Islamic banks

Contrasting the drivers of customer satisfaction on image, trust, and loyalty of Muslim and non-Muslim customers in Malaysia

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Abstract

Purpose – The purpose of this study is to investigate customer satisfaction and its effect on image, trust, and customer loyalty for Islamic banks.

Design/methodology/approach – The study uses data from Islamic banks and dual-window Islamic banks, pertaining to two different customer segments (Muslims and non-Muslims).

Findings – The results indicate that customer satisfaction has a significant relationship with image, image has a significant relationship with trust, and trust has a significant relationship with customer loyalty for both customer segments. Furthermore, significant differences occur in the effect of customer satisfaction on image, image on trust, and trust on customer loyalty between Muslim and non-Muslim customers.

Practical implications – The findings suggest that Muslim customers establish relationships with Islamic banks because they trust that Islamic banks are Shariah compliant. Therefore, providing secure banking products that are fully compliant with Islamic principles are necessary.

Originality/value – This research is important as it clearly demonstrates that the loyalty of Muslim and non-Muslim customers to Islamic banks is influenced by customers being satisfied, as well as the image of and trust in Islamic banks. In this context, when customers are unwilling to trust Islamic banks, they are also unwilling to be loyal.

Keywords Cross-cultural, Customer satisfaction, Image, Trust, Customer loyalty, Islamic banks, Banks, Malaysia

Paper type Research paper

1. Introduction

Islamic banking is one of the most dynamic segments in the banking industry, and constitutes a segment in which some of the traditional rules of marketing in the banking industry may not apply. Undoubtedly, the whole notion of "Islamic banking" implies that this segment must appeal primarily to Muslim customers who use Islamic banks to fulfill their religious obligations. In the Islamic tradition, if people want to invest in a business venture, they should do so as partners, sharing both the risk and the profit. For Muslims, using modern Islamic banks is an obvious choice as they simultaneously invest their income and fulfill their religious obligations.

In this context, if Islamic banking only appeals to Muslims, then this will naturally restrict the growth of the Islamic banking industry. However, if it appeals to

non-Muslims as well, the growth potential becomes much larger, and might lead to the successful internationalization of Islamic banking (Khan *et al.*, 2011). With this in mind, the situation in Malaysia is quite interesting as many non-Muslims use Islamic banking products. Typically, non-Muslim customers have an ongoing relationship with a conventional bank that cross-sells Islamic banking products from its wholly owned Islamic banking subsidiary. On the other hand, the fact that Malaysian Islamic banks seem to attract an increasing number of non-Muslim customers might indicate that Malaysians are quite open to the diversity. The ethnic composition of the country is such that non-Muslims account for about 40 percent of the population and are a major banking customer segment (Loo, 2010). However, little is known about how non-Muslims perceive Islamic banks. Therefore, this study investigates customer satisfaction and its effect on image, trust, and customer loyalty in Islamic banks by contrasting Muslim and non-Muslim customers' perception of Islamic banks.

2. The development of Islamic banks in Malaysia
The first Islamic bank in Malaysia was established in 1983. Currently, there are 12 full-fledged Islamic banks and eight dual-window banks operating in Malaysia alongside the local full-fledged Islamic banks, local and foreign dual-window banks (Bank Negara Malaysia, 2010). In Malaysia, conventional banks are allowed to offer Islamic banking products and services under the dual-window concept. A dual-window bank is a bank with two windows under the same roof, one for conventional banking operations and the other for Islamic banking. Although there is a difference between Islamic banks and conventional banks, there are some similarities between the two in terms of offering complementary products and services (El-Din and Abdullah, 2007). For example, Islamic banks offer facilities, such as saving accounts, current accounts, credit cards, and other products and services (Naser *et al.*, 1999).

The total deposits in Islamic banks in Malaysia increased from US$50 billion in 2009 to US$65 billion in 2010. Similarly, total assets increased from US$65 billion to US$80 billion (Bank Negara Malaysia, 2010). Meanwhile, Bank Islam Malaysia reported that some 70-80 percent of the bank's trade and corporate financing are with non-Muslim clients (Ngui, 2004). Deloitte Touche Tohmatsu Malaysia reported that 70 percent of Islamic banks financing in Malaysia was contributed by non-Muslim customers (Saifuddin, 2003). Previous study have shown that both Muslim and non-Muslim customers have a good understanding of products and services offered by Islamic banks in Malaysia (Amin and Isa, 2008), and that Islamic banks in Malaysia are accepted by both customer groups.

