“The role of the sharia banking service quality in creating customers’ satisfaction and happiness (a survey of state-owned sharia banks in Indonesia)”

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ARTICLE INFO

DOI

RELEASED ON
Monday, 09 December 2019

RECEIVED ON
Monday, 19 August 2019

ACCEPTED ON
Wednesday, 20 November 2019

LICENSE
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JOURNAL
“Banks and Bank Systems”

ISSN PRINT
1816-7403

ISSN ONLINE
1991-7074

PUBLISHER
LLC “Consulting Publishing Company “Business Perspectives”

FOUNDER
LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES
31

NUMBER OF FIGURES
1

NUMBER OF TABLES
6

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THE ROLE OF THE SHARIA BANKING SERVICE QUALITY IN Creating CUSTOMERS' SATISFACTION AND HAPPINESS (A SURVEY OF STATE-OWNED SHARIA BANKS IN INDONESIA)

Abstract

The study aims to explore the effect of the quality of state-owned sharia banks' services on consumers' satisfaction and happiness. It contributes to knowledge of marketing management theory and management practices. The expected final effect is that the right quality of customers' service practice can increase customers' satisfaction and happiness in the Islamic context. The study uses quantitative approach. It relies on primary data obtained from questionnaire results and secondary data in the form of information from state-owned sharia banks including Bank BRI Syariah, Bank BNI Syariah and Bank Syariah Mandiri. The study considers PLS-SEM as the right tool for data analysis. The findings of the study are as follows: 1) only two of seven dimensions of service quality that significantly affect consumers' satisfaction, are the Islamic Service System and the Responsiveness System, while the remaining effects come from other hypotheses not included in the model; 2) consumers' satisfaction has a significant effect on consumers' happiness, and the remaining effects come from other concepts that are worth exploring.

Keywords

Sharia bank marketing, service quality, customers' happiness, customers' satisfaction

JEL Classification

G20, G21, M31

INTRODUCTION

Islamic finance or banking has been around 40 years; its existence continues to draw attention. The accusation that Islamic banking is just a copy of the conventional banking system has not prevented it from achieving promising growth. Policy makers and bankers notice a prospective business opportunity for Islamic banking (Goddard, 2011; Nikonova, Kokh, & Safina, 2015). Sharia banking based on Islamic principles leaves usury practices (Shamsudin, Salamon, Abu-Hussain, & Nor Muhamad, 2015; Shuib, Bakar, Osman, Hashim, & Fadzil, 2016; Dusuki, 2008), as emphasized in Quran Surah Al Baqarah at verse 275.

Ashraf, Rizwan, and L’Huillier (2016), Hassan and Aliyu (2018), Zins and Weill (2017) emphasize shortcomings that plague conventional banking:

- an interest-based transaction does not take into account fairness in business;
- this can lead to bankruptcy;

• the obligation to keep depositors’ savings safe along with the interests makes banks concerned about returns;

• this also prevents SMEs from making significant innovations;

• this negates the scope for business partnership as banks always require certain capital return and income interests.

Sharia banking emphasizes profit sharing principle that provides equally business profit to people and banks (Chong & Liu, 2009). Only in this way, the goals of economic development, economic stability, financial inclusion, and stabilization can be achieved (Ibrahim, 2015; Khan, 2010; Mollah & Zaman, 2015). As such, the values of fairness, ethics, cohesion and safety (gharar) are well maintained (Goddard, 2011; Suzuki, 2013). The illegality of gharar is reflected in Quran, which forbids the taking other people’s property in unfair ways, most clearly – in Sura Al-Baqarah at 188th verse. Sharia banking is an alternative but very reliable alternative with more financial schemes (Bank Indonesia, 2011).

The study focuses on state-owned Sharia Banking in Pasuruan, East Java. It explores the mediating role of consumers’ satisfaction in the relationship between Islamic banking service quality and consumers’ happiness. This may shed light on the relationship between state-owned sharia banks and customers’ satisfaction and happiness in the Islamic perspective. Expected results should contribute to the development of marketing management science that covers the area of Islamic bank service quality, customers’ satisfaction and happiness.

