The Role of Customer Satisfaction Mediates the Quality of Islamic Services in Increasing Customer Retention of State-Owned Islamic Banks in Indonesia

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Abstract: The results of intensive socialization by regulators over the past few years. Like a fruit that starts ripe, enthusiasm from the community is ready to be picked by Islamic banks who are observant and alert in seeing market opportunities. The purpose of this research, study can clarify the issue of the quality of service of state-owned Islamic banks in providing satisfaction to customers who are able to increase retention to Islamic customers. This study is also expected to contribute to the development of marketing management disciplines and to managerial practitioners in order to improve the quality of Islamic services, customer satisfaction and retention that is Islamic. The approach taken in this research study uses a quantitative approach (positivism). The data used are primary data from the results of the questionnaire to customers and secondary from information in a state-owned Islamic bank. The SEM-PLS method applied in data processing is expected to be able to provide the expected information. In this study, the data sources were taken from 3 three different banks, namely: BRI Syariah Bank, BNI Syariah Bank and Mandiri Syariah Bank. The findings of this research study can be explained as follows: of the seven dimensions of service quality that have a significant influence on customer satisfaction are the dimensions of the Islamic Service System, the Responsibility dimension and the rest are influenced by other variables not contained in this research model. Customer retention is significantly influenced by customer satisfaction while the rest is influenced by other variables that need to be further identified.

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INTRODUCTION

Islamic finance has existed, since, 40 years ago, the subject of Islamic banking and finance continues to be a subject of discussion as an economic and financial discourse in the world. Allegations that Islamic banking and finance are merely replications of the conventional system in general do not hamper the growth of Islamic

banking. Statesmen and traditional banks see promising business opportunities in Islamic banking and finance[1]. Islamic banks are philosophically banks whose activities leave behind issues related to ribawi[2-4] such as the one explained in the Qur'an Surah Al Baqarah Verse 275.

Ashraf *et al*.[5], Hassan and Aliyu[6] and Zins and Weill[7] explain practically the weaknesses of interest-based or conventional banking. The weaknesses are: interest-based transactions violate fairness or fairness in business. The inflexibility of the interest-based transaction system causes bankruptcy. The bank's commitment to the security of depositor's money along with the interest makes the bank anxious to return the principal and interest. The interest-based transaction system prevents the emergence of innovation by small businesses. In the interest system, banks will not be interested in business partnerships unless there is a guaranteed guarantee of their return on capital and interest income.

The excellence of the Islamic banking system is the principle of profit sharing that is able to provide alternative solutions that are mutually beneficial to the community and banks[8]. Theoretically and empirically, efforts are needed that lead to economic prosperity and policies such as economic stability, financial inclusion, economic development and stabilization policies[9-11]. In addition, Islamic banking prioritizes aspects of fairness in transactions, ethical investment, promoting the values of togetherness and brotherhood in production and avoiding speculative activities in financial transactions (gharar)[12]. The prohibition of gharar is implied indirectly in verses that forbid eating other people's property in a vanity manner. This is like that in His word in Surat Al-Baqarah Verse 188. Sharia banking is an alternative banking system that is credible and can be enjoyed by all classes of Indonesian society without exception. By providing a variety of banking products and services with a variety of financial schemes that are more varied.

In this research, the researcher limits the problem to the field research conducted at the State Islamic Bank of Indonesia, especially in the City of Pasuruan, East Java. To that end, this research focuses on the marketing management research area that is packaged in the title "The Role of Islamic Service Quality in Improving the Retention of State-Owned Sharia Bank Customers mediated by Customer Satisfaction". Hopefully, the results of this study can clarify the issue of the quality of service of state-owned Islamic banks in providing satisfaction to customers who are able to increase retention to Islamic customers. This study is also expected to contribute to the development of marketing management disciplines and to managerial practitioners in order to improve the quality of Islamic banking services (iBSQ), customer satisfaction and customer retention in an Islamic way.

Literature review

Service quality in banking: In banking industry, Bahia and Nantel[13] develops a more specific scale in measuring (Bank Service Quality perception, that is BSQ model[14-17]. Islamic banking needs to take account of cultural diversity when adopting SQ and to consider a new model to measure SQ so-called CARTER. Consumers make SQ evaluations on two levels, those are organizational and transactional[18]. Research to refine dimensions of SQ with other additional dimensions (values and image) leads to operational dimensions: personal skill, reliability, values and image. Some research on differences and similarities between states emphasizes that BSQ should be included in service quality dimensions[19, 20].

Service quality in sharia banking: Islamic Banking or iB for short signifies sharia banking identity in Indonesia which is legally formalized, since, July 2, 2007. Its symbol reflects modern sharia banking values that accommodate 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 *et al*.[21], Bahia and Nantel[13] and Glaveli *et al*.[22]. iBSQ reflects sharia banking service quality and image in Indonesia[23].

