



THE EFFECT OF SERVICE AND PRODUCT QUALITY ON CUSTOMER SATISFACTION THROUGH CUSTOMER AWARENESS OF ISLAMIC BANKS IN WEST SUMATERA, INDONESIA

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Abstract

Purpose of the study: This study is to examine the effect of service quality and product quality of Islamic banks on customer satisfaction through customer awareness as a variable intervening in Islamic Banking in West Sumatera.

Methodology: In this study, a model with five parameters with 20 questions was used, so the minimum number of respondents for this study sample was 100 respondents. The data used study are primary data collected using survey methods through the distribution of questionnaires directly to respondents. Data analysis used with path analysis.

Main Findings: The results showed that the indirect effects of service quality and quality of Islamic bank products on customer satisfaction through awareness had a positive and significant relationship. They also revealed that consumers are aware of Islamic banking products and services. The reason they chose Islamic banks was because of profitability and religious principles. As a result of this finding, it can help the Islamic banking industry in its efforts to formulate promotional policies that are suitable for attracting more banking customers.

Research limitations/implications: The results of this study are expected to encourage and motivate the management of Islamic banks in West Sumatra to further improve product quality and service quality to the wider community so that it will further increase public awareness and understanding of Islamic banks. The results of this study can also encourage and trigger further studies in the field of marketing of Islamic banks through the fiqh muamalah approach, profit sharing and profit sharing and worldly benefit-sharing, and aspects of human resource management and for further research can add other variables that have not been included in research for example, trust, transparency, competitiveness of sharia products, facilities and work climate.

Novelty/Originality of this study: Islamic banking management needs to know how to look after their customers, even though they appear to be satisfied, but the level of competition in the financial services industry is greater than before, so as a menu of banking services companies must increasingly improve their services in proportion to the needs of customers.

Keywords: *Islamic Banking, Product Quality, Service Quality, Customer Awareness, Customer Satisfaction, Banking Customers.*

INTRODUCTION

The presence of Islamic banks is driven by the desire for the availability of financial services following Islamic principles, namely the banking system that avoids usury (interest is considered synonymous with usury), gambling (maysir), speculation or uncertainty (gharar) and other practices which is not following the principles of sharia (haram) ([Ahmed, 2016](#)).

The banking business is a service business that is based on the principle of trust ([Cohn et al., 2014](#)) so that the problem of service quality and product quality is a crucial factor in business success. Service quality is the consumer's assessment of the level of service received with the level of service expected ([Rusydia, 2016](#)).

Increasing competition in the banking industry encourages the banking industry to quickly adjust to the development of the surrounding community ([Daniel and Tulung, 2016](#)). The occurrence of rapid environmental changes is marked by the increasingly widespread expansion of foreign banks trying to enter the banking market in Indonesia ([BI, 2012](#)). The banking industry is currently competing to improve services to customers, by providing facilities that facilitate these customers in conducting financial transactions.

Islamic Banking in Indonesia has great potential to develop properly, this can be seen from the supporting aspects such as the majority of Indonesia's population is Muslim (87.18%) (BPS; results of the 2010 population census), it is muqalah fiqhly there is an Indonesian Ulema Council Fatwa (MUI) No. 1 of 2004 concerning bank interest (fa'idah) which states that bank interest is in the category of forbidden Riba ([Sugianto, 2008](#)), then reinforced with the birth of fatwas of the Indonesian Ulema Council (DSN-MUI) related to products Islamic banking and financial products in Indonesia. ([Yulianti, 2016](#)).

According to (Hamza & Kachtouli, 2014) intense competition, both between Islamic banks and with conventional banks, has increased customer standards for banking services. So that the approach of using only sharia sentiment becomes less effective. People who are familiar with conventional systems and have the image that conventional bank services are better than Islamic banks are a challenge for Islamic banks to find more appropriate strategies in retaining customers and increasing market share. Furthermore (Hamza & Kachtouli, 2014) in his research revealed that in Islamic banking, maintaining the quality of products and services is considered to have a significant effect on customer awareness. Then (Bashir, 2013) in his research found that customer awareness has a significant effect on customer satisfaction of Islamic banks. In general, customers have a negative perception about the facilities of Islamic banks compared to conventional banks (Abou-Youssef et al., 2015).

