



## Shaping the Future of Sharia Banking: Engaging Customers through Innovative Services in Padang, Indonesia

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**Abstract:** *This research endeavours to examine several key aspects within the context of Bank Syariah Indonesia Kota Padang. The research adopts an associative approach, with a sample size comprising all customers of Bank Syariah Indonesia KK UNP totalling 3500 individuals. The analysis utilizes Partial Least Square (PLS) through SmartPLS 3.2.9 software to scrutinize hypotheses. The findings affirm the positive and significant impact of service innovation on customer decisions and the company's reputation, as well as the mediating role of the company's reputation. The study suggests that future research could explore additional variables or recent errors in BSI services to broaden the understanding of challenges and opportunities in the banking sector.*

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### Introduction

In the current era of globalization, the banking sector is developing rapidly with technology. Technology in banking is a business that can change and develop very quickly (Prestama et al., 2019). This change in dynamics is due to increasingly tight competition between Islamic banks in the banking industry. The role of Islamic banks in the economy is very important in supporting the expenditure process and income of funds from the public, and banks also have a role in advancing the Indonesian economy (Muhmad et al., 2020; Suryadi et al., 2023). A customer's decision to save at a Sharia bank is necessary to increase bank funds.

Customer decisions in banking services are intricately linked to consumer behaviour, involving stages from product consideration to post-purchase evaluation (Sarno et al., 2022). These decisions, influenced by economic, marketing, technological, and socio-cultural factors, are pivotal for both customers and financial institutions (Husaeni, 2017). In the competitive landscape of banking, institutions seek to attract and retain customers through responsive service innovations. Specifically in Sharia banking, meeting customer needs becomes crucial for the continuation of financial transactions (Mashhadi et al., 2007). Understanding and adapting to customer behaviour are essential strategies for banks aiming to cultivate and sustain a loyal customer base in a dynamic market (Yusheng & Ibrahim, 2019).

Banks are evolving their services to enable customers to access a wide range of banking services independently, eliminating the need to visit a physical branch (Bajada & Trayler, 2015). Service innovation in banking caters to customer needs by facilitating easy access to information, communication, registration, account opening, transactions, and withdrawals (Hanif & Umer, 2018). Beyond traditional banking products, customers can also engage in financial advisory, investment activities, and transactions through electronic trading systems (e-commerce) (Uchupalanan, 2000). This flexibility is extended to smartphones with dedicated banking applications, allowing customers to utilize these services from anywhere as long as they have internet connectivity (Mashhadi et al., 2007). The ongoing trend emphasizes the industry's commitment to providing convenient and diverse financial services tailored to customers' evolving preferences (Sarno et al., 2022).

In Indonesia, the banking industry tends to compete with one another from time to time. As in the table below:

**Table 1.** Largest Bank in Indonesia Based on Total Assets  
(In Trillions of Rupiah)

NO	BANK	Q1/2022	Q2/2022
1	BANK MANDIRI	1.734,08	1.785,71
2	BRI	1.650,28	1.652,84
3	BCA	1.259,28	1.264,47
4	BNI	931,90	946,49
5	BTN	367,51	381,74
6	CIMB NIAGA	307,40	310,98
7	BSI	271,29	277,34
8	BANK PERMATA	240,87	229,79
9	OCBC NISP	225,73	223,44
10	BANK PANIN	205,80	200,17

Source: Finansial.bisnis.com

In the table above, it can be seen that PT. Bank Syariah Indonesia Tbk. is one of the government-owned banks that has managed to enter the list of top 10 banks with the largest assets at number 7. Where in the first quarter of 2022, the issuer with the stock code BRIS was recorded as having assets of Rp. 271.29 trillion, while in the second quarter of 2022, the issuer with the share code BRIS experienced an increase, recorded as having assets of IDR 277.34 trillion, with actual growth of 6.05% on an annual basis. Whereas in the annual quarter, it was dominated by Bank Mandiri. With the level of competition from year to year increasingly increasing competition between banks is very tight, which is supported by the advantages possessed by each bank.

In this way, it is hoped that the reputation of Bank Syariah Indonesia (BSI) will continue to increase over time and service innovation will also develop so that customers will decide to save at sharia banks. Reputation can be interpreted as the image or good name of an institution or individual. Reputation can also be measured by assessing someone against an agency or individual. This assessment can be based on what the assessor sees, feels and does. Reputation is an important factor in the banking world because reputation is a benchmark for customers in choosing a bank, considering that competition in the banking world is increasingly tight. A

company's reputation can result in a decrease in the level of trust of its customers because it originates from negative perceptions of the company. This arises because of negative media reports or rumours about Islamic banks, as well as the lack of effective communication strategies for Islamic banks. Through creating a company reputation and service innovation, competitive advantage can be achieved in increasing company profits.

