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**An Empirical Analysis of Banking Sector in Pakistan: Islamic Versus
Conventional Banks**

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ABSTRACT

Key words: *Banking,
Service Quality,
Customer Satisfaction*

JEL Classifications: *G21,
L25, C42*

Purpose – The purpose of this study is to determine the impact of service quality being provided by the Islamic and Conventional banks on customer's judgments towards their satisfaction level on different parameters of Islamic banks in the region of Lahore, Pakistan.

Design/Methodology/Approach – A questionnaire was formulated to obtained data from the 300 respondents using a convenience sampling technique. T-tests, correlation, ANOVA and regression analysis used to test the extent of relationship among service quality (SQL) and customer satisfaction (CS) for the both banking sectors of Pakistan.

Findings – The consequences depicts that there is a strong positive association among SQL and CS in the banking segment. Further results illustrates that the extent of affiliation among SQL and CS is larger in Islamic banks as contrasted to conventional banks.

Originality/Value/Implications – In Pakistan, there are fewer studies that raised the issue of SQL and CS in Islamic and Conventional banks within in a single study. Also, as Islamic banking is a new phenomena which is getting increasing market share in terms of market size and deposits, so this comparison is also of great importance. This study has a number of inferences for bankers, policy makers and academicians.

This principle has been applied in many fields such as contiguity relations, urban schemes, and market regulations. Today, asymmetric information, externalities and market failures may be considered in this context.

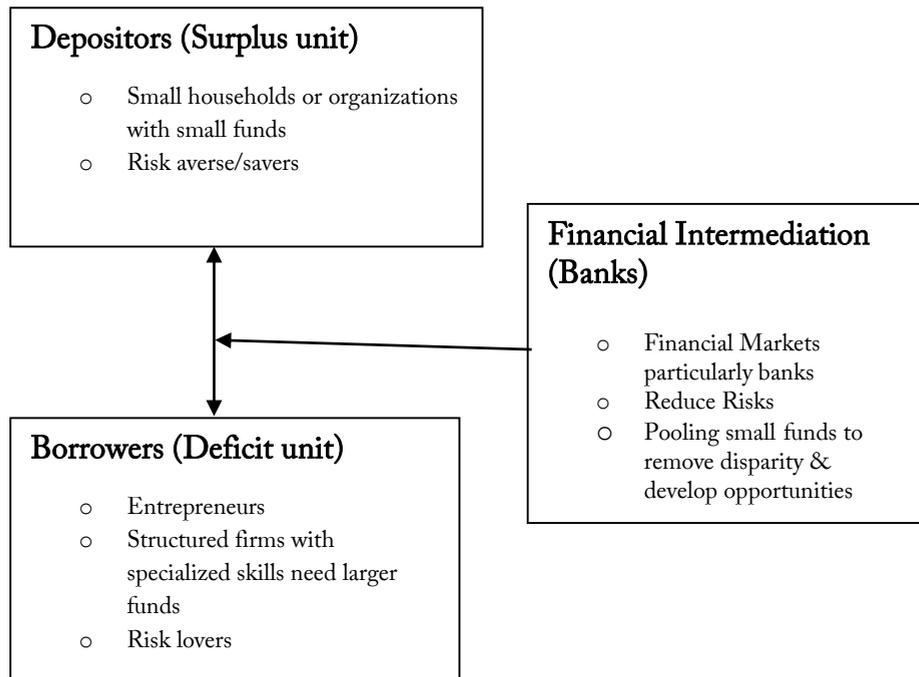
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Introduction

A bank is organization whose basic function is to perform as an intermediary among the clients and the borrowers. Banks play a critical role towards the economic growth and welfare of any civilization. Banking actions are essential for vigorous financial system that directs towards the industrial states of the globe. The banking sector is considered as an important facility to advance the business procedures. The banking procedures are originated after its independence on 14th August 1947 in Pakistan. But a major change observed in Pakistan banking industry is due to private sectors having about 80% of banking resources (Economic Survey of Pakistan [ESP], 2007-08).

In today's era, the banks play an important and significant role in organizing finances and exciting speculation for fruitful business enterprises. They take funds from depositors and then give loans to the borrowers to boost outlay and saving procedures that are predictable for a vigorous financial system. Thus, banks create a linkage among depositors (surplus unit) and borrowers (deficit unit) to endorse the commerce and industrial actions. Thus, service quality (SQL) and customer satisfaction (CS) possibly enhance the banks concert for the victorious continued existence (Ahmad & Haron, 2002). The function of bank is revealed in the subsequent Figure 1.

Figure - 1: Function of Financial Intermediaries (Banks)



The central bank of Pakistan, that is, State Bank of Pakistan (SBP) standardizes the banking area by formulating financial procedure with respect to environment changes. The sector has revealed exceptional growth and progress in the last decade because of larger contribution of private sector and overseas investors. Pakistan has practiced an extraordinary expansion in banking sector due to its growing participation towards Gross Domestic Product (GDP). In Pakistan, two banking structures, Conventional Banking (CB) and Islamic Banking (IB) exist. The conventional banks are supposed to make profits through buying the funds from the depositors at low interest rate and after that reselling those funds to the borrowers at high interest rate (Santos, 2000). In contrast, Islamic banks execute the same intermediary task but there is no concept of pre-determined interest rate among depositors and borrowers as per the Islamic laws. The profit is depending on the profit sharing contracts among the shareholders and the creditors. This is the reason why the Islamic banking is supposed to be dissimilar from the conventional banking system. The prohibition of interest rate is also found in the principles of Shariah (Ariff, 2006).

The main objective of Islamic banking system is to execute riba free operations and actions, whereas in Conventional banking depositors are assured a fixed rate of interest. IB's are striving in competition with conventional banks, non-banking financial intermediaries and insurance companies. In order to continue to prosper in this global competition, IB's should be aware of customer satisfaction issues under the rights and guidelines given by Shariah (McIver and Naylor, 1986). Many earlier studies criticized that the basic reason behind choosing IB's is the religion, that is, Islam (Ahmad & Haron, 2002). On the other hand, many unspiritual factors like cost-benefit, better returns and profit efficiency have been found in studies done in Malaysia, UAE, Kuwait and UK for preferring an IB (Dusuki & Abdullah, 2007; Kuehn and Bley, 2004; Ahmad & Haron, 2002; Owen & Othman, 2001; Wilson, 1995). IB guarantees established economy, risk sharing, fair allocation of revenue, ease production and trade procedures (Kuehn and Bley, 2004; Ahmad & Haron, 2002). The major variation among Islamic and conventional banks is sum up into the following Table.

