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Factors Affecting Customers' Satisfaction and Perception: Case Study of Islamic Banks' Service Quality

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This study aims to investigate the perception and expectation of the Islamic bank customers on the banks' service quality, and how these factors affect their satisfaction and their intention to buy and to use the Islamic banks products and services. This finding implies that the Islamic banks should have pay more attention to their service quality since it would have a positif influence on customer satisfaction and purchase intention.

Keywords: *customer satisfaction, perception, service quality, islamic bank*

Introduction

Sharia banking practices (banking practices based on Islamic principles) started in Indonesia in May 1992. By that time there was only one bank operated, that is Bank Muamalat Indonesia which became the first Islamic bank in Indonesia. This initiative was supported by the government since the regulations of Islamic banking practices has been initiated in 1992 and continued in 1998. Besides the government, Indonesia's Ulama Council formulated a fatwa (law statement that has been applied according to Islamic laws) that prohibited interest for Moslem. It was expected that its fatwa could increase the amount of fund invested through Islamic banking system. As the result, the practices of sharia laws have grown rapidly since then in the Indonesian banking sector. For example, in 1998 there was only one bank serving customer with sharia compliances. In 2009 islamic banking market growth reached 26, 55%. Number of a full Islamic bank branches in 2009, 5 (BUS/Islamic Commercial Bank) and conventional banks who opened Islamic office channeling systems reached 25 (UUS/Islamic Business Unit) and 133 numbers of Islamic Rural Bank. However, in fact, this massive growth was not followed by significant increase in market share. For example, by end 2009 total market share of Islamic banking in Indonesia was only 2,8 percent of the total banking industry market share. It means that 97,2 percent of the banking

customers are using conventional banking services.

Based on those phenomena, there is a need to find an Islamic bank model for the case of Indonesia to guide the regulator (the central bank) in making policies in order to develop the Islamic bank.

This study aims to investigate the perception and expectation of the Islamic bank customers on the banks' service quality, and how these factors affect their satisfaction and their intention to buy and to use the Islamic banks products and services.. This study is conducted based on Parasuraman et al (1985) and Cronin and Taylor (1992), and the specific model is developed following Cronin and Taylor (1992), which proposed 22 service quality measurements that categorized in 5 service quality, i.e, dimension, tangibility, responsiveness, reliability, assurance and empathy.

This study found that purchase intention for Islamic bank's products and services was mostly affected by the bank's tangibility, responsiveness and reliability. In addition, the overall service quality from the customers perception do have

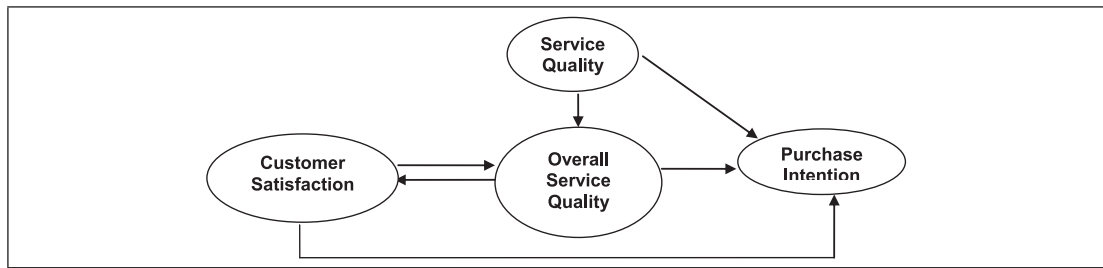
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Figure 1. Measuring Service Quality: A Reexamination and Extension: Model of Cronin and Taylor (1992) Model



effect on customer satisfaction and their purchase intention.

The remainder of this paper is structured as follows. Section 2 covers review of research framework and hypotheses. Section 3 presents data and methodology used in this study. Section 4 provides findings and analysis of customer satisfaction and perception on Indonesian Islamic banks' service quality, while Section 5 presents conclusions suggestion policies.

Literature Review

Service Quality

There is a development on marketing sharia especially banking. But there seems to be little agreement on how to conceptualize and measure value. And the service quality model has received little attention according of value-added services and not yet research had developed the concept of value-added service into a service quality model suited to the nature of the service industry. Service Quality according to Lewis and Booms (1983) is "a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis".

