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**Assessing the Impact of Service Quality on Consumers Satisfaction:  
A Comparative Study of Commercial v/s Islamic Banks in Pakistan**

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***Abstract***

*This study aims to show the path that Islamic banking follows of Sharia' h while on the other hand commercial banks obeys commercial regulations and rules for the purpose of banking. The main objective of the Islamic banking is to offer interest free services and products which obeys the path of Sharia' h and Islamic banking system makes transaction on the foundation of profit and loss, while on the other hand commercial banks are business oriented banks. The results which are derived from this research shows a negative or less impact of two service quality dimensions on both banks which are Assurance and Empathy. The highest perceived service dimension is "Reliability," that refers to the reliability of their products and promise to provide the best service quality to their customers. While the lowest perceived service was observed towards "Empathy," the other two dimension with highest value are tangibility and responsiveness which means that customers' of both*

**Keywords:**

Commercial Banks,  
Islamic Banks,  
Banking System,  
Service Quality,  
Customers'  
Perception,  
Customers'  
Expectations.

*commercial and Islamic banks like tangible service and the quick responsiveness towards providing them the best service. The sampling method used in this research was convenience sampling with a sample size of 200 which were the customers of the banks and the research design of the questionnaire used was exploratory. The questionnaire was distributed in 4 banks 2 commercial and 2 Islamic banks respectively. Dependent variables are 'customer expectation and perception' while on the other hand independent variable that are used this research are 'reliability, assurance, tangibles, empathy and responsiveness.*

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**INTRODUCTION**

This study was shifted from price to service quality and the reason behind the shifting of focus is because of the emergence of aggressive business environment, technological advancements, service improvements, competition, and work load (Faizan & Yuan, 2013). The continuous improvement in service quality is important for success and growth in the banking sector today, as service quality has become an important factor to determine profitability, and market shares in the banking sector. It has become a serious issue to main service quality of banks in this competitive environment to measure firms' performance. If the banks wants to compare its performance from the other various banks then it should look towards customer's perceived service quality and use it as an instrument to improve the service quality of the bank (Almossawi, M. 2001).

Perceived service quality determines the customer satisfaction level, while using the services of the bank, the overall experience, and the expectation of the customer these are the things which will help to identify that the service quality meets the expectation of the customer or not. If banks are able to meet the expectation of the customer then it will impact positively on retention, customer satisfaction, increase profitability, and cost reduction. It also helps the banks to gain higher market shares, higher retention level of the employees, new convincing methods, increase morale, and greater productivity. Islamic

banks and commercial banks both have different structure but the reason of existence is the same. Islamic banking follows the path of Sharia' h while on the other hand commercial banks obeys commercial regulations and rules for the purpose of banking.

There is also a difference in profit making like Islamic banking system generates income as profit which is variable and commercial banking system generates their income from interest that is fixed, another system of both banking system is that the Islamic banking system share the risk with bank, lender, and borrower, while commercial bank forces the whole risk to others. The main objective of the Islamic banking is to offer interest free services and products which obeys the path of Sharia' h and Islamic banking system makes transaction on the foundation of profit and loss, while on the other hand commercial banks are business oriented banks (Almossawi, M. 2001). There is a recognition of every country due to its particular socio-cultural feature, economic richness, and religious attachment (Ashfaq, Muhammad, & Asad, 2010).

Sound economy and economic prosperity is the sign of success in today's world. The economic growth of a country is the result of positive interaction of the variables emerged from macroeconomics to achieve particular objectives through blending of resources such as human resources, informational resources, physical resources, and financial resources. Banking sector is one of the most important component of financial sector which is built for the management of financial resources globally. At first, Pakistan failed to control its financial system because there was no sound banking system present at that time, after few years slowly and gradually it reaches the level of the most attractive banking system in the world. It is important to understand that financial and banking services are the most important part of the service industry and its contribution leads to the overall economic growth of the country. However, the advancement in the global banking system faces numerous challenges of rules and regulations, technological advancement, changes in the structure, and new legislations (Almossawi, M. 2001).

