

# Loyalty Towards Islamic Microfinance: The Roles of Perception, Expectation, and Trust

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## ABSTRACT

Customer loyalty is an important factor in the current rise of Islamic microfinance. This study estimates the loyalty factors through the direct role of perceptions and expectations on trust. This study intends to determine the effect of members' perceptions, expectations, and beliefs on the decision to save at a Sharia Microfinance Institution (LMKS). This study used the quantitative method to measure the relationship between variables based on numerical calculations (statistics). Primary data were obtained from questionnaires given to respondents asking about their perception, expectations, and trust towards Islamic cooperatives in the Greater Bandung area. The population was the members of the Syariah cooperatives in the Greater Bandung area with a sample of 213 customers or LKMS partners. This study analyzed the data using Structural Equation Modeling (SEM-PLS). The results show a positive influence of perceptions and expectations on the loyalty of Islamic microfinance savers through the mediating role of trust. Theoretically, this study enriches views on the loyalty of Islamic microfinance savers in the context of attitudes and perceptions in the field of Islamic fundraising. This study focuses on the importance of improving service quality for Islamic microfinance customer loyalty.

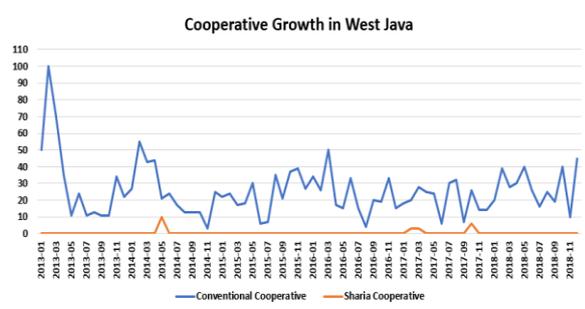
**Keywords:** perceptions, expectations, trust, and saving participations.

## 1. INTRODUCTION

According to the Ministry of Cooperatives and SMEs, in 2018 there were 138.140 cooperative units from various types of businesses run in Indonesia. The Saving and Loan Cooperatives (Koperasi Simpan Pinjam (KSP)) were about 20.852 or 15.09% of the total numbers, and 4.648 or 22.29% of them employed the Sharia system. It is suspected that this national description of the condition of Sharia cooperatives or BMTs is not much different from what happened in Bandung, Indonesia.

During the 57 years of development in Muslim countries, it can be seen that the total assets of Islamic Microfinance Institutions have not grown significantly [1]. This lack of optimal asset development has an impact on the low ability of Islamic microfinance in channeling financing to the community and the minimal contribution of LKMS in increase the rate of the locals. This problem can be overcome by increasing the loyalty of savers in the form of savings and deposits [2]. Based on this, the investigation for factors that can increase the loyalty of Islamic microfinance savers becomes imperative [3].

Previous researchers have examined the factors that can affect the loyalty of savers to Islamic financial institutions (such as banks and insurance) [4]. These factors include perceptions [5], expectations [2], and trust [6]. However, these studies have not discussed the problem of saver loyalty towards Islamic microfinance and also have not integrated all variables into one model whereas the integration of these variables will optimize the value of saver loyalty. Moreover, the research contribution shows that the savers' trust towards Islamic microfinance [7] is a very determining factor. Sharia microfinance has not yet provided an optimal



**Figure 1** Trends in the search for conventional cooperatives and sharia cooperatives

contribution to the country's economy; therefore, the loyalty and trust factors of customers are essential to study, especially since the number of Muslims in Indonesia is the majority and can provide opportunities for the development of Sharia microfinance. In addition, most research on Islamic microfinance institutions still focuses on service quality and customer satisfaction as a driver of loyalty [8].

Although in general they are often reported as the most important supporting aspects in conventional microfinance [9], only a few studies make the variables of perception, expectation, and trust determinants of loyalty towards Islamic microfinance. For this reason customer perceptions and trust towards Islamic microfinance institutions need to be used as variables to examine customer attitudes towards the institutions [10]. The present authors also include expectations as an additional variable.

Based on the previous explanation, this research aims to analyze the effect of (1) public perception on saving participation in sharia cooperatives, (2) public expectations on saving participation in sharia cooperatives, and (3) public trust on the decision to save in sharia cooperatives.

## **1.1. Related Work**

### *1.1.1. Saving Participation*

According to Davis (2000:142), participation is a person's mental and emotional involvement in a group that encourages him to contribute to group goals and take responsibility for his involvement. This means that participation is a symptom of democracy where people are included in planning and implementation and also take responsibility according to their level of maturity and level of obligation.

