ENHANCING CONSUMER LOYALTY IN ISLAMIC BANKING THROUGH THE APPLICATION OF CARTER

Sri Astuti Pratminingsih
Meriza Hendri
Ahmad Tasyrifan
Widyatama University Bandung, Indonesia

ABSTRACT

The Islamic banks development in Indonesia experienced very remarkable growth. Central Bank of Indonesia revealed that assets of the Indonesia Islamic banking industry has risen more than 35 times from $1.79 billion in 2000 to $100.8 billion in 2010, with an average of 53.32% growth per year over the past eight years. In spite of this phenomenal growth, Islamic banks only gain 3.2% of banking industry market share. In order to increase its market share in the modern customer centric competitive arena, the bank have to satisfy its customers. There has been evidence that when customers are satisfied they will become loyal customers of the bank. The purpose of this paper was to examine major factors that reflected customers’ perception and satisfaction on Islamic Bank. This research was conducted through the application of CARTER for evaluating service quality and its influence on customers’ satisfaction levels and customers’ loyalty in Islamic bank. Research was conducted in Bandung (Indonesia) with 300 customers as respondents. The survey questions were organized based on CARTER attributes. The collected data was analyzed by using SPSS software. The research findings indicated that service quality and customers’ satisfaction has a significant and positive relationship with customers’ loyalty.

KEYWORDS

Islamic Banking, CARTER, customers’ satisfaction, customers’ loyalty

INTRODUCTION

Islamic banking is a form of modern banking based on Islamic principles which are known as Shariah principles. These principles come from the sources of Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Anshori, 2007). One of the principles that must be adhered by Islamic banking is the prohibition of riba. Riba is an Arabic word which means of excess, increase, addition, expansion, or growth. Any interest or predetermined payment over and above the actual amount of principle which is riba is strongly prohibited in the Quran and Sunnah.

Islamic banking in Indonesia was introduced in 1992 when the first Islamic bank
(Muamalat Bank) was established under the Banking Act No 7/1992. After passing the first slow growth in period from 1992 to 1998, Islamic banking began to grow significantly in the last few years especially after the government issued the law no. 10/1998. By this law, conventional banks were allowed to offer Islamic banking services under dual banking system (Zubair, M.K, 2008).

Central Bank of Indonesia revealed that assets of the Indonesian Islamic banking industry has risen more than 35 times from $1.75 billion to $100.8 trillion at the end of 2010, with an impressive growth of 53.32% per year over the past eight years (Central Bank of Indonesia, 2010). The network of Islamic banking has also been widely expanded throughout the country. As of December 2009, the networks include 1,140 office and 1,805 sharia services in 32 provinces (Jakarta Post, 1st May 2010). Despite of this phenomenal growth, Islamic banking development in Indonesia has not been optimal. The Islamic bank customers in Indonesia is relatively small compare to conventional banking, only 6.5 million people and the Islamic banking market share only 3.2% of the banking industry (Central bank, 2009).

Islamic banking in Indonesia has huge opportunity to increase its market share because Indonesia is the largest Muslim country in the world, 88% of its population are Muslim. In enhancing its market share, Islamic banking needs to attract more customers and to retain its customers. Studies in banking industry indicated that the key strategy for winning the competition is the deliverance of quality services to customers (Parasuraman, et al, 1995; Othman & Owen, 2001; Ciptono, W & Elfira Sofiyanti, 2007).

This study adds to the existing literature by examining the performance of Islamic banking in delivering their services to the customers through a case study conducted in Bank Mandiri Syariah, Bandung Indonesia. The objective of this paper is to investigate the implementation of CARTER in Mandiri Syariah Bank and to measure its influence on customer satisfaction and customer loyalty.

LITERATURE REVIEW

The Development of CARTER Model

Islamic bank as a service provider has a unique feature compare to other service providers. One of the characteristics of Islamic banking that differentiate it with conventional banking is the application of syariah or Islamic rule on its operation. Base on this uniqueness, Othman and Owen (2001) developed CARTER model as an instrument to measure service quality in Islamic banking. CARTER model has six quality and perception dimensions, explicitly: “C” for Compliance, “A” for Assurance, “R” for Reliability, “Y” for Tangibles, “E” for Empathy, and “R” for Responsiveness.

