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Developing a Scale for Measuring Non-Financial Service Performance of Islamic Banks in Pakistan

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ARTICLE DETAILS	ABSTRACT
History: Accepted: 26 May 2020 Available Online: 30 June 2020	<p><i>The intention of this research is to develop a measure by which non-financial service performance of Islamic banks can be analyzed. Research methodology comprises of qualitative and quantitative phase. Simple random sampling has been applied to select Islamic banks branches from Multan. In qualitative phase through purposive sampling 10 in depth interviewees were conducted from managerial employees with the help of interviewee guide and scale items were generated to explore non-financial service performance elements. A questionnaire was developed and self-administered questionnaire based survey was performed in quantitative phase. Out of 150 distributed questionnaire 111 complete responses were received and analyzed by applying exploratory and conformity factor analysis with the help of software Smart-PLS. Findings of the study suggests that key performance indicators of Islamic banks are non-financial in nature .Scale contained 40 items. Total 6 factors with Eigenvalues > 1 containing 40 items with factor loading >.7 were extracted and total variance explained was 80%. Variance explained by each factor is as follows 1.Marketin and Sharia board performance, (15items 29.9%)2 Training(7items12.78%), 3.Corporate social responsibility(5items 11.43%) 4.Operational performance(5 items 9.6% VA), 5.Management commitment(4 items and 9.0% VA)and 6.Employee commitment (4 items and 7.16% VA). This research in the form of the scale provides a detail, reliable measure by which non-financial performance of Islamic banking can be comparatively analyzed at bank and branch level. Future corners of improvements can be identified which will result in increasing customer satisfaction, employee satisfaction and service quality improvements.</i></p>
Keywords: Internal Service Quality, Islamic Banks, Non-Financial Performance, Perception	
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1. Introduction

Measuring financial performance which is based on past transactions remained focus of interest by researchers during last decades in Islamic and conventional banks although accounting profit can be

crafted and manipulated. Creating value for shareholders or stakeholders is much more beyond than just measuring and comparing profitability ratios. It also includes human, social, public and private wealth. Lessor efforts have been made to identify non-financial aspects where improvements are critical to create value and expansion of Islamic banking operations all over the world. Howell (2006) emphasizes that performance needs to be evaluated by taking voice of customers (internal & external). By listening the voice of customers, organization can better understand where improvements are needed.

A common approach opted by many researchers (Haroon, 1998; Iqbal, 2001; Hussein, 2004; AlJarrah and Molyneux, 2003; Brown and Skully, 2005; Saleh and Zeitun, 2006; Sheikh and Karito, 2010) is measuring bank efficiency and profitability in Islamic and conventional bank both in comparative and non-comparative way. Mostly secondary data is analyzed in the form of financial reports by opting Data Envelopment Analysis and Stochastic Frontier Approach. Lesser efforts are made to build customer focus by understanding that where there is actual need of improvement lies other than profitability and financial performance.

Scholars including (Malik, 2002; Tahir, 2005; Ahmed, 2008; Akhter, 2008; Kumar, 2008; Akhter, 2010) discuss Issues related to non-financial performance as challenges for future expansion and growth of Islamic banks which are related to Sharia board, operations, marketing and social responsibility.

A research gap is identified in the form of absence of a defined measure by which Islamic banking practitioners can evaluate current marketing, sharia board, operations, and corporate social responsibility related performance by using primary data gathered from internal and external customers.

This research is conducted to fill the discussed existing deficiency in literature. A scale is developed by which Islamic banking practitioners, policy makers can find out some ways to measure, compare, improve and excel value addition and competitiveness by focusing on measures of internal service performance. Findings of study suggest some KPIs those are non-financial in nature and are related to Islamic banking services perception.

2. Literature Review

Zairi (2000) reports customer as “a purpose for what business is staying”. Zeithaml (2000) identifies two types of customers (inside and outside customers). Employees are internal customers and buyers are outside customers who bear cost of product or service. He emphasizes that “employees and customers should be treated equally important”. Just like external customers employees have their own evaluation of organizational performance and quality of services. Positive evaluation of service experience creates feeling of happiness among internal and external customers.

