

The Effect of CARTER Model on Customer Satisfaction Towards Loyalty: An Investigation on Muslim Customers of Islamic Banks in Bangladesh

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Abstract

The objective of this study was to investigate the effects of CARTER model on customer satisfaction towards loyalty among Muslim customers of Islamic banks in Bangladesh. Initially, a theoretical model was established based on detailed literature review. Afterwards, a self-administered structured questionnaire was developed, and data were collected from 254 Muslim customers of Islamic banks in Bangladesh using purposive sampling technique. The collected data were later analyzed through EFA. Structural Equation Modelling (SEM) technique was performed to verify the model of the study and testing the hypotheses. The findings of the study revealed that compliance with Shariah, assurance, reliability, tangibility, empathy, and responsiveness are significant factors for customer satisfaction and also customer satisfaction was integral for attaining customer loyalty. The study focused on Islamic banking customers only from two of the largest cities in the country, particularly, Dhaka and Chittagong. This, in turn, opens the door for future researchers to contribute to this area of research through employing a larger sample and extending the current model through the incorporation of new variables. The study will be a meaningful addition to the literature of service quality, customer satisfaction and loyalty, particularly in the setting of

Islamic banking in Bangladesh. This study has taken the initiative for identifying the underlying factors that would facilitate Islamic banks in satisfying their customers better and building customer loyalty.

Keywords: CARTER model, customer satisfaction, customer loyalty, Islamic banks, Bangladesh

1. Introduction

Over the last three decades, the area of Islamic banking has become one of the fastest-growing sectors in different regions across the globe (Dandis & Wright, 2020; Amirzadeh & Shoorvarzy, 2013). Despite being a relatively new occurrence compared to conventional banking; Islamic banking has been widely accepted by Muslim alongside with non-Muslim consumers at large (Suseno & Muthohar, 2018; Amat et al., 2014). Thus, Islamic banking has experienced expansion not only in Muslim countries but in many Western countries as well (Rehman, 2012). The rapid development and acceptance of Islamic banking in Muslim majority nations have caught the eyes of numerous conventional banks and stimulated them to develop Islamic banking products and services to remain competitive (Fauzi & Suryani, 2019; Abedniya & Zaeim, 2011). The number of Islamic banks in non-Muslim countries has also increased as statistics have shown that approximately 25 per cent of Islamic banks are operating in countries that are not dominated by Muslim population and at the same time, a vast number of conventional banks have also created Islamic windows to serve the needs of the Muslim customers who are residing in the Europe and America (Pollard & Samers, 2007).

As the Islamic banking sector is expanding, it is also facing more competition from conventional banks. Therefore, in today's intensely competitive banking environment, retaining customers through adequately meeting their needs and demands have become the ultimate objective of Islamic banks situated in different regions (Harris & Goode, 2004; Abduh & Othaman, 2014; Wahyoedi et al., 2020). The growth of Islamic banks is based on their ability to strategically position themselves in the market by providing products as well as services that fulfil the desires of their respective customers (Dusuki & Abdullah, 2007). Islamic banks are taking many initiatives for offering a wide range of superior quality financial products as well as services compared to conventional banks (Wang et al., 2003; Rehman, 2012). Bangladesh is known as the third-largest Muslim populated country after Indonesia and Pakistan (Mahmood & Osman, 2015). As the overall banking industry of Bangladesh is going through an upward trend, so are the Islamic banking activities. Islamic banking was first introduced in Bangladesh in the year 1982 with the initiative of the government to establish The Islamic Bank Bangladesh Limited (IBBL) to encourage the practice of Islamic banking activities that are parallel to the teachings of Islam and *Shariah* (Miah & Sharmeen, 2015; Ridwan et al., 2017). Despite the popularity of Islamic Banking in Bangladesh, a review of literature has revealed that there is a lack of studies that investigated the effects of service quality on customer satisfaction and loyalty in the context of Islamic banks in Bangladesh. The current study attempts to conduct an empirical investigation of Muslim populated nation, Bangladesh, to gain a clearer understanding regarding the effects of service quality on Muslim customers' satisfaction and loyalty toward Islamic banks.

