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The role of customer satisfaction in enhancing customer loyalty in Malaysian Islamic banks

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This study examines the role of customer satisfaction in enhancing the loyalty of Muslim and non-Muslim customers in the Malaysian Islamic banking industry. Respondents are the customers (Muslim and non-Muslim customers) visiting the bank counters and have an account with Islamic banks. A total of 660 questionnaires were distributed, and 440 were returned. The results indicate that customer satisfaction has a statistically significant positive effect on customer loyalty and intentions to switch for Muslim and non-Muslim customers. However, there were significant differences in the effects of customer satisfaction on customer loyalty and intention to switch for Muslim and non-Muslim customers. The effect of customer satisfaction on customer loyalty and intention to switch is greater for the non-Muslim than the Muslim customers.

Keywords: customer satisfaction; customer loyalty; intention to switch; Islam, banks; Malaysia

Introduction

This study is located in Malaysia and is concerned with Islamic banking. Malaysia is a Asian country with about 27 million populations. The ethnic composition is about 60% Malays, 27% Chinese, 7% Indian and 6% composed of about forty other ethnic groups (Leete, 1996). All Malays are Muslims and the majority of other citizens are Buddhist, Christian, Hindu and from other religions. The multicultural and multi-religious nature of Malaysia has always intrigued researchers, especially in light of Malaysia's relative economic strength. In the 1980s, the Malaysian government launched the first Islamic bank. Since then the Islamic banking and finance industry has not only attracted Muslim customers (which was expected) but also non-Muslim customers (which was unexpected).

The Islamic banking industry in Malaysia

Islamic banking is conducted on the basis of Islamic principles, particularly the prohibition of giving or taking interest (Siddiqui, 1992). A dual-window bank is a bank which has two windows under the same roof, one for conventional banking operations and the other for interest-free transactions (Warde, 2000). In Malaysia, conventional banks are allowed to offer Islamic banking products and services under the dual-window concept (Bank Negara Malaysia, 2008a). The first Malaysian Islamic bank, 'Bank Islam Malaysia Berhad', a full-fledged Islamic bank was established in 1983 under the Banking Act

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1983. In addition, some foreign banks have established Islamic banking subsidiaries that offer Islamic products through the use of Islamic windows in various parts of the world. Currently, there are twelve full-fledged Islamic banks and eight dual-window banks are operating in Malaysia alongside the local full-fledged Islamic banks, local and foreign dual-window banks (Bank Negara Malaysia, 2008b). 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 (Naser & Moutinho, 1997). For example, all banking facilities such as saving accounts, current accounts, credit cards, and other products and services are available at Islamic banks (Naser & Pendlebury, 1997; Naser, Jamal, & Al-Khatib, 1999).

Although previous research has attempted to examine the link between customer satisfaction and customer loyalty in the banking industry, there is a lack of research in this area in relation to Islamic banking. In particular, Bank Islam Malaysia Berhad reported that some 70–80% of the banks' trade and corporate financing are with non-Muslim clients (Ngu, 2004). Haron, Ahmed, and Planisek (1994) reported that 12% of the Muslim and 32% of the non-Muslim customers believe that the Islamic bank is for Muslims customers only. This evidence indicated that Islamic banks in Malaysia are widely accepted by non-Muslim customers. The use of Islamic banks by non-Muslim customers is a phenomenon that needs to be better understood. Therefore, this study examines the role of customer satisfaction in enhancing customer loyalty for both Muslim and non-Muslim customers in the Malaysian Islamic banking industry.

