EXAMINING CUSTOMER SELECTION CRITERIA, SATISFACTION AND LOYALTY IN THE ISLAMIC BANKING INDUSTRY: A COMPARATIVE STUDY BETWEEN MALAYSIAN ETHNIC GROUPS

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ABSTRACT

Customer behaviour is a complex and dynamic area of investigation. Organisations, managers and researchers are interested in the potential of ethnicity as how it affects the behaviour of people in various domains. It influences organizational decisions to customise services and allocate resources to fulfil the needs of certain types of customers. The stiff competition among banks particularly in the dual banking system such as in Malaysia requires banks to win over customers and enhance loyalty among them. In response, this thesis examined the selection factors, satisfaction and loyalty behaviour among multi-ethnic customers in the Malaysian Islamic banking industry. The researcher adopts pragmatism paradigm that underpins the methodological choice, data collection techniques and analyses. The investigated issues were examined from two different perspectives; bank customers and bank managers. Accordingly, the data collection methods utilised were questionnaires for bank customers and semi-structured interviews with the bank managers.

The results indicated that there were significant differences between the ethnic groups in terms of their selection factors, satisfaction and loyalty. These differences indicated that ethnicity is a significant predicting variable to determine customer decisions. The factor analysis revealed five selection factors (religious and ethical, services and convenience, service quality and benefit, external, operational and charges) which attracted customers to choose Islamic banks in Malaysia. Further analysis discovered that the Reliability dimension significantly influenced customer satisfaction. In addition, there was a positive relationship between customer satisfaction and customer loyalty in this study. However, the combination of qualitative and quantitative approaches suggested that there were some inconsistencies regarding the issue of ethnicity as most of the bank managers held views that there was no difference among the ethnic groups in terms of their preferences or behaviours. The mix results demonstrated that bank management had not considered ethnicity as a potential variable to predict customer behaviour. Overall, the findings from this study provide useful information on customers within a multicultural society and this information could assist bank marketers in developing the right marketing strategy to optimise the diverse market opportunities.
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CHAPTER ONE
INTRODUCTION

1.1 Research Background

There are a great number of studies conducted to understand customer behaviour globally focused on the importance of customers. Understanding customers is crucial for the profitability and sustainability of any financial institutions including Islamic banking institutions. Among the many service industries, banking is considered a customer-oriented industry as it involves high customer contact (Taleghani et al., 2011), indicating the need and importance of understanding customer perception, attitudes, motivation, satisfaction and expectation towards a service (Harrison, 1994).

The importance of satisfying customers is well established in the literature particularly around marketing research. Many research projects have been conducted to understand and predict the behaviour of customers as it evolves over time and within different environments, situations and cultures. Marketeers currently need to have specifically tailored marketing strategies to counter each group of customers that holds specific or similar behaviour and consumption patterns in order to win their business (Lai et al., 2010). Previous studies have discussed several aspects of customer behaviour such as selection criteria, satisfaction and loyalty (Metawa and Almossawi, 1998; Osman et al., 2009; Mohsan et al., 2011) as companies strive to identify and understand their customers better. Consequently, decision makers in organizations could relate and react accordingly based on their customers profiles, needs and expectations. Nonetheless, prior research was not comprehensive and there are other factors that need to be incorporated such as ethnicity and opinions from other stakeholders.

Furthermore, researchers argue that the demographic factor of customers may impact their behaviour. Past research indicated that demographic characteristics of customers such as age, income, education, or nationality can be used to differentiate the behaviour or attitude of one segment from another which may affect choices and
repurchase intentions (Clemes et al., 2010). In relation to this, Zeithaml (1985) found significant effects of gender, age and income towards shopping behaviour. These demographic variables influenced the preparation for and execution of supermarket shopping. In a different setting, the findings of Mittal and Kamakura (2001) suggested that customers with different demographic characteristics showed different repurchase behaviour for the same level of satisfaction. For example, women indicated higher satisfaction ratings than men, and satisfaction ratings increase with age. Likewise, customer demographics also play a major role in determining loyalty, for instance younger customers are less committed to brands than the older ones (Mishra and Prasad, 2014). On the other hand, a study by Walsh et al. (2008) showed an effect of income towards the relationship between customer satisfaction and loyalty, while age and gender do not.

Furthermore, it has been recognised that many national markets are not homogenous such as in the USA, Australia, United Kingdom and many other countries that represent cultural diversity. Cultural diversity refers to the existence of multi-ethnic groups within one national market (Pires and Stanton, 2000). In multicultural societies, ethnicity becomes an important concept in customer behaviour studies. Ethnicity is one of demographic factors that potentially influence the behaviour of customers including their perceptions and decisions in daily activities. Ethnicity can affect fashion, leisure and food preferences (Burton, 2000). Jamal (2003) stated that ethnicity is a characteristic of racial group membership based on some commonly shared features. Such features include language, race, religion and nationality. Pires et al. (2003) highlighted the potential for segmenting and targeting customers, using ethnicity as a segmenting variable. Nonetheless, it has not gained significant interest in marketing theory and practice (Burton, 2002).

The use of ethnicity as a predictor in consumption patterns could be seen across various research contexts (Hirschman, 1981; Joy et al., 1991; Mokhlis et al., 2010). Burton (2002) emphasised that religion, ethnicity and culture can be significant in determining customer behaviour and the way they spend. Furthermore, religion and specific cultures have been recognised as having a strong influence on the choice of products and decision-making of the customer (Lai et al., 2010). Therefore, with more sophisticated and demanding customers in the banking industry, it has become
very important for Islamic banks to really know their customers and to incorporate factors such as ethnicity and culture in predicting the behaviour of their customers.

Since banking customers are not homogenous predominantly in multi-cultural markets, this imposes challenges for marketers to adjust the complete marketing framework so that banks could fully understand and capitalise on existing market opportunities (Muhamad and Alwi, 2015). It is crucial to recognise the needs of different types of customers, what they have in common as well as their differences. Moreover, the nature of the Malaysian domestic market is highly characterised by the ethnically segmented consumer market which reflect cultural differences (Butt and de Run, 2011; Mokhlis, 2012). Market research is crucial for organisations aiming to develop a multicultural marketing strategy and it begins by understanding the culture of targeted ethnic groups (Emslie et al., 2007). However, far too little attention has been paid to the incorporation of ethnicity as a variable in determining the intention of customers.

Due to an intensely competitive environment in the banking sector whereby the Islamic banking institutions not only compete among themselves, but also with the conventional banks, many retail banks are heading their strategies towards increasing customer satisfaction and loyalty through improved service quality (Levesque and McDougall, 1996). This is crucial as Kashif et al. (2015) pointed out that past research demonstrated that Islamic banks in Malaysia are lacked of service quality. Furthermore, there is an argument that Islamic banks are relying on the Shariah compliance part and neglecting the provision of good products and services to the customers (Ullah and Lee, 2012). It shows that Islamic banks must develop good long-term relationships with their customers in order to survive in the competitive banking environment. Hence, understanding and managing this culturally diverse market is very important to ensure the success of an organisation operated within the multicultural environment. With globalisation and multiculturalism affecting markets and societies, it is imperative to understand the behaviour of customers and to respond from multicultural perspectives.
Schermerhorn (1994) argued that, whilst maintaining cultural distinctiveness, the common shared values of the Malays, Chinese and Indians are collectivism, respect for elders, harmony, face and religious orientation. These values are likely to affect consumer behaviour and set the choice of criteria used by the customers in decision making. Collectivism refers to the connection of individuals who considered themselves as part of one or more collectives, which in turn form close relationship between the members (Han, 2017). In relation to marketing, collectivists are more likely to expose to social influence in their decision behaviour (Kongsompong, 2009).

Therefore, culture may offer direction or guidance for customers; for instance their consumption preferences. Similarly, Donthu and Yoo (1998) stressed the possibility of having different levels of service expectations among customers in different cultures because cultures differ in their patterns of behaviour and attitudes. Their research investigated how the level expectation around customer service quality differs among cultures. They suggested that collectivist customers had low overall service quality expectations and did not expect much empathy or assurance from the service provider compared to individualistic customers. Such differences imply that ethnicity and culture are relevant constructs for marketers to consider.

Most industries in Malaysia are largely influenced by the multi-ethnic society and each ethnic group has been able to retain its fundamental culture, beliefs and traditions (Schermerhorn, 1994). Thus, the differences in the cultural values may influence customer actions and decisions in terms of financial institutions. The ability of the Islamic banking industry to gain a significant market share is relying on positioning and marketing strategies to capture new customers, while at the same time retaining existing customers to become market leaders. Abdullah et al. (2012) in their study revealed that Islamic banking services are making progress with the non-Muslim population in Kuala Lumpur. In fact, many non-Muslims use Islamic banking products in Malaysia (Saifuddin, 2003) signifying the need to understand this particular group of customers. Since the behaviour of customers are constantly changing, there is a need for analysis and understanding of prospective customers based on their demographic characteristics and geographical regions so that financial
institutions may offer the right products and services to them (Mishra and Prasad, 2014).

1.2 Research Aim and Objectives

This research aims to examine the customer selection factors among Malaysian Islamic banking customers, their level of satisfaction through service quality, and their loyalty towards Islamic banks. Thus, the following research objectives are developed:

a) To identify selection factors among Malay, Chinese and Indian customers in Malaysian Islamic banking.
b) To explore the bank manager perspective on the main selection factors among Malay, Chinese and Indian customers.
c) To evaluate customer satisfaction among Malay, Chinese and Indian customers in Malaysian Islamic banking through the dimensions of service quality.
d) To evaluate customer loyalty among Malay, Chinese and Indian customers in Malaysian Islamic banking.
e) To explore the bank manager perspective on the satisfaction and loyalty behaviour of Malay, Chinese and Indian customers.
f) To investigate the relationship between service quality dimensions and customer loyalty.
g) To investigate the relationship between customer satisfaction and customer loyalty.

1.3 Research Questions

Against the above research objectives, this research seeks to address the following research questions:

a) What are the selection factors for Malay, Chinese and Indian customers in Malaysian Islamic banking?
b) What are the main selection factors for Malay, Chinese and Indian customers as perceived by the Islamic bank managers?
c) What is the level of customer satisfaction among Malay, Chinese and Indian customers in Malaysian Islamic banking through the dimension of service quality?
d) What is the level of customer loyalty among Malay, Chinese and Indian customers in Malaysian Islamic banking?
e) What is the bank manager perspective on the satisfaction and loyalty behaviour of Malay, Chinese and Indian customers?
f) Is there any significant relationship between service quality dimensions and customer loyalty?
g) Is there any significant relationship between customer satisfaction and loyalty?

1.4 Research Significance

This study aims to make contribution to both theory and industry. In general, the present research will provide an insight on the attitude and behaviour of customers from different ethnic backgrounds in Malaysia. Theoretically, the study extends knowledge in the literature by having managerial perspectives on the selection criteria of their customers, their satisfaction and loyalty towards Islamic banks. Previous literature places more concentration on the customer perspective in the investigated aspects and neglects the perception from industry managers. In addition, the study contributes to the body of literature in customer related studies within an Islamic banking environment as examining the effect of diversity among customers and their behaviour is still limited in the Islamic banking literature. With regards to industry, this study facilitates the design and execution of the right marketing strategy for the targeted segments of customers. In addition, the findings from this research will enhance the knowledge of customer behaviour not only in the Islamic banking industry, but in the banking industry as a whole and facilitate the executives of the banks to make better informed decisions regarding their marketing programmes. Furthermore, this research is expected to provide insights for bank managers in order to develop new products and services that may appeal to potential customers.
1.5 Research Methodology

In order to accomplish the research objectives above, this study utilises a mixed method approach. This type of approach occurs when there is a combination of quantitative and qualitative research techniques, methods, concepts or language into a single study (Johnson and Onwuegbuzie, 2004). This study adopts the pragmatism paradigm as it emphasises on the most suitable method to address research problem. Accordingly, the researcher starts with a problem, and aims to seek practical solutions (Saunders et al., 2016).

This research uses a concurrent embedded strategy, a research design which uses one data collection phase, during which both quantitative and qualitative data are collected simultaneously (Creswell, 2009). The quantitative method in the form of a questionnaire survey is used to collect data from the Islamic banking customers in Malaysia. The survey is mainly used to identify the main bank selection factors, which motivate the customers to choose Islamic banking, as well as their satisfaction and loyalty to the institutions. In terms of data analysis, the responses from the questionnaire were analysed using the IBM SPSS Statistics version 20. Then, particular tests and analysis were selected such as Kruskal-Wallis Test, Factor Analysis, Mann-Whitney Test and Regression Analysis. These will be further elaborated in Chapter Five.

Additionally, a qualitative method is deployed through semi-structured interviews with the bank managers to get their perspectives on the related subjects regarding their customers. The semi-structured interviews are conducted as it is important to explore their perceptions on the selection criteria, satisfaction and loyalty of the customers, particularly within a multi-ethnic and multicultural environment in Malaysia. As for the data analysis method, this study utilises thematic analysis for the qualitative data in order to identify similar patterns or themes within the responses gathered in the interviews.
1.6 Overview of the Thesis

In accomplishing the aim and objectives stated above, the study comprises of eight chapters as described below:

Chapter 1: Introduction
The first chapter provides the background of the research, outlines the aims, objectives and research questions. Then it describes the significance of the research and briefly discusses the research methodology.

Chapter 2: Background of Malaysia and Conceptualisation of Ethnicity
The second chapter provides the review of the literature on the historical background of Malaysia and how ethnicity plays an important part in the formation of Malaysian society. This chapter also discusses the definition of ethnicity, ethnicity as a construct in customer behaviour studies and its importance in marketing research.

Chapter 3: Islamic Banking Principles
This chapter provides the description of Shariah and Maqasid al-Shariah, and its application in the banking industry. Then, the chapter highlights Islamic banking principles to give an understanding on the differences between Islamic banking and conventional banking. Subsequently, the development of the Malaysian Islamic banking industry and its practices were discussed.

Chapter 4: Customer Selection Criteria, Satisfaction and Loyalty
This chapter focuses on the selection criteria, customer satisfaction and customer loyalty in financial services particularly in Islamic banking studies. The identification of related variables to be used in this study was discussed in this chapter.

Chapter 5: Research Methodology
This chapter outlines the research methodology for the present study. The chapter begins with explanations on the research paradigms, selected research approach and the rationale for using mixed methods. The population of the study are Islamic banking customers in the Klang Valley area in Malaysia. The next sections of the
Chapter discuss the questionnaire design, in-depth interviews, sample selection, data collection methods.

Chapter 6: Perspective of Customers on Selection Factors, Satisfaction and Loyalty
This chapter provides an analysis of the survey conducted with the Islamic banking customers to identify their main selection criteria, satisfaction and loyalty. This includes the descriptive analysis of the respondents and the statistical analysis used to obtain results.

Chapter 7: Perspective of Bank Managers Regarding Customer Selection Factors, Satisfaction and Loyalty
This chapter presents the analysis of the semi-structured interviews with the Islamic bank managers. The data from the interviews are crucial to answer the research question which is to explore the perceptions of managers on the selection criteria of their customers, as well as satisfaction and loyalty. The findings are significant to the literature as previous studies suggested that the subject was neglected.

Chapter 8: Discussion of Findings and Conclusion
This chapter provides critical reflections on the findings and delivers the recommendations of the research. In addition, it also discusses the limitations of the research and suggestions for future work.
CHAPTER TWO
BACKGROUND OF MALAYSIA AND CONCEPTUALISATION OF ETHNICITY

2.1 Introduction

This chapter presents a background of Malaysia and the formation of its diverse population. Malaysia has a distinctive social, political and economic development greatly influenced by ethnicity. For instance, the reporting of economic progress, development of human resources, selection and training of leaders are all defined and driven by ethnicity (Selvarajah and Meyer, 2008). The historical background of Malaysia is discussed in the next section followed by literature on the Malaysian environment in the post-colonial era. Then, the chapter focuses on the concept and development of ethnicity particularly in marketing research due to its potential as a predictor for customer behaviour, preferences and attitudes towards products and services.

2.2 Malaysia: Historical Background

Malaysia is a multi-ethnic and multicultural developing country located in Southeast Asia. Malaysia (formerly known as Malaya) is part of the Malay Archipelago in the region, which is comprised of the Peninsular Malaysia and the states of Sabah and Sarawak in the island of Borneo. Malaysian society is associated with distinct cultural traditions, languages and religious beliefs. Hirschman (1987) mentioned that cultural characteristics such as language, dress, and cuisine, as well as some aspects of physical appearance are among many dimensions that may serve to define ethnicity in a plural society like Malaysia. According to the Census 2010, with a population of 28.3 million, the major ethnic groups in Malaysia are Malays, Chinese and Indians (Department of Statistics Malaysia, 2010). In this research, the major ethnic groups in Malaysia namely Malays, Chinese and Indians will be included due to its significant representation of Islamic banking customers in Malaysia. Figure 1.1 below shows the ethnic composition in Malaysia.
The majority group is made up of indigenous peoples known as *bumiputera* which literally meaning ‘sons of the soil’. Bumiputera refers to the Malays and indigenous people of Malaysia. The *bumiputera* consist of 67.4 percent of the total population; of this percentage, Malays comprise around 54 percent and non-Malay *bumiputera* the remaining 13.4 percent. The *bumiputera* are followed by Chinese with 24.6 percent, Indians 7.3 percent and others 0.7 percent. In terms of religion, Islam was the most widely professed religion in Malaysia with the proportion of 61.3 percent, followed by Buddhism at 19.8 percent, Christianity 9.2 percent and Hinduism 6.3 percent (Department of Statistics Malaysia, 2010).

As stated above, Malays are the largest ethnic groups in Malaysia. Kamaruddin and Kamaruddin (2009, p.38) stated that “Malays are among the largest indigenous peoples in South East Asia, who live in the Malay Archipelago, a region with a predominantly Malay population”. Additionally, Malays are considered as the most homogenous ethnic group in terms of culture, language and religion (de Run et al., 2010). According to the Malaysian constitution, a Malay is a person who was born locally, habitually speaks Malay, follows Malay customs and professes Islam (Hirschman, 1987; Hashim, 1976). The religion of Islam is closely associated with Malays, which significantly makes up their identity and affects their culture (Kamaruddin and Kamaruddin, 2009). It also signifies the fact that Islam is the official religion in Malaysia and Muslims as the largest group in the country.
The Chinese and Indian communities are supposed to consist of the descendants of immigrants from China and the Indian subcontinent (Hirschman, 1987). Historically, there was mass immigration especially from southern China and India under British colonial rule to provide a labour force (Chuah et al., 2014). This event marked the formulation of multi-ethnic society in Malaysia. In terms of religion, the Chinese are a mixture of Confucianists, Taoists, Buddhists and Christians (Storz, 1999). Meanwhile, the majority of Indian immigrants in Malaysia consist of Tamils from Tamil Nadu, Kerala and some Sri Lankan Tamils, most of them are Hindus (Jahnichen, 2010) they may also be Muslims or Christians. In addition, the first migration of Indians to Malaysia started in the second half of the 19th century, brought by the British to work on plantations, roads, railways and ports while the latest immigration from India started towards the end of the last century to source professionals particularly in the IT sector (Jahnichen, 2010).

It is reasonable to note that these ethnic groups have their own cultural values and practices. In relation to this, Awang et al. (2012) described the cultural values of the major ethnic groups in Malaysia; Malays have respect for others, faith in God, humility, indirectness, politeness, affiliation, appreciative, loyalty, obedience, and tolerant, Chinese place major importance on diligence, perseverance, education, wealth and orientation towards family, while Indians have high values for the fear of God, sense of belonging, kinship, family, loyalty, modesty, participation, hard work, and security. Meanwhile, a comparative research study by Fontaine and Richardson (2005) on cultural values in Malaysia identified that the key difference between the three major ethnic groups was the cultural perception towards religion. Apart from the rating of the value ‘devout’, the ethnic groups share most cultural values. This could be related to the influence of religion in the life of each ethnic group. Although Islam is the official religion in the country, the followers of other religions are free to practice their religions. Nevertheless, based on the above description, it seems that Malays and Indians share few similar traits which include faith in religion, loyalty and relationship among group members. Hence, it is plausible to assume that both ethnic groups are more likely to have similar characteristics or preferences.
The development of plural society in Malaysia is not something natural and voluntary, but can be considered as a forced historical process as it was the effect of colonization particularly from the British colonial period (Muis et al., 2012). Although the presence of the Chinese in Malaya preceded British colonialism, they entered in a large scale in the mid-nineteenth century following the expansion of the tin mining industry (Yeoh, 2013). Subsequently, large groups of immigrants from China and India were brought in under British rule due to huge demands for labour to work in tin mines and plantations which created occupational separation between ethnic groups where the Malays worked mainly in agriculture, the Chinese worked in commerce and the Indians worked in plantations (Haque, 2003). As a result, there was little interaction and lack of assimilation between the Malays and the other ethnic groups (Mun, 2013). Based on this premise, there was a rise of conflict among the ethnic groups as each group tried to protect their own interest. The occupational segregation also caused an unbalance distribution of income among them.

Historically, the emergence of positive developments of nationalism in colonial territories in Southeast Asia could be seen in the post-World War II period which also led to a revival of Malay nationalism (Cheah, 2002). The strong reaction and protest from Malay nationalists was expressed when the British tried to impose the Malayan Union concept where under those proposals, the British intended to end Malay sovereignty and create an equal citizenship for both Malays and non-Malays. However, the proposal, from the Malay point of view, denied that Malaya belonged to the Malays and the granting of equal rights to the non-Malays would cause the disappearance of the special position and privileges of the Malays. Malay political leaders feared that a ‘universalist’ citizenship would threaten to submerge their cultural survival and their material position due to lower participation in the modern economy and over-representation among the rural poor (Fenton, 2010). These were also influenced by the separation field of work during the colonization whereas Malays stayed in the rural areas and worked in agriculture. As a result of the Malay

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1 Furnivall (1944) defined plural society as a society which comprises two or more elements or social orders which live side by side, yet without mingling in one political unit.
protest, the Malayan Union project was replaced by the federation of Malaya agreement that recognised the special position of the Malays as the indigenous people of the country and dropped the principle of *jus soli* with regard to citizenship of the non-Malays as stipulated in the former proposal (Yeoh, 2013).

In Malaysia, the British policy of divide and rule has shaped the multi-ethnic society in the country and cultural pluralism became the social model for Malaysia after independence (Moorthy et al., 2011). This is due to the big gap of socio-economic and geographical factors between the Malays, Chinese and Indians (Moorthy et al., 2011). Despite the formation of a multi-ethnic society in the country, another outcome of British colonialism was that the local Malay community lagged behind the economic and educational advancement of the other Chinese and Indian ethnic groups (Collins, 1998). Moreover, the recognition of the Malays as the indigenous and the non-Malays as immigrants has sharpened the racial sentiments particularly after the country gained independence in 1957 (Muis et al., 2012). Consequently, there were ethnic tensions among the Malays and the non-Malays whereby the Malays feared that they were about to lose their special privileges and political control of their country to the Chinese, and the Chinese held a grievance that they were second class citizens in the country (Collins, 1998). The situation in Malaysia during the post-colonial era will be discussed further in the next section.

2.3 Malaysia: Post-Colonial Era

The political system of Malaysia is closely modelled on the Westminster Parliamentary System, a legacy of British colonial rule (Saad and Jacob, 2012). The Malaysian constitution came into force on August 27, 1957 (Saad and Jacob, 2012) which was intended to provide a viable basis for ethnic understanding and went through a great deal of bargaining, mainly among ethnic groups and political parties which had been constructed along ethnic lines (Saad et al., 2013). Therefore, Malaysian politics is indeed characterised by ethnicity where there is a tendency for every political issue to be perceived in terms of ethnicity and political struggles are fought on an ethnic basis (Ishak, 2002).
Since independence in 1957, Malaysia has been governed by a coalition government with parties representing the different ethnic communities thus indicating the dominance of ethnic relations in the Malaysian political process (Collins, 1998). The dominant party is the United Malay National Organisation (UMNO) for the Malays, while the Chinese are represented mainly by the Malaysian Chinese Association (MCA) and the Gerakan, and the Indians by the Malaysian Indian Congress (MIC). Originally called the Alliance, the coalition government became known as Barisan Nasional (BN) in 1974. The nature and significance of the political process at this time is ethnicity as the key feature and the Malays controlled the executive (Saad et al., 2013). Prior to independence, ethnic divisions in Malaya were being demarcated by the indigenous Malays who feared that they would be left behind in rural stagnation by the active and vibrant Chinese community (Collins, 1998). In order to redress the economic balance and to ensure that Malaya, and subsequently Malaysia, was governed by the indigenous people, the United Malay National Organisation (UMNO) pursued a policy of positive discrimination in favour of the bumiputeras (Collins, 1998).

The formulation of a Constitution for the independent Federation of Malaysia demonstrated that the Chinese and Indians became citizens of the state but they had to accept the Malay special status with positive discrimination in higher education, government employment, economic opportunities, and acknowledge the official religion and language which is Islam and Malay for the latter, and the position of Malay royalty as the rulers (Collins, 1998; Shamsul, 2001). Such privileges and special rights to the Malay ethnic group had originally been agreed by Chinese and Indian leaders in the multi-ethnic alliance party coalition government in Malaya in 1956 as part of a ‘social contract’ with the Malay leaders prior to the independence of Malaya in 1957 (Kheng, 2003). The preferential treatment of Malays, which are enshrined in the Malaysian constitution, entitle only Malays to an exclusive proportion of lands (known as Malay reservations), and to a quota of posts in the public service, permits and licenses for business or trade, and government scholarships. This could be evidenced by referring to the Article 153 in the Malaysian Federal Constitution which acknowledges the special position of Malays and the native of Sabah and Sarawak towards education, scholarship and business,
and these rights are safeguarded by the ruler of Malaysia or Yang di-Pertuan Agong (Government of Malaysia, 2010).

It was argued that the Malays needed these privileges because they were the original inhabitants of the country and since colonial times, were economically backward in comparison to the non-Malays (Kheng, 2003). As for the non-Malays, they could secure citizenship rights for those who born in Malaya or who qualified on residential and other terms. Additionally, other guarantees included were that ‘no person shall be prohibited or prevented from using (otherwise than for official purposes), or from teaching and learning, any other language’, and that ‘other religions may be practised in peace and harmony in any part of the Federation’ (Government of Malaysia, 2010). It shows that other ethnic groups in Malaysia are free to use and teach their own language as well as to practice their religion respectively.

Furthermore, another economic measure which favoured the Malays was the foundation of the Bank Bumiputera in 1965, with credit facilities, banking services, and technical assistance to help Malay individuals and businesses with the addition of other institutions like MARA (previously known as the Rural and Industrial Development Authority) that assist mostly Malay businesses (Klitgaard and Katz, 1983). Those institutions were intended to facilitate Malay people in order to improve their income and subsequently representing higher share in the Malaysian economy. Nonetheless, despite relatively high economic growth in the country after independence, income inequalities increased and poverty remained widespread (Gomez and Jomo, 1999). Malays remained disproportionately poor, with very few entrepreneurs or corporate managers amongst them (Gomez and Jomo, 1999) and they continued to be concentrated in low-productivity agriculture and the public sector. The ownership of share capital of limited companies in 1970 indicated Malays held very low percentages at 1.9 percent compared to the Chinese at 22.5 percent while foreign control was more than 60 percent at that time (Low, 1985).

The issue of ethnic polarization and income inequalities among the major ethnic groups in Malaysia has been recognised by the government at that time. In relation to this, Crouch (2001) pointed out that in the 1960s, politics and almost all policies in
Malaysia which include language, education, government employment and business licenses were influenced by issues of ethnicity. Consequently, throughout the 1960s, communal polarization was on the increase as the Malays became aggrieved at not sharing in the modest economic growth Malaysia enjoyed, while the Chinese blamed Malay political obstacles for preventing them from achieving greater gains (Collins, 1998). Malay disillusionment was further compounded by the action of the leader of the UMNO, Tunku Abdul Rahman, appearing to appease the Chinese community by compromising on the National Language Act of 1967 (Collins, 1998). In this case, Malay language is the sole national language but the government also permitted the continued use of the English language for official purposes. Therefore, extremists in the various ethnic communities argued that the ethnically based ruling political parties that were supposed to stand for their interest were too accommodating of others in the Alliance and this dissatisfaction led to the worst performance of the ruling parties in the 1969 general elections (Gomez and Jomo, 1999; Muwazir, 2011).

2.3.1 The Racial Riot and New Economic Policy (NEP)

Ethnic problems have long existed in Malaysian political and economic life as the Malays had the political power and the Chinese had the wealth and gained control of most Malaysian industry and commerce that was not foreign-owned (Klitgaard and Katz, 1983). By 1969, there was much dissatisfaction particularly among the Malay and Chinese communities with the various policies implemented by the Alliance Party and their results (Klitgaard and Katz, 1983). Malays considered it insufficient while non-Malays felt discriminated and tension rose among them which led to racial riots in 1969 (Haque, 2003).

The underlying tension among the ethnic groups contributed to the vicious ethnic riot on 13th May 1969 in Kuala Lumpur resulting in the declaration of a state of emergency. Although the ruling Alliance Party retained of majority seats, they lost many seats to extremist Chinese and Malay parties (Klitgaard and Katz, 1983). As a result, blaming economic disparity as the root cause of the riots, the government which led by the Malay ethnic group introduced the New Economic Policy (NEP)
(Moorthy, 2011). Following the bloody ethnic riot in 1969, the Government declared the NEP which emphasised the importance of achieving socio-economic goals alongside pursuing economic growth objectives as a way of creating harmony and unity in a diverse nation. The most important goal was to promote national unity. There were two major strategies adopted. Firstly, reduce and eliminate absolute poverty regardless of ethnic groups through raising income levels and increasing employment opportunities for all Malaysians. Secondly, restructure society to correct economic imbalances so as to reduce and eventually eliminate the classification of ethnic groups with certain sectors or economic functions (Government of Malaysia, 1971). The strategies were seen as an important decision to be implemented in order to restore and promote unity and harmony among the ethnic groups.

Accordingly, there were large differences among ethnic groups in 1970, when the NEP was designed which was evident in education, employment, ownership and income (Klitgaard and Katz, 1983). Considering those evidences, the target was that by 1990, equity distribution among the Bumiputeras should reach 30 percent, the non-bumiputera (non-Malays) 40 percent and foreigners 30 percent (Noh, 2014). The rationale behind the NEP was based on the recognition that national unity in Malaysia was the pre-requisite for development in all aspects of life. Even though the government has strived hard to integrate society through various visions and ideologies, it is hard to accomplish as the ethnocentrism is still rife among the various ethnic groups. Consequently, cultural integration among Malaysians is still not happening although the government has tried to provide many programs to resolve the issue of dissimilarity and separateness in the society (de Run et al., 2010). The inclination to preserve each tradition has made history, vision and ideologies proposed by the leaders simply rhetorical in nature (Saad and Jacob, 2012).

It could be argued that the major ethnic groups in Malaysia struggled to establish mutual understanding based on their goals dissimilarity. Historically, the ethnic separation led to further problems in the society. Firstly, the ethnic groups felt that their political party failed to provide and protect their interests in all related aspects predominantly in socio-economic aspect. Therefore, the ethnic groups took their own action and this was demonstrated in the event of ethnic riot in 1969. Secondly, the
special policy and benefits for Malay ethnic group caused dissatisfaction among other ethnic groups as they felt that they were left out in the government decision.

2.3.2 National Unity

There is a lack of assimilation progress among Malays with the Chinese and the Indians where each ethnic group retained their senses of identity and relied on their political parties to protect their interests (Crouch, 2001; Haque, 2003). Consequently, Malaysia has tried to build and maintain national unity regardless of the diversity and this could be seen through the educational policies implemented (Kheng, 2003). However, the ethnic group identities and divisions rooted among communities become major obstacles to the process of nation building in Malaysia (Haque, 2003). Haque (2003) further pointed out that in one study, only 10 percent of the students interviewed considered themselves as Malaysian first, while the rest tend to identify themselves according to their ethnic groups.

Following the tragedy in 1969, the government formulated a national ideology and as a result, the national principles or (Rukun Negara) was introduced as a tool of unity (Saad and Jacob, 2012). The following is Rukun Negara pledge:

“Our nation, Malaysia, being dedicated to achieving greater unity off all her peoples; to maintaining a democratic way of life; to creating a just society in which the wealth of the nation shall be equitably shared; to ensuring a liberal approach to her rich and diverse cultural traditions; to building a progressive society which shall be oriented to modern science and technology:

We, her people, pledge our united efforts to attain those ends guided by these principles:
Believe in God
Loyalty to King and Country
Upholding the Constitution
Rule of Law
Good Behaviour and Morality”

Then, Tun Dr. MAHATHIR Mohamad, the fourth Prime Minister, introduced Vision 2020 in 1991 and he outlined the major challenge in nation building is to create a Malaysian nation that is united and has similar aspirations, integrated at the
territorial level and between ethnic groups based on equal rights and justice (Saad and Jacob, 2012). Vision 2020 seeks an ambitious goal of a fully industrialised and true Malaysian nation (*Bangsa Malaysia*) by 2020 and it is an inclusive concept, founded upon loyalty to the country, the constitution and language so that while the communities maintain their own identities, they also share an overarching identity of being Malaysian (Collins, 1998).

The *Rukun Negara* (National Ideology), *Bangsa Malaysia* (Malaysian nation-state) and the latest initiatives by recent Malaysian Prime Minister namely *1Malaysia* concept are programmes of nation building as an effort to reduce the radical racial politicking, and then to form a national integration (Muis et al., 2012). However, according to Muis et al. (2012), the main challenge to implementing the concept of unity rests with the culture diversity by which each ethnic group strives hard to maintain their own identity, with an addition of primordial elements such as religion that is toughly followed and considered as taboo among them.

Accordingly, it reflects the fact that ethnic identities and boundaries are constructed individually, based on the needs of the individual and create the necessity to form ethnic groups (Mun, 2013). When there is a competition for power or resources, the consciousness of belonging to an ethnic group will rise and ethnic solidarity will strengthen. In the case of Malaysia, ethnic consciousness became strong because the Malays felt that the Chinese were competing against them to take control of the country while the Chinese felt that the Malays have marginalised them (Mun, 2013). Meanwhile, Malaysians will continue to identify themselves along ethnic lines due to the benefits received from collective movements (Mun, 2013). This could be linked to the fact that the development of plural society in the country from the beginning was not based on their voluntary decision.

Furthermore, previous studies suggested that ethnocentrism is common and evident among secondary school students, but there seems to be some improvement in inter-ethnic mixing and interaction among university students as courses on ethnic relations are being taught at the universities to provide a better understanding of the importance of ethnic relations in the country. (Tey et al., 2009). Additionally, the National Service programme is being implemented with the aim of fostering closer
friendship among young people of different ethnic groups (Tey et al., 2009). This effort is important as the creation of shared identity and values are vital to ensure harmony, and preventing any social conflict among ethnic groups (Dincer and Hotard, 2011).

2.4 Ethnicity and Culture

In order to have a better understanding of the main research interest, this section provides definitions and detail descriptions of ethnicity as the main focus, as well as its association with culture. Ethnicity is a general name for a multiplicity of specific modes of individual and group interaction on the basis of a cultural variation, which encompasses different layers of social interaction (Malesevic, 2004). Ethnicity as a term means the condition of belonging to a particular ethnic group (Rossiter and Chan, 1998). An ethnic group is a segment of larger societies who share a set of common culture traits and participate in shared activities in which the common origin and culture are significant ingredients (Joy et. al, 1991; Yinger, 1985) which lead to a sense of belonging and may caused them to feel morally responsible for other members within their ethnic group (Mun, 2013). According to Fenton (2010), ethnic group refers to descent and cultural communities for which the point of reference of difference is typically cultural difference, and cultural markers of social boundaries, rather than physical appearance.

Additionally, under Weber’s theory of ethnic relation, the definition of ethnic groups is “those human groups that entertain a subjective belief in their common descent because of similarities of physical type or of customs or both, or because of memories of colonisation and migration; conversely, it does not matter whether or not an objective blood relationship exists” (Weber, 1968 p. 389). Meanwhile, Chandra and Wilkinson (2008) asserted that ethnic identity is an umbrella concept that includes identity categories associated with one or more of the following types: religion, sect, language, dialect, tribe, clan, race, physical differences, nationality, region, and caste.
There were several definitions of ethnicity and ethnic group as proposed above. Hence, defining ethnicity is rather complex due to subjective or objective views of ethnicity (Burton, 1996). The subjective view would associate ethnicity with personal belief, reflect the psychological identity of the individual about their cultural characteristics while an objective view would include sociocultural features such as religion, language and cultural tradition (Burton, 1996). Similarly, Yang (2000) described ethnicity as the outcome of subjective perceptions based on some objective characteristics such as physical attributes, presumed ancestry, culture or national origin with some reference to common ancestry or presumed common ancestry which is significant part of the social construction of ethnicity (Yang, 2000). Meanwhile, Venkatesh (1995) proposed that self-identification of the members mediated by the perceptions of the others forms the basis of ethnicity.

