Structural Investigation of Service Quality in Conventional and Islamic Banking in Pakistan

Muhammad Imran Qureshi
Department of Management Sciences, COMSATS Institute of
Information Technology, Abbottabad, Pakistan. E-mail: miqureshi@ciit.net.pk

Aamir Khan
Department of Management Sciences, COMSATS Institute of
Information Technology, Abbottabad, Pakistan. E-mail: maamir@yahoo.com

Khalid Zaman (corresponding author)
Department of Management Sciences, COMSATS Institute of Information
Technology, Abbottabad, Pakistan. E-mail: khalidzaman@ciit.net.pk

ABSTRACT: The objective of the study is to examine the determinants of expected service quality in conventional and Islamic banking in Pakistan. A convenient sample of eight hundred customers from eighty branches of five conventional and five Islamic Banks in Khyber Pakhtoonkhawa (KPK) province of Pakistan participated in the study. A self designed questionnaire was used for data collection. Total of five hundred and thirteen filled–out questionnaires were returned, of which 38% were filled out by female customers and 62% by male customers, forming a rate of 64% of total distributed questionnaires. The result indicates that there is a significant relationship between expected service quality and three of their determinants i.e., bank's tangibles, responsiveness and assurance, while there is a weak relationship has been observed from reliability and empathy over service quality in commercial banks. On the other hand, there is a significant relationship between expected service quality and its determinants i.e., tangibles, reliability, responsiveness, assurance and empathy in case of Islamic banks. The results of the study are of value to both academics and policy makers.

1. Introduction

The banking sector acts as the life blood of modern trade and commerce because of its increasingly integrated role in recent years. Technological advancement and improvement in communication system have increased integration process. According to Parasuraman et al., (1985), the key to success and survival of any business institution is the delivering quality services to customers; therefore, the expected service quality is the subject of debate over the past two decades. It is important for management to understand, what the pillars of expected service quality and how to measure it, and further more what actions should be taken in order to increase the customer value. A lot of work has been done on expected service quality dimensions and customer satisfaction across different type of business settings. As far as banking sector is concerned, banks are performing multiple functions in order to provide a variety of products and services and the latest facilities to their customers in current global competitive business environment.

In Pakistan, Islamic banks and conventional banks are the two type of banking sectors providing facilities to their customers. Because of changing policies and uncertain economic conditions, banking sector in Pakistan has experienced very unstable environment since 1950. In 1974 Pakistani banking sector was nationalized which results poor performance because of inferior products and services that that's why banking sector was privatized in 1992. In 2002 Meezan Islamic bank was the first registered and full fledge Islamic bank of Pakistan. Pakistani banking sector is improving day

by day with diverse patterns of ownership because of active foreign and local stakeholder participation, which results into a growing competition among banks to attract a large number of customers by providing services quality to get long-term benefits. Now there are 6 Islamic and 13 Conventional banks working in Pakistan offering products and services in different parts of the country. Banks are operating in a highly competitive environment and are trying to provide quality services matching with customers' expectations. According to Ahmad et al. (2010), Pakistani customers of Islamic bank expect greater Expected service quality as compared to the customers of conventional bank. Now bank customers are much aware so they are very much concerned about the quality of services. Customer satisfaction is the only thing which makes them loyal otherwise customers switch to other banks with out any hesitation. Islamic banks work under the rules of Sharia'h to grow business and trade activities. Islamic banking is expanding their network, size and structure because of a rational and beautiful blending of commercial banks, micro financing and Islamic banks in the whole country. Because of entrance of the Islamic banks in the Pakistan, affects the monitory system by adjusting the demand and supply forces for money. According to Khan et al. (2008), Islamic banks insures more stable financial sector as compare to the conventional banks.

According to SBP (2010), it shows that the share of Islamic banking during the quarter has increased to 6.4 percent as there was 3.2 percent growth in its assets compared to a decline in asset base of the conventional banks. The Islamic banking grew its branch networks 5.4 percent. In recent era, banks are more concerned about their customer and they realized that customer not only acquire service for just only value, but the motivation behind this the service support available after the delivering the service (Agnihothri et al., 2002). Businesses can make long term sustainable customer relationship by offering high quality services. Customer perception of the Expected service quality a firm is a major and dominant concept which results in competitive advantage. So there for bankers must concentrate on improving Expected service quality to make their customer satisfied because Expected service quality has great and positive impact on customer satisfaction in case of non-conventional or Islamic banks as compared to conventional banks in Pakistan. Despite existing research, Pakistani banking industry is paying attention to study the Expected service quality. More research is also needed to alter the existing gaps. The purpose of this study is to identify the expected service quality dimensions in Islamic and conventional banking system.

