

Measuring Customers Loyalty of Islamic Banking in Bahawalpur Region

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Abstract

Purpose: The basic purpose of measuring the customer's loyalty in Islamic banking in Bahawalpur region is their long term commitment.

Design/methodology/approach: This research has been conducted utilizing the actual data with the help of a questionnaire based on the literature extensively written on Islamic banking services, to develop a viable model to explore the attributes which lead towards the customer loyalty in utilizing the financial services of Islamic banks in Bahawalpur region. A new dimension is added by conducting research on customer's loyalty in Islamic banking in Bahawalpur region, taking sample of 125 respondents from 20 banks operating in Islamic banking services of this region.

Findings: Factors abstracted from the customers loyalty are, customers satisfaction, switching cost, customers perception, success philosophy and trust and commitment. It is found that these factors significantly affect the customer's loyalty in Islamic banking and are greatly associated with the customer's loyalty.

Research limitations/ implication: Only available material is studied in spite of all the material and research is implicated in Bahawalpur region only. The sample size is small to only 125 respondents but the results are implicated on overall customer's loyalty in Islamic banking.

Practical implications: Pakistani banks are needed to take initiative in creating awareness about Islamic banking and providing more effective services.

Originality/ value: This is one of the very first researches on customers loyalty in Islamic banking conducted in Bahawalpur region and could be very useful for countries adopting Islamic banking.

Key words: Customers Loyalty, Islamic Banking.

Introduction:

Islamic banking is widely accepted in the globe now. In Pakistan there are mainly two types of banking system, conventional banking and Islamic banking. The system of Islamic banking is expanding now days. A customer's commitment with dealing in Islamic banking is measured by customer's loyalty towards this type of banking. Customer's loyalty has many dimensions regarding Islamic banking, i.e. customer's satisfaction, switching cost, customer's perception, success philosophy and trust and commitment. These factors have great association with the long term commitment of customers with Islamic banks. As every bank wants to increase the profit and growth, it should be considered compulsory to study the customer's loyalty and its long term commitment. This research helps to measure the loyalty of customers. This research is conducted to investigate the empirical findings regarding the research problem. Main determinants of customer's loyalty are discussed in theoretical frame model. A well designed and validated questionnaire is developed and asked from target respondents. Then results are analyzed using statistical techniques and results are interpreted. Moreover recommendations are also given for further research.

Literature Review

Customer satisfaction:

Customer satisfaction is a term which is widely used in business and banking. It is a main indicator of performance of any organization working on any criteria. In Islamic banking it is seen as an individual's experience of banking transactions (Jayaraman Munusamy, October 2010). Customer satisfaction has different levels and attained level of satisfaction by the customer can be varied every time but there may be a maximum and minimum level of satisfaction. Customer satisfaction is high when customer gets maximum benefit at his minimum input (Bilal Afsar*, June, 2010). Customer satisfaction plays a great role in long term commitment of the customers with the bank. Customers perceive a performance and they experience transactions also. If their experience is meeting the perceived service quality and benefits, it will lead towards greater customer satisfaction (Rahim Mosahab, October 2010). There are two main concepts of customer satisfaction, transaction specific satisfaction and overall satisfaction. It might be possible that one time transaction satisfaction is low but overall customer satisfaction is high (Abed Abedniya, 2011). In Islamic banking it is very important to attain customer satisfaction as it leads towards the loyalty. There are some main factors which are related with the customer satisfaction like behavior of banking staff with customers, low rates of banking charges, banks reputation in general public, its location, adopted policies etc. Customer satisfaction level can be visualized by many factors like the speed of bank staff reaction in some transaction or dealing. Documentary evidence by the bank provided to customers is also useful in building the customer satisfaction. Environment of the bank also plays a role in building the customer satisfaction in Islamic banking. Minimum time taking in

executing any function or transaction in bank also enhances the customer's satisfaction. The quality of communication between the customers and the bank staff is also important. If the communication is easy and friendly environment is provided to the customer, it increases the customer satisfaction (Mir, 2011).

