

SERVICE GAP FOR MUSHARKA FINANCE AND IT'S EVALUATION ON CONSUMER'S VALUE FOR MEEZAN BANK KARACHI

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Abstract

We have conducted this study to find out Service gap for Musharka finance and it's evaluation on consumer's value (perceived value and delivered value) for Meezan bank Karachi we believe it benefits because Islamic financing like Musharka is growing in numbers all over the world and it is currently in its transition stage hence at this stage if we come to know the consumer value; means perceived value and delivered value then it will be very helpful to reduce the service gap so that consumer value can increased.

In addition to this we should be doing this because it matches our career goal. And this specific research project we'll learn a lot, for example at this moment of time we are indifferent of the result that's why we also consider it symmetries in respect of its potential outcome. Whether the result will be either in yes or no both ways it is equally important and gives us new insights. Further this is what which fascinates us because by evaluating service gap in Musharka finance consumers of Karachi and by giving some recommendation, we feel as we will have added something worthy.

We are going to answer two of our research questions:

- i- What is the Service gap for Musharka finance?*
- ii- What will be evaluation on consumer's value (perceived value and delivered value) for Meezan bank Karachi.*

We use We used "Exploratory Research" for our research design to gain more insights and in depth knowledge of our research topic with sample size of 25 and Data for our research project is collected through primary source using questionnaire, Key results of survey through questionnaire are that Service gap for Musharka finance is significant and improvement is needed to reduce service gap & increase consumer's value for Meezan Bank Karachi.

Introduction

In Islamic modes of financing Musharka is a term referred to “Shirkah” means sharing, and this mode of financing is offered by some Islamic banks in Pakistan so we are going to find out service gap for Musharka finance and it's evaluation on consumer's value, what they perceived and what they have been actually delivered. We are doing this because now Islamic banking is not a mere theory but it's as reality & in order to facilitate its stakeholders with better services we need to evaluate existing practices if there any gap exist between them and therefore we start with Musharka finance and in the future we can explore it up to other domains i.e. Mudarba, Ijara etc

Methodology consists of surveys of professional working with meezan bank Karachi and consumers of Musharka finance who experienced the Musharka finance services. Discussion with senior teachers and professionals, research reports and literature on Musharka finance also form part of study. Results identify the grey areas in the existing practices followed by service provider.

Our study is an attempt to examine the service gap for Musharka finance and it will also evaluate the consumer's value (perceived value and delivered value) for Meezan Bank Karachi. We consider the Musharka finance study because of its prime importance in Islamic financing modes. “Whereas trade under Musharka constitutes a joint enterprise in which partners share profit and loss. This financial interest is not use an alternative for interest base financing.” (Book; *an Introduction to Islamic Finance pg#27*)

We will restrict the scope of the project up to one bank and one city which is meezan bank in Karachi and going to study those customers who have used this facility or who are currently using this.

For the ease of our readers it is worth to mention that section 2 documents the Literature review, section 3 explains the research methodology, section 4 results, section 5 conclusion and recommendations.

Literature Review

‘Musharka’ or ‘Shirkah’ is Arabic word which means “Sharing”. In Business world and trade-under Musharka it constitutes a joint enterprise in which partners share profit and loss. This financial interest is not use an alternative for interest base financing. (Book; *An Introduction to Islamic Finance pg#27*). Similar thing is mentioned in (*Meezan Bank Guide 2002*) the literal meaning of Musharka is sharing and in Arabic language “Shirkah” means being a partner.

Musharka finance is also open for some obvious objections which are discussed in this literature as follows: As per Musharka agreement both financier and client are in partnership and have to share the profit and loss as per the terms agreed. So there is a misconception that losses are not bared by the financier only Musharka partner will bear the loss, practically loss will be shared and therefore it impacts depositor's funds. (Book; *An Introduction to Islamic Finance chpt. Musharka*). In addition to this, article *Growing Pain* also mention the similar connected element of depositor money that the Islamic banks are heavily rely on the depositor's loyalty and anything which shake the confidence of depositor will create problems. Furthermore (*Azhar Nadeem* in his case study; *Partnerships for Success*) indicate this thing as Credit risk which can be covered by proper risk assessment & due diligence in appraising proposed business. By having this key concept in mind we will find out pre-feasibility criteria to know any service gap.

