

# Effect Bank Reputation, Income and Disclosure of Accounting Information to Sharia Bank Preferences

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## ABSTRACT

Sharia banking is the progressing indicators of the Islamic economy in Indonesia. One of problems faced by Sharia Banking in Indonesia is the interest to Sharia Bank. It is caused by the lack of information and public knowledge of Sharia Banking. There have been many studies on customer preferences for Sharia Banking in Indonesia, but they are still few if it is compared to research on conventional banking. This objective of this research is to analyze the factors of preferences in choosing Sharia Bank. These factors include bank reputation, income and disclosure of financial information by Sharia Bank. The sample of this study is the students from the Accounting Department, Padang State University. The analysis was carried out through multiple linear regression analysis to test the student preference factors to Sharia bank. 140 research respondents were obtained, the accounting students. The respondents were divided into 2 groups which are the student who have and students who have not taken Sharia accounting courses. The research resulted that reputation related positively to the choose of Sharia Bank. While accounting information disclosure and income didn't have any effect to the preference of Sharia Bank.

**Keywords:** *Islamic banking, preferences, bank reputation, accounting information disclosure*

## 1. INTRODUCTION

The economic condition of a country is influenced by the banking activities in its country. Banking role as a financial intermediary institution, that collects funds from the economic surplus in the form of savings and then distribute it to the economic deficit in the form of credit or financing [1]. One type of banking is Islamic Bank where Sharia Bank, a bank that has business activities based on Islamic or sharia principles. Islamic banking plays a role as a facilitator of people's economic business, as an empowering people's economy, as well as a driver of income distribution [1]. This is manifested in the contribution of Islamic banking in bridging working capital, especially supporting the growth of small businesses.

Islamic banks, like banks in general, act as a medium for saving and distributing public funds. This

fund distribution activity is realized in the form of loans or known as financing. Profits from utilizing funds from customers that are channeled into various businesses will be distributed to customers. The amount of profit distributed is fluctuating, based on the company's financial development, which means the greater the profit achieved, the greater the profit sharing will be obtained, both for customers and for Islamic banks. In Islamic banking, the bank acts as an investment manager from the owner of the funds for the investments deposited in the bank. The relationship between Islamic banks and customers in the practice of Islamic banking is a partnership. One of the factors drive the increase of Islamic banks is the profit-sharing mechanism based on profit sharing.

Islamic banks, peculiarly in Muslim-majority societies, have high competitiveness to advance.

However, the position of conventional banks which is still dominated even in Islamic region cannot be neglected.

The development and growth of Islamic banks in Indonesia has not been as well as public knowledge and understanding of Islamic banking systems and operations. Although sharia banking continues to grow every year, there are still many Indonesian people who do not know how Islamic banks carry out their operations and business activities.

The issue of stability of Islamic banking against economic crisis needs to be taken into account as the strength features. The financial crisis in Indonesia in 1998 brought down most of conventional bank and left a surviving Islamic bank.

In conventional banks, one of the considerations for someone in choosing to save their money is the interest rate. The higher the interest rate offered; the amount of money saved in the bank will be increase. While in Islamic banks, religious factors are the main factors that encourage people to save in Islamic banks. Most Muslims invest in Islamic banking products and services for religious reasons without knowing the economic benefits. They put full trust in the bank to handle their funds and avoid unwanted activities [2]. The existence of security guarantees for public deposits, as well as available information about the development of the banking industry are also services that assist customers in making decisions. In addition to religious factors, external factors also influence customer decisions, for example the encouragement from parents, relatives, friends, bank employees, and scholars who influence customers to save in Islamic banks [3].

In addition, there are several factors driving customer preferences for Islamic banking, including bank reputation, reliability, profit and cost factors, service quality, bank facilities, sharia compliance, and sharia bank prospects which obtained from sharia bank information. In addition, other important factors are: the easy of using, quality of interaction with customers, the convenience, convenience and availability of outlets or branch networks, and the less important is the bank's electronic services [4].

So, it can be stated that there are internal and external factors of customers that influence customer preferences for Islamic banking. For this reason, it is necessary to identify and analyze the factors that lead to the preference for Sharia banking in Indonesia

## **2. STUDY LITERATURE**

Preference defines as choosing between several alternatives, or interest in something. Preference is a trait or desire to choose [5]. According to Doris Grober, generally, media preference asks media users to rank user preferences for a media [6]. From this understanding, it can be concluded that preferences are choices made by consumers on the products they consume. These preferences will also determine what products consumers will buy to meet their needs.

