

Predicting Sustainability in The Banking Industry: A Structural Equation Modelling Approach

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ABSTRACT

Recent developments in the competitive banking industry show that having loyal customers is an important strategy for bank sustainability because it can give a favorable influence on the performance of banks in the long term. Although past studies have indicated the significance of having loyal customers in the banking industry, there is still a lack of attention toward customer loyalty in Islamic banks. Therefore, this study aims to examine customer loyalty to Islamic banking industry. It includes two important determinants, namely the service quality and the social media influencer. This study employed a variance-based Structural Equation Modelling approach. To reach the purpose, this study used data from a questionnaire distributed to 200 respondents of Islamic banking customers in Bandung, Indonesia. The results show that this approach is able to provide comprehensive information about customer loyalty. This study underlines the important role of service quality and social media influencer in the formation of customer loyalty. The findings methodologically contribute to broadening our customer loyalty understanding in the context of Islamic banks. Further, for managerial practices, it provides guidelines for banking management to improve the quality of their services as a strategy for developing the sustainability of their business.

Keywords: *Service Quality, Social Media Influencer, Loyalty, Banking, Sustainability, PLS*

1. INTRODUCTION

The Islamic banking industry is a community trust institution whose main activities are raising funds and channeling them back in the form of financing. It also conducts service activities to meet the financial needs of customers and the public [1]. However, the Indonesian Islamic banks share has not been satisfactory; it is only 5.96% of the national banking market share [2]. The key to the success of Islamic banks is to make their customers loyal because developing and having loyal customers can positively impact the bank's business performance, such as affecting the amount of deposit, the marketing and operating cost, client retention, as well as the future continuous revenue [1].

Previous research found that customer loyalty arises because clients' needs can be fulfilled by the services of the banks [3-7]. Thus, in this industry, offering a high quality of service is important in meeting customer expectations. However, the quality of service alone is not enough to shape one's loyalty behavior. Recently, there is another influence that pushes a person's behavior, through social media. Although social media influencer is reported as an important driver of customer behavior [8], there has not been any research that discusses the role of social media influencer on Islamic bank customer behavior.

Driven by this gap, this study tries to assess the influence of service quality and social media influencer on the loyal behavior of Sharia bank customers. For this purpose, this study employed a variance-based Structural Equation Modelling approach, a method which is rarely applied in predicting loyalty in Islamic banks studies.

1.1. Related Work

1.1.1. Loyalty

Many studies on loyalty commonly use two approaches, namely behavior and attitude [9]. The behavioral approach treats loyalty based on customer behavior. A loyal customer is a person who purchases products or services systematically in a certain period. According to this approach, client loyalty behavior is usually assessed by the length of the relationship between the bank and the customer. However, measuring loyalty through a behavioral approach, such as repeated purchases, has received a lot of criticism. This is due to the lack of a conceptual basis and the narrow view given, whereas consumer behavior is increasingly dynamic and complex from time to time. Furthermore, the measurements also form substantial false loyalty. In other words, this method fails to distinguish the loyal clients and those who utilize

bank services only for cost or convenience reasons. Thus, loyalty based on the behavioral approach is not enough to explain how loyalty to banks is built.

The second approach is the attitude approach, described as intentional loyalty. Some sources also use the term conative loyalty or loyalty attitude for this approach [1]. Based on this approach, loyalty is often measured by customer intention to repeatedly buy the service regardless the price and to endorse. This opinion is in accordance with the Tripartite Theory of Attitude, which postulates that conative, affective, and cognitive are the elements of attitude [10]. Refer to this theory, customer intention is a conative element of attitude [10]. Although this proposition is criticized for the lack the actual behavior prediction, this approach enables scholars to classify loyalty, from extremely loyal to extremely disloyal [1]. Thus, the conceptualization and measurement of loyalty toward Islamic banks in this study were conducted based on the attitude approach, which was considered more appropriate [3].

1.1.2. Service Quality

In recent years, the quality of service has received more attention from researchers and practitioners. Service quality indicates how good the service a bank has provided and its compliance with customer expectations. The essence of banking services is to offer financial services to its clients by providing a fair share of the results, so it can be said that the quality of bank services is a rationally considered matter for customers to be loyal to the bank [3, 4]. Good service quality makes consumers repeat the purchases; on the other hand, poor service quality triggers the spread of word of mouth that will lessen the sales. Consequently, customers switch to other banks. Service quality is also important to note because the long-term success of a service provider is driven by its ability to expand the market share and keep the existing clients loyal. More specifically, a study by [3] suggests that service quality is an important element in building customer loyalty. So, it could be hypothesized as follow.
H1: Service quality has a favorable influence on loyalty.