Saving is the act of someone setting aside some of the money he has to save. Saving is one way of managing money to achieve desires. In the context of LKMS, community-saving participation shows customer loyalty.

Customer loyalty is formed due to the accumulation of purchasing experience and product usage [11]. In general, it can be measured by indicators of loyalty to purchase the product, to be resistant to negative rumors about the company, and to refer to the total existence of the company [12]. Customer or partner loyalty to an Islamic microfinance institution is the same as the above three Kotler indicators. Islamic microfinance institutions always prioritize their services to customers and business partners.

A plethora of studies on loyalty in the marketing field is based on two aspects, behavior and attitude. The behavioral aspect explains loyalty as behavior, in which a consumer has good loyalty if in a certain period of time he continues to buy an item or service systematically. In terms of customer loyalty to Islamic

microfinance institutions, it can usually be seen by how long customers use the institution's products [13]. It provides a realistic explanation of how the performance of a company compares to others. However, this behavioral loyalty has been the target of criticism because it is considered to lack an underlying concept and cannot fully explain dynamic and complex consumer behavior [9]. In fact, most experts argue that making the basis of loyalty measures through this approach opens the way for very basic consumer false loyalty [14]. It could be said, in the context of Islamic microfinance institutions, the application of a customer behavior approach to purchasing products or services cannot distinguish their level of loyalty since they may use the products because of cost or convenience only. Therefore, customer loyalty based on behavior is seen to be less accurate to explain the extent of its influence on the development of Islamic microfinance institutions.

The second approach is to study customer loyalty through attitude, or intention approach. Several references call it conative loyalty or attitude [15]. Loyalty intention is "a firm commitment of consumers to keep buying the product from the start" [16]. The intention to be loyal is not only about buying but also recommending the products to others and buying even though the price increases [17]. This opinion is in accordance with the Tripartite Theory of Attitudes, which explains that attitudes consist of three elements: conative, cognitive, and affective. According to this theory, behavior intention is a part of the conative attitude components [18]. Although the attitude approach is considered to have less predictive power than actual behavior, it is able to reveal the power of loyalty from disloyal to very loyal [15]. Thus, it is appropriate to be applied in conceptualizing and measuring customer loyalty toward Islamic microfinance.

### *1.1.2. Trust*

Trust is the belief that exists in a person regarding the fulfillment of all his needs in the future from the other party [19]. Trust is also defined as the confidence of a person or a company to depend on business partners [20] [21]. It occurs as a result of several interpersonal and inter-organizational factors such as kindness, honesty, integrity, and competence. Customer trust is everything that is known by the customer and all the conclusions he makes regarding benefits, objects, and attributes [22]. The trust factor can mediate the perception of customers or partners who deposit or save their funds in LKMS.

### *1.1.3. Perception*

Perception is a customer's process of selecting, organizing, and interpreting information about a product or service. Perception does not only depend on physical stimuli but also the stimuli related to the surrounding environment and the circumstances of the individuals

concerned [23]. Trust that has dimensions of customer confidence regarding the intent and behavior aimed at LKMS can encourage his perception toward the institution.

Public perception towards Islamic microfinance (LKMS) is a summary of the establishment of a good relationship between knowledge, feelings, experiences, beliefs, impressions, and what customers receive about Islamic microfinance institutions [24]. A positive customer assessment derived from good services and satisfied feelings will create a good perception that greatly influences customer behavioral intentions for the success of Islamic microfinance institutions in the future. In this regard, the researchers have been able to demonstrate the positive effect of perceptions on the behavioral intentions of customers towards Islamic microfinance institutions. This discussion, therefore, shows that customers' perceptions of Islamic microfinance institutions can mediate the relationship between customer loyalty intentions [25].

#### *1.1.4. Expectation*

Customer expectation is defined as a "high assumption for service that becomes the standard for good performance" [26]. Customer expectation is formed from many unpredictable factors, including consumers' experiences with other companies, the number of advertisements they see, psychological conditions when buying products or receiving services, customers' background, and product reputation [27]. Another thing, customer expectation for services is caused by several complex considerations, including making sure the right choice for themselves before using the product and seeing testimonials from others [28]. Customer expectations can be caused by several relationships of various levels of satisfaction experienced [29]. This could be based on experiences before using the product and getting comprehensive information through advertisements, or perhaps testimonials of other customers. Customer expectations can be seen as a pre-consumption attitude before using the next product, and it may also involve past experiences [30].

