

Relationship between Service Quality and Customer Satisfaction in Islamic Banking System in Sri Lanka

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Abstract

The purpose of this study is to evaluate customer perceptions of different service quality dimensions on the satisfaction of its customers in Islamic banks and analyze the influence of perceived service quality. For this purpose, 151 Islamic faculty students' details were collected through the questionnaires. The validity of the data has been explored through the Reliability Test and young bank customers' perceptions of selected dimensions of service quality were analyzed. Empathy was the most important and dominant service quality dimensions for customer satisfaction. According to the results of the study, all service quality dimensions such as tangibility, reliability, responsiveness assurance and empathy are positively associated with the overall satisfaction of customers. And the study concludes that all dimensions of service quality significantly affect bank customer satisfaction.

Keywords: Customer satisfaction, Service quality, SERVQUAL

Introduction

The banking industry is a key factor in determining the economic system that a country's political system should follow and a major factor in the economic development of a developing country. This facilitates the supply of goods, services, provides liquidity for the growth of new businesses, creates diversified employment opportunities, converts capital investments to profitability and enables a country's prosperity to start international transactions and trade.

Although they provide standardized service quality and products to its customers, service quality is one of the most important factors that can affect the competitiveness of a service organization (Auka, Bosire, & Matern, 2013).

Customers expect better services for their capital gains. Thus they do not even hesitate to change their bank accounts. This creates fierce competition among banks. Therefore, banks are looking to serve their customers' needs and retain their customers by reducing their expectation and perception gap and adding more and more new customers to their banks. Customers continue to use the relevant banks because of some key factors such as providing better services and responding on time. Although it is difficult to measure the quality of service provided, banks can take some steps to improve the current service by understanding customer feedbacks and their ever-changing expectations. Service quality is defined as the difference between the expectations of customers before receiving the service and their perceptions of the service received (Asubonteng, McCleary, & Swan, 1996). Measuring the services of the banks and understanding the customer's needs and adapting their services to their needs are important things to be more successful than competing banks (Rajagopal & Mahajan, 2019).

A study has been conducted on 721 internet banking users of four selected banks in Malaysia to examine the impact of the e-SERVQUAL model on the current customer view and the potential purpose of handling business with a bank. The finding listed that well-organized and trustworthy services, satisfaction, privacy/confidentiality, and Sharia agreement facts have a significant relationship with Islamic banks' performance (Baber, 2019).

Another study has examined factors affecting customer satisfaction (reliability, responsiveness, tangibility, assurance and, empathy) in the Islamic banking industry. The results showed that the relationship between assurance and empathy is a significant factor in customer satisfaction meanwhile the reliability, responsiveness and consistency are not important causes to customer satisfaction (Salleh, Abdullah, Nawi, & Muhammad, 2019).

A study using the SERVQUAL model has been conducted among the 450 customers who had accounts and transactions with conventional and Islamic banks over the past five years to describe the relationship between the quality and efficiency of service of conventional and Islamic banks and to identify the dimensions of service quality. Responsiveness and assurance are found to be strong dimensions of conventional banking performance and that compliance and reliability had a significant and positive impact on the level of performance of Islamic banks (S. F. Ali & Naeem, 2019).

A study using the SERVQUAL model has been conducted to determine the performance comparison between Sharia banks and conventional banks and to understand the difference in service quality between Sharia banks and conventional banks. No dimension had any significant difference between the Sharia and the conventional banks except for the assurance dimension of service quality (Hikmah, 2018).

A study using the SERVQUAL model on 450 account holders of Islamic banks was conducted to quantify the relationship between service quality and customer satisfaction among clients of Pakistani Islamic banks. According to the conclusion of this study, the multi-dimensional service quality criterion is positively correlated with one-dimensional measures of customer satisfaction, and the compliance dimension of the SERVQUAL model has demonstrated its importance by showing that it contributes to the overall model (M. Ali & Raza, 2017).

Objectives of the study

1. To assess the service of the quality of the Islamic banking system.
2. To examine the relationship between service quality and customer satisfaction in Islamic banking system
3. To identify the impact of Islamic banking service quality on customer satisfaction level.

Materials and Methods

Target population and sample

This study was conducted among the undergraduates from the South Eastern University of Sri Lanka. A total of 300 questionnaires were distributed and among these only 251 questionnaires were returned. But since only 151 of them were Islamic bank account holders, all 151 of them were included for this study.

