

THE LINKAGES EFFECT OF SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY OF AUTOMOBILE FINANCING WITHIN THE MALAYSIA ISLAMIC BANKING INDUSTRY

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ABSTRACT

Nowadays, Islamic banks are facing tough competition among themselves and conventional banks that offer services and banking products based on Islamic principles. Such competition leads to issue involving customer satisfaction regarding the Islamic financing products and the efficiency of the services offered. Thus, the aims of this paper is to investigate the linkage effect of service quality (efficiency) on customer satisfaction and customer loyalty of Islamic automobile financing in Malaysia. Survey data was collected from 584 walk-in customers of selected bank outlets in the state of Selangor, Wilayah Persekutuan Kuala Lumpur and Putrajaya. The data was then analysed using Pearson Correlation and Multiple Regression technique. Results show that customer satisfaction and customer loyalty were positively affected by quality of service offered by Islamic Banks. Hence, based on the results, Islamic bank should have an effective computerised system, good legal advisory, Islamic compliance, well-trained staff, secure transaction, sufficient bank branches, and as well as sufficient facility and information in order to uplift and improve efficiency of the bank.

Keywords: Service quality, customer satisfaction, customer loyalty, Maybank Islamic Berhad, Bank Islam Malaysia Berhad.

INTRODUCTION

Customer satisfaction towards banking products is very crucial to the banking institutions, mainly because of the fact that they have to compete with the long-established conventional banks, especially in the Malaysian dual-banking system (Nurdianawati & Asyraf, 2006). Hence, greater attention should be given in increasing the range of products and service quality of Islamic banking in order to fulfil greater satisfaction from customers (Bowen & Hedges, 1993). This is particularly true, when customer's financing normally accounts for a significant proportion of a banks' total financing. In vehicle financing particularly, the purchase of transport vehicles for the end-July 2014 had been the third largest component with RM67.5 billion (22.0 percent) of total financing (RM306,314 billion) that was approved by the Islamic banking institutions (Ministry of Finance, 2015). It is crucial for a banking system, especially for Islamic banking to prepare a good auto financing facility that caters for the needs of transportation (auto) financing for the Muslim community as well as for the community at large. Even though under stringent credit regulatory requirement by Central Bank of Malaysia, Islamic banks should offer auto-financing schemes that emphasize good quality in terms of attractive product features,

services, bank officers, bank facilities and also reliable service quality that satisfy their customers (Fauzias et al., 2017).

This paper focuses on a very popular banking financing service facility that is Islamic automobile financing. Capital investment in transportation became the second largest expenses after home financing. Thereby, expenses regarding transportation needs must be carefully planned and decided in order to have a good management of family wealth (Maznah & Nurul, 2010). Two most popular Islamic automobile financing are *Al-Ijarah Thumma Al-Bai'* (AITAB) by Maybank Islamic Berhad and Vehicle Financing-i (*Murabahab*) by Bank Islam Malaysia Berhad. Hence, they are used in this study.

Many issues have been raised by the public regarding the service quality of Islamic auto financing products (Seif & Irwani, 2007; Zainuddin et al., 2014; Utusan Melayu, August 2018). Thus, the objective of this paper is to determine and examine the relationship and effects between antecedents or service quality dimensions with customer satisfaction and customer loyalty of Islamic banking industry in Malaysia. Specifically, this paper examines the effect of service quality (efficiency) with customer satisfaction towards customer loyalty in Maybank Islamic Berhad and Bank Islam Malaysia Berhad. These two banks manage the product of automobile financing differently. Even though both of their automobile financing products are based on Islamic principles, there are some differences in terms of product features and bank services between these two banks (maybankislamic.com.my & bankislam.com.my).

LITERATURE REVIEW

Service Quality

Service quality has been studied in business management for several years. However, the growth of service marketing due to the continuous dominance of the service sub sector of the global economy, i.e. banking institutions, has fuelled more academicians' interest in service quality theory (Swan & Trawick, 1981). Many researchers (Parasuraman et al., 1985; Bennet & Higgins, 1988; Zeithamal & Britner, 1996; Kumar et al., 2010; Firdaus et al., 2011) believe that service quality is an elusive concept, and there are considerable arguments among researchers of how to conceptualise this phenomenon. However, they acknowledged that service quality is a dynamic, multidimensional concept, incorporating a few aspects from both past and present service experiences. Service quality has been described as a form of attitude but not equivalent to satisfaction that results from the comparison of expectations with performance (Parasuraman et al., 1988; Bolton & James, 1991). It also can be explained as the difference between customer expectation of service and perceived service.

If expectation is higher than performance, then the perceived quality is less than satisfactory and customer dissatisfaction will prevail (Parasuraman et al., 1985). Due to the particular characteristic of service product, conceptualisation of service quality may be difficult; and with regards to the characteristic of the service product, Parasuraman et al. (1988) state that the knowledge of goods quality, however, is insufficient to understand service quality concept. While Gronroos (2001) stresses that the most important characteristic of services, and probably the only really unique one, is the fact that service are processes, not things.

