A Specific Analysis of Service Quality Dimensions on Customer Satisfaction and Customer Loyalty: A Study of Al-Ijarah Thumma Al-Bai’ (AITAB) and Vehicle Financing-i (Bai’ Bithaman Ajil-BBA)

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Abstract

The objective of this study is to ascertain the relationship between service quality factors, customer satisfaction and customer loyalty of Islamic auto financing products in Maybank Islamic Berhad and Bank Islam Malaysia Berhad. Two Islamic auto financing products involved, i.e. Al-Ijarah Thumma Al-Bai’ (AITAB) of Maybank Islamic Berhad and Vehicle Financing-i (Bai’ Bithaman Ajil-BBA) of Bank Islam Malaysia Berhad. Areas of research were in the Klang Valley, specifically in state of Selangor, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya. CARTER was used as a basis of service quality model with the purpose to ascertain the relationship and impact of service quality on customer satisfaction and customer loyalty. It was also used to measure the influence of demographic factors such as age, gender, education and income on service quality dimensions. For data collection purpose, a questionnaire on 5-point likert scale was developed and datas were collected from 500 respondents through self-administered questionnaires. Linear regression and correlation applied for analyzing the data is analyzed using SPSS version 19.0. Ten hypotheses have been tested using Pearson Correlation, Multiple Hierarchical Regression, One Way Analysis of ANOVA and also Independent Sample T-test.

Keywords: Service Quality, Customer Satisfaction, Customer Loyalty, Maybank Islamic Berhad, and Bank Islam Malaysia Berhad.
JEL classification: G210
1. Introduction

Nowadays, banking industry is changing rapidly. With the increased deregulation, and globalization, the operating environment for banking industry is expected to become more dynamic and competitive. Financial institutions across the globe are re-examining modus operandi on addressing their customer’s needs today and developing business plans needed to align with customer’s satisfaction in order to remain competitive and profitable in the future (Taufiq et al., 2013). As one of the most important players in the service industry, banking institutions is no longer regarded as a business dealing with money transactions alone, but also as a business that is ineluctably in need for winning over customers and retaining the old ones.

Islamic banks in Malaysia are facing a lot of challenging environments. Hence, they must be able to adopt and assimilate in fast changing situation. Globalization and technological advancement have led to an open and integrated banking industry. This situation has created a very stiff competition in market place. Islamic banking is distinct and unique from conventional banking because of the Islamic principles, collectively referred to as Shariah, governing economics, social, political and cultural aspects of Islamic societies (Mukesh et al., 2010). There is a moral filter based on the definitions of halal (Permissible) and haram (Prohibited) providing an expedient legal framework (Chapra, 1992).

2. Background of the Study

Islamic banking refers to a system of banking that complies with Islamic law also known as Shariah. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, assurance of fairness for all and that transactions are based on an underlying business activity or asset (Kamal Khir et al., 2009). These principles are supported by Islamic banking’s core values whereby activities that cultivate entrepreneurship, trade and commerce and bring societal development or benefit are encouraged. Activities that involve interest (riba), gambling (maisir), and speculation trading (gharar) are prohibited. Through the use of various Islamic financing concepts such as Ijarah (leasing), Bai Bithaman Ajil (deferred payment), Mudharabah (profit sharing), Musyarakah (partnership), Islamic banking institution have a great deal of flexibility, creativity and choice in the creation of Islamic financing products.

Islamic finance has grown tremendously since it first emerged in the 1970’s. Current global Islamic banking assets and assets under management have reached more than USD 1 trillion. Malaysia’s Islamic finance industry has been in existence for over 30 years. The enactment of the Islamic banking Act 1983 enabled the country’s first Islamic Bank to be established and thereafter, with liberalization of the Islamic financial system, more Islamic financial institutions have been established.
Presently, Malaysia’s Islamic banking assets reached RM542.5 billion as of December 2013, strengthening the country’s position as the global hub for Shariah-compliant financing with an average growth rate of 18% to 21% annually (Ministry of Finance, 2014). Currently, there are many players engaged in auto financing in Islamic banking institutions. Various auto financing products being offered by banking industries to cater the demand from prospect of hirer purchase applicant. Several auto financing products offered by Islamic banks such as Al-Ijarah Thumma Al-Bai’ (AITAB) by Maybank Islamic Berhad, Bai’ Al-Innah by Bank Rakyat Malaysia Berhad, and Vehicle Financing-i (Bai’ Bithaman Ajil-BBA) by Bank Islam Malaysia Berhad (Akram, 2008).

