

## **ROLE OF SERVICE QUALITY DIMENSIONS ON THE CUSTOMER SATISFACTION AND LOYALTY TOWARDS ISLAMIC BANKS**

**<sup>1</sup>HAFIZA SATAISHA ZAFAR**

**<sup>2</sup>AMMARA SARWAR**

<sup>1</sup>The University of Lahore, Sargodha Campus, Pakistan.  
e-mail: sataisha.786@mail.com,

<sup>2</sup>e-mail: ammara.sarwar@sgd.uol.edu.pk,

In the present research, the role of service quality is used to analyze the satisfaction level of Islamic banking customers in Pakistan. A preliminary questionnaire is applied to determine the factors that may influence customer's level of satisfaction and loyalty. In this regard, convenience sampling technique is employed. In addition, a sample of 152 respondents is used for the study. Furthermore, regression analysis is applied along with descriptive statistics and correlation analysis. The study depicts that all service quality dimensions have statistically significant and positive association with customer satisfaction level. Moreover, the empirical findings concluded that an individual satisfaction level plays an important role towards their loyalty. The results provide Islamic banking industry regulators, central bank, academicians and practitioners useful guides in their efforts to formulate adequate service quality mechanism to attract and retain more customers and to promote Islamic banking channels.

**Key Words:** *Customer Satisfaction; Islamic Banks; Loyalty; Service Quality.*

### **INTRODUCTION**

Islamic finance has grown and is being considered as a better alternative for dealing with the structural weaknesses of conventional financial system that was responsible for financial crises across the globe (Rasheed, Aimin and Ahmed 2012). Islamic banking is increasingly winning the confidence of consumers all over the world and that *Shari'ah* compliance is a comparative edge for Islamic financial institutions besides the basic customer demand of service quality. The global advancement in the Islamic banking practices has shifted the operations of financial

systems of the world, especially muslim economies, during the last couple of decades (ahmed, asutay and wilson 2013). Although, many people are still puzzled and addle about islamic banking practices not only in pakistan but also in other regions of the world. Islamic banking is getting recognition, yet conventional banking seems to be a well-established and biggest rival for this contemporary Islamic banking industry (Khattak, 2010). Therefore, for widening customer base and attracting new customer is a need of time and cannot be achieved without a good satisfaction level/loyalty of existing customers (Rahseed et al., 2012).

The term 'customer satisfaction' indicates the fulfillment that customers derive from doing business with a business entity. It measures the happiness level of customers with a product or service that is provided by an organization (hill & alexander, 2006). In simple words, customer satisfaction is a measure of how products or services meet or surpass expectations of the customers which are being supplied by the company. It is a vital component for the retail banking channels as it impacts greatly on the profitability of the banks (levesque & mcdougall, 1996). Due to dynamic nature of banking sector, as the competition increasing, both conventional and islamic banks are focusing on enhancing customer satisfaction by improving the standard of service quality in order to retain them for future business development (wisskirchen et al., 2006). Organizations and businesses can enhance their revenues and attain sustainable competitive position in the market through the help of customer satisfaction (Lewin, 2009). Wirtz (2003) find that a satisfied customer also leads to long term profits by making a customer loyal to the business entity. The continuation of conventional and Islamic banking has increased interest in the financial services in this digital age which require modernization and development and has become one of the major challenges for marketers to keep pace with the updated technology. With the introduction of first islamic bank in 1992 in pakistan banking sector, the country has witnessed the potential to grow in islamic banking system (khan & bhatti, 2008). After central bank binding to move towards *Shari'ah* compliant banking system by the year 2020, it can be observed that there has been a large potential for growth for islamic banks to meet customer satisfaction (cochran, 2003). Therefore, a research work is required to study the association among the service quality dimensions and how they impact on the customer satisfaction level and customer loyalty. Widening customer base and attracting new customer is a need of time and cannot be achieved without a good satisfaction level and loyalty of existing customers (Rahseed et al., 2012). Customers relate

their expectation to the service quality being provided by their banks and to achieve this, financial institutions are required to properly understand the needs and expectations of prospective customers to earn their loyalty (Wilson, 1995). Keeping with this background, this study tries to study the satisfaction level of customers and their loyalty within Islamic banking industry taking into consideration some important attributes of service quality in Pakistan.