Customer satisfaction

Oliver (1980) explained that customer satisfaction is a full meeting of customer expectations of products and services. If the perceived performance matches customers' expectations of services, they are satisfied. If it does not, they are dissatisfied (Oliver, 1997). According to this theory, expectations are influenced by the prior customer experiences with the products and services, and the customers must have experienced a service (Brunner, Markus, & Klaus, 2008). Generally, there are two general conceptualizations of satisfaction, namely transaction-specific evaluation and cumulative satisfaction (Nguyen & LeBlanc, 1998). Transaction-specific evaluation is a customer's evaluation of his or her experience and reactions to a particular service encounter (Bolton & Drew, 1991; Boshoff & Gray, 2004; Boulding, Kalra, Staelin, & Zeithaml, 1993; Cronin & Taylor, 1992, 1994), and cumulative satisfaction refers to the customer's overall evaluation of the consumption experience to date (Fornell, 1992). This implies that satisfaction reflects the degree to which a consumer believes that the possession and/or use of a service evokes positive feelings based on disconfirmation paradigm in process theory (Rust & Oliver, 1994). When customers are satisfied with the services rendered, the customer's attitude towards the company is improved, and this attitude will then affect the consumers' satisfaction with the company (Andreassen & Lindestad, 1998). At the same time, satisfied customers will be more likely to repurchase subsequent products and services (Cronin & Taylor, 1992; Rust & Zahorik, 1993).

Previous research has identified various factors that determine customer satisfaction in the Islamic banking industry and that there are differences in how consumers perceive services across countries and cultures that cannot be generalized. In Islamic banking for example, Metawa and Almosawi (1998) noticed that the Islamic bank customers in Bahrain were satisfied with those products and services provided by their bank, but not satisfied with the financial facilities. Meanwhile, Othman and Owen (2002) demonstrated that between 65% and 78% of Islamic banking customers were satisfied with their overall

and personal contact with bank staff. Erol and El-Bdour (1989) and Naser et al. (1999) reported that customers of Islamic banks were satisfied with the Islamic bank's name and image, customer confidentiality, the wide range of facilities offered and the proficiency of bank personnel. This study implied that the religious factor did not constitute the most significant motive. Similarly, in Malaysian Islamic banks, fast and efficient service, friendliness of bank personnel, confidentiality and transaction speed were the key criteria with which Malaysian customers have rated their satisfaction of their banks' services (Haron et al., 1994; Muslim & Zaidi, 2005). The bank's ability to deliver these benefits on an on-going basis probably influences the level of customer satisfaction. Banks have provided innovative methods of satisfying customers, such as internet banking and online system, telephone and call centre. According to Levesque and McDougall (1996), convenience and competitiveness of the bank are two important factors which are likely to influence the overall satisfaction levels of a customer.

In the service literature, customer satisfaction is often associated with the measurement of service quality (Anderson & Sullivan, 1993; Cronin & Taylor, 1992; Taylor & Baker, 1994). For example, service quality appears to be linked to customer satisfaction in retail banking (Arasly, Katircioglu, & Mehtap-Smadi, 2005a; Arasly, Mehtap-Smadi, & Katircioglu, 2005b; Avkiran, 1994; Jamal & Naser, 2002; LeBlanc & Nguyen, 1998), and in the Islamic banking industry (Othman & Owen, 2002). For Malaysian Islamic banking, the establishment of higher levels of service quality will lead customers to have a high level of satisfaction (Muslim & Zaidi, 2008). Meanwhile, Arasly et al. (2005a) used the SERVQUAL dimensions to predict customer satisfaction, and the reliability dimension had the highest impact on overall customer satisfaction. In other studies Bitner and Hubbert (1994) and Anderson, Fornell, and Lehmann (1994) suggest that service quality improvements will provide a significant impact on customer satisfaction. The causal relationship between service quality and customer satisfaction is the subject of great academic debates and no consensus has been reached (Bahia & Natel, 2000). Some researchers and academics describe that customer satisfaction is an antecedent of service quality (Bitner, 1990; Carman, 1990; Parasuraman, Berry, & Zeithaml, 1988, 1991, 1994), and others have counter-argued that service quality as an antecedent of customer satisfaction (Anderson & Sullivan, 1993; Bolton & Drew, 1991; Cronin & Taylor, 1992, 1994) and that service quality is not equivalent to satisfaction (Oliver, 1980). Nevertheless, from a theoretical point of view, the researchers and academics have established the conceptual definition of customer satisfaction.