Islam as religion measures human life quality in comprehensive and universal manners in terms of their relation to God (Hablumminallah) and to other human beings (Hablumminannas). Three pillars of Islamic teachings include:

Aqidah: It emphasizes on strong faith to omni-power of God in a such way that guide their way of life. If it is vehemently kept, it would mold world-view and way of thinking.

Syariah: It concern with Islamic rules and teachings that determine individual relationship to God (habluminallah) and to other individuals (hablumminannas) arising from Aqidah.

Akhlak: It is reflection of strong faith (aqidah) and strict adherence to Islamic teachings (syariah) that affects

attitude 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 life to God's love embrace.

Customer satisfaction: Rambat, quoting Kotler and Keller[24], describes satisfaction as: "the extent of feeling resulting from comparison between actual product or service performance and its expected performance. According to Webster's dictionary as quoted by Lupiyoadi, consumeris: "An individual who several times visits the same place to purchase a product". It suggests that one's frequent visitation to a certain place is driven 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[25]:" is a consumer' response resulting from perceived evaluation on the disparity between earlier expected performance and actual performance".

Customer retention: The strength of the relationship between constructions shows that the effect of customer value perceived by Muslims as suggested is crucial to achieving Muslim customer retention[26]. To ensure loyalty among bank customers, increasing added value in banking services and broad relationships with customers can make the transition process more complicated[27]. An Islamic bank now faces not only competition from similar Islamic banks but also from conventional prohibitions which offer Islamic banking products through their Islamic subsidiaries. When the competition gets tougher, customers are given more choices to choose their bank and switch from their current bank to other Islamic banks. Customer religion, type of account and whether they have or not in conventional banks are important factors to influence their switching behavior when they find non-sharia products and practices in Islamic banks[23]. Whereas what is meant by a loyal or loyal customer is someone who repurchases from the same company, notifies other potential customers by word of mouth and is an antidote to attacks from competitors, so that, it can be said that the success of a company is largely determined by customer retention.

Customer retention is the ability to influence customers to stay together (transact) with the company. According to Kotler and Keller[24], three things that show customer retention affect profits are:

- Maintaining existing relationships between companies and customers is more profitable. It costs 10 times more to find new customers

- Repeating transactions with existing customers on a cheaper basis. Companies don't really need to offer special discounts or bonuses to deal with existing customers

Companies have the opportunity to maximize the potential value of existing customers to the company. Some companies call customer development developing services or products for customers based on customer needs.

MATERIALS AND METHODS

Structural Equation Modeling (SEM): To answer research problems, the research applies SEM analysis method with partial least square. The analysis steps in the research covers estimating model parameters, analyzing model structure by means of SEM-PLS. Analysis steps are as follows:

- First step: conceptualizing model that involves designing outer model and inner models
- Second step: constructing path diagram
- Third step: conserving path diagram into equation system
- Fourth step: estimating model parameters including path, loading and weight
- Fifth step: evaluating outer and inner model
- Sixth step: testing hypotheses (re-sampling bootstrap)
- Seventh step: interpreting the results of SEM-PLS analysis

Qualitative information: The research accommodates both quantitative analysis and qualitative information. Quantitative analysis is concerned with examination of data while qualitative information deals with exploration on state-owned shariah bank's commitment in service quality and to what extent, especially in Pasuruan city by means of in-depth interview.

RESULTS AND DISCUSSION

Theoretical model built in the first step will be depicted in path diagram. The diagram would make causality relationship clear. Based on literature review and theoretical justification, the path diagram of causality relationships between constructs and indicators could be made as presented on Fig. 1.

Conversion of path diagram into equation: 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:
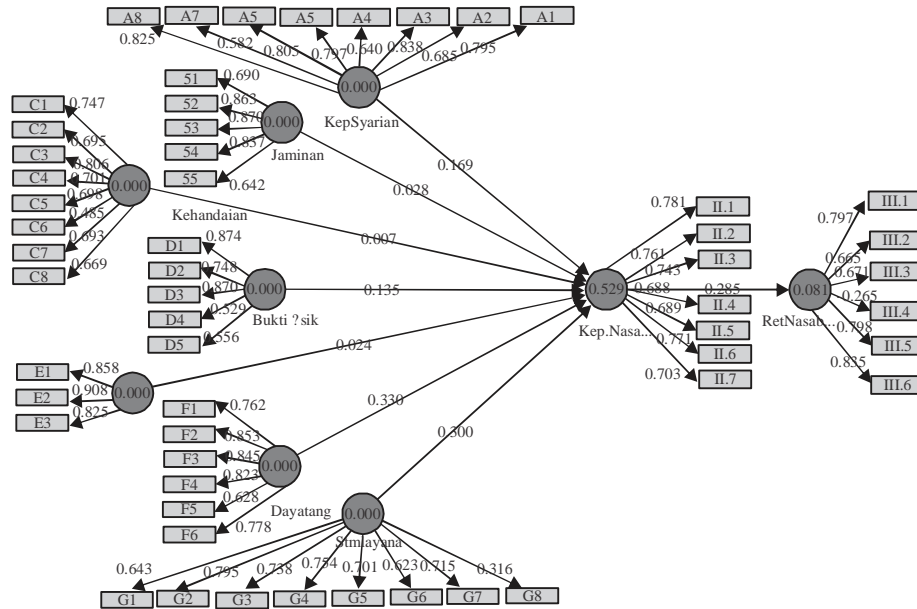
Fig. 1: Path of causality relationship

