The Role of Customer Service and Customer Trust in Enhancing Satisfaction and Loyalty: Case in Islamic Microfinances

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Abstract: The purpose of this study is to measure the relationship between variables of Service Quality, Customer Trust, Satisfaction, and Loyalty among costumers of Islamic cooperatives/Baitul Maal Wa Tamwil (BMTs) in Indonesia. This study uses a field survey which is based on self-administered questionnaires. The data were taken from 300 respondents in West Java Province with several major cities as the representatives. The sample data were analyzed statistically through path analysis by using Partial Least Square Structural Equation Model (PLS-SEM) to determine the perception of Service Quality, Customer Trust, Satisfaction, and Customer Loyalty. This study found that Service Quality has a positive effect on Satisfaction (measured through Reliability, Empathy, and Responsiveness). It, then, becomes an important determinant of Satisfaction. Satisfaction later also has a significant positive effect on Loyalty. Therefore, from the managerial perspective, this study provides guidance for Islamic cooperatives/BMTs managers to build Customer Trust in addition to providing high Service Quality. It must be considered because the emergence of trust in an institution can create customer satisfaction and loyalty toward that institution, in this case Islamic cooperatives/BMTs. This research is expected to have practical implication for Islamic cooperatives/BMTs policy makers to better understand the behavioral intentions of cooperatives/BMTs customers.

1   INTRODUCTION

In order to create an industrial development that is able to compete and has a strong structure, Indonesian government needs to increase the distribution of processing industry development in the country. This distribution results on a strong synergy between small, medium and large industries that acts as a supply chain (bps, 2018). The increase on this industrial distribution can drive the can drive the economy which triggers the country's growth (Hachicha and Amar, 2015).

Inherently, the financial industry has characteristics that can support positively to participatory economic growth. It will naturally direct the financial resources to the real economic and financial sectors that need them the most (Majid and Kassim, 2015). When the financial sectors finally develop better, there will be more financial resources that can be allocated to productive use, so that more physical capital is formed which will lead to economic growth (Tabash and Dhankar, 2014).

Islamic line is also one of the sectors which forms Indonesia's economic growth (Lebdaoui and Wild,

2016), in accordance with the its obligation to implement the function of compiling and distributing public funds (RI, 2008). The Islamic bank market segment is dominated by private entrepreneurs as well as micro, small and medium enterprises (MSMEs) if it seen from the side of depositors and debtors (clients) (Wahyudi et al., 2013). MSMEs dominate 97.22% of the total businesses and absorb 90.98% of the total workforce (Keuangan, 2012).

prolongation 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 relationship programs) with other financial institutions such as Islamic cooperatives or Baitul Maal wa Tamwil (BMTs) (Indonesia, 2009). This becomes an opportunity for Islamic cooperatives or BMTs to grow.

Since the time the legal entity was established, the growth of Islamic cooperatives or BMTs fluctuated

every year. It can be seen from the significant increase occurred in 1997 as 71 units, in 1998 as 115 units, and in 1999 as 162 units. However, in 2000 this number decreased to 31 units and kept going down gradually until 2005. The number increased again dramatically in 2006 as 61 units, followed by 2007 as 71 units, in 2008-2009 as 72 units, and returned to decline in 2010 to 2013. Until 2018, the growth of Islamic cooperatives or BMTs based on legal entity years was not as good as in previous years which were only 11 units (dep, 2019).

The above data raises question of the reasons behind this decreasing. In addition to financial management, a financial industry, including Islamic cooperatives or BMTs, must also consider the sources of funding from other parties called as customers for the sake of their growth. As the main source of, each business depend on customers income (Khattak, 2010). Service quality and customer trust are the keys to customer satisfaction in choosing Islamic cooperatives or BMTs. Customer satisfaction itself is one of the important strategic elements in any organization (Khamis and AbRashid, 2018).

Satisfied customers are the ones who are committed and are ready to contribute. It means that if customers feel dissatisfied, they will look for other industries that can fulfil their satisfaction (Mosavi and Ghaedi, 2012).

Service quality and customer trust are also able to increase customer loyalty, so the better the quality of service obtained, the better the level of satisfaction. Customer loyalty is very important in conducting business in competitive market, including Islamic banks and Islamic cooperatives or BMTs (Ehigie, 2006). Thus, the main factor of achieving marketing theory is identifying customer loyalty (Hennig-Thurau et al., 2002).

