

# The role of service quality within Indonesian customers satisfaction and loyalty and its impact on Islamic banks

The role of  
service quality

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## Abstract

**Purpose** – Loyalty among customers is the baseline for services to use to grow and sustain their competitive advantage, particularly in the banking industry. There are two primary objectives of this research. First, this study aims to empirically test the Muslim Consumer Service Quality (MCSQ). Second, this study aims to test the mediating effect of Muslim Consumer Satisfaction (MCS) on the relationship between MCSQ and Muslim Consumer Loyalty (MCL) in Indonesian Islamic banks.

**Design/methodology/approach** – The proposed hypotheses were tested by collecting data from 280 Indonesian Islamic customers. The collected data were tested using PLS-Graph 3.0.

**Findings** – The findings indicate that MCSQ (consisting of Islamic values, *Sharia* compliance, honesty, modesty, humaneness and trustworthiness) positively influenced MCS and MCL significantly. Further, the results indicate that MCS partially mediates the influence of MCSQ on MCL.

**Research limitations/implications** – The data were mainly gathered in Indonesia and the model needs to be tested in other contexts. Furthermore, the questionnaire was distributed among the customers of Islamic banks, and future studies could compare it with the customers of conventional banks or dual account (Islamic and conventional bank) customers. Moreover, further studies should compare between the expectations and reality of the delivered services to understand the service quality gap, which this study did not measure.

**Practical implications** – The findings indicate that by measuring the service quality in the Islamic context of Islamic banks, such as MCSQ, the managers can design their services to specifically target their Muslim customers. Furthermore, customer satisfaction must be the focus for the bank's managers when developing MCSQ to close the gap between the expectations and reality of the delivered services.

**Originality/value** – This study empirically tests the developed MCSQ in the context of Indonesian Islamic banks, which is expected to enrich the literature of service marketing. Furthermore, a partial mediation effect of MCS was identified on the influence of MCSQ on MCL, which few studies have discussed previously.

**Keywords** Indonesia, Service quality, Islamic commercial bank, Muslim consumer perspective

**Paper type** Research paper



## 1. Introduction

### 1.1 Background of the research

Today, service providers and researchers in service marketing prioritise and focus their attention on the creation and delivery of quality services. This is because it is an important factor for building a competitive advantage for organisations on an on-going basis (Olorunniwo *et al.*, 2006). Empirical evidence shows that organisations that are able to increase sales, profits and cost efficiency are organisations whose activities focus on customer satisfaction through quality services (Parasuraman *et al.*, 1988; Kassim and Abdullah, 2010). Quality services that satisfy the customers will be an effective promotional medium, especially concerning the delivery of positive information through word of mouth about the service providers, by increasing repurchasing and attracting new customers (Bolton and Drew, 1991).

The service quality model in the Six Sigma paradigm has emphasised the importance of customer perceptions and expectations according to their reality and needs (Gayatri and Chew, 2013). According to Farrell *et al.* (2001), consumers will assess service quality based on employee behaviour rather than employee attitude. Therefore, the service quality perceived by service providers may not always be the same as what the customers feel (Gronroos, 1993).

Ironically, to date, marketing experts have not found an appropriate measure of service quality in the existing models. This is as in the disconfirmation paradigm model developed by Oliver (1977), in the Nordic models (Gronroos, 1984), in SERVQUAL (Parasuraman *et al.*, 1988), in SERVPERF (Cronin and Taylor, 1992), in a three-component model (Rust and Oliver, 1994) and in the integrated hierarchical model (Brady and Cronin, 2001) born out of the context of Western scientists. There are still many limitations in relation to assessing service quality from other cultural and religious perspectives where services are delivered. Some studies of service quality in cross-cultural contexts (Riddle, 1992; Smith and Reynolds, 2001) argue that the quality of the services perceived varies between cultural groups. Mattila (1999) found that Western customers were more concerned with the physical environment than Asian customers who were more concerned with the quality of the interaction with the members of staff in the context of the hospitality service business.

Marketing researchers have emphasised the importance of focusing on service quality to produce good marketing performance results as a result of satisfying customer needs and increasing their loyalty (Ladhari *et al.*, 2011). This is especially important in the context of the Islamic banking industry where Islamic banks are currently struggling to meet the expectations of their customers through the creation of quality services that satisfy their customers as well (Taap *et al.*, 2011). Apart from the high interest of people who use *Sharia* banking services, Islamic banks have not succeeded in meeting the quality standards of interaction expected by customers as long as the services are provided (Ahmad *et al.*, 2011). The researchers believe that marketing strategies that are in accordance with the customer's characteristics are very important for Islamic banks to use to improve their service quality standards and to remain competitive (Alwi and Melewar, 2013).

However, the scale of the measurement of service quality developed is largely adopted by Western scientists who do not really represent the contextual paradigm where service quality is delivered (Kashif *et al.*, 2016). The efforts of contemporary researchers question the appropriateness and replication of the various scales of measurement of service quality. The authors also believe that most of the scales developed in individualistic cultural settings cannot be replicated in the context of a more collectivist culture (Strandberg *et al.*, 2012). Consequently, the use of service quality scales according to the relevant cultural settings

will have an impact on the emergence of new dimensions in the different cultural contexts (Witkowski and Wolfinbarger, 2001).

The selection and validation of appropriate, relevant scales in the culture in which services are delivered can lead to a measurement method for service quality that fits the needs of the key stakeholders such as society and industry (Gwinner *et al.*, 1998). In an era of competition where banks struggle to maintain a given market share, the scale of measuring service quality in a specific cultural context is very important to provide practical solutions for service organisations (Ganguli and Roy, 2011). Because each culture has distinguishing characteristics in relation to delivering quality services, scientists do not often agree on the appropriate measurements.