1. LITERATURE REVIEW

In the banking industry, Bahia and Nantel (2000) develop a more specific scale in measuring Bank Service Quality perception, that is the BSQ model (Grazhdani, Vërçuni, & Merollari, 2015; Jiang, Jun, & Yang, 2016; Paul, Mittal, & Srivastav, 2016; Quyet, Vinh, & Chang, 2015). Islamic banking needs to take cultural diversity into account when adopting SQ, and to consider a new model to measure SQ, the so-called CARTER (Othman & Owen, 2001). Consumers make SQ evaluations on two levels, namely organizational and transactional (AlDlaigaan & Buttle, 2002). Research to refine SQ dimensions with other additional dimensions (values and image) leads to operational dimensions: personal skills, reliability, values, and image. Some research on differences and similarities between states emphasizes that BSQ should be included in service quality dimensions (Ali & Raza, 2017; Yilmaz, Ari, & Gürbüz, 2018).

Islamic Banking or IB stands for sharia banking identity in Indonesia, which has been legally registered since July 2, 2007. Its symbol reflects modern sharia banking values, which correspond to modernity, justice, balance, transparency, and ethics that emphasize equality and partnership. IBSQ (Islamic Banking Service Quality) that sets benchmark for sharia banking service quality in Indonesia integrates these values with BSQ (Bank Service Quality) popularized by Abdullah, Suhaime, Saban, and Hamali (2011), Bahia and Nantel (2000), Glaveli, Petridou, Liassides, and Spathis (2006). IBSQ reflects sharia banking service quality and image in Indonesia (Abdullah et al., 2011).

Islam as a religion measures the human life quality in comprehensive and universal manner in terms of their relation to God (hablumminallah) and to other human beings (hablumminannas). Three pillars of Islamic teaching include:

• **Aqidah**: It emphasizes a strong belief in Omnipower of God in such a way as to guide them through the life. If it is heartily kept, it would mold worldview and way of thinking.

• **Syariah**: It refers to the Islamic rules and teachings that determine individual relationship to God (hablumminallah) and to other individuals (hablumminannas) arising from Aqidah.
• Akhlak: It is a reflection of strong faith (aqidah) and strict adherence to Islamic teachings (sharia), which affects attitudes and behaviors. It concerns with typical personality, characters, or nature that relies on knowledge of what God approves or disapproves. Individuals with akhlak have commitment to orient their lives to God’s love embrace.

Lupiyoadi (2001, p. 158), quoting Kotler (1997), describes satisfaction as “…the extent of feeling resulting from comparison between actual product or service performance and its expected performance. According to Lupiyoadi (2001, p. 143), consumer is: “An individual who, according to Webster’s 1928 Dictionary, as several times visits the same place to purchase a product”. It suggests that one’s frequent visitation to a certain place is driven by a desire to satisfy a need by owning a product or gaining a service by means of transaction.

According to Tse and Wilton, as quoted by Tjiptono and Chandra (2005, p. 198) “it is a consumer’s response resulting from perceived evaluation on the disparity between earlier expected performance and actual performance”.

Customer happiness is a research domain of marketing (De Keyser & Lariviere, 2014). Literature identifies two components of happiness that are affective and cognitive. The former refers to how people feel positive about themselves (hedonic level of affect), while the latter refers to individuals’ satisfaction over what they have achieved during their life (contentment/life satisfaction). “Happiness” is too obscure to some scholars, and they instead turn on “subjective welfare”. The word “subjective” refers to the relative nature of happiness. At the theoretical and methodological levels, some findings emphasize the importance of examining shared happiness and its relation to other welfare dimensions, to find differences and synergy between them (Fave, Brdar, Freire, Vella-Brodrick, & Wissing, 2011). Some scholars define happiness as a positive emotional experience combined with a deeper feeling of life meaning and purpose.

