

# **An Evaluation of Bank Customer Satisfaction in Pakistan, Comparing Foreign and Islamic Banks**

**Haroon Rasheed**

Management School, Wuhan University of Technology, Wuhan 430070, P.R. China

Email: haroon\_120@yahoo.com

**Wang Aimin**

Management School, Wuhan University of Technology, Wuhan 430070, P.R. China

**Ali Ahmed**

Bahauddin Zakariya University Multan, Pakistan

## **Abstract**

Banks play the most important role in economic and financial system of any country by performing their core function of intermediation. Pakistani banking industry witnessed a no. of drastic changes since its inception after the establishment of country. The major historical developments include commercial bank establishment, nationalization, liberalization and privatization and privatization of banks. The most recent advances in this regard are start of Islamic banking system and introduction of foreign banks and use of modern Information Technology methods and tools. All these developments have resulted in focus of banking organizations turned towards Customer Satisfaction due to increased competition in the industry to increase and retain the number of customers. This study presents a comparative study of customer satisfaction taking foreign banks and Islamic banks as case. With the help of statistical methods like arithmetic mean calculation, Correlation, a positive relationship between customer satisfaction and factors has been found. The study results propose more emphasis on quality of customer service and product assortment and innovation to increase the level of customer satisfaction.

**Keywords:** Banking Industry, Customer Satisfaction, Pakistan.

## **1. Introduction**

Banks perform the functions of financial intermediation by supplying surplus money to demanders of money and collect the money from those who have this surplus with them. In Pakistan, after experiencing a number of evolutionary developments the recent banking industry is a sophisticated, developed and well equipped financial intermediation system. As a result of government liberalization and deregulation policy in late 1990's, the foreign banks started their operations in Pakistan and in early 2000's as a result of Supreme Court of

Pakistan's decision Islamic banks also started working. In market, private local banks, privatized banks, public sector banks and microfinance institutions are also working.

These developments have resulted in competition in banking industry and banking organizations have shifted their focus of attention towards customer satisfaction in order to retain existing customers and increase the customer base.

The success of banking organization rests with the success in customer loyalty and retention. Therefore customer satisfaction is very important issue that is being addressed by banking organizations. This study presents a comparative analysis of customer satisfaction between foreign banks and Islamic banks in Pakistan.

## **2. Literature Review**

Deregulation and privatization in the banking industry of Pakistan during 1990s followed by modernization of banking industry during early 2000s, through use of Information Technology has resulted in new avenues of challenges and opportunities for banking organization. This situation resulted in competition among the banks particularly in attracting and retaining the customer base. The inception of Islamic banks in country created another challenge for conventional banks, while conventional banks enjoy the advantage of long history. Customer satisfaction is the factor that is of much importance for banking organizations for maintenance and increase in the market share for them.

A study on customer satisfaction by Khattak and Rehman (2010) revealed that there is a significant and reasonable role of customer satisfaction in organizational strategies of banking industry as customers are the sources of income for the banks like for any other business organization and customer satisfaction is very important for retaining existing customers and attracting new customers.

Naser *et al.*(1999) and Ahmad and Haron (2002) summed up that service quality, friends and family influences, banks' trustworthiness and corporate image were most significant and important factors for customers of banks at the time of making decision for bank selection. In another study conducted by Dusuki and Abdullah (2007) found that employee's attributes like their competence, level of courtesy towards customers and efficiency in banking operations are important determinants of bank selection for customers.

A study by Zeithaml (2000) proved that there exists a significant and positive relationship between performance of banks and customer satisfaction, the study was conducted for both Islamic and Conventional banks. Bolton (1998) found same result and added that there exists a positive significant relationship among customer satisfaction and financial performance and customer retention. It means that Customer retention is an outcome of customer retention that can result in strength of customer base.

A study by Haron *et al.* (1994) found that customers of banks consider employees behavior,

friendliness and efficient customer handling as most important factors in bank selection decision. While Avkiran (1994) found that service quality of bank is important factor in customer satisfaction based on Access to the Teller, Communication, Credibility and Staff conduct. In another study Leeds (1992) found that service quality and professional conduct of bank employees increased the level of customer satisfaction and resulted in decrease in Customer Attrition.

