

## **Influence of Customer Satisfaction, Service Quality, and Trust on Customer Loyalty in Malaysian Islamic Banking**

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### **Abstract**

*Banks are economically significant. Malaysian Islamic banks operate in a competitive environment, creating the perception that a bank's sustainability and effectiveness can only be guaranteed by "customer loyalty". This study aims to investigate the influence of customer satisfaction, service quality, and trust on customer loyalty in Malaysian Islamic banking and determine the relationship among satisfaction, service quality, and trust on customer loyalty. A survey method was used to obtain data on Islamic bank customers in Kuala Lumpur, Malaysia. Principle component analysis was employed in the exploratory data analysis of 100 customer surveys. The Cronbach's alphas of the parameters that were generated exceed the minimum acceptability threshold. The hypotheses were tested by performing regression analyses. Result shows that only one variable satisfaction significantly influences customer loyalty. This study provides a guide for Malaysian Islamic bank management groups toward building satisfaction by focusing on customers as the prime consideration. In addition, banks should focus in enhancing customer loyalty by revising bank strategies to retain existing customers and attract new customers who have the potential for loyalty.*

**Keywords:** Satisfaction, Service quality, Trust, Customer loyalty, Islamic banking.

### **1. Introduction**

Islamic banking refers to the banking system based on the principles of Islamic law (more commonly known as the Shari'ah) and is guided by the development of Islamic economics. Islamic banking principles have been outlined in the Quran and Sunnah by Prophet Muhammad more than 1,400 years ago. The key fundamental principles of Islamic banking are sharing of profits and losses and strict prohibition of collection or payment of interest charges (riba) and performing trade and other activities that provide goods or services that are considered contrary to the Shari'ah. As Allah has said "الرِّبَا" الربا "الله يبيح البيع و يحرم الربا" (Allah permits trade and forbids interest). سورة البقرة (275). These Islamic banking concepts and ethical values have been increasingly attracting financial organizations worldwide to opt for ethical operations in their financial dealings.

In the new market place, committed and often inherited relationships between a customer and his or her bank are becoming increasingly scarce (Levesque & McDougall, 1996). Several customer retention strategies have been attempted. Many banks have introduced innovative products and services to increase customer loyalty (Alam & Khokhar, 2006). However, given that such innovations frequently incur corresponding charges, a more viable approach for banks is to focus on the less tangible and difficult to imitate determinates of customer loyalty, such as customer evaluative judgments that encompass service quality and satisfaction (Worcester, 1997).

These banks mainly aim to achieve social and economic development by delivering financial services in accordance with Islamic principles and teachings. Islamic banks have to continue their crucial study of the changing behavior, attitude, and perceptions of customers, especially those of the service industry, to achieve this mission. Factors that determine loyalty of customers of the service industry are less documented (Han et al, 2008); given that numerous researchers have utilized various factors and the effect of these factors vary across countries.

The banking industry offers intangible products; the findings on tangible product loyalty may not be generalized into services or intangible product loyalty according to Bloemer et al., (1999). Identifying the factors that influence loyalty is required because of the aforementioned gaps, especially in the Malaysian banking industry and the Islamic banking market segment, which contributes almost 20 percent to the overall Malaysian market share (Dusuki & Abdullah, 2007).

## **2. Literature Review**

There were vast literature available relation to measuring customer satisfaction and customer loyalty relating to Islamic banking. A strong correlation between customer loyalty, and satisfaction, service quality and trust is highlighted. How these loyalty factors affect different service industries, such as financial services, tourism/travel, mobile phone services, and airlines, has been extensively researched worldwide. Han et al. (2008) studied Chinese customers of airlines, banks, beauty salons, hospitals, hotels, and mobile telephone industries, and discovered that customer satisfaction, commitment, service impartiality, service quality, and trust are the key loyalty factors. Akbar et al.'s (2010) study showed that service quality positively affects loyalty, as perceived by hotel customers. By contrast, the correlation between hotel service quality and loyalty is facilitated by value and satisfaction perceptions. Hoq & Amin's (2010) research indicated that satisfaction is the most significant motivator to improve the loyalty of bank customers. Omar et al.'s (2009) study on childcare center customers demonstrated that trust generates the highest influence on loyalty formation in childcare centers, but loyalty is not directly affected by satisfaction. Razak et al., (2007) investigation proved that service quality and satisfaction as well as service quality and loyalty are correlated. Ismail et al., (2006) research on external audit customers indicated that the correlation between service quality and loyalty is partially facilitated by satisfaction. Achour et al., (2011) in their study of mobile phone users in Universiti Utara Malaysia, they found service quality was one of the factors that has effect on customer loyalty.