2. Literature Review

2.1 Islamic Banking

Islamic banking is widely referred to as a way of banking strictly guided by the principles of the *Shariah* (Kamarulzaman & Madun, 2013; Dandis & Wright, 2020; Wahyoedi et al., 2020).

The principal operations of Islamic banks and financial institutions are developed based on Islamic law (Abdullah & Muhammed, 2013). Even though the conventional and Islamic banking systems execute similar functions, however, they undertake different approaches (Akhtar & Zaheer, 2014). The objectives and operations of Islamic banks are developed by complying with the laws of the *Shariah* and avoiding the elements that are prohibited in the teachings of Islam (Butt & Aftab, 2013; Ridwan et al., 2017). The significant aspect that differentiates Islamic banking from the conventional approach to banking is based on the fact that Islamic banking is against the practice of interest and anything that causes harm to the society at significant such as, activities involving investment, gambling and speculative trading (Ismail et al., 2013). The concept of Islamic banking has been built following the framework of *halal* and *haram* (Rosly & Bakar, 2003).

The primary factor that drives Islamic banking practices is the protection of interest as well as benefits of the different groups of individuals who are associated with a particular transaction (Dusuki, 2008; Wahyoedi et al., 2020). Additionally, Islamic banking has been created on the underlying concept of brotherhood, striving to create an environment that fosters cooperation and sharing which can be related to the banking practices of equity and risk-sharing (Ismail et al., 2013; Abdul Majid et al., 2010, Haque et, al. 2009). Through such activities, Islamic banking ensures that justice and fairness in all transactions and business operations are maintained parallel to the objectives of *Maqasid al-Shariah* (Ismail et al., 2013). The primary purpose of *Maqasid al-Shariah* is to bring peace in the society by securing and maintaining welfare, public interest (*Maslahah*) as well as justice (Hurayra, 2015). The laws of *Maqasid al-Shariah* protect these aspects by fulfilling the needs of the Muslims in three respective categories namely *daruriyyat* (essentials), *hajiyyat* (complimentary benefits), and *tahsiniyyat* (embellishment) (Jazil, 2013). The operations of Islamic Banking have been developed in a way that integrates the aspects of equality, justice, morality, brotherhood, trust and honesty to bring about an essence of harmony in the society at large (Haque et al., 2010, Hisham Yahya et al., 2012; Butt & Aftab; 2013). Therefore, the goal of the products and services that are offered by Islamic banks is to serve society through following the principles of *Maqasid al-Shariah* (Hurayra, 2015; Suleiman, 2016).

2.2 Service Quality Models in the Banking Sector

A review of the literature indicates that numerous studies have been undertaken to measure service quality in the setting of various cultures as well as different types of banking institutions. These several studies have been conducted based on the SERVQUAL model (Al-Jazzazi & Sultan, 2014). SERVQUAL developed by Parasuman (1985) is universally recognised as the most extensively employed model in terms of assessing service quality in the different sectors of the service industry (Amat et al., 2014; Amirzadeh & Shoorvarzy, 2013; Mahmood & Osman, 2015). The SERVQUAL model comprises of a total of five respective dimensions explained by Chaker & Jabnoun (2010) and Amin & Issa (2008). Figure 1 illustrates the SERVQUAL model.

Reliability: It symbolises that a service will be delivered as expected to the customers without any disruptions. It reveals how well the service lives up to the promises that were made by

the service provider.

Responsiveness: It indicates employees' willingness to help customers. It focuses on how promptly customers' queries, requests as well as complaints are taken into consideration and answered.

Tangibles: It refers to the overall environment and appearance of the physical facilities, equipment used and employees' demeanor.

Assurance: It reflects the expertise, skills and courtesy of the employees and their capability of gaining customers' trust and confidence.

Empathy: It is considered by providing caring as well as personalized attention to customers. It emphasizes that through friendly and polite behaviour, employees should empathize and create a bond with customers.

