MEASURING THE CUSTOMER SATISFACTION OF ISLAMIC BANKING SECTOR IN BANGLADESH

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Abstract:
The banking sector has been playing a significant role in achieving the economic growth of Bangladesh, where contribution of Islamic Banking Sector is remarkable. Islamic Banking Sector shows a substantial growth position in Bangladesh. Customer satisfaction is the most significant affecting phenomenon in determining the banking growth. Thus, this study attempts to measure the existing level of customer satisfaction of Islamic Banks in Bangladesh, using the Structural Equation Model (SEM). This study uses the 22 dimensions of customer satisfaction which used in the earlier studies in different countries for measuring the customer satisfaction of Islamic Banking Sector. A total of 385 samples have been taken from six full pledged Islamic Banks in Bangladesh. It reveals form the study that Human Resources and Systemization Service Delivery is the strongest indicator of customer satisfaction of Islamic Banking Sector in Bangladesh followed by Core Product, Service Capability and Social Responsibility. The findings therefore, may be helpful for policy-makers of banking authorities who have been making serious endeavor to sustain the growth of Islamic Banking Sector in Bangladesh.

Key words: *Customer Satisfaction, Islamic Banking and Structural Equation Modeling (SEM)*

JEL Classification: *I13, I18, I19*

I. INTRODUCTION

Customers are the king of any organization; therefore, sustainability of any organizational performance principally depends on customer satisfaction. Nicholls (1998) suggested that Customer satisfaction is predominantly significant with organizational performance in case of deliver services than products or services (Nicholls, 1998). Competition between Conventional Banks (CBs) and Islamic Banks (IBs) leads to the efficiency of customer service. Measurement of customer satisfaction has increasingly developed a scope of interest among schedule banks (Sharma, 2005). Therefore, measuring the customer satisfaction is one of the issues that carry top priority in the field of growth of operational performance of Islamic Banking Sector in Bangladesh.

Islamic banks have powerful strength to attract a huge number of customers mainly due to their religious orientation (Abdullah, 2009). In Bangladesh, religious orientation has little explanatory power for Islamic Banking. Islamic Banking in Bangladesh has passed 30-Year glorious experience from 1983 and there exists 8 full pledged Islamic Banks along with conventional banks containing Islamic banking in branching or window form. It may worth mentioning here that Islamic Banking Sector holds 14.03% Industry Share, 15.10% of Total assets, 19.89% of total investments (loans), 18.87% of total deposits and 10.27% of total liabilities as a proportion of the overall banking sector (Bangladesh Bank, 2013). Now a days, Islamic Banking is existed in maximum conventional banks in Bangladesh in branching or window form.

II. LITERATURE REVIEW:

The concept of customer satisfaction has been defined as the customer positive intention towards the use of specific products or services. Zeithaml (1993) suggested that customer satisfaction is a function of the customer's assessment of service quality, product quality and price. Oliver (1994) defines customer satisfaction as a summary cognitive and affective reaction to a service mishap that results from the comparison of customers' perceptions of service quality with their expectations of service performance. In recent years, customer satisfaction has gained new attention within the context of the quantum leap from transaction marketing to relationship marketing (David, 2002). Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Yi and La, 2004). According to

Kotler and Armstrong (2006), customer satisfaction depends on the service's perceived performance relative to the buyer's expectations. If the service's performance falls short of expectation, the customer is dissatisfied. For ensuring customer satisfaction, the organizational performance should match with expectation of customers. Consequently, satisfied customers make repeat purchases and sharing others about their cognitive experiences with the service. Well-dressed banks aim to delight customers by promising only what they can deliver, then delivering more than they promise. It is worth mentioning here that customer satisfaction is core significant factors of sustainable operational performance of banks sector (Anderson, 1993; Brenhardt, 1994; 1997, Mamun, 2005; Ahmed, 2009). Therefore, this study attempts to address customer's perception on their satisfaction regarding the service provided by Islamic banks in Bangladesh.

