

Incorporating Attitude towards Islamic Banking in a Customer Loyalty Model

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Abstract: The objective of the study is to examine the mediating effect of switching costs between the relationship of customer satisfaction on customer loyalty in Islamic banking. 283 respondents were used as samples using purposive sampling. By structural equation model (SEM) the findings show that of the six hypotheses, five hypotheses are supported, one hypothesis is not supported. The results of the study show, customer satisfaction affects customer loyalty both directly and indirectly through switching costs. These results are supported by previous findings, and at the same time, they reveal that switching costs do not fully mediate the influence of customer satisfaction on customer loyalty. The direct influence of customer satisfaction on customer loyalty shows the evidence.

1 INTRODUCTION

(Oliver, 1997) states that loyalty is a strong cause to reorder a product for customers consistently in the future. It is substantially important for the company because it can be an inhibiting factor for competitor, increasing a company's ability to respond to competitive threats to the company, increasing more sales and income, and reducing customer sensitivity to competitors' marketing efforts (Delgado-Ballester and Munuera-Aleman, 2002). In Islamic banking, customer attitudes towards Islamic banking can have an influence on improving service quality and customer satisfaction. Attitudes are dispositions to respond favorably or unfavorably to products, people, institutions or events (Ajzen, 2005). Meanwhile, (Berkowitz, 1972) considers attitudes as individual internal conditions that influence individual choices to display behavior towards objects, people or events. According to (Rizwan et al., 2014) attitudes towards Islamic banking include the following: the level of customer preference in choosing Islamic banking; always see the label "Islamic" in choosing banking products; Islamic bank products are important for customers; using Islamic banking products is the customer's own choice; and the closest people to customers also use Islamic banking products. Still according to (Rizwan et al., 2014) attitudes towards Islamic banking affect customer perspective of service quality and complacency.

In addition to attitudes towards Islamic banking affecting customer satisfaction, service quality also affects customer satisfaction. Service quality is a level of excellence to meet consumer expectations (Zeithaml et al., 1990). And service quality is formed by comparison between ideal and perceptions of quality performance (Oliver, 1997). (Scaglione, 1988) states that if consumers get less service quality from the company, they will show signs of leaving the company or reducing their spending. (Hafeez and Muhammad, 2012) revealed that increasing customer satisfaction through improving service quality can maintain customer loyalty.

Customer complacency play crucial role to create customer loyalty. They are able to give several beneficial factors in creating customer complacency, increasing organization esteem, reducing price elasticity, reducing transaction costs and increasing employee efficiency as well as productivity (Anderson et al., 1993). Besides that, customer satisfaction is also seen as one of the best indicators for future earnings (Hayes and Bloom, 2002). Furthermore, according to (Fornell, 1992), they could increase not only customer operating costs caused by increasing number of customers, and increase advertising effectiveness as well as business reputation.

(Aydin and Özer, 2005), say that the increased switching expense is able to avoid losing customers. Likewise, (Chadha and Kapoor, 2009) says that high switching costs affect customer loyalty. In other

words, the higher the cost of switching, the higher customer loyalty will be. In many cases, the relationship between customer loyalty and customer satisfaction are very strong for customer segments that have high switching costs (Bloemer et al., 1998) And (Jones et al., 2000).

Eventhough attitude and service quality only emerge as important factors of customer satisfactions from most previous studies but they lead to the customer loyalty and switching cost. They are known as essential aspects of the profitability determinations. Hence the objective of the study to identify the effect of intervening variable : customer satisfaction in this research framework.

2 LITERATURE REVIEW AND HYPOTHESES

2.1 Attitudes towards Islamic banking

The results of (Abou-Youssef et al., 2015) study show that religiosity has an impact on consumer attitudes toward Islamic banking. Nevertheless, the principles of Islamic finance are not the only reason identified in choosing Islamic banks. According to (Rizwan et al., 2014), attitudes towards Islamic banking include: preference for Islamic products; consideration of seeing "Islamic labels"; the importance of Islamic products; Islamic products are the customer's own choice; and the people closest to users of Islamic products. The results of the research by (Rizwan et al., 2014) show that attitudes towards Islamic banking influence consumer perceptions of the quality of Islamic bank services. Based on the description above, a hypothesis can be made as loyalty but also could prevent turnover, reduce price elasticity of customers, the cost of marketing failure, follows:

H1: The higher the attitude towards Islamic banking, the higher the quality of service

The results of the (Erol and El-Bdour, 1989) investigated factors that might contribute to repeat purchases of Islamic bank customers, the results showed that attitudes towards Islamic banking, relative prices, efficient service, convenience, confidentiality, cost/benefit, reputation and the bank's image contributes to customer satisfaction. (Butt and Aftab, 2013) stated that the supply of products offered by conventional banks but in accordance with Islamic principles, it can increase satisfaction for Muslim customers. Moreover, according to (Rizwan et al., 2014) attitudes towards Islamic banking affect consumer perceptions of customer satisfaction in Islamic banks.