Neely (2007) describes performance is social construct which lack objective measures with no objective description and defined by each person in his/her own way. He sums up several related concepts related to the word performance as “diverse concept”. It is efficient usage of resources, ability to produce results, judgment on certain criteria, relative measurement of results and a process of value creation in addition to growth for long term survival by controlling destructive behavior. Neely (2007) also points out that total business performance covers all business areas including Marketing, operational, Financial, Supply Chain and Culture based performance. Low and Siesfeld (1998) talk about non-financial performance indicators by saying that management remain indulge to view short term profits but there are leading indicators which are non-financial in nature and investors and

stakeholders consider more these indicators while making investments. Management ability to attract talented people, innovation, credibility and reputation of management are some indicators of performance which are non-financial in nature.

Talking about key performance indicators “KPIs” Hope and Fraser (2003) elaborate “actionable performance” concept and criticizes annual financial performance measurement based on profitability, liquidity and cost related measures. They say that performance must be measured on weekly, monthly or daily bases. Financial performance measurement is “late plan” .It shows “lost time” realities on one cannot take any action. No one can recover lost sales, reduced profitability and demand or excessive cost by analyzing annual or semiannual financial reports. Financial performance is based on key result indicators while key performance indicators are non-financial in nature which are related to Marketing, Operational, and Supply Chain based performance. Managers have to take quick, flexible, multipurpose and multilevel decisions related total business activities for which non-financial performance measurement is unavoidable. By listening voice of employees and buyers about business performance managers can timely take better business decisions.

There are some examples of comparative studies in Islamic banking based on financial performance comparisons. Haroon (1998) comparatively analyze Sharia banking practices and the way Islamic banks utilize funds in eleven Muslim counties and finds that due to different economic conditions Islamic banking practices were different in these countries, financing were also tend to base on mark-up. He also reports that countries were not equally applying Sharia principles in banking. Sharia Principles were differently practiced in different countries.

Sarker(1999) reports that Islamic banks in Bangladesh cannot perform well under traditional interest based banking system. Sharia compliant banking mechanism on the bases of PLS principles, awareness of interest free banking among customers and operational ease and efficiency are neglected areas. Some other scholars who talk about financial performance comparisons of Islamic banks are as follows, Al-Jarrah and Molyneux(2003),Hussein(2004),Brown and Skully (2005),Saleh and Zeitun(2006).

Tax and Brown (1998) identify that building service competence through compatible skills, training, service innovation and organizational knowledge are some elements of of internal organizational orientation toward service quality. Tsui et al. (1997) high lights that those organizations are more loyal and efficient who invest more in employee training and development. Schlesinger and Heskett (1991) point out importance of training by saying that service organizations must invest in service skills to enhance ability of employees for responding demands of customers. Khaled (1998) describes that “the true success of Islamic banking lies in creating true banking Image at the front of people by creating Sharia compliant product awareness, by filling communication gap between customers and employees”. Actively working Sharia advisory board is vitally important due to its responsibility of designing Shaira compliant products and banking regulations (Nizam,2002).

Hasan and Zubair(2005)discuss the social objectives of Islamic financial institutions. These are related social responsibility including charity and donations for health and education, preservation of environment from every harmful effect, taking care of societal issues like pollution control.

Duski and Dar (2005) identify the Purpose of Islamic financial institutions which is not enhancing wealth but to provide value, social benefits to society. Farook(2007) provides valuable insights about cardinal element of Islamic financial system “ Corporate Social Responsibility” CSR

which means doing beneficial things for society and avoiding those activities which can be harmful to the physical and social environment). By discussing several dimensions of CSR he put emphasis on charitable activities for helping poor member of society, offering Qerde Hasna so that small business investments can be increased. Payment of Zakah, taking care of physical environment, employee welfare. He says that due to financial strength Islamic financial institutions are dually responsible for societal benefits by investing money in Sharia compliant business activities so that living standards of society can be upgraded.

