



An investigation of the Selection criteria of Islamic Banking in Pakistan: Customers' Perspective

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Available online at: www.isca.in, www.isca.me

Received 24th April 2014, revised 4th May 2014, accepted 6th June 2014

Abstract

Practice of banking is as ancient as progress of mankind found its way from barter economies towards market economy and price mechanism. Currently banks have amassivepart in determining the economic fate of any state. Nowadays having a strong banking system is very important for all countries. A selection criterion of Islamic banking clients in Pakistan is examined under this study. All the customers of Islamic banks in Pakistan are the population of the study whereas the sample of the study is the Islamic banking customers in Lahore. Convenient sampling technique was applied to choose sample for this study. Data was collected through Questionnaire. Data is analyzed through descriptive statistics and independent sample T test using SPSS v-16. Cronbach Alpha was found satisfactory which was discovered to find reliability of the data. The results of Independent Sample t-test has examined there is no significance difference in the selection criteria for Islamic banking among the customers on the basis of Gender. The results show that people select Islamic banks because it deals in low cost products and services as compared to conventional banks. Also it is obvious from the results that people choose Islamic banks because it delivers better and wide range of products as compared to conventional banks. The results have also explored that Islamic banks provide all banking facilities at competitive rates.

Keywords: Banking facilities, competitive rates, conventional banking, customer behavior, customers satisfaction, Islamic banking, low cost products and services, price mechanism, selection criteria.

Introduction

Pakistan, having Muslim population of about 86%, is now progressing in its banking industry with the involvement of Islamic banking culture during the period of 1950 to 1970. Before 1970, there is no concept of Islamic banking, Islamic banking evolves in early years of twenty first century and its size reached to a billion after 2004. But after the period of 1992 the progress in this sector has been seen with the evolution of first Islamic Bank named Meezan Islamic bank and still the competition is being seen from the conventional banking sectors .people are attracted towards Islamic banking as their views about banking have shifted from materialistic approach. There is great potential for Islamic banks to prosper in order to meet customer.

Satisfaction in their perceived manner (both individual and cumulative) and increase the market reputation by offering innovative products. They provide state of art services about their products and services keep in view of SHARIAH rules and are providing the Islamic banking services under their separate windows in order to compete with conventional banks. Islamic banks created many opportunities and threats in the banking sector in 21st century. It is not only emerging in Muslim countries with excellence but also it is creating landmarks in non-Muslims countries.

Literature Review: Abdullah found that capability and courtesy of employees and their competency to impart trust and

confidence on to their customers¹. Albercht emphasis on the customer perception starts with certain, practical meanings of both the clients and the institution or organization. The act of anticipating, understanding, and starting to become cognizant of through the senses is called perception². Amin, Esa, and Fontaine R. have shown that the selection criterion of Islamic banks is both the financial and Islamic services provided by the Islamic banks. The repute of Islamic Bank also influences the selection³. Cunningham depicted that customers choose banks mostly on the basis of good interior and exterior outlook of branches⁴. Elbdour exposed that the important standards set by customers while choosing Islamic Banks were the reservation of rapid and operative services, banks repute and character, and secrecy. These were the stipulation of quick and quality service, how quickly the transaction is made and the amicable bank employees⁵. Gibbs showed that the customer perceptions about the products are the main basic of maintaining the long banks customer's relationships. Other terms that can affect the criterion for selection were excellence of employees, their behavior and the service charges⁶. KazemiMostafa, Rajabi Batool and Pirani Parvaneh have explained that clients always ranks their needs and level of comfort before choosing any bank for their financial and banking requirements⁷. Khan explained that as expansion in demand, different scholarly investigations are done for calculation of customer's contentment. Banks excel by giving quality services to their customers⁸. Metawa examined the Islamic banking client's behavior by analyzing the data of 300 customers. They targeted to view the consciousness