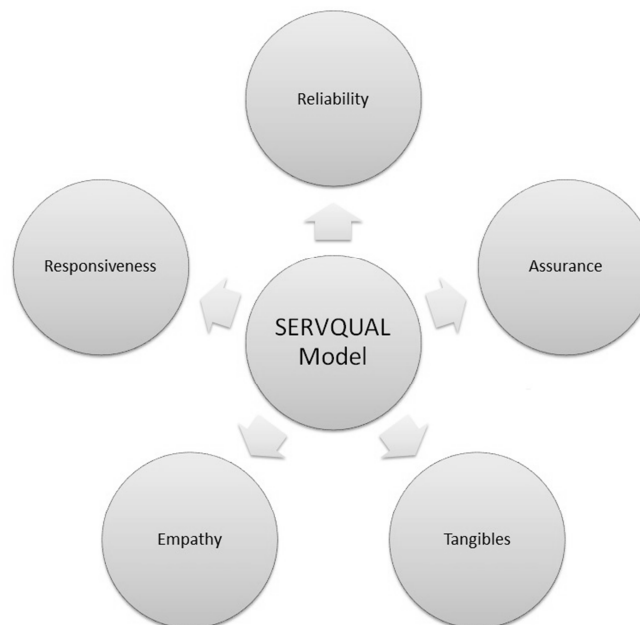


Figure 1. SERVQUAL Model

2.3 CARTER Model in Islamic Banking Sector

Even though the SERVAUAL model is one of the most widely employed matrices in terms of evaluating banking service quality, when it comes to measuring service quality of Islamic banks, it is utmost essential to take into account and formulate measures that are specifically developed and unique to the Islamic approach of banking as Islamic banking practices are guided by the principles, values and priorities of the *Shariah* (Fauzi & Suryani, 2019; Amirzadeh & Shoorvarzy, 2013; Hossain & Leo, 2009). For such reasons, the CARTER model was developed for measuring service quality of Islamic banks (Othman & Owen,

2001). This model has been created based on the five dimensions of SERVQUAL and the addition of a new size which is termed “Compliance to *Shariah*” (Othman & Owen, 2001). The first dimension of the CARTER model is compliance with *Shariah*, which indicates observance and adherence to the requirements prescribed by the *Shariah* law. The second dimension is assurance. It reflects how trustworthy the employees are both in their service as well as the nature of communication. Next is reliability, and it specifies the capability of banks to deliver customers superior performance by following the imposed standards. Furthermore, the model also includes the aspect of tangibility which resembles the appearance of the physical elements and facilities used. Finally, empathy and responsiveness make up the last two dimensions whereby, the first focuses on paying personalised attention to every customer, and the latter symbolises the willingness of employees in responding to the customers’ requests and inquiries. Othman and Owen (2001) conducted a study to investigate service quality in Islamic banks based on the dimensions of CARTER. The findings of their study demonstrated that in the context of Islamic banking customers, the aspect of compliance to *Shariah* is highly considered by Muslim customers since most of the respondents agreed that Islamic banks must execute their activities by observing the Islamic principles and law. The CARTER model is depicted in Figure 2.