Moreover, Rossiter and Chan (1998, p.127) stated that “ethnicity can be operationalised objectively based on inherited genetic constitution or subjectively based on the racial identification that a person adopts or that other people assign to the person”. The authors proposed a tri-component conceptualisation of ethnicity namely biological and physical characteristics, personality traits, and cultural values and norms. Rossiter and Chan (1998) also suggested that these three elements are important in determining the concept of ethnicity in business and consumer behaviour. Additionally, Armstrong and Haiss (2007, p.3) defined ethnicity as “a basis for social categories that are rooted in socially perceived differences in race, national origin, language, and/or religion that often come with immigration and the formation of regions and nations”. Despite the categorisation of ethnic groups according to attributes such as common descent, language, religion, culture and much more, ethnicity is basically an aspect of social relationships between one or more ethnic groups in a given socio-political setting (Ishak, 2002). It is argued that ethnicity gradually declines with the arrival of modernisation and social interaction among people from different ethnic groups (Malesevic, 2004). However, the significance and influence of primordial elements such as religion or shared beliefs are still relevant in the process of ethnic solidarity and strength.
Next, ethnicity is also associated with culture as they are interconnected (Armstrong and Haiss, 2007). Tsoukatos and Rand (2007) pointed out researchers that looked into the effects of culture identified culture with nation or ethnicity in their studies. Nevertheless, Farley and Lehmann (1994) argued it is not necessarily identified to nation and suggested that such identification may lead to systematic errors in within-nation studies. Similarly, Fenton (2010) stated that ethnicity and culture are not the same whereas it is also possible to speak of culture without attaching it to groups defined by descent, and nevertheless culture is something that a group possesses based on shared customs and beliefs. In addition, Venkatesh (1995) proposed that culture defines individuals within a community as well as social organisations, along with other economic and political systems and culture is the overall system within which other systems are organised.

This suggests that the impact of culture is highly significant for ethnic group members as culture explicates their value systems that govern the explanation of the environment around them as it affects their judgments and motivations (Lai et al., 2010). Accordingly, cultural values are motivators and drivers of the perceptions and behaviours of people (Tsoukatos and Rand, 2007). In view of this, marketers start to recognise the power of ethnic groups in determining the behaviour of customers because culture plays an important part in affecting the customer choice around consumption and spending (Lai et al., 2010).

Schiffman et al. (2012) defined culture as the sum total of learned beliefs, values and customs that serve to direct the consumer behaviour of members of a particular society. Similarly, Hofstede (1980, p.25) stated that culture is “the collective programming of the mind which distinguishes the members of one human group from another”. In addition, Robbins and Stylianou (2001, p. 3) suggested that culture is “a shared set of values that influence societal perceptions, attitudes, preferences, and responses”. Clearly, culture is embedded in the life of a person for such a long time and subsequently able to affect or influence the behaviour of an individual. Nonetheless, Lai et al. (2010) mentioned that culture is a very dynamic construct and it changes accordingly. They summed up culture as the system of shared beliefs, values, customs, practices, behaviours, and symbols that the members of a group commonly use to interact and connect with one another within their environments.
and these system and values are transmitted from generation to generation through learning and instructions.

Morales (2004) claimed that almost all countries consist of different subcultures. Therefore, marketers in multicultural societies need to address whether ethnic minorities will maintain their own culture or accept the culture from the host country (Burton, 1996) and use the information to construct their strategies. Customer cultural values influence their expectations and perceptions of products and services, and subsequently their choices and buying behaviours (Kueh and Voon, 2007). One of the most widely used models for understanding culture is Hofstede typology of culture. Hofstede (1980) characterized cultural differences between societies and identified four dimensions of culture, namely Power Distance, Individualism-Collectivism, Masculinity-Femininity and Uncertainty Avoidance. Later, Hofstede (1991) added the fifth dimension called Long Term- Short Term Orientation. In the context of Malaysia, Hofstede cultural dimensions findings are consistent with the cultures and customs of the Malays and Chinese communities (Lai et al., 2010). Accordingly, Hofstede (1991) found that Malaysians had high power distance, low individualism, moderate masculinity and relatively weak uncertainty avoidance scores when compared with different countries (Selvarajah and Meyer, 2008).

According to Hofstede (2009), Power Distance is the extent to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally. Uncertainty Avoidance deals with a society's tolerance for ambiguity that indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Individualism versus Collectivism is the degree to which people in a society are integrated into groups. On the individualist side, the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, people from birth onwards are integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) that continue protecting them in exchange for unquestioning loyalty. Masculinity versus Femininity refers to the distribution of values between the genders which is another fundamental issue for any society, to which a range of solutions are found. It relates to the division of emotional roles between women and men. Long Term versus Short Term Orientation
related to the choice of focus for people's efforts: the future or the present and past. Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'.

According to Malai and Speece (2005), Asian cultures are collectivist which is associated with children being raised within the context of extended family, exposed to major influence from family members and the development of strong group orientations. The authors also argued that in Western individualist cultures, children are less exposed to various points of view from family members, trained to be more self-reliant and focus much more on themselves. Nevertheless, further research in cross-cultural domain are needed to investigate whether the behaviour of members in the culture remain the same or change accordingly. An understanding of how cultural differences affect marketing decisions is important as it can be used to predict the strategy of competitors and implement effective competitive strategies (Tse et al., 1988). In their study, Tse et al. (1988) found that cultural values not only persist, but influenced executive decisions and reactions. Accordingly, the authors suggested that ethnic cultures have an impact in marketing decision making. Moreover, the influence of culture can be seen in most marketing efforts such as advertising, retailer practices, shopping practices, and multinational marketing teams (Laroche et al., 2004). Therefore, marketers need to understand and incorporate ethnic customer characteristics such as language, culture and ethnicity into their marketing strategies to improve effectiveness (Cui, 2001).

Fenton (2010) argued that the influence of ethnicity towards social action is conditional and dependant on circumstances whereby under certain situations and societies, people look at ethnicity and culture seriously and vice versa. Recently, researchers in intergroup relations perceived ethnicity not as a given of social existence, but a political construct linked directly to power relations and resource competition such as in the case of the Malay ethnic identity in Malaysia (Yeoh, 2013). For instance, the Malays were seen committed in protecting their rights, culture and religious especially prior to the independence.
Ethnicity and culture are interrelated concepts within diverse nations. Either objectively or subjectively constructed, there are common attributes that link to the formation of ethnic groups. These attributes include common descent, language, religion, values, customs, practices, symbols and physical attributes. However, social and political situations also influence the consciousness and solidarity of certain ethnic groups which made them who they are today. Meanwhile, culture is like a set of thinking, beliefs and values which distinguishes one from another. The culture may attach to certain ethnic groups or a nation in general. Nonetheless, the variances in culture need to be highlighted particularly in the marketing effort so that the different characteristics are recognised and can be considered. Therefore, managing ethnic and culture differences require further research in order to develop the right strategy in stimulating the interest of those people in certain products and services and to optimise their level of satisfaction and loyalty.

2.4.1 Underpinning Theories of Ethnicity

According to Malesevic (2004), there are four sociological theories related with ethnicity. Firstly, Marxist theory which is based on three interrelated ideas: the primacy of the economic base over the cultural and thus ethnic superstructure, ethnic particularity as an obstacle to the universal progress of humanity as a whole and the historical ascendancy of class over ethnic identity. Class conflict acts as a basis for this theory due to historical influence while the economy plays an important part in social change and its structure. For instance, dominant capitalist relations of production lead to alienation of the individual from their work, other people and themselves because of exploitation and inequality factors (Malesevic, 2004).

Secondly, the Durkheimien theory of ethnic relations which is focused mostly on three interrelated sets of topics: the decline of ethnicity with the arrival of modernity, the nature of ethnic group solidarity, and the perception of an ethnic group as a form of moral community. Durkheim focused on the different patterns of social integration which questions how societies are been put together. Despite the differences in content such as language and customs among ethnically compact communities, there are many similarities in their form for example organizational
structure. Due to modernization, ethnic communities gradually decline and finally evolve into complex and culturally diverse societies. Nonetheless, differences in values are constructed based on common universal objectives of the society suggesting loyalties are first transformed into a nation patriotism and then into world patriotism (Malesevic, 2004).

Ethnic solidarity grounded in kinship ties is a much weaker force than national or supranational solidarity built around the principles of mutual dependency and it may be seen in the modern nation-state where individuals are no longer grouped based on kinship relations, but on the basis of the distinctive nature of the social activity to which they are devoted (Durkheim, 1996; Malesevic, 2004). However Durkheim also sees ethnicity as a significant force for group integration and morality which becomes evident in the analysis of religious belief practices in ethnic groups. Hence, religion as a social force that keeps society together is a supreme power in either the primitive or modern world, this is important for ethnicity to survive as ethnic symbols need to be regularly reaffirmed (Malesevic, 2004).

Thirdly, the theory of Simmel that makes a distinction between form and content, where content refers to concrete individual psychological or biological qualities which require and eventually lead to social action, while form is a generalized pattern of interaction, in the course of which individuals truly become social beings. Following this distinction ethnicity would thus be a form of sociation induced from the more particular contents of individual cultural difference. Sociation is defined as “the form (realised in innumerably different ways) in which individuals grow together into a unity and within which their interests are realised” (Simmel, 1971, p.24).

Ethnicity is a general name for a multiplicity of specific modes of individual and group interaction on the basis of a cultural variation. Ethnicity is not only a specific form of sociation, but it also encompasses different layers of social interaction. For Simmel the size of the group has a deep impact on its internal cohesion: group “solidarity decreases in measure in which numerical increases involves the admission of heterogeneous individual elements’ while a smaller minimum of norms
can hold together a large group more easily than a small one” (Simmel, 1950). Hence, the size of the ethnic group influences its internal cohesiveness.

The last theme of ethnicity in this theory is the decline of ethnicity through social differentiation. Small primitive communities are seen as having a strong organic connection and a greater degree of solidarity, while modern complex societies are characterized by loose group ties and diffuse individuality. Strongly integrated ethnic groups tend to be more distinctive from the outside since their members are more alike while complex societies have a propensity of being less specific and colourful since its members display much greater levels of individuality. In this respect ethnic group bonds are seen as something that decline as social differentiation and societal complexity increases (Malesevic, 2004).

Finally, the theory of ethnic relations proposed by Weber (1968), which built four central tenets: ethnicity as a form of status group, ethnicity as a mechanism of monopolistic social closure, multiplicity of ethnic forms of social organization, and ethnicity and political mobilization. The definition of ethnic groups according to the founder is “those human groups that entertain a subjective belief in their common descent because of similarities of physical type or of customs or both, or because of memories of colonisation and migration; conversely, it does not matter whether or not an objective blood relationship exists” (Weber, 1968 p. 389). Firstly, the creation of an ethnic group is through social and political action. Next, status groups often operate on the basis of social closure where their monopolistic position is regularly used to prevent non-group members from acquiring symbolic or material benefits. Under certain conditions and after long periods of monopolistic social closure, status groups are likely to transform into a caste system. The final segment of the Weber theory of ethnic relations deals with the political aspects of ethnic group mobilization. Hence, even though ethnicity is dependent on a belief in common descent, that belief can only be created and sustained through joint political action (Malesevic, 2004).

The theories stated above made a connection between ethnicity, economic, political, and social situation of society. This is well reflected in the formation of ethnic groups in Malaysia. For instance, Islam as a religion plays a very significant part in
the way of living for the Malay ethnic group. On the other hand, Chinese, Indian, and other minority ethnic groups are free to practice their own religion. This element supports and strengthens the solidarity of ethnic groups in the country. Therefore, it is important to relate the concept of ethnicity whether it comes from an economic, political or social basis, to the development and expansion of the Islamic banking industry in Malaysia.

2.4.2 Ethnicity and Marketing

Recently, researchers have shown an increased interest in the inclusion of ethnicity as a variable into marketing effort. Joy et al. (1991) asserted that the researchers of customer behaviour have placed greater interest on the concept of ethnicity due to its potential as a powerful predictor of various customer behaviours and attitudes. A number of researchers have stressed the importance of understanding ethnicity and cultural dimensions to marketing (Burton, 2002; Jamal, 2003; Morales, 2004; Andronikidis and Dimitriadis, 2003) as the diversity of customers may lead to different perspectives, reactions and actions among them. Burton (2000) emphasised the inclusion of the ethnic dimension in developing the relationship marketing literature as it could reveal significant human resource management implications. Nonetheless, marketing to ethnic minorities has received more attention in the United States as these groups represent one third of the population (Burton, 2000). For instance, banks in the USA took an active role to meet the needs of diverse ethnic groups by providing customer education programmes such as how to build up a credit rating among the Hispanic community (Shanmuganathan et al., 2003).

Ethnicity is considered one of the most relevant targeting variables in multi-ethnic societies (Butt and de Run, 2011). Targeting refers to a selection of segments that an organisation intends to serve and communicate with which strengthens the perception of that segment being the intended target (Butt and de Run, 2011). A number of companies were motivated to do ethnic consumer segments with targeted marketing in response to increasing diversity in the market and the significant market represented by minority ethnic groups (Emslie et al., 2007). The implementation of ethnic strategies can be informed by developing substantial understandings about the
subject and this could be done through research on ethnic group behaviour (Shanmuganathan et al., 2004). Most banks do not emphasise gathering information from ethnic groups either through market research or analysis of customer service because they are relying on the data by value segments (Shanmuganathan et al., 2003). Nevertheless, the analysis of underlying characteristic such as ethnicity can offer a significant contribution in developing proposition or approaches.

An example of targeted ethnic marketing was done by the West Bromwich Building Society, by promoting and advertising their offerings in foreign language media (Shanmuganathan et al., 2003). Likewise, Butt and de Run (2011) shared a similar view that ethnicity could be used as a target variable particularly for advertising purposes. In other parts of the world, ethnic marketing research is still lacking. According to Cui (2001), a large percentage of studies on minority ethnic groups have focused on their consumption, reactions to advertising, and media usage. As such, a better understanding of customer behaviour in financial services is valuable to both marketing practitioners and researchers.

In terms of research in marketing for ethnic groups, Holland and Gentry (1999) summarised its development in three eras. Firstly, ethnic groups were largely ignored prior to the 1960s, which means there was no effort to target them as they were not considered as a viable market segments. Secondly, during the mid-1960s until about 1980, the role of ignored ethnic groups was re-evaluated due to societal changes and the main focus for marketers and researchers was on African-Americans. The third era began in the early 1980s where researchers examined and investigated a variety of ethnic groups and tried to look at the differences in culture which may drive consumption patterns (Holland and Gentry, 1999). The increasing importance of ethnic minority consumers in the United States reflects a growing enthusiasm in ethnic marketing research in recent years (Cui, 2001) and it demonstrates just how important this area of research has become (Venkatesh, 1995).

The possibility of ethnicity as a valid and appropriate segmentation variable was used and validated by the Coca-Cola commercial in the 1950s to attract the Hispanic customer (Richardson, 2012). The last two decades have also witnessed a growing interest in differences between ethnic groups and segmenting the market using
ethnicity and culture (Morales, 2004). Consequently, ethnic marketing is receiving more attention from researchers in the consumer behaviour subject area. Cui (2001) described ethnic marketing as the effort made by marketers to get to a group of consumers most probably because of their distinctive ethnic characteristics. However, Burton (1996) made a point that financial institutions know less about the relationship between ethnicity and customer behaviour compared to retailers. Additionally, the problems faced by marketers in developing marketing strategy to ethnic consumers are the difficulties in understanding different cultures, language barriers, usage of ethnic communication networks, and limited exposure to mass media (Pires and Stanton, 2000).

Research by Hirschman (1981) investigated the relationship between Jewish ethnicity and selected aspects of customer behaviour. The author suggested that ethnicity may be a useful determinant of consumption patterns and ethnic norms may influence competency in making purchase decisions. Furthermore, ethnicity can be a significant factor in relation to how advertising is perceived, brand loyalty, consumer values, consumption patterns, family decision-making, word of mouth behaviour and perceived risk (Shaffer and O'Hara, 1995; Andronikidis and Dimitriadis, 2003).

Word of mouth marketing is a very effective method of marketing. The value of word-of-mouth marketing is immense because of its impartiality and credibility from the customer point of view (Ting, 2006). Similarly, Siddiqi (2011) agreed on the importance of word of mouth advertisements for banks particularly within the collective cultures such as Asian cultures. Nowadays, customers can share information, opinions, experiences, and knowledge through online social networks that consist of social networking channels, user-sponsored blogs, company sponsored websites, collaborative websites as well as podcasts (Chung and Austria, 2010; Husain et al., 2016). It is acknowledged that online social networks could influence product choices of customers and postpurchase behaviour such as dissatisfaction on certain product or company (Husain et al., 2016). Consequently, positive or negative word of mouth about a product or an institution can be shared through the social media (Husain et al., 2016).

Furthermore, the widespread use of information and communication technologies has encouraged the use of personalisation marketing as an affordable strategy to
promote interactive relationships with customers (Sunikka et al., 2011). Personalisation has been recognised as the best way to engage with customers because customer banking preferences keep changing; hence it allows banking institutions to recommend services or products that fit their preferences (Wang et al., 2017). Personalisation refers to a decision by a company or an organisation on the marketing mix that appropriate for a customer based on previously collected customer data (Sunikka et al., 2011). In addition, Wang et al. (2017) describe personalisation as customer perception of the degree to which company provides differentiated services to fulfil an individual needs. Some of the attributes of personalisation are the customised e-banking services, one-to-one financial offers, targeting email or short message service (SMS), recommendations based on customers’ preferences, personalised website pages, contents, and products (Wang et al., 2017). In the banking context, Wang et al. (2017) proposed that personalisation is good for all e-banking customers particularly for the inexperienced customers as personalisation also influences decision making of customers. Therefore, significant efforts by banks are needed to facilitate the usage of e-banking services.

Pires and Stanton (2000) identified a key challenge facing providers of services to ethnic consumers which exist around communication difficulties. Moreover, they pointed out that an understanding of the problems faced by inexperienced ethnic consumers particularly with communication and language barriers and their implications acknowledge the role of ethnic groups as references for these consumers and the appraisal of word-of-mouth communications. This implies a significant role for ethnic members who become the sources of information for certain products and services. Accordingly, ethnic group members exchange information and experiences with other members and inexperienced ethnic consumers are likely to source consumption information from more experienced members (Pires and Stanton, 2000).

Research that involved ethnic groups was largely conducted in the United States due to heterogeneous identity and behaviour among them. Nevertheless, there is a growing interest on the subject of ethnicity and its relationship with the marketing area as companies are striving to understand and value their customers in order to
win them and finally gain their loyalty. The way people perceive a product or service is very much related to their experiences and this is where cultural values may shape the behaviour of customers and their perspectives. Therefore, it is appropriate to investigate the diversity of customers and their behaviours to help in improving the banks marketing strategies.

As the impact of multiculturalism affects many countries in the world, Mokhlis et. al, (2010) emphasised that there is a need for ethnicity and cultural differences to be fully integrated into the bank marketing literature. In addition, Armstrong and Haiss (2007) proposed that aspects of ethnicity can be a source of competitive advantage in the banking environment as much as within certain national or regional markets because information costs are lower and client identification is higher within ethnic groups that share the same language. Therefore, ethnic banking should be considered by the management of Islamic and conventional banks as there is potential to segment customers by their cultural differences.

Joy et al. (1991) conducted a study to investigate the relationship between ethnicity and the use of financial services in Canada. The authors suggested that ethnicity should be considered as a construct which has strong potential impact on consumption. Additionally, Snow et al. (1996) investigated the service expectations of Canadian retail financial service customers from diverse ethnic backgrounds. Albeit the top and least important dimensions were similar for all ethnic groups, there were differences for the middle group dimensions. For example, employee empathy was ranked as the third most important dimension to the Canadian group but the sixth to the oriental group. Furthermore, location was ranked as third most important to the oriental group but seventh to the Canadian group. The authors concluded that there were clear differences in the service expectations for retail banks among the groups.

In the UK, Burton (1996) examined the relationship between ethnicity and the pensions market. The General Household Survey (GHS) used in the study indicated that there were differences in pension scheme membership according to ethnicity. The interviews conducted with bank marketers in the study also suggested that ethnicity has been neglected and gained little interest in the issue. Furthermore,
Andronikidis and Dimitriadis (2003) carried out research that utilized ethnic/cultural profile dimensions of investors for financial services in Greece. The findings proposed that ethnic/cultural self-properties moderated perceptions and attitudes of the investors towards financial institutions and their products and services.

In the USA, Lopez et al. (2007) conducted a study to determine whether various ethnic groups have differing perceptions of the importance of service quality dimensions and to report different levels of customer satisfaction with their retail banks. The findings from the study demonstrated that different ethnic groups perceived the importance of the service quality dimensions differently even though overall, they have similar levels of satisfaction. On the other hand, Asian people tend to prefer personalisation and formality during service encounters as they are associated with high uncertainty avoidance and power distance index which reflected the characteristics of Asian cultures and influenced their perceived service quality (Kashif et al., 2015).

As for Islamic banking, Mokhlis et al. (2010) investigated variation in bank choice criteria between three distinct cultural groups in Malaysia, namely Malays, Chinese and Indians. The study utilised a sample of 600 undergraduate students of a public higher learning institution in the state of Terengganu. All three ethnic groups rated feeling secure as the most important factor while people influence was the least important to them. However, there were differences in terms of the ranking between the top and the bottom factors. For instance, the Chinese students rated ATM service as their second important factor while the Malays and Indians students rated financial benefit and proximity respectively as their second important factor.

Previous literature from cross-cultural perspectives showed some variances and inconsistencies in terms of their views and perceptions. This could be influenced by the culture and environment of the respondents. Nevertheless, this research is different from existing literature in various ways. Firstly, the present research includes ethical practice of Islamic banks as a new variable in the selection factor which was adopted from Muhamad et al. (2012). Secondly, the present research extends and enriches the body of literature in selection criteria by having a managerial perception in this matter. Thirdly, this research is not limited to selection
criteria subject, but also aims to investigate the differences among the various ethnic groups in terms of their satisfaction and loyalty. In addition, managerial perceptions are also considered in relation to customer satisfaction and loyalty behaviour of Islamic bank customers. Finally, the present research samples include customers from different social background and the prospective respondents are generated from the highest diversity states in Malaysia.

2.5 Conclusion

This chapter has discussed the formation and development of multi-ethnic society in Malaysia to provide an understanding on the Malaysian history and how ethnicity becomes significant in the development of socio-economic in the country. It is noted that the role of these three parties namely the Malay traditional politicians, the immigrants (Chinese and Indians) and British as the colonial masters played a significant part in forming the polemics of current ethnic relationships in Malaysia (Muis et al., 2012).

Formerly, the multi-ethnic groups in Malaysia lived separately with less interaction among each other. Moreover, the society retained their own ethnic culture and religion in all aspects including social, economic and politics environment. The ethnic crisis that happened in the 1969 encouraged the government to address and tackle the ethnic issue. As a result, the NEP was introduced to achieve socio-economic goals among the ethnic groups. Currently, ethnic integration among Malaysian society has improved because of existing programmes and initiatives taken by the government to create unity and harmony.

Subsequently, the chapter reflects on how ethnicity and marketing were linked together through previous empirical research. It was evidenced that ethnic marketing emerged in the early 1980s when researchers examined various ethnic groups to investigate the differences among them which may motivate their dissimilar consumption patterns. While there is a consensus in the literature that ethnicity plays an important role in determining customer behaviour, there is lack of empirical evidence on the subject in Islamic banking literature. As evidences tend to suggest
that ethnicity plays a major role in the economic, political and social development in Malaysia, it is crucial for Islamic banks to address this issue in order to attract new customers and retain the existing customers. Therefore, this thesis seeks to address the above issue as it appears that ethnicity has significant influence in determining customer decision making and consumption. Additionally, ethnic marketing has emerged globally predominantly in consumer products. However, studies in financial services related to this subject particularly in Malaysian Islamic banking industry are limited and need further research.
CHAPTER THREE
ISLAMIC BANKING PRINCIPLES

3.1 Introduction

Islamic banking has developed significantly over the last three decades and gaining interest from Muslim and non-Muslim countries including United Kingdom, Australia, China, France, Germany, Italy, Japan, Korea, Luxembourg, and Singapore. The increased interest is due to the linkage of Islamic banking operations with real economic activities, prohibition of excesses and speculation, and the key pillars of fairness, transparency, and risk sharing (Bank Negara Malaysia, 2011). Some conventional banks are motivated to provide Islamic windows to attract wealthy Muslim investors (Mansour et al., 2015) and potentially targeting those seeking socially responsible investment and ethical financial solutions (Bank Negara Malaysia, 2011). Through the distinctive features of Islamic banking practices, one may see the difference between Islam and modern capitalism (Razak and Taib, 2011). In order to understand selection factors predominantly religious factor as part of significant factors in customer selection for Islamic banking, it is imperative to understand the distinctive elements and principles. Hence, this chapter focuses on Islamic banking literature comprising the meaning of Shariah and maqasid al-Shariah, Islamic banking principles and practices mainly in Malaysia.

Islamic banking refers to a banking system that complies with the Shariah (Islamic law). Literally, Shariah means clear and straight path to be followed, while some scholars refer the word ‘Shariah’ as following strictly the injunctions of Allah or the way of Islam (Dusuki, 2011). Therefore, the term Shariah refers to a comprehensive law governing Muslim life (Zakariyah, 2015). Next, it is important to address the sources of Shariah in order to understand how they were applied to deduce the rulings (Dusuki, 2011). The scholars have classified the sources based on its origin. Accordingly, the primary sources of Shariah are the Quran and the Sunnah, whereas Ijithad in the form of Ijma’, Qiyas are the secondary sources of Shariah (El-Gamal, 2006). For the primary sources, the Quran is the book of revelation given to the Prophet Muhammad while Sunnah refers to all that is narrated from the Prophet, his
acts, his sayings and whatever he has tacitly approved, plus all the reports which described his physical attributes and character. Meanwhile, for the secondary sources, Ijtihad represents a jurists’ independent reasoning relating to the applicability of certain Shariah rules on cases not mentioned in either the Quran or the Sunnah. In particular, Ijma’ is the consensus among religion scholars about specific issues not envisaged in either the Quran or the Sunnah while Qiyas is the use of deduction by analogy to provide an opinion on a case not referred to in the Quran or the Sunnah in comparison with another case referred to in the Quran and the Sunnah (Gait and Worthington, 2007).

3.2 Maqasid al-Shariah

As the main objective of Shariah is to serve as a guidance, to govern and to protect the interests and benefits (maslahah) of the people, it is important to understand the concept of maqasid al-shariah (refers to the objectives of Islamic law). Maqasid al-Shariah has been defined by Imam al-Ghazali as “the very objective of the Shariah is to promote the well-being of the people, which lies in safeguarding their faith (din), their lives (nafs), their intellect (‘aql), their posterity (nasl), and their wealth (mal). Whatever ensures the safeguarding of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable” (Chapra, 2000, p.118). On this basis, the application of maqasid al-Shariah is considered in various sectors, including Islamic banking and finance (Zakariyah, 2015).

The core spectrum of maqasid al-Shariah is maslahah (protection of public interest) and this could be achieved through promoting the essentials (daruriyyat), the complementary (hajiyyat) and the embellishment (tahsiniyyat) (Zakariyah, 2015). Firstly, the essentials (daruriyyat) refers to the interests of lives which people essentially depend upon; this comprises the above mentioned objectives of the Shariah namely religion, life, intellect, posterity, and wealth. While these five essentials are crucial for welfare of the people, some scholars argued that necessities may also include equality, freedom, and the protection of the environment (Dusuki and Bouheraoua, 2011). Secondly, the complementary (hajiyyat) refers to interests
which supplement the essential interests. In other words, neglecting this would lead to hardship but not to total disruption of life. Hence, *hajiyyat* are needed so that hardship could be alleviated and to facilitate life (Dusuki and Bouheraoua, 2011). An example for *hajiyyat* is the validation of lease and hire contract (*ijarah*) due to the needs of people, in accordance with the *Shariah* rules. Thirdly, the embellishments (*tahsiniyyat*) refer to interests that lead to refinement and perfection in human action. For instance, *tahsiniyyat* could be reflected by the practice of fair dealing and pleasant manner in daily activities. In this research, service quality and satisfaction among customers are highlighted signifying its importance in the practice of Islamic banking. Hence, it could be argued that both service quality and satisfaction are considered *tahsiniyyat* elements which need to be addressed by Islamic bankers in order to gain competitive advantage. Furthermore, good service quality is an antecedent of customer satisfaction (Cronin and Taylor, 1992), which is very important for any institutions. Therefore, it is suggested that Islamic banking management highlights the importance of quality banking practices in order to attract customers and to gain bigger market share.

### 3.2.1 The Pyramid of Maslahah

The application of *maqasid al-shariah* and *maslahah* (protection of public interests) particularly in financial activities demonstrated that preservation of public interests is imperative. As illustrated in figure 3.1 below, the pyramid of *maslahah* proposed a framework or mechanism works as a basis and guidelines for ethical judgement to be used by managers and other stakeholders mainly while managing conflicts, operational and financial issues (Dusuki and Bouheraoua, 2011). The framework consists of three levels in terms of responsibility to reflect the degrees of importance at each level. The bottom level which is *daruriyyat* means that the essentials elements are the most important responsibility to be fulfilled compared to the other two. In this case, the protection and preservation of religion, life, intellect, posterity, and wealth are the most concerned matters to be fulfilled. Therefore, the existence of Islamic banking and its capacity to sustain in the market is crucial to protect the essential elements at the bottom level of the pyramid. For example, Islamic banks
should take responsibility to avoid an involvement in any business activities that may cause disruption and problems to society (Dusuki and Bouheraoua, 2011).

Then, the pyramid moves upward to the *hajiyyat* and *tahsiniyyat* categories. These two categories are subservient and complement the *daruriyyat* category in a sense of any violation towards *hajiyyat* and *tahsiniyyat* will lead to minor disruption as compared to the consequences of bigger impact if any violation happens towards *daruriyyat* elements (Dusuki and Bouheraoua, 2011). After the fulfilment of the bottom level (*daruriyyat*), Islamic banks management may move to the second level which is the complementary (*hajiyyat*) elements. For instance, continuous employee training could be provided to enhance and improve knowledge and skills of the bank employees. In this case, the training would benefits all related stakeholders so that Islamic banks are able to compete with conventional banks in terms of service delivery. Finally, the top level of the pyramid is the embellishments category (*tahsiniyyat*). Accordingly, Islamic banking institutions are expected to engage in beneficial activities that lead to the improvement of public life. This may include charity events or corporate social responsibility programmes, as well as dealing with the customers in the best manner. These efforts are seen as good initiatives by Islamic institutions to achieve perfection and embellishment for society.

Figure 3.1 The Pyramid of *Maslahah*

![Diagram of the Pyramid of Maslahah](image)

*adopted from Dusuki and Bouheraoua, 2011)
3.3 Islamic Banking Principles

Islamic banks function in the same way as conventional banks in offering financial products and services. However, the main difference lies in rules and regulations by means of conducting their businesses according to the Islamic law or *Shariah* principles (Akhtar et al., 2011). The main objective for the establishment of Islamic banks was because Muslims want to conduct their financial transactions without involving *riba* (Zaheer and Hassan, 2001) as it is prohibited in Islam. *Riba* literally means increase, addition or growth. Technically, it refers to the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity whereas interest, is regarded by a predominant majority of *fuqaha’* to be equivalent to *riba* (Iqbal and Mirakhor, 2011). In the past, there has been a dispute about whether *riba* refers to interest or usury, but there is now consensus among Muslim scholars that the term covers all forms of interest, not only excessive interest (Khan, 1985).

The prohibition of *riba* is mentioned in four different revelations in the *Quran* (Yusoff, 2013; Chapra, 2006). The first revelation clarifies that charging interest is equivalent to taking away the wealth of *Allah* from a person; the second revelation condemns it since *riba* is a wrongful appropriation of wealth belonging to others. The third revelation asks all Muslims to avoid *riba* altogether. The fourth revelation makes a clear distinction between interest and trade, asking Muslims to take only the principal and even forgo this principal if a borrower is unable to repay the loan. *Riba* has been explicitly prohibited in the *Quran* and *Sunnah*. The *Quran* says:

*Those who devour usury do not rise except as rises one whom devil has smitten with insanity. That is because they say, ‘Trade also is like usury’ whereas Allah hath permitted trade and forbidden usury. So He to whom an admonition comes from his Lord and he desist, then will that which he received in the pass be his; and his affair rests with Allah. And those who revert to it they are the companions of the Fire; therein shall they abide.*

(*Quran, 2:275*).

In addition, Abu Dawud narrated on the authority of 'Ibn Mas’ud that The Prophet cursed the one who devours *riba*, the one who pays it, the one who witnesses it, and the one who documents it (El-Gamal, 2000).
The type of *riba* that has been practiced in conventional finance today is *riba al-nasiah*\(^2\) which means that in the conventional financial sector, financial intermediation is effected through lending, and the time value of money is reflected in interest payments. This is explicitly *riba*, the devourer of which was warned of a war from Allah and His Apostle (El-Gamal, 2000). Accordingly, the reason is to establish justice between the financier and the entrepreneur, particularly the injustice perpetuated in the form of the financier being assured of a positive return without sharing in the risk, while the entrepreneur, in spite of his management and hard work, is not assured of such a positive return (Chapra, 2006).

Secondly, Islamic banking institutions also must ensure their activities and transaction are not involving *gharar* (excessive ambiguity) and *maysir* (gambling) elements. “*Gharar* literally means deception, danger, risk, and excessive, unnecessary uncertainty, ambiguity” (Iqbal and Mirakhor, 2011, p. x). Al-Dareer (1997, p.10) as cited in Gait and Worthington (2007) explain *gharar* in jurisprudential terms under three views. Firstly; *Gharar* applies exclusively to cases of doubtfulness or uncertainty, as in the case of not knowing whether something will take place or not. The definition by Ibn Abidin is a case in point: *Gharar* is uncertainty over the existence of the subject matter of sale. Secondly; *Gharar* applies only to the unknown, to the exclusion of the doubtful. This view is adopted by the Zahiri School. Thus, according to Ibn Hazm, *gharar* in sales occurs when the purchaser does not know what he has bought and the seller does not know what he has sold. Thirdly; a combination of the two categories above; *Gharar* here covers both of the unknown and the doubtful, as exemplified by the definition proposed by Al-Sarakhsy who states that *gharar* obtains where consequences are concealed. This is the view favoured by most scholars.

*Maysir* on the other hand is regarded by most Islamic scholars as gambling or any games of chance including lotteries, lotto, casino-type games and betting on the

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\(^2\) Deals with *riba* in money-to-money exchanges, where the exchange is delayed or deferred and gives rise to an additional charge, as practiced in today’s financial transactions. The prohibition under the *Shariah* applies regardless of whether the return is a fixed or variable percentage of the principal, or an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan (Iqbal and Mirakhor, 2011, p. 58).
outcomes of animal races (Gait and Worthington, 2007). The prohibitions from Quran are as follows:

“O, you who believe! Intoxicants (all kinds of alcoholic drinks), and gambling, and Al-Ansab (animals that are sacrificed in the name of idols on their altars) and Al-Azlam (arrows thrown for seeking luck or decision) are an abomination of Satan’s handiwork. So avoid that (abomination) in order that you may be successful.” (Quran, 5:90)

“They question thee about … games of chance (speculation). Say: in (this) is great sin and (some) utility for men; but (its) sin is greater than (its) usefulness.” (Quran, 2:219)

Scholars such as Iqbal and Molyneux (2005) viewed that the high risk associated with gambling could lead to greater financial and societal problems. Furthermore, in Islamic economic model, fairness and justice are crucial elements because ethics is fundamental in Islamic law (Zakariyah, 2015). This could be linked to the prohibition of riba, gharar and maysir in any Islamic financial transactions. In particular, every Islamic banking customer is entitled to be fully informed on the nature of related products and services without any mislead information.

Next, Islamic banking institutions are bound to carry out business activities and transactions that are consistent with the Shariah. Islam prohibits any financing, dealing or investment in certain economic sectors which are forbidden according to Shariah. For instance, alcohol business, pork, gambling, pornography and drugs are prohibited as they are against the rules of Shariah. Therefore, Islamic banks must not be involved in any activities that are against Shariah rules. The prohibition considers Islamic moral values which are against any harmful activities towards society and the environment.

Nonetheless, Islamic banking also faced criticism and challenges on how to convince the public as some people argue that the system is not significantly different from the conventional system whereby it is just a change of terminology; the Islamic banks are not operating based on Maqasid al-Shariah; and taking usury in the name of profit (Jalil and Rahman, 2014). There are others who criticised on moral aspect of Islamic banking and finance (Zakariyah, 2015). This includes the fulfilment of legal
forms, but neglect the substance or moral responsibility (Ahmed, 2012). Likewise, the Islamic banking system also needs to overcome the substance over form issue whereby the system reflects the socio-economic values of the religion (Khiyar, 2012). Aris et al. (2013) suggested that Islamic banks need to find a balance between profit and religion, or otherwise the bank is defeating the whole reason of its establishment. While conventional banks operate on a capitalist basis (profit objective), it is argued that Islamic banks should work for social objectives as well as for profit (Ahmed, 2016). Nevertheless, finding the right balance between profit and moral or social objective would be the biggest challenge for Islamic banks worldwide.

3.4 Malaysian Islamic Banking Environment

The past 40 years have witnessed significant growth in the Islamic banking industry (Haque, 2010; Iqbal and Mirakhir, 2007; Dusuki and Abdullah, 2007; Henry and Wilson, 2004). Countries like Bahrain, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates (UAE) and Turkey are identified to be the driving forces behind the future upsurge in Islamic finance (Muhamad and Alwi, 2015). The development of Islamic finance globally can be traced back in the early 1960s in Malaysia and Egypt. The first institution associated with Islamic finance in Malaysia was the Islamic savings institution known as the Pilgrims Management and Fund Board or Lembaga Tabung Haji, which was established in 1963. Similarly, Islamic finance in Egypt were initiated in 1963, with the establishment of the first Islamic financial institution which was a mutual savings bank in the Egyptian town of Mit Ghamar (Karasik et al., 2007).