In the dynamic landscape of Indonesia's banking sector, Islamic banking stands as a pivotal force, playing a crucial role in supporting public expenditure and fund circulation. The sector is witnessing rapid evolution propelled by technological advancements, intensifying competition among Islamic banks. Within this context, customer decision-making processes in banking services emerge as multifaceted phenomena, influenced by a myriad of economic, marketing, technological, and socio-cultural factors. As banks strive to attract and retain customers in this fiercely competitive environment, service innovation takes centre stage. Institutions are harnessing technology to offer customers convenient access to a diverse array of banking services, extending from traditional transactions to financial advisory and investment activities, accessible even through smartphones. However, alongside innovation, the preservation and enhancement of reputation emerge as imperative tasks for Islamic banks. Reputation serves as a critical determinant in customer trust and choice, especially amid reports or rumours that may tarnish the image of Islamic banks. Effective communication strategies are essential to counter negative perceptions and cultivate a positive reputation, thereby securing a competitive advantage and fostering sustained profitability. Through a delicate balance of technological innovation, attentive customer service, and strategic reputation management, Islamic banks in Indonesia navigate the complexities of the modern banking landscape, positioning themselves for continued growth and relevance.

### **Research Methods**

This type of research uses associative causal techniques, namely, relationships that are cause and effect. The data used is primary data and secondary data. The population in this research is all customers of Bank Syariah Indonesia, Padang State University Cash Office, totalling 3500 people in 2021-2022. The sampling technique used in this research is non-probability sampling with a sample size of 100 people obtained using the Slovin formula. The research instrument uses a Likert scale. Data collection techniques in this research used questionnaires and documentation. The data analysis techniques used are descriptive analysis and structural equation modelling (SEM) analysis - Partial Least Square (PLS). Structural Equation Modeling (SEM) analysis or Structural Equation Model is a statistical analysis method developed from regression analysis combined with factor analysis and path analysis. In this method, data management is carried out using the Smart PLS software version 3.2.9. namely Measurement Model (Outer Model), Structural Model (Inner Model), Hypothesis Testing (Bootstrapping).

## Result and Discussion

### Structural Model and Hypothesis Testing

A structural equation model was applied to assess the direct effect, and the bootstrapping method was used to estimate the overall, direct, and indirect effects. The bootstrapping approach involved creating 5000 subsamples, and the results were presented with a 95% confidence interval, which was adjusted to account for any potential bias. Figure 1 illustrates the bootstrapping outcomes for the entire model, providing a clearer understanding of the results.