Kumar (2008) discusses operational risk and says that to speed up banking processes, simplicity of Islamic banking processes by innovation in products and technological investment will reduce operational risk and Islamic banks will perform well.

Hassan, Chachi and Latiff (2008) inform that “Islamic marketing does not allow exploitation, fraud, misleading information disclosure”. Islamic way of promotion is based on truth. Not to use false testimonies, emotional and pseudo research appeal, fear etc.

Ahmed(2007) high lights that “Islamic banking possesses immense growth potential but not making headways due to lack of public awareness. People have ambiguities in their minds which should be resolved by effective promotional campaigns and with the help of Sharia advisors.”

Malik (2002) also talks about product innovation in Islamic banking that Muslims all over the world are now willing to invest surplus funds in Islamic banks so innovative and creative minded talented people in Islamic banks should be active in gearing up resource to offer variety of Islamic banking products. Rasul(2008) also talks about importance of introduction of high quality easy to understand Sharia compliant banking instruments which can deliver true image of Islamic banking. He suggests that there is no need to mimic interest based products but actual potential of growth can be successfully exploited by reengineering financial instruments according to dynamic needs of society. Sheikh and Karito(2010) comparatively analyze Islamic banking performance in Pakistan with conventional banks and results were in favor of Islamic banks. They also highlight that for long term survival and growth well working Sharia advisory and supervisory board is necessary in addition to marketing efforts so that more customers can understand nature of Sharia compliant products

3. Methodology

This is mixed method approach based research. In qualitative phase in depth interviews were conducted (telephonically, face to face) for generating items for developing scale from all possible available relevant people like (branch managers, branch services officers, operation manager etc.) excluding non-managerial staff of Islamic banks in Multan. There are five full fledge Islamic banks in Pakistan namely Meezan Bank, Dubai Islamic Bank, Bank Albaraka, Bank Islami and MCB Islamic bank which was target population in study.

In quantitative phase questionnaire (postal, email, telephonically assisted) is used to collect data by self-administrated survey from employees working in all branches located in city of Multan from all Islamic banks by considering constraints like budget, security issues in country and readiness of employees in participation of research. Nominal, ordinal scales are used for identifying respondent descriptive profile including age, current bank experience, qualification, gender etc and 7 point likert scale (1 for strongly disagree to 7 for strongly agree) is designed to evaluate employee perception about bank non-financial performance.

Translation and back translation approach (English to Urdu and then from Urdu to English language) in addition to pilot testing exercised before conduction survey. Scale purification is performed by checking item reliability, internal consistency, face validity. Number of branches of each bank is also known and total number of employees in each branch can also be identified. Simple random sampling technique and purposive sampling was used to collect data for quantitative and qualitative phase including in analysis. For in depth interviewees in qualitative phase of items generation 10 respondents were selected from all Islamic banks keeping in mind purpose of research in addition to their consent of full participation.

For questionnaire survey 150 respondents were randomly selected from all Branches of all five Islamic banks from Multan. Only support services staff was excluded including cashiers, janitors, security guards etc. because those are not engage directly in delivering Islamic banking services. Geographically respondents are belonging to Multan, mostly are of age not less than 25 and more than 45. Qualification is masters in multiple disciplines like economics, business, commerce etc. Majority consists of male. Exploratory Factor Analysis and conformity factor analysis technique is applied on 111 complete responses for scale development by using Smart PLS and SPSS Software.

4. Results

Out of 150 questionnaires 111 were returned with complete answers. Response rate was 74% rest of the questionnaires either lost or incompletely answered. Scale reliability and internal is checked by Cronbach's Alpha which was greater than 0.7. Items with less than 0.5 values were deleted during pilot testing.

Sample adequacy was confirmed by KMO & Bartlett test resulted value was greater than 0.5 with p value closer to zero. Anti image method results were also favorable.

