Impact of Staff Service Quality on Customer Satisfaction and Bank Performance: A Comparison of Islamic and Conventional Banks

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Abstract

Islamic and conventional banks are competing by delivery of quality services to have satisfied customers for better performance. This study examines the relationship between employees' understanding of Islamic banking products and services and its impact on branch performance. A structured questionnaire has been developed for the study in the light of the existing literature. Data collected from 178 respondents by self-administered questionnaire by using stratified sampling. The results indicate a strong positive relationship between employees understanding of Islamic banking products and services and branch performance. Results indicate partial mediation between employees' understanding and branch performance through mediating variable customers' satisfaction.

Keywords: Islamic Bank, Conventional Bank, Quality service, Customers, Satisfaction, Branch Performance

I. Introduction:

In Pakistan, the conventional as well as Islamic banking systems run on the parallel. State Bank of Pakistan (SBP) defined the Islamic banking as the banking system which is governed and regulated in accordance with the true ethics and values of Islam. It plays an important role for the development of Islamic banking in Pakistan. For the promotion of Islamic banking system, SBP mentioned in its mission statement that Islamic banking industry must be in line with best international banking practices, according to Shariah' compliance and transparency.

In today's competitive environment, employees in banking industry need to be fully equipped with knowledge and their goals must be aligned with the goals of organization. Internationalization and liberalization have caused enormous competition, which presses the banks to offer Islamic banking services not only in Pakistan but also globally. However, the growth in any sector is contingent to the training and performance of the employees in that sector, because, employees play important role in convincing customers, family and friends through internal marketing to use Islamic banking services. Therefore, it is imperative that employees must be trained and educated. If employees have no proper understanding or knowledge about Islamic banking products and services, they might not be able to motivate their customers consequently, affecting their bank branch performance.

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Banking industry essentially depends upon large amount of deposits and investments. This can be achieved through the fulfillment of customers' needs according to their requirement. As a banker, employees can't satisfy the customers of Islamic banks until and unless they have better understanding or knowledge about Islamic banking products and services. This study may help bankers, bank branch managers, practitioners and policy makers in satisfying the customers' needs according to their demands. As a result, the performance of branch may be increased. This study may also be helpful to train the employees of Islamic bank branches, because no study is available on understanding or knowledge about Islamic banking among employees and its impact on Islamic bank branch performance.

The objective of this study is to explore the relationship between employees' understanding or knowledge about Islamic banking products' and its effect on Islamic bank branch performance. The main objectives of the study are as follows:

- To examine the relationship between understandings of Islamic banking products and services among employees of Islamic bank and its impact on branch performance.
- To analyze the relationship between employees' training and experience gained in Islamic banking and its impact on branch performance.
- To find out relationship in perception about quality products and services provided by the employees of Islamic banks and its impact on performance of the branch.

II. Literature Review:

Zainol, Shaari and Ali have conducted a research in Malaysia to understand the knowledge about Islamic banking Products and services among employees of Islamic banks as well as conventional banks which deals in Islamic banking window (1). The researchers found that majority of the employees have an optimistic thinking of Islamic banking products and services. However, the employees who are working in Islamic banking have greater knowledge as compared to the employees who are working in conventional banking. M Awan and K.S. Bukhari conducted research regarding customers' criteria for selecting an Islamic bank in Pakistan (2). Their findings show that customers value products features and quality as influential factors and give less value to religious factors while selecting an Islamic banking product. Selection for clients is based on different options of financing and return potential. Their findings also support the research of Jalal-ud-din and Metwall who found that high rates of return and various financing options are the major factors for the selection of Islamic banks (3). The other factors were efficiency, fast services, banks image and secrecy. Relatives and family friends have a greater influence on customers' intention about Islamic banking.

