Impact of Service Quality on Customer Loyalty and Customer Satisfaction in Islamic Banks in Malaysia.

Abstract

Purpose: The main emphasis of the current study was to examine the impact of service quality on customers' satisfaction and loyalty in the context of Islamic banks in Malaysia. Although the dimensions of service quality (i.e. tangibility, responsiveness, and compliance) and customer satisfaction has been considered as moderating variable to analyse its influence on customer loyalty.

Design/Method: The current research is quantitative in nature which has been conducted by using a survey questionnaire based on the convenience sampling method. Data has been gathered from 300 customers of different Islamic banks in Malaysia. For data analysis, SPSS was used, and correlation was run to examine the strength of relationships among variables. Additionally, regression and moderating analysis were also developed to analyse the impact of service quality dimensions on customer loyalty.

Findings: The key findings revealed that average respondents showed an "Agree" response in the dimensions of service quality. Results in correlation analysis indicate that there is a significant positive relationship between all variables. Additionally, regression analysis has also demonstrated that tangibility and compliance have a significant positive influence on customer loyalty. Similarly, from moderating analysis, it has also been supported that tangibility and compliance moderating with customer satisfaction have a positive influence on customer loyalty. Therefore, it is essential for Islamic banks to ensure the tangibility and compliance in their service quality.

Implications: The findings in the current research can be used by the policymakers in the context of Islamic banks to overall enhance the quality of customer's services.

Introduction

The Quran and Sunnah guided the economy and financial system (Khan & ZAHD, 2019). Interest in any transaction is banned in the Islamic financial system. Allah SWT mentioned that trade is permitted, but usury is forbidden (Al-Baqarah: 257). The modern banking system uses interest in payments, receipts, and transactions, which is prohibited in Islamic banking (Sobol, 2016). The

traditional and conventional banking systems relay and emphasize the time and money principle. Still, the Islamic system highlights the risk-sharing techniques and methods like Murabaha, ijarah, salam, mudaraba, and istisna derived from the Quran and Sunnah (Khan & ZAHİD, 2019).

In the last 20 years, the world has given attention to the role and significance of Islamic banking. The strength of the financial system is in the initial stages of the traditional banking system (Fida et al., 2020). The report shows that Islamic banking has achieved the target of 1.5 trillion USD (Islamic Financial Services Board, 2018). The Islamic Financial Services Board (2018) predicted that Islamic banking would reach a target of 3.2 trillion USD. The Middle East and Asia are the Islamic banking hubs, accounting for 80% of the total amount, with the rest of the world contributing the remaining 20% (Islamic Financial Services Board, 2018). Islamic banking is growing at a faster and more positive rate than traditional and conventional banking systems around the world. Saudi Arabia controls more than half of the Islamic banking market (Fida et al., 2020). Malaysia started Islamic banking in 1983 when they established Islam Malaysia Berhad. They started the bank with the b objective of helping the Muslims in Hajj and saving their money, and carrying out transactions interest-free.

Research has determined the relationships between service quality, customer satisfaction, and customer loyalty. Companies are working hard to achieve customer satisfaction and customer loyalty to their brand and company by providing high-quality services to consumers (Oh & Kim, 2017). Customer loyalty and satisfaction refer to the organization's long-term relationship with the consumer. In the banking industry, the critical consideration is the service quality and characteristics that help the banks satisfy the customers and maintain the connection with them (Dahari, Abduh & Fam, 2015). Quality service impacts customer satisfaction and loyalty in Islamic banking and has a positive relationship as in any other business. Previously, the impact of quality service on customer loyalty and customer satisfaction in Islamic banking in Oman has been studied. The findings show that they are all interdependent and that quality service plays a significant role in customer satisfaction and loyalty in Islamic banking (Fida et al., 2020).

The research includes examining the different dimensions and aspects of quality of service in Islamic banks. As a result, the influence and impact of the service quality on the customer service in the Islamic bank of Malaysia have been determined. In addition, the researchers analyzed the mediating role of customer satisfaction on customer loyalty and service quality in the Islamic bank of Malaysia.

Following are the aims and objectives of the research:

- First, to examine the dimensions of service quality in Islamic Banks.
- To determine the influence of service quality on customer loyalty in Islamic banks of Malaysia.
- Third, empirically analyze customer satisfaction's moderating role on service quality and customer loyalty dimensions.