Exploratory Factor Analysis was conducted for dimension reduction by selecting principle component factor analysis technique, resulted 6 factors with Eigenvalues > 1 containing 40 items with factor loading >.7 were extracted and total variance explained was 80%. Variance explained by each factor is as follows 1.Marketin and sharia board performance,(15 items and29.9%)2.training(7items12.78%)3.operations(5 items 9.6% VA)4.corporate social responsibility(5items 11.43%) 5.management commitment(4 items and 9.0% VA)and 6.employee competence (4 items and 7.16% VA).

Table 1: KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.89
Bartlett's Test of Sphericity Approx. Chi-Square	5613.98
Df	780
sig.	.000

	Table 2: Scale Reliability & Validity			
	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
CSR	0.965	0.966	0.973	0.877
EC	0.873	0.891	0.914	0.73
MC	0.944	0.951	0.959	0.855
MK	0.978	0.978	0.98	0.763
NFSP	0.969	0.977	0.971	0.474
OP	0.917	0.921	0.938	0.752
TR	0.922	0.935	0.937	0.682

	Table:3	Discriminant Validity Forner Larker Criteria					
	CSR	EC	MC	MK	NFSP	OP	TR
CSR	0.937						
EC	0.594	0.854					
MC	0.322	0.286	0.925				
MK	0.712	0.627	0.296	0.873			
NFSP	0.819	0.75	0.415	0.95	0.688		
OP	0.599	0.423	0.241	0.689	0.768	0.867	
TR	0.305	0.604	0.317	0.343	0.524	0.326	0.826

Table 4: Extraction Method Principle Component Factor Analysis (Total Variance Explained)									
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sum of Square loadings		
Components	Total	% of Variance	Commulative %	Total	% of Variance	Commulative %	Total	% of Variance	Commulative %
1	18.96	47.40	47.40	18.96	47.40	47.40	11.93	29.98	29.82
2	4.67	11.67	50.07	4.67	11.67	50.07	5.11	12.78	42.76
3	2.85	7.13	66.20	2.85	7.13	66.20	4.57	11.43	54.19
4	2.29	5.74	71.95	2.29	5.74	71.95	3.84	9.61	63.80
5	1.91	4.79	76.74	1.91	4.79	76.64	3.63	9.08	72.89
6	1.33	3.31	80.06	1.33	3.31	80.06	2.86	7.16	80.06

Table 5: Path Coefficient Detail

	CSR	EC	MC	NFP	OP	TR
CSR				0.189		
EC				0.115		
MC				0.074		
MK				0.573		
NFSP						
OP				0.151		
TR				0.128

Table 6: Non-Financial Service Performance(NFSP) Scale Detail			
Factors	No	Items	Factor loadings
NFSP Factor1: Marketing & Shariah Board Performance (MK)	1	Bank is having Profit maximization potential.	.874
	2	Positioning against similar conventional banking Products is clear.	.830
	3	Bank is having Price competitiveness of products.	.867
	4	Bank's products and services can potentially attract customers.	.880
	5	Bank's products have ability to meet customer liquidity requirement	.882
	6	Product variety is available according to communicated by bank	.879
	7	More return is offered than other banks.	.907
	8	Ample Free of charges services by bank is offered.	.880
	9	Islamic banking promotion is practiced by bank.	.902
	10	Bank advertises Halal banking products.	.862
	11	Shariah advisory services are provided in the bank branch.	.867
	12	Shariah scholars communicate about certification of products to customers directly	.877
	13	Customers can question timely with Shariah board for advice.	.860
	14	Employees can ask timely with Shariah board for advice.	.832
	15	Shariah board certified product names are well understood.	.898
NFSP Factor2: Training (TR)	16	Top management is committing resources for training of employees about Islamic banking products	.730
	17	Training of Islamic banking products is provided.	.826
	18	Clear understanding of shariah fundamentals is practiced	.845
	19	Training is provided to improve problem solving or interpersonal skills.	.870
	20	Training programs are designed for different job status.	.863
	21	Management encourages employees to attend training contents.	.800
	22	Management keeps job performance data of employees.	.838
NFSP Factor:3 Operational performance (OP)	23	Processes for to Islamic banking services are easy.	.829
	24	Banking services are technology rich.	.856
	25	Banking processes provide timely service delivery.	.904
	26	Islamic banking services delivery processes are free from error.	.894
	27	Islamic banking products are improved by innovation	.850
NFSP Factor :4 Corporate Social Responsibilit	28	Bank provides Charity for social welfare.	.935
	29	Charity for health and education is provided.	.918
	30	Every type of pollution is avoided by Bank.	.950
	31	Unnecessary electricity consumption is avoided by bank.	.944
	32	Bank offers Qerd-e-Hassna.	.935

