

# Service Quality, Customer Satisfaction and Customer Loyalty: Preliminary Findings

Abror Abror, Dina Patrisia and Yunita Engriani

Department of Management, Universitas Negeri Padang, Jl. Prof Hamka, Padang, Indonesia

**Keywords:** Shariah bank, Service quality, Customer satisfaction, Customer loyalty, Structural Equation Modelling (SEM)

**Abstract:** Shariah banking is an emerging business recently. One of the important factors in managing the Shariah business, such as the banking sector, is how to create customer loyalty. This preliminary study examines the influence of service quality and customer satisfaction on Shariah bank's customer loyalty. The population of this study is the customers of Shariah banks in West Sumatera. We used Structural Equation Modelling (SEM) with Partial Least Squares (PLS) as the data analysis. This study found that the service quality has a positive and significant impact on customer satisfaction. Customer satisfaction is also a significant and positive antecedent of loyalty. Surprisingly, we found that service quality also has a positive and significant influence on customer loyalty. Hence, the link between service quality and customer loyalty has been partially mediated by customer satisfaction. Furthermore, some limitation and future study are discussed.

## 1 INTRODUCTION

The banking industry is an important sector in the financial system in Indonesia and it has the biggest market share in the financial industry (Darsono et al., 2017). According to the Financial service Authority survey in 2016, the financial inclusive index in Indonesia is 67,82% (Otoritas Jasa Keuangan, 2017). Hence, it means that 67.82% of Indonesian people have employed the financial service in their business activities.

Furthermore, Indonesia is the biggest Muslim population country in the world. In the Islamic perspective, all activities, including business and economics have to consider the Shariah law (Darsono et al., 2017). Therefore, we need another banking system which adaptable to the Shariah law. The Indonesian government has created special regulation for the Shariah banking which is compatible with the Shariah law. Consequently, some new Shariah banks have been established, such as Bank Muamalat, Bank Syariah Mandiri and some Shariah branches from conventional banks. However, the participation rate of the people to use this Shariah banks is still low (11.06%) in 2016 (Otoritas Jasa Keuangan, 2017). This situation has also happened in West Sumatera. In contrast, West

Sumatera or Minang Kabau is well-known as the religious province where its motto is "*Adat Basandi Syara', Syara' Basandi Kitabullah*". This motto means that all activities in the Minang Kabau culture should be based on The Al-Quran law. Presumably, the Shariah banks should be more acceptable in West Sumatera, however, we found the contrary evidence. Hence, the study on this situation is needed.

One important factor in managing a service business such as a bank is how to create customer loyalty (Bruneau et al., 2018). When the customer loyal to the product or brand, they will recommend that product to other people and that product will be more acceptable by the customer. Accordingly, we assume that this problem is a potential factor for the lower participation rate of the customer on Shariah banking in Indonesia (Kamran-Disfani et al., 2017). According to Murali et al. (2016), loyalty is the result of an organization creating a benefit for a customer so that they will maintain or increase their purchases (p.69). Loyalty has some influence factors, such as customer satisfaction, customer engagement and service quality (Han and Hyun, 2018, Kamran-Disfani et al., 2017, Meesala and Paul, 2018, Bruneau et al., 2018, Vera and Trujillo, 2013). However, research which focuses on the Shariah banking is still limited (Hassan and Aliyu,

2018). This study aims to examine the link between service quality, customer satisfaction and customer loyalty. This study is a preliminary study. It will contribute to give a better understanding of how service quality affects customer satisfaction and customer loyalty and how customer satisfaction influences the customer loyalty.

## 2 LITERATURE REVIEW

### 2.1 Customer Loyalty

Customer loyalty is an important factor in managing service such as banking sector (Kamran-Disfani et al., 2017). According to Thakur (2016a), “loyalty is a customer's intention or predisposition to purchase from the same seller or the same brand again and is an outcome of the conviction that the value received from the said seller/ brand is higher than the value available from other alternatives” (p.153).

Han and Hyun (2018) argue that loyal customers bring enormous advantages to every firm, such as allowing for a continuous profit stream and reduction of marketing/promotion costs (p.75). Loyalty has some antecedents, such as customer satisfaction, customer engagement, service quality and customer perceived value (Akamavi et al., 2015, Han and Hyun, 2018, Bruneau et al., 2018, Raïes et al., 2015). According to Meesala and Paul (2018), customer loyalty can be measured by using some items, such as intention to buy more products, prefers to buy that product compared to the competitor and the willingness to recommend the product to other potential customers.

