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Customer Loyalty in Islamic Bank with Satisfaction as Moderator and Mediator. Is it Matter?

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Abstract

The principal objective of this study is to delve into the unwavering loyalty of customers of Islamic banks operating in the province of Riau. The researchers utilized service quality, trust, and satisfaction as exogenous variables, while customer loyalty was considered as the endogenous variable in the conceptual model. In addition, satisfaction was employed as both a moderating and mediating variable in the data analysis using variance-based SEM. The riveting findings of the study revealed that the exogenous variables wielded a significant influence on the endogenous variables. Moreover, it was discovered that the association between service quality and trust in loyalty was not significantly moderated by satisfaction. However, satisfaction, acting as a mediating variable, indirectly and significantly mediated the impact of service quality and trust on loyalty. These groundbreaking findings are sure to add immense value to the academic literature, particularly in the under-explored domain of customer loyalty in Islamic banks. By introducing satisfaction as a moderating and mediating variable, this study challenges the status quo and widens the scope for future research.

Keywords: Service quality, trust, satisfaction, customer loyalty, Islamic Bank

INTRODUCTION

Success within the cutthroat banking industry necessitates unyielding efforts towards improving service quality on a constant basis. As the number of players entering this sector continues to rise, so do competition levels. The Financial Services Authority (Otoritas Jasa Keuangan/OJK) revealed Indonesia had 107 banks operating in the country as of January 2022. Banking corporations must place a strong emphasis on customer satisfaction when crafting their marketing strategies to retain clients effectively. Islamic banks fulfill an integral role in our financial system by observing Sharia principles while functioning as intermediaries, gathering funds from third parties before redistributing them via efficient financing systems. Founding these entities aims at introducing Islamic traditions into finance and banking transactions with optimal outcomes (Permatasari and Yulianto, 2018).

Table 1. Indonesian Islamic Banking Office Networks in 2022

Banking Institution	Number of Institutions	Number of Offices
Sharia Commercial Bank	12	1,813
Sharia Business Unit	21	440
Sharia People's Financing Bank	165	660
Total	198	2,913

Source: OJK, 2022

Indonesia has a thriving Islamic economy and finance industry, being one of the countries with the largest Muslim population in the world. The halal industrial ecosystem has played a significant role in this development. As of December 2021, the total Islamic financial assets in Indonesia (excluding sharia shares) have reached Rp 2,050.44 trillion or US\$ 143.70 billion, consisting of Islamic banking assets, Islamic Non-Bank Financial Industry (IKNB) assets, and Islamic capital market assets. This presents a potential

market for investors and businesses looking to capitalize on the Islamic economy and finance industry (OJK, 2021).

Indonesia's Islamic banking sector has come a long way and has achieved remarkable growth by expanding its services throughout the country. The diverse range of products and services offered by Islamic banking has led to various achievements. During a crisis, Islamic banks have shown exceptional resilience compared to conventional banks. As per Table 2, the top indicators of Islamic banking in Indonesia have shown consistent growth. The primary indicators of Islamic banking in 2021 are higher when compared to the previous year, indicating steady growth and resilience. The rise in Total assets, Disbursed Financing and Third-Party Funds signifies that more people have faith in investing in Islamic banks. It is impressive to see the sector's growth and development, and it is a testament to the trust that people have shown in Islamic banking.

Table 2. Primary Indicators of Indonesian Islamic Banking

	Assets (In trillion rupiah)		Disbursed Financing (In trillion rupiah)		Third-Party Funds (In trillion rupiah)	
Year	2020	2021	2020	2021	2020	2021
Total	608.90	693.80	394.63	421.86	475.00	548.58

Source: OJK, 2022

Islamic banks' remarkable performance is inextricably linked to the numerous and diverse challenges and obstacles they have encountered. Notably, their market share currently stands at a mere 6.74% (as reported by OJK in 2021). This is particularly significant when compared to their conventional banking counterparts, who boast a staggering 29,453,808 customers as of April 2022 (according to OJK's report for that year). However, the fact that Indonesia has a potential population of over 275 million individuals, of which over 86% are Muslim, implies that only approximately 11% of the populace are customers of Islamic banks. This, undoubtedly,

presents a daunting challenge for Islamic banks to enhance and enrich their products and services to remain competitive and retain customer loyalty.

When scrutinized from a fundraising perspective, it becomes apparent that the meteoric surge in customer growth between 2019 and 2021 can be attributed to a corresponding uptick in the Third-Party Funds amount (as illustrated in Table 3). It is imperative to note that Islamic banks' capacity to amass and accumulate Third-Party Funds serves as a veritable catalyst for asset growth, which is widely regarded as the preeminent barometer of Islamic banking performance. Thus, the palpable expansion in Islamic banks' market share is undeniably attributable to the precipitous rise in the number of customers availing themselves of their services.

Table 3. Growth of Customers and Third-Party Funds of Islamic Commercial Banks in 2019 - 2021

Year	Total customer	Amount (In billion Rp)	Growth (%)	
			Customer	Third-party funds
2019	27.015.606	416.150	11,02	11,92
2020	30.537.385	465.977	13,04	11,97
2021	35.145.095	536.992	15,09	15,24

Source: OJK, 2022

Loyalty is a crucial concept in the world of business and marketing. According to Kotler and Keller (2012), it is the commitment of customers to continue using a specific product or service, even when there are other options available or external factors that could influence their decisions. Lovelock and Wright (2018) also define loyalty as the voluntary choice of customers to continue trading with a particular company over a prolonged period. Oliver (2010) emphasizes that loyalty represents a deep-seated commitment on the part of customers to repurchase selected products or services in the future, despite the potential influences of situational factors and marketing efforts. Loyal customers are more likely to utilize products or services over an

extended period, contributing significantly to an enterprise's long-term growth and profitability.

The notion of service quality is critical in understanding customer satisfaction and loyalty. According to Zeithaml and Gremler (2017), service quality is the gap between customer expectations and perceptions, indicating the extent to which a company's services can meet or exceed consumer expectations. The ability to provide top-notch services is a crucial determinant of customer loyalty, and it aligns with the teachings of Islam. As stated in Surat Al Baqarah verse 267, "O you who believe! Spend on the good things which you have (legally) earned, and of that which We have produced from the earth for you, and do not aim at that which is bad to spend from it, (though) you will not accept it save if you close your eyes and tolerate therein. And know that Allah is Rich (Free of all wants) and Worthy of all praise."