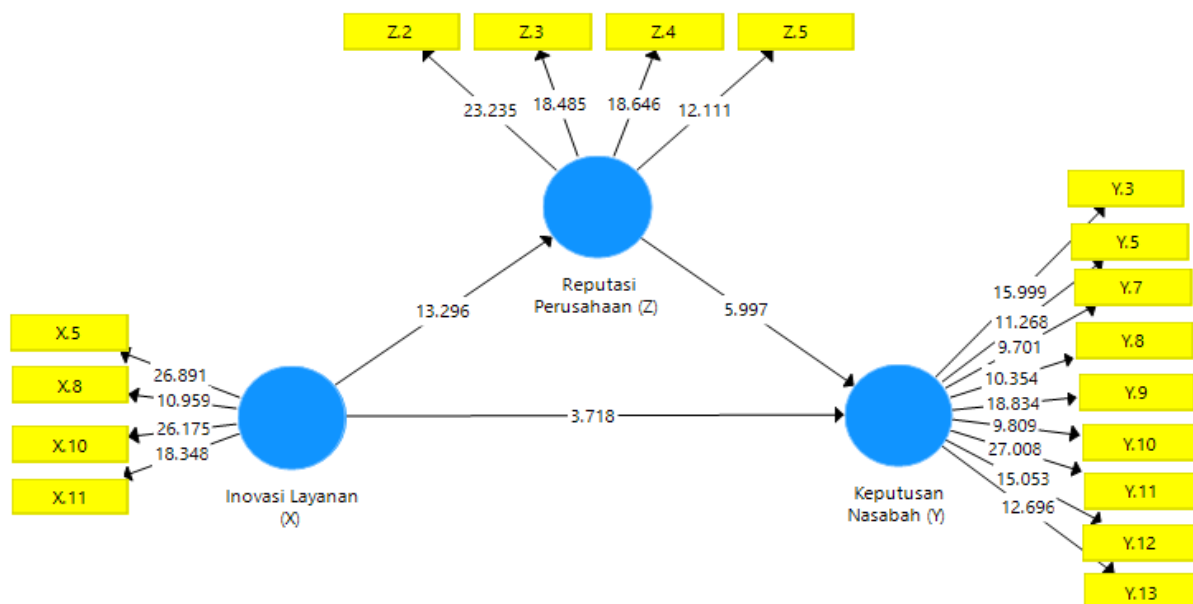


Figure 1. Bootstrapping Result

Table 2 presents the tabulation results of the data using the Smart-PLS software.

Table 2. Bootstrapping Result

Path	Original Sample	T Statistics	P Values
SI -> CD	0,368	3,595	0,000
SI -> CR	0,682	13,619	0,000
CR -> CD	0,526	5,854	0,000
SI -> CR -> CD	0,359	5,276	0,000

Source: Data Process

The coefficient value of the service innovation path to customer decisions is 0.368, which is positive, which means that service innovation has a positive effect on customer decisions. It is known that the T-statistic value is  $3.595 > 1.96$  and  $P\text{-Values} = 0.000 < 0.05$ , so it can be concluded that service innovation influences customer decisions. The service innovation path coefficient value is 0.682, which is positive, which means that service innovation has a positive effect on the company's reputation. It is known that the T-statistic value is  $13.619 > 1.96$  and  $P\text{-Values} = 0.000 < 0.05$ , so it can be concluded that service innovation affects the company's reputation. The coefficient value of the company's reputation

path is 0.526, which is positive, which means that the company's reputation has a positive effect on customer decisions. It is known that the T-statistic value is  $5.854 > 1.96$  and P-Values =  $0.000 < 0.05$ , so it can be concluded that the company's reputation influences customer decisions. The coefficient value of the service innovation path to customer decisions through company reputation is 0.359. It is known that the T-statistic value is  $5.276 > 1.96$  and P-Values =  $0.000 < 0.05$ , so it can be concluded that company reputation mediates the relationship between service innovation and customer decisions.

## **Discussion**

Service innovation has a direct influence on customers' decisions to save at the Indonesian Sharia Bank in Padang City (Kitsios & Grigoroudis, 2020; Setianingsih & Nursaidah, 2023; Woo et al., 2021). Service innovation plays a pivotal role in influencing customers' decisions to save at the Indonesian Sharia Bank (BSI) in Padang City. By continually introducing new and convenient services tailored to meet the evolving needs of its clientele, BSI enhances the overall convenience and accessibility of banking for customers. With features such as mobile banking apps, cash deposits, credit card payments, utility bill payments, and diverse transaction options, customers can conduct their banking activities effortlessly, transcending the constraints of traditional branch banking. This heightened convenience not only aligns with customers' busy lifestyles but also underscores BSI's commitment to providing hassle-free banking experiences. Moreover, the inclusion of innovative features like Top Up, E-Money, and Ziswaf payment options demonstrates BSI's dedication to catering to diverse financial needs, further solidifying its appeal as a comprehensive banking solution. Crucially, BSI's emphasis on service innovation fosters trust and reliability among customers. By ensuring the security and integrity of online transactions, BSI instills confidence in its clientele, reinforcing their inclination to entrust their savings to the bank. Additionally, BSI's proactive stance on innovation sets it apart from competitors, establishing a unique value proposition that resonates with customers seeking cutting-edge banking solutions. Through its customer-centric approach, BSI actively listens to feedback and adapts to evolving market trends, strengthening its relationships with customers and fostering higher levels of satisfaction and loyalty. Consequently, customers perceive BSI as their preferred banking partner for saving, drawn by the convenience, reliability, and customer-focused innovation that define the BSI experience.