The paper is organized as follows: after introduction which is provided in Section 1 above, literature review is carried out in Section 2. Data and Methodological framework is explained in Section 3. Results are shown in Section 4. Final section concludes the study.

2. Literature Review
2.1. Customer Satisfaction

Since early 1970s, both theory and research on consumer satisfaction have done by different researchers including Olshavsky and Miller (1972); Anderson (1973). Most of the Theoretical as well as empirical studies during 70s supported the concept that customer satisfaction refers to the size and direction of disconfirmation experiences, while disconfirmation experiences are the result of a person's initial expectations'. Later, in 1980s, a new dimension was added to customer satisfaction which is an emotional response of customer to the experiences associated with the purchase of particular products or services (Westbrook and Reilly 1983). However, further development in research during 90s and 2000, the idea of "confirmation/disconfirmation" was built to describe customer satisfaction (Davis and Heineke, 1998; Woodruff et al., 1991). Where customer satisfaction or dissatisfaction can be determined by the difference between expectations of the product or service and actual performance. If customer expectations are meeting with the performance of the product or service then the result is satisfaction, otherwise dissatisfaction occurs (Vavra, 1997; Davis and Heineke, 1998). One question remain almost ignored in throughout the development phase of research in customer satisfaction is whether 'customer satisfaction' is different for the products and services or it is the same? And one more related question is about the measures directly or indirectly should be used to fully understand and measure the behavioral components of customer satisfaction which results from consumption experience (Malhotra et al., 1994). There are some studies including Boulding et al. (1993); Mittal and Baldasare (1996); Chandon et al., (1997) and Dobni et al., (1997) tried to analyze customer satisfaction by using multiple behavioral measures. Furthermore, there are various studies on customer satisfaction with reference to financial services that also reflect the

inherited deficiency in literature about customer satisfaction about general services and to define some measures of customer satisfaction analysis for their experiences of using financial services. An organized list of dimensions provided by Howell & Shamir (2005) includes (a) availability, (b) responsiveness, (c) timeliness, (d) completeness, (e) tangibility, (f) empathy, (g) reliability, and (h) professionalism. However, these refer to some general dimensions to analyze the customer satisfaction experiences suggested and used by several studies.

## 2.2. Customer Satisfaction and Expected service quality

Taylor and Baker (1994) and Howard and Sheth (1969) specified an idea that the customer satisfaction may result from any dimension which may or may not be related to quality and its judgments about customer satisfaction may arise from some non-quality issues like needs and equity etc and experience is also required with the service or provider. Given this nature of customer satisfaction phenomena, research directions guide us towards the popular concept of 'Expected service quality' through which the idea of customer satisfaction can better be analyzed. However, it is still debatable that customer satisfaction is an antecedent of Expected service quality (Bitner, 1990; Parasuraman, et al, 1985) or Expected service quality is an antecedent of customer satisfaction (Anderson and Sullivan, 1993; Cronin and Taylor, 1992; Taylor and Baker (1994). The concept of Expected service quality got significant attention in early 1980s (Lehtinen & Lehtinen, 1982). Parasuraman, et al. (1985) identified ten dimensions of Expected service quality, which includes, Reliability, Responsiveness, Competence, Access, Courtesy, Communication, Credibility, Security, Understanding/Knowing the customer, and Tangibles. After that these dimensions was reduced to five that are: Reliability, Response, Assurance, Tangibles, Empathy (Parasuraman, et al., 1988). A 22-item scale named 'SERVQUAL' was used to measure the dimensions of Expected service quality. The SERVQUAL was used in different service sectors like appliance repair and maintenance firm, retail banks, a long distance telephone provider, a security broker, and credit card companies in order to measure the quality of service. So such application and validation of Expected service quality dimensions in such diverse setting helped to develop and design a standardized sort of scale which could be applied to the measure the Expected service quality of different sort of services organizations. In a various type of business settings offering quality of service in products and services like hospital, banking (Cronin and Taylor, 1992; Spreng and Singh, 1993), business school placement center, tyre store, dental school patient clinic and acute care hospital (Carman 1990), discount and departmental stores (Finn and Lamb, 1991; Teas, 1993; Dabholkar et al., 1996) and others have used SERVQUAL for different research studies. Though in financial services context, the scale has seen a limited application while in other areas SERVQUAL has been applied for the purpose of measuring Expected service quality.

