

Loyalty towards Islamic Microfinances Industry: The Role of Religiosity, Image, and Trust

Fertika Puspita Dewi¹

¹Post Graduate Program of Islamic Finance and Banking, Politeknik Negeri Bandung, Bandung, Indonesia

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Abstract: Developing and generating customer loyalty is very important to give a positive impact on business results such as deposit amount, operating and marketing costs, rate customer retention and income. By having customers who are loyal to the product or organization, a business organization will be able to improve its business performance. Therefore, understanding the way to build customer loyalty is very important for every organization. In other words, loyalty is an important key for developing sustainable competitive advantage. However, the literature shows a lack of attention in assessing loyalty in the context of Islamic microfinance institutions (sharia cooperatives/BMTs). This study attempts to examine customer loyalty of Islamic microfinance institutions (sharia cooperatives/BMTs) through three important determinants, religiosity, image, and trust. This study used a field survey based on self-managed questionnaires with 300 respondents in total. The samplings were taken from some major cities in West Java Province, Indonesia, as representatives. The sample data were analyzed statistically through path analysis with the Partial Least Square Structural Equation Model (PLS-SEM) to determine perceptions of religiosity, image, trust, and loyalty. The results of this study indicate that Trust and Image have a positive effect on loyalty, but Religiosity does not. This finding shows that even though a person's religiosity is considered good, it does not make the customer loyal to sharia cooperatives/BMTs. Customers will be more loyal if sharia cooperatives/BMTs can provide good image and trust, that will generate customer's desire to be loyal. However, Religiosity has an influence on Trust and Image, so it is still important to increase Religiosity so that it can indirectly increase Loyalty.

1 INTRODUCTION

Islamic banking is a dynamic segment in the banking industry (Abou-Youssef et al., 2015). The market segment of Islamic bank from the side of depositors and debtors (clients) is dominated by private entrepreneurs as well as micro, small and medium enterprises (MSMEs) (Wahyudi et al., 2013). MSMEs dominate 97.22% of the total businesses and absorb 90.98% of the total workforce (Keuangan, 2012).

Islamic banks in Indonesia are expected to be an extension of the government in credit programs aimed at MSMEs, such as small business loans (KUK), farm business loans (KUT), and community credit businesses (KUR), so that the potential of micro, small and medium enterprises can be spread evenly (Indonesia, 2009). Through its policy, Bank Indonesia decides that Islamic bank financing for MSMEs can be carried out directly or through partners (or with related programs) with other financial institutions such as Sharia cooperatives or Baitul Maal Wa Tamwil

(BMTs) (Indonesia, 2009).

BMT is an Islamic microfinance institution (LKMS) that grows from the community and develops very rapidly (Sapudin et al., 2018). BMT has a very strategic role in empowering society, especially those from lower classes and its role in alienating the community from usury practices (Sapudin et al., 2018).

Every business depends on customers as its main source of income (Khattak, 2010). Developing and generating customer loyalty is very important because it can give a positive impact on business results such as the amount of deposits, operating and marketing costs, retention of customers and income (Bakar et al., 2017). By having customers who are loyal to the product or organization, a business organization will be able to improve its business performance (Suhartanto and Suhaeni, 2014). Loyal customers tend not to look for additional information from alternative products or services, thereby reducing the possibility of them moving to other service providers (Gounaris and

Stathakopoulos, 2004). Due to this reason, understanding the way to build customer loyalty is very important. Customer loyalty is very crucial in conducting business in today's competitive market, including Islamic banks and sharia cooperatives/BMTs (Ehigie, 2006). In other words, loyalty is important key for developing sustainable competitive advantage (Li and Petrick, 2010). It can be said that the key to the success of achieving marketing theory is identifying customer loyalty (Hennig-Thurau et al., 2002). Religiosity, trust, and image are the keys to achieve it.

This study tries to examine customer loyalty through those three important determinants: religiosity, trust, and image. More specifically, this study is aimed at assessing direct effect of religiosity on customer loyalty and evaluating the mediating effect of trust and image on the relationship between religiosity and customer loyalty in Islamic microfinance institutions (sharia cooperatives/BMTs) in West Java, Indonesia.