Literature Review and Hypothesis Development

Service quality (SQ) is a crucial component for boosting consumer satisfaction (CS) and consumer loyalty (CL) in today's extremely competing industrial world. The level of SQ that a company provides is evaluated in relation to the demands of its consumers. Consumers buy services to meet particular needs. In the Islamic banking industry, SQ is frequently considered to assess how well banking services are performed (Janahi & Al Mubarak, 2017). The banks know that clients would remain loyal if they offer better values and higher-quality services than other rivals. The framework for measuring SQ is a specialized form of SERVQUAL that includes five elements of SQ: dependability, responsiveness, empathy, assurance, and tangibility. SQ is crucial to fulfilling crucial objectives, such as creating loyalty, increasing satisfaction, and building trust; these are considered critical components of Islamic banking's profitability and sustainability (Ali & Ibrahim, 2020). Analysis revealed that in the banking industry of Oman, SQ factors including tangibility, responsiveness, dependability, assurance, and empathy significantly affect CL by CS. The outcome also revealed a correlation between CL and CS.

Saravanakumar & Jayakrishnan (2014) refers to the tangibility, value and meaning of the services delivered as the physical factor of SQ, which encompasses the company's physical infrastructure, surrounding physical factors, and communicative tools, etc. According to Mansori & Ismail (2014), the loyalty of higher education service providers is also significantly impacted

by the tangible SQ. Furthermore, one of the studies conducted by Fida & Singh (2020) found an association between the SQ tangibility and CL, The majority of participants agreed that the Omani banks had appropriate tangible assets, which ranged from 3.50 to 4.49 out of 5 and were viewed as agreeable. In addition, the respondents provided the maximum mean score, 4.03, out of 5, indicating that the Omani bankers had sufficient tangible assets. This was supported by 3.98 mean scores that indicated that the bankers have adequate capacity and are well-organized and roomy. This would mean that the banking sector in Oman has given proper attention to the physical needs of its clients. In addition, Ismail & Yunan's (2016) analysis found that SQ tangibility (tangible nature of services) has a significant and positive effect on CL. They discovered that Tangibility lowers the customer's risks and uncertainties while ensuring quality services, thus increasing the CL. Based on the above literature analysis, the following hypothesis has been developed.

H1= Tangibility has a positive and significant influence on customer loyalty in the Islamic bank of Malaysia.

Responsiveness is also another indicator of SQ that primarily assesses how willingly and rapidly the banking system can reply to consumer needs. The capability to assist consumers and deliver fast services is responsiveness. Moreover, the idea of how quickly employees would respond to consumer requirements and complaints is covered in this dimension (Saad & Mlaker Kac, 2022). Moreover, Rahaman & Mamoon's (2020) assessment of Bangladeshi banking revealed that responsiveness has been seen as a favourable predictor of CL and CS. It suggests that banking facilities should be more accommodating and that banking institutions should focus so much on consumers' requirements.

Furthermore, Fida & Singh (2020) discover that, overall, all responses are in agreement with the five questionnaire assertions. The sentence "The staff members demonstrate an ability to respond quickly to consumers' needs" has an overall mean of 3.8167 out of 5, followed by the statement "quickly respond to complaints," which has an overall mean of 3.8000 out of 5. Moreover, the staff consistently provides quick service (3.750), and they address consumer issues even beyond working time (3.7417). The prompt fulfilment of consumer requests is the last item on the list (3.6833). These results demonstrate the banks' responsiveness in responding to consumer requirements and their desire to work in the best interests of the consumer, which ultimately increases CL. Furthermore, Ali & Anwar (2021), in their analysis, revealed that responsiveness has a substantial and optimistic influence on CS and CL. This finding suggests that responsiveness is crucial for boosting an organization's profit margins since being quick and accurate would then result in more satisfied consumers. Confidence, loyalty, and satisfaction are all impacted by this condition. Based on the empirical evidence. Hence, the following hypothesis has been developed.

H2=Responsiveness has a significant influence on customer loyalty in the Islamic bank of Malaysia.