Finally, the researchers felt the need to develop a measurement of service quality with special dimensions in the context of Asian culture. This is because most studies focused on service quality are still dominated by Western cultures; therefore, contemporary researchers believe that studies that present Asian perspectives are still scarce (Frimpong and Wilson, 2013). Moreover, service quality cannot be separated from cultural phenomena and investigations must specifically be in accordance with the local cultural conditions where the services are created and delivered to customers (Ladhari *et al.*, 2011). For the Islamic financial services industry in Asia, it is facing serious marketing challenges such as a diverse customer base, high expectations and higher competition among Islamic banks when it comes to attracting and retaining customers (Kamarulzaman and Madun, 2013). This is where the importance of scaling measurements used to measure service quality are aligned with local cultural settings comes in.

The effort undertaken to develop a scale for measuring the quality of services in accordance with the local culture will be able to create an improved level of customer loyalty to Islamic banks. Baumann *et al.* (2011) argue that loyalty is a certain attitude and behaviour. Behavioural loyalty is very important and reflects the customer's positive response to the repurchase of certain products or services (Amin *et al.*, 2013). Researchers investigating loyalty in the banking sector have connected it as a part of the function of customer satisfaction with the bank (Ladhari *et al.*, 2011). Loyal customers will spend far more than others, and they will also spread positive communications through word of mouth about the bank's service offers (Amin *et al.*, 2013). Consumer loyalty is an important aspect that can create and maintain excellence competitiveness (Auka, 2012). Increasing consumer loyalty is a strategy used to increase the company's revenue, reduce costs, increase profits (Li and Green, 2011) and to improve the company's performance (Auka, 2012). Thus, consumer loyalty is the result of a successful marketing strategy related to value creation for the consumer (Trasorras *et al.*, 2009; Li and Green, 2011).

The concept of consumer loyalty in service industry is considered to be an important point in the marketing literature (Caceres and Paparoidamis, 2007). The concept of consumer loyalty has been examined and defined in numerous items of literature (Sachro and Pudjiastuti, 2013). According to Bennett and Bove (2002), loyalty as an individual attitude toward the object engages the consumer to patronise the object. Consumer loyalty is the special attitude of a consumer toward the organisation and this behaviour is dependent on many factors (Sabir *et al.*, 2013). According to East *et al.* (2005), consumer loyalty is defined as a single concept, usually as an attitude towards an object such as the behaviour of patronage and the mixing of attitudes and additive behaviour or interactive expression. It seems clear that the definition of loyalty from some scholars emphasises the relationship behaviour on an on-going basis between the parties involved in patronage. Some research studies on consumer loyalty in the banking service industry show that the influencing factors are consumer satisfaction (Akbar and Parvez, 2009; Sabir *et al.*, 2013; Thakur and

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Singh, 2011), and the quality of the services provided (Shpëtim, 2012; Hassan *et al.*, 2013; Anand and Selvaraj, 2012).

In the context of the *Sharia* commercial banking industry in Indonesia, Indonesia, as a country with the largest Muslim population in the world, is able to present a broad market share. However, the business climate has not been able to provide support for Islamic banks; therefore, its market share lags far behind conventional banks. According to the [Financial Services Authority of Indonesia \(2017\)](#), although the assets of Islamic banks experienced growth up to 18.90 per cent in 2017, its market share remains small in Indonesia (5.78 per cent). The phenomenon is interesting because Indonesia is the largest Muslim country in the world. It is undeniable that the existence of Islamic banks cannot be separated from the shadows of conventional banks. This fact indicates that Indonesia still applies two banking systems in which the conventional system is more dominant than the Islamic banking system. Because the regulation of dual banking system is imposed, the development of the Islamic banking industry in Indonesia experiences an anomaly that becomes the concern of several parties. This is because the Islamic banks are significantly growing but the level of consumer loyalty is low at an average of 3.7 years. This means that consumers in Indonesia generally use the banking services for only three years and subsequently move to other banks because of rational considerations ([Kompas, 2014](#)).

This is the basis of this research to answer the question of what dimensions contribute significantly to service quality according to the perspective of Indonesian Muslim consumers. Are these dimensions able to increase the loyalty and satisfaction of Indonesian Muslim consumers? Furthermore, this research provides insights into how Islamic banking service providers can learn to be aware of the role played by culture when providing services to Indonesian Muslim consumers. Service providers can take advantage of the results of this study to provide services that are in accordance with the culture and values of Islam that their clients adhere to. *Sharia* bank service providers can develop service strategies to target large enough market segments to increase their competitive advantage.

## 2. Literature review

### 2.1 *Service quality and its dimension in the context of Islamic banks*

Quality is an important aspect in the business world because it is able to maintain satisfaction and loyalty and minimise risks ([Hallowell, 1996](#); [Rauyruen and Miller, 2007](#)). According to [Parasuraman \*et al.\* \(1990\)](#), quality is the standard of a thorough assessment toward the level of good service. [Lovelock and Wright \(2002\)](#) defined quality as the extent to which the service is able to satisfy consumers by meeting their needs, desires and expectations; however, the service quality is the organisation's ability to meet the expectations of the consumers ([Gilmore, 2003](#)). Thus, service quality in the context of Islamic banking is the company's ability to provide products or services as expected by the consumers or even beyond the consumers' expectation.

According to [Othman and Owen \(2001\)](#), the research into service quality in the Islamic bank context has distinctive features and each country has differences in culture; the implications will influence the various dimensions. Hence, it is important to develop an instrument for measuring service quality related to the culture, country and the socio-cultural details of where the service is offered ([Jabnoun and Khalifa, 2005](#); [Othman and Owen, 2001](#)). Moreover, it is an inseparable fact that service quality is influenced by a setting's religious and cultural background. Therefore, it might potentially affect the assessment of service quality from the perspective of Muslim consumers who tend to choose a thoughtful service provider as according to the Islamic religion ([Gayatri and Chew, 2013](#)).

The existing research conducted into the quality of Islamic banking services has not always adopted the concept of service quality as provided by the service industry such as the research conducted by [Akhtar and Zaheer \(2014\)](#), which used the SERVQUAL dimension as a key dimension in the Islamic bank. [Awan et al. \(2011\)](#) examined service quality and its relationship to consumer satisfaction in both Islamic banks and conventional banks in Pakistan using modified SERVQUAL dimensions, which include empathy, service architecture, convenience encounter service, employee service criteria and customer focus. [Othman and Owen \(2001\)](#) identified the quality of Islamic banking services using the CARTER (compliance, assurance, reliability, tangible, empathy and responsiveness) model. [Gayatri and Chew \(2013\)](#) also conducted a study to identify the dimensions of service quality according to Muslims consumer perceptions in Indonesia in the sector of retail, restaurants and hotels. They managed to find out that Islamic values such as *halal/haram*, attention to Islamic religious activity, honesty, modesty, humaneness and trustworthiness can be considered as the dimensions reflecting service quality as perceived by Muslim consumers.