According to the constitutional amendment of 1956 Pakistan was required to end and riba based transactions. In 1962, another constitutional amendment formed a council of Islamic ideology which forces the nation to eliminate any kind of interest from the economy and especially from the banking system. The council of Islamic ideology asked the best economists and bankers of the country to find an alternative of the interest based financial system during the period of 80's. In 1991, Supreme Court of Pakistan ordered the government to eliminate riba from the country's economy. On the other hand it helps the State Bank of Pakistan to form Islamic banking system after very tiring efforts. The strategic focus of banking services has shifted from price to service quality since last 10 years in the retail banking industry (Almossawi, M. 2001).

In economic development of any country banking sector plays a vital role in providing financial growth of economy. It raises the level of investments and savings with an objective of providing substantial benefits in prosperity, resource utilization, to gain per capita income and social welfare. After industrial revolution of 18<sup>th</sup> century banking sector becomes a critical component due to the diversification of the customer focused operations, products and services (Ahmad & Bashir, 2014). Due to emergency of private sector worldwide the quality and customer orientation becomes the vital essence to survive in banking sector, this sector gains popularity in the 90's due to the financial restrictions and privatization by the government of Pakistan and this privatization helps the private banking system in becoming the market leader and today it owns over 83% of banking assets which helps in the economic growth of Pakistan. The establishment of Islamic banking system brings several challenges to the conventional banking system in order to acquire awareness among the customers, to attract new customers and to retain the existing customers for this purpose (CAL) customer awareness level becomes an important tool to affect the (CSUD) customer service utilization decisions on convincing the potential customers about the products of Islamic banking system Hassan, (A., Chachi, A., & AbdulLatiff, S. 2008).

### **Foundation of Conventional Banking (1947-1973)**

The banking sector of Pakistan has faced many changes over a period of more than 60 years. At first, Pakistan suffered with the uncertainty of the socioeconomic and political conditions and the shortage of resources. Due to the poor training of professionals' and less knowledge human resources lead to poor quality of services and products (Ashfaq, Muhammad, & Asad, 2010). State bank was developed as the central bank of Pakistan to properly control the financial system in 1948. According to the act of State Bank of Pakistan, sufficient modifications were made to increase the control and functions of the State Bank which inspires the private sector to establish several financial institutions and banks in the country. The outcome of this amendment brings unlawful practices, corruption, unhealthy competition, and bribe. This the era in which commercial banking started, and the will to make Pakistan an interest free country ends in this era (Almossawi, M. 2001).

### **The Process of Nationalization (1974-1978)**

The existing banks of Pakistan were nationalized by the government in 1974, the performance of the nationalized banks falls greatly because the government was protecting the employees. The reason behind poor performance of nationalized banks is poor services and inferior products and the nationalized banks also discourages the foreign financial institutions and private investors (Hassan, A., Chachi, A., & AbdulLatiff, S. 2008). This is the era, where Pakistani banking system faces many drastic changes just because of the strong competition among private, public, and foreign banks. The banks in private sector enjoys their domination during the era of 1950 and 60s but the government nationalize them because of the bad economic conditions and the separation of Bangladesh. The poor performance of the nationalized banks lead into the privatization of banking since 1992.

### **Efforts for Islamic Banking System (1979-1992)**

In 1963, the first Islamic bank is Egypt which is purely based on the principle of Islamic finance. In 1973, OIC supported Islamic banking system in Jeddah, Saudi Arabia. In fact a

numbers of Islamic banks were established in the whole world such as Faisal Islamic bank of Sudan, Faisal Islamic bank of Egypt, Bahrain Islamic Bank, Dubai Islamic Bank, Philippine Amanah Bank, Meezan Islamic Bank of Pakistan, and Malaysia Islamic Bank (Ashfaq, Muhammad, & Asad, 2010).

The Pakistani government took several initiatives to produce interest free products in the market but failed to achieve the target. In 1979, Investment Corporation of Pakistan, House Building Finance Corporation, and National Investment Trust started interest free transactions. Finally the efforts become successful as in 1980, after a long period of hard work Mudarbaha companies comes into existence with the announcement of Zakat ordinance after the launch of Participatory Term Certificates. At the same time, the government forces the nationalized banks to open interest free counters in their banks for the customers and the development produces Usher ordinance in 1983. Finally in 1990's the practices of Islamic banking were initiated globally (Hassan, A., Chachi, A., & AbdulLatiff, S. 2008).

