Islamic banks lend their money to companies by issuing floating rate interest loans. The floating rate of interest is pegged to the company's individual rate of return. Thus the bank's profit on the loan is equal to a certain percentage of the company's profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. This practice is called Musharaka. (Khan, S. R. (1987).
- Further, Mudaraba is venture capital funding of an entrepreneur who provides labor while financing is provided by the bank so that both profit and risk are shared. Such participatory arrangements between capital and labor reflect the Islamic view that the borrower must not bear all the risk/cost of a failure,

resulting in a balanced distribution of income and not allowing lender to monopolize the economy.

5.7 Findings from research objective four

Research objective four: To examine the service provider's orientation towards profit while delivering Islamic banking services.

The researcher aimed at examining service provider's orientation towards profit while delivering Islamic banking services.

5.7.1 Service provider's orientation towards profit

From the above table, out of 18 stuffs who were interviewed by the reseacher, 15(83.33%) agreed that islamic banking preferences towards religion and profit are equal, while 3(16.66%) out of 18 said that their preferences towards religion and profit is not equal.

An Islamic Bank is committed to do away with disparity and establish justice in the economy, trade, commerce and industry; build socio-economic infrastructure and create employment opportunities. (Munawar 2000)

According to Islamic faith, Islamic Banks operate on Islamic principles of profit and loss sharing and other approved modes of Investment. It strictly avoids interest which is the root of all exploitation and is responsible for large scale inflation and unemployment.

Islamic banking can be based on profit oriented. However profit orientation must be based on objectves of the shariah which is based on preserving the public interest and preventing harm.

Bank is Institution that deals in money and its substitutes and provides other financial services. Banks accept deposits and make loans and derive a profit from the difference in the interest paid to lenders (depositors) and charged to borrowers, respectively. They also profit from fees charged for services.

The three major classes of banks are commercial banks, investment banks, and central banks. Banking depends entirely on public confidence in the system's soundness; no bank could pay all its depositors should they simultaneously demand cash, as may happen in a panic. A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets.

A bank is the connection between customers that have capital deficits and customers with capital surpluses. Further studies related to Islamic banking adoption also affirm that the selection of Islamic banks appears to be predominantly a combination of Islamic and financial reputation and quality service offered by the banks, whilst other factors such as good social responsibility practices, convenience and product pricing are also considered to be important (Abbas et al, 2003; Asyraf & Nurdianawati, 2006). Asyraf and Nurdianawati (2006), also critiqued the earlier studies stating that Islamic banking activities should no longer be regarded as a mere initiative striving only to fulfill the religious obligations, but more significantly as an innovation that is ineluctably in need for winning over customers.

Therefore it must be realized that maximization of profit is the objective of the highest priority for all investment institutions created by private individuals. Consequently, all private-sector financing institutions have one fundamental objective: to make as much profit as they can.

5.7 Findings from research objective five

Research objective five: To suggest information pertaining the use of Islamic banking services.

Here the researcher aimed at providing the advantages of Islamic banking to conventional banking, as well as the challenges facing Islamic banking as the study is concerned.

5.8.1 Advantage of Islamic Banking to conventional banking.

One of the unique and salient characteristics of Islamic banks is that the integration of ethical and moral values with its banking operation. The ethical and moral consideration of Islamic banks cannot be detached and their behavior should be consistent with the moral and ethical standards laid down by the Islamic shariah.

In contrast with conventional banks, Islamic banks do not consider only the credit worthiness and interest rate as standards; instead they must apply Islamic moral/ethical criteria in their provision of financing. This adds another merit for Islamic banks since there is a beneficial impact on the productivity in the economy as it reduces the social and economic cost of such harmful products and activities.

Unlike the conventional banks, the financing of Islamic banks are restricted to useful goods and services and refrain from financing alcoholic beverages and tobacco or morally unacceptable services such as casinos and pornography, irrespective of whether or not such goods and services are legal or not in a given country. Thus in Islamic banking industry, each bank will attempt to out-perform other banks if it wants to attract funds from investors. And the ultimate result is that a high return on investments for the investors, which is unlikely in a conventional bank where it deals with their depositors on a pre-determined fixed interest rate.

Furthermore Islamic banks eliminate the barrier between those who save and those who invest, and bring them closer to the real market. The nature of the financial intermediation of Islamic banks significantly differs from conventional banks and it is in harmony with real market and developmental changes in it.

Islamic banking is a complete solution to economic and to some extent social needs of everyone from House building to education in addition to conventional help in commerce, business and industry.

