



## DETERMINANTS OF CUSTOMER SATISFACTION AND ADOPTION OF ISLAMIC BANKING IN PAKISTAN

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### Abstract

*Islamic banking system is gaining popularity however little is known about issues and barriers in adoption of Islamic banking. This study aims to understand determinants of customers' satisfaction and adoption of Islamic banking in Pakistan. Data were collected from the sample of users of Islamic banking in major cities of Pakistan. A total of 276 responses were analyzed using multiple regression techniques through SPSS. Results suggest that religious values and service quality have positive impact on satisfaction of Islamic banking customers whereas factors like inadequate information, language barriers, and trust deficiency were negatively related to customer satisfaction. Customer satisfaction was positively related to adoption of Islamic banking. Findings of this study suggest that managers of Islamic banking should envisage policies to keep abreast their customers with useful information, remove language barriers by explaining complex terms into simple language and maintain service quality to enhance consumer trust. This study is among few studies that have incorporated multiple and diverse factors for necessary for the adoption of Islamic banking.*



## **1. Introduction**

Islamic banking is gaining popularity in the world in general and Pakistan in particular. This sector is progressing very fast in Pakistan as well however adoption of Islamic banking in Pakistan needs some important measures at the hand of Islamic banks. Research on consumer satisfaction with and adoption of Islamic banking in Pakistan is still in infancy. As it is noted in the literature that consumer preferences and satisfaction play an important role in the success of banking system. The barriers in adoption of Islamic banking are multifold. For example, major challenge, Islamic banking faces is the popularity and strong roots of conventional banking system which provides monetary incentives to the consumers. Second major challenge consumers understanding of Islamic banking products and its vitality with regard to providing monetary benefits (Rehman, 2012). Previous research has mainly focused on the indicators that positively contribute to customer satisfaction and adoption of Islamic banking, there is also needed to understand certain factors that prohibit the chances of success of Islamic banking system (Khan et al., 2023). So, this study aims to answer the major research question as what contributes to customer satisfaction and adoption of Islamic banking system.

With the advancement of technology, the number of challenges have also been increased about economics, banking and finance sector. Hard and harsh challenges have been faced by all of them, like how to meet users and their requirements in order to satisfy users. Basically, these important are steps that that are taken to be considered challenging. Here, the most important thing is that what can be the steps to take and what to do in order to meet the requirements. For this purpose, there is a need to define these steps clearly. So, it is important for banks and management to be honest with their customers. Most importantly, some special steps should be taken by the banks to get interact with their customers for the provision of guidance to them and there is also need to treat them in a friendly way in friendly environment in order to convey them complete detail of their problems. Islamic principles should be practiced in banks so that the customers can be fully satisfied (Mahadin, & Akroush, 2019). For this purpose, there is a need to hire and educate those people about the skills and finance that is required to interact with people in an efficient way.

Moreover, there should be no differentiation in the form of their color, status, cast etc. so that all customers are treated equally and fairly. Islamic rules helps to deal this issue in a better way. In addition, new and best strategies by the financial institutions also helps to cover more orders and customers successfully. After knowing the demands of the customers, banks can make plans and policies, may introduce new trends accordingly to attract the researchers and professionals in Islamic banking. Current study will provide help to “prevail Islamic banking in Pakistan” for a longer period of time through the recognition of those factors having direct link with the “adoption of Islamic banking” through the “satisfaction of customers” towards Islamic banking services.

### **1.1 Problem Statement**



Islamic banking system was introduced in Pakistan a decade after it was implemented in Malaysia. Conventional banking system was popular in Pakistan before the introduction of Islamic banking. In such a case, most of the consumers in Pakistan felt it comfortable to conventional banking system and adoption of Islamic banking was met with greater challenges. Research on the adoption of Islamic banking in Pakistan is also at its infancy. Most of the research explored factors related to positive offering of Islamic banking and its impact on adoption however there is need felt to understand diverse factors that have varied impact on customer satisfaction and adoption of Islamic banking (Khan et al., 2023). Generally, in order to select business for investment people think in a very logical way but majorly Muslims customers chose Islamic bank due to their fundamental beliefs for the principles of Islam (Awan, Azhar, 2014)".