Customer loyalty and intentions to switch

In addition, Cronin, Brady, and Hult (2000) and Wong and Sohal (2003) suggested that service quality demonstrates a positive relationship with a number of behavioural intentions, either directly or through the mediating effect of satisfaction. This study is consistent with Caruana (2002), and provides support to the contention that customer satisfaction performs a mediating role in the association between service quality and service loyalty. In the banking context, although it is recognized that service quality and customer satisfaction play an important role in enhancing the long-term relationship between customers and the banks, customer satisfaction is shown to be the better predictor of customer loyalty (Bontis, Booker, & Serenko, 2007; Cronin et al., 2000; Fornell, Johnson, Anderson, Cha, & Bryant, 1996; LeBlanc & Nguyen, 1998; Yavas, Benkenstein, & Stuhldreier, 2004).

Moreover, satisfied customers are more likely to engage in a long-term relationship with their bank (Bloemer, de Ruyter, & Peeters, 1998; Boulding et al., 1993; Cronin et al., 2000; Fornell et al., 1996; Nguyen & LeBlanc, 1998; Zeithaml, Berry, &

Parasuraman, 1996). Meanwhile, unsatisfied customers tend to stop their use of a financial service provider (Allerd & Addams, 2000), customers switch their financial institutions (Gerrard & Cunningham, 2004), create negative word of mouth and convey their negative impression to other customers (Caruana, 2002; Lewis, 1991; Newman, 2001). As Haron et al. (1994) and Ndubusi and Ling (2005) point out, friends, neighbours and family members have a great influence on prospective customers when it comes to making decisions to patronize a financial institution. Although, the relationship between customer satisfaction and behavioural intentions across all industries were well-established (Anthanassopoulos, Gounaris, & Sathakopoulos, 2001; Beerli, Martin, & Quintana, 2004; Boulding et al., 1993; Caruana, 2002; Cronin & Taylor, 1992; Fornell et al., 1996; Oliver, 1997; Taylor & Baker, 1994; Zeithaml et al., 1996), limited explanation is given to justify this relationship in the Malaysian Islamic banking context.

Cross-culture considerations

A key to understanding the Islamic banking industry in Malaysia is to understand the role of culture and religion. A popular definition of culture is 'the collective programming of the mind that differentiates one group with another'. Generally, culture can be analysed at two levels: the visible level (such as food, clothing, writing, architecture, etc.) and the invisible level, which focuses on cultural values. Fontaine and Richardson (2003) have observed that many people in Malaysia tend to focus on visible differences of culture. People assume that, in a multicultural society like Malaysia, there are many *different* cultures. People often assume that:

- (1) Every ethnic group has one culture.
- (2) Every ethnic groups has a culture that is different from other ethnic groups.
- (3) Religion is a significant element in culture.

Researchers, on the other hand, tend to focus on the invisible aspect, namely cultural values. They conclude that although there exists many cultural groups in Malaysia, these different groups share similar cultural values (Fontaine & Richardson, 2005). Therein lies the crux of the cultural problem in Malaysia. Culture is often confused with ethnicity. Unfortunately, some researchers have fallen into this trap by relying on demographic information (for example, ethnicity and religion) without using a specific instrument to identify cultural values. On the basis of such demographic information, these researchers offer 'cultural' explanations.

Such a simplistic analysis can be misleading. All Malaysians are socialized to be part of a multicultural society. Fontaine and Richardson (2003) suggested that many Malaysians are bicultural. Biculturalism is when people identify with more than one culture. Benet-Martinez, Leu, Lee and Morris (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 on the grounds that, *as Malaysians*, they have been socialized to accept the cultural values of other Malaysians.

Generally, research is unequivocal that culture influences consumer behaviour (e.g. Ong, Kitchen, & Jama, 2008; Othman & Ong, 1993, 1995). In the Malaysian context, the only caveat is not to confuse ethnicity with culture. For example, Ong (1993) looked at the consumer behaviour of Malaysian Chinese. She hypothesized that Malaysian Chinese were divided into two sub-groups: Malaysian Chinese educated in Chinese schools and

Malaysian Chinese educated in normal schools. She used a scale that measures Chinese ethnic culture. Her hypothesis was confirmed. Although all respondents were Malaysian Chinese, the cultural values of both groups were significantly different and so were their marketing behaviour.

