

Factors Influence Customer Loyalty in Kuwait Islamic Banks: An Exploratory Study

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Abstract

Protecting market share against rival firms is more important than ever due to the decline in market growth rate and the increase in the competition. The main requirement for protecting market share is to create loyal customers. Therefore, the main objective of this paper is to examine interrelationships between service quality, emotional satisfaction, and image on loyalty of Islamic bank customers. By using online survey, data of this study were collected from 600 Kuwait Islamic banking customers. The finding shows that emotional satisfaction is the only significant variable affecting the loyalty. This study provides useful information for Kuwait policy makers and bankers on how to improve loyalty of customers in Islamic banks which in turn increases the profitability of the banks.

Keywords: *Islamic Banking, Kuwait, customer loyalty, customer satisfaction, switching behavior*

1. Introduction

Due to the increasing competitive environment in banking industry, losing customers is very costly for banks. Marketing researchers have calculated that it is about five times more expensive to acquire new clients than to keep existing ones (Reichheld and Sasser, 1996). Previous studies had shown that customers change their service providers for many reasons. It could be that the service provider no longer meets customers' needs, or customers may be receiving a better offer from a competitor or just wanting some variation in terms of services required. Therefore, understanding customer's switching intention may help in retaining customers and to avoid the adverse effects that may result due to the action. In addition, banks must also put

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more efforts to expand long-term relationships with their customers in order to create customer loyalty and to increase profitability.

Despite the fact that there were researches conducted in the area of customers' loyalty and switching behavior in conventional banking, there being limited published studies about customers' satisfaction, loyalty and switching behavior in Islamic banking, particularly in the context of Kuwait. Therefore, the objective of this paper is to evaluate Islamic banks' customer satisfaction towards the quality of services and products provided and to find the links between trust, switching costs and service loyalty by examining the relative effect of trust and switching costs on attitudinal and behavioral loyalty.

This paper is organized as follows. Section two provides review of the past related studies to develop the research model of this paper. Section three describes the sample, sampling technique and method of analysis. Section four presents the findings and the discussion of its managerial implication while section five provides the conclusion and limitations of the study.

2. Literature Review

Loyalty means to create commitment within the customers in order to deal with a special organization and buying goods and services on and on (Alahi and Heidari, 2005). Loyalty happens when customers strongly feel that their special organization in the best way has fulfilled their needs. Customer loyalty refers to a customer's deeply held commitment to re-buy preferred products and services consistently in the future (Oliver, 1997).

Current researchers define loyalty in relation to different marketing features such as service loyalty, product loyalty, chain or store loyalty and brand loyalty. Filip and Anghe (2009) identified that there are three principal areas of loyalty i.e. behavioral loyalty, attitudinal loyalty and composite loyalty. Behavioral and attitudinal dimensions of loyalty are considered to be equally critical. However, attitudinal loyalty is extremely important because it makes customers more resistant to both competitors' offers and search for alternatives. Filip and Anghe (2009) provided evidence that the level of loyalty stated by bank customers is supported not only by the level of satisfaction, but also by many factors such as bank employees' attitude towards the customers, the level of customer's trust toward the bank, the response of bank's employees upon the financial interests of customers, and also by the level of customer's commitment.

With regard to service quality, Mohammad and Alhamadani (2011) found that the quality of banking service is an integrative assessment of the service dimensions offered to customers. Parasuraman et.al. (1988) identified the service quality dimensions that play a significant role are: Tangibles, which pertain to the physical facilities, equipment, personnel and communication materials; Reliability, which refers to the ability to perform the promised services dependably and accurately; Responsiveness, which refers to the willingness of service providers to help customers and provide prompt service; Assurance, which relates to the knowledge and courtesy of employees and their ability to convey trust and confidence; and Empathy, which refers to the provision of caring and individualized attention to customer.

Focusing on Islamic banking, Abduh (2011) and Abduh and Othman (2014) evaluated the service quality and exploring the withdrawal behavior of Islamic bank customers based on their perspective toward service quality. The result of the empirical survey reveals that there are five important dimensions in Islamic banking services namely reliability, bank-customer relationship, tangibles, shariah-issues, and rates and charges. Therefore, Islamic bank customers are willing to withdraw their funds when they experience low performance of those service quality dimensions. Hence, this study proposes the following first hypothesis:

- H1: Perceived service quality is positively influencing satisfaction of Islamic Bank's customers
- H2: Perceived service quality is positively influencing image of Islamic Bank's customers
- H3: Perceived service quality is positively influencing loyalty of Islamic Bank's customers