In Pakistani banking industry, there is great competition between conventional and Islamic mode of banking for the attraction of large number of customers. A large number of customers are captured by Islamic banks in the form of offering quality services and products as an interest-based product's substitute. Challenges are created for organization, individual and society by working of Islamic banking and its practices comes with lots of benefits (Butt, Saleem, Ahmed, Altaf, Jaffer, Mahmood, 2011).

## **2. Literature review**

Religious values refer to the set of principles defined some supernatural powers which are adored and practiced by followers without any significant challenge due to their universality (Kirkpatrick 2005). Research suggests that religion is most important phenomenon in the formation of attitude and behavior of its followers. The level of commitment and dedication to the religious principles refers to the religiosity of the individual and is primarily responsible for one's adherence to economic system of religion (Zaher and Hassan 2001). Islamic banking relies on the Islamic jurisprudence based on the Shariah laws defined and described by Quraan and Sunnah. (Yasin, Porcu, & Liébana-Cabanillas, 2020). Believers of Islamic principles prefer Islamic mode of financing due to prevailing Riba (interest) system in conventional banking which is considered haram (prohibited) in Islam (Bareham, 1995).

Service quality refers to overall assessment of particular service based on its key deliverables. Service quality is a form of customer's appraisal of company's performance in comparison to what is promised by the company (Parasuraman, Berry and Zeithmal 1988). Other reesearchers consider service quality as a form of customer satisfaction, fit for use or fulfilment of requirements and specifications (Oliver 1997). Customer satisfaction refers to positive consumption experience of customers such that the focal product provides gratification, and utility to the consumers (Boshoff and Gray 2004).

Research suggests that consumers satisfaction varies with regard to consumers perceived value. Choi et al. (2004) suggested that consumers perceived value has a positive association with



consumer satisfaction. Therefore, the greater the match between consumer value and service quality greater will be the satisfaction of consumers. In Islamic banking, consumer satisfaction relies on not only consumer religious values, but bank's service quality also has a positive impact on satisfaction with Islamic banking (Yasin et al., 2020)

Moreover, good quality services' availability and religion are also stressed upon by Haque et. al (2009) to influence perceptions of Malaysian customer about Islamic banking. The attitude of Bahrain clients was studied by Al-Ajmi et. al (2009) about IB and "identified friendly staff, service quality, courteous staff, internal environment of the bank, easy access to facility and bank brand name as the main factors for banks' selection". These factors combined contribute to the adoption of Islamic banking.

Rashid and Hassan (2009) studied the responses or replies of customers of Bangladesh and concluded that efficient and fast services and transaction speed were taken as the most and highly preferred factors in order to choose Islamic bank (IB) and they negated or invalid the religion from this category of selection of bank.

Students' perception and knowledge towards the Islamic banking was studied by Bley and Kuehn (2004) and considered factors of the study included "religion, basic Islamic product knowledge, and cultural differences, language barrier" etc. and came with some interesting results. Language barrier is taken as one of the most important factors prohibiting students for learning system of Islamic finance. Studies of "Ahmad and Haron (2002) found service quality, confidentiality, social endorsements from family and friends, and bank's reputation as important factors while selecting an Islamic bank".

Furthermore, Bolton (1998) took the non-financial and financial measures as the important factors for the customer satisfaction towards non-Islamic and Islamic banking system. Here, financial measures were found as having direct relationship with the customer satisfaction and their retention. Similarly, religion is ranked at 25% most important factor by the respondents but they found no difference between Non-Muslim and Muslims respondents towards selection criteria of banks.