Malaysia was one of the first countries to implement a dual banking system that worked in parallel; where conventional and Islamic products are offered simultaneously (Khiyar, 2012; Kashif et al., 2015). Initially, the introduction of Islamic banking was to fulfil the needs and desire of Muslims in Malaysia so that their financial aspect was in line with religious teachings (Khiyar, 2012). The dual banking systems create stiff competition among banks while customers may enjoy selecting the benefits from both systems (Aris et al., 2013). The Malaysian Government plays an important role in the development and growth of Islamic
banking by funding Islamic financial service banks and creating the necessary legal framework (Nasser and Muhammed, 2013). The performance of the Malaysian Islamic banking system was inspiring and above the 20 percent set by the government in terms of market share of assets, deposits, and financing of the total banking sector (Khiyar, 2012). Notably, there was great support from the political leadership, Parliament and the Malaysian society in general which led to the success of the Islamic financial system introduced in Malaysia (Khiyar, 2012).

The introduction of the new Central Bank of Malaysia Act 2009 has legally recognised the existence of dual financial systems in the country (Ibrahim et al., 2012). The Government efforts and initiatives to become a leader in the Islamic world are tied to its colonial and postcolonial history, the integration of religion and ethnicity, which is reflected through its endeavour to promote the country as a global hub for Islamic finance (Rudnyckyj, 2013). Islam as the national religion, plays a major role in the identity of Malays and therefore becomes a foundation in the politics and culture of Malaysia (Uddin and Uddin, 2012).

The aftermath of the racial riot in 1969 witnessed the beginning of Islamic resurgence in Malaysia (Thirkell-White, 2006) while the Islamist opposition party, Parti Al-Islam Se-Malaysia (PAS) extended the resurgence through political power (Rudnyckyj, 2013). PAS was seen as a political party that promoted Islam as a way of life and due to growing popularity of the party particularly after the 1969 general election, the Islamic resurgence gained response from the government at that time. The prominence of religion also came from the challenges seen by the United Malay National Organisation (UMNO) on the Islamist opposition party which could split the Malay vote (Fenton, 2010).

As a result, institutions such as Islamic Research Institute, National Dakwah Foundation and National Fatwa council were established during the 1970s to promote and monitor Islamic discourse in the country (Thirkell-White, 2006). The ruling party (UMNO) was also influenced by the resurgence particularly due to PAS criticism that the party was more concerned and catered to Chinese, Indian and foreign business interest (Rudnyckyj, 2013). Later, when Mahathir became the Malaysian Prime Minister, he was keen to promote and accommodate Islamic
elements into a broader political agenda. Initiatives were taken by the government to encourage Islamic knowledge and practices through the education system. For example, the financing of Islamic schools, building the first Islamic teachers college and expanding Islamic faculties in local universities (Muwazir, 2011). There were other significant efforts by the government to implement moderate Islam such as the establishment of institutions like Institute of Islamic Understanding Malaysia (IKIM), Islamic Centre (Pusat Islam) and Malaysian Islamic Economic Development Foundation (YaPEIM) (Mohd Nor et al., 2012).

Islam played an essential role in the strategy development of government whereby Islamic values were utilised as guidance for society and thus created a conducive environment for economic growth (Rudnyckyj, 2013). Muslims represent the largest percentage of population in Malaysia and most of them are Malays. This is because all Malays in Malaysia are Muslim by legal definition. Article 3(1) defines Islam as the official religion of the country while Article 11 of the constitution provides freedom for all religions practiced by various ethnic groups. Nevertheless, generally, Muslims in Malaysia enjoy certain preferential treatment in religious matters in comparison with the followers of other religions (Haque, 2003). Provisions in the Federal Constitution of Malaysia allow a Muslim to preach the teachings of his religion among the non-Muslims while a non-Muslim is permitted to preach the teachings of his religion or beliefs among people or followers of other faiths, with exception of the Muslims. State laws and Article 11(1) of the Federal Constitution contain provisions to control or restrict the spread or propagation of non-Islamic religious beliefs or faiths among followers of the Islamic religion. Thus, it is a crime to persuade, influence, force or instigate a Muslim to embrace or become a member of a religion other than Islam (Kusrin et al., 2013).

According to Haque (2003) Malaysia has gradually moved toward an ethno-religious nexus whereby one particular ethnic identity namely the Malay often equated with adherence to Islam and Islamic symbols become a basic component of Malay cultural identity together with the elements of Malay language and education (Haque, 2003). Moreover, the state in Malaysia also has been accused by critics for actively pursuing the Islamisation process through various Islamic programmes, including the establishment of Islamic banks and the international Islamic university,
expansion of Shariah courts, religious schools and mosques (Haque, 2003). Malaysia achieved its most impressive economic growth when Mahathir Mohamad was a prime minister and Malaysia assumed an increasingly prominent role in the Organisation of the Islamic Conference, and other institutions such as the Islamic Development Bank, the International Islamic University, and the Islamic Solidarity Fund (Milne and Mauzy, 1999; Rudnyckyj, 2013).

Later, the Islamisation programme also witnessed the emergence of Islamic finance in Malaysia. The great achievement of Tabung Haji led to the establishment of a national council in 1981 with experts being involved to study the idea of establishing Islamic financial institutions in the country (Nasser and Muhammed, 2013). Islamic banking in Malaysia was incepted with the introduction of the Islamic Banking Act 1983, which then led to the establishment of the nation's first fully-fledged Islamic bank which is Bank Islam Malaysia Berhad (BIMB), to provide an alternative banking system initially for the Muslims in Malaysia, which operates according to Islamic law. Under the Islamic Banking Act 1983, Islamic banking business means banking business whose aims and operations do not involve any elements which are not approved by the Religion of Islam.

Subsequently, Takaful was introduced in 1984 to complement the Islamic banking operations, as in Islamic housing mortgages by providing coverage. According to Malaysian Takaful Act 1984, “Takaful is a scheme based on brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants, in case of need whereby, the participants mutually agree to contribute for that purpose”. In 1993, Central Bank of Malaysia or known as Bank Negara Malaysia (BNM) introduced the Interest Free Banking Scheme, currently known as the Islamic Banking Scheme (IBS), which allows conventional banks to offer Islamic banking products and services without having to apply for an Islamic banking license. This step was required to support the expansion of Islamic banking activities and to create more players in the Islamic financial system. In 2006, Malaysia International Islamic Financial Centre (MIFC) was launched to promote and position Malaysia as an international Islamic financial hub (MIFC, 2013).
There are three stages involved in the development of Islamic finance in Malaysia (Kadir, 2009). Firstly, the foundation stage which took place between the years 1983-1992. This period witnessed the enactment of dedicated Acts for Islamic banking, *takaful* and *Shariah* compliant government funding. The establishment of the first fully-fledged Islamic bank and *takaful* company in the country also happened during this stage. Secondly, the intermediate stage (1993-2000) took place whereby the government increased the number of players in the market to stimulate competition and market vibrancy. In 1993, the concept of Islamic was windows introduced under the IBS, which means conventional banks were able to offer Islamic banking products and services. In addition, under the second stage of the development, the National *Shariah* Advisory Council and Islamic interbank money market were established.

Furthermore, all Islamic banks have their own *Shariah* committees to guide and ensure that the banks are operating and functioning in accordance with *Shariah* law and customers are relying on the information provided to be assured of compliance (Ltifi et al., 2016). Thirdly, the advanced stage during the year 2001-2010 indicated market liberalisation by allowing the entry of foreign banks for the integration of the international Islamic finance sector (Kadir, 2009). Among the factors that contributed to the strong growth of Islamic banking in Malaysia are the wide range of Islamic financial products, large pool of talents for the industry, a comprehensive Islamic financial infrastructure and full support from the government (Md Nawi et al., 2013).

Currently, there are 16 Islamic banks consisting local and foreign Islamic banks offering products and services based on Islamic principles in Malaysia (Bank Negara Malaysia, 2015). The great number of Islamic banking institutions offering Islamic products and services in Malaysia reflect the highly competitive environment in the Islamic banking industry. Furthermore, Islamic banks are competing not only among themselves but with the conventional banks as well due to the similarity of products and services such as saving accounts, current accounts, credit cards and other products and services (Naser and Pendlebury, 1997; and Naser et al., 1999). The existence of foreign Islamic banks in the Malaysian banking industry also pressures the local banks to compete as they serve the same market segmentation. Wilson
(1995) stressed that Islamic banking is no longer seen as a business for fulfilling religious obligation, but is significantly needed to win over customers as well as to retain them. Initially, Islamic banking customers in Malaysia were mainly Muslims although recently, non-Muslims have also become major users of Islamic banking products and services in some Islamic banks (Md Nawi, 2013).

3.5 Conclusion

It is noted that although Islamic banks have similar functions in terms of providing financial products and services as conventional banks, the operation of Islamic banks is guided by the Shariah principles. The Shariah ruling were deduced from the primary and secondary sources namely the Quran, Sunnah, Ijma’ and Qiyas. Additionally, maqasid al-Shariah (objectives of Islamic law) is pertinent to be considered in various sectors particularly within Islamic banking environment. This is to ensure that protection of the five elements (religion, lives, intellect, posterity and wealth) are applied by the key stakeholders of Islamic banks in their decision making. This chapter also discussed the main prohibitions related to the operation of Islamic banks. Accordingly, Islamic banking institutions must ensure their activities and transactions are not involved in *riba, gharar, maysir*, and any prohibited businesses according to the Shariah.

Next, the development of Islamic banking industry in Malaysia was also highlighted in the chapter. The main reasons in choosing Malaysian Islamic banking and their customers as a sample for this research are due to the position of Malaysia as one of the key global Islamic financial centres and the diversity of the customers. It is evidenced that the increasing numbers of non-Muslim customers which predominantly consist of Chinese and Indian communities in Malaysia indicate that Malaysians are quite open to diversity (Amin et al., 2013) in terms of the usage of Islamic banking.

Furthermore, it is suggested that Islamic banking has contributed significantly to the development of the Malaysian economy since its establishment with positive response from the multi-ethnic society. In summary, understanding the principles of
Islamic banking is important because it leads to the identification of religious factor as one of the most significant factor among Muslim customers. Meanwhile, the stiff competition among Islamic banks either local or foreign banks as well as conventional banks in Malaysia suggest that these banks strive hard to keep a customer and to get a new one. Therefore, the following chapter discusses the customer selection criteria, customer satisfaction and customer loyalty as these information are vital to assist bankers in making a strategic marketing plan and decision.
CHAPTER FOUR
CUSTOMER SELECTION CRITERIA, SATISFACTION AND LOYALTY

4.1 Introduction

As the focus areas for this research is customer selection criteria, customer satisfaction and customer loyalty, this chapter covers a review of literature from the above subjects across conventional and Islamic banking literature. A major emphasis is to identify significant variables to be used in this study which covers various selection factors, key indicators for customer satisfaction and loyalty. Consequently, the main hypotheses are developed for this research.

4.2 Customer Selection Criteria

A large number of studies have examined the subject of selection criteria in the context of banking services (Anderson et al., 1976; Boyd et al., 1994; Devlin and Gerrard, 2005; Gait and Worthington, 2008). Previous studies focused on the criteria used by customers to select a particular bank and revealed various factors that have significant impact on the decision-making process of the customers. Among the common factors are fast and efficient services, friendliness of bank employees, reputation and image of the bank, location of the bank, availability of automatic teller machines (ATMs) and rate of return (Erol and El-Bdour, 1989; Metawa and Almossawi, 1998; Dusuki and Abdullah, 2007; Boyd et al., 1994; Abdullah et al., 2012).

Meanwhile, it has been argued that the socio-demographic of customers and types of banks, whether Islamic banks or commercial banks are also crucial in determining the relative importance of each factor (Metawa and Almossawi, 1998; Abdullah et al., 2012). Therefore, the degrees of importance of such factors are varied and cannot be generalised due to different populations, cultures and geographic areas. For instance, location and parental influence were important factors for customers of the Swedish banking sector (Martenson, 1985). Meanwhile, in the USA, Boyd et al. (1994) suggested that the most important criterion was reputation. Moreover, much
less importance was attached to the friendliness of employees, modern facilities, and drive-in service. However, courteous personnel were a significant factor for customers in Singapore (Tan and Chua, 1986) suggesting that in an oriental culture, customers desired to have more personal and close interaction with the bank personnel. Furthermore, the study also identified the strong influence of friends, family members and neighbours towards the decisions of customers. Nevertheless, for a country like Malaysia with multi-cultural values including oriental culture, it is interesting to see if the results are similar or different. This is due to the shared cultural values among Malaysians apart from religious factors (Fontaine and Richardson, 2005).

Meanwhile, Anderson et al. (1976) identified two groups of bank customers with different demographic and socioeconomic backgrounds namely convenience-oriented and service-oriented using cluster analysis. Convenience-oriented bank customers ranked recommendation by friends as the most important criteria followed by location while service-oriented bank customers ranked availability of credit as the first important criteria and reputation as the second criteria. Furthermore, while most previous studies in bank selection engaged with single bank users, Devlin and Gerrard (2005) investigated the customer choice criteria for multiple bank users. Similarly, customers chose common factors which were the location of the bank, family relationship, and recommendation of others for their main and secondary banks.

Accordingly, similar studies have been replicated for Islamic banking institutions with an additional religiosity factor examined (Metawa and Almossawi, 1998; Naser et al., 1999; Omer, 1992; Dusuki and Abdullah, 2007). The religiosity factor is in accordance to the distinctive feature of Islamic banking which operates in line with the Shariah rules. This religiosity factor covers the main concern of Muslims regarding prohibited issues related to their financial transactions including prohibition of riba, gharar, maysir and prohibited businesses. In relation to customer selection, Metawa and Almossawi (1998) argued that the identification of the main selection factors will facilitate Islamic banks in developing and implementing appropriate marketing strategies. An earlier study by Erol and El-Bdour (1989) in customer selection criteria of Islamic banks disclosed that respondents in Jordan
were profit oriented and the religious motive was not a significant motive for selecting Islamic banks. However, the authors acknowledged that the respondents may have underestimated their religious motivation while answering the questions and religious motivation might not be completely absent. Furthermore, the most important criteria considered by the bank customers were fast and efficient service, reputation and image of the bank, and confidentiality.

Similarly in Jordan, Naser et al. (1999) conducted a study to identify the reasons for customers choose an Islamic bank. As the result, the customers ranked bank reputation as the key factor followed by religious reasoning. Meanwhile, Metawa and Almossawi (1998) claimed that bank selection decisions by customers in Bahrain were predominantly religious based decisions. ‘Adherence to Islamic principles’ was found to be the most important selection criterion, followed by rate of return. This is supported by Bley and Kuehn (2004) as they found that the stronger the religious commitment, the greater the preference among Muslims in the United Arab Emirates (UAE) for Islamic banking. Similarly, findings from Sayani and Miniaoui (2013) also in the UAE illustrated that religious aspect of business was important and there was a positive relationship between religious preferences and selection of bank by the customers. However, according to Sayani and Miniaoui (2013) reputation was not a significant factor for bank selection which is contrary with the findings from Naser et al. (1999). On the other hand, in Indonesia, the decisions of customers to save in Islamic banks were influenced by economic factors, which included economic benefits, fast services, online facilities, and convenience of location as well as religious factors and motivation from family members (Khoirunissa, 2003).

Likewise, Dusuki and Abdullah (2007) examined the main factors that motivated customers from two fully-fledged Islamic banks in Malaysia to deal with the institutions. Accordingly, the customers rated competent personnel and top service quality as the most highlighted criteria when choosing the bank, while the bank location and product prices were considered the least important factors by them. The authors argue that Islamic banks need to enhance and emphasise service quality and not only rely on attracting or targeting customers based on religious matters.
In Pakistan, the Islamic bank customers ranked their banks primarily based on conventional competitiveness whereas the compliance part was not considered as the main factor in determining their selection (Ullah and Lee, 2012). Nevertheless, it is acknowledged that conventional banks had started their operations long before the introduction of Islamic banking hence customers are familiar with certain criteria or factors when choosing a bank.

Moreover, research related to selection criteria in Islamic banking are also being conducted using different types of analysis and methods. For instance, Abduh and Omar (2012) investigated the selection criteria using the Analytic Hierarchy Process to rank the criteria based on the preference of respondents. The result revealed that religiosity was ranked as the most important criterion and affected the decision making process of an individual. The second important criterion for the respondents was profitability.

In addition, Echchabi and Olaniyi (2012) explored the preferences of Malaysian banking customers for Islamic banking attributes using both a quantitative and qualitative approach. The questionnaires survey demonstrated that service quality and convenience were the main criterion among customers in the same way suggesting that Islamic banks should not only rely on the religiosity of the Malaysian customers (see Dusuki and Abdullah, 2007) as religious motivation is not the main factor for selection. Nevertheless, the qualitative findings through the interviews revealed that the majority of the customers have chosen Islamic banks because of their religious motivation, similar to the findings of Metawa and Almossawi (1998).

Since religion does play an important role in determining the intention and decision making of customers, Wan Ahmad et al. (2008) examined the role of religiosity in shaping the choice of banking. The study reported that Muslims who are more religious tend to choose Islamic banking. As for the bank selection criteria, three factors were considered important namely: services, electronic services/payments and transport facility.
Recently, Adnan et al. (2013) conducted a study to understand the key motivations for Islamic bank patronage among Muslims using in-depth interviews and non-participant observation. The findings disclosed that the majority of participants are market trend followers who deal with both Islamic and conventional banks. Thus, the authors argue that the actual problem of the Islamic banking system especially among the Muslim community is not the availability of Shariah compliant products or services, but the lack of Shariah adherent behaviour among Muslims. In addition, Md Nawi et al. (2013) have identified six common criteria for Islamic banks selection namely the understanding of Islamic banking concepts, Shariah compliance, religious contradiction, quality and effectiveness of offerings, willingness to deal with Islamic banks, and prospect and potentials of Islamic banking.

Studies in bank selection criteria were also conducted in Muslim minority countries. For instance, the study by Omer (1992) on Islamic banks patronage factors among Muslims residing in the UK reported that their primary motivation was the religious reason even though a high level of ignorance amongst them was found. Then, Mansour et al. (2010) study showed that irrespective of the demographic features and the religion of the respondents, low service charges were the top criteria for customers in the UK. The Islamic nature of the bank was placed second, pointing to the importance of religious orientation.

The wide acceptance of Islamic banking globally also influences researchers to conduct comparative studies of Muslim and non-Muslim behaviour. In Malaysia, an earlier study by Haron et al. (1994) compared the selection criteria used by Muslims and non-Muslims in a dual banking environment, where neither of them had any banking relationship. The findings demonstrated that despite a few differences in terms of order of importance, both Muslims and non-Muslims have common perceptions and valued the same characteristics when selecting their banks. For example, Muslims considered fast and efficient services as the most important factor but the non-Muslims ranked it second and chose friendliness of bank personnel as the most important for them. The non-Muslims ranked reputation and image of the bank as the third important factor while Muslims ranked it as seventh.
Another comparative study by Gerrard and Cunningham (1997) sought to identify the attitude of Singaporeans towards Islamic banking and their bank selection criteria. In terms of bank selection criteria, both groups chose the provision of fast and efficient service as the most important factor. Nevertheless, non-Muslims placed higher interest payment on savings as second choice while Muslims rated this much lower as the twelfth important factor. Both studies suggest that there were some similarities between Muslims and non-Muslims in the ranking of certain criteria, yet some significant differences were also noted.

Meanwhile, Abdullah et al. (2012) examined the perception of non-Muslim customers on Islamic banking products and services in Malaysia. The study showed that Islamic banking services are making headway among non-Muslims in Kuala Lumpur. Accordingly, respondents with higher education levels strongly thought that Islamic banking will dominate the banking scenario in Malaysia. On the criteria of selecting Islamic banking products and services, the study of gender, race and religion of the respondent against the criteria of Islamic banks efficient and fast services, facility (location and convenient), staff friendliness, reliable services and speed transaction indicated that there no relationship existed.

Customer selection criteria in the Islamic banking environment are clearly highlighted by researchers because it is significant and relevant in assisting practitioners and bank marketers to make decisions. This information is crucial for developing the right marketing strategies to attract customers and lead to profitability. If bank managers could identify and understand the needs of their customers and main selection factor among various ethnic groups, it may lead to the identification of market segmentation for the Islamic banking industry. The segmentation process involves dividing the total market into homogenous segments and finally addressing their specific needs and wants of each segment (Muhamad et al., 2012).

Among earlier studies in market segmentation for Islamic finance, Muhamad et al. (2012) conducted in-depth interviews with individuals in managerial positions among the key market players which include bankers to explore the different segments of consumers in the Islamic financial services industry. As a result, four
segments of consumers emerged, namely, Religious conviction group; Religious conviction and economic rationality group; Ethical observant group; and Economic rationality group. This finding leads to new selection criteria for Islamic banking which is the ethical nature of the bank, since ethics are currently considered as an area for significant discussions in Islamic finance. Moreover, previous studies argued that the ethical dimension is considered as a main factor for non-Muslims to be attracted to the Islamic financial institutions (Muhamad and Alwi, 2015).

Ethics in Islamic banking is related to social and individual benefits in society (Mansour et al., 2015), which is in line with the objectives of Shariah whose aim to promote public interest and the prevention of harm. According to Mansour et al. (2015) financial activities are considered ethical if they promote the wellbeing of society. Islamic banks often describe themselves as providers of ethical financial services (Widana et al., 2015). Theoretically, Islamic banks are linked with ethical responsibilities based on Shariah which promote justice and welfare to society (Mansour et al., 2015). The philosophy of Islamic business requires Islamic banks to operate in a morally, ethically and socially responsible way in accordance with Islamic norms (Dusuki and Dar, 2005). This is different to other organisations that identify making profit as their primary objectives, Islamic banks need to find an equilibrium between profit and ethical values which should be highlighted in the way they conduct business (Haron and Ahmad, 2000). Nevertheless, there is insufficient effort made by Islamic banks to explain their ethical merits to the customers (Wilson, 2002). Islamic banks should convince and persuade potential customers to transact with them based on their unique characteristics and quality of service which may include being ethical (Wilson, 2002) and this may help to attract the ethically concerned customers.

Mansour et al. (2015) concluded that contemporary Islamic banking practice is not ethical from the perspective of Maqasid al-Shariah due to the issue of financial instruments that do not fit the spirit of Maqasid al-Shariah and are an impairment to equality and justice values. Wilson (2002) suggested that Islamic banks should be more engaged with customers regarding ethics in business methods and simply stating that they are compliant is not enough. He further pointed out that each Islamic bank has practices and products that contribute towards economic justice and
this needs to be disclosed more clearly. Furthermore, at the centre of Islamic marketing is ethical behaviour, which implies that the implementation of business ethics can create a distinctive value that attracts and generates a wider customer base for Islamic banking (Widana et al., 2015).

Overall, previous studies on bank selection in Islamic banking address the importance of religious factors in the decision making of customers. Nonetheless, Islamic banking customers also highlight the significance of profitability, reputation and service quality of a bank as their selection criteria. As for the Malaysian Islamic banking context, previous studies indicate mixed results among customers. Some customers place a great importance on service quality aspects while others emphasise on the religiosity factor. Accordingly, the ranking of important factors are varied depending on the sample of respondents, countries selected, methodologies and analysis used as well as profile of customers. Therefore, taking into account on how ethnic, cultural diversity and other socio-demographic characteristics affect the decision making of certain people, the following hypotheses were developed for this study.

H1 There is a significant difference among various ethnic groups of customers on the ranking of importance for main selection factors

H2 There is a significant difference among customers of various religions on the ranking of importance for main selection factors

H3 There is a significant difference between male and female customers on the ranking of importance for main selection factors

H4 There is a significant difference among customers of various age groups on the ranking of importance for main selection factors

H5 There is a significant difference among customers with various education levels on the ranking of importance for main selection factors
H₆ There is a significant difference among customers with various income levels on the ranking of importance for main selection factors

H₇ There is a significant difference among customers with different duration of banking relationship on the ranking of importance for main selection factors

It is argued that certain selection factors are considered important according to some cultures (Martenson, 1985; Tan and Chua, 1986). In this case, the influences of others which include family members and friends are significant factor in accommodating the decision of customers to choose their banking institutions. The results showed some inconsistencies among customers with different objectives. For example, customers who put service as their priorities, availability of credit and reputation were considered important in their selection. On the other hand, customers who focused on convenience put recommendation by friends and location as their main selection factors. Meanwhile, multiple bank customers perceived all banks to be similar and placed greater importance on location, convenience and recommendations of others as the influential factors. It is also noted that location was among the least important factor for banking customers in recent studies due to the availability of internet banking services, which facilitate customers to make financial transactions without the needs to visit the bank. To conclude, there were some mix results in terms of the choice of customers and the selection factors were varied based on the characteristics of respondents.

After reviewing the selection factors by Islamic banking customers, it is argued that there is a need to incorporate their satisfaction towards Islamic banks to assess the performance of the banks in fulfilling and satisfying the needs of their customers. Hence, the following section will evaluate the subject of customer satisfaction in both Islamic and conventional banking.
4.3 Customer Satisfaction

Customer satisfaction has been acknowledged as one of the most important theoretical and practical issues for marketers and researchers particularly in the subject of customer behaviour (Molina et al, 2007). Customer satisfaction is considered as the key of success in the competitive banking industry and one of the vital outcomes of marketing activity (Siddiqi, 2011). The advantage of relationship marketing as a strategic idea for banks is the ability to sustain good position in the marketplace and maintain long-term profitable banking relationships with the customers (Widana et al., 2015). Relationship marketing suggests that a major objective of business entities is to make connection and engage in interactions with customers over the long-term (Kassim et al., 2009). Kotler et al. (1999) defined relationship marketing as the process of creating, maintaining and enhancing solid, full of value relationships with customers and other stakeholders. Therefore, companies and financial institutions are trying to build and maintain good relationships with their stakeholders particularly customers in order to maximise profits. Most of previous research suggested that relationship marketing orientation has a positive and significant outcome on business performance (Widana et al., 2015). Furthermore, in customer relationship management (CRM), the most significant variable is customer satisfaction, followed by the commitment of employee, customer trust and customer loyalty (Kassim et al., 2009).

There are various definitions of satisfaction without any single definition that has been universally accepted (Molina et al, 2007). According to McDougall and Levesque (2000), customer satisfaction is a cognitive or affective reaction that emerges in response to a single or prolonged set of service encounters. Additionally, Johnson and Fornell (1991, p.282) stated that satisfaction “is normally achieved when the customers’ perceived performance is greater than the customers’ expectation. If the customers’ perceived performance is smaller than their expectation, the customers will end up with dissatisfaction”.

Likewise, Kotler and Armstrong (2006) stressed that customer satisfaction depends on the service perceived performance relative to the expectations of the buyer. In other words, customers will be satisfied if the performance matches or exceeds their
expectations. As a result, satisfied customers repurchase and tell others about the good things (Khafafa and Shafii, 2013). Oliver (1996, p.13) offered the following formal definition of satisfaction, which he claimed to be consistent with the theoretical and empirical evidence to date: "Satisfaction is the consumer's fulfilment response. It is a judgment that a product or service feature, or the product or service itself, provides (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under or over-fulfilment". Within the context of retail banking services, Caruana (2002, p. 816) defined customer satisfaction as where it "involves a post purchase, global affective summary response, that may be of different intensities, occurring when customers are questioned and undertaken relative to the retail banking services offered by competitors". In summary, satisfaction refers to a specific goal or objective that a customer wants to achieve (Molina et al., 2007).

Satisfied customers are more likely to reduce bank services costs as there are fewer complaints to handle (Ehigie, 2006). Similarly, Levesque and McDougall (1996) suggested that improvements in service quality, service feature and customer complaint handling are likely to affect customer satisfaction. Prior studies revealed many factors that affect customer satisfaction toward particular banks. Service delivery and convenience are among the common factors used to measure customer satisfaction (Saad, 2012). As for the banking industry, product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers (Mohsan et al., 2011; Hoq and Amin, 2010). Customer satisfaction measurement may be considered as the most reliable feedback, providing client preferences and experiences in an effective, direct, meaningful and objective way together as considered as a base line standard of performance and a possible standard of excellence for any business organisation (Arokiasamy, 2013). It is customer satisfaction that can influence the performance of a bank within a highly competitive environment which offers similar products and services (Rashid and Hassan, 2009).

In the Islamic banking industry, customers put the criteria of customer satisfaction towards service quality provided by their banks (Hoq and Amin, 2010; Dusuki and Abdullah, 2007) similar to conventional banking whereby a service offering is also related to customer satisfaction (Levesque and McDougall, 1996). For instance,
convenience and competitiveness of products and services can be expected to affect an overall satisfaction for customers and ongoing support for a bank. Furthermore, customer benefits such as convenience, location and competitive interest rates may influence customer satisfaction (Levesque and McDougall, 1996).

Research by Saad (2012) examined the level of customer satisfaction in Islamic and conventional banks in Malaysia. The research also investigated the relationship between different demographic variables and customers satisfaction. The result demonstrated that customers were mostly satisfied with the quality of services which include competency, friendliness, and efficiency of the staff of both Islamic and conventional banks. However, customers were less satisfied with the accessibility of public transportation to go to the bank, bank physical facilities, and the availability of parking spaces. Additionally, there were a few significant relationships between customer satisfaction and ethnicity, age, gender and education level of customers for Islamic banks.

Recently, Alsoud and Abdallah (2013) investigated the degree of customer satisfaction for Islamic banks in Kuwait. As a result, the findings indicated that majority of the customers were generally satisfied with the services from their banks. However, respondents were not satisfied with the parking facilities provided, advertising and the information relating to new products and services. For the purpose of this study, customer satisfaction is evaluated as an overall customer satisfaction or dissatisfaction during service encounters with the bank over time (Fornell et al., 1996; Amin et al., 2013).

4.3.1 Customer Satisfaction and Service Quality

For the banking industry which serves the same market and offers similar products and services, service quality is very important since the most commonly reason for customers to switch bank is because of poor customer service (Pont and McQuilken, 2005). Moreover, bank managers will try to convince customers that they provide better services than their competitors because good service quality could turn into a source of competitive advantage (Ltifi et al., 2016). Hence, the management of the
bank needs to understand the behaviour of their customers and factors influencing their switching behaviour in order to control customer defection and to promote long-term relationships (Clemes et al., 2010).

While service quality varies within industries, organisations in similar market niches are required to observe their own practices as well as those of their rivals to attract and retain customers (Gilbert and Veloutsou, 2006). Studies from the service literature emphasise the importance of quality perception and the relationship between service satisfaction and quality (Cronin and Taylor, 1992; Taylor et al., 1994). There is evidence to suggest that service quality leads to customer satisfaction and helps to keep existing customers and attract new ones (Metawa and Almossawi, 1998). Cronin and Taylor (1992) argued that quality of service is the antecedent of customer satisfaction. Additionally, service quality is among the most important components of customer value reflecting the big impact it has on customer loyalty (Malai and Speece, 2005). In retail banking, the basis of customer satisfaction is formed by the service quality judgment (Levesque and McDougall, 1996). Service quality becomes important and is essential nowadays for many service industries including banking for corporate profitability and survival (Othman & Owen, 2001). Furthermore, service quality can turn out to be key to competitive advantage particularly in the banking industry as it provides high level of customer satisfaction (Almossawi, 2001).

Most retail banks are providing products that are similar to each other. Hence, providing good services to the customers could offer marketplace differentiation (Lopez et al., 2007; Naser et al., 1999). Most researchers suggest that a high level of service quality should be delivered to achieve a high level of customer satisfaction, as service quality is commonly considered as an antecedent of customer satisfaction (Shanka, 2012). Shanka (2012) further argued that empirical studies show that the quality of service offered was related to overall satisfaction of the customer. Furthermore, previous literature found that the relationship between service quality and customer satisfaction was significant (Othman and Owen, 2001; Hoq and Amin, 2010). Mohsan et al. (2011) agreed that customer satisfaction in the Pakistani banking industry was greatly influenced by the service quality provided. Accordingly, service quality has received greater attention nowadays as the result of
its relationship with cost, financial performance, customer satisfaction and retention (Shanka, 2012). Providing high quality services to the customer is an effective approach to keep the customer loyal towards the service provider (Rehman, 2012). As a result, service quality is known as an important requirement to ensure customers are satisfied and maintain their relationship with the banks (Amin et al., 2008).

It is complicated to define service quality compared to product quality due to some unique features such as intangibility, inseparability, heterogeneity and perishability (Shanka, 2012). Service quality is more difficult to evaluate than goods quality as the evaluation involves the process of service delivery and the outcome of the service (Parasuraman et al., 1985). According to Gronroos (1978), there are two components of service quality; technical quality and functional quality. Technical quality refers to what the service provider delivers during the service provision, as an outcome of a service act (Jamal and Anastasiadou, 2009) whereas functional quality “relates to the nature of interaction between the service firm and its customers and the process by which the core service is delivered” (Bell et al., 2005, p.172). For instance, how the service employee provides the service.

Parasuraman et al. (1988) defined service quality as a difference between customer expectation of the service and customer perception of the actual service. According to Zeithaml (1988), service quality is a judgement from customers about overall excellence or the superiority of a product. Another definition of service quality is the degree to which the service offered can satisfy the expectations of the user (Kasper et al., 1999). In terms of service quality dimensions in the financial services industry, various dimensions have been revealed. The most well-known and widely used is the model by Parasuraman et al. (1985). Ten determinants of service quality were identified namely reliability, communication, access, tangibles or tangibility, responsiveness, competence, courtesy, credibility, security, and understanding and knowledge of the customer. Then, these dimensions were further codified into five dimensions: tangibles, responsiveness, reliability, assurance and empathy which is known as the SERVQUAL model (Parasuraman et al., 1988).
The descriptions of all five dimensions of service quality below were adopted from Johnston (1995). Firstly, tangibles refer to the physical aspects of the service such as physical equipment and facilities, appearance of employees and physical representations of the service, for example a plastic credit card. Secondly, responsiveness means being prompt and willing to serve the customer. For instance, setting up appointments quickly and mailing a transaction immediately. Thirdly, reliability refers to being accurate, dependable and having consistent performance during the service. It means that the service provider performs the service correctly the first time. Fourthly, assurance includes competency, courtesy and credibility of staff which generate customer confidence. Finally, the dimension of empathy means staff being caring, the provision of personalised attention and to understand customer needs.

According to this model, service quality can be measured by identifying the gaps between customer expectation of the service to be rendered and the perception of the actual performance of the service. Hence, the model consists of two parts which are customer expectation and customer perception. However, the SERVQUAL instrument has been criticised by numerous researchers of service quality. Cronin and Taylor (1992) and Babakus and Mangold (1992) concluded that future research should focus on measuring either customer perception or actual bank performance, rather than using the two scale approach of the SERVQUAL instrument. The use of both expectations and perceptions also result in a longer time taken by respondents to answer the questionnaire (Malai and Speece, 2005). Khafafa and Shafii (2013) study revealed that SERVQUAL is an appropriate instrument for measuring the quality of banking services. The findings also suggested that there was a positive and significant relationship between customers satisfaction and constructs of perceived service quality used. In other study, findings from Shank (2012) also showed that all service quality dimensions were positively correlated with customer satisfaction in Ethiopian banking sector. Additionally, Siddiqi (2011) confirmed a positive relationship between all of the service quality attributes and customer satisfaction in the conducted study and the findings also demonstrated that there was a large positive correlation between customer satisfaction and customer loyalty.
Alternatively, Cronin and Taylor (1992) came out with SERVPERF model. The SERVPERF model measures service quality by using only perception of customers, without the expectation that it was sufficient enough. They also suggest that in measuring service quality, SERVPERF is better and for this reason, this study adopts this model. It is argued that service quality dimensions may be different according to sectors, countries and cultures (Akhtar and Zaheer, 2014). Research by Tsoukatos and Rand (2007) demonstrated that service expectations are also affected by cultural profiles and culture determines the importance of service quality dimensions to customers. In addition, the research implies that culture also affects customer satisfaction through the identical rankings of the relationship between customer satisfaction and service quality dimensions and the importance of the service quality dimensions. While Asian customers who are more collectivist perceived lower service quality compared to Western customers, the impact of service quality on loyalty is stronger among Asian customers (Malai and Speece, 2005). On the other hand, the value of a brand name is stronger among individualist customers and keeping brand image strong has a greater impact on keeping customers loyal (Malai and Speece, 2005). Considering the influence of ethnicity and culture on the behaviour of customers particularly for customer satisfaction and service delivery, the following hypotheses were developed in this research.

H₈ There is a significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, (e) education, (f) income, (g) duration as customer on their satisfaction level towards the Islamic banks.

H₉ There is a statistically significant relationship between customer satisfaction and service quality dimension (a) Tangibles, (b) Responsiveness, (c) Empathy, (d) Assurance, (e) Reliability, and (f) Compliance and Ethical.
4.3.2 Customer Satisfaction and Loyalty

Globalisation enables banks to do business across countries and regional boundaries, catering to diverse groups of customers with different needs, expectations, and perceptions. Customer satisfaction, service quality and loyalty are key elements in safeguarding products against their competitors (Kashif et al., 2015) and similar circumstances can be found for the financial services industry. Hence, in determining which strategies will increase profitability and customer loyalty, bank managers increasingly focus on customer services and customer satisfaction (Lopez et al., 2007). Customer satisfaction in services could be viewed as facet (attribute specific), overall (aggregate), transaction-specific or cumulative (Dimitriades, 2006). In this research, satisfaction is conceptualised as an overall attitude towards Islamic bank, which is the result of the quality assessment of all previous dealings between customer and service provider (Trif, 2013). Customer satisfaction is a major indicator of successful and quality customer-supplier (or service provider) relationship (Trif, 2013). Satisfaction is considered as essential element for building long term customer relationships and is likely to increase loyalty (Anthanassopoulos et al., 2001). Satisfaction also positively related with repurchases intentions, possibility of product or service recommendation, loyalty and profitability (Mohsan et al., 2011; Anton, 1996; Hallowell, 1996). Moreover, Caruana (2002) asserted that service quality, customer satisfaction and service loyalty are three related concepts, which are important for any institution.