Therefore, the hypotheses are formulated in accordance with the actual state of research:

H1: The relationship between customer satisfaction and customer loyalty is different for Muslim and non-Muslim customers.

H2: The relationship between customer satisfaction and intention to switch is different for Muslim and non-Muslim customers.

Research method

Sample

The quota sampling technique was used for this study. To develop these quotas, the researcher lists relevant control characteristics and determines the distribution of these characteristics in the target population. The relevant control of the demographic characteristics for the quota sample was determined based on the characteristics of Malaysian banking customers – 18 years old and above, male/female, Muslim/non-Muslim, education, and occupation. The sample elements within each quota were selected on the basis of convenience sampling.

The data was collected from personal interviews using questionnaires as a measurement tool, and it was conducted in eight states in Peninsula Malaysia by six trained interviewers during the period April–July 2007. The questionnaires were distributed in two types. First, for fully-fledged Islamic banking, the questionnaires were given to bank managers and they were requested to distribute the questionnaires to their clients. Second, for dual-banking, the interviewers visited and distributed the questionnaires by hand to the customers outside the bank counters. Respondents were selected from among the customers who visited the sampled banks during a range of time (during day time and at various days for a week or a month). In answering the questions, respondents were assured of confidentiality. Various controls and filters questions were put in place to ensure the quality of the survey. The purpose of the filter questions was to make sure that the respondents fit the three basic restrictions: being 18 years old or more, had an account with Islamic banks, and were Muslim and non-Muslim customers. The last filter question was to ensure that the respondents agreed to participate in this survey. They were politely approached and the purpose of the study was explained. The questionnaire was written in the Malay language to ensure clarity, while the respondents in this research are all Malaysians whose national language is Bahasa Malaysia.

The two leading full-fledged Islamic banks (Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad) and two dual-window banking systems (Maybank and Public Bank) were involved in this study, being located in eight different states of Peninsula Malaysia. There are two branches in each state for the two full-fledged Islamic banks, and two branches in each state for the two dual-window banks. The respondents were from four branches in each state for each of the eight states (32 branches).

Questionnaire design

Customer loyalty was measured by adapting the scale items from Zeithaml et al. (1996), and the intention to switch was measured by adapting scale items from Anthanassopoulos

et al. (2001). A seven-point Likert scale was used to measure the level of customer loyalty, and intention to switch ranged from 'strongly disagree' (1) to 'strongly agree (7)'. Customer satisfaction was measured by adapting scales developed from Fornell et al. (1996), and Levesque and McDougall (1996). In addition, to measure customer satisfaction, a seven-point scale was used, ranging from '1 = very unsatisfied' to '7 = very satisfied'.

Results

Demographics

Table 1 reports the descriptive statistics of the respondents in this study. A total of 660 questionnaires were distributed, and 440 were returned (66.7% response rate). The sample characteristic includes 315 Muslim customers (71.3%) and 125 non-Muslim customers (28.7%). Females comprise 33.7% of Muslim customers and males 38% of Muslim customers. Meanwhile, in terms of race, the sample comprised of Malay (71.1%), Chinese (21.4%), Indians (7%) and others (0.5%).

Table 1. Demographic and socioeconomic characteristics of the sample.

	Muslim customers (<i>n</i> = 315)	Non-Muslim customers (<i>n</i> = 125)	Total (<i>n</i> = 440)
Sex			
Male	38.0	15.4	53.4
Female	33.7	12.9	46.6
Race			
Malay	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			
18–24 year old	14.1	2.0	16.1
25–34 year old	23.9	8.8	32.7
35–44 year old	23.0	12.0	35.0
45–54 year old	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
Divorces	1.8	1.2	3.0
Occupation			
Student	10.0	2.0	12.0
Government employees	19.5	2.1	21.6
Private employees	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 history of banking relationships

The study of historical Islamic banking relationships gives information regarding the bank customers' background and customers' relationship with their banks. Table 2 indicates that the majority customers have good relationships with Islamic banking where its relationships were above three years. Meanwhile, 23.3% of the customers have bank relationships for 2 years, 18.4% for 3 years and 13.2% below 1 year. It means that both sets of customers have good relationships with the Islamic banking institutions and there was a relatively high degree of stability in maintaining relationships between them.