$$\begin{bmatrix} X_1 \\ X_2 \\ \vdots \\ X_{43} \end{bmatrix} = \begin{bmatrix} X_{1,1} & X_{1,2} & \cdots & X_{1,7} \\ X_{2,1} & \ddots & & X_{2,7} \\ \vdots & & \ddots & \ddots \\ X_{43,1} & X_{43,2} & \cdots & X_{43,7} \end{bmatrix} \begin{bmatrix} \xi_1 \\ \xi_2 \\ \vdots \\ \xi_7 \end{bmatrix} + \begin{bmatrix} \delta_1 \\ \delta_2 \\ \vdots \\ \delta_{43} \end{bmatrix}$$

Structural Model specification equation:

$$\eta_1 = \gamma_{11}\xi_1 + \gamma_{12}\xi_2 + \gamma_{13}\xi_3 + \gamma_{14}\xi_4 + \gamma_{15}\xi_5 + \gamma_{16}\xi_6 + \gamma_{17}\xi_7 + \zeta_1$$
$$\eta_2 = \beta_{11}\eta_1 + \zeta_2$$
$$\eta_3 = \beta_{11}\eta_1 + \beta_{12}\eta_2 + \zeta_3$$

Evaluation of goodness of fit criterion for measurement model: The results of convergent validity, discriminant validity and composite reliability are as follows:

Convergent validity: Every indicator in the model must fulfill convergent validity that requires over 0.7 loading factor. If it is fulfilled, evaluation can be proceeded. If otherwise is the case, the indicator with 0,7 lower than value should be removed. The step should be started over until all existing indicators with loading factors >0.7 remain.

Table 1 shows that all 21 indicators of every construct have 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. Validity retest would be conducted 566 respondents and which results are represented on Table 2.

Discriminant validity: Discriminant validity evaluation is made by comparing square root value of Average Variance Extracted (AVE) of every construct to correlation between constructs in the model. Table 2 reveals that AVE root value is >0.5 and AVE root value is over correlation between constructs indicating that all construct are within good (valid) category.

Composite reliability: Composite reliability is a reliability test in PLS which shows the accuracy, consistency of the accuracy of a measuring instrument in making measurements aimed at testing the reliability of latent or construct variables. A latent variable is declared reliable if its composite reliability value is above 0.70. Based on Table 3, it can be seen that the composite reliability value of each variable>0.7 can thus be concluded that all variables have good reliability.

The general form of structural equation can be seen based on Table 4. It is known that there are three equations, namely as follows:

Customer satisfaction = 0.163 compliance+0.028 guarantee+0.008 reliability+0.141 physical proof+0.016 empathy+0.317 responsiveness+0.320 service system. Customer retention = 0.284 customer satisfaction.

Based on Table 4, it is known that the exogenous latent variables that influence the endogenous latent variables of customer satisfaction are sharia compliance variables, physical evidence, responsiveness and service systems while the exogenous latent variables that affect endogenous latent variables customer retention is the

Table 1: The results of first convergent validity test

Shariah compliance		Assurance		Reliability		Tangible	
1	2	1	2	1	2	1	2
A1	0.796	B1	0.589	C1	0.747	D1	0.367
A2	0.685	B2	0.862	C2	0.595	D2	0.745
A3	0.838	B3	0.871	C3	0.807	D3	0.870
A4	0.639	B4	0.837	C4	0.702	D4	0.534
A5	0.797	B5	0.642	C5	0.697	D5	0.153
A6	0.805	Responsiveness		C6	0.488	Service system	
A7	0.582			C7	0.691		
A8	0.826	F1	0.763	C8	0.669	G1	0.644
Empathy		F2	0.853	Satisfaction		G2	0.795
		F3	0.846			G3	0.737
E1	0.859	F4	0.823	H1	0.702	G4	0.755
E2	0.908	F5	0.626	H2	0.766	G5	0.702
E3	0.825	F6	0.777	H3	0.750	G6	0.523
Retention				H4	0.667	G7	0.714
				H5	0.669	G8	0.313
J1	0.784	J4	-0.273	H6	0.783		
J2	0.643	J5	0.821	H7	0.718		
J3	0.650	J6	0.849				