Hindrance can be occurred if client is not willing to pay or feel difficult to pay any return to financiers. In this case financier profit and principal amount will be blocked. (Book; *An Introduction to Islamic Finance chpt. Musharka*). As we know any impact of nonpayment or failure to pay will impact the depositors' expected profit return so to cop up with this issue; *Defining direction; first Pakistani Islamic banking & money market conference held in sep 14 -15 2005* to discourage late payments bank will charge his client a certain amount which will deposit in charity account as agreed by client at time of agreement.

From the above discussion we want to find out whether flexible terms can reduce the service gap.

One more objection with respect to Musharka is the integrity at stake, if financier is in partnership because the same finance can be passed on the important information of business to other traders. (Book; *An Introduction to Islamic Finance chpt. Musharka*). In contrast to this author of article *Growing Pain* believed that “The bank may or may not play a management role. Losses are shared in strict proportion to the size of the capital contribution, while profits are shared according to a pre-agreed ratio”. To validate this either consumers value this as a service gap or not we will check the confidence level through our questionnaire.

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In addition to above key concepts one more obvious problem which is stated in (Book; *An Introduction to Islamic Finance chpt. Musharka*) is that the client sometimes is not willing to disclose profit because they are afraid to tax liability. On the other hand Azhar Nadeem observe this problem as market risk and suggest that it can be overcome through “**Appropriate framework of pricing, valuation and income recognition**” (Azhar Nadeem in his case study; *Partnerships for Success*)

In addition to above key concepts one more potential service gap which can occur is the provision of capital in terms of cash to Musharka partner and as stated by (Meezan bank officials) “**we have 0% tolerance if we provided cash at time of finance to our Musharka partner**”, In contrast to this a survey published in (*European Journal of social sciences-Volume 15, number 4, 2010*) by Muhammad hanif, named Islamic Financing and Business Framework stated “**capital can be contributed in cash as well as in asset**”. After having two different viewpoints which can lead to potential service gap one of our objectives is to find out this as well and its impact on consumer value.

In this literature author has mentioned some objections or service gaps for Musharka but not evaluate its consumer value, which we are going to undertake in our research problem.

Research Methodology

We used “Exploratory Research” for our research design to gain more insights and in depth knowledge of our research topic which’s aim is “To find out Service gap for Musharka finance and it’s evaluation on consumer’s value (perceived value and delivered value) for Meezan bank Karachi”

Data for our research project is collected through primary source. Primary data tools include survey through Questionnaires, interviews with academic instructor, bank professionals and some Musharka consumers. Questionnaire (Appendix) consist close ended questions with one open ended question for suggestions. Questionnaire is design on likert scale in such a way that caters the required need of both bankers and consumers responses. We use convenience sampling for our non probability sampling data because exact population for meezan bank Musharka consumers was not available where as no problem found for the collection of meezan bank branches data. We use sample of 30, consisting 25 Karachi meezan bankers and 25 Musharka finance consumers.

We use PASW (SPSS) for compilation and examination of questionnaire responses & apply frequencies (mode), Paired Samples Correlations.

Results

Data Analysis Summary

For our Data analysis we have taken the sample of 25 although initially we decided to gather sample size of 30 but when we actually go into the field and ask Meezan bankers to provide some Musharka customers contact they showed reluctance so on our personal contact basis we conduct survey of customers, so finally our sample size of 25 included 15 banker and 10 customers. As mentioned in Deliverable 3 our questionnaire is prepared on likert scale and 9 questions were included. We initially analyze the responses of bankers and customers through PASW software and in order to find out the service gap (if any) we calculated mode & to visualize the results we use bar charts.

