The Influence of Customer Requirement on the Development of Value Creation and the Implication on Customer Loyalty (A Study at Islamic Bank in Jakarta)

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ARTICLE INFORMATION

ABSTRACT

The purpose of the study is to examine the effect of customer requirements and value creation on customer loyalty at Islamic Banks in Jakarta. This research was carried out based on a quantitative approach. Observations were made on a cross-sectional/one-shot time coverage, in 2022. Islamic Bank in Jakarta is the unit of analysis in this study, with the unit of observation is the customer of Islamic Bank in Jakarta. Causality analysis to answer the research objectives using PLS-SEM. This study took a sample of 100. The sampling technique used is stratified proportional random sampling. The test results support the hypothesis that customer requirements and value creation affect customer loyalty. This research produces managerial implications for the management of Islamic banks in Jakarta that to increase customer loyalty, it is necessary to develop value creation which is supported by a better understanding of customer requirements. Value creation needs to be prioritized on efforts to strengthen relationships with business partners.

Keywords: bank, customer loyalty, Islamic bank, customer requirement, loyalty, value creation.

INTRODUCTION

Islamic banking in Indonesia has attractive business and large market opportunities because the majority of Indonesia's population is Muslim, as well as opportunities for the country's development needs and the growing halal industry. However, Islamic banks in Indonesia are relatively not yet fully optimal in taking advantage of these business opportunities.

Serious competition and higher client expectations have made customer loyalty a real concern in banking industry. Fusva et al. (2020) in a study of 280 Islamic banks in Indonesia, found that customer loyalty is important in influencing the bank's financial performance.

There is relationship between customer value creation and customer loyalty (Rahmani et al., 2017). Meanwhile, Islamic banking tends to not fully implement the creation of value. The added value of the product is still limited to the basic product.

Sannes (2001) states that most banks have failed to exploit the potential of self-service banking. Meanwhile, the ability of Islamic banks to seize opportunities in the Islamic market is not optimal when compared to the number of Muslim populations in Jakarta.

Based on the above background, this study aims to examine the influence of customer requirements and value creation on customer loyalty at Islamic Banks in Jakarta.

This research was conducted at Islamic bank in Jakarta based on the criteria that Jakarta is the capital city which is a barometer for other cities in Indonesia.

LITERATURE REVIEW

Customer Requirement

The core concepts in marketing are related to need, want, and demand. Need is the human need for air, food, water and shelter. Need becomes want when directed to a particular object that can satisfy the need. Demands are wants for a particular product backed by the ability to pay. (Kotler and Keller, 2016).

Analysis of customer demands is a major concern for companies competing in the global market (Lina He et al. 2015). The customer needs management process basically embodies the mapping of customer needs in the customer domain, the domain against functional requirements, while exploiting a number of marketing and engineering problems. (Jiao and Chen, 2014).

The variable of customer requirement in this study refers to Kotler & Keller (2016) including: customer needs, customer wants, and customer demand.

Value Creation

According to Bowman and Ambrossini (2000), from the consumer side, value creation is related to increasing value which impact on increasing consumer loyalty. Haksever et al. (2004) convey three dimension of value creation: financial, non-financial, and time. Meanwhile, refer to Kotler & Keller (2012), customer value creation focuses on

customers based on core competencies in its business domain and collaborative network with business partners.

In this study, the value creation variable is assessed with refer to Kotler and Keller (2012), namely benefits, business domain, and business partner.

Customer Loyalty

Banks need to have a good understanding of their clients' behavior so that proper marketing strategies are guided towards relationship building and client maintenance (Yi & Jeon, 2003, in Rasheed et al. 2015). Gaining customer loyalty becomes a key goal for banking organizations that decide to adopt a relationship marketing perspective (Filip and Anghel, 2007). According to Griffin (2002), the characteristics of loyal customers are: make repeat purchases, buy outside the product/service line, and show immunity from the pull of competition.

The dimensions used to measure the customer loyalty variables of Islamic Banks in Jakarta are: repeat purchase, customer favor, and recommendations.