Customer satisfaction is important for retail banks as it is generally believed that customer satisfaction would lead to loyalty, resulting in higher future profit (Levesque and McDougall, 1996). Moreover, it is empirically evidence that customer satisfaction has positive relationship on customer loyalty (Amin, 2016). However, a satisfied customer does not guarantee loyalty as satisfaction is not a definite indicator of loyalty (Mohsan et al, 2011). Ehigie (2006) mentioned that among factors that could be associated with customer loyalty are service quality perception and satisfaction. A number of studies show that customer satisfaction is a leading factor in determining loyalty (Jamal and Anastasiadou, 2009; Ehigie, 2006; Oliver, 1999; Anderson and Fornell, 1994; Rust and Zahorik, 1993). Satisfied customers are more likely to repurchase, have lower sensitivity on price, give
positive word-of-mouth recommendation, and become loyal customers (Picon et al., 2014; Chen and Wang, 2009). Customer loyalty can only be achieved after consistently meeting customer satisfaction. However, a loyal customer may not necessarily be a satisfied customer. Levesque and McDougall (1993) suggested that, “even a problem is not solved; approximately half of the customers would remain with the firm”. This may be due to switching costs, lack of perceived differentiation of alternatives, location constraint on choice, time or money constraints, habit or inertia which are not related to loyalty (Arokiasamy, 2013). There are two main strategies to increase customer loyalty; providing customers with complete satisfaction so that they stay, and setting up switching barriers (Picon et al., 2014).

4.4 Customer Loyalty

There are numerous research interventions focused on customer loyalty as the concept is one of the primary parts of relationship marketing related to profitability (Molina et al., 2007). Relationship marketing is seen as a better option for gaining customer loyalty as it focuses on understanding and satisfying consumer needs, such as customer care programmes adopted by major players in the retail financial services institutions (Ehigie, 2006). Additionally, relationship marketing emphasises on obtaining information about customers which also includes enhancing customer satisfaction as well as creating and maintaining the relationship over time (Jan and Abdullah, 2014). Due to similarities of products and services in the banking industry, banks are investing in developing customer relationships through the concept of loyalty and this includes quality of service and customer satisfaction (Foscht et al., 2009). Customer satisfaction and loyalty are highly correlated even though satisfaction alone could not guarantee loyalty behaviour among customers (Leverin and Liljander, 2006). One significant reason for customers to switch bank is pricing which then motivated banks to launch customer loyalty programmes that promote economic benefits (Leverin and Liljander, 2006). Despite criticism on the effectiveness of those programmes, research has shown that consequently there is a major positive impact on customer retention (Leverin and Liljander, 2006).
Customer loyalty is vital in the competitive marketplace as it may reduce costs, lead to higher profits and market shares, be subject to less price sensitivity, encourage word-of-mouth and increase employee morale (Foscht et al., 2009; Kashif et al., 2015). Banks are no exception in this matter. The intense level of competition in service industries encourages service providers to chase higher level of customer loyalty. Edvardsson et al. (2000) defined loyalty as an intention or tendency of a customer to repurchase from the same firm. Oliver (1999) stated that brand loyalty is a profound commitment to keep buying or choosing a preferred product/service consistently in the future, thereby causing repetitive same brand-set purchasing, despite situational influences and marketing efforts that have the potential to cause switching behaviour.

Furthermore, Gremler and Brown (1996, p.173) described loyalty in relation to service industries which concluded that “service loyalty is the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises”. Their definition consisted of three components of loyalty namely the purchase, attitude and cognition. Cognitive loyalty entails the conscious decision-making process of customers in the evaluation of alternative brands before a purchase is effected (Caruana, 2002). In the retail banking context, loyalty is defined as the action of staying with the bank (Dayan et al., 2008).

Picon et al. (2014) elaborated on the two most relevant perspectives of loyalty namely behaviour and attitude. The former approach conceptualises loyalty as repeat purchasing behaviour that customers may maintain the relationship by obligation and not having any positive feeling toward their provider. Customers with behavioural loyalty have intent to repeat purchase and have confidence to recommend it to others (Malai and Speece, 2005). The latter approach represents loyalty as a psychological state (affective and/or cognitive) that the customer may get due to the relational strategy by the firm. As a result, customers voluntarily maintain the relationship on the basis of benefits they receives. Customers with attitudinal loyalty may be willing to pay a premium price to purchase the preferred products or services (Malai and Speece, 2005). This approach supports the idea of a positive attitude toward the provider and is precisely what ensures repeat purchasing behaviour in the future.
(Picon et al., 2014). On the other hand, Malai and Speece (2005) argued that behavioural and attitudinal loyalty should be integrated to investigate customer loyalty as both measures are suitable to predict future customer loyalty.

According to Bowen and Chen (2001), there is a positive relationship between customer loyalty and profitability. The argument may have been due to the fact that loyal customers tend to spend more, and give full support to the organisation which in turn could generate more sales and profit (Osman et al., 2009). For instance, a study by Reichheld and Sasser (1990) found that with just 5 percent more of customers’ retention, profits increase by 25 percent to 125 percent. Apart from that, increased loyalty is crucial as it leads to lower costs of service, reduces marketing expenses, and increases business and market share (Levesque and McDougall, 1996; Jamal and Anastasiadou, 2009), greater trade leverage and could be used to predict sales and financial growth (Malai and Speece, 2005). Additionally, greater loyalty can encourage positive word of mouth, greater resistance to competitive strategies, creating competitive advantage, and lower the price sensitivity level among customers (Jamal and Anastasiadou, 2009). Levesque and McDougall (1996) also pointed out that by increasing loyalty, a retail bank may decrease its servicing cost and has an opportunity to cross-sell existing and new products and services. Consequently, interest been built up amongst practitioners and researchers in the subject of customer loyalty.

Loyalty behaviours such as continuity and increased scale of relationship, and word of mouth recommendation are the outcome of the beliefs of customers that the quantity of value received from one provider is greater than from the others (Hallowell, 1996). It is reported that there is high positive correlation between the construct of satisfaction and quality and product loyalty (Bloemer et al. 1998). Similarly, in service loyalty, perceived service quality and satisfaction have been identified as key antecedents in banking as well as in other service industries (Bloemer et al. 1998; Dick and Basu, 1994).

In the services context, intangible attributes such as reliability and confidence may play a major role in building or maintaining loyalty (Dick and Basu, 1994). Additionally, loyalty also depends partly on customer perceptions of service quality
and the brand name of the service provider, which means failure to provide good service quality and brand name would result in customers switching to other providers (Malai and Speece, 2005). In their study, Malai and Speece (2005) noted that the elements of loyalty as described by respondents are the intention to use the service again, to make a recommendation to family and friends, and willingness to pay a price premium but usually not much. Fisher (2001) suggested that a loyal customer to a bank is one that will stay with the same service provider, is likely to take out new products with the bank and is likely to recommend the services to others. Bloemer et al. (1998, p. 277) defined bank loyalty as “the biased (i.e. non random) behavioural response (i.e. revisit), expressed over time, by some decision-making unit with respect to one bank out of a set of banks, which is a function of psychological (decision-making and evaluative) processes resulting in brand commitment. The authors also proposed that bank commitment is a necessary condition for bank loyalty to occur.

Previous studies assert that there is a significant relationship between customer loyalty and customer profitability in retail banking (Hallowell, 1996; Trubik and Smith, 2000). Bowen and Chen (2001) argued that the increased profit from loyalty is due to reduced marketing costs and operational costs, as well as increased sales. Shanka (2012) argued that both the service management and marketing literature suggest that customer satisfaction combined with service experience will lead to a higher level of customer loyalty.

In service industries, among common factors affecting customer loyalty are satisfaction, switching costs, perceived value, service quality, trust, price and image (Kishada and Wahab, 2013). Research by Gremler and Brown (1996) suggested that service loyalty is influenced by satisfaction and interpersonal bonds as well as switching cost. As for Islamic banking, there is strong relationship between customer satisfaction, service quality, perceived value, and trust with customer loyalty (Kishada and Wahab, 2013).

Generally, there are three approaches to measure loyalty (Bowen and Chen, 2001). The first approach is behavioural measurement which considers consistent, repetitious purchase behaviour to indicate loyalty. The second approach relates to
attitudinal measurement that use attitudinal data to reflect emotional and psychological attachment, and is concerned with the sense of loyalty, engagement and allegiance. The third approach is composite measurement which reflects the combination of the first two dimensions and makes use of customer product preferences, inclination of brand-switching, frequency and recency of purchase, as well as the total amount of purchase to measure loyalty. The combination of both attitude and behaviour in defining loyalty considerably enhances the prediction of loyalty (Bowen and Chen, 2001; Pritchard and Howard, 1997).

In a study by Mohsan et al. (2011) researchers attempted to investigate the impact of customer satisfaction on customer loyalty and intention to switch in the banking sector in Pakistan. The result indicated that customer satisfaction has a positive significant relationship with customer loyalty and a negative relationship with intention to switch. However, satisfaction alone is not an accurate indicator of loyalty (Cronin and Taylor, 1992). Though customer satisfaction does not guarantee repeat purchases from the customers, it still plays an important part in ensuring customer loyalty and retention because it is quite impossible to have loyalty without satisfaction. Bloemer et al. (1998) suggested that relying only on satisfaction may result in overlooking other important drivers of customer loyalty as satisfaction is not the sole determinant of customer loyalty in retail banking.

Similarly, Hoq and Amin (2010) also stated that there is a statistically positive significant relationship between customer satisfaction and customer loyalty in the Malaysian Islamic banking context. Another finding was that the effect of customer satisfaction on customer loyalty is greater for the non-Muslim than the Muslim customers. However, according to Kishada and Ab. Wahab (2013), satisfaction does not influence customer loyalty in Islamic banking in Malaysia. Their research demonstrated that trust is the only factor that has significant influence on customer loyalty. According to Fukuyama (1995, p. 26), trust “is the expectation that arises within a community of regular, honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community”. Fukuyama (1995) asserts that trust pertains to the whole civil society and a nation’s competitiveness depends on the level of trust present in the society which relies on the crucible of trust - social capital. The author further argued that societies are
different in terms of their level of trust: high-trust societies are characterised by the development of large-scale corporations out of family firms through the medium of rich and complex civil society such as Japan, Germany and the United States (Fukuyama, 1995; Tittenbrun, 2013). On the other hand, low-trust societies are characterised by the restriction of trust (familial societies) and the destruction of a rich civil society by a centralising state, for instance China, Italy and France (Fukuyama, 1995; Tittenbrun, 2013).

Additionally, trust is embedded in infancy and acquired in the course of socialisation which develops through early interaction with significant others such as the caregivers, and becomes fundamentally important for self-confidence and interpersonal trust (Katalin, 2016). Meanwhile, Harriss (2003) argued that trust is associated with risk whereby an individual chooses to believe in the good will of another without having reliable knowledge that the person will behave as expected. In other context, trust refers to the willingness to engage in partnership which involves confidence and reliability elements from both sides (Hoq et al. 2010). For example, to develop trust and confidence among customers to use internet banking, the system not only needs to be user friendly, it has to be trustworthy, secured and private (Kishada and Wahab, 2013).

Hoq et al. (2010) investigated the role of trust, customer satisfaction and image on customer loyalty in Malaysian Islamic banking sector, with respect to Muslim and non-Muslim customer segments. The result showed that there were no significant differences between Muslim and non-Muslim customers on customer satisfaction, image, trust and customer loyalty. Moreover, there was a significant relationship between trust, customer satisfaction and customer loyalty indicating that trust and satisfaction affects loyalty. Similarly, this finding is consistent with a study by Amin et al. (2013) which also been conducted within the Islamic banking industry in Malaysia.

Meanwhile, prior research suggested that loyalty may vary according to different customer segments. Hence, the identification of those segments that are prone to be more loyal is crucial for banks (Foscht et al., 2009). For example, younger generation, high-income and highly educated customers are the most likely groups to
switch banks (Clemes et al., 2010). For that reason, influential and significant variable such as ethnicity should be considered, highlighted and incorporated by the management in their marketing strategy to encourage loyalty among customers. Based on this premise, the following hypotheses were developed in relation to customer loyalty.

**H_{10}** There is a significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, (e) education, (f) income, (g) duration as customer on their level of loyalty towards the Islamic banks.

**H_{11}** There is a statistically significant relationship between customer loyalty and service quality dimension (a) Tangibles, (b) Responsiveness, (c) Empathy, (d) Assurance, (e) Reliability, and (f) Compliance and Ethical.

**H_{12}** There is a significant relationship between customer satisfaction and customer loyalty

This research highlights on the selection factors, customer satisfaction and customer loyalty among multi-ethnic Islamic banking customers in Malaysia. These three areas were chosen because of their important roles in determining the success of Islamic banking industry. Firstly, understanding the priority of customers regarding their selection factors would improve strategic plan to attract new customers. Secondly, customer satisfaction and customer loyalty could increase profitability which is fundamental to survive in the industry. Taking into account that banking customers are not homogenous in a sense that they were influenced by their ethnicity, culture and environment, this research attempt to investigate the above mentioned areas based on the demographic differences among banking customers in Malaysia. This is because there are different types of customers, with some common and dissimilar interests that need to be considered by the marketers to capitalise on existing market opportunities.
4.5 Conclusion

This chapter has provided a review and appraisal of the literature in various issues concerning banking customers which relates to the present research objectives. Related variables in selection criteria, service quality, satisfaction, and loyalty have been discussed in the context of the study while pertinent underpinning theories and previous empirical work concerning these subjects have been reviewed. These reviews help to identify the relevant and important research variables and leads to the development of the research questions.

Some scholars agreed that the identification of the key selection factors among customers is crucial to develop and implement appropriate marketing plan to attract and retain customers. In relation to this, previous literature suggested that bank location, recommendation from others, and bank reputation were among the most important factors for customers in conventional banking. On the other hand, Islamic banking customers placed high importance on religious motive, profitability, service quality, and bank reputation towards their banking decisions.

Additionally, customer satisfaction and customer loyalty are among the most significant variable in customer relationship management which is crucial to enhance solid and valuable relationship between customers and the institutions. Arguably, most of the researchers pointed out that there is a positive relation between service quality attributes and customer satisfaction, and subsequently customer satisfaction is positively related to customer loyalty (Siddiqi, 2011). Therefore, examining these relationships in the multi-ethnic environment may provide new insights and knowledge to the field. Next, the use of appropriate research methods to answer the research questions is the focus of discussion in the next chapter.
CHAPTER FIVE
RESEARCH METHODOLOGY

5.1 Introduction

The previous literature chapters discussed the Malaysian context in which this study is carried out, as well as the role of ethnicity in marketing studies and customer related issues in financial services particularly in the area of Islamic banking to demonstrate the importance of understanding customers to ensure the success of Islamic banks. This chapter proceeds by explaining the research design and methodology that are used to collect and analyse the data in this study. This study used a mixed method approach in answering the research questions. The design of this study involves the use of data from primary sources through questionnaires and in-depth interviews. Based on the research aim and objectives in chapter one, this chapter explains the philosophical approach, research strategy, research design, research sampling, and research methods used for this study. The final section concludes the methodology chapter and provides limitations of this research.

5.2 Research Philosophy

The term paradigm refers to how research should be conducted, derived from philosophies and assumption about the world and the nature of knowledge (Collis and Hussey, 2003). A research paradigm refers to a set of assumptions and beliefs as to how the world is perceived which builds a thinking framework that may lead the behaviour of the researcher (Wahyuni, 2012; Jonker and Pennink, 2010). A paradigm consists of the ontology, epistemology, methodology and methods (Scotland, 2012). Ontology embodies an understanding of what is the nature of reality. Collis and Hussey (2003) stated that with the ontological assumption, researchers may decide either to consider the world is objective and external, or socially constructed and only understood by examining the perceptions of the human actors. Objectivist or realist perceives the existence of reality is independent of social actors and their interpretations while subjectivist or nominalist believes the opposite way and assumes that individuals contribute to social phenomena (Wahyuni, 2012; Saunders
et al., 2009). The Oxford English Dictionary (2004) refers to epistemology as “an established fact, theory, discipline or science of the technique process or foundation of knowledge, facts or information”. The epistemological assumption is concerned with what we accept as valid knowledge. It involves an examination of the relationship between the researcher and what is being researched (Collis and Hussey, 2003). According to Gray (2009), epistemology provides a philosophical background for deciding what kinds of knowledge are legitimate and adequate. The epistemological assumption of this study is the combination of both objective and subjective points of view to answer the research questions. Crotty (1998) described methodology as the strategy or plan which leads to the choice and use of particular methods, while methods are the techniques and procedures that have been used to collect and analyze data.

According to Saunders et al. (2016) there are five major philosophies namely positivism, critical realism, interpretivism, postmodernism and pragmatism. The ontological assumption for positivism is that there is a single reality (Tashakkori and Teddlie, 1998). The main argument for positivism is that the social world exists externally to the researcher and can be measured through observation (Gray, 2009). Saunders et al. (2003, p.83) pointed out that researchers under this view “assumes the role of an objective analyst, coolly making detached interpretations about those data that have been collected in an apparently value-free manner”. Under positivism, “the researcher is independent of and neither affects nor is affected by the subject of the research” (Remenyi et al., 1998, p.33). Positivist methodology is directed at explaining relationships, trying to identify causes which influence outcomes and provide a basis for prediction and generalisation (Scotland, 2012). Under the positivist paradigm, real and factual occurrences are studied or observed scientifically and empirically and can concurrently be explained through clear and rational analysis (Aliyu et al., 2014).

Next, the philosophy of critical realism focuses on explaining the observation and experience of the researcher (Saunders et al., 2016). Critical realists see reality as external and independent (Saunders et al., 2016). This paradigm has elements of both positivism and constructivism (Krauss, 2005). Unlike positivism that considers a
single reality, or interpretivism with multiple realities, critical realism concerns multiple perceptions about a single, mind-independent reality (Krauss, 2005).

Meanwhile, interpretivism places an importance on the need to explore the subjective meanings motivating people and their actions to gain understanding (Saunders et al., 2003). Interpretivists hold a view that reality is constructed by social actors (Wahyuni, 2012) and it is their role to seek to understand the subjective reality of those research participants through interaction with them (Saunders et al., 2003). In this paradigm, the researcher is part of what is being researched (Wahyuni, 2012). An interpretivist researchers advocate that there is no universal truth and they interpret the research situation through their own understanding, orientation and reference (Aliyu et al., 2014).

The fourth paradigm is postmodernism that emerged in the late twentieth century and emphasises the role of language, power relations, questioning accepted ways of thinking, and giving voice to alternative marginalised views (Saunders et al., 2016). Postmodernist researcher would challenge organisational concepts and theories, seek to demonstrate what realities they exclude, and open to the deconstruction of any forms of data (Saunders et al., 2016).

The fifth paradigm is pragmatism, which considers theories, concepts, hypotheses and research finding in terms of their significant roles in research and their practical consequences in particular settings (Saunders et al, 2016). This paradigm emphasises on the most appropriate way or method to address the research problem or question. This study adopts the pragmatism paradigm because the researcher starts with the research questions to determine the research framework, highlights what works best to address the problems and holds a view of research philosophy as a continuum, rather than an option that stands in an opposite position (Wahyuni, 2012). In particular, this research focuses on making a difference to organisational practice and aims to propose practical contribution. Pragmatist believes that a mixture of ontology, epistemology and axiology is acceptable to approach and understand social phenomena (Wahyuni, 2012). In other words, “pragmatist recognise that there are many different ways of interpreting the world and undertaking research, that no single point of view can ever give the entire picture and that there may be multiple
realities” (Saunders et al., 2016, p. 144). This is reflected through the use of both quantitative and qualitative methods in this research to understand the subjects. Moreover, Tashakkori and Teddlie (1998) believe that pragmatists consider the research question to be more important than either the method they use or the worldview that is supposed to underlie the method.

Additionally, pragmatism is proposed to be compatible with mixed methods research thus justifying the use of the mixed methods (Tashakkori and Teddlie, 1998; Hall, 2012). Creswell (2003) explained that in mixed methods research, the researchers use both quantitative and qualitative data as they work to provide the best understanding of a research problem. Moreover, the methods for investigation under the pragmatism paradigm includes the use of deduction (testing theories/hypotheses), induction (discovery of patterns), and abduction (utilise/depend on the best set of explanations to understand the results (Johnson and Onwuegbuzie, 2004).

5.3 Research Strategy

There are different types of research strategies that researchers may employ which include quantitative, qualitative and mixed methods strategy. It appears that researchers can find answers to solve issues by using deduction, induction or a combination of the two processes (Sekaran, 2003). Furthermore, it is possible and often advantageous to combine deduction and induction in a single research project (Saunders et al., 2007). Deduction is the process by which a researcher arrives at a reasoned conclusion by logical generalisation of a known fact (Sekaran, 2003). Deductive research starts with deducing a hypothesis from the theory which proposes a relationship between two variables, and subsequently testing this hypothesis that either tend to confirm the theory or indicate the need for its modification (Saunders et al., 2007). In this study, hypotheses were developed based on the previous literature and findings to gain current knowledge and information mainly in selection criteria, customer satisfaction, and customer loyalty. This is based on the premise that the three above mentioned areas were important areas predominantly in the marketing literature whereby researchers tried to examine and test the hypothesised relationships.
Meanwhile, induction is the process where the researcher observes certain phenomena on this basis arrives at conclusions (Sekaran, 2003). In other words, the researcher logically establishes a general proposition based on observed facts (Sekaran, 2003). In addition, research which utilises an inductive approach is more likely to work with qualitative data where the emphasis is on gaining a close understanding of the research context whereby the researcher is part of the process (Saunders et al., 2007). As for this study, the researcher makes use of the induction process in the qualitative approach chosen. Accordingly, the researcher attempts to understand the behaviour of Islamic banking customers in different perspective through the use of semi-structured interviews with bank managers. This process is more open-ended and exploratory, which could detect new patterns in the data and provides significant proposition based on the responses gathered from the interviews.

5.4 Research Methodology

Sekaran (2003, p.5) described research as “an organised, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem, undertaken with the purpose of finding answers or solutions to it”. Therefore, research is undertaken to achieve a specific set of aims and objectives, either to solve problems or for finding answers for the research questions. Bryman and Bell (2003) defined methodology as the procedures of collecting data, describing, explaining and predicting phenomena using chosen methods or techniques. Collis and Hussey (2003) refer the term methodology as the overall approach to the research process, from the theoretical basis to the collection and analysis of the data. It is concerned with the type of data, the purpose of collecting certain data, from where it is collected, when it is collected, and how the researcher collects as well as analyse the data (Collis and Hussey, 2003).
5.4.1 Quantitative Research

Quantitative research is a research strategy that emphasises quantification in the collection and analysis of data, and involves a deductive approach which is the testing of theories (Bryman, 2012). This type of research makes use of the positivist/empiricist approach in explaining social phenomena which involve such principles as; setting operational definitions to concepts, ensuring objectivity by detaching from the subjects, striving for replication and establishing causality such as the use of self-administered questionnaires (Masue et al., 2013). Accordingly, the researcher uses theory deductively, places it towards the beginning of the plan for a study, and then tests the theory to obtain and reflect on the confirmation or disconfirmation of the theory (Creswell, 2003).

According to Creswell (2003) the investigator under a quantitative approach primarily uses postpositivist claims for developing knowledge for examples variables reduction and hypotheses, and employs strategies such as experiments and surveys which lead to data collection on predetermined instruments that yield statistical data. The ontological orientation in quantitative research is objectivism which views social reality as an external, objective reality (Bryman, 2012). Quantitative researchers look for the assessment of relationships between aspects of cases across a large sample to identify general patterns for the population using the variable-oriented strategy (Masue et al., 2013). This research includes procedures such as descriptive analyses, group comparisons, reliability checks, and confirmatory factor analyses (Creswell and Clark, 2007).

5.4.2 Qualitative Research

Generally, qualitative research is based on a relativistic, constructivist ontology which suggests that there is no objective reality (Krauss, 2005). Under a qualitative approach, the researcher often makes knowledge claims based on constructivist perspectives which include representations of the multiple meanings of individual experiences, meanings socially and historically constructed, to develop a theory or pattern (Creswell, 2003). Qualitative research frequently emphasises words in the
collection and analysis of data and makes use of an inductive approach which leads to the generation of theory (Bryman, 2012). The qualitative researcher seeks to explain social phenomena by focusing on visual and verbal data to gain a deep understanding of a specific case, and do not depend on numerical measurements (Masue et al., 2013).

Being interpretive, this type of research endeavours to comprehend outcomes in individual cases placing the importance on ‘why’ and ‘how’ questions (Masue et al., 2013). Description of the matter under study is the main essence of qualitative research and its data can be obtained through in-depth interviews, participant or nonparticipant observations, films, case studies, and documents and archival data (Sekaran, 2003). The research strives to understand the social world from the subjects’ or participants’ point of view through data collection in the field rather than laboratories or other controlled environments (Masue et al., 2013). Many qualitative researchers believe that the best way to understand a subject or phenomenon is to be immersed in it and to experience the feeling to be a part of the phenomena under study (Krauss, 2005). Among the analytic procedures included in this research are thematic analyses, narrative story development, and quantifying the frequency of qualitative responses (Creswell and Clark, 2007).

5.4.3 Mixed Methods Research

Mixed methods research refers to the use of two or more methods in a research that yield both qualitative and quantitative data (Creswell and Clark, 2007). Creswell et al. (2003, p.165) offer the following definition “a mixed methods study involves the collection or analysis of both quantitative and/or qualitative data in a single study in which the data are collected concurrently or sequentially, are given a priority, and involve the integration of the data at one or more stages in the process of research”. Likewise, a mixed methods approach involves collecting data both numeric and textual information, either simultaneously or sequentially to best understand research problems (Creswell, 2003) and finally to answer the research questions. This approach may include theory deductively through theory testing and verification, or inductively as in an emerging theory or pattern (Creswell, 2003).
Greene et al. (1989) as cited in Tashakkori and Teddlie (1998) listed five purposes for mixed methods studies. First is triangulation, or seeking convergence of results. Second is complementarity, or examining overlapping and different facets of a phenomenon. Third is initiation, or discovering paradoxes, contradictions, and fresh perspectives. Fourth is development, or using methods sequentially, such that results from the first method inform the use of the second method. Fifth is expansion, or mixed methods adding breadth and scope to a project. Mixed methods research aims to draw the strengths and minimise the weaknesses from quantitative and qualitative studies because the research world environment is becoming increasingly interdisciplinary, complex, and dynamic (Johnson and Onwuegbuzie, 2004). Furthermore, taking a compatibilist or mixed position enables researchers to design what works in order to offer the best opportunities of answering their specific research questions (Johnson and Onwuegbuzie, 2004).

The present study utilises mixed methods research due to the nature of research objectives as stated in the first chapter. This study seeks convergent and complementary information from the customers of Islamic banks as well as bank managers to extend and enrich the knowledge in the investigated subject. Therefore, using a mixed methods approach offers the best opportunity to bring different dimensions to the body of literature in customer studies particularly within the Islamic banking domain.

5.5 Research Design

Research design is the plan or guideline to conduct research, which involves the underpinning philosophy, approaches of inquiry, and explicit research methods (Creswell, 2009). This study will utilise a questionnaire survey and in-depth interviews to gather the information needed on Islamic banking customers in Malaysia. Therefore, the present study benefits from a combination of quantitative and qualitative mixed method research strategies. According to Tashakkori and Teddlie (2003), the mixing of both qualitative and quantitative data collection and analysis techniques occur in the methods section of a study, in either parallel or
sequential phases. The use of mixed methods can provide a more efficient way of answering the research questions and thus produce stronger inferences. In addition, there is an opportunity for presenting a greater diversity of different views under mixed methods design (Tashakkori and Teddlie, 2003).

This research follows what Creswell (2009) identified as ‘concurrent embedded strategy’, a research design which uses one data collection phase, during which both quantitative and qualitative data are collected simultaneously. This approach has a primary method which guides the research and a secondary database that provides a supporting role in the procedures (Creswell, 2009). As the present study uses a questionnaire survey with the customers to identify their selection criteria, satisfaction and loyalty, the interviews with bank managers are considered as supporting data to gain broader perspectives at a different level. Creswell (2009, p.214) explain that the data gathered from this approach may “not be compared but resides side by side as two different pictures that provide an overall composite assessment of the problem”.

Firstly, this study adopts survey as it was thought to be an appropriate research instrument based on the nature of the research questions and the data required. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample from that population which results in generalisations or claims about them (Creswell, 2003). Prior studies on the selection criteria and of customer satisfaction also recorded the use of questionnaire survey as their research instruments (for example Erol and El-Bdour, 1989; Metawa and Almossawi, 1998; Dusuki and Abdullah, 2007; Saad, 2012). A survey design is able to generalise from a sample to a population on certain characteristics, attitudes, and behaviours of the population (Creswell, 2009). In addition, the present research is a cross-sectional study whereby the data is collected at one point in time. Sekaran (2003) states that a study in which the data are gathered just once, either over a day, weeks or months to answer a research question is called a one-shot or cross-sectional study. This study employs self-administered questionnaire surveys which aim to identify the selection criteria of customers, their satisfaction on service quality provided as well as loyalty towards their banks.
Secondly, this research also utilises a qualitative research instrument through the use of semi-structured interviews with the Islamic banks managers. Interviews are used to gain insights into or understanding of opinions, attitudes, experiences, processes, behaviours or predictions (Rowley, 2012). Burton (1996) concludes that there is lack of interest and negligence among bank marketeers on the significance of ethnicity and its role in determining the behaviour of customers in the financial sector. Hence, the interviews are seen as important to get the perspectives of managers about their customers. Among the advantages of interviews are participants can provide historical information, allow the researcher to control the line of questioning and are useful when participants cannot be observed directly (Creswell, 2003). In addition, the interview “has the advantage of flexibility in terms of adapting, adopting, and changing the questions as the researcher proceeds with the interviews” (Sekaran, 2003). The interview is a powerful method of data collection as it provides one-to-one interaction and the opportunity to ask for clarification if a question or answer is not clear (Tashakkori and Teddlie, 1998). However, the drawbacks of interviewing are around the length of time taken and that it is an expensive way to collect data (Tashakkori and Teddlie, 1998).

5.6 Research Methods

Research methods refer to various ways to gather and analyse data using specific tools and techniques (Collis and Hussey, 2003; Wahyuni, 2012). As stated previously, this research uses a self-administered questionnaire survey and in-depth interview methods to collect data. It is acknowledged that quantitative approaches have formed the dominant paradigm in prior studies related to selection criteria in financial services (Devlin and Gerrard, 2005) and customer satisfaction and loyalty in various industries. Therefore, the use of questionnaires in order to obtain the data needed is appropriate for this research. In addition, Burton (1996) points out that financial institutions know less about the relationship between ethnicity and customer behaviour compared to retailers and ethnicity has been neglected and gained little interest with bank marketeers. Therefore, this research attempts to explore the perception of bank managers towards their various ethnic groups of
customers in terms of bank selection, satisfaction and loyalty through the use of semi-structured interviews.

5.6.1 Data Collection Methods

This research utilises two primary data collection tools namely questionnaire and semi-structured interviews. Both sets of primary data were collected simultaneously in Klang Valley, Malaysia as required for this research.

5.6.1.1 The Questionnaire Survey

The purpose of the questionnaire used in this research is to address the research questions (a, c, d, f, g) that are outlined in Chapter One. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population and consequently, the researcher may generalise or make claims about that population (Creswell, 2003). Fink (1995, p. 14) as cited in (Burton, 2002) describes that the objectives of surveys are to generate “information to describe, compare, and predict attitudes, opinions, values, and behaviour based on what people say or see and what is contained in records about them and their activities”. The advantage of using a questionnaire is the ability to explore the views of a large number of people (Burton, 2002), the economy of the design and rapid turnaround in data collection (Creswell, 2003). However, using a questionnaire also means that the depth of research would be limited as a result of its inherently standardised approach (Burton, 2002).

This study uses self-administered questionnaires whereby the respondents read each question and answer the questions in the questionnaire themselves. This method is chosen because it is cheaper and quicker to administer as well as that there is no effect from the researcher on the answers from the respondents. There is also an opportunity for the researcher to introduce the topic to the respondents and motivate them to answer genuinely (Sekaran, 2003).
A structured questionnaire is used to gather information needed based on the literature review and objectives of the study. This study uses two types of Likert scale measurement which are: the continuous scale such as measuring between strongly agree to strongly disagree and the categorical scale such as measuring respondents ranking from highest to lowest importance of the subject matter. The use of both types of scales is deemed suitable for this research as it allows the researcher to make a relative measurement that is necessary on all of the variables investigated. They were measured on a five point Likert scale because odd-numbered Likert scales provide an option for indecision or neutrality, which may reduce the chance of response bias, which is the tendency to favour one response over others and respondents do not feel forced to have an opinion if they do not have one (Croasmun and Ostrom, 2011). Similarly, Johns (2010) agree that including a neutral midpoint avoids forcing respondents into expressing agreement or disagreement when they may lack such a clear opinion on the subject. Additionally, research confirms that data from Likert items becomes significantly less accurate when the number of scale points drops below five or above seven (Johns, 2010). The Likert scale is also used because of it is universally applicable, able to measure opinions on different subject matters, its simplicity and versatility because researchers are able to compare responses across different questions (Johns, 2010).

The questions are organised into three sections namely bank selection criteria, customer satisfaction and loyalty, and personal information. A copy of the questionnaire can be found in the Appendix A section. The first section required the respondents to rate the relative importance of 25 factors which influence their choice of Islamic banking. The list of factors was based on previous similar studies (Metawa and Almossawi, 1998; Dusuki and Abdullah, 2007; Echchabi and Olaniyi, 2012) with an additional factor that being the ethical element of Islamic banking (Muhamad et al., 2012). The second section of the questionnaire focuses on the measurement of satisfaction and loyalty among customers. There are 27 questions provided to measure the satisfaction of customers toward the service quality of their Islamic banks (Cronin and Taylor, 1992) while there are 4 questions to measure customer loyalty (Gremler and Brown, 1996) with regard to Islamic banking. The final section consists of questions related to the demographic and economic background of respondents such as gender, age, ethnicity, religion, education level
and monthly income. The final part of the questionnaire also asks which Islamic banks they were dealing with and the duration of being a customer for that particular bank.

A. Pilot Test

A pilot test was conducted before the final version of the questionnaire was distributed to get information and feedback on the appropriateness and relevance of the questions. The objective of pilot testing is to generate the necessary feedback on the ease of understanding the questions, the sequence of items and the significance of the questions asked so that it can be refined. Moreover, a pilot test is important to know the time taken to answer all of the questions, the language used, and if there is any concern on the complicated terms used. A questionnaire which consisted of a total of 64 items was developed to identify the importance of various bank selection factors, customer satisfaction through service quality dimensions and customer loyalty. Items were constructed based on previous literature to ensure validity and reliability of the questions. There were some additions and modifications made to the items based on previous studies in related areas.

The pilot test of this study was conducted in early July 2015 in Malaysia. A total of 30 respondents participated in the test based on convenience sampling. The draft of the questionnaire was piloted to the Islamic bank customers consisting academics, college students and private sector workers. The respondents had varying experience in dealing with Islamic banks in Malaysia and they were asked if there was any problem in understanding the questions or instructions in the questionnaires. The respondents were also encouraged to give any comments or suggestions for improvements and ease the responding process to all questions. Most of those who participated agreed that they understood the instructions given and all the questions and statements in section 1 and 2. Some comments were made regarding section 3, which was the personal information section for an improvement in terms of font and wording. As a result, there was no major problem reported from the respondents in answering the questions and only minor modifications were made to the questionnaire.
B. Questionnaire Administration

The list of all the Islamic banks and their branches operating in major cities in Malaysia was obtained from the Bank Negara Malaysia (BNM) website. Then, to reach the target respondents, the researcher went to the respective branches and distributed the questionnaire outside the branches. The process of data collection continued from July until September 2015. The data collection was done in two states namely Selangor and Kuala Lumpur. As mentioned in the research sample section above, the two states were chosen because both states are considered as high diversity states (Yeoh, 2013). Furthermore, Kuala Lumpur is also considered as an established Islamic finance centre (Aris et al., 2013) which is appropriate for this research. The questionnaires were distributed to the Islamic bank customers using a stratified random sampling. This type of sampling involves a process of segregation and followed by random selection of subjects from each stratum (Sekaran, 2003). In this study, stratification of the population has been considered according to the geographical areas; Kuala Lumpur and Selangor, and ethnicity of the respondents; Malay, Chinese and Indian customers.

There were two methods of questionnaire distribution employed in this research. Firstly, the researcher used a drop off approach whereby the prospective respondents were approached nicely and asked if they were willing to answer the questionnaires. The respondents were assured of anonymity and confidentiality of this research. If they agreed then the researcher explained the purpose of the survey and gave them time to answer the questions without interference. Secondly, a mail survey approach was also adopted to increase and improve the response rate. The potential respondents who were not able to answer the survey immediately were given the option to complete them at home and were asked to mail back the survey to the researcher using prepaid envelopes at their earliest convenience.
5.6.1.2 The Semi-structured Interview

The second approach for data collection in this study is through semi-structured interviews as part of the qualitative methods adopted. This approach provides a unique access to the world of the research subjects through their experiences and opinions, to enable an understanding of the social phenomena investigated (Kvale, 2007). The semi structured interview is when the researcher has a list of questions on specific topics as a guide with additional questions being asked when necessary based on the answers but it offers the flexibility for the interviewee in answering (Bryman and Bell, 2011). In a semi-structured interview, the researcher asked the same questions for all of those involved, and may not necessarily ask a large number of questions, but tends to follow up the responses given with prompts and probes (Gillham, 2005). In addition, Rowley (2012) points out that semi-structured interviews take on a range of different forms with varying numbers and adaptation of questions, as well as changes to question order to accommodate the interviewee.