Other characteristics include the fact that consumption and production are partly simultaneous and that customers participate in the service production process following the process characteristic (Svensson, 2006). This means that a service firm has no products, only interactive processes.

Kotler (1999) conceptualises service quality as an act of performance that one party can offer to another that essentially intangible and does not result of the ownership of anything. Its production may or may not be tied to a physical product. According to Lewis (1989), service quality is a measurement of how well is the delivered service level matches customers' expectations. Delivering quality service means conforming to customer expectation on a consistent basis (Lewis, 1993). Berry & Parasuraman (1991) furthermore point out that service

quality is the basis for marketing service because the core product that is being marketed is the performance; and customer buys the performance is generally regarded as the core product of a service-based organisation.

Choi (2001) who examines the relationship between service quality and customer satisfaction in the fitness industry reveals that the service quality occurs during service delivery in the attraction between a client and a contact person from service companies. Therefore, the attitude and performance of the service have a prominent effect on the level of customer satisfaction. While Wong & Amrik (2006) in her research quotes that in basic sense, service quality is related to an output, or offering, or a process in certain industry. While within the service process, it is indicated as a core service delivery, interpersonal interaction, performance in a wider sense of skill, or the customer's experience of service.

In an effort to explain how customers perceived service quality, the established service quality model, i.e. SERVQUAL, SERVPERF, and CARTER have been referred. Furthermore, selecting and utilising an established quality assessment tool for measuring service quality in specific service context can contribute to the enhancement of service quality. Service quality model that is proposed by Parasuraman et al. (1988) can be considered as the most complete dimensions in measuring service quality in various research settings, it also already being tested in other fields, such as credit card company, securities brokerages, and product repair and maintenance. For the purpose of this research, three service quality models were used as a basis for developing the research framework, i.e. two models from the western theory, (1) SERVQUAL by Parasuraman et al. (1985), and (2) SERVPERF by Cronin & Taylor (1992) and one model that incorporates Islamic value, i.e. CARTER by Othman & Owen (2001a). The SERVQUAL model served as the main referred theory for this research. The dimensions of service quality for the proposed theoretical framework is adapted from SERVQUAL model. Meanwhile, survey method that used single measurement form was adapted from SERVPERF; banking service quality items and Islamic compliance dimension were adapted from CARTER model.

Customer Satisfaction

Customer satisfaction is the central element of the marketing concept and one of the essential components of any organisation's strategy because customers are the ultimate source of income for companies (Erevelles & Leavitt, 1992). It is believed that higher level of customer satisfaction may result in higher levels of repurchasing (Seyanont, 2007). According to Oliver (1997b), repeat purchasing is essential to continue a stream of profitability through achieving higher levels of customer satisfaction. Satisfaction can be defined as a summary of psychological state resulted from a situation when disconfirmed expectation is combined with the consumer's prior feelings about the consumption experience (Oliver, 1981). Kotler (2000), defines satisfaction as a person's feeling of pleasure or disappointment resulting from comparing a product perceived performance (or outcome) in relation to his or her expectations.

Hansemark & Albinson (2004), define satisfaction as an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfilment of some needs, goals or desires. Another remark by Oliver (1997a) is that satisfaction is considered to be the customer's fulfilment response.

It is a judgement that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under-or over-fulfilment".

According to Hom (2000), satisfaction is a feeling. It is a short-term attitude that can readily change in some circumstances. It resides in user's mind and is different from observable behaviours, such as product choice, complaining, and repurchase. Satisfaction also generally has thresholds both at lower level (insufficiency or under fulfilment) or upper level (excess or over

fulfilment). This means that a customer's satisfaction may drop if she or he gets too much of a good thing. Many people focus upon the lower threshold and neglect the potential for the upper threshold. According to Toelle (2006), customer satisfaction explains the feelings of satisfaction that arise when customers compare their perceptions of the actual product's or service's performance to their prior expectations. The discrepancies between prior expectations and actual performance result in disconfirmation.

In literatures regarding customer satisfaction, some researchers view expectations as the anticipated performance made by a customer about the levels of performance during a transaction (Anderson et al., 1994). They argue that expectations consist of an estimate of the likelihood (or probability of occurrence) of an event plus an evaluation of the goodness or badness of the event (Oliver, 1980). Others argue that expectations are primarily perceptions of probability of occurrence of some event (Bearden & Teel, 1983; Westbrook, 1987). In the service literature, expectations are conceptualised as the normative expectations (Zeithamal et al., 1990).

Customer Loyalty

Customer loyalty is important to a business. The only way a company can grow is through the satisfaction of their customers. It determines the integrity and honesty of a business, where customer can feel confident in dealing with them on a daily or weekly basis. The customer returns because they have been treated fairly, and with respect and decency. They become loyal to the company, as long as the company returns that respect to the customer (Toelle, 2006). Without loyal customers, it is harder to grow business and it is more costly to provide service to the customers. This is because the best sources of new customers are referrals and positive comments from existing customers. If this source of business dries up, the company either does not grow or must acquire new customers in a more costly fashion, namely i.e. expensive advertising, larger sales force (Kim, 2005).