y (CSR)			
NFSP Factor:5 Management commitment (MC)	33	Management knows Importance of service flow for transactions.	.893
	34	Management Charges penalties for late payments	.946
	35	Management emphasizes on team work.	.934
	36	Management delegates decision making to service employees.	.925
NFSP Factor:6 Employee Competence (EC)	37	Employees have Knowledge about product/service features	.708
	38	Information sharing is routine practice of the bank	.877
	39	Employees show behavior as required for situation.	.902
	40	Employees are able to reduce ambiguity in customer mind.	.913

Fig no.1 Graphical Representation of the Model
“Non-Financial Service Performance and its components”

5. Discussion

Findings of the study enhance scope of identifying internal service performance measures which are non-financial performance related. It adds more dimensions and items to internal service quality performance scale for Islamic banks particularly for the factors Islamic banking positioning, management commitment which were partially explored before by Bukhari et al (2011). This study has major theoretical contribution by providing 40 items detailed scale by which full fledged Islamic banks and Islamic branches of conventional bank can measure their current non-financial performance with

the help of primary data at any point in time. Scale has been translated in National language Urdu as well which will add more contribution towards its validity and reliability and future researcher can adapt this strategy by translating it in local language which will increase its precision, more response rate and generalizability of results. Islamic banking services providers will be able to compare their non-financial service related performance in comparative way with conventional banks, Islamic branches of conventional banks and with other full fledged Islamic banks at bank level and even at branch level.

6. Conclusion

The aim of the research was to develop a measure by which non-financial service performance indicators can be analyzed and identified and it is achieved. Existing literature sheds light upon importance of marketing, operations, sharia board performance in addition to employee training and management commitment for competitiveness but there was a gap that how these aspects can be analyzed and identified which is fulfilled by this research. Future researcher can use this scale for identifying internal service performance effects on internal or external customer satisfaction, financial performance in addition to services quality improvements.

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Appendix-1

Questionnaire for developing a scale to measure Islamic bank non-financial service performance:

This questionnaire is designed to conduct a survey by a PhD Scholar in BZU Multan. She is intended to get response from Islamic banking employees to understand whether the bank is performing and progressing on certain criterias.It is mentioned here that all information will be kept confidential and will be used only for academic purpose. Thanks for your cooperation in this regard.

Part (1) Descriptive Profile of Employees

- (1) Bank Name :.....(2)Job position:.....(3)Gender: Male/Female
 (4) Current Bank job experience (a) less than 2 years (b) 2 to 4 years (c) above 4 years
 (5) Qualification/Last degree:
 (6) Age in years: (a) less than 25 (b) 25 - 35 (c) 35-45 (d) above 45

Part (1) Non financial Performance Evaluation by Internal customers:

Statements below are related to bank non-financial performance indicators. Choose by ticking the options to express your feelings that whether your bank performance is progressing? (1 for strongly disagree, 2 moderately disagree, 3 slightly disagree, 4 neutral, 5 slightly agree, 6 moderately agree, 7 strongly agree).