Compliance is used to measure the ability to comply with Islamic law and operate under the principles of Islamic banking and economy. Assurance measure the knowledge and courtesy of employees and their ability to convey trust and confidence. It also included verbal and written communication between bank staff and customers. Reliability
measured the ability to perform the promised service, dependability and accuracy. Tangibles consisted of five variables to measure the appearance of physical facilities, equipment, personnel and communication materials. Empathy is used to measure caring, individualized attention which Islamic bank provided to its customers. Responsiveness was the variable to measure the willingness to help customers and provide prompt services (Othman, 2001).

Several studies showed that religion was not the only factors that determined customers to choose Islamic bank, service quality was still the main consideration for choosing the Islamic bank (Ciptono, WS etal, 2007, Khan Nasreen, 2010, Kertajaya, 2003, ). Safie. S, Wan Azmi $Haron. S. (2004) recommend that Islamic banks should implement service quality program continually. Service quality excellence is the way foward and key factors for success and sustainability in Islamic banks profesional hospitality (Ciptono and Sofyanti, 2007). Lam, Lo and Borton (2005) found that perceived service quality appears to be an important driver for customer satisfaction and banking loyalty.

CUSTOMER SATISFACTION

Customer satisfaction has long been regarded as a prerequisite for firm success since it is inextricably link to customer loyalty and retention (Kotler, 2008, Sharma & Patterson, 2000).

Oliver (1997) indicated that satisfaction is a judgement that a product or services feature or the product or service itself, provide a pleasureable level of consumption-related fulfillment, including levels of under or over fulfillment. Sharma and Patterson (2000) defined customer satisfaction as a post purchase evaluation of service following a consumption experience. Oliver (1997) pointed out that satisfaction itself is a desirable end state of consumption or patronization, it is a reinforcing, pleasurable experience. Satisfied customers will be more likely to use the service again, or will tell other potential customer positive things about the service (Patterson & Spreng, 1997). Khan Nasreen (2010) suggest that customers satisfaction directly affect behavior intention. If the customers have high satisfaction they decide to stay with their existing bank and say positive things to others.

CUSTOMER LOYALTY

The concept of loyalty has been recognized as one of the vital sources of corporate success and its competitive advantage. Enhanced customer loyalty in service firms led to greater profitability. Hesket et. al. (2008) argued that profit and growth were simulated primarily by customer loyalty. Loyalty was a direct result of customer satisfaction and satisfaction was largely influenced by the value of services provided to customers. Taylor (2007) identified the existance of two loyalty dimensions: behavioral (intention to repurchase, intention to change and intention to give exclusively to the service supplier); and attitude/cognitive (preference over a supplier, advocate the company, willingness to pay more, identification with service supplier).
Loyalty to a bank is thought to be a continuing patronage over time. The degree of loyalty can be gauged by tracking customer account over defined time period and noting the degree of continuity in patronage (Yi & Jeon, 2003). Williamson (1975) pointed the major advantages of customer loyalty: first, acquisition cost will decreased because fewer dissatisfied customers have to be replaced; second, long standing customers were not as price sensitive and, third, loyal customers could provide more feedback to the suppliers.

RESEARCH METHODS

Research Objective

The main objective of this research was to clarify the relationship among service quality, customer satisfaction and customer loyalty in Islamic bank in Indonesia and to describe and understand the conditions and phenomena, in order to better understand present conditions, and help in the decision making process. The samples were selected from the Islamic Bank customers in Bandung, Indonesia, which consisted of 300 customers. This research was classified as descriptive research based on the method of obtaining the data.

Instrument

The questionnaire of this study consisted three parts. The first part was service quality component based on the CARTER model by Othman and Owen (2001). The second component is customer satisfaction, and the third part was customer loyalty. A questionnaire was designed based on factors mentioned above and consisted of a series of statement (45 statements), respondent may either agree or disagree with these statements to varying degrees (using a five-point Likert scale). The results were graded using the five point Likert Scale ranging from 1- strongly disagree to 5 strongly agree. Items in demographic information questionnaire were selected by the researcher to yield descriptive information of the subjects. The demographic information questionnaire included such questions as: gender, age, education, number of years as customers, the banking service they used.