3. Data Source and Methodological Framework

A convenient sample of eight hundred customers from eighty branches of five conventional and five Islamic Banks in Khyber Pakhtoonkhawa (KPK) province of Pakistan participated in the study namely, Allied Bank of Pakistan, Habib Bank of Pakistan, Muslim Commercial Bank of Pakistan, National Bank of Pakistan, United Bank of Pakistan, Meezan Bank Limited, Askari Islamic Bank, Al-baraka Islamic Bank, Alfalah Bank, Bank Islami. A total of five hundred and thirteen filled–out questionnaires were returned, of which 38% were filled out by female customers and 62% by male customers, forming a rate of 64% of total distributed questionnaires. A five point Likert scale structured questionnaire is filled by the sample based on their perceived bank Expected service quality according to their personal experiences. The framework of the study is given in Figure 1.

This study used partial least square (PLS) based structural equation modeling (SEM) to investigate the role of banks tangibles, reliability, responsiveness, assurance and empathy in determining the banks expected service quality in Pakistan. SEM is a second generation tool for data analysis based on LIZRAL and PLS. It is used by researchers to examine the significance of association among different variables as a major SEM technique. It reflects complex relationships of variables regarding the whole model in a meaningful fashion.

Figure 1. Research Framework
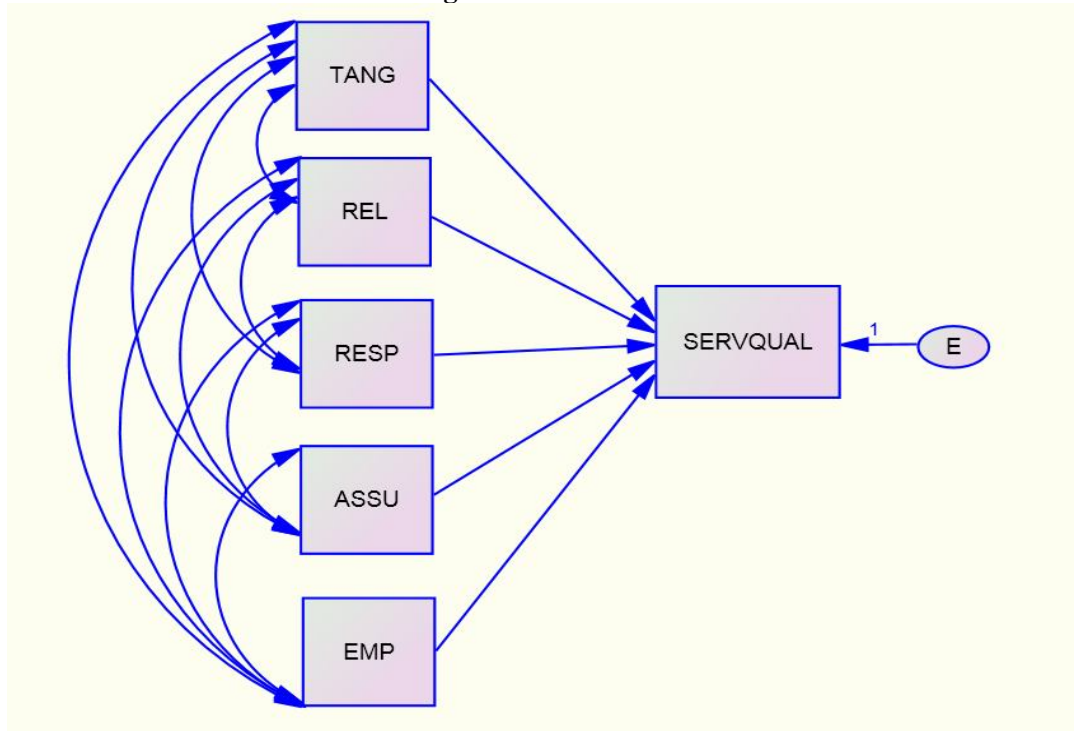
4. Results