### 2.2 Service Quality

Miranda et al. (2017) assert that service quality is the customer's perceived value of the service by comparing between perceived quality and service expectation. Furthermore, Parasuraman et al. (1988) have defined 5 dimensions of service quality, including tangible, assurance, reliability, responsiveness and empathy. Moreover, Miranda et al. (2017) have asserted 8 dimensions of service quality which are expanded from the Parasuraman's model. They added three more dimensions, including comfort, connection and convenience. According to some prior studies, service quality has a close relationship with customer satisfaction and customer loyalty (Miranda et al., 2017, Meesala and

Paul, 2018). Hence, the next part discusses the customer satisfaction construct.

### 2.3 Customer Satisfaction

Murali et al. (2016) assert that customer satisfaction can be perceived as the degree to which customer expectations of a product or service are met or exceeded as against the perceived performance (p.68). Customer satisfaction is the result of an objective evaluation of a product or service by comparing between customer perceived value and customer expectation (Kamran-Disfani et al., 2017, Meesala and Paul, 2018). Moreover, Han and Hyun (2018) argue that customer satisfaction refers to a pleasurable level of customer consumption fulfilment. Accordingly, we argue that customer satisfaction of Shariah bank's customer is the level of pleasurable consumption fulfilment of the customer by comparing the expectation and the perceived service quality. Some previous studies argue that when a customer such as Shariah bank's customer is satisfied with the service quality, he/she will be loyal to the bank in the future (Kamran-Disfani et al., 2017, Meesala and Paul, 2018, Han and Hyun, 2018, Murali et al., 2016, Thakur, 2016b).

### 2.4 Service Quality and Customer Satisfaction

Some previous studies have found that service quality has a significant impact on customer satisfaction (Meesala and Paul, Miranda et al., 2017, Murali et al., 2016, Vera and Trujillo, 2013). Meesala and Paul (2018) have investigated the link between service quality, customer satisfaction and customer loyalty in 40 private Indian Hospitals. They employed 180 undergone patients as the samples. They found that service quality has a significant impact on customer satisfaction. Furthermore, Vera and Trujillo (2013) have found that customer satisfaction in a consequence of service quality. Accordingly, we argue that service quality has a relationship with customer satisfaction (Miranda et al., 2017). From the discussion above we hypothesise that service quality has a positive and significant impact on Shariah banks' customer satisfaction (H1).

## 2.5 Service Quality and Customer Loyalty

Service quality might have a significant effect on customer loyalty (Meesala and Paul, 2018, Murali et al., 2016, Vera and Trujillo, 2013). Murali et al. (2016) have examined the link between customer satisfaction and customer loyalty in India. They studied 510 customers of a home appliances business. Their study found that service quality is a significant antecedent of customer loyalty. Whilst, Meesala and Paul (2018) have also studied the relationship between service quality and customer loyalty in 40 hospitals. They surveyed 180 undergone patients and found that service quality has a direct and positive impact on customer loyalty. In addition, Vera and Trujillo (2013) have also revealed that service quality has a direct and indirect positive relationship with customer loyalty. Therefore, we argue that service quality is a positive antecedent of customer loyalty, then, we propose a hypothesis that service quality is a positive and significant influence factor of customer loyalty (H2).

## 2.6 Customer Satisfaction and Customer Loyalty

Many previous studies have found that customer satisfaction has a significant effect on customer loyalty (Han and Hyun, 2018, Kamran-Disfani et al., 2017, Meesala and Paul, 2018, Murali et al., 2016, Vera and Trujillo, 2013). Meesala and Paul (2018) assert that one of the antecedents of customer loyalty is the customer satisfaction. When a customer has satisfied with the service quality, he/she will loyal to the product or service. Murali et al. (2016) have found a similar finding that customer satisfaction will lead to the customer loyalty. We argue that this relationship will also occur in the Shariah banking sector. However, this relationship has been investigated in other service sectors and the study on this link is still neglected in the Shariah financial sector. Therefore, we posit that customer satisfaction will positively and significantly influence the loyalty of Shariah bank's customer (H3).