This study deals with the following research objectives:

- i. To determine the factors that affect quality of service in Islamic banking sector of Pakistan.
- ii. To explore whether determinants of service quality have a statistically significant impact on the customer satisfaction level in Islamic banking sector of Pakistan.
- iii. To examine whether customer satisfaction leads to customer loyalty in the context of Islamic banking sector of Pakistan.

There are number of studies available related to conventional banking system stream, however, very precise research work is available regarding to Islamic banking system for the last few years on the Islamic banking system as per my knowledge. This study is conducted to cover the gap and check service quality impact on customer's satisfaction in this era where conventional banks also moved parallel to Islamic windows/branches. This study, like earlier researches, not only taken full-fledged Islamic banks to represent the whole Islamic banking stream but also consider conventional banks providing Islamic window operations. Moreover, SBP Vision 2020 also evolves a stable and distinct *Islamic banking* system based on Shariah principles. Thus, it is vital to conduct study on service quality attributes and check its influence on customer's satisfaction for its practical implementation over the period. This gap stimulated the researchers to conduct a study in Islamic banking domain. Section I presents overview concerning Islamic banking sector in Pakistan. Section II consists upon a rigorous literature review. Section III defines the research methodology. Section IV provides discussion on the research findings. Lastly, section V is based on conclusion and recommendations.

## LITERATURE REVIEW

Customer relationship management (CRM) is defined by many

researchers in different ways, say Kirmaci (2012) stated that it is an organizational business strategy focused to help management in developing customer oriented teams and systems which are customer oriented and help to provide customers with best of their services and products. It is organizational strategy for customer communication on proper and consistent basis for the sake of getting sales incentives (Azzam, 2014). Bozgeyik et al. (2005) argued that it is organizational strategy to follow its customers to gain revenues, meet their expenses and to obtain market shares by grasping the opportunities exist in target market. The cooperation and coordination between all the customers and all business departments is the main aim of the customers-oriented relationship management (Bozgeyik et al., 2005). For an organization, CRM is key driver to convert their current consumers into loyal satisfied customers (Bozkurt, 2000). The main focus of providing quality service is to make business profitable, building long term customers relationship with the focus of increasing productivity of firm to lower overall cost, and to create differentiation or customization by meeting the customer needs and demands (Ergunda, 2003). CRM results in customer loyalty as it promotes learning customer's needs, expectations and by meeting their requirements they try to achieve competitive advantage (Holloway, 2002). It is services or products offered to customer and their expectations upon which customer satisfaction depends if products or services above their expectations they got satisfied and eventually become loyal (Galbreath & Rogers, 1999). Gurbuz (2008) stated that customer satisfaction and relationship management become an important in case of banking sector and their need to retain and build positive relations with their potential customers. The banks and other financial institutions have direct connections and dealings with customers, so to build loyal customer association with clients they try to differentiate themselves on the bases of their services to their customers and continuous improvements going on there for it (Rouholamini & Venkatesh, 2011). It is acknowledged that conventional banks where Shariah compliance would not be practiced often have strong customer satisfaction levels (Mahamad & Ramayah, 2010). Othman and Owen (2001) conducted a research work to investigate service quality influence on satisfaction in Islamic banks. Shariah compliance is assumed as a sixth type of service quality by some researchers. In most of the cases SERVQUAL is used to judge the service quality to find the impact on satisfaction of customer and ultimately on their loyalty while certain uses CARTER as a scale that is a modified form of SERVQUAL which have six dimensions along