Compliance with Shariah implies following Islamic laws depending on the Qur'an and Hadith. Consumer preference for Islamic banking is mostly influenced by shariah compliance. Shariah compliance supports consumers' trust in Islamic banking dependability. Shariah strengthens the banking sector while protecting customers and interests. Ahmed et al. (2021). Found that poor service quality and noncompliance with Shariah-compliant rules can negatively affect customers' opinions and loyalty to Islamic banking operations. The association among Shariah compliance and SQ with CL needs to be incorporated by banks if they want to enhance CL (Saqib & Zafar, 2016). Hence based on the above literature, the following hypothesis has been developed.

H3=Shariah Compliance has a significant influence on customer loyalty in the Islamic bank of Malaysia.

One of the studies conducted by Nyabundi & Odondo (2021) revealed that tangibility account for 63.1 per cent of the variance in CL. This illustrates that tangibility and CL by CS have a substantial correlation. CS was affected by enhancement intangibility. Furthermore, Ismail & Yunan (2016) argue that strong tangible SQ increases CS, which in turn contributes to CL and makes companies more profitable. Superior SQ can be attained by recognizing service issues and developing metrics for service behaviours and CS. Hence, on the basis of empirical findings, the following hypothesis has been created.

H4=Customer Satisfaction moderates the positive relationship between tangibility and customer loyalty.

Ye & Lee (2017) discovered that profitability is influenced by the association between loyalty and satisfaction. Highly satisfied consumers are more devoted to a firm. Revenues and profits rise as a result of a devoted consumer. CL and responsiveness to SQ are mediated by CS. Moreover, Lagat & Uyoga (2019) found that when consumers seem to be more responsive to the quality of service, they generally feel more satisfied. It has been demonstrated that the association between customer responsiveness and satisfaction levels is mediated by perceived service excellence. Furthermore, Ibojo & Dunmade (2016) concluded that a 1 per cent change in CS would result in a 61.7 % change in CL. Moreover, there is a substantial correlation between CS and CL. In light of this, the investigation arrived at the conclusion that CS influences CL. Hence the following hypothesis has been developed.

H5= Customer Satisfaction moderates the positive relationship between responsiveness and customer loyalty.

CS leads to CL and facilitates bankers in keeping their consumer's interests, which also boosts profitability (Okumus and Genc, 2013). CL was associated with CS, which in turn is correlated to a firm's financial productivity. According to Aisyah (2018), Shariah compliance had an impact on CL and satisfaction when it comes to Islamic banking operations. Amin (2013) found that CS with Islamic banking operations acts as a mediated factor between SQ and shariah-

compliant, which in turn ultimately affects CL. Moreover, their study's results indicated that whenever consumers have concerns about Islamic banking operations, they are less probably to become loyal. Muslim customers usually favour banks that abide by Shariah standards and offer superior services (Janahi & Al Mubarak, 2017). Furthermore, to promote CS with Islamic banking operations, SQ and Shariah-compliant could be associated. The following hypothesis has been developed based on the above literature review analysis.

H6= Customer Satisfaction moderates the positive relationship between Shariah compliance and customer loyalty.

Conceptual Framework
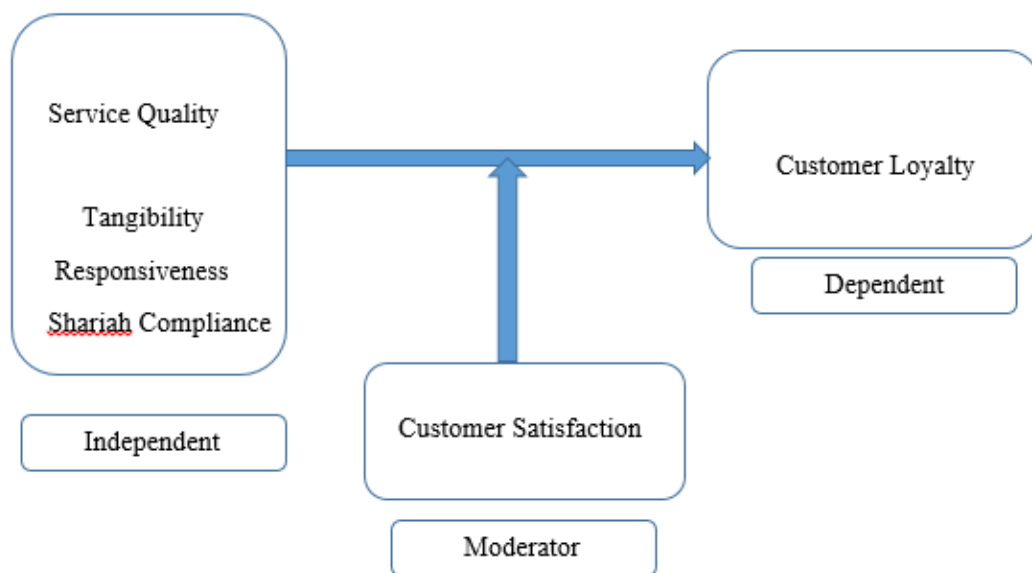
Figure 1 Conceptual Framework