In contrast, it is more costly to provide service to disloyal customers because they are the ones who keep the employees busy with their complaints. Additionally, unhappy customers become more price-sensitive. If the price does not fall under their expectations, they will switch to the rival company which offer better and profitable products, services, and business to them. Moreover, profitable customer loyalty refers to customer who exhibit both behavioural and attitude loyalty and provides profit for the firm (Kumar et al., 2013). Oliver (1997b) says that loyalty can be derived from customer satisfaction which is a pleasurable fulfilment experienced by customers as an outcome against a standard of pleasure versus displeasure. Thus, for satisfaction to affect loyalty, frequent or cumulative satisfaction is required so that individual satisfaction episodes become aggregated or blended. However, more than this is needed to affect the loyalty. Many factors that will likely affect customer loyalty, especially the one that transcend satisfaction.

THEORETICAL FRAMEWORK

Thereby, a substantial number of empirical researches on service quality and in particular bank services quality was observed in the literatures. Most of these researches measured the effect of service quality on customer satisfaction by using and adapting the measuring instruments, such as Nordic Model, SERVQUAL, SERVPERF and CARTER model in order to develop the framework. The earlier researchers were the pioneer in conducting and creating service quality concepts such as Gronroos (1982); Lehtinen & Lehtinen (1982); Parasuraman et al. (1985); Patterson & Spreng (1997); Cronin et al. (2000); Caruana (2002). Today, more recent researchers have conducted their researches in various fields, such as in banking, retailing, accounting and auditing, and governmental areas.

Those researchers included Kang & James (2004); Sachdev & Verma (2004); Zhou (2004); Boksberger & Melsen (2011); Hossain & Leo (2009); Muslim & Zaidi (2008); Sangeetha & Mahalingam (2011); Kheng et al. (2010); Taap et al. (2011). Numerous ideas and opinions had

been proposed by various researchers, for instance Parasuraman et al. (1985) who concluded that a customer's assessment of overall service quality depended on the gap between the expected and perceived services. Thus, the key to manage perceived service quality was to minimise this gap. In order to narrow down the relationship among variables of the framework, Parasuraman et al. (1988), recasted 10 original determinants into only 5 dimensions: tangibles, reliability, responsiveness, assurance and empathy. Then, the team came up with service quality model of SERVQUAL which was claimed as a multidimensional model and could be generalised in other research context. This SERVQUAL model was essential in creating research framework and was used by a lot of researches afterwards. Since this research is related to Islamic banking, an Islamic compliance value is included into the study. Recently, there are a few studies adapting SERVQUAL model to measure service quality in Islamic Banking. For instance, Othman & Owen (2001a), who developed their own research framework based on SERVQUAL, by adding the element of Islamic compliance. Then, they have proposed an instrument called CARTER to measure service quality in Islamic banking.

To develop a theoretical framework, this paper adopts and adapts several models such as SERVQUAL, SERVPERF and CARTER. The complete model is based on SERVQUAL and SERVPERF, while Islamic elements are based on CARTER model. However, it is crucial to introduce a new dimension namely, after sales services. This new dimension, i.e. after-sales service is proposed to reflect the complete process of the auto financing. In auto financing, after-sales service is a part of the customer services provided by a financier to assist customer regarding the goods or services that have been sold or executed. In Islamic banking, particularly the Islamic auto financing, after-sales service is more on providing good facility of the monthly financing repayment and related services, such as legal and procedure advices such as insurance and financing advisory aspect, car repossession and safe-keeping of registration certificate. The most important areas regarding after-sales service are good facilities, sufficient and uninterrupted service of ATM machine and online facility, and also convenient location which should be provided by Islamic bank for the customer to pay their instalment. Customers expect their transactions to be conducted in speedier and easier ways. It is obvious that after-sales service is a crucial aspect in customer services to be well conducted by service provider. Hence, it is important to consider the complete rotation process of auto financing, from the financing application to the after-sales service, which indeed will affect the service quality and to ensure if the banks receive good response or bad response from customers (Zainuddin et al., 2014).

This new theoretical framework is prepared and developed logically to describe and elaborate the relationship between the variables that are relevant to the problematic situation. The framework and its constructs are identified by executing literature surveys through hundreds of literatures. This theoretical framework is developed in such a way that it would provide a good basis for developing hypothesis for this research. Thus, after going through numerous literature discussions on services quality concepts and research problems, the proposed theoretical framework is shown in **Figure 1**.