Infact, measuring service quality is considered as one of the basic activities to established key strategy to position the company more effectively in the market. So, this study focused on measuring the service quality of islamic banking in Indonesia so that the result can be used as one of the basic consoderation in establishing more effective strategy to win the market. The measuring method that we used is the model that Cronin and Taylor (1992) said as

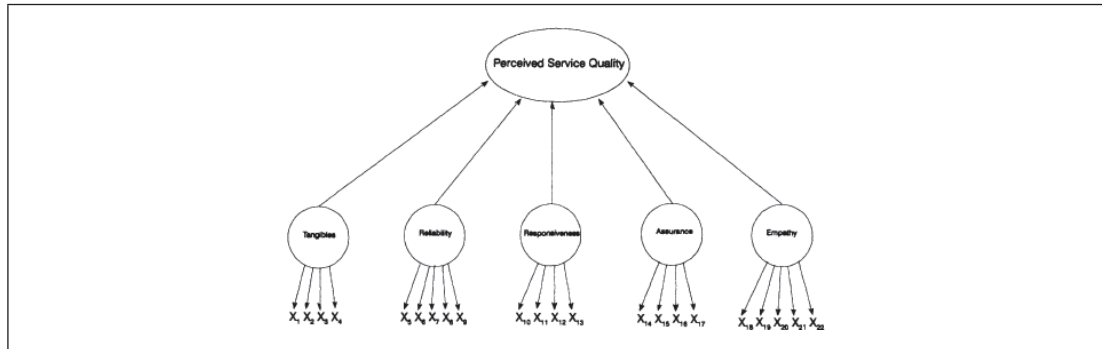
the best measurement model of service quality. The model is shown in table 1.

Development of Conceptualization and Operational Measurement of Service Quality

The current measurement of perceived service quality can be traced to the research of Parasuraman, Zethaml and Berry (1992). They subsequently developed SERVQUAL (1988), which recast the 10 determinants into five specific components: tangibles, realibility, responsiveness, assurance and emphyaty. These five components was a factor analysis of the 22-item scale which adequately define the domain of service quality and we use the same performance items to examine the proposed alternative to the SERVQUAL scale and in the analyses of the relationships between service quality, consumer satisfaction and purchase intention (Cronin&Taylor: 1992).

The scale development procedures employed appear to support the face validity of the 82 scale items (individual questions) included in the scale, but the issue of how the service quality measure should be constructed and whether the individual scale items actually describe five separate service quality components is problematic. However, though the veracity of conceptualizing the SERVQUAL scale as consisting of the five distinct components identified by Parasuraman, Zeithaml, and Berry (1988) has been questioned (Carman 1990), the validity of the 22 invidual performance scale items that make up the SERVQUAL scale appears to be well supported both by the procedures used to be well supported both by the procedures used to develop the items and by their subsequent use as reported in the

Figure 2. Service Quality by Parasuraman, Zeithaml and Berry (1988)



literature (Carman 1990). So in this research we use the same performance items to examine the proposed alternative to the SERVQUAL scale and in the analyses of the relationships between service quality, consumer satisfaction and purchase intention.

Methodology

Data for this study were obtained by distributing 500 questionnaires to 5 (five) areas in Jakarta and Depok, using quota sampling method. From 500 questionnaires, only 428 reliable questionnaires can be processed.

These arguments lead to the following hypotheses:

- The service quality performance of Islamic banking will have a greater effect on purchase intention and service quality.
- The service quality of Islamic banking will have a greater effect on purchase intention and customer satisfaction.

Three-phase study

To test the two hypotheses, a three-phase study was conducted.

In phase I, because the literature on service quality is not yet rich enough to provide a sound conceptual foundation for investigating service quality, an exploratory qualitative study was undertaken to investigate the concept of service quality. Specifically, focus group interviews with customer and non customer of Islamic banking were conducted to develop a conceptual model of service quality.

A total of 4 focus group interview were conducted, all of focus group interview were held in Department Management. The focus groups were formed in accordance with guidelines traditionally followed in the marketing research field (Bellenger, Berhardt, and Goldstrucker 1976). Respondents were screened to ensure that they were current or recent users of the service in question. To maintain homogeneity and assure maximum participation, respondents were assigned to groups based on age.