## 3 METHODOLOGY

### 3.1 Sampling and Data Collection Procedures

The population of this study is all customers of Shariah banks in West Sumatera. However, for this preliminary study, we only used 30 respondents as the samples. The procedures of the data collection are: First, we sent the questionnaires to the customers of Shariah banks by using purposive sampling method. The criterion of the respondent is the respondent who has an active account in Shariah Bank. After we got 30 responses, the collected data have been coded and input to the SPSS programme.

### 3.2 Measurement

We have developed the measurement of constructs based on the previous studies. This study has three constructs, including service quality, customer satisfaction and customer loyalty. First, service quality measurement has been adopted from Karatepe et al. (2005) who have revealed four dimensions of service quality, including service environment, interaction quality, empathy and reliability. The sample of the items is "employees of this bank always help customers". Second, customer satisfaction measurements have been adopted from Meesala and Paul (2018). The sample of items is "I am satisfied with the overall services of this bank". Finally, the measurement of customer loyalty has been taken from Meesala and Paul (2018). This construct has four items, for instance "I will use this Shariah bank in spite of the competitors' deals". The data have been analysed by using Structural Equation Modelling (SEM) PLS with Smart PLS-3 as the software tools package.

## 4 RESULT AND DISCUSSION

### 4.1 Result

Before the main analysis with PLS, we have conducted some preliminary tests, such as normality, multicollinearity and heteroscedasticity (Abror and Akamavi, 2015, Wardi et al., 2018b, Patrisia and Dastgir, 2017). We also have done the validity and reliability test. Table 1 shows that all the constructs have a good construct validity and reliability (Abror and Akamavi, 2015) because we found that the Cronbach's alpha and Construct Reliability values

are  $\geq 0.70$  and the Average Variance Extracted values are  $\geq 0.50$  (Wardi et al., 2018a).

Table 1: Construct validity and Reliability

Variable	Cronbach's Alpha	Rho A	CR	AVE
SERVQUAL	0.88	0.89	0.90	0.54
SATISFACTION	0.70	0.76	0.87	0.76
LOYALTY	0.86	0.87	0.91	0.71

CR= Construct Reliability, AVE= Average Variance Extracted

We also conducted the discriminant validity test by using the square root of AVE in Table 2. The value of the square root of AVE in the diagonal should be greater than the correlation (Hair et al., 2013).

Table 2: Discriminant Validity

VARIABLE	1	2	3
LOYALTY	0.84		
SATISFACTION	0.64	0.87	
SERVQUAL	0.66	0.60	0.74

Note: Diagonal is the square root of AVE

Table 3: Construct Loading Factors

Constructs	Items	Mean	Std. Dev	Loading	$\alpha$	CR	AVE
<b>Service Quality</b>					<b>0.88</b>	<b>0.90</b>	<b>0.54</b>
	Employees of this bank have neat appearances	4.53	0.57	0.70			
	Employees of this bank are polite to customers	4.40	0.57	0.83			
	Employees of this bank are experienced	4.20	0.66	0.64			
	Employees of this bank instill confidence in customers	4.00	0.61	0.79			
	Employees of this bank are understanding of customers	3.77	0.73	0.77			
	Employees of this bank serve customers in good manner	4.23	0.68	0.80			
	There is a warm relationship between employees of this bank and customers	3.80	0.85	0.61			
	Employees of this bank are willing to solve customer problems	3.83	0.59	0.72			
<b>Satisfaction</b>					<b>0.70</b>	<b>0.87</b>	<b>0.76</b>
	I am satisfied with the overall services of this bank	4.10	0.81	0.61			
	The services of this bank meet my expectation	3.87	0.57	0.70			
<b>Customer Loyalty</b>					<b>0.86</b>	<b>0.91</b>	<b>0.71</b>
	I will increase the amount of my saving	3.67	0.76	0.81			
	I will use this Shariah bank in spite of the competitors' deals.	3.73	0.83	0.80			
	I would prefer to use additional products and services in this bank	3.60	0.77	0.84			
	I will recommend this bank to others.	3.99	0.74	0.90			

Table 3 shows the construct loading factors. This study found that all the constructs have high loading factors ( $\geq 0.50$ ) (Hair et al., 2013). Hence, we argue that all the constructs are valid. Furthermore, the main analysis shows that service quality is a significant and positive antecedent of customer satisfaction (H1). The service quality also has a significant and positive impact on customer loyalty (H2). Finally, we also found that customer

satisfaction positively and significantly affects the customer loyalty (H3). For the details please see Table 4 and Figure 1.

