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The effect of customer satisfaction on customer loyalty in the motor industry

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Abstract

This study aims to determine the effects of three exogenous variables, namely, service quality, price fairness and Shari'ah compliance on customer loyalty through customer satisfaction as the mediator. Applying the theory of customer satisfaction, a structural equation model was developed and tested on 322 motor Takaful participants from the Klang Valley, Malaysia. The findings suggest that customer satisfaction partially mediates the effects of Shari'ah compliance and price fairness on customer loyalty. In conclusion, participants of motor Takaful are not concerned about the service quality; they are mainly influenced by the price fairness and Shari'ah compliance of the products /services.

Keywords: Customer, loyalty, satisfaction, insurance, Takaful.

El efecto de la satisfacción del cliente en la lealtad del cliente en la industria del motor

Resumen

El objetivo de este estudio es determinar los efectos de tres variables exógenas, a saber, la calidad del servicio, la imparcialidad de los precios y el cumplimiento de Shari'ah sobre la fidelidad del cliente a través de la satisfacción del cliente como mediador. Aplicando la teoría de la satisfacción del cliente, se desarrolló un modelo de ecuación estructural y se probó en 322 participantes de Takaful motor de Klang Valley, Malasia. Los hallazgos sugieren que la satisfacción del cliente media parcialmente los efectos del cumplimiento de Shari'ah y la imparcialidad de los precios en la lealtad del cliente. En conclusión, los participantes de motor Takaful no están preocupados por la calidad del servicio, están principalmente influenciados por la imparcialidad de los precios y el cumplimiento de Shari'ah de los productos / servicios.

Palabras clave: cliente, lealtad, satisfacción, seguro, takaful.

1. INTRODUCTION

Customer loyalty is essential to profitability and to strengthen an individual business. Some researchers also indicate that in order to gain a competitive advantage there must be customer loyalty. Therefore, the eventual strategy of a company is to generate customer loyalty. In addition, customer satisfaction is the dynamic pointer of customer loyalty to a specific business. It is detected that customer satisfaction is the main cause of lasting customer undertakings in improving customer loyalty and customer withholding. Customer satisfaction is an antecedent of purchase intent and customer loyalty eventually leading to the lasting profitability of a firm. Customer

satisfaction and customer loyalty, therefore, are important factors to promote the possible growth of a company, especially an insurance company.

This study develops the understanding of customer satisfaction and customer loyalty towards motor Takaful in Malaysia. A highly satisfied customer usually remains loyal for a long period and would purchase more of a company's new products. Most firms fail from a lack of understanding of how to satisfy customers. Therefore, any business that fails to understand customer needs and wants would fail to compete efficiently with its nearest competitors. This applies to motor Takaful operators in relation to its competitors, conventional motor insurance companies. The distresses of the motor Takaful industry may be due to marketing issues and the possibility of a low level of satisfaction and loyalty. These issues are crucial to the motor Takaful business because customer satisfaction and customer loyalty are essential to the operators' survival and sustainability. Many researchers have examined the relationship between service quality and customer satisfaction, price and customer loyalty, and price and services on customer satisfaction. A few touches on the demand and the performance of Takaful. However, limited studies have been done on motor Takaful, per se. Therefore, there are insufficient studies on motor Takaful customer needs and wants to lead to customer loyalty. In addition, limited studies have been done on customer satisfaction and loyalty of the Shari'ah compliant issue, especially for motor Takaful. The specific objective of this study is to determine the mediating role of customer satisfaction relating to price fairness,

service quality and Shari'ah compliance on customer loyalty in the motor Takaful industry in Malaysia. Hence, this study plans to fulfill the gap in the satisfaction and loyalty of motor Takaful customers.

2. LITERATURE REVIEW

The research conducted by Kotler (2003) finds that customer's satisfaction is important but companies make a mistake by paying attention to their market share. Therefore, if customer satisfaction starts falling, then market share erosion will soon occur. Research shows that companies can save 5-10 times overheads by retaining current customers. Companies that execute good customer retention strategies can avoid average business losses of between 10-30% of its customers yearly. Further, the research also shows that business can increase profits by 25-85% if there is a 5% reduction in the customer defection rate.