and level of fulfilling expectation of the clients of Islamic banks by calculating geographic findings. They inferred that banks should create capability and expertise in their products and services to maintain long term association with the customers⁹. Naser, Jamal A., and Khatib highlighted that the level of satisfaction for any product or service defines the customer perception about that particular product or service¹⁰. Nexhmi and Rexha R.P. have made a model which shows the factors influencing the customer perception about the products and services. The study has shown the positive response of the association between customer satisfaction, honesty and bank dedication¹¹. Osman, Ali, Zain, and Rasheed stated that Islamic bank employees got the highest satisfaction score among the factors of the service delivery system; the two most important bank selection criteria were adherence to the Islamic principles, followed by the rate of return¹². Othman supposed on the basis of his model that outlook and design of the bank has no immense influence in the process of selecting a bank¹³. Pradhan Tanmaya Kumar derived that large organizations emphasis more on the foreign banks rather than the local banks in their own country¹⁴. Rosenblatt examined the two basis on which the decision of the customers that whether the product should be bought or not depends¹⁵. Soni R.R. and SoniNeena explained that customers leave their bank immediately after facing any type of dissatisfaction or malpractice in services performed by bank¹⁶. Stanley derived fidelity, contentment, compassion and responsiveness as key factors of perceived quality by huge organizations¹⁷. Sufyan Habib argues that internet banking facilities attract mostly to those clients who are well literate regarding banking system and transaction. The customers with low knowledge of banking do not consider the factor of internet banking while choosing the bank¹⁸. Turnbull said that service quality and service features offered by any business are basic terminologies for calculating the client's pleasure¹⁹. Yadav M.N. and Chakrabarti S.K explained that banks are not assertively selected by rural population due to not having the basic knowledge of banking²⁰. Zeithaml gives four basis of measuring customer satisfaction, first was economical then second was the customer expectation towards a product then third was the quality services according to the price paid and finally the fourth one was what I am getting for what is to be received. It is also determined that the size plays a consequential place in maintaining different product lines²¹.

Methodology

A 'structure questionnaire' as constructed in order to generate all relevant necessary data from a number of respondents to answer

research questions that are framed to check the relationship that exists among various variables relating our study. There were two basic sections of survey questionnaire:

Demographic factors

Questions related to 'customer selection criteria'

To measure this relationship, data analysis tools are used. Moreover, 21 items were added under 7 major variables that consist of religion of respondent, service as well as 'product quality, 'customer care of bank, 'financial benefits on investor's investment' and the market reputation of bank in the industry. Demographic factors were also considered.

Results and Discussion

Reliability, Normality and Central tendency measurement of construct: Table-1 is presenting that reliability of the construct is checked through Cronbach Alpha which is 0.858. The value of cronbach alpha of this study representing that data is reliable. Skewness of data is -0.604 and Kurtosis of data is .895 meanwhile mean of observations is 3.924 with having standard deviation equivalent to 0.564.

Table-1
Reliability of the construct is checked through Cronbach Alpha

	Cronbach's Alpha	No. of Items
Selection Criteria	0.858	14
	Skewness	Kurtosis
	-0.604	0.895
	Mean	Std. Deviation
	3.924	0.564

Selection Criteria of Islamic banking: H1= There is no significant difference in the awareness level of Male and Female Customers of Islamic Banking.

The above table-2 shows the results for customers' selection criteria for Islamic banking in Pakistan. Levene's statistic (1.11) for equality of variances in not significant (p = 0.294). So, equal variances are assumed. The t-statistic for equality of means is (0.111) and p value is 0.912 (2-tailed). Now, since (0.912) is not less than or equal to (0.05), therefore, desired hypothesis is selected. That implies that it is failed to observe a significant difference in the selection criteria for Islamic banking among the customers on the basis of Gender

Table-2

Independent Sample T-Test for difference in the selection criteria for of Islamic banking among Male and Female customers of Islamic banking

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	85	3.9193	0.60074	1.11	0.294	-0.111	148	0.912
Female	65	3.9297	0.51716					

Conclusion

Above findings established help conclude that Islamic banking products and services are not that much well received by Muslim population however, there exists optimistic relationship between 'customer satisfaction' and 'Islamic banking' in Pakistan as customers using Islamic Banking products and services have shown a positive response as to establish the fact that "they get what they perceive". The majority of the respondents are those who have accounts in both conventional and Islamic banks. Respondents of our research are those people who have better knowledge and information of Islamic banking owing to news and other information sources. At the end, we establish that there is an extremely substantial positive relationship among variables, identifying 'customer satisfaction' in relation to 'Islamic banking' in Pakistan. The results show that most of the customers of 'Islamic banking' show following frequent results. It is also observe that no substantial difference exists in opinions of males and females regarding the perception of customer satisfaction in Islamic banking.

Further research: Research has to be undertaken in more detailed manner in order to analyze perception of non-Muslims toward Islamic banking as this study is confined to Muslims and with limited number of respondents. In addition to this, more publications on "Islamic banking" theme should be made Offered publically in order to raise the "level of understanding" and awareness as well As increase the "level of knowledge" heedlessly of "age or level of Edification" amongst Non-Muslims and Muslims with respect to Islamic banking related concepts and operations. In crux the 'Islamic Banks' which are in presence for about more than 20 year in Pakistan, is required to take More hands-on and antagonistic effort such as "recurrent products campaigns and Collaborations" with Educational institutions so as to promote Islamic banking products and services to Muslims and non-Muslims. With Pakistan's growing population, targeting at early age would prophesies fine with an objective of promoting "Islamic banking" and can result in positive and 'long term effect' on benefit and avoid any independent discernments on 'Islamic banking's.

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