1.1.3. Social Media Influencer

Developments in the world of marketing require marketers to implement new solutions in reaching their consumers, one of which is through marketing influencers. Social Media Influencer (SMI) is a new type of marketing influencer. These influencers are independent, carrying out their duties as third party endorsers to help the partner companies form audience attitudes through blogs, tweets, and other forms of content [11]. SMI is considered more influential than other consumer opinions. This is because SMI must first recognize the problem or topic that is relevant to meet the consumers' informative and emotional needs [12]. Djafarova and Rushworth [13] argue that SMI often functions as a reference for various groups of people in shaping values and attitudes in purchasing decisions. Furthermore, [8] classifies influencer through social media as an opinion leader, celebrity, and social leader.

An opinion leader is someone who is able to influence others [14]. In practice, an opinion leader is someone who is an expert and has more experience with certain products. He is educated, has high social status, has broad access to information, and actively shares knowledge [14]. Opinion leaders are also known to have good expertise, objective arguments, and a good understanding (well-grounded) about a product [8]. The relationship between opinions and behavior has been proven in previous studies. The study of Nunes, Ferreira [15] claims that persuasive messages presented directly by opinion leaders have a favorable and important impact on the receipt of the information on buying behavior.

Besides opinion leaders, celebrities also have the ability to influence one's behavior. Celebrities have characteristics such as successful and talented, inspiring, have high social elite [8], and have credibility as well as appeal [16]. Because of their frequent appearance in various media, at a certain level, celebrities are not infrequently considered as role models of their audience [17]. Even the audience often follows their styles as in clothing, communication, or the brand used [18]. Last, a person's behavior can also be influenced by the group's preferences. As the opinion expressed by [8], consumer purchasing decisions can be influenced by the desire for social identification in order to fit into certain social groups. The same source also explains three natures of a leader; a person who is well-known (friend like, lifestyle-related), is liked by a friend or group and whose advice is often followed (identification with a social group), and who can be interconnected (relatable).

Thus, it can be concluded that persuasive messages from SMI are not only valued as interesting messages but also as reliable information and reliable evaluations to be used in the decision-making process for potential consumers. Based on this explanation, it is known that social media influencer has an influence on Islamic banks' client loyalty. Thus, the following hypotheses were developed.

H2a: Opinion leader has a favorable influence on loyalty

H2b: Celebrities have a favorable influence on loyalty.

H2c: Social leader has a favorable influence on loyalty.

1.2. Our Contribution

The findings of this study methodologically contribute to broadening the knowledge of the formation of customer loyalty in the banking industry, specifically in Islamic banking.

1.3. Paper Structure

This study used nine items from the service quality scale that had also been used by previous researchers [3]. Social media influencers, the opinion leaders, were measured by adopting three items from [14] and four items from [8]. Celebrities were measured by three indicators adapted from past studies by [8] and two items from another study by [16]. Meanwhile, social leaders were gauged by the

indicators from [8]. Furthermore, loyalty was assessed by three indicators: the usage intention, the recommend intention, and the endorse intention to say good things about the bank [3]. All indicators of service quality, social media influencers, and loyalty in the questionnaire used the Likert scale of 1-5.

This study employed a self-administered questionnaire to collect data from clients of Islamic banks in Bandung region, Indonesia. This study used convenience rather than random sampling due to the difficulty in identifying the sampling frame of the population. The sample for this study was the customers of Islamic banks aged 19-39 years. This survey was conducted to 200 Islamic bank clients during the period of December 2019 - January 2020. Of those numbers, 179 provided completed responses.

This validity and reliability of the constructs were evaluated by using variance-based Structural Equation Modeling. Further, this modelling method was also employed to validate the loyalty model. The argument for employing this analysis method is that it allows researchers to evaluate the latent constructs using medium sample even if the data are not normally distributed. This modelling method has two sub-models, measurement model and the structural model.

The measurement model shows how the observed variables represent the latent variable to be measured. Meanwhile, the structural model is aimed to determine the strength of estimates between latent variables and

constructs as indicated by the R^2 value, with the following equation:

$$R^2 = \sum_{h=1}^H \beta_{jh}^2 \text{cor}(X_{jh}, Y_j)$$

It can be concluded that there were five stages in this study which can be seen in the following Figure.1.

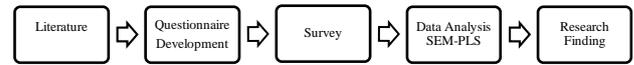


Figure.1 The Flowchart of Research Methods

2. BACKGROUND

To test the loyalty model, this study used two stages of examination. First, the measurement model was employed to evaluate the loading factor, the reliability of the composite (CR), and the average variance extracted (AVE). The convergent validity test (Table 1) reveals that the prerequisite for validity is that AVE value must be above 0.5 and the loading value exceeds 0.6. These results meet the discriminant validity requirements of the construct variables while the reliability test states that the proposed construct is reliable because it has a CR value above 0,70.

