Customer Loyalty toward Islamic and conventional Banks; mediator role of Customer Satisfaction

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ABSTRACT
With the liberalization of economic sector of Pakistan and introduction of Islamic banking system, the industry become more competitive as the consumer have more choices and thus their preference changed toward banking. In this increasing high competitive industry, Bankers are more focus on customer loyalty to win market share and thus gain competitive advantages. The purpose of this paper to identify those core factor that influence customer loyalty in banking sector of Pakistan. The paper examine three independent factors i.e. Bank services, Bank reputation and religious perspective along with a mediator factor which is customer satisfaction that ultimately results in gaining customer loyalty. This study was carried out by taking sample size of 260 participants and the structure questionnaire of 35 items is used to collect data and analysis was done using SPSS (edition 22) software. The Result of the study shows that there is positive relation among Bank services, Bank Image and religious Perspective on customer satisfaction which directly leading to customer loyalty. With the help of this study we found that Bank services is considered as a most prominent factor that leads to customer satisfaction and customer satisfaction leads to customer loyalty. This study is helpful for policy makers and bank managers to know customer satisfaction thus they can earn more customer loyalty.

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1. Introduction

Economic liberalization and advancement in technology like cell phones, internet and all other means of communication brought a tough competition among the companies and especially in the banking sector. As we all know that there is a little difference between product and services which are provided by the banks so therefore it is a big concern for a banks to get competitive advantages from this high competitive environment. In this high competitive industry, customers’ needs are deciding factor so companies always try to keep their product and services according to the requirement of their customer. They cannot bear losing even a single customer because losing a customer means gaining of a customer by your rival, hence in this market competition aggressive strategies for attracting new customers and defensive strategies in order to establish customer loyalty become vital (Miles, 1994). Thus financial institution should more careful and more aware about all those factor that lead to customer satisfaction in order to attain Customer Loyalty (Pont and Mcquilken, 2005).

Customer loyalty is important factor for any business and especially in high competitive industry. Oliver (1999) define customer loyalty as extensively held commitment to repurchase a preferred product or services regularly in future. It is actually an emotional attachment of the customer toward a particular company’s product and services that arise when product or services are according to the customer demand and requirement. Loyalty has been real concern is banking industry because of high expectation of the client and tough rivalry (Rasheed, Sajid, Shahid & Ahmad, 2015). Customer Loyalty is as the result of customer satisfaction. Customer satisfaction is a marketing terminology that explain to what extend a firm product or services fulfil the need of its customers. It is a key factor for an organization when it face competition in the industry. According to Hassan, Chachi & Abdullatif (2008), when an organization is unable to meet the customer needs, it will cause huge fall in profitability as well as decrease in market share.

Researcher identified various factors that effects bank selection and customer satisfaction. When we talking about service industry like banking, the quality of service is most important factor the determine customer satisfaction or dissatisfaction. According Ahmossawi (2001), quality is key factor in banking business as it leads to high level of customer satisfaction. Bei and Ciao (2001), identified that service quality has positive association with customer which mean that satisfy customer needs will get you loyalty. In addition to quality of services, bank image and reputation also influence customer satisfaction which can also be considered in the
study. Empirical studies have confirmed that bank image effect customer satisfaction and as result leads to customer loyalty (Bloemer and Ruyter, 1998). Another Important factor in Islamic world is Islamic mode of banking that attract huge number of customer. As per Islamic rule, Interest is prohibited in Islam and all convention banks are working on interest base. So Islamic banking is much acceptable banking system for Muslim and that why key international banks are interested in operating Islamic banking because Muslims are one fifth of total world population (Ashraf, 2014). In addition, majority of Non-Muslims are using Islamic banks (Ngui 2004; saifuddin, 2003). So besides of religious factors bankers should adopt other factors that influence customer satisfaction in order to survive in the competition with conventional banks.

With that much competition on going, the bankers are very much concerned about retaining their old customers and as well as attracting new clients. According to a research attracting new customer is about five times more expensive than keep existing one because to new customer they have to advertise themselves through banner, television commercials, internet which cost them more, on the other hand existing customer just need better services. Previous literature shows that a lot of work has already been done in prospect of customer satisfaction and customer loyalty but there is limited studies found in religious perspective particularly in context of Pakistan (Abduh & Alobaad, 2015). In addition Awan and Mazhar (2014), reveal that many customer criteria of selection bank is influence by religious perspective. To fill the gap we added religious perception factor in our study and tried to find its relation on customer satisfaction and customer loyalty. Previous studies are narrowly focused on relation between customer satisfaction and customer loyalty so here tried to explain our study in broader i.e. explain factors that affecting customer satisfaction and then explain the relationship of customer satisfaction and customer loyalty. The study will increase present literature because it shows clearer picture regarding customer satisfaction and thus will help the policy makers and banker to get better knowledge about customer satisfaction and customer loyalty.