### **2.1 Customer Loyalty**

Loyalty is one of the utmost competitive advantages of organizations under a highly competitive and dynamic environment. Loyalty works together with emotions, whereas customer loyalty is the outcome of exceeding expectations repeatedly and creating a constant positive emotional experience, physical characteristic-based satisfaction, and appreciation for the products or services gained. Customer loyalty is evident in various behaviors, the more common examples of which are the repeated patronage of a service provider and the recommendations of a service provider to other customers (Lam et al., 2004). Dimitriades (2006) stated that loyal customers positively view an organization, endorse an organization to others, and would engage in repurchase. Attaining customer loyalty and satisfaction are the cores of modern marketing practices and research themes because organizations, specifically those in service industries, are increasingly concerned about competition. The correlation between loyalty and competition further deepens as competition strengthens, particularly in service industries, which are characterized with widely existing options and novel services (Stevens, 2000).

### **2.2. Customer Satisfaction**

Consuegra et al., (2007), and Wong & Zhou (2006) indicate that customer loyalty is partially improved by satisfaction as one of the most influential factors. Actual studies confirm that contented clients have more possibility to repurchase and communicate positively toward an organization (Blodgett & Anderson, 2000; Maxham & Netemeyer, 2002). Customers tend to mention a bad customer service experience to twice as many people compared with sharing a superior service experience. In addition, loyalty is perceived to decrease even faster as satisfaction decreases. Satisfying more consumer expectations during a service generates a higher repurchase probability for a company (Wong & Sohal, 2003). High switching barriers or absence of real alternatives may influence customer loyalty. Satisfaction may also cause customer loyalty; thus, customers would want to continue the relationship (Mokhtar & Maiyaki, 2011). Therefore, choosing satisfaction as one of the main loyalty-determining parameters is essential.

### **2.3 Customer Service Quality**

Exceptional service quality level is significant for service providers particularly in the aspect of competing with one another (Yoo & Park, 2007; Bharati & Berg, 2005; Kemp, 2005). A consumer's perception on the competence of a service provider encompasses service quality and is highly correlated to customer satisfaction (Shin & Kim, 2008). A customer's perception on both advantages and disadvantages of a service provider in general is deemed as service quality (Tsoukatos & Rand, 2006).

Customers are more inclined to employ services, become less price-sensitive, and endorse positive experiences on services received through quality service (Venetis & Ghauri, 2000). Jones et al., (2002) study identified that service quality and repurchase intention, recommendation, and resistance to superior substitutes are positively correlated. The three elements of repurchase intention, recommendation, and resistance to superior substitutes comprise behavioral intentions that establish customer loyalty.

#### **2.4 Customer Trust**

Kuusik et al., (2009) indicated that trust is one the major factors that affect loyalty. A successful and lasting relationship with customers is built on trust. Trust is defined as thoughts, feelings, emotions, or behaviors manifested when customers feel that a provider can be relied upon to act in their best interest when they give up direct control (Patrick, 2002).