Table 1. Loading, CR and AVE test

Constructs/Indicators	Loading	α	CR	AVE
SMI (Opinion Leader)		0.906	0.930	0.729
Educated	0.883			
Expertise/knowledgeable	0.905			
Experienced	0.897			
Objective	0.860			
Domain specific	0.709			
SMI (Celebrities)		0.868	0.906	0.663
Admirable	0.790			
Social elite	0.864			
Successful and talented	0.852			
Attractive	0.908			
Credible	0.627			
SMI (Social Leader)		0.867	0.919	0.791
Relatable	0.849			
Self-similarity	0.920			
Identifies self in the group	0.898			
Service quality		0.927	0.939	0.633
Modern tool and equipment	0.754			
Providing personal attention	0.812			
Prompt service	0.858			
Accurate Service	0.832			

Knowledgeable Staff	0.766			
Professional staff performance	0.845			
Providing various services	0.855			
Compatible with other banks	0.752			
The technology factor	0.693			
Loyalty		0.888	0.923	0.750
Intention to use the service	0.851			
Intention to recommend the service	0.921			
Intention to/continue to be the client	0.820			
Intention to say positive things	0.868			

Heterotrait-Monotrait Ratio (HTMT) method recommends the cut-off value of 0.9 to check the validity of discriminant constructs [19]. HTMT test reveals the value from 0.300 to 0.852, which indicates that the discriminant validity has been fulfilled. Furthermore, to test the structural model, this study used a bootstrap procedure with 5,000 repetitions to assess the significance of variables and their coefficients. Empirical analysis shows that social media influencers and service quality simultaneously influence the formation of loyalty by 50.4%. The data analysis results show that the GoF model has a value of 0.547, which means that the model is satisfactory since it is above the recommended level of

0.36 [20]. In other words, the proposed loyalty model can be used. Then, the R² results in this study are 0.504, which is between moderate and substantial. The Q² test results reveal that all constructs have a positive value, which means that all variables meet the predictions requirement. Table 2 shows the relationship between the variables tested, the outcomes indicate that only the relationship between opinion leader and service quality influence loyalty with coefficient values of 0.220 and 0.561, p-value <0.5, respectively. Meanwhile, celebrities and social leaders do not significantly influence customer loyalty; it is shown by coefficient values of 0.102 and -0.020, p-value > 0.5, respectively. Thus, H1 and H2a are accepted. More details can be seen in Table 2.

Table 2. Path Coefficient

Path	Coefficient	P-Value
Opinion Leader -> Loyalty	0.220	0.001
Celebrities -> Loyalty	0.102	0.377
Social Leader -> Loyalty	-0.020	0.835
Service quality -> Loyalty	0.561	0.000

Figure.2 illustrates the association between all variables examined.

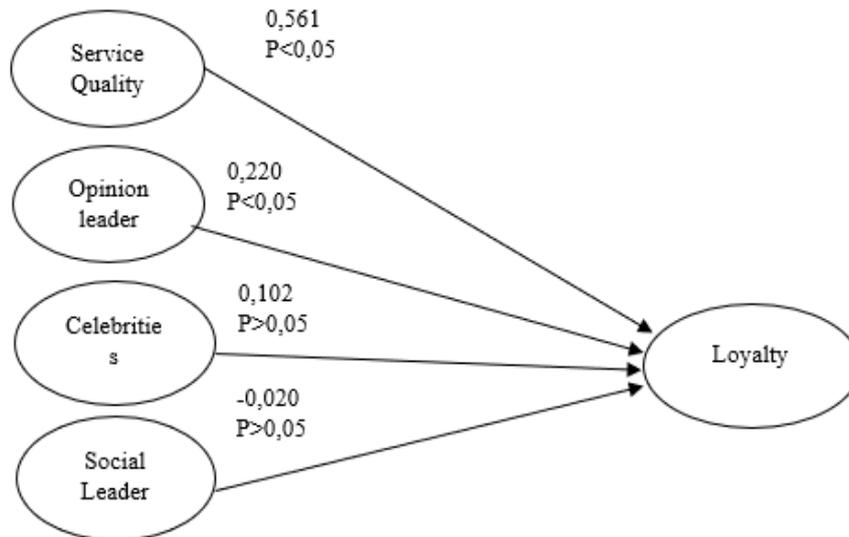


Figure 2. The relationships between the variables

3. CONCLUSION

The results of this study reveal that the quality of bank services is still an important thing that encourages customers to be loyal. In addition, in the role of social media influencers, it is found that only opinion leaders can encourage customers to be loyal to banks because they have high social status, are educated, famous, knowledgeable, experienced, and have objective opinions as well as a good understanding of the banking world. On the other hand, celebrities and social leaders do not affect loyalty behavior. Islamic bank customers who receive persuasive messages from opinion leaders tend to be loyal to the banks rather than persuasive messages from celebrities and social leaders. The findings of opinion leaders, celebrities, and social leaders in influencing the loyalty of sharia banking customers are new. There are no published studies that report such findings.

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