Service innovation has a direct influence on the company's reputation at the Indonesian Islamic Bank, Padang City (Cretu & Brodie, 2007; Feng et al., 2019; Henard & Dacin, 2010). Service innovation plays a pivotal role in shaping the reputation of the Indonesian Islamic Bank (BSI) in Padang City. Through innovative offerings such as mobile banking apps, online transaction features, and other cutting-edge solutions, BSI portrays itself as a forward-thinking institution at the forefront of technological advancements. This perception of modernity not only enhances BSI's reputation as a dynamic and progressive bank but also signals to customers its commitment to meeting their evolving needs. Moreover, effective service innovation builds trust and reliability among customers by providing convenient, secure, and efficient banking solutions. As BSI continuously introduces innovative services that address customer pain points and preferences, it enhances overall customer satisfaction and fosters loyalty. This, in turn,

contributes to BSI's reputation as a reliable and trustworthy banking partner in Padang City. Additionally, service innovation helps BSI differentiate itself from competitors, strengthening its position in the market and solidifying its reputation as a preferred choice among customers. Beyond mere financial transactions, BSI's innovative services also demonstrate its commitment to social responsibility by promoting financial inclusion and supporting local economic development. Collectively, these factors underscore BSI's reputation as a socially conscious organization that prioritizes the well-being of its customers and the community, further enhancing its standing as a leading Islamic bank in Padang City.

The company's reputation directly influences customers' decisions to save at the Indonesian Sharia Bank in Padang City (Kircova & Esen, 2018; Yi, 2023). The reputation of the Indonesian Sharia Bank (BSI) in Padang City holds a profound sway over customers' choices regarding where to save their funds. BSI's reputation serves as a cornerstone of trust and credibility in the eyes of customers, instilling confidence that their savings are secure and managed responsibly. This trust stems from BSI's commitment to Islamic principles and ethical banking practices, which bolster its reputation as a reliable and transparent financial institution. Moreover, BSI's reputation for financial stability reinforces customers' belief in the safety of their deposits, making it a preferred choice for savers seeking assurance in uncertain economic times. Additionally, BSI's track record of delivering high-quality services and positive customer experiences further enhances its reputation, drawing in new savers and encouraging existing customers to continue their banking relationship with the institution. Beyond mere financial transactions, BSI's reputation for ethical business practices and social responsibility resonates with customers who value integrity and community involvement, further solidifying its appeal as a trusted banking partner. Ultimately, BSI's reputation not only influences individual saving decisions but also contributes to its competitive positioning in the market and long-term success as a leading Sharia bank in Padang City.

Company reputation indirectly has a positive and significant effect on mediating the relationship between service innovation and customer decisions (Ganesan & Sridhar, 2016; Khan et al., 2020; Kurniawan et al., 2019; Siswi & Wahyono, 2020). The indirect positive effect of company reputation in mediating the relationship between service innovation and customer decisions is a crucial dynamic that underpins customer behaviour in modern business contexts. Service innovation represents a fundamental aspect of staying competitive and meeting evolving customer needs in today's fast-paced markets. However, the acceptance and adoption of these innovations hinge greatly on customers' perceptions of the company's reputation. A positive reputation acts as a bridge between service innovation and customer decisions by instilling trust and credibility in the innovative offerings. When customers perceive a company as reputable and trustworthy, they are more likely to view its innovative services as reliable and beneficial, thus reducing perceived risks associated with adopting new technologies or features. Moreover, a positive reputation enhances the perceived value of innovative offerings, making them more attractive to customers seeking solutions that align with their needs and expectations. Additionally, a strong reputation fosters customer loyalty and advocacy, amplifying the indirect positive effect on the relationship between service innovation and customer decisions. Satisfied

customers who trust the company are more likely to support its innovative initiatives and recommend its products and services to others, further reinforcing the cycle of positive decision-making and adoption of innovative offerings. In essence, a positive company reputation serves as a catalyst that enhances customers' willingness to embrace service innovation and make positive decisions to adopt and utilize these innovations based on their confidence in the company's integrity, reliability, and commitment to excellence.

### **Conclusion and Recommendation**

In conclusion, this research underscores the pivotal role of service innovation in influencing customer decisions to save at Bank Syariah Indonesia in Padang City. The positive reception of new services and the convenience they offer, particularly through mobile banking, demonstrates the significant impact on customer preferences. Furthermore, the study establishes a direct link between service innovation and the company's reputation, emphasizing the importance of clear operational procedures and continuous improvement in mobile banking services. The positive correlation between service innovation and company reputation underscores the strategic significance of these innovations in shaping a positive organizational image. Additionally, the research reveals the direct influence of the company's reputation on customers' decisions, emphasizing the crucial role of maintaining a good name and positive image. Practical implications of this study include a continued focus on service innovation and strategic reputation management to enhance customer trust and loyalty. For future research, exploring customer preferences in more depth, investigating the impact of service quality on satisfaction and loyalty, and conducting comparative studies could provide further insights into enhancing the banking experience and sustaining competitive advantage in the Islamic banking sector in Padang City.

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