A number of researchers contributed to determine the dimensions of customer satisfaction and their affect to the banking activities. Hassan (2007), Khan (2007), Tahir and Abu Bakar (2007), Gritti and Foss (2007), Norizan and Nizar (2007), Al-Hawari and Ward (2006), Nelson (2006), Ting (2006), Zineldin (2005), Dick (2007), Rashid (2003), Mishkin (2001), Haron (2000), Longo (2000), Newman and Cowling (1996) etc. were contributor specially in this purposes. In 2009, Ahmed (2009) has contextualized the dimensions of customer satisfaction in five categories i.e. core product, human resources, systemization service delivery, service capability and social responsibility. But, human resources and systemization are interrelated in their effect to organizational performance (Kotler, 2011). Therefore, 22 dimensions of customer satisfaction are incorporated in this study considering four constructs i.e. core products/service (CP), human resource and systemization service delivery (HS), service capability (SC) and social responsibility (SR). It should mention that there is no evidence have found in Bangladesh; how to measures customer satisfaction or; what factors are identified as the indictors of customer satisfaction of Islamic Banks.

III. THEORETICAL FRAMEWORK AND METHODS

We developed a theoretical framework on the basis of evidence available in the above-mentioned literature. The dependent variable is customer satisfaction and the independent variables are core product, human resources and systemization service delivery, service capability and social responsibility expressed in Figure 1.

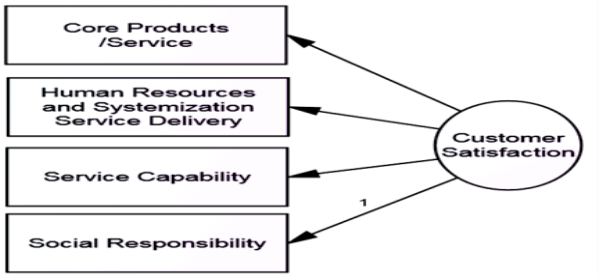


Figure 1: The Research Framework

IV. OBJECTIVES OF THE STUDY

The broad objective of this study is to identify the dimensions of customer satisfaction that drives the growth of operational performance of Islamic Banks in Bangladesh. The more specific objectives in this regards are as follows:

1. To analyze the relationship between customer satisfaction and operational performance of the Islamic Banks in Bangladesh.
2. To measure the level of customer satisfaction on the existing business performance of Islamic Banks in Bangladesh and
3. To analyze, the extent of dependence of customer satisfaction dimensions on operational performance of Islamic Banks in Bangladesh.

V. HYPOTHESES OF THE STUDY

Considering the objectives of the study, the following working hypotheses have been developed and tested:

H1: There is no significant relationship between customer satisfaction and operational performance of Islamic Banks in Bangladesh.

H2: There is no significant relationship among the dimensions of customer satisfaction of Islamic Banks in Bangladesh.

VI. DATA COLLECTION METHOD

For this study, data was collected via a self administrative questionnaire, which consisted of three major sections. The first section has been design to collect the information about the respondents regarding their demographic and socio-economic characteristic along with some other factors such as name, address, gender, religion, marital status, living status, age, education, profession, income levels, while second section consists of some specific information regarding the respondents attachment with Islamic banking system, namely name of the bank, use of banking system, customer status (depositor or investor), length of relationship with the Islamic bank and opinion regarding satisfaction in a dichotomic form and finally third section consists of 22 dimensional questions of Customer Satisfaction and six dimensions of operational performance of Islamic Banks in Bangladesh. The responses of the respondents were collected by using the Likerts non-comparative five-point scale of the range of attitude; from 1-strongly disagree to 5-strongly agree.

VII. SAMPLING

A total of 500 questionnaires were distributed of which only 385 questionnaires were received useable for analysis (77% response rate). Specifically, questionnaires were distributed to every customer considering the working hour of the respective banks (Usually from 9 AM to 5 PM) or their convenience time. However the data were collected from two cosmopolitan city of the country, namely Dhaka and Chittagong. The principal premise in this regard is that the sample will bear the representative characteristic of the population. Besides, Islamic Banking system provided equal services irrespective of location.