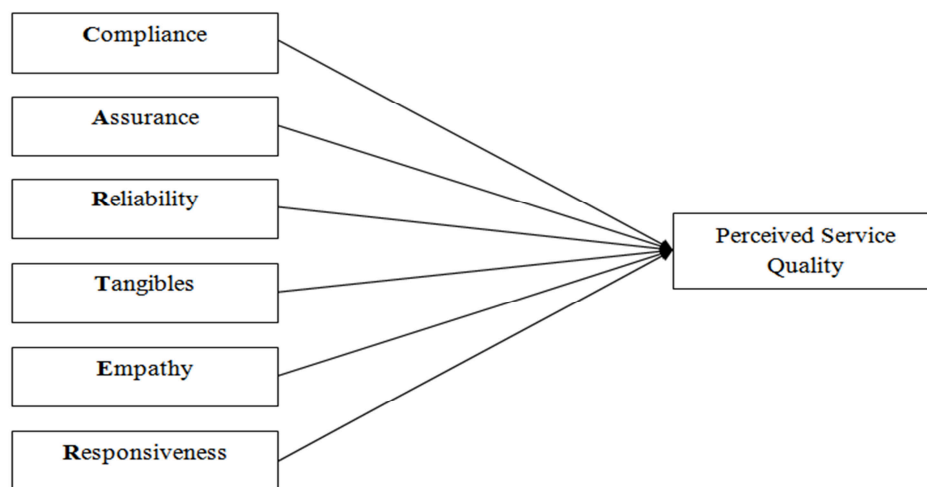


Figure 2. CARTER Model

2.4 Perceived Service Quality and Customer Satisfaction

It has been explained by Oliver (1980) that customer satisfaction is the result of fully meeting customers’ expectations in terms of products as well as services. Customers are satisfied when the performance of the service matches or exceeds the expectations they had regarding the services and vice versa (Amin & Issa, 2008). A review of past literature unveiled that the various dimensions of SERVQUAL are explanatory variables when it comes to predicting how satisfied customers are with the services that are provided by a service provider (Islam et al., 2015). Othman and Owen (2001) also confirmed the existence of a strong association

between the different dimensions of SERVQUAL and customer satisfaction. From a similar point of view, the outcomes of several past research endeavours have disclosed that the aspect of service quality is a meaningful predictor of customer satisfaction (Asma, 2012). Based on the findings of a research conducted in the context of UAE, it was noted by Jamal & Naser (2002) that the dimensions of service quality are significant factors that give rise to customer satisfaction. Moreover, outcomes of the study carried out by Amin & Issa (2008) further confirmed that all the five distinct dimensions of service quality starting from tangibility to reliability and responsiveness followed by assurance and empathy are significantly related to customer satisfaction in the context of Islamic banking. Additionally, it was also evidenced by Rashid et al. (2009) that religious values and beliefs of Muslim customers play an integral role when it comes to their satisfaction with Islamic banking institutions. Henceforth, considering the findings of the previous studies, the following hypotheses are established:

H₁: Compliance to *Shariah* has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

H₂: Assurance has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

H₃: Reliability has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

H₄: Tangibility has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

H₅: Empathy has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

H₆: Responsiveness has a significant effect on customer satisfaction towards Islamic banks in Bangladesh.

2.5 Customer Satisfaction and Loyalty

Loyal customers are assets for banks as they do not only patronize to a bank for a longer duration of time instead, they also enhance the overall value of banks (Amin et al., 2013). Kashif et al. (2016) asserted that service quality is a tool that can be employed by banking institutions to retain their loyal customers. They have further explained that banks greatly benefit from loyal customers for the reason that when customers are loyal to a particular bank, they have a high tendency of spreading favourable word of mouth regarding the bank, spending more at their preferred bank as well as less willing to switch to other providers (Awan et al., 2011). Customers are inclined to be loyal to a bank when they receive sincere advice from the staffs as well as treated individually (Delgado-Ballester & Munuera-Aleman, 2001). Customer satisfaction is one of the critical antecedents of customer loyalty toward banks (Amin et al., 2013). Ladhari et al. (2011) have also indicated that when it comes to the banking sector, customer satisfaction is perceived to be a vital element that paves the way to customer loyalty towards banks. The findings of the studies conducted by several other researchers also revealed that customer satisfaction shares a strong association with customer

loyalty (Kashif et al., 2016; Awan et al., 2011; Raajpoot, 2004). Based on the presence of a favourable association between the aspects of customer satisfaction and loyalty, the hypothesis below has been derived:

H₇: Customer satisfaction has a significant effect on customer loyalty towards Islamic banks in Bangladesh.

2.6 Conceptual Framework of the Study

The conceptual framework of the current study has been developed with the primary objective of measuring the effect of CARTER model on Muslim customers' satisfaction and loyalty towards Islamic banks in Bangladesh. Figure 3 illustrates the conceptual framework of the study.