The objective of this paper is to identify those factors that affecting customer satisfaction in banking industry e.g. quality of services, bank image and religious perception. And also explain the combined effect of these factor on customer loyalty by keeping mediator role of customer satisfaction. In this research we considered different banks of twin cities i.e. Rawalpindi and Islamabad of Pakistan and a 35 items questionnaire survey of 260 respondent
was conducted to collect data for our analysis. The basic question of study is what are the most influencing factors that lead to customer satisfaction and customer loyalty?
2. Literature Review

2.1 Customer Loyalty

In current competitive business condition and especially in case of banking sectors, maintaining customer loyalty is big concern because it became deciding factor to win the competition. Customer loyalty is actually customer's deeply held commitment to re-purchase particular product and services from the same firm and organization in future. It is actually strong affiliation of the customer with the firm when the firm is constantly fulfil the customer requirement and needs. according to Oliver's (1999,p.34) definition of customer loyalty as; "a deeply held commitment to rebuy or patronize a preferred product/services consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour”.

Recent research classify customer loyalty into different marketing feature i.e. product loyalty, service loyalty brand loyalty and chain & store loyalty. Many previous published literature define three basic dimensions of loyalty (Filip and Anghe 2009). These dimensions include: behavioural loyalty, attitude loyalty and composite loyalty (integrated loyalty). Krisnamuthi & Raj, (1991) that measure Behavioural dimensions explain those customer who are habitually loyal. These customer are loyal to a company when they buy from it and continue to rebuy in future because switching from one brand to another brand is a problem for these kind of customers. According to these researchers, behavioural loyalty define narrow understanding of the underlying re-buying factors. Another drawback of this approach is that repeat purchase are not always happen as the result of emotional commitment toward the brand (Tepeci, 1999). The outcomes of behavioural loyalty is repurchasing the same brand (Zeitham et al. 2006; jones et al. 2000) and as the result lower chance switching behaviour of the customer (Bansal and Taylor, 1999). On the other hand attitudinal loyalty define loyalty as state of mind. These researchers explain that a customer is called to be "loyal" when they have optimistic attitude toward product or company. Attitudinal loyalty is loyalty that arise because of positive attitude of the customer toward brand and as the result customers develop trust on that brand which means that they are happy to be loyal customer with that company and brand.
Composite loyalty is actually composition of both attitude and behavioural dimensions and this dimension measure loyalty as by customer preferences toward brand, tendency of brand switching, and frequency of purchase (Pritchard and Howard, 1997; wong et al., 1999).

In Pakistan banking scenario, where numerous private and public banks are doing their business in the industry with similar product characteristics, it is a difficult for bankers to get market share and competitive advantages. So customer loyalty in this kind of industry is key factor to retain new customer as well as attract new customer.

2.2 Customer Satisfaction and Customer Loyalty

Customer satisfaction is frequently use marketing terminology which means to what extend product and services offered by a firm or company fulfil customer expectations. According to Ashraf (2014) customer satisfaction is actually feelings or attitude that a customer possess when their needs and expectation are satisfy by provide superior quantity that lead to overall service satisfaction. Kotler (2013, p. 13) define customer satisfaction as “customer satisfaction depends on the product's perceived performance relative to buyer expectations. If the product's performance fall short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied, if the performance exceeds expectations, the customer is highly satisfied or delighted”. Oliver (1980) stated that customer satisfaction is actually a model that explain the comparison of customer actual perceived product and services performance with their expectation then the feeling of satisfaction or dissatisfaction arise.

Any difference between expectation and performance will generate disconfirmation. Oliver (1980) identified three types of disconfirmations. When actual product and services outperform the customer's original expectation, the disconfirmation is positive and result of positive disconfirmation is customer satisfaction and post-purchase of that product and services. Negative disconfirmation arise when actual offered product and services disappoint the customer's anticipation which cause customer dissatisfaction and decrease in future purchase of that product and services. The last disconfirmation is when actual product and services performance is equal to customer expectation.