Methodology

Research philosophy focuses on the foundational principles which any scholar may select to drive their overall analysis process (Ryan, 2018). The investigator in the existing examination employed a positivist philosophy. Moreover, the positivist approach facilitates the analyst to discriminate between factual and subjective material in published works, and only those components that could be confirmed by quantitative findings were employed to build the literature assessment portion. The positivist approach also helped the researcher eliminate individual biasness by concentrating on empirical facts that were frequently checked for authenticity and reliability.

The investigator utilized a quantitative research design and focussed on quantitative information in the existing investigation to come up with the outcomes (Rich & Willnat, 2018). The quantitative design initially employed the literature to create the foundations for the data. Furthermore, this material was used to develop the questionnaire for the investigation. Moreover, implementing a quantitative methodology permitted the investigator to employ analytic methods based on mathematical and statistical facts, which was crucial for retaining the highest possible level of objectivity in the data and results. The employment of quantitative design might decrease psychological and sociological discrimination. The methodologies adopted to perform an assessment are referred to as the research approach (Young & Paradis, 2020). The researcher chose a deductive approach because the existing assessment was based on a quantitative investigation design. Hypotheses have been developed applying a deductive approach in the context of previous studies and also the goals and purposes of this assessment.

The current research is based on the Islamic banks of Malaysia. Therefore, primary quantitative research has been used through using a closed-ended questionnaire. For data collection, Non-probability (convenient) sampling method has been used, as it is easy and less time-consuming. Referring to the population and sample size, information has been gathered from 300 customers of different Islamic banks, including both males and females. The questionnaire that has been used consists of two parts demographic and key dimensions of service quality. All questions were close-ended based except demographic questions, and the five-point Likert scale was used that fell in the range of 0 Strongly agree to 4 strongly disagree. For data analysis, SPSS software was used, and correlation was used to examine the strength of relationships among variables. Additionally, regression and moderating analyses were also developed to analyze the impact of service quality dimensions on customer loyalty. Further, the hypothesis has also been developed and tested based on the findings in descriptive, correlation, and regression analysis.

Results and Analysis

Descriptive Statistics Analysis

Table 1 - Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Tangibility	300	0	4.0	1.402	.9700
Responsiveness	300	0	3.0	1.085	.6734
Compliance	300	0	4.0	1.360	.9073
Customer Loyalty	300	0	4.0	1.500	.9789
Customer Satisfaction	300	0	3.0	.968	.9152
Valid N (listwise)	300				

Descriptive statistics were used as a tool to examine the characteristics of service quality dimensions involved in the current study. Referring to the above table, it can be seen that the total number of observations is found to be 300, which is denoted by "N". Referring to the mean value, the mean value of tangibility is found to be 1.402, responsiveness is 1.05, compliance is 1.360, customer loyalty is 1.5, and customer satisfaction is .968. Thus, it implies that an average number of customers are inclined to agree. In addition, the standard value of these variables is estimated to be 0.970, 0.673, 0.907, 0.978, and 0.915, respectively, which demonstrates that participants are inclined to remain toward agreeing.

Correlation Analysis

Table 2 - Correlation Analysis

		Tangibility	Responsiveness	Compliance	Customer Satisfaction	Customer Loyalty
Tangibility	Pearson Correlation	1	.658**	.977**	.022	.974**
	Sig. (2-tailed)		.000	.000	.705	.000
Responsiveness	Pearson Correlation	.658**	1	.697**	.691**	.644**
	Sig. (2-tailed)	.000		.000	.000	.000
Compliance	Pearson Correlation	.977**	.697**	1	.028	.964**
	Sig. (2-tailed)	.000	.000		.631	.000
Customer Satisfaction	Pearson Correlation	.022	.691**	.028	1	.010
	Sig. (2-tailed)	.705	.000	.631		.859
Customer Loyalty	Pearson Correlation	.974**	.644**	.964**	.010	1
	Sig. (2-tailed)	.000	.000	.000	.859	

