



Sharia Banking Image in East Java Indonesia: Reviewed from Service Quality, Product Quality, and Customer Value

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ABSTRACT

The research objective was to find clarity about the effect of service quality, product quality, customer value and the image of Islamic banking in East Java. The research approach is quantitative, explanatory. The population of this study is Islamic banking customers in East Java. The research sample was 270 respondents and the sampling method used a purposive method. The analysis technique uses structural equation modeling with the warp PLS analysis tool. The results showed clarity that: Service quality affects customer value, and does not affect the banking image. Product quality has an effect on customer value and banking image. Customer value influences the banking image. Therefore, Islamic banking management should innovate and create services that are Islamic in nature and that are different from those of conventional banks.

Keywords: Service Quality, Product Quality, Customer Value, Banking Image

JEL Classifications: G21, L84, E23

1. INTRODUCTION

Sharia bank is a banking system that implements an interest free system in its operations, and therefore the most common formula for defining Sharia banks is a bank that operates in accordance with the principles of Islamic law by referring to the Qur'an and Hadith as a legal basis and operational (Antonio, 2006). In principle, Islamic banks are the rules of agreement based on Islamic law between banks and other parties for the deposit of funds and/or financing of business activities declared to be in accordance with sharia. The most basic difference between Islamic and conventional economics is the concept given by both economic systems. If the conventional economic concept prioritizes interest as its profit, it is different from the Islamic economic concept which prioritizes the profit sharing system. Islamic economics can provide welfare for all its people, provide justice, togetherness, kinship and transparency for each perpetrator (Iqbal, 2007).

Islamic banks can collect funds from the public in the form of deposits: (wadiah) deposits that are guaranteed security and

guaranteed (guaranteed deposits) but without obtaining benefits or benefits (Muhammad, 2005). Participation of capital shares profit and risk sharing (non guaranteed accounts) for general investment (general investment account/mudharadah mutlaqah) where the bank will pay profits in proportion to the portfolio funded by the capital. Special investment (special investment account/mudharabah muqayyadah) where the bank acts as an investment manager to obtain fees. So the bank does not participate in investing while investors fully take the risk of the investment.

As in <http://www.bi.go.id/id/perbankan>, the financial education and campaign activities of the Indonesia savings movement, proclaimed by the government. As a concrete step in the success of the GIM program, bank Indonesia has formulated the grand sharia banking market development strategy, as a comprehensive strategy for market development covering strategic aspects, namely: Establishing a vision as the leading sharia banking industry in ASEAN, forming a new image of national sharia banking inclusive and universal, more accurate market mapping, more diverse product development, improved services, and new

communication strategies that position Islamic banking more than just banks.

Furthermore, various concrete programs have been and will be carried out as the implementation stage of the grand strategy for the development of the Islamic banking financial market, including programs to improve service quality supported by competent human resources and the provision of information technology capable of meeting customer needs and satisfaction and communicating products and services Islamic banks to customers correctly and clearly, while still complying with sharia principles. Where Islamic banking must prepare itself to face the formation of the asean economic community, given that Indonesia is a potential market with a very wide growth space and better performance achievement than banks in other countries.

Based on the explanation, a more in-depth study will be conducted on the effect of service quality, product quality, customer value and the image of Islamic banking in East Java.

2. LITERATURE REVIEW AND HYPOTHESES

2.1. Service Quality

Service quality is an assessment of how far the difference between reality and customer expectations for the services that customers get (Zeithaml et al., 1990; Othman and Owen, 2001; Haiyang and Kwaku, 1999).

2.2. Product Quality

Product quality is a consumer assessment of the superiority or privilege of a product (Tjiptono, 2014). Product quality is a potential strategic weapon to defeat competitors. The ability of product quality to show various functions including resilience, reliability, accuracy, and ease of use (Kotler and Armstrong, 2015; Schiffman and Kanuk, 2013; Dunk, 2007).

2.3. Customer Value

Customers' choices and evaluations of product and service attributes, performance attributes and consequences arising from the use of savings products to achieve customer goals and objectives when using savings products (Woodruff, 1997; Sweeney and Soutar, 2001).

2.4. Image Bank Syariah

The image of Islamic banks shows the impression of an object against other objects formed during processing information at any time from various trusted sources (Alma, 2005; Panjaitan, 2013; Djunaedi et al., 2017).

2.5. Research Framework and Hypothesis

Based on the literature review and discussion described earlier, a research framework can be developed that explains the relationship between research variables. Figure 1 illustrates the relationship between customer relationship management, product quality, competitive advantage and marketing performance.

