Customer Satisfaction in Mediation The Influence of Service Quality and Customer Loyalty

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Abstract. This study attempts to analyze the effect of service quality on customer satisfaction and its implications for customer loyalty. The research approach is correlational. The data is obtained by using a survey method to customers who have been customers for at least one year with a total of 168 people. The research was conducted in Jakarta. The results showed that there was a significant influence between service quality and customer satisfaction. Service quality also affects customer loyalty. Customer satisfaction is also significant to customer loyalty. The novelty of this research lies in the effectiveness of the customer satisfaction variable in mediating the effect of service quality on customer loyalty. Banking managers who want to increase customer loyalty should be able to improve service quality first and then increase customer satisfaction

Keywords: Sharia Bank, Satisfaction, Customer, Loyalty.

1 Introduction

From 1991 to 2022 (almost 31 years) Islamic banks in Indonesia (BSI) have grown. However, BSI is still far behind conventional banks. Its development only reached 5.5% and controlled capital of Rp 406.23 trillion [1]. The number of Islamic bank customers is only 15 million (18.75%). Meanwhile, conventional banks have reached 80 million customers.

The number of Islamic bank customers is 15,179. 646 people/institutions with an average savings of Rp. 27,273,771.00 people/institutions. The number of loyal customers is 10-15% [2]. With the existence of a free market, and various risks, Islamic banks must be firm in carrying out the precautionary principle [3]. Islamic banks are faced with financial technology platforms, especially peer to peer lending, which makes Islamic banks have to work hard.

Islamic banks are still lacking in technology compared to fintech [4]. Despite losing in terms of fintech, Islamic banks must always improve the quality of service in the hope of increasing customer satisfaction [5]. The number of loyal customers who always actively transact at Islamic banks is only 50% [6]. Quality services must be accompanied by technology investment [7]. Without following IT developments, the bank will be abandoned by its customers [8]. service quality does not depend on bank employees, but is closely related to the service of the machine [9].

Trade wars between banks continue to escalate [10] [11]. Customer loyalty depends on satisfaction with machine services [12]. Loyalty fades when technology loses to other banks[14]. Machine-based service innovation is also a determining factor in loyalty [15].

2 Theory

Customer loyalty is an important aspect of service companies [16]. Customer loyalty is a

determinant of the company's sustainability.[17] Loyalty is a combination of innovation, customer satisfaction and service quality. Customer acquisition is meaningless when customers are not loyal [18].

To increase loyalty need customer satisfaction [19]. The level of satisfaction will increase when customers feel the services provided are of good quality [20]. Excellent service quality and customer satisfaction will determine loyalty [21].

The intensity of customers in utilizing the product is influenced by their satisfaction when getting services, [22] and satisfied customers will become loyal. [23]. Excellent service quality will have an impact on the level of satisfaction felt by customers [24]. Customers who are always satisfied will be loyal to the products they consume [25]. Loyalty will decrease when satisfaction decreases. Satisfaction will decrease when service quality decreases [26].

Hypothesis 1: good service quality received by customers will have an effect on customer satisfaction
Hypothesis 2: the quality of service provided to customers will have a positive effect on customer loyalty.
Hypothesis 3: the higher the level of customer satisfaction, the higher the loyalty of customers to a banking product.
Hypothesis 4: excellent service quality has a good influence on customer satisfaction, and will have positive implications on the level of loyalty of customers

3 Research Methods

The study was designed with a correlational quantitative approach (structural equational modeling/SEM) by linking exogenous to endogenous variables with intervening variables in between. Primary data was obtained by using a survey of Islamic bank customers. The questionnaire was developed from the theories, dimensions and indicators that have been put forward by experts. The research sample was 168 customers. Customers who can be sampled are those who have made transactions for a year. The research was conducted in Jakarta in 2022. The unit of analysis is the customers of Indonesian Islamic banks. Primary data that has been successfully collected was analyzed using structural equational modeling and analyzed with Smart PLS software [27]

4 Result

Primary data showed that male (86 people, 51.19%) were more dominant than female respondents (82 people, 48.81%). The research sample was between 31 years old and 40 years old as many as 62 people (36.91%), aged 20 - 30 years as many as 42 people (25.0%), samples aged 41-50 there were about 33 people, (19.64%) and 31 customers over 50 years old, (18,45%).

Table 1. Respondents by education level

Level of education	Frequency	%
Senior High School	39	23,21
Diploma	24	14,29
Graduate or equivalent	62	36,90
Master degree	30	17,86
Doctor degree	13	7,74
Amount	168	100

Source: data from descriptive analysis

Table 1 shows that there are 62 people (36.90%) with undergraduate education, as many as 30 people with master's education, 24 people with diploma, 39 people in high school, 24 people with diplomas and 13 people with doctoral degrees. When viewed from the income of respondents, income of 5 – 10 million is the majority of 78 people or 46.43%, less than 5 million as many as 50 people, and above 10 million there are 40 people.