### **Privatization of Banking (1992-2000)**

Financial deregulation and liberalization of 1990 attracts foreign bank and local investors to start their operations in Pakistan. The competition becomes tougher due to the expansion of the banking industry in Pakistan. However, privatization is not the solution because it cannot hit the economy that much as the government bank can because privatization suffers in the developing countries and cannot improve due to the burden of debt and overstaffing. According to the research of (Rashid. & Jabeen., 2016) Privatization and financial liberalization made few improvements in the financial health of banks.

### **Establishment of Islamic Banking System (2002)**

The establishment of the Islamic banking practices created the competition among various banks in terms of service quality to satisfy their customers and for increased profitability. State bank of Pakistan plays a vital role to establish a productive Islamic banking system which is based on Sharia' h (Rashid. & Jabeen., 2016). Finally in 2002, the Islamic banking have started their operations in Pakistan and experience a tight competition

from several Islamic banks as well as from commercial banks.

The competition becomes more severe for the commercial banks as the Islamic banks started to offer a long range of products and services which were based on profit and loss as per the rules of Sharia' h. Islamic banking ends the monopoly of commercial banking system as they transfer the risk to their customers, but Islamic banks change the scenario by sharing the risk in three parties the bank, the lender, and the borrower which also creates a sense of collective welfare among people. The primary objective of the Islamic banks is to eliminate *riba* by promoting risk sharing practices for the betterment of the economy. The central bank which means the State bank of Pakistan makes several efforts to ensure flexibility, transparency, stability, and legislation (Hassan, A., Chachi, A., & AbdulLatiff, S. 2008).

### **Recent Status of Banking System**

The banking sector of Pakistan is improving continuously with more diversification and with a sense of ownership due to the participation of local and foreign stakeholders. As there are so many banks working in Pakistan with almost same products and service the only thing which can increase their profitability is the service quality as per the perception and expectation of the customer (A., Chachi, A., & AbdulLatiff, S. 2008). Right now there are six fully operational Islamic banks and thirteen commercial banks which are offering few products that is according to the principles of Sharia' h in many different urban and rural areas of the country. All the banks are competing in an intense environment to ensure the service quality as perceived by the customer. According to the research of, Islamic banks are providing much better services as compared to the services of the commercial banks. This is all happening because Muslim people which are in the majority in Pakistan are trusting the service of Islamic banking more because it is according to the principles of Sharia' h, but there are also many people who thinks that Islamic banks are only using the name of Sharia' h to make the people fool (Rashid. & Jabeen., 2016). The nature of customer can't be predicted as if they feel satisfied they will continue to deal with you otherwise they can change the bank. Now a day, the banking system of Pakistan is not facing a good time due to

the political and economic condition of the country.

The participation of two banking system Islamic and conventional provides plentiful opportunities in the local market in terms of employment and increase business although Islamic banking system faces several challenges related to Sharia establishment, advisory mechanism, employment and creating awareness among customers (Faizulayev, 2011). The main difference between these two sectors is the interest rate which is prohibited in Islamic banking system because Islamic banks use profit/loss sharing methodology while on the other hand conventional banking system earns their funding through interest rate. During the financial crisis conventional banking gets terribly affected because of the interest rate and on the other hand Islamic banking survived easily because of their financial dealings and not making the interest rate as their way to earn their funding's. According to experts in financial sector Islamic banking survived easily in the financial crisis they don't deal in debt trading and keep their distance from American and European banking system.

The banking sector of Pakistan is improving continuously with more diversification and with a sense of ownership due to the participation of local and foreign stakeholders. As there are so many banks working in Pakistan with almost same products and service the only thing which can increase their profitability is the service quality as per the perception and expectation of the customer. According to the latest research commercial banking system is still dominating worldwide (Hanif, M. 2014).

The objectives of the study are discussed below:

1. To find out the difference between customer perception of service and the expectation they had through five dimensions of service quality.
2. To identify the gap between the management of the bank and customer's perception and how it effects the service quality.
3. To identify how the way of delivering the service will impact the overall service quality.
4. To explain if the management of the bank is unable to



meet the expectation of the customer then how it can affect the service quality of the bank.