However more opportunities now lie in Islamic banking as it has been accepted worldwide to international agencies, multinational corporations, and non-Muslim governments.

Reaching the unbanked segment; all Muslims sects and ethical investors (locally and internationally) can equally be reached and participate in the banking system
New markets shall emerge with growth of Islamic banking, i.e Islamic mortgage, Islamic insurance, new investment projects etc.

In regions where Muslims are minority, like Kilimanjaro (around 10% of population?) Islamic banking will enjoy the benefit of niche marketing and if properly targeted will obtain better results.

5.8.2 Challenges facing Islamic Banking in NBC,KCB and Amana Bank.

5.8.2.1 Introduction:

In the course of its business growth, Islamic banking in Tanzania is expected to face a number of challenges in its verge of utilizing the system. Among other challenges there are business challenges, operational challenges, legal and regulatory challenges which is the characteristic of lending products in the market through Shariah compliant instruments like Murabah (cost plus profit sale), Bai Bithamanin ajil (Spot delivery with the future payments), Bai Salaam and Istisnaa(advance payment with the future delivery of goods), Musharaka. (Partnership/joint Venture), Diminishing Musharaka, Mudaraba (passive partnership), Ijara (leasing), Ijara wa Iqtina(lease to purchase), Qard Hasaan(Benevolent loans), Sukuk (trust certificates), Equity participation in form of shares of corporate entity among others. However these challenges can be overcome as days goes by. However by complying to the requirements of Sharia, Islamic Banking deliver by hundred per cent spiritual benefit and Sharia compliant.

The following are some of the challenges facing Islamic banking that the respondents mentioned;

5.8.2.2 Legal Support

Islamic law offers its own framework for execution of commercial and financial contracts and transactions. Nevertheless, commercial banking and company laws appropriate for implementation of Islamic banking and financial contracts do not exist. Islamic banking contracts are treated as buying and selling properties and hence are taxed twice.

5.8.2.3 Teaching training research and development

There is serious shortage of scholars who possess working knowledge of Islamic banking. Employees are not well trained in the use of Islamic modes of finance. Unfortunately very little effort has been made to meet these challenges.

However in the area of teaching, no teaching programmes have been initiated to produce graduates with the dual specialization. This may also be confirmed by the fact that the Islamic banks have not been able to find a reasonable number of suitable managers of graduates of those universities nor could anyone of them find a place in the Shariah board of any Islamic bank

In the area of research, the Islamic banks, neither individual nor as a group spend much amount of research and development. Some Islamic banks have small units for research but very little of these research activities is design for product management. It is therefore not surprising that the Islamic banking industry has not been able to produce enough new financial products.

5.8.2.4 Competition

So far Islamic banks had a fairly degree of monopoly over the financial resources of Islamically motivated clients. But this situation is changing fast. Islamic banks are now facing ever increasing competition. An important development in Islamic banking in the last few years has been the entry of some conventional banks in the market.

The conventional banks particularly have a large advantage over Islamic banks in terms of their size, experience, market coverage and long standing in the industry. This exposes the Islamic banks to an intense competition. Therefore the survival of Islamic banks depends on the ability to increase efficiency and performance.

Although it is possible to know how many conventional banks in Tanzania practice Islamic banking techniques, even a random selected short list may contain some of the giant.

In addition to these in many Muslim countries several commercial banks are offering Islamic banking service.

5.8.2.5 Globalization

The competition from conventional banks is expected to increase further in the near future due to globalisation. Liberalization of the world market are rapidly converging into a single market place.

This poses opportunities as well as challenges for Islamic banks. On one hand it will allow more portfolio diversification and hence reduce the risk in profit sharing mode. This will open up opportunities for Islamic banks maybe allowed to open more and more branches in non Muslim countries.

5.8.2.6 Islamic prudential regulations

Supervision of Islamic banks is equally important. At present, lack of effective prudential regulation is one of the weaknesses of the Islamic banking industry. For instance, leasing prudential regulations are applied to Ijara where the nature of both is different, such as taking advances. The bank is the owner in Ijara; so taking advances will render the contract of Ijara for conversion into Musharakah whereas the rules of Ijara are applied to it, which is illegal.

5.8.2.7 Risks

The nature of risk in Islamic banking is different from those of conventional banking and therefore some special prudential, accounting and auditing standards should be applied to them.

5.28.2.8 Shariah based product

These financial institutions offer the same basic products, (90 per cent Murabaha and Ijarah) but the problem is that each institution has its own group of Islamic scholars on the Shariah board to approve the product.