4.1 Outer Model

The measurement results of the loading factor of each variable and indicator can be seen in diagram 1.
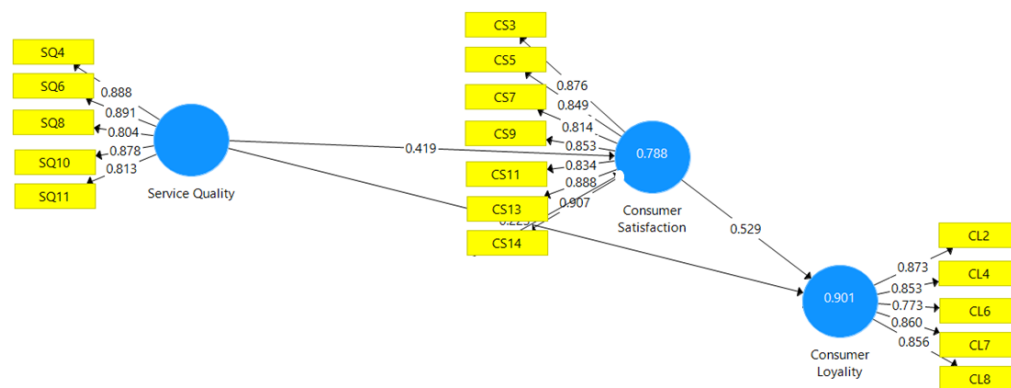

Fig. 1. PLS Algorithm Analysis
Source: PLS processing data

4.2 Validity of Convergent

Table 2. *Outer Loading*

	CL	CS	SQ
CL_1	O.246		
CL_4	O.247		
CL_6	O.215		
CL_7	O.240		
CL_8	O.235		
CS_3		O.155	
CS_5		O.169	
CS_7		O.177	
CS_9		O.180	
CS_11		O.156	
CS_13		O.154	
SC_14		O.170	
SQ_10			O.239

SQ_11	O.215
SQ_4	O.250
SQ_6	O.260
SQ_8	O.201

Source: Smart PLS 2022 analysis

4.3 *Average Variance Extracted*

The table above shows that, a loading factor above 0.7 is eligible for further analysis. The AVE coefficient can be seen in Table 3.

Table 3. Average value of filtered variance (AVE)

	AVE
CL	O.712
CS	O.741
SQ	O.732

Source: Primary data processed with SmartPLS

Table 3 provides information on all AVE coefficients > 0.5 so that it is categorized as good. The level of reliability can be seen in table 4.

Table 4. reliability coefficient

	Cronbach's Alpha (CA)	Composite reliability (CR)
CL	O,898	O,925
CS	O.941	O,952
SQ	O.908	O,932

Source: Calculation of reliability test results

CA and CR of all analysis results > O.7 so that it meets the requirements as high reliability data because it is > 0.70), thus it is feasible to test the inner model (*Bootstrapping).*

Inner Model

The t-statistic coefficient in path analysis can be seen in fig. 2.
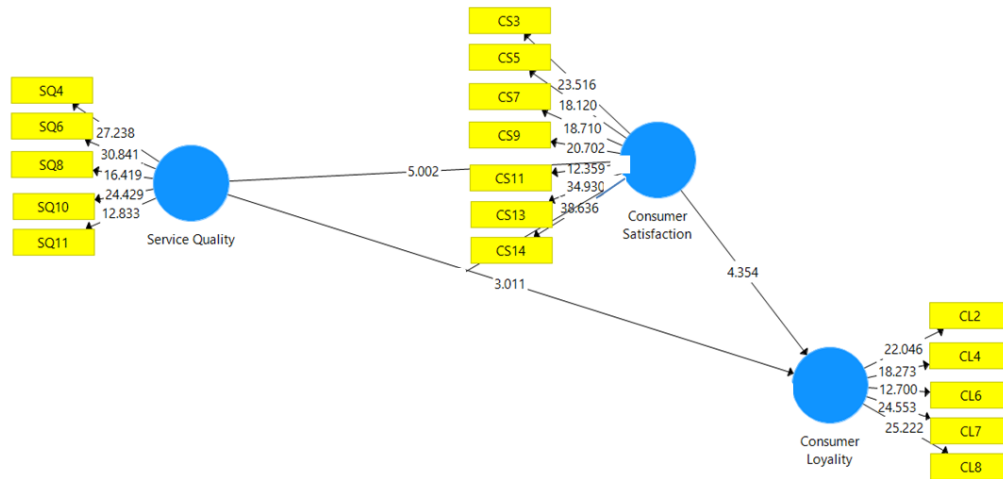
Fig. 2. Output of Bootsrapping
Source: PLS processing data

Figure 2 gives a clear and real picture that the R2 values for the two submodels show good results. See Table 5.