In south west, a study is conducted by Hanson (2000) and it is found that there is a need to develop strategy by the organization that helps to enhance standards of the service quality due to enhancing the level of services. Lots of researchers have been done in order to signify the importance of service quality and customers satisfaction. It is advised that organizations must improve their level of services so that they can meet the wants and needs of its customers. In Malaysia, Hamid and Nordin (2001) found in their study that many customers have knowledge and well aware about the Islamic banking but still some customers are unaware of it because they are unable to distinguish



Islamic banking from conventional banking and they also do not know about the banking methods i.e. conventional or Islamic.

Research findings from Indian banking sector suggest that factors related to technology are given more weightage in measurement of service quality whereas human factors are ignored (Sureshchander et al., 2003). In China, Wang et al., (2003) examined intense competition in banking industry and found that potential and current customers are captured by both Islamic and conventional banks. It is realized that in today's competitive atmosphere, service quality is one of the important factors. In addition, it is clear from the study of Vitell and Paolollo (2003) that an indirect important and dominant factor for the consumers' ethical values, beliefs and practices is religion. Bley and Kuehn (2004) studied the determinants of Islamic banking adoption in consumers of United Arab Emirates. They found that religious values have greater impact than financial knowledge in the studied sample. More the preference of customers for religious association, the more would be the preference for selection of Islamic banks and found interesting result with respect of different factors like religion, knowledge of Islamic product, and cultural differences etc". Further, language barriers are also one of the factors that prohibits students from learning Islamic financial system.

Nevertheless, the main concentration of the study was about having an adequate education policy and marketing on economics and Islamic banking. It is analyzed in Scottish study of Curry and Penman (2004) that there is a need for banks to meet the customer wants by the provision of their services through the proper management of the resources and by keeping check on it as well because in competitive banking industry's environment, differentiations is the major factor in service quality. In order to gain the Customer retention, it is required to provide right services to the customers at right time which is helpful for the organizational long term benefits. Flavian et al. (2006) claimed that bank image is also the strong factor for better market position which creates and sustains the trust level of customers for their respective banks in competitive environment as there is a powerful influence of trust on performance of organization.

It is found by Al-Hawari and Ward (2006) in Australia that relation of service quality with financial performance is linked directly with customer satisfaction. It is mandatory for organizations to maintain standards for developing positive relationship with their customers. The study of Gait and Worthington (2008) suggested that essential factors for the preferences of Islamic banking are pricing, religious, bank image and service quality aspects. The concept of Islamic banking among the consumers is relatively recent and different one and due to having less Islamic banking knowledge, there is a need for Islamic banks to develop a strong and innovative marketing program so that customers can be aware and knowledgeable about new and unique Islamic services and products. It is mentioned in the study of Amin & Isa (2008) that there was a highly comparison of Islamic services and products' awareness among customers in Malaysia.



Ahmad et al. (2008) found a significant difference based on religious beliefs of customers with regard to selection of banking system. For example, they found that Muslim customers were more willing to engage with Islamic mode of banking whereas non- preferred conventional banking system in Malaysia.

In Iran, Mahamad and Ramayah, (2010) concluded that support provided by banks to customers in the shape of relevant information, knowledge and pricing levels leads to customer satisfaction for the long-term period. When customer expectations are fulfilled for quality of services/products then consequently customers become satisfied. On the other hand, if customer expectations are not fulfilled or they are not provided with adequate information regarding banking products, customers of Islamic Banking may become dissatisfied.

Urban and Pratt (2000) analyzed in their study that it is mandatory for managers to understand the customers' demographic characteristics because the customer thinking about the quality of service varies because of education level, gender, income, and ethnicity of those customers. This study focuses on the thinking level of customers in Pakistan about the "service quality" based on socio-economic development and cultural aspect. Contentment and knowledge of the customers were analyzed by Naveed (2010) about the products offered by Islamic banks in Pakistan. They found that there was a significant lack of knowledge in consumers regarding Islamic banking products. Moreover, consumers were very much worried about their trust in Islamic banking. This is the reason more attention is given to customer satisfaction in banks for the retention of existing customers.