In today life, banking system is very important and compulsory in transacting economic activities in almost every aspects of daily life, for example, home financing, car financing, salary payment, savings, fund transfer, bill payments etc. In Islam any business transaction must be free from any uncertainty (gharar) and prohibited (haram) activity. Regarding Islamic banking, it is compulsory to adhere to Islamic principles and avoid any prohibited (haram) activities. There are two choices of banking system which is conventional banking and Islamic banking.

As a Muslim, finding the permitted or permissible (halal) activity is compulsory. Thus, this research paper will be somewhat interesting to the readers and it has also become more conspicuous because banking industry is related to our needs in daily life and anything happened to banking system will affect our survival. Moreover, it will affect our country’s sovereignty. In order to uphold the betterment of the Islamic banking institutions, Islamic banks should promote the element of customer satisfaction whereby with satisfied customers, banks can attract new customers and as well as retaining the old ones. Customers’ satisfaction towards banking’s products is very crucial, mainly because of the fact that they have to compete with the long-established conventional banks especially in the Malaysian dual-banking system (Nurdianawati and Asyraf, 2006). Hence, greater attention should be given in increasing the range of products and services quality of Islamic banking in order to meet the greater satisfaction of customers. This is particularly true, when customer’s financing normally accounts for a significant proportion of a banks’ total financing. According to the Ministry of Finance (2014), for the year ended 2012, the purchase of transport vehicles accounted for the largest component (24.9 percent) of total financing (RM236.224 billion) approved by the Islamic banking institutions.

Based on earlier discussion, it is paramount for banking system especially Islamic banks to prepare a good auto financing facility in order to cater the needs for transportation (auto) financing from Muslim community as well as from community at large. Islamic Banks should
offer auto-financing schemes, which lies emphasis on good quality in terms of products features, services, bank officers and bank facilities. Islamic Banks should promote good and reliable service quality in order to satisfy their customers.

This research paper will focus specifically on very popular banking financing service facility i.e. auto financing. Capital investment on transportation became the second largest expenses after home financing. Thereby, expenses regarding transportation needs must be carefully planned and decided in order to have good management of family wealth. To date, however there are limited attempt has been made to specifically conceptualized customer satisfaction and customer loyalty in auto financing of Islamic banks in Malaysia.

Thus, the aim of this study is to ascertain and examine the relationship between antecedents or service quality factors of customer satisfaction and customer loyalty of Islamic banking industry in Malaysia. Specifically, this research paper will examine the relationship of service quality with customer satisfaction towards customer loyalty in Maybank Islamic Berhad and Bank Islam Malaysia Berhad. This research paper will be conducted through comparative study measure. Two auto financing products will be involved, *Al-Ijarah Thumma Al-Bai’* (AITAB) from Maybank Islamic Berhad and Vehicle Financing-i *(Bai’ Bithaman Ajil-BBA)* from Bank Islam Malaysia Berhad.

### 3. Significant of the Study

As discussed earlier, this paper aims to measure and compare the service quality that influences customer satisfaction and customer loyalty regarding auto financing. The auto financing products involved in this research paper are *Al-Ijarah Thumma Al-Bai’* *(AITAB)* by Maybank Islamic Berhad and Vehicle Financing-i *(Bai’ Bithaman Ajil-BBA)* by Bank Islam Malaysia Berhad. In terms of conceptual’s contribution, this research aims to design and validate a new measuring instrument of service quality as compared to the generic model such as SERVQUAL, CARTER which may not be totally adequate to assess service quality and to suit current situation of Islamic banking sector in Malaysia. The major insight gained from this research suggests that the early adoption of service quality by Islamic banks can improve the efficiency in offering the products and services to the customers.