2 LITERATURE REVIEW

In Indonesia, the one that can carry out the role as Islamic microfinance institution is the Islamic Financial Services Cooperative (KJKS) and Baitul Mal Wat Tamwil (BMT) which are regulated in the 1945 Constitution of the Republic of Indonesia (articles 27 and 33) and Law no. 17/2012 concerning cooperatives. Sharia Savings and Loan Cooperatives or Islamic Financial Services Cooperatives (KJKS) are kinds of cooperatives whose business activities are engaged in financing, investment, and savings according to the profit sharing pattern (sharia). Beside being based on KJKS which is fully operating in sharia, conventional cooperatives can also open Sharia Financial Services Units (UJKS) (KUKM, 2004). Aside from being an institution that collects and distributes funds in the form of investment, also as Baitul Maal (house of wealth), which also collects and distributes funds from zakat, infaq and shadaqah, and as Baitul Tamwil (financing house) which basically offers financial intermediation by managing funding and savings, so that it can be said as a social and business entity (Wulandari and Kassim, 2016).

Customer loyalty is very important in conducting business in today's competitive market, including in Islamic banks and sharia cooperatives/BMTs. (Ehigie, 2006). Customer loyalty is seen in various ways, such as their possibility in returning to the bank for services, their committed relationships, their recommendation to others, and their positive saying about the bank (Choudhury, 2014). Therefore, it can

be said that the key to the success of achieving marketing theory is identifying customer loyalty (Hennig-Thurau et al., 2002).

Religiosity, trust, and image are the keys to loyalty. Religiosity refers to a structured order of beliefs, symbols, and practices to enable an individual to feel close to God and as a guide to his personal relationships with others (Souiden and Rani, 2015). The concept of religion has been treated by many as a construction that affects individual lifestyle, and identity (Glock, 1972). Strengthening this view, Tang and Li (2015) claims that maintaining one's religious identity will affect his behaviour. If customer feels that the services of Islamic banks are in line with Sharia or Islamic values, the attitude he gives will benefit the Islamic banks themselves. A support for this assumption is found in an empirical study which sees the relation between religiosity and loyalty in the Chinese market. The research shows that there is a positive relationship between variables in various products (Tang and Li, 2015).

A high level of trust is a buffer against negative experiences that can arise to customers. Customers tend to "forgive" negative experiences and consider them an exception if they trust the bank. However, with a low level of trust, negative experiences can be considered "proof" that the bank cannot be trusted (van Esterik-Plasmeijer and van Raaij, 2017). Thus, it is a stigma that customers who have deep trust to a bank, tend to continue the relationship and generate loyalty (Mosavi and Ghaedi, 2012).

The image of an Islamic microfinance institution is a reflection of the relationship between all the beliefs, experiences, feelings, impressions, and knowledge that someone has about Islamic microfinance institution (Amin et al., 2013). This explanation shows that religiosity is the core of the Image (Wahyuni and Fitriani, 2017). As a result of satisfying services, favorable image will lead to a positive assessment of services and affect the customer's future behavioral intentions.

I in an academic writing and presents a framework that is poured into the model in figure 1 below:

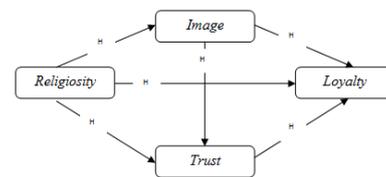


Figure 1: Thinking Framework

Figure 1: Thinking Framework

The hypotheses that can be proposed in this study are:

1. Hypotheses 1 (H1) states that Religiosity (X1) has an effect on Image (X3).
2. Hypotheses 2 (H2) states that Religiosity (X1) has an effect on Trust (X2).
3. Hypotheses 3 (H3) states that Religiosity (X1) has an effect on Loyalty (Y).
4. Hypotheses 4 (H4) states that Image (X3) has an effect on Trust (X2).
5. Hypotheses 5 (H5) states that Image (X3) has an effect on Loyalty (Y).
6. Hypotheses 6 (H6) states that Trust (X2) has an effect on Loyalty (Y).

