An Evaluation of Bank Customer Satisfaction in Pakistan, Case of Conventional Banks

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Abstract

Banks are backbone of financial and economic system of a country. Pakistani banking industry has a long history since inception of the state itself. During this period, industry has undergone many changes including commercialized banking, nationalized banks, de-regulation and privatization, modernization and segregation of banks into conventional and Islamic banks as a result of inception of Islamic banks. Since late 1990's entry of foreign banks and privatized banks created an environment of competition and customer satisfaction became very important for banks in order to attract more and more customers for increasing customer base. This study presents analysis of in connection to the bank selection factors identified through literature review. With the help of statistical methods like T-Test and Correlation, a positive relationship between customer satisfaction and factors has been found. The study results propose more emphasis on quality of customer service and product assortment and innovation to increase the level of customer satisfaction.

Keywords: Banking Industry, Customer Satisfaction, Pakistan.

1. Introduction

A bank can be defined as an intermediary organization of financial sectors that perform two basic functions, one is as suppliers of surplus money to the demanders of money and other is collection of money from those who have excess of money or have surplus money. Thus banks help those who are in short of money and get funds from those who have excess of money that is idle and useless for them. In Pakistan there are two simultaneous banking systems running their operations namely the Islamic Banking system based on the prohibition of interest principle while other one is the conventional banking system that is interest based banking system. This conventional banking system is a well-established system having a history of more than 60 years since inception of country as independent state.

The banking industry faced a no. of drastic changes right after establishment of State bank of Pakistan as the central bank on July 01, 1948 as stated on the website of State Bank of Pakistan. Right after the establishment of central bank in the country, privately owned commercial banks started their operations and supported country's economy. During 1960's heavy industrialization and promising growth rate was supported by banking industry but at the same time followed by unethical and illegal practices by banks. In 1970's country faced economic and political turbulences. To cope with this situation, government introduced nationalization policy and took over all commercial banks into public ownership. Unfortunately this decision couldn't resulted as desired, efficiency and profitability of banks declined continuously. While during 1980's for the first time government introduced reforms in banking sector for introduction of interest-free banking services according to principles of Islam but those efforts remained ineffective due to mismanagement and lack of commitment. In 1990's the banking industry was again de-regularized and privatized as a result of which not only private ownership as introduced but also many foreign banks also started their operations in Pakistan. This development resulted in competition in this sector and focus of marketing in banking industry was changed towards the customers.

In 2000's a decision by Supreme Court of Pakistan compelled government of Pakistan to introduce Islamic banking in the country and in 2002 first Islamic bank, Meezan Bank started its operations. Due to the fact that major proportion of country's population is Muslim by belief, Islamic banking started gaining market share and it's annual growth shown promising figures but still the major proportion of banking market lies with the conventional banking sector enjoying the advantage of pioneers.

At the same time, due to entry of Islamic banking sector and other factors, banks are competing for market share with each other. The success of banking organization rests with the success in customer loyalty and retention. Therefore customer satisfaction is very important issue that is being addressed by banking organizations. This study attempts to gauge the customer satisfaction in conventional banking sector.

2. Literature Review

Deregulation and privatization in the banking industry of Pakistan during 1990s followed by modernization of banking industry during early 2000s, through use of Information Technology has resulted in new avenues of challenges and opportunities for banking organization. This situation resulted in competition among the banks particularly in attracting and retaining the customer base. The inception of Islamic banks in country created another challenge for conventional banks, while conventional banks enjoy the advantage of long history. Customer satisfaction is the factor that is of much importance for banking organizations for maintenance and increase in the market share for them.

A study on customer satisfaction by Khattak and Rehman (2010) revealed that there is a significant and reasonable role of customer satisfaction in organizational strategies of banking industry as customers are the sources of income for the banks like for any other business organization and customer satisfaction is very important for retaining existing customers and attracting new customers. Naser *et. al.*(1999) and Ahmad and Haron (2002) summed up that service quality, friends and family influences, banks' trustworthiness and corporate image were most significant and important factors for customers of banks at the time of making decision for bank selection. In another study conducted by Dusuki and Abdullah (2007) found that employee's attributes like their competence, level of courtesy towards customers and efficiency in banking operations are important determinants of bank selection for customers.