Reliability test

First, the Reliability test analysis was done to check the reliability of the data. Cronbach's alpha α is a common measure used to assess the reliability or internal consistency (University of Virginia Library - Research Data Services +Sciences, 2019). It can be used to test the reliability of the Likert-scale for joint questions (Statistics How To, 2019). Also, it can be ranged from 0 to 1. But many methodologists suggest the data can be considered as reliable when the Cronbach's alpha is greater than 0.7 (UCLA Institute for Digital Research & Education, 2019).

SERVQUAL

The SERVQUAL method also applied to evaluate the relationship between customer satisfaction in Islamic Banking Systems and service quality. SERVQUAL is a tool to carry out a gap analysis for the service quality of any organization with customer satisfaction quality wants (Parasuraman, Zeithaml, & Berry, 1988, 1985). Therefore, it can be used to expand the service quality of any organization to satisfy the customers. For this purpose, data are collected using the questionnaires/surveys from the customers of the organization and they want to respond to a series of queries based on mainly 5 dimensions. Such as (12MANAGE The Executive Fast Track, 2019)

Tangibility: Appearance of physical facilities, equipment, and staff.

Reliability: Ability to execute reliably and precisely the guaranteed service.

Responsiveness: Readiness to support the customers and provide timely service.

Assurance: Employees' knowledge plus courtesy and capacity to rouse trust plus certainty.

Empathy: The Company offers its customers with care and individualized attention.

Multiple regression Analysis

Multiple linear regression analysis is an extension of simple linear regression analysis, used to evaluate the relationship between two or more explanatory variables and a single predictor variable. The equation for multiple linear regression is as follows: (Boston University School of Public Health, 2013)

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k + \epsilon \quad (1)$$

Where

\hat{Y} = The predicted value of the dependent variable

x_1, x_2, \dots, x_k = k distinct explanatory variables

β_0 = Intercept coefficient

$\beta_1, \beta_2, \dots, \beta_k$ = Regression coefficients for x_1, x_2, \dots, x_k respectively

ϵ = Error term of the observation

Results and Discussion

Reliability

Table 1 shows the reliability test results. Reliability testing is an important thing to check the validity of data (Nunnally, 1978). The alpha value is substantial for the Likert-scale for joint scores (Raza, Jawaid, & Hassan, 2015). Since all Cronbach's alpha value for entirely dimensions of service quality was greater than 0.7 (Cronbach, 1951; Nunnally, 1978; Nunnally & Bernstein, 1994) the data proved that its' reliability.

Table 1. Reliability analysis for service quality

Service quality dimensions	Items	Cronbach's Alpha
Tangibility	4	0.801
Reliability	5	0.820
Responsiveness	4	0.787
Assurance	4	0.717
Empathy	5	0.887
Overall	22	0.852
Customer Satisfaction	22	0.873

Respondents' demographic information

The majority of the respondents were female (61.0%) at the aged between 21-25 years old category (84.3%). 67.9% of the Arabic Languages and 32.1% of the Islamic studies undergraduates participated in this study work. Most of them were from the 1st year (37.1%). These youngsters mostly dealt with savings accounts (64.8%) and mostly they had more than 1 account (69.2%) with less than 1-year experience in their bank (55.3%). This demographic information are shown in Table 2.

Table 2. Students' demographic profile

Variables		Frequency	Percentage
Gender	Female	97	61.0
	Male	62	39.0
Age Level	19-20	15	9.4
	21-22	68	42.8
	23-25	66	41.5
	25+	9	5.7
Course of study	Islamic Studies	51	32.1
	Arabic Language	108	67.9
Year of study	1 st year	59	37.1
	2 nd year	46	28.9
	3 rd year	53	33.3
	4 th year	1	0.6
Mostly deal	Islamic banking	26	16.4

with (Types of Accounts)	Current	29	18.2
	Saving	103	64.8
	Fixed	1	0.6
How many banks do you deal with?	1	49	30.8
	2	83	52.2
	≥ 3	27	17.0
Experience with Islamic bank? (years)	< 1	88	55.3
	1-4 years	52	32.7
	5-9 years	15	9.4
	more than 10 years	4	2.5

Service quality of customer satisfaction

The below table 3 shows the service quality description for the customer satisfaction of 159 undergraduates. Students indicated empathy as the most dominant service quality (Mean=2.20, SD=0.79).