Distinction Between IB and CB		
Main Difference	Islamic Bank (IB)	Conventional Bank (CB)
Principle	IB pursue the values of Shariah specified by Allah Almighty	CB follows artificial principles made by humans to execute operations.
Source of Earnings	Return, service charges & consultancy charges are the main foundation of income of IB. Earnings can be pessimistic in case of loss.	Interest is the main source of income for conventional banks i.e. difference among interests charged from borrowers & paid to depositors. It guarantees a fixed rate of interest
Profit Maximization	It intends at profit maximizing but concentrate to the main beliefs of Shariah.	It intends to enhance the profit exclusive of any constraint even at the expenditure of other shareholders.
Risk Sharing	Risk is jointly distributed among borrower, lender & bank.	Risk is wholly shifted to others.
Objectives	IB works as a trading disquiet (<u>Mudarib</u> or <u>Wakalah</u>) to produce its earnings.	It produces earnings as monetary intermediary.

Despite the fact, IB's has to face many challenges because of the well-built structure of the CB's. The banking sector practiced an extension because of modernism and diversification of products/services. Every bank attempts to launch modern products and services by attractive combination of customary conveniences and current expertise to deal with each other for larger number of clients that directs to more productivity. Thus, CB's have numerous advantages over IB's such as a long history with experience, accept interest as a main source of bank earnings, large capital & better technology and never share losses with the customers. By keeping in mind all these compensations, it is very appealing to compare both banking streams according to SQL-service quality and CS-customer satisfaction. Few earlier studies recommend that IB's are performing well and considered more proficient than conventional banks. But, there is no convincing proof in this regard (Hassan, 2006). Although, few Western countries have adopted Islamic banking system but still there are some discrepancies between the Western and Eastern countries experiences. For this purpose, both banking streams are providing a number of various products and services for satisfying their customer's needs and day to day financing requirements.

Earlier studies exists on the two banking streams, however, most of studies are presented concerning different features of conventional system whilst exceptional for the other. Similarly, many studies done that compare efficiency in both Islamic and conventional banking in diverse economies but there is scarcity of studies concerning banking industry of Pakistan. Also, the continuation of IB and CB in Pakistan shaped a contest to magnetize a large figure of audience base. Everyone is determined to comprehend larger profits

by offering quality services with respect to customer's requirement. Therefore, a research study is required to study the relationship among CS and SQL with in Pakistan to follow up the gap in the existed literature.

1.1 Objective of the Study

The objective of the study is to determine the impact of SQL on CS for both banking sectors of Pakistan.

1.2 Research Questions

The research questions that are answered in this study are as follows:

1. Is the customers of both banking system has a distinctive perception of SQL on the basis of gender?
2. Is there any association among SQL and CS dimensions concerning IB's?
3. Is there any association among SQL and CS concerning IB's and CB's?
4. Is there any relationship among SQL and CS dimensions concerning IB's and CB's?

1.3 Significance of the Study

Efficiency is the input to the success of banking sector. All banks have to perform efficiently for the successful continued existence in this era of competition. A well performing bank is considered vital for a stable banking society, better service quality and enhanced client contentment as well. Banks make important funds to magnetize bigger customers for superior productivity but these pains are ineffective until and unless appropriate client supervision by stipulation of quality services. This study facilitate the bank managers, decision makers, policy makers, practitioners and academician to discover the most significant elements of service quality that surrenders extra contentment for Pakistani clients satisfaction.

Literature Review

Now a day's, financial institutions are working in an advanced, dynamic and competitive environment at both domestic & international level. Banks are playing a critical role towards economic growth and welfare of any society. In this era of competition, SQL and CS enhance banks performance for their victorious continued existence. IB is one of the rapidly growing industries. Today more than 160 Islamic banks are operating worldwide. This number can be improved, if Islamic banks can perform more efficiently (Dar, 2004). Islamic banking is supposed to be dissimilar from the system of conventional banking as the conventional banking system solely stands on the theory of interest rate (Arif, 2006). Most of the previous studies aimed to evaluate the quality of banking services. Customers became a hub for all banking tricks due to augmented global competition for larger market share. Banks also

concentrate on demographic distinctiveness of consumers to judge their needs. There are only a few studies that made a comparison on Islamic and conventional banking service quality and customer satisfaction (SQL-CS) perspective (Karim, 2008). So it is necessary to conduct a study to inspect bank services and its effect in the form of customer's satisfaction and banking sectors performance.

2.1 Service Quality (SQL)

Service quality has become an enduring research agenda and obtained fame amongst professionals and academia due to enlarged competition. It creates a competitive gain to sustain a long lasting relationship with clients (Zeithaml et al., 2000). It has been disputed that assessment of SQL is tricky as compared to material goods (Parasuraman et al., 1985). Quality is the capacity of any creation to congregate clientele prospects and their necessities. It is a set of features, attributes or characteristics that are predictable by the consumers (Galloway and Ho, 1996). Service quality has been defined as the overall assessment of a service by the customers (Eshghi et al., 2008). Several researchers define SQL as the difference between customer's expectations and the perceptions of the service received (Munusamy et al., 2010). Main issues in any organization victorious continued existence are service quality and customer satisfaction. According to Spreng and Mackoy (1996), customer satisfaction level is greatly enhanced with the better service quality. It was established that particular actions like fast rapidity of processing information have resulted in pleased clients. In the same way, upgrading the reliability of equipment narrowed displeasure (Sweneey et al., 1997). On the other hand, it was observed that service quality is the subjective evaluation among what the customers need and what they get in reality (Gefan, 2002).

2.1.1 Dimensions of Service Quality

Service quality is a multi-dimensional concept which has different meaning and definition among the researchers (Cronin et al., 2000). Gronroos (1982) recognized that there are three dimensions of service quality: technical, functional and corporate image. Lehtinen (1982) defines three dimensions of service quality: physical, corporate and interactive quality. Both schools of thought reveal approximately the identical characteristics of the service quality. Table 2 depicts the five dimensions of service quality derived from the existing literature on the subject matter (Gronroos, 1982; Lehtinen, 1982; Parasuraman et al., 1985; Angur et al., 1999; Cronin et al., 2000).

Table – 1: Dimensions of Service Quality (SQL)

Sr. #	Dimension	Explanation
1	Reliability	It demonstrates the regularity/consistency of services towards performance and soundness.
2	Tangibles	It depicts the physical features of the services as physical facilities, appearance of employees and tools or equipment used for stipulation of services.
3	Responsiveness	It shows the willingness or readiness of employees to offer speedy services to its customers.
4	Assurance	It reflects the employees' information, politeness and their ability to integrate trust and assurance.
5	Empathy	It demonstrates the degree of caring, compensation and personal concentration given to customers.

