

Measuring Service Quality and Customer Satisfaction in Pakistan: Evidence Based on Carter Model

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Abstract: The primary aim of this research study is to assess the factors that effect on service quality and to quantify the customer satisfaction in one of the leading Islamic bank operating in Pakistan. The basic distinction between a conventional and Islamic banking is the documentation and processing of the services provided to the customers. The present study tries to have an insight on the impact of service quality dimension and customer satisfaction using CARTER model. CARTER model is considered as very reliable and valid instrument to measure service quality and customer satisfaction in Islamic banking. Self-administered survey was conducted for data collection from 200 walk-in customer of Meezan Bank. The results of this study indicate a positive relationship between service quality dimensions and customer satisfaction in Islamic Banking.

Key words: Service quality, customer satisfaction, Islamic banking, CARTER model

INTRODUCTION

Financial institutions are an essential and integral part of any economic system. Financial institutions in Pakistan are facing intense competition due to lower entry barriers and global economic liberalization. The recent developments in commercialization and service delivery systems has altered the retail banking operations whereas the expectations of customers are also reshaped (Sweeney and Morrison, 2004; Wisniewski, 2001). Nasserzadeh and Sohrabi (2008) suggested that consumer typically does not differentiate in the services and products offered by retail banks because replicated offers by competitors are launched almost simultaneously. Consequently, Islamic banks are required to closely monitor and assess customer perception about banking operations, predominantly quality of service which lead to customer satisfaction and eventually their loyalty (Dusuki and Abdullah, 2007; Al-Ajam and Nor, 2015). Quality of the services is one of the key factor in retails banking in terms of customer experience. The importance of service quality is not limited only to service sector organizations but the manufacturing sector is also taking service quality as a key value (Lewis, 1991; Amin, 2016).

Iqbal and Molyneux (2005) highlighted that during the last three decades, Islamic banking has emerged and got momentum and become a global phenomenon with warm acceptance from Muslims and non-Muslims. The

primary distinction between an Islamic and conventional banking lies in compliance with the Islamic laws of business and governance, Islamic banks are bound to operate in accordance with Islamic principles and values (Ebrahimi and Moghadam, 2012; Amudha and Vijayabanu, 2012).

Islamic Banking came into existence due to spiritual and economic needs, Interest (Riba) based financial transactions and arrangements are prohibited in Islam. The emergence of Islamic banks in Pakistan had resulted in intense competition and pose challenges for industry players and force conventional banks to open separate Islamic banks or at least offer designated Islamic windows to meet the customer needs. The Islamization of financial institutions started about four decades ago by an initiative of State Bank of Pakistan aimed at abolition of interest from commercial banks. The more committed efforts were in placed by the State Bank of Pakistan by establishing Commission for Transformation of Financial System (CTFS). The primary goal of the Commission for Transformation of Financial System (CTFS) was to offer and propose Islamic modes of finance which are in compliance with Shari'ah (Islamic Laws). This was followed by establishment of Islamic Banking Department in State Bank of Pakistan in September 2003. From last 16 years, Islamic banking is contributing significantly in the economic growth of Pakistan (Siddiqi, 2002).

The data of this study was collected from Meezan Bank (a premier Islamic bank in Pakistan). Meezan Bank was founded in 1997 and was awarded license of first full-fledged Islamic bank in 2002 by State Bank of Pakistan. Meezan bank is one of the leading Islamic bank in Pakistan, it has more than 550 branches in >125 cities across Pakistan. The bank claims >35% of the total market share in Pakistan. According to Strategic Plan Islamic Banking Industry of Pakistan 2014-2018, State Bank claims that currently the Islamic banking has assimilated about 10% of the total banking market. The target for next five year to increase the total market share to 15%. The Islamic banking have its presence in >80 districts, out of total 167 districts of Pakistan.

The present research study is conducted to ascertain imperative factors of service quality and to explore the level of customer satisfaction. The instrument used called CARTER was initially developed in Kuwait by Othman and Owen (2001a) and later tested and found reliable and dependable when employed in different contexts (Othman and Owen, 2001b; Ismah *et al.*, 2009; Ramdhani *et al.*, 2011).

The study is structured as; section two aimed at providing insight on conceptual background of present research study along with some literature regarding service quality and customer satisfaction while section three is designated for research methodology, section four provides insights into theoretical model of the study, Section five is about the results and finding followed by discussion, recommendations and lastly, section six concludes the paper with limitations and conclusion of the present study.