2.1. Service Quality, Customer Satisfaction and Customer Loyalty Relationships

The rapid development in the worldwide economy has led service companies, namely, banking and insurance, to propose and implement their policies of improving service quality. Their main aim would be to intensify customer satisfaction and customer loyalty. Customers feel satisfied if the benefits exceed the expenses on their

purchases. In addition, the study states that an increase in the quality of firms' services will lead to improved customer satisfaction and customer loyalty. Some researchers come to a consensual that service quality is an antecedent to customer satisfaction. While service quality is also vital in attracting new customers and the retention of loyal customers Anjor et al. (2014), many researchers also approve that service quality leads to loyalty and customer satisfaction. In another related research, Donnelly (2009) upholds that these important factors: quality, satisfaction and value, have a strong influence on customer loyalty.

All businesses should improve service quality and eventually it will lead to customer satisfaction and customer loyalty. This is to ensure that businesses remain competitive. According to Huang and Liu (2010), creating an active way to develop customer satisfaction and loyalty is possible if there is a greater level of service quality. The study by Huang and Liu (2010) determines that in order to increase customer loyalty, a few factors are involved. These factors are loyalty packages, service quality and customer satisfaction. Therefore, it is normal to state that low service quality which does not meet customer expectations will promote consumer dissatisfaction. On the contrary, scholars like Fang et al. (2011) state that service quality does not have any association with satisfaction. Consequently, in order to understand the relationships between service quality and customer satisfaction, and service quality on customer loyalty on motor Takaful, an empirical study should be conducted. Therefore, the following two hypotheses are proposed:

H 1: Service quality is positively associated with customer satisfaction.

H 2: Service quality is positively associated with customer loyalty.

2.2. Price Fairness, Consumer Satisfaction and Consumer Loyalty Relationships

Price perceptions directly influence satisfaction judgments and indirectly through perceptions of price fairness. Their research shows that perceived price fairness influences satisfaction judgments. Price fairness and satisfaction have been shown to be related but are conceptual of different constructs. Perceived price fairness is positively associated with customer satisfaction. This finding is also consistent with the findings of Bei and Chiao (2001) and Martínconsuegra et al. (2007) who find that perceived price fairness is a strong indicator of customer satisfaction while Dai (2010) indicates that perceived price fairness has a strong positive impact on customer satisfaction with re-purchase intention.

The research results suggest that perceived price fairness in service industries can be viewed as a threshold factor in order to maintain satisfied and loyal customers. The results from the study also provide empirical support, suggesting that perceived price fairness influences customer satisfaction and loyalty. As for the service industry, researchers state that price influences loyalty. On factors

affecting customer satisfaction, Huang and Liu (2010) find that by charging a fair price, operators will develop customer satisfaction and loyalty. A conclusion is also made that price has an impact on both customer satisfaction and loyalty. Research done by Huang and Liu (2010) shows that price fairness has a direct positive impact on satisfaction and loyalty. Consequently, in order to understand the relationship between price fairness and customer satisfaction, and between price fairness and customer loyalty on motor Takaful, an empirical study should be conducted. The following two hypotheses are thus proposed:

H 3: Price fairness is positively associated with customer satisfaction.

H 4: Price fairness is positively associated with customer loyalty.

2.3. Shari'ah Compliance, Consumer Satisfaction and Consumer Loyalty Relationships

Many Muslim customers are experiencing the need to understand the effects of using traditional products from an Islamic viewpoint perspective. This is mainly due to the acceptance of the fatwa associated with insurance, financial and banking products. Fatwa rulings in the area of social concerns and economics have an inclination to influence Muslim customers' participating (purchasing) and consuming conducts. An initial examination by Gayatri et al.

(2011) proposes doing a service quality study using two constructs, namely, religion and culture. There is an increasing indication that

Ismah et al. (2009) feel that when companies aim to sustain their market positioning, they need to ensure good service quality which will lead to customer satisfaction and eventually, customer loyalty. This is also applicable to banks and insurance companies which are aiming to be full-fledged Islamic operations. They need to remain competitive especially with their international counterparts by offering good quality products and services, not just relying on their Islamic image and reputation to draw customers (Muslims and non-Muslims). Consequently, in order to understand the relationship between Shari'ah compliance and customer satisfaction, and between Shari'ah compliance and customer loyalty, an empirical study should be conducted. Therefore, the following two hypotheses are proposed:

H 5: Shari'ah compliance is positively associated with customer satisfaction.

H 6: Shari'ah compliance is positively associated with customer loyalty.