Therefore, another factor that is advocated by scholars of Islamic banking is the level of trust of consumers in Islamic banking. Dusuki and Abdullah (2007) suggested that Islamic banking should earn consumers trust in Islamic banking system by providing services at par with their satisfaction. In this regard, they suggested that employee's abilities, courtesy, knowledgeableness, friendliness, and competence are important factors in garner trust in Islamic banking.

Rehman and Shabbir (2010) suggested that religious values play a supportive role in shaping the mindset, knowledge and attitude of the people and having an impact on the customer's decisions and actions just because of religious teachings. In previous decades, Ahmad et al. (2010) found that, banks having Islamic banking products showed a tremendous progress and quality of services was the significant factors customers sought after while choosing Islamic banking. Once the customers are satisfied with the quality of services then it leads towards the retention of those customers but if it is not the case then it is easy for those customers to move towards any other bank. They also analyzed the tremendous progress of Islamic banking they captured in the Pakistani market growing rapidly and also having huge size of Islamic banking market than the market of conventional banking. Banking system in Pakistan is divided into two major categories



for example some banks are purely Islamic banks whereas some banks have additional windows of Islamic banks in conventional banking systems.

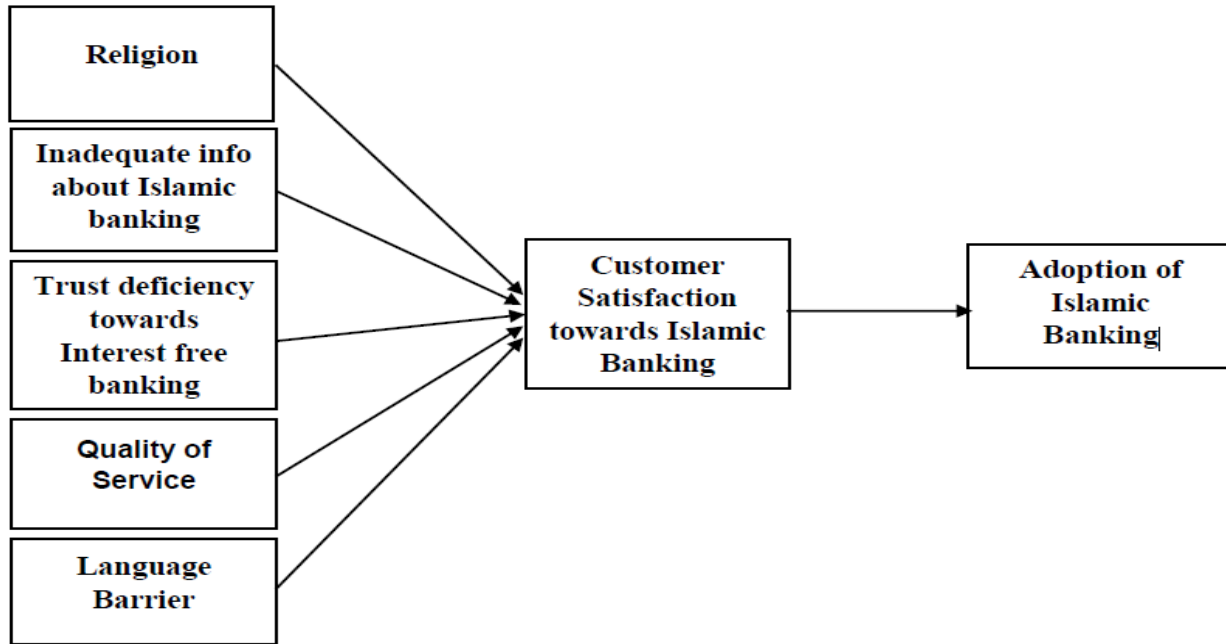
Akram et al. (2011) suggested that Islamic banking system is getting popularity in most Muslim countries. Its progress in Pakistan is also impressive. Although Islamic banking is facing greater challenges in competition with conventional banking system however growth of Islamic banking is impressive. In this way, if Islamic banks succeed in getting more trust from the consumers, these banks may outperform conventional banking system (Ali et al. 2012). Moreover, these banks need to improve on the factors that satisfy customers and gain their trust.