FINDINGS AND DISCUSSION

Respondent Profile

Based on 300 sample bank customers, the percentage of male and female respondents were 59 percent and 41 percent respectively, which showed the male dominancy of bank customers. In the whole sample, 55 percent were at the range of 21 to 30 years old, 28 percent were at the range of 31 to 40 years old, and 17 percent were more than 40 years old. In term of their occupation, 35 percent of respondents were public service officers, 35 percent were professional, 19 percent were entrepreneurs and 11 percent were students.
DESCRIPTIVE ANALYSIS

Measurement Assessment

Reliability was evaluated by assessing the internal consistency of the items representing using Cronbach’s alpha. The reliability of each construct was as follow: compliance = 0.914; Assurance = 0.855; Reliability = 0.834; Tangible = 0.784; Empathy = 0.899; Responsiveness = 0.748; Customer satisfaction = 0.871; Customer loyalty = 0.844 (see table I). All the values were above 0.7, exceeding the common threshold values recommended by Nunally (1978).

<table>
<thead>
<tr>
<th>Measurements</th>
<th>Factors</th>
<th>N</th>
<th>M</th>
<th>SD</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>Compliance</td>
<td>5</td>
<td>4.07</td>
<td>0.506</td>
<td>0.914</td>
</tr>
<tr>
<td></td>
<td>Assurance</td>
<td>5</td>
<td>4.16</td>
<td>0.517</td>
<td>0.855</td>
</tr>
<tr>
<td></td>
<td>Reliability</td>
<td>5</td>
<td>3.85</td>
<td>0.516</td>
<td>0.834</td>
</tr>
<tr>
<td></td>
<td>Tangible</td>
<td>5</td>
<td>3.97</td>
<td>0.526</td>
<td>0.784</td>
</tr>
<tr>
<td></td>
<td>Empathy</td>
<td>9</td>
<td>3.93</td>
<td>0.544</td>
<td>0.899</td>
</tr>
<tr>
<td></td>
<td>Responsiveness</td>
<td>5</td>
<td>3.98</td>
<td>0.466</td>
<td>0.748</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>7</td>
<td>4.25</td>
<td>0.407</td>
<td>0.871</td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>4</td>
<td>4.01</td>
<td>0.585</td>
<td>0.844</td>
<td></td>
</tr>
</tbody>
</table>

Validity

Construct validity determines the extent to which a scale measures a variable of interest. To assess the dimensionality of service quality in Islamic banking context, factor analysis was conducted. The results showed that six factors were extracted for service quality factors. A total 45 items were retained, the factors loading were above 0.7 indicating good discriminant validity. The instrument also demonstrated convergent validity with the factor loading exceeding 0.5 for each construct. In this study, Barlett’s test of sphericity (p=0.00) indicated the statistical probability that the correlation matrix had significant correlation among at least some of the variables., and the Kaiser-Meyer-Olkin measure of sampling adequacy (0.871) showed middling sampling adequacy.

THE CORRELATION OF SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

A multiple regression analysis was performed to examine the relationship among service quality, customer satisfaction and customer loyalty.
THE INFLUENCE OF THE SERVICE QUALITY ON CUSTOMER SATISFACTION

The results of the regression analysis indicated that the effects of the six service quality factors on the customer satisfaction was statistically significant ($F = 64.205, p < 0.05$) while 56.8% of the overall customer satisfaction was explained by the six factors of service quality.

Additionally, a regression coefficient from multiple regression analysis was used to identify the influential level that service quality factors have on the overall customer satisfaction. The coefficient indicated that the factors of responsiveness ($\beta = 0.370, p= 0.00$) and assurance ($\beta = 0.329, p= 0.00$) exerted the strongest influence on the overall customer satisfaction, closely followed by indicators of tangible ($\beta = 0.236, p= 0.00$). The factors of compliance ($\beta = -0.029, p= 0.490$), reliability ($\beta = -0.072, p= 0.146$) and empathy ($\beta = 0.096, p= 0.0.091$) did not show a statistically significant unique relationship with the overall customer satisfaction.

THE INFLUENCE OF THE SERVICE QUALITY ON CUSTOMER LOYALTY

To investigate the influential levels of six service quality factors on the overall customer loyalty, the multiple analysis method was also applied. This regression model considered customer loyalty to be a dependent variable and the six factors of service quality to be an independent variable was statistically significant ($F = 44.528, p < 0.000$) and 47.7% of overall customer loyalty was explained by the six factors of service quality. The regression coefficient revealed the factors empathy ($\beta = 0.299, p= 0.00$), responsiveness ($\beta = 0.247, p= 0.00$), assurance ($\beta = 0.137, p= 0.007$) and tangible ($\beta = 0.143, p= 0.028$). The factors of compliance ($\beta = 0.008, p= 0.862$) and reliability ($\beta = 0.055, p= 0.312$) did not show a statistically significant unique relationship with the overall customer loyalty.