In the realm of business, trust is a fundamental aspect of establishing a genuine and reliable relationship between two parties. According to Usman (2017), trust is based on quality, ability, benevolence, and integrity, and when both parties have confidence in each other, an honest and trustworthy relationship can be established. Building trust takes time and effort, and it is critical for companies to maintain this trust to keep long-term relationships with their customers. Trust can also function as a bridge to tolerance between companies and their customers, serving as a means of bonding (Jasfar, 2019). On the other hand, customer satisfaction is a crucial factor in maintaining a company's relationship with its customers. According to Kotler and Keller (2016), customer satisfaction is the feeling of contentment or dissatisfaction that a person experiences after comparing the product's results with their expectations. It is an emotional response that can range from anger and dissatisfaction to happiness and pleasure (Lovelock & Wright, 2017).

Recent research by Oktaviani and Gaddafi (2018) discovered that trust has a substantial and affirmative effect on brand loyalty. Many previous studies also support this idea that trust plays a pivotal role in developing consumer loyalty. According to Nguyen et al. (2020), service quality has a significant affirmative impact on loyalty. Dewi et al., (2021) posit that satisfaction also has a significant affirmative influence on loyalty. Satisfaction was found to function as a mediator between loyalty and service quality (Mulyono et al., 2020).

In the present study, the aim is to explore the relationship between customer loyalty and satisfaction in an Islamic banking context. The study seeks to determine whether satisfaction functions as a moderator or mediator in the relationship between customer loyalty and other contributing factors. Through this research, the underlying mechanisms driving customer loyalty in Islamic banking can be better understood, and strategies for enhancing customer satisfaction and loyalty can be identified. This research is critical because customer loyalty is a vital factor for the sustainability and success of Islamic banks, given their unique features and adherence to Shariah principles.

The investigation of satisfaction as a moderator and mediator is crucial in comprehending its substantial impact on the linkages between customer loyalty and other relevant variables, namely service quality and trust. Consequently, by analyzing the moderating and mediating influence of satisfaction, a deeper understanding of the intricate interplay between customer loyalty and other key determinants in Islamic banks can be obtained. This research can provide Islamic banks with important recommendations to improve their customer loyalty strategies and increase their competitiveness in the market. Moreover, this study can contribute to the literature on Islamic

banking, which is still developing and evolving. Therefore, this research is both significant and timely.

Literature Review and Hypotheses Development

Loyalty

Customer loyalty refers to the degree of commitment a customer has towards a brand, store, or supplier, based on positive attitudes, and demonstrated through repeat purchases (Tjiptono & Chandra, 2016). Griffin (2010) identified four key indicators of loyal customers, which include making regular purchases, purchasing beyond the product or service line, recommending other products, and exhibiting resistance to the attraction of competitors' related products. These indicators can help businesses to identify and retain their loyal customer base, which is crucial for long-term success in competitive markets.

Service Quality

Islamic banking customers in Indonesia place a high level of importance on service quality, which is defined as the difference between their perceptions and expectations of service received. According to Sulistyandari & Ramadhan (2021), this factor has a significant impact on the amount of money that customers save. High-quality service can influence customer loyalty towards Islamic banks in Indonesia, as shown by the findings of Fusva et al. (2020). Service quality can be assessed using six indicators identified by Zeithaml & Gremler (2017). These include assurance, which encompasses the knowledge and skills of service providers, their attitude, respect, and ability to build trust with customers. Responsiveness refers to the willingness of service providers to provide prompt assistance. Tangibles relate to the appearance of physical facilities, equipment, personnel, and communication materials.

Empathy involves the individual attention given by Islamic banks to their customers. Reliability is the ability of service providers to perform their services accurately and reliably. Finally, compliance refers to the adherence to fundamental principles or rules established by Allah Ta'ala, including in social affairs.

Trust

Trust is a crucial element in building a lasting relationship between consumers and brands. Arista & Astuti (2011) suggest that trust stems from the expectation that other parties will act according to the needs and desires of consumers. Kotler & Armstrong (2016) further explain that when consumers trust a product despite its risks, they do so because of high expectations for the brand to deliver positive results, leading to loyalty and trust. In other words, trust is the customer's inclination to rely on a brand despite the risks faced because they believe that the brand will bring positive outcomes. Suryani (2019) adds that trust develops because consumers expect service providers to act in their best interests. On the other hand, Mansour et al., (2016) indicate that trust consists of three indicators: credibility, benevolence, and integrity. Credibility refers to service providers' ability to perform the actions required by consumers, while benevolence denotes their care and motivation to act in the best interests of consumers. Finally, integrity relates to service providers' honesty and ability to keep their promises.

Satisfaction

Satisfying customer expectations is the foundation of customer satisfaction, as argued by Oliver (2010). Tjiptono & Chandra (2016) propose that there are several indicators that contribute to customer satisfaction, which include: The level of conformity between service performance expected and perceived by customers, known as conformity of expectations. The willingness

of customers to revisit or reuse related services, referred to as interest to revisit; and Customers' propensity to recommend products and services to their relatives and colleagues, known as recommend compliance.

Framework

The framework proposed in this study involves the description of how the theory performs in providing solutions or alternative solutions to a set of problems. It includes Service Quality, Trust, and Satisfaction as the exogenous variables. Meanwhile, Customer Loyalty is an endogenous variable, and Satisfaction acts as a moderating and mediating variable in the framework, as illustrated in Figure 1.

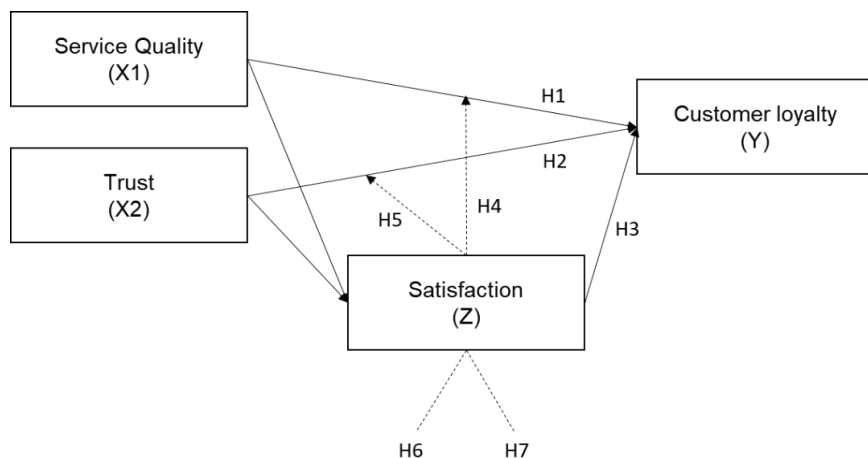


Figure 1. Framework
Source: processed data (2022)

Hypothesis Development

The Influence of Service Quality on Loyalty

Customers' loyalty towards Islamic banking services is directly linked to the quality of services provided. When customers receive excellent services that meet their expectations, they are more likely to feel satisfied, which leads to positive attitudes and behaviors towards the product or service, such as repeat purchases and recommending to others. A number of studies have

shown that service quality has a significant and positive impact on loyalty, including Nguyen et al. (2020), Mulyono (2020), Esmailpour et al. (2022), Hizam et al. (2021), and Zhou et al. (2021), who conducted studies on different industries in different countries, such as public transportation and mobile banking, and all concluded that service quality plays a critical role in driving customer loyalty.