Public expectations of a company are what people want to receive. Various definitions of expectations have provided an overview. In conclusion, it can be said that expectation is an unpredictable factor, due to past experiences, advertisements, customer perceptions of usage, background, attitude, and product reputation. Another thing, customer expectations are determined by beliefs before making a purchase, obtaining information through other customer testimonials, the desire to meet individual needs, consuming experience, and other personal attitudes. Each customer has different expectations based on the information they believe about the product or service.

The expectation is customer satisfaction implemented in three dimensions, namely: price,

service, and perception [31]. Customer perception becomes important in evaluating these three dimensions. In this current case, if customers have positive perceptions and positive attitudes towards the services or savings of LKMS, affective loyalty can be achieved.

## **1.2. Our Contribution**

This research contributes to broadening the understanding of LKMS administrators and managers about the importance of increasing public trust through perception and expectation factors.

## **1.3. Paper Structure**

This research is structured as follows. Part 1 gives an introduction to this research, which includes the variables used and research contribution. Part 2 presents a framework based on the research hypothesis. Part 3 is the research methods. Part 4 reveals the results and Part 5 gives conclusions and provides direction for further research.

## **2. BACKGROUND**

### ***2.1. Perceptions on Trust***

Consumer perceptions of the consistency and honesty of retailers are found to be a strong influence on consumer trust [32]. In the context of LKMS, consumers are people who have actively become members. People's perceptions of LKMS are formed because of various experiences in various ways, it can be through relationships between managers, the quality of the services, or past experience of using the products. Good perception is believed to increase public trust towards LKMS; therefore, a hypothesis is proposed.

#### **H1: Perception has an effect on Trust**

### ***2.2. Expectations on Trust***

A customer's level of trust is based on various personality traits that lead to general expectations. The tendency of customers to trust a product is general, it exists to adopt the attitudes of others and to show confidence in other people [33]. In the context of LKMS, people expect that LKMS is different from conventional financial institutions. LKMS should be a top priority of Muslims when they search for a financial institution where it can provide Islamic services, guaranteed halal products, and good role models managers. The fulfillment of these community expectations can increase people's trust in LKMS.

#### **H2: Expectation has an effect on Trust**

### ***2.3. Trust on Saving Participations***

One's trust allows him to interact with another party in an uncertain place, even knowing that there is a possibility to have a future relationship with a certain number of probabilities [34]. Financial institutions must

have a very high level of trust from the public in order to survive and increase their growth. The high interest of the community to save in LKMS is one indication that the institution has succeeded in gaining the trust of its members.

**H3: Trust has an effect on Saving Participations**

**2.4. Perception affects saving participation through the role of trust**

Public trust in LKMS is formed by perceptions of experience after using LKMS' products. The better the public perception, the more trust they will put in LKMS. Further, the public's perception indirectly affects their trust to save in this institution.

**H4: Trust mediates perceptions of Saving Participations**

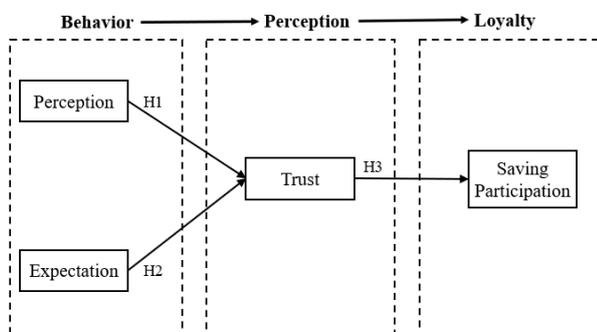
**2.5. Expectation affects saving participation through the role of trust**

Along with increasing public knowledge of the importance of participating to develop LKMS, the institution must strive to improve its performance to meet the members' expectations. This expectation will not exist if the perception towards LKMS is still not good.

**H5: Trust mediates expectations of Saving Participations**

The above variables of this research are presented in the following framework of thinking.

**Figure 2** Framework of Thinking.



Based on the background above, the formulation of the problem raised in this study is “do perception, expectation, and trust impact public loyalty towards Islamic cooperatives?”

**3. METHOD**

This study used a quantitative method to observe the relationship between variables based on numerical calculations (statistics). Primary data were taken from responses to questionnaires about perceptions, expectations, and trust towards LKMS. The population of this study was members of sharia cooperatives in the Greater Bandung area with a sample of 213 customers or LKMS partners.