Based on the results of previous studies and research issues, some references were found which point to the importance of raising the topic of research on the quality of Islamic banking products and services to create awareness and satisfaction for consumers of Islamic banking. The purpose of this study is to analyze:

1. Is there an influence on service quality on customer awareness about Islamic banking?
2. Is there an influence on product quality on customer awareness about Islamic banking?
3. Is there an influence of awareness about Islamic Banks on consumer satisfaction?
4. Is there an influence of service quality and product quality on customer satisfaction through awareness of Islamic Banking as an intervening variable?

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

Islamic Banking in Indonesia

In Indonesia Islamic banking is regulated through Law No. 21 of 2008 in article 1 paragraph 7 it is explained that Islamic banks (sharia) are banks that conduct their business activities based on Islamic principles and by type consist of Islamic Commercial Banks and Islamic People's Financing Banks. Furthermore, in article 1 paragraph 8 of Law No. 21 of 2008 it is explained that Islamic Commercial Banks are Islamic banks which in their activities provide services in payment traffic. Whereas the banking system owned by Indonesia is a dual banking system, which is a Sharia system and a conventional system that can operate together as intermediary institutions. This indicates that besides the existence of Sharia Commercial Banks (BUS) each Conventional Commercial Bank (BUK) also has the opportunity to open a Sharia Business Unit (UUS).

In general, people recognize Islamic banks as banks whose business is based on Islamic principles even though the basic character of Islamic banks is universal and inclusive, (Ltifi et al., 2016) meaning that Islamic banks are modern banks that are open to all groups of people, not only aimed at for the Muslim community even non-Muslim communities can utilize Islamic banks.

The World Islamic Banking Competitiveness Report (EY, 2016) released a report that Indonesia is included in nine core markets as an engine of growth for the global Islamic finance industry, namely Bahrain, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, Turkey, Kuwait, and Pakistan.

Islamic Banking Products and Services

Result of research by (Souiden & Rani, 2015) in his research identified that the concept of Islamic banking not only emphasizes Muslim customers but also can attract non-Muslim customers because of the benefits derived from the Islamic banking system which upholds the value of justice without differentiating religious and cultural factors.

Product Quality

The product has an important meaning for the company because, without the product, the company will not be able to do anything from its business. Buyers will buy the product if they feel it is suitable, therefore the product must be adapted to the wants or needs of the buyer so that product marketing is successful. In other words, product creation is better oriented to market desires or consumer tastes. According to (Kotler and Armstrong, 2015) is "Everything that can be offered to the market to get attention, bought, used, or consumed that can satisfy wants or needs".

McCharty and Perreault (2003: 107) suggested that "Products are the result of production that will be thrown to consumers to be distributed and used by consumers to meet their needs". Meanwhile, according to (Saladin (2002: 121), "Products are everything that can be offered to a market to be considered, owned, used or consumed so that it can satisfy wants and needs".

According to (Kotler, 2015), "Product quality is the overall characteristics and characteristics of a product or service on the ability to satisfy expressed/implied needs". Meanwhile, according to (Lupiyoadi, 2013) states that "Consumers will feel satisfied if the results of their evaluation indicate that the products they use are quality".

Service Quality

Service quality is the expected level of excellence and control over the level of excellence to meet customer desires (Tjiptono, 2014). The development of the company creates intense competition. One of the strategies used by the company to win the competition is with good service quality. Customers are interested in buying a product or service because of the good quality of service.

Awareness

Consumer awareness of a particular product or company is closely related to the ability of a prospective buyer to recognize, recall a brand as part of a certain product category (Bashir, 2013). Part of a product category needs to be emphasized because there is a strong relationship between the product category and the brand involved. Consumer awareness is the ability of a name/brand to appear in the minds of consumers when they are thinking of certain categories of products or services and how easily the name is raised (Bawono & Oktaviani, 2016).

Consumer Satisfaction

Consumer satisfaction is a factor for companies to pay attention to business and win competitors among similar companies, although it is not easy to realize overall customer satisfaction, companies must minimize customer dissatisfaction by providing the best possible service system. Consumer satisfaction is an emotional response to experiences related to certain products or services, as well as the market as a whole (Tjiptono, 2014). Consumer satisfaction is a feeling of pleasure or disappointment of someone who appears after comparing the expected performance or results (Kotler and Keller, 2012: 177).