In this study the proposed hypothesis is as follows:

1. Service quality has a significant effect on customer value
2. Service quality has a significant effect on the banking image
3. Product quality has a significant effect on customer value
4. Product quality has a significant effect on the banking image
5. Customer value has a significant effect on the banking image.

3. RESEARCH METHODS

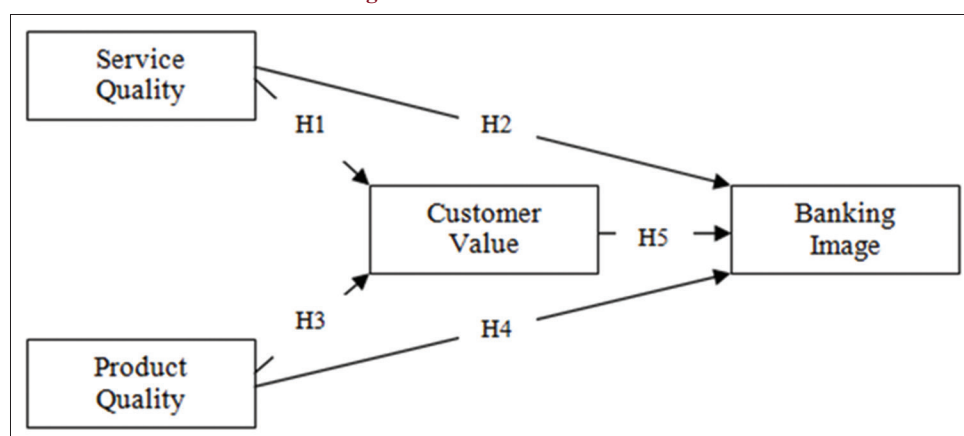
This research is a causal study that will prove the causal relationship between independent variables (service quality, product quality), intervening variable (customer value) and non-dependent variable (banking image). The research population is funding customers (funding) in 10 Islamic banks located in East Java. The analysis technique uses structural equation modeling analysis with the Warp PLS analysis tool. The number of samples studied was 270 respondents (Slovin). While the sampling method uses a purposive sampling method. The criterion of respondents is that customers have a savings account of at least 1 year, as well as respondents aged in 17 years.

4. RESULT AND DISCUSSION

4.1. Descriptive Data Analysis

This study uses a questionnaire instrument with a likert scale. Service quality variables, use 6 indicators adopted from Zeithaml et al. (1990); Othman and Owen (2001), namely: Tangibles, reliability, responsive, assurance, employment, and

Figure 1: Research framework



compliance. Product quality uses 4 indicators adopted from Kotler and Armstrong, 2015; Gravin and Lovelock, 2004), namely: Performance, features, reliability (product reliability), and conformance. Customer value uses 4 indicators adopted from Woodruff (1997); Sweeney and Soutar, 2001, namely: Emotional value, social value, quality value, and price/value of money. Bank image uses 4 indicators adopted from Alma (2005), namely: Personality, reputation, derivative value, and corporate identity.

Descriptive data analysis of 270 respondents as seen in Table 1 showed that: Characteristics of respondents by sex were predominantly male, namely 53.0% compared to women 47.0%. Characteristics of respondents based on age, it appears that the dominant age range of 36-50 years is 46.0%, in the age range of 21-35 years is 33.0%, in the age range ≥ 51 years is 15.5%, and the rest is in the range age ≤ 20 years at 5.5%. The education level of

Table 1: Characteristics of respondents (n=270)

Characteristics	Frequency	Percent
Gender		
Men	143	53.0
Women	127	47.0
Age (years)		
≤ 20	15	05.5
21-35	89	33.0
36-50	124	46.0
≥ 51	42	15.5
Level of education		
Not graduating from high school	-	00.0
High school	124	41.0
Diploma	78	39.0
Bachelor	68	09.0
Work		
Student	17	06.3
Government employees	112	41.5
Private employee	101	37.4
Entrepreneurship	40	14.8
Long time a customer (Year)		
≤ 1	-	00.0
2-4	132	49.0
≥ 5	138	51.0

Table 2: Validity and reliability test

Research variables	Indicator	Question number	Pearson correlation	Coefficient alpha (α)
Service quality	SQ1	01-03	0.727**	0.859
	SQ2	04-06	0.943**	
	SQ3	07-09	0.885**	
	SQ2	10-12	0.754**	
	SQ5	13-15	0.817**	
	SQ6	16-18	0.745**	
Product quality	PQ1	19-21	0.883**	0.836
	PQ2	22-24	0.715**	
	PQ3	25-27	0.827**	
	PQ4	28-30	0.836**	
Customer value	CV1	31-33	0.844**	0.711
	CV2	34-36	0.873**	
	CV3	37-39	0.766**	
	CV4	40-42	0.776**	
Banking image	BI1	43-45	0.825**	0.782
	BI2	46-48	0.742**	
	BI3	49-51	0.727**	
	BI4	52-54	0.846**	