Trust is conceptualized in literature as “the willingness to rely on an exchange partner in whom one has confidence” (Kwon & Suh, 2005). Trust is built when a service provider is interested in satisfying the needs of the customer, and provides products and services that create customer value. Effective customer retention helps firms grow in size and popularity, thereby increasing profitability. Trust also exists when one party is confident with the reliability and integrity of the other. In social psychological science, trust is the belief that other people will react predictably. In the buyer–seller relationship context, trust is considered as the belief of one party on the reliability of the other party, and the willingness of latter to fulfill his or her obligations in exchange for a relationship (McKnight & Chervany, 2001). In summary, trust is a reliable belief as a promise is made by another party (Pavlou, 2003); therefore, trust can be viewed as trusting belief and intention (McKnight & Chervany, 2002). All social relationships would fail or function irregularly without trust (Patrick, 2002). Vulnerability in accomplishing a goal is essential to understand trust; a successful and lasting customer relationship is built on this concept. Oncoming drivers that cannot be trusted to stay in their lane would make driving impossible. Both Bibb & Kourdi (2007) and Liang & Wong (2004) postulated that trust is the main driver of loyalty. A customer’s loyalty toward an organization is enhanced by the trust created between the customer and the service provider (Kassim & Abdullah, 2008; Kishada & Wahab, 2013). The research of Kassim and Abdullah (2006) inquired into the trust-relationship commitment model and extended the model to online banking. This study showed that more positive communication settings are required to entice customers and strengthen loyalty in performing online purchases. The findings showed that a user-friendly system is insufficient to develop trust and entice more online banking customers. Developing a reliable, safe, and confidential online banking system is also highly significant for both banks and customers.

### **3. Hypotheses**

This study attempted to determine the influence of factors affecting customer loyalty in Malaysian Islamic banking. Therefore, the following hypotheses were formulated:

**H1:** Customer satisfaction positively affects customer loyalty.

**H2:** Customer service quality positively affects customer loyalty.

**H3:** Customer trust positively affects customer loyalty.

### **4. Methodology**

This section presents in detail how the study was conducted. The discussion includes the hypotheses, population and sample, measurement, data collection, factor analysis, and reliability test.

#### **4.1 Population and Sample**

The study population consisted of Islamic banking customers in Malaysia. The study sample comprised customers of the Islamic banks in Malaysia. Choosing the right sample size was important because a reliable and valid sample can enable the researcher to generalize findings from the population sample (Cavana et al, 2000). A non-probability convenience sampling method was used because of the efficiency, rapidness, and inexpensiveness of this method. This method also generated potential useful information about the population (Earl, 2013). The rule formulated by Sekaran (2000) was adopted to determine the sample size, where the numbers of variables were multiplied by 10. This research consisted of four variables. Therefore, the minimum sample size required was 40 according to this rule.

## 4.2 Measurement

Except for the demographic factors, all the other variables included in this study were measured using multiple items drawn from previous research. However, the phrasings of the items were modified to suit the sample and the local setting of Islamic banking as shown in table (1). Previous researchers used the 5-point Likert scale for all of these variables.