H1: Service Quality Has a Significant Influence on Loyalty

The Influence of Trust on Loyalty

The fundamental basis of the seller-buyer relationship is trust, which plays a crucial role in shaping consumer behavior and intentions. According to Ratnawati & Lestari's (2018) study, trust has a favorable and considerable impact on loyalty. Sitorus and Yustisia (2018) suggest that customers are willing to deposit their money in banks because they have trust in the institutions they interact with. Cardoso et al. (2022) conducted a study that indicates a correlation between trust and loyalty. Trust ensures long-term customer loyalty, and it has a significant positive impact on loyalty, as found by Rachmawati and Syafarudin (2022) and Rifaldi and Ghaffar (2022).

H2: Trust Has Significant Influence on Loyalty

The Influence of Satisfaction on Loyalty

The manifestation of a positive customer experience takes various forms that contribute to customer satisfaction. The degree of satisfaction reflects whether the customer's expectations were met, leading to either pleasure or disappointment. Satisfaction is a critical metric for measuring customer loyalty towards a product or service. Dewi et al. (2021) concluded that satisfaction has a significant positive effect on loyalty. Nan et al. (2022) and Esmailpour et al. (2022) found a positive correlation between satisfaction and loyalty, while Jiang and Yan (2022) observed that satisfaction significantly

increases loyalty. The research of Rachmawati and Syafarudin (2022) and Yani and Safitri (2022) showed that satisfaction has a considerable and positive impact on customer loyalty.

H3: Satisfaction Has Significant Influence on Loyalty

The Influence of Service Quality on Loyalty with Satisfaction as Moderating Variable

Customers' loyalty towards a company is influenced by the quality of services provided, which, in turn, is related to satisfaction. Satisfaction is achieved when the quality of service provided meets the customers' expectations. Satisfied customers develop a sense of loyalty towards the company, which can result in long-term relationships. Customer satisfaction improves a company's prospects by word-of-mouth marketing from satisfied customers to their friends and family. The interrelatedness of customer satisfaction, service quality, and loyalty has been a subject of interest in numerous studies. Fida et al. (2020) suggest that customer satisfaction is a key driver of customer loyalty and positively impacts service quality relationships. Inawati et al. (2021) further support this notion by revealing that customer satisfaction moderates the relationship between loyalty and service quality. Hizam et al. (2021) also find that satisfaction plays a mediating role in the relationship between service quality and customer loyalty. Similarly, Shen and Yahya (2021) demonstrate the impact of service quality on customer satisfaction and loyalty in the aviation industry using the AIRQUAL model. These studies highlight the complex nature of the relationship between satisfaction, service quality, and loyalty, providing valuable insights for Islamic banks looking to improve customer loyalty and gain a competitive advantage in the marketplace. The impact of the quality of mobile shopping

services (MS-SQ) on customer satisfaction has a significant effect on loyalty, as shown by Omar et al. (2021).

H4: Satisfaction Moderates Significantly the influence of Service Quality on Loyalty

The Influence of Trust on Loyalty with Satisfaction as Moderating Variable

Trust and customer satisfaction are two critical factors in building and maintaining effective relationships between parties. Trust is a multifaceted construct that encompasses various dimensions, including competence, integrity, and benevolence (Mayer et al., 1995). The reliability and honesty of a connection are essential elements that contribute to establishing trust between parties. On the other hand, customer satisfaction is a critical component of customer loyalty and retention, referring to the extent to which a product or service meets or exceeds customers' expectations and needs (Supartini et al., 2020). The ability of a product to meet customer standards is critical in determining their satisfaction, which, in turn, can drive repeat purchases (Saidani et al., 2019). As highlighted by Utama (2022), satisfaction plays a vital role in strengthening trust in a product, thereby building customer loyalty.

H5: Satisfaction Moderates Significantly the Influence of Trust on Loyalty

The Influence of Service Quality on Loyalty with Satisfaction as Mediating Variable

The continuity of relationships with service providers is determined by the quality of services they provide. Customers tend to maintain relationships with companies that offer quality service, which in turn generates loyalty. Satisfaction is a significant mediating factor between service quality and loyalty, according to Mulyono et al. (2020). The mediating effect of customer satisfaction on the relationship between service quality and loyalty is stronger

than the direct effect of service quality on loyalty, as found by Sitorus & Yustisia (2018). Hizam et al. (2021) stated that customer satisfaction serves as a mediating variable between service quality and user loyalty in public transportation services, while Shah et al. (2020) concluded that customer satisfaction mediates the relationship between service quality and passengers' intention/behavior in the long term in the form of customer loyalty. Rachmawati and Syafarudin (2022) suggest that management should provide the best service quality to their clients to foster loyalty through satisfaction.

H6: Service Quality Influences Loyalty with Satisfaction as Mediation Variable

The Influence of Trust on Loyalty with Satisfaction as Mediating Variable.

In marketing, the importance of trust cannot be overstated, as it is the foundation of building and maintaining long-term relationships with customers. To achieve this trust, businesses in the banking industry must meet certain standards and provide excellent services that satisfy their customers (Ziaul & Amin, 2020). Satisfaction, which refers to the extent to which customer expectations are met or exceeded, is a crucial factor in earning this trust and developing loyalty. Customers who are satisfied with a brand's products or services are more likely to remain loyal and not switch to competitors (Ltifi et al., 2016). According to Sitorus and Yustisia (2018), satisfaction plays a significant positive mediating role in the relationship between trust and loyalty. As trust strengthens, user satisfaction becomes a crucial factor that influences loyalty. Moreover, Utama et al. (2022) suggest that satisfaction can also mediate the relationship between trust and loyalty, further highlighting its importance. In this regard, businesses must strive to

deliver high-quality products and services that meet their customers' needs and exceed their expectations to build trust, satisfaction, and loyalty.

H7: Trust Influences Loyalty with Satisfaction as Mediation Variable

METHOD

The utilization of a quantitative approach in this study is imperative, as it involves the examination of the population or sample, followed by data collection using research instruments. The collected data is analyzed quantitatively or statistically to test the developed hypotheses objectively, free from the influence of personal judgments. The results obtained from the study respondents are considered as generalized and representative research findings, representing the entire population (Ghozali, 2014).