The theory of constraints (TOC) is the theory that underlies customer preferences for Islamic banks. Mabin & Balderstone [20] stated that the theory of constraints is when an organization has a problem in its company and tries to find a solution to solve that problem. The Sharia banking industry needs to immediately resolve problems related to the number of its customers. Sharia banking has a shortage of customers so that the development of assets and market segmentation is lower than conventional banks. Sharia banking needs to find reasons or factors

that affect the willingness of the public in general and students in particular to save in Islamic banks. If the bank knows these factors, the problem will be resolved and new customers will come.

The reputation or image of a company is very important in building trust from the community, partners and company clients. Leblanc & Nguyen [9] describes a company's reputation as a corporate identity where consumers can evaluate and compare their level of satisfaction with the company. Flavián et al [10] argue that corporate image is a significant variable that affects customer trust, including in financial markets.

On the other hand, the information of an organization is useful for customer. If they know the Sharia bank information which they trust to keep their money, it is because they know that Sharia banks have experience in managing their funds. Complete information about the bank also applies to non-Muslim customer. They need complete information about Sharia banks to support their decision in choosing a bank. This means that customer with and without Islamic backgrounds consider bank information when making decisions to become bank customers.

Personal income is defined as all types of income, including income earned without providing any activities. Income will be ready at any time to be spent if there is nothing in the income that still has to be paid [11]. Income that is ready to be used and spent is termed disposable income. If the personal income is reduced by the tax that must be paid by the recipients of the income, the remaining value is called disposable income [12].

There is a lot of literature related to the preference factors for financial products and services over the last two decades [7]. Among the items of

customer preferences are suggestions and recommendations of friends and relatives, availability of credit, bank services, availability of ATMs, convenient location, adequate bank opening hours, return on investment, friendly personnel, understanding of financial needs, special bank name services. Dusuki and Abdullah [8] found that customer preferences often depend on the quality of services provided by Sharia banks.

According to Abdullah, Sabar, Wahab and Abu's research [13], it is concluded that attitudes, gender of financial management, and level of education have a significant influence on Islamic financial literacy. Andespa [14] found that the factors that influence customer interest in saving are age and life cycle, beliefs and attitudes, motivation, personality and self-concept, lifestyle and learning.

Dewanty and Isbanah [15] found that the socioeconomic status of parents had no effect on financial literacy, while education, personal income, and age had a significant effect on financial literacy. Herawati [16] in her research found that gender had an effect on financial literacy while age, occupation and parents' income had no effect on financial literacy. Meanwhile, Faidah [17] in her research found that there was a positive and significant influence of financial literacy and demographic factors on student investment interest.

It can be concluded that the factors that influence the preferences of bank customers in general can be classified into external and internal factors [21]. The external factor is the sociological influence. Psychologically, people tend to rely on the recommendations of friends and family members, where there is an implied power of word of mouth, the factor of religiosity and consumer awareness.

This study will analyze the relationship between bank image and student preferences for Sharia banking. Previous studies included this factor in their research. Albaity & Rahman [18] concluded that the reputation of Sharia banks as corporate image plays an important role in determining consumer intentions to become customers of an Sharia bank. Kaakeh et al [19] further concluded in their research that reputation influences customer behavior towards Sharia banking in the UAE.

In addition to social influences, bank customer preferences may be influenced by specific factors that are internal to each bank. Convenience is a potential factor, also service and product quality. Convenience is measured by the location of the bank in relation to home and office, ease of parking and availability of ATMs. Likewise with the availability of prayer rooms, and state-of-the-art technology facilities owned by banks.

Other researchers set different criteria to measure customer perceptions. Various studies have shown that several criteria influence customers' perceptions of their banking choices. Nawi et al. [22] for example, tries to identify six general criteria for selecting Islamic banks. These elements are understanding the concept of sharia banking, sharia compliance, religious contradictions, quality and offerings, willingness to transact with sharia banks, as well as the prospects and potential of sharia banking. The prospects and potential of sharia banking can be seen from the financial information of the Islamic bank.

Research hypotheses can be see below:

1. There is a positive and significant relationship between the student's income and the sharia banking preferences

2. There is a positive and significant relationship between the bank reputation reputation and sharia banking preferences?

3. There is a positive and significant relationship between the disclosure of financial information and sharia banking preferences?

### **3. METHOD**

This study uses the variables of income, bank reputation and disclosure of financial statements on sharia banking preferences as the dependent variable. The sample of this study were students majoring in Accounting, Padang State University.

The sample of this study focused on students, because according to Chigamba & Fatoki [23] stated that students need savings to save money from their parents, to pay tuition fees or pay house rent. They need banks to save their money, so students are prospective bank customers.

The data were obtained through a questionnaire given to the research sample. The data obtained then be processed and analyzed to drawn a conclusion. Before the questionnaire was used as data, the validity and reliability of the questionnaire was first tested. Questionnaires that have met the requirements will be distributed to students as research samples.