Merunka and Sirgy (2011, p. 21) define consumer happiness or welfare as “consumer judgment over a brand/company’s contribution to their life quality”. In the marketing domain, positive marketing or life quality approach have gained much attention from continuously growing research (Sirgy & Lee, 2006). Lee and Sirgy (2004, p. 44) define life quality marketing as follows: “Marketing practices-planned business mechanism, price, promotion, and consumptive goods distribution are designed to increase customer welfare and other stakeholder welfare (such as stockholders, distributors, suppliers, workers, local society, and environment).”

Dagger and Sweeney (2006, par 5) argue that “Marketers can positively affect consumer life by means of QOL concept”. In its further development, the relevance of marketing for live quality and social welfare has been explored in various industrial sectors, including travel and tourism, finance, health, food and nutrition, and high technology (Sirgy, 2001).

2. RESEARCH PURPOSE

The purpose of this study is to conduct an Indepth review of the service system implemented by state-owned Islamic banking in Pasuruan city and its effect on customers’ satisfaction, as well as to investigate the role of customer’ satisfaction derived from the quality of Islamic services provided by state-owned Islamic banking in Pasuruan city in creating customers’ happiness.

3. METHODS

3.1. Structural equation modeling (SEM)

To solve research problems, the study applies the SEM analysis method with FIMIX-PLS. The analysis steps in the research cover estimating model parameters, analyzing model structure by means of PLS-SEM, examining and detecting heterogeneity cases by means of FIMIX-PLS.

Besides, the following were used:

• Parameter Estimation Procedure by means of Finite Mixture; and
• Estimation parameter of the finite mixture of partial least squares by applying the EM algorithm consisting of the Expectation-Step (E-Step) and Maximization-Step (M-Step).

IBSQ Model Structure was analyzed using SEM Partial Least Squares.

The analysis steps are as follows:
1) conceptualizing a model that involves the development of an outer model and an inner model;
2) constructing a path diagram;
3) conserving a path diagram into equation system;
4) estimating a model parameter including path, loading and weight;
5) evaluating outer and inner models;
6) testing hypotheses (resampling bootstrap);
7) interpreting the results of the PLS-SEM analysis.

4. QUALITATIVE INFORMATION

The study contains both quantitative analysis and qualitative information. Quantitative analysis is concerned with the examination of data, while qualitative information deals with the study of state-owned sharia banks' commitment in service quality and to what extent, particularly in Pasuruan city, by means of in-depth interviews.

5. RESULTS

The theoretical model built in the first step will be depicted in path diagram. The diagram would make the causality relationship clear. Based on the literature review and theoretical justification, a path cause-effect diagram can be drawn as shown in Figure 1.

The specification equation serves to determine which variables measure constructs and form a set of matrices displaying hypothesized correlations between constructs or variables.

Exogenous latent variable X:

![Figure 1. Path of the causality relationship](http://dx.doi.org/10.21511/bbs.14(4).2019.07)
\[
\begin{bmatrix}
X_1 \\
X_2 \\
\vdots \\
X_{43}
\end{bmatrix} = 
\begin{bmatrix}
X_{1,1} & X_{1,2} & \cdots & X_{1,7} \\
X_{2,1} & \ddots & \cdots & \vdots \\
\vdots & \ddots & \ddots & \vdots \\
X_{43,1} & X_{43,2} & \cdots & X_{43,7}
\end{bmatrix} \begin{bmatrix}
\xi_1 \\
\xi_2 \\
\vdots \\
\xi_{43}
\end{bmatrix} + 
\begin{bmatrix}
\delta_1 \\
\delta_2 \\
\vdots \\
\delta_{43}
\end{bmatrix} \tag{1}
\]

Structural model specification equations:

\[
\eta_1 = \gamma_{11}\xi_1 + \gamma_{12}\xi_2 + \gamma_{13}\xi_3 + 
\gamma_{14}\xi_4 + \gamma_{15}\xi_5 + \gamma_{16}\xi_6 + \gamma_{17}\xi_7 + \xi_1,
\tag{2}
\]

\[
\eta_2 = \beta_{11}\eta_1 + \zeta_2 d,
\tag{3}
\]

\[
\eta_3 = \beta_{11}\eta_1 + \beta_{12}\eta_2 + \zeta_3.
\tag{4}
\]

The results of convergent validity, discriminant validity, and composite reliability are as follows:

Every indicator in the model must fulfill convergent validity that requires over 0.7 loading factors. If fulfilled, evaluation may be preceded. Otherwise, the indicator below 0.7 should be removed. The step should be started over until all existing indicators with loading factors above 0.7 remain.