[Abdullah et al. \(2011\)](#) attempted to identify the instrument used to measure service quality in the banking industry in Malaysia, which is known as the index of Bank Service Quality (BSQ). Its dimensions are systemisation, reliable communication and responsiveness. [Badara et al. \(2013\)](#) examined the service quality in Islamic banks located in Nigeria using the dimensions of tangibility, reliability, responsiveness, assurance, empathy and compliance. The same research also conducted by [Misbach et al. \(2013\)](#) who did an empirical research study into the Islamic Bank Service Quality (i-BSQ) in Makassar, Indonesia, using the dimensions of system, responsiveness, reliability and compliance as a construct that affects consumer satisfaction and trust. [Jabnoun and Khalifa \(2005\)](#) also conducted a measurement of service quality in conventional banking and Islamic banks in the United Arab Emirates (UAE) using the dimensions of personal skills, reliability, image and values.

In this research, the construction of Muslim consumer service quality (MCSQ) adopted the dimensions proposed by [Gayatri and Chew \(2013\)](#), which is in the form of Islamic values, honesty, modesty, humaneness and trustworthiness. This research also adopted the *Sharia* dimensions proposed by [Othman and Owen \(2001\)](#). The researchers are interested in conducting further research because the dimensions proposed by [Gayatri and Chew \(2013\)](#) are a quality dimension that have never been applied to measure service quality in the Islamic banking industry before, which was originally the result of empirical objects such as hotels, restaurants and retail services.

## *2.2 Muslim consumer satisfaction*

Consumer satisfaction plays an important role in the commercial banking industry ([Osman and Sentosa, 2014](#)). The concept of consumer satisfaction according to [Giese and Cote \(2000\)](#) is a series of affective responses of varying intensity and focused on specific interests related to consuming a product or service; it has a limited time frame. Moreover, according to [Parker and Mathews \(2001\)](#), there are two basic approaches adopted to define the concept of consumer satisfaction. There is satisfaction as a result and satisfaction as a process because of the consumption or the experience of using something. According to [Giese and Cote \(2000\)](#), there are three common identified components involved in understanding the concept of consumer satisfaction, namely, that consumer satisfaction is an emotional response (cognitive); that the response is related to specific purposes such as expectations, the product and the consumption experience; and that the response is at a particular time such as after consuming or after selecting the product, which is based on accumulated experience. This

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shows that there are two elements that determine consumer satisfaction; the performance of the services offered and the performance of the services expected.

The terminology used for consumer satisfaction in this research is Muslim customer satisfaction (MCS), which outlines a series of responses because of the varying intensities and interests related to the direct and continuous consumption of a product or service from an Islamic bank. Consumer satisfaction in the context of Islamic banking is measured using several indicators: the consumer feels satisfied with the quality of the bank (Al-Hawari and Ward, 2006; Awan *et al.*, 2011), the administrative costs are not a burden (Al-Hawari and Ward, 2006; Awan *et al.*, 2011), the automatic service is satisfactory (Al-Hawari and Ward, 2006; Awan *et al.*, 2011; Butt and Aftab, 2013), the consumer feels satisfied with the service from the employees (Agus *et al.*, 2007; Al-Hawari and Ward, 2006; Awan *et al.*, 2011), the consumer is satisfied with the wait time (queue) at the counter (Agus *et al.*, 2007), the consumer chooses the right bank (Kantsperger and Kunz, 2010; Misbach *et al.*, 2013; Hassan *et al.*, 2013) and the consumer is satisfied with the overall products offered (Butt and Aftab, 2013; Hassan *et al.*, 2013; Madjid *et al.*, 2013).

### *2.3 Muslim consumer loyalty*

The concept of consumer loyalty in the service industry is considered to be an important point in the marketing literature (Caceres and Paparoidamis, 2007). The concept of consumer loyalty has been examined and defined in numerous literature items (Sachro and Pudjiastuti, 2013, p. 34). According to Bennett and Bove (2002), loyalty as an individual attitude toward the object engages the consumer and prompts them to patronise the object. Consumer loyalty is the special attitude of the consumer toward the organisation and this behaviour depends on many factors (Sabir *et al.*, 2013). As identified by scholars, because consumer loyalty is a construct that comprise consumers attitude and behaviour (Akbar and Parvez, 2009), then it can be said that consumer loyalty emphasises the mutually beneficial behaviour and attitudes among the parties involved in patronage (Dick and Basu, 1994). East *et al.* (2005) argued that consumer loyalty is usually defined as a single concept as an attitude toward an object such as the behaviour of patronage, the mixture of attitudes and additive behaviour and interactive expression. It seems clear that the definition of loyalty from some scholars emphasises the on-going relationship behaviour between the parties involved in patronage.

Referring to the ideas of scholars, consumer loyalty is the individual patronage behaviour that is then brought into a concrete attitude to keep in touch with the service providers for a long time. In this research, the terminology used is Muslim customer loyalty (MCL). It is measured using several indicators such as the bank is the first choice (Ishaq, 2012), the consumer recommends the bank to others (Butt and Aftab, 2013; Kantsperger and Kunz, 2010), the consumer recommends the website of the bank (Butt and Aftab, 2013), the consumer intends to use the bank's services (Butt and Aftab, 2013; Hassan *et al.*, 2013), the consumer chooses the bank over other banks (Butt and Aftab, 2013; Shpëtim, 2012) and the consumer becomes a partner of the bank in a few years (Ishaq, 2012; Kantsperger and Kunz, 2010; Hassan *et al.*, 2013).