Based on the description above, a hypothesis can be made as follows :

H2 : The higher the attitude towards Islamic banking, the higher the customer satisfaction

2.2 Service Quality

Then (Parasuraman et al., 1985) indicates that the satisfied services can be measured by zero customer complaint. Therefore providing qualified services become essential factor in business. (Donald et al., 1998) gave further indications that the quality of services are positively significant on consumer satisfaction. Thus, high service quality will increase customer satisfaction which encourages customer loyalty (Santouridis and Trivellas, 2010). The findings of (Hong and Goo, 2004) indicate a positive relationship between service quality and customer satisfaction. (Beerli et al., 2004) find that service quality is an antecedent that exerts a direct influence on satisfaction and indirect influence on loyalty. Relevant findings are also found in (Hafeez and Muhammad, 2012)(Siddiqi, 2011) (Chadha and Kapoor, 2009) (Salam, 2013) (Aydin and Özer, 2005). Based on the description above, a hypothesis can be made as follows:

H3: The higher the quality of service, the higher the customer satisfaction

2.3 Customer Satisfaction

Beerli et al., (2004) find that satisfaction and switching costs might be found as antecedents of loyalty. While Lee And Cunningham (2001) mentioned that switching costs as a mediator variable between customer satisfaction and loyalty Aydin et al., (2007) further explain that customers who study product knowledge in avoiding purchasing mistakes will rearrange past buying experiences. In this process, if the customer moves, a comparison will be made between the brand that will be used and the old brand. To reduce cognitive dissonance, customers tend to purchase satisfied products. Analysis of opportunity cost suggests that customer satisfaction has a positive significant influence on switching costs. High customer satisfaction would increase the opportunity cost as they will feel reluctant to try to other service providers. More specifically, Aydin et al., (2007) examined the relationship between consumer satisfaction, trust, switching costs, and loyalty. They found that trustworthiness and consumer satisfaction were not only correlated positively with loyalty, but also with switching costs. These findings show that satisfaction does not only affect loyalty directly but also does indirectly through switching cost. Consistent with the above de-

scription, this study proposes the following hypothesis: H4: The higher customer satisfaction, the higher the rate of switching costs.

Higher customer satisfaction through improving service quality will encourage customer loyalty. Customer satisfaction is directly related to customer loyalty. Significant influence of customer satisfaction on customer loyalty is almost shown by every previous study, such as (Beerli et al., 2004)(Amin et al., 2013) (Aydin and Özer, 2005) (Chadha and Kapoor, 2009) and (Ball et al., 2004) Based on the description above, a hypothesis can be made as follows:

H5: The higher customer satisfaction, the higher the customer loyalty.

2.4 Switching Costs

(Jones et al., 2000) state that switching costs as an important factor influencing customers' decisions to remain with service providers. Switching costs are expected to make it difficult for customers or cause great sacrifices if they want to switch to other service providers. Lee And (Lee and Cunningham, 2001) state that basically switching costs occur when there are two parties (buyers and sellers or consumers and certain product brands) who make transactions so that a relationship is formed between the two. When one party, usually the buyer/consumer, is not too dependent on the other party, then the buyer/consumer does not have an obstacle to make transactions with other parties. In such conditions consumers have low switching costs. The results of (Dick and Basu, 1994) found that customer loyalty is determined not only by satisfaction but also by switching costs. In addition,(Beerli et al., 2004) stated that satisfaction and switching costs provide a positive influence on customer loyalty. In addition, (Aydin and Özer, 2005) found that switching costs were a moderating variable for the influence of satisfaction on customer loyalty and a direct effect on customer loyalty. Switching costs play an important role by making it valuable for moving to other service providers Lee And (Lee and Cunningham, 2001), so that switching costs increase, so customer loyalty will increase as well. In short, the results of (Chadha and Kapoor, 2009) also show that switching costs affect consumer intentions to remain with certain service providers. Based on the description above, a hypothesis can be made as follows:

H6: The higher the cost of switching, the higher the customer loyalty. Based on the hypothesis above, the conceptual framework of this research can be described as follows :

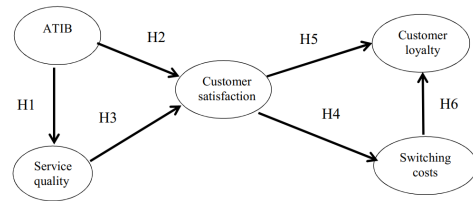


Figure 1: Conceptual Framework Of Research

3 RESEARCH METHODS

The object of this research is Islamic banking, especially Bank Umum Islamic/Islamic Commercial Banks (BUS). The population of this study is Islamic bank customers. Knowing that the study population is very broad, the researchers restricted this research area in Yogyakarta, Jakarta, Bandung and Surabaya. 300 samples are carried out using non probability sampling method. In this study, the sample was taken using purposive sampling method, which is a non probability sampling technique where the researcher determines sampling by specifying specific characteristics/ criteria that are in accordance with the research objectives. The criteria determined in this study are customers who know and use the services of Islamic banks, which have become Islamic bank customers for at least 6 months. From the 300 respondents involved in this study, only 283 were included in the analysis