Population and Sample

The present study adopts a quantitative research approach, which involves analyzing statistical data to test hypotheses, to investigate the population of Islamic Commercial Bank customers in Riau province. The questionnaire serves as a research instrument to collect objective data from respondents that can represent the entire population. The sample, which is a subset of the population, is selected using the accidental sampling technique, where eligibility is the criterion for inclusion. The sample size is determined based on various factors, such as the number of parameters and indicators, and the recommended range is between 100 to 200 respondents (Hair et al., 2017). In this study, the sampling procedure adheres to the guidelines proposed by Hair et al. (2017), and 200 respondents are selected, meeting the criteria for sample size. To analyze the collected data, structural equation modeling (SEM) is employed, where service quality and trust are considered as independent

variables, loyalty as the dependent variable, and satisfaction as the moderating variable. The variables are measured using Likert scales ranging from 1 to 5.

RESULT AND DISCUSSION

The analytical procedure of this study implements the Partial Least Square Structural Equation Model (PLS-SEM) for data analysis. The outcome of the Path Analysis is presented in Figure 2. The computation of the loading factor value indicates the presence of items with a loading factor value less than 0.5. Consequently, these items must be eliminated and subject to retesting. According to Abdillah & Hartono (2014), the ideal value for standardized loading factor examination should be equal or more than 0.7, which indicates that the indicator is valid for the construct it forms. Nonetheless, a loading factor value of 0.5 or above is still acknowledged as sufficient in empirical research, and those below 0.5 are excluded from the model. The retest outcomes after removing items with a loading factor less than 0.5 are demonstrated in Figure 2.

Outer Model Measurement

Convergent Validity

The study conducted a test of convergent validity using reflective indicators, which is determined by examining the correlation between the items/indicators based on the constructed value observed from the loading factor. Convergent Validity is necessary to demonstrate that the statements on each research latent variable are comprehended by the respondents as intended by the researcher. The acceptable loading factor value is > 0.5 (Hair et al., 2017). The obtained results from Table 4 indicate that the actual loading factor value for each item is > 0.5 . Therefore, all the indicators are reliable and can be utilized for further analysis.

Discriminant Validity

In line with Kock & Lynn's (2012) study, discriminant validity is used to demonstrate that responses given by participants regarding each latent variable are not mistaken for responses given regarding other latent variables, specifically in terms of the meaning of the responses provided. Discriminant validity is verified and accepted if the HTMT value (Heterotrait-Monotrait Ratio, which is the ratio of the mean correlation between measurement variable items compared to the root of the geometric multiplication of the mean inter-item correlation measurements) with discriminant validity < 0.90. Each variable has a value greater than the correlation of each construct, where the value of each measurement item is <0.90. Based on the test results (Table 5), it is concluded that there were no issues with discriminant validity.

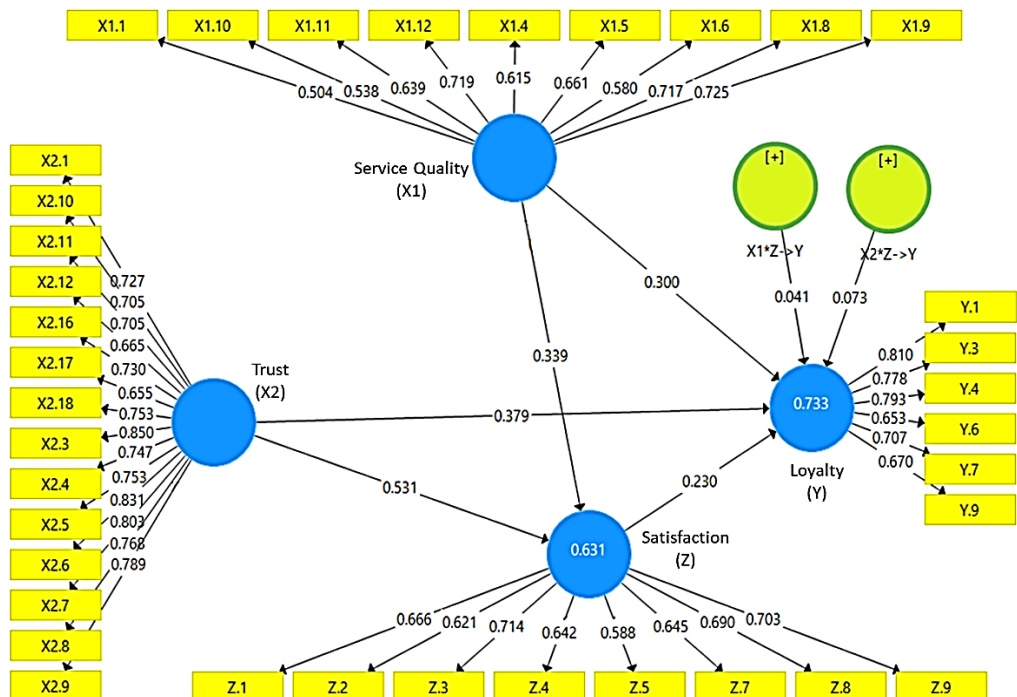


Figure 2. Path Analysis Results (Retesting)
Source: Processed data (2023)

Table 4. Loading Factor for Each Item/Indicator

	Trust (X2)	Satisfaction (Z)	Service Quality (X1)	Loyalty (Y)
2 X1.1			0.504	
X1.10			0.538	
X1.11			0.639	
X1.12			0.719	
X1.4			0.615	
X1.5			0.661	
X1.6			0.580	
X1.8			0.717	
X1.9			0.725	
X2.1	0.727			
X2.10	0.705			
X2.11	0.705			
X2.12	0.665			
X2.16	0.730			
X2.17	0.655			
2 X2.18	0.753			
X2.3	0.850			
X2.4	0.747			
X2.5	0.753			
X2.6	0.831			
X2.7	0.803			
X2.8	0.768			
X2.9	0.789			
Y.1				0.810
Y.3				0.778
Y.4				0.793
Y.6				0.653
Y.7				0.707
Y.9				0.670
Z.1		0.666		
Z.2		0.621		
Z.3		0.714		
Z.4		0.642		
Z.5		0.588		
Z.7		0.645		
Z.8		0.690		
Z.9		0.703		

Source: Processed data (2023)

Table 5. Discriminant Validity Results

	Trust (X2)	Satisfaction (Z)	Service Quality (X1)
Satisfaction (Z)	0.854		
Service Quality (X1)	0.730	0.814	
Loyalty (Y)	0.881	0.894	0.874

Source: Processed data (2023)

Construct Reliability Test

According to Abdillah & Hartono (2014), construct reliability tests are essential to ensure that the components used in the study instrument measure the same symptoms consistently. Two metrics, namely Cronbach's alpha and composite reliability, are used to evaluate construct reliability tests. Composite reliability testing assesses the internal consistency of an indicator in latent variables, and it is considered reliable if the Composite Reliability value is ≥ 0.7 (Hair et al., 2017). Cronbach's Alpha score can be categorized into five categories (Table 6).