Hypothesis Development

The Influence of Customer Requirement on Value Creation

Bátiz-Lazo (2001) supports the view that financial services organizations and banks in particular, place greater emphasis on profit-related goals (ie supply-oriented) than growth driven by customer 'needs' satisfaction (ie customer-oriented approach). Sannes (2001) states that most banks have failed to exploit the potential of self-service banking because they base their service design on an incomplete business model for self-service. Based on the two studies, the hypothesis is formulated:
H1: customer requirement affects value creation

The Influence of Value Creation on Customer Loyalty

Rahmani et al. (2017) revealed a relationship between customer value creation and customer loyalty. Cossío-Silva et al. (2015) showed a significant relationship between value co-creation and loyalty attitudes. Value co-creation also significantly affects behavioral loyalty. Based on the two studies, the hypothesis is formulated:
H2: value creation affects customer loyalty

RESEARCH METHOD

This research was carried out based on a quantitative approach. Observations were taken on a cross section time horizon, namely in 2022.

The analysis unit in this study is Islamic Bank in Jakarta, with the unit of observation is the customer of Islamic Bank in Jakarta. Samples were taken as many as 100 respondents of Islamic bank customers in Jakarta. The sampling technique that used is stratified proportional random sampling.

Causality analysis used to answer the research objectives is composite-based partial least squares-SEM (PLS-SEM).

RESULTS

Recent years, composite-based partial least squares-SEM (PLS-SEM) has become increasingly popular in the social sciences because of its ability to handle abnormal data distributions, small sample sizes with many indicators and complex model relationships. (Hair et al., 2017a). The evaluation of the model in PLS includes two stages, that is evaluation of the measurement model (outer model) and the evaluation of the structural model (inner model).

Evaluation of Outer Model

The Outer Model explains the relationship of latent variables and observable indicators. The test performed on the outer model is:
a) Convergent Validity. The value of convergent validity is the value of the loading factor on the latent variable with its indicators. Expected value >0.50.
b) Composite Reliability. Data that has composite reliability >0.8 has high reliability.
c) Average Variance Extracted (AVE). The expected AVE value is >0.5. Below is an image of early calculation result processed with SmartPLS3.0 application.

The loading factor of the observed variables > 0.5 (valid) that all the variables are adequate to use in the model with p. value < $0.05(\alpha)$. AVE value for dimensions > 0.5 and research model has sufficient convergent validity. Composite reliability value as each latent variable has value above 0.7 that all latent variables have high reliability measurement. The validity and reliability can be shown in Tabel 1 (see Appendix).

Evaluation of Inner Model (Structural Model)

Inner model describes the relationship of latent variables based on substantive theory. The inner model was evaluated with R-square, Q^2 and GOF values. R^2 is the percentage of variance that can be explained by endogenous latent variables. R^2 ranges from 0 to 1, with higher values indicating greater strength. As a guideline, R^2 values of 0.75, 0.50, and 0.25 can be considered substantial, moderate, and weak, respectively, across many social science disciplines (Hair, Ringle, & Sarstedt, 2011). Acceptable R^2 values are based on the research context, and in some disciplines, R^2 values as low as 0.10 are considered satisfactory (e.g., Raithel, Sarstedt, Scharf, & Schwaiger, 2012).

GOF was used to validate between measurements and structural models where the values were < 0.25 is small), 0.25-0.36 medium and > 0.36 is large. Prediction Relevance (Q-Square) is a test to determine predictive ability with blindfold procedure. If the Q-Square value is 0.35 (large), 0.15 (medium) and 0.02 (small). Table 2 (see Appendix) describes the evaluation of each construct. The R-square value is moderate to strong, GOF is in the large category and the Q-Square is large and GOF is > 0.360 then the model is fit.

Hypothesis Testing

The results of the hypothesis testing is shown in Table 3 (see Appendix) which show that customer requirement and value creation have significant effect on loyalty (p value < 0.05), both have R^2 = 0.505, and Value creation has a dominant effect with R^2 of 0.433.