This will have a big impact on our national Islamic banking environment in the country as a whole. Islamic bank will have to portray and show that their banking systems are efficient in processing the auto financing, tight security, and are customer friendly. These are all to ensure that Islamic banking system can harvest the good perception by the public in Malaysia and to attract global participation as promoted by our government to be a global Islamic Financial Hub. At bank level, managers can use the result from this research to identify those areas that need improvement and allocated resources to improve auto financing services. For instance, by
knowing the level of service quality in auto finance of the banks, managers can use such information to make wide improvements in quality performance of the bank or eliminate certain unwanted procedures.

It can also be used as a benchmark to compare the performances of other banks that adopt quality programme. Most of all, the very important and crucial action to be taken by banks is to maintain their existing customer and to attract new customer in order to have stable profit stream for business sustenance. Customers will certainly be the party who will contribute the business to the banks as well as generating profit to the banks. Banks will have to take every necessary steps to attract and maintain their customers. This research will give good guidance to the Islamic banks in order to formulate their marketing strategy in effective manner.

4. Research Objectives

The following five research objectives are addressed in this research:

1. To ascertain how the service quality dimensions (compliance, assurance, reliability, tangibles, empathy, responsiveness, and after sales services) will affect or having relationship with customer satisfaction in the Islamic auto financing.

2. To determine how the service quality dimensions (compliance, assurance, reliability, tangibles, empathy, responsiveness, and after sales services) will affect the customer loyalty (intention to refinance and word-of-mouth endorsement).

3. To ascertain the relationship between customer satisfaction and customer loyalty (intention to refinance and word-of-mouth endorsement).

4. To determine the influence of customer satisfaction on customer loyalty (intention to refinance and word-of-mouth endorsement).

5. To determine the level of customer satisfaction in Islamic auto financing.

5. Islamic Auto Financing Products

In Malaysia, Islamic hire purchase or Islamic auto financing has evolved in various stages. The concept of Islamic auto financing purchase came into reality when Syariah scholars introduced a new product via reasoning (ijtihad) based on the Islamic traditional contract of *ijarah* and *al-bai’*. The discussion of Islamic auto financing facility are as follows:

5.1 Concept of Al-Ijarah Thumma Al-Bai’ (AITAB)

*Al-Ijarah Thumma Al-Bai’* (AITAB) is a contract with similar concept to the conventional hire purchase. It is a contract of lease with an obligation on the part of the lessee to buy the asset at the end of maturity. Maybank Islamic Berhad introduced *Al-Ijarah Thumma Al-Bai’* (AITAB) as the facility to part finance the purchase of a motor vehicle.

Financing opportunity is given to all Malaysian citizens with applicable conditions, good previous track record, appropriate net income, and with no blacklisted accounts (Kamal Khir et
Al-Ijarah Thumma Al-Bai’ (AITAB) can be used to describe the process of converting an *al-ijarah* (lease) contract into *al-bai’* (sale) contract and it is not a conditional sale.

The objective of *Al-Ijarah Thumma Al-Bai’ (AITAB)* is to provide customers the opportunity to own the asset they could not have bought on cash basis but can do so on the future date when payments are periodically made on a lease basis. In *Al-Ijarah Thumma Al-Bai’ (AITAB)*, the contract of *Al-Ijarah* runs separately from the contract of *al-bai’*. Since both contract are executed in a sequence, a new contract *Al-Ijarah Thumma Al-Bai’ (AITAB)* can be used to describe the process of converting an *ijarah* into sale contract. *Al-Ijarah Thumma Al-Bai’ (AITAB)* consists of two different contracts, namely; the contract of *al-ijarah* (leasing/renting) and contract of *al-bai’* (sale) contract:

1. **Al-Ijarah**: A contract whereby the lessor (Islamic Bank) will rent the asset (car) to the lessee (customer) over a certain period and at a monthly rental amount as agreed by both parties.

2. **Al-bai’**: Upon completion of the rental period or upon early settlement, the lessor will then enter into sale contract with the lessee to sell the asset (car) at a pre agreed selling price (Kamal Khir et al., 2009; Muhammad Ridhwan Ab. Aziz, 2013).

*Al-ijarah and al-bai’* are both categorised under the contract of exchange. The former related to the exchange of usufruct for money, while the latter involved the exchange of goods for money.