### *2.4 Hypotheses development*

Empirical evidence shows that good service quality covering the dimensions of *Sharia* compliance includes assurance, reliability, tangibility, empathy and responsiveness (Othman and Owen, 2001), as well as the dimensions of the Islamic values of honesty, modesty, humaneness and trustworthiness (Gayatri and Chew, 2013), which are suitable with the criteria of Muslim consumers; thus, they are able to increase consumer satisfaction

and loyalty (Othman and Owen, 2001; Shpëtim, 2012; Badara *et al.*, 2013; Sachro and Pudjiastuti, 2013; Osman and Sentosa, 2014; Aziz *et al.*, 2014). This shows that increasing the consumer loyalty toward Islamic banks through quality improvement strategies, which are specifically based on the Muslim consumers' perspectives as well as through noticing aspects that make the consumer satisfied, is highly important. The conceptual model was designed from previous studies such as the use of the dimensions proposed by Gayatri and Chew (2013) and those proposed by Othman and Owen (2001).

In the modern organisation paradigm, efforts to improve service quality are considered to be strategic policy. This is related to the contribution of the service quality that can improve consumer satisfaction and create consumer loyalty in a certain period. Anand and Selvaraj (2012) argued that there is a correlation between service quality, satisfaction and consumer loyalty. The dimensions of service quality are in the form of responsiveness, reliability and empathy; these dimensions significantly affect consumer satisfaction and consumer loyalty. The dimensions of service quality based on the Muslim consumers' perspective have their own characteristics (Gayatri and Chew, 2013). The empirical evidence shows that consumer satisfaction and loyalty always follows the quality of how the service is provided. They become the most frequently used variables to measure the success of marketing (Sachro and Pudjiastuti, 2013). According to Agus *et al.* (2007), in the context of public service in Malaysia, service quality is correlated to consumer satisfaction. Dimensions of quality which are categorised as "very good" and that were considered to be positive according to the consumer's perspective include responsiveness, access and credibility. Awan *et al.* (2011) pointed out that service quality in conventional banks and Islamic banks is able to increase consumer satisfaction, and it is stated as being an important aspect because the consumers tend to do something when they feel satisfied. Anand and Selvaraj (2012) also argued that there is a correlation between service quality, satisfaction and consumer loyalty. Dimensions of service quality in the form of responsiveness, reliability, and empathy might significantly affect consumer satisfaction and loyalty. Based on the results of the research and some ideas proposed by contemporary scholars, the formulation of the first hypothesis is as follows:

*H1.* Service quality might positively improve Muslim customer satisfaction in Indonesian Islamic commercial banks.

According to Shpëtim (2012), service quality might positively influence consumer loyalty. It confirms that a high level of consumer loyalty is determined by good service from the provider. This is also supported by Adoyo *et al.* (2012) who showed that there is a positive relationship between the dimensions of quality and consumer loyalty. In the context of rural tourism services in Malaysia, Osman (2013) also found that the quality of service, consumer satisfaction and trust had a significant positive effect on consumer loyalty. Moreover, according to Badara *et al.* (2013), the loyalty of Islamic bank consumers in Nigeria is determined by the dimensions of service quality in the form of assurance and that consumer satisfaction is determined by the dimensions of service quality in the form of the responsiveness of the bank employees. Thus, to maintain consumer loyalty, the management of Islamic banks should provide a guarantee that the banks are in compliance with Islamic rules. Based on the findings presented by the scholars, the second hypothesis that can be proposed is that:

*H2.* Service quality might positively improve Muslim customer loyalty in Indonesian Islamic commercial banks.

The empirical evidence shows that consumer satisfaction and loyalty always follow how service quality is given; therefore, these factors are the most frequently used variables to measure the success of marketing (Sachro and Pudjiastuti, 2013; Wen *et al.*, 2005). According to Shpëtim (2012), consumer satisfaction might positively influence loyalty. This proves that the more satisfied the consumers are with service given by the service providers, the higher the level of loyalty as well. Moreover, according to Madjid *et al.* (2013), consumer loyalty can be gained if it is supported by consumer satisfaction and trust. Based on the ideas conveyed by the scholars, the third hypothesis is proposed as follows:

*H3.* Muslim customer satisfaction might positively increase customer loyalty in Indonesian Islamic commercial banks.

In relation to consumer satisfaction as the construct that mediates the relationship between service quality and consumer loyalty, Mosahab *et al.* (2010) argued that bank consumer loyalty is determined by the dimensions of service quality mediated by consumer satisfaction. In this context, the dimensions of service quality such as reliability, responsiveness, assurance, empathy and tangibles are able to positively increase consumer satisfaction and loyalty. This idea is supported by Kheng *et al.* (2010) as well as Osman and Sentosa (2014), who stated that consumer loyalty is an important aspect that is determined by the performance of service quality mediated by consumer satisfaction. The same idea is also suggested by Akbar and Parvez (2009). They suggested that consumer satisfaction is categorised as an important variable that mediates the relationship between perceived service quality and consumer loyalty. Thakur and Singh (2011) conducted a research that revealed that in the context of a telecommunications company, consumer satisfaction is significantly and positively associated with consumer loyalty. In short, consumer satisfaction can be an important mediator between service quality and consumer loyalty. Based on the findings of the previous studies, the last hypothesis is as follows:

*H4.* The influence of Muslim customer service quality on their loyalty will be mediated by Muslim customer satisfaction.

### 3. Research method

#### 3.1 Sample

The population of this study consisted of all *Sharia* bank customers in Indonesia. The sampling technique used in this research was non-probability sampling (convenience sampling) because it is easy to explore the information and to provide the best information directly (Sekaran, 2003). The sample of this study was individual customers who use the products and/or services of Islamic Commercial Banks in one of the major cities in Indonesia as evidenced by having an active account at the bank. The researcher believes that the selected sample represents the customers of *Sharia* commercial banks in Indonesia with heterogeneous backgrounds (e.g. gender, age, marital status, education and job). A sample of 290 has been taken; this is believed to qualify for structural equation modelling analysis as suggested by Hair *et al.* (2006). From the 290 distributed questionnaires, 280 were declared to be valid and feasible for analysis after screening the data. This number is more than 75 per cent of the total and this is declared to be sufficient for population generalisation and is statistically reliable (Stevens, 2009).