3. Malaysian society
Malaysia is a multi-ethnic, multi-religious, and multi-cultural country in South East Asia. With a population of about 26 million, about 60 percent of the population is Muslim (mostly Malays) and 40 percent is non-Muslim (mostly Chinese and Indian). Although cross-cultural issues impact almost every aspect of Malaysian society, there is often confusion between ethnicity, religion, and culture. These three constructs overlap but they should not be confused. Although Malaysians are divided into many ethnic groups, of which the Malays, Chinese, and Indians are dominant, they share similar core values (Fontaine and Richardson, 2005) that allow the society to prosper in relative harmony. Despite this, Fontaine and Richardson (2003) observe that many people in Malaysia assume that, in a multi-cultural society like Malaysia, there are

many different cultures. Researchers, however, conclude that although there are many cultural groups in Malaysia, all Malaysians are socialized to be part of a multi-cultural society. Fontaine and Richardson (2003) suggest that many Malaysians are bicultural. Biculturalism is when people identify with more than one culture. As Benet-Martinez *et al.* (2002) explain that bicultural individuals have two cultural schemas and respond to them depending on cultural cues. In that sense, although it is probable that non-Muslim customers have little interest in the religious obligations that Muslim customers face, non-Muslim customers can accept Islamic banks because, as Malaysians, they have been socialized to accept the cultural values of other Malaysians. It is therefore important for Islamic banks to better understand how their non-Muslim customers perceive them and why.

4. Conceptual framework and hypotheses
4.1 Customer satisfaction
Oliver (1997) explained that customer satisfaction is full meeting of customer expectation of the products and services. If the perceived performance matches or even is beyond customers' expectations of services, they are satisfied. If it does not, they are dissatisfied. Under this theory, consumers form expectations of product performance prior to purchase. These expectations are derived from past experience with the product itself or with similar products, other marketing stimuli, and existing attitudes and confidence felt by the consumer (Moon *et al.*, 2011). The literature has taken two approaches to operationalizing satisfaction. The first sees consumer satisfaction as the transaction-specific evaluation (Høst and Knie-Andersen, 2004). This view refers to customers' feelings in response to a particular product or service encounter (Bitner and Hubbert, 1994). The other operationalization defines consumer satisfaction and dissatisfaction as cumulative satisfaction. This view is determined by satisfying and dissatisfying with a product or service over time (Zeithaml *et al.*, 1993). In this study, customer satisfaction is understood as an overall customers' actual evaluation of satisfaction and dissatisfaction service encounters with the bank over time (Fornell *et al.*, 1996; Høst and Knie-Andersen, 2004).

Previous researchers have identified various factors that determine customer satisfaction in the Islamic banking industry and differences in how consumers perceive services across countries and cultures that cannot be generalized. For example, Levesque and McDougall (1996) highlighted that convenience and competitiveness of the bank were two important factors which were likely to influence the overall satisfaction levels of a customer. Meanwhile, Othman and Owen (2002) find that between 65 and 78 percent of Kuwait Islamic banking customers are satisfied with their overall and personal contact with bank staff. In Malaysian Islamic banks, it has been found that fast and efficient service, friendliness of bank personnel, confidentiality, and transaction speed are the key criteria that Malaysian customers have identified concerning their satisfaction with the services of their banks (Amin and Isa, 2008). The banks' ability to deliver these benefits on an on-going basis probably influences the level of customer satisfaction. Therefore, in order to maintain and expand their customer base, it is important for Islamic banks to understand the criteria consumers use to evaluate banking services, and to have a system by which consumer satisfaction are continuously measured and improved.

4.2 Image
Image is an attitude that reflects a combination of product characteristics. From the viewpoint of a company, image is the range of associations that come to mind when

customers hear the name of an organization (Flavian *et al.*, 2004; Nguyen and Leclerc, 2011). Image has two principal components: functional and emotional (Kennedy, 1977). The functional component is related to tangible dimensions that can be easily identified and measured, while the emotional component is associated with the psychological aspects that are manifested by individual experiences and attitudes toward the company. Most researchers agree that image is the result of a process; therefore, corporate image is the result of an aggregate process by which customers compare and contrast the various attributes of firms (Bravo *et al.*, 2009; LeBlanc and Nguyen, 1996; Nguyen and LeBlanc, 2001). According to Kang and James (2004), image is viewed as a filter in terms of a customer's perception of quality. Thus, corporate image is the net result of the interaction of all experiences, impressions, beliefs, feelings, and knowledge that people have about a company (Hsiong-Ming *et al.*, 2011).

4.3 Trust

Trust is a dynamic and multi-faceted concept (Dimitriadis *et al.*, 2011; Flavian *et al.*, 2005). In the Islamic banking context, trust is defined as a moral obligation of every individual in the performance of his or her duties in society. Islam places the highest emphasis on trust and considers being trustworthy as an obligatory personality trait (Iqbal and Mirakhor, 2007). Thus, the foundation of the philosophy of the dimension of trust in the Islamic banking system can be seen as a symbol of trustworthiness, honesty, equity, equality among human beings, and moral values that are established to enhance the business relationship between banks and customers (Sauer, 2002). Similarly, ethics and compliance with Islamic principles (*Shariah*) are highly regarded and sustained as pillars in running Islamic banking activities based on trust (Kayed and Hassan, 2011). Although the definition of trust in a business-to-business relationship has been established, there seems to be a consensus in interpreting trust as honesty, confidence, integrity, and trustworthiness (Iqbal and Mirakhor, 2007; Othman and Owen, 2002).