### 5.2 Concept of Bai’ Bithaman Ajil (BBA)

*Bai’ Bithaman Ajil* is a sale with “deferred payment” and it not spot sale. This financing technically is based on activities of buying and selling. The asset that the customer wishes to purchase for example is bought by the bank and sold to the customer at an agreed price after the bank and customer determines the tenure and the manner of instalments. The price at which the bank sells the asset (car) to the customer will include the actual cost of the asset (car) and will also incorporate the bank’s profit margin. The profit earned by the bank is legitimate from Syariah point of view since the transaction is based on sale contract rather than a loan contract (Abdul Ghafar, 2010).

The monthly instalments are determined by the selling price, repayment period, and the percentage margin of financing. Bank Islam Vehicle Financing-i facility under *Bai’ Bithaman Ajil* is an unsecured/ secured long term financing which is calculated based on a fixed rate. Vehicle Financing-i allows you to own your dream vehicle under the contract of *Bai’ Bithaman Ajil* (Kamal Khir et al., 2009; Muhammad Ridhwan Ab. Aziz, 2013).
6. Literature Review

6.1 Concept of Customer Satisfaction and Customer loyalty

Many researchers (Parasuraman et al., 1985; Mukesh et al., 2010; Firdaus et al., 2011) believe that service quality is an elusive concept, and there are considerable arguments among researchers of how to conceptualise this phenomenon. However they acknowledged that service quality is a dynamic, multidimensional concept, incorporating a number of aspects of both past and present service experiences. Service quality has been described as a form of attitude but not equivalent to satisfaction that results from the comparison of expectations with performance (Parasuraman et al., 1988; Bolton and James, 1991). It’s also defined as the difference between customer expectation of service and perceived service. If expectations are higher than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction prevailed (Parasuraman et al., 1985).

Customer satisfaction is one of the essential components of any organization’s strategy because customer is the ultimate source of income for the companies. Regarding customer satisfaction, in the banking industry from the last one and half decade the bankers pay attention towards its customer satisfaction. That’s all due to the competition in banking industry and some banks consider customer satisfaction as the principal component of their marketing strategy, (Naveed and Kashif, 2010). Ultimately, customers are benefited owing to tight competition.

Now, many financial institutions are trying to increase the customer satisfaction and their retention towards the financial institution through improving the service quality and the products that they offer to their customers, with this effort, they aim at achieving their targeted objectives. Customer loyalty is important to a business. The only way a company can grows is through the satisfaction of their customers. It is more costly to service disloyal customers because they are the ones who keep employees busy with their complaints. Additionally, unhappy customers become more price-sensitive. If price does not fall under their expectation, they will switch to the rival company which offer better and profitable products, services, and business to them. Moreover, profitable customer loyalty refers to customer who exhibit both behavioural and attitude loyalty and provides profit for the firm, (Kumar et al., 2013). The strength of these attitudes is the key predictor of a brand’s purchase and repeat patronage. Furthermore, loyalty also can be defined as a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing despite situational influences and marketing efforts having the potential to cause switching behaviour (Oliver, 1997). Thus essentially, customer loyalty is
concerned with the likelihood of customer returning, making business referrals, providing strong word-of-mouth references and publicity (Bowen and Shoemaker, 1998).

6.2 Relationship between Independent Variable, Mediating Variable, and Dependent Variable

This section expressed and confirmed the relationship among service quality, customer satisfaction and customer loyalty in the theoretical framework.

6.2.1 Relationship between Service Quality and Customer Satisfaction

Muslim and Zaidi (2008), conducted a study of Islamic banking in Malaysia regarding relationship of service quality with customer satisfaction. SERVQUAL model has been used as a basis for measurement of service quality. This model starts with six dimensions of SERVQUAL i.e. tangible, reliability, responsiveness, assurance, and empathy, and plus the Islamic compliance dimension. Respondents are the customers of Muslim and Non-Muslim who visit the bank counter. They must have an account with one of full-fledged Islamic banking and dual-banking system. Results show that majority of the Islamic banking customers were satisfied with the overall service quality provided by their banks. Results also show that awareness of Islamic compliance were high of Muslim customers compared to Non-Muslim customers. Thus, the relationship between service quality and customer satisfaction was significant.