Note: ** = significant at 0.05 (5%)

the majority of respondents is high school, which reaches 41.0%, diploma education is 39.0, while the rest is undergraduate at 9.0%. Characteristics of respondents based on work, it can be seen that the respondent's work was dominated by civil servants as much as 41.5%, then private employees were 37.4%, entrepreneurs were 14.5%, and the remaining students were 6.3%. Characteristics of respondents based on the length of time being a customer, it was seen that respondents had become customers for more than 5 years while 51.0%, and ranges from 2 to 4 years amounting to 49.0%.

4.2. Test of Research Instruments

4.2.1. Validity test

From the result of Pearson product moment correlation, it is known that all questionable items in the questionnaire have a significant correlation at the error rate of 5%, so it can be said all the questionable items as appears in Table 2 are valid.

4.2.2. Reliability test

With cronbach alpha test (α) in this research indicate that all research variables are reliable, because all of alpha coefficient value from each research variable is bigger than standardized (0.6), so that each question item in measurement instrument can used. The value of correcting total correlation items of all question items is >0.3 .

4.3. Measurement of Fit Overall Model

The measurement of fit overall model was performed to show the entire outer model and an inner model of the study. The measurement of the outer model (Table 3), informs that all indicators of the research variable are significant and have a value >0.5 , thus each indicator can explain the construh variations.

4.3.1. Test the validity of research variables

The validity test of the variables in this study was reported by convergent validity test and discriminant validity test. Table 4, informs that the value of average variances extracted (AVE) for customer relationship variables management, product quality, competitive advantage, and marketing performance shows that all

Table 3: Measurement results of the outer model

Research variables	Relationship	Loading factor (λ)	Probability
Service quality	Ser_Qua→SQ1	0.684	0.000
	Ser_Qua→SQ2	0.884	0.000
	Ser_Qua→SQ3	0.705	0.000
	Ser_Qua→SQ4	0.510	0.000
	Ser_Qua→SQ5	0.723	0.000
	Ser_Qua→SQ6	0.752	0.000
Product quality	Pro_Qua→PQ1	0.715	0.000
	Pro_Qua→PQ2	0.497	0.000
	Pro_Qua→PQ3	0.724	0.000
	Pro_Qua→PQ1	0.721	0.000
Customer value	Cus_Val→CS1	0.636	0.000
	Cus_Val→CS2	0.857	0.000
	Cus_Val→CS3	0.716	0.000
	Cus_Val→CS4	0.847	0.000
Banking image	Bank_Im→BI1	0.675	0.000
	Bank_Im→BI2	0.774	0.000
	Bank_Im→BI3	0.629	0.000
	Bank_Im→BI4	0.785	0.000

AVE values are >0.5. This shows that all the values of the research variables meet the AVE requirements, so it can be concluded

Table 4: Average variances Extracted (AVE)

Variable	AVE
Ser_Qua	0.616
Pro_Qua	0.550
Cus_Val	0.592
Bank_Im	0.517

Ser_Qua: Service Quality; Pro_Qua: Product quality; Cus_Val; Customer Value; Bank_Ima: Banking Image

Table 5: Correlations among latent variables

Variable	AVE	Ser_Qua	Pro_Qua	Cus_Val	Bank_Im
Ser_Qua	0.616	0.718	0.660	0.400	0.437
Pro_Qua	0.550	0.660	0.771	0.661	0.677
Cus_Val	0.592	0.400	0.661	0.770	0.647
Bank_Im	0.517	0.437	0.677	0.847	0.719

Ser_Qua: Service Quality; Pro_Qua: Product quality; Cus_Val; Customer Value; Bank_Ima: Banking Image

Table 6: Reliability test results

Variable	Reliabilitas	
	Composite reliability	Cronbach's alpha
Service quality	0.867	0.805
Product quality	0.762	0.585
Customer value	0.851	0.766
Banking image	0.809	0.684

Table 7: Hypothesis testing (direct effects)

H	Relationship	Standardized coefficient	SE	P	Decision
H1	Ser_Qua→Cus_Val	0.182	0.059	0.000	Accepted
H2	Ser_Qua→Bank_Ima	0.022	0.069	0.361	Reject
H3	Pro_Qua→Cus_Val	0.796	0.061	0.000	Accepted
H4	Pro_Qua→Bank_Ima	0.244	0.059	0.000	Accepted
H5	Cus_Val→Bank_Ima	0.698	0.056	0.000	Accepted

Ser_Qua: Service Quality; Pro_Qua: Product quality; Cus_Val; Customer Value; Bank_Ima: Banking Image

that all the convergent measures of the validity of the research variables are good.