1.1 Service Quality and Customer Satisfaction

To increase profitability, a financial industry, including Islamic cooperatives and BMTs, needs to pay attention to the quality to the customers related the service besides maintaining the financial traffic. Service quality is the result of comparisons between the product or service expected and service performance received by the customers (Parasuraman et al., 1988). Modern marketing believes that the continuity of any business depends on its ability to meet customer needs and satisfaction (Khamis and AbRashid, 2018). Customers feel satisfied because of the good quality of service. Based on this understanding, Service Quality uses five dimensions (Assurance, Reliability, Tan-

gible, Empathy, and Responsiveness) in accordance with the opinion of Parasuraman (Parasuraman et al., 1988) and one dimension of Compliance (Fauzi and Suryani, 2019).

Customer satisfaction is generally defined as the customer's feelings or ratings of a product or service after they use it. If the customer is satisfied with the service, then the customer's feelings towards the industry will increase, and this feelings will result in customer satisfaction toward the industry. Based on this understanding, this study uses four dimensions (Service, Price, Image, and Overall satisfaction) (Hennig-Thurau et al., 2002).

The relation between service qualities is important and can be examined specifically through SERVQUAL model of customer satisfaction (Ali and Raza, 2017). This is supported by the previous research which claims that service quality has a significant positive impact on customer satisfaction (Ali and Raza, 2017) (Fauzi and Suryani, 2019) (Pereira et al., 2016) (Suhartanto et al., 2018). Based on this, the hypothesis that can be proposed in this study is:

H1: Service quality has a significant with positive value relationship to customer satisfaction

1.2 Customer Trust and Customer Satisfaction

Trust is a fundamentally accepted variable for each individual transaction. It is a psychological condition that can only occur in certain relationship. Trust is important in the relationship between customers and industry in general. With a high level of trust, customers feel confident that their needs are well served by the industry. Service providers can also introduce other actions that lead to trust, such as clear communication, safeguarding and fulfilling promises given to the customers.. Based on this understanding, Customer Trust uses two dimensions (Trusty and Keep promises) (Butt and Aftab, 2013) (Mosavi and Ghaedi, 2012).

Customer trust has a positive and significant relationship to customer satisfaction (Suhartanto et al., 2011). When referring to the relationship between customer satisfaction, trust, and loyalty, it shows that loyalty will increase significantly if the bank can increase trust. Based on this, the hypothesis that can be proposed in this study is:

H2: Customer trust has significant with positive value relationship to customer satisfaction.

1.3 Service Quality and Loyalty

When a customer trusts a service provider, he believes in the quality of service and product offered by the provider. In this case, the customer tends to be loyal to the industry (Garbarino and Johnson, 1999). From this understanding, loyalty uses two dimensions (Word of mouth communication and Strong relationship) (Hennig-Thurau et al., 2002) (Juga et al., 2018)(Pereira et al., 2016).

In addition to affecting customer satisfaction, service quality also has a direct and/or indirect influence on loyalty (Ehigie, 2006)(Pereira et al., 2016). Other study reveals that customer satisfaction is more important than the perception of service quality in gaining loyalty (Fisher, 2001). Therefore, service quality has a positive and significant relationship to customer loyalty (Ehigie, 2006). Based on this, the hypothesis that can be proposed in this study is: H3: Service quality has a significant with positive value relationship to customer loyalty.

1.4 Customer Trust and Loyalty

A high level of trust can be very important in each industry. If the level of trust is high, customers tend to forgive and rule out industry mistakes because they consider it normal. However, if the level of trust is low, the independent errors experienced can be seen as evidence that the industry cannot be trusted (van Esterik-Plasmeijer and van Raaij, 2017). Trust can lead to long-term loyalty and strengthen relations between the two parties (Singh and Sirdeshmukh, 2000). It rises the sigma that customers who have deep trust tend to continue the relationship so that they generate loyal attitudes (Mosavi and Ghaedi, 2012).

Some studies show a positive and significant relationship between customer trust and loyalty (Fauzi and Suryani, 2019) (Mosavi and Ghaedi, 2012) (Suhartanto, 2014). Based on this, the hypothesis that can be proposed in this study is:

H4: Customer trust has a significant with positive value relationship to customer loyalty.