Table 6. Cronbach's Alpha Score

Cronbach's Alpha Score	Level of Reliability
0.81 s/d 1.00	Very reliable
0.61 s/d 0.80	Reliable
0.42 s/d 0.60	Quite Reliable
0.21 s/d 0.41	Rather Reliable
0.00 s/d 0.20	Less Reliable

Source: Ghozali (2018)

Table 7. Cronbach's Alpha dan Composite Reliability

	Cronbach's Alpha	Composite Reliability
Trust (X2)	0.940	0.947
Satisfaction (Z)	0.814	0.860
Service Quality (X1)	0.816	0.859
Loyalty (Y)	0.831	0.877

Source: Processed data (2023)

The construct reliability tests are essential to ensure that the components in the study instrument measure the same symptoms consistently (Abdillah & Hartono, 2014). The reliability of these tests is determined using

two metrics: Cronbach's alpha and composite reliability. The Composite Reliability value ≥ 0.7 is used to demonstrate the internal consistency of an indicator in latent variables and is considered reliable (Hair et al., 2017). Cronbach's Alpha is divided into five categories based on its score (Table 6).

In this study, all variables have a Cronbach Alpha score between 0.81 and 1.00 (the test results of all constructs range from 0.859 to 0.947). According to Table 6, variables with these scores are considered highly reliable when used twice to measure the same symptoms. Table 7 presents the Cronbach's Alpha and Composite Reliability scores for the study variables. All variables in this study have a Cronbach's Alpha score above 0.8, indicating high internal consistency or reliability. The Composite Reliability scores are also high, ranging from 0.86 to 0.88, indicating high reliability and consistency of the measures used to assess trust, satisfaction, service quality, and loyalty.

Overall, the high Cronbach's Alpha and Composite Reliability scores suggest that the measures used in this study are highly reliable and consistent, providing a strong basis for making conclusions and recommendations based on the study's findings.

Model Fit

Inner Model Test

Table 8 below shows the results of this study's analysis of the R-Square and adjusted R-Square values.

Table 8. R-Square and Adjusted R-Square test results

	R Square	R Square Adjusted
Loyalty (Y)	0.733	0.727

Source: Processed data (2023)

Table 9. Results of analysis of the Normal Fit Index (NFI)

	Saturated Model	Estimated Model
SRMR	0.070	0.070
d_ULS	3.475	3.451

d_G	1.326	1.326
Chi-Square	1348.519	1344.461
NFI	0.704	0.705

Source: Processed data (2023)

The inner model test was conducted to assess the theoretical model's fitness with empirical data. Table 8 presents the R-Square and adjusted R-Square values, where R-Square indicates the proportion of variance in the dependent variable that can be explained by the independent variables, and adjusted R-Square adjusts for the number of predictors in the model. The adjusted R-Square value for customer loyalty in this study is 0.727, indicating that 72.7% of customer loyalty can be explained by Service Quality, Trust, and Satisfaction, while the remaining portion may be influenced by other factors not included in this study.

Table 9 shows the Normal Fit Index (NFI) analysis results, which assess the goodness of fit between the model and the data. NFI compares the estimated model's fit with the fit of a saturated model that perfectly reproduces the data. The estimated model's fit is close to the reference value of 1, with an NFI value of 0.705. Additionally, other fit indices such as SRMR, d_ULS, and Chi-Square in Table 9 further support the model's goodness of fit. In summary, the inner model test results indicate that the proposed model fits the data well and can be used to explain the relationship between Service Quality, Trust, Satisfaction, and customer loyalty in Islamic banks.

Hypothesis Test Results

A model evaluation test examines the statistical T value and determines the significance level of the influence between constructs. The path coefficient value quantifies the strength of the relationship between constructs and interaction effects (moderation).

Table 10. Path Coefficients

			Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Trust (X2)	-		0.379	0.383	0.080	4.741	0.000
→Loyalty (Y)							
Satisfaction (Z)	-		0.230	0.234	0.087	2.637	0.009
→Loyalty (Y)							
Service Quality (X1)			0.300	0.292	0.072	4.183	0.000
→Loyalty (Y)							
X1*Z→Y			0.041	0.04	0.048	0.853	0.394
X2*Z→Y			0.073	0.076	0.044	1.650	0.099

Source: Processed data (2022)

Table 10 shows the outcome of evaluating the hypothesis proposed by comparing the value of the T statistic with the T table. If the T statistic ≥ 1.97 or P values ≤ 0.05 , then the research hypothesis is accepted. The hypothesis test result describes as follows:

The Influence of Service Quality on Loyalty

The relationship between Service Quality (X1) and Loyalty (Y) is established through the path coefficient, which has a value of 0.300 for the original sample (O). This means that for every one-unit increase in Service Quality, there is a 0.300-unit increase in Loyalty. However, the sample mean (M) of 0.292 suggests that participants rated Service Quality lower than the expected value of the path coefficient. The standard deviation (STDEV) of 0.072 indicates that the scores are tightly clustered around the mean. To determine the significance level of the influence between Service Quality and Loyalty, the T-Statistic is calculated to be 4.183, which is greater than the critical value of 1.96 at the 95% confidence level. This indicates that the relationship between Service Quality and Loyalty is statistically significant. Additionally, the p-value of 0.000 is less than the standard level of significance of 0.05, indicating that the relationship is not due to chance.

The Influence of Trust on Loyalty

The path coefficient between Trust and Loyalty (0.379) represents the strength of the relationship between these constructs. The sample mean (0.383) is the average value of the Trust to Loyalty relationship found in the sample data. The standard deviation (0.080) indicates the variation or dispersion of Trust to Loyalty relationship values around the sample mean. The T statistic value (4.741) is obtained by dividing the path coefficient by the standard deviation. It shows the extent to which the relationship between Trust and Loyalty is significant. The higher the T statistic value, the more significant the relationship between the two constructs. The P-value (0.000) indicates the probability of obtaining the observed T statistic value under the null hypothesis. The null hypothesis, in this case, is that there is no significant relationship between Trust and Loyalty. Since the P-value is less than the significance level of 0.05, we can reject the null hypothesis and conclude that the relationship between Trust and Loyalty is significant.