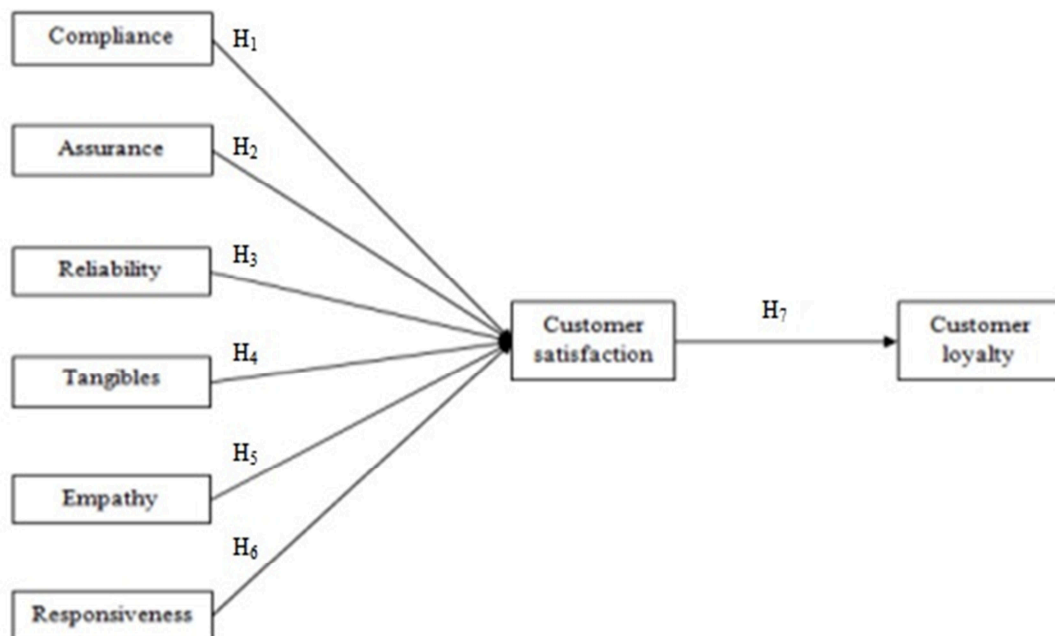


Figure 3. Conceptual framework of the study

3. Methodology

The study has been developed following a quantitative research method and tried to attain further understanding about Muslim customers' loyalty toward Islamic banks through customer satisfaction on the basis on the various dimensions of service quality in the context of Bangladesh. Therefore, the target population of this study is made up of the customers of the different Islamic banks situated in the respective country. Data were collected from 254 customers of Islamic banks in Dhaka and Chittagong through the distribution of self-administered questionnaires. The main reason for choosing these two locations is the fact that they are the most significant cities consisting majority of the Islamic banks in the country. Data were collected following a purposive sampling method to save time and cost. For the

data collection purpose, a self-administered questionnaire was created. Respondents were asked to fill up questionnaires on a 5-point Likert type rating scale ranging from 1 to 5 where the value 1 indicated strong disagreement with the statement, on the other hand, the value 5 represented a firm agreement with the account. The questionnaire included nine sections, whereby, the first eight sections were dedicated to each of the variables, and the last part consisted of questions about the respondents' demographic characteristics. The questionnaire was developed by adopting items from previous studies to confirm issues relating to convergent, construct as well as face validity (Zainudin, 2012). After the primary data required for the study were gathered, they were analysed through two statistical tools, namely, SPSS version 22 and AMOS version 20.

4. Analysis and Results

4.1 Reliability Analysis

It is essential to assure the scales included in the questionnaire are reliable. The primary reason for running a reliability test is to verify the consistency of the data so that the items that make up the scale are consistent and appropriately measure the underlying construct. The reliability of the questions in the questionnaire is tested with Cronbach's Alpha (table 1). Generally, Cronbach's Alpha coefficient value of a scale should be .7 or higher (Pallant, 2010).