5.8.2.9 Nature of Islamic banking

Islamic banks are offering only Murabaha and Ijarah while leaving the core and difference making Islamic financial instruments such as Musharakah and Murabah. It is necessary to enhance and facilitate the implementation of real Islamic banking activities i.e. promoting risk sharing

5.8.2.10 Some other Sharia issues

Because of religion dimension of Islamic banking and finance, no new product can be adopted until it is cleared with sharia scholars. Even when a new product has been put into use shariah auditing of the operation of financial institutions is very important to ensure that the actual practice complies with the requirement of Shariah. This is important not only for religious reason but also for purely business consideration because the clients of islamic banks will not have confidence in their operations unless Shariah scholars clear their activities.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

In the analysis of the findings, the study has managed to answer the questions which were the corner stone of the research objectives. The study has managed to observe what exactly customers and service provider's prefer towards Islamic Banking services drawing reference from KCB Bank, Amana Bank and NBC Bank. It was evident that the respondents were aware about the product even though some of them did not know the products in details rather than just few services they individually preferred. However the study has revealed some services which are offered under Islamic Banking system and has shown some challenges that are mainly facing these banks. The findings have as well explained advantages of Islamic Banking services and the benefits of Islamic banking services to the customers and service providers at large.

6.1 Summary of the Study

This study managed to point out some of the significant issues and challenges that Islamic banking face and the prospects for Islamic banking. But in addition the study also provides some customer's and service provider's orientation on Islamic Banking system. The results of this study will benefit Islamic banking organizations, management, staffs of those banks, the regulators dealing with that system and customers of Islamic banking products. The regulator has to rigorously look into ways to streamline the problems facing Islamic banking. This research also provides some insights on the prospects of Islamic banking in Tanzania and how it is performing in meeting the objectives to make Tanzania an Islamic hub.

6.2 Summary of the study findings

This study aimed at making a comparative study on customers and service providers orientation towards Islamic Banking in Tanzania on selected banks. The sample population chosen was KCB Bank, NBC Bank and Amana Bank and the sample size

included 90 respondents who constituted of the customers and employees. The findings have indicated many Banks has adopted the system as a new product in their operations, although at Amana Bank it is fully Sharia compliant.

In tanzania there is great demand that drives changes in the field, not for the benefit of the few but the whole community spiritually and materially. With an axample of the bank like KCBT which launched first of its kind Amana banking products in Tanzania market. This launch brought new banking experience though limited service was on offer. With the launch of Amana Bank and NBC Bank Tanzania must now try islamic banking without fear or prejudice.

The study has also revealed that a good number of both bank employees and the customers are aware of the Islamic banking services. However the findings have indicated that banks are facing a number of challenges in ensuring that they properly adhere to the rules required in delivering services under Islamic Banking system. One of the biggest challenges is on the education to the subscribers of the service because it was found that even some of the Muslims were subscribing to other type of non-Islamic services and ignore the use of the Islamic banking system which in context is cheap. The other challenge was associated with the training of staffs which sometimes are non-Muslims in order to ensure quality delivery of the service.

KCB Bank, NBC Bank and Amana Bank and especially the managers have advised other banks to adopt this product to their services because according to them it helps to increase profitability. They also insisted that Islamic Banking system is another new way of ensuring customer retention. In general findings have indicated that there is increase in the use of Islamic Banking services as well as increase in the customers' awareness about the product.

6.3 Conclusion

The descriptive findings reveal that the establishment of Islamic banks is associated with the Islamic revolution and the escalating awareness of Muslim society in

embracing Islam as its way of life, in the fields of finance and banking as well as in other aspects. It is only this way because in Islamic laws giving and receiving interest is considered Haram or Unlawful. So, Islamic banking practices were started to provide banking services to customers following the Islamic faith so that they can take up banking without offending their religious sentiments.

Therefore, it should be borne in mind that although the emergence of Islamic banking was in response to the market needs of Muslims, these banks are not religious institutions, as they provide banking services for non-Muslim customers as well.

Further proof of the viability of Islamic banking is the fact that many conventional banks, including some major multinational Western banks, have also started using Islamic banking techniques. Malaysia is among the countries that have chosen to operate Islamic banking alongside the conventional system.

However since maximization of profit is the highest priority for all investment institutions as they have one fundamental objective of making as much profit as they can, with Islamic Banking, service providers are making sure that not only they are ensuring financial security but they also ensure moral and mental satisfaction of their customers, as a result the product stands on an individual's faith.