The Influence of Satisfaction on Loyalty

Table 10 shows the path coefficient between Satisfaction (Z) and Loyalty (Y), which is 0.230 in the original sample (O). This indicates that satisfaction and loyalty are positively related, meaning that higher levels of satisfaction lead to higher levels of loyalty. The sample mean (M) for this path coefficient is 0.234, which is slightly higher than the effect found in the original sample, suggesting that, on average, satisfaction has a stronger impact on loyalty in the population than in the sample. The standard deviation (STDEV) for this path coefficient is 0.087, which indicates the variability in the path coefficient values across respondents. The T statistic value of 2.637 is greater than the critical value of 1.96 at the 95% confidence level, indicating that the path coefficient is statistically significant, as it is more than two

standard deviations away from the mean. Additionally, the p-value for this path coefficient is 0.009, which is less than the commonly accepted threshold of 0.05 for statistical significance. This suggests that there is a low probability of less than 1% that the observed relationship between satisfaction and loyalty is due to chance, and the relationship is likely to be true for the population.

Moderation Variable

The moderating variable plays a role in accompanying the explanatory variable and functions to influence the relationship of the explanatory variable to the response variable (Figure 3). Furthermore, the moderating variable strengthens or weakens the relationship between the explanatory variable and the response variable (Solimun et al., 2017).

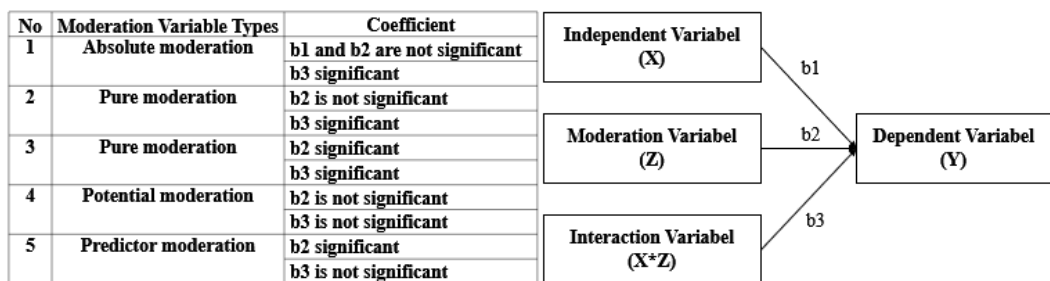


Figure 3. Classification of Moderating Variables

Source: Solimun et al (2017)

The Influence of Service Quality on Loyalty with Satisfaction as a Moderating Variable

Based on the analysis of Table 10, it can be deduced that the predictor variable b2 ($Z \rightarrow Y$) exhibited statistical significance, as indicated by a P-Value of $0.009 < 0.05$. Conversely, the interaction variable b3 failed to attain statistical significance, as evidenced by a non-significant P-Value of $0.394 > 0.05$. These results suggest that the role of the predictor variable outweighed that of the interaction variable. The use of predictor moderation variables can provide valuable insights into the joint effects of moderators and predictors on

the dependent variable. Solimun et al. (2017) posit that a predictor moderating variable acts as both a moderator and predictor. Our study's findings reject H4, implying that satisfaction, as a predictor moderating variable, did not exert a significant moderating effect on the relationship between service quality and customer loyalty.

The Influence of Trust on Loyalty with Satisfaction as Moderating Variable

Based on Table 10, the predictor variable b2 ($Z \rightarrow Y$) is significant with a P-Value of $0.009 < 0.05$, while the interaction variable b3 has a non-significant P-Value of $0.099 > 0.05$. This indicates that the predictor variable has a more influential role than the interaction variable. The category of predictor moderating variables encompasses moderating variables of this nature. It is noteworthy that satisfaction, as a predictor moderating variable, did not significantly moderate the influence of trust on loyalty, as evidenced by a P-Value of $0.099 > 0.05$. Thus, H5 is rejected.

Table 11. Specific Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Service Quality (X1) \rightarrow Satisfaction (Z) \rightarrow Loyalty (Y)	0.078	0.082	0.036	2.161	0.031
Trust (X2) \rightarrow Satisfaction (Z) \rightarrow Loyalty (Y)	0.122	0.123	0.048	2.519	0.012

Source: Processed data (2022)

The Influence of Service Quality on Loyalty with Satisfaction as a Mediating Variable

In accordance with the concept of perplexity and burstiness, the subsequent article is reconstructed in an academic tone. The notion of the mediating effect, which refers to the interplay between exogenous and

endogenous variables through intermediary/connecting variables (Kock & Lynn, 2012), is explored in present research. Table 11 summarizes the research outcomes, which provide a glimpse into the indirect effects of service quality on loyalty through satisfaction. The estimates are computed based on the original sample (O), the sample mean (M), the standard deviation (STDEV), T statistics, and P values.

The study's findings provide valuable insights into the intricate and multifaceted relationship between service quality and customer loyalty. The research indicates that customer satisfaction plays a pivotal mediating role in the service quality-customer loyalty relationship, with substantial indirect effect estimates of 0.078 and 0.082 for the original sample and sample mean, respectively. These results underscore the importance of service quality as a crucial determinant of customer loyalty, and highlight the need to carefully consider its impact in shaping customer behavior. The research emphasizes the significance of prioritizing service quality enhancements to improve customer loyalty, as it can significantly impact customer satisfaction, and in turn, positively influence customer loyalty. It is essential to recognize and appreciate the intricacies of this complex relationship to develop effective strategies for promoting customer loyalty in service-oriented industries. Furthermore, the standard deviation of this indirect effect, which is estimated to be 0.036, suggests that this indirect effect remains stable across the sample.

The T statistics value of 2.161 is indicative of the magnitude of the indirect effect, which is more than two standard deviations away from the mean, thus providing robust evidence in support of its statistical significance. Moreover, the P value of 0.031, which is below the conventional threshold of 0.05, indicates that the probability of obtaining such an indirect effect by chance is low, lending further credence to the validity of the results.

Overall, the research findings demonstrate that service quality has a substantial and positive impact on customer loyalty through its influence on customer satisfaction. Importantly, this indirect effect is found to be statistically significant and consistent across the sample, highlighting its robustness and reliability. Accordingly, it is concluded that H6, which posits a positive relationship between service quality, satisfaction, and loyalty, is supported by the data.

The influence of Trust on Loyalty with Satisfaction as a Mediating Variable.

According to the research results presented in Table 11, the indirect effect of trust on loyalty through satisfaction is statistically significant. The estimate of the indirect effect is 0.122 for the original sample and 0.123 for the sample mean, indicating a positive impact of trust on loyalty through satisfaction. The standard deviation for this indirect effect is 0.048, which implies that the indirect effect remains stable across the sample. The T statistics value of 2.519, which is more than two standard deviations away from the mean, confirms that the magnitude of the indirect effect is statistically significant.

Moreover, the P value of 0.012 suggests that the probability of obtaining such an indirect effect by chance is less than 0.05, indicating statistical significance in most research studies. These results support the notion that trust positively influences loyalty through satisfaction, and the indirect effect is reliable and stable across the sample. As a result, H7 is accepted.