For our paired sample t-test we find no significant difference against variable Q4 & Q6 Reluctant to share Business Secrets (Q4) and tolerance for cash (Q6). And similarly we found service gap in Q1, Q2, Q3, Q5, Q7, Q8 and Q9

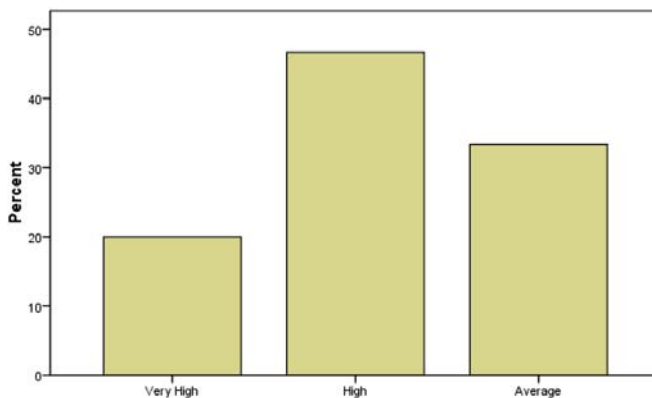
For our 2nd research question we find out the results

from questionnaire that consumer feels that there is a service difference (perceived value & delivered value) for meezan bank Karachi.

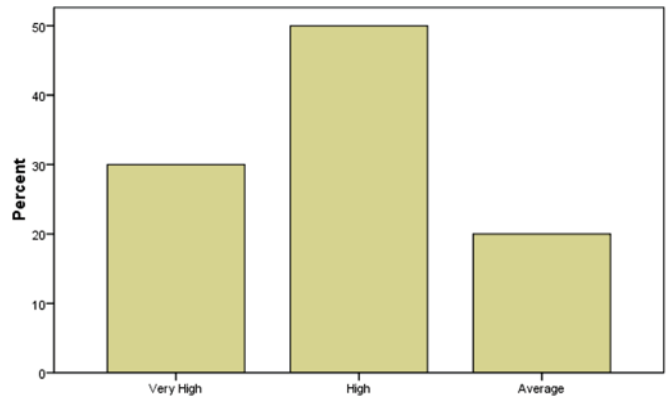
In order to get better understanding which is one of our motives of doing this exploratory research, we separately include the remarks against each question.

Frequencies Test Results

Banker Response



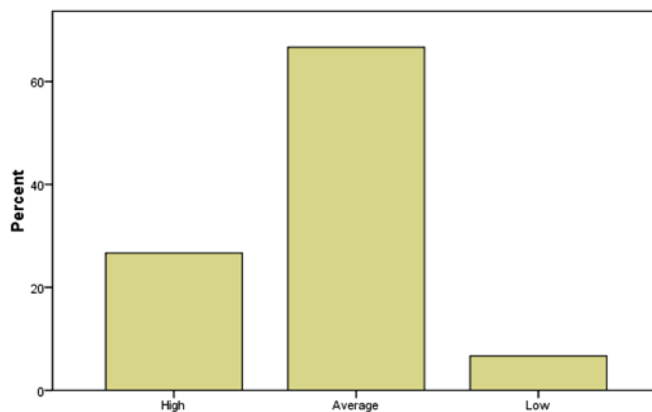
Customer Response



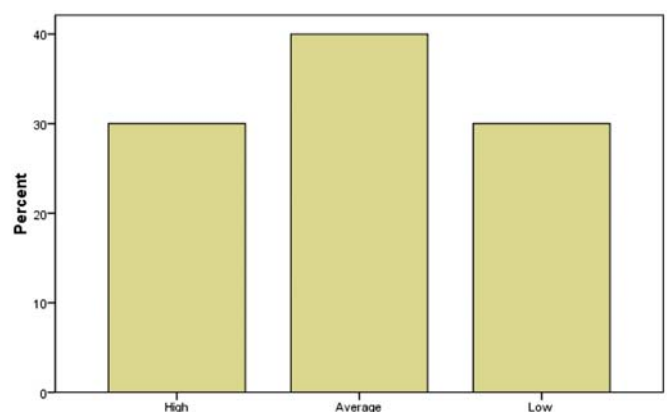
Q#1: How do you rate the pre-feasibility criteria for proposed business or project feasibility under Musharka Finance?

Remarks: As per our sample, most of the bankers and customers are agreed that the pre-feasibility criteria for proposed business is “HIGH”.