with the Shariah compliance factor. Earlier researches revealed that the SERVQUAL scale instrument with CARTER scale addition having significant results become efficient determinants for the customer satisfaction. First, Othman and Owen (2002) examined customer satisfaction in Shariah based financial institutes. In Malaysia, to check the customer satisfaction on service quality basis Tahir, Bakar, Ismail and Wan (2006) used the modified version of SERVQUAL and conclude that customers are unsatisfied to the service qualities offered by Islamic banks. But the customers of Islamic banks suggested and rated Shariah compliance as least important dimension among the quality service. Mahamad and Ramayah (2010) also conducted study to determine the influence of service quality on to the satisfaction level of customer among the Shariah compliant Islamic as well as traditional banks providing Islamic banking products. They concluded that Bank Islamic Malaysia Berhad was ranked the highest for compliance to Shariah law. However, for assurance, it has been ranked five. Participants in the same study investigating satisfaction of customer and service quality by Mahamad & Ramayah (2010) ranked Citibank as most important resource provider for other attributes such as empathy, assurance, reliability, and responsiveness which shows that bank has taking sufficient steps to satisfy customers. Erol and El-Bdour (1989) conducted quantitative study to explore behavior of both banking streams in Jordan. These early findings showed that factors such as efficient and fast services, the credibility of the bank, and confidentiality were the main attributes in selecting the financial institute. Naser, Jamal and Al-Khatib (1999) in their study figure out that reputation of the bank and religious factor are the two prominent variables that patronage the individuals to open an account into the Islamic banks. It has been suggested that organization should improve their services to meet the demands and requirements of customer (Hanson, 2000).

According to Gonring (2008) organizations found it tiresomely difficult to retain their customers which is often tested through customer satisfaction and loyalty surveys. The satisfied customers show loyalty which brought business to the organization, while the dis-satisfied customers leave the organization and loss to the business. Whereas, literature confirms that efficient management and utilization of organizational resources are the key concepts of organizational survival and growth that service sector also following for success. Hence, in Health Sector if service delivery is not up to the mark patients will no longer believe on public hospitals. In

the banking industry, there are many dimensions actually of service quality. Parasuraman, Berry and Zeithmal (1991) discover factors that connected with service quality are reliability, responsiveness, skills, accessibility, politeness, conversation, reliability, stability in addition to tangible factors. Service sector focusing on increasing efficiency through decreasing unnecessary bureaucratic formalities, organizational hierarchies, structure, operations, culture and traditions, and creating conducive, responsive and collaborative environment for achieving organizational goals. Wa-Mwachai (2012) research highlighted that rigidness, inconsistency and irresponsiveness in service sector not only deteriorate the service quality but also diminish the satisfaction and confidence of customers. Therefore, most of services sector studies, suggest the necessary improvements in services quality, either by reforming organizational structure, redefining organizational culture and traditions or applying the innovative approaches of service provision.

1. Tangibility is the account of any firm's actual structures and features which has effects on with their ability to offer solutions dependably and precisely to help their customers. It is usually considered to involve actual factors linked to services like musical instruments and apparatus, folks, actual features similar to houses and pleasant adornment and other visible services features (Mohammad & Alhamadani, 2001).
2. Assurance has been defined as the ability for customers to feel safe in their transactions. Assurance is a circumstance in which the behaviors of employees working in the bank look for to instill confidence within customers along with making sure that they will think risk-free because of their transactions (Parasuraman, Zeithaml & Berry, 1988).
3. Parasuraman et al. (1988) define **empathy** as the supply involving patient as well as person awareness with the firm in order to the customer. Throughout they prolonged this kind of explanation to incorporate businesses: 1) acquiring operating a long time handy to any or all the customers, 2) finding the customers' needs as the primary goal, 3) acquiring an understanding of the certain desires of these shoppers. Employees who work with socially responsible companies see themselves as an extension of these companies, are more satisfied with their jobs and have high self-esteem because they are empathetic.
4. Responsiveness is all about the particular readiness associated with companies to aid buyers by simply educating buyers the particular along with particular occasion while service will likely be executed along with making sure the particular solutions are generally induced along with personnel replies may also be induced (Arasli et al., 2005).

5. Reliability is the capacity for the firm to perform stated companies in a trusted and a precise method (Parasuraman et al., 1988). Reliability has to do with the provision of services at the appropriate specified time period along with determination to aid consumers. It also embodies an organization image resolution to make sure error-free information along with companies.