5. To identify the impact of marketing of product and services of the bank on the overall service quality of the bank.

The study aims to investigate the impact of five dimension of service quality over customer expectations and perception in commercial and Islamic banking systems which will identify the customer`s positive or negative image about the product and services, all the four banks are offering. The banks chosen for this study are Askari Bank, Bank Alhabib, Bank Islami, and Dubai Islamic Bank of Karachi and data collection will be conducted in two branches of all the four banks through a questionnaire by taking 200 sample size. The research will find out the difference between the two Commercial banks and two Islamic banks on the basis of independent variables and their impact on the dependent variable. This study will be conducted in the city of Karachi only as this research is for academic purpose only and it will be hard for a student to cover more geographical area because from the financial perspective and due to the limited time available for this research. It is not possible to generalize the result of the study on the whole population of Pakistan because this study is only covering few banks, with limited finance, and with limited time in addition it is only covering one city of Pakistan that is Karachi.

## LITERATURE REVIEW

The literature used for this study is taken from various researches and which is describes as; Service quality has motivated and considerable debate in the literature on its definition. The definition of service quality is “the evaluation of how well service that is delivered to the customer’s expectations. The service providers often measure the service quality provided to their client in order to improve their service, to rapidly solve the problems, and to better assess customer satisfaction.” Service quality can also be defined as the difference between service perceived and service provided.” If the expectations of the customer are greater than the service received, then perceived quality is not satisfactory and this is where customer

dissatisfaction occurs. The concept of service quality should contain the essence of both the delivery process of the service and the outcome after receiving that service (Waqas, Muhammad, Haseeb, Inam, & Imran, 2014). In prior studies a service quality model has been offered with measurements of functional quality, corporate image, and service quality to see how the client perceives the organization and its services. Service quality holds a main strategic value by traditionally service-oriented (Prabha, Soolakshna D, & Perunjodi, 2010).

### **Parasuraman et al 1985 gap model**

The Parasuraman et al 1985 gap model explains that customer assess the service quality on five different dimensions which are tangibles, assurance, responsiveness, empathy, and reliability. The service quality results from comparing consumer perception and consumer expectation about the service delivered by the service providers. There is one thing that is debatable, which is the fact that if the service is of good quality provided to the customer is actually meeting the expectation of the consumer than what will you call it or where you will place it in this model (Taap, M. A., Chong, S. C., Kumar, M., & Fong, T. K. 2011).

On the other hand if the service is exceeding the expectations, than it means it is excellent. Scholars suggests that the expectation of the customer is the belief of the customer about that service. The previous studies suggested that there are four factors that affect customers' expectation which are personal needs, external communications, word-of-mouth communication, and past experience. A gap is formed when the perception of the consumer differs from the service delivered is not as per the expectation of the consumer. The gap can be entertain by recognizing and implementing the strategies that affect expectations, perception, or both suggests that this SERVQUAL model had been designed to be acceptable across a broad range of services.

### **Tangibles**

This dimension talks about the physical (tangible) appearance of the things and services provided to the customers for example response of the post office employees,

what equipment's they are using, and all the materials that are connected with the service which appeals to the customer visually (Faizan & Yuan, 2013). The visually appealing items are considered to be the most prominent element in providing service. Customers and employees are normally affected by the tangible side of service in psychological, physiological, cognitive, and emotional ways.

### **Assurance**

Assurance plays a vital role to ensure excellent quality service provided in banks. Assurance is a thing that can be provided to the customers by showing neat and clean appearance of the employees, admiration, kindness, courtesy and also by giving them well trained management team, good working environment in the banks, financial advices, and offering customers the information which is easily available and understandable at every time (Taap, M. A., Chong, S. C., Kumar, M., & Fong, T. K. 2011).

### **Responsiveness**

It identifies the level of involvement of the employees and concerns for providing them best assistance and service. Responsiveness also includes the understanding about customer needs and wants. It also involves individual attention provided to customer by the staff, flexible operating hours, response to the problems, and safety provided to customers in their transaction (Rosman, R., Wahab, N. A., & Zainol, Z. 2014).