Table 2: The results of Average Variance Extracted Test (AVE)

Variables	AVE	AVE root
Shariah compliance	0.565	0.752
Assurance	0.592	0.769
Responsiveness	0.617	0.785
Tangible	0.532	0.729
Empathy	0.747	0.864
Reliability	0.500	0.707
Service system	0.538	0.733
Customer satisfaction	0.523	0.723
Customer retention	0.579	0.761

Table 3: The results of composite reliability test

Variables	Composite reliability
Shariah compliance	0.911
Assurance	0.876
Responsiveness	0.905
Tangible	0.767
Empathy	0.898
Reliability	0.874
Service system	0.875
Customer satisfaction	0.884
Customer retention	0.872

Table 4: Significance value of structural model by means of bootstrap 250

Variables	Original sample estimate	Mean of sub samples	SD	t-statistic
Shariah Compliance> Customer satisfaction	0.163	0.168	0.053	3.104
Assurance>Customer satisfaction	0.028	0.055	0.070	0.397
Reliability>Customer satisfaction	0.008	0.017	0.066	0.119
Tangible>Customer satisfaction	0.141	0.134	0.062	2.261
Empaty>Customer satisfaction	0.016	0.013	0.056	0.282
Responsiveness>Customer satisfaction	0.317	0.307	0.072	4.385
Service System>Customer satisfaction	0.320	0.306	0.089	3.573
Customer Satisfaction> Customer retention	0.284	0.273	0.060	4.700

Table 5: R^2 values

Variables	R^2
Customer satisfaction	0.530
Customer retention	0.080

latent variable of customer satisfaction. This can be shown by the t-statistic value greater than t-table that is equal to 1.97 ($\alpha = 0.05$ with df = 430).

Evaluation of structural model's goodness of fit: Structural model is evaluated by means of R^2 for dependent constructs, Stone-Geisser Q^2 test for predistive relevance and significance test of structural path parameter coefficients. R^2 with 0.53 and 0.08 results that the model is within "good", "moderate" and "weak" categories. Evaluation by means of Q^2 is also important to see the model's predictive relevance and it's parameter estimation. $Q^2 > 0$ indicates that the model has predictive relevance while $Q^2 = 0$ indicates otherwise. Its magnitude covers range of $0 < Q^2 < 1$ where the closer it is to 1 the

higher the model's parameter estimation. The results of structural model's goodness of fit evaluation (inner model) or R^2 values are presented on Table 5.

The purpose of the evaluation is to find out the effect strength of exogenous variables on endogenous variable in the model. The resulting R^2 in the study is 0,530 or 53% for consumer satisfaction. It reveals that consumer satisfaction is affected by Sharia compliance, assurance, reliability, tangibility, empathy, responsiveness and service system as much as 53% and the remaining 47% is affected by other variables outside the model. R^2 of consumer happiness is 0.080 or 8%. It means that the influence of consumer satisfaction on customer retention

is 8% and remaining 92% is the influence of other variables outside the model. Q^2 predictive relevance value is also applicable for the same purpose. The calculation is as follows:

- $Q^2 = 1- (1-(R^2))$
- Q^2 customer satisfaction = 1-(0.5302) = 0.7191
- Q^2 customer retention = 1-(0.0802) = 0.9936

CONCLUSION

Based on the results and discussion described above, several conclusions can be drawn including: of the seven dimensions of service quality that have a significant influence on customer satisfaction are the sharia compliance dimension of 16.3%, the physical evidence dimension of 14.1%, the responsiveness dimension of 31.7.3% and the service system dimension of 32.0% and 5.9. The remaining% is influenced by other variables not included in the model. Customer retention is significantly affected by customer satisfaction by 28.4% while the remaining 71.6% is influenced by other variables.

RECOMMENDATIONS

Based on results of surveys in the field and of data analysis, researchers put forward some recommendations: State-owned Sharia Banks should further improve service quality, especially on the dimensions of guarantee, reliability and empathy, namely the number of customer service/tellers and employee friendliness so as to increase customer satisfaction resulting in increased customer retention. Government policy support for the growth of Islamic banking. By continuing to educate about the importance of saving on sharia banking with various benefits to be gained by prospective sharia banking customers. Eliminating fines in credit transactions granted by State-owned Islamic banks. It would be more interesting if you replace the term fine with other terms that are more sharia in the eyes of the customer.

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