If a firm is looking to achieve customer loyalty, it should first satisfy customer demands and needs because in current economic environment and particularly in banking sectors where the products are almost the same features and the only way to win the competition is to offer best level services that meet customer expectations. Because in this kind of industry gaining new
customer is too much costly because of advertisement and promotion expenses where existing customers just need better services. Research show that it is 5 times more expensive to attract new customer. Past literature show that there is significant positive relation between customer satisfaction and customer loyalty. According to these studies, customer satisfaction by providing better quality services lead to customer loyalty. According to Hosrtmann (1998), there is positive relationship between customer satisfaction and customer loyalty. A customer is loyal when he is satisfied by product and services provided. Other studies (Ismail, Hasnah, Ibrahim, & Isa, 2006; Da Silva & Alwi, 2006; Huat et al. (2012); He and Song, 2009) also identified customer satisfaction as defining factor of customer loyalty. These studies found that there is strong positive association prevailing between Customer satisfaction and customer loyalty which lead to customer rebuy intention, positive word of mouth and ultimately increase in profitability. This lead to the following hypothesis

**H1: there is positive relationship between customer satisfaction and customer loyalty**

### 2.3 Quality of Services, Customer Satisfaction and Customer Loyalty

Service quality is considered as a key factor in the success of any tangible or intangible products offered by businesses particularly in service industries like banking, health and insurance etc. the competition among these industries is very high and the only factor to win the competition is to provide better service quality which differentiate an organization from its competitors. Kotler and Armstrong 2013 define services as “an activity, Benefit, or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything". Service quality define that to what extend your perceived services meet customer expectation. It is actually functioning like a bridge between customer and the organization which involves internal organizational policies and practices that lead to customer satisfaction and customer loyalty. The more a company provide better quality services than its competitors, the more its customer will be satisfied and loyal to the company and result would be increase in profitability and victory of market share in the industry. According to Rust, Zahorik & Keiningham (1997), the best way to increase a company’s profitability is to develop better long run customer relation to make them loyal by invest in service quality.

Now the question is how we can examine that our service quality is satisfying customer or not? The answer is explained by SERVQUAL model that is presented by Parasuramna et al. 1988 which defines five dimensions of services that is Tangibility, Reliability,
Responsiveness, Assurance and Empathy. Tangibility means tangible components like appearance of equipment, physical facilities and personnel. Reliability means ability to deliver services correctly. Responsiveness willingness of employees to help customer and deliver swift services, Assurance means that employees have relevant knowledge and provide services in polite and courtesy manner. Empathy focus on taking good care of customer. Unlike manufacturing business, banking sector has direct interaction with customer so satisfaction or dissatisfaction is determine by quality of services. Cronin and Taylor 1992 has identified four services offering business where perceived service quality has positive influence on customer satisfaction i.e. banking, dry cleaning, pest control and fast foods. Customer satisfaction is broader term that effect service quality (Ziethaml and Bitner, 2002). Services quality is an antecedent of customer satisfaction (Gotlieb et al., 1994; Buttle, 1996; Zeithaml and Bitner, 1996; Lee et al., 2000) and the customer satisfaction mediate the relationship between customer loyalty and service quality (Caruana, 2002; Fullerton and Taylor 2002). Service quality define customer satisfaction or dissatisfaction, if a customer is satisfied, he will consume the services in future or otherwise he will switch off. However Jamal and Anatassiaduo (2007), Rizan (2010), clotey et al. (2008) and kheng et al. (2010) also revealed direct positive relationship exist in service quality and customer loyalty. In this regard, various studies identified positive relationship between customer satisfaction and service quality however some studies recommend that services quality is a part of customer satisfaction (Fornell et all. 2004). For banking industry and other service offering business, service quality is an important factor to differentiate one organisation from another and help them to earn competitive advantages in the industry.

\[ H2: \text{bank service quality has positive effect on customer loyalty} \]

\[ H3: \text{Service quality has positive effect on customer satisfaction} \]

\[ H4: \text{customer satisfaction mediates the relationship between customer loyalty and service quality} \]

2.4 Religious Perspective, Customer Satisfaction and Customer Loyalty

Islamic banking can be defined as “A banking system which works on the basic principle of Islamic law which is called Shariah and directed by Islamic economics. A definition which is presented was by Ali & Sarkar (1995) and also approved by OIC explain Islamic banking in following manner ” An Islamic Bank is financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and to the
banning of the receipt and payment of interest on any of its operations”. Islamic banking are working on two Basic principles i.e. doing their business on profit and loss sharing principle and to avoid interest in making receipt and payment in their business transaction. The first Islamic banking experiment was observed in 1963 by an Egyptian bank “Myt Ghamr” but in Pakistan a full fledge Islamic banks were establish in 2003 when Mezaan Bank start working as a first Islamic bank of Pakistan. Currently 7 pure Islamic banks with total braches of 482 and 13 conventional bank that have Islamic window with total branches of 202 are working in all over the country.