Based on Table I, 51.40 per cent of respondents were male, 50.70 per cent of respondents were aged 20 to 25 years old, and 59.60 per cent of respondents who were single. Furthermore, the data exhibit that the majority of the respondents have a higher education

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| Characteristic             | Description                                    | Frequency | (%)  |
|----------------------------|--|-----------|------|
| Gender                     | Male   | 144       | 51.4 |
|                            | Female   | 136       | 48.6 |
| Age (years)                | <20  | 23        | 8.2  |
|                            | 20-25  | 142       | 50.7 |
|                            | 26-30  | 29        | 10.4 |
|                            | 31-35  | 33        | 11.8 |
|                            | 36-40  | 28        | 10.0 |
|                            | >41  | 25        | 8.9  |
| Marital status             | Single   | 167       | 59.6 |
|                            | Engaged  | 17        | 6.1  |
|                            | Married  | 92        | 32.9 |
|                            | Divorced                                       | 3         | 1.1  |
|                            | Widow/widower                                  | 1         | 0.4  |
| Education level            | Junior high school                             | 6         | 2.1  |
|                            | Senior high school                             | 45        | 16.1 |
|                            | Diploma  | 23        | 8.2  |
|                            | Undergraduate                                  | 129       | 46.1 |
|                            | Master   | 57        | 20.4 |
|                            | PhD/Doctoral                                   | 11        | 3.9  |
|                            | Others   | 9         | 3.2  |
| Duration of being consumer | > 5 years                                      | 55        | 19.6 |
|                            | 3-5 years                                      | 64        | 22.9 |
|                            | 2 years  | 78        | 27.9 |
|                            | 1 year   | 48        | 17.1 |
|                            | 6 months                                       | 14        | 5.0  |
|                            | 3 months                                       | 16        | 5.7  |
|                            | Others   | 5         | 1.8  |
| Chosen bank product        | Saving   | 232       | 82.9 |
|                            | Loan/Defrayal                                  | 9         | 3.2  |
|                            | Saving and Defrayal                            | 35        | 12.5 |
|                            | Others   | 4         | 1.4  |
| Income (month)             | Unemployment                                   | 110       | 39.3 |
|                            | <300,00-                                       | 5         | 1.8  |
|                            | 301,000-500,000                                | 13        | 4.6  |
|                            | 501,000-10,00,000                              | 25        | 8.9  |
|                            | 10,00,000-30,00,000                            | 56        | 20.0 |
|                            | 30,00,000-50,00,000                            | 41        | 14.6 |
| Employment status          | >50,00,000                                     | 30        | 10.7 |
|                            | Student  | 103       | 36.8 |
|                            | Army/police                                    | 6         | 2.1  |
|                            | Teacher/lecturer                               | 24        | 8.6  |
|                            | BUMN staff                                     | 11        | 3.9  |
|                            | Business owner                                 | 16        | 5.7  |
|                            | Employee                                       | 18        | 6.4  |
|                            | Pensioner                                      | 3         | 1.1  |
|                            | Unemployment                                   | 13        | 4.6  |
|                            | Professional (doctor, lawyer, journalist etc.) | 7         | 2.5  |
|                            | Entrepreneur                                   | 37        | 13.2 |
|                            | Civil servant                                  | 20        | 7.1  |
|                            | Housewife                                      | 4         | 1.4  |
| Others                     | 18   | 6.4       |      |

**Table I.**  
Respondents' profiles

degree (78.60 per cent), have been a *Sharia* banking customer for more than 1 year (87.50 per cent) and are dominantly using saving services (82.90 per cent). In terms of income, 45.30 per cent of the respondents generated more than 1 million rupiahs monthly. The respondents were mostly students (36.80 per cent), followed by entrepreneurs (13.20 per cent) and lecturers (8.60 per cent). We used the purposive sampling method to dig into the information and to provide the best information directly (Sekaran, 2003).

### 3.2 Instrument and measures

We distributed the questionnaire to the targeted respondents in mid-2017. We used a five-point Likert scale (1 = strongly disagree to 5 = strongly agree) (Likert, 1932) because it is easy to understand, it can accommodate what is done and felt by respondent, it is flexible and it is applicable in several situations (Malhotra, 2010). The researchers distributed it in the seven offices of the Islamic Banks in one of the major cities in Indonesia (Bank Muamalat Indonesia, BRI Syariah, BNI Syariah, Bank Syariah Mandiri, BTN Syariah, Panin Bank Syariah and Bank Mega Syariah). The questionnaire was administrated independently by distributing it to the consumers directly when they were in the bank (either when they were standing in line for the transaction or after). The time for filling in the form was no more than five minutes. While they were filling it in, the researchers conducted an interview to help them fill the data in as well as to minimise the different perceptions that could arise when understanding the statements written in the questionnaire. The MCSQ construct measurement in the context of Islamic Bank used five dimensions adopted from Gayatri and Chew (2013), while MCS was measured using seven items. Note that MCL was measured using six items (Othman and Owen, 2001; Misbach *et al.*, 2013).

## 4. Data analysis technique

The partial least square (PLS-Graph 3.0; Chin, 2003) approach was used for path modelling in order to estimate the measurements and structural parameters in the structural equation model (Chin, 1998).

### 4.1 Measurement validation

To assess the psychometric properties of the measurement instruments, we performed a procedure that was also performed by Kleijnen *et al.* (2007) using reflective indicators on all of the research constructs. A null model with no structural relationships was estimated, and then the reliability was evaluated using composite scale reliability (CR) and average variance extracted (AVE) (Chin, 1998; Fornell and Larcker, 1981). For all measurements, the PLS-based CR value was far above the cut-off value of 0.700 and AVE also exceeded the cut-off value of 0.500 (Fornell and Larcker, 1981). Moreover, convergent validity was evaluated by examining the standardised loadings on their respective constructs (Chin, 1998). All measures were expressed as fulfilling more standardised loadings than the cut-off value of 0.500 (Table II). Next, the discriminant validity of all of the measures was assessed. As suggested by Fornell and Larcker (1981), the AVE for each construct was greater than the squared latent factor correlation between the pairs of constructs. Consequently, the determination was that all of the constructs exhibited satisfactory discriminant validity (Table III).