Nevertheless, findings reveal that there is great improvement in the delivery of Islamic Banking services. From the time these services were introduced in Tanzania in 2004 by Amana Bank, there were lots of setbacks and challenges both at the strategic managerial level and at the operational level.

This has helped to clear the path for new banks which decide to adopt the services into their list of products as it is the case for KCB and NBC. However said that use of the Islamic banking services adds profitability to the bank, still are many challenges associated with its establishment. Although there are claims that Muslims population is bigger than the Christian population. History indicates that where Islamic banks have been operating for a long time, they have relatively become profitable, less risky

and more efficient than other banks. This shows that there is brighter future for KCB, NBC, Amana Bank and any other which shall decide to adopt this system of banking.

Therefore the researchers feel that in order for the full-pledged Islamic banks to sustain their market positioning, they need to really ensure their service quality as this will entail customer satisfaction and ultimately customer loyalty.

They need to remain competitive especially with their international counterparts by offering good quality products and services as well as not just only rely on their “Islamic” image and reputation to draw customers (Muslims and non-Muslims).

6.4 Recommendations

Below are some of the recommendations from the above findings.

Whatever strategic positioning an Islamic bank chooses, it will typically need to seek greater efficiency across the value chain.

As with other conventional banks, key areas include sales effectiveness, operational efficiency, and performance management (Kotler, P. (1997). These are some factors that would improve productivity of the bank with islamic banking system.

Customer focus. For banks to increase their share of wallet, customer satisfaction is key, yet studies show that banks generally do not seem to consider customer satisfaction a priority (Zeithaml 2000). Based on this research, there are three main areas for improving customer focus.

- **Staff.**

Sales people should be often prepared and have little understanding of the products they are selling. Thus, there is a need to improve responsiveness, as customers do not receive a callback within the promised time, if at all.

- **Information.**

Customer's should receive important information about a product before purchase for example, discovering extra charges after a sale, it typically results in severe, lasting damage to brand loyalty. Therefore prior information on products is very important.

- **Touch points.**

Customers should atleast have call-center or website service options and are repeatedly referred from one department to another.

Therefore improving customer service begins with a framework in which the brand promise is aligned with every aspect of the organization and its people, culture, performance metrics, processes and infrastructure.

Nevertheless as competition intensifies, it is imperative for Islamic banks to adopt a more sophisticated, customer sales approach. A reorganization of the sales force from a product focus to a customer focus, improvement of sales techniques and skills, and installing an improved multi channel offering through channel cooperation and organizational integration will keep costs down and promote customer satisfaction. Maintaining a single view of the customer across all channels is significant.

Operational efficiency.

Many banks processes are still manual,they involve a multitude of documents and layers upon layers of decision makers. This can be particularly cumbersome in Islamic banking as an asset transfer is often involved. Therefore redesigned processes can yield significant efficiency improvements in a certain level.

Performance management.

Monitoring and properly rewarding high achievers is key to improving performance levels. Rewards can be awarded so as to ensure that hard-won improvement. Banks must device a means of advertising and marketing Islamic Banking services so that more subscribers are attracted to use this service.

The bank employees are more optimistic than their counterparts. Based on the undesirable outcome in terms of the level of knowledge of employees in the Islamic banking field, it is recommended that the banks' management take greater initiative in providing their employees with sufficient knowledge of and exposure to rules of the Shariah and the principles governing Islamic banking in particular.

Also Banks management must be considerably proactive in organizing seminars and workshops to expose their employees to innovations in Islamic banking products and services. The government must ensure that it introduce policies on Islamic banking so as to encourage many banks to use this service.

Islamic banking may play an active role through their welfare-oriented activities to create job opportunities for those unemployed graduates. As the issue of unemployment are considered to be the major issues of the third world countries.

The fact that Islamic Banking has more advantages to the customers; it is the responsibility of the government to ensure that rules governing the operations of such kind of bank ensure customer security.

However, the concerns from the customers that Islamic Banking should be integrated as normal services of the bank shall increase the number of subscribers and at the same time it will be used as a means to market the product itself.

The bank must invest in its staffs so as to ensure that every employee is familiar with the product. This follows claims from other customers that there are no enough attendants in the unit because they are only few attendants who are aware of the product.

The banks must device a means of advertising and marketing Islamic Banking services so that more subscribers are attracted to use this service. The fact that subscribers are

Muslims then it is important to ensure proper integration with the Muslim society and authorities to penetrate education to the customers.