The objective of the study examines the determinants of expected service quality in conventional and Islamic banking in Pakistan. The separate results have been gathered to find an association among different determinants on expected service quality of both conventional and Islamic banking in Pakistan. The results of the partial least square structural models are presented in Figure 2 for conventional banks and Figure 3 for Islamic banks for Pakistan. The PLS structural model indicates coefficients, t-values, while the standardized coefficients reflect the relative strength of the statistical relationships. It helps to estimate t-values for the constructs and variables under study. The coefficients are shown in Table 1 and Table 2 respectively.

4.1. Results of Conventional Banks

Table 1 shows the testing of the structural relationships among latent variables. The result shows that bank's tangibles and responsiveness has a significant positive impact on expected service quality of commercial banks, while there is a negative relationship between assurance and expected service quality in case of commercial banks.

Table 1. Regression Weights: Conventional Banks

Path	Estimate	S.E.	t value	P
TANGIBLE-SERVQUAL	1.112	.065	2.353	.000***
RELIABILITY-SERVQUAL	.331	.074	9.534	.253
RESPONSIVENESS-SERVQUAL	.175	.082	2.148	.042*
ASSURANCE-SERVQUAL	-.219	.076	2.888	.014**
EMPATHY-SERVEQUAL	.001	.037	7.026	.980

Figure 2 shows the results of commercial banks with structural equation model.

Figure 2. Structural Equation Model (SEM) technique on Conventional Banks
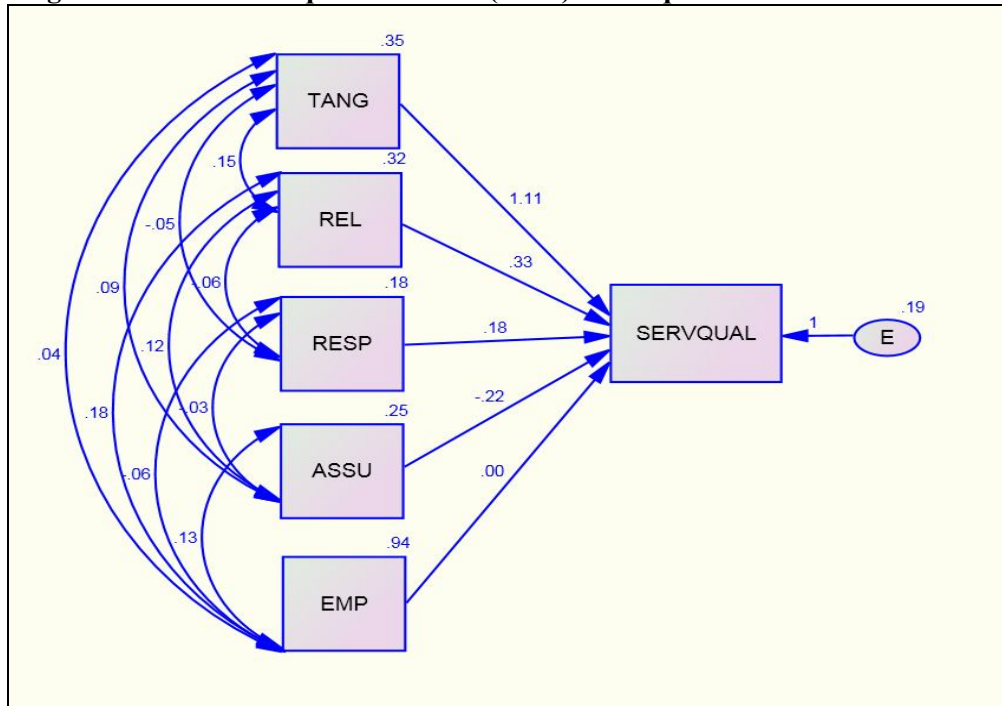
### 4.2. Results of Islamic Banks

Table 2 shows the results of the structural relationships among variables. Result shows that, tangibles, reliability and assurance has a significant impact on expected service quality while there is a negative relationship between responsiveness and empathy over expected service quality of Islamic banks in Pakistan.