DISCUSSION

The hypothesis testing result produce the findings model:
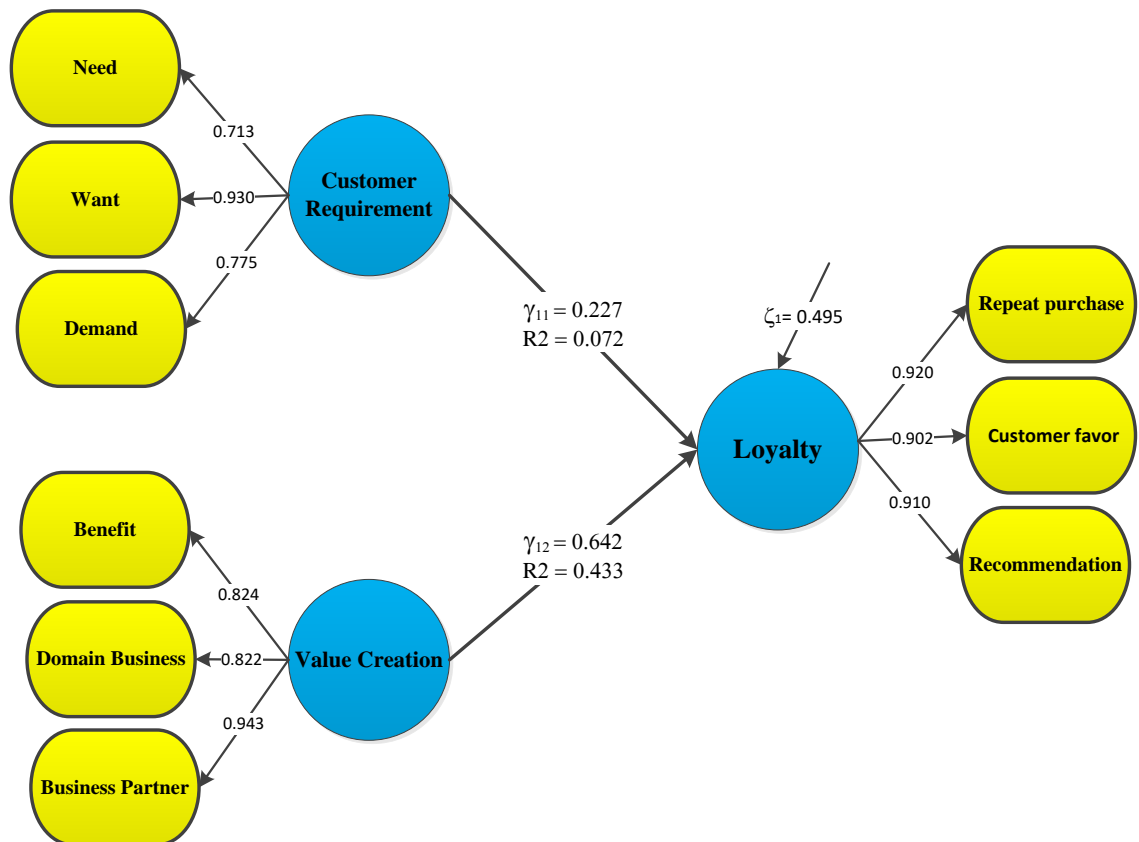
Figure 1. Finding Model

Figure 1 illustrates that value creation has a greater influence than customer requirements in forming customer loyalty for Islamic bank customers in Jakarta.

Of the three dimensions of value creation, business partners have a bigger role compared to benefits and business domain. The formation of Islamic bank customer loyalty is influenced in large part by the extent to which Islamic banks are able to build partnerships and close relationships with their partners, such as with large companies, industry associations, government institutions, or MSMEs.

Customer Requirements also have a significant influence on customer loyalty. Customer want has a greater influence than demand and need. What customers want when using Islamic bank services, such as profitable profit sharing, ease of processing, ease of transactions, or ease of filing complaints.

CONCLUSION

This study shows that customer requirements and value creation affect customer loyalty. Customer loyalty is more dominantly formed by value creation than by customer requirements.