Switching cost:

Switching cost is a cost which the customer bears to switch one bank to other bank. The practical, monetary and psychological factors are important for making the customers difficult or costly to change the bank (Hont, 1940). There is a high possibility that customer will stay trustworthy in terms of further buying activities because the element of hazard or expense is concerned in switching. For that reason the supplementary decrease in the application of other alternatives (Afsar & Rehman, 2010). When a customer interacts with any institution he receives a number of advantages that other cannot receive. Similarly in Islamic banks when a customer becomes loyal it will be very difficult for him to switch from other banks. A number of factors are involved in switching of customer like price, norms and culture of customer, service charges, competition, profit margin, markup and other facilities. These are the entire factors that have high impact on switching cost. If in Islamic bank they charge high prices against rendering services than the customer defiantly switch to an alternative because the cost of switching for customer is very low. Service quality is also having great effect on switching cost. When Islamic bank renders poor quality of service like the response of management towards the customer's problems, service regarding in deposit of money, and withdraw of money etc. If the Islamic banks provide better service than for a customer it is very difficult for him to switch other bank because switching cost is high (Kahf, 2004). In Islamic banks there is no concept of interest and that is the main reason the people moving towards Islamic banks. If Islamic bank provides interest free loan to the customer and charge very low service charges as compared to conventional banks than the customer will not switch because switching cost for a customer is very difficult. Environment of banking system is also effected on switching cost. If Islamic banks provide friendly environment to the customer and they deal with different customers according to their nature than switching cost for a customer very high, it's very difficult for him to switch. Switching cost is also effected from the competition among banks. If the competitor provides highly standardize services, bring the innovative idea, deal the customer in very friendly way and customer also greatly satisfy him and Islamic banks not provide these facilities than for a customer switching cost will be low and he will move towards the other banks. If the switching cost is high and the customer even dissatisfied, he will not terminate the relationship with the bank so if the Islamic bank provides the better services they can control on switching of their customer to other bank (Qayyum, 2011)

Trust and commitment:

Customers trust and their commitment is an important factor that has strong impact on the organizational performance. Bank's good image is essential to hold its market position. It helps to develop and maintain trust between customers and their banks (Flavian et al, 2005). When customers realize that Islamic banks operate their functions under Islamic principle then their desire to switch to the conventional banks reduces. It shows customers trust towards Islamic banks. There is a positive response from people for Islamic credit cards facility. People show their trust and commitment in Islamic banking system because of its advantages. Islamic banks

provide credit card facility not only to the rich people but also to the mediocre and it is different from conventional banking system that provides credit card facility to the rich people (ISLAMONLINE, 2011). Trust plays a vital role to increase the customer's loyalty. Muslim depositors enjoy profit. On the other hand they believe that their saving is free of interest which is prohibited in Shari'ah. Number of researchers support trust factor in determining customer loyalty towards Islamic banks (Lim and Razzaque, 1997). On the other hand negative image of the banks change the customer point of view and reduce their trust and commitment (Kang and James, 2004). Due to lack of trust the relationship between bank and its customers reduces. To build up trust it is important that one party has confidence on the honesty and credibility of the other party (Morgan and Hunt, 1994). All organizations have their rules and regulations. In the light of those rules they make their policies and strategies. Islamic banks avoid all the transactions that are prohibited in Islam and follow Islamic principles (Al Musari, 2011). Islam is against the business in which interest is involved. Islam motivates the people to do business on profit sharing ratio rather than to take interest. Islam prevents to make investment in the trade that involves narcotic and betting (Robinson, 2007). So Islamic banks have to realize that they do not involve in any type of activity that is prohibited in Islamic principles (Ahmad, 2000). It helps to build up trust on Islamic banking system. In this way customers will remain loyal and committed to their banks.