Othman & Owen (2001, 2002) used the SERVQUAL model in exploring the service excellence in Islamic banking system. They also extend an alternative model, called CARTER to get better the service quality. Erol & El-Bdour (1989) established that religious factors have not played a major role in choosing an IB in Jordan. While In Malaysia 40% of Muslims were provoked to choose the Islamic banks due to its compliance with Islamic laws (Haron et al., 1994). The SQL-service quality model is used as a comparison for segregation between the customer awareness and real performance of the services accepted by the customer provided by the entity at a particular time period (Parasuraman et al., 1985). In a study done by Angur et al. (1999), they argued that the SERVQUAL model is multi dimensional and is competent to offer more analytical information due to its superior unpredictability across banks than the SERVPERF model.

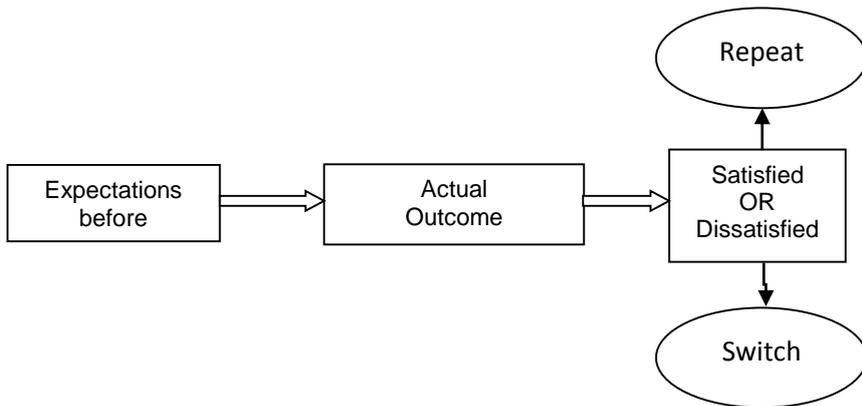
Boller (1992) exposed that the SERVQUAL model appears to experience from a number of methodological and measurement faults. The five dimensions of SERVQUAL failed to build a SQL-service quality measurement and the SERVQUAL model is uni-dimension rather than a five-dimensional construct. They supplementary suggested that the dimensionality of service excellence possibly will depend on the type of industry which is being studied. Cronin and Taylor (1992) suggest that the SERVPERF scale give details & more variation in SQL than that of SERVQUAL and also that the SERVQUAL is one-dimensional. Al-

Tamimi and Al-Amiri (2003) adapted the five SERVQUAL dimensions to gauge SQL-service quality in two IB's (Abu Dhabi Islamic Bank & Dubai Islamic Bank). They established that reliability was the most important factor on their tool. Jabnoun and Khalifa (2005) also studied SQL in the UAE and make a comparison of UAE SQL among conventional and Islamic banks.

Rod, Ashill, Shao & Carruthers (2009) conducted a research study to determine the relationship among the three service quality dimensions and its effect on customer satisfaction in a New Zealand banking context. The findings of the study suggested significant relationships among customer service quality, information system quality, banking service product quality, overall internet banking service quality and customer satisfaction. El Saghier and Nathan (2013) also conducted an analytical study to examine the relation among the dimensions of service quality and customer satisfaction in Egyptian banking sector. A research questionnaire was designed to analyze service quality of banking services provided by banks in Egypt. The questionnaire has been personally administered on a sample size of 150, chosen on a convenient basis from Egyptian banks. The study found that four factors reliability, responsiveness, empathy and assurance, based on a factor analysis, influence users' evaluation of service quality of Egypt banks.

2.2 Customer Satisfaction (CS)

Customer satisfaction requires the full meeting of customer anticipation of the products and services (Oliver, 1980). It has become an enduring research agenda in banking industry. A number of researchers found that satisfied customers repeat their practice to acquire the products and also helpful in creating new clients by word of mouth or communicating a positive message to others. Satisfied or pleased customer directs to happy customers that ultimately generate the good judgment of brand reliability between customers. In Pakistan, due to emergence and rapidly increasing recognition of Islamic banking products increases the competition amongst IB's. Every bank attempts to offer better services to maintain contented consumers. Figure 2 reveals Customer's Experience of Expectation-Outcome with bank customers.

Figure-2: Customer's Experience of Expectation-Outcome

Islamic banking studies show the research from less residential countries & emerging markets, conventional banking studies contain the research from both developed and less developed countries. There are very few studies that wrap the whole international banking industry sector. Few well-known studies attempted to contrast the IB's performance with their CB's. Majority of studies focused on comparing performance, particularly profitability, by using financial ratios (Samad and Hassan, 1999). There are also a few numbers of studies that focus on assessing the Profit and cost efficiency of IB's (Yudistira, 2003; Hassan, 2006; Badar et al., 2007).

2.2.1 Dimensions of Customer Satisfaction

Customer satisfaction is considerably related with present and prospect monetary presentation. Oliver (1980) simplified that customer contentment requires the full convention of customer anticipation of the products and services. Adams et al. (1992) proposed that there is an optimistic relationship is present and it is applicable to all productivity procedures such as earning per share, net revenues, return on investment and return on assets. In a study of 700 top senior managers in UK, 64% of them articulated that client happiness was their main concern, and the rest said it was amongst their peak preferences (Shoultz, 1989). If the obvious quality or presentation of a product matches or still go away from customer's view of organization services, they are pleased. If it does not assemble, then they are unhappy (De Wulf, 2003). In the real world, unhappy customers are liable to form harmful rumor and communicate their pessimistic emotions to new clients (Caruana, 2002).

A study of customer dimensions in selecting Islamic banks was done in Turkey and found that majority of Muslims prefer their religion irrespective to the banking features like location, cost, revenues & profits (Naser et al. 1999). Another study based on Islamic banking that was conducted in

Singapore observed that no statistically significant divergence has been found among Muslims and non-Muslims in selection of bank. In fact, customers prefer the other features & quality of banking services (Gerrard & Cunningham, 1997). A study has been conducted in Bangladesh in which a total of 400 respondents were inspected and found that there are many other important factors to the customers behind choosing an IB or CB except religion with the multiple regression technique. The study contributes that the other factors like depositors wish to attain maximum return, well-located financial transactions, and reliability in service with consistency and minimum service charges were also significant to customers for selecting a bank (Rashid et al., 2009). The followers of Islamic banking also argue that hypothetically IB's are more reasonable relatively to conventional banks to take up outer shock because the Islamic banks' losses are partly shared by the depositors (Khan and Mirakhor, 1989).