### 4.2 Hypothesis testing

PLS-Graph 3.0, which allows for the explicit estimation of latent variable scores and the bootstrapping resampling method, was used to test the proposed model (Chin, 1998). This

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| Research variables             | Item | Outer Loading | Composite reliability | AVE   |
|--------------------------------|------|---------------|-----------------------|-------|
| Islamic values                 | IV1  | 0.751         | 0.831                 | 0.552 |
|                                | IV2  | 0.786         |                       |       |
|                                | IV3  | 0.671         |                       |       |
|                                | IV4  | 0.760         |                       |       |
| Sharia compliance              | SC1  | 0.757         | 0.897                 | 0.523 |
|                                | SC2  | 0.761         |                       |       |
|                                | SC3  | 0.699         |                       |       |
|                                | SC4  | 0.603         |                       |       |
|                                | SC5  | 0.717         |                       |       |
|                                | SC6  | 0.680         |                       |       |
|                                | SC7  | 0.736         |                       |       |
|                                | SC8  | 0.685         |                       |       |
|                                | SC9  | 0.686         |                       |       |
|                                | SC10 | 0.603         |                       |       |
| Honesty                        | HO1  | 0.708         | 0.863                 | 0.514 |
|                                | HO2  | 0.658         |                       |       |
|                                | HO3  | 0.705         |                       |       |
|                                | HO4  | 0.694         |                       |       |
|                                | HO5  | 0.764         |                       |       |
|                                | HO6  | 0.708         |                       |       |
|                                | HO7  | 0.567         |                       |       |
| Modesty                        | MO1  | 0.826         | 0.880                 | 0.709 |
|                                | MO2  | 0.842         |                       |       |
|                                | MO3  | 0.857         |                       |       |
| Humaneness and trustworthiness | HT1  | 0.756         | 0.889                 | 0.534 |
|                                | HT2  | 0.774         |                       |       |
|                                | HT3  | 0.736         |                       |       |
|                                | HT4  | 0.771         |                       |       |
|                                | HT5  | 0.723         |                       |       |
|                                | HT6  | 0.695         |                       |       |
|                                | HT7  | 0.654         |                       |       |
| Muslim customer satisfaction   | MCS1 | 0.598         | 0.841                 | 0.515 |
|                                | MCS2 | 0.705         |                       |       |
|                                | MCS3 | 0.597         |                       |       |
|                                | MCS4 | 0.707         |                       |       |
|                                | MCS5 | 0.702         |                       |       |
|                                | MCS6 | 0.695         |                       |       |
|                                | MCS7 | 0.670         |                       |       |
| Muslim customer loyalty        | MCL1 | 0.723         | 0.907                 | 0.619 |
|                                | MCL2 | 0.800         |                       |       |
|                                | MCL3 | 0.792         |                       |       |
|                                | MCL4 | 0.750         |                       |       |
|                                | MCL5 | 0.818         |                       |       |
|                                | MCL6 | 0.833         |                       |       |

**Table II.**  
Validity and reliability results

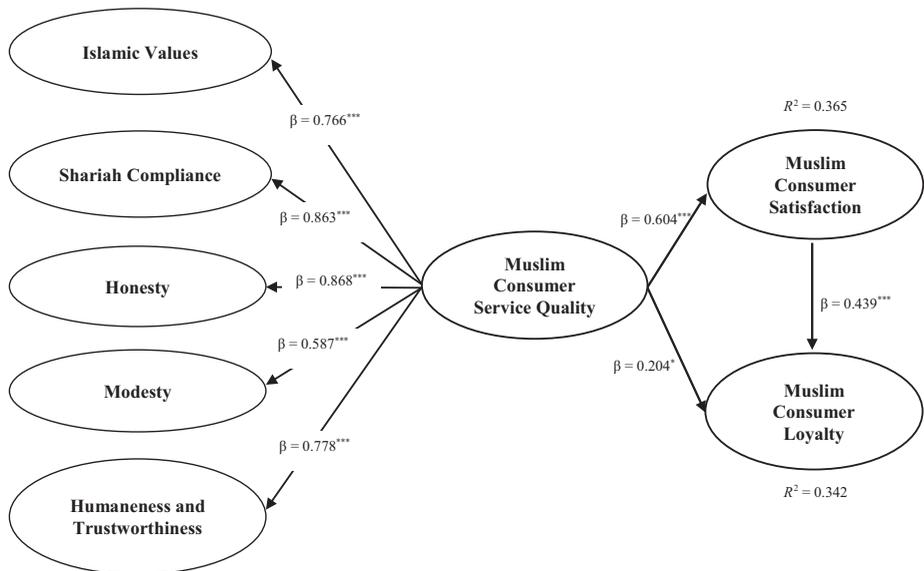
procedure entailed generating 300 sub-samples of cases that were randomly selected, with replacements, from the original data. Path coefficients were then generated for each randomly selected sub-sample; t-statistics were calculated for all of the coefficients, based on their stability across the sub-samples, indicating that links were statistically significant. As shown in [Figure I](#), the results illustrate that the antecedents, consequences and hypotheses were all confirmed. *H1* posits that MCSQ positively influences the MCS in Islamic commercial banking. The results indicate that MCSQ is significantly associated with MCS;

thus *H1* is supported ( $\beta = 0.604, p < 0.001$ ). *H2* predicts that MCSQ positively influences MCL in Islamic commercial banking, and the results also indicate that there is a significant influence from MCSQ on MCL ( $\beta = 0.204, p < 0.05$ ); thus *H2* is supported. *H3* posits that MCS has a positive influence on MCL, and the result is consistent with this hypothesis ( $\beta = 0.439, p < 0.001$ ); thus, *H3* has been confirmed. Finally, *H4* proposes that MCS positively mediates the relationship between MCSQ and MCL in Islamic banks. The results indicate that the coefficient value of the indirect effect (MCSQ  $\rightarrow$  MCS  $\rightarrow$  MCL) is larger ( $\beta = 0.265, p < 0.001$ ) compared to the direct effect of MCSQ  $\rightarrow$  MCL ( $\beta = 0.204, p < 0.05$ ); thus MCS partially mediates the relationship between MCSQ and MCL (*H4* is supported). All the results are presented in [Table IV](#).