**Table 1: Demographic Analysis of Respondents**

| <b>Attribute</b>          | <b>Islamic Banks</b> |             | <b>Foreign Banks</b> |             | <b>Attribute</b>       | <b>Islamic Banks</b> |             | <b>Foreign Banks</b> |             |
|---------------------------|----------------------|-------------|----------------------|-------------|------------------------|----------------------|-------------|----------------------|-------------|
| <b>Sex</b>                | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> | <b>Profession</b>      | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> |
| Male                      | 215                  | 86%         | 185                  | 74%         | Student                | 33                   | 13.4%       | 12                   | 5%          |
| Female                    | 35                   | 14%         | 65                   | 26%         | Self-Employed          | 136                  | 54.5%       | 58                   | 23%         |
| <b>Total</b>              | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> | Private Employed       | 45                   | 18%         | 144                  | 57.6%       |
| <b>Age Group</b>          | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> | Public Sector Employed | 36                   | 14.1%       | 35                   | 14%         |
| 18-30                     | 44                   | 17.5%       | 45                   | 18.2%       | <b>Total</b>           | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> |
| 31-40                     | 86                   | 34.4%       | 118                  | 47%         | <b>Qualification</b>   | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> |
| above 41                  | 120                  | 48.1%       | 87                   | 34.8%       | Uneducated             | 58                   | 23%         | 17                   | 7%          |
| <b>Total</b>              | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> | Secondary School       | 85                   | 34.2%       | 34                   | 13.4%       |
| <b>Monthly Income</b>     | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> | Under Graduate         | 80                   | 32%         | 53                   | 21.1%       |
| Less than 20,000          | 43                   | 17.3%       | 17                   | 6.7%        | Masters                | 27                   | 10.8%       | 145                  | 58%         |
| Between 20,000 & 40,000   | 53                   | 21.2%       | 28                   | 11.1%       | <b>Total</b>           | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> |
| Between 40,000 and 55,000 | 95                   | 38%         | 60                   | 24%         | <b>Marital Status</b>  | <b>Count</b>         | <b>%age</b> | <b>Count</b>         | <b>%age</b> |
| Above 55000               | 59                   | 23.5%       | 145                  | 58%         | Married                | 136                  | 54.5%       | 160                  | 64%         |
| <b>Total</b>              | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> | Unmarried              | 114                  | 45.5%       | 90                   | 36%         |
|                           |                      |             |                      |             | <b>Total</b>           | <b>250</b>           | <b>100%</b> | <b>250</b>           | <b>100%</b> |

### 3. Hypothesis

H1: There exists homogeneity in bank selection factors by foreign and Islamic bank customers.

H2: There exists a positive relationship between customer satisfaction and Bank selection determinant factors in case of Islamic Banks.

H3: There exists a positive relationship between customer satisfaction and Bank selection determinant factors in case of foreign banks.

#### **4. Research Methodology**

Keeping in view the proven facts from review of literature, a questionnaire was developed to collect primary data from customers of Islamic and foreign banks. The questionnaire was divided in two distinct parts; one part was aimed to collect demographic data while other contained the questions to collect data regarding customers' bank selection factors and relevant satisfaction level from their bank. Five point Likert scale was used to collect data in the second part of questionnaire. The cronbach's alpha for reliability of questionnaire was found to be at level of 0.849 that is sufficient for this study due to behavioral nature of this research.

Total 650 questionnaires were distributed to collect data from customers of foreign and Islamic banks with an aim to collect two hundred and fifty usable questionnaires from each category of banks. Simple random sampling was used and respondents belonged to 15 major cities of the country. 531 questionnaires were received back and out of these 500 usable questionnaires were sorted out.

The software SPSS 17 has been used to analyze the data collected for the purpose and initially six factors were identified after applying factor analysis technique for confinement of research. The researcher found arithmetic mean by use of Descriptive Statistics. Correlation analysis has been used to figure out the relationship between the customer satisfaction and bank selection factors identified.

#### **5. Findings**

Results produced after analyses of data are presented in following section.

##### *5.1 Demographic Analysis*

The analysis of information collected resulted in following demographic profile of respondents of this survey as presented in Table 1.

##### **Table 1: Demographic Analysis**

Analyzing and comparing the demographic attributes of respondents revealed that in case of Islamic banks 86% were male customers while 14 % found to be female customers compared with 74% male and 26% female customers in case of foreign banks indicating a higher no. of female customers found to have account with foreign bank. Analysis of age revealed that 17.5% respondents fall in age group of 18-24 years while 34.4% fall in age group 31-40 years while remaining 48.1% were of age group above 41 years forming the largest group on basis of age of respondents in case of Islamic Banks while foreign bank respondents were found to be 18.2% in age group of 18-24 years, 47% were in age group of 31-40 years and 34.8% were in age

group above 41 years, comparison shown that in case of Islamic banks more than 41 years group was largest group while in case of foreign banks, age group of 31-40 years was largest group. On the basis of marital status, from Islamic bank respondents it has been found that 54.5% respondents were married while 45.5% customers were unmarried while among foreign bank respondents 64% were married and 36 % were unmarried. The analysis of profession of the respondents reveal that self- employed category respondents form the majority group with a percentage of 54.5% followed by private sector employees with a score of 18% then 14.1% public sector employees and 13.1% students while for foreign banks respondents the largest category was private employed with 57.6% followed by 23% self-employed and 14% public sector employed, only 5% were found to be students. On the basis of qualification of respondents, it has been found that Secondary School graduates are largest group with 34.2% followed by University Under-graduate degree holders with 32%, Uneducated at 23% and Masters Degree holders were 10.8% in case of Islamic bank respondents while for foreign bank respondents Master Degree holders was largest group with 58% followed by 21.1 % undergraduate, 13.4% secondary school graduates and 7% uneducated respondents. Regarding Income level, 38% have income less between 40,000 and 55,000, 23% respondents have income level of more than PKR 55,000 per month, 21.2% have income level of PKR 20,000 and 40,000 while 17.3% have income level less than above PKR 20,000 per month in case of Islamic banks respondents while results for foreign banks respondents shown that largest group on basis of income was above PKR 55,000 with 58% followed by 24% between PKR 40,000 and 55,000, 11.1% were between 20,000 and 40,000 while 6.7% with below PKR 20,000 per month income group. The comparison shown that there are significant differences in demographic attributes of Islamic banks and Foreign bank respondents.