1.5 Satisfaction and Loyalty

Satisfaction is the main factor in determining loyalty (Hennig-Thurau et al., 2002). Customer satisfaction is the biggest contributor to customer loyalty (Ehigie, 2006). The more satisfied customers with bank services are, the more likely them to be loyal. It also makes them possible to recommend the institution to others. Customer satisfaction has a positive and significant relationship to customer loyalty

(Fauzi and Suryani, 2019) (Suhartanto, 2014). However, some other studies also claim that customer satisfaction has a positively insignificant relationship to customer loyalty (Famiyeh et al., 2018)(Pereira et al., 2016). Based on this, the hypothesis that can be proposed in this study is:

H5: Customer satisfaction has a significant with positive value relationship to customer loyalty.

2 METHODS AND EQUIPMENT

This study aims to determine the relationship between service quality and customer trust variables on customer satisfaction, service quality and customer trust on loyalty, and customer satisfaction on loyalty to Islamic Cooperatives or BMTs in Indonesia, West Java Province. The data used in this study is primary data which were obtained by giving questionnaires related to the variables used in this study. The data were collected within a month. The samples were 300 respondents who were able to represent participants (Suhartanto, 2014). This study obtained by using convenience sampling techniques . Figure 1 below illustrates the description of the respondent's character.

Variable	Description	Customer (n=300)
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
Long time being customer	<1 yer	104
	1-2 years	77
	>2 years	119
Job	Enterpreneur	127
	Civil servants	30
	Other	143

Figure 1: Respondent demographic characters.

To test the hypothesis, this study uses Path Analysis using PLS-SEM (Partial Least Square-Structural Equation Modeling) because it cannot be solved using multiple linear regression. This study uses WarpPLS 6.0 in processing the collected data.

3 RESULT

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 fulfillment of the condition to be considered next is the Cronbach's alpha value >0.70, the Composite Reliability value must be >0.70, and the AVE value >0.50 (Widarjono, 2015).

Construction/items	Code
Service Quality (SQ)	
Transaction security	ASC1
Employees' politeness	ASC2
Meticulous service	ASC3
Handling customer problems	REL1
Services as promised	REL2
Accurate information given by Islamic cooperatives and BMTs	REL3
Modern equipment	TAN1
Clean and tidy work space	TAN2
Neat and professional employees appearance	TAN3
Sympathetic and responsible employees	EMP1
Anticipating customer needs	EMP2
Responsive employees	RES1
Fast service	RES2
Answering customer questions	RES3
In accordance with Islamic principles	COM1
Pleased with the profit-sharing results	COM2
The ta'awun principle applied by the cooperatives	COM3
Customer Trust (TRT)	
Providing personal information to Islamic cooperatives or BMTs	TRT1
Feeling secure with Islamic cooperatives or BMTs	TRT2
Committing to promises	TRT3
Giving review/advice to Islamic cooperative or BMT	TRT4

Construction/items	Code
Satisfaction (SAT)	
Fast service	SAT1
Friendly employees	SAT2
Competitive price	SAT3
Clear service price information	SAT4
Good reputation	SAT5
Good service quality	SAT6
Expected attitude given	SAT7
Exceeds expectations of price policy	SAT8
Loyalty (LYT)	

Figure 2: Respondent demographic characters.

Based on the results of Figure 3, it can be seen that Service Quality, Customer Trust, Satisfaction,

and Loyalty have met the requirements and it can be said that the indicators are valid and have good reliability.

Items	Loading Factor	Cronbach α	Comp. Reliability	AVE
SQ		0.957	0.961	0.596
ASC1	0.683			
ASC2	0.666			
ASC3	0.792			
REL1	0.826			
REL2	0.803			
REL3	0.793			
TAN1	0.669			
TAN2	0.763			
TAN3	0.753			
EMP1	0.814			
EMP2	0.808			
RES1	0.816			
RES2	0.755			
RES3	0.732			
COM1	0.695			
COM2	0.751			
COM3	0.596			
TRT		0.824	0.884	0.658
TRT1	0.782			
TRT2	0.894			
TRT3	0.837			
TRT4	0.720			
SAT		0.927	0.940	0.664
SAT1	0.815			
SAT2	0.832			
SAT3	0.796			
SAT4	0.830			
SAT5	0.748			
SAT6	0.846			
SAT7	0.880			
SAT8	0.766			
LYT		0.892	0.926	0.759
LYT1	0.906			
LYT2	0.907			
LYT3	0.909			
LYT4	0.753			

Figure 3: Reliability and Validity Check.