3 METHODS AND EQUIPMENT

The data used in this study were primary data obtained by giving questionnaires related to the variables used in this study. The samples were chosen by using convenience sampling technique as the easiest way to obtain samples (Anandya and Suprihhadi, 2005). This is due to consideration of the time since the data were only collected within a month. This study requires 300 respondents based on the Zikmund formula, with a margin of error of 5% (Suhartanto, 2014). Therefore, the data were taken from 300 customers of the Sharia cooperatives or BMTs in West Java, Indonesia. Figure 2 below illustrates the description of the respondents' characters.

Variable	Description	Customer
Gender	Male	127
	Female	173
Age	17-25	77
	26-30	51
	31-45	117
	>45	55
Highest education level	<High school	56
	High school	118
	Bachelor/Diploma	119
	Post graduate	7
Length of being customer	< 1 year	104
	1-2 years	77
	> 2 years	119
Job	Entrepreneur	127
	Civil servants	30
	Other	143

Figure 2: Respondent demographic characters.

4 RESULT

Based on the results of testing with WarpPLS 6.0, the calculations of the fit model are as follow (the fit model is to evaluate whether it is appropriate or supported by the following data):

Criteria	Score	P-Value	Terms	Result
APC	0.324	<0.001	<0.05	Significant
ARS	0.362	<0.001	<0.05	Significant
AVIF	1.358	-	<5	No Multicollinearity

Figure 3: Fit Model Analysis.

The output results show APC of 0.324, ARS of 0.362, and the criteria for goodness of fit models have been fulfilled, which is significant (p value fulfills the requirements <0.05). The AVIF value of 1,358 has also fulfilled the criteria, less than 5, which indicates that there is no multicollinearity in the model. The standard loading factor illustrates the magnitude of the correlation between each indicator and its construct. The value of the loading factor is said to be ideal if it is >0.70, but in the empirical experience of the study, the value of the loading factor >0.50 is still acceptable (Haryono, 2017). The other conditions to be considered are the Cronbach's alpha value >0.70, the Composite Reliability value >0.70, and the AVE value >0.50 (Widarjono, 2015).

Construction item	Loading Factor	Composite Reliability	Cronbach's alpha	AVE
Religiosity				
(X1.1) Always obeying the orders and staying away from all prohibitions in Islam	0.725	0.908	0.882	0.556
(X1.2) Never leaving the 3 times prayer	0.782			
(X1.3) Understanding the subject matter of Islam	0.799			
(X1.4) Islam affects all decisions taken	0.732			
(X1.5) Making Islam as the basis of all steps in life	0.812			
(X1.6) Helping those in need	0.802			
(X1.7) Improving faith	0.758			
(X1.8) Feeling comfortable spending time with Muslim friend	0.508			
Trust				
(X2.1) Giving personal information to Sharia cooperatives or BMTs	0.865	0.884	0.924	0.638
(X2.2) Trusting Sharia cooperatives or BMTs	0.863			
(X2.3) Sharia Cooperatives or BMTs always commit to promises	0.736			
(X2.4) Giving review/advice to Sharia cooperative or BMTs	0.786			
Image				
(X3.1) Sharia cooperatives or BMTs are able to fulfill the promises given to their customers	0.631	0.902	0.865	0.648
(X3.2) Sharia cooperatives or BMTs have been known by various groups of people	1.032			
(X3.3) Sharia cooperatives or BMTs have a good reputation	0.817			
(X3.4) Sharia cooperatives or BMTs have a better image than conventional cooperatives	0.869			
(X3.5) Sharia cooperatives or BMTs have a large contribution to the wider community	0.463			
Loyalty				
(Y.1) Informing the good reputation of Sharia cooperatives or BMTs to others	0.857	0.926	0.892	0.759
(Y.2) Recommending to others	0.887			
(Y.3) Giving permanent commitment to Sharia cooperatives or BMTs	0.899			
(Y.4) Understanding reasonable "mistake"	0.849			

Figure 4: Reliability and Validity Check.

Based on the results of Figure 4, it can be seen that Religiosity, Trust, Image, and Loyalty of Sharia cooperatives or BMTs have met the requirements. The indicators are valid. Thus, it can be said that Sharia cooperatives or BMTs have already had good reliability.