4.4 Customer loyalty

Loyalty refers to a consumer's commitment to repurchase a preferred product and service consistently in the future. Zeithaml *et al.* (1996) explain that one can measure loyalty by looking at the number of customers who continue to buy from the company due to the positive attitude its products generate for them. Loyalty is therefore defined as an attitude and a behavior (Baumann *et al.*, 2011).As a result there are two dimensions that can measure customer loyalty, namely, behavioral and attitudinal loyalty. Behavioral loyalty refers to a customer's behavior to repurchase, due to their liking of a particular brand or service. Attitudinal loyalty reflects the emotional and psychological state of the customer to repurchase and to recommend to other people (Reichheld, 1993). Loyalty, in this study, refers to the continuing patronage of a particular bank by a client over time (Ladhari *et al.*, 2011). In the banking industry, customers often develop an attitude toward purchasing behavior based on past experience (Caruana, 2002; Fornell *et al.*, 1996), which either leads to loyalty or a desire to switch (Anthanassopoulos *et al.*, 2001). When customers are highly satisfied, they continue dealing with the bank, and provide positive word of mouth thereby affecting those they know. Similarly, when they are not satisfied, they will react negatively and switch to other service providers (Amin *et al.*, 2011; Kaur *et al.*, 2012).

4.5 Relationships between the variables
Many studies have provided empirical evidence to support the results that customer satisfaction has significant relationship on image (Ball *et al.*, 2004; Bloemer *et al.*, 1998; Nguyen and LeBlanc, 1998). For example, Bontis *et al.* (2007) suggest that corporate reputation among customers can be improved by focussing on customer satisfaction. Similarly, Anderson and Sullivan (1993) conclude that higher customer satisfaction leads to higher reputation, and improved image (Andreassen and Lindestad, 1998). Moreover, satisfied customers are more likely to engage in a long-term relationship with their bank. For example, customer satisfaction has a positive impact on customer loyalty (Amin *et al.*, 2011; Bloemer *et al.*, 1998; Nguyen and LeBlanc, 1998; Zeithaml *et al.*, 1996). Although, the links between customer satisfaction, image, and customer loyalty are valid in western contexts, it is likely that the cultural difference of consumers will influence its applicability in Asia cultures. For example, Jin *et al.* (2008) compare the impact of firm reputation on satisfaction in two cultures, the USA and South Korea. They find that the link between firm reputation and satisfaction is stronger for the culture in South Korea than in the USA. Similarly, Blankson *et al.* (2009) identify four key factors – convenience, competence, recommendation by parents, and free banking and/or no bank charges – to be consistent across the two countries (USA and Ghana). Interestingly, Ueltschy *et al.* (2007) find that there is significant difference between Japan (high-context country), and the USA and Germany (low-context countries) in customer satisfaction expressed when performance is high. The low-context countries express significantly higher customer satisfaction than the high-context country (Japan). Meanwhile, Arasli *et al.* (2005) show that overall satisfactions of both bank customers living in the north and the south have a significant effect on loyalty, the effect of overall satisfaction on loyalty is higher in the south when compared to those in the north. Additionally, Amin *et al.* (2011) find that the effect of customer satisfaction on customer loyalty is higher for non-Muslim than for Muslim customers. In the context of Malaysia, there is a significant difference in customer satisfaction toward Islamic banks between two groups (Baby Boomers and X-Gen), where non-Muslim Baby Boomers and X-Gen perceive a disadvantage in Islamic banks more than Muslim Baby Boomers and X-Gen (Loo, 2010). Although, the relationship between customer satisfaction, image and customer loyalty is well established, limited explanation has been provided to justify this relationship in the Islamic banking context, especially in comparing Muslim and non-Muslim customers in Malaysia. Hence, the following hypotheses are proposed:

H1a. The effect of customer satisfaction on image is different for Muslim and non-Muslim customers.

H1b. The effect of customer satisfaction on trust is different for Muslim and non-Muslim customers.

H1c. The effect of customer satisfaction on customer loyalty is different for Muslim and non-Muslim customers.

Consequently, image has been identified as a major driver of trust (Ball *et al.*, 2004; Flavian *et al.*, 2005; Mukherjee and Nath, 2003). For example, Flavian *et al.* (2005) suggest that image plays an important role in the formation of customer trust in the

two banking segments: traditional and online. Meanwhile, Ball *et al.* (2004) reveal that image has an indirect impact on loyalty through satisfaction and trust. In addition, there is a significant relationship between image and customer loyalty (Nguyen and LeBlanc, 1998). However, the relationship between image and customer loyalty is mediated by perceived quality (Bloemer *et al.*, 1998) and trust (Brunner *et al.*, 2008). Although, no cultural differences have been found in the relationship between reputation and trust, the role of reputation is more critical in establishing trust in Korea than in the USA (Jin *et al.*, 2008). The assumption is that a more religious image means more trust for Muslim customers. Thus, the research hypotheses are:

H2a. The effect of image on trust is different for Muslim and non-Muslim customers.

H2b. The effect of image on customer loyalty is different for Muslim and non-Muslim customers.