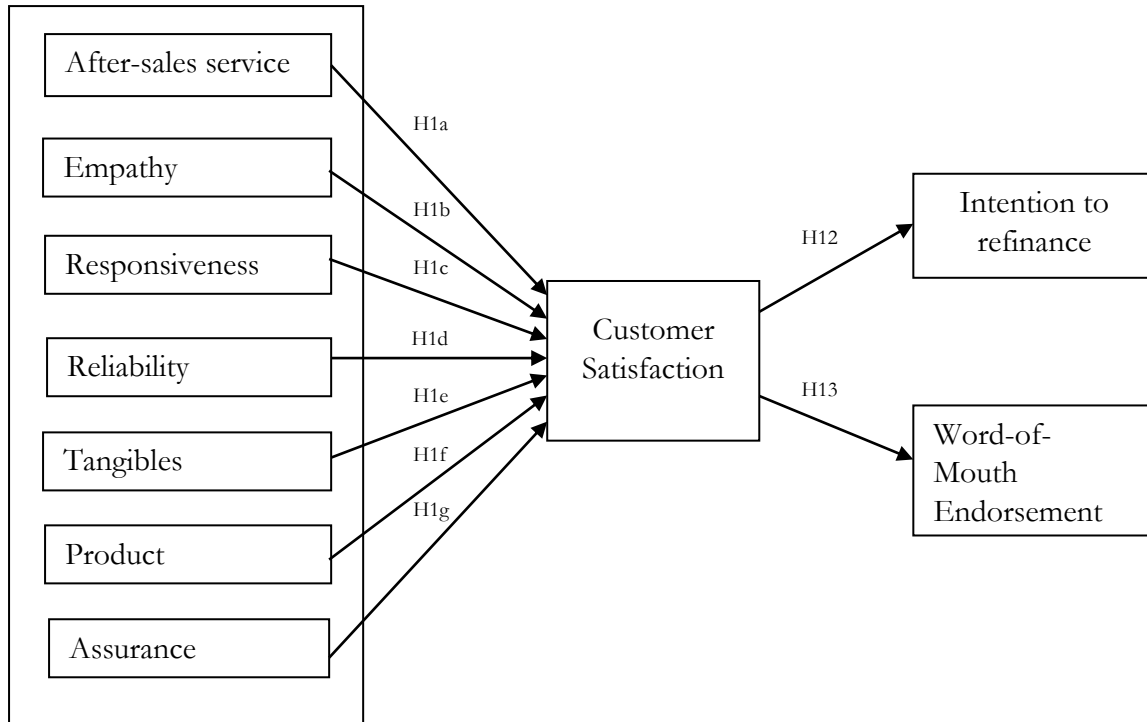


Figure 1: Theoretical Framework

HYPOTHESES DEVELOPMENT

This section discussed the hypotheses development by rectifying and determining the relationship and effect between independent variable and dependent variable, i.e. between service quality dimensions and customer satisfaction and between customer satisfaction and customer loyalty.

Effect of Service Quality on Customer Satisfaction

Numerous studies have been conducted in the service literatures regarding relationship between service quality and customer satisfaction (Abedniya & Zaeim, 2011; Haque, 2010; Ahmadi & Farzaneh, 2011; Laldin, 2008; Culiberg & Rosjek, 2010; Boumen & Vander, 1992; Choi 2001; Bowen & Shoemaker, 1998). A study by Cronin & Taylor (1992) argues that customer satisfaction is antecedents of service quality by making a hypothesis that satisfaction would be an antecedent of customer satisfaction. Using structural analysis, the result shows that there is a significant correlation coefficient among service quality, satisfaction, and purchase intention. Thus, they have concluded that customer satisfaction is an antecedent of service quality.

However, in terms of normal causal relationship, it was generally accepted that service quality is an antecedent of customer satisfaction. In order to satisfy their customers, companies should ensure that every element in service quality would exceed customer expectations. For instance, Parasuraman et al. (1988) argue that perceived service quality is a global judgement, or attitude, relating to the superiority of the service. Perceived service quality is conceptualised as a long-run evaluation about service, whereas satisfaction is an outcome or a transaction-specific evaluation. Based on this conceptualisation, customer satisfaction is the result of a long-term evaluation of service quality.

A study from Rehman (2012) regarding the relationship between customer satisfaction and service quality in Pakistan, UK and UAE used a sample of 225 customers of Islamic banks, 75 respondents were chosen from each country and it used structured questionnaire technique to collect data. The results show that assurance, reliability, and empathy are the significant factors of customer satisfaction in Pakistan and UK, whereas assurance and tangible are the significant factors in UAE.

As a conclusion, it is proven that service quality has significant effects on customer's satisfaction. Muslim & Zaidi (2008) has conducted a study regarding the relationship of service quality with customer satisfaction of Islamic banking in Malaysia. They used SERVQUAL model as a basis for measurement of service quality. This model starts with six dimensions of SERVQUAL, i.e. tangible, reliability, responsiveness, assurance, and empathy, and plus the Islamic compliance dimension. Their respondents were Muslims and non-Muslims who visited the bank's counter. The results show that the majority of the Islamic banking customers were satisfied with the overall service quality provided by their banks. The results also show that awareness of Islamic compliance is high among Muslim customers as compared to Non-Muslim customers. Thus, the relationship between service quality and customer satisfaction is significant. From the discussion of the service literature above, it shows that there is a significant relationship between service quality and customer satisfaction. Thus, the followings hypotheses are proposed:

- H_{1a} : Product compliance has a positive impact on customer satisfaction.
- H_{1b} : Assurance has a positive impact on customer satisfaction
- H_{1c} : Reliability has a positive impact on customer satisfaction.
- H_{1d} : Tangibles have a positive impact on customer satisfaction.
- H_{1e} : Empathy has a positive impact on customer satisfaction.
- H_{1f} : Responsiveness has a positive impact on customer satisfaction.
- H_{1g} : After-sales service has a positive impact on customer satisfaction.