In the banking sector, customers associates satisfaction with service quality provided by their banks. For instance, quick and well-ordered services; kindness of bank workers; privacy of bank; swiftness of dealings are as the input gauge which customers demand from their banks in Malaysia (Haron et al., 1994). A study using a sample of 366 from three Islamic windows of commercial banks in Libya (Gumhouria Bank, Wahda Bank and Sahara Bank) exposed that CS is considerably affected by the factors of SQL. Tangibility, responsiveness, guarantee and sympathy of the banks are important and focused to improve the quality of their services. The study also shows that customers are only aware of some common products of Islamic banking. But about 80.3% of banking customers are not aware of some special products of Islamic banking (Khafafa & Shafii, 2013). The purpose of this paper is to examine the relationships of e-service quality dimensions with overall internet banking service quality, and its effect on customer satisfaction in the USA banking industry. The results show significant relationships among the e-service quality dimensions (efficiency, fulfillment, system availability, privacy, assurance/trust, site aesthetics, responsiveness, and contact), overall internet banking service quality, and customer satisfaction.

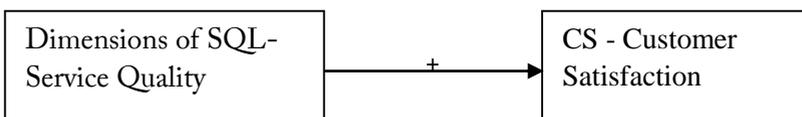
Laroche et al. (1986) study found that two major factors in their selection of bank in Canada were speed of service (responsiveness) and factors relating to the competency and friendliness of bank employees. Another study done by Kaynak and Kucukemiroglu (1992) found that the most important factor of Hong Kong customers in selection of a bank were suitable location, parking services, financial counseling, leap location and loans and mortgages as the peak criteria's in selecting domestic and foreign banks. Furthermore, it is essential to be aware of the behavior of bank customers because the competition in the financial industry is becoming more dynamic & vigorous (Rose & Marquis, 2006). In Pakistan, banking industry is facing a severe

competition by providing a broad range of products & services to magnetize prospective customers. Bank managers also focus on demographic distinctiveness to understand the behavior of their customers. Customers' observation of SQL varies with respect to gender, culture, civilization, learning and level of income (Urban and Pratt, 2000). It is investigated that gender differences have an impact on perceived banking customers SQL and they illustrate a different reaction towards various factors of SQL (Spathis, 2004). Further it was concluded that these determinants are positively related to the CS.

2.3 Theoretical Framework

The extension of the banking diligence has need of a study to evaluate the SQL-service quality relative to CS-customers' satisfaction and its impact on bank performance. In Pakistan, banking industry is facing a severe competition by providing a broad range of products and services to magnetize prospective customers. It is investigated that financial services offered by banks are the essential part of services industry with its increased contribution towards CS (Mishkin, 2001). Bank managers also focus on demographic distinctiveness to understand the behavior of their customers. Customers' observation of SQL-service quality varies with respect to gender, culture, civilization, learning and level of income (Urban and Pratt, 2000). It is investigated that gender differences have an impact on perceived banking customers SQL and they illustrate a different reaction towards various factors of SQL (Spathis, Kosmidou & Doumpos, 2002). Further it was concluded that these determinants are positively related to the CS-Customer satisfaction. From this, it can be proposed that different dimensions of SQL are taken as independent variable and CS is chosen as dependent variable to examine the impact of SQL dimensions on CS.

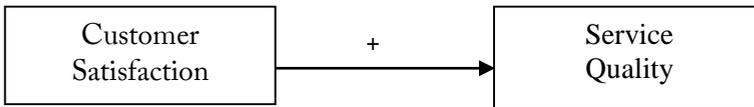
Figure-3: Impact of SQL Dimensions on CS



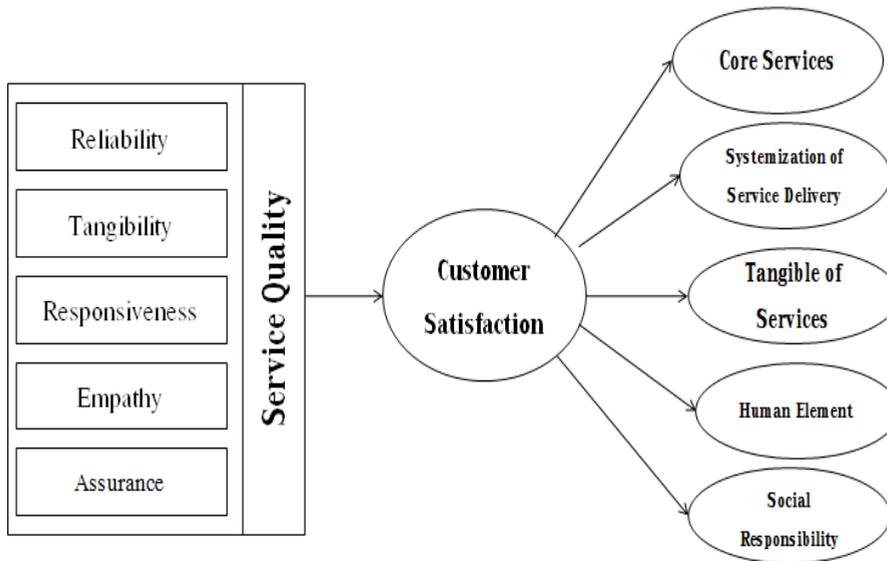
It was found that SQL has a significant impact on CS (Levesque & McDougall, 1996). Oliver (1980) simplified that customer contentment requires the full convention of customer anticipation of the products and services. If the obvious quality or presentation of a product matches or still go away from customer's view of services, they are pleased. If it does not assemble, then they are unhappy (De, Wulf, Kristof, Odekerken-Schroder & Iacobucci, 2001). In the real globe, unhappy customers are liable to form harmful rumor and communicate their pessimistic emotions to new clients (Newman, 2001).

KANO model is a theory of CS-customer satisfaction and product development Introduced by Professor Noriaki Kano in 1980s.

Figure-4: Relationship between SQL and CS



2.4 Research Model



Research Methodology

This is an explanatory study that intends to measure the impact of SQL on CS by comparing Islamic and conventional banks of Pakistan. The study population consists of customers that have their accounts with Islamic or conventional bank. The population is varied in demographics but identical in their desires of banking services. Although, no such complete list of bank clients is accessible. Such a complete list would have mandatory all banks to disclose their client's information. This is quite impossible due to competitive causes of the banks. For this reason, the study implemented a non-probability technique of sampling. It is a cross sectional primary data based study in which the data was gathered from the presented clients of chosen banks in Lahore (Pakistan). Ten banks were selected for the survey; five of them were IB's as only 5 fully fledged Islamic banks are operating in Pakistan (SBP, 2014) and other 5 were conventional banks that have been selected on the basis of market capitalization as shown in Table 2.

Table - 2: Selected Banks for the Study

Islamic Banks	Conventional Banks
Meezan Bank Limited	National Bank of Pakistan
Dubai Islamic Bank Limited	Standard Chartered Bank
Albaraka Islamic Bank Limited	Habib Bank Limited
Bank Islami Pakistan Limited	Bank Alfalah Limited
Burj Bank Limited	Muslim Commercial Bank Ltd.