6.2.2 Relationship between Service Quality and Customer Loyalty (intention to refinance).

Refinancing is the outcome of customer loyalty, Gremler and Brown (1996) offer one definition that related to this paper: the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists.

A study by Mu’azu et al. (2013), regarding the direct effects of service quality dimensions on customer satisfaction and customer loyalty in Nigerian Islamic Banks. It is to understand that primary data measuring service quality consisting of six dimensions: tangible, reliability, responsiveness, assurance, empathy and compliance. These data were collected from 209 Nigerian students at Universiti Utara Malaysia. The findings of this study reveal that assurance is a significant predictor of customer loyalty. It is suggested that, to maintain loyalty (i.e. intention to refinance), Islamic banks should give assurance in terms of the compliance of Islamic principles while conducting the services.

6.2.3 Relationship between Service Quality and Customer Loyalty (word-of-mouth endorsement)

Arisara (2007), in her dissertation, conducted research regarding respond from restaurant’s customer in Phuket, Thailand. Researcher measures the relationship between customer satisfaction and loyalty which is concerning of spreading a word-of-mouth. The result indicates that spreading word-of-mouth is associated with high customer loyalty.
6.2.4 Customer Satisfaction as a Mediating Variable between Service Quality and Loyalty.

Customer satisfaction plays an important role in customer loyalty. Previous literatures show that service quality together with customer satisfaction will lead to customer loyalty. Hyung (2013), in his research indicates the result of the study that service quality and customer satisfaction positively affected customer loyalty. He tested several models, result of the research in Model 6 is ($\beta = 0.53, p<0.01$), with $R^2 = 0.22$ (significant relationship between service quality with loyalty). Result in Model 7, customer satisfaction as a mediating role is ($\beta =0.24, p<0.01$), with $R^2 = 0.41$. Result indicates that $R^2$ increased of about 0.19. Thus, result shows that there is a significant mediating role of customer satisfaction on the relationship between service quality and customer loyalty.

6.2.5 The effect of Demographic Factors on Service Quality

As for demographic variable, it has been widely recognized that demographic factors have a great impact on service quality and indirectly on consumer attitude and behaviour (Jayawardhena and Foley, 2000; Matilla, 2001; Karjaluoto et al., 2002). Moreover, both attitude and non-attitudinal variables also influence behaviour (Eagly and Chaiken, 1993). So it’s important for Islamic banks to recognize and use them in making better and appropriate strategy concerning gender factor. Ahasanul (2010) stated in his research that gender as demographic factor is a measurable variable and the findings provide straight forward application in the decision making process of Islamic banking service.

6.2.6 Significant Differences in Customer Satisfaction between Al-Ijarah Thumma Al-Bai’ (AITAB) and Bai’ Bithaman Ajil (BBA)

There are lot of complaints about customer satisfaction regarding Bai’ Bithaman Ajil of Bank Islam Malaysia Berhad. These complaints are due to the weaknesses and time consuming regarding the process of auto financing application. On the other hand, Al-Ijarah Thumma Al-Bai’ (AITAB) of Maybank Islamic Berhad are quite popular in the market and also less complaint about customer dissatisfaction. Therefore, this paper will look into the differences of customer satisfaction between two banks and what are the factors constitute to this discrepancies.

7. New Dimension

Since this paper is regarding Islamic banking, therefore study should take into consideration about Islamic compliance value. Recently, there are number of studies using new model adapted from SERVQUAL to measure service quality in Islamic Banking. In Kuwait, Othman and Owen (2001), based on SERVQUAL model they developed an instrument called CARTER to measure service quality in Islamic banking. CARTER model incorporates an extra dimension which is “Compliance with Islamic Law”. The authors defined six dimensions are as follows:
D1: Compliance, D2: Assurance, D3: Reliability, D4: Tangibles, D5: Empathy, and D6: Responsiveness. For this study, the researcher would like to propose an adoption model of CARTER with modifications to the original items apart from introducing one new dimension to suit the local Islamic banking context especially in the auto financing area.