Empirical Study of Bank Customer Satisfaction

(Osman et al., 2014) conducted a study to examine the direct effect of awareness on customer satisfaction of Islamic banks in Malaysia. The results of the study indicate that awareness affects bank customer satisfaction. (Bashir, 2013) examined the direct effect of awareness on customer satisfaction of Islamic banks. The study also examined the indirect effect of product and service quality on service satisfaction. The results revealed that awareness has a direct influence on customer satisfaction.

Relationship between Service Quality and Awareness

According to (Bashir, 2013) defines service quality as the ability of organizations to meet or exceed customer expectations. This is the difference between consumers' expectations and perceived services. If the service ratio is greater than expectations, the product or service is considered quality. If customer expectations with their perceptions of service to be less then there is dissatisfaction (Ahmed, 2016).

Relationship between Product Quality and Awareness

Product quality is one of the factors that influence consumer awareness of the company, several studies indicate the importance of socializing and educating about products and services offered to the public. The result of research by (Khattak&Rehman, 2015) conducted a study to measure the extent of the understanding and awareness of the Pakistani non-Muslim community towards Islamic bank products and services by distributing 280 respondents. The results show that the majority of respondents understand and are aware of banking in Pakistan, but they do not understand the majority of the products and services offered by banks. Furthermore, they also did not understand the Arabic terms contained in Islamic bank products. Non-Muslim perceptions of Islamic banks varied between them.

Result of research by (Naser et al., 2013) in their research to explore the level of customer awareness and satisfaction with the products and services offered by Kuwait Finance House (KFH), by distributing 650 questionnaires between April 15 and May 15, 2011, to KFH customers and 429 were declared complete, from the results of his analysis Naser revealed that there was a significant proportion of KFH customers who did not understand some of the products offered. Respondents were relatively satisfied with almost all aspects of KFH, although some aspects had to be improved, especially the appearance, architecture, internal design and furniture of the bank.

Relationship between Product Quality and Service Quality with Customer Satisfaction

Research conducted by (Bashir, 2013) that examines consumer satisfaction with Islamic banks in Brunei Darussalam found that product quality and service quality can affect customer awareness or awareness about Islamic banks. Bashir examines the effects of both service quality and product quality, and awareness and satisfaction of Islamic banking customers in Brunei Darussalam.

The results showed that the indirect effect of service quality, product quality on customer awareness of satisfaction has a positive and significant relationship. They also revealed that consumers are aware of certain Islamic Banking products and services. This study also revealed the reasons for preferring Islamic banks because of profitability and religious principles.

Relationship between Product Quality and Customer Satisfaction

An empirical study of the relationship between product quality and customer satisfaction was conducted ([Badara et al., 2013](#)), researching Islamic banking in Nigeria, the results of the study found that there was a positive and significant relationship between product quality and customer satisfaction.

Relationship of Service Quality to Customer Satisfaction

The result of research by ([Rohendi, 2014](#)), states that service quality is a function of customer expectations in pre-purchase, in the process of providing quality received and in the quality of output received. Service quality is influenced by two variables, namely perceived service and expected service. If the perceived service is smaller than expected, customers become uninterested in the service provider concerned. Whereas if the opposite happens (perceived > expected), there is a possibility that customers will use the service provider again ([Rusydia, 2016](#)).

RESEARCH MODEL AND HYPOTHESIS FORMULATION

This research model was formed and formulated based on studies that have been conducted by ([Bashir, 2013](#)). This is because the study conducted ([Bashir, 2013](#)) recommends testing the same model in Islamic financial institutions in other countries.

In this model, there are identified three variables that affect customer satisfaction, namely awareness, service quality, and product quality. Awareness is a direct predictor of customer satisfaction. Whereas service and product quality is an indirect predictor of customer satisfaction.