Banker Response



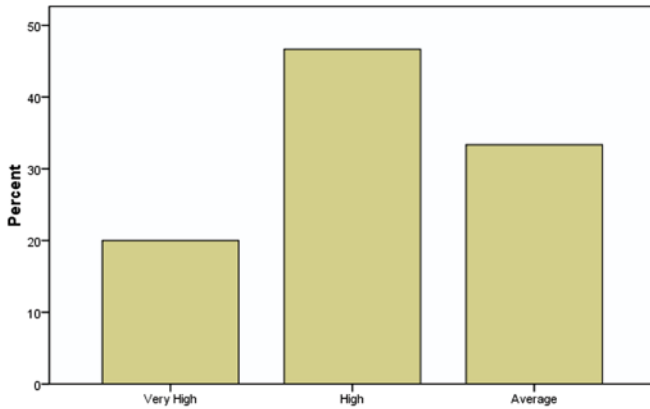
Customer Response



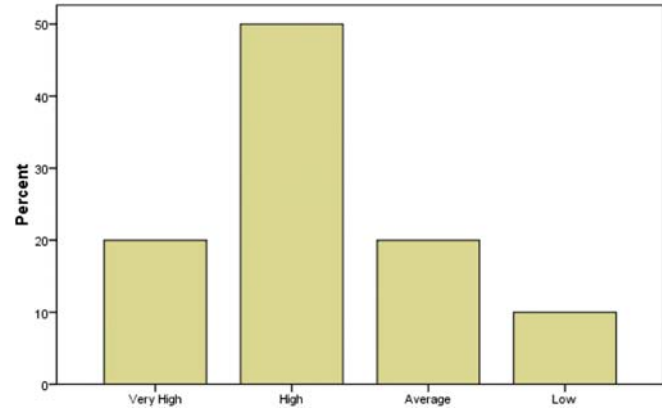
Q#2: Repayment terms are flexible as per the ease of customers?

Remarks: Bankers respond to this question as the repayment terms are on an average flexible as per the ease of customers, whereas customers are slightly inclined towards the perception that the repayment terms are not much flexible

Banker Response



Customer Response

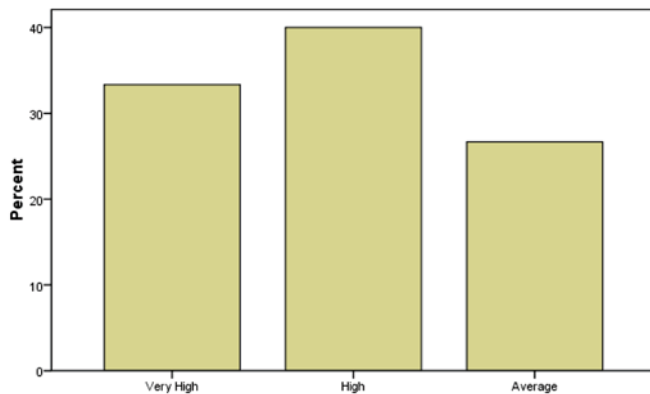


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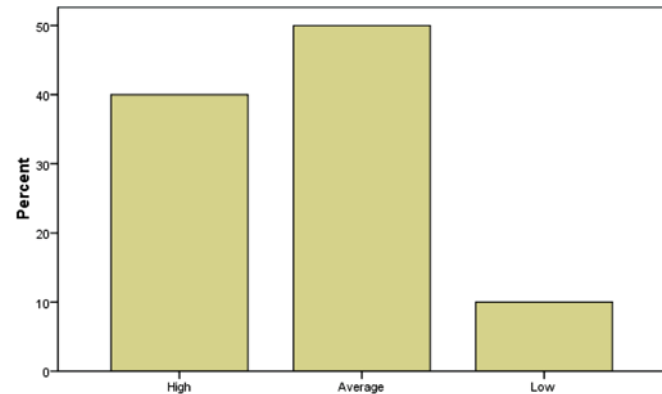
Q#3: Necessity to know/declare the actual profit/figures are?

Remarks: According to the above data collected, 46% banker and 50% customers assumes that there is “HIGH” necessity to know/ declare the actual profit figures.