Table 1. Cronbach's Alpha

Component	Cronbach's Alpha	No. of items
Compliance to <i>Shariah</i>	0.837	6
Assurance	0.779	4
Reliability	0.815	5
Tangibility	0.844	5
Empathy	0.752	5
Responsiveness	0.833	5
Customer Satisfaction	0.802	4
Customer Loyalty	0.819	5

4.2 Exploratory Factor Analysis (EFA)

Hair et al. (2009) mentioned that it is crucial to conduct factor analysis, as it helps researchers in summarizing the information gathered from a set of data. However, before proceeding with EFA, two tests, namely, Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity, should be verified for checking the factorability of data (Pallant, 2007). Tabachnick et al. (2001) have indicated that the value of the first test (KMO) ranges from 0 to 1, and for an appropriate analysis it is essential to have at least a value of 0.6, and for the latter (Bartlett's Test of Sphericity) it is necessary to attain a significant p-value ($p < .05$). After running both respective tests through SPSS, it was observed that the results of both fell within the

acceptable range, indicating that the researcher can run EFA. The outcomes of the tests are shown below in Table 2.

Table 2. Kaiser-Meyer-Olkin (KMO) and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.854
Bartlett's Test of Sphericity	Approx. Chi-Square	5431.760
	Df	
	Sig.	0.000

After running EFA in SPSS using principle component analysis, it can be seen that from the rotated component matrix 39 items (Table 3) have been derived and all the details are considered to be significant as they managed to load with a value higher than 0.50 as any loading above this value is considered to be practically substantial by Hair et al. (2009).

Table 3. Rotated Component Matrix

Item	(F1)	(F2)	(F3)	(F4)	(F5)	(F6)	(F7)	(F8)
Compliance to Shariah (CI)								
CI1	.854							
CI2	.751							
CI3	.781							
CI4	.698							
CI5	.655							
CI6	.897							
Assurance (AS)								
AS1		.751						
AS2		.695						
AS3		.751						
AS4		.566						
Reliability (RL)								
RL1			.721					
RL2			.633					
RL3			.658					
RL4			.784					
RL5			.756					
Tangibility (TG)								
TG1				.632				
TG2				.751				
TG3				.761				
TG4				.684				
TG5				.589				
Empathy (EM)								
EM1					.745			
EM2					.754			
EM3					.689			
EM4					.792			
EM5					.685			
Responsiveness (RP)								
RP1						.751		
RP2						.652		
RP3						.698		
RP4						.589		
RP5						.795		
Customer Satisfaction (CS)								
CS1							.845	
CS2							.795	
CS3							.832	
CS4							.724	
Customer loyalty (CL)								
CL1								.851
CL2								.712
CL3								.765
CL4								.821
CL5								.623

4.3 Evaluation of the Structural Equation Model

To confirm the factors found through the rotated component matrix, we have tested it in SEM and evaluated the structured equation model. The model fit was not good enough, and therefore, we have modified the model according to modification indices. The result of the final Structural Equation Model revealed that the model is acceptable as it attained the required values for each of the index as follows: root means square error approximation (RMSEA) = .075, comparative fit index (CFI) = .982, Normed $\chi^2 = 2.850$ (See Figure 4 and Table 4).