Initially, 400 questionnaires were distributed among the customers of chosen IB's branches and CB's branches to collect data on SQL and CS from the respondents by using convenience sampling technique as shown in Table 3. This technique was also used by number of scholars in their studies. A total of 50 branches of selected banks were taken for this study and alienated into two groups according to bank type to record their responses. Customers were selected randomly from each branch of the bank. Out of 400 questioners, only 300 questionnaires were useable for data analysis. The screening procedure resulted in excluding 100 questionnaires from the study because of missing records items. So, final sample size ends at 300 responses that symbolize a valuable response rate of 75% of the whole sample. The data analysis tools used in this study were Microsoft Excel (MS Excel 2007) and SPSS (v16).

Table - 3: Details about IB and CB Branches and Respondents (Bank wise)

No.	Islamic Banks	No. of IB branches	Selected branches	Respondents from each branch
1	Meezan Bank Limited	25	05	08
2	Dubai Islamic Bank Limited	17	05	08
3	Albaraka Islamic Bank Limited	8	05	08
4	Bank Islami Pakistan Limited	14	05	08
5	Burj Bank Limited	18	05	08
Total		82	25	200

No.	Conventional Banks	No. of CB branches	Selected branches	Respondents from each branch
1	National Bank of Pakistan	42	05	08
2	Standard Chartered Bank	80	05	08
3	Habib Bank Limited	78	05	08
4	Bank Alfalah Limited	70	05	08
5	Muslim Commercial Bank Ltd.	82	05	08
Total		352	25	200

The study questionnaire comprises of three major sections. The first section consists of dimensions of SQL-service quality as a perceived quality that is studied on 7-Points Likert Scale. The second section tells about the level of CS and dissatisfaction on 7-Points Likert Scale. The last section named as profile, it encloses questions on the common information of the respondents including gender, age, education level, occupation, monthly earnings, marital standing and duration of having a bank account. Using 5-point or 7-point scales layout are the most common (Malhotra & Peterson, 2006). Customers' feedback about the service quality was collected by a customized version of SERVQUAL model. It comprises of 22 items separated into five elements. Each item is evaluated by a 7 point likert scale. Further, customer satisfaction was measured by a tailored version of research tool used by Suresh Chnader et al. (2002). It contained 25 items that separated into five elements. A synopsis of variables and constructs used in this research study are given in Appendix - A. In order to check the consistency, reliability analysis of the research instrument was done. Reliability test i.e. cronbach's alpha is used to test the reliability of the constructs and variables of this study. There are numerous studies presented in the literature that suggested that cronbach's alpha value should be more than 0.60 (Bernstein, 1994). The output of the reliability Statistics is shown in below Table 4 and Table 5.

Table - 4: IB Reliability Statistics of the IB Scales

Variables of the Study/Constructs	No. of items	Cronbach's Alpha
IB Service Quality		
IB Tangibility	4	0.772
IB Reliability	5	0.597
IB Responsiveness	4	0.823
IB Assurance	4	0.773
IB Empathy	5	0.881
IB Customer Satisfaction		
IB Customer Satisfaction	4	0.659
IB Human Element	7	0.882
IB Systemization of Service Delivery	6	0.759
IB Tangibility of Services	6	0.778
IB Social Responsibility	2	0.688

Table - 5: CB Reliability Statistics of the CB Scales

Variables of the Study/Constructs	No. of items	Cronbach's Alpha
CB Service Quality		
IB Tangibility	4	0.815
IB Reliability	5	0.743
IB Responsiveness	4	0.617
IB Assurance	4	0.654
IB Empathy	5	0.784
CB Customer Satisfaction		
IB Customer Satisfaction	4	0.579
IB Human Element	7	0.753
IB Systemization of Service Delivery	6	0.752
IB Tangibility of Services	6	0.803
IB Social Responsibility	2	0.574

Results and Findings

4.1 Respondent's Demographics

Table 6 (a) and Table 6 (b) present data on respondent's demographics of both IB and CB respectively as shown below. Table 6 demonstrates that male respondents are more than female respondents. In case of IB, 63.3% respondents are male and 36.7% were female respondents. Whereas, the CB shows that 60% respondents are male and 40% are female respondents. From this it can be concluded that male respondents are more tending towards IB as compared to CB. It is consistent with the previous study of Woldie and Adersua (2004) in literature that men and women are distinguished due to awareness and perception in the society.

In this study, 44.7% married bank respondents, 52.7% unmarried bank respondents and 2.7% divorced bank client's are the users of IB products. Whereas 47.3% married and 52.7% unmarried clients are dealing with CB in Lahore, Pakistan. The results reveal that unmarried respondents are more interested in dealing with banks in case both CB and IB. The division of bank customers according to age replicates that young and mature customers falling in age group of (21-30) are more fascinated to work with IB and CB. This is also supported from the earlier studies that the most of major bank customers are male in age group of 20 to 55 years old in Nigeria (Ojo, 1994). While majority clients of the IB's belong to the age group of 25-35 years (Khan et al., 2008).

Educational segment of the bank customers reflects that greater part of bank customers are post graduate (47.3%) in case of IB and (52.0%) in case of CB. Bank customers with income group of Rs. 10,000 to Rs. 40,000 (42.70%) uses IB products while CB clients with the similar income group are 46.70%. It is found that bank customer income and education level have important impact on banks usage (Khan, et al., 2008). Table 6 also depicts the customer's bank usage pattern. Customers are classified on the basis of time duration of having an account in IB or CB. A big part of IB customers are banking from 1 up to 3 years (54.7%) while majority of CB customers (65.30%) are attached with their main bank from 5 years and above. It may be because of the fact that IB's are new rivals in the banking industry of Pakistan and they have started their functions during last few years. Although CB are more recognized and established due to long existence as they have been functioning in Pakistan from the time of the independence of Pakistan (August 14, 1947).