| Research variables             | Mean  | SD    | 1     | 2     | 3     | 4     | 5     | 6     | 7     |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Honesty                        | 3.849 | 0.866 | 0.717 | 0.399 | 0.349 | 0.173 | 0.266 | 0.219 | 0.421 |
| Humaneness and trustworthiness | 3.936 | 0.741 | 0.632 | 0.731 | 0.194 | 0.184 | 0.259 | 0.143 | 0.237 |
| Islamic values                 | 3.955 | 0.856 | 0.591 | 0.440 | 0.743 | 0.160 | 0.198 | 0.132 | 0.450 |
| Muslim customer loyalty        | 3.612 | 0.864 | 0.416 | 0.429 | 0.400 | 0.787 | 0.316 | 0.008 | 0.152 |
| Muslim customer satisfaction   | 3.784 | 0.821 | 0.516 | 0.509 | 0.445 | 0.562 | 0.718 | 0.120 | 0.257 |
| Modesty                        | 4.192 | 0.830 | 0.468 | 0.378 | 0.364 | 0.092 | 0.346 | 0.842 | 0.169 |
| Sharia compliance              | 3.861 | 0.875 | 0.649 | 0.487 | 0.671 | 0.390 | 0.507 | 0.411 | 0.723 |

**Table III.**  
Descriptive statistics and matrix correlations

**Notes:** Correlation values greater than 0.10 is significant at  $p < 0.05$ ; correlation values greater than 0.18 is significant at  $p < 0.01$ ; Values at diagonal are AVE; Values below diagonal are inter-factor correlation, and values above diagonal are squared inter-factor correlation



**Figure 1.**  
Result of structural model with partial least squares

**Notes:** \*Represents  $p < 0.05$ ; \*\*\*represents  $p < 0.001$

## 5. Discussion

The results of the study provide information that indicates the importance of the specific dimensions of MCSQ as a special dimension to improve the quality of Islamic commercial bank services in the perspective of Indonesian Muslim consumer behaviour. The special dimensions, which consist of Islamic values such as *Sharia* compliance, honesty, modesty, humaneness and trustworthiness, have been significantly proven to be a dimension of the quality of service for *Sharia* commercial banks according to Indonesian Muslim consumers. Thus, this study validates the model and the previous research (Othman and Owen, 2001; Gayatri and Chew, 2013).

The findings of this research also show that MCSQ, which consists of these special dimensions, has a significant effect on the satisfaction of Muslim Islamic commercial bank customers in Indonesia. Among the five dimensions, the most significant dimension that contributes to the level of satisfaction of Muslim customers in Islamic commercial banks in Indonesia is honesty, followed by *Sharia* compliance, humaneness and trustworthiness, Islamic values and modesty. Likewise, Muslim consumers who are Islamic commercial banking customers in Indonesia feel a high level of satisfaction if the Islamic commercial banks show honesty in the service process, especially in the aspect of calculating profit sharing and the process of channelling customer funds into productive and Islamic investment sectors.

The customer expectation of “honest” Islamic commercial bank services in this study reflects the “credibility dimension” in the SERVQUAL model (Parasuraman *et al.*, 1988). One of the service differentiators between Islamic banking and conventional banking in the view of Muslim consumers is honesty on the part of the service providers in reference to the business transactions conducted. Honesty comes from the heart, so it can shape the personality of business people. Islam requires honesty in its business practices for anyone as the Quran emphasises (see 11: 85-86 Quran; 9: 119 Quran; 39: 33 Quran; 16: 105 Quran). In reference to Islamic attitude, *bankir* is the one directly responsible to Allah SWT, who should be honest and fair in the marketing agenda such as being transparent in the process of calculating profit sharing and noting any administration carefully (Quran 49: 6) to get clear information and nominal calculations, which creates *ridho* (Quran 4: 29).

The results of the study showed that the MCSQ construct has a direct significant and positive effect on MCS; this supports *H1*. It suggests that the more qualified the service that is given, the more satisfied that the Muslim consumers are with the service given in the Islamic commercial banks. It supports the results of several researchers (Aguset *et al.*, 2007; Awan *et al.*, 2011; Anand and Selvaraj, 2012). *H2* states that MCSQ positively influences MCL; therefore, the more qualified the service given based on the Muslim consumer perspective, the more loyal that the Muslim consumers will be. These results support several previous studies conducted by Anand and Selvaraj (2012), Auka *et al.* (2013) and Hassan *et al.* (2013).

|   | Hypothesis                               | Relationship     | Path coefficient ( $\beta$ ) | SE    | t-statistic | Decision  |
|---|--|------------------|------------------------------|-------|-------------|-----------|
| 1 | MCSQ $\rightarrow$ MCS                   | Direct Effects   | 0.604                        | 0.063 | 9.571       | Supported |
| 2 | MCSQ $\rightarrow$ MCL                   | Direct Effects   | 0.204                        | 0.079 | 2.595       | Supported |
| 3 | MCS $\rightarrow$ MCL                    | Direct Effects   | 0.439                        | 0.071 | 6.198       | Supported |
| 4 | MCSQ $\rightarrow$ MCS $\rightarrow$ MCL | Indirect Effects | 0.265                        | 0.051 | 5.182       | Supported |

**Table IV.**  
Hypothesis testing of structural model

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*H3* states that MCS positively and significantly influences MCL. The results of the analysis support the hypothesis. The data revealed that the more satisfied that the bank consumer is, the more loyal they are. It also supports several previous studies conducted by [Thakur and Singh \(2011\)](#) and [Sachro and Pudjiastuti \(2013\)](#). MCSQ is also able to have a positive and significant effect on MCL through MCS. It indicates that the findings of this research support *H4* and several previous studies such as those by [Kheng et al. \(2010\)](#) and [Osman and Sentosa \(2014\)](#).