Customer perception:

Customer's perception about Islamic banking system is also of great importance. Being a Muslim state most of the customers are obviously Muslim so they consider that the Islamic banking is according to their norms and Islamic values on one side and on the other side it is a successful banking system which is prevailing all over the world in Muslim as well as non-Muslim states. The difference between the Islamic banking and conventional banking is interest system which is not allowed in Islam. The difference between interest and profit is also defined that profit is that which is earned with the exchange of goods and services not with the exchange of money (Rashid, Hassan and Faruq.). In last four decades Islamic banking is the fastest growing industry in both Islamic and non-Islamic countries. It provides customers a substitute against conventional banking (Abedniya, Nokhbeh, 2011). Remarkable progress is shown by Islamic banks for capturing a large size of market as compare to conventional banks, and they succeeded in capturing the market share with growth rate 114% per annum in Pakistan. 13 conventional banks are practicing partial Islamic banks practices whereas 6 Islamic banks are also working (Ahmed, Rehman and Saif, 2010). Service quality is very much important in banking because profitability is directly linked with quality production and it leaves a significant impact on the customer (Ahmed, Rehman and Safwan, 2011). Some banks are offering Islamic banking on primitive basis through which a wide area of customers who lived in country side remain in touch with conventional banking because of the limited knowledge and minimum offers of Islamic banking (Rashid, Hassan and Faruq,). World is now becoming global village with availability of easy communication. Due to which the perception of the customers are also increasing with the availability of variety of information, customers prefer high quality products. Service is an intangible feature that cannot be touched physically. So it is important to check the compliance for Islamic banking service if the quality of services provided by Islamic banks is according to Islamic laws and shari'ah.

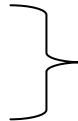
Success philosophy:

According to the long term point of view, in this age the success criteria of Islamic bank are therefore because they have a monopolistic power in the market. In many countries the conventional banking system is taking place of Islamic banking system (khaf, 2011). To increase the benefits of investment first thing is necessary to distinguish between the long term and short term investment in the bank and customer loyalty according to the benefits. Islamic bank or other banks are alarmed as more benefits for long term rather than give up short term benefits. Amount of deposit and growth is caused by the long term benefit that we give (khaf, 2011). In the short term consideration, the Islamic bank is that the identity, character and marketing or public relations that serve the objective of profit maximization. In the final last analysis in the market there is more completion of profit maximization between the Islamic and conventional banks. There can be some short term variables for success of Islamic banks likewise cost/earning efficiency, selecting high returns investments, minimizing idle assets and consumptions of economies of scale (Khaf, 2011). In other way service quality also has a more important thing in the banking industry and Islamic banks give more concentration to the service quality therefore they go towards success. Due to the service quality Islamic banks are gaining the customer loyalty (Berry, 1982). Important facet of a commercial customer's trade with a bank is the excellence of the long-term relationship that develops with the bank (Awan, 2011). In the Islamic marketing point of view value- maximization and rules of justice for the safety of the society are considered as a same thing. These rules recommend the ordinary way of living. Islamic principles say that beneath no situation should marketers exploit their customers (Saeed, Ahmad and Mukhtar, 2001). In Pakistan 13 conventional banks are working in different cities including Bahawalpur and these banks have started the partial Islamic banking and 6 fully developed Islamic banks are doing their business. Growth rate of Islamic is as good as 114% per annum (SBP, 2006). To increase the customer's loyalty and to enhance the customer satisfaction service quality and professional behavior are most important variables (Leeds, 1992). In Pakistan, there is more competition between the conventional and Islamic bank. Both banks are trying to capture more and more number of the customers for this purpose they give benefits, quality of work, availability of services and try to increase the customer loyalty. Islamic banks are providing alternatives of interest based products or interest based benefits therefore it is going towards success (Haque, Osman, Zaki, Hj, Ismais, 2009).

Theoretical frame work:

Customer satisfaction:

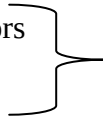
- Transaction specific and overall satisfaction
- Perceived service quality
- Compliance with shari'ah



H1: there is significance relationship between customer satisfaction and customer loyalty in Islamic banking.

Switching cost:

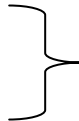
- Number of competitors
- Bank environment
- Demographic factors



H2: there is significance relationship between switching cost and customer loyalty in Islamic banking.

Trust and commitment:

- Islamic principles
- Interest free factor
- Credibility



H3: there is significance relationship between trust and commitment and customer loyalty.

Customer perception:

- Religious factors
- Interest free banking
- Lack of awareness



H4: there is significance relationship between customer perception and customer loyalty.