This new dimension has been incorporated into existing CARTER’s dimensions as component of service quality. “After Sales Services” aspect is not fully and specifically considered in SERVQUAL and CARTER. This aspect play an important role in customer satisfaction as it help to improve company’s trustworthiness concerning ability to help customers for after sales services. For instance, customer can pay monthly instalment through ATM or E-banking without time limitation, constraint, without having long queuing through counter service, and with less problems (Zainuddin Abdullah, 2013). Having these kinds of services, eventually will lead to the customer satisfaction. Therefore, Islamic banks can build good reputation among their customers. Figure 1 presents the new dimension under the proposed theoretical framework for this research paper. (Adapted from Arisara, 2007; Shahril et al., 2004).

8. Research Methodology

8.1 Research Concept

8.1.1 Observation, Data Gathering and Problem Defining

Identification of the broad problem area is made through the process of observing, reviewing and focusing on specific situation whereby the researcher will concentrate on conceptual or theoretical issues that need to be tighten up and to answer several research questions.

First stage is through observation of the situation whereby according to Uma Sekaran (2003), there are four possible circumstances or situations or issues might be pertained:

1. Current existing problem in the field that needs solution,
2. Areas that needs improvement,
3. Conceptual or theoretical issue need to be tightened up, and
4. Basic research has empirically answered.

The identification of the area for research problem might be from one or combination of several situations as per four possible circumstances being discussed. Second stage, data is collected from various sources. Third stage, data evaluation. Last stage, after thorough evaluation being made, then researcher is ready to narrow down the problem and define the issues of concerned more clearly.

One of the main intentions of this research is to solve the current problem, improve the situation, and tighten up the theoretical framework. However, it is imperative to take careful
steps in formulating the research problem in order to avoid miscreants or omit the true problem. It should neither be a conjecture of false anticipated problem, nor the wrong definition from broad problem areas. Real research problem should be differentiated from antecedent or consequences of the events. Based on quantitative method, the process of defining the research problem has been conducted through numerous literature review process with the datas collected from the particular banks, i.e. Maybank Islamic Berhad and Bank Islam Malaysia Berhad. Researcher has also reviewed a lot of journals in various fields including Islamic banking areas.

8.1.2 Theoretical Framework

A theoretical framework is a conceptual model of how one theorizes or make logical sense of the relationship among the several factors that have been identified as important to the problem. This theory flows logically from the documentation of previous research in the problem area (Umma Sekaran, 2003).

Regarding this research, theoretical framework has been prepared and developed logically to describe and elaborate the relationship among the variables that relevant to the problematic situation. Framework and its constructs were identified through observation, and by executing many literature surveys through over hundreds of the literatures. Theoretical framework has been developed in such a way that it will provide the good basis for developing hypothesis for the research.

Thus for developing theoretical framework, a substantial number of empirical studies on service quality and in particular bank services quality is observed in the literatures. Most of these studies measured the effect of service quality on customer satisfaction by using and adapting service quality model such as Gronroos Model by Gronroos (1982), SERVQUAL model by Parasuraman et al. (1985), SERVPERF model by Cronin and Taylor (1992), and CARTER model by Othman and Owen (2001). Hence, based on discussions and after the reviewing numerous literatures, theoretical framework that has been created for this study as per figure 1.
8.1.3 Research Hypotheses

Based on the theoretical framework developed, the researcher has established the relationships among them through logical reasoning in the theoretical framework, then test whether the relationships that are theorized, does in fact comply. Thus, to solve the problem, researcher has developed 10 specific hypotheses for this research. Followings the hypotheses that have been developed: (Refer table 1).

Table 1: Hypotheses

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Antecedents of Customer Satisfaction and Loyalty</th>
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<tbody>
<tr>
<td>H1:</td>
<td>There is a positive relationship between service quality factors and customer satisfaction. (Research objective 1).</td>
</tr>
<tr>
<td>H2:</td>
<td>There is a positive relationship between customer satisfaction and loyalty (intention to refinance). (Research objective 3).</td>
</tr>
<tr>
<td>H3:</td>
<td>There is a positive relationship between customer satisfaction and loyalty (word-of-mouth endorsement). (Research objective 3).</td>
</tr>
</tbody>
</table>
H4: Service quality factors have a positive impact on customer satisfaction. (Research objective 1).

H5: Service quality factors have a positive impact on loyalty (intention to refinance). (Research objective 2).