No		SD	D	SL D	N	SLA	A	SA
1	Product variety is available as communicated by bank	1	2	3	4	5	6	7
2	Bank provide more return than other banks	1	2	3	4	5	6	7
3	Many banking services are free of charges	1	2	3	4	5	6	7
4	Bank try to promote Islamic banking	1	2	3	4	5	6	7
5	Bank advertise Halal banking products	1	2	3	4	5	6	7
6	Process related to Islamic banking services are easy	1	2	3	4	5	6	7
7	Banking process are technology rich	1	2	3	4	5	6	7
8	Banking processes provide efficient service delivery	1	2	3	4	5	6	7
9	Islamic banking services delivery processes are free from error	1	2	3	4	5	6	7
10	Islamic banking products are improved by innovation	1	2	3	4	5	6	7
11	Sharia advisory services are provided in the bank branch.	1	2	3	4	5	6	7
12	Sharia board scholars communicate about certification of products to customers directly.	1	2	3	4	5	6	7
13	Customers can contact timely with Sharia board for advice.	1	2	3	4	5	6	7

14	Employees can contact timely with Sharia board for advice	1	2	3	4	5	6	7
15	Sharia board certified product names are well understood.	1	2	3	4	5	6	7
16	Bank provides Charity for social welfare.	1	2	3	4	5	6	7
17	Charity for promotion of education and health is provided	1	2	3	4	5	6	7
18	Bank environment is kept free from every type of pollution.	1	2	3	4	5	6	7
19	Unnecessary electricity consumption is avoided by bank.	1	2	3	4	5	6	7
20	Bank offers Qerd-e-Hassna	1	2	3	4	5	6	7
		SD	D	SL D	N	A	SLA	SA
21	Top management is committing resources for promoting Islamic banking products	1	2	3	4	5	6	7
22	Training of Islamic banking products is provided.	1	2	3	4	5	6	7
23	Clear understanding of sharia fundamentals is practiced							
24	Training is provided to improve problem solving/interpersonal skills	1	2	3	4	5	6	7
25	Specific training programs for different job positions	1	2	3	4	5	6	7
26	Management encourages employees to attend training workshops/lectures/seminars	1	2	3	4	5	6	7
27	Management share employee job performance data	1	2	3	4	5	6	7
28	Bank is having Profit maximization potential	1	2	3	4	5	6	7
29	Positioning against similar conventional banking Products is clear	1	2	3	4	5	6	7
30	Bank is having Price competitiveness of products	1	2	3	4	5	6	7
31	Bank's products and services are having potential to attract conventional banking customers	1	2	3	4	5	6	7
32	Bank's products have ability to meet customer liquidity requirement	1	2	3	4	5	6	7
33	Management knows Importance of service flow for IB transaction.	1	2	3	4	5	6	7
34	Management Charging penalties for late payments	1	2	3	4	5	6	7
35	Management emphasizes on team work.	1	2	3	4	5	6	7
36	Management delegate decision making to service staff	1	2	3	4	5	6	7
37	Employees have Knowledge about IB product/service features	1	2	3	4	5	6	7
38	Information sharing is norm of the bank.	1	2	3	4	5	6	7
39	Employees show flexible behavior according to situation.	1	2	3	4	5	6	7
40	Employees are able to reduce ambiguity in customer mind.	1	2	3	4	5	6	7

Interview Guide

1. What are some factors which can enhance Islamic bank service performance?

2. Do you have any standard for measuring service performance?
 3. What are some element that will describe marketing performance of your Bank ?
 4. What is criteria to evaluate sharia board performance of your bank?
 5. What is meant by corporate social responsibility by your bank?
 6. What is the criteria by which you can say your bank is following corporate social responsibility?
 7. What are some measures for evaluation your bank orientation towards training of employees?
 8. What factors contribute in delivering operational efficiency?
 9. What are some elements which will contribute for Islamic banking positioning and development?
 10. How your bank can evaluate employee capabilities for delivering Islamic banking services?
 11. What are some indicators by which you can see management is promoting Islamic banking?
- What are some key performance indicators which can contribute in delivering superior Islamic banking services?