

# The effect of service quality to customer satisfaction and loyalty in Sharia Bank

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**ABSTRACT:** Products and prices competition within sharia and conventional banks have an impact on commoditization. To gain market share, sharia banks use halal product as differentiation and service strategy to retain customer through satisfaction to increase loyalty. Customer loyalty expected to increase share from existing customers through up and cross selling, and attract new customers through word of mouth and recommendations. This research aims to analyze the relationship among those variables: service quality with CARTER model, customer satisfaction and customer loyalty. Primary data from 300 respondents analyzed using SEM to proof the hypotheses after the validity and reliability testing was performed. All hypotheses were positive and significant. Theoretical and practical implications were also discussed.

*Keywords:* customer loyalty, service quality, customer satisfaction

## 1 INTRODUCTION

Sharia bank only has a small market share, which is still below 5%. It makes sharia banks should struggle to increase it, considering that 80% of Indonesian population are Muslims.

Product differentiation and service quality are two strategies that are commonly used to increase sales of service business to gain market share, because it is directly related to the behavior of purchase intention and consumer satisfaction (Huang et al. 2014; Cronin & Taylor 1992; Siddiqi 2011).

Service quality also can create value for customers and company (Lovelock et al. 2013), as well as could trigger customer loyalty (Polyorat & Sophonsiri 2010; Siddiqi 2011; Chang & Tu 2004), in the form of word of mouth (Shirsavar et al. 2012).

Othman & Owen (2001) proposed different service quality measurement for sharia banks considering there are some differences with conventional banks as well as for service quality in general. The most critical difference is in the product characteristics, where the products of Islamic banks must comply with Islamic law or regulation. That is why it needs to add compliance dimension measurement, so it becomes six dimensions compliance, assurance,

reliability, tangible, empathy, and responsiveness, often referred to carter.

## 2 LITERATURE REVIEW

### 2.1 Service quality

Service quality is an overall assessment of how to treat or serve the customer (Siddiqi 2011). Good service quality could provide benefits or value to customers (Lovelock et al. 2013), and influence buying behavior (Jang & Namkung 2009). Those findings are in line with Fornell (Huang et al 2014) that service quality has a significant impact on the purchase and repurchase intentions (Molinari et al. 2008).

The repurchase is one form of customer loyalty (Chadha & Kapoor 2009), that takes place due to satisfaction. This finding was reinforced by Kuo et al. (2009) that state service quality positively related to the value and satisfaction felt by the customer. Some research results also show that service quality influence customer satisfaction (Li 2013; Razapi et al. 2012; Ahmed 2010; Bei & Chiao 2001). Polyorat & Sophonsiri (2010) study show that in the restau-

rant, service quality also influences satisfaction. In Islamic banking services, Rehman (2012) research shows similar results. In accordance with those research findings, we propose hypothesis, H1: Service quality has a positive effect on customer satisfaction.

## 2.2 Customer Satisfaction

Customer satisfaction refers to a result of the assessment based on the purchase experience of the goods or services (Luo & Bhattacharya, 2006). ). If the condition is actually the same or more than expected then satisfaction will be obtained. Satisfaction has an important role for the company because it has been proven to affect customer loyalty in various business sectors in various places, such as Li (2013) at universities in Taiwan, Avkiran et al. in Siddiqi (2011) on banking services, Chen & Quester (2006) at retail in Taiwan, Chang & Tu (2004) at shopping centers in Taiwan, as well as the findings of Bennett & Thiele, 2004 and; Kotler & Armstrong in Mandhachitara & Poolthong (2011); Hasket et al. (in Siddiqi 2011). Bolton in Luo & Bhattacharya (2006) also stated that customer satisfaction as a result of service quality is the best defense against competition. From the study, we propose hypothesis. H2: customer satisfaction positively affects loyalty

## 2.3 Customer loyalty

Loyalty is a favorable attitude towards a particular brand that can encourage repeat purchases of products, service or stores (Chadha & Kapoor, 2009), and could serve as a basis for developing sustainable competitive advantage (Dick & Basu in Mandhachitara & Poolthong, 2011). Consequently, loyal customers are positively correlated with the company's business performance (Beerli et al. 2004) for the survival and growth of a company (Kotler & Armstrong in Mandhachitara & Poolthong, 2011), and have an important role for business success (Chaudhuri & Holbrook in Mandhachitara & Poolthong, 2011). As a consequence, customer loyalty can increase business value and attract new customers (Beerli et al. 2004).

Customer loyalty could encourage repeat purchase intention (Anwar & Gulzar 2011; Henkel et al. in Ahmed 2010; Chadha & Kapoor 2009; Turel & Sarengko 2006); repurchases intention (Leecharoen et al. 2014; Caruana 2002; Griffin 2003; Kuo et al. 2009); willingness to pay more (Soeling 2007); recommend others (Soeling 2007; Bames 2003); convey a good word of mouth (Vazifehdust 2014; Wong 2012, Brown et al. 2005; Anderson & Sullivan 1993); which leads to cross as well as up selling as

reference for other parties and makes customers becoming immune to competitors (Griffin 2003).

Thus, it can be said that consumer satisfaction has a significant influence on loyalty (Osman & Sentosa 2012; Chow in Polyorat & Sophonsiri 2010) in the form of repurchase intention-behavior that will impact on profitability (Molinari et al. 2008). In addition to customer satisfaction, service quality can also lead to loyalty (Lin in Huang et al. 2014; Polyorat & Sophonsiri 2010; Ahmed 2010) ) in the form of word of mouth (Li 2013; Shirsavar et al. 2012; Chaniotakis & Lymperopoulos 2009; Molinari 2008; Harrison 2001). ). From these studies, we proposed hypothesis. H3: service quality positively influence on loyalty.