Variables/Indicators	Corrected Item-Total Correlation	Cronbach Alpha	Status
Attitudes towards islamic banking		0.869	Reliable
1. Favorite choosing Islamic banking products	0.707		
2. Seeing the label "Islamic" when choosing a product	0.807		
3. The importance of Islamic bank products	0.931		Valid
4. Using Islamic banking products is a choice	0.846		
5. The closest person to use Islamic banking	0.802		
Service quality		0.884	Reliable
1. Devotion of employees to assist customers	0.700		
2. Employees are not too busy responding to customers	0.621		
3. Understand customer specific needs	0.778		
4. Transactions are carried out immediately	0.796		
5. Bills, reports and documents without error	0.783		Valid
6. A sense of security in transactions	0.709		
7. Operates at convenient working hours	0.794		
8. Provide clear information guidelines	0.745		
9. Give individual attention	0.635		
Customer satisfaction		0.848	Reliable
1. Never fails to meet customer expectations	0.848		
2. Never disappoint customers	0.801		Valid
3. Choosing this bank is a wise decision	0.806		
4. Overall customers feel satisfied	0.905		
Switching costs		0.893	Reliable
1. Switching to a new bank raises financial costs	0.701		
2. Switching to a new bank causes additional costs	0.749		
3. Switching to a new bank service is not as expected	0.796		
4. It is not certain that the administrative costs of new banks will be cheaper	0.805		Valid
5. Worrying other people who transact with customers, if they move to a new bank	0.604		
6. Turning to a new bank, must learn to use new services	0.781		
7. Switch to a new bank, need to compare all services that will be received	0.596		
8. Comparing banks to each other, requires a lot of energy, time and effort	0.802		
9. Turning to a new bank, the initial adm fee will be high	0.769		
Customer loyalty		0.916	Reliable
1. Don't like moving to another bank	0.905		
2. I am a loyal customer	0.962		Valid
3. Customers will always recommend to others	0.912		

Figure 2: Test Results For Validity And Reliability Of Research Instruments

4 RESEARCH RESULT AND DISCUSSION

As explained earlier that the respondents involved in the study and eligible for further analysis amounted to 283 respondents. Of the respondents involved, the majority (58%) were women and the rest were men. Some of them were between 20 and 30 years old, and the rest over 30 years old. In terms of employment, the majority (48.4%) are private employees, the rest work as students/students, civil servants, lecturers, BUMN employees and others. Furthermore, structural equation modeling (SEM) and AMOS 8.80 programs were used in analyzing the conceptual framework of this research. Before testing the hypothesis, first test the validity and reliability of the data to be used in the analysis. An indicator is declared valid if the value of t is 96 1.96 and a variable is declared reliable if it has construct reliability ≥ 0.50 . Based on these requirements, all indicators or question items are declared valid and reliable in measuring the variables. Table 2 presents the results of testing the validity and reliability of the collected data.

Indicator	λ_i	ϵ_i	tvalue	Construct Reliability	Minimum Requirement	Note
Attitudes towards Islamic banking						Reliable
ATIB1	0.83	0.56	14.72	0.87	0.50	Valid
ATIB2	0.62	0.20	17.25		1.96	
ATIB3	0.99	0.34	15.19		1.96	
ATIB4	0.47	0.12	12.32		1.96	
ATIB5	0.92	1.03	11.82		1.96	
Service quality						Reliable
SQ1	0.81	0.37	10.52	0.92	0.50	Valid
SQ2	0.89	0.29	17.44		1.96	
SQ3	1.00	0.36	17.76		1.96	
SQ4	0.79	0.35	15.57		1.96	
SQ5	0.82	0.54	14.19		1.96	
SQ6	0.97	0.93	13.06		1.96	
SQ7	0.57	0.19	14.71		1.96	
SQ8	0.8	0.42	13.90		1.96	
SQ9	0.86	0.47	14.31		1.96	
Customer satisfaction						Reliable
S1	0.63	0.27	8.09	0.79	0.50	Valid
S2	0.48	0.12	13.15		1.96	
S3	0.58	0.17	12.54		1.96	
S4	0.59	0.43	9.57		1.96	
Switching costs						Reliable
SC1	0.88	0.37	10.35	0.94	0.50	Valid
SC2	0.68	0.31	17.36		1.96	
SC3	0.59	0.17	18.07		1.96	
SC4	0.64	0.20	14.54		1.96	
SC5	0.55	0.08	15.88		1.96	
SC6	0.68	0.24	15.21		1.96	
SC7	0.61	0.22	14.84		1.96	
SC8	0.63	0.24	14.29		1.96	
SC9	0.68	0.46	12.00		1.96	
Customer loyalty						Reliable
CL1	0.55	0.15	9.02	0.66	0.5	Valid
CL2	0.62	0.11	16.50		1.96	
CL3	0.70	0.15	16.43		1.96	