VIII. STATISTICAL TOOLS USED IN THE STUDY FOR ANALYZING:

The statistical techniques employed in this study are as follows: descriptive and frequency analyses were conducted to represent the respondents' demographic and socio-economic characteristic. In addition, a reliability test to check for the "internal consistency" of the questionnaire by applying Cronbach's Alpha test and Mahalanobis Distance coefficient is used to test the individual consistency of the respondent's responses. Normality distribution was tested using Skewness and kurtosis finally, structural equation modeling (SEM) is used to determine the relationship between dimensions and constructs. The researcher then performed the confirmatory factor analysis (CFA) to test the measurement model specifying the posited relations of the observed variables to the underlying construct. Both First-Order CFA and the Second-Order CFA for customer satisfaction were run in this study. First-Order CFA was designed to determine the relationship among the dimensions and the second-order CFA for identifying the dependency of dimensions to its constructs.

IX. RESULTS AND DISCUSSION:

9.1 Respondents' Demographic and Socio-Economic Profile:

Table-1 shows that the majority of respondents' characteristics are males (75.06%), Muslim (84.94%), aged between 31 to 40 years old (34.29%), with SSC and below SSC (43.48%). The majority of the respondents are service oriented (50.65%) with 24.68% of respondents having an income up to 20,000 BDT and 55.06% of respondents are married. It also mentioned that 55.44% respondents are from urban and 5 or less year's respondents are dominants (40.26%) to maintain relationship with Islamic banks in Bangladesh.

Table-1 : Descriptive Statistics

	Frequency	Percent		Frequency	Percent
Gender			**Permanent Resident**		
Male	289	75.06%	Urban	225	58.44%
Female	96	24.94%	Rural	160	41.56%
Religion			**Banking Relationship**		
Muslim	327	84.94%	IBS	230	59.74%
Others	58	15.06%	Both	155	40.26%
Marital Status			**Average Monthly Income (BDT, 000)**		
Married	212	55.06%	0-20	95	24.68%
Unmarried	148	38.44%	21-30	80	20.78%
Others(D/W/S)	25	6.49%	31-40	65	16.88%
Age of the Respondent			41-50	44	11.43%
Up to 30 Years	156	40.52%	51-60	40	10.39%
			61-70	10	2.60%
31-40 Years	132	34.29%	71-80	17	3.31%
41-50 Years	52	13.51%	81-90	10	2.60%
Above 50 Years	45	11.69%	91-100	9	2.34%
			101-500	15	3.90%
Education			**Length of Relationship with Islamic Banks (Years)**		
Below SSC	121	31.43%			
SSC	46	11.95%	5 or less Years	155	40.26%
HSC	69	17.92%	5-10 Years	75	19.48%
Graduate	72	18.70%	10-15 Years	60	15.58%
Post Graduate	55	14.29%	15-20 Years	50	12.99%
Others (Religious)	22	5.71%	Over 20 Years	45	11.69%
Occupation			**Typology of the Customers**		
Agriculture	98	25.45%	Deposit	150	38.96%
Business	35	9.09%	Investment	100	23.01%
Service	195	50.65%	Both	135	31.57%
Others	57	14.81%			

Source: Calculated by Researcher

9.2 Reliability Test:

The results of Cronbach's alpha coefficient of all variables having multi dimensions item shows a moderate to very high coefficient ranging from 0.59 to 0.85. The Cronbach's alpha coefficient of core products or services (0.586), human resources and systemization service delivery (0.712), service capability (0.723) and social responsibility (0.683) are found and one of them is little bit lower than the standard expressed in the table-2 but in an acceptable form which is supported by earlier studies 0.67 to 0.83 (Babakus & Boller, 1991); 0.64 to 0.88 (Parasuraman, 1988); 0.75 (Carman, 1990); 0.59 to 0.83 (Finn & Lamb, 1991); 0.60 (Nunnally & Bernstein, 1994) and 0.70 (Hair, 1988).