The results show that the Average R-squared (ARS) value is 0.362 with P <0.001. Average block VIF (AVIF) value is 1.358 which means accepted because it is <5 (ideally <3.3). Furthermore, the Average full collinearity VIF (AFVIF) value is 1,861,

it is accepted because it is <5 (ideally <3.3). The value of Goodness of Fit (GoF) is 0.487. It means that the compatibility of the model is large. Likewise, the values of Sympon's paradox ratio (SPR), R-squared contribution ratio (RSCR), statistical suppression ratio (SSR), and nonlinear bivariate causality direction ratio (NLBCDR) are each worth 1.000 and meet the model fit test compliance requirements. In accordance with the indicators which must be fulfilled in WarpPLs, Religiosity and Image variables can predict 14% (R2 = 0.14) Religiosity, Trust variable can predict 38% (R2 = 0.38) Religiosity, Loyalty can explain 57% (R2 = 0.57) Loyalty.

The complete results of assessment toward the hypotheses can be seen in Figure 5 and Figure 6 below:

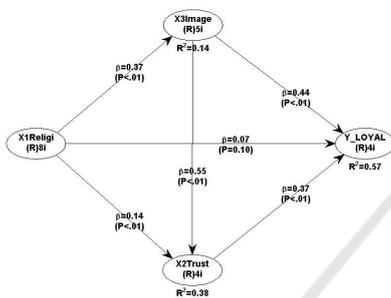


Figure 5: Result of Testing Model

Path	Path Coef.	P-Value	Terms	Result
Religiosity (X1) => Image (X3)	0.37	<0.01	<0.05	Significant
Religiosity (X1) => Trust (X2)	0.14	<0.01	<0.05	Significant
Religiosity (X1) => Loyalty (Y)	0.07	0.10	<0.05	No Significant
Image (X3) => Trust (X2)	0.55	<0.01	<0.05	Significant
Image (X3) => Loyalty (Y)	0.44	<0.01	<0.05	Significant
Trust (X2) => Loyalty (Y)	0.37	<0.01	<0.05	Significant

Figure 6: The Resume of the Direct Effect Hypothesis Test.

The validation In accordance with Figure 6 and Figure 5, the results of testing the hypotheses of direct relationship between variables can be seen as follows:

- Hypotheses 1 (H1) states that Religiosity (X1) has an effect on Image (X3). The test result shows path coefficients of 0.37 (p <0.01). It means that H1 is accepted or in other words Religiosity (X1) has a significant positive effect on Image (X3).
- Hypotheses 2 (H2) states that Religiosity (X1) has an effect on Trust (X2). The test result shows path coefficients of 0.14 (p <0.01). It means that H2 is accepted or in other words Religiosity (X1) has a significant positive effect on Trust (X2).
- Hypotheses 3 (H3) states that Religiosity (X1) has an effect on Loyalty (Y). The test result shows path coefficients of 0.07 (p =0.10). It means that H3 is not accepted or in other words Religiosity (X1) has no effect on Loyalty (Y).
- Hypotheses 4 (H4) states that Image (X3) has an effect on Trust (X2). The test result shows path

coefficients of 0.55 (p <0.01). It means that H4 is accepted or in other words Image (X3) has a significant positive effect on Trust (X2).

- Hypotheses 5 (H5) states that Image (X3) has an effect on Loyalty (Y). The test result shows path coefficients of 0.44 (p <0.01). It means that H5 is accepted or in other words Image (X3) has a significant positive effect on Loyalty (Y).

- Hypotheses 6 (H6) states that Trust (X2) has an effect on Loyalty (Y). The test result shows path coefficients of 0.37 (p <0.01). It means that H6 is accepted or in other words Trust (X2) has a significant positive effect on Loyalty (Y).

Based on the condition that must be fulfilled in PLS-SEM analysis using the WarpPLS analysis tool, it can be concluded:

The results show that Religiosity has a positive and significant effect on direct Image with coefficient of 0.37 and significance of <0.01. Religiosity has value with coefficient of 0.14 and significance of <0.01 toward trust, which means that Religiosity has a positive and significant effect on Trust. It shows that Sharia cooperatives/BMTs customers feel Religiosity can reflect good image and build trust for sharia cooperatives/BMTs. Whereas, Loyalty has coefficient of 0.07 with significance = 0.10 toward Religiosity, which means that there is no significant relationship between these two. Furthermore, the Image variables have a positive and significant effect on the Trust with coefficient of 0.55 and a significance <0.01, Image also have a positive and significant effect on Loyalty with the coefficient is 0.44 and a significance <0.01. Meanwhile, Trust has a positive and significant effect on Loyalty of 0.37 and significance <0.01. These results show that sharia cooperatives/BMTs customers feel that a good image can create trust and loyalty, so that good image and trust must be maintained, and improved because they have the potential to create a desire for customers to maintain their loyalty to the institutions.