Banker Response



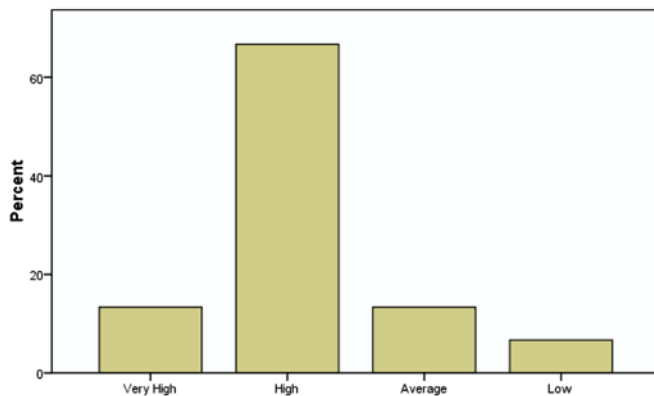
Customer Response



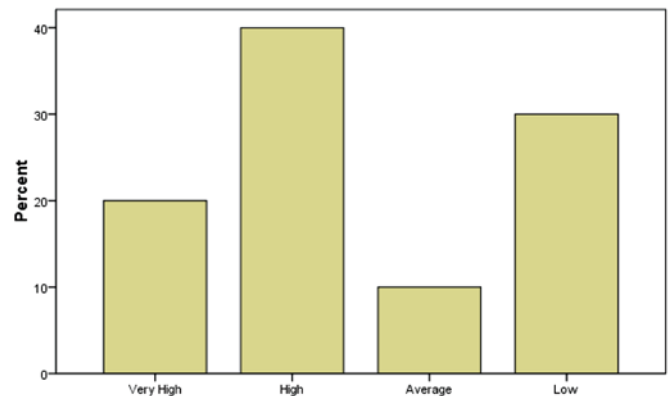
Q#4: How confident you are that, the business secrets of Musharka partners kept confidential?

Remarks: The data collected shows some different opinion between bankers and customer. The bankers claim that they keep the Musharka partners secrets confidential but the customers have some concerns about it. They believe that although the banker keeps the secret confidential but they are not confident about it. That’s why the most of customer gave answer “AVERAGE” while the bankers claim “HIGH”.

Banker Response



Customer Response

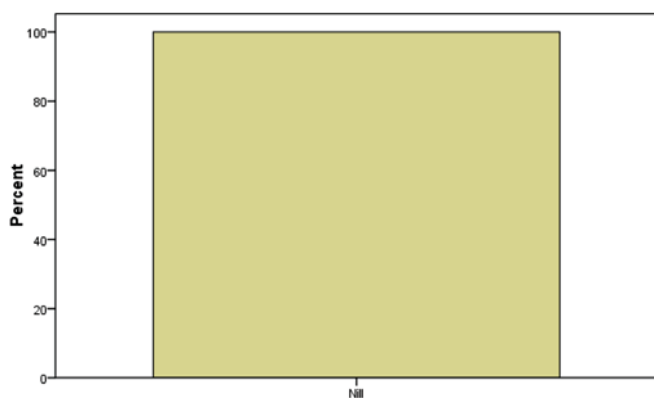


Q#5: What is the level of restriction for the withdrawal of amount before declaring of profit/loss in Musharka Finance?

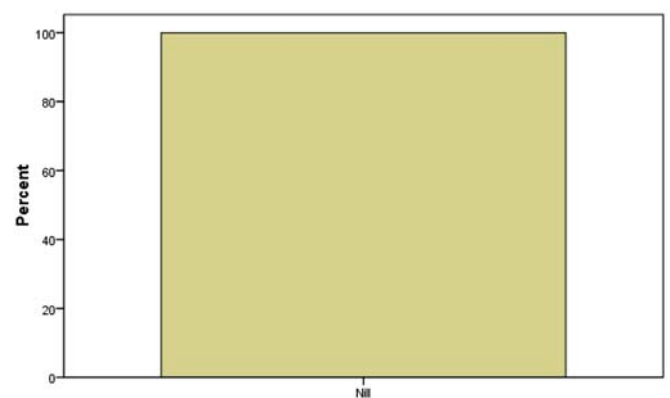
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Remarks: The above collected sample depicts that banker as per the restriction on the withdrawal of money before P/L is highly restricted where as customers to some extent find it highly restricted.