Islamic banking is as important invention in the banking industry because majority of Muslims are not willing to work with conventional bank as interest is prohibited in Islam and conventional bank are doing interest base banking. This new banking system was more acceptable for Muslims world and growing their market share in the industry. Due to the achievements of Islamic banks, other key international banks also start Islamic banking window to attract new customer.

In order to satisfy your customer, a banker should know what the customers want from them. Customer satisfaction is nothing but just feelings held by customer when their needs are fulfilled as a customer. Religious perspective is also an important factor identify customer satisfaction. Previous research regarding selection of bank show that while selecting a bank, most of the customer taking religious perspective as a selecting factor of any bank. A study conducted by Metawa and Almossawi (1988) found that people take two main factor into consideration while selecting bank. 1) Bank working on Islamic law 2) rate of return and profitability. Dasuki and Abdullah (2006) has also found religious factor as key factor in bank selection process of a customer. Previous studies such as . Rizwan et al. (2014); Ashraf (2014) also found positive effect of religious perspective on customer satisfaction and loyalty. However it is also observed that only religious perspective is not alone important for customer satisfaction. A bank working on Islamic law and having superior quality service and cooperative staff will lead to customer satisfaction and will win customer loyalty. So on the basis of above discussion we can conclude the following hypothesis.

H5: religious perspective has positive effect on customer satisfaction

H6: religious perspective has positive effect on customer loyalty

H7: Customer satisfaction mediate the relationship between religious perspective and customer loyalty
2.5 Bank Image, Customer Satisfaction and Customer Loyalty

Bank image is a view which is held by customer for that particular bank. It represent the overall assessment of an organization that reflect to what comes into our mind when we hear about a particular firm or organization. It is actually people perceptions about firms, a positive brand image perception of service quality make a brand always attractive. Kotler (2001, p. 273) defined image as "the set of beliefs, ideas, and impression that a person holds regarding an object". Brand image is define by Biel (1992) as a set of traits and associations that customer hold related to a brand name. A firm or its product/services with positive and favourable image in the mind of customer would certainly achieve market advantages in the competition and would have a better position in the industry that would increase company performance and profitability (Park, Jaworski, & MacInnis, 1986). Furthermore numerous past studies have found that positive image help firm to make customer more loyal (e.g. Koo, 2003; Kandampully & Suhartanto, 2000). Brand image become more important when we talk about banking sector. Harwood (2002) stated that it is critical for banker to build favourable image and to differentiate itself from other banks as every bank offer same kind of product in the industry.

Past branding studies suggested that there is positive effect of favourable brand image on customer satisfaction. Dacies & chun (2002), there is positive association between brand image and customer satisfaction. Further some studies (Afsar et al. 2010; Patawayati et al. 2013; Rehman & Afsar 2012) have found strong and positive effect of bank image in customer loyalty. However Chun (2002) found indirect relationship between loyalty and brand image where brand image is mediated by customer satisfaction. Bases on above literature we can make the following hypothesis for our studies.

H8: Bank image has positive effect on customer satisfaction

H9: Bank image has positive effect on customer loyalty

H10: Customer satisfaction mediate the relationship between bank image and customer loyalty

2.6 Research Framework

The main objective of this study to identify the effect of service quality, religious perspective and bank image on customer loyalty where customer satisfaction also play its role as a mediator. Research model of the study is given below
3. Methodology

3.1 Sample and Data Collection

The purpose of our study is to identify the effect of service quality, bank image and religious perspective on customer loyalty by keeping the mediating role of customer satisfaction. In order to achieve the purpose of study, a structure questionnaire was designed to collect data for further statistical test. The target population for our research was to collect data from people of twin cities i.e. Rawalpindi and Islamabad who have bank accounts either in Islamic bank or conventional bank, or conventional bank with Islamic window. The sampling technique we used in our research to collect information from people who were most appropriately available is non-probabilistic method. The reason to use this technique is to gather large number of information more swiftly and also the cost is very low. The respondent participate voluntarily and it was assured their responses will be kept confidential and only will be used for this research.

Keeping 5% error margin and 95 confidence level, a total 260 sample size was selected and questionnaires were distributed. From 260 distributed questionnaires 212 were received back and out of them 15 questionnaires were not filled properly and 206 were usable for our research. So the respondent rate is 79%. The questionnaires were distributed by hand to different universities and organization and from some users online data was collected who had access to internet.