Measurement model evaluation

Two stage analysis procedures were utilized to test the measurement model in this study. First, a confirmatory factor analysis was employed to specify the pattern by which each measure loads on a particular factor (Anderson & Gerbing, 1988; Byrne, 2001; Hair, Black, Babin, Anderson, & Tatham, 2006). Second, the squared multiple correlation was conducted to measure each indicator and how well an item measures a construct (Hair et al., 2006; al-Hawari & Ward, 2006; Holmes-Smith, 2001). The first run of squared multiple correlation showed that the majority of the measurement items indicated greater than 0.5, which indicated a good reliability level (Holmes-Smith, 2001). By checking the squared multiple correlations for each measurement item, two items were dropped as the R^2 values were less than 0.5 ('the overall service quality provided by my bank is excellent, and in the near future I intend to switch to another bank'). As a result, the measurement model retained 10 observed indicators from the original 12 that were derived to estimate the model fit. A re-run CFA was conducted, and the results of measurement model showed fitted to the sample data. Table 3 shows the factor loadings, Cronbach's α , average variance extracted (AVE) for customer satisfaction, customer loyalty and intention to switch.

To test the reliability of customer satisfaction, customer loyalty, and intention to switch instruments, the Cronbach's α coefficient was computed. The coefficient alpha exceeded the minimum standard of 0.70 (Nunnally & Bernstein, 1994), which indicates that it provides a good estimate of internal consistency. The coefficient alpha obtained greatly exceeded the minimum acceptable values 0.893, 0.931, 0.802, respectively (customer satisfaction, customer loyalty, and intention to switch) and proved to have good internal consistency for each latent construct (Yang & Jolly, 2008). To assess the convergent validity for each construct, the standardized factor loadings were used to determine the validity of the three constructs (Anderson & Gerbing, 1988). The findings indicate

Table 2. Duration of the relationship with banks.

Attribute	Percent
The period time of bank's customer relationship	
Less than 1 year	13.2
1–2 years	23.0
2–3 years	18.4
Above 3 years	45.5
The customer bank accounts types	
Current account	12.5
Saving account	43.6
Investment and financing account	44.0

Table 3. Validity and reliability for customer satisfaction, customer loyalty, and intention to switch dimensions.

	Factor loadings	AVE	α
<i>Customer satisfaction</i>			
I am satisfied with employee's response and prompt services	0.883		
I am satisfied with financial services advice	0.885		
I am satisfied with products and services provided by my bank	0.837	0.75	0.893
<i>Customer loyalty</i>			
Customer intention to say positive things about Islamic bank to other people	0.862		
Willingness to recommend family and relatives to do business with Islamic banks	0.907		
Recommend Islamic banks to someone who seeks advice	0.902		
Continue to do more business with Islamic banks	0.851	0.78	0.931
<i>Intention to switch</i>			
I have decided to switch to another bank that offers better services	0.747		
I have decided to switch to another bank that offers better profit	0.730		
I have decided to switch to another bank that offers a variety of products and services	0.798	0.58	0.802

that each factor loading of the reflective indicators ranged from 0.730 to 0.907 and exceeded the recommendation level of 0.50. As each factor loading on each construct was more than 0.50, the convergent validity for each construct (customer satisfaction, customer loyalty, and intention to switch) was established, thereby providing evidence of construct validity for all the constructs in this study (Anderson & Gerbing, 1988; Hair et al., 2006). In addition, AVE was calculated for assessing discriminant validity for four constructs (Hair et al., 2006), and the AVE ranged from 0.58 to 0.78.

