

Credibility-Profit Chain in Indonesian Islamic Banking Industry

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ABSTRACT

The purpose of this research is to examine the influence of credibility toward satisfaction, customer loyalty and Islamic banks performance. It is also to know whether the satisfaction and customer loyalty mediates the effects of credibility toward performance of Islamic banks in Indonesia. The sample of this research is 269 respondents that taken using purposive sampling technique. The data analysis method is Structural Equation Modelling (SEM) using AMOS. The results showed that the credibility of Indonesian Islamic banks influenced significantly toward the satisfaction and customer loyalty. The customer satisfaction influences significantly toward the customer loyalty. The satisfaction and loyalty influence significantly toward the performance. Moreover, the satisfaction and loyalty can mediate the effect of credibility toward the performance. Unfortunately, the credibility has not direct effect on the performance. However, the credibility is the key driver for increasing perception of customer and profitability.

Keywords: *credibility, customer satisfaction, customer loyalty, Islamic bank performance*

INTRODUCTION

This study is based on the concept of the service-profit chain (SPC). It is developed by Heskett *et al.* (1994)¹. SPC is an integrated framework for understanding behaviours and perceptions of employee and customer in generating profits for the corporate. This study is also called a model of integrated corporate performance. Several studies have revised and developed this model. Anderson & Mittal (2000)² examine the attribute performance can create the customer satisfaction and retention and also can increase the profitability of the corporate. This study is known as the Satisfaction-Profit Chain concept. Some studies related to satisfaction are also reviewed by Xu & Geodegebuure (2005)³. They only see the relationship of satisfaction between employees and customers. In addition, Walker *et al.* (2006)⁴ do not only use satisfaction but also use the variable of internal service quality, customer value and the customer loyalty in the SPC model. The variables used by Walker *et al.* (2006)⁴ are the important factors in increasing the growth of the company.

SPC is viewed from a public point of view by Davis (2006)⁵. This study uses the ethical and organizational values in achieving organizational goals. This concept

is known as Public-Profit Chain. Furthermore, Zigarmi *et al.* (2009)⁶ explain that maintaining the quality of culture, managing quality, and setting initiative as corporate leadership strategy can ensure the effectiveness and productive behavior of employees that affect the effectiveness of the corporate. This study is known as a Leadership-Profit Chain concept. In addition, technology information system plays an important role in the SPC model of a competitive performance^{7,8}. All of the studies above do not consider the credibility as an important element in improving the integrated corporate performance model. Credibility is a major factor that can change the customer behavior and attitudes and can improve the corporate performance^{9,10}. Based on the previous studies, there are insufficient shreds of evidence to explain the affecting factors of the corporate performance which can be seen from the aspects of corporate credibility and the customer behavior.

LITERATURE REVIEW

Service-Profit Chain

Service-Profit Chain is a concept that looks at the perception of employees and customers for the profit of corporate in a long time. The profits and growth of the corporate are caused by customer loyalty. Customer

loyalty is the output of direct satisfaction. Satisfaction is largely effected by the value of services provided to consumers. The perceived value is affected by satisfaction and loyal employees. Satisfaction of employee results from services of high-quality and policies that allow employees to deliver results to the customers.

Performance

Performance is a measure of success that has been achieved by a corporate measured every time period¹². Stoner *et al.* (1995)¹³, firm performance is a measure of how well the organization does its work. Performance measures can be defined as an assessment of organizational behavior and a parameter used to quantify the efficiency and effectiveness of past actions¹⁴.

In addition, Venkatraman & Ramannujam (1986)¹⁵ classify two corporate performance, financial performance, and non-financial or operational performance. Operational performance is a company performance that is seen from a market perspective about the corporate activities. Ahmad *et al.* (2011)¹⁶ classify several indicators to measure company performance such as product quality, market share, internal process coordination, personal rotation, and profit. Wheelen & Hunger (2006)¹⁷, corporate performance can be measured by indicators of sales volume, market share, and profitability. Denison *et al.* (2017)¹⁸ explain that the corporate performance can be seen from the profitability, main corporate achievement, growth, innovation, and the rate of return on assets.

METHODOLOGY

In analyzing the relationship between credibility and Islamic bank performance, this research takes 269 customers of Islamic bank as the respondent taken by using purposive sampling technique. Purposive sampling

technique refers to the technique of collecting samples that appropriate with the purpose of the research based on certain characteristics such as their minimum age is 18 years old, have been the customer at least for one year, and have more than three times banking transactions within the last three months. The data collection is conducted by distributing the structured questionnaires during the period October to November 2017.