3.2 Demographic Detail of the Respondents
As mentioned above, the total response of the sample size was 206. Out of these, the majority were male, which is 156 (76% of the total sample size) and 50 respondents were female, which is 24%. We divided our population into three main groups; one that is using Islamic banks. They were assigned code 1. And those who are using conventional banks with Islamic window were assigned code 2, and the third one is those respondents who are using conventional banks, they were given code 3. Majority of the respondents fell in class 2, which is 79% of the total population, and 33% of the respondents using Islamic banking whereas 29% are those respondents who are using conventional banks. Majority of the respondent that was 83%, were youth and below 30. 15% of those respondents who were 30 to 40 years old and only 3% fall in the 40 to 50 years old section. As majority fall under below 30 years of age so most of our respondents were unmarried that were 80% of the total sample size and only 20% respondents were married persons. 47% of the participants were having college level qualification whereas 52% were having master or above master degree. 2 participants were below to secondary school. 58% of the participant were either students or they are jobless. 34% of the sample were serving in different organizations where 8.3% respondent were businessman and running their own business.

### 3.3 Variables Measurement

The designed questionnaire has been divided into six main sections. The first five sections are related to our main study which explains the effect of three independent variables i.e. service quality, religious perspective, and bank image, on dependent variable which is customer loyalty while customer satisfaction is playing a mediating role in this study. The last section recognizes the demographic features of the respondents like Bank name, Gender, age, marital status, education, and profession. First five sections of the questionnaires contain thirty-five (35) items. We use five-point Likert scale to measure the relationship between independent and dependent variable where 1= strongly disagree and 5 for strongly agree representing the series of opinion from strongly dissatisfied 1 to strongly satisfied 5. The language we used for our research is English as English is taught from very beginning in Pakistani schools.

Out of these thirty-five (35) items, that were used in our questionnaire, scale of service quality having 19 items were adopted from SERVQUAL as suggested by Parasuraman et al. (1988). Service quality is comprised of 5 dimensions which are Tangibility, Reliability, Responsiveness, Assurance and Empathy, one sample item is “Are you satisfied with the premises of the bank? Is it visually appealing?” The scale containing 5 items of second independent variable i.e. religious perspective is adopted as suggested by Rehman (2012).
One sample items is “To what extent you believe that you choose Islamic banking system because of religious reasons only? The third scale is bank image and it comprise 4 items. This scale was adopted from Rehman, (2012) and one sample item is “To what extent do you think that the Islamic bank’s reputation and image plays a key role in Islamic bank’s selection? The scale of customer satisfaction (3 items) and customer loyalty (4 items) was adopted from Mohsin et al. (2011) and one sample item from these scale is “I am satisfied with staff’s response and prompt services provided by my bank? For customer satisfaction and “I often tell positive things about my bank to other people” for customer loyalty.

3.4 Control Variables

Bank type and Qualification was considered as control variable while running regression test. These variables were found from ANOVA as we observed P <.05 or T >2 so it suggest significance effect of these variables on independent and dependent variables. For dependent variable that is customer loyalty Bank type playing control variable role while for mediator i.e. customer satisfaction both Bank type and Qualification are control.

4. Results

4.1 Reliability

Reliability Analysis is used to examine internal consistency of the observed factors. This analysis is measured by Cronbach’s alpha. According to Swkaran (2000) Cronbach alfa is actually a reliability that is used to identify the relationship of different items to one another. Above 6 scale is considered as acceptable scale for reliability analysis. In our study we have 5 different variable having 35 items. Concha alfa of all these variables were above 7 which means that there strong internal reliability among the items. For 19 items of service quality the scale was observed .918, for 5 items of religious perspective it was .849, bank image include 4 items and the reliability scale was .735, for 3 items of customer satisfaction it was .754 and rest of 4 items was belong to customer loyalty reliability observed for these items were .852.

4.2 Correlation

Table 1 show the Mean, Standard deviation, Correlation and reliability of the factors. Mean of Service quality is 3.4568 which means that on average customer are satisfied with their banks services. Mean score of Religious Perspective is 3.2777, Bank Image was 3.4260,
Customer satisfaction was 3.5469 and customer Loyalty was 3.3968. It means on average respondents response to satisfy to all the factors.

Pearson correlation was used to found the relationship between independent variables (Service quality, Religious Perspective and Bank Image), mediator customer and dependent variable Customer Loyalty and Table 1 suggest us that Service quality have significant positive relation with customer Loyalty ($r = .553$, $P = 0.000$). Similarly Religious perspective have also significant positive relationship with customer loyalty ($r = .289$, $P = 0.000$).