Multiple group structural equation models

A structural equation modelling approach using AMOS 5 was used to test the hypothesis. In structural equation modelling, testing for invariance of parameters across groups is accomplished by placing constraints on particular parameters (Byrne, 2001). In particular, the parameters are specified as being equivalent through a labelling mechanism whereby each parameter to be held equal across groups is given a label for all factor loading, and all factor variances be constrained equal across Muslim and non-Muslim customers.

In order to find whether or not components of the measurement model are invariant across particular groups, a multiple group analysis was conducted on the two groups (Muslim and non-Muslim) using AMOS 5. The main purpose of a multiple group analysis is to find out 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; Joreskog & Sorbom, 1996).

Before running the AMOS program for testing invariance across multiple group samples, a base line model was established for both customer groups (Muslim and non-Muslim) separately. Since the base line models fitted well for customer groups, additional levels of constraints were introduced for structural models. However, According to Bentler

Table 4. Result of baseline model for Muslim and non-Muslim.

Group	χ^2/df	<i>p</i> -Value	CFI	GFI	RMSEA	PCLOSE	Delta2
Muslims	86.653/33	0.001	0.974	0.947	0.07	0.000	0.974
Non-Muslims	93.177/33	0.001	0.928	0.860	0.08	0.000	0.929

(1990) and Joreskog and Sorbom (1996) in testing for invariance, equality constraints are imposed on particular parameters, and thus the data for all groups must be analysed simultaneously to obtain efficient estimates (as cited in Byrne, 2001, p. 176); the pattern of fixed and free parameters nonetheless remains consistent with the baseline model specification for each group. As Table 4 shows, the overall fit of the Muslim model was $\chi^2 = 86.653$ ($p = 0.001$), with a GFI of 0.947 and CFI of 0.974, whereas for non-Muslim model was $\chi^2 = 93.177$ ($p = 0.001$), with a GFI of 0.860 and CFI of 928.

The results are presented in Table 5. The maximum likelihood estimation was utilized with the covariance matrix as the input matrix. Results of the research model indicate the acceptable goodness-of-fit models. The chi-square is significant ($\chi^2 = 180.035$, $\chi^2/\text{degree of freedom}$ (χ^2/df) ratio 2.728, $p = 0.001$. Sharma (1996) explained that the chi-square value has the fundamental problem from the perspective of validity and is sensitive to the sample size. As the GFI and CFI values are not being affected by the sample size, the GFI and CFI indicators became the choice of the fit model (Burton, Lichtenstein, Netemeyer, & Garretson, 1998; Sharma, 1996). In this study, the GFI value of 0.920 and CFI value of 0.961 were above the threshold recommended levels of 0.90. Yen and Lu (2008), and Doll, Xia, and Torkzadeh (1994), argued that a GFI ranging from 0.80 to 0.90 could be interpreted as a reasonable fit and a score of 0.90 or higher is considered as a good fit. Meanwhile, the model had a RMSEA of 0.06, which was below the range level considered (0.08) a good absolute fit of the model (Hair et al., 2006). Overall, the values were close to the threshold and thus they represent an acceptable model fit.

The path coefficients in Table 5 indicated that customer satisfaction has a statistically significant relationship with customer loyalty for Muslim and non-Muslim customers. Meanwhile, there was a significant negative relationship between customer satisfaction and intention to switch for Muslim and non-Muslim customers. Furthermore, the chi-square test was used to identify the difference in the effect of customer satisfaction on customer loyalty and intention to switch for both sets of customers. Table 6 shows that there is significant differences in the effect of customer satisfaction on customer loyalty and intention to switch between Muslim and non-Muslim customers ($p < 0.001$); therefore, $H1$ and $H2$ were accepted. For non-Muslim customers, customer satisfaction has a greater effect on customer loyalty and intention to switch ($\beta = 0.678$, $\beta = -0.478$) than Muslim customers ($\beta = 0.613$, $\beta = -0.372$).

Table 5. Standardized regression weight estimates for Muslim and non-Muslim customers.