Consistency in age was maintained within groups. Discussion about quality of a given service centered on customer experiences and perceptions relating to that service in general, as opposed to the specific service of Islamic banking in that service category. Question asked by the moderator covered topics such as instances of and reasons for satisfaction and dissatisfaction with the service; descriptions of an ideal service (e.g. , ideal service for banking); the meaning of service quality; factors important in evaluating service quality; performance expectations concerning the service; and the role of price in service quality. The measures of model were identified: advertising, service quality and service quality performance.

In Phase II, Questionnaires were spread in six area; DKI Jakarta and Depok, each area provided random samples of 80 respondents. A total of 500 questionnaires were spread. Overall response rate was 94 % (470 questionnaires) in the table 1 Demographic profiles of the respondent samples. Based on this survey, 428 questionnaires selected for phase III.

Table 1. Sample Demographic

Variables	Categories	%
Place	East Jakarta	15.7
	West Jakarta	15.9
	South Jakarta	21.3
	North Jakarta	5.4
	Center Jakarta	15.7
	Depok	18.5
Gender	Male	58.2
	Female	41.6
Age	Under 20	11.9
	20-29	58
	30-39	20.6
	40-49	7.8
	50 and over	1.7
Marital Status	Single	59.8
	Married	37.9
	Separated	0.5
Education	Middle School	1.2
	High School	36.4
	Diploma	17.8
	Under Graduate	39.5
	Graduate	3.7
Monthly Family Income	Less than Rp. 700.000	29.7
	700.001-1.500.000	28.3
	1.500.001-2.500.000	22
	2.500.000-4.000.000	9.8
	4.000.001-8.000.000	2.6
	More than 8.000.001	2.1

In phase III data was process to see relationships between service quality, consumer satisfaction and purchase intention. The model conceptualize a recursive (“two-way”) relationship between service quality and satisfaction in order to test simultaneously the effects hypothesized by Parasuraman, Zeithaml and Berry (1985,1988). Service quality is an antecedent of customer satisfaction.

Operationalization of Service Quality

Several measures of service quality were included in the questionnaires: (1) an overall, single-item rating scale with anchors at 1 (extremely poor) and 7 (extremely good); (2) a multiple-item scale of perceived service from an expanded version of the SERVQUAL scale we originally developed (see Parasuraman, Zeithaml, and Berry 1988) and later refined (see Parasuraman, Berry, and Zeithaml 1991a).

The second measures represented the service dimensions of reliability (five items), responsiveness (three items), assurance (four items), empathy (four items), and tangibles

(five items). Consistent with the expanded conceptualization of customers service expectations (Zeithaml, Berry, and Parasuraman 1993), respondents were asked to indicate theory adequate and desire- service level in addition to their perceptions of each SERVQUAL item.

Operationalization of Behavioral Intentions

Cronin and Tylor (1992) focus solely on purchase intention and measures the construct with a single-item scale. The third measures represented the purchase intention (nine items).

Result and Discussion

To test the hypotheses, a two-step analysis was conducted for the SERVQUAL. The factor dimension set service in five. Regression test were performed to determined relationship in set service performance, intention and service quality. The result of factor analysis is showed in Table 2.

The table shows us that all variable formed resulted by the factor analysis can explain more

Table 2. Result of Factor Analysis Results

Variable	Proceeding Factor			Expectation			Performance			Intention			Pricing			Advertising			
	KMO	Variance Explained	Sig	KMO	Variance Explained	Sig	KMO	Variance Explained	Sig	KMO	Variance Explained	Sig	KMO	Variance Explained	Sig	KMO	Variance Explained	Sig	
	0.696	39.663	0.00							0.87	58.22	0.00	0.91	63.193	0.00	0.694	73.493	0.00	
Tangibility				0.779	62.688	0.00	0.779	67.850	0.00										
Reliability				0.786	61.682	0.00	0.840	66.489	0.00										
Responsiveness				0.777	62.337	0.00	0.762	70.365	0.00										
Assurance				0.806	67.176	0.00	0.785	70.803	0.00										
Empathy				0.741	47.505	0.00	0.673	55.351	0.00										