Vilnai-Yavets and Rafaeli (2006) find that customers are more satisfied if the physical or online environment has aesthetic ambience. Sanchez-Franco and Roldan (2005) found that website design and aesthetics significantly impact the appearance of the online experience which also influences user's emotional reactions. Aesthetically designed websites attract the customers and enable them to stay and surf more on the website, thus ultimately enhancing the chances for online buying (Nusair & Kandampully, 2008). Jeon and Jeong (2016) study had adopted a loyalty development framework to investigate the casual linkage between perceived service quality, website quality, satisfaction, loyalty and return intention. The research contributed that satisfaction and return intention plays a mediating role while gender acts as a moderating factor. Many customers have different level of satisfaction after encountering the same experience or service (Ultschy et al, 2007). Carden and Dellifrain (2004) shows that satisfaction of customer may be defined as the post purchase behavior framed by the contrast of the quality that customer requires to get from an exchange perceives actually receiving from an exchange. Mcquilty, Fin and Wiley (2000) highlighted that due to the evaluative course of action customer satisfaction using affective components, evaluating pre-purchase expectations, and using awareness of efficiency developing the particular attitudinal view. Judgment of satisfaction may possibly occur through low quality difficulties such as value, desires, as well as awareness regarding justness, and it requires expertise while using the provider or even support (Al-Eisa & Alhemoud, 2009). Due to its importance, it is closely associated with customer retentions as well as commitment which increase the future sales, increase spending of customers and building relationship among user and the supplier that enhance the level of customer tolerance for services and products failures (Homburg, Koschate & Hoyer, 2005). For an organization, customer satisfaction is key driver on which the customers realize their power and make organization to listen them. Organizations become more customer oriented to sustain their existence, to develop and to capture the market share (Kirmaci, 2012). The main focus of the customer satisfaction is to

make profitable, long term customers relationship with the focus of increasing productivity of firm to lower overall cost, to create differentiation or customization by meeting the customer needs and demands (Azzam, 2010). This customer satisfaction also results in customer loyalty as it promotes learning customer's needs, expectations and by meeting their requirements they try to achieve competitive advantage (Holloway, Wang & Beatty, 2009). The main concern of the customer satisfaction is to make profitable, long term customers relationship with the focus of increasing productivity of firm to lower overall cost, to create differentiation or customization by meeting the customer needs and demands (Ergunda, 2003). This customer satisfaction results in customer loyalty as it promote learning customer's needs, expectations and by meeting their requirements they try to achieve competitive advantage (Park & Holloway, 2003). It is services or products offered to customer and their expectations upon which customer satisfaction depends if products or services above their expectations they got satisfied and eventually become loyal (Lodenus, 2011). The service sector constitutes the present globalized socio-economic system (Wa-Mwachai, 2012). In today's competitive business environment, it is becoming tiresomely difficult for organizations to sustain their competitive advantage. (Peirson, Brown, Easton, and Howard, 2014) argued that service sector organizations had been finding ways through effective organizational service strategies to provide the good service quality to their customer for the organizational success. Yuen and Thai (2017) also suggested, to sustain the organizational advantage over their rivals by improving service quality, organizations are struggling towards fulfilling customers' expectations through focusing on their 'needs' and 'demands' and also timely reviewing their economic circumstances, technology and the global trends.

Afsar, Rehman and Shahjehan (2010) argued that satisfaction to be achievement to need previous usage knowledge and also depends upon price tag while quality may be understood without having always demanding a new previous usage knowledge and also won't generally depends upon price tag (Zavareh et al., 2012). Carden and Delli Frain (2004) argued that satisfaction is a behaviour following the purchase framed by the contrast of the quality that the customer requires an exchange really does receive in exchange. McQuitty, Finn and Wiley (2000) stated customer satisfaction as the evaluative course of action to help evaluate affective components pre-purchase expectations with the help of efficiency consciousness development of the attitudinal perspective. Based on the

previous studies, it has been observed that there are number of studies are available related to conventional banking system stream, however, very precise research work is available regarding to Islamic banking system for the last few years. This study is conducted to cover the gap and check service quality impact on customer's satisfaction in this era where conventional banks also moved parallel to Islamic windows/branches within Pakistan. This study, like earlier researches, not only taken full-fledged Islamic banks to represent the whole Islamic banking stream but also take into account conventional banks providing Islamic window operations. This gap stimulated the researchers to conduct a study in Islamic banking domain.