A study by Zeithaml (2000) proved that there exists a significant and positive relationship between performance of banks and customer satisfaction, the study was conducted for both Islamic and Conventional banks. Bolton (1998) found same result and added that there exists a positive significant relationship among customer satisfaction and financial performance and customer retention. It means that Customer retention is an outcome of customer retention that can result in strength of customer base.

A study by Haron *et. al* (1994) found that customers of banks consider employees behavior, friendliness and efficient customer handling as most important factors in bank selection decision. While Avkiran (1994) found that service quality of bank is important factor in customer satisfaction based on Access to the Teller, Communication, Credibility and Staff conduct. In another study Leeds (1992) found that service quality and professional conduct of bank employees increased the level of customer satisfaction and resulted in decrease in Customer Attrition.

3. Hypothesis

H1: There exists homogeneity in factors selection by different genders.
H2: There exists a positive relationship between customer satisfaction and Bank selection determinants. **4.**

Research Methodology

Following the facts found from review of available literature a questionnaire was developed consisting of two parts; first part was used to collect the information regarding the demographic characteristics of respondents while the second one was aimed to collect information related to the customer satisfaction and factors important for bank selection and the link between both. Five point Likert scale was used to collect data in the second part of questionnaire. The cronbach's alpha for reliability of questionnaire was found to be at level of 0.849 that is sufficient for this study due to behavioral nature of this research.

Total 600 questionnaires were distributed to collect data from customers of conventional banks. Respondents belonged to 12 major cities of the country in order to include representation from all parts of country. 525 questionnaires were received back and out of these 500 were found to be usable for analysis. This resulted in 83.3% response rate and can be considered sufficient for analyzing the information.

SPSS version 17 has been used for the analysis of data collected through these questionnaires. In order to be specific, factor analysis was used to confine the research to six most important factors. Descriptive statistic was applied to find the arithmetic mean, figure out respondents profile and sorting out ranking of selection factors. The correlation technique is then applied to find the relationship between bank selection factors and customer satisfaction in order to draw out conclusions and recommendations of the undertaken research.

5. Findings

The data analysis of questionnaire data produced following results that are presented in following sub-section.

5.1 Demographic Analysis

The analysis of information collected resulted in following demographic profile of respondents of this survey as presented in Table 1.

Table 1: Demographic Profile of Respondents.					
Sex	**%age**	**Count**	**Profession**	**%age**	**Count**
Male	86%	430	Student	13.4%	67
Female	14%	70	Self-Employed	54.5%	273
Total	**100%**	**500**	Private Employed	18%	90
Age Group	**%age**	**Count**	Public Sector Employed	14.1%	70
18-30	17.5%	88	**Total**	**100%**	**500**
31-40	34.4%	172	**Qualification**	**%age**	**Count**
above 41	48.1%	240	Uneducated	23%	115
Total	**100%**	**500**	Secondary School	34.2%	171
Monthly Income	**%age**	**Count**	Under Graduate	32%	160
Less than 20,000	17.3%	86	Masters	10.8%	54
Between 20,000 & 40,000	21.2%	106	**Total**	**100%**	**500**
Between 40,000 and 55,000	38%	190	**Marital Status**	**%age**	**Count**
Above 55000	23.5%	118	Married	54.5%	272
Total	**100%**	**500**	Unmarried	45.5%	228
			Total	**100%**	**500**