Success philosophy:

- customer
- short term consideration
- .



H5: there is significance relationship between success philosophy and customer loyalty in Islamic banking.

Model:



Methodology:

Sampling: We have used sample of 125 respondents from the Bahawalpur region. In which 107 or 85.6% were male and 18 or 14.4% were female respondents. Target respondents of the research were well educated and were capable of understanding the questions easily.

Survey instrument: A well designed questionnaire was developed for the purpose of asking questions from the target respondents. Questions were asked according to the dimensions defined in the theoretical framework.

Results/findings:

VARIABLES	Pearson Chi-Square	Mean	S.D
Transaction specific and overall satisfaction	13.306	1.712	0.749365
Perceived service quality	11.341	1.896	0.657758
Compliance with shari'ah	32.428	2.472	1.051696
Number of competitors	45.965	2.677	1.246448
Bank environment	28.786	1.880	0.885365
Demographic factors	30.317	2.384	1.268629
Islamic principles	22.751	2.144	0.930695
Interest free factor	40.407	2.352	1.116273
Credibility	55.586	2.256	1.038796
Religious factor	26.075	2.192	1.029375
Interest free banking	35.046	2.136	1.029375
Lack of awareness	28.266	2.120	0.980454
Inspiration of customer	27.351	2.576	1.094443
Long term and short term consideration	5.0004	2.208	1.339812
Islamic services	5.0004	2.208	1.339812

All the determinants of customer's loyalty in Islamic banking are greatly associated with increasing the long term commitment of customers in Islamic banking. Customer satisfaction has great significance with customer's loyalty and supports to accept the hypothesis 1. Customer satisfaction is directly related to customer's loyalty and increase in satisfaction also increases the long term commitment of customer. The customer's satisfaction is based upon individual and overall transactions executed by any customer, customer's perceived service quality and also on the assurance of the using Islamic Shari'ah principles. Loyalty of customer is also based on the switching cost. Acceptance of hypothesis 2 clarifies that the switching cost has great significance on the customer's loyalty. Switching cost is mainly depending on number of competitors of Islamic banks, banks environment and demographic factors. Hypothesis 3 is also accepted and concludes that the trust and commitment of customers have greater impact on the customer's loyalty. Trust can be built by assuring the execution of Islamic principles like interest free factor and also on the credibility of banks. Hypothesis 4 is also accepted assuring the great significance relationship between customer's loyalty and customer's perception, which is based on the religious factor and interest free factor of banks. The hypothesis 5 is also accepted that there is association between the success philosophy of Islamic banks and customer's loyalty. Success Philosophy is based on the inspiration of customers and also on short term & long term commitment with bank.

Managerial Implications: Islamic banks can increase their customer's loyalty by implementing the discussed dimensions as customer's loyalty is basic determinant for increment in profits of banks and their growth.

Conclusion: The empirical study concludes that determinants of customer loyalty i.e. customer satisfaction, switching cost, customer perception, success philosophy and trust and commitment have great impact on the customer loyalty of Islamic banks in Bahawalpur region, Pakistan. Greater customer satisfaction leads towards higher customer loyalty. Switching cost also affects the customers' loyalty directly. If customers are loyal they will remain with the Islamic banks even when switching cost is low. There is also direct relation of customer perception about Islamic banking. If customers have good perception about bank it will increase the customers' loyalty. Success philosophy of Islamic banks is depending on long term commitment with the banks and the level of inspiration of customers to deal with Islamic bank. Trust and commitment is also having relation with customer loyalty because when customers are having trust they will deal with Islamic bank. Credibility of Islamic banks in perception of customers is in great deal with customers' loyalty. If customers are satisfied with the bank, that bank is dealing in Islamic principles and working without interest factor it leads towards their loyalty. All the banks dealing with Islamic banking have to focus on increasing their customer's loyalty by studying these dimensions of customer's loyalty.

Recommendations:

This research paper is describing the customer's loyalty in Islamic banking and also proves the association of determinants by empirical study. However the limitation of this research is that it is conducted on the basis of available data and in Bahawalpur region only. It is recommended to carry out further research and considers other determinants of customer's loyalty in Islamic banking also.

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