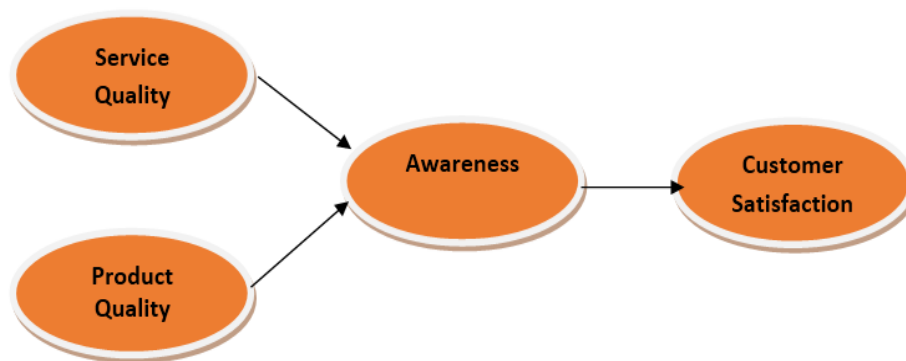


Figure 1: Concept Research Model

Source: ([Bashir, 2013](#)) Relationship between Service Quality, Products and Awareness of Customer Satisfaction

RESEARCH METHODS

Object of Research

The object of this study chose the West Sumatera community as a population. The sample of this study is individual customers who have experienced services or made transactions on their behalf in the Islamic Banks ing services industry in West Sumatera. This study uses an individual-level analysis unit because what is observed is customer satisfaction from individual customers of Islamic banks.

Population

According to ([Hair et al., 1995](#)) suggested that the minimum sample size was 5 observations for each question in the questionnaire. In this study a model with 5 (five) parameters with 20 questions was used, so the minimum number of respondents for this study sample was 100 respondents who were customers of Islamic banks.

Data Collection Technique

The data used in this study are primary data collected using survey methods through the distribution of questionnaires directly to respondents. Data collection is done by distributing questionnaires to customers of Islamic banks in West Sumatera and the questionnaire can be directly collected after the respondent has finished answering.

Data Analysis Method

The analytical method used in this research is multiple regression analysis using the statistical program SPSS (Statistical Package for Social Sciences). The tests used in this study are the outlier test, validity and reliability test, normality test, multicollinearity test, and heteroskedasticity test. To test the hypothesis using the F, t-test, and coefficient of determination (R^2).

RESEARCH RESULTS AND DISCUSSION

Data Quality Test Results

Validity Test Results

Before the primary data collected has been obtained and further analyzed, validity testing is first performed to determine whether the questionnaire prepared as an instrument for collecting data is valid or not. The results of the validity test carried out showed 18 of the 20 questions were valid because they had a factor load value of more than 0.6 (Hair, et al. 1995).

Table 1: Reliability Test Results

Variable	Cronbach's Alpha	Conclusion
Awareness about Islamic banks	0.921	Reliable
Islamic Banks Product Quality	0.947	Reliable
Islamic Banks Service Quality	0.925	Reliable
Customer Satisfaction	0.908	Reliable

Source: Primary data processed (2019)

Based on the reliability test criteria it can be concluded that the overall variables are reliable.

Outlier Test Results

Respondent data which is outlier data or data that deviates from the average will be excluded from further data analysis. Studentized Deleted Residual outlier test results show that there are 5 data detected as outliers because it has an SDR value > 1.96.

Multicollinearity Test Results

Based on the multicollinearity test results in Table 2, it shows that the value of the Variance Inflation Factor (VIF) of each independent variable is less than 10 and the tolerance value is also more than 0.1 (Hair et al., 1995). Then it can be concluded that there is no multicollinearity problem.

Table 2: Multicollinearity Test Results

Variable	Tolerance	VIF	Conclusion
Islamic Banks Product Quality	0.462	2.163	There is no Multicollinearity
Islamic Banks Service Quality	0.462	2.163	There is no Multicollinearity

(Dependent Variable: Understanding of Islamic Banks)

Source: Primary data processed (2019)

Normality Test Results

The normality test is used to test whether in regression, the dependent variable and independent variables have normal data distribution or not. Based on the result normal p-p plot graph display can be concluded that the normal p-p plot graph shows visible points spreading around a diagonal line, and its spread follows the direction of the diagonal line (Ghozali, 2001). Normality test results show that the regression model is feasible because it meets the normality assumption. A good regression model is having a normal data distribution. The following is a normal p-p plot graph.

Heteroscedasticity Test Results

Heteroscedasticity test is used to test whether in the regression, the dependent variable and the independent variable have homogeneous variants or not. Based on the result at the scatter plot graph display can be concluded that the scatter plot shows the points do not follow a certain pattern so that it can be concluded that there is no heteroscedasticity problem.