Furthermore, Imtiaz et al. (2013) concluded in their study that conventional banking is still preferred in banks because of fixed interest, no risk of loss, earn profit in the form of interest on deposit and take profit from their deposit as well. Banks need to understand that consumers expect clarity of expression, support, and timely redressal of issues in order to develop trust and confidence in Islamic banking. Based on above review of literature, this study formulates following hypotheses:

## **2.1 Hypotheses statements**

- H1** There is a positive and significant impact of “religion” on “customer satisfaction”.
- H2** There is a negative but significant impact of “inadequate information” about Islamic banking on “customer satisfaction”.
- H3** There is a negative but significant impact of “trust deficiency” on “customer satisfaction”.
- H4** There is a positive and significant impact of “service quality” on “customer satisfaction”.
- H5** There is a negative and significant impact of “language barrier” on “customer satisfaction”.

## **Research Framework**



**Fig. 1: Research framework**

### **3. Method**

#### **3.1 Research design**

This is cross sectional study that collected primary data from customers of Islamic banking using convenience sampling technique. A questionnaire was used to record the responses of participants.

#### **3.2 Sample**

Customers of Islamic banking were approached while visiting Islamic banks in major cities of Punjab, Pakistan. A total of 300 customers were approached and handed over the questionnaire. Purpose of the data collection was explained to them, and they were told that participation is totally voluntary, and responses will be confidential. A total of 285 questionnaires were received out of which nine questionnaires were dropped due to incomplete responses. Total of 276 questionnaires were subjected to data analysis using SPSS software.

#### **3.3 Measure**

Seven items scale is taken from the study of Asma, et.al, (2011) was used to measure the religious values. Inadequate information regarding interest free banking was measured using six items scale by Yahaya, Hamid, Idris, and Othman (2016). Trust deficiency was measured by combining two scales. Four items were taken from the scale used by Erdem and Swait (1998). Similarly, three items were taken from the scale used by (McKnight et al., 1998). Quality of services was measured using five items scale by Bashir, (2013). Language barrier was measured by self-developed four





items scale based on the problems which customers face while communicating with the Islamic banking system. A five items scale of Customer satisfaction towards Islamic banking is measured by the scale adopted from the study of Bashir, (2013). A four items scale of Adoption of Islamic banking by the customers is adopted from the study of Yahaya, Hamid, Idris, and Othman (2016). All responses were measured using 5 point Likert Scale ranging from 1 for strongly disagree to 5 strongly agree.

## 4. Results

### 4.1 Descriptive analysis

**Table 1: Demographic Profile**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	103	61
Female	66	39
<b>Age in Years</b>		
>25	51	31.4
26-30	70	41.4
31-35	28	16.6
<35	18	10.7
<b>Degree</b>		
Graduates	33	19.5
Masters	123	72.8
MPhil/PhD	13	7.7
<b>Marital Status</b>		
<b>Single</b>	85	50.3
<b>Married</b>	84	49.7
<b>Experience in Years</b>		
"0-3 years"	76	45
"4-6 years"	74	43.8
"7-9 years"	17	10.1
"< 9 years"	2	1.2

Results of descriptive analysis suggest that "61% are male participants" and "39% female participants" have completed the "research survey". most of the customers belong to "age group 26 to 30 years".

"72.8% customers" have the "masters' level of education" who frequently visits the Islamic banks. 45% of total respondents were having 0–3-year banks' visiting experience. Remaining 43.8% respondents were having 4-6 years banks' visiting experience.