Another study was conduct by Z.A. Shah, Akbar and Kalmadi in UK to gauge the perception about Islamic banking among customers (4). Their results showed that participants have knowledge about riba but they were unable to differentiate the Islamic banking products and services from conventional banking products and services. Their results also supported the argument that giving and

receiving interest (riba) is prohibited in Islam and awareness should be given to the mankind. In this regard, people have a similar view about Islamic banking products and services.

So, it may be concluded that bankers can induce more customers if they have innovative products and services according to Islamic Sharia. It was also found that the employees of Islamic banks must be well educated and innovative. There is a need for Islamic banks to "continuously innovate and improve their Islamic banking products features". Islamic banking products must have been viewed in terms of Muslim and non-Muslim community (5).

To determine the knowledge in integration among employees of Islamic banking a study was conducted by Nurdin and Letch in Indonesia (6).They believed that employees come from different educational backgrounds and cultures. Therefore, Islamic banks should integrate different workers' knowledge to increase their performance. Knowledge is one of the most important factors for the organizational performance and considered as an organizational asset. Insufficient training and experience of employees regarding understandings of Islamic banking technology cause a little innovation in Islamic banking products and services which also cause dissatisfaction among the customers of Islamic banking. Customer's behavior of Islamic society is strongly affected by Islamic beliefs, moral, social and cultural norms. Employees, who are aware of Islamic banking principles according to Sharia, had believed that Islamic banks operations do not really conform to the prohibition of interest. To create a distinction between Islamic banks and conventional banks, the Islamic banks must establish an environment that is based on Islamic Sharia such as worship, prayers, manners and morals, marriage, inheritance, crime and economic transaction. From the above literature, sufficient evidence is not available on the topic "employees' understanding about Islamic banking products and services and its impact on Islamic bank branch performance". Therefore,there is a literature gap in terms of employees' understanding or knowledge about Islamic banking products and services and its impact on Islamic bank branch performance.

Hypothesis and Conceptual Framework:

Due to growth in Islamic banking products and services, a study is required to determine the understanding about Islamic banking products and services among employees and its impact on Islamic branch performance. Islamic banks are striving to capture more and more customers to increase their profitability. The expansion of banking industry has to face structural and technological changes due to globalization and integration of banking system.

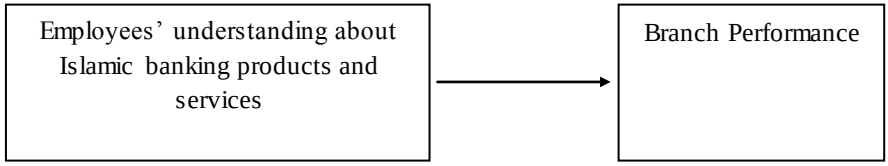
SERVQUAL model was established by Parasuraman in 1985-1991. They mentioned ten dimensions of service quality and finally grouped into five dimensions. It was also explored that increase in service quality reduces customers' erosion and increase customers' satisfaction. Banker's knowledge about Islamic banking product plays an important role to capture maximum number of customers. Based on previous studies, it can be hypothesized that there are positive relations

between employees' understanding about Islamic banking products and branch performance.

H_1. There is significant positive relationship between employees understanding about Islamic banking products and branch performance.

Fig- 3.1

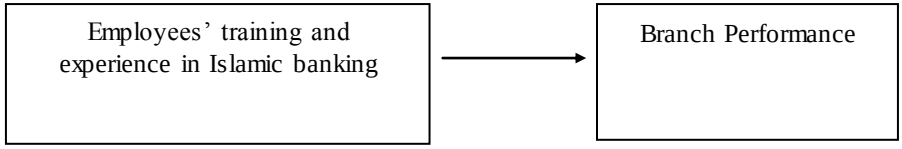
Graphically presentation of hypothesized relationship between employees' understanding about Islamic banking products and branch performance



H_2. There is Positive significant relationship between perception about employees' training and experience gained in Islamic banking and branch performance.