In service industries, it appears that when a customer trusts a brand, customers are likely to build a positive behavioral attitude toward the brand (Nguyen and Leclerc, 2011). In this respect, trust is acknowledged as an important indicator in developing customer loyalty (Castaneda, 2011; Kaur *et al.*, 2012; Shainesh, 2012; Zeithaml *et al.*, 1996). A high level of trust may turn a satisfied customer into a loyal customer (Dimitriadis *et al.*, 2011). Interestingly, Kassim and Abdullah (2010) investigate the relationship between trust and customer loyalty in two cultures, Malaysia and Qatar. Although, the results shows that there is a significant relationship between trust and customer loyalty. However, there is no significant effect on trust and customer loyalty for both Malaysian and Qatar customers were found. The finding demonstrates that the relationships may be consistent across cultural groups because consumer may have similar cultural backgrounds. Although the presence of cultural differences and their impact has been studied, very few studies have analyzed them in Islamic banks context. A comparison of the trust and customer loyalty determinants of Islamic banks between these two groups is expected to offer insights into the banking industry about effectively targeting their services. This is critical as Muslim customers in Islamic banking are more concerned with impressions of sincerity, trust, and the religious aspects of the services (Jabnoun and Khalifa, 2005). Therefore, the following hypothesis is proposed:

H3. The effect of trust on customer loyalty is different for Muslim and non-Muslim customers.

5. Methodology
The aim of this study is to understand how Muslim and non-Muslim customers relate to full-fledged Islamic banks and dual-window Islamic banks in Malaysia. The quota sampling technique was used for this study. To develop these quotas, the researchers list relevant control characteristics and determine the distribution of these characteristics in the target population. The data were collected from personal interviews using questionnaires. The period for data collection was from April to July 2007.

In this study, respondents were customers visiting the counters of banks and they must have an account with one of the full-fledged Islamic banks and/or dual-banking

systems. The Islamic banks are the two leading full-fledged Islamic banks (BIMB and Bank Muamalat Malaysia Berhad) and the two dual-window banking systems (Maybank and Public Bank) in eight different states of the Peninsula Malaysia. Two branches of each state for two full-fledged Islamic banks, and two branches of each state for two dual-windows banks were used to collect the survey data. The respondents were from four branches of each state in eight states (32 branches). Two cities represent levels of economic development in the southern area (Johor Bahruand Seremban), two cities represent the north area with rising economic growth (Pulau Pinang and AlorSetar), two cities represent the east coast area (Kota Bharu and Kuantan), and two cities represent the central areas where most commercial banks in Malaysia locate their head offices (Kuala Lumpur and Shah Alam). The selection of bank branches across a spread of different cities has the purpose of enhancing the generalizability of the findings and representation of Malaysian Muslims and non-Muslims customers.

The questionnaires were distributed in two ways. First, for the full-fledged Islamic banks, the questionnaires were given to bank managers who were asked to distribute the questionnaires to their clients. Second, for dual-window banks, interviewers visited selected branches and distributed the questionnaires to customers outside the bank. Respondents were selected from among the customers who visited the sampled banks at different times (day time and on various days of the week or month). In answering the questions, respondents were assured of confidentiality. Control and filter questions were put in place to ensure the quality of the responses.

A seven-point Likert scale was used to measure customer perceptions of image, trust, and loyalty, ranging from "strongly disagree" (1) to "strongly agree (7)". Image was measured by adapting indicators as suggested by LeBlanc and Nguyen (1996) and Flavian et al. (2004); customer loyalty by adapting scale items from Zeithaml et al. (1996), and trust indicators were adapted from Flavian et al. (2005), and Othman and Owen (2002). Meanwhile, customer satisfaction indicators were measured by adapting scales developed by Fornell et al. (1996) and Levesque and McDougall (1996). In addition, satisfaction was measured on a seven-point scale ranging from "1 = very unsatisfied" to "7 = very satisfied."

6. Analysis and results

6.1 Demographics

Table I reports the descriptive statistics of the respondents in this study. A total of 660 questionnaires were distributed and 440 were returned (66.7 percent response rate). The sample characteristic includes 315 Muslim customers (71.1 percent) and 125 non-Muslim customer (28.9 percent). Table I reports the descriptive statistics of the respondents.

6.2 Measurement model evaluation

A two-stage analysis procedure was used to test the measurement model in this study. First, confirmatory factor analysis was employed to specify the pattern by which each measure loads on a particular factor (Byrne, 2001; Hair et al., 2006). Second, the squared multiple correlation was conducted to measure each indicator and how well an item measures a construct (Hair et al., 2006). The first run of squared multiple correlation showed that the majority of the measurement items were >0.5, which indicated a good reliability level (Holmes-Smith, 2001). By checking the squared multiple correlations for each measurement item, three items were dropped as the R^2 values are <0.5.