The literature has clearly identified that religiosity, image, and trust are determinants of customer loyalty (Amin et al., 2013)(Hoq et al., 2010).However, there are a lack of studies that examine the direct effect of religiosity toward loyalty and its indirect effect toward image and trust. Therefore, it can be said that the results of this study offer a plausible explanation on those problem if they are seen from the practice of Islamic Microfinances.

This study also shows that religiosity is an important determinant of trust, image, and loyalty. This finding suggests that as customers increasingly commit to their religion (in this case Islam), they tend to have an increasingly positive image, develop trust,

and become more loyal towards the Islamic microfinances. This study supports the previous studies on the positive relation between religiosity and image as well as trust (Amin et al., 2013)(Hoq et al., 2010) and the effect of religiosity on loyalty (Wahyuni and Fitriani, 2017) in various products and services. However, the result of the mediation test suggests that the effect of religiosity on loyalty is neither simple nor direct. For Islamic microfinance customers, in addition to not affecting directly on loyalty, religiosity affects loyalty through strengthening trust towards the Islamic microfinance as a financial institution. Further, from the theoretical perspective, this study extends the knowledge on the relationship between religiosity and customer loyalty in Islamic microfinances by integrating image and trust as mediation factors.

5 CONCLUSION, LIMITATION AND FUTURE RESEARCH

In general, the results of this study indicate that Trust and Image increase Loyalty, but Religiosity does not. The findings show that even-though a person's religiosity is considered good, it does not make the customer loyal to the sharia cooperatives/BMTs. Customers will be more loyal if the institutions can maintain good image and build trust. However, Religiosity has an influence on Trust and Image, so it is important to increase Religiosity so that it can indirectly increase Loyalty. Therefore, sharia cooperatives/BMTs must be able to improve their performance to create good image of sharia cooperatives/BMTs and maintain customers' trust. It will create a good impression and increase customer loyalty to remain permanent because the main competitors of sharia cooperatives/BMTs are not only from the conventional side but also from fellow Islamic banking industries.

From managerial perspective, this study gives important impact. Convincing customers that the Islamic Microfinance is fully compliant with Islamic principles (Sharia) will prevent the customers switching to another Islamic microfinance. This study implies that Islamic values are the platform for managing the customers of Islamic banks. This platform subsequently forms an operational system and procedures that enable the bank to create loyalty amongst current customers. The Islamic Microfinance can establish a Sharia Advisory Council to observe and guarantee that the activities and operations are in accordance with Sharia. Establishing this council is important to enhance customer trust towards the Islamic microfinance. Further, a communication strategy focusing on the compatibility of Islamic Micro-

finance with Sharia values could convince the customers on the suitability of Islamic microfinance services to meet their banking and religious needs.

The results of the study are not enough to represent Indonesia in general because all samples were from West Java Province, which were taken from some representative cities, such as Bandung, West Bandung Regency, Bandung Regency, Cimahi, Subang Regency, Bekasi, Bekasi Regency, Depok, Bogor, and Bogor Regency. In fact, there are previous studies which also take Islamic banks as the object of the researches that result differently. To obtain a better and more representative result of the model, future research can test the relationship between the variables in other locations/countries. Therefore, in the future, it is very recommended to conduct research using quota sampling techniques to obtain adequate samples that represent customer perceptions of Islamic cooperatives/BMTs in several regions in Indonesia to obtain more comprehensive results.

Moreover, the focus of this research is attributed to the role of religiosity in influencing trust, image, and loyalty towards Islamic banks. There are many other variables influencing customer loyalty, such as quality, satisfaction, and value. To obtain a comprehensive model of loyalty, future studies can include these variables in the model. Including these additional variables can shed further light on consumer loyalty towards Islamic bank services. Lastly, the extended loyalty model could also be tested in other Islamic products and services (e.g., Islamic insurance, halal food etc.).

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