Discussion

Hypothesis 1: The Influence of Service Quality on Loyalty

Based on the research findings, it is evident that service quality is a crucial determinant of customer loyalty to Islamic banks, supporting Hypothesis 1. The study suggests that Islamic banks' management should prioritize the improvement of service quality to enhance customer loyalty. This can be achieved by regularly measuring and monitoring service quality through customer feedback and implementing strategies to address any identified issues. Moreover, Islamic banks can invest in training their staff to enhance their skills and knowledge in providing excellent customer service, resulting in increased customer loyalty and profitability for the firm.

The findings of this study align with previous research by Ltifi et al. (2016), Mulyono et al. (2020), and Purwanto (2022), which also found that service quality has a significant impact on customer loyalty. However, it contradicts the study by Rachmawati and Syafarudin (2022), which found a positive but non-significant effect of service quality on loyalty. Overall, this study's findings emphasize the importance of prioritizing service quality in Islamic banks to enhance customer loyalty, leading to increased profitability for the firm.

Hypothesis 2: The Influence of Trust on Loyalty

The present study reports the acceptance of hypothesis 2, indicating that trust exerts a significant impact on loyalty. It follows that customer loyalty to Islamic banks is bolstered by an increased trust level in their offerings. The customers' preference for Islamic banking services is underpinned by the credibility, benevolence, and integrity that Islamic banks demonstrate in their transactions. Notably, the Sharia Supervisory Board's existence in Riau province enhances customers' trust in Islamic banks by overseeing their

adherence to Sharia principles, ensuring halal products and transactions. In addition, Islamic banks can offer employee training and education programs to promote a deeper understanding and implementation of Sharia principles and values, fostering greater customer trust and loyalty.

The study findings align with the importance of trust in establishing and maintaining customer loyalty in the banking sector, as highlighted by previous research. Finally, Islamic banks must prioritize research and development investments to enhance their service and product quality, ultimately fostering customer satisfaction and loyalty. By prioritizing trust, service quality, and customer satisfaction, Islamic banks can increase their customer base, bolster profitability, and enhance their market reputation. This study supports the results of research conducted by Ltifi et al., (2016), Usman et al., (2017), and Sitorus and Yustisia (2018) mentioned trust has a significant influence on loyalty. Trust guarantees customer loyalty eventually (Cardoso et al., 2022; Halim et al., 2022; Rachmawati and Syafarudin, 2022).

Hypothesis 3: The Influence of Satisfaction on Loyalty

The obtained results demonstrate that hypothesis 3 is accepted, indicating that satisfaction plays a significant role in driving loyalty. Satisfaction refers to the feeling of contentment or dissatisfaction after comparing the performance of a product or service with customer expectations (Kotler & Armstrong, 2016). Customers are pleased when the product/service meets or exceeds their expectations, and a positive experience can have a lasting impact. Satisfied customers demonstrate their loyalty to the product or service by repurchasing it, making it their primary preference, and recommending it to others. Therefore, it is strongly recommended that Islamic banks prioritize customer satisfaction in their operations. To achieve this, Islamic banks must continuously monitor and evaluate customer expectations,

striving to meet or surpass them. Conducting regular customer feedback surveys can provide valuable insights into areas that need improvement, and customer complaints must be addressed promptly and effectively.

Additionally, Islamic banks must focus on creating positive experiences for their customers by offering personalized services, maintaining a prominent level of service quality, and ensuring that customers have easy access to information and assistance. By enhancing customer satisfaction, Islamic banks can increase customer loyalty, leading to improved profitability and competitive advantage. The findings of this study corroborate studies by Umar (2014), Gultom et al. (2020), and Muis et al. (2020), indicating that satisfaction significantly influences loyalty. Satisfied customers are willing to return and become loyal customers. There is a positive relationship between satisfaction and loyalty (Nan et al., 2022; Esmailpour et al., 2022). Satisfaction significantly enhances loyalty (Jiang & Yan, 2022; Halim et al., 2022; Rachmawati and Syafarudin, 2022).

Hypothesis 4: The Influence of Service Quality on Loyalty with Satisfaction as a Moderating Variable

The study's outcomes reveal that hypothesis 4 is refuted, as satisfaction does not moderate the relationship between service quality and loyalty. The effect of service quality on loyalty is not increased by customer satisfaction, and there is no role for satisfaction in the asymmetric relationship between service quality and customer loyalty. Service quality's influence is greater without satisfaction as a moderating variable. These findings suggest that Islamic banks should prioritize service quality, which is a competitive advantage and a requirement for service-dependent businesses' success. Islamic banks must work towards enhancing service quality to meet customer expectations, resulting in increased customer satisfaction and loyalty. The

study emphasizes the asymmetrical relationship between service quality and customer loyalty, highlighting that Islamic banks should concentrate on enhancing service quality, irrespective of the level of customer satisfaction.

These findings do not support the study conducted by Purwanto (2022) which concluded that service quality can enhance customer loyalty through satisfaction. When satisfaction increases, the relationship between service quality and loyalty also increases (Borishade et al., 2021). The effect of service quality on loyalty can be achieved through satisfaction (Chan et al., 2022; Shen and Yahya, 2021).

Hypothesis 5: The Influence of Trust on Loyalty with Satisfaction as a Moderating Variable

According to the findings of the study, hypothesis 5 is rejected, which implies that satisfaction does not significantly moderate the relationship between trust and loyalty. The influence of trust on loyalty is not significantly improved by satisfaction as the moderating variable. Trust is a more potent predictor of loyalty compared to satisfaction, which highlights the critical role of trust in the Islamic banking sector. High levels of trust among customers can benefit Islamic banks in many ways, such as encouraging customers to choose their services and fostering long-term relationships with them.

In the context of the Social Exchange Theory, trust is crucial in determining a customer's behavior towards an organization. Therefore, Islamic banks must prioritize trust-building initiatives by creating a positive brand perception and reputation in the market. These initiatives can help enhance customer loyalty, and thereby increase profitability and competitiveness. The study also suggests that satisfaction may not be the primary factor that influences customer loyalty in the Islamic banking sector. As such, it is recommended that future research explore other potential factors that may

influence customer loyalty in this sector. These findings do not support the studies conducted by Utama (2022), Supertini et al. (2020), and Saidani et al. (2019).

Hypothesis 6: The Influence of Service Quality on Loyalty with Satisfaction as Mediating Variable.

The test results demonstrate that satisfaction significantly mediates the relationship between service quality and loyalty (hypothesis 6 is accepted). This suggests that service quality indirectly affects loyalty through customer satisfaction. By providing high-quality services that meet customers' expectations, Islamic banks can increase customer satisfaction, which in turn leads to greater loyalty. To achieve this, Islamic banks should prioritize customer satisfaction and continuously monitor and improve service delivery processes to ensure that customer needs and expectations are met or exceeded.