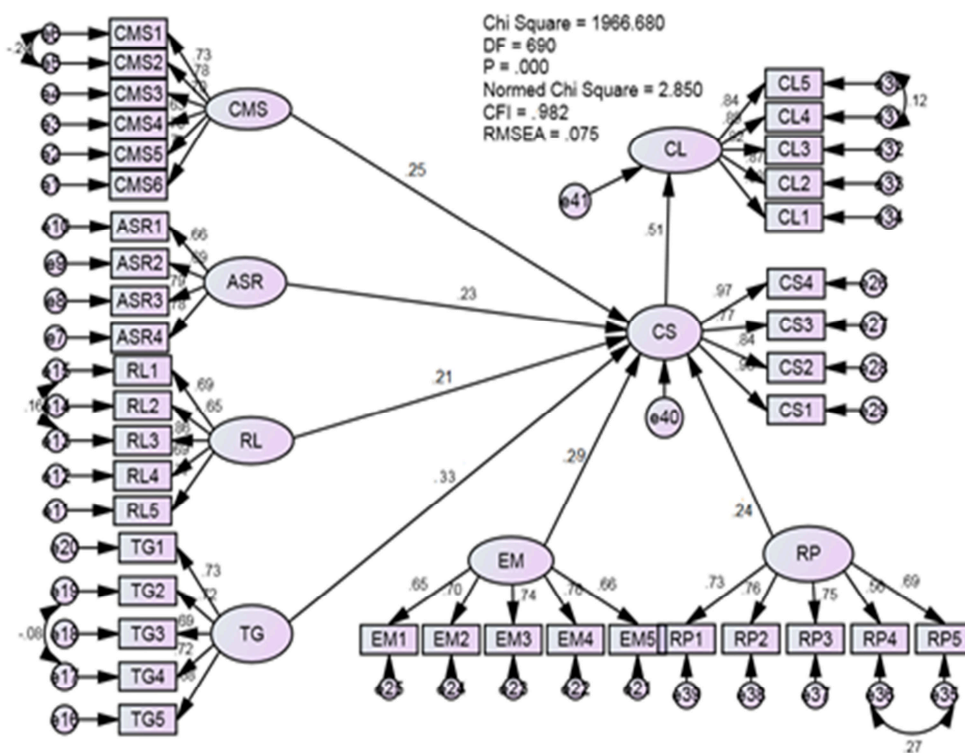


Figure 4. Structural Equation Model to measure customer satisfaction and loyalty towards Islamic Banks

Table 4. Fitness assessment of the structural model

Name of category	Required value	Obtained Value	Comments
Absolute fit	RMSEA ≤ 0.08	0.075	The required value is attained
Incremental fit	CFI ≥ 0.90	0.982	The required value is attained
Parsimonious fit	$\chi^2/df \leq 3$	2.850	The required value is attained

Source: Byrne, 2010; Hair et al., 2009; Kline, 2011; Zainudin, 2012.

Note. RMSEA = root mean square error approximation; GFI = goodness-of-fit index; CFI = comparative fit index.

Table 5. Result of Hypothesis Testing

Structural path		Estimate	SE	CR	P
Customer Satisfaction	← Compliance to <i>Shariah</i>	0.476	.073	6.520	***
Customer Satisfaction	← Assurance	0.218	.090	2.423	***
Customer Satisfaction	← Reliability	0.296	.114	2.597	0.002
Customer Satisfaction	← Tangibility	0.186	.065	3.872	0.014
Customer Satisfaction	← Empathy	0.480	.115	4.174	***
Customer Satisfaction	← Responsiveness	0.316	.275	2.149	0.004
Customer loyalty	← Customer Satisfaction	0.408	.298	2.369	0.011

Besides, the magnitude of the indirect effects using bias-corrected 90% confidence intervals around the impact using a bootstrapping method has been tested (Shrout & Bolger, 2002). The 95% bootstrapped CIs did not contain zero, providing additional support for the hypotheses. In terms of direct effects, responsiveness was more influential than other factors in the structured model for customer satisfaction towards customer loyalty ($B=.38$, $p<.01$) while compliance to Shariah showed the smallest direct effect on CS towards CL ($B=.04$, $p<.01$), as shown in Table 5. Based on the comparison between direct and indirect path coefficient estimates (Table 6), it can be concluded that CS plays a significant mediating role in explaining the effects of assurance, reliability, tangibility, empathy and compliance to Shariah on customer loyalty.

Table 6. Direct and Indirect Effects of Path Estimates

Path	Direct effect	Indirect effect	Total effect
CL ← Customer Satisfaction ← Compliance to <i>Shariah</i>	.04	.47	.51
CL ← Customer Satisfaction ← Assurance	.10	.35	.45
CL ← Customer Satisfaction ← Reliability	.10	.31	.41
CL ← Customer Satisfaction ← Tangibility	.06	.36	.42
CL ← Customer Satisfaction ← Empathy	.12	.41	.53
CL ← Customer Satisfaction ← Responsiveness	.38	1.3	*1.41

Note. * $p < .05$.