Güngör (2007) explained that customer's emotions are related to customer service representative emotions, while customer service representative emotions are related to organizational issues like emotional climate, emotional labor and emotional intelligence. Moreover, Liljander and Strandvik (1997) said that emotions could play an important role in determining satisfaction with a service which creates loyalty and negative emotions have the largest impact on customer response. Furthermore, Abduh et.al. (2011) found that subjective norms or customer's emotional satisfaction is positively influence loyalty of Islamic bank customers. Therefore, our proposed second hypothesis is:

- H4: emotional satisfaction is positively influencing loyalty of Islamic Bank's customers

Bravo et.al. (2009) analyzed the corporate image of financial institutions and its impact on consumer behavior from sample of 450 respondents of five major Spanish commercial banks and reported that perceived important corporate image of commercial banks by customers is positively influencing dimensions related to the services offered and accessibility, corporate social responsibility, global impression, location and friendly and helpful personnel. Furthermore, Bloemer et.al. (1998) and Nguyen and LeBlanc (1998) have pointed out that there is a clear positive relationship between image and quality, image and satisfaction and image and loyalty. Hence, our third hypothesis is:

H5: image is positively influencing loyalty of Islamic Bank’s customers

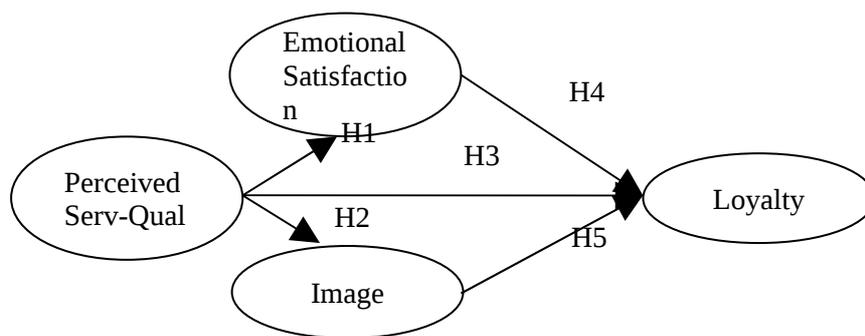


Figure 1. Proposed Model of Islamic Bank Customer Loyalty in Kuwait

3. Data and Methods

3.1. Data

Data of this research are collected via online survey which was placed on a free survey server for one month. Out of 850 collected questionnaire from Islamic banking customers in Kuwait, a total of 600 questionnaires collected were used in this study. This is because as many as 250 questionnaires were incompletely responded. The items in the questionnaire was set with four tested latent variables i.e. Perceived service quality, Image, Emotional satisfaction, and Loyalty.

This study utilizes perceived service quality measurement proposed by Parasuraman et.al. (1988) which consists of five major dimensions i.e. tangibles, reliability, responsiveness, assurance, and empathy. Table 1 presents the question items used in the questionnaire distributed to respondents. When running the analysis, those five dimensions are then set as the observed variables by taking the arithmetic average

from items loaded to each dimension for the latent variable of perceived service quality.

Table 1. Items for Perceived Service Quality

Service Quality Dimensions	Items
Tangibles (3 items)	1. My bank has modern-looking equipment.
	2. My bank's employees are neat-appearing.
	3. Materials associated with the service (such as pamphlets or statements) are visually appealing at my bank.
Reliability (4 items)	4. When my bank promises to do something by a certain time, it does so.
	5. When I have problem, my bank shows a sincere interest in solving it.
	6. My bank performs the service right the first time.
	7. My bank insists on error-free records
Responsiveness (4 items)	8. Employees of my bank tell me exactly when services will be performed.
	9. Employees of my bank give prompt service
	10. Employees of my bank are always willing to help me
	11. Employees of my bank are never too busy to respond to my request.
Assurance (3 items)	12. The behavior of employees of my bank instills confidence in customers.
	13. I feel safe in my transactions with my bank.
	14. Employees of my bank have the knowledge to answer my questions.
Empathy (4 items)	15. My bank gives me individual attention.
	16. My bank has operating hours convenient to all its customers.
	17. My bank has employees who give me personal attention.
	18. Employees of my bank understand my specific needs in banking.

With regard to the latent variables of emotional satisfaction, image and loyalty, Table 2 shows their observed variables used in the questionnaire.

Table 2. Items for Emotional Satisfaction, Image and Loyalty

Latent Variable	
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Emotional Satisfaction	1. Do you feel happy with your bank now?
	2. Do you feel pleasant with your bank now?
	3. Do you feel joyful with your bank now?
Image	4. I always have a good impression of my bank.
	5. My bank has a good image in the minds of consumers.
	6. My bank has a better image than its competitors.
Loyalty	7. My bank is always my first choice in my banking activities.
	8. I will not leave my current bank for similar services from other banks

3.2. Structural Equation Model (SEM)

Factor analysis was applied before Structural Equation Model (SEM). The SEM was adopted to test the proposed loyalty model of Islamic bank customers in Kuwait. The use of SEM as a statistical technique has grown widely in behavioral science researches. The method enables researchers to evaluate and modify the theoretical models.