### Table 1
Means, Standard Deviations, Correlations, and Reliabilities

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank Name</td>
<td>1.9563</td>
<td>.7858</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Gender</td>
<td>1.2427</td>
<td>.4297</td>
<td>-.026</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Age</td>
<td>1.1942</td>
<td>.4539</td>
<td>-.017</td>
<td>-.018</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Service Quality</td>
<td>3.4568</td>
<td>.6429</td>
<td>-.256&quot;</td>
<td>.148&quot;</td>
<td>.020</td>
<td>(.918)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Religious Perspective</td>
<td>3.2777</td>
<td>.9116</td>
<td>-.257&quot;</td>
<td>.211&quot;</td>
<td>-.091</td>
<td>.290&quot;</td>
<td>(.849)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Bank Image</td>
<td>3.4284</td>
<td>.7710</td>
<td>-.176&quot;</td>
<td>.170&quot;</td>
<td>-.019</td>
<td>.355&quot;</td>
<td>.652&quot;</td>
<td>(.744)</td>
<td></td>
<td></td>
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<td>7. Customer Satisfaction</td>
<td>3.5469</td>
<td>.8209</td>
<td>-.293&quot;</td>
<td>.120</td>
<td>-.059</td>
<td>.645&quot;</td>
<td>.353&quot;</td>
<td>.425&quot;</td>
<td>(.754)</td>
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<td>8. Customer Loyalty</td>
<td>3.3968</td>
<td>.8855</td>
<td>-.208&quot;</td>
<td>.050</td>
<td>.074</td>
<td>.553&quot;</td>
<td>.289&quot;</td>
<td>.382&quot;</td>
<td>.514&quot;</td>
<td>(.852)</td>
</tr>
</tbody>
</table>

Note. $N = 206$; alpha reliabilities are presented in parentheses

"$p < .01$. , *$p < .05$."

Again Bank Image have also significant positive relation with customer loyalty ($r = .383$, $P = 0.000$) similar kind significant positive relation had also found between Customer Satisfaction have also significant positive relationship with Customer loyalty as $P = 0.000$ and $r = .514$. Similarly Significant positive correlation is also observed between independent variables i.e. Service quality, Religious Perspective and Bank image and customer Satisfaction as $P = 0.000$ for all variables. Relevant Cronbach Alfa is presented in s parentheses for each variable in the table.

### 4.3 Regression Results

In order to test the mediating role of customer satisfaction, Baron and Kenny’s (1986) technique of mediation was followed. Baron and Kenney 1986 suggest a certain procedure that there are four requirements to mediating effect 1) the effect of Independent variable (Service Quality, Religious Perspective and Bank Image) on dependent variable (Customer loyalty) must be significant. 2) The Independent variable should be significant effect on
mediator (Customer Satisfaction). 3) The Mediator variable must have significant effect on dependent variable. 4) The Direct effect of Independent variable and dependent variable is insignificant when mediation play it role in the regression. In simple words, when we use independent and mediator all together in regression model, the effect of independent variable on dependent variable become insignificant while the mediator is still significant. This method was used and regression were used to identify the significant level of all these variables. Table 2 explain the first three (3) steps of the Baron and Kenny procedure. This table 2 explain the effect of independent variable (Service Quality, Religious Perspective and Bank Image) on dependent variable (Customer loyalty) and mediator (Customer Satisfaction) and also explain the effect mediator on dependent variable. The first model explain the effect of customer satisfaction and service quality on customer loyalty and service quality effect on customer satisfaction. The result show that there is strong positive effect of customer satisfaction on customer loyalty ($\beta = .534, P < .001$) and thus our hypothesis 1 is accepted. Furthermore service quality have also strong positive effect on customer loyalty ($\beta = .737, P < .001$) and thus our hypothesis 2 is also been supported by this result. The service quality is also positive effect on customer satisfaction ($\beta = .767 p < .001$) and accept our Hypothesis 3.

Model 2 explain the relationship between religious perspective, customer satisfaction and customer loyalty. Result show that religious perspective have strong positive effect on customer loyalty ($\beta = .245 p < .001$) and Hypothesis 5 is also accepted on basis this result similarly religious perspective have also positive impact on customer satisfaction ($\beta = .283 p < .001$) and hypothesis 6 is also supported. Model 3 explain the effect of bank image on customer satisfaction and customer loyalty. Result show that bank image have also strongly positive effect on customer satisfaction and customer loyalty ($\beta = .411 p < .001$ and $\beta = .399 p < .001$ respectively) thus the hypothesis 8 and 9 also accepted on the basis these results.