The bank employees are more optimistic than their counterparts. Based on the undesirable outcome in terms of the level of knowledge of employees in the Islamic banking field, it is recommended that the banks' management take greater initiative in providing their employees with sufficient knowledge of and exposure to rules of the Shariah and the principles governing Islamic banking in particular. This is to ensure that the employees are well equipped with knowledge to handle their customers and to perform their duties.

Hence, moving forward, bank management must be considerably proactive in organizing seminars and workshops to expose their employees to innovations in Islamic banking products and services, and to equip them well so that they can face the challenges and meet the objectives of the Tanzania government in positioning Tanzania as an Islamic financial hub in the region.

The issue of poverty and unemployment are considered the major issues of the third world countries. Being one of the poorest country in the world and having limited job opportunities in the country a large number of university graduates in Tanzania are unemployed. Islamic banking may play an active role through their welfare-oriented activities to create job opportunities for those unemployed graduates.

The government must ensure that it introduce policies on Islamic banking so as to encourage many banks to use this service. The fact that Islamic Banking has more advantages to the customers; it is the responsibility of the government to ensure that rules governing the operations of such kind of bank ensure customer security.

It is a fact that many Islamic banks are competing head-on against their conventional peers. However, not all may realize that a head-on strategy has fundamentally different implications than a strategy of exploiting the Islamic banking niche. Competing against conventional banks means attracting customers who place less importance on

Sharia compliance in their financial dealings, and more importance on competitive products and efficient services vis-a-vis the banking market at large

6.5 Moment of truth

It is now a fact that consumers of all products and services tend to become more demanding due to the current market place that are becoming more competitive. As a result, there is a continuous increase in customer expectations and customers' successive demands within the improvement of the quality of service (Parasuraman *et al.*, 1988).

Thus, service organizations should always be able to meet the needs and demands of those sophisticated customers effectively and efficiently in order to retain them, as loyal customers tend to spend more, purchase more and act as enthusiastic advocates for the organizations (Harris & Goode, 2004).

In addition, it can generate positive returns to the firm such as increased sales and lower costs as to attract new customers (Griffin, 1995) as well as more predictable profit flow (Meidan, 1996; Ostrowski, O'Brien, & Gordon, 1993), and determines price indifference, favorable word of mouth communication, customer referrals and resistance to competition (Barnes & Howlett, 1998).

Eventually, one of the strategies that would enhance customer loyalty is through service quality and it has been related to success in service organizations (Wong & Sohal, 2003) including Islamic banks, which will be a significant indicator to differentiate an organization among the rest of the competitors (Parasuraman *et al.*, 1988).

Therefore, Islamic banking can no longer be regarded as a business organization which is established to fulfill religious duties but what is more important, to be as competitive as possible side by side with the conventional system in alluring more customers and retain them. Inevitably, Islamic banks need to really understand the perceptions of their

customers towards their business operations particularly their quality of service rendered to increase customer satisfaction and ultimately their loyalty

6.6 Scope for future work

The study was conducted only in three branches being NBC, KCB and Amana bank with a sample of 50 respondents, 32 being customer's and 18 bank officers. Therefore findings cannot be generalized to reflect the situation in Tanzania.

For this reason, the same type of study could be conducted in other regions and sampling several customer's and service provider's so as to get conclusive results that would be of big effect to the community at large.

However parties must look into the issues of Islamic banking and take corrective actions to be prepared for the challenges ahead so as to make as much profit as possible in consideration of its true objective of making a full mutual satisfaction between its customers and themselves spiritually and materially.

Growth over the past several years continues to generate optimism for the future of Islamic banking. But as competition ramps up, and early warning signs show growth slowing down, Islamic financial institutions have plenty of work to do. Whether the strategy is to focus on niche positioning, compete with conventional banks head-on, greater efficiency across the value chain.

Islamic banks that take the time now to consider strategic choices and address operational fundamentals will be in a stronger position to capture untapped market opportunities and master the changing dynamics of their industry.

REFERENCES

Abbas et al, 2003; Asyraf & Nurdianawati, 2006, Customre's Perception on Islamic Retail Banking, International Journal of Business and Management Vol. 6, No. 1; January 2011

Aikaeli, J.(2008), “*Commercial Banks Efficiency in Tanzania*”, *Bank of Tanzania Monetary and Financial Affairs Department, A Paper Presented in a CSAE Conference on “Economic Development in Africa”*

Ayub, M. (2002). *Islamic banking and finance: Theory and Practice*. Karachi Pakistan: State Bank Printing Press.