**Table 1: Items of variables measure**

No.	Variables	Items	Reference
1	Loyalty	<ol style="list-style-type: none"> <li>1. I would definitely recommend my current Islamic bank to someone who seeks my advice.</li> <li>2. I would encourage relatives and friends to use the service offered by my current Islamic bank.</li> <li>3. I intend to use more services offered by my current Islamic bank services in the next few years.</li> <li>4. I say positive things about my current Islamic bank services to others.</li> <li>5. I consider my current Islamic bank services as my first choice when using the services I need.</li> <li>6. I would continue using my current Islamic bank services even if the service prices somehow increase.</li> <li>7. I would pay a higher price than competitors charge for the benefits I currently receive.</li> </ol>	Dimitriadis (2006)
2	Satisfaction	<ol style="list-style-type: none"> <li>1. My pre-transaction expectations are satisfied by my Islamic bank.</li> <li>2. My expectations are completely fulfilled by my Islamic bank.</li> <li>3. If I were to choose, then I would decide in favor of my current Islamic bank again.</li> <li>4. In my opinion, my Islamic bank is customer oriented.</li> <li>5. Choosing this Islamic bank has been an excellent decision.</li> <li>6. My experience with this Islamic bank has been favorable.</li> <li>7. The Islamic bank significantly gratifies me.</li> </ol>	Aydin & Ozer (2005), Walsh et al, (2006), Kang & James (2004)
3	Service quality	<ol style="list-style-type: none"> <li>1. The Islamic bank has the latest equipment and outlook.</li> <li>2. The physical facilities of the Islamic bank are visually appealing.</li> <li>3. The customer service staffs of the Islamic bank are well dressed and appear neat.</li> <li>4. The Islamic bank fulfills its promise to complete a transaction at the agreed upon time.</li> <li>5. The Islamic bank is genuinely concerned with solving the problems I encounter.</li> <li>6. Reliability characterizes the Islamic bank.</li> <li>7. The Islamic bank provides the promised services promptly.</li> <li>8. The Islamic bank delivers the correct service even during the initial step.</li> <li>9. The Islamic bank does not renege on its promise with regard to when services will be performed.</li> <li>10. I am always served promptly by the customer service employees.</li> <li>11. Courtesy with customers is always practiced by the customer service employees.</li> <li>12. The customer service employees are always ready and willing to answer customer requests.</li> <li>13. The customer service staffs are knowledgeable.</li> <li>14. The knowledge of the Islamic bank's customer service employees is reliable.</li> <li>15. I am certain that I am offered utmost confidentiality by the Islamic bank is safe.</li> <li>16. Politeness is always practiced by the customer service employees.</li> <li>17. The service provider sufficiently supports the customer service employees, which inspires them to perform tasks excellently.</li> <li>18. Distinctly individualized attention is provided by the Islamic bank to customers.</li> <li>19. The Islamic bank always considers customers' utmost welfare.</li> <li>20. Customers' particular requirements are easily and fully comprehended by the customer service employees.</li> <li>21. Individualized attention is offered by the customer service employees.</li> <li>22. The location and operating hours of the Islamic bank are convenient for all the customers.</li> </ol>	Parasuraman et al. (1988)
4	Trust	<ol style="list-style-type: none"> <li>1. The service of my present Islamic bank service is trustworthy.</li> <li>2. The services of my present Islamic bank services are reliable.</li> <li>3. The billing system used by my present Islamic bank services is trustworthy.</li> <li>4. The services of my present Islamic bank services are trustworthy because I certain that the company would not commit fraud against me.</li> <li>5. The concern of my present Islamic bank service with regard to customers' welfare makes the bank reliable.</li> <li>6. I am more confident when employing my Islamic bank service.</li> <li>7. My Islamic bank helps me in completing my transactions successfully.</li> <li>8. All the capabilities that I look for in a bank are exhibited by my Islamic bank.</li> </ol>	Aydin & Ozer, (2005), Li et al. (2006).

### 4.3 Data collection

Data were collected through a survey on different Islamic bank branch customers in Kuala Lumpur, Malaysia. Kuala Lumpur has been among the fastest growing metropolitan regions in the country in terms of population and economy. An appropriate research design is essential in determining the type of data, data collection technique, and sampling methodology to achieve the research objectives (Burns & Bush, 2003). Thus, the present study employed a quantitative approach. Survey was the basic research design utilized in this study. The responses were measured using a Likert scale that ranges from 1 = strongly disagree to 5 = strongly agree.

### 4.4 Factor Analysis

One of the significant data analysis methods used to comprehend the underlying dimensions or proposed dimensionality of variables in a recommended model or correlations during an actual investigation is factor analysis (Hair et. al 2010). Before conducting factor analysis, the items were classified into five domains: loyalty, satisfaction, service quality, and trust. Factor analysis was run using principle component analysis according to the items in each domain. The cut-off value for the factor loadings was set at a minimum of >0.5 based on the recommendations from the literature (Bearden et al, 2001; Blankson & Kalafatis, 2004; Grace, 2005; Hair et al., 2006; Tabachnick & Fidell, 2007).

### 4.5 Reliability Test

Cronbach's alpha was used to test the consistency of the instrument employed in this research. A minimum reliability of 0.50 was adopted based on the suggestion by Hair et al. (2010).

## 5. Findings and Discussion

The following sections summarize the findings. The general profile of the respondents and the results of the factor analysis and reliability test are described. Both theoretical and managerial implications are also discussed.

### 5.1 Profile of the Respondents

One hundred questionnaires were distributed to collect data. However, only 70 completed questionnaires were retrieved. Thus, a 70% response rate was generated. Table (2) presents the details that pertain to the profiles of participants.