Discriminant validity is indicated by the value of AVE, s (square roots of AVE) as shown at Table 5, where the value of AVE, s is in the diagonal position of the correlations of the latent variables output Warp PLS, and the expected value is greater than the correlation value in the same block. As shown in Table 4, where the overall value of the diagonal block is greater than the value of the same block. This shows that all variables meet the expected discriminant validity criteria.

4.3.2. Research variable reliability test

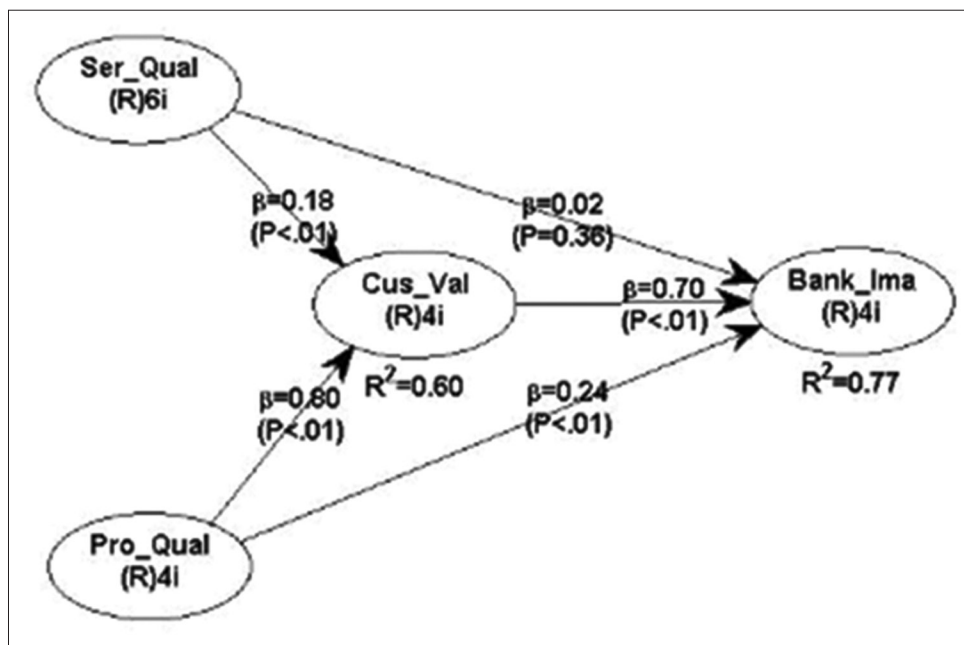
Test reliability of research variables was measured by two criteria, namely composite reliability and cronbach's alpha. A variable is declared reliable if the composite reliability, value is >0.7 and the cronbach alpha value is above the value 0.6.

Based on the output results in Table 6, it informs, that all research variables have composite reliability values >0.7 and cronbach's alpha ≥0.6 so it can be concluded that the structural model used is good.

4.3.3. Evaluate the goodness of fit model

The results of data processing using a sample of 270 show the APC value is 0.321, the ARS value is 0.368, the AARS value is 0.362 with a significance <0.001 which means the model is fit

Figure 2: Coefficient of research model path



(Figure 2). From the values obtained, then it can be interpreted that the model is good enough to explain the phenomenon studied.

4.3.4. Hypothesis testing

Hypothesis testing is based on the value of the estimated significance of the research model parameters shown in Table 7.

There is the effect of service quality on customer value of 0.182, with a value of $P = 0.000$. This shows that H1 is accepted. The service quality of the banking image is 0.022, with a $P = 0.361$. This indicates that H2 is rejected. Product quality for customer value is 0.796, with a value of $P = 0.000$. This shows that H3 is accepted. The service quality of the banking image is 0.244, with a value of $P = 0.000$. This indicates that H4 is accepted. There is the influence of customer value in the banking image of 0.698, with a value of $P = 0.000$. This shows that H5 is accepted.