The managerial implication generated in this research is that the efforts to be made by the management of Islamic banks in Jakarta to increase customer loyalty can be done by developing value creation which is supported by a better understanding of customer requirements. Value creation needs to be prioritized on efforts to strengthen relationships with business partners. In addition, management also needs to better understand the "want" aspect of customers so that they become more loyal.
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APPENDIX

Table 1. Validity and Reliability

Varible	Dimension-Indicator	Original Sample (λ)	Standard Error (STERR)	T Statistics ($|\lambda/STDEV|$)	Prob.	Composite Reliability	Average Variance Extracted (AVE)
Loyalty	Loyalty -> Repeat purchase	0.920	0.023	40.801	0.000	0.789	0.651
	Loy1 <- Repeat purchase	0.786	0.063	12.417	0.000		
	Loy2 <- Repeat purchase	0.828	0.030	27.190	0.000		
	Loyalty -> Customer favor	0.902	0.025	36.487	0.000	0.859	0.752
	Loy3 <- Customer favor	0.860	0.033	25.807	0.000		
	Loy4 <- Customer favor	0.875	0.027	32.826	0.000		
	Loyalty -> Recommendation	0.910	0.021	44.268	0.000	0.839	0.723
	Loy5 <- Recommendation	0.861	0.028	31.260	0.000		
	Loy6 <- Recommendation	0.839	0.052	15.995	0.000		
customer requirement	customer requirement -> Need	0.713	0.057	12.464	0.000	0.794	0.659
	CR1 <- Need	0.791	0.106	7.449	0.000		
	CR2 <- Need	0.832	0.057	14.592	0.000		
	customer requirement -> Want	0.930	0.019	48.073	0.000	0.766	0.356
	CR3 <- Want	0.510	0.125	4.072	0.000		
	CR4 <- Want	0.595	0.081	7.320	0.000		
	CR5 <- Want	0.541	0.083	6.517	0.000		
	CR6 <- Want	0.618	0.060	10.227	0.000		
	CR7 <- Want	0.715	0.056	12.686	0.000		
	CR8 <- Want	0.581	0.091	6.387	0.000		
	customer requirement -> Demand	0.775	0.047	16.426	0.000	0.704	0.546
	CR9 <- Demand	0.822	0.106	7.760	0.000		
	CR10 <- Demand	0.646	0.145	4.452	0.000		
Value creation	Value creation -> Benefit	0.824	0.057	14.381	0.000	0.834	0.715
	VC1 <- Benefit	0.831	0.050	16.452	0.000		
	VC2 <- Benefit	0.861	0.028	30.433	0.000		
	Value creation -> Domain Business	0.822	0.045	18.188	0.000	0.813	0.686
	VC3 <- Domain Business	0.885	0.019	45.475	0.000		

	VC4 <- Domain Business	0.767	0.081	9.449	0.000		
	Value creation -> Business Partner	0.943	0.012	78.569	0.000	0.839	0.568
	VC5 <- Business Partner	0.776	0.050	15.389	0.000		
	VC6 <- Business Partner	0.816	0.039	20.753	0.000		
	VC7 <- Business Partner	0.680	0.076	8.989	0.000		
	VC8 <- Business Partner	0.735	0.066	11.106	0.000		

Table 2. Evaluation of R-Square and GOF

Construct	R Square	Communality	GOF
Value creation		0,488	0,651
customer requirement		0,317	
Loyalty	0,505	0,587	
Benefit	0,679	0,715	
Business Partner	0,890	0,568	
Customer favor	0,813	0,752	
Demand	0,601	0,546	
Domain Business	0,676	0,686	
Need	0,508	0,659	
Recommendation	0,828	0,723	
Repeat purchase	0,846	0,651	
Want	0,865	0,356	

Table 3. Testing of Hypothesis

Hypothesis	Path Coefficients (gij)	Standard Error (STERR)	t Statistics	Prob.	R^2	Conclusion
Customer Requirement -> Loyalty	0,227*	0,088	2,566	0,012	0,072	significant
Value creation -> Loyalty	0,642*	0,099	6,512	0,000	0,433	significant

*significant at α=0.05 (t table = 1.98)