Table – 6 (a): Respondents Profile (IB)

	Frequency	%age		Frequency	%age
Age			Industry		
17-21	08	5.3	Student	18	12.0
21-30	74	49.3	Businessman	27	18.0
31-40	59	39.3	Academia	39	26.0
40+	09	6.0	Housewife	10	6.7
			Banker	13	8.7
Gender			Investor	08	5.3
Male	95	63.3	Professional	32	21.3
Female	55	36.7	Other	03	2.0
Income (Monthly)			Marital Status		
Less than10,000	17	11.3	Single	67	44.7
10,001 –40,000	64	42.7	Married	79	52.7
40,001-100,000	55	36.7	Divorced	04	2.7
Above 100,000	14	9.3			
Qualification			Banking with your main bank		
Below High School	03	2.0	Less than a year	16	10.7
High School	16	10.7	1-3 years	82	54.7
Undergraduate	57	38.0	3-5 years	34	22.7
Post Graduate	71	47.3	5 years and Above	18	12.0
Any Other	03	2.0			

Table – 6 (b): Respondents Profile (CB)

	Frequency	%age		Frequency	%age
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Age		Industry			
17-21	15	10.0	Student	27	18.0
21-30	73	48.7	Businessman	11	7.3
31-40	57	38.0	Academia	43	28.7
40+	05	3.3	Housewife	08	5.3
			Banker	16	10.7
			Investor	11	7.3
Gender					
Male	90	60.0	Professional	34	22.7
Female	60	40.0	Other	00	0.0
Income (Monthly)		Marital Status			
Less than 10,000	24	16.0			
10,001 – 40,000	70	46.7	Single	71	47.3
40,001 – 100,000	51	34.0	Married	79	52.7
Above 100,000	05	3.3	Divorced	00	0.00
Qualification		Banking with your main bank			
Below High School	01	0.7	Less than a year	11	7.3
High School	13	8.7	1-3 years	98	12.7
Undergraduate	78	52.0	3-5 years	22	14.7
Post Graduate	03	2.0	5 years and Above	19	65.3
Any Other					

4.2 Testing Hypothesis

Table 7 demonstrates the outputs for customers' observation of SQL offered by IB's in Lahore, Pakistan. Levene's statistic for equality of variances is 4.96 that are significant as p-value = 0.02 is less than 0.05. So, equal variances across the groups are not assumed. The t-statistic for equality of means is -2.67 and highly significant as two-tailed p-value is 0.008. There is a considerable difference in male and female customers' perception of SQL of IB's in Lahore,

Pakistan. The results prove that male customers have higher level of observations towards quality services of IB's with minor variation as contrasts to female clients. The null hypothesis is accepted. This finding was also supported by Urban and Pratt (2000) who stated that the customers' awareness of SQL varies in expressions of gender, ethnicity, education and income.

Table - 7: Independent Samples T-Test for differentiation in the Perception of Service Quality among Customers of IB on the basis of gender (i.e. Male & Female)

Gender	N	M	Std. Dev.	Levene's Test for Equality of Variances		T- test for Equality of Mean		
				F	Sig	t	df	Sig. (2-tailed)
Male	95	- 0.12 7	0.841					
				4.961	.027	-2.669	148	0.008
Female	55	0.21 9	0.604					

Table 8 reveals the output of Independent Sample t-test for customers' observation of SQL offered by CB's in Lahore, Pakistan. Levene's statistic for equality of variance is 1.31 that is not significant (p value = 0.25). So, variances across the groups are assumed same/equal. The t-statistic for equality of the mean is -0.26 and it is not significant as p -value is 0.79 (2-tailed). There is no considerable difference in the observation of male and female clients regarding the SQL of CB's. The null hypothesis is not supported. It is suggested that customers' awareness of SQL is significant for administrators to contend in the market (Hoffman and Bateson, 2002).

Table - 8: Independent Samples T-Test for Difference in the Perception of Service Quality among Customers of CB on the basis of gender (i.e. Male & Female)

Gender	N	M	Std. Dev.	Levene's Test for Equality of Variances		T- test for Equality of Mean		
				F	Sig	t	df	Sig. (2-tailed)
Male	90	-0.012	0.666					
				1.30 9	.254	-0.267	14 8	0.790

Female	60	0.018	0.744				
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Table 9 exhibits the relationship among IBSQL and IBCS. It is set up that there is strong positive relationship ($r = 0.683$) linking IBSQL and IBCS. It holds the hypothesis that SQL-service quality is positively associated to CS-customer satisfaction in case of IB's working in Lahore, Pakistan. It is consistent with the literature as it is accounted that there is a positive association among SQL-service quality and CS-customer satisfaction (Razak et al., 2006).

Table - 9: A synopsis of Correlation among Selected Variables

Variables	Pearson Correlation	Sig. (2-tailed)
IBSQL and IBCS	0.683	0.000
CBSQL and CBCS	0.645	0.000

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

Table 10 also demonstrates that there is a strong positive correlation ($r = 0.696$) among CBSQL and CBCS. It holds the hypothesis that SQL is positively connected to CS in case of selected conventional banks that are functioning in Lahore, Pakistan. The consequences replicate that the service quality directs to larger contentment/satisfaction along with bank clients. It is established that there is positive connection among SQL and CS in Pakistan (Jamal and Naseer, 2003). It is accounted that the assembling of customers' anticipation is vital to enlarge customers' pleasure/satisfaction by deliverance of better SQL (Gao, Jia and Zhao, 2006).

Table - 10: A synopsis of Pair-wise Correlation among Selected Variables

Variables	Pearson Correlation	Sig. (2-tailed)
IBSQL and CBSQL	0.031	0.710
IBCS and CBCS	0.001	0.993

4.3 Regression Model Results

4.3.1 Dimensions of Service Quality and Customer Satisfaction

Table 11 shows the outcome of IBDSQL-IBCS and CBDSQL-CBCS regression functions. The value of F-statistics is 39.99 and 29.32 respectively for both models indicating the goodness of the model as the value is greater than 3.52 at the 5% level of significance. IBDSQL-IBCS R square value

indicates that influence (variation) of independent variable (IBDSQL or CBDSQL) on dependent variable (IBCS or CBCS). A highly and well significant linear association exists among IB and CB dimensions of SQL-service quality and customer satisfaction. Here, four dimensions of service quality name as tangibility, reliability, assurance and empathy have significant (p -value < 0.005) influence on IB and CB customer satisfaction. Whereas, responsiveness has insignificant impact on customer satisfaction as p -value is greater than 0.005 in case of both banking sectors. This validity of the significance/insignificance of variables is also checked by the t -stat values of all variables at the 0.05 level of significance. The regression model is as follow:

$$\text{IBCS} = 0.000 - 0.174(\text{Tang}) + 0.190(\text{Reli}) + 0.082(\text{Resp}) + 0.202(\text{Assu}) + 0.229(\text{Empt}) \dots \text{Model (A)}$$

$$\text{CBCS} = -0.000 - 0.014(\text{Tang}) + 0.139(\text{Reli}) - 0.087(\text{Resp}) + 0.246(\text{Assu}) + 0.264(\text{Empt}) \dots \text{Model (B)}$$

Table - 11: Regression Analysis Results

Variable	Model A (IBDSQL-IBCS)			Model B (CBDSQL-CBCS)		
	Coefficients	p-value	t-stat	Coefficients	p-value	t-stat
Tangibility	-0.174	0.001	-3.433	-0.014	0.798	-0.256
Reliability	0.190	0.004	2.776	0.139	0.004	2.711
Responsiveness	0.082	0.169	1.384	-0.087	0.184	-1.333
Assurance	0.202	0.014	2.485	0.246	0.000	3.619
Empathy	0.229	0.004	2.936	0.264	0.000	4.599
C	0.000	1.000	0.000	-0.000	1.000	0.000
Adjusted R ²		0.581			0.504	
F-statistic		39.99			29.32	
Prob(F-stat)		0.000			0.000	
*Dependent Variable		IBCS			CBCS	

4.3.2 Multicollinearity Test

Table 12 illustrates the multicollinearity coefficients for IB and CB to specify the correlation among the independent variables.