Table-2: Cronbach's Alpha Coefficient of Constructs of Customer Satisfaction

Constructs/Variables	No. of Items	Cronbach's Alpha Coefficient
Core Product or Service	3	0.586
Human Resource & Systemization related Service	8	0.712
Service Capability	3	0.723
Social Responsibility	8	0.683
Total	**22**	**0.813**
IB Performance	**6**	**0.684**
All Constructs/ Variables	**28**	**0.845**

Source: Calculated by Researcher

9.3 Test of the Consistency of Respondent's Responses using Mahalanobis Distance Coefficient

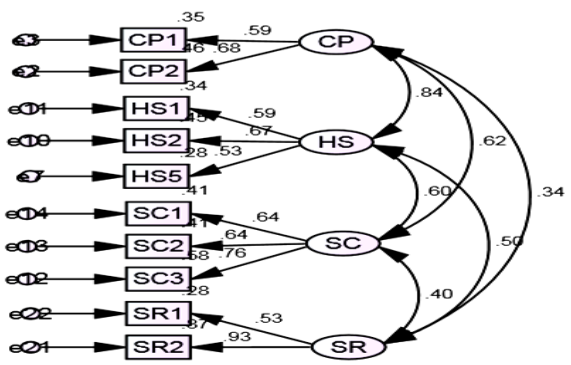
In this study, we incorporate 33 dimensions i.e. 28 observed variables and 5 constructed unobserved variables. The sample size of study stances to 385 indicates optimum level in SEM. A set of standard normally distributed random variables is required for SEM. Mahalanobis d-squire coefficient is used in this study to test of the consistency of 385 respondent's responses. The P_1 shows the assuming normality, the probability of individuals and the P_2 shows, still assuming normality. Small value for P_1 and P_2 are to be expected. It indicates that the observations are incredibly far from the centroid under the hypothesis of normality (Bollen, 1987). It is evident that the highest value of Mahalanobis Distance Coefficient is $d^2 = 76.946$ ($P_1 = 0$, $P_2 = 0$) and the lowest value is $d^2 = 20.343$ ($P_1 = .205$, $P_2 = 0.006$). Considering the coefficient of d^2 of respondent's responses it can be concluded that the requirement of random normality of consistency of respondent's responses is satisfied.

9.4 Test of variability and Normality of Respondent's Responses.

All the measures of descriptive statistics reveal that the distribution is not widely dispersed and shows the normality of the scale since value of Skewness ranging from 1.202 to 0.859 not exceed the absolute value ±3 and the value of kurtosis ranging from 1.674 to -0.826 not exceed the absolute value ±8 suggested by Kline (2005).

9.5 Factor Validity Test: First Order Conformity Factor Analysis (CFA)

The study uses restricted model with maximum likelihood estimation. Since the study is derived to find the effect of observed variables into the unobserved variables like customer satisfaction. There are two types conformity factors analysis (CFA) are needed to run the proposed model in SEM i.e. 1st Order CFA and 2nd Order CFA. 1st order CFA is used to determine the correlation among the factors and appropriateness of variables to the model through deduction or Factor Loading (Kline, 2011). Factor loading is defined as the regression weights in standardized format that indicate the hidden power (strength) and direction of factors on measured variables (Fabrigar, 1999). The rule of the factor loading is limited by the value -1 to 1. Kline (2011) suggested that factor loading consider specific measurement value i.e. 0.70< factor loading value but not less than 0.5 suggested by Fornell and Larcker (1981) and Byrne (2010). Figure-2 shows the result of 1st Order CFA of Customer satisfaction where 10 dimensions have been loaded for final model expressed in the table-3 and 12 dimensions have been deducted through low factor loading expressed in the table-4 (Anderson and Gerbing,, 1988).