Table 2. Regression Weights: Islamic Banks

Path	Estimate	S.E.	t value	P
TANG-SERVQUAL	1.17	.055	7.197	.000
REL-SERVQUAL	2.03	.084	4.466	.000
RESP-SERVQUAL	-0.06	.042	2.148	.032
ASSU-SERVQUAL	1.29	.066	2.888	.004
EMP-SERVEQUAL	-0.12	.075	3.026	.020

Figure 3 shows the relationship between expected service quality and their determinants in case of Islamic Banks.

The results are in line with the previous studies, which show that there is a significant relationship between expected service quality and customer satisfaction in case of Islamic Banking in Pakistan (Ahmad et al., 2010).

Figure 3. Structural Equation Model (SEM) technique on Islamic Banks
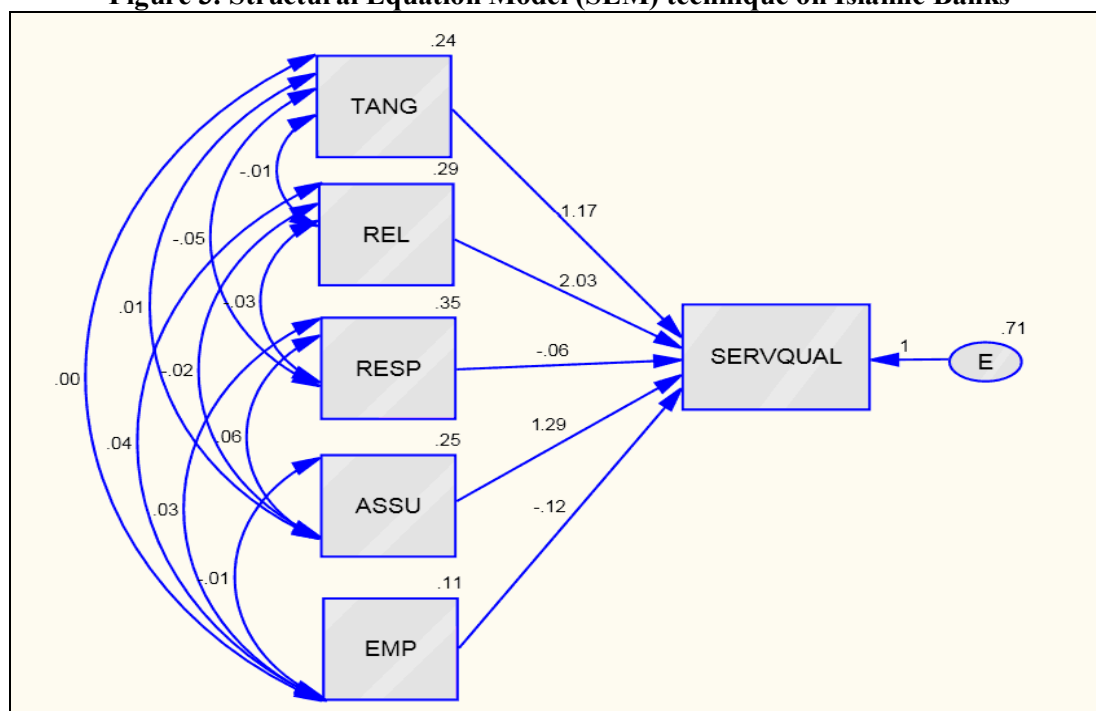
5. Conclusion

The objective of the study is to investigate the role of banks tangibles, reliability, responsiveness, assurance and empathy on determining the expected service quality of conventional and Islamic baking in Pakistan. The study used partial least square (PLS) based structural equation modeling (SEM) to investigate the relationship between them. The result shows that bank's tangible and responsiveness has a positive impact while assurance has a significant negative impact on expected service quality of conventional banks in Pakistan. Reliability and empathy doesn't sufficiently explain their relationship on expected service quality, as it is reported as insignificant impact over the sample study. In case of Islamic Banks in Pakistan, banks tangible, reliability and assurance has a significant positive impact on expected service quality while there is a negative relationship between responsive & empathy over expected service quality of Islamic banking in Pakistan.

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