Figure 3: Test Data Validity And Reliability Test Results

Furthermore, with valid and reliable data the researchers conducted structural analysis using the AMOS 8.80 program to test the hypotheses of this study. The effect of exogenous variables on endogenous variables and the value of t of each influence appear as in Figure 3. The statistical value of the final structural model shows that the model is very good (fit) in representing this research data. This is proved by the value of X^2 of 412.2 with the degree of freedom 393, then Normed $X^2 = 1.05$, which means that the model has a good level of compatibility. This fact

is reinforced by the RMSEA value of 0.02 and the TLI and CFI values of 0.99. Furthermore, the value of the Expected Cross Validation Index (ECVI) of this study model was 3.78. This value is lower than ECVI for the saturated model which is 6.07. It shows that this research model can be replicated in similar samples in the same population. The significance of the influence between variables and testing the hypothesis of this research is shown in Figure 4.

Hypothesis	β or γ (t-value/ α level)	Note
H1: Attitude towards Islamic banking had a significant positive influence on quality of service.	0.65 (6.53/<0.0%)	Accepted
H2: Attitude towards Islamic banking had a significant positive influence on customer satisfaction	0.19 (1.49/14%)	Not accepted
H3: Service quality had a significant positive influence on customer satisfaction	0.50 (3.83/0.0%)	Accepted
H4: Customer satisfaction had a significant positive influence on switching costs	0.83 (7.43/<0.0%)	Accepted
H5: Customer satisfaction had a significant positive influence on customer loyalty	0.65(4.11/<0.0%)	Accepted
H6: Switching costs had a significant positive influence on customer loyalty	0.44(2.96/<0.03)	Accepted

Figure 4: Summary Of Hypothesis Testing

The coefficient of the effect of switching costs to loyalty is 0.44 with a significance level of 0.03% indicating that the sixth hypothesis (H6) of this study is proven. This finding illustrates that when respondents feel high costs when moving to another bank, they tend to continue using the bank that has been used. This is consistent with the opinion of (Ball et al., 2004) which states that consumers tend to be disloyal to certain service providers or brands when they do not feel there are obstacles to moving to other service providers or brands, and vice versa. This finding is consistent with the results of a study by (Aydin and Özer, 2005) and (Chadha and Kapoor, 2009). The regression coefficient of the influence of customer satisfaction on loyalty is 0.65 with a significance level of 0.0% indicating that the fifth hypothesis (H5) of this study is proven. It shows that respondents will be loyal when they feel satisfied. This finding supports previous results stating that customer satisfaction has a positive effect on customer loyalty (Dick and Basu, 1994) And (Chadha and Kapoor, 2009). The proof of H6 and H5 indicates that the loyalty of respondents to Islamic banking is not solely because they are satisfied, but because they face obstacles to moving to another bank. In addition, the results of this study indicate that satisfaction not only directly affects loyalty, but also has an indirect influence through switching costs. The indirect effect of satisfaction with loyalty is 0.83 with a significance level of 0.0%. In other words, this result supports H6 and H5. The proof of this hypothesis illustrates that respondents' satisfaction not only increases their loyalty to Islamic banking but also increases their barriers to moving to other banks. Meanwhile, the results of this study also show that satisfaction is influenced by the quality of service and attitudes towards Islamic banking. The re-

gression coefficient of the influence of service quality on satisfaction is 0.50 with a significance level of 0.0% indicating that the third hypothesis (H3) of this study is proven. This finding indicates that respondents will be satisfied when the quality of service increases. This finding supports previous results stating that service quality has a positive effect on customer satisfaction (Salam, 2013). Meanwhile, the regression coefficient of the influence of attitudes toward Islamic banking on satisfaction is 0.19 with a significance level of 0.14% indicating that the second hypothesis (H2) of this study is not proven. This finding shows that although respondents have a positive attitude towards Islamic banking it does not satisfy. This finding does not support previous research which stated that attitudes towards Islamic banking had a positive effect on customer satisfaction (Rizwan et al., 2014).

5 CONCLUSIONS

This research has several weaknesses that need to be overcome for researchers who are interested in examining customer loyalty, especially with regard to the selection of research subjects. Further researches need to use Islamic credit bank institutions to test the consistency of findings across markets.

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