3. CONCEPTUAL FRAMEWORK

This study has developed a conceptual framework after considering all the investigations and findings. The research focuses on

the mediation role of customer satisfaction towards customer royalty. Figure 1.1 depicts Hypotheses H1 to H7 on how Service Quality, Price Fairness and Shari'ah Compliance have relationships with Customer Satisfaction as well as with Customer Loyalty. Figures 2, 3 and 4 depict the Hypotheses H8, H9 and H10, respectively, on the mediating role of Customer Satisfaction.

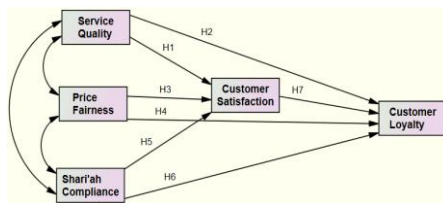


Figure 1: Hypotheses H1 to H7

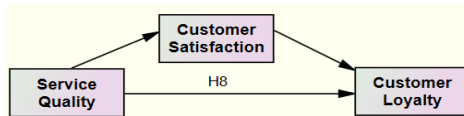


Figure 2: Mediation Hypothesis H8

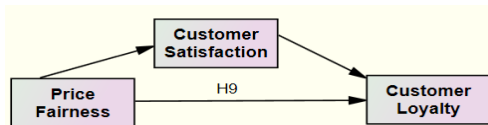


Figure 3: Mediation Hypothesis H9

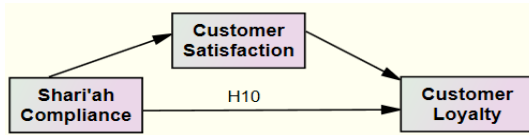


Figure 4: Mediation Hypothesis H10

4. RESEARCH METHODOLOGY

The unit of analysis in this study is referred to the individual motor Takaful participants (policyholders) from which the data were collected. The study setting is restricted to the Klang Valley in Malaysia and it is based on the cross-sectional quantitative survey method. This study uses a stratified random sampling; the strata are formed based on motor Takaful participants' shared attributes or characteristics. These subsets of the strata are then pooled to form a random sample size of 400. A structured questionnaire is used for this survey and is administered randomly using a stratified random sampling method.

5. FINDINGS AND DISCUSSION

This study was carried out to understand the role of customer satisfaction towards customer loyalty in the motor Takaful industry in Malaysia. SEM has been used to test the hypotheses. Figure 5 depicts SEM Path Model with a Goodness-of-Fit measurement (Table 2).

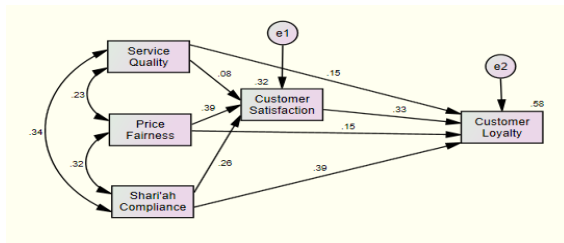


Figure 5: SEM Path Model

Table 2: Goodness-of-fit measurement (Validated Model)

Fit Indices	Recommended Threshold	Model Output	Remark
CMIN	≥ 2 and ≤ 5	2.363	Fit
P-value	$\geq .05$.124	Fit
RMSEA	$\leq .08$.065	Fit
CFI	$\geq .90$.997	Fit
TLI	$\geq .90$.971	Fit

5.1 Testing of Hypotheses H1-H10

According to Hypothesis H1 (Table 3), service quality (SQ) is positively associated with consumer satisfaction (CS). The critical ratio value is 1.794 which is only slightly below the threshold level of 1.96 critical value. However, the p-value shows .073 which is above the benchmark of .05. Therefore, the test is insignificant and the hypothesis is not supported. Hypothesis H2 states that service quality is positively associated with consumer loyalty (CL). The critical ratio value is 4.414 which is above the benchmark of 1.96 critical value. The p-value (p) shows a significant value of .002. The test is significant, and the hypothesis is supported. Hypothesis H3 states that price

fairness (PF) is positively associated with consumer satisfaction. The critical ratio value is 8.076 which is above the threshold of 1.96. The p-value shows .002, therefore the test is significant. The hypothesis is supported. Hypothesis H4 states that price fairness is positively associated with consumer loyalty (Pakdel & Talebbeydokhti, 2018).

