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Abstract: This study highlights the level of customer awareness about Islamic banks and determines the relationship between service quality and customer satisfaction with respect to Islamic banks. The survey based approach is used to collect the necessary data. 167 questionnaires were processed for the study. SPSS was used to analyze the data and the model was tested through AMOS. The study finds that there is a positive and significant relationship between customer satisfaction and constructs of service quality like compliance, assurance, empathy and representativeness. This study further concludes that compliance and representativeness influence more on customer satisfaction in Pakistani Islamic banks.

Key words: Service quality %Customer awareness %Customer satisfaction %Significant relationship

INTRODUCTION

The service quality has been regarded as the key factor in order to succeed and have endurance in banking industry especially when there has been continuously growing pressure from other institutions working in the same industry and demanding customer requirements. Islamic banking business has been regarded as fastest growing business in the world in the last decade. It has got acknowledgement not only by Muslims but also by non Muslims [1]. The functions of Islamic financial institutions are normally as similar as other conventional banks do in the industry but the difference lies in rules, regulations. The Islamic banks conduct their affairs in accordance with the principles set by the religion Islam [2, 3].

The main aim of Islamic financial institutions has been to achieve economic progress as well as social well being with the help of teachings and principles guided by Islam. Due to growing and escalating competition in the banking industry by local and foreign financial institutions it is necessary for financial institutions offering Islamic products to enhance the standard of their service quality of products and services being offered to their customers. Further, continuously demanding customer choices for banking products and services, service quality has emerged as an important factor. Due to the globalization of economies and liberal policies regarding banking industry by various countries, competition for varied nature of products and services has escalated and has become intense in nature among different banks. These days' bank clients and customers have become more knowledgeable and educated and are better aware about the expectations of their customers regarding services being offered, demand for excellent quality products is expanding with the increase in customer buying capacity. This requires, those financial institutions, which are facing stiff competition to improve the standards of services they are offering to their customers.

According to [4] and [5], the provision of quality products and services to clients is the most important element for success and endurance in banking industry. [6] suggests that business profitability and survival depends on provision of quality products and services. So, Islamic financial institutions have got no exception.

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The Islamic banking business is almost same like conventional banking but they carry out their activities according to Islamic Shariah. So as a consequence, there has been competition being faced by Islamic financial institutions from existing conventional banks also new entrants in the banking industry.

These days, Islamic financial institutions are not regarded as institutions carrying financial activities for Muslims but, more precisely they are carrying business that is trying to overcome the whole banking industry fulfilling the needs of world economy. This requires the banks to be aware of the customer needs and demands and also to understand how their customers perceive the service quality of their products and services they offer so that they can get customer loyalty. In Pakistan Islamic financial institutions have emerged as an important component of banking and financial industry. Now a day, with the approval from State Bank of Pakistan, many conventional banks have started opening new branches offering only Islamic financial products. It is substantially contributing to the development of overall economy and growth of banking industry. The well organized products offering and gaining a competitive edge in provision of quality services to their customers are the key factors for capturing major share in highly demanding banking industry. Due to the existence of stiff competition by local and multinational conventional banks in Pakistan, it is a challenging task to bring new customers and retain the existing one. As financial industry is one of the sensitive areas of business activity. Normally the corporations and individuals carrying on business with conventional banks find it difficult to shift their bank accounts from one form of banking to other. So the only option left with Islamic banks to present their customers new products and offering quality services that conventional banks are lacking.

The main aim of conducting this research study is to measure the level of customer awareness about Islamic banks and to determine the relationship between service quality and customer satisfaction of Islamic banks operating in Pakistan.

The rest of this paper is organized as follows: Section II discusses review of literature and section III is about the methodology. Empirical results and discussions of the study are explained in section IV. Finally, conclusions, limitations and future research are drawn in section V.

Research Theory and Conceptual Model: Islamic financial institutions are conducting their business based on the principles and teachings of Islam known as Islamic law (Shariah). Islamic banking transactions are carried out in accordance with the rules, regulations of Islamic Shariah, known as fiqah muamalat (Islamic rules on transactions). There is no place for interest receipts and payments in Islamic financial system. It promotes the level of fairness and equity in the carrying out of banking business. The philosophy of Islamic banking is mainly focused on the idea of sharing and utilizing the resources at risk by the enterprises on equal sharing basis. The Islamic banking system is a complete set of financial framework based on discipline. It makes clearer and broader view of what is the compliance requirements based on Shariah. At the time of beginning of Islamic banks they faced stiff challenges like gaining confidence of the customers who are fully indulged in conventional banking. Since then the growth rate in terms of profitability and expansion of assets of Islamic financial institutions is remarkable. During the last decades, Islamic financial institutions have developed various instruments which are growing significantly. Islamic financial institutions are offering wide range of short term and long term instruments mobilize financial surpluses.