Table - 12: Multicollinearity Coefficients for IBDSQL-IBCS and CBDSQL-CBCS Regression Function

Dimensions	IBDSQL-IBCS			CBDSQL-CBCS		
	Condition Index	Tolerance	VIF	Condition Index	Tolerance	VIF
(Constant)	1.000			1.000		
Tangibility	1.911	0.606	1.649	1.798	0.532	1.880
Reliability	2.520	0.435	2.984	2.198	0.569	1.757
Responsiveness	3.189	0.426	2.348	2.592	0.444	2.254
Assurance	3.692	0.341	2.151	3.008	0.397	2.521
Empathy	4.996	0.365	2.233	3.530	0.471	2.123

The coefficients are listed in columns of conditions index, level of tolerance and VIF (Variance Inflation Factor). If tolerance statistics are near to '1' then less issue of multicollinearity but if these are near to '0' then more issue of multicollinearity. On the other hand if VIF statistics are '>2' then more issue of multicollinearity but if these are '< or = 2' then less issue of multicollinearity. As the vales are within the acceptable range, the analysis confirms that there is no multicollinearity issue among the predictors.

4.3.3 Service Quality and Customer Satisfaction

Table 13 shows the outcome of IBSQL-IBCS and CBSQL-CBCS regression model. The value of F-statistics indicates that variation of Independent variable (IBSQL or CBSQL) is well clarified and explained in dependent variable (IBCS or CBCS). A highly significant linear association exists among SQL-service quality and CS-customer satisfaction in case of IB's. SQL-Service quality has an important significant ($p < 0.005$) influence on CS-customer satisfaction for both banking streams. So the expected regression model is,

$$\text{IBCS} = 0.000 + 0.581(\text{IBSQL})$$

$$\text{CBCS} = 0.000 + 0.557(\text{CBSQL})$$

Table - 13: Regression Analysis Results

Variable	IBDSQL-IBCS			CBDSQL-CBCS		
	Coefficients	P-value	t-stat	Coefficients	P-value	t-stat
IBSQL	0.581	0.000	11.364	-	-	-
CBSQL	-	-	-	0.557	0.000	10.271

C	0.000	1.000	0.000	-0.000	1.000	0.000
Adjusted R ²		0.466			0.416	
F-statistic		129.14			105.93	
Prob(F-stat)		0.000			0.000	
*Dependent Variable		IBCS			CBCS	

4.4 Comparison between IB and CB Model

This study tends to contrast IB and CB functioning in Lahore, Pakistan with respect to SQL and CS. The results exhibit that there is a significant distinction in the perception of bank clients regarding SQL presented by IB based on gender. While there is no considerable divergence in the opinion of male and female clients concerning SQL presented by CB's. In the same way, there is a strong positive connection among SQL and CS as shown by the respondents of both IB and CB. But, results show that SQL presented by IB directs to greater satisfaction among IB clients as a comparison of CB's clients.

Table - 14: Hypothesis Summary

Hypothesis	F Statistic	R Square	Status (Supported/Rejected)
T-Statistics			
H1a	4.961	---	Supported
H1b	1.309	---	Rejected
Correlation and Regression			
H2a	39.990	0.581	Supported
H2b	29.318	0.504	Supported
H3a	129.134	0.466	Supported
H3b	105.496	0.416	Supported

Conclusion and Recommendations

5.1 Conclusion

Banks are playing a critical role towards economic growth and welfare of any civilization. Banking actions are essential for vigorous financial system that directs towards the industrial states of the globe. In this era of competition, SQL-service quality and CS-customer satisfaction may possibly enhance the banks performance for the victorious continued existence. The continuation

of IB-Islamic banks and CB-conventional banks in Pakistan shaped contest to magnetize a large number of consumers by providing quality services. This study inspects the association among SQL and CS by making a comparison of IB-Islamic banks and CB-conventional banks functioning in Lahore, Pakistan. The findings of the study conclude that SQL observation of IB's customers is considerably dissimilar on the basis of gender. The study also concluded that there is no differentiation in the observation of male and female clients regarding the SQL provided by CB. The consequences demonstrate that there is strong express and optimistic (positive) connection among SQL and CS in Lahore banking sector of Pakistan. The extent of affiliation among SQL and CS is larger in IB as contrasted to CB. Although, this research establishes that three elements of SQL-service quality name as tangibility, reliability, assurance and empathy have significant influence on CS of IB and CB. But responsiveness has no significant impact on customer satisfaction in both banking sectors.

It is found in this research that managers be supposed to advance the quality of bank services to maintain their clients as satisfied and pleased customers for long lasting advantages. Likewise, they must make preparations and planning to expand consciousness and understanding along with customers and employees of banks for development of their products/services to improve efficiency. IB's are supposed to build up money-making products in line to Islamic directions to contend with CB. The study has also established awareness about the association amongst SQL and CS concerning IB and CB in Lahore, Pakistan.

5.2 Recommendations

This study look at the SQL-service quality and CS-customer satisfaction by contrasting a number of selected IB-Islamic banks and CB-conventional banks in Lahore, Pakistan. IB should develop awareness and understanding about its products (services) to contend with CB for long lasting benefits and should initiate new products accordance to rules of Shariah to magnetize larger clients. Financial Institutions particularly banks are mandatory to develop a system to assess their services in relation to CS-customer satisfaction for remedial action by carrying out surveys. In order to congregated necessities of diverse sectors of the economy, bankers should commence innovative diversified and profitable products. Bankers are supposed to advance their services by combination of usual and established (traditional) facilities and contemporary and new (modern) technology to congregated customers' anticipation for better presentation in future as SQL-service quality has strong positive influence on CS-customer satisfaction.

CB-Conventional banks may possibly be changed into IB-Islamic banking practices to take part in an affirmative role for the wellbeing of the

society to transaction on the basis of profit and loss. IB is considered better than CB for the reason that IB-Islamic Bank presents its products in line to rules of Shariah. Whereas CB offers interest based products (services) that are severely forbidden by Allah Almighty and His prophet Muhammad (Peace be Upon Him). Also, it is extremely suggested that equity based conventions are better due to extended benefits towards economy (Wielzman, 1984; Chapra, 1985). Conversely, profit and loss based equity dealings excite investment (venture) and fruitful activities in the society (Arby, 2003).