While questionnaires lack the sensitivity in exploring the meaning, argument, and inconsistency, the interview method is appropriate to explore issues with the participants and not only simply to categorise them as the objective of qualitative methods is to access the world in the terms of those people being researched (Stroh, 2000). Among the advantages of semi-structured interviews is that it facilitates a robust discovery with an ability to analyse based on commonalities (Gillham, 2005). Furthermore, interviews are useful when the research objectives centre on understanding experiences, opinions, attitudes, values, and processes (Rowley, 2012).

This research uses face-to-face interviews with the Islamic bank managers to explore their perception on the selection criteria of their customers, as well as customer satisfaction and loyalty towards the institutions. The advantages of using face-to-face interviews are the flexibility in adapting the questions and to clarify things when necessary, the ability to get nonverbal cues from the interviewees and to identify if there are signs of discomfort or stress from the interviewee (Sekaran, 2003). However, the challenge of using this method is upon getting responses and approval on the interviews (Stroh, 2000) as some people are not comfortable with interviews,
or giving immediate answers and may also raise the problem of the anonymity of their answers (Sekaran, 2003).

While the questionnaires aim to get the data from the perspective of customers, the semi-structured interviews intend to explore the perception of bank managers on their customers for all subject matters investigated. Hence, the questions being asked of the managers are within the same themes as the questions for the customers with some modification. The themes for the questions are selection criteria of their customers, service quality, customer satisfaction and customer loyalty.

A. Piloting the Interview

In order to ensure the validity and effectiveness of the questions in the semi-structured interview, a pilot study was undertaken with two bank executives in Malaysia. Both of them are working within the banking industry in the country and have experiences related to customer services. Prior to that, discussion with experts from the university in qualitative research was conducted to review the suitability, order and structure of the questions. The preliminary study took place in Kuala Lumpur, Malaysia before the data collection phase to establish if the wording of the questions was understandable and clear, if there were any sensitivity issues related to the questions, and if the participants had further recommendations to ensure good responses from the interview participants. As a result, the pilot study provided useful inputs and constructive feedback from the participants particularly related to the terms being used in the questions.

B. Interview Process

In this study, a series of semi-structured, face to face interviews took place between August and September 2015 with seven Islamic bank managers to gain information on the behaviour of their customers in terms of selection criteria, satisfaction and loyalty. A list of the interview questions is shown in Appendix B. At the beginning of every interview, informed consent from participating individuals was obtained. This informed consent provided the overall purpose of the investigation, main
features of the research, voluntary participation and the right to withdraw from the study at any time. Additionally, the interviewees were assured of the confidentiality and anonymity of the data provided. Every interviewee was asked if they gave permission for the interview conversation to be recorded using a digital voice recorder, and all of them agreed with that. Hence, all of the interviews were recorded using a digital recorder to ensure the accuracy of data and information.

In addition, the researcher also used a note-taking method during the process of interviews to identify the main points of the conversation. All of the interviews took place at the offices of the managers with most of the interviews taking place during their working hours. The use of the recorder is important to enable the researcher to refer to the data in its original form any time (Silverman, 2005). This information was reviewed several times before full transcription. The average time for each interview was 45 minutes. The interviewees who participated in this research were managers from local and foreign Islamic banks in Malaysia. The researcher has conducted seven interview sessions and Table 4.3 shows the profiles of interviewees for the semi-structured interviews.

Table 5.1
Profiles of Interviewees for Semi-structured Interview

<table>
<thead>
<tr>
<th>Islamic Banks (IB)</th>
<th>Managerial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>IB1</td>
<td>Head of Department</td>
</tr>
<tr>
<td>IB2</td>
<td>Branch Manager1</td>
</tr>
<tr>
<td></td>
<td>Branch Manager2</td>
</tr>
<tr>
<td>IB3</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>IB4</td>
<td>Head of Department</td>
</tr>
<tr>
<td></td>
<td>Senior Manager</td>
</tr>
<tr>
<td>IB5</td>
<td>Branch Manager</td>
</tr>
</tbody>
</table>
C. Overcoming the bias issue in interviews

The information obtained from the interviews should be free from errors or inaccuracies (bias) in the data. Biases could result from the researcher, the interview participants or the situation (Sekaran, 2003). These are the strategies proposed and being considered by the researcher in this study to avoid or minimise the biases in interview (Kvale, 1996; Sekaran, 2003; Bryman and Bell, 2011):

1. Preparation for the interview; the researcher needs to be knowledgeable or in other words is thoroughly familiar with the focus of the interview, the organisation and environment.

2. Structuring the interview questions; the researcher needs to formulate the questions in a way that will help the participants to answer the research questions and to make sure the questions flow reasonably well. Providing the interview participants with the interview themes before the actual interview would enable them to consider and prepare the information requested.

3. Establishing credibility and rapport; the researcher must establish good rapport and gain the confidence of the interviewees before they can start answering the interview questions. The researcher should also demonstrate the skills, ability, confidence and enthusiasm to establish credibility with the interview participants.

4. Motivating participants to respond; this could be achieved by being pleasant, sincere, sensitive, and non-evaluative. The researcher could motivate the interviewees to give honest and truthful answers by explaining the significance and contribution of the information provided to the study.

5. Clear and unbiased questions; it is important for the researcher to ask questions in a way that biases could be avoided. For example, offer clarification when needed and avoid giving any inappropriate suggestions.

6. Steering and critical; the researcher controls the course of the interview by being familiar with the purpose of the interview and what knowledge it is important to acquire. At the same time, the researcher does not take all information at face value, but questions critically to test the reliability and validity of the responses.
7. Ethically sensitive; the researcher is sensitive to the ethical dimension of interviewing by ensuring the participant understands what the research is about and its objectives, and the importance of their responses to the research conducted. Finally, the interview participants should be informed that their answers will be treated confidentially.

5.6.2 Data Analysis Methods

5.6.2.1 Statistical Analysis for the Questionnaire Survey

After the process of data collection, the next step is to analyse and interpret the data. The researcher has used IBM SPSS Statistics version 20 to analyse the data for this study. This section presents the methods of analysis used and the details of the particular tests used are explained below:

1. Descriptive analysis

Descriptive analysis or descriptive statistics describe the phenomena of interest; for instance how frequently certain phenomena occur (frequencies), the mean or average score of a set of data collected, and the extent of variability in the set (central tendency and dispersion) of the dependent and independent variables (Sekaran, 2003). For this study, the researcher used frequency distribution and measures of central tendency (Mean) to describe the data in the first part of analysis.

2. Factor Analysis

Factor analysis helps in reducing a vast number of variables to a meaningful, interpretable, and manageable set of factors (Sekaran, 2003). It is employed in relation to multiple-indicator measures to determine whether groups of indicators tend to bunch together to form different clusters, referred to as factors (Bryman and Bell, 2011). In this study, factor analysis is used to reduce the number of variables related to bank selection criteria to produce a manageable set of factors.
3. Kruskal-Wallis Test

Kruskal-Wallis Test is the non-parametric alternative to a one-way between groups analysis of variance. This test allows researcher to compare the scores on some continuous variable for three or more groups which means that scores are converted to ranks and the mean rank for each group is compared (Pallant, 2001). This test is used to test the statistical differences between the means for each of the selection factors among ethnic groups in Malaysia.

4. Mann-Whitney Test

The Mann-Whitney test is a nonparametric test to examine significant differences between two different groups and when the dependant variable is measured on an ordinal scale and the independent variable on a nominal scale (Sekaran, 2003). This test allows the researcher to compare scores for two different groups such as between male and female customers.

5. Regression Analysis

Regression analysis is a statistical tool to investigate the relationships between variables and it is used when the researcher seeks to ascertain the causal effect of one variable upon another (Sykes, 1993). In this research, regression analysis is used to identify the relationship between variables (service quality, satisfaction, loyalty) as well as to identify the significant independent variables that constituted strong predictors to customer satisfaction. In particular, regression analysis is used to determine which dimension of service quality that has a relationship and predicts customer satisfaction, indicating a prediction of one variable is made from another. Since this investigation involves more than two independent variables, multiple regression analysis is conducted to assess the effect of the six service quality dimensions on customer satisfaction. Multiple regression analysis shows how much variance in the dependant variable can be explained by the independent variables, which indicate the relative contribution of each independent variable (Pallant, 2001).
Regression Equations

Regression Equation 1

Taking into account the use of six service quality dimensions as independent variables to explain the dependent variable which is customer satisfaction, the following regression equation is formulated:

\[ CS = \alpha + b_1 TG + b_2 RS + b_3 EP + b_4 AS + b_5 RL + b_6 CE + e \]

Where:
- CS: Satisfaction; TG: Tangibles; RS: Responsiveness; EP: Empathy; AS: Assurance; RL: Reliability; CE: Compliance-Ethical; \( \alpha \): constant; e: error

Based on the regression equation above, customer satisfaction in this study is measured or predicted by the explanation of the relationship between satisfaction and service quality dimensions. There are different types of multiple regression analysis (Pallant, 2001). The often used method is stepwise as it produces output which is simpler to interpret (Foster, 1998), it considers variables to include in the model and chooses the best predictors of the dependent variable (Hair et al., 1998). Similarly, Tabachnick and Fidell (2001) also shared the same view and suggested that the method skims the unnecessary variables and accepts the mostly meaningful and significant variables to the model.

Regression Equation 2

With the inclusion of independent and dependent variables, the following regression equation is formulated:

\[ CL = \alpha + b_1 TG + b_2 RS + b_3 EP + b_4 AS + b_5 RL + b_6 CE + e \]

Where:
- CL: Loyalty; TG: Tangibles; RS: Responsiveness; EP: Empathy; AS: Assurance; RL: Reliability; CE: Compliance-Ethical; \( \alpha \): constant; e: error
Regression Equation 3

\[ CL = \alpha + b_1 CS + e \]

Where:
CL: Loyalty; CS: Satisfaction; \( \alpha \): constant; \( e \): error

Control variables

Control in scientific research refers to control of variance; for example in setting up an experiment, there is an experimental group and a so-called control group as a form of control (Pedhazur, 1997). However, in non-experimental research, the predictors are beyond the manipulative control of the researcher suggesting the use of statistical control is important because the researcher has to be able to control the effects of some variables while investigating the effects of other variables (Pedhazur, 1997). In this study, demographic variables such as gender, age, ethnicity, income, education, and duration of banking relationship are considered as control variables.

5.6.2.2 Validity and Reliability

When using a questionnaire to obtain primary data, it is crucial to ensure the validity and reliability of the data collected. The questionnaire used in this study has gone through several stages before it was distributed. Firstly, the draft of the questionnaire was reviewed by experts from the university to judge how well the scale items measured all of the constructs and variables in order to ensure content validity. Next, the draft was piloted to several academics in Malaysia as well as the actual customers to determine the appropriateness of the questions listed in the questionnaire. Then, a reliability test was conducted to examine the consistency of the instrument.
One of the most commonly used techniques in measuring the reliability of the questionnaire items is Cronbach’s alpha. Cronbach’s alpha is based on the average correlation of items within a test if the items are standardised. If the items are not standardised, it is based on the average covariance among the items. Cronbach’s alpha ranges in value from 0 to 1. The closer the Cronbach’s Alpha is to 1, the higher the internal consistency reliability. Pallant (2001) suggests that for a set of items that is to be accepted as having satisfactory internal consistency and reliability, the Cronbach’s Alpha should be greater than 0.7. In this study, the value for Cronbach’s Alpha in the questionnaire is 0.959 which indicates that all items are considered reliable with high consistency for further investigation. Table 4.2 below shows the Cronbach’s Alpha value derived from the SPSS software.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.959</td>
<td>.960</td>
<td>56</td>
</tr>
</tbody>
</table>

5.6.2.3 Thematic Analysis for the Semi-structured Interview

There are various approaches to the analysis of qualitative data. Thematic analysis is considered as one of the most common ways in analysing qualitative data (Bryman and Bell, 2011). This is due to the flexibility of this type of analysis which could potentially provide good data (Braun and Clarke, 2006). Furthermore, thematic analysis is useful in organising and describing the data set in order to identify, analyse and report patterns or themes within data (Braun and Clarke, 2006). In this type of analysis, the investigator looks for themes which are present in the interviews and subsequently provides a framework to compare the answers from different interviewees (Gomm, 2008). In this study, thematic analysis is utilised in order to understand and making comparisons between all set of answers from the interview participants.
Under thematic analysis, there are common strategies in analysing the interview data. The investigator needs to decide what are the themes, what will count as evidence of a theme, coding a transcript as an indication that this statement refers to this theme, and then starts the analysis in terms of which interviewees said that, and what particular theme it relates to (Gomm, 2008). Those are the strategies being considered by the researcher for this study. Firstly, the recorded interviews were manually transcribed into written texts by the researcher in order to analyse the data thoroughly. All of the interview conversations were typed in a separate file according to each interviewee. Secondly, the researcher read through all of the transcribed data to obtain general overview of the information provided by the interviewees and reflects on the meaning of the answers before any data classification was made. Next, the written texts were then separated based on each question so that responses were collectively gathered for that particular question. Each response from the interviewees was then coded and categorised to identify the themes that the data belong to. Then, the researcher sorted out the responses into categories or themes based on the questions. Finally, the themes that dominate the responses are tied together into a descriptive explanation by the researcher.

5.7 Research Sampling

Sampling refers to the process of selecting a sufficient number of elements from the population, so that research of the sample and an understanding of its characteristics could possibly lead to the ability to generalise such characteristics (Sekaran, 2003). Due to certain limitations and constraints such as time, budget and information access, the use of a sample which is a subset of the population is appropriate for this research. According to Sekaran (2003) there are two types of sampling design namely probability sampling and non-probability sampling. Probability sampling indicates that the chance or probability of the elements in the population being selected is known. Meanwhile, non-probability sampling means that the probability of each element being selected from the total population is not known.

Meanwhile, Teddlie and Yu (2007) state that there are four broad categories in sampling for the social and behavioural sciences. The first category is probability sampling which includes random sampling, stratified sampling, cluster sampling,
and sampling using multiple probability techniques. Primarily being used in quantitative research, it involves “selecting a relatively large number of units from a population, or from specific subgroups (strata) of a population, in a random manner where the probability of inclusion for every member of the population is determinable” (Tashakkori and Teddlie, 2003, p. 713).

The second category is purposive sampling that covers sampling to achieve representativeness or comparability, sampling special or unique cases, sequential sampling, and sampling using multiple purposive techniques. These types of sampling are primarily used in qualitative research and may be defined as selecting units such as individuals or institutions based on the particular ability to answer the research question (Teddlie and Yu, 2007).

The third category of sampling is convenience sampling that includes captive or volunteer samples. This category is associated with accessibility and the willingness of those being sampled to participate in the research (Teddlie and Yu, 2007). Accordingly, convenience sampling is mostly used during the exploratory phase of a research project and is perhaps the best way of getting the information needed in a quick and efficient way (Sekaran, 2003). The final category is mixed methods sampling that covers basic mixed methods sampling, sequential mixed methods sampling, concurrent mixed methods sampling, multilevel mixed methods sampling and combination of mixed methods sampling strategies. Mixed methods sampling strategies are distinguished by the combination of the probability and purposive sampling positions with a purpose to generate a sample that will address research questions (Teddlie and Yu, 2007).

The present study employs one of the types from mixed methods sampling namely concurrent mixed methods sampling. This design allows researchers to triangulate the results from the separate quantitative and qualitative components of their research (Teddlie and Yu, 2007) and subsequently “confirm, cross-validate, or corroborate findings within a single study” (Creswell et al., 2003, p. 229). This study uses probability sampling techniques specifically stratified random sampling to gather the data needed from the survey designed for the customers of Islamic banking in Malaysia. In this sampling strategy, the population is first divided into
mutually exclusive groups that are relevant, suitable and meaningful in the context of the study (Sekaran, 2003). On the other hand, purposive sampling techniques where respondents are selected on the basis of the groups that the research addresses (Rowley, 2012; Silverman, 2010) are used to generate data from the qualitative design which are the semi-structured interviews with the managers from Islamic banks in Malaysia. Accordingly, combining the two orientations allows the researcher to generate complementary databases that include information that have both depth and breadth regarding the phenomenon under study (Teddlie and Yu, 2007).

5.7.1 Research Sample for the Questionnaire Survey

Islamic banking in Malaysia has steadily increased and to date, there are 16 Islamic banks operating within the country. Table 4.1 below displays the Islamic banks that are included in the present study.

Table 5.3: List of Banks Included in the Present Study

<table>
<thead>
<tr>
<th>No</th>
<th>List of Islamic Banks Operating in Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Affin Islamic Bank Berhad</td>
</tr>
<tr>
<td>2</td>
<td>Al Rajhi Banking &amp; Investment Corporation</td>
</tr>
<tr>
<td>3</td>
<td>Alliance Islamic Bank Berhad</td>
</tr>
<tr>
<td>4</td>
<td>AmIslamic Bank Berhad</td>
</tr>
<tr>
<td>5</td>
<td>Asian Finance Bank Berhad</td>
</tr>
<tr>
<td>6</td>
<td>Bank Islam Malaysia Berhad</td>
</tr>
<tr>
<td>7</td>
<td>Bank Muamalat Malaysia Berhad</td>
</tr>
<tr>
<td>8</td>
<td>CIMB Islamic Bank Berhad</td>
</tr>
<tr>
<td>9</td>
<td>Hong Leong Islamic Bank Berhad</td>
</tr>
<tr>
<td>10</td>
<td>HSBC Amanah Malaysia Berhad</td>
</tr>
<tr>
<td>11</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
</tr>
<tr>
<td>12</td>
<td>Maybank Islamic Berhad</td>
</tr>
<tr>
<td>13</td>
<td>OCBC Al-Amin Bank Berhad</td>
</tr>
<tr>
<td>14</td>
<td>Public Islamic Bank Berhad</td>
</tr>
</tbody>
</table>
Therefore, the target respondents for this research are customers from these Islamic banks. Individuals above 18 years old who make use of any of the services of the bank are the target population of the study. The sample for this study consists of customers from two major cities in Malaysia namely Kuala Lumpur and Selangor because both cities are considered as high diversity states (Yeoh, 2013), they have all major economic activities present and offer easy access to all of the Islamic banks. The degree of ethnic diversity is measured using the index of ethnic fractionalisation (EFI) which indicates the probability of randomly selected pair of individuals belongs to different ethnic groups (Yeoh, 2013). The target participants for the interview also include the managers from the banks listed above. As this research focuses on the diversity of customers and its relationship with their behaviour, the sample from this diverse population is deemed suitable and appropriate.

5.7.2 Research Sample for Interview

A common question related to sampling in qualitative research is the number of interview participants needed (Kvale, 2007). Kvale (2007) further argued that the number of interview subjects necessary depends on the purpose of a study. This view is supported by Gillham (2005) who pointed out the number of interviews needed could be determined by the nature of that particular study, being preliminary or, exploratory, or to develop a framework. However, qualitative studies usually use small sample sizes because of the intensive and in-depth nature of the research (Sekaran, 2003). In this research, the selection of the interviewees was based on purposive sampling. The rationale for using purposive sampling is because this research intends to examine the selection factors, satisfaction and loyalty from managerial perspectives. Therefore, bank managers particularly those who have access to the information related to their customers are specifically targeted for this study as it was anticipated that these participants would provide the information needed to answer the research questions.
The first approach taken by the researcher was to make preliminary contact with the targeted respondents by telephone, email and walk-in, explaining the purpose of the research and to make an application requesting an interview. A sample of 16 Islamic banks was identified and targeted to conduct the semi-structured interview. Accordingly, an email was sent to these targeted individuals to obtain an approval for the interview and this included a supporting letter from the university. Then, this would be followed up with a telephone conversation to remind and encourage the potential subjects to participate in this study. The final approach was by visiting the branches around the Klang valley area to request an interview participants and this enabled the researcher to explain in detail about the research. Consequently, seven bank managers from five Islamic banks agreed to be interviewed for this research.

5.8 Conclusion

This chapter discusses the research framework and methodologies used in this study. It began with the research philosophy and pragmatism paradigm was adopted as a philosophical stance for this research. This is due to the mixture and combination of methods used in this study to address the research question which is important for pragmatists. Then, the chapter highlights the research strategy, methodology and design used in this research. In particular, mixed methods approach was employed for this study. As previously stated, the primary data for this study came from the questionnaire survey and semi-structured interview as the chosen methods used to gather the data needed to answer the research questions. In addition, the methods for analysing the primary data include the use of various analyses such as factor analysis, Kruskal-Wallis and Mann-Whitney test, regression analysis and thematic analysis.

The combination of quantitative and qualitative research approach allows the researcher to understand the investigated issues from the different experience and background of the participants, how people interpret their experiences and the meaning of them. The ability to generate comprehensive data in order to answer the research questions justified the used of this type of approach and methodology.
Accordingly, the findings from the qualitative method through semi-structured interview would complement the findings from the questionnaire survey.

However, there are limitations to the research methodology chosen. Firstly, there is difficulty in interpreting results from both quantitative and qualitative methods. There are possibly issues on how to integrate the data and how to bring some meaningful findings from it. This is mainly challenging if there is a conflicting results. Secondly, mixed methods research is associated with validity problem because assessing the validity of findings in this type of research is complex (Onwuegbuzie and Johnson, 2006). Furthermore, some scholars believed that a researcher should choose either quantitative or qualitative paradigm, without combining both because of the large amount of data and data integration problem.
CHAPTER SIX

PERСПECTIVE OF CUSTOMERS ON SELECTION FACTORS,
SATISFACTION AND LOYALTY

6.1 Introduction

This chapter presents the results of the analyses through different statistical tests as discussed in Chapter Five, to test the hypotheses developed in this study. The first section of the chapter begins with the descriptive analysis of the respondents participated in the survey used for this research. Descriptive analysis implies that raw data are transformed into a form that provides information to describe a set of factors in a situation (Sekaran, 2003). The presentation of the characteristics of the sample such as gender, age, ethnicity, religion, education, income level, and duration as a customer are important to provide better understanding on their perceptions towards investigated issues in this research. Subsequently, this chapter examines the perception of Islamic banking customers on the importance of various selection factors and their level of satisfaction as well as loyalty towards the banking providers. Additionally, this chapter also attempts to compare the responses among multi-ethnic groups of customers and examining any significant differences between the groups.

6.2 Response Rate

In general, sample sizes more than 30 and less than 500 are appropriate for most research, while for multivariate research including multiple regression analyses, it is suggested that the sample size should be several times more than the number of variables in the research (see details in Sekaran, 2003). Referring to this, a total of 450 questionnaires were distributed to the Islamic banks customers in the chosen states within the period of data collection. As a result, 302 responses generated, out of which 272 were usable, valid and completed. This gives the response rate of 60.4 percent. Accordingly, the sample size and responses was considered sufficient and met the requirements to conduct the statistical analysis chosen for this study (Pallant, 2001).
6.3 **Background of Respondents**

A descriptive statistic is important to provide a preliminary understanding on the background of respondents participated in research. This type of analysis is common and widely used in previous studies particularly those utilising surveys in order to understand the characteristics of such respondents. This section begins with a detailed descriptive analysis on the demographic characteristics of the respondents which include gender, age, ethnic, religion, education and income level, list of the Islamic banks, and the duration as a customer. The results would provide insights into the perceptions of Islamic banking customers in Malaysia, which coming from different ethnic groups and cultures. The sample of the respondents was taken from customers of Islamic banks in Klang Valley area which covered Kuala Lumpur and includes cities in the state of Selangor.

**6.3.1 Background of Respondents by Gender and Age**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>107</td>
<td>39.3</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>60.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 20</td>
<td>9</td>
<td>3.3</td>
</tr>
<tr>
<td>21-30</td>
<td>114</td>
<td>41.9</td>
</tr>
<tr>
<td>31-40</td>
<td>92</td>
<td>33.8</td>
</tr>
<tr>
<td>41-50</td>
<td>46</td>
<td>16.9</td>
</tr>
<tr>
<td>Above 50</td>
<td>11</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

As depicted in Table 6.1, majority of the respondents were female (60.7 percent) compare to male (39.3 percent). It seems that the opinions reflected in this research were predominantly made by female customers. Then, in terms of age group, the
combination of respondents between age 21-30 and 31-40 represents 75.7 percent of the total respondents. This indicates that the opinions expressed in the survey reflect the perceptions of younger and middle-aged respondents. The age group of 41-50 represents 16.9 percent while the remaining two age groups were relatively represent small percentage with above 50 at 4.0 percent and below 20 at 3.3 percent. The above result shows that Islamic banking customers in Malaysia were predominantly represented by the young and middle-aged segments. The findings may be due to few reasons such as higher awareness on the products and services among younger generations, or due to the competitiveness of Islamic banks in Malaysia. Furthermore, it seems that there was less participation among the older segment of customers. This could be due to their low involvement in the Islamic banking industry or their reluctance in taking part in this research.

6.3.2 Background of Respondents by Ethnicity and Religion

Table 6.2

<table>
<thead>
<tr>
<th>Ethnicity:</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malay</td>
<td>125</td>
<td>46.0</td>
</tr>
<tr>
<td>Chinese</td>
<td>107</td>
<td>39.3</td>
</tr>
<tr>
<td>Indian</td>
<td>40</td>
<td>14.7</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Religion:</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslim</td>
<td>128</td>
<td>47.1</td>
</tr>
<tr>
<td>Hindu</td>
<td>31</td>
<td>11.4</td>
</tr>
<tr>
<td>Buddhist</td>
<td>77</td>
<td>28.3</td>
</tr>
<tr>
<td>Christian</td>
<td>30</td>
<td>11.0</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

The results illustrated in Table 6.2 shows that 46 percent of the respondents were Malay followed by 39.3 percent of Chinese respondents, and about 14.7 percent of the respondents were Indian. It shows that the largest percentage of respondents were
from Malay ethnic group. As for the religion category, the findings indicate that 47.1 percent of the total respondents were Muslim, followed by Buddhist at 28.3 percent, Hindu at 11.4 percent, Christian at 11.0 percent and Others at 2.2 percent. The findings indicate that more than half of the respondents were non-Muslim at 52.9 percent. The high representation from Malay and Muslim customers could be related to their commitment towards halal products and services. In particular, they want to ensure that their financial needs are Shariah compliant. Nevertheless, it appears that the acceptance level from other ethnic groups is also encouraging. The statistics are not surprising because the non-Muslim in Malaysia are very positive towards Islamic banking products and services. Meanwhile, it seems that the ethnic and religion classification in Malaysia are well reflected in the above statistics as the reported percentages were quite similar to the demographic population in the country.

6.3.3 Background of Respondents by Education and Income Level

<table>
<thead>
<tr>
<th>Table 6.3</th>
<th>Background of Respondents by Education and Income Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education:</td>
<td>Frequency</td>
</tr>
<tr>
<td>Primary/Secondary</td>
<td>26</td>
</tr>
<tr>
<td>College/Diploma</td>
<td>52</td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>145</td>
</tr>
<tr>
<td>Professional</td>
<td>16</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
</tr>
<tr>
<td>Income:</td>
<td>Frequency</td>
</tr>
<tr>
<td>1500 and below</td>
<td>51</td>
</tr>
<tr>
<td>1501-3000</td>
<td>71</td>
</tr>
<tr>
<td>3001-5000</td>
<td>98</td>
</tr>
<tr>
<td>5001-10000</td>
<td>50</td>
</tr>
<tr>
<td>10001-20000</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
</tr>
</tbody>
</table>
The next category of the background variables is the education and income level of the respondents. As depicted in Table 6.3 above, more than half of the total respondents hold a bachelor degree (53.3 percent), 19.1 percent have diploma, 11.8 percent are from postgraduate (master and PhD holders), 9.6 percent stated that they had primary/secondary school qualification while the remaining 5.9 percent and 0.4 percent have professional qualification and other qualification respectively. Meanwhile, the statistics show that majority of the respondents have monthly income within the range of RM 1501-RM 5000 (26.1+36.0=62.1 percent), 18.8 percent earning RM 1500 and below, 18.4 percent within the range of RM 5001- RM 10000 and the remaining 0.7 percent earning RM 10001-RM 20000.

This result reflects that majority of respondents were well educated and their educational background is significant to indicate the acceptance level of Islamic banking products and services among graduates. In terms of monthly income, the above information also shows that academic qualification does influence the amount of monthly income one may get. On the other hand, since the majority of respondents in this study were customers with high educational background, it implies that the respondents were capable to provide reliable responses and therefore produce reliable and valid findings. In summary, majority of respondents in this study appeared to be young and middle-aged customers, well-educated and middle-income earners which are common characteristics of Malaysian population in the urban area like Klang Valley.
### 6.3.4 Profiling the Customers of Islamic Banks

Table 6.4

**Profiling the Customers of Islamic Banks in Malaysia**

<table>
<thead>
<tr>
<th>List of Banks</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affin Islamic Bank Berhad</td>
<td>2</td>
<td>0.7</td>
</tr>
<tr>
<td>Al Rajhi Banking &amp; Investment Corporation (M) Berhad</td>
<td>2</td>
<td>0.7</td>
</tr>
<tr>
<td>Alliance Islamic Bank Berhad</td>
<td>2</td>
<td>0.7</td>
</tr>
<tr>
<td>AmIslamic Bank Berhad</td>
<td>7</td>
<td>2.6</td>
</tr>
<tr>
<td>Asian Finance Bank Berhad</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Bank Islam Malaysia Berhad</td>
<td>90</td>
<td>33.1</td>
</tr>
<tr>
<td>Bank Muamalat Malaysia Berhad</td>
<td>16</td>
<td>5.9</td>
</tr>
<tr>
<td>CIMB Islamic Bank Berhad</td>
<td>58</td>
<td>21.3</td>
</tr>
<tr>
<td>HSBC Amanah Malaysia Berhad</td>
<td>3</td>
<td>1.1</td>
</tr>
<tr>
<td>Hong Leong Islamic Bank Berhad</td>
<td>7</td>
<td>2.6</td>
</tr>
<tr>
<td>Kuwait Finance House (M) Berhad</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Maybank Islamic Berhad</td>
<td>65</td>
<td>23.9</td>
</tr>
<tr>
<td>OCBC Al-Amin Bank Berhad</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Public Islamic Bank Berhad</td>
<td>11</td>
<td>4.0</td>
</tr>
<tr>
<td>RHB Islamic Bank Berhad</td>
<td>5</td>
<td>1.8</td>
</tr>
<tr>
<td>Standard Chartered Saadiq Berhad</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 6.4 shows the statistics of the customers according to the Islamic banks that they deal with. The findings indicate that the largest group of customers were dealing with Bank Islam Malaysia Berhad (33.1 percent), followed by 23.9 percent customers from Maybank Islamic Berhad and 21.3 percent of respondents were dealing with CIMB Islamic Bank Berhad. The remaining customers of the Islamic banks were from Bank Muamalat Malaysia Berhad (5.9 percent), Public Islamic Bank Berhad (4 percent), AmIslamic Bank Berhad and Hong Leong Islamic Bank Berhad at 2.6 percent, RHB Islamic Bank Berhad (1.8 percent), HSBC Amanah Malaysia Berhad (1.1 percent), and a very small percentage of respondents (less than
1 percent) were dealing with the remaining seven Islamic banks as stated above. Despite the small representation of customers from several Islamic banks, all of the 16 Islamic banks operating in Malaysia were covered in this study. The above statistics reflect the market share for Islamic banking products and services in Malaysia whereas majority of respondents were customers from the three major Islamic banks in the country.

6.3.5 Profiling the Duration as a Customer with the Bank

<table>
<thead>
<tr>
<th>Duration with the Bank</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>30</td>
<td>11.0</td>
</tr>
<tr>
<td>1-3 years</td>
<td>79</td>
<td>29.0</td>
</tr>
<tr>
<td>3-5 years</td>
<td>44</td>
<td>16.2</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>119</td>
<td>43.8</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100</td>
</tr>
</tbody>
</table>

The results in Table 6.5 demonstrated that a large percentage of respondents were dealing with their banks for more than 5 years (43.8 percent) indicating that they had an established relationship with the banks and stayed with the same bank. Next, 29 percent of the respondents had dealt with the same bank for one to three years while another 16.2 percent were dealing with their banks for three to five years. The smallest percentage of respondents (11 percent) had dealt with their banks for less than a year. The findings show that a large number of customers (119 customers) stayed with the same bank for more than 5 years. This implies that there was a high level of loyalty among those customers. Hence, it is very important to investigate which factors motivate those customers to stay with Islamic banks.

This section provides a descriptive analysis on the demographic profiles of the respondents in this study. An understanding of the background of respondents is important for further inferential analysis to provide answers for the research questions and hypotheses. In summary, the analysis of demographic background of
respondents demonstrates broad characteristics in terms of their ethnicity, religion, gender, age, education and income level, as well as duration as a customer. The statistics also show similar composition of ethnic groups and religions in Malaysia. Thus, the findings in this research are highly influenced by multi-ethnic customers from various Islamic banks in Malaysia to provide reliable responses.

6.4 Customer Selection Criteria

This section discusses the findings on factors that motivate customers to choose Islamic banks. Accordingly, this section seeks to identify the factors which are considered as important to the multi-ethnic customers in Malaysia. To obtain general overview of customers towards the importance of various selection factors, 25 different variables or selection factors were identified and incorporated into the questionnaire. The respondents had to rate each of selection factors according to their preferences. The responses were designed based on 5 point Likert scale ranging from 1=Not important at all to 5=Very important.

6.4.1 Factor Analysis: Selection Factors among Customers

In this study, an exploratory factor analysis is applied to all the 25 items within the selection criteria section. Factor analysis is a data reduction technique by looking for groups among the inter-correlations of a set of variables (Pallant, 2001). This type of analysis is able to reduce a large number of related variables to a more manageable factor, which then can be used in other analysis such as multiple regression (Pallant, 2001). There are two different types of factor analysis. Firstly, an exploratory type which the relationships between several variables are examined without determining the extent to which the results fit a particular model (Bryman and Cramer, 2009). Secondly, confirmatory factor analysis where it compares the solution found against a hypothetical one (Bryman and Cramer, 2009).

Before conducting the analysis, there are two main issues to consider in determining whether a particular data set is suitable for factor analysis: sample size and the strength of the relationship among the variables (Pallant, 2001). This is indicated by
two statistical measures generated by the SPSS software to help assess the factorability of the data: Bartlett’s test of sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Pallant, 2001). The Bartlett’s test of sphericity should be significant (p < 0.05) for the factor analysis to be considered as appropriate. The KMO index ranges from 0 to 1, with 0.6 that was suggested as the minimum value for a good factor analysis (Tabachnick and Fidell, 1996). Table 6.6 presents the results of the statistical tests that support the use of factor analysis for this study.

<table>
<thead>
<tr>
<th>Table 6.6</th>
<th>KMO and Bartlett’s Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</td>
<td>.885</td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>3041.685</td>
</tr>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td>df 300, Sig. .000</td>
</tr>
</tbody>
</table>

The table above shows the Kaiser-Meyen-Olkin (KMO) for all 25 variables related to the bank selection criteria. The value of 0.885 indicates that all measures of sampling adequacy are well above an acceptable level of 0.50 (Coakes and Steed, 2003). The Bartlett’s Test of Sphericity also encouraging as it reaches a statistical significance of 0.000 (p < 0.05) as presented in Table 6.6 above, supporting the factorability of the correlation matrix. Therefore, factor analysis is recommended and might be carried out. All of the items related to bank selection criteria will then be subjected to principal component analysis (PCA), and varimax rotation with the Kaiser Normalisation. In this PCA analysis, the original variables are transformed into a smaller set of linear combinations, with all of the variance in the variables being used (Pallant, 2001).

The next part is determining how many factors to retain. This could be done by using two main criteria (Bryman and Cramer, 2009). The first one is Kaiser’s criterion whereby factors which have an eigenvalue of greater than one are selected. This eigenvalue rule technique is one of the most commonly used as only factors with an eigenvalue of 1.0 or more are retained (Pallant, 2001). Then, the second criterion is using the graphical scree test proposed by Cattell (1966). The number of factors to
be retained are indicated by factors that lie before the point of the eigenvalues seem to level off (Bryman and Cramer, 2009).

**Table 6.7: Total Variance Explained for Selection Criteria**

<table>
<thead>
<tr>
<th>Item</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>8.101</td>
<td>32.405</td>
</tr>
<tr>
<td>2</td>
<td>2.541</td>
<td>10.165</td>
</tr>
<tr>
<td>3</td>
<td>1.660</td>
<td>6.641</td>
</tr>
<tr>
<td>4</td>
<td>1.406</td>
<td>5.626</td>
</tr>
<tr>
<td>5</td>
<td>1.136</td>
<td>4.545</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

As for the first technique (Kaiser’s criterion), the result generated five factors as indicated in Table 6.7 with an eigenvalue that is greater than 1.0. These five factors are accounted for 59.38 percent of variance. Factor 1 explains 32.41 percent, Factor 2 explains 10.17 percent, Factor 3 explains 6.64 percent, Factor 4 explains 5.63 percent, and Factor 5 explains 4.55 percent of the total variance.