Many research studies have been conducted previously pointing out the concept of customer satisfaction in the financial industry [7-10]. Due to stiff competition in the industry over past decades, focus on customer satisfaction, customer retention and customer services are becoming major elements for the continued existence of any bank and customer satisfaction has been considered as the key element for their banking business. According to [11, 12] customer satisfaction is the sense of attitude and feeling of a consumer toward a product or service after it has been used. A satisfied customer will again and again purchase and use the products and will also pass on satisfactory message regarding the qualities of the product and services to others as well [13]. On the other hand, dissatisfied consumer will move or switch to another or related product or service when he/she wants to fulfill the same desire or need. This will not be the end; the dissatisfied customer will pass on the information (like a satisfied customer) to others. Therefore, it is important for the banks to make sure their customers feel satisfied. This guides to growing reputation of assessing the level of customer satisfaction [14].

Most of the researchers conducting their research on service quality have focused on a model known as SERVQUAL which measures the level of service quality. It has been a remarkable instrument which was developed by [4]. In the banking sector, many researchers have carried their research on service quality of banks [15-18].

According to [15] the relationship exists between service quality and customer satisfaction and found that service quality is the core element of customer satisfaction in Turkish banking industry [17] conducted an exploratory study measuring the impact of financial performance of credit unions and Australian banks on service quality and found that the financial performance of various banks has an impact on service quality scores. Whereas, another research study has been carried out at Greece on the service quality perception by Greek banks customers by [18], it expands the study by concentrating on the association between customer satisfaction and the level of bank customers service quality and establish that there was a large difference in responsiveness and empathy which ultimately resulted in failure to meet the customers prospects.

Service quality has been regarded as the prospect to achieve strategic benefits, like improved customer retention rates and gaining competitive edge [19-21]. [22] revealed that service quality impacts on customer satisfaction which, in turn affects the financial performance of banks [23] demonstrated that provision of excellent and quality services is an important component for the growth and satisfaction of the customer, they conducted a research study of the banking sector in Kenya to check the level of association between quality, technology and satisfaction. In Malaysia, various research studies have been conducted on service quality by [24, 25] on Islamic financial institutions. Since financial services cannot be differentiated in terms of their products, it is necessary for the financial institutions to make every effort for the improvement of quality of their products and services. According to [26, 27] there is significant relationship between and financial performance and quality of products and services offered by banks. According to [5] the customers' evaluation of the overall excellence of

service is known as perceived service quality [28] suggested that an organization gets reputation for service quality when it continuously fulfills the customer demands and expectations.

Theoretical Framework: The following theoretical framework has been developed on the basis of evidences available in above mentioned literature. The dependent variable is customer satisfaction and four constructs of independent variable i.e., service quality, compliance, assurance, empathy and responsiveness are tested.

To test the relationship between customer satisfaction and service quality (compliance, assurance, empathy and responsiveness) following hypotheses have been developed:

H_1 : Compliance has significant impact on customer satisfaction

H_2 : Assurance has significant impact on customer satisfaction

H_3 : Empathy has significant impact on customer satisfaction

H_4 : Representativeness has significant impact on customer satisfaction

MATERIALS AND EMTHODS

Many research studies have used various methods such as distribution of questionnaires and conducting individual and panel interviews in order to get the responses and to gain understanding about the customer satisfaction of Islamic financial institutions and measuring the level of their service quality. Sample size was 285 customers of Islamic banks. This research study was based on questionnaire based survey. The response rate was almost sixty percent. Convenient sampling method was used. Only 187 questionnaires were returned and 167 were processed in this study.
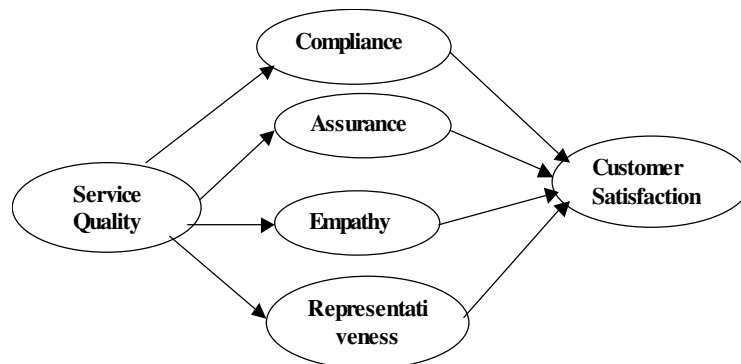
Fig. 1: Conceptual Model

Table 1: Composite Reliability of data

Variables	Items	Cronbach Alpha
Customer Satisfaction	4	0.672
Compliance	5	0.755
Assurance	4	0.794
Empathy	3	0.732
Representativeness	4	0.828
Total	20	0.874

Instrument and Measures
The Scale Divides Service Quality into Four Constructs Which Are as Follows:

C Compliance - It means the ability to comply with Islamic Law and operate under the principles of Islamic banking and economy.