Effect of Customer Satisfaction on Customer Loyalty

In the banking industry, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services. Enhancing the level of service quality resulting in higher levels of customer satisfaction has been a key strategy for service provider. Both products and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers. Thus, satisfied customers will lead to loyal customers.

Caruana et al. (2000) and Caruana (2002) have conducted a study regarding the effects of customer satisfaction on customer loyalty. This study starts by first delineating the concept of service loyalty and proceed to distinguishing between service quality and customer satisfaction. Data were collected from 1000 respondents in the retail banking by using postal survey. The findings indicated that the questionnaires used to measure service loyalty, customer satisfaction and service quality have exhibited acceptable psychometric properties in both reliability and validity. The results show that there is a significant relationship between customer satisfaction and customer loyalty. Thus, the result supports the hypothesis that customer satisfaction has significant effects on service loyalty.

In a research by Ziaul & Muslim (2010), they conducted a study concerning the role of customer satisfaction in enhancing customer loyalty for Muslim and non-Muslim customers, and the effects of customer loyalty on customer behavioural decisions in Malaysian Islamic banking industries. In this study, respondents were the customers who visited the bank's counters and had an account with Islamic banks. A total of 440 questionnaires were collected from respondents. With the respect to the hypothesis, there is a statistically positive significant relationship between customer satisfaction and customer loyalty. The results suggest that customer satisfaction indicators are as follows; (i) I am satisfied with employee's response and prompt services, (ii) I am satisfied with financial services advice, (iii) I am satisfied with the products and services provided by my bank. All the questions provided an indication in

developing customer loyalty to Islamic banks. Thus, it is clear from the result above that customer satisfaction has a significant relationship with customer loyalty.

A study that was conducted by Lam et al. (2004), regarding customers' value, satisfaction, loyalty, and switching cost are used to measure interaction effect between customer satisfaction and switching cost on customer loyalty and was conducted under business to business context of the courier providers. In terms of switching cost, the result has shown that customer satisfaction has a stronger positive effect on customer loyalty (recommendation) when switching costs are higher. Overall, the result shows that there is a relationship between customer satisfaction and customer loyalty. In the Malaysian banking context, there was a research done by Muslim et al. (2011) regarding the role of customer satisfaction in enhancing the loyalty of Muslim and non-Muslim customers in the Malaysian Islamic banking industry. The results also have indicated that customer satisfaction has a significant positive effect on customer loyalty.

In conclusion, this result suggests that customer satisfaction play a greater role than just being a prominent antecedent to customer loyalty. Hence, the followings hypotheses are proposed:

H₂ Customer satisfaction has a positive impact on intention to refinance (behavioural loyalty).

H₃ Customer satisfaction has a positive impact on word-of-mouth endorsement (attitudinal loyalty).

METHODOLOGY

This paper engaged a quantitative technique of survey that is conducted using a structured questionnaire. Closed-ended questions are used as a survey instrument. Respondents were asked to make choices among a set of alternatives given by the researcher. Questionnaires were used to examine the relationships among service quality, demographic factors, customer satisfaction, and loyalty (intention to refinance and word of mouth endorsement) of auto financing in Maybank Islamic Berhad and Bank Islam Malaysia Berhad. The questions in the questionnaire were adapted from various sources and some wereself-constructed.

In terms of content validity, a focus group exercise was conducted in order to verify and explore new items under the dimensions of product compliance and after-sales service. The main population for this research consisted of bank customers from Maybank Islamic Berhad and Bank Islam Malaysia Berhad who resided in Klang Valley, i.e. Selangor, Wilayah Persekutuan Kuala Lumpur and Putrajaya. Customers who owned Perodua cars and had Islamic financing accounts were chosen as target population. Perodua cars are best known to Malaysian and their models, such as MYVI, VIVA and ALZA are very popular among Malaysians due to its reasonable price and good quality. The sales of Perodua car also have recorded the highest volume as compared to other car brands in Malaysia for the year of 2014 (Perodua Sales Report, 2014). Thus, it was considered appropriate to use Perodua car as a subject of this research in terms of market coverage.

Meanwhile, the ideal of the locations selected were due to the fact that the selected areas had the most branches of Islamic banks as compared to other areas in Malaysia and most major economic activities were happening in this area as well. The number of the populations who bought the Perodua cars using *Ijarah Thumma Al Bai'* (AITAB) and Vehicle Financing-i (*Murabahah*) concepts for two years which was from January 2013 to December 2014 were about 180,000 customers (Perodua Yearly Sales Report of 2013 & 2014). The number of samples that were selected were based on the combination of the Islamic financing account holders in both Maybank Islamic Berhad and Bank Islam Malaysia Berhad, and the proposed areas are the states of Selangor, Kuala Lumpur and Putrajaya. The sample amount is calculated according to the sampling procedure. In terms of sampling method, a mixed method of probability and nonprobability sampling, i.e. cluster and purposive were implemented. The questionnaires were

successfully distributed to 750 walk-in customers of selected bank outlets and 650 questionnaires were completed by customers and collected with the response rate of 87 percent. However, 50 questionnaires or 8 percent out of 650 questionnaires collected were returned incomplete and, thus, they were not included in data analysis and the remaining balances of 600 questionnaires that were usable.