African Business Finance and Development Policy, pg 87

Benedikt Koehler in: Economic Affairs, December (2009). *Islamic Finance as a Progenitor of Venture Capital*.

Bley, J. and K. Kuehn. 2004. “*Conventional versus Islamic Finance: Student Knowledge and Perception in the United Arab Emirates,*” *International Journal of Islamic Financial Services* 5, No.4, Jan – Mar

Blodgett, J.G., D.H. Granbois, R.G. Walters. (1993). *The Effects of Perceived Justice on Complainants’ Negative Word-of-Mouth Behavior and Repatronage Intentions*. *Journal of Retailing* 69(4) 399-428.

Bowen , D. E. And Schneider, B. (1985) *roles of employees and the service encounter*

Asyraf and Nurdianawati (2006),*Customer’s Satisfactions*. *International Journal of Business and Finance*

Barnes, J., & Howlett, D. (1998). *Predictors of equity in relationships between financial service providers and retail customers*. *International Journal of Bank Marketing*, 16(1), 15-23.

Bowen, D.E. (1986) “*Managing customers as human resources in service organizations,*”

Human Resources Management, vol. 25, p. 371

- Christo, D.Vries (2010). *NBC's Managing Director during an editor's brief held at the Kilimanjaro Kempinski Hotel in Dar es Salaam*, 2010
- Donnelly, J. H., Berry, L. L. & Thompson, T. W. (1985). *Marketing Financial Services: A Strategic Vision*. Irwin McGraw-Hill: New York.
- Dusuki, A. W., & Abdullah, N. I. (2007). *Why do Malaysian customers patronise Islamic banks? International Journal of Bank Marketing*, 25(3), 142-160.
- Erol, Cengiz and Radi El-Bdour. 1989 *Attitudes, Behavior, and Patronage Factors of Bank Customers Towards Islamic Banks. International Banking & Marketing Vo 7, No.6, pp. 31-7.*
- Extension, *Journal of Applied Psychology*, Vol.70: 423-33
- Forbes, S.J, (2008) *The Effect of Service Quality and Expectations on Customer Complaints. The Journal of Industrial Economics, Vol. 56, Issue 1, pp. 190-213, March 2008.*
- Griffin, J. (1995). *Customer loyalty : how to earn it, how to keep it. San Francisco, USA: Jossey-Bass Publishers*
- Haron, S. and Ahmad, N. (2002). *The Potentiality of Islamic Products and Services in Fulfilling Corporate Customers' Banking Requirements. Paper presented at the 1st International Conference on Islamic Banking, Finance and Insurance, 30-31 January, Labuan, Malaysia.*
- Haron, S. (1996). *Prinsip dan Operasi Perbankan Islam*. 1st ed. Berita Publishing: Kuala Lumpur.

- Hassan, M. K. and Ahmed, M. (2002). *Islamic Banking versus Conventional Banking: A Questionnaire Survey of their Apparent Similarities and Differences. Paper presented at the 1st International Conference on Islamic Banking,*
- Hamid, A. and Nordin, N. A. (2001). *A Study on Islamic Banking Education and Millennium-Malaysian Experience. Journal of Islamic Financial Services, 2: Jan-Mac.*
- Heskett, J.L., et al (1997). *The Service Profit Chain. The Free Press, New York, NY.*
- Hunt, H.K (1978) *Consumer Satisfaction /Dissatisfaction complain Behavior.*
- Haron, S. (1996). *Prinsip dan Operasi Perbankan Islam.* 1st ed. Berita Publishing: Kuala Lumpur.
- Harris, L. C., & Goode, M. M. H. (2004). *The four levels of loyalty and the pivotal role of trust : a study of online service dynamics. Journal of Retailing, 80, 139-158.*
- Islamic research and Training Institute-Islamic Development Bank, King Fahd National Library in Publication data- Challenges Facing Islamic Banking, First Edition 1419H (1998)*
- Iqbal, M.,& Molyneux, P. (2005). *Thirty years of Islamic Banking : History, Performance and Prospect. New York, NY:Palgrave Macmillan*
- International journal of Arts & sciences-Internationaljournal.org
- Khan, S. R. (1987). *Profit and Loss Sharing: An Islamic Experiment in Finance and Banking.* Oxford University Press, Oxford (UK).