C Assurance - ability of staff to inspire confidence and trust.

C Empathy - the extent to which caring individualized service is given.

C Responsiveness - willingness to help and respond to customer need.

There were three parts of the questionnaire. First part was focused on gathering general information of respondents and it also include demographic variables e.g., gender, age group and academic qualification. Second, part focus on the measurement of level of awareness of Islamic banking terminologies ranging from not aware of it to aware of and also use it. Third part of questionnaire measured the satisfaction level of products and services Islamic banks are offering. All items in this part were measured on five point likert scale. The respondents were required to point out the satisfaction level focusing on the level of service quality with various statements ranging from strongly dissatisfied to strongly satisfy. The scale was taken from existing research of [29] to measure satisfaction level of employees

regarding service quality provided by bank and the measurement scale of service quality comprising of four constructs was adopted from [4]. To ensure the validity of this research study the respondents were required to respond to each question. SPSS was used for recording and statistical analysis part and AMOS 7.0 was used to test the model.

The above table gives the information about reliability of data. Internal consistency of the whole scale is the most widely and accepted measure of reliability. It is obtained by coefficient alpha which is also regarded as Cronbach's alpha. In the context of customer satisfaction the reliability of data is 0.672, the compliance with reliability of 75 percent, it is stated that assurance dimension has (79 percent), the Cronbach alpha of empathy is 0.795, the representativeness variable has reliability 0.828, whereas, the overall reliability of the scale is 0.874.

RESULTS AND DISCUSSION

In this section various tests are performed to achieve the objectives of the study.

Results: Table 3 shows the overall degree of agreement of customers with respect to items under study. The table further shows that with respect to "Riba", 66 respondents responded that they are aware and use it, whereas, 57 respondents are found aware but they don't use it (Mean=2.1317) (SD=0.8032). The results of the above table shows, that most of the respondents are aware of the terminologies and also use it. The second statement that "Murabaha", out of 167 subjects, more than two third of the customers are aware and don't use it, only 43use the Murabaha (Mean=2.2156) (SD=.50444). The results of Table 2 conclude that majority of the customer are aware with the Islamic banking terminologies but they are not using them.

Table 2: Descriptive statistics of Islamic Banking Terminologies (N=167)

	Frequency Distribution with respect to Islamic Banking Terminologies				
Variables	1	2	3	Mean	St. Dev
Riba	44	57	66	2.1317	.80324
Murabaha	7	117	43	2.2156	.50444
Mudaraba	19	105	43	2.1437	.59390
Musharaka	1	131	29	2.1317	.44655
Ijara	7	91	69	2.3713	.56495

(No Aware of it = 1, Aware and don't use it = 2, Aware and use it = 3)

Table 3:Index of fit of the Model

Model Summary		
Chi Square	Degree of freedom	P -value
413.695	6	0.000

Table 4: Hypotheses esting based on Regression weights, Estimates, Critical ratio and P-value

Variables	Estimates	S.E.	Critical Ratio	P-value	Results
CS <--- CO	0.257	0.028	9.143	0.000	Accepted
CS <--- AS	0.156	0.028	5.662	0.000	Accepted
CS <--- EM	0.184	0.030	6.175	0.000	Accepted
CS <--- RE	0.404	0.029	13.963	0.000	Accepted

(CO=Compliance, AS=Assurance, EM=Empathy, RE=Representativeness, CS=Customer Satisfaction)
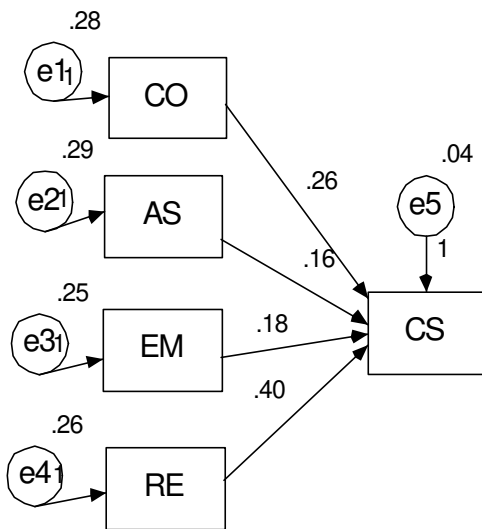

Fig. 2: Result of Conceptual Model (AMOS)
(CO = Compliance, AS = Assurance, EM = Empathy, RE = Representativeness, CS = Customer Satisfaction)
The above model shows the relationship and measure the impact of compliance, assurance, empathy and representativeness on customer satisfaction with specific reference to Islamic banks and it also point out the significance and role of each variable on customer satisfaction.