4 DISCUSSION AND CONCLUSION

The validity and reliability tests above were carried out to meet the assessment of structural models and prove the results of this research hypotheses. The results show that the Average R-squared (ARS) value is 0.567 with P <0.001. Average block VIF (AVIF) has a value of 2.158 which means accepted because it has a value <5 (ideally <3.3). Next, the value of Average full collinearity VIF (AFVIF) is 2.455, accepted if <5 (ideally <3.3). The value of Goodness of Fit (GoF) is 0.616 which means that the compatibility of the model is large. Likewise, the Sympson's paradox ratio (SPR) value, R-squared contribution ratio

(RSCR), statistical suppression ratio (SSR), and non-linear bivariate causality direction ratio (NLBCDR) are 1.000 each and meet the model fit test compliance requirement. In accordance with the indicators which must be fulfilled in WarpPls, Service Quality and Trust variables can predict 65% (R2=0.65) of Satisfaction variable while Satisfaction can explain 49% (R2=0.49) of Loyalty.

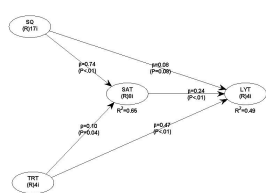Based on the condition that must be met in PLS-SEM analysis using the WarpPLS analysis tool, it can be concluded:

Figure 4: Result of Testing Model

As the hypotheses, based on the results that Service Quality has a significant with positive value influence on direct Satisfaction with a coefficient of 0.74 with significance <0.01. From several indicators on Service Quality, there are three most influential indicators to increase Satisfaction and Loyalty, which are Reliability, Empathy, and Responsiveness. The indicators are stated to be the most influential based on the value of the Loading Factor >0.80.

The results of this study are in line with previous research result on Islamic banks (Ali and Raza, 2017) (Ehigie, 2006) (Fauzi and Suryani, 2019) (Khamis and AbRashid, 2018) (Pereira et al., 2016).

This study shows that Islamic cooperatives/BMTs customers are satisfied if the employees can show a reliable, empathetic, and responsive attitude toward customers' needs. Meanwhile, for Service Quality on Loyalty, the coefficient is 0.08 with significance=0.08, which means that it has no significant effect. Furthermore, the Trust variable has a significant with positive value effect on Satisfaction of 0.10 with a significant=0.04 and Loyalty of 0.47 with a significance=0.01. It means thats customer trust will lead to satisfaction and loyalty so that trust from customers must be maintained and improved. Moreover, Satisfaction to Loyalty has a coefficient of 0.24 with a significant value ¡0.01. It means that customers are already satisfied and they will certainly be loyal to Islamic cooperatives/BMTs. It is potential to create a desire for customers to remain as Islamic coopera-

tives/BMTs customers.

In general, the results of this study indicate that Trust and Satisfaction increase Loyalty, but Service Quality does not affect Loyalty. These findings show that even though the services provided by employees are considered good, it does not guarantee the customers to be loyal to the Islamic cooperatives/BMTs. Customers will be more loyal if the employees of Islamic cooperatives/BMTs can provide a good sense of trust to generate customers satisfaction. However, Service Quality influences Satisfaction, so it is also important to improve Service Quality in order to make customers satisfied and indirectly increase their Loyalty. Therefore, Islamic cooperatives/BMTs must be able to improve their quality, especially in terms of Reliability, Empathy, and Responsiveness. Employees must also be able to increase customers trust toward the industry. It will create a good impression and increase customer confidence to remain a customer because the main competitors of Islamic cooperatives/BMTs are not only from the conventional side but also from fellow Islamic banking industries.

The result of indirect relationships, Service Quality affects Loyalty through Customer Satisfaction. This is indicated by the indirect effects value =0.174 and the p value of indirect effect for path with 2 segments ¡0.001. Whereas the Customer Trust does not affect Loyalty through Customer Satisfaction with indirect effects =0.024 and p value of indirect effect for path with 2 segments <0.275.

	Items	Path coefficient	P Value	Remark
H₁	SQ → SAT	0.74	<0.01	Accepted
H₂	TRT → SAT	0.10	0.04	Accepted
H₃	SQ → LYT	0.08	0.08	Rejected
H₄	TRT → SAT	0.47	<0.01	Accepted
H₅	SAT → LYT	0.24	<0.01	Accepted

Figure 5: Hypotheses Testing Results.

5 LIMITATION AND FUTURE RESEARCH

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. 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.

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