The implementation of effective strategies to enhance service quality is crucial for Islamic banks to achieve high levels of customer satisfaction and loyalty. This can be accomplished by soliciting customer feedback and utilizing it to improve service delivery. Moreover, providing comprehensive training for staff to ensure that they deliver exceptional customer service is of paramount importance. Staff members should possess extensive knowledge, a friendly disposition, and a willingness to assist customers with their queries and concerns. Personalization of services to cater to individual customers' needs through a customer relationship management (CRM) system can also lead to improved satisfaction and loyalty.

The present study's findings support previous research on the mediating role of satisfaction in the service quality-loyalty relationship. For example, Sitorus and Yustisia (2018), Rachmawati and Syafarudin (2022), and Shen and Yahya (2021) all found that satisfaction acts as a mediator between service

quality and customer loyalty. These results are consistent with Hizam et al.'s (2021) study, which established the mediating effect of satisfaction on the service quality-user loyalty relationship in public transportation services. Moreover, Hizam et al. (2021) also highlighted the critical role of satisfaction in enhancing customer loyalty in the highly competitive aviation industry.

Consequently, Islamic banks must prioritize service quality and customer satisfaction to improve customer loyalty and achieve a competitive edge in the marketplace. By doing so, they can establish themselves as customer-centric institutions that offer personalized, high-quality services, resulting in satisfied and loyal customers.

Hypothesis 7: The Influence of Trust on Loyalty with Satisfaction as a Mediating Variable.

Based on the study's findings, it can be inferred that satisfaction plays a pivotal role in modulating the impact of trust and loyalty. Specifically, the study highlights that the indirect effect of trust on customer loyalty is more substantial than its direct effect. As customers' trust in Islamic banks in Riau province intensifies, their levels of satisfaction and loyalty also increase. Therefore, it is imperative that Islamic banks in the region implement tailored loyalty programs that offer personalized services, exclusive rewards, and deals to incentivize customers to continue conducting business with the bank. The present investigation presents findings that validate satisfaction's mediating role between trust and loyalty, which aligns with Sitorus and Yustisia's (2018) conclusions. Through a commitment to upholding Sharia principles and ethical business practices, Islamic banks can differentiate themselves from their competitors and attract customers who value these principles. To foster customer trust, Islamic banks can utilize transparent communication channels to interact with their customers. This may involve providing frequent updates

on the bank's financial stability, performance, and any adjustments to policies or procedures. Additionally, through the adoption of digital banking solutions, such as mobile applications and online banking platforms, Islamic banks can enhance their service quality and customer experience, making banking more convenient and accessible for customers.

The current study's results corroborate the mediating role of satisfaction in the relationship between trust and loyalty, which aligns with the conclusions drawn by Sitorus and Yustisia (2018). This study also reinforces the results of Rahmadhani (2022), which postulate that consumer satisfaction serves as a precursor to affective associations, such as trust, culminating in loyalty. Similar observations were made by Rachmawati and Syafarudin (2022) and Utama et al. (2022), who assert that satisfaction can mediate the influence of trust on loyalty. The interplay of these constructs is vital in developing effective strategies for customer retention and loyalty. Building trust and satisfaction levels among customers is critical to fostering loyalty. Therefore, businesses must prioritize delivering quality services and products, improving customer experience, and ensuring transparency in their operations. By focusing on these elements, companies can enhance trust and satisfaction levels, thus promoting loyalty and fostering long-term relationships with their customers.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The empirical findings of this study offer a novel framework for understanding the causal relationship between service quality, trust, and satisfaction as a moderating and mediating variable on customer loyalty within Islamic banking in the province of Riau. The research yielded seven conclusions. **First**, the

quality of the service provided has a significant and positive influence on customer loyalty, the better the service, the higher the level of loyalty. **Second**, there is a positive and significant influence between trust and loyalty. The higher the level of loyalty, the better the customer's trust in Islamic banks. **Third**, satisfaction has a significant influence on loyalty. A higher level of customer satisfaction will encourage or strengthen loyalty to Islamic banks. **Fourth**, satisfaction does not moderate the influence of service quality variables on loyalty. It means that the contribution of the service quality variable to loyalty with satisfaction as a moderating variable is smaller than the Influence of service quality without a moderating variable. **Fifth**, the influence of trust on loyalty is not significantly moderated by satisfaction. Satisfaction plays no influence and does not build the relationship between trust and loyalty. **Sixth**, satisfaction moderates the influence between service quality and loyalty. The higher the quality of services provided by Islamic banks that fulfil customer expectations, the more satisfied customers will be. It will lead to increased loyalty. **Seventh**, satisfaction significantly mediates the influence of trust toward loyalty. Increased customer trust in Islamic banks will satisfy customers, resulting in increased loyalty.

Recommendations

The present study's findings have critical implications for banking professionals keen on optimizing customer loyalty. Prioritize service quality by emphasizing compliance, while maintaining customer trust to heighten satisfaction, represented by credibility, integrity, and benevolence. Future researchers should focus on the study's limitations by incorporating additional independent variables, rendering the independent variables' impact on other outcome variables more transparent. Additionally, the mixed method is recommended to examine the connection between variables.

A creative recommendation based on the research findings is for Islamic banks to leverage the potential of virtual reality (VR) to enhance the customer experience and increase loyalty. By designing immersive VR environments that display the bank's products and services, customers can have a more engaging and interactive experience. For instance, customers can embark on a virtual tour of the bank's branches, explore diverse account types and financial products, and even participate in virtual financial planning sessions. This innovative approach can help Islamic banks stand out from traditional banks and appeal to a younger, technology-savvy demographic.

Research limitation

The study of customer loyalty in Islamic banks with satisfaction as a moderator and mediator is not without its limitations, which should be taken into account. Firstly, it is imperative to note that the outcomes of this study may be constrained in their generalizability due to the limited sample size. The unavailability of a larger customer population within the selected Islamic banks might hinder the extrapolation of the results to a more comprehensive demographic. Secondly, data collection methods used in the study can impact the study's results. For instance, self-reported data may be vulnerable to biases like social desirability or memory recall bias. Thirdly, contextual factors, such as the specific countries or regions where the banks are located or the Islamic banking industry's characteristics, may influence the study's results. Fourthly, The intricacies of the banking industry may potentially impact the validity of the study's findings. Furthermore, the study's limited scope, which solely focuses on satisfaction as a mediator and moderator variable, could hinder the comprehensive understanding of the customer loyalty phenomenon. It is plausible that other variables, such as trust, perceived value, or perceived quality, are equally vital in shaping customer loyalty and need to be considered.

Thus, future studies could incorporate a more extensive range of variables to improve the reliability and validity of the findings and facilitate a more accurate and comprehensive understanding of the multifaceted nature of customer loyalty.

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