Fig- 3.2

Graphically presentation of hypothesized relationship between employees' training and experience in Islamic banking and branch performance



Understanding of bankers towards Islamic banking products and services is measured in terms of knowledge about prohibition of interest, basic aim of Islamic banking and low cost Islamic banking products as compared to conventional banking products. Understanding also can be measured in the sense that bank management takes effective action to promote their products.

Pakistani Government showed commitment for development of Islamic banking system in Pakistan. Employees must have an enough experience in Islamic banking products before joining banks and sufficient training exposure in Islamic banking products. Employees are capable to solve the problems regarding Islamic products.

Customer's satisfaction is measured by using SERVEQUAL instrument. Compliance, reliability and responsiveness dimensions are taken to measure the customer's satisfaction. Compliance is in terms of bank operated on Islamic principles. It is found that service quality is crucial to satisfy the customer's needs with compliant behavior and commitment in Turkish banking industry (Yavas et al, 1997).

For higher level of satisfaction, an improvement in service quality is necessary. Banks play a dominant role in financial services market due to multiple opportunities in the modern world. It is found that organizational performance is

decreased due to lack of knowledge about customer's expectation (7). Customer's satisfaction leads to better performance.

Customers' satisfaction results into profitability. Therefore, banks must focus on customers' satisfaction to enhance profitability (8). So, it can be hypothesized that customers' satisfactions mediates the relationship between employees' understanding about Islamic banking products,employees' training and experience in Islamic banking and branch performance.

H_3 There is significant positive relationship between employees' training and experience in Islamic banking and customer's satisfaction.

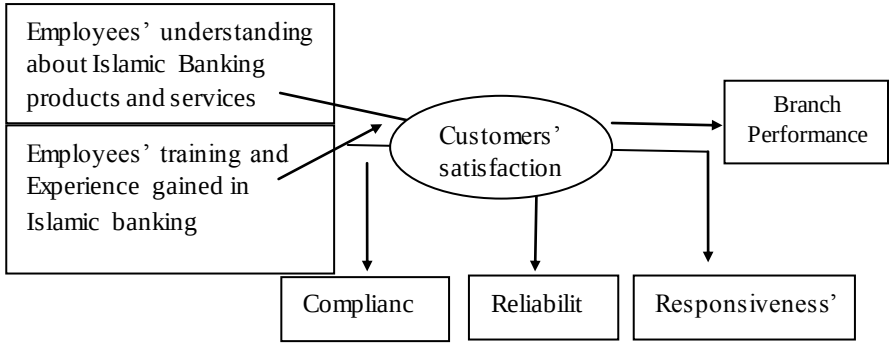
H_4 There is significant positive relationship between employees' understanding about Islamic banking products and customers satisfaction.

H_5 Significant positive relationship between customer's satisfaction and branch performance

H_6 **.**Customer's satisfaction mediates the relationship between employees' understanding about Islamic banking products, training and experience gained in Islamic banking and branch performance.

Fig-3.3

Employees' understanding about Islamic Banking products and services, Employees' training and Experience gained in Islamic banking, Customers' satisfaction and branch performance



Independent variables mediating variable **Dependent variable**

Conceptual Model and Theoretical Framework

Source: Generated

III. Methodology:

The study is to assess the impact of employees' understanding about Islamic banking products, training and experience gained in Islamic banking on bank branch performance. In total, 300 questionnaires were distributed among employees such as Branch managers, operational managers, customer relationship officers and customer of each employee of Islamic bank branches located in region of South Punjab (Multan, Bahawalpur, D.G Khan, Khanewal, Vehari, Jhung and Burewala).The