To measure credibility, we adopt and adapt the work of Oliver *et al.* (1997)³⁴ and Keller & Aaker (1998)²⁴ which has three dimensions, i.e. reliability, expertise, and attractiveness. These dimensions are measured in twenty indicators. Customer satisfaction has seven indicators. We adopt and adapt the study of Saad (2012)³³. Meanwhile, to measure customer loyalty, we adopt and adapt the work of Oliver *et al.*, (1997)³⁴. Customer loyalty has four dimensions, i.e. cognitive loyalty, affective loyalty, conative loyalty, and actions loyalty. These dimensions are quantified in eight indicators. We use the study of Ahmad *et al.*, (2011)¹⁶. to measure Islamic bank performance we use five indicators. The measurement scales, this study uses five-points Likert, ranging from 1 (strongly disagree) to 5 (strongly agree).

Result and Discussion

Demography

Table 1 show the respondent descriptive statistic in this research. A total of 280 questionnaires are distributed to customers but there are only 269 samples that can be used (96.1 percent of response level). In the case of genders, men are more dominant than women which are by 62.1 percent. The most dominant age is 41 until 50 years old which is by 31.6 percent. The most dominant professions are entrepreneurs and lecturer/teacher around 29.4 percent and 19.3 percent, respectively.

Table 1: Respondents Demography

Characteristics	Frequency	Percentage	Cumulative percentage
Gender			
Men	167	62.1	62.1
Women	102	37.9	100
Age (years old)			
18-20	23	8.6	8.6
21-30	44	16.3	24.9
31-40	66	24.5	49.4

Cont... Table 1: Respondents Demography

41-50	85	31.6	81.0
More than 50	51	19.0	100
Occupations			
Civil Servant/ Government	27	10.0	10.0
Private workers	39	14.5	24.5
Lecturers/ teachers	52	19.3	43.8
Police/ Indonesian Army	11	4.1	47.9
Entrepreneurs	79	29.4	77.3
University Students/ students	44	16.4	93.7
Others	17	6.3	100

RESULTS

The normality of research data can be examined by seeing the value of the critical ratio for skew and kurtosis. All values in the critical ratio for skew and kurtosis are in the range between 2.580 and + 2.580³⁶. It means that the data have distributed normally. In this research, there is no outlier data. However, normality and outlier tests have fulfilled the requirement of SEM

AMOS. The measurement model test is analyzed to know the accuracy of all combined constructs. Based on the Goodness of Fit Test criteria, it consists of the value of Goodness of Fit Index, Adjusted Goodness of Fit Test, Tucker-Lewis Index, Comparative Fit Index, Root Mean Square Error of Approximation, CMIN, and P-Value ³⁶. The measurement model indices reveal that the proposed model is fit and parsimony. It can be seen in Table 2.

Table 2: Goodness of Fit Test for Measurement Model

Criteria	Cut Off	Results	Conclusion
Chi-Square	-	95.275	Good
The Degree of Freedom	-	104	Good
The Goodness of Fit Index (GFI)	≥ 0.90	0.961	Good
Adjusted Goodness of Fit Index (AGFI)	≥ 0.90	0.942	Good
Tucker Lewis Index (TLI)	≥ 0.95	1.006	Good
Comparative Fit Index (CFI)	≥ 0.95	1.000	Good
Root Mean Square Error of Approximation (RMSEA)	≤ 0.08	0.000	Good
CMIN	≤ 2.00	0.916	Good
P-Value	≥ 0.05	0.718	Good

Thus, all variables can be measured in the proposed model. The results can be viewed in Figure 2.

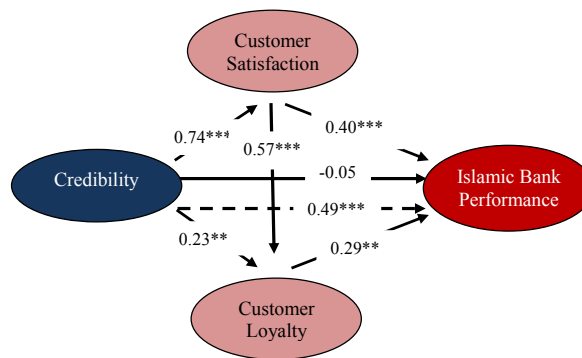


Fig. 2, Estimation of Relationships

Note: ***Prob.<0.01; **Prob.<0.05; *Prob.<0.10

DISCUSSION

In this study, the result of the first hypothesis test shows that credibility has no effect on the Islamic bank performance ($\beta = -0.49$, Prob. > 0.10). This result is contrary to the work of Cretu & Brodie (2009)³⁷ and Alam *et al.* (2012)³⁸ in which corporate credibility affects directly on the corporate performance. We argue that the Indonesian Islamic banks are more focused on the profit orientation than the customer orientation. Islamic banks implement a network expansion strategy to other regions so that they cannot focus on the existing customer services. Meanwhile, the key to the success of a service company is the focus on customers.