Chi-Squire= 76.323
df= 29, P = 0.000
CMIN/DF= 2.632, P = 0.000
RMR= 0.043
GFI= 0.963
AGFI= 0.929
CFI= 0.944
RMSEA = 0.065

Figure-2: First Order CFA of Customer Satisfaction
Source: Generated by the Researcher

Table-4 explores the value of factor loading of the dimensions of customer satisfaction measuring for Islamic banks in Bangladesh including Factor Loading (Regression Weight), Z Statistics and p value (***) at 1% level of significance.

Table-4: Factor Loading of the Dimensions of Customer Satisfaction

		Factor Loading			
		SR	SC	HS	CP
SR1	Personal Relationship	0.526 8.054 (***)			
SR2	Effectively deliver of Modified Information	0.935 10.494 (***)			
SC1	Right service in right time		0.644 11.678 (***)		
SC2	Promptness		0.637 9.426 (***)		
SC3	Effectiveness		0.761 10.777 (***)		
HS1	Interior Facility			0.585 7.581 (***)	
HS2	Exterior facility			0.668 10.657 (***)	
HS5	No service discrimination			0.534 10.472 (***)	
CP1	Product/Service Design				0.588 0.810 (0.418)
CP2	Product/Service innovation				0.68 10.053 (***)

Source: Calculated by Researcher

Table-4 explores the loaded dimensions of customer satisfaction. 1st Order CFA found that 10 dimensions are loaded for final model and all dimensions are positively correlated expressed in the table-5.

Table-5: Deducted Dimensions of Customer Satisfaction

Dimensions		Constructs
CP3	Product/Service Affordability	Core Product (CP)
HS3	Value added service	Human Resources & Systemization of Service Delivery (HS)
HS4	Cost incentive service	
HS6	Service availability	
HS7	Communication system	
HS8	Promotional program	
SR3	ADC (ATM, Online-Mobile Banking)	Social Responsibility (SR)
SR4	Spot Cash (W.U. Money Transfer)	
SR5	Charge Waver	
SR6	Welcome Addressing	
SR7	Social Welfare	
SR8	Group financing	

Source: Calculated by Researcher

On the table-5 includes 12 dimensions that are not loaded by direct impact using Structural Equation Modeling (SEM) in AMOS software. This indicates that customers of Islamic banks in Bangladesh are more inconsistence to consider these dimensions in their level of satisfaction.

Table-6: Correlation among the constructs of Customer Satisfaction

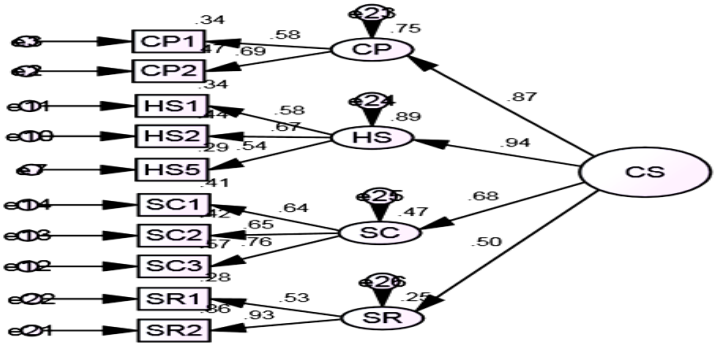
Constructs			Estimate (**Γ**)
CP	<-->	HS	0.839
CP	<-->	SC	0.620
CP	<-->	SR	0.344
HS	<-->	SC	0.597
HS	<-->	SR	0.497
SC	<-->	SR	0.404

Source: Calculated by researcher

Table-6 explores the correlation among the loaded factors (constructs) in this study. It is worth mentioning here that all factors are positively correlated with each other at 1% level of significance and the best relationship has been existed between core product and human resources and systemization service delivery followed by that's of core product with service capability.