### *5.2 Hypothesis Testing*

There were twenty two questions in the questionnaire and as a result of analysis through SPSS, six factors were identified by Factor Analysis technique. The data was manipulated for descriptive statistic and mean was calculated, on the basis of mean scores, Customer handling was on the top while Financial considerations was the second factor followed by Product Assortment, Bank's reputation, Quality of Services and Communication with Customers of the banks as shown in Table 2 below.

**Table 2: Ranking of Determinants-Islamic Banks**

| Determinants                 | Mean | Rank |
|------------------------------|------|------|
| Customer Handling            | 2.61 | 1    |
| Financial Considerations     | 2.14 | 2    |
| Product Assortment           | 1.78 | 3    |
| Bank's Reputation            | 1.62 | 4    |
| Quality of Services          | 1.43 | 5    |
| Communication with Customers | 1.39 | 6    |

**Table 3: Ranking of Determinants-Foreign Banks**

| Determinants                 | Mean | Rank |
|------------------------------|------|------|
| Bank's Reputation            | 2.59 | 1    |
| Customer Handling            | 2.23 | 2    |
| Quality of Services          | 1.94 | 3    |
| Financial Considerations     | 1.73 | 4    |
| Product Assortment           | 1.66 | 5    |
| Communication with Customers | 1.41 | 6    |

The results of mean calculation show that there are significant differences in bank selection determinant factors between Islamic banks and Foreign bank respondents therefore H1 is rejected

**Table 4: Correlation Analysis-Islamic Banks**

|                          | Customer Satisfaction | Financial Considerations | Product Assortment | Customer Handling | Banks' Image | Competitive Position | Quality of Service |
|--------------------------|-----------------------|--------------------------|--------------------|-------------------|--------------|----------------------|--------------------|
| Customer Satisfaction    | 1                     |                          |                    |                   |              |                      |                    |
| Financial Considerations | .594**                | 1                        |                    |                   |              |                      |                    |
| Product Assortment       | .461**                | .197**                   | 1                  |                   |              |                      |                    |
| Customer Handling        | .512**                | .457**                   | .096*              | 1                 |              |                      |                    |
| Banks' Repute            | .389**                | .173*                    | .143*              | .146*             | 1            |                      |                    |
| Competitive Position     | .514**                | .445**                   | .262**             | .322**            | 0.084        | 1                    |                    |

|                 |        |        |        |        |       |        |   |
|-----------------|--------|--------|--------|--------|-------|--------|---|
| Service Quality | .491** | .387** | .235** | .385** | 0.096 | .287** | 1 |
|-----------------|--------|--------|--------|--------|-------|--------|---|

\*\* Correlation is significant at 0.01 level (2-tailed)

\* Correlation is significant at 0.05 level (2-tailed)

**Table 5 Correlation Analysis-Foreign Banks**

|                          | Customer Satisfaction | Financial Considerations | Product Assortment | Customer Handling | Banks' Image | Competitive Position | Quality of Service |
|--------------------------|-----------------------|--------------------------|--------------------|-------------------|--------------|----------------------|--------------------|
| Customer Satisfaction    | 1                     |                          |                    |                   |              |                      |                    |
| Financial Considerations | .341**                | 1                        |                    |                   |              |                      |                    |
| Product Assortment       | .247**                | .215**                   | 1                  |                   |              |                      |                    |
| Customer Handling        | .487**                | .367**                   | .195*              | 1                 |              |                      |                    |
| Banks' Repute            | .566**                | .205*                    | .153*              | .239*             | 1            |                      |                    |
| Competitive Position     | .433**                | .211**                   | .278**             | .352**            | 0.318        | 1                    |                    |
| Service Quality          | .501**                | .462**                   | .213**             | .344**            | 0.191        | .212**               | 1                  |

\*\* Correlation is significant at 0.01 level (2-tailed)

The correlation analysis performed on the factors by taking customer satisfaction as dependent variable shows that there exist significant and positive relationship between customer satisfaction and other variables thus H2 and H3 are accepted as shown in Table 4 and 5.

## 6. Conclusions

Findings and results of this study are of significant importance for banking industry of Pakistan. The empirical proof of positive relationship between customer satisfaction and factors of bank selection including financial considerations, product assortment, customer handling, banks' image and reputation, competitive position of bank and quality of service provided by bank reveals the important attention seeking areas for Islamic and foreign banks in Pakistan. The banking industry of Pakistan having a blend of Islamic, local and foreign banks is a promising and growth oriented business sector. There is an environment of competition between Islamic and foreign banks as well as within the category with other organizations. Customer satisfaction is determinant of a strong customer base. Both Islamic and foreign banks in Pakistan must pay proper attention to the bank selection factors and improvement in these areas for increase in satisfaction level of their customers.

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