Service quality: Gronroos (1984) coined this term and defined that service quality as a perceived judgment as a result of evaluation process undertaken by the customer, the comparison is made between the expectations of the service quality and perception of the service quality the customer actually received (Chiou and Shen, 2012). He further added that service quality can be broadly categorized in Functional quality and Technical quality. Ijaz and Ali (2013) defined that service quality is something that enable any product or service to meet customer expectations and help in customer retention on longer run. "Service quality is the single most researched area in services marketing to date" (Baron and Hilton, 2009).

Parasurman and Berry (1985) proposed a service quality measurement model based on ten quality dimensions after examining five different service sector businesses, it includes retail banking, repair and maintenance of electrical appliances, long-distance telephone services, credit card services and securities

brokerage. The same model (SERVQUAL) was revamped in 1991 with the following dimensions for service quality:

- Reliability; the capacity to accomplish the committed service consistently and precisely
- Responsiveness; willingness to assist and support customer and efficient service
- Assurance; Product and service knowledge of the employees
Empathy; Customized consideration to customers and compassionate attitude
- Tangibles physical appearance of services, equipment and employees

SERVQUAL has been widely accepted tool to measure service quality (Buttle, 1996; Robinson, 1999; Babakus and Boller, 1992; Zhou, 2004; Nadanasabai, 2011). SERVQUAL is highly reliable instrument for measuring service quality, the Cronbach's alpha has been reported from 0.87-0.90 while applying in varied service sector organizations (Enayati *et al.*, 2013; Salarzadeh and Paslari, 2015; Lisa and Ika, 2011).

Customer satisfaction: Customer satisfaction has attained considerable attention during the last four decades both on theoretical and pragmatic fronts and the issue is well established amongst customer satisfaction researchers and practitioners (Jamal, 2004). Meng Tepanon and Uysal (2008) summarized that during 1981 to 1996>11 diverse definitions of customer satisfaction have been proposed which indicates that there is no agreement among marketing researchers about the unified definition of customer satisfaction. Olsen and Johnson (2003) suggested that there are two types of customer satisfaction; cumulative satisfaction and transaction specific satisfaction. Cumulative satisfaction is overall customer evaluation about the product or service while transaction specific satisfaction is regarding an evaluation of different features of service or product after experiencing the service or consumption of a product.

Service quality and customer satisfaction: The importance of service quality and customer satisfaction is well established in literature on banking sector (Choudhury, 2013; George and Kumar, 2014). Meuter Ostrom Roundtree and Bitner (2000) conclude that high satisfaction leads to high customer satisfaction which is an originator for sustainable competitive advantage for any organization (Brun and Ricard, 2014). The construct of customer satisfaction has been recognized as an independent and distinct as compare to service quality (Oliver 1980). Additionally, an agreement can be found among researchers that customer satisfaction and service

quality are distinct constructs (Oliver, 1993). However, Zeithaml and Parasuraman (1996) suggested that these two are not different constructs and should be treated as a single entity. Service quality can be a source of competitive advantage for banking sector because it leads to higher customer satisfaction and produce value for customers (Kangis and Passa, 1997). Cronin and Taylor (1992) identified that service quality and customer satisfaction have a very strong and distinctive relationship. Service quality is an antecedent to customer satisfaction (Gruber and Gläser-Zikuda, 2010).

Tantakasem and Lee (2007) highlighted some of the service quality features that are associated and correlated with customer satisfaction, these can be classified as follows:

Basic factors: These are basic attributes of a service, although not lead to satisfaction.

Performance factors: These factors can lead to higher level of satisfaction if provided properly but their absence can lead to dissatisfaction. These factors are very critical in nature.

Excitement factors: These factors can lead to loyalty and customer commitment with the services but their nonexistence do not cause dissatisfaction.

MATERIALS AND METHODS

Research methodology of a research study is determined by the specific purpose and the questions under investigation (Denzin and Lincoln, 2000). Quantitative research studies typically use survey for collection of data to answer research questions and to test hypothesis. Through self-administered surveys, large sample size can be included as sample size in order to grasp deeper insight and to provide empirical support. The primary purpose of the current research study is to assess the important factors which lead to higher service quality and ultimately to achieve customer satisfaction. For the purpose of current study, the data from Meezan bank were collected through self-administered questionnaires during banking hours from walk in customers. Meezan bank is pioneer Islamic bank in Pakistan and claimed to be the market leader. Instrument was initially drafted in English but later it was translated in national language Urdu for better understanding of respondents. The 200 surveys were collected and used for data analysis, using convenient sampling method.