9.6 Second Order CFA of Customer Satisfaction:

2nd Order CFA is another pre-setup to run the proposed model where the study has identified the dependency of constructed variables through standardized regression weights. Finally, the proposed model was run considering the unique measurement of SEM. Maximum Likelihood Estimation covers an estimated sample size in SEM i.e. 50-100 samples (Hair, 1995). Restricted model with Maximum Likelihood Estimation use some significant indicators i.e. chi-squire test, CMIN/DF, RMR, GFI, AGFI, CFI and RMSEA (Joreskong and Sorbom, 1996; Byrne, 2010).



Chi-Squire= 84.323
df= 31
P = 0.000
CMIN/DF= 2.722
P = 0.000
RMR= 0.046
GFI= 0.959
AGFI= 0.927
CFI= 0.937
RMSEA = 0.067

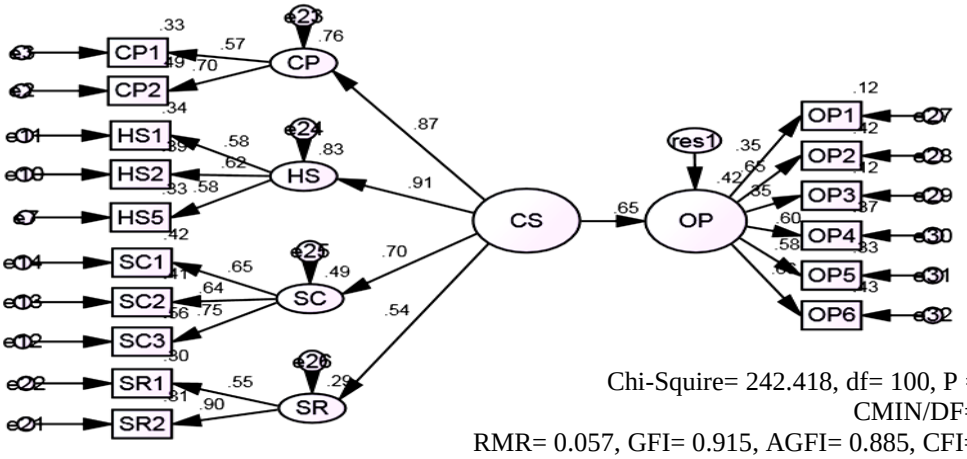
Figure-3: Second Order CFA of Customer Satisfaction

Source: Generated by Researcher

Figure-3 explores the second order CFA of customer satisfaction where standard value of CMIN/DF, GFI, AGFI, CFI and RMSEA express the goodness of fit of the model is in an accepted form.

9.7 Final Model:

The study finally attempts effect of customer satisfaction to the operational performance of Islamic banks in Bangladesh. 1st order CFA and 2nd order CFA are selected 10 dimensions of customer satisfaction that are affected to the operational performance of Islamic Banks in Bangladesh. There are six dimensions are selected for justification of growth of Islamic Banks in Bangladesh. Structural Equation Modeling is used in this study to measure the effect of the dimensions of customer satisfaction on operational performance of Islamic banks in Bangladesh.



Chi-Squire= 242.418, df= 100, P = 0.000
CMIN/DF= 2.824
RMR= 0.057, GFI= 0.915, AGFI= 0.885, CFI= 0.871
RMSEA = 0.069

Figure-4: Relationship between Customer Satisfaction and Operational Performance

Source: Generated by Researcher

The goodness of-fit of the structural equation model is RMSEA= 0.069 is in an accepted form suggested by Browne and Cudeck (1993). The base line indicator, CFI=0.871, p=0.000, RMR=0.059, GFI=0.915, AGFI= 0.885. All measurements of SEM showed that the data successfully fit the model with a Chi-square of 282.418 with 100 degrees of freedom, clearly meeting the requirements (Byrne, 2010; Bagozzi and Yi, 1988). Model modification was not necessary, as the structural equation model had model fit indices that were more than satisfactory.

9.8 Results of the Model:

Table-7: Orderly Arrangement of the Dimensions of Customer Satisfaction of Islamic Banks in Bangladesh.