N	300	300	300	300	300

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

Pearson Correlation analysis has also been used to determine the association among variables involved in the current study. Referring to customer loyalty, there is a positive and strong correlation between customer loyalty with tangibility and compliance, as coefficient values are .974 and .964, respectively. In addition, customer loyalty also has a positive and moderate relationship with responsiveness, as the coefficient value is .644. Moreover, customer loyalty has also a positive but weak association with customer satisfaction. On the contrary, customer satisfaction with respect to tangibility has a weak and positive correlation, as the coefficient value is .022. In addition, there is a positive and moderate association between customer satisfaction and responsiveness. Lastly, compliance has also a positive but weak association with customer satisfaction.

Linear Regression Analysis

Table 3 - Regression Analysis

a. Dependent Variable: Customer Loyalty

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	***0.111	0.024		4.545	0.000
	Tangibility	***0.700	0.061	0.693	11.469	0.000
	Responsiveness	-0.033	0.026	-0.023	-1.255	0.211
	Compliance	***0.326	0.068	0.302	4.763	0.000
R Squared		0.952		F		1963.414
Adjusted R-Squared		0.952		Sig		0.000
*Significant at 10%; **Significant at 5%; ***Significant at 1%						

Linear regression has been used to determine the influence of dimensions of service quality on customer loyalty. The result shows that the value of F is 1963.414, which is significant at 0.000. The value of R square is recorded as 0.952, which implies that a 1 unit change in the dimensions of service quality will cause a 95.2% change in the dependent variable (customer loyalty. More so, looking at the individual dimensions of service quality, it can be seen that tangibility has a positive and significant influence on customer loyalty, as the coefficient value is found to be 0.11 and P = 0.000 < 0.01. Similarly, Compliance has also a positive and significant influence on customer loyalty in Islamic banks of Malaysia. In contrast, responsiveness has a negative but insignificant influence on customer loyalty, as the coefficient value is found to be negative (i.e., 0.033), and P = 0.211 > 0.10. Thus, it is noteworthy that tangibility and compliance is one of the major dimension of service quality in Islamic Banks in Malaysia.

Moderating Regression Analysis

Table 4 - Moderating Analysis

a. Dependent Variable: Customer Loyalty

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	***1.275	0.058		22.144	0.000
	Tangibility * Customer Satisfaction	**0.181	0.223	0.335	0.811	0.042
	Responsiveness * Customer Satisfaction	***-0.547	0.063	-1.007	-8.749	0.000
	Compliance * Customer Satisfaction	**0.584	0.249	1.050	2.345	0.020
R Squared		0.389		F		62.757
Adjusted R-Squared		0.383		Sig		0.000
*Significant at 10%; **Significant at 5%; ***Significant at 1%						

In the above model, customer satisfaction has also been considered as a moderator variable to analyze its influence on customer loyalty. Referring to the value of F, it has been recorded as 62.757, which is significant at 0.000, which depicts that model is fit and appropriate for analysis. The value of R square is recorded as 0.389, which implies that 1 95.2% changes in the dependent variable (customer loyal caused by changes in moderating dimensions of service quality. Further, by looking at each dimension that has been moderated by customer satisfaction, it is noteworthy that customer satisfaction moderating with compliance has a positive and significant influence on customer loyalty, as $B = 0.584$ and $P = 0.020 < 0.05$. In addition, customer satisfaction moderating with tangibility has also been found to be positive and significant, as $B = 0.181$, and $P = 0.041 < 0.05$. In contrast, customer satisfaction moderating with responsiveness has a negative and significant effect on the customer loyalty, as $B = -0.547$, and $P = 0.000 < 0.05$.

Discussion and Hypothesis Summary

In the current research, the main objective was to analyze the factors of service quality and how they influence customers' loyalty and satisfaction in the context of Islamic banks in Malaysia. However, statistical tools, i.e. correlation, regression, and moderating regression analyses, were used in this study to test the hypothetical statement. Although, findings in the current study revealed that there is a positive relationship between tangibility and customer loyalty. Similarly, it has also been evident in the previous studies likely, that Ismail & Yunan (2016) in their study found that SQ tangibility has a positive influence on the effect on CL, as it lowers the uncertainties and risk for the customers. Further, compliance with sharia is another crucial success factor for quality services of Islamic banking, and it has a positive influence on customer loyalty. Likely, Ahmed et al. (2021), in their study, postulated that compliance with the sharia system of Islamic banking enhances the trust and interest of the customer, which leads to customer loyalty and customer satisfaction.