This research paper addressed the construct validity of the three variables (service quality, customer satisfaction, and customer loyalty) by employing factor analysis. There are two main approaches for factor analysis, i.e. (i) exploratory factor analysis (EFA), and (ii) confirmatory factor analysis (CFA); and both methods were employed. Under exploratory factor analysis (EFA), SPSS software version 19 has been deployed. The purpose is to check the intercorrelation between variables, and the principle component analysis (PCA) is used to extract the smallest number that could be used to best present the results. While under confirmatory factor analysis, AMOS software was deployed. The purpose is to check the unidimensionality of the items under research variables.

RESULTS

Factor Analysis

The questionnaires are acquired from literature and developed from focus group exercise. Thus, both factor analysis techniques, i.e. exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) are used to test the questionnaires. Followings are the result from both factor analysis operations:

Exploratory Factor Analysis

A principal component analysis is conducted to ensure that the dimensions are not inter-correlated and that the dimensions are grouped properly. The factor analysis was conducted on 583 collected and usable questionnaires. This method also was conducted in order to validate and certify the newly developed items and dimensions under product compliance and after-sales service. For all dimensions, all items under correlation matrix are positive with Bartlett test of Sphericity were .000 ($p < .05$) and Kaiser-Meyer-Olkin (KMO) value were above .60. Under factor extraction, product compliance had extracted two components however, component 2 was excluded due to less than 4 items left and low variance of .219 well below minimum level of .400 as suggested by Hair et al. (2010). The rest of the dimensions, i.e. assurance, reliability, tangibles, empathy, responsiveness and after-sales service, had extracted only one component respectively. From the exploratory factor analysis (EFA) operation, the data reduction process produced 43 items which are carry forward to be tested under confirmatory factor analysis.

Confirmatory Factor Analysis

The intention under the second factor analysis of confirmatory factor analysis (CFA) is to check the unidimensionality of the construct under measurement model before proceeding with further data analysis. Confirmatory factor analysis had been used to assess 43 items that were generated from the earlier Exploratory Factor Analysis (EFA) exercise. The Confirmatory factor analysis (CFA) is a theory driven and it has the ability to check the unidimensionality of the measurement model. With CFA, any item that does not fit the measurement model due to low factor loading should be removed from the model. It is imperative to perform the CFA for all latent constructs involved in this research due to the established theoretical framework used (Zainuddin, 2014). Confirmatory Factor Analysis (CFA) had been conducted on all items under three variables, i.e. service quality, customer satisfaction and customer loyalty. The results from unidimensionality testing showed that all items under seven dimensions of service quality, i.e. compliance, assurance, reliability, tangibles, empathy, responsiveness and after-sales service, items under customer satisfaction, as well as items under customer loyalty had achieved required unidimensionality after going through deletion process. In particular, all results of factor loading

obtained showed that all items had fit the measurement model due to all values were above cut off point of 0.60. Those results are obtained based on achieved required level of fitness. Result from CFA operation shows that only 28 items left to be tested for further analysis.

Result of Hypotheses Testing

The Effect of Service Quality on Customer Satisfaction

The regression coefficient indicated that only three factors have significant values and the balance four dimensions are with no statistically significance ($p > .05$) (see **Table 1**). The discussions below have been arranged from the highest to the lowest beta value. First dimension, i.e. after-sales services, regression coefficient showed there is a significant and positive impact with ($b = .370$, $t = 8.403$, $p = .000$). Therefore, hypothesis H_{1a} is supported, and it could be concluded that after-sales service has a positive impact on customer satisfaction. Second dimension, i.e. empathy, the result of regression coefficient showed that there is a significant and positive impact with ($b = .175$, $t = 3.353$, $p = .000$). Therefore, hypothesis H_{1b} is supported, and it could be concluded that empathy has a positive impact on customer satisfaction. Third dimension, i.e. responsiveness, showed a positive and positive impact with ($b = .174$, $t = 3.733$, $p = .001$). Therefore, hypothesis H_{1c} is supported, and it could be concluded that responsiveness has a positive impact on customer satisfaction.

The rest of four dimensions are not significant, i.e. (1) reliability, with impact ($b = .062$, $t = -1.216$, $p = .224$), hypothesis H_{1d} is rejected, (2) tangibles, with impact ($b = .042$, $t = -.869$, $p = .385$), hypothesis H_{1e} is rejected, (3) product compliance, with impact ($b = .011$, $t = .286$, $p = .775$), hypothesis H_{1f} is rejected, and (4) assurance, with impact ($b = .004$, $t = -.092$, $p = .927$), hypothesis H_{1g} is also rejected.