### **4. RESULTS**

Before the proposed hypothesis was tested, the validity and reliability tests were first carried out on each question on the questionnaire. Validity test is a test used to determine whether a questionnaire is valid in obtaining data. A questionnaire is said to be good if it shows the level of validity. From the results of the validity test, it was found that all research data passed

the validity test with the product moment correlation value  $<0.05$ .

Reliability test is a test used to check whether the of the questionnaire is valid. In other words, reliable means trustworthy and powerful. Thus, reliability is a test to obtain information about the level of the efficacy of a questionnaire in obtaining data. According to Nunally in Sugiyono (1999) a variable is said to be reliable if it has a Cronbachs Alpha value greater than 0.6. Conversely, if it is smaller than 0.6 then it is not reliable. From the results of the reliability test obtained Cronbach Alpha value  $>0.6$ .

**Table 1. Results Coefficients<sup>a</sup>**

Model		Unstandardized		Standardized		t	Sig.
		Coefficients	Std. Error	Beta	Coefficients		
1	(Constant)	.707	.218			3.245	.001
	INCOME	.006	.019	.016		.310	.757
	IMAGE	.668	.092	.677		7.294	.000
	ACCOUNTIN G INFORMATIO N	.147	.095	.144		1.548	.124

a. Dependent Variable: PREFERENCES

**4.1 F Test**

To determine the simultaneous effect of the Income, Bank Reputation and Accounting Information variables on Student Savings Preferences in Islamic Banks, the researcher uses the F value and the significance value in the output data generated by IBM SPSS Statistics 25. If the significance value is  $<0.05$ , then the model used is used in research that deserves to be studied and the Fcount value is not less than Ftable, then Ha is accepted and Ho is rejected

**Table 2. F test**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.173	3	12.391	85.194	.000 <sup>b</sup>
	Residual	20.508	141	.145		
	Total	57.681	144			

a. Dependent Variable: PREFERENCES

b. Predictors: (Constant), ACCOUNTINGINFORMATION, INCOME, IMAGE

The first aspect identified in this study is related to bank reputation. Based on the results of hypothesis testing, it is known that bank reputation has a positive effect on Islamic banking preferences. These results are in accordance with research conducted by Rokhmat Subagiyo [24]. Factors of producer image, consumer image, and product image have a significant effect on customer decisions in choosing banking products. Reputation has a significant role when selecting a bank because the majority of customers are satisfied with the bank's reputation and status so they refer to the bank.

The next aspect to be studied is the effect of income on saving preferences in Islamic banks. From the test, it was found that income had no effect on the student's interest in saving at Islamic banks. This can happen based on the results of the questionnaire collected because student income comes only from pocket money given by parents, additional income allows students to only be able to use it to consume their daily needs and is less inclined to save. In Sadono Sukirno's [25] stated that one of the things that affect consumption and savings is income distribution. But in the statement, when "a large part of the population has an income that is only sufficient to finance their consumption and their savings are small". So, it is the

same with the results of this study that it is possible for students to have income that is only sufficient to finance their daily consumption so that the tendency to save is less.

The third factor studied was the effect of accounting information on students' saving choices. From the results of data processing, it is found that accounting information has no significant effect on student preferences for saving in Islamic banks. From the existing and processed data, it is known that the majority of students who are the research sample are students who have not taken Sharia accounting courses. Thus, the students who were the sample of the study did not acquire sufficient knowledge about Islamic accounting. This causes the availability of accounting information does not affect student decisions in making decisions to choose Islamic banking.

## 5. CONCLUSIONS

From the analysis and discussion related to the effect of income, bank reputation and disclosure of accounting information, it can be concluded that bank reputation is able to influence student decisions in determining preferences for Islamic banking. This means, the better the reputation of the Islamic bank, the higher the interest in saving in Islamic banking. This is because reputation is the main thing assessed in determining preferences or interests in something including the desire to choose Islamic banking by students. Another factor, namely student income and disclosure of accounting information, does not have a significant effect on interest in saving in Islamic banking. The income earned by students does not affect students' decisions to save in Islamic banking. This is because students do not have excess income that can be set aside for saving in Islamic banking. The

next tested aspect is that the disclosure of financial information also does not affect the decision to save in Islamic banking. This is due to the lack of information and knowledge of students regarding Islamic accounting applied to Islamic banking, namely how the principles and management of funds exist in Islamic banking.

For future research, it is recommended to expand the research sample from various students in different majors or samples from the wider community. In addition, it is hoped that further research will add other independent variables that may affect people's preferences in choosing Islamic banking.

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