5. Discussion

Islamic banking and finance have emerged as one of the most impactful aspects that contribute to the economic development of Bangladesh (Suzuki & Uddin, 2016). Several researchers took the initiative of studying issues about the service quality of Islamic banks in Bangladesh (Suseno & Muthohar, 2018; Mahmood & Osman, 2015; Shampa & Hasan, 2015; Rashid et al., 2009). A study was undertaken by Mahmood and Osman (2015) to understand customers' perception of Islamic banks in Bangladesh. The results of the survey indicated that Bangladeshi consumers at large have a higher preference towards Islamic banks in

comparison to conventional banks. At the same time, they also require superior customer value as well as satisfaction. The study has further revealed that besides better service quality, there is also a high demand for how responsive the banks are in meeting the customers' needs in terms of providing prompt service. From a similar perspective, the objective of the study by Shampa and Hasan (2015) was to analyse customers' perception of the service quality of Islamic banks located in the capital city of Dhaka. The study was based on the SERVQUAL model with a sample size of 150 respondents. The outcomes of the analysis demonstrated that the various dimensions that fall under service quality are directly correlated to the banking services provided by the Islamic banks. Based on the findings, the author has ranked the different dimensions following their importance among the customers. The aspect of tangibility is the most critical dimension, followed by responsiveness, assurance, empathy and reliability. On the other hand, Rashid et al. (2009) found that besides the dimensions of SERVQUAL, religious beliefs and values are important aspects that impact Bangladeshi customers' intention towards choosing Islamic banks.

In this study, the structural equation model based on CARTER model was examined to test the relationship among the constructs. Service quality dimensions of compliance to *Shariah*, assurance, reliability and tangibility of Islamic banks directly affect customer satisfaction. Therefore, H1, H2, H3 and H4 are accepted as significant positive relationships have been found between these aspects and customer satisfaction. Also, H5, H6 and H7 are supported, which means empathy and responsiveness have a direct effect on customer satisfaction, and customer satisfaction has a direct impact on customer loyalty. Henceforth, when it comes to Islamic banking the aspects of *Shariah* compliance, assurance, reliability, tangibility, empathy, as well as responsiveness, are highly taken into consideration by Bangladeshi customers and play a vital role in gaining their satisfaction which in turn affects their loyalty. The outcomes of this research are similar to findings of the study undertaken by Jamal and Naser (2002). Jamal and Naser (2002) noted that the core dimensions of service quality are significant factors that give rise to customer satisfaction. Besides, Rashid et al. (2009) and Othman and Owen (2001) also noted that to satisfy Muslim consumers it is essential to be sensitive towards their religious principles by complying to their ethical values and beliefs which is in line to the findings of the present study in terms of compliance to *Shariah*.

6. Recommendation

The present study has identified the various aspects of service quality that are vital for Bangladeshi customers. In accordance to the findings of the study, service quality dimensions of compliance to *Shariah*, assurance, reliability, tangibility, empathy and responsiveness of Islamic banks in the field of Bangladesh have positive effects on the customer satisfaction, and customer satisfaction also has a positive impact on customer loyalty. Therefore, it is essential for existing service providers of Islamic banks in Bangladesh to consider these individual factors to satisfy their customers and attain loyalty. An understanding of the factors that drive customers' choice of Islamic bank would facilitate managers in building and maintaining long term relationship with their customers through developing appropriate strategies. Although this study contributes to the theoretical implications in understanding the relationship among service quality of Islamic banks, customer satisfaction and customer

loyalty; it has several limitations that need to be addressed. One of the significant limitations of the study is the sample size. Besides, the research has focused on the clients who are using Islamic banking services only from the cities of Dhaka and Chittagong. Therefore, this provides an avenue for future researchers to enhance the generalizability of the findings by collecting data from a larger sample size. It is also suggested that the model of this study is tested in the future in a comparative study between Islamic and conventional banking customers. Additionally, it is also advised that the proposed model is extended through the incorporation of new variables.

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