	Muslim customers (n = 315)	Non-Muslim customers (n = 125)	Total (n = 440)
Sex			
Male	38.0	15.4	53.4
Female	33.7	12.9	46.6
Race			
Malays	71.1	0.0	71.1
Chinese	0.0	21.4	21.4
Indians	0.0	7.0	7.0
Other	0.2	0.2	0.5
Age (year)			
18-24	14.1	2.0	16.1
25-34	23.9	8.8	32.7
35-44	23.0	12.0	35.0
45-54	8.4	5.0	13.4
55 and above	2.3	0.4	2.7
Status			
Not married	25.7	6.6	32.3
Married	44.1	20.7	64.8
Divorced	1.8	1.2	3.0
Occupation			
Student	10.0	2.0	12.0
Government employee	19.5	2.1	21.6
Private employee	21.4	10.9	32.3
Businessman	13.9	12.0	25.9
Other	6.8	1.4	8.2
Education			
High school	22.3	7.7	30.0
Certificate	2.3	1.6	3.9
Diploma	23.0	7.0	30.0
University graduate	18.0	9.5	27.5
Post graduate	5.0	1.4	6.4
PhD	0.5	0.4	0.9
Other	0.7	0.7	1.4
The period time of bank's customer relationship			
Less than one year			13.2
One to two years			23.0
Two to three years			18.4
Above three years			45.5
The customer bank accounts types			
Current account			12.5
Saving account			43.6
Investment and financing account			44.0

Table I.
Characteristics of
the sample

As a result, the measurement model retained 13 observed indicators from the original 16 derived to estimate the model fit. A re-run CFA was conducted, and the results of the measurement model showed a fit to the sample data.

Table II showed the factor loadings, Cronbach's α, average variance extracted (AVE) for customer satisfaction, image, trust, and customer loyalty. To test the reliability of customer satisfaction, image, trust, and customer loyalty instruments, the Cronbach's α coefficients were computed. The coefficient α's exceed the minimum standard of 0.70,

	Factor loadings	AVE	α
Customer Satisfaction			
I am satisfied with employee's response and prompt services	0.808		
I am satisfied with financial services advice	0.885		
I am satisfied with products and services provided by my bank	0.842	0.72	0.881
Image			
Islamic banks have competent and efficient staff reputation	0.881		
Islamic banks image	0.907		
Islamic banks offer attractive products and services	0.771	0.73	0.885
Trust			
Islamic banks are truly concerned with Islamic principles	0.916		
I believe that deposits in Islamic banks are safe	0.787		
I believe the products and services offered are based on Islamic *Shariah*	0.928	0.77	0.906
Customer loyalty			
Customers intention to say positive things about Islamic banks to other people	0.865		
Willingness to recommend family and relatives to do business with Islamic banks	0.903		
Recommend Islamic banks to someone who seeks advice	0.905		
Continue to do more business with Islamic banks	0.848	0.78	0.931

Table II.
Validity and reliability for customer satisfaction, image, trust, and customer loyalty dimensions

which indicated that they provided a good estimate of internal consistency reliability. The coefficient α's obtained of 0.881, 0.885, 0.901, 0.931, respectively, greatly exceeding the minimum acceptable values (customer satisfaction, image, trust, and customer loyalty). To assess the convergent validity for each construct, standardized factor loadings were used to determine the validity of the four constructs (Anderson and Gerbing, 1988). The findings indicated that each factor loading of the reflective indicators range from 0.771 to 0.928 and exceeded the recommended level of 0.50. As each factor loading on each construct was > 0.50, the convergent validity for each construct (customer satisfaction, image, trust, and customer loyalty) was established, thereby providing evidence of construct validity for all the constructs (Hair *et al.*, 2006). Meanwhile, AVE was calculated for assessing discriminant validity for the four constructs (Hair *et al.*, 2006), and the AVE ranged from 0.72 to 0.78. Table III showed the discriminant validity of the construct, since the square root of the AVE between each pair of factors was higher than the correlation estimated between factors, thus ratifying its discriminant validity (Bagozzi and Yi, 1998; Hair *et al.*, 2006).

	Customer satisfaction	Image	Trust	Customer loyalty
Customer satisfaction	0.932			
Image	0.758	0.891		
Trust	0.723	0.842	0.890	
Customer loyalty	0.700	0.803	0.884	0.882

Notes: Below the diagonal, correlation estimated between the factors; diagonal, square root of AVE

Table III.
Discriminant validity of the customer satisfaction, image, trust, and customer loyalty

6.3 Multiple group structural equation models

In order to determine whether or not components of the measurement model were invariant across a particular group, a multiple group analysis was conducted on the two groups (Muslim and non-Muslim) using AMOS 19. The main purpose of a multiple group analysis is to identify the extent to which groups differ. For specifying group differences in a multiple group analysis, all groups have the same path diagram unless explicitly declared otherwise; unnamed parameters are permitted to have different values in different groups; parameters in different groups can be constrained to the same value by giving them the same label (Byrne, 2001).