**Table 2: Profile of the Respondents**

Variables	Categories	N	(%)
Gender	Male	37	52.9
	Female	33	47.1
Age	18–25	19	27.1
	26–35	20	28.6
	More than 36	25	35.7
	Missing	6	8.6
Marital Status	Single	41	58.6
	Married	27	38.6
	Divorced	2	2.9
Academic qualification	SPM	4	5.7
	STPM	1	1.4
	Diploma	8	11.4
	First degree	29	41.4
	Master's degree	18	25.7
	PhD	9	12.9
	Missing	1	1.4
Islamic banking services used (types of accounts)	Savings	53	75.7
	Financing	10	14.3
	Investment	7	10.0
Experience in using Islamic banking services	Less than one year	8	11.4
	1–3 years	20	28.6
	4–6 years	28	40.0
	More than 7 years	14	20.0

Table (3) shows the factor loading test results for each factor. The table illustrates that the Cronbach's alphas of the parameters all exceed the minimum acceptability threshold of  $\alpha > 0.50$ . Hence, the high dependability of all the parameters is indicated.

**Table 3: Factor loading and reliability of factors**

Factor	Items Loading greater than 0.5	Loading	Reliability
Loyalty	<ul style="list-style-type: none"> <li>I would encourage relatives and friends to use the service offered by my current Islamic bank.</li> <li>I would definitely recommend my current Islamic bank to someone who seeks my advice.</li> <li>I intend to use more services offered by my current Islamic bank in the next few years.</li> <li>I say positive things about my current Islamic bank to the others</li> <li>I consider my current Islamic bank as my first choice when using the services I need.</li> <li>I would continue using my current Islamic bank services even if the prices increased somehow increase.</li> </ul>	0.797 0.764 0.737 0.709 0.702 0.590	0.802
Satisfaction	<ul style="list-style-type: none"> <li>This Islamic bank is satisfactory.</li> <li>My expectations are completely fulfilled by my Islamic bank.</li> <li>Transacting with this Islamic bank has been an excellent experience.</li> <li>My pre-transaction expectations are satisfied by my Islamic bank.</li> <li>In my opinion, my Islamic bank is customer oriented.</li> <li>If I were to choose, then I would decide in favor of my current Islamic bank again.</li> <li>Choosing this Islamic bank has been an excellent decision.</li> </ul>	0.843 0.819 0.794 0.757 0.729 0.711 0.509	0.863
Service quality	<ul style="list-style-type: none"> <li>The customer service staffs are knowledgeable.</li> <li>I am always served promptly by the customer service employees.</li> <li>The knowledge of the Islamic bank's customer service employees is reliable.</li> <li>I am always served promptly by the customer service employees.</li> <li>The services of the Islamic bank are always performed correctly even at the initial step.</li> <li>Customers' particular requirements are easily and fully comprehended by the customer service employees.</li> <li>The service provider sufficiently supports the customer service employees, which inspires them to perform tasks excellently.</li> <li>Individualized attention is offered by the customer service employees.</li> <li>The Islamic bank provides the promised services promptly.</li> <li>Courtesy with customers is always practiced by the customer service employees.</li> <li>The Islamic bank is genuinely concerned with solving the problems I encounter.</li> <li>The Islamic bank customer services staffs are well dressed and appear neat.</li> <li>The Islamic bank has the latest equipment and outlook.</li> <li>The Islamic bank provides the promised services promptly.</li> <li>The Islamic bank does not renege on its promise with regard to when services will be performed.</li> <li>Politeness is always practiced by the customer service employees.</li> </ul>	0.734 0.669 0.631 0.611 0.605 0.601  0.578 0.572 0.570 0.560 0.545 0.543 0.527 0.525 0.508 0.505	0.874
Trust	<ul style="list-style-type: none"> <li>The services of my present Islamic bank services are reliable.</li> <li>The concern of my present Islamic bank service with regard to customers' welfare makes the bank reliable.</li> <li>The services of my present Islamic bank services are trustworthy because I am certain that the company would not commit fraud against me.</li> <li>All the capabilities that I look for in a bank are exhibited by my Islamic bank.</li> <li>The service of my present Islamic bank service is trustworthy.</li> <li>My Islamic bank helps me in completing my transactions successfully.</li> <li>The billing system used by my present Islamic bank services is trustworthy.</li> </ul>	0.828 0.749  0.737 0.737 0.727 0.633 0.554	0.841

Table (4) illustrates each factor's reliability test results. The table shows that the Cronbach's alphas of the parameters all exceed the minimum acceptability threshold of  $\alpha > 0.50$ . Hence, the high reliability of the parameters is indicated.

