Relationship Between Shariah Principles Adherence, Corporate Social Responsibility, Trust and Customer Loyalty: Theoretical Study at Indonesia BMT

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ABSTRACT: Shariah Principle Adherence (SPA) is basis to create customer loyalty that should be accompanied by positive social efforts such as CSR. With CSR, consumer trust and loyalty will increase. This study aims to examine the relationship between CSR, trust, Adherence to sharia principle and customer loyalty in context of Islamic Bank (BMT). Theoretical review show that CSR can contribute to increasing customer loyalty, Trust is essential for BMT that managed by Islamic principles to improve public trust in decisions and business development strategies and Both CSR and trust are very important for customer loyalty. Therefore, to increase trust, BMT should maintain and improve the benevolent behavior and credibility, to maintain customer loyalty. This model development can become basis for future research to examine empirically to know weather the model is supported or rejected by empirical findings.

KEYWORDS: Shariah Principle Adherence, CSR, trust and loyalty, BMT

I. INTRODUCTION

Financial services industry become more competitive. This condition not only because emergence of new financial services, but also triggered by presence of Sharia-based financial services and growing more passionate. Islamic Bank with Islam concept actually becomes competitors that can not be underestimated by conventional banks. Existence of Islamic banks are growing continuously, but they still can not touch small communities or small businesses that are not bankable, because to borrow in Islamic banks, customers is constrained by administrative requirements, among others are they must have a collateral, Business License and Tax ID. Strict requirements makes public and small businesses are underserved by Islamic banks. This condition becomes an opportunity to establish Islamic Microfinance Institutions (IMI) or Baitul Maal wat tamwil (BMT) in Indonesia, especially East Java. BMT is a microfinance institution based on Islamic principles and based on Islamic teachings. Baitul Maal wat Tamwil (BMT) etymologically is composed of two meanings. Baitul Maal means “money house” and Baitul Tamwil means “home finance”. Money house refers to collecting funds from alms (infaq, zakat and shadaqah), while financing is done based on principle of profit sharing, which is different from conventional financial institutions that based on interest system. A large number of BMT should be followed by a financial institution that different with Sharia, so BMT must have a strategy to increase the customer’s loyalty. Metawa and Almossawi (2009) states fierce market competition conditions make Islamic banks must apply the marketing concept. More precisely, Islamic banks must be consumer-oriented institution.

Consumer-oriented marketing is a marketing concept to always give the best to its customers, such as providing capital for small entrepreneurs who become social purposes. Therefore, Islam believers hope to Islamic banks is clear. Islamic banks are expected to disclose information about corporate social responsibility (CSR) to get legitimacy for continuation of its existence (Sadeghzadeh, 1994, Lewis, 2001, Maali et al., 2003). CSR disclosure by Islamic banks adheres to principles and laws of Islam and certain investors through Sharia compliance reports. Implementation of strict adherence to Islamic principles constitutes the basic principles of an Islamic organization in conducting its activities that must responsible to community and surrounding environment. Likewise, BMT have ultimate aim for profit, but on other hand should also run corporate social responsibility (CSR). Corporate social responsibility is something that should be attached to organizations that run the business on Islamic principles. With these sharia principles, BMT must be better to society, environment and consumers, because sharia is a guarantee for the public and consumers to trust the BMT.
This is consistent with Hassan and Lewis (2007), that religious considerations play an important role in influencing the decision-making behavior of Muslim consumers in their dealings with bank because consumers believe that Islamic banks meet the sharia. Many companies implement corporate social responsibility (CSR). CSR is believed to increase customer loyalty and create a sustainable competitive advantage. Many researches related to corporate social responsibility (CSR) are done to manufacturing companies, while service companies are still get little attention (Farouk, 2011), particularly banking or Islamic microfinance institutions is still rarely done especially in Indonesia. This phenomenon is the reason for researchers to examine the implementation of CSR programs in BMT. Another reason underlying this study is that, because the concept of CSR has a share in accordance with Shariah concept at BMT, which has the objective for the benefit. Based on the conditions mentioned above, researchers interested to study theoretically the relationship between sharia principles, CSR trust and customer loyalty. Model is built based on relationship between variables with relevant theories. Main objective of this research is to create a model of the relationship between the principles of sharia research, CSR trust and customer loyalty.