Meanwhile, for the second criterion (Catell’s scree test), figure 6.1 indicates a break between the steep slope on the initial factors and after the fifth factor, it gradually straightening for the rest of the factors. Therefore, both criteria propose that five factors are relevant to be retained.
Table 6.8: Rotated Component Matrix on Factors Influencing Selection Criteria

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank contributes towards Zakah payment</td>
<td>.811</td>
</tr>
<tr>
<td>Bank’s financial activities according to Islamic law</td>
<td>.804</td>
</tr>
<tr>
<td>Religious commitment</td>
<td>.793</td>
</tr>
<tr>
<td>Ethical investment by the bank</td>
<td>.569</td>
</tr>
<tr>
<td>Bank promotes ethical values in its financial activities</td>
<td>.547</td>
</tr>
<tr>
<td>Fast and efficient services</td>
<td>.773</td>
</tr>
<tr>
<td>Internet banking facilities</td>
<td>.644</td>
</tr>
<tr>
<td>Convenient location of the bank</td>
<td>.628</td>
</tr>
<tr>
<td>Reputation and image of bank</td>
<td>.606</td>
</tr>
<tr>
<td>Availability of ATMs</td>
<td>.558</td>
</tr>
<tr>
<td>Wide branch network</td>
<td>.470</td>
</tr>
<tr>
<td>Friendliness of bank’s personnel</td>
<td>.469</td>
</tr>
</tbody>
</table>
Next, the rotated solution as shown in Table 6.8 discovered five factors with a number of high and acceptable loadings. Next, for an item to be considered belong to any particular factor, the size for their factor loading should be above 0.3 (Coakes and Steed, 2003). Furthermore, the indication for any particular variable belongs to certain factor relies on the size of loading, with higher loading determines which factor it belongs (Vaus, 2002). The above results show the size for all items exceed 0.3 and the highest loading for each item is shown in Table 6.8.

Factor 1 which encompasses the Religious and Ethical associated criteria is considered to be the most important factors perceived by the Islamic bank customers with the highest percentage of variance (32.41%) as presented in Table 6.7. This factor includes ‘bank contributes towards zakah payment’, ‘bank’s financial activities according to Islamic law’, ‘religious commitment’, ‘ethical investment by the bank’, and ‘bank promotes ethical values in its financial activities’. The result indicates the importance of adherence to the Islamic principles as discussed in Chapter 3. For instance, this factor includes the key point of Islamic principle which

<table>
<thead>
<tr>
<th>Customer service quality</th>
<th>.704</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competent and knowledgeable personnel</td>
<td>.687</td>
</tr>
<tr>
<td>Parking facilities</td>
<td>.659</td>
</tr>
<tr>
<td>Competitive profit margin</td>
<td>.627</td>
</tr>
<tr>
<td>Bank’s involvement in charity and community projects</td>
<td>.403</td>
</tr>
<tr>
<td>Mass media advertisement by bank</td>
<td>.678</td>
</tr>
<tr>
<td>Attractive interior of the bank</td>
<td>.624</td>
</tr>
<tr>
<td>Recommendation by family and friends</td>
<td>.611</td>
</tr>
<tr>
<td>Size of bank</td>
<td>.593</td>
</tr>
<tr>
<td>Wide range of products offered</td>
<td>.486</td>
</tr>
<tr>
<td>Hours of operation</td>
<td>.740</td>
</tr>
<tr>
<td>Bank’s imposes low services charges</td>
<td>.676</td>
</tr>
<tr>
<td>Interest-free transaction by bank</td>
<td>.518</td>
</tr>
</tbody>
</table>
is the prohibition of *riba, gharar, maysir*, and any prohibited elements or businesses that is reflected by both items: ‘bank’s financial activities according to Islamic law’ and ‘religious commitment’. Furthermore, the main objective for the establishment of Islamic banks is to provide a financial system based on the Islamic principles so that Muslims do not involve in prohibited financial activities (Zaher and Hassan, 2001).

This finding is partly consistent with the studies of Metawa and Almossawi (1998); Bley and Kuehn (2004); Sayani and Miniaoui (2013) which placed religious motivation as the most significant factor for their respondents. Likewise, the finding is also similar to Osman et al. (2009) who argued that Malaysian choose to deal with Islamic banks as it conforms to their religious values. Meanwhile, Sadek et al. (2010) concluded that the customers appreciate Islamic bank for religious provision rather than service quality offered, which is slightly similar to the finding in this study. On the other hand, ethical factor is also considered important in the selection of customers as proposed by Muhamad et al., (2012) and Muhamad and Alwi (2015). Hence, the combination of religious and ethical elements is ranked as the most important selection factor to Malaysian customers because it attracts religious and ethics conscious segment of customers.

The second important factor is the ‘Services and Convenience’ which contributes 10.17 percent of the total variance and involves ‘fast and efficient services’, ‘internet banking facilities’, ‘convenient location of the bank’, ‘reputation and image of bank’, ‘availability of ATMs’, ‘wide branch network’, and ‘friendliness of bank’s personnel’. This reflects that good service and facilities are vital to ensure that customers choose and stay with an Islamic bank. Then, the third factor is Service Quality and Benefit which comprises ‘customer service quality’, ‘competent and knowledgeable personnel’, ‘parking facilities’, ‘competitive profit margin’, and ‘bank’s involvement in charity and community projects’. This factor contributes 6.64 percent variance. Both factors are in line with the pyramid of *maslahah* that proposed the needs of *hajiyyat* (complementary) and *tahsiniyyat* (embellishments) elements in the operation of Islamic banks. For instance, Islamic banks personnel must be competent and knowledgeable in order to provide fast, efficient and reliable services to the customers. In addition, the bank’s involvement in charity and
community projects demonstrates good initiatives by Islamic institutions to achieve embellishment for the society.

Factor four which associated with External criteria, with 5.63 percent of total variance and includes ‘mass media advertisement by bank’, ‘attractive interior of the bank’, ‘recommendation by family and friends’, ‘size of bank’, and ‘wide range of products offered’. The final factor is Operational and Charges which involves ‘hours of operation’, ‘banks imposes low services charges’, and ‘interest-free transaction by bank’. This factor constitutes 4.55 percent of total variance and seems to be the least important factor by the customers.

The result from the factor analysis indicates that customers placed the religious and ethical elements as the most important factor that attract them to bank with Islamic banks. There are three plausible reasons for this result. Firstly, the combination of religious and ethical elements made this factor applicable to both Muslim and non-Muslim customers. Even though the majority of respondents were Malays (46%), the percentage of non-Muslim participated in this research was higher than the Muslim. It shows that while the Muslim customers placed religious motivation as their main priority, the non-Muslim ranked ethical elements as their high priority as well. Secondly, there is a growing interest on ethical products around the globe signifying that many customers are looking for ethical solution and Islamic banking products and services could give them this option. Thirdly, there is a growing concern and awareness among Muslim in Malaysia regarding halal products particularly involving financial transaction making Islamic banking as their preferred choice.

6.4.2 Comparative Analysis between Selection Factors and Ethnicity, Religion, Gender, Age, Education, Income, and Duration

Having used factor analysis to identify the five factors determining the selection of Islamic banks in Malaysia, this section proceeds with the inferential analyses to compare the differences among respondents as it is important to note that all respondents are not homogenous and they consist of different demographic backgrounds such as gender, age, ethnicity, religion, education, and income level.
Presumably, not all groups of customers would apply the same degree of importance on these factors. Moreover, the duration of being a customer is also included for further analysis in order to know its influence towards customer selection, satisfaction and loyalty. Based on prior literatures, it is assumed that ethnicity could affect human behaviour and attitudes signifying that different ethnic groups of customers may have dissimilar perception on all selection factors. Hence, it is imperative to investigate whether there is any significant difference in the perception of customers from various demographic backgrounds towards the bank selection factor derived in the previous section. Accordingly, Kruskal-Wallis Test and Mann-Whitney Test were undertaken to analyse the differences between various demographic profile among respondents and the results are explained below.

**Table 6.9**

Kruskal-Wallis Test Comparing Selection Factors amongst Various Ethnic Groups

<table>
<thead>
<tr>
<th>Factor</th>
<th>Ethnic</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1 (Religious and Ethical)</td>
<td>Malay</td>
<td>125</td>
<td>188.84</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>86.73</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>106.09</td>
<td></td>
</tr>
<tr>
<td>Factor 2 (Services and Convenience)</td>
<td>Malay</td>
<td>125</td>
<td>144.10</td>
<td>.021</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>120.75</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>154.88</td>
<td></td>
</tr>
<tr>
<td>Factor 3 (Service Quality and Benefit)</td>
<td>Malay</td>
<td>125</td>
<td>149.68</td>
<td>.008</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>118.45</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>143.59</td>
<td></td>
</tr>
<tr>
<td>Factor 4 (External)</td>
<td>Malay</td>
<td>125</td>
<td>164.00</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>106.41</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>131.05</td>
<td></td>
</tr>
<tr>
<td>Factor 5 (Operational and Charges)</td>
<td>Malay</td>
<td>125</td>
<td>152.48</td>
<td>.005</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>120.09</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>130.46</td>
<td></td>
</tr>
</tbody>
</table>
Table 6.9 displays a comparative analysis between the importance of five selection factors and ethnicity of the customers. The analysis above demonstrates that the Malay, Chinese and Indian respondents were significantly different in their perception towards the importance of all five selection factors namely religious and ethical \((p=0.000)\), services and convenience \((p=0.021)\), service quality and benefit \((p=0.008)\), external \((p=0.000)\), and operational and charges \((p=0.005)\). The analysis reveals that each ethnic group stands on a different opinion pertaining to the importance of these factors.

To further investigate which group of customers placed the highest or lowest importance to the set of factors, an inspection on the mean rank is needed. The mean rank column shows that in general, Malay and Indian respondents placed more importance to all five factors compared to the Chinese respondents. Based on the ethnic preferences, Malay respondents perceived religious and ethical factor to be the most important factor in choosing an Islamic bank. Meanwhile, the Chinese and Indian respondents perceived services and convenience factor to be the most important factor. The lowest mean rank with the value of 86.73 came from Chinese respondents for religious and ethical factor. On the other hand, the highest mean rank with the value of 188.84 came from Malay respondents for the same factor namely religious and ethical. It shows that this factor could attract Malay customers but has no significant effect for Chinese customers. Accordingly, this finding contradicts with a study done by Mokhlis et al. (2010) whereas in their research, all the three major ethnic groups in Malaysia rated the same factors for the most important and least important factor; feeling secure and people influence respectively. In conclusion, the first hypothesis \((H_1)\) is accepted as there is a significant difference between ethnicity of customers and (a) religious and ethical, (b) services and convenience, (c) service quality and benefit, (d) external, and (e) operational and charges.
Table 6.10

Kruskal-Wallis Test Comparing Selection Factors amongst Various Religions

<table>
<thead>
<tr>
<th>Factor</th>
<th>Religion</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1 (Religious and Ethical)</td>
<td>Muslim</td>
<td>128</td>
<td>189.04</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>105.65</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>93.12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>75.02</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>39.33</td>
<td></td>
</tr>
<tr>
<td>Factor 2 (Services and Convenience)</td>
<td>Muslim</td>
<td>128</td>
<td>145.17</td>
<td>.064</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>153.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>124.59</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>108.87</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>157.25</td>
<td></td>
</tr>
<tr>
<td>Factor 3 (Service Quality and Benefit)</td>
<td>Muslim</td>
<td>128</td>
<td>150.01</td>
<td>.023</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>146.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>121.99</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>116.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>86.58</td>
<td></td>
</tr>
<tr>
<td>Factor 4 (External)</td>
<td>Muslim</td>
<td>128</td>
<td>163.79</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>137.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>109.18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>104.27</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>63.67</td>
<td></td>
</tr>
<tr>
<td>Factor 5 (Operational and Charges)</td>
<td>Muslim</td>
<td>128</td>
<td>152.52</td>
<td>.012</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>129.29</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>126.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>103.47</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>131.83</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.10 demonstrates significant differences among respondents with different religions on their perception towards the importance of 4 factors namely religious and ethical, service quality and benefit, external, and operational and charges. However, there is no significant difference among the respondents on the second
factor which is services and convenience at 0.064 probability level ($p < 0.05$). The result shows that Muslim respondents placed the highest mean rank (189.04) for the first factor which is religious and ethical, while the lowest mean rank (145.17) for services and convenience factor. The results are similar to those reported by Metawa and Almossawi (1998) and Hoq et al. (2010) who argued that Muslim customers in Malaysia hold strong religious values and therefore incorporate them in their decision making.

As for Hindu respondents, they were more concerned with the services and convenience factor with the highest mean value of 153.00. Buddhist respondents placed more importance on the fifth factor (126.00) which is operational and charges. As for Christian respondents, the most important factor for them was service quality and benefit with mean value of 116.25. The significance level for two factors: religious and ethical and external are high at 0.000 probability level ($p < 0.05$). The findings are consistent with the fact that majority of Indians were Hindus and majority of Chinese were Buddhist. Thus, it can be concluded that Indian customers were concerned with the services and convenience factor while Chinese customers were concerned with operational and charges. Accordingly, the result shows that the second hypothesis $H_2(a), (c), (d), (e)$ is accepted as there is a significant difference between religion of customers and (a) religious and ethical, (c) service quality and benefit, (d) external, and (e) operational and charges, while $H_2(b)$ can be rejected as there is no significant difference between religion of customers and services and convenience.
Table 6.11 displays the Mann-Whitney Test result to compare the importance of five selection factors between male and female customers. The result shows that there are significant differences in the perception of male and female customers related to the importance of all five selection factors. This can be seen at the p-value of 0.002 for the first factor namely religious and ethical, and 0.000 for the remaining four factors. Furthermore, female respondents score higher mean rank values across the five factors compare to male which indicate high importance of those factors among female respondents. In summary, the third hypothesis (H₃) is accepted as there is a significant difference between gender of the customers and (a) religious and ethical, (b) services and convenience, (c) service quality and benefit, (d) external, and (e) operational and charges.

<table>
<thead>
<tr>
<th>Factor 1 (Religious and Ethical)</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>107</td>
<td>118.41</td>
<td></td>
<td>.002</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>148.23</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 2 (Services and Convenience)</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>107</td>
<td>113.96</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>151.12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 3 (Service Quality and Benefit)</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>107</td>
<td>103.50</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>157.90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 4 (External)</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>107</td>
<td>111.48</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>152.72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 5 (Operational and Charges)</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>107</td>
<td>113.61</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Female</td>
<td>165</td>
<td>151.35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6.12
Kruskal-Wallis Test Comparing Selection Factors amongst Various Age Groups

<table>
<thead>
<tr>
<th>Factor</th>
<th>Age</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1 (Religious and Ethical)</td>
<td>Below 20</td>
<td>9</td>
<td>79.00</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>102.63</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>163.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>183.13</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>115.82</td>
<td></td>
</tr>
<tr>
<td>Factor 2 (Services and Convenience)</td>
<td>Below 20</td>
<td>9</td>
<td>156.78</td>
<td>.288</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>140.32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>122.98</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>150.02</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>136.77</td>
<td></td>
</tr>
<tr>
<td>Factor 3 (Service Quality and Benefit)</td>
<td>Below 20</td>
<td>9</td>
<td>109.50</td>
<td>.052</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>122.76</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>145.68</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>158.17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>133.59</td>
<td></td>
</tr>
<tr>
<td>Factor 4 (External)</td>
<td>Below 20</td>
<td>9</td>
<td>123.61</td>
<td>.037</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>120.37</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>145.90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>158.70</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>142.77</td>
<td></td>
</tr>
<tr>
<td>Factor 5 (Operational and Charges)</td>
<td>Below 20</td>
<td>9</td>
<td>122.61</td>
<td>.022</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>128.20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>135.81</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>168.59</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>105.45</td>
<td></td>
</tr>
</tbody>
</table>

The analysis above reveals that there are significant differences among customers from various age groups in terms of perception for factor 1 (Religious and Ethical), factor 4 (External) and factor 5 (Operational and Charges) at 0.000, 0.037 and 0.022.
probability level ($p < 0.05$). On the contrary, there are no significant differences for the second (Services and Convenience) and third (service quality and benefit) factor with $p$ value 0.288 and 0.052 respectively. It shows that for ‘Services and Convenience’ and ‘Service Quality and Benefit’ factors, the differences among all of the above age groups in terms of their perceptions towards those factors are not statistically significant. In other words, customers from different age groups perceived service related factors similarly while factors associated with religious, ethics, influence from others and charges were perceived differently. It is demonstrated that customers within the age group of 31-50 years old ranked the three significant factors (religious and ethical, external, operational and charges) higher than the younger customers. On the other hand, the younger customers choose Factor 2 which is Services and Convenience as their top priority. This result is consistent with the evidence as proposed by Almossawi (2001) which pointed out factors like convenience location, availability of ATMs and friendliness of bank personnel as highly significant factors for the younger customers.

In conclusion, the fourth hypothesis $H_{4(a), (d), (e)}$ is accepted as there is a significant difference between age of customers and (a) religious and ethical, (d) external, and (e) operational and charges, while $H_{4(b), (c)}$ can be rejected as there is no significant difference between age of customers and (b) services and convenience and (c) service quality and benefit.

| Table 6.13 |
| Kruskal-Wallis Test Comparing Selection Factors amongst Various Educational Backgrounds |

<table>
<thead>
<tr>
<th>Education</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1 (Religious and Ethical)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary/secondary</td>
<td>26</td>
<td>147.12</td>
<td>.000</td>
</tr>
<tr>
<td>College/ diploma</td>
<td>52</td>
<td>129.88</td>
<td></td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>145</td>
<td>149.93</td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>16</td>
<td>73.09</td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32</td>
<td>105.83</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>253.00</td>
<td></td>
</tr>
</tbody>
</table>
The result shown in table 6.13 above demonstrates that customers from different education background expressed different perception pertaining to the importance of all five selection factors. This is statistically supported by a lower significant level at $p < 0.05$ for all of the factors. An analysis on the mean rank section reveals that respondents with primary or secondary educational background placed external factor at the top position with the highest mean rank (158.58), followed by religious and ethical factor at mean value of 147.12. Additionally, respondents with bachelor degree placed more importance on the operational and charges factor with mean rank
of 152.51 followed by services and convenience factor at 150.56. This finding indicates that external factor such as advertisement, interior design, recommendation by others, size of bank and products offered were highlighted by customers without higher educational background. In summary, the fifth hypothesis (H₅) is accepted as there is a significant difference between education level of customers and (a) religious and ethical, (b) services and convenience, (c) service quality and benefit, (d) external, and (e) operational and charges.

Table 6.14
Kruskal-Wallis Test Comparing Selection Factors amongst Various Income Groups

<table>
<thead>
<tr>
<th>Factor 1</th>
<th>Income level</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Religious and Ethical)</td>
<td>1500 and below</td>
<td>51</td>
<td>108.70</td>
<td>.020</td>
</tr>
<tr>
<td></td>
<td>1501-3000</td>
<td>71</td>
<td>129.43</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3001-5000</td>
<td>98</td>
<td>145.64</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5001-10000</td>
<td>50</td>
<td>156.17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10001-20000</td>
<td>2</td>
<td>156.75</td>
<td></td>
</tr>
<tr>
<td>Factor 2</td>
<td>Income level</td>
<td>N</td>
<td>Mean Rank</td>
<td>Asymp. Sig.</td>
</tr>
<tr>
<td>(Services and Convenience)</td>
<td>1500 and below</td>
<td>51</td>
<td>144.41</td>
<td>.758</td>
</tr>
<tr>
<td></td>
<td>1501-3000</td>
<td>71</td>
<td>129.82</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3001-5000</td>
<td>98</td>
<td>136.71</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5001-10000</td>
<td>50</td>
<td>135.49</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10001-20000</td>
<td>2</td>
<td>187.00</td>
<td></td>
</tr>
<tr>
<td>Factor 3</td>
<td>Income level</td>
<td>N</td>
<td>Mean Rank</td>
<td>Asymp. Sig.</td>
</tr>
<tr>
<td>(Service Quality and Benefit)</td>
<td>1500 and below</td>
<td>51</td>
<td>122.86</td>
<td>.563</td>
</tr>
<tr>
<td></td>
<td>1501-3000</td>
<td>71</td>
<td>132.99</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3001-5000</td>
<td>98</td>
<td>145.23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5001-10000</td>
<td>50</td>
<td>137.85</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10001-20000</td>
<td>2</td>
<td>147.25</td>
<td></td>
</tr>
<tr>
<td>Factor 4</td>
<td>Income level</td>
<td>N</td>
<td>Mean Rank</td>
<td>Asymp. Sig.</td>
</tr>
<tr>
<td>(External)</td>
<td>1500 and below</td>
<td>51</td>
<td>109.55</td>
<td>.069</td>
</tr>
<tr>
<td></td>
<td>1501-3000</td>
<td>71</td>
<td>145.46</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3001-5000</td>
<td>98</td>
<td>144.62</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5001-10000</td>
<td>50</td>
<td>133.66</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10001-20000</td>
<td>2</td>
<td>179.00</td>
<td></td>
</tr>
</tbody>
</table>
As demonstrated in Table 6.14, there is a different pattern reported on the perception of customers with varied income levels. Respondents across various income levels seem to be different statistically on two factors namely religious and ethical and operational and charges with significant level at 0.020 and 0.014 respectively. However, no significant differences are reported for the other three factors (services and convenience, service quality and benefits, external). The highest number of respondents which belong to the middle group of income level (3001-5000) placed the religious and ethical factor as the most important with mean rank value at 145.64. In conclusion, the sixth hypothesis $H_{6(a), (e)}$ is accepted as there is a significant difference between income level of customers and (a) religious and ethical and (e) operational and charges, while $H_{6(b), (c), (d)}$ can be rejected as there is no significant difference between income level of customers and (b) services and convenience, (c) service quality and benefit, and (d) external.

### Table 6.15
Kruskal-Wallis Test Comparing Selection Factors amongst Customers with Various Duration of Relationship

<table>
<thead>
<tr>
<th>Factor 1 (Religious and Ethical)</th>
<th>Duration as customer</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 1 year</td>
<td>30</td>
<td>88.10</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>1-3 years</td>
<td>79</td>
<td>118.99</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-5 years</td>
<td>44</td>
<td>127.48</td>
<td></td>
</tr>
<tr>
<td></td>
<td>More than 5 years</td>
<td>119</td>
<td>163.66</td>
<td></td>
</tr>
<tr>
<td>Factor 2 (Services and Convenience)</td>
<td>Less than 1 year</td>
<td>30</td>
<td>146.83</td>
<td>.158</td>
</tr>
<tr>
<td></td>
<td>1-3 years</td>
<td>79</td>
<td>123.46</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-5 years</td>
<td>44</td>
<td>126.77</td>
<td></td>
</tr>
<tr>
<td></td>
<td>More than 5 years</td>
<td>119</td>
<td>146.15</td>
<td></td>
</tr>
</tbody>
</table>
The result from Table 6.15 illustrates that for respondents with different length of duration as customer significantly had different perception on the ranking of importance towards religious and ethical, service quality and benefit, and external factors. This could be seen through the p value for the three factors indicate below 0.05 at 0.000, 0.002, and 0.002 respectively. On the other hand, the length of duration as a customer does not imply a significant different perceptions on the services and convenience and operational and charges factors at p value of 0.158 and 0.070. Furthermore, an analysis on the mean rank section suggest that respondents that stayed with the same bank for more than five years placed religious and ethical factor at the top of their ranking with mean value of 163.66. However, respondents which have less than one year relationship with the bank placed the same factor (religious and ethical) as the least important with mean value of 88.10. In summary, the seventh hypothesis $H_7(a), (c), (d)$ is accepted as there is a significant difference between duration as customers and (a) religious and ethical, (c)service quality and benefit, and (d) external, while $H_7(b), (e)$ can be rejected as there is no significant difference between duration as customers and (b) services and convenience, and (e) operational and charges.
6.5 Customer Satisfaction

Table 6.16
Frequency Table for Satisfaction

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>24</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>36</td>
<td>13.2</td>
<td>22.1</td>
</tr>
<tr>
<td>Agree</td>
<td>154</td>
<td>56.6</td>
<td>78.7</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>58</td>
<td>21.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.16 presents the frequency number of respondents for satisfaction variable. It can be summarised that majority of respondents (77.9%) were satisfied with their Islamic banks. Nonetheless, 24 respondents (8.8%) were not satisfied while 36 respondents (13.2%) remained neutral and could not decide. Based on the above information, it could be evidenced that Islamic banking customers in Malaysia are satisfied with their banks and this is similar to the finding of other study like Saad (2012). This finding is crucial because customer satisfaction should be a fundamental basis for Islamic banks in order to maintain their long term relationship with the customers as suggested by Hoq and Amin (2010).

6.5.1 Comparative Analysis between Satisfaction and Ethnicity, Religion, Gender, Age, Education, Income, and Duration

Table 6.17
Kruskal-Wallis Test Comparing Satisfaction amongst Various Ethnic Groups

<table>
<thead>
<tr>
<th>Ethnic</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malay</td>
<td>125</td>
<td>140.60</td>
<td>.009</td>
</tr>
<tr>
<td>Chinese</td>
<td>107</td>
<td>122.54</td>
<td></td>
</tr>
<tr>
<td>Indian</td>
<td>40</td>
<td>161.03</td>
<td></td>
</tr>
</tbody>
</table>
Table 6.17 indicates that there are significant differences among the three ethnic groups of customers in terms of their satisfaction at p value (0.009). An analysis of mean rank section shows that the Indian customers were highly satisfied compared to others based on the highest mean rank value of 161.03. This is followed by Malays and Chinese customers with the mean rank value of 140.60 and 122.54 respectively. This variances show that there are clear differences among the ethnic groups, and unlike the finding of previous study done by Lopez et al. (2007) whereas generally, the various ethnic group of customers in their study have similar levels of satisfaction.

**Table 6.18**

**Kruskal-Wallis Test Comparing Satisfaction amongst Various Religions**

<table>
<thead>
<tr>
<th>Satisfaction</th>
<th>Religion</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muslim</td>
<td>128</td>
<td>142.19</td>
<td>.006</td>
<td></td>
</tr>
<tr>
<td>Hindu</td>
<td>31</td>
<td>162.24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buddhist</td>
<td>77</td>
<td>124.60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Christian</td>
<td>30</td>
<td>131.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>59.17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Similarly, Table 6.18 also reveals significant differences on level of satisfaction among customers from different religions background. Hindu respondents which largely consist of Indian people show the highest mean rank of satisfaction at 162.24, followed by Muslim, Christian, Buddhist and Others with mean rank value of 142.19, 131.63, 124.60 and 59.17 respectively. Although Muslim and Zaidi (2008) discovered good relationship between both Muslim and non-Muslim customers with their Islamic banks, it could be argued that significant different of perception exist among them, which in turn could influence their level of satisfaction.
As demonstrated in Table 6.19, there is no significant difference among male and female respondents in terms of their satisfaction. This could be seen by the p value of 0.055 which is higher than the significant level of 0.05. It shows that gender of customers would not significantly affect their level of satisfaction. Accordingly, female respondents show higher level of satisfaction compared to male based on the mean rank value of 143.11.

The result from Table 6.20 shows that ranking of satisfaction among customers from different age group is not statistically significant at 0.361. Meanwhile, the mean rank value suggest that older customers were more satisfied compared to the younger customers. The highest mean rank value (167.41) belongs to the customers with age group of above 50 years old while age group below 20 scored the least mean value of satisfaction (124.83). Although the different level of satisfaction among the above groups is not significant, it could be noticed that younger customers have slightly lower level of satisfaction in comparison to the older customers. Hence, Islamic banks management should identify which areas to improve in order to enhance satisfaction among younger generation.
Table 6.21
Kruskal-Wallis Test Comparing Satisfaction amongst Various Educational Backgrounds

<table>
<thead>
<tr>
<th>Satisfaction</th>
<th>Education</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary/secondary</td>
<td>26</td>
<td>142.42</td>
<td>.879</td>
<td></td>
</tr>
<tr>
<td>College/diploma</td>
<td>52</td>
<td>143.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>145</td>
<td>136.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>16</td>
<td>119.19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32</td>
<td>131.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>137.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Again, level of satisfaction is not significantly different among respondents from various education backgrounds as the computed significant level is 0.879 which is higher than the 0.05 probability level. Respondents from college/diploma group scored the highest mean rank value at 143.06 while professional group scored the least mean value at 119.19. It could be concluded that customer educational background has no significant effect towards their level of satisfaction.

Table 6.22
Kruskal-Wallis Test Comparing Satisfaction amongst Various Income Groups

<table>
<thead>
<tr>
<th>Satisfaction</th>
<th>Income</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary/secondary</td>
<td>1500 and below</td>
<td>51</td>
<td>131.34</td>
<td>.815</td>
</tr>
<tr>
<td>College/diploma</td>
<td>1501-3000</td>
<td>71</td>
<td>136.40</td>
<td></td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>3001-5000</td>
<td>98</td>
<td>138.83</td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>5001-10000</td>
<td>50</td>
<td>135.18</td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>10001-20000</td>
<td>2</td>
<td>190.50</td>
<td></td>
</tr>
</tbody>
</table>

Similarly, respondents with different levels of income are not significantly different in terms of their level of satisfaction as the p value computed (0.815) is higher than the 0.05 probability level, hence the differences are not significant. This could be due to the fact that customers perceived satisfaction similarly regardless of the income status. Nevertheless, a further analysis on the mean rank section shows that the
lowest income group of customers scored the least satisfaction level while the highest income group scored the highest satisfaction level.

Table 6.23
Kruskal-Wallis Test Comparing Satisfaction amongst customers with Various Duration of Relationships

<table>
<thead>
<tr>
<th>Period as customer</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>30</td>
<td>120.50</td>
<td>.032</td>
</tr>
<tr>
<td>1-3 years</td>
<td>79</td>
<td>121.18</td>
<td></td>
</tr>
<tr>
<td>3-5 years</td>
<td>44</td>
<td>145.66</td>
<td></td>
</tr>
<tr>
<td>More than 5 years</td>
<td>119</td>
<td>147.32</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.23 reveals that duration of banking relationship significantly influence level of satisfaction among Islamic bank customers. There is a significant difference on level of satisfaction among customers with short or long relationship with the bank. This is indicated by the reported p value of 0.032 which is lower than the 0.05 probability level. Accordingly, customers with more than five years relationship with the bank were more satisfied compared to others as they scored the highest mean rank value of 147.32. On the contrary, customers who had less than one year experience with the bank scored the least mean rank value of 120.50. The results indicate that the longer customers stay with the same bank, the higher their level of satisfaction compared to the new customers. Accordingly, the hypothesis H8(a), (b), (g) is accepted as there is a significant difference between (a) ethnicity, (b) religion and (g) duration as customer on the level of satisfaction, while H8(c), (d), (e), (f) can be rejected as there is no significant difference between (c) gender, (d) age, (e) education and (f) income on the level of satisfaction.

6.5.2 Customer Satisfaction through Service Quality

This section is a continuation of the previous section which explored satisfaction level among the customers. The second part of the questionnaire reflects on the perception of customers towards the service quality of their Islamic banks. In this study, six independent variables were used based on the literatures. These variables
are ‘Tangibles’, ‘Responsiveness’, ‘Empathy’, ‘Assurance’, ‘Reliability’, and ‘Compliance Ethical’. The statements are based on the five dimensions of service quality using the SERVPERF model with an additional dimension namely Compliance Ethical. Respondents were asked to indicate their level of agreement with each of the statement related to the service quality dimensions. A five-point Likert scale ranging from “strongly disagree” (1) to “strongly agree” (5) is used to evaluate each statements for all dimensions.

Table 6.24
Mean Score for Service Quality Dimensions

<table>
<thead>
<tr>
<th>Service quality dimensions</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>15.4816</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>16.3162</td>
</tr>
<tr>
<td>Empathy</td>
<td>16.1654</td>
</tr>
<tr>
<td>Assurance</td>
<td>20.9375</td>
</tr>
<tr>
<td>Reliability</td>
<td>16.1250</td>
</tr>
<tr>
<td>Compliance Ethical</td>
<td>16.5441</td>
</tr>
</tbody>
</table>

Table 6.24 shows the mean score for the six dimensions of service quality. The mean value indicated the level or strength of agreement among respondents related to the statements provided. The highest mean is scored by Assurance followed by Compliance Ethical, Responsiveness, Empathy, and Reliability. This shows that customers perceived that Islamic banks are giving them the ‘Assurance’ elements to their services. Assurance dimension include elements such as competency, courtesy, and credibility of bank personnel (Johnston, 1995). The least mean score is for Tangibles dimension. Tangibles dimension reflects the physical aspects like equipment and facilities or appearance of the staff (Johnston, 1995). The result demonstrates large differences of one dimension namely Assurance compared to other dimensions. However, this finding is different from those reported by Osman et al. (2009) who found that customer rated Assurance dimension at the bottom for Islamic banks. Likewise, the finding is also in contrast to a study done by Sadek et al. (2010) whereas they found out that compliance, empathy and responsiveness elements were major for their respondents. The lowest score for Tangibles dimension
indicate that Islamic banks are not performing well enough in providing modern equipment or visually appealing materials.

Table 6.25
Pearson Correlation Result of Service Quality and Satisfaction

<table>
<thead>
<tr>
<th>Variables</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>.308</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>.466</td>
</tr>
<tr>
<td>Empathy</td>
<td>.419</td>
</tr>
<tr>
<td>Assurance</td>
<td>.375</td>
</tr>
<tr>
<td>Reliability</td>
<td>.578</td>
</tr>
<tr>
<td>Compliance Ethical</td>
<td>.354</td>
</tr>
</tbody>
</table>

Based on the results presented in Table 6.25, the highest correlation is between Reliability and customer satisfaction (0.578); followed by Responsiveness (0.466), Empathy (0.419), Assurance (0.375), Compliance Ethical (0.354) and Tangibles (0.308) respectively. As demonstrated above, the correlations are positive, indicating that all service quality dimensions above are positively related to customer satisfaction. This result is somehow similar with a study done by Shanka (2012) which showed that all service quality dimensions were positively correlated with customer satisfaction. Accordingly, the most important service quality dimension that affects customer satisfaction is Reliability.

Table 6.26
Model Summary of Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.331</td>
</tr>
</tbody>
</table>
The regression analysis measures the importance of each variable (service quality dimensions) in predicting satisfaction of the customers. The model summary presented in Table 6.26 above shows that the adjusted R-square is 0.331, which indicates that the proposed model can predict 33 percent of customer satisfaction. In other words, 33 percent of variance in customer satisfaction can be predicted by the service quality dimension. In addition, the F-test shows a significant value (see Table 6.27). Thus, the proposed model is fully significant.

A further analysis of the coefficients in Table 6.28 identifies the dimension significantly predicting satisfaction. It can be concluded that there is one variable namely Reliability that statistically significant in predicting satisfaction. Consequently, the increase of Reliability dimension will lead to significant increase in the level of customer satisfaction. However, other remaining independent variables (tangibles, responsiveness, empathy, assurance, and compliance ethical) are not significant based on the result above. Similarly, Akhtar and Zaheer (2014) also shared the same view on the importance of reliability dimension for financial institutions and their study also showed that reliability influenced customer
satisfaction. Reliability dimension include elements such as accuracy of bank personnel, dependable and consistent performance. Therefore, it is fair to assume that if customers received reliable service from their banks, the customers are more likely to be satisfied. It is well noted that hajiyyat (complementary) elements such as continuous employee training is crucial so that customers would receive reliable services from their banks. Nonetheless, this result differ from previous study done by Khafafa and Shafii (2013) who found a significant relationship between customer satisfaction and five dimension of the perceived service quality, with responsiveness as the strongest indicator. In summary, the hypothesis H$_{9(e)}$ is accepted as there is a statistically significant relationship between customer satisfaction and reliability, while H$_{9(a),(b),(c),(d),(f)}$ can be rejected as there is no statistically significant relationship between customer satisfaction and (a) tangibles, (b) responsiveness, (c) empathy, (d) assurance, and (f) compliance-ethical.