Banker Response



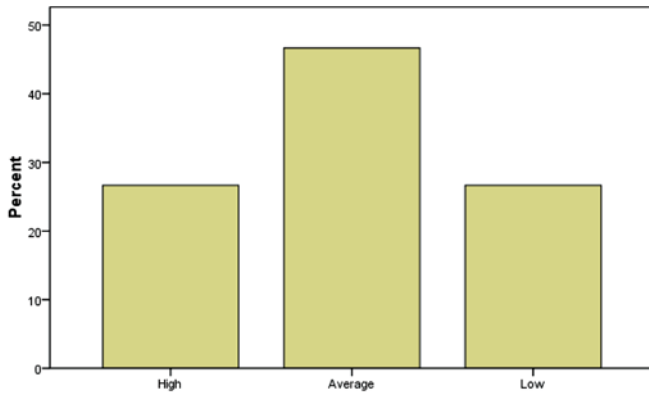
Customer Response



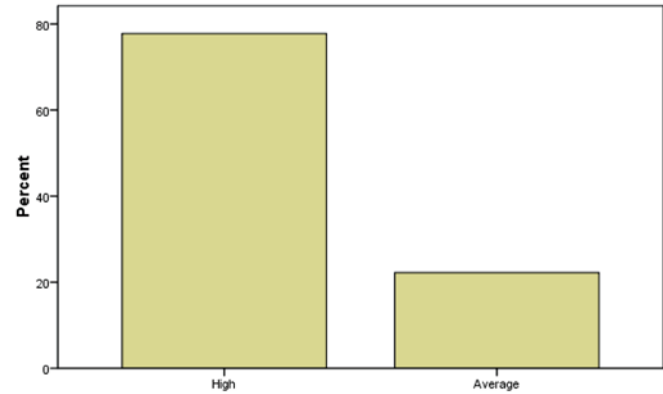
Q#6: What are the chances that the cash is provided at the time of financing?

Remarks: We find symmetry in responses of banker and customers that cash is not provided at time of financing.

Banker Response



Customer Response

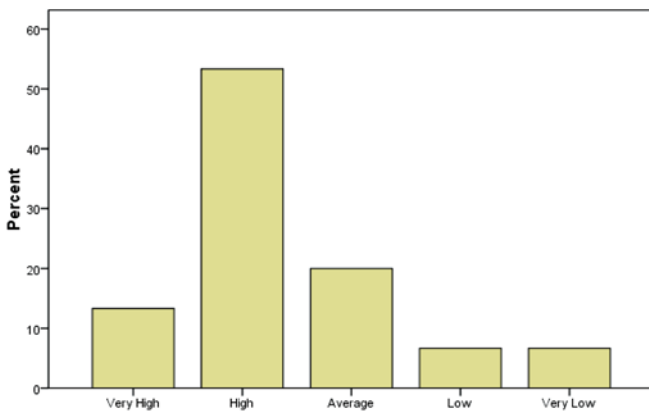


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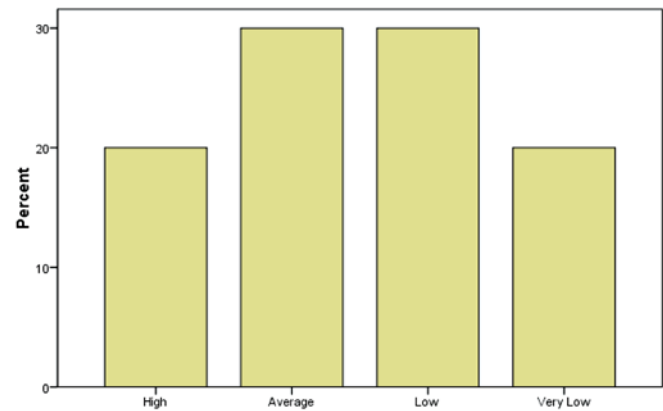
Q#7: What is your level of confidence over your partner abilities in doing business?

Remarks: In this question we find significant difference against the response of both parties and consider it a major service difference.