5. DISCUSSION

The results of this study can be an alternative management model of service quality, product quality, customer value in the banking image in Islamic banking in Indonesia. To get a more comprehensive discussion, the results of this study are explained as follows:

5.1. Effect of Service Quality on Customer Value

The acceptance of this hypothesis, 1 indicates the effect of service quality variables on significant Islamic bank customer value. This result explains that service quality contributes to the increase in Islamic bank customer value by 18.2%. From the factor analysis, it is known that the dominant factor that forms service quality of Islamic banks is reliability, meaning that respondents prioritize the consistency and ability of Islamic banks to fulfill all promises that have been made to customers. Among them are the fulfillment of deposit schedules, flexible withdrawal of savings products according to the capabilities and needs of customers, as well as accurate records of savings transactions, so that it will add value to customers. The dominant indicator of reliability forming this service quality variable, informs that, Islamic banks, deserve to pay more attention to this reliability indicator, because by fulfilling all promises that have been said to the customer well and continuously, it will be able to encourage service quality which will eventually drive up customer value.

5.2. Effect of Service Quality on Banking Image

The non-acceptance of hypothesis 2 shows that service quality does not contribute directly to improving the image of Islamic banking. This shows that the quality of Islamic banking services at this time, really needs to be evaluated and improved because it is proven that it has not been able to raise the bank's image. Thus management needs to innovate and create service quality, which is different from the current service model. From the factor analysis, it is known that compliance factor is the smallest factor value that forms service quality of Islamic banks, therefore compliance factors forming service quality need to be improved. This can be done by providing information and emphasis as clearly as possible

to the customer, that the bank has seriously operated under the economic principles of Islamic banks. That the bank has implemented all provisions that fulfill Islamic Shari'a. In this study found that service quality has an indirect effect on the banking image through customer value.

5.3. Effect of Product Quality on Customer Value

The acceptance of hypothesis 3 explains that product quality contributes to the increase in customer value of 79.6% of Islamic banks. From the factor analysis, it is known that the dominant factor that forms sharia bank customer value is product reliability, meaning that respondents prefer the existence of reliable products. Among them are the characteristics of savings products offered by Islamic banks following the fatwa of the National Sharia Council, as well as savings products offered by Islamic banks that have a high level of security and profit. The dominance of the reliable indicators of producing quality variable products, informs that, Islamic banks, deserve more attention to these reliability indicators, while maintaining and improving the security of customer funds, and providing greater benefits. The influence of product quality on customer value is also evidenced by Razak et al. (2016).

5.4. Effect of Product Quality on Banking Image

The acceptance of hypothesis 4 explains that product quality contributes to the improvement of the banking image of Islamic banks 24.4%. Product quality is the product's ability to display its function, this includes the time of use of the product, reliability, ease of use and repair, and other values, while the image of Islamic banks shows the impression of an object on Islamic banks formed by processing information every time from various reliable sources of information. The significance on the effect of product quality on the banking image shows that the increase in product quality will have an impact on the bank's image, therefore bank management should always improve the quality of its products which will impact the bank's image. Halim et al. (2014) have also proven the existence of positive product quality relationships with the banking image.

5.5. The Influence of Customer Value on Banking Image

The acceptance of hypothesis 5 informs that the effect of the customer value variable on the banking image is significant. Customer value contributes to the improvement of the banking image by 69.8%. Customer value is the difference between total customer value and total customer costs where, total customer value is a set of benefits expected by customers of a particular product or service and total customer costs are a set of costs expected by consumers to evaluate, obtain, use and dispose of products or services.

From the factor analysis, it is known that the dominant factor that shapes sharia bank customer value is a social value. This shows that customers feel that their social value will increase by participating in savings in Islamic banks. Savings in the sharia bank, in accordance with religious orders and will avoid feelings of guilt, avoid sinful feelings because Islamic banks apply Islamic principles that operate without usury.

6. CONCLUSIONS AND RECOMMENDATIONS

The conclusions of the study are: Service quality affects customer value, and does not affect the banking image. Product quality has an effect on customer value and banking image. Customer value affects the banking image. Related to the quality of services that have not had a positive impact on the banking image of Islamic banking, this occurs because in general the services provided by Islamic banks are not yet different from the quality of service at conventional banks. Therefore, this is a challenge that sharia banking management can overcome, by innovating and creating services that are Islamic in nature and that are different from those of conventional banks.

It is recommended that the management of Islamic banking in East Java should pay attention to and improve the quality of service to customers, which has not yet had a maximum impact on the image of Islamic banking. This can be done by adjusting Islamic service procedures in line with the targeted target market. For subsequent research it is recommended to reexamine the impact of service quality which in this study has not had a positive impact on the image of Islamic banking.

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