### 6.6 Customer Loyalty

<table>
<thead>
<tr>
<th>Continue being customer</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>.7</td>
<td>.7</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>2.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Neutral</td>
<td>50</td>
<td>18.4</td>
<td>21.7</td>
</tr>
<tr>
<td>Agree</td>
<td>139</td>
<td>51.1</td>
<td>72.8</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>74</td>
<td>27.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>272</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recommend bank</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>16</td>
<td>5.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Neutral</td>
<td>80</td>
<td>29.4</td>
<td>36.8</td>
</tr>
<tr>
<td>Agree</td>
<td>121</td>
<td>44.5</td>
<td>81.3</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>51</td>
<td>18.8</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>272</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
<tr>
<td>Positive thing</td>
<td>Frequency</td>
<td>Percent</td>
<td>Cumulative percent</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------</td>
<td>---------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>.4</td>
<td>.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>24</td>
<td>8.8</td>
<td>9.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>73</td>
<td>26.8</td>
<td>36.0</td>
</tr>
<tr>
<td>Agree</td>
<td>112</td>
<td>41.2</td>
<td>77.2</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>62</td>
<td>22.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not intend to switch</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Disagree</td>
<td>18</td>
<td>6.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>103</td>
<td>37.9</td>
<td>46.7</td>
</tr>
<tr>
<td>Agree</td>
<td>94</td>
<td>34.6</td>
<td>81.3</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>51</td>
<td>18.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>272</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

As demonstrated in Table 6.29, 213 respondents (78.3%) were agreed to continue being customer while 9 respondents (3.3%) disagreed to do so. Another 50 respondents (18.4%) were neutral and undecided. Then, the second item shows that 172 respondents agreed to recommend their Islamic bank to others. 80 respondents were undecided and 20 respondents disagreed to make recommendation. Next, 174 respondents agreed to say positive thing about their Islamic banks while 25 respondents were not agreed to do so. Finally, 145 respondents (53.4%) agreed that they were not intend to switch their banks. However, 24 respondents (8.8%) indicated that they might switch their banks. Accordingly, this finding is consistent with a previous study undertaken by Hoq and Amin (2010) which evidenced that Islamic banking customers are loyal customers. The result somehow demonstrates positive and promising growth for Islamic banking industry due to the fact that majority of existing customers are willing to continue their banking relationship with the current provider. However, Islamic banks should continuously observe their quality of services to ensure customer satisfaction and consequently customer loyalty.
6.6.1 Comparative Analysis between Loyalty and Ethnicity, Religion, Gender, Age, Education, Income, and Duration

Table 6.30
Kruskal-Wallis Test Comparing Loyalty amongst Various Ethnic Groups

<table>
<thead>
<tr>
<th>Ethnic</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Malay</td>
<td>125</td>
<td>156.35</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>107</td>
<td>108.01</td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>40</td>
<td>150.68</td>
</tr>
</tbody>
</table>

The result shown in Table 6.30 indicate that there is a significant different among loyalty of respondents across the three ethnic groups. Statistically, the significance level for the above analysis is 0.000. Further analysis on the mean rank section suggests that Malay respondents rated high level of loyalty compared to the other ethnic groups with mean rank value of 156.35. This is followed by Indian respondents at 150.68 while Chinese respondents scored the least mean rank value of 108.01 indicating low level of loyalty among them. This finding is consistent with the ethnic values as mentioned by Awang et al. (2012) who suggested that loyalty could be evidenced among Malay and Indian people, and the result in this research supports this argument.

Table 6.31
Kruskal-Wallis Test Comparing Loyalty amongst Various Religions

<table>
<thead>
<tr>
<th>Religion</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Muslim</td>
<td>128</td>
<td>156.95</td>
</tr>
<tr>
<td></td>
<td>Hindu</td>
<td>31</td>
<td>152.24</td>
</tr>
<tr>
<td></td>
<td>Buddhist</td>
<td>77</td>
<td>115.17</td>
</tr>
<tr>
<td></td>
<td>Christian</td>
<td>30</td>
<td>98.78</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>6</td>
<td>81.17</td>
</tr>
</tbody>
</table>

Table 6.31 reveals that there is a significant different of loyalty among respondents across various religious background with the p value of 0.000. The result suggest that Muslim respondents indicated high level of loyalty based on the highest mean
rank score of 156.95, followed by Hindu (152.24), Buddhist (115.17), Christian (98.78) and others (81.17). Again, this result is similar to those reported by Awang et al. (2012) who suggested that Malay and Indian people are considered loyal because Muslims in Malaysia are represented by Malays and Hindus are mostly represented by Indian.

Table 6.32
Mann-Whitney Test Comparing Loyalty among Gender

<table>
<thead>
<tr>
<th>Loyalty</th>
<th>Gender</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Male</td>
<td>107</td>
<td>114.65</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>165</td>
<td>150.67</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.32 displays a comparative analysis between loyalty and gender of respondents. The result from Mann-Whitney Test shows that there is a significant difference between male and female respondents in terms of their loyalty. Female customers tend to be more loyal compared to male based on the mean rank at 150.67 compared to 114.65.

Table 6.33
Kruskal-Wallis Test Comparing Loyalty amongst Various Age Groups

<table>
<thead>
<tr>
<th>Loyalty</th>
<th>Age</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Below 20</td>
<td>9</td>
<td>123.11</td>
<td>.005</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>114</td>
<td>117.79</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>92</td>
<td>143.73</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>46</td>
<td>163.93</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>11</td>
<td>166.14</td>
<td></td>
</tr>
</tbody>
</table>

As illustrated in Table 6.33 above, the p value is significant at 0.005 which demonstrates that there is a statistically different level of loyalty among customers from various age groups. The result reflects similar argument like Mishra and Prasad (2014) as age variable plays a major role in determining loyalty among customers. Mean rank analysis suggests that older customers tend to be more loyal compared to the younger. The least mean score belongs to the age group of 21-30 years old while
customers above 50 scored the highest mean value indicating high loyalty behaviour. This finding is consistent with Clemes et al. (2010) whereby the authors suggested that younger generations are the most likely groups to switch banks, indicating low level of loyalty among them.

Table 6.34

Kruskal-Wallis Test Comparing Loyalty amongst Various Educational Backgrounds

<table>
<thead>
<tr>
<th>Loyalty</th>
<th>Education</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary/secondary</td>
<td>26</td>
<td>145.31</td>
<td>.394</td>
<td></td>
</tr>
<tr>
<td>College/ diploma</td>
<td>52</td>
<td>143.98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>145</td>
<td>137.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>16</td>
<td>99.31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32</td>
<td>134.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>70.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nevertheless, as presented in Table 6.34, the result reveals that there is no significant difference related to loyalty among customers from different educational background. This is indicated by the p value reported (0.394), which is higher than 0.05 probability level suggested. It shows that customers from different education background do not significantly different in terms of their loyalty. Hence, educational background of customers does not significantly affect their loyalty towards Islamic banks.
### Table 6.35
**Kruskal-Wallis Test Comparing Loyalty amongst Various Income Groups**

<table>
<thead>
<tr>
<th>Income</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1500 and below</td>
<td>51</td>
<td>123.39</td>
<td>.168</td>
</tr>
<tr>
<td>1501-3000</td>
<td>71</td>
<td>126.66</td>
<td></td>
</tr>
<tr>
<td>3001-5000</td>
<td>98</td>
<td>149.99</td>
<td></td>
</tr>
<tr>
<td>5001-10000</td>
<td>50</td>
<td>135.23</td>
<td></td>
</tr>
<tr>
<td>10001-20000</td>
<td>2</td>
<td>190.50</td>
<td></td>
</tr>
</tbody>
</table>

Additionally, Table 6.35 shows a similar pattern with no significant difference reported for the level of loyalty among respondents with different income level. The result indicates that income level does not necessarily influence the level of loyalty among customers in Malaysia. The stated p value (0.168) was higher than 0.05 probability level suggested. The lowest level of loyalty could be detected coming from customers with the lowest income level (1500 and below). This finding is different compared to a study done by Walsh et al. (2008) whereas the authors found an effect of income towards customer loyalty.

### Table 6.36
**Kruskal-Wallis Test Comparing Loyalty among Customers with Various Duration of Relationship**

<table>
<thead>
<tr>
<th>Duration as customer</th>
<th>N</th>
<th>Mean Rank</th>
<th>Asymp. Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>30</td>
<td>120.90</td>
<td>.000</td>
</tr>
<tr>
<td>1-3 years</td>
<td>79</td>
<td>109.77</td>
<td></td>
</tr>
<tr>
<td>3-5 years</td>
<td>44</td>
<td>124.86</td>
<td></td>
</tr>
<tr>
<td>More than 5 years</td>
<td>119</td>
<td>162.48</td>
<td></td>
</tr>
</tbody>
</table>

The result from Table 6.36 above illustrates respondents with different duration of relationship had significantly different level of loyalty. This is indicated by the p value of 0.000 which is statistically significant. An observation on the mean rank section shows that respondents which had more than 5 years banking relationship indicated higher level of loyalty compared to the other groups. However, the lowest level of loyalty belongs to the group of respondents who had 1 to 3 years banking.
relationship. In relation to this, Islamic banks should be aware that the strength of customer relationships may vary over time as customers become more experienced with their bank (Hoq and Amin, 2010). In this case, customers with longer banking experiences tend to show higher loyalty behaviour. In conclusion, the hypothesis $H_{10(a), (b), (c), (d), (g)}$ is accepted as there is a significant difference between (a) ethnicity, (b) religion, (c) gender, (d) age, and (g) duration as customer on the level of loyalty, while $H_{10(e), (f)}$ is rejected as there is no significant difference between (e) education and (f) income level on the level of loyalty.

### 6.6.2 Regression analysis of service quality and loyalty

Similarly, regression analysis is used to determine which dimension of service quality that has a relationship with customer loyalty. Multiple regression analysis is also conducted to assess the effect of the six service quality dimensions on customer loyalty. Previous literature has identified service quality and loyalty as key elements to gain competitive advantage (Kashif et al., 2015). Moreover, since developing and maintaining customer relationship is imperative particularly for banking institutions, this could be implemented through the concept of loyalty with the incorporation of service quality and satisfaction (Foscht et al., 2009). Therefore, this section seeks to identify the relationship between service quality and customer loyalty in Malaysian Islamic banking industry.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibles</td>
<td>.496</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>.562</td>
</tr>
<tr>
<td>Empathy</td>
<td>.555</td>
</tr>
<tr>
<td>Assurance</td>
<td>.591</td>
</tr>
<tr>
<td>Reliability</td>
<td>.602</td>
</tr>
<tr>
<td>Compliance Ethical</td>
<td>.558</td>
</tr>
</tbody>
</table>

Table 6.37

Pearson Correlation Result of Service Quality and Loyalty
As shown in Table 6.37, the highest correlation is evidenced between Reliability and customer loyalty (0.602); followed by Assurance (0.591), Responsiveness (0.562), Compliance Ethical (.558), Empathy (0.555) and Tangibles (0.496) respectively. Again, the dimension that mostly affects customer loyalty is Reliability. The above result shows that the correlations are positive, indicating that all service quality dimensions are positively related to customer loyalty. This finding is also in accordance with Kishada and Wahab (2013) who found that past research showed positive relationship between service quality and customer loyalty.

### Table 6.38
**Model Summary of Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>.443</td>
</tr>
</tbody>
</table>

### Table 6.39
**ANOVA for the Perception of Service Quality**

<table>
<thead>
<tr>
<th>Model</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Regression</td>
<td>72.819</td>
</tr>
</tbody>
</table>

The above analysis measures the importance of each variable (service quality dimensions) in predicting loyalty behaviour of customers. The model summary presented in Table 6.38 shows that the adjusted R-square is 0.443, which indicates that the proposed model can predict 44 percent of customer loyalty in this study. In other words, 44 percent of variance in customer loyalty can be predicted by the service quality dimensions. Furthermore, the F-test shows that the analysis produced significant result, as the third model is significant (see Table 6.39). In relation to this, Malai and Speece (2005) also shared a similar view that loyalty depends partly on customer perceptions of service quality. Consequently, inconsistencies in service delivery may affect customer loyalty, which in turn could cause customers to switch.
Table 6.40 presents the coefficients results for the regression analysis. It shows that the third model had three significant dimensions (Reliability, Compliance-Ethical, Tangibles) related to customer loyalty. Thus, all the above three service quality dimensions have significant influence towards loyalty among customers. It can be deduced that reliability, compliance ethical and tangible dimensions have significant effect in predicting customer loyalty in Malaysian Islamic banking industry. This finding is slightly similar with Dick and Basu (1994) who mentioned that reliability and confidence are very important in order to build or maintain loyalty. In summary, the hypothesis $H_{11(a), (e), (f)}$ is accepted as there is a statistically significant relationship between customer loyalty and (a) tangibles, (e) reliability and (f) compliance-ethical, while $H_{11(b), (c), (d)}$ can be rejected as there is no statistically significant relationship between customer loyalty and (b) responsiveness, (c) empathy, (d) assurance.
6.6.3 Regression analysis of satisfaction and loyalty

Table 6.41
Model Summary of Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.442</td>
</tr>
</tbody>
</table>

Table 6.42
ANOVA for Satisfaction

<table>
<thead>
<tr>
<th>Model</th>
<th>ANOVA</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>215.734</td>
<td>.000</td>
</tr>
</tbody>
</table>

The model summary of regression analysis presented in Table 6.41 revealed that the value of the adjusted R-square is 0.442, which indicates that the proposed model can predict 44 percent of customer loyalty. Therefore, in this study, 44 percent variance of customer loyalty can be predicted by customer satisfaction. Furthermore, the ANOVA result in table 6.42 also show significant model based on the F-test, hence the proposed model is fully significant representing the relationship between customer satisfaction and customer loyalty in this study.

Table 6.43
Regression Coefficient Results of Customer Satisfaction and Loyalty

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficient</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>5.585</td>
<td>.664</td>
<td>8.408</td>
</tr>
<tr>
<td></td>
<td>Satisfaction</td>
<td>2.444</td>
<td>.166</td>
<td>14.688</td>
</tr>
</tbody>
</table>

Based on the result produced in Table 6.43, there is a significant relationship between customer satisfaction and loyalty in this study thus the hypothesis (H12) is accepted. This finding is in agreement with other studies such as Hoq and Amin.
(2010), Mohsan et al. (2011) and Hoq et al. (2010) which stated that customer satisfaction has a positive significant relationship with customer loyalty, or in other words customer satisfaction affects customer loyalty.

6.7 Conclusion

This chapter presents empirical evidence on the perception of customers related to the importance of selection factors, their satisfaction and loyalty towards Islamic banks in Malaysia. This chapter also focuses on the similarities and differences existed among respondents across various demographic backgrounds. Firstly, the current study found that ethnicity contributes significant differences on the importance of selection factors, level of satisfaction and level of loyalty. The results suggest that the examined ethnic groups perceived all the investigated issues differently. The factor analysis reveals that customers of Islamic banks ranked the attributes associated with religious and ethical dimension as the most important criteria, followed by services and convenience, service quality and benefit, external and operational and charges as the least important factor.

Secondly, majority of respondents indicated that they are satisfied with their Islamic banks. In terms of responses between the ethnic groups, Chinese customers were the least satisfied with their banks as reflected in the mean score. Indian customers scored the highest mean for satisfaction followed by Malay customers. Meanwhile, for service quality, the finding suggests that reliability dimension does significantly influence satisfaction. It also shows which areas banks need to focus in order to improve their service quality based on how customers perceived them.

Thirdly, level of loyalty among the respondents is high as indicated by the descriptive analysis. Majority of the customers agreed that they will continue being customers for their current Islamic banks. The regression analysis reveals that reliability, compliance-ethical and tangibles dimensions are significantly influence customer loyalty. Hence, Islamic banks should highlight these important areas to encourage and increase level of loyalty among their customers. Overall, the results support differences in the perception of ethnically different customers on all of the investigated issues.
CHAPTER SEVEN

PERSPECTIVE OF BANK MANAGERS REGARDING CUSTOMER SELECTION FACTORS, SATISFACTION AND LOYALTY

7.1 Introduction

The previous empirical chapter focuses on the perception of customers related to their selection factor, satisfaction and loyalty towards Islamic banks in Malaysia. The results provide valuable insight into the issues surrounding the subjects particularly from multi-ethnic perspectives. In order to gain comprehensive understanding on the investigated subjects, a series of semi-structured interviews were undertaken with the Islamic banks managers as a supporting source of data. This chapter aims to extend the analysis by analysing the opinions of bank managers regarding their customers. Accordingly, the interviews also attempt to provide additional information on operational issues and strategies of the Islamic banks participated in this research. The inclusion of output from bank managers is significant as qualitative approach provides an opportunity for the researcher to gain and assess the opinion of participants to give greater depth of understanding on related matter. As discussed in Chapter Five, the semi-structured interviews were conducted with seven managers of five Islamic banks in Malaysia for this study. The following table (7.1) presents specific codes used to represent the participants to ensure the details of the interviewees and banks are anonymous and confidential as agreed upon the interviews.

Table 7.1
Profile of Interview Participants

<table>
<thead>
<tr>
<th>Islamic Banks (IB)</th>
<th>Managerial Position</th>
<th>Interviewees Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>IB1</td>
<td>Head of Department</td>
<td>HS-1</td>
</tr>
<tr>
<td>IB2</td>
<td>Branch Manager1</td>
<td>BM-1</td>
</tr>
<tr>
<td></td>
<td>Branch Manager2</td>
<td>BM-2</td>
</tr>
<tr>
<td>IB3</td>
<td>Senior Manager</td>
<td>SM-1</td>
</tr>
<tr>
<td>IB4</td>
<td>Head of Department</td>
<td>HIP-1</td>
</tr>
<tr>
<td></td>
<td>Senior Manager</td>
<td>SM-2</td>
</tr>
<tr>
<td>IB5</td>
<td>Branch Manager</td>
<td>BM-3</td>
</tr>
</tbody>
</table>
There are five Islamic banks participated in this research and the interviewees are consisting of bank managers from three Islamic banks with foreign ownership and two Islamic banks with local ownership.

7.2 Background of Participants

The first question for the interview was aimed to identify the background of participants in terms of their working experiences in banking industry. The purpose of this type of question is to build good rapport with the participants and they can feel at ease and ready for the next questions. Accordingly, it is imperative for the researcher to establish rapport, trust and able to make the interviewees sufficiently at ease so that informative and truthful answers may well be given during the process (Sekaran, 2003).

Table 7.2
Background of Interviewees

<table>
<thead>
<tr>
<th>Education</th>
<th>Secondary school : 1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bachelor degree       : 5</td>
</tr>
<tr>
<td></td>
<td>Masters degree        : 1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management experience</th>
<th>5 to 10 years : 1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10-15 years : 1</td>
</tr>
<tr>
<td></td>
<td>More than 15 years : 5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Past experience</th>
<th>Conventional bank : 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Islamic bank : 2</td>
</tr>
</tbody>
</table>

Table 7.2 above shows the background of interviewees in terms of their education, management experience and past experience in the industry. The interviews revealed that most of the bank managers have wide experiences in the banking industry; five managers had worked for more than 15 years, while another two managers had worked within the industry for about 5-15 years. Some of the interviewees had years of working experiences with different banks including conventional with an involvement of different departments including operational, account, credit, cheque clearing, and remittance. When asked about their history of involvement within the
Islamic banking industry, majority of the managers stated that the main motivation for them to work within Islamic banking industry is religious motivation. In other words, most of the managers felt that it was an obligation for them to contribute and promote the Islamic products and services to the customers which considered as part of their religious commitment.

7.3 Customer Characteristic

In order to understand how Islamic banks target their customers and to know whether ethnic marketing is being used, the interviewees were asked to elaborate on their customer characteristics and how the bank approaches these customers. Nearly all of the managers commented that their banks treat customers in the same way and do not incorporate ethnicity into their marketing plan and strategies. Only one manager mentioned that the bank targets Malay customers due to religious reason. Additionally, the participants were also asked about their customer characteristics as well as their marketing strategies to attract customers. These types of questions were proposed to develop general view on the approach taken by Islamic banks to promote their products and services to the targeted customers. Table 7.3 below summarised the responses from all interviewees.

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Characteristics of customers</th>
<th>Marketing approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>HS-1</td>
<td>fresh graduates and young generation</td>
<td>Social media</td>
</tr>
<tr>
<td>SM-2</td>
<td>Professionals, managers and executives (PME)</td>
<td>Extensive branches, direct sales team, digital banking</td>
</tr>
<tr>
<td>HIP-1</td>
<td>Muslims customers</td>
<td>Branches, media advertisement, mouth to mouth communication</td>
</tr>
<tr>
<td>BM-3</td>
<td>Preferred customers, prime customers, mass market customers</td>
<td>Branches</td>
</tr>
<tr>
<td>BM-1</td>
<td>Grading customers based on income</td>
<td>Branches</td>
</tr>
<tr>
<td>SM-1</td>
<td>Mass market customers</td>
<td>Branches, product brochures</td>
</tr>
<tr>
<td>BM-2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
According to the responses given by all of the interviewees, the information implies that each bank has its own target group of customers. In general, it could be noted that socio-economic backgrounds of customers are important to determine their segments. For instance, one manager indicated that his bank targets fresh graduates and younger generation. He made a remark:

“I say that we as a bank would dance to their tune (younger generation). We use social media, celebrities and centre point such as KLCC and Lrt station to attract them” (HS-1).

It could be seen that age plays a significant role in marketing effort by Islamic banks. This decision is reasonable as researchers like Zeithaml (1985) and Clemes et al. (2010) found significant effects of age towards choices and buying behaviour. Hence, appropriate marketing strategy is needed to draw the attention of younger customers. Next, few managers agreed that their banks would target customers with certain level of income. Only one manager mentioned that his bank targets Muslim customer as he believes that religious factor is the most important reason for customers to choose Islamic banks in Malaysia.

In terms of marketing approach, only few interviewees mentioned about the use of social media as one way to promote their products and services. Majority of them emphasised on extensive branches in order to attract customers. As one interviewee mentioned:

“We have an extensive branch networks to act as catching point for customers whereby customers walk in and bank evaluates them. We also have a direct sales team (subsidy of bank) to promote financing products. This team will meet customers outside branch, such as at shopping mall or clients house” (SM-2).

A plausible reason for having extensive branches is to convince customers on the accessibility aspect of the bank. In relation to this, Sadek et al. (2010) pointed out limited branches will make customers feel inconvenience and discourage the use of banking products and facilities. Therefore, extensive branch networks are important to ensure the facilities provided could be easily used by the customers.
7.4 Perceptions on the Selection Factors of Customers

It has been discussed in Chapter Four that there are various factors and criteria associated when customers want to choose a particular bank. These factors were varied and cannot be generalised due to different settings and background of respondents. In general, previous studies in the literatures were focused on findings generated from surveys conducted among customers. The information is crucial as Islamic banks need to understand the perception of customers towards their operations and services in order to increase customer satisfaction and loyalty as suggested by Dusuki and Abdullah (2007). This research seeks to know if bank managers have different opinions regarding the selection behaviour of their customers as an extension to the existing information. Therefore, this section aims to explore the information on customer selection factors as perceived by the managers.

7.4.1 Factors that attract customers to choose Islamic bank

As stated in Chapter 1, the second research objective for this study is to explore the perspective of bank managers on the main selection factors among their customers. It is assumed that customers do not choose their Islamic banks randomly and they have their own reasons to choose their banking providers. Hence, the interviewees were asked to list the factors that might influence customers to choose Islamic banks particularly the bank which they are currently working with. From the interviews conducted, it can be concluded that the participants thought that pricing, profit rate, duration or tenure of financing, religious motivation, initiatives by the BNM, value, good service quality, availability of ATM’s, family influence, reputation and size of bank are the factors which attract customers to deal with Islamic banks. One of the interviewees mentioned:

“Everybody has their own preferences to choose a bank. Maybe because of their growing up experiences, the advertising from the bank, pricing, some association with the bank, family relationship with the bank meaning that the family have been with this bank for a long time” (HIP-1).
On a similar note, one senior manager acknowledged that initiatives from Malaysian government could also make a big impact on why customers chose particular Islamic bank. This is indicated below:

“Sometimes banks are asked by the government to support certain segments. For example SME's (Small and Medium Enterprises) and real estate priority sector such as low cost houses financing. Banks have to provide this type of services otherwise, banks need to pay penalty. So, the incentives from the government are actually done through banks. Those factors may also motivate customers to go to this bank as they were attracted to the facilities available” (SM-2).

One participant pointed out that due to similarities on products and services offered by Islamic banks in Malaysia, pricing and service charge are the elements which can possibly make the difference in terms of customer selection. In this context, the term pricing refers to the price charge for Islamic banking products and services, for example Islamic financing products. Then, the interviewees were asked on what would be the most important factor based on their perception. The themes identified based on their answers is presented in figure 7.1.

Figure 7.1
Main Factor as Perceived by Bank Managers

<table>
<thead>
<tr>
<th>Selection Factor</th>
<th>Participant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit rate</td>
<td>3</td>
</tr>
<tr>
<td>Pricing</td>
<td>2</td>
</tr>
<tr>
<td>Programmes by BNM</td>
<td>1</td>
</tr>
<tr>
<td>Value</td>
<td>1</td>
</tr>
</tbody>
</table>

The figure above shows that three participants believed that the most important factor that motivated customers to choose their Islamic banks was the profit rate. One of the branch managers made the following remark:
“For deposit products, Islamic banking customers will get higher profit compared to conventional deposit products. That is why customers want to choose Islamic products. Moreover, we have been instructed by the head office to promote Islamic products first to the customers. If they do not want the Islamic products, then we offer the conventional products to the customers” (BM-1).

In the above case, the particular branch provides both conventional and Islamic products and services simultaneously. However, the main office was strongly encouraged their staff to promote Islamic banking products. The plausible reason could be due to strong commitment and encouragement from the government in promoting Islamic banking products. Similarly, Khiyar (2012) and Rudnyckyj (2013) also shared the same view on the great support and encouragement from Malaysian government in promoting Islamic banking products and services.

On the other hand, two participants suggested that pricing would be the most important factor because customers are price sensitive and they always compare the price, particularly for financing products. One of them stated:

“Customers always compare the price, and they are concerned about their eligibility; whether they can get the financing or not” (HS-1).

The above view is consistent with the finding of Leverin and Liljander (2006) who found that one significant reason for customers to switch is pricing. Then, apart from the pricing and profit rate factors, one participant acknowledged the effort and initiatives by BNM as the most important factor and he remarked:

“There is an enhancement and continuous programme by the central bank to capture public interest to convert to Islamic bank, with an additional support of advertisement” (BM-3).

Evidences tend to suggest that the Malaysian government plays major role in developing, maintaining the growth of Islamic banking industry and at the same time providing the necessary legal framework to encourage the industry (Nasser and Muhammed, 2013). Hence, there is an increase in the level of acceptance among Malaysian in terms of Islamic banking usage.
Next, one participant believed that values of the bank is the most important factor that attract customers. The senior manager mentioned that the founder (chairman) of his bank plays a very significant role in accommodating and supporting Islamic products and services in this country. This support began from the first phase of Islamic banking development in Malaysia. As a result, he believes that the bank has created its value which attracts customers to be part of the bank. According to the literature, value is something perceived by customers and what they pursue from an exchange (Kishada and Wahab, 2013). The authors also suggest that positive perception on value received from particular service provider could motivate customers to choose and stay with the same provider in the future.

Despite none of the interviewees mentioned religious motivation as the most important factor in customer selection in general, a few of them recognised religious factor as significant for certain customers. These customers had switched their accounts from conventional to Islamic because of religiosity. Talking about this issue, an interviewee said:

“There are cases whereby customers choose to change their account from conventional to Islamic because of religious reason. Hence, religiosity does motivate certain customers to change to Islamic products” (SM-2).

In addition, it is also acknowledged that religious motivation seems to be important as there is an increasing awareness among the public at present on the Islamic banking products and its distinctive characteristics.

Meanwhile, an interviewee pointed out his opinion regarding the behaviour of customers from different age groups; whereas he believed that there is a difference among young and older customers. He observed that customers above 40 years old will choose Islamic banks due to their religious awareness, while customers below 40 would not place such importance to the religious factor. This argument is consistent and similar to the finding from the questionnaire in the previous chapter. Based on the survey, the younger generation tends to put priority on service and convenience factor while the older segment of customers is more concerned with the religious factor.
Furthermore, it has been discussed in Chapter 2 that ethnicity could potentially be a powerful predictor of customer behaviours and researchers stressed the importance of understanding ethnicity and culture to improve marketing strategies. Therefore, it is important to assess responses from the interview participants related to this issue. It became apparent from the discussions with the participants that majority of them agreed on similarities among Malay, Chinese and Indian customers regarding their choice of factor. For example, one of the interviewees made a remark:

“There is no difference among the ethnic groups. Most of us have this perception that Islamic banking products are here for Muslims. However, in reality people place more importance on low service charge and high profit rate” (BM-2).

However, the evidences from the questionnaire survey tend to suggest that customers put more emphasis on religious and ethical factor. In contrast, service charge was ranked at the bottom as the least important factor. Nevertheless, one manager explained further:

“There are no differences among the non-Muslim regarding the selection factor such as pricing and margin. However, there are differences among Malay ethnic group whereas devoted Muslim will choose Islamic products based on their religious commitment (religiosity factor) and this is due to an increasing awareness on the Shariah compliance. But I would say that the percentage of that type of customer is low, maybe lower than 50 percent” (HS-1).

Meanwhile, one of the branch managers argued that Malay and Chinese customers may slightly differ on their preferences. He mentioned:

“Malay customers do not really care about the religion factor, but they emphasised on the rate factor. Meanwhile, Chinese people prefer to go to the Chinese bank based on convenience such as the use of language (Mandarin) and the bank staff are mostly Chinese” (BM-1).

According to another branch manager, he believed that there are differences between the ethnic groups related to their preferences. He argued that location of the bank is very important to determine the level of acceptance among public towards Islamic banking products and services. He commented:

“In terms of location, Islamic banking is not an issue in urban area such as Kuala Lumpur. On the other hand, for rural areas or developing areas, most of Chinese
and Indian who are non-Muslims, they thought that Islamic bank is only for Muslim people. This is their perception of Islamic bank. So, we have to explain to the non-Muslims. They are surprised that Islamic banks also offer similar products to the conventional bank” (BM-3).

Nevertheless, one interviewee pointed out:

“This branch is located in a majority Malay people. So, whenever Malay customers want to open an account or apply for financing with us, we will give and offer the Islamic products and services to them” (BM-2).

The above discussion suggests that location of a branch is significant to determine the behaviour of customers, particularly their preferences. It appears that customers in big cities are more exposed to Islamic banking and have more knowledge on it compared to those in the rural areas.

7.4.2 Ethical Policy of Bank

This section deals with the discussion on ethical practices of the bank and how these Islamic banks ensure that the information on the policy is delivered to the customers. All of the interviewees agreed that ethical practices of all banks in Malaysia are regulated and governed by the BNM as a step to avoid any misconduct or unfair treatment to the customers. As for the Islamic banking, there are additional regulations involved due to a restriction on certain investments and financial transactions.

Two managers mentioned on product disclosure sheet (PDS) as an important instrument to ensure the Islamic bank does not treat customers in an unethical way. The managers viewed the PDS as a representation of ethical practice of the bank because customers would know and understand the products that they actually bought or invested. One of the senior managers further explained:

“Our staff will explain to the customer what Shariah concept is going to be used, how they invest and everything in the PDS” (SM-1).

Meanwhile, four interviewees referred the ethical matter to the role of Shariah Advisory at the BNM and the Shariah Committee at each Islamic bank. This is
where the key principles of Islamic finance are being emphasised. As one interviewee said:

“We provide information in our website regarding the list of negative business based on the approval of our Shariah committee, and customers will be notified on the policy. The negative list includes tobacco based company, entertainment-gambling, alcohol, prostitution. In addition, bank has particular policy by not taking customers such as loan shark and money laundering. Previously, there was a cigar based customer who wanted to have relationship with us, but we could not approve” (SM-2)

In terms of investment for Islamic banks in Malaysia, all participants highlighted the embedded Islamic principles for Islamic banks which suggested that there should be no engagement in *riba, gharar, maysir* and any prohibited items. According to one interviewee:

“There is a guideline on what we can trade in. Operational issues of the bank and services rendered to the customers, its all governed by the Shariah committee” (BM-3).

Nonetheless, a few participants expressed concerns on the issue of providing the right information to educate customers on the value of Islamic banking. One of the interviewee believed that Islamic banks need to educate customers on these value and principals when they want to sell Islamic products. He commented:

“Majority of those who were keen in asking about the differences between Islamic banks and conventional banks are the non-Muslims, particularly Chinese customers. For Muslim customers, they do not care. There are still a lot of people who do not understand the underlying principles. What they are more concern with is either they can get the financing or not” (HS-1).

Meanwhile, the ethical requirement addressed by the BNM also includes the standard way Islamic banks treating and charging customers. As far as this issue is concerned, the managers remarked that the right of banking customers is governed by the BNM to ensure fairness and justice to them. Moreover, under Islamic banking, there is another layer of consideration in terms of charging customers due to the hardship element from customer perspective. This refers to the same standard by the BNM with additional requirements. Therefore, according to the interviewees, banks will always deem as ethical as long as they follow the guidelines.
7.5 The Evaluation of Customer Satisfaction

Consequently, this section discusses how Islamic banks evaluate their customer satisfaction and banks strategies to maintain their service qualities. In relation to their perception on customer satisfaction, all participants agreed that their customers are satisfied with the services provided because if they are not satisfied, complaints can be made through various ways.

Discussions with the interview participants make it apparent that Islamic banks do evaluate the satisfaction of their customers in various ways. The interviewees declared that they have been engaged in some feedback collection processes which are vital to measure the extent of customer satisfaction on the existing products and services. Moreover, majority of the managers mentioned that surveys were done by their banks to measure customer satisfaction. Table 7.4 below summarises the methods of evaluation used by the Islamic banks to measure the satisfaction level of their customers.

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Evaluation of Customer Satisfaction</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>HS-1</td>
<td>Rate form at the counter</td>
<td>Quarterly</td>
</tr>
<tr>
<td>SM-2, HIP-1</td>
<td>Survey, call back and rating system in branches</td>
<td>Monthly</td>
</tr>
<tr>
<td>BM-3</td>
<td>Survey, mystery shoppers, call up customers</td>
<td>Monthly</td>
</tr>
<tr>
<td>BM-1</td>
<td>Survey</td>
<td>Monthly</td>
</tr>
<tr>
<td>SM-1</td>
<td>Circular (compliment or complaint)</td>
<td>Monthly</td>
</tr>
<tr>
<td>BM-2</td>
<td>Based on complaint</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
Generally, the interviewees were aware of the implication and significant of these feedback as an indicator whether customers were satisfied or not with their banking institutions.

However, none of the interviewees agreed that there are differences among the ethnic groups in terms of level of satisfaction. Those opinions are dissimilar to the finding gained through the questionnaire survey, which demonstrated that there are significant differences among the three ethnic groups in terms of their satisfaction. According to the interviewees, if the customers are not satisfied, they could make a complaint directly to the banks. At present, all of the complaints received were segmented based on products, hence they could not make any inferences on which ethnic groups were highly unsatisfied or made more complaints compared to others.

7.5.1 Complaint handling

The interviews revealed that there were similarities in complaint handling policy in Islamic banks involved in this study. All complaints were categorised based on products and each complaint has a timeline and tracking number whereby there is a certain degree of timing for the management to get it solved. Majority of the managers said that customer complaints in their banks need to be settled within two weeks. One of the participants mentioned:

“Complaints are valuable to the bank. People complaint because they want changes and try to compare them with the competitors” (HS-1).

According to one branch manager:

“If there is a complaint, the staff will refer to the branch manager, if it cannot be solved, it will be sent to the headquarters. There is a Customer Resolution Unit (CRU) whereas the complaints will be sent directly to the unit at the head office. Then, they will email to the branch manager to know what happened. Usually the complaints are through email or letter” (BM-2).

Meanwhile, other participants explained that if the customer cannot accept the explanation from the bank, there is an organisation namely Ombudsman for
Financial Services (OFS) or formerly known as Financial Mediation Bureau. This organisation is an initiative from the BNM to assist customers as an alternative complaint resolution channel to resolve complaints or dispute in the financial service industry.

On the other hand, one senior manager noted that majority complaints received from the customers were based on third party. He mentioned:

“Most of the complaints we received were because of takaful provider that has relationship with us. Customers were not satisfied with the way this takaful business handled cases particularly claims. This takaful company was not willing to pay their customers which in a way our customers as well. If these issues were not settled, then the complaints would be sent to the Central bank (BNM)” (SM-1).

7.5.2 Service Quality of Bank

In Chapter Four, customer satisfaction in banking industry is associated or connected with the service quality provided by the bank. In this particular study, insights from the bank managers were gathered through the interviews on how Islamic banks in Malaysia handled the service quality issue. In other words, this study seeks to explore the operational issue by looking at this information provided by the interview participants.

From the discussion with the interview participants, it was apparent that all of them agreed that customer service quality is vital for both Islamic and conventional banks. It was agreed that banking institutions need to uphold good services so that customers would maintain their relationship with the banks. A few managers from foreign ownership Islamic banks perceived their service quality as better than the other Islamic banks particularly local Islamic banks. The participants who held this view said that bank such as Citibank performs better in terms of professionalism, value, quality and faster service compared to local Islamic banks.

The interviews discovered a number of methods implemented by the Islamic banks to provide good service quality to their customers. Firstly, according to managers
from IB4, there is a particular unit within the bank which handle service quality. He stated:

“We have a unit handling service quality which still leverage with our parent bank. Some departments are being managed by the same team for our conventional parent bank and Islamic subsidiary such as legal department and service quality. However, for certain terms and contracts under Islamic banks, this unit needs to ensure it fits with our requirement. If there is an enquiry regarding our products, the unit needs to ensure the information is consistent with the requirement from the Shariah department” (SM-2).

According to one branch managers from IB2, service quality innovation (SQI) unit is there to guide the quality of service provided by branches. For example, there is a guideline in terms of decorations and queuing time. He further explained:

“The waiting time for each customer to be served should not be more than 5 minutes. If the waiting time is over 5 minutes, manager will ensure that more frontline staff will be provided. Then, the bank also encourage customers to use machines and internet banking so that the customers do not have to wait long to be served in the counter” (BM-2).

The branch manager emphasised on the importance of ensuring comfortability of customers. For example, if there are enough chairs provided, comfortable environment and up to date posters. Furthermore, there is a department at the headquarters to monitor the service quality of each branch. Another interviewee stressed on the importance of digital banking facilities to improve counter services and attract younger generations.

7.6 Perceptions on the Loyalty of Customers

This section focuses on the insights from the interviewees regarding the loyalty of their customers. The interview participants were asked about their perspectives on the loyalty behaviour of their customers. It can be concluded from the interviews that there are various reasons why customers choose to be loyal to the bank. First reason is excellent service quality which is vital to ensure loyalty among customers. One of the interviewees pointed out:
“Our bank maintains loyalty based on service. We make sure customer is well taken care of. For example, we provide platform for e-banking, which means that we make sure the security of our internet banking is up to date and I can say that there is no scam case involving our bank at the moment. So, customers are loyal as this bank provides great service quality” (SM-1).