### **Empathy**

The relationship strength between employees and customers can be identified through level of empathy. It provides a feeling to the customer's that how much bank is concerned about their customer's. Empathy is importance, caring, and personalization form the employees for the customer of the bank. Understanding the problems and needs of the customer, suitable location of the bank, name of the brand, timings of the bank, facilities of the parking, high benefits with low cost are key aspects of empathy (Taap, M. A., Chong, S. C., Kumar, M., & Fong, T. K. 2011).

## Reliability

Reliability refers to the interest and sincerity of the bank and the employees of the bank in solving the problem of customers' and offering them satisfactory services at the very first time. The characteristics of reliability are having fraud free record, timely service, providing complete information, and the service availability are key drivers of reliability (Rosman, R., Wahab, N. A., & Zainol, Z. 2014).

Different studies widely use SERVQUAL model, but there are many scholars that have criticized this model. The main problem of this model is the instability of all the dimensions.

SERVQUAL model is especially not helpful in the banking industry because how can it measure the delivery of loan product. SERVQUAL model is also debatable if evaluating different service in different industry (Prabha, Soolakshna D, & Perunjodi, 2010). It is a fact, that every country have different culture and the amount of drivers SERVQUAL model is offering differs for one cultural environment to a different cultural environment. In financial industries the SERVQUAL model is considered to be incomplete as it cannot measure the whole concept of quality of the service, but it is also true that this model is widely acceptable (Taap, M. A., Chong, S. C., Kumar, M., & Fong, T. K. 2011).

## Criticisms on SERVQUAL Model

The SERVQUAL model has been criticized by many researchers, most prior theories do not support the five drivers of SERVQUAL model, and the expectation of the administration is also unnecessary (Prabha, Soolakshna D, & Perunjodi, 2010). In fact, in 1992 two researchers Taylor and Cronin have served a model which is based on performance, the SERVPERF. The SERVPERF is unweight mostly observable and conceptual kind of SERVQUAL which is consist of 22 items of perception. By testing it in four industries Taylor and Cronin found that SERVPERF performance is much better than the SERVQUAL model and it can provide the accurately measured the score of service quality than SERVQUAL (Grassa, R. 2013)..

The quick growth in systems that are based on technology are showing several variations in how organizations will interact

with customers. The trend is settled into the service industry, where the service providers are trying to invest in technology to secure healthier future in the digital age. The competition in the environment of business in the financial industries puts pressure on banks to increase, utilize, or develop alternative in delivery channels by aiming to improve the perception of the customer, encourage loyalty, and attract more customers'. Delivery channels is a new entry in electronic banking system, which means services that are provided through television, computer, or a telephone (Rosman, R., Wahab, N. A., & Zainol, Z. 2014).. If this service is developed more, then it has the capability that makes customer to access their accounts buy products online or make transactions through other electronic means such as computer, telephone, or ATM. After this, it makes it justify to add technology is SERVQUAL model.

### **The Need of Service Quality**

The concept of the theory is based on employees, changing business environment and by customers. Customers can be organizations, individuals, households, are heavily aware of the alternatives of financial services, and also knows about the increasing standards for service. In addition, knowledge about the benefits and cost of retaining customers which will attract new ones. (DR. David, 2014)

### **Benefits of Providing Quality Service.**

Financial service organizations will face the criticism from the consumers, if they don't focus on service quality. IF the customers' are not satisfied from the service, they will tell the service they received to others, this can affect the image of the company or the brand itself (Venardos, A. M. 2012). It can be calculated like this, for instance if the company will not provide good service to their customer, it gain four and losses ten. So it will be much better to gain three rather than losing all (Akram, M., Rafique, M., & Alam, H. M. 2011). The loyalty of the customers increase business and it can lead you to attract new clients. However, retaining the old clients are more cost effective than trying to attract new ones. If the customer is satisfied it may lead to greater opportunities for up to date knowledge of service

and techniques of sales, cross-selling, and new relationships. As the service quality improve, it will automatically improve the corporate image and may provide a competitive edge in the industry (Mohsin Butt, M., & Aftab, M. 2013). Thus, the quality of service plays an essential role in the banking industry as it can attract not only the new customers but it have the power to retain the old ones (DR. David, 2014).