The critical ratio value is 6.563 which is above the threshold of 1.96. The p-value is .004 and the test is significant. The hypothesis is supported. Hypothesis H5 states that Shari'ah compliance (SC) is positively associated with consumer satisfaction. The critical ratio value is 5.339 which is above the critical ratio value of 1.96. The p-value shows .001 and therefore the test is significant. The hypothesis is supported. Hypothesis H6 states that Shari'ah compliance is positively associated with consumer loyalty. The critical ratio value is 11.122 which is above the critical value of 1.96. The p-value shows .001, therefore the test is significant. The hypothesis is supported. Hypothesis H7 states that consumer satisfaction has a positive effect on consumer loyalty. The critical ratio value is 13.652 which is above the critical value of 1.96. The p-value shows .001, therefore the test is significant. The hypothesis is supported.

Table 3: Hypothesis Testing Results on Direct Relationships

Hypothesis	Relationship		Estimate	S.E.	C.R.	P	Results	Remark
H1	CS ←	SQ	.101	.056	1.794	.073	Not Sig.	Not Supported
H2	CL ←	SQ	.205	.046	4.414	.002	Sig.	Supported
H3	CS ←	PF	.371	.046	8.076	.002	Sig.	Supported
H4	CL	PF	.252	.038	6.563	.004	Sig.	Supported

	←							
H5	CS ←	SC	.254	.048	5.339	.001	Sig.	Supported
H6	CL ←	SC	.437	.039	11.122	.001	Sig.	Supported
H7	CL ←	CS	.581	.043	13.652	.001	Sig.	Supported

In summary, Hypotheses H1 to H7 are supported except Hypothesis H1 (Table 5). Hypothesis H8 does not reveal that customer satisfaction mediates the effect of service quality on customer loyalty. Hypothesis H9 reveals a partial mediation and states that customer satisfaction mediates the effect of price fairness on customer loyalty. Hypothesis H10 also reveals a partial mediation and states that customer satisfaction mediates the effect of Shari’ah compliance on customer loyalty.

No.	Hypotheses	Relationships	Remark
1	H1	Service quality is positively associated with customer satisfaction.	Not Supported
2	H2	Service quality is positively associated with customer loyalty.	Supported
3	H3	Price fairness is positively associated with customer satisfaction.	Supported
4	H4	Price fairness is positively associated with customer loyalty.	Supported
5	H5	Shari’ah compliance is positively associated with customer satisfaction.	Supported
6	H6	Shari’ah compliance is positively associated with customer loyalty.	Supported

6. CONCLUSION

This research analysed five major constructs: service quality, price fairness, Shari'ah compliance, customer satisfaction and customer loyalty. From the results, the theory is partially supported where customer satisfaction partially mediates the effects of price fairness and Shari'ah compliance on customer loyalty in the motor Takaful. The study shows that customer satisfaction partially mediates the effect of price fairness on customer loyalty. This result is in line with the findings in other settings (Abdul et al., 2014).

The study further shows that customer satisfaction partially mediates the effect of Shari'ah compliance on customer loyalty. This is a new contribution to the motor Takaful industry and it fills the gap in the literature on this field. Therefore, Shari'ah compliance has a significant influence on customer satisfaction and customer loyalty in the motor Takaful industry. The study also shows that customer satisfaction has no mediating effect of service quality on customer loyalty. The relationship between service quality and customer satisfaction is not significant. This result contradicts many studies done in other settings. The results show that participants of motor Takaful are not concerned about the service quality, they are mainly influenced by the price fairness and Shari'ah compliance of the products /services.

This study highlights important implication to motor Takaful operators and the participants. Motor Takaful operators must realize that in order to attract new customers and to retain existing participants

there must be good pricing policies. The attraction and retention of motor Takaful participants are mainly influenced by the pricing factor. Further, Shari'ah compliance factor provides motor Takaful operators an added advantage and the operators must leverage this core value for a competitive advantage over the conventional motor insurance to attract new customers and to retain existing participants. On the contrary, the study does not show that customer satisfaction plays a role in mediating the relationship between service quality and customer loyalty.

There is no association between service quality and customer satisfaction since the relationship is not significant. However, there is a significant relationship between service quality and customer loyalty. This shows that service quality is the last thing in the minds of participants when deciding to participate in motor Takaful products/services. Participants of motor Takaful may not have or need customer satisfaction on service quality but they remain loyal customers because the relationship between service quality and customer loyalty is significant. So, it signifies that service quality is not important when participants decide to participate in motor Takaful products /services. They are also willing to continue subscribing with the same operators and willing to introduce motor Takaful products/services to their friends, relatives and family members by showing their loyalty and their Islamic perspective.

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