### Hypothesis of the Study:

**H1:** Service quality dimensions have a significant impact on the satisfaction and loyalty of the customers.

H1a: Tangibility leads positively to the satisfaction and loyalty.

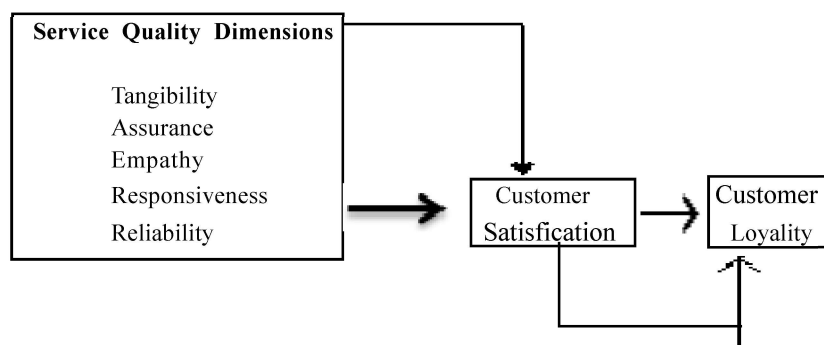
H1b: Assurance leads positively to the satisfaction and loyalty.

H1c: Empathy leads positively to the satisfaction and loyalty.

H1d: Responsiveness leads positively to the satisfaction and loyalty.

H1e: Reliability leads positively to the satisfaction and loyalty..

**H2:** Customer satisfaction leads to the customer loyalty in the Islamic banking sector of Pakistan.



**Fig 1.**

Framework of the Study

## RESEARCH METHODOLOGY

The research study is essentially of a descriptive in nature, as it describes Islamic Banking customer's responses for identified variables

of study. The research study is specifically designed to determine the service quality factors which play an important part in satisfaction and loyalty of Islamic banking customers with special emphasis on the Pakistan's Islamic banking industry. Primary source of data collection is employed to collect data through designing an appropriate research instrument. The population for this study is the Islamic banking customers of 5 full-fledged Islamic Banks and Islamic banking windows being operated through conventional banks of Pakistan. The sample of study is taken from full-fledged Islamic banks as well as from Islamic windows. Convenient sampling technique has been used to get sample from the population. This method has edge as customers are well acquainted with staff and have a better degree of willingness to respond. The questionnaire is also filled by direct interaction with the Islamic banking customers. The responses have been collected from the Islamic banking customers residing in Lahore, Pakistan. A pilot study was conducted before undertaking the actual survey. For collecting the data, the questionnaire is designed, and an initial pilot testing of the questionnaire is done from 40 respondents. The changes that were suggested by experts from Islamic banking are incorporated, and then finally the research data is directly collected from Islamic banks and Islamic windows through the questionnaires with the support of Islamic banking staff and through personal visits. A sample size of 180 respondents has been used for the study. However, out of 180 questionnaires distributed; only 169 questionnaires have been responded. Upon scrutiny it has been found that 17 questionnaires were either blank in some fields or filled without understanding e.g. all fields are marked as 5 or 1. Only 152 responses were properly filled up and analyzed. This represents a response rate of 76%. The gathered data is processed with the help of SPSS software. Reliability refers to the extent that same answers will be obtained by using the same instruments. It is consistency and stability in the findings. For example, like research is related with high level of reliability then researcher needs to obtain according to the same results by using the same techniques. Wilson (2010) explains that reliability issues are more related to the subjectivity of time, once the researcher adopts it then the level of reliability work will be compromised. Table 2 shows that the alpha value for most of the scales closer to or above 0.7, which means that the survey instrument is reliable for further continuing our research work.