## METHODOLOGY

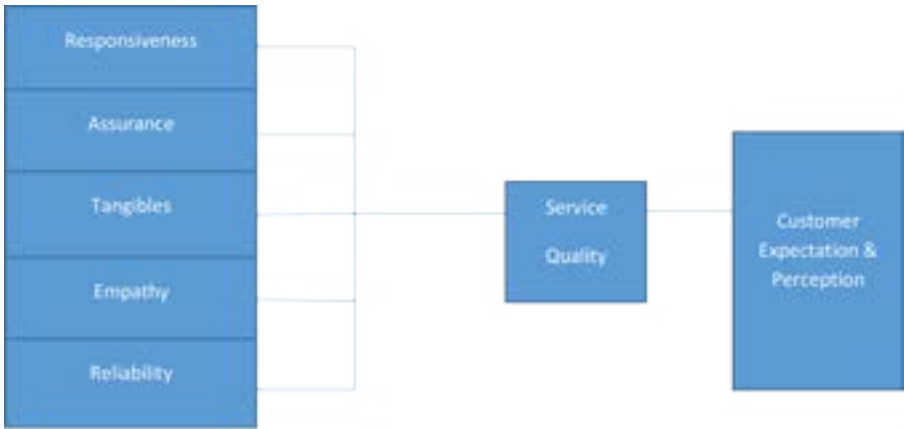
The main objective of this study is to compare the quality of service of Islamic banks and commercial banks and to mark the gaps in their performances. 200 questionnaires were distributed among the customers of Askari bank, Bank Al- Habib, Dubai Islamic bank, and Bank Islami of Karachi city. Data is collected by self-administrated questionnaire from two commercial banks and two Islamic banks, because the study is for academic purpose and it contains some limitations such as time and financial limitation. The instrument is carefully designed by taking the help of course book and from different journals on the internet. The instrument is a questionnaire which contains a Likert scale and questions for all the variables to get the best outcome and relevant data. The other design and methods for this study are taken from the book of (Collis, et al., 2012) which are as follows:

Type	Quantitative
Sample Size	200
Population	Customers of Banks
Design	Exploratory
Strategy	Survey
Data Analysis	SPSS 24
Dependent Variable	Customer expectation and perception.
Independent Variables	Reliability, Assurance, Tangibles, Empathy, and Responsiveness.
Time Horizon	Cross Sectional

Research Philosophy	Positivism
Research Approach	Deductive

Table 1 Research Design

**Theoretical Framework**



This framework is taken from the SERVQUAL model in which Responsiveness, Assurance, Tangibles, Empathy, and Reliability are independent variables which are also the factors behind service quality. However, Customer Expectation and Perception is the dependent variable. The framework shows how the independent variables are influencing the dependent variables. This framework helps in creating the hypothesis of the study.

For getting the established sample size, survey monkey sample size calculator will be used because it provides the best outcome after calculating the population size, confidence level, margin of error and finally the sample size.

- Population:** 412
- Confidence Level:** 95
- Margin of Error:** 5
- Outcome (Sample Size):** 200

This calculation is showing that the questionnaire is distributed among 412 people, from 212 people denied to fill the questionnaire from 110 are from commercial banks, and 102 are

from Islamic banks.

For this study, Non probability purposive sampling technique is used because generally the sampling methods are purposive in nature. In other words, this sampling technique is used to approach the sampling problem with a specific plan.

The survey questionnaire is design for the purpose to acquire credible data for testing, this data will also be used to acquire the demographic profile of the respondents. The questionnaire contains the boxes for name, age, gender, and profession which will offer the data for the demographics. Then there are questions for each variable which are based on Likert scale and on which the respondent has to answer by selecting one option from five by circling the right answer for the question.

## RESULT

The section will analyze the profile of 200 respondents of commercial banks and Islamic banks. The demographic profile includes Age of the respondents, Gender of the respondents, and Profession of the respondents.

		AGE			
		Frequen- cies	Percent- age %	Valid Per- centage %	Cumulative Percentage %
Valid	20-30	30	14.9	15.0	15.0
	31-40	89	44.1	44.5	59.5
	41-50	71	35.1	35.5	95.0
	51-60	8	4.0	4.0	99.0
	61-Above	2	1.0	1.0	100.0
	Total	200	99.0	100.0	
Missing	System	2	1.0		
Total		202	100.0		

*Table 2 Age of the Respondents authors own*

This table shows that there are 14.9% respondents who lies under the age limit of (20-30), then there are 44.1% respondents who lies under the age limit of (31-40), similarly the table show the percentage of the respondents who lies under certain age limit.