Banker Response



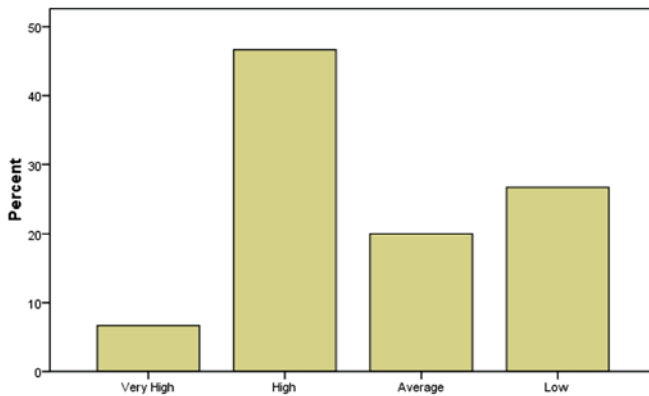
Customer Response



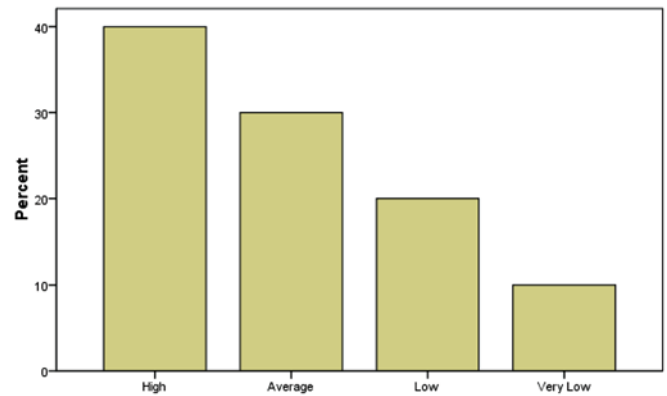
Q#8: Risk associated with Musharka Finance is relatively?

Remarks: Bankers consider the risk associated with Musharka finance is relatively high then customers.

Banker Response



Customer Response



Q#9: Do you find any need for improvement any services (which you are expected and were actually provided) is required?

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Remarks: Both respondents feel the need of improvement in services.

Paired Sample T-Test

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_1 & Customer_O_Q_#_1	15	.128	.649

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_5 & Customer_O_Q_#_5	15	-.332	.226

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_2 & Customer_O_Q_#_2	15	-.318	.248

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_6 & Customer_O_Q_#_6	15	.	0.000

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_3 & Customer_O_Q_#_3	15	.153	.587

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_7 & Customer_O_Q_#_7	14	.254	.381

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_4 & Customer_O_Q_#_4	15	.515	.050

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_8 & Customer_O_Q_#_8	15	-.495	.061

Paired Samples Correlations

		N	Corelation	Sig.
Pair 1	Banker_Q_#_9 & Customer_O_Q_#_9	15	-.260	.350

Analysis on Consumer's Value

As per the survey conducted to find out as if there is any need for improvement in consumer's value, most of the customer responded that there should be changes in way currently Musharka service provided. While short interview it is being noticed that at the time when customers signed for the services which he perceived and when actually they have experienced it they find a difference in services offered, the customer agreed that most of the services are provided which was committed by the banker but by the time they were going to sign the Musharka agreement they had something different in their perspective/ understanding/ mind. That's why we concluded that although there is not a big difference in service value but there is a significant gap between customer perceived value and customer delivered value.

Conclusion

By concluding the results of survey through

questionnaire to evaluate Service gap for Musharka finance we found out the significance service gaps and improvement is needed in a way that the proposed business feasibility criteria should be more stringent, further more customer feels difficulty to repay and required repayment methods to be flexible, with this it is Suggested for bankers to make strong controls over their auditing system, one more gap found is that there is no adequate restrictions over withdrawal of amount before declaration of P/L, in addition to this as financiers (bankers) have less Confidence over Partners Ability in doing business which can raise to credit risk further more for our second research question on consumer's value (perceived value and delivered value) for Meezan bank Karachi it id established that need of improvement is there as recommended by respondents which includes repayment terms required to be flexible, business info should not be pass on to other traders, initial screening or feasibility should be more strong, reduce business risk, bank must offer new products, easier repayments, In addition to above we find no or less service gap customers are confident that business secrets are not passed on to other plus meezan is fully compliant for providing cash at time of financing. The results of our exploratory research lead to further conclusive research.

APPENDIX

Questionnaire

Section 'A' (Optional)

Name: _____

Business/ Branch: _____

Designation: _____

Section 'B'

Q # 1: How do you rate the pre-feasibility criteria for proposed business or project feasibility under Musharka Finance?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 2: Repayment terms are flexible as per the ease of customers?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 3: Necessity to know/ declare the actual profit/ figures are?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 4: How confident you are that, the business secrets of Musharka partners kept confidential?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 5: What is the level of restriction for the withdrawal of amount before declaring of profit/ loss in Musharka Finance?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 6: What are the chances that the cash is provided at the time of financing?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 7: What is your level of confidence over your partner abilities in doing business?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 8: Risk associated with Musharka Finance is relatively:

Very High	High	Average	Low	Very Low
1	2	3	4	5

Q # 9: Do you find any need for improvement any services (*which you are expected and were actually provided*) is required?