After analysis of demographic part of questionnaire it has been revealed that classification of gender results in 86% male customers while 14 % female customers among the respondents. On the basis of age, 17.5% respondents fall in age group of 18-24 years while 34.4% fall in age group 31-40 years while remaining 48.1% were of age group above 41 years forming the largest group on basis of age of respondents. On the basis of marital status it has been found that 54.5% customers are married while 45.5% customers are unmarried. The analysis of profession of the respondents reveal that self- employed category respondents form the majority group with a percentage of 54.5% followed by private sector employees with a score of 18% then 14.1% public sector employees and 13.1% students. On the basis of qualification of respondents, it has been found that Secondary School graduates are largest group with 34.2% followed by University Under-graduate degree holders with 32%, Uneducated at 23% and Masters Degree holders are 10.8%. Regarding Income level, 38% have income less between 40,000 and 55,000, 23% respondents have income level of more than PKR 55,000 per month, 21.2% have income level of PKR 20,000 and 40,000 while 17.3% have income level less than above PKR 20,000 per month.

5.2 Hypothesis Testing

There were twenty two questions in the questionnaire and as a result of analysis through SPSS, six factors were identified by Factor Analysis technique. The data was manipulated for descriptive statistic and mean was calculated, on the basis of mean scores, Customer handling was on the top while Financial considerations was the second factor followed by Product Assortment, Bank's reputation, Quality of Services and Communication with Customers of the banks as shown in Table 2 below.

Table 2: Ranking of Determinants

Determinants	Mean	Rank
Customer Handling	2.61	1
Financial Considerations	2.14	2
Product Assortment	1.78	3
Bank's Reputation	1.62	4
Quality of Services	1.43	5
Communication with Customers	1.39	6

Application of Independent T-test shown that there are significant differences between behavior of male and female customers regarding bank selection factors. The results show that only Customer Handling was ranked as first by both groups, but other factors were ranked on different ranks by males and females. Hence there is sufficient evidence to reject H1 and it has been proved that there exists heterogeneity between rankings of bank selection factors on the basis of gender.

Table 3: Ranking of Determinants with Respect to Gender

Determinants	Male		Female		t.	sig.
	Mean	Rank	Mean	Rank		
Customer handling	2.61	1	2.53	1	-0.269	0.024
Financial Considerations	1.64	2	1.49	4	-0.801	0.503
Product Assortment	1.61	3	1.77	2	1.117	0.169
Banks' Reputation	1.57	4	1.53	3	-1.109	0.633
Quality of Service	1.41	5	1.13	6	-1.463	0.002
Communication with Customers	1.37	6	1.08	5	0.147	0.891

The correlation analysis performed on the factors by taking customer satisfaction as dependent variable shows that there exist significant and positive relationship between customer satisfaction and other variables thus H2 is accepted as shown in Table 4.

Table 4: Correlation Analysis

	Customer Satisfaction	Financial Considerations	Product Assortment	Customer Handling	Banks' Image	Competitive Position	Quality of Service
Customer Satisfaction	1						
Financial Considerations	.594**	1					
Product Assortment	.461**	.197**	1				
Customer Handling	.512**	.457**	.096*	1			
Banks' Image	.389**	.173*	.143*	.146*	1		
Competitive Position	.514**	.445**	.262**	.322**	0.084	1	
Service Quality	.491**	.387**	.235**	.385**	0.096	.287**	1

6. Conclusions

Findings and results of this study are of significant importance for Conventional banks of Pakistan. The empirical proof of positive relationship between customer satisfaction and factors of bank selection including financial considerations, product assortment, customer handling, banks' image and reputation, competitive position of bank and quality of service provided by bank reveals the important attention seeking areas for conventional banks.

The banking industry of Pakistan having parallel systems of banking including Islamic and conventional is a promising and growth oriented business sector. Islamic and conventional banks are competing with each other as well as within the category with other organizations. Customer retention and widening of customer base through attracting new customers heavily depends upon the customer satisfaction level of existing customers. Conventional banks in Pakistan must pay special attention to the employees training, financial considerations of customers and provision of appropriate products and services as demanded by the customers to increase the level of customer satisfaction.

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