Hypothesis Testing

Hypothesis 1 and 2 Test Results: The Relationship between Product Quality and Service Quality to Customer Awareness about Islamic Banks

Testing hypotheses 1 and 2 in this study were carried out using multiple regression analysis. Hypotheses 1 and 2 in this study are testing whether product quality and service quality significantly influence customer awareness about Islamic banks.

Table 3: Table F-Test Results for Hypothesis 1

Model	F	Sig.	Conclusion
1. Regression	352.614	0.000	Significant

Source: Primary data processed (2019)

F test results showed the acquisition of an F value of 352,614 with a significance level of 0,000 ($p < 0.05$). This shows that both variables can be used to predict customer awareness about Islamic banks.

Table 4: Table t-Test Results Hypotheses 1 and 2

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Sig.</i>	Conclusion
	<i>B</i>	<i>Std. Error</i>		
1. (<i>Constant</i>)	2.906	0.441	0.000	
Product Quality	0.105	0.035	0.003	Significant
ServiceQuality	0.520	0.033	0.000	Significant

Source: Primary data processed (2019)

The test results in Table 4, show the relationship between product quality and customer awareness about Islamic Banks having a coefficient value of 0.105 at a significance level of 0.003. ($p < 0.05$). This means that there is a positive and significant influence between the quality of the products of Islamic Banking on customer awareness about Islamic banks. A positive influence indicates that the higher the value of the Islamic Banks product quality, the more it will increase customer awareness.

The test results in Table 4, also show the relationship between Islamic Banks service quality and customer awareness about Islamic Banks having a coefficient value of 0.520 at a significance level of 0.000 ($p < 0.05$). This means that there is a positive and significant influence between the service quality of the Islamic Bank on customer awareness.

Table 5: Results of Calculation of Coefficient Determination Hypotheses 1 and 2

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	0.825	0.681	0.679	1.685

Source: Primary data processed (2019)

The test results of the coefficient of determination presented in Table 5 show that the corrected determination coefficient (Adjusted R^2) has a value of 0.679 which means that the customer awareness variable about Islamic banks can be explained by the quality of the variable products and Islamic Banks service quality at 67.9% while the remaining 22.1% is influenced by other factors not included in the model.

Hypothesis Test Results 3, 4 and 5: Relationship of Product Quality, Service Quality, and Awareness (Sharia) about Islamic Banks and Customer Satisfaction

Hypothesis testing 3, 4 and 5 in this study was carried out using multiple regression analysis. Hypotheses 3, 4 and 5 in this study are testing whether product quality, service quality and understanding of Islamic Banks significantly influence customer satisfaction. F-Test Results between product quality and service quality of customer awareness about Islamic bank customers are presented in Table 6.

Table 6: Table F Test Results for Hypotheses 3, 4 and 5

<i>Model</i>	<i>F</i>	<i>Sig.</i>	Conclusion
1. Regression	167.821	Significant	Significance

Source: Primary data processed (2019)

F test results showed the acquisition of an F value of 167.821 with a significance level of 0.000 ($p < 0.05$). This shows that the three variables simultaneously have a significant influence on customer satisfaction, or in other words, the regression model can be used to predict Islamic Banks' customer satisfaction.

Table 7: Hypothesis t-Test Results 3, 4, and 5

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Sig.</i>	Conclusion
	<i>B</i>	<i>Std. Error</i>		
(<i>Constant</i>)	2.075	0.550	0.000	
Product quality	0.329	0.041	0.000	Significant
Service Quality	0.208	0.051	0.000	Significant
Awareness	0.174	0.064	0.007	Significant

Source: Primary data processed (2019)

The test results in Table 7, show the relationship between product quality and customer satisfaction has a coefficient value of 0.329 at a significance level of 0,000. ($p < 0.05$). This means that there is a positive and significant influence between the product quality of Islamic Banking on customer satisfaction. The positive influence indicates that the higher the value of Islamic Banks' product quality, the more customer satisfaction will be.

The test results in table 8 also show the relationship between Islamic Banks service quality and customer satisfaction has a coefficient value of 0.208 at a significance level of 0,000 ($p < 0.05$). This means that there is a positive and significant influence between the service quality of the Islamic Bank on customer satisfaction. Besides awareness about Islamic banks to customer satisfaction also shows a positive and significant relationship.