Table 4: Hypothesis Testing

Hypothesis	Coefficient	T Statistic	P Value
Servqual- Satisfaction	0.59	6.47	0.000
Servqual-Loyalty	0.43	2.43	0.015
Satisfaction- Loyal	0.39	2.38	0.018

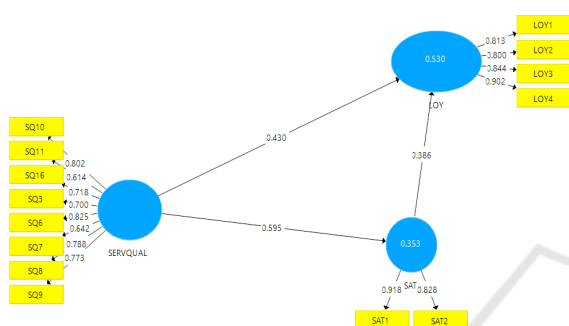


Figure 1: Research Model

Moreover, based on the  $R^2$  we found the contribution of service quality on customer satisfaction is 35% and the contribution of service quality and customer satisfaction on customer loyalty is 53%. Therefore, we argue that 47% of customer loyalty will be influenced by other variables.

## 4.2 Discussion

This study found that the service quality of Shariah bank has a significant and positive impact on customer satisfaction (H1). This finding is similar with some prior studies (Meesala and Paul, Miranda et al., 2017, Murali et al., 2016, Vera and Trujillo, 2013). For example, Meesala and Paul (2018) have investigated the link between service quality and customer satisfaction. They found that service quality is a significant and positive antecedent of customer satisfaction. Accordingly, when a Shariah bank's customer has perceived that he/she has got a good service quality, he/she will satisfy with the Shariah bank's services.

This study has also found that service quality of Shariah bank has a significant impact on customer loyalty (H2). This finding is in line with some prior studies (Murali et al., 2016, Vera and Trujillo, 2013, Meesala and Paul, 2018, Mugion et al., 2018).

Murali et al. (2016) have asserted that service quality also has a direct impact on customer loyalty. They argue that when a customer has a good perceived service quality, it will lead to a loyal behaviour, such as want to do repurchase intention or recommend that product to other people. In this context, when a customer of Shariah bank has perceived a high service quality, it will lead to a better customer loyalty.

Furthermore, this study found that customer satisfaction has a significant and positive impact on customer loyalty (H3). This finding supports prior studies, such as Han and Hyun (2018); Kamran-Disfani et al. (2017) and Meesala and Paul (2018). For instance, Han and Hyun (2018) have asserted that customer satisfaction will lead to customer loyalty. Hence, when a customer of Shariah bank is satisfied with the service quality, he or she will be loyal. For example, he/she will do more transaction at the Shariah bank or will recommend that Shariah bank to other people.

Finally, even though we found a significant direct impact of service quality on customer loyalty, this study has also revealed that service quality is a significant and positive mediating variable on the link between service quality and customer loyalty. Hence, it means that the customer satisfaction has a partial mediation impact on the link between service quality and customer loyalty. Therefore, by increasing the service quality, arguably, it will affect customer satisfaction which has a direct impact on customer loyalty.

## 5 CONCLUSIONS

This study has revealed that service quality and customer satisfaction are the antecedents of customer loyalty. Furthermore, we found that customer satisfaction is a mediating variable between service quality and customer loyalty. This study is not free from some limitations. For example, this is a preliminary study with a small sample; hence, it should be followed by the main study with a bigger sample size. For the main study, we will use 400 respondents from Shariah Banks in 4 cities in West Sumatera. We select the cities based on the Shariah Bank data from The Indonesia Central Bank (*Bank Indonesia*). Second, this study is a cross-sectional study; hence, it has a generalisability problem. Therefore, for the future study, we might expand it to a longitudinal study where the results might have a good generalisability.

## ACKNOWLEDGEMENTS

We would like to thank to Universitas Negeri Padang for its financial support, hence, by the university's research grant we can conduct this study.