H6: Service quality factors have a positive impact on loyalty (word-of-mouth endorsement). (Research objective 2).

H7: Customer satisfaction has a positive impact on loyalty (intention to refinance). (Research objective 4).

H8: Customer satisfaction has a positive impact on loyalty (word-of-mouth endorsement). (Research objective 4).

H9: There is a significant difference of service quality factors based on customer’s demographic profile on customer satisfaction. (Research objective 5).

H10: There is a significant difference of customer satisfaction between Al-Ijarah Thumma Al-Bai’ (AITAB) by Maybank Islamic Berhad and Vehicle Financing-i (Bai Bithaman Ajil-BBA) by Bank Islam Malaysia Berhad. (Research objective 5).

8.2 Research Design

Quantitative method has been applied for the purpose of this research. The Quantitative type has been selected to suit the testing method that has been chose, i.e. descriptive and non-experimental hypothesis testing and also it involves the collection of the data using questionnaire, whereby statistical tools has been employed for data testing. The researcher has adapted certain items under dimensions of CARTER model for the purpose of conducting the study. Regarding the data collection, which uses questionnaire, cross-sectional study that represents a single point in time is applied. Variables or dimensions in this paper will be analyzed through correlational statistics (r). Following the explanation regarding research design in detail:

8.2.1 Sample and Location

Based on the general guidelines by previous researchers on simple size required from given population such as (Nunnally, 1978); Tabachnik and Fidell, 1996), they stated that from statistical perspective, a minimum 400 samples are suitable for most of the research paper.

However, 500 samples were collected from prospective respondents, i.e. 250 Islamic auto financing account holders from Maybank Islamic Berhad and Bank Islam Malaysia Berhad respectively. Gender percentage, male respondents 60 percent and female 40 percent. In terms of racial composition, 95 percent Malays, and 5 percent others. Regarding age limitation, financing eligibility is between 20 years old to 60 years old. Population frame for this research
is the respondents who are residing in Klang Valley and already bought the Perodua car and have Islamic financing account with Maybank Islamic Berhad and Bank Islam Malaysia Berhad. The number of Population who had bought the Perodua car using Ijarah Thumma Al Bai’ (AITAB) and Bai’ Bithaman Ajil (BBA) concepts has been accounted in three years, i.e. from 2011 to 2013 which is about 180,000 customers (Perodua Yearly Sales Report, 2011, 2012 & 2013). These periods were being selected, in order to ensure that the respondents still have the fresh memory regarding financing application process.

8.2.2 Instrumentation and Method of Collection

(a) Instrument

The instrument of questionnaire is divided into three parts. Part I, regarding service quality with comprises of seven dimensions. This paper has about 45 questions, including the new proposed dimension, i.e. “After Sales Services”. Part II consists of 8 questions, regarding customer satisfaction and customer loyalty questionnaire, and part III consists of 3 questions, regarding demographic information.

(b) Method of Collection

Non-probability convenience sampling method has been used due to its efficiency, quick, and being inexpensive. It also leads to potential useful information with regard to the population (Earl Babbie, 2013). Two steps were employed by the researcher; first, questionnaire was distributed to the respondent at some of the selected branches of Perodua car dealers. The bulk of questionnaires were managed by an appointed agent in the selected branches. Secondly, researcher made calls to previous customers through assistance from selected car dealers. Alternatively, the researcher gathered the data from friends, neighbours and schools.

8.2.3 Data Analysis Procedures

Content validity of the draft were reviewed by two expert on the subject matter, one from Islamic banking industry and the other, a language expert, in order to ensure correct translation being made to the questionnaire from English into Bahasa Malaysia and vice versa. Construct validity of the dimensions were checked using factor analysis method, i.e. Exploratory Factor analysis (EFA) and Confirmatory Factor Analysis (CFA). Then reliability of the scale for this paper being measured using Cronbach’s Alpha with prescribed 0.70 as thresholds (Nunnaly, 1978). Analysis methods of statistics that have been applied, i.e. Descriptive Statistic, Pearson Correlation, Multiple Hierarchical Regression, One Way ANOVA, and Independent sample-t-test.