## 3 RESEARCH METHOD

After the data was collected from 300 questionnaires distributed in non-random sampling in several branches of sharia bank in Yogyakarta area, then the validity and reliability testing was done as well as the (Goodness of Fit-GoF) model before the analysis using SEM (Structural Equation Modeling) to test whether or not there a relationship between variables.

## 4 RESULT AND DISCUSSION

### 4.1 Respondent characteristics

Respondents were dominated by young women aged between 20-40 years old with 71% of them work as private employees (0.37 with IDR 3 million monthly income (0.42) and entrepreneur (.22 with IDR 4 million monthly income (0.33). Most of the respondents have been the customers for 2 years (.51) and more than 3 years (.33). Majority of them were also a conventional bank's customer (.72) and only 33% of them are merely a sharia bank's customer. Most of them use the conventional banks as their main bank (.55).

### 4.2 Descriptive Analysis

In general, all items in all dimensions on the quality of service variables are considered good by respondents with an average grade of 2.89. The compliance dimension received the best rating (2.93) with the highest score on margin transparency item (3.08) and the lowest score is profit sharing fairness (2.69). The lowest rated dimension is responsiveness (2.85) where the highest score item (2.99) is the ability to serve well and proper, and the lowest score item (2.7) is the ability to serve promptly.

Customer satisfaction variable having a good score by respondents (2.88), with the highest score (2.93) on items satisfied with the way employees provide services and the lowest (2.77) on marketing information clarity items (brochures etc.).

Customer loyalty is considered high (2.90), where the highest loyalty assessment is given for the item to use BNI Sharia as the main bank (2.97), and the lowest score (2.88) of item will continue to use and convey a positive word of mouth to others.

### 4.3 Hypothesis testing

Validity and reliability testing was conducted before analysis of relationship test between variables by using SEM. The validity testing of Product Moment Correlation shows that all are valid (table not included). Reliability testing uses Cronbach's Alpha, with reliable results. The GoF test uses Amos version 21.0 which produces good results (for CMIN / DF, RMSEA, GFI, AGFI, TLI, CFI).

The results of hypothesis testing to observe the relationship of each research variable are as follows:

Table 1. Relational variable

Relation	Std. Coef	CR	Prob Val- ue	Label
CS $\leftarrow$ SQ	0.280	4.149	0.000	supported
L $\leftarrow$ SQ	0.376	5.348	0.000	supported
L $\leftarrow$ CS	0.285	4.263	0.000	supported

We can see from the above table that the relationship of variables studied show all of the hypothesis have a positive and significant effect, namely: service quality has a positive influence on customer satisfaction; service quality has a positive influence on customer loyalty, and consumer satisfaction has a positive effect on customer loyalty. Similarly, the indirect influence that the quality of service has a positive effect on customer loyalty through customer satisfaction is also proven, as can be seen in table 2 below:

Table 2. Direct and indirect and total effect

	Direct Effect		Indirect Effect		Total Effect	
	CS	L	CS	L	CS	L
SQ	0,280	0,376	-	0,080	0,280	0,456

## 5 CONCLUSION

This research tries to capture one of the key success factors in the banking sector by looking at a linkage or relationship between a variable of perceived ser-

vice quality to customer satisfaction and loyalty. The results of this study are expected to enrich the theory of the relevant variables above, which are generally in line and could strengthen the results of previous studies, in addition to practical purposes.

In sharia banks, product compatibility with Islamic rules and appropriateness to its target market are the added value compared to conventional banks that are expected to attract customers. For that reason, compliance dimension of service quality variable cannot be compromised. In this study, the dimensions of compliance received the highest assessment of the respondents compared to other dimensions.

The profit sharing transparency item got the highest score, whereas profit sharing fairness got the lowest score. So, theoretically and practically there is an indication that the economic motive becomes the main consideration of customers. Therefore, the corporate should look for a business setting, i.e. profit sharing that considered profitable or at least fair by the customer. In addition, the responsiveness dimension got the lowest score, and the weakest item is in the giving service promptly. This should become management attention to improve the performance and or standard operating procedure to accelerate the service process.

Another dimension that needs attention from management is reliability in terms of delivering services like a how to deliver service as promised; and tangible dimensions in the clarity of information contained in the marketing kit, such as brochure etc. Both of these are considered important enough to see a dynamic consumer shift that requires clarity to reduce the risk that the customer might receive. Therefore, clarity and certainty become a critical factor that could affect the trust that can further affect the company's performance.

The results of prior studies indicate that the variables affecting loyalty are customer satisfaction in addition to service quality. These findings also urge the management to always maintain and improve the service quality. The results of this study also indicate that the company has obviously enjoyed customer loyalty reflected in the behavior of customers who will continue to use this bank as its main bank and their willingness to not only convey a good word of mouth but more important also recommend to others. Thereby, as a practical implication, corporate should create and develop the loyalty program and customer relationship management with the expectation to maintain customer loyalty, even improve it to gain market share faster over time.

### 5.1 Limitations and Futures Research

There are some limitations in this study. First, from the title, it can be seen that this study is only applied in the bank industry and also limited to a number of banks and number of the respondent. Second, this study only discusses three related variables namely service quality, customer satisfaction, and loyalty. Nonetheless, there are some other variables also affecting customer satisfaction and loyalty, such as trust, corporate image to name a few.

From those limitations, there are ample of possibilities to expand and or to refine the future research in order to clarify and enforce these research findings for a basis of corporate strategy especially for sharia bank to gain and enjoy higher market share and profit.

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