Table 1: Regression Model of Hypothesis

Variable	Hypothesis	t	Unstandardized Coefficient		Standardized Coefficient	
			Beta	Std. Error	Beta	Sig.
Constant			2.731	.492		.000
After Sales Services	H_{1a}	8.403	.267	.032	.370	.000
Empathy	H_{1b}	3.353	.124	.037	.175	.001
Responsiveness	H_{1c}	3.733	.132	.035	.174	.000
Reliability	H_{1d}	-1.216	-.042	.035	-.060	.224
Tangibles	H_{1e}	-.869	-.024	.027	-.042	.385
Product Compliance	H_{1f}	.286	.010	.036	.011	.775
Assurance	H_{1g}	-.092	-.003	.037	-.004	.927

The Effect of Customer Satisfaction on Customer Loyalty (Intention to Refinance)

The results of hypothesis 2 (see **Table 2**) has indicated that customer satisfaction factor has a positive and significant impact on intention to refinance, and the coefficient of determination R^2 of .284 showed that 28 percent of the variance in the intention to refinance is explained by customer satisfaction. The F-ratio is significant ($F_{(1,581)} = 230.829$, $p = .000$). The standardised coefficient indicated that customer satisfaction has a high beta of .533 and $t = 15.19$. It is revealed that customer satisfaction is one factor that caused the customer loyalty in Islamic banking which is constituted of about 28 percent contribution towards customer loyalty. Therefore, hypothesis H_2 is supported, and it is concluded that customer satisfaction has a positive impact on intention to refinance (behavioural loyalty).

Table 2: Regression Model of Hypothesis 2 (Intention to Refinance)

Variable	Hypothesis	t	Unstandardized Coefficient		Standardized Coefficient	
			Beta	Std. Error	Beta	Sig.
Constant			3.904	.271		.000
Customer Satisfaction	H_2	15.193	.472	.031	.533	.000

The Effect of Customer Satisfaction on Customer Loyalty (Word-of-Mouth Endorsement)

The result of hypothesis 3 (see **Table 3**) has indicated that the customer satisfaction has a positive and significant impact on word-of-mouth endorsement. The standard coefficient of determination (R^2) of .447 showed 44.7 percent of the variance explained in word-of-mouth endorsement by customer satisfaction. The F ratio is significant ($F_{(1, 581)} = 469.591, p = .000$). The standardised coefficient indicated that customer satisfaction has a high beta of .669 and with $t = 21.670$. with 44.7 percent variance explained on customer loyalty (word-of-mouth endorsement). This result indicated that most satisfied customer with the service would drive them to make a good recommendation to others. Therefore, hypothesis H_3 is supported, and it is concluded that customer satisfaction has a positive and significant impact on word-of-mouth (attitudinal loyalty).

Table 3: Regression Model of Hypothesis 3 (Word-of-Mouth Endorsement)

Variable	Hypothesis	t	Unstandardized Coefficient		Standardized Coefficient	
			Beta	Std. Error	Beta	Sig.
Constant			2.581	.274		.000
Customer Satisfaction	H_3	21.670	.682	.031	.669	.000

IMPLICATIONS AND RECOMMENDATIONS

There are several contributions made by this paper, whether for academics or today’s banking practices. The findings from this paper have significant relevance and great importance to both academician and banking practitioners. This paper contributes to the body of existing knowledge by providing a substantive understanding of service quality, customer satisfaction, and customer loyalty in Malaysia Islamic banking industry in systematic and precision manner using proposed theoretical framework. This paper also provides empirical evidence of a significant relationship that exists between service quality dimensions, customer satisfaction and customer loyalty (intention to refinance and word-of-mouth endorsement). However, there is a contrary result for demographic factors against theorised hypothesis. Result shows that there is no moderation effect of demographic factors against the relationship between service quality dimensions and customer satisfaction.

Academic Implications

In terms of theoretical implication (academic), the result of this paper has clarified and endorsed the relationship between service quality and customer satisfaction studied by previous researcher. Most of previous literatures suggested that there is an effect of service quality dimensions and customer satisfaction on customer loyalty (Sangeetha & Mahalingam, 2011 and Misbach et al., 2013). Essentially, the results of this paper contribute theoretically to academic discipline in several areas such as follows:

- (1) Understanding the causal relationship between service quality and customer satisfaction is of significant value to service offered and to bank managers, as both variables are predictors of customer loyalty, such as intention to refinance (behaviour) and word-of-

mouth endorsement (attitudinal) (Jamal & Naser, 2002). Findings from this paper show that service quality dimensions are antecedents of customer satisfaction and customer loyalty. This is in line with empirical findings reported earlier (Cronin & Taylor, 1992; Parasuraman et al., 1988; Seyanont, 2007; Mu'azu et al., 2013).

- (2) Based on the result from previous literatures, it is observed that the SERVQUAL, SERVPERF, and CARTER service quality models are multi-dimensional constructs (Cronin & Taylor (1992). This paper has applied and adapted several service quality models in social research, such as SERVQUAL and SERVPERF model, and also in banking research, such as CARTER model. Therefore, the outcomes of this paper indicate that the seven service quality dimensions as well as related variables under theoretical framework such as customer satisfaction and customer loyalty, will contribute to the service quality improvement and increase customer's perception towards Islamic banking industry. Thus, the proposed theoretical framework is appropriate to achieve the objectives of this paper.
- (3) Findings of this paper also have indicated that service quality dimensions are important to the provision of superior service quality as suggested by Parasuraman et al. (1988). A good after-sales service provided by Islamic banks is crucial in order to provide the best services in order to gain trust from customer. For instance, items related to repayment facility such as good and reliable ATM machines and also advisory of any legal disputes.