**Table 2: Regression Analysis**

Model	Construct	R <sup>2</sup>	Adjusted R <sup>2</sup>	Beta	T value	P value
Step 1	REL	.548	.559	.740	17.357	.000
Step 2	REL IINFO	.559	.571	.892	15.395	.000
Step 3	REL IINFO TD	.579	.580	.832	15.779	.000
Step 4	REL IINFO TD SQ	.641	.667	.912	15.063	.000
Step 5	REL IINFO TD SQ LB	.585	.601	.947	14.968	.000

Note: Rel = religion, IINFO = Inadequate info about Islamic banking; TD= Trust deficiency towards Interest free banking; SQ = Quality of Service; LB = Language Barrier

For testing this relationship of independent variables on dependent variable, customer satisfaction that is basically a mediator was added as a dependent variable as we are considering the impact of independent variable on mediator in first five hypothesis. Factors of Islamic banking i.e. religion, inadequate information, trust deficiency, service quality and language barrier are used as the independent variables in analysis. The “R2 value” indicates the “percentage of the variance of the dependent variable (customer satisfaction) explained by the independent variables (religion, inadequate information, trust deficiency, service quality and language barrier)”. In step 1, the results suggest that a positive and significant relationship between the religion and customer satisfaction (Adjusted R<sup>2</sup>=.559, p < .001). Here the determination coefficient for the impact of religion and customer satisfaction infers that “55.9 % variance” in the customer satisfaction can be described by the variation in the religious values.

In step 2, the results found that religion and inadequate information collectively lead towards a change in customer satisfaction. A significant relationship is present between religion and inadequate information with customer satisfaction (Adjusted R<sup>2</sup>=.571, p < .001). In this case, the determination coefficient for collective impact of religion and inadequate information on customer satisfaction infers that “57.1 % variance” in the customer satisfaction can be described by the variation in the religion and inadequate information.



Similarly, in step 3, the study suggested that religion, inadequate information, and trust deficiency lead towards the change in customer satisfaction. A significant relationship is present between religion, inadequate information, and trust deficiency with customer satisfaction ( $R^2=.579$ ,  $p < .001$ ). Here the determination coefficient for impact of religion, inadequate information and trust deficiency on customer satisfaction infers that “57.9 % variance” in the customer satisfaction can be described by the variation in the religion, inadequate information, and trust deficiency.

In step 4, findings reveal that religion, inadequate information, trust deficiency and service quality lead towards the change in customer satisfaction. A significant relationship is present between religion, inadequate information, trust deficiency and service quality with customer satisfaction ( $R^2=.667$ ,  $p < .001$ ). Here the determination coefficient for impact of religion, inadequate information, trust deficiency and service quality on customer satisfaction infers that “66.7% variance” in the customer satisfaction can be described by the variation in the religion, inadequate information, trust deficiency and service quality.

In step 5, results find that religion, inadequate information, trust deficiency, service quality and language barrier lead towards the change in customer satisfaction. A significant relationship is present between religion, inadequate information, trust deficiency, service quality and language barrier with customer satisfaction ( $R^2=.601$ ,  $p < .001$ ). Here the determination coefficient for impact of religion, inadequate information, trust deficiency, service quality and language barrier on customer satisfaction infers that “60.1% variance” in the customer satisfaction can be described by the variation in the religion, inadequate information, trust deficiency, service quality and language barrier.

The overall results reveal that religion, inadequate information, trust deficiency, service quality and language barrier have a significant impact on customer satisfaction. Thus, supporting all hypotheses of the study.

## 5. Discussion

**H1: about religion and customer satisfaction:** It is shown that “the correlation between religion and customer satisfaction ( $r=.622^{**}$ ) is positive and significant”. “This positive and significant correlation shows that there is a positive impact of religion on customer satisfaction”. It depicts that religion and customer satisfaction go in same direction. “More is the religion; more will be the impact on customer satisfaction”. Thus, hypothesis 1 is accepted. This finding corresponds to Kaabachi and Obeid (2016) who found that religious values play greater role in the adoption of Islamic banking.