researcher collected 178 days responses from branch manager and his/her customer, operational manager and his/her customer and so on customer relationship officer and his customer. SPSS 16.0 and AMOS were used to analyze the data and to get results of data. Stratified sampling technique was used to collect the data from employees of Islamic banks and Islamic bank branches of conventional banks. This technique is also used by the previous studies (9). The variables that are used in this study are well known and valid and used in previous literature by the famous scholars to measure the understanding about Islamic banking products and services among employees, the researcher used the scale of Zairani Zainol who had applied the same measure for a study on banker's perception about Islamic banking in Malaysia. For the purpose of measuring the perception towards training and experience gained in Islamic banking, researcher used the scale of Zairani Zainol. This measure was used by the researcher in Malaysia to measure the perception about training and experience gained in Islamic banking industry. To measure the branch performance, the researcher used the performance measures such as product superiority, in-house process coordination, human resources activities coordination, Profitability of branch, Productivity (turnover), deliberate human resources rotation and human resources absenteeism. This scale was also used by Ashfaq Ahmad (9) to measure the performance of the bank. The fourth measure which is used in this study is customer's satisfaction. This measure is used as mediator in this study. The researcher used this measure with three dimensions: two from SERVEQUAL instrument of (10) and one from the study of Ismah Osman et al. (11) used in Malaysia to measure the customers' satisfaction.

Data Analysis and Results:

Different tools and procedures were used for mediation and preliminary analysis.The researcher applied the Kolmogorov-Smirnov test for the normality of all variables and all variables falling in the given criteria of normality i.e. sig value is greater than 0.05 of Kolmogorov-Smirnov criteria.

Tests of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
m_performance	.063	178	.083	.983	178	.025

Source: Authors' Generated by using SPSS 16

The researcher also checked the outliers in the data file through histogram and Q-Q plot and found some outliers in the data set but the value of skewness and kurtosis fall within the range of +3 to -3. The researcher also used Principal component analysis for the purpose of reducing the data of each construct.

Table 5.8

Direct relationship results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.479	.326		7.603	.000
	Perception about T&E	.192	.053	.263	3.653	.000
	Understan-ding of IB	.155	.068	.162	2.258	.025
a. Dependent Variable: Mperformance_2 Source: Authors' Generated by using SPSS V.16						

At First stage, the researcher used linear Regression model to assess the direct relationship between employees' understanding about Islamic banking products and services and branch performance. From the above table, the researcher found employees' understanding about Islamic banking products (B= .162; P= 0.025) was significantly positively associated with branch performance. The researcher had also assessed the direct relationship between employees' perception about training and experience gained in Islamic banking and branch performance. From the above table, results showed (B= 0.263; P= 0.000) that, there was significant positive relationship between employees' perception about training and experience gained in Islamic banking and branch performance. So, the first hypothesis employees' understanding about Islamic banking products and services has significant relationship with branch performance. The second hypothesis, employees' perception about training and experience gained in Islamic banking and branch performance was also showed significant positive results (B= .263; P= 0.000). Therefore, direct relationship was found between employees' understanding about Islamic banking products and services and branch performance. In the same way, direct relationship was also found between employees' perception about training and experience gained in Islamic banking and branch performance. Therefore, H_1 and H_2 are accepted.

In second stage, the researcher applied SR Model using bootstrapping techniques to assess the mediating (indirect) relation between employees' understanding about Islamic banking products and services, employees' perception about training and experience gained in Islamic banking and branch performance through customers' satisfaction as mediating variable. First, the researcher examined the relationship between employees' understanding about Islamic banking products and services and customer's satisfaction. The researcher found employees' understanding about Islamic banking products (B= 0.187; P= 0.014) was significant and positively associated with customers, satisfaction. The researcher also tested the relationship perception about training and experience gained in Islamic banking and customer's satisfaction. The researcher found perception about training and

experience gained in Islamic banking (B= .026; P= 0.471) was insignificant but positively associated with customers' satisfaction. Therefore, H_3 employees' perception about training and experience gained in Islamic banking and customer's satisfaction was partially accepted. There was significant positive relation between employees' understanding about Islamic banking products and services and customers' satisfaction. Therefore, H_4 was accepted. The researcher also examined the relationship between customers' satisfaction and branch performance. The researcher found customers' satisfaction (B= 0.297; P= .000) was significant and positively associated with branch performance, therefore, H_5 is also accepted. The overall results showed that there was a partial mediation between employees' understanding about Islamic banking products and services and branch performance.