**Table 4: Reliability Test**

NO.	Variables	No. of items	Cronbach's alpha
1	Loyalty	6	0.802
2	Satisfaction	7	0.863
3	Service Quality	16	0.874
4	Trust	7	0.841

**Table 5: Pearson Correlations of Variables**

		Loyalty	Satisfaction	Service quality	Trust
Loyalty	Pearson Correlation	1	0.652**	0.602**	0.543**
	Sig. (2-tailed)		0.000	0.000	0.000
Satisfaction	Pearson Correlation	0.652**	1	0.718**	0.510**
	Sig. (2-tailed)	0.000		0.000	0.000
Service Quality	Pearson Correlation	0.602**	0.718**	1	0.725**
	Sig. (2-tailed)	0.000	0.000		0.000
Trust	Pearson Correlation	0.543**	0.510**	0.725**	1

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

Based on Table (5), a strongly significant and positive correlation exists between loyalty and satisfaction. Therefore, a relatively strong significant and positive correlation also exists between loyalty and service quality, between loyalty and trust.

## 5.2 Hypothesis Testing

Regression analyses were performed to analyze the effect of the different parameters and customer loyalty. The standardized coefficient beta ( $\beta$ ) and  $R^2$  are bases for the regression analysis, which either confirmed or refuted the hypotheses. The hypotheses were tested through regression analyses. All the parameters in this analysis were regarded as independent variables, whereas customer loyalty was defined as a dependent variable. Tables (6) and (7) illustrate the correlation between the dependent and independent variables.

**Table 6: Model Summary**

Model	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.488	0.461	2.49714

a. Predictors: (Constant), Service quality, Satisfaction, Trust.

Table (6) shows that the model was 46.1% of the variation in customer loyalty (adjusted R-squared: 0.461). Table (7) shows the results of the statistical test performed to determine the validity of the hypotheses through which the relationship among the various variables can be addressed.

**Table 7: Multiple regression results**

Model	B	Beta	t	sig
(Constant)	2.649			
Satisfaction	0.459	0.460	0.876	.385
			3.320	.002
Service Quality	0.038			
		0.100	0.580	.564
Trust				
	0.239	0.235	1.679	.099

a. Dependent Variable: Loyalty

This table indicates that satisfaction is the only variable that considerably affects customer loyalty ( $\text{Beta} = 0.460$ ,  $p \leq 0.05$ ). The positive effect of satisfaction on customer loyalty is verified. Thus, the positive effect of customer satisfaction on customer loyalty is proven. Therefore, the other two hypotheses are rejected according to the beta and  $P \geq 0.05$ . The positive relationship between satisfaction and customer loyalty indicates that higher customer satisfaction on Islamic banks means higher tendency to perceive excellent services and benefits from this relationship by using more offers and services. This finding is in accordance with those of other empirical studies, which found that satisfaction influences customer loyalty (Caruana, 2002; Zacharias et al., 2009; Afzal, 2013).

## 6. Conclusion

The effect of customer satisfaction, service quality, and trust on customer loyalty in Malaysian Islamic banking is determined by examining the correlation between customer loyalty and customer satisfaction, customer service quality, and customer trust. The multiple regression results show that only satisfaction is completely related to customer loyalty. Satisfaction reveals a significantly positive influence on customer loyalty.

In conclusion, this study provides a reference that can be used by Malaysian Islamic bank management groups to enhance satisfaction by placing prime consideration on customers. In addition, this reference can be used in revising bank strategies to strengthen customer loyalty, retain existing customers, and attract potentially loyal ones.

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