**Gender**

		Frequen- cies	Percent- age %	Valid Per- centage %	Cumulative Percentage %
Valid	Male	141	69.8	70.5	70.5
	Female	59	29.2	29.5	100.0
	Total	200	99.0	100.0	
Missing	System	2	1.0		
Total		202	100.0		

*Table 3 Gender of the Respondents authors own*

The table shows the Gender of the respondents in which 69.8% are Male respondents and 29.2% are Female respondents.

**Profession**

		Frequen- cies	Percent- age %	Valid Per- centage %	Cumulative Percentage %
Valid	Commercial Banking Customer	121	59.9	60.5	60.5
	Islamic Banking Customer	79	39.1	39.5	100.0
	Total	200	99.0	100.0	
Missing	System	2	1.0		
Total		202	100.0		

*Table 4 Profession of the Respondents authors own*

This table shows the Profession of the respondent in which 59.9% respondents are from commercial banks and 39.1% respondents are from Islamic banks.

**Correlations**

		T	R	RESP	A	E	CPCE
T	Pearson Correlation	1	.557**	.556**	.712**	.696**	.645**
	Signifi- cance. (2-tailed)		.000	.000	.000	.000	.000
	N	200	200	200	200	200	200

R	Pearson Correlation	.557**	1	.531**	.543**	.514**	.647**
	Significance. (2-tailed)	.000		.000	.000	.000	.000
	N	200	200	200	200	200	200
RESP	Pearson Correlation	.556**	.531**	1	.725**	.721**	.623**
	Significance. (2-tailed)	.000	.000		.000	.000	.000
	N	200	200	200	200	200	200
A	Pearson Correlation	.712**	.543**	.725**	1	.752**	.630**
	Significance. (2-tailed)	.000	.000	.000		.000	.000
	N	200	200	200	200	200	200
E	Pearson Correlation	.696**	.514**	.721**	.752**	1	.608**
	Significance. (2-tailed)	.000	.000	.000	.000		.000
	N	200	200	200	200	200	200
CPCE	Pearson Correlation	.645**	.647**	.623**	.630**	.608**	1
	Significance. (2-tailed)	.000	.000	.000	.000	.000	
	N	200	200	200	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Table 5 Correlation Matrix authors own*

The table of correlation matrix shows correlation coefficients between set of variables. Each variable in the table is correlated with each other, which provides the highest and lowest values of the pairs. This table is showing the correlation matrix of Tangibility, Reliability, Responsiveness, Assurance, and Empathy which are the independent variables of the study. On the other hand the table is also showing the correlation matrix of Customer perception and Customer Expectation which is the dependent variable of the study. All variables have a significance value of (0.00) which means there is a significant and a positive

relationship between all the variables. The following are the values of correlation between all the variables:

- **Tangibility:** R (.557\*\*), RESP (.556\*\*), A (.712\*\*), E (.696\*\*), CPCE (.645\*\*).
- **Reliability:** T (.557\*\*), RESP (.531\*\*), A (.543\*\*), E (.514\*\*), CPCE (.647\*\*).
- **Responsiveness:** T (.556\*\*), R (.531\*\*), A (.725\*\*), E (.721\*\*), CPCE (.623\*\*).
- **Assurance:** T (.712\*\*), R (.543\*\*), RESP (.725\*\*), E (.752\*\*), CPCE (.630\*\*).
- **Empathy:** T (.696\*\*), R (.514\*\*), RESP (.721\*\*), A (.752\*\*), CPCE (.608\*\*).
- **Customer Perception & Expectation:** T (.625\*\*), R (.647\*\*), RESP (.623\*\*), A (.630\*\*), E (.608\*\*).

**Model Summary**

Mode	R.	R. Square	Adjusted. R Square	Standard. Error of the Estimate.
1	.767 <sup>a</sup>	.588	.577	.538

a. Predictors: (Constant), E, R, T, RESP, A

b. Dependent Variable: CPCE

*Table 6 Model Summary authors own*

The table is showing the summary of the model and the value of R square is (.558) which means the model is significant and have 55% ability to predict the modification in dependent variable with the change in independent variable.