Before testing invariance across multiple group samples, a baseline model was established for both customer segments separately. As the baseline models fit well for customer groups, additional levels of constraints were introduced for the structural models. In testing for invariance, equality constraints were imposed on particular parameters, and, thus, the data for all groups were analyzed simultaneously to obtain efficient estimates (Byrne, 2001); the pattern of fixed and free parameters nonetheless remained consistent with the baseline model specification for each group. Table IV shows that the overall fit of the Muslim model is $\chi^2 = 205.469$ (p-value $= 0.001$), with a GFI of 0.909 and CFI of 0.960, whereas the non-Muslim model is $\chi^2 = 153.655$ (p-value $= 0.001$), with a GFI of 0.834 and CFI of 0.938.

To test the hypothesis, a structural equation modeling approach was employed. Maximum likelihood estimation was used with the covariance matrix as the input matrix. In structural equation modeling, testing for invariance of parameters across groups was accomplished by placing constraints on specific parameters (Byrne, 2001). In particular, the parameters were specified as being equivalent through a labeling mechanism whereby each parameter to be held equal across groups was given a label for all factor loadings and all factor variances were constrained equally across Muslims and non-Muslims.

Table V shows that the research model indicates the acceptable goodness-of-fit indices model. The χ^2 was significant ($\chi^2 = 409.208$, χ^2/degree of freedom (χ^2/df)) ratio

Table IV.
Results of baseline model for Muslims and non-Muslims

Group	χ^2/df	p-value	CFI	GFI	RMSEA
Muslims	205.469/60	0.001	0.960	0.909	0.07
Non-Muslims	153.655/60	0.001	0.938	0.834	0.08

Table V.
Standardized coefficients for the research models for Muslim and non-Muslim customers

		Parameter estimate	
Hypothesis	Path	Muslims	Non-Muslims
H1a	Customer satisfaction – image	0.860*	0.907*
H1b	Customer satisfaction – trust	0.389*	−0.017[ns]
H1c	Customer satisfaction – customer loyalty	0.164**	0.439*
H2a	Image – trust	0.468*	0.905*
H2b	Image – customer loyalty	0.243**	−0.166[ns]
H3	Trust – customer loyalty	0.453*	0.617*

Notes: $\chi^2 = 409.208$, CMIN/df $= 3.468$, GFI $= 0.866$, CFI $= 0.943$, TLI $= 0.924$, RMSEA $= 0.07$.
*,**Significant at $p < 0.05$; $p < 0.01$, ns, non significant $p < 0.05$

3.468, $p = 0.001$). The χ^2 value has the fundamental problem from the perspective of validity and was sensitive to the sample size (Sharma, 1996). As the GFI and CFI values were not being affected by the sample size, these indicators become the choice of the fit model (Burton *et al.*, 1998). The two fit indices for CFI and TLI were > 0.90 thresholds for acceptability, and the GFI value of 0.866 was lower than the commonly cited thresholds of 0.90, however, this value was in the range of the recommended levels. The RMSEA value should be below the cut-off value of 0.08 for a good model fit (Hair *et al.*, 2006). Table V provides the standardized coefficients for the research model across Muslim and non-Muslim customers. Overall, the values were close to the threshold, and, thus, they represent an acceptable model fit.

Furthermore, the χ^2 test was used to identify the difference in the effect of customer satisfaction, image, trust, and customer loyalty for both customers. Figures 1 and 2 shows the effect structural model of customer satisfaction on image, image on trust, and trust on customer loyalty for Muslim and non-Muslim customers ($p < 0.001$). The results show that customer satisfaction has a significant positive effect on image for both customers, supporting *H1a* indicating that the influence of customer satisfaction on image is stronger for non-Muslim customers ($\beta = 0.907$). *H1b* and *H1c* state that the effect of customer satisfaction on trust and customer loyalty was different for Muslim and non-Muslim customers. However, there was no significant relationship between customer satisfaction and trust for non-Muslim customers. Although, the effect of customer satisfaction on trust was significant for Muslim customers, however, the differences exist between two groups in terms of customer satisfaction. Thus, *H1b* was
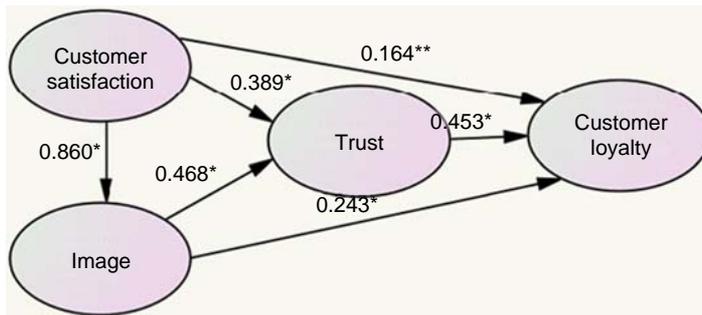