Secondly, loyalty also depends on how well past experience of the customers with the bank. Customers who had good banking experiences will be more likely to stay with the same bank compared to those that had bad experiences. However, some customers had to stay with the same bank not because they want to, but they have to do so because of their job requirement such as salary payment. So, if their employers ask them to bank with a certain bank, they have to stay.

One of the interview participants remarked that loyalty can be built by cross selling to the customers as an effort from bank to ensure customers stay with them. It is argued that loyalty to the bank is force loyalty as bank want to be the main bank which is able to offer customers everything under one roof. He suggested that:

“By becoming main bank, you will make it difficult to this customer to switch to another bank. We did this by asking customers what more they want, encourage them to take more products, for example financing. So, switching costs capture people loyalty by selling customers as many products (at least 3 products). As a result, there is a lot of hassle if customer wants to move. I can say sometimes customers stay with the same bank not because they are loyal to that particular bank, but because they have to” (HIP-1).

The above point is considered significant because according to Picon et al. (2014), one of the main strategies to increase customer loyalty is to set up switching barriers. Hence, it is hard for customers to switch to another bank. A senior manager from different Islamic bank shared a similar sentiment, arguing that bank needs to be active in encouraging loyalty among customers. He remarked:

“We are consistently being competitive, for instance if the customers want to switch to another bank, then we would offer him or her good price, better deals or additional financing according to the needs of the customer” (SM-1).

The participants were found to be divided on the issue of customer loyalty. Out of 7 managers, four of them argued that there is no loyalty among their customers while another three managers believed that customers are loyal to their Islamic banks.
For the first group of interviewees who viewed their customers as not loyal to the bank, they noted that customers are price sensitive; which means that there is a tight competition among banks on pricing, whereby customers will move to other bank with good price.

“We have done campaigns on deposit product previously, and soon after the campaigns ends, the money is move elsewhere by the customers. This indicates that customers are price sensitive and they are not loyal” (SM-2).

One of the branch managers pointed out that the competition from other Islamic banks caused the small percentage of loyalty among customers. He estimated that loyal customers are only around 10 to 20 percent. However, devoted Muslims will be more loyal to the Islamic banks. If they move, they will still choose Islamic banks. Meanwhile, for less devoted Muslims, they will go to conventional if they find a better rate there.

Then, the second group of interviewees perceived their customers as loyal based on their own observation. Nonetheless, two participants commented on the difference between Chinese and Malay customers. One of the branch managers remarked:

“Once customers bank with us, they stay. Our customers are loyal to the bank so far, with exception of Chinese as Chinese people focused or attracted on better rate (price factor). They prefer banks with lower charge and better rate” (BM-3).

It seems that the above argument is similar to the finding from the questionnaire survey whereas Chinese customers were concerned with operational and charges. Furthermore, there are two managers commented that Chinese customers put more weightage on financial rewards and pricing, indicating low level of loyalty among them. For Chinese customers, pricing is a big factor and they would go to as many banks as possible to get the best price. Moreover, the interviews also disclosed that location is key to the differences among the ethnic group. Reflecting on this, an interviewee commented:

“Ethnicity does play a very small part in determining loyalty. Location plays an important role to know the ethnicity factor; in cities, Chinese will choose Chinese
banks such as Public bank or OCBC. If the branch location near residency of majority Malay ethnic group, Malay customers will go to the bank with Malay bank personnel. However, I think ethnicity is still not a major factor for loyalty” (BM-2).

The response indicates that there is a sense of belonging and social bonds among customers and Islamic banks which owned by certain ethnic groups. That is why these ethnic groups choose particular bank as their preferences. On the other hand, a few participants believed that Malay customers tend to be more loyal compared to Chinese, while Indian customers are quite hard to read because they are minority and very few of Indians are customers of Islamic banks. As one interviewee remarked:

“Malay customers are quite loyal, as long as the bank staffs are competent, and they are having good relationship with the staff” (BM-2).

The above perception is somehow in accordance with the finding from the questionnaire whereas Malay customers indicated higher loyalty behaviour compared to the Chinese customers.

Apart from the ethnicity factor, a number of interviewees suggested that other demographic factor particularly age does influence loyalty among customers. In this context, they noted that there is a difference on level of loyalty among customers from different age groups. It is observed that older customers tend to be loyal compared to younger generation as they have more money than the young ones. One interviewee who supported this view said:

“I think age group is a significant factor for loyalty among bank customers. Majority of loyal customers are from the older generations. I would say the baby boomers are loyal compared to the new generations (Gen Y), the young ones usually not loyal”. (SM-1).

The above point is also in agreement with the literature and the questionnaire findings. Higher loyalty behaviour could be seen from older generation in comparison with the younger segment of customers. Moreover, another manager acknowledged that business or corporate customers tend to be more loyal because of the good deeds by the bank as the first bank who helped them to start up the business, particularly Chinese entrepreneurs.
Nonetheless, Islamic banks have taken initiatives to promote loyalty among customers by giving incentives such as prizes. For instance, a manager from IB5 mentioned:

“We have loyalty programme such as go ‘umrah’ (Islamic pilgrimage to Mecca), holidays or prizes as tokens of appreciation to the customers. It is an ongoing programme which changes every year” (BM-3).

Such incentives are relevant to banking institutions because previous studies have shown that consequently, there is a significant effect of loyalty programmes towards customer retention (Leverin and Liljander, 2006). A few managers admitted that since most of their customers are between 30 to 40 years old, the bank itself is trying to brand and reach to younger generations, hence promoting the sporting events. One of the interviewees pointed out:

“We are sponsoring sporting events such as marathon to brand ourselves to younger generations and encouraging loyalty among them” (HIP-1).

Furthermore, certain banks tried to position themselves as family banks which reward loyalty very much. So, the bank wants to cater for generation banking, encouraging the younger generation to bank with the same bank as their elders. The effort may have been due to the fact that Islamic banks tried to create additional value or branding for their banks as building loyalty with key customers is fundamental and applicable in marketing strategy for businesses (Mohsan et al., 2011). Mohsan et al. (2011) also emphasised on the ability of financial institutions to anticipate future needs and demands of their customers in order to ensure customer loyalty.

7.7 Conclusion

This chapter analysed the data gathered from the semi-structured interviews which were conducted with seven Islamic bank managers in Malaysia. From the series of in-depth semi-structured interviews undertaken, it seems that the participants placed a great deal of importance on profit rate and pricing as the main factor motivating customers to choose an Islamic bank. Accordingly, majority of the interviewees held
a view that ethnicity does not influence selection factors, satisfaction and loyalty. The discussions also revealed the strategies and efforts by the Islamic banks to market their products and provide good services to the customers. It became clear that there was little consensus about the level of loyalty among Islamic bank customers. Further, it is very intriguing to discover that there is a very small number of Islamic banks that clearly recognise the differences and diversity among customers in the society, yet there remains a noticeable gap between the information and practice.
CHAPTER EIGHT

DISCUSSION OF FINDINGS AND CONCLUSION

8.1 Introduction

The previous two chapters examined the selection factors for Islamic banks, satisfaction and loyalty from the perspectives of customers and bank managers. In general, the objectives of this research are to compare the perceptions of three major ethnic groups in Malaysia related to the three salient issues mentioned above, and to look at the opinions of bank managers in the same issues. This study offers two different approaches in understanding the behaviour of customers in Islamic banking industry in Malaysia. Firstly, the perception of customers was gathered through questionnaire survey. Secondly, the perception of bank managers regarding their customers was gathered through the use of semi-structured interviews. Accordingly, this chapter aims to compare, reflect and synthesise the findings and discuss the concluding remarks for this study. This final chapter provides the summary of the research, discussion of findings, research implications, limitations and recommendation for future research.

8.2 Summary of the Research

A major focus of this study is to look into the perception and behaviour of Islamic banking customers from three major ethnic groups in Malaysia. The importance of understanding customers is well established in the literature as the behaviour of customers change overtime according to the environment and culture. It has been established that socio-demographic factor could possibly influence the decision and behaviour of a customer. This argument has been explored in different settings and industries including banking environment. Since banking institutions depend highly on good relations with customers, bank management have to understand the cultural values of local communities to know which factor lead to satisfaction and loyalty so that the institution could use those information to gain competitive advantages.
The main issues for this study are on major selection factors, customer satisfaction and loyalty as key elements for the success of financial institutions particularly for Islamic banks in Malaysia. Although previous studies provide knowledge on similar issues, some questions remain unanswered when predominantly majority studies were based on customer viewpoints. As explained in the introduction chapter, it is clear that ethnicity is a significant factor in Malaysian societies and prior studies did not focused on the differences among ethnic groups in research related to customer behavioural issues. In addressing this gap, the current research aims to contribute to the development of a better understanding on the determinants of Islamic bank selection in Malaysian context, as well as their satisfaction and loyalty behaviour.

Chapter One of this thesis addressed the gap identified in the literature and outlined research aim and objectives which formed the research questions. As this research is a comparative study between major ethnic groups in Malaysia, Chapter Two described the historical background of multi-ethnic society in the country. The chapter began with an introduction of the plural society, how it was formed, and the consequences of its diverse society in terms of integration among the ethnic groups. Some relevant issues were also been discussed such as past conflict among ethnic groups and national unity. The chapter also highlighted the significance of ethnicity variable in most of policies implemented in the country. The islamisation in the government administration led to various Islamic programme initiatives. This includes the introduction of Islamic banking and finance in the country.

Next, the chapter also focuses on ethnicity as a variable particularly in marketing research. Ethnicity is increasingly recognised as a major potential indicator of customer behaviour particularly in determining preferences and behavioural intention. Ethnicity is fast becoming a key instrument in the implementation of marketing strategies for specific target group of customers. The implication of ethnicity as a potentially powerful variable to predict customer behaviour has been discussed and past empirical studies using ethnicity as a major indicator have been reviewed. It is important for marketers to deeply understand the differences between each ethnic group as the strategies implemented need to be harmonised with the local culture.
Chapter Three, meanwhile focused on the Malaysian Islamic banking industry. In the history of Islamic finance development in Malaysia, Islamic banking plays a key role in the significant growth of the industry. The first part of this chapter explained *maqasid al-Shariah* and the Islamic banking principles. The subsequent part discussed the development of Islamic finance in Malaysia, how it began, and the process to encourage banking institutions to participate in offering Islamic products and services. Chapter Four discussed on selected aspects of customer behaviour in various settings and industries. Within financial services literature, selection factors, satisfaction and loyalty have become central issues for investigation due to their importance in determining the success of organisations particularly banking institutions. Moreover, examining satisfaction and loyalty is a continuing concern within the body of literature because of their contributions towards profitability and sustainability. Meanwhile, prior studies collectively suggested considerable evidences that service quality can be used as a reliable and valid indicator to help explain variance in some aspects of customer satisfaction. It is noted that most studies in the field of marketing for Islamic banking industry have only focused on specific demographic part such as religion, without incorporating ethnicity aspect of customers.

Chapter Five explained the methodological aspect of this research which included philosophical stance, research design and methodology, research sampling and instruments used to gather data to answer the research questions. This research adopts pragmatism philosophical approach as it focuses on the research questions to underlie and determine the methods applied. The methodological approach taken in this study is a mixed methodology based on the research questions formulated. The research data in this thesis is drawn from two main sources; questionnaire and semi-structured interviews were chosen as the data collection instruments due to their appropriateness and suitability to gain the answers needed.

To further investigate whether customers from different ethnic groups perceived investigated issues similarly or differently within Islamic banking environment in Malaysia, Chapter Six and Seven discussed the empirical evidences based on questionnaire survey and semi-structured interviews from two different groups (bank customers and bank managers) which were conducted in Klang Valley area in
Malaysia. Descriptive data were generated for all sections in the questionnaire. Overall, the findings revealed that there are significant differences among the major ethnic groups in terms of their perceptions and level of satisfaction and loyalty towards Islamic banks. The findings also indicated that there were mix consensus among the bank managers on the similarities and differences between the ethnic groups. The following section offers a combination of results pertaining to the issues investigated in this study.

8.3 Review of Findings

8.3.1 Selection Criteria

The first and second research questions for this study are related to the selection factors among multi-ethnic groups of customers in Malaysia. Accordingly, concentration on the importance of selection factors is one of significant aspects of maximising relationship revenue in banking (Leverin and Liljander, 2006). The results obtained from the questionnaire suggest that demographic background of customers does influence the way they perceived the investigated issues, particularly ethnicity background. The statistical analysis showed a significant value on the differences among the ethnic groups in terms of how they perceived the importance of certain factors. However, most of the bank managers held the view that there are no differences between customers from different ethnic groups with regards of their selection factors. Only a small number of those interviewed suggested that ethnicity plays a role in determining their selection. Generally, it can be concluded that some bank managers are treating their customers the same way without incorporating the concept of ethnicity or element that associated with it.

Overall, customers ranked religious and ethical factor as the most important factor that motivated them to choose Islamic banks based on the factor analysis. This is particularly evidenced for Malay customers. Based on the Kruskal-Wallis test, Malay ethnic group ranked religious and ethical as the most important factor while this factor was ranked as the least important factor for the Chinese and Indian customers. While this finding is contradicted with Dusuki and Abdullah (2007), similar result can be found from Metawa and Almossawi (1998) study which suggested the
importance of religious factor in the preferences of customers. Most of previous studies also stated that there was a positive relationship between the selection of Islamic banks and religious motivation among Muslim customers (Ltifi et al., 2016). It is reasonable to expect that Malay customers perceived religious motivation to a greater degree than Chinese and Indian customers based on their religion consciousness. A possible explanation for this result may be due to Malay ethnic group is associated with Islam and their culture was based on the religion itself. As stated in Article 160(2) of the Federal Constitution, for a person to be Malay, he must be a Muslim (Mohd Nor et al., 2012). This finding reflects the Durkheimien theory which emphasises on the influence of religion as a social force that keeps society together. Durkheim sees ethnicity as a significant force for group integration and morality which could be seen in the analysis of religious belief practices in ethnic groups (Malesevic, 2004). In this case, the religion of Islam is closely associated with the Malay ethnic group, which significantly influence the foundation of their identity and culture (Kamaruddin and Kamaruddin, 2009). Additionally, religion is also an important aspect for Indians as they have high values for the fear of God (Awang et al., 2012).

Meanwhile, both of Chinese and Indian customers ranked second factor namely ‘services and convenience’ as the most important factor for them. On the contrary, Malay customers chose this factor as the least important factor. Accordingly, bank managers need to be aware that with the increasing of awareness and knowledge on Islamic banking, Muslim customers particularly Malays would be more interested to use Islamic products and services as part of their religious commitment. Amin et al. (2013) also recognised that in general, Malay people value religion more than others in Malaysia. Moreover, Islam is a large factor of identity for the Malays (Uddin and Uddin, 2012). Additionally, Malaysia is considered as a collectivist country where the communities placed high importance on culture and value elements such as religious and family, and this includes their decisions on financial aspect (Muhamad and Alwi, 2015). This is completely different for Chinese and Indian customers whereas their main consideration would be convenience and reliability aspects. The following table (8.1) presents the ranked factors according to the multi-ethnic customers.
Table 8.1

Summary of Selection Factors according to the Ethnic Groups

<table>
<thead>
<tr>
<th>Rank</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Religious &amp; ethical</td>
<td>Services &amp; convenience</td>
<td>Services &amp; convenience</td>
</tr>
<tr>
<td>2</td>
<td>External criteria</td>
<td>Operational &amp; charges</td>
<td>Service quality &amp; benefits</td>
</tr>
<tr>
<td>3</td>
<td>Operational &amp; charges</td>
<td>Service quality &amp; benefits</td>
<td>External criteria</td>
</tr>
<tr>
<td>4</td>
<td>Service quality &amp; benefits</td>
<td>External criteria</td>
<td>Operational &amp; charges</td>
</tr>
<tr>
<td>5</td>
<td>Services &amp; convenience</td>
<td>Religious &amp; ethical</td>
<td>Religious &amp; ethical</td>
</tr>
</tbody>
</table>

Nevertheless, it is not limited to religious commitment to satisfy Muslim customers, but to include the economic benefits such as lower cost, product innovativeness and service quality (Muhamad and Alwi, 2015). Meanwhile, majority of bank managers in the interview stated that profit rate and pricing as the most significant factor that motivated customers to choose Islamic banks. Nevertheless, a few managers acknowledged that there is a small percentage of customers who perceived religiosity as their main motivation. For those who shared similar view, they agreed that devoted Muslims tend to use Islamic banks because it is Shariah compliant and in accordance to their religious obligation, compared to less devoted Muslims. This finding is consistent with Delener (1994) who stated that the consumption of people from different level of religiosity seems to vary according to their degree of religiosity. The author suggested that individuals can be divided into four categories: the most religious, the moderates, the less religious and the non-religious. However, it should be noted that there is a discrepancy between belief of Muslims and their behaviour. In this case, although Malay ethnic group is associated with being Muslims by birth, it does not necessarily mean that Malay people search and consume or use Shariah compliant products and services (Souiden and Rani, 2015). Likewise, to ensure satisfaction among Muslim customers, banking institutions are not supposed to rely on religious motivation alone, but also the importance of economic benefits (Muhamad and Alwi, 2015).

The current findings reinforce the argument that marketers should incorporate ethnicity factor in their strategies and decision making in order to secure competitive advantage particularly in dual banking system such as in Malaysia. However, the
current practice of the industry is not reflecting the findings from the perspective of customers as issues related to ethnicity of the customers were not particularly prominent in the interview data. It seems that bank managers are neglecting the issue of ethnicity as suggested by Burton (1996). The conflicting results show that bank managers do not think that ethnicity is a potential variable for predicting the behaviour of customers, while the result from the questionnaire indicated that there are differences among the ethnic groups. Additionally, two interviewees suggested that Malay customers preferred convenience factor, but the result differ as services and convenience factor is the least important factor according to the Malay customers based on the mean rank value.

In terms of ethnic influence, discussions with the interview participants revealed that there is a small percentage of customers who chose a bank based on the ethnicity of its founder and bank personnel. For example, Chinese customers would prefer to go to banks where their staff are mostly Chinese and similar with the Malay customers.

8.3.2 Customer Satisfaction

This study further expands current knowledge by empirically testing satisfaction and loyalty relationship within Malaysian Islamic banking industry. More specifically, it analyses the perceptions of three major ethnic groups of customers in Malaysia about their level of satisfaction and loyalty towards their banking institutions. This section deals with the third research question which is to examine the level of satisfaction among customers through a service quality dimension. As one of the key stakeholders for banking institutions, bank management need to recognise their customer satisfaction or dissatisfaction. In general, satisfied customers are more likely to maintain using the same products and services implicating the positive effect of satisfaction towards behavioural intentions and/or loyalty (Voon et al., 2012). Therefore, Islamic banks need to understand how Islamic products are understood by the various ethnic markets, their level of service expectations, and identify the barriers that move them away from Islamic banks. This is in accordance with the aspiration of Malaysian government to increase the market share for Islamic banking to 40 percent by 2020 (Muhamad and Alwi, 2015). Hence, the industry
needs to analyse and understand the local multi-ethnic market segments to enhance the potential of its high growth and profitability.

Based on the questionnaire survey distributed, majority of the respondents were satisfied with their Islamic banks. This finding is in agreement with the responses gathered through the semi-structured interviews. Notably, there were efforts from the Islamic banks to measure customer satisfaction, and these were done through various surveys and feedback gathered from their customers. All of those who were interviewed indicated that most of their customers were satisfied, with very few complaints. When investigating satisfaction level of customers among the three ethnic groups, the researcher uncovered significant differences in their satisfaction level. Further statistical analysis shows that Indian customers rated their satisfaction level higher than the other two ethnic groups. This is followed by Malay customers and the least satisfied were the Chinese. Apart from ethnicity, other factors that generated significant statistical results are religion and duration as customer. This demonstrates that the two above factors have an impact towards level of customer satisfaction.

Many studies suggested that higher level of service quality leads to a more satisfied customer. Despite being one component of customer satisfaction, empirical studies indicated causal relationship between service quality and satisfaction (Foscht et al., 2009). In terms of service quality, the result indicates that the only dimension that statistically significant in predicting customer satisfaction is reliability. Therefore, bank management needs to highly consider this and try to improve the accuracy of services and it is very important that banks perform the service right the first time.

8.3.3 Customer Loyalty

This section proceeds by providing answers to the research question number 4 which relates to the loyalty of customers. According to the questionnaire survey, a large proportion of customers indicated their loyalty to the Islamic banks. Statistically, 78.3 percent of the respondents stated that they will continue being customer of Islamic banks, 63.3 percent will recommend their banks to others, 64 percent of the
respondents will say positive things to others, and 53.4 percent agreed that they do not intend to switch. Meanwhile, in terms of differences among the ethnic groups, based on the Kruskal-Wallis test, there is a significant difference of loyalty among Malay, Chinese and Indian customers. The result indicates that Malay customers rated the highest score for loyalty behaviour followed by Indian customers. The least loyalty behaviour is coming from the Chinese customers. Furthermore, prior studies revealed that ethnicity has a significant impact on brand loyalty and responses to marketing among ethnic markets (Emslie et al., 2007). This result matches those observed in the qualitative approach. Accordingly, a small number of interviewees mentioned that Malay customers are usually loyal compared to the Chinese. Meanwhile, a few interviewees revealed their strategies to promote loyalty; through cross-selling. Cross-selling opportunities have emerged as an important step in defensive strategies by banks to strengthen loyalty among customers (Foscht et al., 2009). Moreover, loyal customers are more likely to be receptive to cross-selling efforts and relatively less price sensitive, more likely to recommend their banks to others, and less likely to switch banks (Foscht et al., 2009).

Interestingly, apart from the ethnicity factor, other factors also contributing to the significant differences existed among customers and this includes religion, gender, age, and duration as customer. All of the factors mentioned above produced significant value on the differences across the groups. Generally, most interviewees suggested that there is no difference in loyalty among Malay, Chinese and Indian customers. However, majority of the bank managers acknowledged the effect of age on loyalty behaviour. In this case, older customers seem to be more loyal to their banks compared to the younger generation. The interview participants also indicated that ethnic type of Islamic bank also influence loyalty of customers particularly for Malay and Chinese people in Malaysia. It is apparent that most Malaysians prefer to have a relationship with banks owned by the same ethnic group (Ting, 2004). It shows that customers feel comfortable dealing with the same ethnic group for their financial transaction.

Meanwhile, the regression analysis revealed that three service quality dimensions significantly predict customer loyalty. These dimensions are reliability, compliance-ethical and tangibles. Furthermore, there is also a significant relationship between
satisfaction and loyalty based on the result presented in Chapter 6. This finding is consistent with the proposition that satisfaction is vital to obtain loyalty among customers as it could predict purchase repetition (Molina et al, 2007). In addition, the ability of an organisation to develop loyalty among customers is perceived as the key factor in winning and maintaining market share (Pont and McQuilken, 2005).

Table 8.2
Combination of Findings from Questionnaire and Interview

<table>
<thead>
<tr>
<th>Research Aspect</th>
<th>Quantitative Finding (Questionnaire)</th>
<th>Qualitative Finding (Interview)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Selection Factors</td>
<td>(a) religious and ethical (b) services and convenience (c) service quality and benefit (d) external (e) operational and charges</td>
<td>(a) profit rate (b) pricing (c) programmes by Bank Negara Malaysia (d) value</td>
</tr>
<tr>
<td>Comparative analysis between the ethnic groups (Malay, Chinese and Indian)</td>
<td>There is a significant difference between the ethnic groups in terms of their perceptions towards the selection factors (religious and ethical, services and convenience, service quality and benefit, external, and operational and charges.</td>
<td>Majority of the bank managers agreed that there is no difference between the ethnic groups in terms of their selection factors.</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>Majority of respondents were satisfied with their Islamic banks.</td>
<td>According to the managers, their customers are satisfied with the services provided.</td>
</tr>
<tr>
<td>Comparative analysis between the ethnic groups (Malay, Chinese and Indian)</td>
<td>There is a significant difference among the ethnic groups in terms of their satisfaction level.</td>
<td>All of the managers agreed that there is no difference among the ethnic groups in terms of their level of satisfaction.</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>Majority of customers agreed to continue being customer of Islamic banks and the result demonstrated loyal behaviour among majority of the customers.</td>
<td>Four managers argued that there is no loyalty among customers while another three managers believed that customers are loyal to the banks.</td>
</tr>
<tr>
<td>Comparative analysis between the ethnic groups (Malay, Chinese and Indian)</td>
<td>There is a significant difference among the ethnic groups in terms of their loyalty.</td>
<td>A small number of managers acknowledged the difference between the ethnic groups in terms of their loyalty.</td>
</tr>
</tbody>
</table>
8.4 Research Implications

This thesis provides significant theoretical and managerial contributions. Overall, the empirical evidence gathered from this research has positive implications for the body of knowledge and financial institutions. There are several important areas where this study makes an original contribution. Firstly, the findings should make an important contribution to the field of marketing for financial institutions. The study will enhance current understanding on the similarities and differences between the three major ethnic groups of Islamic banking customers in Malaysia through the statistical analysis and depth of information gathered. In particular, this study extends knowledge in the existing literature on the behaviour of customers within multicultural society by accepting the assumption that ethnicity does influence human behaviour and how they perceived issues like selection factor, satisfaction and loyalty. This study revealed that customers from diverse ethnic groups have significant different opinions and perceptions towards their Islamic banks.

Most of previous studies on customer behaviour were conducted in developed countries while there are limited empirical studies focused on developing countries in the literature. The study of multi-ethnic Islamic banking customers from developing country like Malaysia will provide an added dimension to the literature. This research is important for further development of the Islamic banking industry in Malaysia considering ethnicity has a major impact on the society. The information provided by this research could improve the understanding of customers particularly from multi-ethnic and multicultural market. By understanding similarities and differences between the ethnic groups, bank marketers may use that information to their advantages so that close relationship with the customers can be built, and subsequently improve satisfaction and loyalty among them. Exploring the effect of behaviour across diverse ethnic groups on organisations including Islamic banks is critical particularly in a market that is moving towards greater ethnic diversity. Multi-ethnic society such as in Malaysia has always recognised the strong bond or sense of belonging between the ethnic groups. Thus, bank managers must realise that the effects of ethnic group culture on their decisions and actions are complex and subtle.
Secondly, this research provides an important opportunity to advance the understanding of customer behaviour literature with the adoption of mixed methodology and the inclusion of different perspective from other stakeholder namely bank managers. As explained in the introduction chapter, it is important to know if the differences among these ethnic groups were addressed by the bank managers. Therefore, the inclusion of information from the bank managers adds significant weight to the findings. Next, it has been recognised that marketers need to include factors such as ethnicity and culture to plan their marketing strategies. This argument is practically valid to be applied within Islamic banking industry as the findings from this study suggest the same observation. However, designing structures for advertising and marketing to account for variations among ethnically different customers is a complex decision.

This study may benefit the management of Islamic banks in providing a general overview of preferences among the multi-ethnic customers in Malaysia. The important aspect is to strategically market the Islamic products and services according to the demands and needs of the customers. The result could help bank managers make improved decisions about the factors that perceived as important to the particular ethnic groups. Given the importance of religious and ethical factor to the customers, particularly for Malay ethnic group, bank managers should offer to provide better advertisement related to compliance and ethical aspects of Islamic banks to attract customers. Furthermore, most of Chinese and Indian customers in Malaysia have positive opinions towards Islamic banks (Taap et al., 2011), hence making them a relevant and potential target customers.

It is reasonable to suggest that ethnic marketing is relevant to be applied in Malaysian Islamic banking industry due to the multi-cultural nature of its customers. Banking institutions that well informed about the ethnic groups in its local market can design their marketing programmes accordingly; targeting strategy that could benefit the institutions. However, marketers need to be careful dealing with ethnic targeting as it is a major challenge to understand their culture and value system (Butt and de Run, 2011). In particular, Islamic banks need to understand the size and demographic characteristics of the local ethnic markets statistically and optimising
the location of the branches to identify the potential customers and how to attract them. Prior studies suggested that when an ethnic group was targeted, they reacted positively and if an ethnic group becomes aware of not being targeted, the group may have negative attitudinal, emotional and behavioural reactions (de Run et al., 2010). However, ethnic targeting does pose certain challenges; for example, the selection of media and medium of advertisement.

8.5 Limitations and Future Research

There are a few limitations that need to be considered in this research. Firstly, due to financial and time constraints, the sample of this study does not cover the total population of Islamic banks customers throughout Malaysia as the chosen sample is largely from central cities in Malaysia, which is accessible and appropriate for multi-ethnic research to be conducted. Moreover, this research involves the three major ethnic groups in Malaysia, with the exclusion of minor ethnic groups. This is due to the representation issue. In particular, previous works on multi-ethnic customers in Malaysia were predominantly conducted among these three major ethnic groups as the percentage and representation of the minor ethnic groups mainly in Islamic banking studies was very minimal, thus not being highlighted.

Even though the results of this study might not be necessarily generalisable to other industries or contexts, understanding the dynamics of behaviours among ethnic markets is important. Thus to address this issue, future studies should expand the selection of respondents involving other locations in order to produce findings that are more comparable. This is because location plays an important role in influencing customers as discussed in Chapter 7 through the semi-structured interviews with bank managers.

Furthermore, the attitudes of the three ethnic groups may be different if they are based in rural areas, where Islamic banks branches are limited or not competitive. Their attitudes can be significantly different across different geographic regions. Therefore, a comparative study on the behaviour of banking customers from diverse ethnic groups in other multicultural countries would be interesting in enhancing the
knowledge of marketers to develop more effective segmentation, positioning and targeting strategies.

Secondly, the qualitative part of this research only focuses to the perceptions of bank managers and excludes other stakeholders. Another point to consider for future research is the inclusion of other key stakeholders such as front line employees, regulators and general public as part of the research sample. The feedback from multiple sources internally and externally would definitely lead to a more holistic view of the issue. On the other hand, the qualitative data that was not included in this study will be used in future works of the researcher in the form of journal articles.

Moreover, the findings of this study suggest that there are significant differences among the ethnic groups related to their preferences and behaviour. As successful marketing to ethnic groups requires the development of comprehensive understanding of their attitudes and cultures, future qualitative research through ethnic focus groups is encouraged to gain deep understanding of their opinions and service expectations towards Islamic banks. Finally, the current study is confined to selected variables for customer satisfaction and loyalty. It would be useful to examine other key variables related to satisfaction and loyalty such as trust, value, price, and switching cost.
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APPENDIX A

A Research Survey of Customers’ Selection Criteria, Satisfaction and Loyalty in Malaysian Islamic Banking Industry

This research survey is to investigate the Islamic banking customers’ selection criteria, and to evaluate the customers’ satisfaction and loyalty towards their Islamic banks. As a customer of Islamic banks, your cooperation and participation in this research are highly appreciated.

General Instructions and Information

1. Please be assured that all individual responses will be kept STRICTLY CONFIDENTIAL and for academic research purpose only.

2. Please answer the questions in each section by circling the appropriate number or by placing a tick in the appropriate box.

If you have any questions about completing the questionnaire, please do not hesitate to contact me.

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University of Bolton
United Kingdom
Email: nbalmpo@bolton.ac.uk
# SECTION 1: BANK SELECTION CRITERIA

How important are the following factors in influencing your choice of Islamic banking?

1= Not Important at all  
2= Not important  
3= Neutral  
4= Important  
5= Very important  

<table>
<thead>
<tr>
<th>Statement:</th>
<th>Not important at all</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Convenient location of the bank</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>2 Internet banking facilities</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>3 Fast and efficient services</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>4 Reputation and image of bank</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>5 Wide branch network</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>6 Recommendation by family and friends</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>7 Attractive interior of the bank</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>8 Friendliness of bank’s personnel</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>9 Customer service quality</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>10 Religious commitment</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>11 Availability of ATMs</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Ethical investment by the bank</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>13</td>
<td>Mass media advertisement by bank</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>14</td>
<td>Competent and knowledgeable personnel</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>15</td>
<td>Wide range of products offered</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>16</td>
<td>Bank’s involvement in charity and community projects</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>17</td>
<td>Bank contributes towards zakah payment</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>18</td>
<td>Interest-free transaction by bank</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>19</td>
<td>Hours of operation</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>20</td>
<td>Size of bank</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>21</td>
<td>Bank’s financial activities according to Islamic law</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>22</td>
<td>Competitive profit margin</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>23</td>
<td>Bank’s imposes low services charges</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>24</td>
<td>Parking facilities</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>25</td>
<td>Bank promotes ethical values in its financial activities</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>
# SECTION 2: CUSTOMER SATISFACTION AND LOYALTY

Please read the following statements that reflect your perception of YOUR ISLAMIC BANK and circle the numbers indicating how strongly you agree or disagree with the statements.

1= Strongly disagree  
2= Disagree  
3= Neutral  
4= Agree  
5= Strongly agree

<table>
<thead>
<tr>
<th>Statement:</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 The bank has modern equipment.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>27 Bank employees are always willing to help their customers.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>28 The bank has convenience operating hours.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>29 The bank has ethical policy for its investment.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>30 Customer feels safe in transactions with the bank.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>31 Bank provides banking services according to Islamic law.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>32 Bank employees show understanding of customer specific needs.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>33 The bank has facilities and interior design that visually appealing.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Statement:</strong></td>
<td><strong>Strongly Disagree</strong></td>
<td><strong>Strongly Agree</strong></td>
</tr>
<tr>
<td>----------------</td>
<td>----------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>34  Bank employees quickly respond to customer requests.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>35  Bank employees are trustworthy.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>36  Bank services are performed within the promised time.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>37  The bank considers customer wishes and needs.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>38  The bank does not involve in any harmful activities towards community and environment.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>39  Bank employees consistently courteous towards me.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>40  Bank employees are quick in eliminating potential errors.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>41  The bank’s employees are neat appearing.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>42  The bank has knowledgeable employees on Islamic banking products.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>43  The bank provides its service right the first time.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>44  Bank always looks after their customers.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>45  Bank employees give customer personal attention.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Question</td>
<td>1</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>46</td>
<td>Bank’s materials such as forms, brochures are easy to understand.</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Bank employees have the knowledge to answer questions.</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Bank’s employees show sincere interest in solving customer’s problem.</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Customer do not spent much time waiting in line while in the bank.</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>The bank insists on error free records.</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>The bank promotes ethical values in its financial activities</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Overall, I am satisfied with my bank.</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>I intend to continue being a customer of the bank for a long time.</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>I will recommend this bank to my family and friends.</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>I say positive things about the bank to other people.</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>I do not intend to switch to other bank.</td>
<td></td>
</tr>
</tbody>
</table>
SECTION 3: PERSONAL INFORMATION

*Please tick (√) in an appropriate box*

57. Please state your gender
   - Male
   - Female

58. Please state your age group
   - Below 20
   - 21 – 30
   - 31 – 40
   - 41 – 50
   - Above 50

59. Please state your ethnicity
   - Malay
   - Chinese
   - Indian
   - Others (Please specify): ______________

60. Please state your religion
   - Muslim
   - Hindu
   - Buddhist
   - Hindu
   - Christian
   - Others (Please specify): ______________
61. Please state your highest education level

☐ Primary/Secondary School  ☐ Professional Qualification  ☐ College Diploma/Matriculation  ☐ Postgraduate (Master or PhD)  ☐ Bachelor (First Degree)  ☐ Others (Please Specify): _______

62. Please state your monthly income

☐ RM 1,500 and below  ☐ RM 10,001 – RM 20,000  ☐ RM 1,501 - RM 3,000  ☐ More than RM 20,000  ☐ RM 3,001 – RM 5,000  ☐ RM 5,001 - RM 10,000

63. Please state your Islamic bank

(Please tick (✓) only ONE which represents the most active account)

<table>
<thead>
<tr>
<th>Affin Islamic Bank Berhad</th>
<th>☐</th>
<th>Hong Leong Islamic Bank Berhad</th>
<th>☐</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al-Rajhi Banking &amp; Investment Corp. (Malaysia)</td>
<td>☐</td>
<td>HSBC Amanah Malaysia Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>Alliance Islamic Bank Berhad</td>
<td>☐</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>AmIslamic Bank Berhad</td>
<td>☐</td>
<td>Maybank Islamic Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>Asian Finance Bank Berhad</td>
<td>☐</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>Bank Islam Malaysia Berhad</td>
<td>☐</td>
<td>Public Islamic Bank Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>Bank Muamalat Malaysia Berhad</td>
<td>☐</td>
<td>RHB Islamic Bank Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>CIMB Islamic Bank Berhad</td>
<td>☐</td>
<td>Standard Chartered Saadiq Berhad</td>
<td>☐</td>
</tr>
<tr>
<td>Others (Please specify):</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
64. Please state how long have you been a customer of Islamic banking

☐ Less than 1 year
☐ 1-3 years
☐ 3-5 years
☐ More than 5 years

*Thank you for taking the time to complete this questionnaire. Your cooperation in completing this survey is highly appreciated*
APPENDIX B

Interview questions

Opening question: Career of the respondent

1. Based on your experiences, can you describe on the factors that attract customers to choose your bank?
   (a) What are the factors that attract Malay, Chinese and Indian customers to deal with your bank?

2. Will you explain on the characteristics of your customers?
   (a) What groups of customers do you have?
   (b) How does bank markets its products to the different group of customers?

3. Can you explain on your ethical policy?
   (a) How do you communicate this ethical policy to your customers?

4. Can you describe on the bank’s customer service quality?
   (a) Will you explain on customer complaints handling policy?

5. How do you evaluate your customer satisfaction?
   (a) Feedback from customers regarding their satisfaction?

6. Can you elaborate on loyalty of your customers?
   (a) Example of encouragement programmes to improve loyalty of customers?