II. THEORITICAL REVIEW

Sharia Principles Adherence (SPA) 

Sharia Principles Adherence (SPA) is human commitment or adherence to commandments or prohibitions of Allah based on Quran and Hadith. Good relationship with God and fellow human beings should be based on Qur'an and Hadith. This implies that any action or activity on this earth must be based on Qur'an and Hadith. Islam teachings should not be seen merely as a ritual matter, but must be implemented in every human’s activity. Similarly, muamalah (economic affairs) also become subject of sharia principles from Qur'an and Hadist. SPA is a necessary condition that must be met by financial institutions that run their business based on Islamic principles. SPA is a manifestation of Islamic principles fulfillment in all financial business activities to reflect the characteristics of the institution itself, including BMT. SPA implies an integrity and credibility (Inspire, 2009). Trust itself must be maintained to keep Islamic principles in accordance with principles of Islamic law and Islamic banking law. Without the SPA, public will lose trust to Islamic financial institutions such as BMT and negatively will affect on image or reputation of BMT. According to Islamic Banking Act article 1, no. 12, 2008, principle of Islamic Sharia law is the principle in banking activities based on fatwa (Islamic policy) issued by agency with authority in application of sharia in field. It is authority of Shariah Supervisory Board (SSB). According to Abdullah and Chee (2012), an muamalah activity is based on sharia principles, muamalah activities must avoiding three fundamental prohibition of Islamic finance namely riba (usury), b. Gharar (uncertainty) and c. gambling.

Corporate Social Responsibility (CSR) :Companies success depend on humans, since all activities in company is run by people who live in according their respective roles. Therefore, theologically human as company’s management will responsible to God in according with their position Djakfar (2012). This makes company needs to do benevolent (ihsan) and benefit to community, because achieving the goal success of company should support community, either directly or indirectly. Without community support, company’s goal will never be realized. Higher awareness and intelligence communities to worse environmental conditions made them require company to not only profit-oriented, but also must consider the wider community interests. Companies are required to balance the interests of stakeholders with interests of shareholders, balance between the two will create a synergy. One embodiment of the synergy commonly known as Corporate Social Responsibility. This synergy will generate support from external parties that could strengthen company’s position in competition and global. Conceptually, CSR also intersect and often interchangeable with other terms, such as corporate responsibility, corporate sustainability, corporate accountability, corporate citizenship, and corporate stewardship. Suharto (2010) stated that commitment and CSR activities refer to aspects of firm's behavior, including company policies and programs relating to two key elements:

[1] Good corporate governance: business ethics, human resource management, social security for employees, as well as occupational health and safety;


CSR was developed by Elkington in concept of triple bottom line that consists of economic prosperity, environmental quality, and social justice (Wibisono: 2007). This concept said that company is not only pursuing profit, but they should also be involved in fulfillment of social welfare (people), and actively participate in protecting the environment (planet). This concept is illustrated by triangle. Stakeholders live should be considered company to seek profit, namely economic, environmental, and social.

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Furthermore, Djakfar (2012) stated that CSR is an embodiment of ideals corporate social responsibility in form of an action based on ethics with aim to improve sustainable economy to increase life quality for employees and their families at same time to improve the lives of local communities and society in general.

Trust: Many people still less confident in Islamic financial institutions. Creating trust is very fundamental to create loyalty to Islamic financial institutions such as BMT. This happens because there are many people who equate BMT with conventional Bank. This fact needs to be clarified and given intense socialization to community about the nature of BMT concept. Society needs to be explained how the essence of the concept of BMT, so their view of BMT can change and improve their understanding of this concept is the basis of the operational BMT. Hopefully, view that BMT same with conventional bank will disappear by itself over time. Removing a view that BMT differ from conventional bank is not easy, because it requires a hard struggle, as a need for a reference value of yield (rate of return) for Islamic finance. Expected return in Islamic financial system is profit sharing, including Islamic banking. It should be the real results of the business activities. Unfortunately, yield reference value is not yet available so that Islamic financial institutions often do equalization with interest rates in conventional system. It is not fair, this behavior can pose reputation risks for the Islamic financial system because there is no essential difference with conventional system. Business relationship with a partner requires a trust. Without trust there will be no agreement or cooperation. Relationship needs trust between one party with other party. Moreover, financial services company full of risk. That cooperation is based intangible (non-physical), so before there is an agreement or cooperation and certainly an element of trust must exist first.