Notes: *,**Significant at $p < 0.05$, $p < 0.01$ respectively

Figure 1.
Structural model for
Muslim customers

Notes: *,Significant at $p < 0.05$, ns, $p < 0.05$
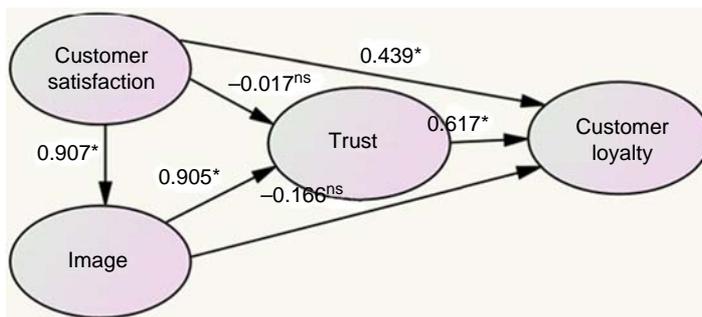
Figure 2.
Structural model for
non-Muslim customers

not accepted. There was a significant relationship between customer satisfaction and customer loyalty for both customers, thus *H1c* was accepted. Meanwhile, *H2a* and *H2b* state that the effect of image on trust and customer loyalty was different for both groups. The results show that image has a significant positive effect on trust for both customers, and indicating that the influence of image on trust was stronger for non-Muslim customers ($\beta = 0.905$). Thus *H2a* was accepted. However, there was no significant relationship between image and customer loyalty for non-Muslim customer while image has a positive effect on customer loyalty alone for Muslim customers. Thus, *H2b* was not accepted. The results suggest the mediating effect of trust on the relationship between image and customer loyalty. Likewise, a support was found for *H3*, trust has a significant positive effect on customer loyalty for both customers, and the effect of trust on customer loyalty was greater for non-Muslim customers.

7. Discussion and managerial implications

The presented research supports the notion that differences exist for customer satisfaction, image, trust, and customer loyalty across Muslim and non-Muslim customers in Malaysia. There is a positive relationship between customer satisfaction and image, and the effect of customer satisfaction on image is greater for non-Muslim than for Muslim customers. Higher levels of customer satisfaction and image effects for non-Muslim customers show that non-Muslims tend to stick to the same financial services provider once they are satisfied. In this sense, non-Muslim customers tend to be more practical in making decisions and emphasizing the benefits that they will get from their banks (Baumann *et al.*, 2012; Nor *et al.*, 2010). In this sense, non-Muslim customers will likely withdraw their deposits in Islamic banks if no profit is distributed by the Islamic banks (Gerrard and Cunningham, 1997). Meanwhile, Muslim customers can tolerate a certain level of dissatisfaction compared to non-Muslim customers. These results lead to the conclusion that satisfaction measures can provide a prediction regarding image. In this respect, when customers have a positive image of the banks in their minds, they may forgive small errors made by the banks. However, when the errors are committed repetitively, bank image will be tarnished. When the image is negative, the customers' view of banks will be affected (Kang and James, 2004). The results of this study are consistent with Bontis *et al.* (2007), Helm (2007), and Nguyen and Leclerc (2011) who explain that the higher the customer satisfaction, the better the image. Similarly, Angelis *et al.* (2005) confirm that the effort of banking institutions to solve customers' problems, which will affect their corporate image, is closely related to customer satisfaction. Therefore, Islamic banks should pay greater attention to increasing customer satisfaction to the extent that it will have a positive impact on image. This approach will assist banks in sustaining their existing customers as well as helping them in developing their image.

Meanwhile, there is a significant relationship between image and trust. The effect of image on trust is greater for non-Muslim than for Muslim customers. The greater effects concerning image and trust for non-Muslim customers seems to indicate that non-Muslim customers focus more on the attractiveness of products and services offered by Islamic banks. Meanwhile, Islamic banks image, and competent and efficient staff reputation emerge as the most significant indicators in influencing Muslim customer attitudes. In this respect, image can be relatively easily transferred to trust. This study is consistent with Flavian *et al.* (2005) who find that image plays a major role in the development of customer trust in conventional and online banking. Meanwhile, Barich and Kotler (1991) support this view by explaining that banks will

have a strong image when customers believe that they will gain the highest value upon obtaining something from the banks. Furthermore, Barich and Kotler (1991) suggest that banks will only possess a good image when customers trust that they will gain service and satisfaction that is higher than what they expected.

The hypothesis that trust positively correlates to customer loyalty is supported, and the effect of trust on customer loyalty is greater for non-Muslim than Muslim customers. The greater trust-customer loyalty effects for non-Muslim customers indicates that non-Muslims tend to focus on the social and relational aspects of the business transaction, where social life and culture are structured based on family members recommendations and they tend to trust transnational family networks in this process more than others (Baumann *et al.*, 2012; Chrysostome and Lin, 2010; Mustafa and Chen, 2010). This affirms the view of Fontaine and Richardson (2005), that non-Muslim customers are less hierarchical than Muslim customers.