**H2: Negative relationship between inadequate information and customer satisfaction:** It is shown that “the correlation between inadequate information and customer satisfaction ( $r=-$



0.638\*\*) is negative and significant”. “This negative and significant correlation shows that there is a negative impact of inadequate information on customer satisfaction”. It depicts inadequate information and customer satisfaction go in opposite direction. “More is the inadequate information, the less will be the impact on customer satisfaction”. Thus, hypothesis 2 is accepted. This finding is in line with the findings of Dulami, Baxendale, and Jewell (2012) who found that access to the information is a basic customer requirement in their adoption behavior.

**H3: Negative relationship between trust deficiency and customer satisfaction:** It is shown that “the correlation between trust deficiency and customer satisfaction ( $r=-0.701^{**}$ ) is negative and significant”. “This negative and significant correlation shows that there is a negative impact of trust deficiency on customer satisfaction”. It depicts that trust deficiency and customer satisfaction go in opposite direction. “More is the trust deficiency, less will be the impact on customer satisfaction”. Thus, hypothesis 3 is accepted (Disli, Hatam, and Jalaly (2023)

**H4: Service quality and customer satisfaction:** It is shown that “the correlation between service quality and customer satisfaction ( $r=.794^{**}$ ) is positive and significant”. “This positive and significant correlation shows that there is a positive impact of service quality on customer satisfaction”. It shows that service quality and customer satisfaction go in same direction. “The more the service quality impact, more will be the customer satisfaction” (Alzaydi, 2023). Thus, hypothesis 4 is accepted.

**H5: Negative relationship between language barrier and customer satisfaction:** It is shown that “the correlation between language barrier and customer satisfaction ( $r=-0.702^{**}$ ) is negative and significant”. “This negative and significant correlation shows that there is a negative impact of language barrier on customer satisfaction”. It depicts that language barrier and customer satisfaction go in opposite direction. In other words language barriers creates barriers in understanding the terms of Islamic banking and thus decreases the chances of adoption (Gopalan, and Narayan 2010). Thus, hypothesis 5 is accepted.

**H6: Positive relationship between customer satisfaction and adoption of Islamic banking:** It is shown that “the correlation between customer satisfaction and adoption of Islamic banking ( $r=.751^{**}$ ) is positive and significant”. “This positive and significant correlation shows that there is a positive impact of customer satisfaction on adoption of Islamic banking”. It depicts that customer satisfaction and adoption of Islamic banking go in same direction. In other words, satisfied customers are more likely to adopt Islamic banking (Jawaid, Siddiqui, Kanwal, and Fatima, 2023). Thus, hypothesis 6 is accepted.

### **5.1 Limitations and Future Recommendations of the Study**

There are several limitations and future recommendations of current study to be discussed by future researchers. First, it is noted that the sample of current study is only Pakistani nation which



may affect the results or findings in generalization terms, but diverse population at international level can help to reduce this factor. Second, our study is limited to major cities of Punjab, So, the future researchers can take other cities as well in order to enhance the findings. Third, there is also need to explore the several other factors i.e. financial benefits, bank reputation, competitiveness, qualitative staff, and location etc. to show their impact on customer satisfaction and adoption of Islamic banking. Four, a larger and more representative sample size may change the findings of the study. Five, there is also a need to translate it in Urdu language so that the non-English speaking customers can understand it in a better way to get more better and accurate responses. Six, currently respondents of the study included both users of Islamic and conventional banking under the category of Islamic banking users, but future studies should have to separate these users in order to get the results about only Islamic banking. They can also make three categories of respondents as only Islamic banking users, only conventional banking users and both.

## **5.2 Conclusion**

This study finds that religious values, customer perception of service quality, trust and adequate information are major factors that drive customer satisfaction and adoption of Islamic banking in Pakistan. Pakistan being Muslim country should need to focus to educate the banking customers regarding easiness, and applicability of Islamic banking should remove barriers with regard to understanding of complex terms used in Islamic banking system in order to promote it. Moreover, human resources in Islamic banking industry should also focus on courteous behaviors, provide consultation and support to consumers and improve service quality. These factors will enhance customer trust in Islamic banking and satisfy customers. Combining all these factors. Islamic banks can enhance adoption of Islamic banking in Pakistan.



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