The SEM has some characteristics which are the main reason behind the wide use of such method. Firstly, the model is usually perceived indirect measurable and not well defined theoretical and hypothetical construct. Secondly, SEM includes an error term for each fallible measure whether it is an expletory or predictable variable. This error term is created to deal with the potential error of measurement in observed variables especially independent variables. Finally, the model is usually fit to matrices of interrelationship indices i.e. covariance or correlation matrices between all pairs of observed variables (Raykov and Marcoulides, 2006).

The SEM is basically comprises of two statistical traditions; (i) factor analysis which was developed in the discipline of psychology and psychometrics and (ii) simultaneous equation modeling which was developed in biostatistics and econometrics (Kaplan, 2000). The steps in running SEM commence with the specification of a model to be estimated. The model tested is a statistical statement about the relations among variables (Hoyle, 1995). Secondly, is to test the goodness-of-fit of the model proposed. Thirdly, test the relationship among the variables through some measurements and last is to interpret the results in relation with the model tested. A model fit test was carried out to determine whether the model should be accepted or rejected. If the model is accepted, the researchers can proceed to interpret the path coefficients in the model because “significant” path coefficients in poor fit models are not meaningful.

4. Findings and Discussion

4.1. Descriptive Statistics and Reliability Analysis

Out of 600 respondents involved in this study, 293 (48.8%) respondents are male and 307 (51.2%) are female. The distribution for the age of the respondents is dominated by those who are in the range of 31 to 40 years old (33.5%). As many as 55 (9.2%) respondents are in the range of 25 years or less, 164 (27.3%) are in the range of 25 to 30 years old, and 180 (30%) respondents are in the age range of more than 40 years old. It is interesting to find that 92.7% of the respondents had engaged with full-fledge Islamic banks and only 7.3% had engaged with Islamic window of conventional banks. Moreover, as many as 595 (99.2%) respondents say that they had engaged with local Islamic banks rather than foreign Islamic banks.

With regard to the educational level, only 41 (6.8%) respondents from the total respondents are high school graduate. Majority of them are bachelor degree holder with 439 (73.2%) respondents and 120 (20%) respondents are postgraduate holders. This demographical information has shown that the respondents are those who have at least basic knowledge upon banking in Kuwait.

Table 3 below is depicting the statistic resulted from cronbach's alpha for reliability analysis. It can be seen that all dimensions have a good and accepted value of reliability with cronbach's alpha value of 0.957, 0.948, and 0.875 for perceived service quality, emotional satisfaction, and image respectively.

Table 3. Reliability Analysis

Dimension	Cronbach's Alpha
Perceived Service Quality	0.957
Emotional Satisfaction	0.948
Image	0.875

4.2. Structural Equation Model (SEM)

Prior to SEM, we run confirmatory factor analysis for each dimension of perceived service quality separately to test whether all items are loaded into the right and suitable latent variables. Table 4 below presents the summary of the result from confirmatory factor analysis which confirms that all items are successfully loaded to their proposed latent variable.

Table 4. Confirmatory Factor Analysis for Service Quality

Serv-Qual Dimension	KMO-Stat	Bartlett's-Stat	Varimax Rotation
Tangibles	0.683	468.929***	Only ONE component
Reliability	0.819	974.058***	Only ONE component
Responsiveness	0.825	1487.41***	Only ONE component
Assurance	0.675	579.044***	Only ONE component
Empathy	0.790	1177.09***	Only ONE component

*** is significant at alpha = 1%; ** is significant at alpha = 5%; * is significant at alpha = 10%.

The next phase is to run the structural equation model upon the proposed and tested model as depicted in Figure 1. The steps in running SEM commence with the specification of a model to be estimated. The model tested is a statistical statement about the relations among variables. Secondly, is to test the goodness-of-fit of the model proposed. Thirdly, test the relationship among the variables through some measurements and last is to interpret the results in relation with the model tested.

A model fit test was carried out to determine whether the model should be accepted or rejected. If the model is accepted, the researchers can proceed to interpret the path coefficients in the model because "significant" path coefficients in poor fit models are not meaningful. Table 5 presents the model fit measurement, its cut-off value, and the value obtained from this study.

Table 5. Model Fit Indices

Measures	Accepted Value	Value Obtained	Decision
CMIN	p-value > 0.05	p-value < 0.01	Reject
NFI, TLI, RFI	>0.800	0.988, 0.984, 0.977	Accept
IFI, CFI	>0.900	0.992, 0.992	Accept
RMSEA	< 0.08	0.059	Accept

P-value for Chi-square (CMIN) is less than 0.01 which means we should reject null hypothesis. In other words, CMIN criteria reject the fit of the model. Baseline comparisons table, however, gives information about NFI, TLI, RFI, IFI and CFI measures which confirmed the acceptance of the goodness-of-fit of the model tested. The values of NFI, TLI, RFI are greater than 0.8, and IFI and CFI values are greater than 0.9. Besides, RMSEA value is less than 0.08 (0.059) which confirm the goodness-of-fit of the model tested.