The Figure 2 shows the relationship among the variables and the model helps to measure the impact and services quality constructs and its relations to customer satisfaction in Islamic banks and the importance and role of each variable for customer satisfaction.

The index of fit for the present study model is shown in Table 3; taking degrees of freedom (6) into account, most index values approach the general standard of index fit. It is evident from the analysis that over all research model is significant (Chi= 413.695) (P<0.05).

The model chi-Square (Chi) does not fulfill the minimum requirement of model fitness as the significant value is less than level of significance (P<0.05) indicating discrepancies factors in the model, whereas, the corresponding chi-Square value is also greater than 2 as suggested by [30] to as low as 2.0. Chi- square lack of it might be one of the possible reasons indicated by [31, 32] that Chi-Square is sensitive to sample size and nearly always reject model when sample size is large.

The results of hypotheses test the relationship between constructs including banking service quality (compliance, assurance, empathy and representativeness) and customer satisfaction are shown in Table 4 and Figure 2. The result in Table 4 reports regression paths, regression estimates, standard error, critical ratio, significance values and label of hypothesized relationship. The results reveal positive and significant relationship between the construct of service quality (compliance) in Islamic banks and customer satisfaction ($=0.257, P<0.05). The analysis shows that compliance intensifies customer satisfaction by 26% approximately. The critical ratio (CR=9.143) indicates that compliance is perceived as an important determinants in ensuring customer satisfaction in Islamic banks. The table further depicts the regression co-efficient (Beta) value is 0.156 between assurance (AS) and customer satisfaction (CS) and the relationship is pointed from the analysis that if there is one degree change in assurance there would be almost 16% change in customer satisfaction and p-value (p<0.05) suggests that these are significantly related to each other. The results further demonstrate that empathy and customer satisfaction ($= 0.184, P<0.05) and representativeness and customer satisfaction ($=0.404, P<0.05) remain high, positive and significant variable of service quality in customer satisfaction. So, all the constructs of services quality have important role in the measurement of level of satisfaction of customers of Islamic financial institutions.

It is clear that regression coefficient of compliance, assurance, empathy and representativeness have positive value as p values are less than 0.05 confirm the significance of these independent variables to customer satisfaction. The results of the study show that the hypotheses (H_1, H_2, H_3 and H_4) are valid and confirm that compliance, assurance, empathy and representativeness are positively related to the customer satisfaction.

DISCUSSION

The results find that customer satisfaction is positively related with service quality in Islamic banking which comprised of standardize variables which are being followed by Islamic banks. The results of this study are in line with [15], who have conducted the research study on Turkish banks service quality. He pointed out that service quality is an important element customer satisfaction. In another study conducted by [17] on Australian banks and credit unions, he tried to build an association between financial performance and service quality. One cannot attain the ultimate objective of ensuring customer satisfaction without focusing on improved quality of products and services it offers. This leads to the increasing fame of assessing consumer pleasure [14]. The results are also in confirmation with research study conducted by [23] inferred that the service quality is a vital component for the expansion and development of customer satisfaction. They found a significant relationship between customer satisfaction and service quality of kenyian banking customer. According to [22] financial performance of banking industry depends on quality of services offered by various financial institutions.

CONCLUSION, CONTRIBUTION AND FUTURE RESEARCH

On the basis of above results study concludes that most of the customers are aware with Islamic banking terminologies but are not using them in routine and compliance, assurance, empathy and representativeness all have positive and significant impact on customer satisfaction. However, customers of Islamic banking perceive compliance and representativeness more important than assurance and empathy. The major findings indicate that there are some areas of major concern for the Islamic banks in Pakistan. The results suggest that Islamic banks need to conduct an awareness campaign about Islamic banking terminologies, as many

customers responded that they don't know about terms. The Islamic banks need to take necessary steps to help in the improving their services. They need to invest in training and development of human resources so that they can better handle their customers and efficiently handle the customer problems. Necessary feedback system needs to be implemented, so that the customers would be able to compare them with conventional banks.

The results of this research study enlighten the key elements of customer satisfaction in banking industry. It also highlights the level of customer awareness for various Islamic banking terminologies. The Islamic banks are required to focus on providing wide range of information to their customers regarding the products and services they offer. There a need exists for the training programs and workshop for their customers. The results of this research study point out the important areas on which focus is required by Islamic banks, this will ensure the retention of their existing customers as well as it will attract new customers. Future, research is suggested to conduct a comparison of level of customer satisfaction of Islamic banks and conventional banks.

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