### Table 2
Result of Regression analysis of independent variables with customer satisfaction and customer Loyalty

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Independent Variable</th>
<th>$\beta$</th>
<th>$R^2$</th>
<th>$\Delta R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Type (Control Variable)</td>
<td></td>
<td>-.234</td>
<td>.043</td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>CS</td>
<td>.534***</td>
<td>.267***</td>
<td>.224</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>SQ</td>
<td>.737***</td>
<td>.310***</td>
<td>.267</td>
</tr>
<tr>
<td>Bank Type</td>
<td></td>
<td>-.296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualification</td>
<td></td>
<td>.220</td>
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</tbody>
</table>
Table 3 explain the 4th step of Baron and Kenny procedure. This table shows the results of mediation regression. In first we use control variable and second mediator (customer satisfaction) is given and in last step the effect of all independent variable (service quality, religious perspective and bank image) is given. In step two (2). It was observed that customer satisfaction have strongly positive effect on customer loyalty (from $\beta = .534$, $P < .001$ to $\beta = .545$, $P < .001$). In order to check Hypothesis 4, 7 and 10 we should study step 3. In third step, result indicate that service quality have still significant positive effect on customer loyalty but in due to mediating role of customer satisfaction its magnitude is decreasing (from $\beta = .737$, $P < .001$ $\beta = .515$, $P < .001$) so on the basis of these result we can for hypothesis 4 is supported and that customer satisfaction partially mediate the relation between service quality and customer satisfaction. The effect of religious perspective on customer loyalty become insignificant ($P > .05$) in presence of mediation of customer satisfaction (from $\beta = .245$ p<.001 to $\beta = .106$ P>.05). So full mediation is existing and supported our hypothesis 7. In step 3 the magnitude effect of bank image on customer is decreasing (from $\beta = .411$ p<.001 to = .229 p<.001) with the existence of mediator of customer satisfaction and thus for hypothesis 10 is supported and partial mediation exist.
Table 3
Results of mediation regression Analyses

| Step | | | Customer Loyalty |  
|------|---|---|---|---|
|      | \( \beta \) | \( R^2 \) | \( \Delta R^2 \) |
| **Step 1** | | | | |
| Bank Type | -.233** | | |
| Qualification | .036 | .044 | |
| **Step 2** | | | | |
| Control Variables | | | .044 | |
| Customer Satisfaction | .545*** | .271*** | .227 | |
| **Step 3** | | | | |
| Control Variables | | | .044 | |
| Customer Satisfaction | .545*** | .271*** | .272 | |
| Service Quality | .515*** | .351*** | .081 | |
| Religious Perspective | .106 | .280* | .099 | |
| Bank Image | .229** | .303** | .003 | |

n=206 Control Variables = Bank Type and Qualification
*P < .05. **p < .01. ***p < .001.

5. Discussion

The purpose of our study was to identify the effect of service quality, religious perspective and bank image on customer satisfaction as well as the effect of these factor on customer loyalty also. The results of this study clarify important factor that lead to customer satisfaction and customer loyalty in banking industry.

The result of this study confirm that there is positive relationship between customer satisfaction and customer loyalty and customer satisfaction have significant positive impact on customer loyalty. It explain that when the customer are satisfied they eventually converted into loyal customer and work as non-paid advertisement for the company. Past studies (Ismail, Hasnah, Ibrahim, & Isa, 2006; Da Silva & Alwi, 2006; Huat et al. (2012); Mensah, 2010; He and Song, 2009) also confirm our findings that there is significant positive relationship between customer satisfaction and customer loyalty.

Our first hypothesis was that there is significant positive relationship between Service quality and customer loyalty: In this study we found that services quality has direct and indirect impact by partial mediation of customer satisfaction on customer loyalty. Customer will rebuy only when they actual services meet their expectation and they are satisfied with the services. The second hypothesis was that there is significant positive effect of service quality on customer satisfaction. This hypothesis was supported by our results. Many researcher also
studies the positive effect of service quality on customer loyalty. Rousan and Mohamed 2010 in their study on hotel industry found that quality of service calculate customer loyalty. Similar kind of result was found in Chen and Lee 2008 when he identified that there is significant positive relation between service quality and customer satisfaction. Other researcher like Jamal and Anatassiadou (2007); Rizan (2010); clottey et al. (2008) and kheng et al. (2010) also revealed in their studied that positive relationship exist in service quality and customer loyalty. The third hypothesis was service quality have significant positive relation between customer satisfaction. Again this hypothesis is supported by our study results. Past literature also show direct and positive relationship between service quality and customer satisfaction. Akbar and Parvez (2009); Munusamy et al. (2010); Hossain and Leo (2008); Jamal and Anatassiadou (2007) and Chen & lee (2008) also found similar positive relationship between service quality and customer satisfaction.