Very High	High	Average	Low	Very Low
1	2	3	4	5

Please specify any three major differences you found:

- a) _____
- b) _____
- c) _____

References

1. Partnerships for Success (Azhar Nadeem) A Case of Musharka for Small and Micro enterprise Development
<http://dev.arabianbusiness.com/islamic-microfinance-needs-patronage-50838.html?tab=Article>
2. Growing pains: Managing Islamic banking risks
3. *Book: An Introduction to Islamic Finance by Muhammad Taqi Usmani*
4. *European Journal of social sciences-Volume 15, number 4, 2010. Islamic Financing and Business Framework: A survey by Muhammad hanif & Abdullah Muhammad Iqbal.*
5. *Defining direction; first Pakistani Islamic banking & money market conference held in sep 14 -15 2005*

Investigate Questions & Variable	Variable required	Frequency	Paired Samples Correlations	Conclusion
Q # 1: How do you rate the pre-feasibility criteria for proposed business or project feasibility under Musharka Finance?	Proposed Business or Projects Feasibility	As per our sample, most of the bankers and customers are agreed that the pre-feasibility criteria for proposed business is "HIGH"	Significance value 0.649	There is significance service gap found and they is need to improve the proposed business feasibility criteria
Q # 2: Repayment terms are flexible as per the ease of customers?	Difficult to Repay	Bankers respond to this question as the repayment terms are on an average flexible as per the ease of customers, whereas customers are slightly inclined towards the perception that the repayment terms are not much flexible	Significance value 0.248	There is significance service gap found and it is concluded that customer feels difficulty to repay and required repayment terms to be flexible
Q # 3: Necessity to know/ declare the actual profit/ figures are?	Tax Liability	According to the above data collected, 46% banker and 50% customers assumes that there is "HIGH" necessity to know/ declare the actual profit figures.	Significance value 0.587	There is significance service gap found. Suggested to banker to make strong controls over their auditing system
Q # 4: How confident you are that, the business secrets of Musharka partners kept confidential?	Reluctant to share Business Secrets	The data collected shows some different opinion between bankers and customer. The bankers claim that they keep the Musharka partners secrets confidential	Significance value 0.050	There is no significance service gap found. Customers are confident that business secrets are not passed on to other traders

Investigate Questions & Variable	Variable required	Frequency	Paired Samples Correlations	Conclusion
		but the customers have some concerns about it. They believe that although the banker keeps the secret confidential but they are not confident about it. That's why the most of customer gave answer "AVERAGE" while the bankers claim "HIGH".		
Q # 5: What is the level of restriction for the withdrawal of amount before declaring of profit/ loss in Musharka Finance?	Amount withdrawal before declaration of profit/ loss	The above collected sample depicts that the banker said that the restriction on the withdrawal of money before P/L is highly restricted where as customers to some extent find it highly restricted.	Significance value 0.226	There is significance service gap found. There is not adequate restrictions over withdrawal of amount before declaration of P/L
Q # 6: What are the chances that the cash is provided at the time of financing?	Tolerance for Cash	We find symmetry in responses of banker and customers that cash is not provided at time of financing.	Significance value 0.000	There is not any difference found in providing cash at the time of financing
Q # 7: What is your level of confidence over your partner abilities in doing business	Confidence over Partners Ability in doing business	In this question we find significant difference against the response of both parties and consider it a major service difference.	Significance value 0.381	There is significance service gap found and it can raise to credit risk

Investigate Questions & Variable	Variable required	Frequency	Paired Samples Correlations	Conclusion
Q # 8: Risk associated with Musharka Finance is relatively:	Relatively higher risk	Bankers consider the risk associated with Musharka finance is relatively high then customers.	Significance value 0.061	There is little significance service gap found and the risk is inherited due to nature of financing
Q # 9: Do you find any need for improvement any services (<i>which you are expected and were actually provided</i>) is required?	Weak auditing system	Both respondents feel the need of improvement in services.	Significance value 0.350	Both parties agreed to have some changes in the controls under Musharka Financing