**Table 1.** *List of Variables Used for Study*

<b>Sr. #</b>	<b>Variable/Construct</b>	<b>Earlier Studies</b>
1.	Service Quality:Tangible	Iliachenko (2006); Liu et al. (2009); Sheng and Liu (2010); Javadi (2011); Khan et al. (2017)
2.	Service Quality: Reliable	Parasuraman, (1994); Zeithaml et al. (2000); Yang et al. (2004); Sung et al. (2009); Ariff et al. (2012); Al-Hawary and Al-Smeran (2017); Khan et al. (2017)
3.	Service Quality: Responsiveness	Parasuraman, (1994); Iliachenko (2006); Ahmad (2009); Al-Hawary and Al-Smeran (2017)
4.	Service Quality: Assurance	Bresselles and Durrieu (2008); Ariff et al. (2012); Khan et al. (2017)
5.	Service Quality: Empathy	Parasuraman, (1994); Ahmad (2009); Khan et al. (2017)
6.	Customer Satisfaction	Wang et al (2001); Ariff et al. (2012) Ahmad (2009)
7.	Customer Loyalty	Lam et al. (2004); Hawary and Al-Smeran (2017)

## DATA RESULTS AND FINDINGS

As this research study was conducted to find out the determinants/items of service quality that influence on the loyalty and satisfaction of customers of Islamic banks in Pakistan, so it is considered that the appropriate target population should be aged above 18 years and are involved fully or in partial in the banking dealings. Respondents should be

educated and most commonly belongs to the background of banking and finance background; so that they can understand the importance of research. The demographic summary statistics of the respondents are given in Table 3.

**Table 2.** *Reliability Analysis of Constructs*

<b>Variables</b>	<b>No. of Items</b>	<b>Cronbach Alpha Value</b>
Service Quality:Tangible	03	0.716
Service Quality: Reliable	05	0.777
Service Quality: Responsiveness	04	0.759
Service Quality: Assurance	04	0.710
Service Quality: Empathy	05	0.759
Satisfaction Level	04	0.804
Customer Loyalty	05	0.876
Overall	30	0.951

### **Reason for choosing Islamic Bank's Products/Services**

Table 4 lists the participant's responses pertaining to reasons for choosing the Islamic banks specific products and services. 5.92% choose Islamic banks products/services due to fast and friendly services, 40.79% chooses due to its products Shariah compliance nature the main ingredient that differs it from the conventional bank products), 25.66% chooses Islamic banks products/services due to higher profit on investments (ROI), 9.21% for availability of finance facilities, 3.29% for provision of credit cards and 15.13% due to the Islamic banks reputation in the market.

### **Correlation Analysis**

To overcome the issue of multicollinearity, correlation matrix is used. Table 5 shows that all variables are not interdependent on each other and lacks correlation among them as the value of each variable is less than the 0.70, which means that all variables are free from the issue of correlation (multicollinearity), which may be confirmed later on after performing variance inflation factor (VIF) test.

**Table 3.** *Descriptive Statistics*

		<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Gender	Male	116	76.3	76.3
	Female	36	23.7	100.0
Marital Status	Single	68	44.7	44.7
	Married	84	55.3	100.0
Age (years)	20-30	68	44.7	44.7
	31-40	58	38.2	82.9
	41-50	20	13.2	96.1
	51 & Above	6	3.9	100.0
Education	Intermediate & Below	6	3.9	3.9
	Bachelor Degree	60	39.5	43.4
	Master Degree	86	56.6	100.0
Income per Month	Less than 30,000	42	27.6	27.6
	30,000 - 40,000	38	25.0	52.6
	40,001 - 50,000	48	31.6	84.2
	50,000 & Above	24	15.8	100.0
Type of Bank	Fully Fledged	92	61.2	61.2
	Islamic Bank			
	Islamic Window	60	38.8	100.0
	<b>Total</b>	<b>152</b>	<b>100.0</b>	

**Table 4.** *Reason for choosing Islamic Bank's Products/Services*

<b>Reason</b>	<b>Frequency</b>	<b>Percent</b>
Higher Profit on Investment	39	25.66
Shariah-Compliance	62	40.79
Services (Faster / Friendly)	9	5.92
Credit Card Provision	5	3.29
Availability of Finance Facilities	14	9.21
Bank Reputation	23	15.13