The result of the second hypothesis test reveals that credibility affects significantly on the customer satisfaction ($\beta = 0.74$, Prob. < 0.01). This finding is in line with the studies of Goldsmith *et al.* (2000)²⁰; Ghorban & Tahernejad (2012)³⁹; Ballentine (2006)²². The credible company increases the customer satisfaction. The customer measures positively the Islamic bank credibility and they are satisfied with the service and product of Islamic bank. The satisfied customer will maintain to continue to use the product²⁴. In prior finding, satisfaction is a strong desire to maintain a valuable relationship⁴⁰. The bank which has the expertise, reliability, and attractiveness can strengthen the trust of the customer on the bank. Furthermore, the high trustworthiness can maintain the valuable relationship.

The third hypothesis test reveals that credibility affects significantly on the customer loyalty ($\beta = 0.23$, Prob. < 0.05). This result is in line with the works of Kemp & Bui (2011)⁴⁰; Sallam (2014)³⁵; Matthews (2012)⁴¹. The credible Islamic bank will continue to conduct transactions in the long term and do anything for the bank. It is because the customer has the sense of caring. Therefore, the bank will feel proud and confident in the competition if it has loyal customers. Cretu & Brodie (2009)³⁷ argue that customer loyalty is the results of a highly credible bank. Furthermore, the customer will always loyal to the bank in long-term, convey positive information to others and recommend the others to use the product.

The fourth hypothesis test reveals that the customer satisfaction affects significantly on the customer loyalty. This result is in line with the study conducted by Akarapanich (2006)⁴². Customer satisfaction is predictor

variable for customer loyalty. If the customer is satisfied with the product or service provided, this will lead to the customer loyalty so that the customer makes a repeat purchase in the future. Customer satisfaction will reduce price elasticity, prevent competitors from attracting customers because they are reluctant to move and reduce costs and in the next transactions⁴³.

The fifth hypothesis reveals that customer satisfaction is significantly on the Islamic bank performance ($\beta = 0.40$, Prob. < 0.01). This is in line with the works of Keisidou *et al.* (2013)²⁹; Matthews (2012)⁴¹. Customer satisfaction can affect the company performance. Satisfaction as the ability of the organization to provide service performance that exceeds the customer expectations. Wills (2009)²⁹ added that customer satisfaction is the key to future business success in the long run. To build and gain the reputation of a corporation will take a long time and large investments are needed in a series of business activities to make the customers happy.

The sixth hypothesis test reveals that the customer loyalty affects significantly on the Islamic bank performance ($\beta = 0.29$, Prob. < 0.05). This result is in line with the works of Heskett *et al.* (1994)¹; Spiteri & Dion (2004)⁴⁴. Faithful customers will do word of mouth so that this condition can reduce some marketing costs and attract new customers, and finally the corporate makes profits.

The final hypothesis testing demonstrates that customer satisfaction is a mediator variable. The indirect effect of credibility on Islamic bank performance is 0.30 (0.74×0.40). This indirect effect is greater than the direct one, i.e. 0.05. Likewise, customer loyalty is a mediator variable. The indirect effect of credibility on the Islamic bank performance is 0.07 (0.23×0.29). This indirect effect is greater than the direct one, i.e. 0.05. In the context of Islamic bank industry, Islamic bank performance is not affected directly by credibility. Banks must carry out customer-oriented strategies and redevelop employee competencies regarding Islamic products.

Research Implication

The results of the study can provide an impact. It implies that to build the credible corporate, the bank should upgrade a set of employee programs to increase expertise and trustworthiness. The bank also should design products to attract the potential and innovative

customers. Moreover, the bank also leads to the employee to orientate for the customer. Besides, the results of this study have implications for the development of integrated corporate performance theories. By adding credibility to the SPC model, it can increase knowledge in the field of banking marketing. Credibility can affect the performance of Islamic banking through customer satisfaction and loyalty. The development of this theory is called Credibility-Profit Chain.

CONCLUSION

This paper examines the relationship between credibility and corporate performance in Islamic banking. By using customer satisfaction and customer loyalty as the mediator variables, this study confirms that credibility does not affect directly on the Islamic bank performance. Credibility affects positively and significantly on the customer satisfaction and customer loyalty. Customer satisfaction affects positively and significantly on the customer loyalty and Islamic bank performance. Customer loyalty affects positively and significantly on the Islamic bank performance. Meanwhile, the indirect effect of credibility on the Islamic bank performance through satisfaction and loyalty is higher than its direct effect of credibility on the customer satisfaction and loyalty. We argue that the Islamic bank in Indonesia is more profit-oriented than social orientation. Ayub (2007)⁴⁵, claims that the main purpose of Islamic banks is social.

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