The fourth hypothesis was the customer satisfaction mediate service quality and customer loyalty. In this study we found that customer satisfaction partially mediate service quality and customer loyalty and thus the result also support our hypothesis. Different past literature found that customer satisfaction mediate the relationship between customer loyalty and service quality. Ismail et al. (2006) and khen et al. (2010) has also found partial mediation of customer satisfaction on service quality and customer loyalty. However some studies (Akbar & Parvez, 2009; Chen & Lre 2008) also found full mediation of customer satisfaction between service quality and customer loyalty.

5\textsuperscript{th} and 6\textsuperscript{th} hypothesis effect of religious perspective on customer loyalty and customer satisfaction. Both of these two hypothesis was supported by our study. Previous studies also confirm our hypothesis. Rizwan et al. (2014) found positive customer attitude toward Islamic banking. Another study presented by Ashraf (2014) also found positive effect of religious perspective on customer satisfaction and loyalty. The 7\textsuperscript{th} hypothesis explain the mediating role of customer satisfactions between religious perspective and customer loyalty. Various studies found that customer while choosing a bank, religious perspective always effect their decision but literature also found that religious factor is not the only factor of customer satisfaction. Researcher found that better service quality with Islamic mode of banking will satisfy their customer and ultimately make them loyal (Echchabi, Nafiu 2012; Metawa and Almossawi, 1988; Dasuki and Abdullah, 2006).

Next hypothesis was bank image have positive effect on customer loyalty. Again this hypothesis was supported by our result. Previous literature also suggest that there is positive
relation between positive image and customer loyalty. Koo, 2003; Kandampully & Suhartanto, 2000 suggest strong brand image increase customer loyalty. Hypothesis 9 explain that there is positive effect of Bank image on customer satisfaction. This hypothesis was also supported by our results. Many researcher studies positive effect of bank image on customer satisfaction. Bloemer et al, (1998) urged that there is significant relationship between positive brand image and customer satisfaction in banking sector. Other studies Andreassen and Lindestad (1998); Davies et al. (2003) also found similar kind of relation. Next hypothesis was to check the relationship between bank image and customer loyalty by keep customer satisfaction as a mediation. We found partial mediation of customer satisfaction between bank image and customer loyalty which support our hypothesis. Many past literature also enlighten this hypothesis and they found mediating role customer satisfaction between bank image and customer satisfaction. Chun (2002) found that brand image have indirect relationship with loyalty via customer satisfaction. Another study that was established by Tu, Wang and Chang stated that brand image influence customer satisfaction and customer satisfaction ultimately effect customer loyalty.

6. Practical Implementation and Recommendation

In banking industry where there is always high competition among public and private banks and products and services are not that much different from the products and services provided by other banks so the only way to win the competition is to follow the policy of “Customers are always right”. They should follow the customers need and provide services according to their requirements. This study will help managers of the bank to track customer satisfaction and customer loyalty. This study will help them to understand the customer preferences that lead to customer satisfaction and customer loyalty, this study explain the relationship between service quality, religious Perspective, bank image, customer satisfaction and customer loyalty and reveals that these factors have strong positive correlation with each other. So manager should concentrate on these factors while making policy regarding their customer satisfaction. It was also found that strong positive relation exist between customer satisfaction and customer loyalty. Beside of current service, it must also be kept in mind that these services also meet the customer requirements. Furthermore the conventional banks should adopt Islamic banking system in order to attract more customer because of religious perspective to gain more profitability and market share.

A general perception of people about Islamic banking is that there is no difference between Islamic banking system and other conventional Islamic banking system, the only change is
different name for same product and services. Therefore Islamic banking should create awareness about their products and services among the people by arranging different seminar and workshops. Similarly banks should also assure that relevant officer have sufficient Islamic banking knowledge in order to satisfy customer questions. Conventional Banks should also open Islamic banking windows as many of them are already operating for example Habib bank to attract more customers particularly in Islamic world where people hesitate to do transaction with interest base banking system.

7. Limitation and Direction for Future Research

The data was collected on the basis of convenient sampling because of time constrain it was not possible to collect data from customers of all banks so sample size of 206 respondents was collected. A large and more diverse represented sample size is recommended for further research in order to get more generalize results. Other important factors are switching behavior of customer due to financial benefits and customer awareness regarding Islamic banking etc. should also be include for further research.

8. References

Abduh, M., & Alobaad, A. Factors Influence Customer Loyalty in Kuwait Islamic Banks: An Exploratory Study.