Trust is a key element in emergence and maintenance of social exchange relationships (Blau, 1964). Bradach and Eccles (1989) view trust as a control mechanism to facilitate the exchange relationship characterized by uncertainty, vulnerability and dependency. Furthermore, Morrison and Firnstone (2005) stated that primary function of trust is to reduce uncertainty, which refers to perception of the individual's inability to predict something accurately. These characteristics are reflected in financial services industry such as BMT, where the customer is not able to personally investigate the BMT as a seller of financial services, to physically inspect the products/services offer. Here, customers have limited information, and thus trying to reduce the complexity of human behavior in situations where people have to cope with uncertainty (Lehman 1989).

Customer Loyalty: People demand a company to not only concerned with economic aspects, but also the social aspect of an embodiment of obedience to principles of Sharia. This can make customers loyal to a BMT. To increase loyalty, BMT needs to implement a strategy that could actually touch the conscience of the community, especially the customers, by giving alms and charity as commanded in verses of the Qur'an and Hadist. Loyalty makes customers invest or re-financing, and then recommend a product/service that is used to others. They have expectation to continue survive to use the products/services even though a lot of promotion of products/services of other BMT. Consumer loyalty can be defined as a repetition purchasing behavior has become a habit, which has no relevance and high involvement in consumer's choice of a particular object, and characterized by absence of external information search and evaluation of alternatives (Engel, Blackwell, and Miniard, 1995). Loyalty in Islam is closely related to prohibition of a lawful product or service being offered, so that for the case of the selection of financial institutions, consumers in choosing the institution will also consider the matter. This is consistent with recommendations in QS. Al-Ma‘adah: 91 the following: "Shaitan (Satan) wants only to excite enmity and hatred between you with intoxicants (alcoholic drinks) and gambling, and hinder you from the remembrance of Allah and from As-Salat (the prayer). So, will you not then abstain"

Related to above paragraph, it can be explained that Muslims should not do gambling and drinking as it will avoid us in remembrance of Allah. Likewise, in terms of trade we should avoid things that are forbidden as usury, gharar and maysir, because it can cause misery in world.
According to Zeithaml et al. (1996), the ultimate goal of company’s success in a relationship with customers is to create strong loyalty. Strong indicators of loyalty are:
1. Say positive things about a product that has been consumed.
2. Recommending the product has been consumed to a friend.
3. Continue purchasing product that has been consumed.

III. DISCUSSION

Research Model Development

Based on background and literature review above, researchers arrived at a concept of thought that based on theory of consumer behavior, especially regarding services and empirical studies on effect of adherence on Sharia Principles (SPA) on customer loyalty with CSR and trust as mediation. Conceptual framework is derived from the formulation of research problems that have been described previously as well as an explanation of each variable and pattern of relationships formed by these variables. From the results of previous studies as well as studies of the theory of consumer behavior, especially in services shows that variable Sharia Principle Adherence (SPA), CSR and Trust are important variables to shape customer loyalty in BMT. SPA is a form of commitment or obedience to commands or prohibitions of Allah based on Quran and Hadith. Good relationship with God and fellow human beings should be based on Qur'an and Hadith. Likewise, muamalah affairs or economy, also must submit to Sharia principles that have governed by Qur'an and Hadith. Indicators of human remains submissive and obedient to God's command (obey the Islamic principles), especially on issue of commerce, is adherence to three fundamental things that are forbidden by God in Islamic finance, namely to avoid riba, gharar and gambling (Abdullah and Chee, 2012). This is consistent with studies of Naser et al. (1999), that religious reasons have an important role in selecting Islamic banks. Thus, their adherence to Islamic principles makes BMT as a goal for Muslims in transaction.