Theoretical framework: CARTER (Compliance, Assurance, Reliability, Tangibility, Empathy and Responsiveness) is conceptualized as a proposed

theoretical model for examining customer satisfaction and service quality in Meezan bank. The Islamic banks operate under different ideologies and beliefs as compared to other service sector organizations (Othman and Owen, 2001a). CARTER is a refined shape of SERVQUAL with an addition of "Compliance to Islamic Law" dimension for service quality. The following is a brief description of service quality dimensions of CARTER model:

- Compliance; refers to compatibility of services with Islamic laws and principles
- Assurance is the service awareness and politeness of workforces employed by the bank. It also comprises of all types of communication between employees of the bank and customers
- Reliability is the capacity to deliver the vowed service level in a dependable and accurate manner
- Tangibles refers to overall physical facilities, office equipment, staff and marketing and promotional materials
- Empathy means considerate and customized attention for Islamic banking customers
- Responsiveness is ability and willingness of the employees to facilitate customers and deliver swift service

CARTER have been used as a service quality measurement tool in Islamic banks (Othman and Owen 2001a, b). Othman and Owen (2001a) conducted a research study at Kuwait Finance House (KFH) and developed a model to assess the significant factors for service quality. CARTER contains 34 items relevant to service quality and customer satisfaction in Islamic banks. Each service quality item is rated on 5 point likert scale (Fig. 1).

The basic motivation for using CARTER for this research is dual in nature. Firstly, CARTER is evident to be highly reliable and dependable instrument for measurement of service quality and customer satisfaction (Othman and Owen 2001a, b; Ramdhani and Kurniati, 2011). Peter (1979) proposed that Coefficient alpha in the indicator of the reliability of the instrument grounded in internal consistency. Othman and Owen (2001) reported that Cronbach's alpha of CARTER at 0.95, the individual dimensions were also reported with very high Cronbach's alpha (0.70, 0.81, 0.79, 0.89, 0.77 and 0.79 correspondingly). 0.70 is an acceptable Coefficient alpha although instrument with lower Coefficient alpha are also used for conducting quantitative research (Nunnally, 1978).

The second reason for deploying CARTER model was that it has not been previously used for determination of service quality and customer satisfaction of Islamic banking customers in Pakistan. Considering it as research gap, an attempt has been made to contextualize the CARTER model in Islamic Banking.

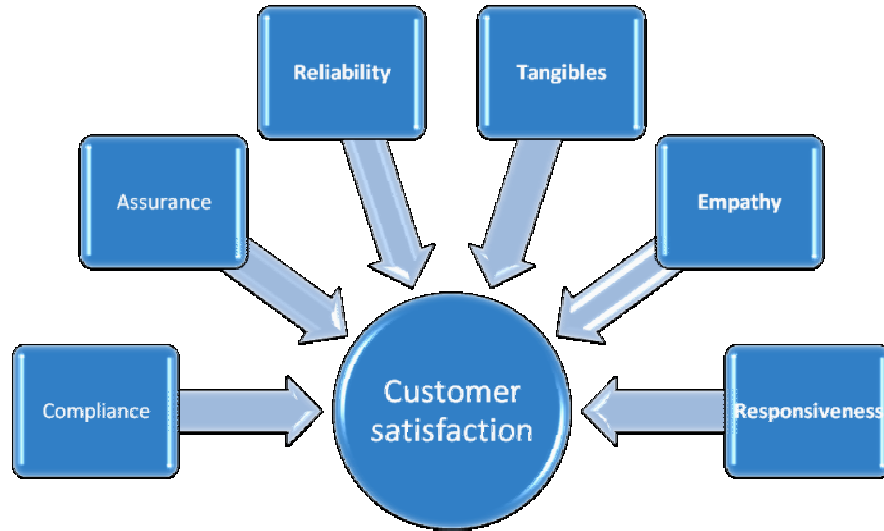


Fig. 1: Service quality dimension and customer satisfaction (Theoretical model)