## REFERENCES

- Abror & Akamavi, R. K. 2015. Psychological safety and organisational performance in Indonesian companies: Preliminary findings. *Applied psychology*. World Scientific.
- Akamavi, R. K., Mohamed, E., Pellmann, K. & Xu, Y. 2015. Key determinants of passenger loyalty in the low-cost airline business. *Tourism Management*, 46, 528-545.
- Bruneau, V., Swaen, V. & Zidda, P. 2018. Are loyalty program members really engaged? Measuring customer engagement with loyalty programs. *Journal of Business Research*, 91, 144-158.
- Darsono, Sakti, A., Suryanti, E. T., Astiyah, S. & Darwis, A. 2017. *Masa depan keuangan syariah Indonesia*, Jakarta, Indonesia, Tazkia Publishing kerjasama Bank Indonesia.
- Hair, J. F., Hult, G. T. M., Ringle, C. & Sarstedt, M. 2013. *A primer on partial least squares structural equation modeling (pls-sem)*, SAGE Publications.
- Han, H. & Hyun, S. S. 2018. Role of motivations for luxury cruise traveling, satisfaction, and involvement in building traveler loyalty. *International Journal of Hospitality Management*, 70, 75-84.
- Hassan, M. K. & Aliyu, S. 2018. A contemporary survey of Islamic banking literature. *Journal of Financial Stability*, 34, 12-43.
- Kamran-Disfani, O., Mantrala, M. K., Izquierdo-Yusta, A. & Martínez-Ruiz, M. P. 2017. The impact of retail store format on the satisfaction-loyalty link: An empirical investigation. *Journal of Business Research*, 77, 14-22.
- Karatepe, O. M., Yavas, U. & Babakus, E. 2005. Measuring service quality of banks: Scale development and validation. *Journal of Retailing and Consumer Services*, 12, 373-383.
- Meesala, A. & Paul, J. 2018. Service quality, consumer satisfaction and loyalty in hospitals: Thinking for the future. *Journal of Retailing and Consumer Services*, 40, 261-269.
- Miranda, S., Tavares, P. & Queiró, R. 2017. Perceived service quality and customer satisfaction: A fuzzy set qca approach in the railway sector. *Journal of Business Research*.
- Mugion, R. G., Toni, M., Raharjo, H., Di Pietro, L. & Sebathu, S. P. 2018. Does the service quality of urban public transport enhance sustainable mobility? *Journal of Cleaner Production*, 174, 1566-1587.
- Murali, S., Pugazhendhi, S. & Muralidharan, C. 2016. Modelling and investigating the relationship of after sales service quality with customer satisfaction, retention and loyalty – a case study of home appliances business. *Journal of Retailing and Consumer Services*, 30, 67-83.
- Otoritas Jasa Keuangan 2017. Survey nasional literasi dan inklusi jasa keuangan 2016. Jakarta: Otoritas Jasa Keuangan.
- Parasuraman, A. P., Zeithaml, V. & Berry, L. 1988. *Servqual: A multiple-item scale for measuring consumer perceptions of service quality*.
- Patrisia, D. & Dastgir, S. 2017. Diversification and corporate social performance in manufacturing companies. *Eurasian Business Review*, 7, 121-139.
- Raies, K., Mühlbacher, H. & Gavard-Perret, M.-L. 2015. Consumption community commitment: Newbies' and longstanding members' brand engagement and loyalty. *Journal of Business Research*, 68, 2634-2644.
- Thakur, R. 2016a. Understanding customer engagement and loyalty: A case of mobile devices for shopping. *Journal of Retailing and Consumer Services*, 32, 151-163.
- Thakur, R. 2016b. Understanding customer engagement and loyalty: A case of mobile devices for shopping. *Journal of Retailing and Consumer Services*, 32, 151-163.
- Vera, J. & Trujillo, A. 2013. Service quality dimensions and superior customer perceived value in retail banks: An empirical study on Mexican consumers. *Journal of Retailing and Consumer Services*, 20, 579-586.
- Wardi, Y., Abror, A. & Trinanda, O. 2018a. Halal tourism: Antecedent of tourist's satisfaction and word of mouth (wom). *Asia Pacific Journal of Tourism Research*, 23, 463-472.
- Wardi, Y., Susanto, P., Abror, A. & Abdullah, N. L. 2018b. Impact of entrepreneurial proclivity on firm performance: The role of market and technology turbulence *Pertanika J Soc. Sci. & Hum*, 26, 241-250.