Further, while referring to the dimension of service quality, it has also been analyzed through moderating variables (i.e. customer satisfaction). Findings in the current study show that there is customer satisfaction positively moderates the relationship between tangibility and customer

loyalty and compliance with sharia and customer loyalty. Similarly, it has also been found in previous studies that customer satisfaction enhances due to the service provided by the bank, and as a result, it leads to an increase in the loyalty of the customers (Mansori & Ismail, 2014). Moreover, Fida & Singh (2020), in their study, has also revealed that consumers mostly prefer banks that are compliant with the sharia system and more effective in accessibility, tangibility, and responsiveness. However, the following table represents a summary of six hypotheses from which 3 hypothesis has been accepted, and three hypotheses have been rejected based on the results.

Table 5 - Hypothesis Summary

	Hypothesis Statement	Accepted/Rejected
H1:	Tangibility has a positive and significant influence on customer loyalty in the Islamic Bank of Malaysia.	Accepted
H2:	Responsiveness has a positive and significant influence on customer loyalty in the Islamic Bank of Malaysia.	Rejected
H3:	Sharia Compliance has a positive and significant influence on customer loyalty in the Islamic Bank of Malaysia.	Accepted
H4:	Customer satisfaction moderates the positive relationship between tangibility and customer loyalty in the Islamic Bank of Malaysia.	Accepted
H5:	Customer satisfaction moderates the positive relationship between responsiveness and customer loyalty in the Islamic Bank of Malaysia.	Rejected
H6:	Customer satisfaction moderates the positive relationship between sharia compliance and customer loyalty in the Islamic Bank of Malaysia.	Accepted

Conclusion and Recommendation

The main purpose of this study was to examine the impact of service quality on customer loyalty and customer satisfaction specific to the Islamic banks in Malaysia. However, the primary quantitative method was opted by using a close-ended survey questionnaire, and information was gathered from 300 customers of different Islamic Banks in Malaysia. Although, findings revealed that tangibility and compliance with the sharia system is an essential dimension of quality service in Islamic banks, and it has a positive influence on customer loyalty. Similarly, this relationship has also been affirmed by previous studies, which emphasized that dimensions of service quality (i.e. tangibility, accessibility, responsiveness, and compliance) enhance the level of satisfaction and loyalty among customers. Further, customer satisfaction has also been considered as a moderating variable to analyze its influence on customer loyalty. Results revealed that tangibility and compliance moderating with customer satisfaction have a positive influence on customer loyalty. Thus based on the findings, it can be said that tangibility and compliance are one essential

factor of service quality. Hence, it is essential for the banking sector, especially Islamic banking, to mainly focus on tangibility and compliance factors to overall enhance their service quality.

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Appendix

Demographics Information

Gender

      0   = Male
      1   = Female

Age

      0   = 18 - 25
      1   = 26 - 35
      2   = 36 – 45
      3   = 46 and Above

Survey Questionnaire

Variable/ Codes	**0**	**1**	**2**	**3**	**4**
Independent Variables	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Tangibility					
Proper tangibles (i.e. physical offices, staff, and materials) is essential factor of banking services.					
Your bank provide an appropriate tangibility services.					
Responsiveness					
Responsiveness is one of the critical dimension of service quality in Islamic Banks.					
Effectiveness Responsive service helps in enhancing the satisfaction and loyalty of the customers.					
Sharia Compliance					
Compliance with standards sets are essential to increase the satisfaction and loyalty of the customers.					

At what extent do you agree that Islamic banks are in compliance with sharia system?					
Moderating Variable					
Customer Satisfaction					
At what extent are you satisfy with the services of Islamic bank?					
Adoption of service quality dimensions in Islamic banking sector can help in enhancing the customer satisfaction.					
Dependent Variable					
Customer Loyalty					
Customer loyalty depends on the services provided by the banks.					
There a strong association between customer satisfaction and customer loyalty.					