Table 5. *R-Square*

	R^2	R^{2}Adjusted
CL	0.901	0.900
CS	O,788	O,786

Source: Summary figure 2.

From table 10, it can be seen that the value of the R-Square for the variable:
1. Loyalty has R2 = 0.901 means Quality of Service and customer satisfaction with Customer Loyalty is 90.1%, the remaining 9.9% is determined by other variables such as trust, product innovation and others
2. Customer satisfaction has R2 = 0.788, which means that service quality contributes 78.8% to customer satisfaction, while the remaining 21.2% is influenced by other variables not mentioned in the study. These variables include the quality of technology and information, the competence of human resources and others.

The path coefficient value shows significance in hypothesis testing with a T-Statistic value above 1.96 for the hypothesis at 5 percent alpha. The following is the coefficient value from the calculation results.

Table 6. Path coefficient, t statistic, and significance

	Coef. path	Mean	SD	T Statistics	P Values
SQ -> CS.	0.419	0.422	0.082	5.137	0.000
SQ-> CL	0.223	0.215	0.078	2.856	0.004
CS-> CL	0.529	0.532	0.122	4.323	0.000

Source: PLS processing data

Table 6 shows that:

H1:   the results of the analysis show that the path coefficient is 0.419 with t statistic 5.137 > 1.96 and p 0.000 < 0.05 so that the alternative hypothesis is accepted. There is a significant influence between service quality on customer satisfaction of Indonesian Islamic banks.

H2:   the path coefficient on the effect of service quality and customer loyalty is 0.223 with t statistic 2.856 > 1.96 and p 0.004 < 0.05 so that the alternative hypothesis is accepted.

H3:   The results of hypothesis testing which states that there is an effect of customer satisfaction on loyalty obtained a path coefficient of 0.529 with a t statistic of 4.323 > 1.96 and p 0.000 < 0.05 so that the alternative hypothesis is accepted.

H4:   Sobel test results obtained Z = 3.04 > 1.98 with a significance level of 0.05, so there is a significant indirect effect between service quality and customer loyalty through customer satisfaction. Improved service quality will increase customer satisfaction and have implications for increasing customer loyalty.

5 Discussion

Quality of service to customer satisfaction

The results showed that the higher the service quality, the higher the satisfaction felt by Indonesian Islamic bank customers. When the bank manager will improve customer satisfaction, the aspect that must be improved is the quality of service. This is in accordance with the findings of previous research [28] which states that to increase customer satisfaction, it is necessary to improve service quality. nHendro and Rahardja [29] found a significant effect between service quality and customer satisfaction. Lubis [30] when the quality of a service increases, it is certain that customer satisfaction also increases and vice versa.

Service Quality towards Loyalty

The results of the study confirm that the better the service quality, the better customer loyalty. Customer loyalty will increase when the quality of service is improved. This agrees with Nurjanah [31] that when service quality is good, loyalty will increase. Istikomah [32] found that customer loyalty is determined by service quality. When you want to increase loyalty, the aspect that needs to be improved is improving the quality of service. [33]. Izziyana [34]; Fornell, [35] believes that when service quality increases, customer loyalty will certainly increase as well.

Customer Satisfaction with Loyalty

The hypothesis has been proven that customer satisfaction increases customer loyalty. When managers want to increase customer loyalty, they must increase customer satisfaction. Customers will be loyal when their satisfaction can be met. Customers will leave when their satisfaction decreases. This is in accordance with other expert research [36] which states that, when customers want to be loyal, then customer satisfaction must be increased first..

Service Quality towards Customer Loyalty through Customer Satisfaction

The fourth hypothesis has been proven that service quality has an indirect effect on loyalty through job satisfaction. The plot, when service quality increases, satisfaction increases, and then has implications for loyalty. Managers according to Kotler [37] when they want to increase customer loyalty can improve service quality which will then increase customer satisfaction which in turn has implications for customer loyalty.

6 Conclusion

The conclusion of the study leads to four hypothesis testing, where when service quality increases, satisfaction will increase. Islamic bank customer satisfaction will increase when the quality of service for them increases. Service quality will also increase loyalty. Customer loyalty can increase when the level of service quality increases. Customer satisfaction can significantly increase customer loyalty. Customers will have good loyalty if the satisfaction they feel increases. Improved service quality will increase satisfaction and increased satisfaction will increase loyalty

Novelty research lies in the effectiveness of customer satisfaction in mediating the effect of service quality on customer loyalty of Indonesian Islamic banks.

Acknowledgement

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