Dimensions		Constructs	Regression Weight	Rank
HS		**CS**	**0.912[1]**	
Interior Facility		Human Resources & Systemization of Service Delivery (HS)	0.624	1
Exterior facility			0.580	2
Value added service			0.578	3
CP		**CS**	**0.870[2]**	
Product/Service innovation		Core Products or Services	0.700	4
Product/Service Design			0.571	5
SC	<	**CS**	**0.701[3]**	
Effectiveness		Service Capability (SC)	0.752	6
Right service in right time			0.650	7
Promptness			0.643	8
SR		**CS**	**0.538[4]**	
Effectively deliver of Modified Information		Social Responsibility (SR)	0.898	9
Personal Relationship			0.548	10

Table-6 expresses the orderly arrangement of the dimensions of customer satisfaction based on standard regression Weight (β) used restricted model specially for relationship between unobserved and observed variables. This result mentions that human resource and systemization service delivery constructs (β_{HS}=0.921) is dominants to measures the customer satisfaction of Islamic banks in Bangladesh followed by core products or service (β_{CP}=0.870).

9.9 Test of Hypothesis:

Two basic hypotheses are determined in this study related to i) the customer satisfaction and operational performance and ii) inter dependency of the dimensions of customer satisfaction. Table-7 explores the results of the test of hypotheses of the study.

Table-8: Results of test of hypotheses

No.	Hypotheses	Value	Comments
H_1	There is no significant relationship between customer satisfaction and operational performance of Islamic Banks in Bangladesh.	$\beta_{CS\text{-}OP}$=0.921 (p=0.000) Figure-3	H_O= Rejected H_1=Accepted
H_2	There is no association among the dimensions of customer satisfaction of Islamic Banks in Bangladesh	χ^2 = 242.418 (p=0.000) Figure-3	H_O= Rejected H_1=Accepted
H_{2a}	There is no significant relationship between core products/services and human resources and systemization service delivery of Islamic Banks in Bangladesh.	$\Gamma_{CP\text{-}HS}$=0.839** Table-6	H_O= Rejected H_1=Accepted
H_{2b}	There is no significant relationship between core products/services and service capability of Islamic Banks in Bangladesh.	$\Gamma_{CP\text{-}SC}$=0.620** Table-6	H_O= Rejected H_1=Accepted
H_{2c}	There is no significant relationship between core products/services and social responsibility of Islamic Banks in Bangladesh.	$\Gamma_{CP\text{-}SR}$=0.344** Table-6	H_O= Rejected H_1=Accepted
H_{2d}	There is no significant relationship between human resources and systemization service delivery and service capability of Islamic Banks in Bangladesh.	$\Gamma_{HS\text{-}SC}$=0.597** Table-6	H_O= Rejected H_1=Accepted

H_{2e}	There is no significant relationship between human resources and systemization service delivery and social responsibility of Islamic Banks in Bangladesh.	$\Gamma_{HS\text{-}SR}$=0.497** Table-6	H_O= Rejected H_1=Accepted
H_{2f}	There is no significant relationship between service capability and social responsibility of Islamic Banks in Bangladesh.	$\Gamma_{SR\text{-}SC}$=0.404** Table-6	H_O= Rejected H_1=Accepted

X. CONCLUSION

The study has exposed that customer satisfaction is significantly affect on operational performance of Islamic Banks in Bangladesh. It is worth mentioning here that core product, human resources and systemization service delivery, service capability and social responsibility are significantly correlative with customer satisfaction of Islamic banking sector in Bangladesh. The results of this study also found that the human resource and systemization service delivery is the most affected factor of measuring customer satisfaction of Islamic Banks in Bangladesh followed by core products or services, service capability and social responsibility. For suitability of the performance of Islamic Banking Sector in Bangladesh, the devoted authorities should concentrate themselves to ensure more social responsibility sustaining unique effect of other factor involved in the measuring customer satisfaction.

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