THE INFLUENCE OF CUSTOMER SATISFACTION ON CUSTOMER LOYALTY

To investigate the influential levels of customer satisfaction factor on the overall customer loyalty, the multiple analysis method was also applied. This regression model considered customer loyalty to be a dependent variable and customer satisfaction factor to be an independent variable was statistically significant ($F = 332.706, p < 0.000$) 52.8 percent of overall customer loyalty was explained by the factor of customer satisfaction.

THE INFLUENCE OF SERVICE QUALITY AND CUSTOMER SATISFACTION ON CUSTOMER LOYALTY

The results of the regression analysis indicated that the effects of service quality factors and customer satisfaction on the customer loyalty was statistically significant ($F = 197.070, p < 0.05$) while 57.0 percent of the overall customer loyalty was explained by the factors of service quality and customer satisfaction.
DISCUSSION

The findings of the study indicate that service quality influence customer satisfaction. Responsiveness, assurance and tangibility are three service quality dimensions that influence significantly customers satisfaction and customer loyalty.

The study found that service quality was one of the determinants of satisfaction and loyalty. 56.8 percent of customer’s satisfaction change was explained by service quality. On the other hand, service quality had a direct relation with loyalty, and nearly 47.7 percent of loyalty change can be explained by service quality changes. The study also shown that 57 percent of loyalty changes can be explained by satisfaction and service quality.

The study also revealed that Responsiveness, Assurance and Tangibility were three service quality dimensions that influence significantly to customers satisfaction and customer loyalty.

Responsiveness refered to the willingness and ability of the banks employess to meet and adapt the customers’ needs. Assurance was the degree of trust and confidence the customer felt towards that the bank’s employees competence to provide the service. Parasuraman et al (1998) suggested that assurance to be particularly important for service must be one that the customer perceived as involving high risk or about which they felt uncertain on their ability to evaluate outcomes.

Both dimensions (assurance and responsiveness) reflects employees attitudes and behavior and human skills. This implied that customers value human skills the most, therefore banks should give more focus to the dimension of human skills in their work to increase customer satisfaction. Othman and Owen (2003) suggested that adopting service quality was worthless without training and motivation. Bank managers must train employees, reinforce the importance of customer service, and supervisors and managers must model, coach and reinforce the skills they expect their employees to perform in business. Tangibility was also influence the customer satisfaction and customer loyalty. This meant that customers also consider the appearance of bank’s facilities in their selection of their bank services.

CONCLUSION

Islamic banking in Indonesia still has a huge opportunity to grow because 85% of Indonesia populations are Moslems. In order to attract new customers and maintain existing customers, Islamic banks need to satisfy their customers in delivering their services. Satisfied customers will become loyal customers and loyal customers will increase business value and business cost will remain low as well.

The study find that service quality is one of the determinants of satisfaction and loyalty. 56.8 percent of customer’s satisfaction change is explained by service quality. On the other hand, service quality has a direct relation with loyalty, and nearly 47.7 percent of loyalty change can be explained by service quality changes. The study shows that 57
percent of loyalty changes can be explained by satisfaction and service quality.

The study also reveals that Responsiveness, Assurance and Tangibility are three service quality dimensions that influence significantly to customers satisfaction and customer loyalty.

LIMITATION

This research was conducted in one of Islamic bank in Bandung, West Java, thus may not be generalized to other Islamic banks. Therefore, more banks need to be investigated. It also suggested that other related factors of service quality such as human resources, organizational behavior, leadership and internal marketing be included in the future researches.

REFERENCES


Oliver (1997) Satisfaction: A behavior perspective on consumer, Boston, MA; McGrawhill.


Patterson, PG and Spreng, R (1998); An empirical examination of the relationship between, satisfaction and repurchase intention in a professional business to business service context (working paper), Sidney University, NSW


Yi and Jeon (2003); Effects of Loyalty program on value perception, program loyalty and brand loyalty; Academy of marketing Science, (31) (3) 229-240