Table 1 shows that all 21 indicators of each construct have a loading value over 0.7. Any construct with loading value below 0.7 is removed to improve the model’s outer loading and composite reliability scores. The validity retest would be conducted among 566 respondents (see Table 2).

Table 2 shows that all indicators of each variable have loading value more than 0.7. It means that they are in a good validity and significance category.

Discriminant validity evaluation is made by comparing square root value of average variance extracted (AVE) of every construct with correlation between constructs in the model. Table 3 reveals that the AVE root value exceeds 0.5 and the AVE root value exceeds the correlation between constructs, indicating that all constructs are in a good (valid) category.

Composite reliability is a PLS reliability test to confirm accuracy and insistence of XX, which is used to measure the rest reliability of a construct. A construct should be reliable if its composite reliability values exceed 0.70 (Wiyono, 2011). Table 4 shows that all constructs have composite reliability values above 0.7, indicating that they are in a good reliability category.

Table 1. The results of the first convergent validity test

<table>
<thead>
<tr>
<th>Sharia adherence</th>
<th>Assurance</th>
<th>Reliability</th>
<th>Tangibility</th>
<th>Service system</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.795</td>
<td>0.590</td>
<td>0.747</td>
<td>D1 0.376</td>
</tr>
<tr>
<td>A2</td>
<td>0.684</td>
<td>0.863</td>
<td>0.596</td>
<td>D2 0.750</td>
</tr>
<tr>
<td>A3</td>
<td>0.838</td>
<td>0.870</td>
<td>0.806</td>
<td>D3 0.871</td>
</tr>
<tr>
<td>A4</td>
<td>0.640</td>
<td>0.837</td>
<td>0.701</td>
<td>D4 0.528</td>
</tr>
<tr>
<td>A5</td>
<td>0.798</td>
<td>0.641</td>
<td>0.698</td>
<td>D5 0.157</td>
</tr>
<tr>
<td>A6</td>
<td>0.805</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A7</td>
<td>0.583</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A8</td>
<td>0.826</td>
<td>F1 0.762</td>
<td>0.485</td>
<td>G1 0.643</td>
</tr>
<tr>
<td>A9</td>
<td></td>
<td>F2 0.853</td>
<td></td>
<td>G2 0.795</td>
</tr>
<tr>
<td>A10</td>
<td></td>
<td>F3 0.845</td>
<td></td>
<td>G3 0.738</td>
</tr>
<tr>
<td>A11</td>
<td></td>
<td>F4 0.822</td>
<td></td>
<td>G4 0.754</td>
</tr>
<tr>
<td>A12</td>
<td></td>
<td>F5 0.629</td>
<td></td>
<td>G5 0.701</td>
</tr>
<tr>
<td>A13</td>
<td></td>
<td>F6 0.778</td>
<td></td>
<td>G6 0.523</td>
</tr>
<tr>
<td>A14</td>
<td></td>
<td></td>
<td></td>
<td>G7 0.715</td>
</tr>
<tr>
<td>A15</td>
<td></td>
<td></td>
<td></td>
<td>G8 0.316</td>
</tr>
<tr>
<td>A16</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. The results of the second convergent validity test

Table 3. The results of the discriminant validity test

<table>
<thead>
<tr>
<th>Empathy</th>
<th>Customer satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>E1</td>
<td>H1 0.826</td>
</tr>
<tr>
<td>E2</td>
<td>H2 0.759</td>
</tr>
<tr>
<td>E3</td>
<td>H3 0.741</td>
</tr>
</tbody>
</table>