9. Implication and Future Scope of Research

In terms of theoretical implication, the result of this research paper has clarified and endorsed the relationship between service quality and customer satisfaction that have been
studied by the previous researcher. Most of the previous literature suggested that there is a relationship between service quality factor, customer satisfaction and customer loyalty. Essentially the results have contributed to the academic discipline in several areas such as:

1. This research paper has provided evidence that the customers will form the service quality perceptions based on their evaluations on service quality factors: compliance, assurance, reliability, tangibles, empathy, responsiveness, and after sales services.

2. Based on the result from previous literatures, it is observed that the CARTER service quality model is of multi-dimensions construct. Therefore, the result of this research paper indicates that the seven service quality dimensions will contribute to the customer satisfaction and customer loyalty in Islamic banking industry. Also based on those findings, the theoretical framework is appropriate to achieve the objectives of this paper.

3. Findings have indicated that the dimensions of service quality factors are important to the provision of superior service quality as suggested by Parasuraman et al. (1988).

In terms of managerial implication, the research paper in local Islamic banking context with regard to service quality in relationship with customer satisfaction and customer loyalty is vital and complements to traditional measures of economics performance. It provides useful information to the banking institutions, shareholders, investors, government regulators, and most importantly to customers. This research model can greatly assist managers in understanding the ways their customers assess the quality of “service experiences”. Specifically, according to Cronin and Brady (2001) three basic issues should be addressed: (1) what defines service quality perceptions, (2) how service quality perceptions are formed, and (3) importance of service location.

Thus, when these three factors are clarified, managers will have clear direction as to what should be taken into account in order to improve customers’ perceptions of “service quality”. Therefore, the theoretical framework in this paper can guide managers as they endeavour to enhance customer service experiences. Also, outcome of this study can be a guiding factor to the management of the bank to be more conscious about customer satisfaction and the factors that contributed to customer loyalty.

In terms of operational implication, the results from this research paper can be applied in two aspects:

1. From a strategic perspective, the conceptualization of the factors that determine service quality helps to categorize customers across the seven dimensions. Customer profile can be created to identify the core competency and weaknesses in the service offered. Precise issues can further be tailored and isolated based on the result of this research paper.
From a practical perspective, the identified service quality dimensions can be used to compare the service level with competitor service offerings. For example in Islamic banks, if data indicates that one bank has higher approval standards of financing application which is due to the smooth and efficient procedures and as well as well trained officers, the other bank can make comparison based on the level of those achievements and therefore, can formulate the better plan in order to increase customer experiences.

The study also identified and recommended further research that can be undertaken to ascertain the relationship between service quality and Islamic banking industry. Following are the possible future scopes that can be investigated:

(i) More cross-country and cross cultural comparative studies will help in discovering the commonalities in the regional and the differences of service quality especially in Islamic countries and banking.

(ii) More studies can help investigate the sources that cause such derivation from the original factor structure and the changes in terms of importance and dimensionality of service quality.

(iii) More studies on Islamic banks in Muslim countries and their comparison with the conventional commercial banks to alleviate differences and similarities with the focus to improve the feasibility and strength of service quality of Islamic banks.

(iv) More studies on service quality from the management perspectives that would help understand and enhance the implementation of service quality.

(v) More studies on components of service quality from Islamic perspective that not only identifies the construct but recognise the complete service quality package.

10. Conclusion

Service quality factors are very crucial in the determination of the success in the banking industry. Good service experienced by customer leads to loyalty behaviour. Islamic banking industry should promote good service quality, reliable and efficient employee in operating the bank services to their customers. It is imperative for banking system to improve service quality in terms of service operation, environment, employees, and procedures. Furthermore, banks must ensure that they have effective implementation procedure and good feedback system. An efficient customer care system or after sales services such as problem free availability of the electronic channel enhances the good image of the bank.

Presently, Islamic banks are operated in a globally integrated banking industry which is characterised by strong competition and rapid changes in technology. The operations of auto finance in Islamic banks are based on Islamic (Shariah) Law, which is different in terms of spirit, process and practice from conventional banks. Moreover, the auto financing facilities provided by Islamic banks were generally on par with conventional bank. Thus, Islamic banks
need to compete against each other as well as conventional banks based on high service quality and flexibility of products and procedures offered by the bank in order to gain a competitive edge against their rivals.

References