Table 3. Description of Service Quality

Service quality dimensions	Mean	SD
Tangibility	1.48	0.42
Reliability	1.38	0.47
Responsiveness	1.48	0.54
Assurance	2.04	0.70
Empathy	2.20	0.79
Overall	1.72	0.39
Customer Satisfaction	1.97	0.47

Correlation between service quality dimensions and customer satisfaction

According to the Correlation test results, there was a significant relationship between all the service quality dimensions and customer satisfaction. These results are shown in Table 4. It indicates that service quality and customer satisfaction have a good relationship (Nuredin, Taylor, & Baker, 2013).

Table 4. Correlation of Quality dimensions and Customer satisfaction

Service quality dimensions	Correlation coefficient	P-value
Tangibility	0.722	0.000*
Reliability	0.490	0.000*
Responsiveness	0.556	0.000*
Assurance	0.783	0.000*
Empathy	0.745	0.000*

Note: * Fail to accept null hypothesis of there is no relationship at 5% significance level

Regression analysis

The below results in Table 5 declares that 67.6% of the variation was explained by the fitted model for customer satisfaction. Further, the regression model also was significant (P=0.000) plus it consists of a previous study (Adhikari & Paul, 2015). These results are shown in Table 6.

Table 7 illustrates multiple regression analysis results. It indicated that all service quality dimensions had a positive significant influence on customer satisfaction. The highest coefficient was for the assurance (0.381) dimension. It declares that the satisfaction of the customers highly depends on trustworthiness, confidentiality, courtesy, and adequate support of the banks (Raza et al., 2015). And the coefficient of tangibility was the lowest coefficient among all service quality dimensions (0.036). It also proved that banks having up-to-date equipment, visually appealing physical facilities, well-dressed staff easily appeared physical facilities are the minor influenced factor for the satisfaction of the customers.

Table 5. Model summary

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	0.828	0.686	0.676	0.2739

Predictors: (Constant), Tangibility, Reliability, Responsiveness, Assurance, Empathy

Dependent Variable: Customer satisfaction

Table 6. ANOVA table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	24.102	5	4.8204	64.272	0.000
Residual	11.406	153	0.075		
Total	35.148	158			

Predictors: (Constant), Tangibility, Reliability, Responsiveness, Assurance, Empathy
 Dependent Variable: Customer satisfaction

Table 7. Multiple regression

Model	Coefficients	t-value	P-value
(Constant)	0.121	6.415	0.000
Tangibility	0.036	2.922	0.004
Reliability	0.062	2.012	0.046
Responsiveness	0.183	2.051	0.042
Assurance	0.381	2.093	0.038
Empathy	0.121	3.855	0.000

Predictors: (Constant), Tangibility, Reliability, Responsiveness, Assurance, Empathy
 Dependent Variable: Customer satisfaction

$$\begin{aligned}
 & \textit{Customer satisfaction (Y)} \\
 & = 0.121 + 0.036 * \textit{Tangibility} + 0.062 * \textit{Reliability} \\
 & + 0.183 * \textit{Responsiveness} + 0.381 * \textit{Assurance} + 0.121 \\
 & * \textit{Empathy}
 \end{aligned}$$

Conclusions and Recommendations

As per the reliability test, the all service quality dimensions were reliable. Most of the Arabic-language course female students participated in the study, which only involved Faculty of Islamic Studies and Arabic Language. These students mostly dealt with savings accounts and they had more than 1 account with less than 1-year experience in their Islamic bank. Empathy was the most dominant service quality dimension in their view. All the service quality dimensions and customer satisfaction have a good relationship. All service quality dimensions had a positive significant influence on customer satisfaction. And the satisfaction of the customers highly depends on trustworthiness, confidentiality, courtesy, and adequate support of the banks since the assurance had the highest coefficient in the fitted regression model. Also Islamic banks having up-to-date equipment, visually appealing physical facilities, well-dressed staff easily appeared physical facilities are the minor influenced factor for the satisfaction of the customers since tangibility had the lowest coefficient among the all service quality dimensions. Service quality dimensions are important factors in determining customer satisfaction levels. Therefore, this study recommends that Islamic banks should focus on maintaining long-term relationships with existing customers and attracting new customers to their banks. The banks should be interested in getting more and more customers into their banks by identifying the reasons for dealing with more than one bank account and fulfill the customer's shortcomings herein.

They should focus on all service quality dimensions also mainly on tangibility since the service quality dimensions and customer satisfaction had a significant relationship.

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