**Table 5. Correlation Matrix**

	Ass	Emp	Rel	Res	Tan	S	L
Assurance	1						
Empathy	.574**	1					
Reliability	.583**	.475**	1				
Responsiveness	.549**	.536**	.636**	1			
Tangibility	.404**	.393**	.528**	.484**	1		
Satisfaction	.545**	.656**	.575**	.568**	.573**	1	
Loyalty	.540**	.567**	.605**	.539**	.612**	.765**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### Regression Analysis

Two regression models are used for conducting the study. The regressions for both models are discussed below:

#### Regression Analysis for Model # 01

The factors of service quality that have an influence on customer satisfaction in Islamic banking sector of Pakistan is estimated through the following multiple regression model.

$$CS = \alpha + \beta_1AS + \beta_2EM + \beta_3RE + \beta_4RS + \beta_5TA + T... (B)$$

Where,

CS	=	Satisfaction
AS	=	Assurance
EM	=	Empathy
RE	=	Reliability
RS	=	Responsiveness
TA	=	Tangibility
$\beta$ 1-5	=	Coefficients
T	=	Error Term

Table 6 provides the multiple regression coefficients for the Model

1. The model shows R-square value of 0.587. This means that all the variables account for 58.7 percent of satisfaction level variability, while the remaining variation can be explained by other independent variables or factors which are not considered for this study. Overall, the model is statistically fit as the F-statistics significant value is less than the 0.05 level of significance. Furthermore, the F-statistics value is also less than the critical value of 41.417 at the 5 percent significance level indicating that model is fit statistically.

**Table 6. Multiple Regression Analysis**

<b>Regression</b>	<b>Statistics</b>
Multiple R	0.766
R Square	0.586
Adjusted R Square	0.572
Standard Error of Estimate	0.491
F-statistics	41.417
Prob (F-statistics)	0.000

**Table 7. Regression Coefficients**

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>	<b>Collinearity Statistic</b>	
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>			<b>Tolerance</b>	<b>VIF</b>
(Constant)	.139	.262	.531	.596			
Assurance	.084	.078	.079	2.086	.039	.839	1.192
Empathy	.420	.075	.385	5.569	.000	.772	1.295
Reliability	.148	.080	.143	1.848	.067	.773	1.294
Responsive-ness	.097	.075	.097	5.290	.000	.875	1.143
Tangibility	.235	.057	.267	4.117	.000	.590	1.695

a. Dependent Variable: Satisfaction

The findings from the regression model (Table 7) indicates that

there is positive and statistically significant influence of reliability, assurance, tangibility, responsiveness and empathy on the dependent variable (satisfaction) as the p-value is less than the level of significance of 0.05. This means that all five dimensions of service quality are the significant determinates of the satisfaction level. Therefore, we fail to reject H1a, H1b, H1c, H1d and H1e. The beta coefficient of assurance tells that 1 percent increase in its value results in 0.084 percent increase in satisfaction level, keeping other variables constant. Similarly, 1 percent increase in the empathy value results in 0.420 percent increase in satisfaction, 1 percent increase in the reliability value results in 0.148 percent increase in satisfaction, 1 percent increase in the value of responsiveness results in 0.097 percent increase in satisfaction value, and 1 percent increase in the tangibility value, increase satisfaction level value by 0.235 percent.

### **Regression Analysis for Model # 02**

Table 8 provides the simple regression coefficients for the Model 2. The model shows R-square value of 0.585. This means that satisfaction variable account for 58.5 percent of loyalty variability. Overall, the model is statistically fit as the F-statistics significant value is less than the 0.05 level of significance. Furthermore, the F-statistics value is also less than the critical value of 211.545 at the 5 percent significance level indicating that model is fit statistically. Thus, one can say that this model can be used to predict the loyalty.

**Table 8.** *Regression Statistics*

<b>Regression Statistics</b>	
Multiple R	0.765
R Square	0.585
Adjusted R Square	0.582
Standard Error of Estimate	0.523
F-statistics	211.545
Prob (F-statistics)	0.000

Table 9 also depicted that there is a statistically significant and positive association between satisfaction level and loyalty at the 0.05

level of significance. Therefore, we fail to reject H2 and concluded that satisfaction is a significant determinant of loyalty. The research hypothesis is accepted with a coefficient ( $\beta$ ) of 0.825 and p-value (Sig) of 0.000. An increase of 1 in satisfaction level of customers in the equation would increase loyalty by 0.825.