Bank Practices Implications

In terms of today banking practices, this paper has provided evidences that customers form service quality perceptions based on their evaluations on service quality dimensions, i.e. product compliance, assurance, reliability, tangibles, empathy, responsiveness, and after-sales service. The process of evaluation starts right from financing application up to after- sales service activities whereby the process occurs continuously until to the last payment of instalment or early settlement which will incur transferring of the car ownership from the bank to customer (Product Disclosure of Maybank Islamic Berhad & Bank Islam Malaysia Berhad, 2017).

However, even though results from service quality dimensions show that all dimensions had positive effect and relationship with customer satisfaction, but there are four dimensions with no significant results. It signifies that bank management has to focus on dimensions with significant effect, i.e. after-sales service, empathy, and responsiveness and then followed by not significant dimensions such as reliability, tangibles, product compliance and assurance. The post purchase aspect such as "after-sales service" of Islamic financing involves the technology aspect, such as financing repayment through computer system, while for interpersonal skills include regulatory advice, insurance assistance and related matters (Haque, (2010). In addition, the majority of the respondents are also highly impressed with the technology aspects of the service delivery. For instance, Maybank Islamic Berhad has introduced mobile internet solution whereby bank transfer and financing repayment can be made via mobile phones. Likewise, from acquired results, the weakness of the banks is reflected in the lower scores of service quality dimensions such as assurance, product compliance and reliability. This ensures that action taken by Islamic banks to improve service quality has been conducted according to the magnitude of the priority (significant level). The bank management of both, i.e. Maybank Islamic Berhad and Bank Islam Malaysia Berhad, have to be sure that the aspects, such as product features are best explained, product dealing and closing are done properly at the very beginning of meeting point with customers and also ensure that the promises by sales person are kept and service delivery is prompt (Muslim & Zaidi, 2008).

The conceptualisation of the dimensions that determine service quality helps to categorise customers across the seven dimensions. This model can greatly assist bank managers in understanding the ways their customers assess the quality of "service experiences". According to Cronin et al. (2000) three basic issues should be addressed; (1) what define service quality

perceptions, (2) how service quality perceptions are formed, and (3) the importance of service location. Thus, when these three factors are clarified, the managers will have clear direction as to what appropriate steps should be taken in order to improve customer perceptions of “service quality”. Customer profiles can be created to identify the core competency and weaknesses in the service offered. Precise issues can be further tailored and isolated by using the result of this profile. The identified service quality dimensions can be used to compare the service level with competitor service offerings (Laldin, 2008). For example, in Islamic banks, if data indicates that one bank has higher approval of financing application, probably due to the smooth and efficient procedures, the other bank can make comparisons based on the level of those achievements and therefore, can formulate the best plan in order to increase customer experiences. Therefore, the theoretical framework in this paper can guide the managers as they endeavour to enhance customer service experiences.

CONCLUSION

Overall, the correlation results show that there is a significant relationship between service quality dimensions and customer satisfaction, while, the results from regression testing show that only three service quality dimensions have positive effect on customer satisfaction, i.e. after-sales service, empathy and responsiveness, while the rest, i.e. reliability, tangibles, product compliance and assurance are not significant. Regarding those factors, i.e. assurance, product compliance and reliability, even though the items, such as interpersonal skills and knowledge are important, based on this research, customers focus more on other factors, such as after-sales service which are more related to the matters of post purchase experience. Thus, banks should holistically improve the service quality on lower correlated factors, such as assurance, product compliance or reliability in order to improve the overall performance of the bank. Otherwise it is hard for banks to maintain the customer loyalty due to stiff rivalry. Both banks, i.e. Maybank Islamic Berhad and Bank Islam Malaysia Berhad, should exercise good services offer to their customers with regards to officer ability, capability and also product features. One the most important aspects to be countered by banks is the training for their officers. This action should be taken seriously in order to refresh and upgrade the officer skill. As discussed from previous literature and findings of this paper, it is imperative for banks to attain and provide ample training to bank officers regarding service quality. The possible context of the training can be conducted based on the proposed service quality model from this research on how to increase the aspects of service quality, such as after sales services, empathy, responsiveness, tangibles, reliability, product compliance and assurance. The findings of this paper validate the fact that certain facets of service delivery, such as the quality of the human interaction between bank officer and customers, are still important even in today’s phase of information technological advancement. Although Islamic banks should focus and invest in resources of developing internet banking facilities, and improving the access to bank services, Islamic banks also need to pay attention to the unchanging aspect of service quality including the attitude of bank officers. At the end, only by recognising all the dimensions of service quality will the Islamic banking in Malaysia succeed ultimately in fulfilling the customers’ expectations.

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