Table 3. Regression Analysis Results

Independent Variable (X)	Intention				Overall Service Quality				Consumer Satisfaction			
	B	R Square	F	Sig	B	R Square	F	Sig	B	R Square	F	Sig
Tangibility of Performance	0.423											
Responsiveness of Performance	0.265											
Reliability of Performance	0.180	0.398	90.01	0.00								
Overall Service Quality	0.348	0.180	93.654	0.00					0.668	0.490	408.552	0.00
Consumer Satisfaction	0.335	0.152	76.566	0.00	0.733	0.49	408.552					
Price Factor	0.244											
Advertising Factor	0.245	0.311										
Overall service Quality	0.140		53.196	0.00								
Consumer Satisfaction	0.668	0.490	408.552	0.00								

than 50% of variance from its forming variables. The KMO and Significance score indicates that all analysis are reliable. Factor analysis also gives us factor score that is the score that represented the value of all variables that can be treated as single variables. These factor score are used in further analysis, the regression analysis. The result of regression analysis is shown in Table 3.

From this analysis we can see that there are Three (3) variables, out of 5 service quality variables that are formed from previously shown factor analysis, that influence Behavioral Intention significantly. We can say that the intention to use Islamic banks service are most influenced by the Islamic bank tangibility such as up-to-date equipment, visually appealing physical facilities, and well dressed employees. The other variables that also influence the behavioral intention significantly are Islamic bank responsiveness and reliability.

The Regression Result shows us that overall service quality variable influence the customer satisfaction variable significantly, this is proved by the significance score valued 0,000 which means very significant. Islamic banks customer satisfaction toward its service quality is influences by the customer judgment on the

Islamic banks overall service quality. The overall components of service are the 7 P's (*People, Physical Evidence, Physic, Promotion, Place, Product and Price*), these 7 P's have to perform synergy and optimally in order to deliver the service that is promised to its customer.

From the table we can see that the customer behavioral intention to use Islamic banks service is also influence significantly by the customer judgment on its overall service quality. It is proved by the significance score of 0,000.

The table above tells us that Islamic banks customer intention to continue using its service influence by the customer satisfaction. The more satisfied a customer is, the greater the intention to continue using the Islamic banks services

Conclusion

The main goal of this study was to determine the performance of service quality to purchase intention. To accomplish this goal, a two-step study was conducted. The first step involved the identification of the top of mind Islamic bank brand. The second step involved reducing unfit variable and identifying the score for each factors. The third step involved the regression

process to support the hypothesized performances quality-intention and service quality- consumer satisfaction. Result suggests that there are affect of service performance (tangibility, responsiveness and reliability), price factor, advertising factor and consumer satisfaction to purchase intention. And there are causal relationship between consumer satisfaction and overall service quality.

There are several explanations as to why purchase intention are positive influence by consumer satisfaction and overall service quality. Consumer who has positive evaluation for overall service quality and or satisfy with the Islamic bank performance increase his\her future transaction. Purchase intention also influence by price factors and advertising factor. How often consumers see the advertising; print-ad or TVC, will influence them on their future banking transaction. Respondent felt that Islamic banking didn't advertising a lot so many of respondent not know about others Islamic banking product. Price factor on this research means how spread the ATM machines and how easy consumer makes a contact with their Islamic bank.

The factor analysis and regression result shows us that out of 5 service quality dimensions, tangibility, responsiveness and reliability are the factors with the greatest influence. So in order to retain current customer Islamic banks should pay more attention in these service quality

dimensions, or even gives continuous effort to improve them. This effort are supposed to give the customer better impression on the overall service quality, so the customer satisfaction can also increase customers satisfaction and will have impact in their behavioral intention.

Islamic banks in Indonesia should give more attention on retaining strategies. Other than massive marketing effort that focused on new customers, there should be massive marketing effort in keeping customer relationship with the company and this effort required more effort than cost. Physical appearances of Islamic Banks are also essential, other than the other two service quality dimension (responsiveness and reliability). So improving visually appealing physical facilities, up-to-date equipment and well dressed employees are important. Results from the current study have significant implication for both researcher and marketers.

The limitation of this study comes from the data collection. This study was only conducted for Islamic Banking in DKI Jakarta and Depok. Therefore, result may be skewed due to different region or province and add more respondent. For example in Bali where citizen prefer conventional bank rather than Islamic Bank. The generalizability of the finding may be limited. Therefore, it is necessary to retest the result with subjects in different province.

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