- Iqbal, Munawar (2000), “*Islamic and Conventional Banking in the 1990s: A Comparative Study*” in *Islamic Banking and Finance: Current Developments in Theory and Practice*, Leicester, UK: The Islamic Foundation, pp 379.
- Khan, M. Fahim (1983). *Sharia Compliant Finance*,
- Kahf, M. (2005). *Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari'a Scholarship*. In C. M.
- Kothari, C.R. (1990) *Research Methodology*, Edition 2, Prakashnan
- Khan, S. R. (1987). *Profit and Loss Sharing: An Islamic Experiment in Finance and Banking*. Oxford University Press, Oxford (UK).
- Kotler, P and Keller (2006). “*Marketing Management*” 12th ed
- Kotler, P. (1997) *Marketing Management: Analysis, Planning, Implementation and Control*. Upper Staddle River, New Jersey, Prantice Hall
- Khan, M. Fahim (1983), “*Comments on Volker Nienhaus: Profitability of Islamic Banks Competing with Interest Banks*”, *Journal of Research in Islamic Economics*, Vol. 1, No. 2 (Winter), pp. 73-78. Kuwait Finance House, Annual Report, various issues, Safat.
- Kothari, C. R., *Quantitative Techniques*, 2nd ed., New Delhi: Vikas Publishing House Pvt. Ltd., 1984.
- Kwast, Mayron L. and John T. Rose (1982), “*Pricing, Operating Efficiency and Profitability Among Large Commercial Banks*”

- Kombo, D, Tromp, D (2006): '*Proposal and Thesis Writing -An Introduction*', Paulines Publications, Nairobi
- Leedy P.D. and Ormrod J. E, (2001) *Practical Research: Planning and Design*, 7th Edition
- Makiyan, S. N. (2002). *Islamic Banking in Iran: Its Prospect and Practise*. Paper presented at the 1st International Conference on Islamic Banking, Finance and Insurance, 30-31 January, Labuan, Malaysia.
- Meidan, A. (1996). *Marketing Financial Services*. Houndmills, UK: Macmillan Press.
- Nkpa, N. (1997). *Educational Research for Modern Scholars*. Enugu: Fourth Dimension Publishers
- Nienhaus, F, V.,(1988). *Restatements of Normative Economics Western Approaches & Islamic Perspectives*
- Oliver, R. (1997) *Satisfaction: A Behavioral Perspective on the Consumer*. Boston McGraw Hill
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). *SERVQUAL : a multi-item scale or measuring customer perceptions o service quality* *Journal of Retailing*, 64(1), 12-40.
- Othman, A., & Owen, L. (2001). Adopting and measuring customer service quality (SQ) in Islamic banks : a case study in Kuwait Finance House. *International Journal of Islamic Financial Services*, 3(1), 1-26.
- Peters, V. J. (1999). *Total Service Quality Management*, *Journal of Managing Service Quality*, Vol.29 (1): 6-12.
- Rammal, H. G. and Zurbruegg, R. (2007). *Awareness of Islamic Banking Products*

- Rosly, Saiful A. (2006). *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning*. Author House.
- Schneider, B. and Bowen, D. (1985), *Employee and Customer Perceptions of Service in Banks*
- Saeed, A. (1996) 'Islamic Banking & Interest. A study of the prohibition of Riba and its contemporary interpretation. Leiden, Netherland: E.J.Brill
- Saunders N.K, et al (2000) *Research Methods for Business Student 2nd Edition*, London: Prentice Hall
- Walid Mansour, Mohamed Ben Abdelhamid and Omar Masood & G.S. K, Niazi, 2010 *Customer's Preferences on Islamic Banking and Finance*
- Wong, A., & Sohal, A. (2003). *Service quality and customer loyalty perspectives on two levels of retail relationships*. *Journal of Services Marketing*, 17 (5), 495-513.
- Walid Mansour, Mohamed Ben Abdelhamid, Omar Masood, G.S.K. Niazi, (2010) "Islamic banking and customers' preferences: the case of the UK", *Qualitative Research in Financial Markets*, Vol. 2 Iss: 3, pp.185 – 199
- Zeithaml, V. A. and Bitner, M. J. (2000). *Service Marketing: Integrating Customer Focus across the Firm*.
- Zeithaml, V. A. (2000). *Service Quality, Profitability and the Economic Worth of Customers: What We Know and What We Need to Learn*. *Journal of the Academy of Marketing Science*, 28(1): 67-85.