Table 5.9

Results of Mediation

			Estimate	S.E.	C.R.	P	Label
mcustomers_satisfaction	<---	Understanding of IB	.187	.076	2.447	.014	par_2
Mperformance_2	<---	mcustomers_satisfaction	.297	.065	4.547	***	par_1
Mperformance_2	<---	Understanding of IB	.122	.068	1.810	.070	par_3

Source: Authors' generated using AMOS V.16

Table 5.10

			Estimate	S.E.	C.R.	P	Label
mcustomers_satisfaction	<---	Perception About T&E	.026	.060	.427	.669	
Mperformance_2	<---	mcustomers_satisfaction	.311	.062	4.993	***	
Mperformance_2		Perception About T&E	.196	.050	3.949	***	

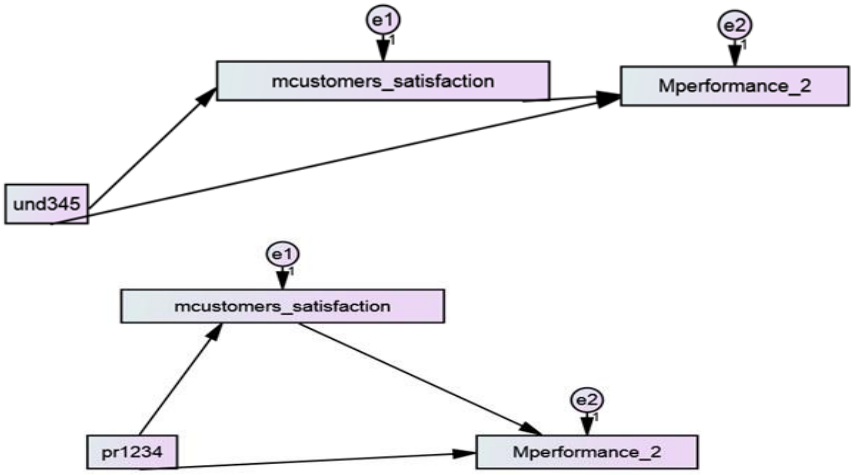
Source: Authors' generated using AMOS V.16

From the above table 5.9, the researcher pointed out that there was significant positive relation between employees' understanding about Islamic banking products and services and customers satisfaction, because (B= .187; P= .014) P value was significant (P=.014) and positively associated (B=.187), so, there was positive relationship between customers' satisfaction and understanding of Islamic banking products and services. Customer's satisfaction (B=0 .297; P= .000) and branch performance was also significant and positively associated. From the table 5.9, results showed that there was significant (P=0.070) and positive relation (B=0.122) between branch performance and understanding about Islamic banking. Therefore, there was partial mediation between employees' understanding about Islamic banking and branch performance. From table 5.10, customer's satisfaction and employees' perception about training and experience was insignificant and positively associated (B= .026; P= 0.427). (P= 0.669), So, there was no mediation between employees' perception training and experience gained in Islamic banking and branch performance because, no relationship was found between mediator variable (customers satisfaction) and independent variable (perception about training and experience). This relationship violated the condition of mediation. From above results and discussion, the researcher concluded that there was partial mediation

between employees' understanding about Islamic banking products and services and branch performance.

Model Specification in AMOS:

Indirect relation between employees' understanding about Islamic banking products, perception about training and experience gained in Islamic banking and performance.



Source: Authors' Generated by using AMOS V.16

IV. **Und345** = understanding of Islamic banking **pr1234**= perception about training and experience **Mperformance_2** = Branch performance **Findings**

This study was conducted to find out the relationship between employees' understanding about Islamic banking products and services and its impact on Islamic bank branch performance. Results show that there was significant positive relationship between employees' understanding about Islamic banking products and services and customers' satisfaction. It is consistent with the literature that employees' understanding or knowledge about Islamic banking products and services play dominant role to satisfy the customers (6). Findings are supported by the literature that organizational performance is decreased due to insufficient understanding or knowledge about customers' expectations. It is in line with the previous literature, that knowledge or understanding is organized information which is used to convey the experience, learning and skills as they use to solve customers' problems and increase customers' satisfaction. It is consistent with the existing literature, that organizational performance reflects organizations' understanding and knowledge about customers' needs and satisfaction.