Table 1: Descriptive statistics

Description	Statistic						Skewness		Kurtosis	
	N	Minimum	Maximum	Mean	SD	Variance	Statistic	SE	Statistic	SE
Assurance	200	1.00	5.00	3.8980	0.47785	0.228	-1.724	0.172	7.817	0.342
Compliance	200	1.00	5.00	3.3490	1.21862	1.485	-0.233	0.172	-1.162	0.342
Reliability	200	2.00	5.00	3.6338	0.51721	0.268	-0.417	0.172	.720	0.342
Tangibility	200	2.20	4.80	3.4900	0.50435	0.254	-0.058	0.172	.212	0.342
Empathy	200	1.78	4.89	3.4867	0.44270	0.196	-0.240	0.172	1.539	0.342
Responsiveness	200	2.50	4.83	3.8867	0.42229	0.178	-0.518	0.172	.410	0.342
Satisfaction	200	2.33	5.00	4.2567	0.47812	0.229	-0.477	0.172	1.812	0.342
Valid N (listwise)	200									

RESULTS AND DISCUSSION

Table 1 explains the descriptive statistics of the respondents in terms of service quality dimensions of CARTER model.

Table 2 provides insights about qualifications of the respondents on the study 20.5% were matriculation, 25.5% were intermediate, 37.5% hold undergraduate while 16.5% post graduate degree.

Table 3 is designated for age profile of the respondents, results showed that data was collected from variety of age groups. 0.5% were under 20 years, 34.5% were between 21 to 30 years, 44.5% were in age bracket of 31-40 years, 15% were from 40-50 and only 5.5% were >50 years old.

Table 4 shown the gender bifurcation of the respondents of the study. Major chunk i.e 66% were male and remaining 34% were female respondents for current research study.

Respondents were asked to rank service quality dimensions in terms of importance and significance for

Table 2: Qualification

Levels of education	Frequency	Percent	Percentage	
			Valid	Cumulative
Matriculation	41	20.5	20.5	20.5
Intermediate	51	25.5	25.5	46.0
Undergraduate	75	37.5	37.5	83.5
Post Graduate	33	16.5	16.5	100.0
Total	200	100.0	100.0	-

Table 3: Age

Age ranges	Frequency	Percent	Percentage	
			Valid	Cumulative
Under 20	1	0.5	0.5	0.5
21-30	69	34.5	34.5	35.0
31-40	89	44.5	44.5	79.5
41-50	30	15.0	15.0	94.5
50 and above	11	5.5	5.5	100.0
Total	200	100.0	100.0	-

customer satisfaction. Service quality dimensions were marked in order of preference for customers and overall customer satisfaction was also measured.

Table 5 shown the internal consistency of the instrument used for current study. Cronbach's Alpha is reported 0.731 which falls within an acceptable range.

Table 4: Gender

Gender	Frequency	Percent	Percentage	
			Valid	Cumulative
Male	132	66.0	66.0	66.0
Female	68	34.0	34.0	100.0
Total	200	100.0	100.0	-

Table 5: Reliability statistics

Cronbach's alpha of the model	N of items
0.731	8

Table 6: The criteria for evaluation of internal consistency

Level of internal consistency	Cronbach alpha denomination
Excellent	>0.90
Good	>0.80
Acceptable	>0.70
Questionable	>0.60
Poor	>0.50
Unacceptable	<0.50

Cronbach's Alpha for dimensions of CARTER model were also reported high (0.70, 0.81, 0.79, 0.89, 0.77 and 0.79 individually).

George and Mallery (2003) proposed the following criteria for evaluation of internal consistency of any model (Table 6).

CONCLUSION

As explained in above banking sector is becoming more and more competitive due to technological advancement and integrated services for banking customers. Being a player of the same game Islamic banks must also adopt, adjust and offer services competitive to conventional bank. The present study used 36 items of CARTER model for measuring service quality dimensions and customer satisfaction in one of the leading Islamic bank operating in Pakistan. The results indicates significant and importance of service quality dimensions proposed in CARTER model.

Regarding limitations of the study, the data for current study was collected from only one Islamic bank future research studies may collect data from other Islamic banks operating and Pakistan. Data from conventional banks offering Islamic services should also be gathered for comparison between Islamic banking customers and customer of from conventional banks with Islamic services. Future research studies may aimed at providing better insight using longitudinal method.

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