5.3 Future Research

Future research is required on banking sector that can affect the level of customer satisfaction. The extent of this study is restricted to banking area by contrasting CB-conventional banks and IB-Islamic banks. The model can also be experienced in other areas of Pakistan to ensure the generalizability of the outcomes. The study only considered fledged IB's to contrast with the CB-conventional banks. The investigator does not include the CB's Islamic windows. So IB branches of CB-Conventional banks can also be incorporated in future. For the future investigation, the researchers require enhancing the number of banks considered in the study and the number of bank respondent as well.

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Appendix – A: Questionnaire

You have account in which bank (please tick)? Conventional Bank Islamic Bank

Part I - Service Quality:

1 = *Strongly disagree*, 2 = *Disagree*, 3 = *Slightly Disagree*, 4 = *Neutral*, 5 = *Slightly agree*, 6 = *agree*, 7 = *Strongly agree*.

SD

SA

Tangibility	1. Your bank uses latest equipment.	1	2	3	4	5	6	7
	2. Your bank's physical facilities are visually appealing.	1	2	3	4	5	6	7
	3. The employees of your bank are neat and clean	1	2	3	4	5	6	7
	4. Service related materials (pamphlets & reports) are visually appealing at your bank	1	2	3	4	5	6	7
Reliability	5. When your bank promises to do something by a certain time, it does so	1	2	3	4	5	6	7
	6. When you have a problem, your bank shows a sincere interest in solving it	1	2	3	4	5	6	7
	7. Your bank performs the service right the first time	1	2	3	4	5	6	7
	8. Your bank provides its services at the time it promises to do so	1	2	3	4	5	6	7
	9. Your bank issues error free bills, statements and other documents	1	2	3	4	5	6	7
Responsiveness	10. Employees of your bank tell customers exactly when services will be performed	1	2	3	4	5	6	7
	11. Employees of your bank give you prompt service	1	2	3	4	5	6	7
	12. Employees of your bank are always willing to help you	1	2	3	4	5	6	7
	13. Employees of your bank are never too busy to respond to your requests	1	2	3	4	5	6	7
Assurance	14. You feel safe in your transactions with your bank	1	2	3	4	5	6	7
	15. The behavior of your bank employees creates confidence in you	1	2	3	4	5	6	7
	16. Employees of your bank are consistently courteous with you	1	2	3	4	5	6	7
	17. Employees of your bank have the necessary knowledge to answer your questions	1	2	3	4	5	6	7
Empathy	18. Your bank gives you individual attention	1	2	3	4	5	6	7
	19. Your bank has business hours convenient to all customers	1	2	3	4	5	6	7

	20. Your bank has employees who give you personal attention	1	2	3	4	5	6	7
	21. Your bank has your best interests at heart	1	2	3	4	5	6	7
	22. Employees of your bank understand your specific needs	1	2	3	4	5	6	7

Part II - Customer Satisfaction:

1=Very highly Dissatisfaction, 2 = High Dissatisfaction, 3 = Slight Dissatisfaction, 4 = Neutral, 5 = Slight Satisfaction, 6 = High Satisfaction, 7 = Very High Satisfaction.

		VHD							VHS								
Core Services	1. Your bank has diversity & range of services (deposits, retirement accounts, loans for cars, houses, foreign exchange, traveler's cheques, safety lockers, etc.)	1	2	3	4	5	6	7									
	2. Your Bank has innovative services (providing information on regular basis through post: telephonic banking; ATM; room service facility etc.)	1	2	3	4	5	6	7									
	3. Availability of most service operations in every branch/department of the bank.	1	2	3	4	5	6	7									
	4. Operating hours and days are Convenient to you (e.g. working on Saturday and Sunday, extended service hours during evenings, weekdays, etc.)	1	2	3	4	5	6	7									
Human Element of Service Delivery	5. Your bank providing service as it promised	1	2	3	4	5	6	7									
	6. Your bank employees are having proper skills & ability for actions whenever a critical incident takes place (i.e. when a problem arises)	1	2	3	4	5	6	7									
	7. Your bank employees' deals the critical incident takes place confidently & quickly	1	2	3	4	5	6	7									
	8. Your bank prompts service to customers.	1	2	3	4	5	6	7									
	9. Your bank considers customer's feedback seriously & used to improve service accordingly.	1	2	3	4	5	6	7									
	10. Your bank employees encourage confidence in customers by proper behavior.	1	2	3	4	5	6	7									
	11. Customers feel safe and secure in their transactions.	1	2	3	4	5	6	7									
Systematization	12. Your bank employees have the knowledge & competence to answer customers' questions having best interests at heart.	1	2	3	4	5	6	7									

	13. Your bank has a highly standardized & simplified delivery process so that services are delivered without any disturbance.	1	2	3	4	5	6	7
	14. Your bank is enhancing technological capacity (e.g. computerization, networking of operations, etc.) to serve customers more effectively.	1	2	3	4	5	6	7
	15. Degree to which the procedures & processes are perfectly fool proof.	1	2	3	4	5	6	7
	16. Adequate and necessary personnel for good customer service.	1	2	3	4	5	6	7
	17. Adequate and necessary facilities for good customer service.	1	2	3	4	5	6	7
Tangibles of Service	18. The ambient conditions such as temperature, ventilation, noise & smell prevailing in the bank's premises.	1	2	3	4	5	6	7
	19. Extent of the physical layout of equipment & other furnishings being comfortable for customers to interact with employees.	1	2	3	4	5	6	7
	20. Having housekeeping as a priority and of the highest order in the organization	1	2	3	4	5	6	7
	21. Visually appealing signs, symbols, advertisement boards, pamphlets and other artifacts in the bank.	1	2	3	4	5	6	7
	22. Employees who have a neat and professional appearance.	1	2	3	4	5	6	7
Social Responsibility	23. Visually appealing materials and facilities associated with the service.	1	2	3	4	5	6	7
	24. Equal treatment with belief that every one, big or small, should be treated alike.	1	2	3	4	5	6	7
	25. "Service transcendence"- making customers realize their unexpected needs by giving more than what they expect.	1	2	3	4	5	6	7

Part III – Respondent Profile

Gender	Male		Female		
	Marital Status	Married	Unmarried	Divorced	
Your age	17-21	21-30	31-40		40+
Education Level	Below high school	High school	Undergraduate	Post graduate	Any other_____

Monthly Income	Less Rs. 10,000	Rs. 10,000 to Rs. 40,000	Rs. 40,000 to Rs. 100,000		More than Rs. 100,000	
Occupation	Student	Businessman	Academician	House wife	Banker / Investor	Professional
Banking Tenure	Less than a Year		1 to 3 Years		3 to 5 Years	Above 5 Years