The results of the study found that the satisfaction of Muslim customers in Indonesia related to Islamic commercial bank services has a direct relationship with customer loyalty. However, when referring to the relationship between service quality, customer satisfaction and customer loyalty, it shows that customer loyalty to *Sharia* commercial banks in Indonesia will increase more significantly if *Sharia* commercial banks first increase customer satisfaction. In a more specific context, Muslim consumers will increase their loyalty if they have the perception that the Islamic commercial banks in Indonesia have implemented honesty in their transactions, use Islamic *Sharia* in their operations and use profit-sharing schemes according to their transaction agreements (without interest rates).

Indeed, it needs to be recognised that in the context of banking consumers in Indonesia, the level of loyalty is still quite low. Most customers in Indonesia still think that Islamic banks are the same as conventional banks. There are those who think that Islamic banks are only changing the labels that were originally used by conventional banks to capture open market opportunities because of the demands in the market from Muslim consumers. They assume that the replacement of new terms from the conventional banks by Islamic banks is, in principle, the same. However, the human resources that are not good at understanding the principles of muamalah transactions (Islamic banking) results in low customer trust, which subsequently impacts on loyalty. Finally, the potential of the huge Muslim consumer market in Indonesia will be a profitable business opportunity if the Islamic commercial banks in Indonesia are supported by human resources who understand the *Sharia* principles involved in banking. They can go on to form honest characters as the manifestation of quality services which then, in the long run, can increase trust, customer satisfaction and create Muslim consumer loyalty to the Islamic commercial bank services in Indonesia, which simultaneously can increase its market share.

## 6. Implications

### 6.1 Academic implications

The results of this study have implications related to the development of the relevant theories. First, the results of this study will contribute to the recent debate among service marketers about the use of various scales to measure service quality ([Gilmore and McMullan, 2009](#); [Kashif et al., 2016](#)), especially in the context of Islamic banking. This research also methodologically contributes to non-student samples and the application of strong techniques for analysing results. Second, the service quality concept, satisfaction and the loyalty of consumers in the service marketing literature is very important and continually developed based on the characteristics of culture, country, religion and socio-cultural factors where the service is offered ([Othman and Owen, 2001](#); [Jabnoun and Khalifa, 2005](#); [Gayatri and Chew, 2013](#)). The research into the constructs of service quality have been specifically developed using the dimension where the Islamic banking service is provided. Third, this finding increases the loyalty of the consumers using Islamic banks by optimising the service quality and increasing consumer satisfaction based on the Muslim consumer perspective. This plays an important role as well as strengthening the findings of several

previous research studies (Akbar and Parvez, 2009; Kheng *et al.*, 2010; Mosahab *et al.*, 2010). Finally, this research has confirmed that the scale of service quality in the context of Islamic banking is a valid scale for measuring service quality from a Muslim perspective. This finding not only increases the theoretical foundation that was previously lacking in the perspective of religion and culture which is a consideration affecting service quality but also provides a more focused and comprehensive model that explains Muslim perceptions when assessing service quality in several service sectors, including in the Islamic banking industry.

### *6.2 Managerial implications*

In the effort to improve Muslim consumer loyalty toward the products and services provided by Islamic banks, the management of the bank can implement some of the suggested strategies. First, is bringing Islamic bank access to the consumers through cash offices located in public service areas (town square, mall, market and campus/school). In this manner, the consumer candidate as well as the consumer can make the best use of the product and service wherever he/she is about their Islamic bank. Second, the main driving force of the satisfaction and loyalty of the customers of Islamic banks in Indonesia in reference to using their services is honesty. This means that in the context of Indonesian Muslim consumers, honesty in their transactions represents the personal credibility and organisation of Islamic banking. The *Sharia* bank management must continue to develop its human resource competencies, especially on the side of building the character of the bankers to foster integrity and commitment in customer service. Third, as seen in the results of the research conducted by Fauzi and Suryani (2019), efforts to increase customer loyalty can be done by paying attention to their beliefs. To ensure this, Islamic banking must use *Sharia* principles as an important reference when carrying out the *Sharia* banking business. The quality and capacity of human resources related to the skills of serving customers and understanding Islamic principles are continuously improved. This includes structured and professional *Sharia* banking executive development programs to prepare Islamic banking leaders in Indonesia through collaboration with universities that focus on Islamic banking education in the future to create professional talents. Finally, because of the lack of trust and loyalty in the Islamic banking operational system in the eyes of Indonesian consumers, more knowledge is needed to raise awareness about Islamic banking and its products through direct seminars and socialisation efforts to consumers. This can include the socialisation of Islamic banking systems and products in the education environment (formal or non-formal) and raising awareness about Islamic banking and its uniqueness from conventional banking to the potential customers, especially young people.

### *6.3 Limitations and further research*

This research also has some limitations in both the theory and the method used. First, this research is only located in certain areas in Indonesia. The testing and reliability of Islamic service quality instruments must be tested in other Muslim countries to find instruments that are valid and in accordance with the characteristics of the consumers where the services are delivered. However, this study justifies the scale of Islamic service quality as a valid scale for measuring service quality from the perspective of Indonesian Muslim consumers. Second, the research data that has been collected was taken from Islamic commercial banks and conventional banks in one research process (Saleh *et al.*, 2017). For future researchers, comparing the dual banking system in Indonesia can apply a longitudinal approach to measure service quality, customer

satisfaction and customer loyalty over a period of at least three years to capture any changes in the findings over time following the dynamics of a market-based economy. Third, the respondents included in this study were only *Sharia* bank customers. Further studies can be expanded by involving consumers who have both Islamic and conventional bank accounts to classify customer loyalty among the two banking systems. This includes classifying samples with customer income categories because of the different levels of satisfaction between the high, middle and low income groups. Even in the Middle East region, the satisfaction of high-income customers will increase because it is driven by other factors not involved in this research (Sayani, 2015). Finally, this research only focused on three constructs, so developing this research can be done by adding a new construct such as religiosity (Karami *et al.*, 2014; Asnawi *et al.*, 2018) that might produce more holistic findings to support the marketing strategy model of an Islamic bank in a Muslim country.

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