The R^2 value for emotional satisfaction as endogenous variable is 0.904 which means that 90.4% variation in the variable of emotional satisfaction can be explained by perceived service quality. Meanwhile, the R^2 value for image as endogenous variable is 0.882 which means that 88.2% variation in the variable of image can be explained by perceived service quality. Lastly, the R^2 value for loyalty as endogenous variable is 0.762 which means that 76.2% variation in the variable of loyalty can be explained by perceived service quality, emotional satisfaction and image.

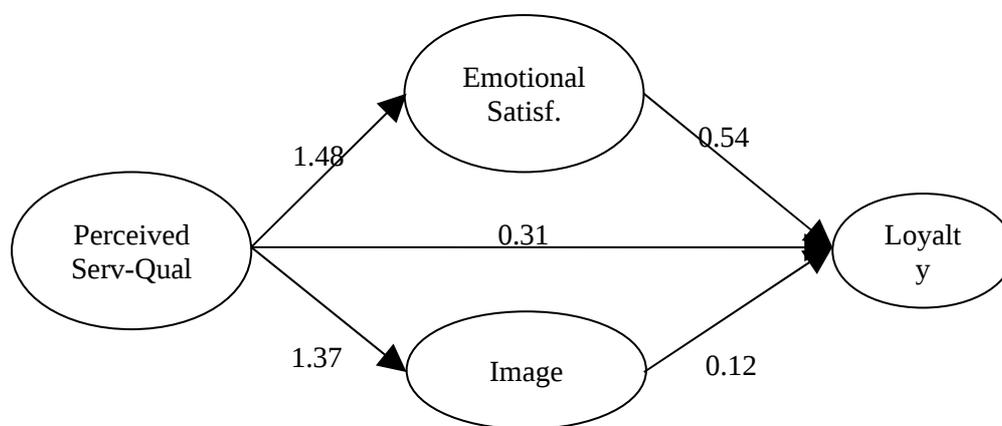


Figure 2. The Estimation Results of Proposed Model

Table 6 shows the estimated regression coefficient of each path. It can be seen that emotional satisfaction has a positive and significant influence upon loyalty. Interestingly, although perceived service quality is immediately influencing emotional satisfaction and image upon Islamic banks but there is not enough evidence to say similar between perceived service quality and loyalty as well as between image and loyalty.

Table 6. Estimated Regression Coefficient

Endogenous Variable	Exogenous Variable	Est. Regr. Coef.	R^2
Emotional Satisfaction	Perceived Service Quality	1.475***	0.904
Image	Perceived Service Quality	1.369***	0.882
Loyalty	Perceived Service Quality	0.307	0.762
	Emotional Satisfaction	0.538**	
	Image	0.117	

*** is significant at alpha = 1%; ** is significant at alpha = 5%; * is significant at alpha = 10%.

These findings have confirmed three of the hypotheses addressed in this study i.e. H1: Perceived service quality is positively influencing satisfaction of Islamic Bank's customers, H2: Perceived service quality is positively influencing image of Islamic Bank's customers, and H4: emotional satisfaction is positively influencing loyalty of Islamic Bank's customers, and reject the other two hypotheses i.e. H3: perceived service quality is positively influencing loyalty of Islamic Bank's customers, and H5: image is positively influencing loyalty of Islamic Bank's customers.

This study reveals the information of the attitude of Islamic bank customers in Kuwait upon loyalty issues. Based on the findings, only emotionally satisfied customers will remain loyal to the bank while there is no guarantee for customers who have positive values of the other two i.e. perceived service quality and image, to be loyal. This implies that Islamic bank customers in Kuwait are more concern on actual service quality provided by the bank. This means that in order to maintain the existing customers, Islamic banks in Kuwait must ensure that their products and services shall meet the expectation of their customers and able to satisfy them at the first place.

5. Conclusion

This study is among the first study focused on the relationship of customers' perceived service quality, satisfaction, and image upon Islamic bank and their loyalty towards their Islamic banks, particularly in Kuwait. Using 600 respondents collected using internet survey; this study tries to examine the determinants of loyalty of Islamic banking customers in Kuwait.

Perceived service quality, image, and emotional satisfaction were used as exogenous variables while loyalty was set as the endogenous variable under the structural equation model. The result has shown that only emotional satisfaction is supported to be positively and significantly influencing customer's loyalty to their existing Islamic bank. There were no evidences to support the influence of perceived service quality and image upon loyalty after the SEM test was done.

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