In this context, non-Muslim customer expectations of Islamic banks are higher than Muslim customers, in that non-Muslim customers are familiar with, and have frequently used various banks, because the majority of non-Muslim customers are businessman, and the social embeddedness of entrepreneurship plays a pivotal role beyond observable economic gains (Loo, 2010; Zhou and Cho, 2010). As Ndubusi and Ling (2005) point out, friends, neighbors, and family members have great influence on prospective customers when it comes to making decisions to patronize a financial institution. Hence, in multi-cultural and multi-ethnic Malaysia, people with Malay, Chinese, and Indian ethnic backgrounds value their family and business based on relationship and loyalty. These results are consistent with previous research in cultural values between Malays and non-Malays (e.g. Fontaine *et al.*, 2002, Abdullah and Low, 2001, Fontaine and Richardson, 2005). Generally, Malay value religion more than non-Malays do. For example, Fontaine *et al.* (2002) asked Malay, Chinese and Indian respondents to rank 40 values. For the Malay respondents, religion was ranked in 5th place whereas, for the Chinese respondents, religion was ranked 39th. Fontaine and Richardson used the Schwartz Value Survey (SVS) to compare the culture values of Malay, Chinese and Indians. The SVS identifies ten dimensions at the individual level and seven dimensions at the cultural level. At the individual level, "devout" is part of the construct labelled "tradition." At the cultural level, "devout" is part of the construct of "embeddedness." At the individual level, Fontaine and Richardson (2005) found no difference between Malay, Chinese and Indian except on the dimension of tradition (where Malays where higher than Chinese and Indian). At the cultural level, they found no differences between the three cultural groups except in the dimension of embeddedness (of which "devout" is the major component).

Clearly, the concept of "religion" covers a wide range of items. Ali and Al Kazemi (2007), for example, described the "Islamic work ethics" and found that it contains 17 items. Their research indicates that when Muslims are more religious, they are more likely to "stick with the organization through good years and bad years and making sacrifices when necessary to keep the organization strong" (Ali and Al Kazemi, 2007, p. 99). Muslim customers, focus more on *Shariah* issues than other aspects. In other words, Muslim customers tend to be more trusting that the operations of Islamic banks are truly in accordance with Islamic principles. At times, Muslim customers are likely to make purchase decisions that are influenced by their religious identity. It has been shown that religious approach has proven to be very effective among the Muslim community in their decision to deal with Islamic banking (Tameme and Asutay, 2012).

8. Conclusion

The results of this study demonstrate that both Muslim and non-Muslim customers are satisfied, have trust on, and are loyal to Islamic banks; however, the possibility of customers being dissatisfied, distrusting, and disloyal to their banks always exists. When customers feel distrustful of their banks, the relationship between customers and banks will not be solidified. Thus, the impact of developing trust in Islamic banks is not just for the durability of interactive relationship between banks and customers, but the performance of the Islamic banks in convincing customers that basing their business operations on Islamic *Shariah* is necessary. Religious consideration can play a significant role in influencing the decision-making behavior of Muslim customers and their established relationships with Islamic banks because the customers believe that Islamic banks are *Shariah* compliant (Hassan and Lewis, 2007; Tameme and Asutay, 2012).

Therefore, Islamic banks should provide secure banking products that are fully compliant with Islamic principles. Indeed, these values are a platform that will guide Islamic banks to stay on the right and balanced path. This platform will form a system that will build trust between customers and the Islamic banks, which can be maximized. The establishment of the *Shariah* Advisory Council by the Islamic banks to monitor and ensure that all banking operations and activities are in line with Islamic *Shariah* is also an important factor in enhancing trust. In addition, the decision of new customers on whether they will continue the relationship with Islamic banks or recommend it to other customers is based on their perception of customer satisfaction, image, and trust toward the Islamic banks. Generally, customers believe that the image of Islamic banks is *Shariah* compliant. A favorable image will reinforce customer confidence in their bank, and encourage customers to resist competitive offerings (Burmann *et al.*, 2008; Hsieh and Li, 2008). When this happens, Islamic banks will be able to curb customer desire to switch to other banks. At the same time, poor relationships lead to increasing potential for switching, and low loyalty and defection.

However, Islamic banks have to recognize that customers tend to terminate their relationship because of dissatisfaction or attractive products offered by their/other conventional banks competitor. Therefore, Islamic banks need to better examine the drivers of their market identity, and then in corporate the relevant promotion appeals into their customer communications in order to create a deep bond with their customers.

9. Limitations and future research

This study investigate customer satisfaction and its effect on image, trust and loyalty of Muslim and non-Muslim customers in the context of the Malaysian Islamic banks industry. However, there were several limitations encountered in this study that should be considered. First, the borders between the Islamic bank and dual-window bank customers do exist. Second, the potential of the inaccurate data collection exists due to the questionnaires were distributed through the branch managers. Third, the results of this study does not allow for generalization of the findings to other service industry. In future, researchers should increase the number of banks involved in the study, and the samples of respondents should represent a greater diversity of religions regardless of nationalities to investigate possible differences in customers' behavior. Finally, although this research found support for all the hypotheses proposed, it was restricted and limited to investigate customer satisfaction, image, trust, loyalty and their interrelationships from previous research. Therefore, future research should focus on

the relationship between biculturalism and trust in greater detail, and determine whether managers of Islamic banks fully understand the importance of cultural cues that would make bicultural customers feel more welcomed.

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