Table 8: Results of Calculation of Coefficient Determination Hypotheses 3, 4 and 5

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. The error of the Estimate</i>
1	0.777	0.604	0.600	1.97629

Source: Primary data processed (2019)

The results of the determination coefficient test presented in Table 8, show that the corrected determination coefficient (Adjusted R^2) has a value of 0.600 which means that the customer satisfaction variable can be explained by product quality, Islamic Banks service quality, and customer awareness about Islamic Banks s by 60% while the remaining 40% is influenced by other factors not included in the model.

Intervening Variable Hypothesis

Effect of Product Quality Variables on Customer Satisfaction through Awareness as Mediation Variables.

The results of the regression calculation of the effect of product quality variables on customer satisfaction through understanding as a mediator as suggested by (Baron & Kenny, 1986), are presented in the following Table 9.

Table 9: The Effect of Product Quality on Customer Satisfaction with Awareness as Mediation Variables

Regression Equation	Independent Variable	Dependent Variable	Regression Coefficient	T	Sig.
First	Product Quality	Customer Satisfaction	0.576	19.124	0.000
Second	Product Quality	Awareness	0.503	16.231	0.000
Third	Product Quality	Customer Satisfaction	0.402	10.654	0.000
	Awareness		0.345	6.916	0.000

Source: Primary data processed (2019)

Table 9 shows that all regressions show a significant relationship between variables according to the requirements of (Baron & Kenny, 1986). Furthermore, the test results show that the relationship between product quality and customer satisfaction in the third regression (0.402) is smaller than the relationship between product quality and customer satisfaction in the first regression (0.576). thus it can be concluded that the awareness variable is a mediating variable between product quality and customer satisfaction variables.

Effect of Service Quality Variables on Customer Satisfaction through Awareness as Mediation Variables.

The results of the regression calculation of the influence of service quality variables on customer satisfaction through awareness as a mediator as suggested by (Baron & Kenny, 1986), are presented in the following table 10.

Table 10: The Effect of Service Quality on Customer Satisfaction with Awareness as Mediation Variables

Regression Equation	Independent Variable	Dependent Variable	Regression Coefficient	T	Sig.
First	Product Quality	Customer Satisfaction	0.542	18.488	0.000
Second	Product Quality	Awareness	0.593	26.060	0.000
Third	Product Quality	Customer Satisfaction	0.388	7.738	0.000
	Awareness		0.259	3.735	0.000

Source: Primary data processed (2019)

Table 10 shows that all regressions show a significant relationship between variables according to the requirements of (Baron & Kenny, 1986). Furthermore, the test results show that the relationship between service quality and customer satisfaction in the third regression (0.388) is smaller than the relationship between product quality and customer satisfaction in the first regression (0.542). thus it can be concluded that the awareness variable is a mediating variable between the variable service quality and customer satisfaction.

CONCLUSIONS AND RECOMMENDATION

Conclusion

The results showed that product quality in Islamic banks had a positive and significant effect on customer awareness. This influence reflects the greater the benefits of being a customer of an Islamic bank, the higher the level of awareness. Likewise, if Islamic bank products are more attractive, the level of awareness will also be higher.

Then from the test results, it was found that there is a positive and significant effect between the quality of Islamic bank services on customer awareness about Islamic banks. This shows that the more effective and efficient Islamic bank services, the higher the awareness of customers about Islamic banks. Likewise, if the Islamic bank services offered are equipped with ATMs, phone banking and internet banking facilities, the level of customer awareness about Islamic banks will also be higher.

This study has limitations in respondents are urban West Sumatera areas, of course, there is a possibility that the results will be different if the research is conducted in other areas.

Recommendation

Furthermore, the results of this study can at least encourage and trigger further studies in the field of marketing of Islamic banks through the fiqhmuamalah approach, profit sharing and profit ratios and worldly benefit-sharing, and aspects of human resource management and for subsequent research can use other variables that have not been included in this research, for example, trust, transparency, Sharia product competitiveness, facilities and work climate and to use interview methods in getting more valid data that can describe the actual conditions.

AUTHOR CONTRIBUTION

Author 1: Management doctoral student program.
Authors 2 and 3: Supervisors of the dissertation.
Author 4: Assist in data processing and publication.
Authors 5: As a dissertation examiner board.

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