**Table 9.** *Regression Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistic	
	B	Std.	Beta			Tolerance	VIF
1 (Constant)	.658	.219		2.99	.00		
Satisfaction	.825	.057	.765	14.54	.00	1.000	1.00

*a. Dependent Variable: Loyalty*

### Test of Normality

The results for the normality test are shown in Table 10. In SPSS, two types of normality tests are run. One is Shapiro-Walk test which is used if we have a data set of less than 2000 observations, while Kolmogorov-Smirnov test is used for the elements greater than 2000.

**Table 10.** *Test of Normality*

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Assurance	.110	152	.200	.964	152	.301
Empathy	.103	152	.200	.976	152	.278
Reliability	.095	152	.200	.973	152	.274
Responsiveness	.145	152	.200	.965	152	.341
Tangibility	.172	152	.200	.933	152	.370
Satisfaction	.147	152	.200	.957	152	.346
Loyalty	.125	152	.200	.944	152	.322

*a. Lilliefors Significance Correction*

## CONCLUSION AND IMPLICATIONS

Islamic Banking claim to be entirely different from the conventional system of banking is the core comparative edge beside the basic need of service quality. The study inspects the association among dimensions of service quality, customer satisfaction and customer loyalty. The findings of this study conclude that there is strong association between different dimensions of service quality customer satisfaction leading to the customer loyalty in Islamic banking customers of Lahore Pakistan. It has also been concluded that the people from age range 20-40 are more inclined to Islamic banking. It is also found in this research that managers are supposed to advance the quality of bank services to maintain their clients as satisfied and loyal customers for long lasting advantage. The study established awareness about the association among customer relationship management and customer satisfaction concerning Islamic banking of Lahore, Pakistan.

The research study likes to propose some theoretical and practical recommendations for the better understanding of the problem statement and objectives. Research and development is a need of time for Islamic banking industry. Islamic banks should develop innovative products to satisfy the needs of its growing customers. Research is a basic element for speedy and sustainable growth. All stakeholders, bankers, practitioners and scholars should get together and realize the vast potential of Islamic banks. Despite of the fact of vital growth, Islamic banking industry (Pakistan) is facing numerous challenges. There is a lack of trained human resources and fewer understanding of common Islamic banking model among general public. This study looks at the customer relationship management with core element of customer satisfaction and loyalty by selecting a number of customers from Islamic banks and Islamic windows of conventional banks from Lahore Pakistan. Islamic banks should develop awareness and understanding about its products/services to content with conventional banks. Another important element is upholding the motivation level of Islamic bank employees so that their knowledge, appearance, attitude and service quality shows the glimpse of Islamic culture to attract the customers for long lasting benefits.

### Future Study

- The extent of this study is limited to the sample of some selected

Islamic stream banks and windows geographically located at Lahore on the basis of convenience sampling the future study may be expanded to large number of samples with wider geographical scope.

- Some other dimensions of Shariah based compliance may be included keeping in view the social setup of Pakistan. A research should be conducted to explore the elements on which even customers of Islamic banks are not totally convinced or have some misconception. The removal/understanding of these kinds of issues will yield in a better degree of loyalty.
- The customers of conventional banks may be researched for their views against Islamic Banking and steps to be taken to create awareness among them. The later research work explores the convincing techniques, helpful for Islamic banks to fetch the customers from conventional banking.
- The term customer relationship management has wider scope and factors like convenient location, standard transaction processing time, switching barriers etc. may also be added in future research to have a better outlook of the customer's selection of Islamic banks and their loyalty.

### **Research Limitations**

The sample size is quite small due to limited budget and shortage of time. Thus the research results may show some instability of measures and may bring in some degree of biasness. Besides that the respondents are the customers of selected Islamic banks which are located and taken from a single city of Punjab, Pakistan. They may not represent the breakdown of Islamic banking customers in Pakistan. Further research may be conducted on a wider sample. This would provide more generalized conclusions for Islamic banks.

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