Table 4. The results of the composite reliability test
Table 2. The results of the second convergent validity test

<table>
<thead>
<tr>
<th>Sharia adherence</th>
<th>Assurance</th>
<th>Reliability</th>
<th>Tangibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1 0.819</td>
<td>B2 0.871</td>
<td>C1 0.814</td>
<td>D2 0.807</td>
</tr>
<tr>
<td>A3 0.866</td>
<td>B3 0.902</td>
<td>C3 0.876</td>
<td>D3 0.945</td>
</tr>
<tr>
<td>A5 0.785</td>
<td>B4 0.868</td>
<td>C4 0.755</td>
<td></td>
</tr>
<tr>
<td>A6 0.812</td>
<td></td>
<td></td>
<td>Empathy</td>
</tr>
<tr>
<td>A8 0.837</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service system</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>G2 0.807</td>
<td>H1 0.771</td>
</tr>
<tr>
<td>G3 0.724</td>
<td>H2 0.851</td>
</tr>
<tr>
<td>F1 0.780</td>
<td>G4 0.798</td>
</tr>
<tr>
<td>F2 0.860</td>
<td>G5 0.721</td>
</tr>
<tr>
<td>F4 0.836</td>
<td>G7 0.728</td>
</tr>
<tr>
<td>F6 0.770</td>
<td>H6 0.745</td>
</tr>
</tbody>
</table>

Table 3. The results of the average variance extracted test (AVE)

<table>
<thead>
<tr>
<th>Variables</th>
<th>AVE</th>
<th>AVE root</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>0.679</td>
<td>0.824</td>
</tr>
<tr>
<td>Customer happiness</td>
<td>0.775</td>
<td>0.880</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.667</td>
<td>0.817</td>
</tr>
<tr>
<td>Empathy</td>
<td>0.772</td>
<td>0.879</td>
</tr>
<tr>
<td>Sharia adherence</td>
<td>0.746</td>
<td>0.864</td>
</tr>
<tr>
<td>Service system</td>
<td>0.675</td>
<td>0.822</td>
</tr>
<tr>
<td>Assurance</td>
<td>0.573</td>
<td>0.757</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>0.626</td>
<td>0.791</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.665</td>
<td>0.815</td>
</tr>
</tbody>
</table>

Table 4. The results of the composite reliability test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Composite reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td>0.914</td>
</tr>
<tr>
<td>Customer happiness</td>
<td>0.912</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.857</td>
</tr>
<tr>
<td>Empathy</td>
<td>0.870</td>
</tr>
<tr>
<td>Sharia adherence</td>
<td>0.898</td>
</tr>
<tr>
<td>Service system</td>
<td>0.912</td>
</tr>
<tr>
<td>Assurance</td>
<td>0.870</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>0.870</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.908</td>
</tr>
</tbody>
</table>

Table 5. Significance value of structural model via bootstrap 250

<table>
<thead>
<tr>
<th></th>
<th>Original sample estimate</th>
<th>Mean of subsamples</th>
<th>Standard deviation</th>
<th>T-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adherence &gt; Customer satisfaction</td>
<td>0.180</td>
<td>0.191</td>
<td>0.094</td>
<td>1.916</td>
</tr>
<tr>
<td>Assurance &gt; Customer satisfaction</td>
<td>0.042</td>
<td>0.059</td>
<td>0.107</td>
<td>0.392</td>
</tr>
<tr>
<td>Reliability &gt; Customer satisfaction</td>
<td>0.031</td>
<td>0.051</td>
<td>0.099</td>
<td>0.313</td>
</tr>
<tr>
<td>Tangibility &gt; Customer satisfaction</td>
<td>0.105</td>
<td>0.009</td>
<td>0.101</td>
<td>1.043</td>
</tr>
<tr>
<td>Empathy &gt; Customer satisfaction</td>
<td>-0.006</td>
<td>-0.001</td>
<td>0.093</td>
<td>0.064</td>
</tr>
<tr>
<td>Responsiveness &gt; Customer satisfaction</td>
<td>0.253</td>
<td>0.240</td>
<td>0.121</td>
<td>2.092</td>
</tr>
<tr>
<td>Service system &gt; Customer satisfaction</td>
<td>0.379</td>
<td>0.369</td>
<td>0.131</td>
<td>2.893</td>
</tr>
<tr>
<td>Customer satisfaction &gt; Customer happiness</td>
<td>0.648</td>
<td>0.647</td>
<td>0.076</td>
<td>8.565</td>
</tr>
</tbody>
</table>
Common forms of the structural equation follow the values presented in Table 5. The results are as follows:

1. Customer satisfaction = 0.180 Adherence + 0.042 Assurance + 0.031 Reliability + 0.105 Tangibility – 0.006 Empathy + 0.253 Responsiveness + 0.379 Service system.

2. Customer happiness = 0.648 Customer satisfaction.

According to Table 5, exogenous latent variables of service system and responsiveness affect the endogenous variable of customer satisfaction, while the latter affects customer happiness. This can be seen from t-stat, which is higher than t-table, that is 1.97 (alpha 0.05 with DF = 430).

The structural model is evaluated using R-square for dependent constructs, Stone-Geisser Q-square test for predictive relevance, and the significance test of structural path parameter coefficients. R² with 0.67, 0.33, and 0.19 indicates that the model is in “good”, “moderate”, and “weak” categories. The evaluation using Q-square is also important to see the model predictive relevance and its parameter estimation. Q-square value > 0 indicates that the model has predictive relevance, while Q-square value ≤ 0 indicates otherwise. Its magnitude covers the range of 0 < Q² < 1, where the closer it is to 1, the higher the model’s parameter estimation. The results of the structural model goodness of fit evaluation (inner model) or R-squared values are presented in Table 6.

**Table 6. R-Square values**

<table>
<thead>
<tr>
<th>Variables</th>
<th>R-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer happiness</td>
<td>0.507</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.420</td>
</tr>
</tbody>
</table>

The results of this study support the opinion of Kotler (2006), Zeithaml et al. (2006) and the study by Parasuraman et al. (1988), which explains that the quality of service must begin with the needs desired by the customer and end with the customer satisfaction. Theoretically and empirically, this has a positive relationship.

6. DISCUSSION

Customer satisfaction with state-owned Syariah Banks in Indonesia significantly contributes to increasing customer retention. This significant increase has resulted in an increase in transactions and the number of clients in state-owned Islamic banks in Indonesia. The consistency of these conditions will testify to the good Islamic Banking growth from year to year in Indonesia. For the majority of the Muslim population, these conditions will continue to increase along with increased customer satisfaction with the services received when transacting at BUMN Syariah Banks in Indonesia. These interesting results are explained by the fact that customers who have felt satisfaction with receiving Islamic banking services create happiness. The customers’ final orientation to Islamic banking transactions is happiness, because, in addition to savings, customers can also worship with the concept of zakat, infaq and sodaqoh from Islamic banking products.
CONCLUSION

Only two of the seven dimensions of service quality have a significant impact on customers’ satisfaction. They are service system and responsiveness, which are 37.9% and 25.3%, respectively. This means that the remaining 36.8% could be ascribed to other variables not included in the model. Customers’ happiness is significantly affected by customers’ satisfaction (64.8%). This means that the remaining 35.2% is the effect from other variables.

State-owned Sharia banks should take better account of service quality, especially their adherence to sharia principles, assurance, reliability, tangibility, and empathy dimensions. These may include consideration to increase the number of branches, ATMs, customer services/tellers and emphasize hospitality in order to increase customers’ satisfaction and, in turn, happiness.

The Government policy on Sharia banking should boost further growth. It can be a continuous campaign to save on Sharia banking with its comparative advantages. Fining sanctions should be removed or replaced by related but more Sharia-oriented practices.

ACKNOWLEDGMENTS

The researchers greatly appreciate the contribution of Indonesia’s Ministry of Research, Technology and Higher Education to the completion of this paper. The authors are also grateful to all parties for providing the necessary data.

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