Description	Estimates	
	Muslims ($n = 315$)	Non-Muslims ($n = 125$)
Intention to switch ← customer satisfaction	-0.372**	-0.478**
Customer loyalty ← customer satisfaction	0.613**	0.678**

Notes: Chi-square ($\chi^2 = 180.035$), $df = 42$, CMIN/DF = 2.728, GFI = 0.920, CFI = 0.961, RMSEA = 0.06.

**Significance at the 0.01 level.

Table 6. Nested model comparison for Muslim and non-Muslim customers.

Model	<i>df</i>	CMIN	<i>p</i> -Values
Measurement weights	7	30.308	0.001
Structural weights	9	30.675	0.001

Notes: Significance at the 0.01 level.

Discussion and conclusions

The purpose of this study was to examine the role of customer satisfaction in enhancing customer loyalty among Malaysian Islamic banks. There was a positive relationship between customer satisfaction and customer loyalty. The results suggest that the customer satisfaction indicators ('I am satisfied with employee's response and prompt services', 'I am satisfied with financial services advice', 'I am satisfied with products and services provided by my bank') provide an indication in developing customer loyalty in Islamic banks. There were nonetheless significant differences in the effect of customer satisfaction on customer loyalty for Muslim and non-Muslim customers. The effect of customer satisfaction on customer loyalty is greater for the non-Muslim than the Muslim customers. Factors such as customer intention to say positive points about Islamic banks to other people; willingness to recommend family and relatives; recommend Islamic banks to someone who seeks advice; and do more business with Islamic banks emerged as the most significant indicators of customer loyalty.

Meanwhile, there was a negative relationship between customer satisfaction and intention to switch. Customers are concerned with three major attributes that affect their switching behaviours (better service provided by bank competitors; higher profit provided by other banks; and the variety of products and services). In terms of Muslim and non-Muslim differences, there were significant differences in the effect of customer satisfaction on intention to switch for both groups. The intention to switch was greater for non-Muslim than Muslim customers. If the Islamic banks' products are perceived as not being profitable enough for the non-Muslim customer, this will encourage non-Muslim customers to switch their banks, although this study implies that the higher level of customer satisfaction leads to a lower intention to leave the relationship or a higher potential customer loyalty. At the same time, if a service failure is handled properly by Islamic banks, the customer's reaction to the recovery effort can influence a future decision to remain loyal to the bank or to switch to another bank. Thus, Islamic banks should pay greater attention to increase and improve customer satisfaction to an extent that will have significant effects on customer loyalty and intention to switch. Therefore, Islamic banks need to consider the services they currently provide as well as the quality of their customer relationship.

In addition, the findings of this study are consistent with a previous study undertaken by Zeithaml et al. (1996). The findings clearly show that customers that experience no service problems have the strongest level of loyalty intention and the weakest switch and external response intention, particularly, compared with those with unresolved problems. Thus, effective service recovery significantly improves all facets of behavioural intention. This is supported by Chakravarty, Feinberg, and Rhee (2004), who explained that the higher proportion of customers in the high propensity to switch group, appear to have had problems with their bank in the past. Similarly, Anthanassopoulos et al. (2001) explained the direct effect of customer satisfaction on three criterion variables of behavioural responses (decision to stay with the existing service provider, engagement

in word-of-mouth communication and intention to switch service providers). According to Zho (2004), lower levels of overall satisfaction are more likely to result in potential and actual switching behaviour compared with behaviour involved in decreased business interaction. Consequently, a loyal customer will not only return to repeat purchases but will also bring their friends and family with them (Veloutsou, Gilbert, Moutinho, & Good, 2005).

The picture painted above represent a clear challenge to the Islamic banking industry. If a large component of their business is conducted with non-Muslim customers and these non-Muslim customers are more likely to switch if they are not satisfied with the level of customer service, then clearly the bank's customer base is not stable. With hindsight, the authors would have liked to investigate the relationship between biculturalism and customer satisfaction in greater detail. The authors would also have liked to investigate whether managers of Islamic banks fully understand the importance of cultural cues that would make bicultural customers feel more welcomed. Reviewing the literature on Islamic banking, one has the perception that authors tend to specialize in the banking/marketing side but without necessarily having a strong grounding in cross-cultural studies.

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