Data analysis was carried out by measuring the model construction and the relationship between variables using the Multivariate Structural Equation Modeling (SEM) – Partial Least Square (PLS) technique, better known as the second generation of multivariate analysis [35]. It was used because it is a variance-based structural equation analysis (SEM) that is able to test the measurement of the structural model. The measurement was used to test the model's validity and reliability while the structural model was employed to test causality (testing hypotheses with model predictions).

**Table 1.** Demographic characters of respondents.

Variable	Description	Customer
Gender	Male	137
	Female	76
Age	<25	24
	25-35	63
	35-45	91
	>45	35
Highest education level	High School	97
	Bachelor/Diploma	99
	Post Graduate	17
Job	Student	7
	Civil Servants	-
	Private Employees	121
	Entrepreneur	42
	Other	43
Length of being a customer	1 year	35
	1-3 years	43
	3-5 years	42
	>5 years	93

**4. RESULTS**

The test results using the WarpPLS 6.0 application for the calculation of model fit are as follows:

**Table 2.** Model Fit Analysis.

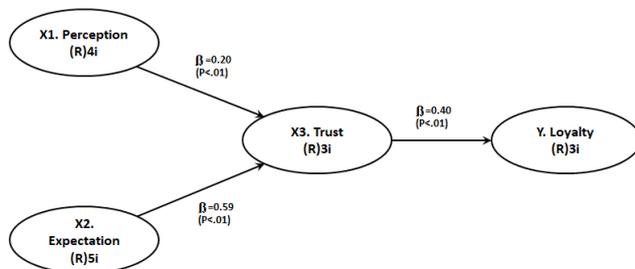
Criteria	Score	P-Value	Terms	Result
Average path coefficient (APC)	0.281	<0.001	<0.05	Significant
Average R-squared (ARS)	0.508	<0.001	<0.05	Significant
Average adjusted R-squared (AARS)	0.502	<0.001	<0.05	Significant
Average block VIF (AVIF)	2.300	-	<5	No Multicollinearity

Based on the results of testing the validity and reliability of variables through Path Analysis using PLS-SEM, the effects of each variable are presented in the following table:

**Table 3.** Hypothesis Testing Results

Variables	Coefficient ( $\beta$ )	P-Value	Conclusion
Relation of perception and trust	0.20	0.01	Significant
Relation of expectation and trust	0.59	0.01	Significant
Relation of trust and saving participation	0.40	0.01	Significant
Relation of perception through trust and saving participation	2.66	0.007	Significant
Relation of expectation through trust and saving participation	5.12	0.00	Significant

In accordance with Table 3, the results of hypothesis testing on the direct relationship between variables can be seen from the following figure:



**Figure 3** Result of Testing Model

The analysis results show that perception has a significant positive impact on trust with the coefficient value of 0.20 ( $p < 0.05$ ).

Expectation has a significant positive impact on trust with the coefficient value of 0.59 ( $p < 0.05$ ).

Trust has a significant positive impact on loyalty with the coefficient value of 0.40 ( $p < 0.05$ ).

**5. DISCUSSION**

The results of this study indicate that the effect of perception and expectation on the loyalty of Islamic Microfinance savers is significant. The result has

implications for increasing sharia supervision and improving the quality of Indonesian sharia microfinance services in the future.

Based on the results of WarpPLS data processing, (1) Hypothesis 1 (H1) states that Trust (X3) mediates the relationship between Perception (X1) and Saving Participation (Y) positively. This shows that H1 is accepted or Perception (X1) has a positive and significant effect on Trust (X3). (2) Hypothesis 2 (H2) states that Trust (X3) mediates the relationship between Expectations (X2) and Saving Participation (Y) positively. This shows that H2 is accepted or Expectations (X2) has a positive and significant effect on Trust (X3). (3) Hypothesis 3 (H3) states that Trust (X3) has a positive and significant effect on Saving Participation (Y). Trust (X3) mediates perceptions (X1) and expectations (X2) because neither X1 nor X2 can be directly related to saving participation (Y). Good perceptions and high expectations of the community towards LKMS do not necessarily make them interested in saving. The community will continue to look for supporting factors, either directly or indirectly, on the performance of the LKMS which can increase their level of trust towards the institution.

**6. CONCLUSION**

From a managerial review, this research can be used as a guideline to create systems and standard operating procedures to gain customer loyalty. Islamic microfinance institutions must establish a Shariah Advisory Board so that all activities and operations of the institution can be monitored guaranteed that their activities are in accordance with sharia. This can increase customer trust in the institution.

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