The results reveal that there was significant direct relationship between employees' understanding about Islamic banking products and services and branch performance. It is compatible with previous studies that the performance of Islamic banks heavily depends on those employees who possess proper understanding or

knowledge about Islamic banking products and services according to Islamic Sharia (6). Study helps to examine the mediating role of customers' satisfaction between employees' understanding about Islamic banking products and services and branch performance. Results showed that there was a partial mediation between employees' understanding about Islamic banking products and services and branch performance. It is inconsistent with the literature that, customers' satisfaction does not mediate the relationship between employees' quality service and Islamic bank performance. It is in line with previous studies conducted in the banking sector that show the mediating impact of customers' satisfaction in the various parts of the world (12).

The study also examined the relationship between customers' satisfaction and Islamic bank branch performance. Results reveal that there was strong positive relationship between customers' satisfaction and branch performance. Results are in line with the literature that, customers' satisfaction is actual assets for long term profitability. It is also consistent with literature that, organization's concentration on customers' expectation resulted into greater customers' satisfaction and performance. Results are also supported by literature that better service quality could result into customers' satisfaction and ultimately customers' satisfaction increase profitability. Results are also in line with literature that, there is significant positive relationship between customers' satisfaction and conventional bank performance (9). It is consistent with the literature that, customers' satisfaction increase bank performance due to profitability and enhance market share and investment. In the same way, customers' satisfaction generates more outcomes for long term profitability. Positive relationship reported between customers' satisfaction and bank performance by number of researchers. Results are also inconsistent that, there is weak negative relationship between customers' satisfaction and Islamic bank performance (9).

Results showed that, there was direct relationship between employees' perception about training and experience gained in Islamic banking and branch performance. It is in line with literature that, sufficient training and experience of employees regarding understandings of Islamic banking products and technology cause great innovation in Islamic banking products and services and bank performance. Results revealed that, there was no significant relationship between employees' training and experience in Islamic banking and branch performance. It is in line with the previous literature insufficient training and experience creates dissatisfaction among the customers of Islamic banks. $\mathbf{H_6}$ was partially accepted there was partial mediation between employees' understanding of Islamic banking and branch performance but, there was no mediation between employees' perception about training and experience in Islamic banking and branch performance.

V. Conclusion and Recommendations:

The existence of Islamic and conventional banks in Pakistan shaped strong competition between banks to attract and keep large number of customers by the provision of quality knowledge and services about banking products and services. This study examined the relationship between employees' understanding about Islamic banking products and branch performance through customer's satisfaction in Islamic bank branches of southern Punjab region. The researcher developed and

tested a model of understanding about Islamic banking products among employee, customer satisfaction and branch performance in the light of existing literature.

The results showed that employees' understanding or knowledge about Islamic banking products and services has a significant positive relationship with customer's satisfaction. The results also confirmed that there was significant positive relationship between customer's satisfaction and branch performance. Therefore, it can be concluded that if employees have full knowledge about Islamic banking products and services then branch performance will increase, because there was positive relationship between customers' satisfaction and branch performance as well as understanding of Islamic banking products and services and customers satisfaction. If employees have a full knowledge, they can easily satisfy their customers. When customers are fully satisfied, branch performance will increase as the results had confirmed the hypothesis that positive relationship between understanding about Islamic banking products and services among employees and customers satisfaction which leads to the enhancement of branch performance. Mediation analysis also supported the hypothesis that there was complete mediation between employees' understanding about Islamic banking products and services and branch performance through customers' satisfaction.

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