**ANOVA**

Model		Sum of Squares	Degree of freedom	Mean Square	F	Sig.
1	Regression	79.930	5	15.986	55.330	.000 <sup>p</sup>
	Residual	56.050	194	.289		
	Total	135.980	199			

a. Dependent Variable: CPCE

b. Predictors: (Constant), E, R, T, RESP, A

*Table 7 ANOVA authors own*

The ANOVA table also shows the significance of the model, the degree of freedom is 5 which means there are 5 independent variables with residual value of about 56% which is the ability of the independent variable to explain the significance of the model. The F value is 55 and the significance value is 0.00 which means that the overall model is significant.

### Coefficients

Model	B	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Standard. Error	Beta			
1	(Constant)	.524	.156		3.370	.001
	T	.217	.062	.253	3.487	.001
	R	.299	.055	.322	5.478	.000
	RESP	.174	.060	.217	2.926	.004
	A	.066	.068	.080	.966	.335
	E	.042	.069	.050	.614	.540

a. Dependent Variable: CPCE

*Table 8 Coefficients authors own*

Hypothesis	T Statistics	P Value (95% C.I)	Hypothesis Accepted / Rejected
1. The gap between customer expectation and bank management's perception impacts service quality.	3.48	.001	Accepted
2. Inability of management of meet customers' expectations impact service quality.	5.47	.000	Accepted
3. Service delivery impact service quality.	2.92	.004	Accepted

4. Failure to deliver according to external communications impact service quality.	.996	.335	Rejected
5. The discrepancy between customer expectation and perception of the service delivered impact service quality.	.614	.540	Rejected

*Table 9 Hypothesis Analysis authors own*

## CONCLUSION AND RECOMMENDATIONS

Despite several limitations of the research, financial sector in Pakistan has grown rapidly and in the financial structure of Pakistan banking sectors are enjoying a major share. From the day of their existence banking sector is continuously contributing in financial and economic growth of the country. The banking sector also contributed in developing human resources and providing employment in the country. There are total 35 commercial and Islamic banks currently operating in the country, there are also 10 microfinance banks and 7 investments banks in the country (SBP, 2018). The discussion section includes the customer perception and expectation of both commercial and Islamic banks focusing on the city of Karachi. Islamic banking system is gaining popularity on daily basis due to their interest free and attractive products. Both types of banks are competing in a very tense environment and this competition is pushing the banking system to retain and attract existing and new customers. Data was collected from 200 respondents and findings discovered that service quality is certainly impacting the customers of both commercial and Islamic banks. The study also shows a negative or less impact of two service quality dimensions on both banks which are Assurance and Empathy. The highest perceived service dimension is "Reliability," that refers to the reliability of their products and promise to provide the best service quality to their customers. While the lowest perceived service was observed towards "Empathy," the other two dimension with highest value are tangibility and responsiveness which means that customers' of both commercial and Islamic banks likes

tangible service and the quick responsiveness towards providing them the best service. The global banking system is continuously moving towards technology and are trying to innovate by using technology as a tool which in short will reduce the cost of human resources that is associated with the management of personal relations with clients. The examples of these innovations can be internet banking system, ATMs, mobile banking system and 24/7 call center services. The basic point of moving towards innovation is to make the banking system easy and to use it as a competitive advantage. The participation of two banking system Islamic and conventional provides plentiful opportunities in the local market in terms of employment and increase business although Islamic banking system faces several challenges related to Sharia establishment, advisory mechanism, employment and creating awareness among customers. The conventional banks in Pakistan should also invest in the information technology to provide better ways to customers to access their bank accounts and also to provide several new distribution channels in the country. Banks must provide better technological services to their consumers which will help in developing their perception that will meet or exceed the consumers' expectation.

- It is important for the employees of both commercial and Islamic banking system to inspire confidence and trust of the customer.
- The employees and the rest of the management staff should reflect empathy in their behavior so that it will help them to retain existent and attract new customers.
- Continuous work on innovation is required because of the growing competition in the banking system.
- Use technology as a tool to create innovation in the work.
- Keep on building the effective relationship with customers because they are the one who runs the bank.
- Don't put too much work pressure on employees so they can perform better.

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