- (Online) Available: <http://www.atkearney.com/financial-institutions/ideas-insights/article> (Accessed 10/7/2013)
- (Online) Available: <http://www.bankinginfo.com> (Accessed 25 June, 2013)
- (Online) Available: <http://www.nbctz.com> (Accessed 01 July 2013)
- (Online) Available <http://users.bart.nl.abdul/chap4.html>www.openaccesslibrary.org (Accessed August, 2013)
- (Online) Available [http://www.scribd.com/International Journal of Business Management](http://www.scribd.com/International%20Journal%20of%20Business%20Management) (Accessed 15/08/2013)
- (Online) Available <http://www.ippmedia.com>- By Guardian Reporter-21st April 2012(Accessed 7/7/2013)
- (Online) Available <http://www.openaccesslibrary.org> (Accessed 15/07/2013)
- (Online) Available <http://www.kau.edu.sa>-Theoretical Study in Islamic Banking (Accessed 20/08/2013)
- (Online) Available <http://www.davidpublishing.com> (Accessed 18/08/2013)
- (Online) Available <http://www.emeraldinsight.com> (Accessed 17/08/2013)
- (Online) Available <http://www.accesslibrary.com> (Accessed accesslibrary,2013)
- (Online) Available <http://www.amanabank.co.tz> (Accessed 10/09/2013)
- (Online) Available [http://www.atkearney.com/financial-institutions/islamic banking](http://www.atkearney.com/financial-institutions/islamic%20banking) (Accessed Sept, 2013)
- (Online) Available <http://www.financial-institutions-islamic-bankin> (Accessed Sept,2013)

APPENDECES

Appendix A: Questionnaires

CUSTOMER QUESTIONNAIRES

PERSONAL DETAILS

Age

.....

MaritalStatus

.....

Level of Education

.....

1. How long have you been with this Bank? Please tick on the correct answer.

(i) Less than 1 year ()

(ii) 2-3 years ()

(iii) 4 and above ()

2. What do you know about Islamic Banking? Please Explain

.....

3. Which Religion are you? Please tick on the correct answer.

(i) Christian ()

(ii) Muslim ()

(iii) Hindus ()

(iv) Non-religious ()

4. Do you benefit from Islamic banking services which your Bank offers to you?

Please tick on the correct answer.

(i) Yes ()

(ii) No ()

(iii) If yes, how often?

Very often (), Quite often (), Often () Not often ()

5. How does Islamic banking respond to customer suggestion?

(i) Very satisfactory ()

(ii) Fairly satisfactory ()

(iii) Satisfactory ()

(iv) Not satisfactory ()

6. What exactly made you to join Islamic Banking system?
- (i) Religious belief ()
 - (ii) Profit ()
 - (iii) Others ()

EMPLOYEES QUESTIONNAIRES

PERSONAL DETAILS

Age; Please tick;

- (i) 20-30 ()
- (ii) 31-40 ()

(iii) 41-50 ()

(iv) 50+ ()

Marital Status; Please tick; Married () Single ()

What is your level of education? (Please Tick whichever is appropriate)

(i) High learning/university level ()

(ii) Diploma level ()

(iii) Secondary high level ()

(iv) Secondary level ()

(v) Primary ()

(vi) Other ()

Title/Position/designation at the Bank.....

Years of experience in the Bank

.....

1. How long does your Bank has been involved in Islamic Banking?

(Please Specify).....

2. Does involvement in Islamic Banking improves marketing of the bank products and Services in terms of the following;

a) The nature of the Product ()

b) Influence on Promotional activities ()

c) Distribution of your services ()

3. Does your Banking services on Islamic banking deal with;

(i) Muslim ()

(ii) Christian ()

(iii) Others ()

4. Does the bank benefit from the Islamic Banking activities?

(i) Yes ()

(ii) No ()

Explain atleast two factors;

.....
.....

5. What is your view on the qualified stuffs working in your Bank?

(i) Much ()

(ii) Less ()

(iii) Average ()

Why do you think so? (Basing on your answer)

.....

APPENDIX B

INTERVIEW QUESTIONS

Management

1. What employee's perception on the training and experience gained in Islamic banking in your bank?
2. What are the challenges that this Bank faces due to Islamic banking?

3. What are the banks preferences towards religion and profit?

Employees

1. Are Tanzanians including Muslims aware of the necessity and benefits of Islamic banking?

2. What do you think about Islamic banks prospects in Tanzania?

3. Your view about Islamic banks products for future, are they being as competitive with conventional products.

4. Are there any advantages for Islamic banking towards conventional banking?