Furthermore, presence a number of verses in Qur'an and hadith stated that humans must establish socio-economic justice to responsible socially. Therefore, BMT should run CSR programs. The more observant, a BMT have stronger the desire to run a CSR. Furthermore, research from Mandhachitara and Poolthong (2009) indicate that CSR initiatives have an important role in perceived service quality, which in turn affects the trust and brand effect. Research of Poolthong and Mandhachitara (2011), shows that corporate social responsibility (CSR) has a significant and positive relationship with loyalty attitude. Perception of service quality mediates the relationship between CSR with intention to buy back (repeat patronage intention), as form of loyalty behavioral. These results show that loyalty attitude can be formed if there are mediating variables such as the implementation of CSR to increase customer trust and loyalty. This is because, public will be sympathetic to companies that have done good thing to surrounding community with its CSR programs, where the sympathy will ultimately form a positive image in eyes of society or consumer. When the positive image is formed, it will be created customers trust in a bank. Higher level of customer trust in a product/service banking (BMT) makes customer will reluctant to switch to another service, so this will further increase consumer loyalty. This is consistent with results of Poolthong Mandhachitara (2011); Chen et al. (2012); Lee et al. (2012); Gupta et al. (2008), who found that CSR activities have positive effect on loyalty. Mandhachitara Poolthong (2009, 2011) showed that CSR affect the trust and customers loyalty. This is basis to put CSR, trust and loyalty as a research variable, because CSR can improve the perception and consumer trust, which in turn will increase the customer’s loyalty of the bank (Murray and Vogel, 1997).

Chen et al. (2012) discusses the effects of corporate social responsibility on consumer loyalty and identify areas of emphasis organizational involvement and support for CSR in airline business of Taiwan. This study found that customer loyalty can be enhanced through CSR initiatives, which the ASR (Airline Social Responsibility) has a marginal effect on behavioral loyalty. Furthermore, safety was found become most important consumer concern, followed by consumer rights, environmental protection, and public participation, all of whom received a relatively high score based on ASR performance evaluation. Consumers who believe that company meets the legal services and social and ethical norms are more likely to get satisfaction because they feel company behaves consistently with consumer’s self-concept (Marin and Ruiz, 2007). Consumers who hold these trust and positive attitudes toward company will also be more likely to survive in a business relationship with company (Dick and Basu, 1994). Brown and balance scales (1997) found that CSR affect on consumers' attitude towards the product through the overall evaluation of company. Murray and Vogel (1997) investigated the effect on consumers for a combined program of social responsibility of business practices, led to a promotion, community volunteers, as well as proactive economic factors and consumer protection.

Research found that CSR programs can improve attitudes toward company, including trust in company honesty, customer responsiveness, and increased support for company. Sen and Bhattacharyya (2001) provide support that company's business in various domains of CSR has a direct effect on attractiveness of company’s...
products, in addition to positive effect on evaluation of company by consumers. CSR itself was developed in concept of the triple bottom line, namely economic prosperity, environmental quality, and social justice. This concept said that company is not only pursuit profit, they should also be involved in fulfillment of social welfare (people), and actively participate in protecting the environment (planet). This concept is illustrated by triangle where stakeholders to be considered in middle of his quest for profit, namely economic, environmental, and social. Trust according to Lau and Lee (1999) is someone willingness to hang himself to others with certain amount of risk. According to Trust Commitment theory (Morgan and Hunt, 1994), trust is the key to keep and maintaining long-term relationships. Long-term relationship will increase the level of customers’ trust (Gwinner et al., 2005) thereby reducing the anxiety of the customer for service received. Miles & Covin (2000) also said that in order to gain trust, customer required a good perception about company. This is consistent with Kartini (2009) that implementation of CSR programs will give non-financial rewards for company, one of which is trust. Wulf et al. (2001) stated that trust is formed from relationship quality between company and customer. Therefore, service companies such as BMT can increase level of customers trust by program that can increase the positive perception and long-term relationships. One example is CSR programs. Implementation of CSR programs will certainly increase the positive perception in customer’s eyes. Positive perceptions, will increase customer trust, which in turn will lead to customer loyalty.

Consumer trust is affected by value held by company and consumer. It is defined as a combination of trust on certain forms of behavior, goals and policies that important, appropriate and/or better (Morgan and Hunt, 1994). At same time, CSR gives the consumer information about the value of existing systems within company (Turban and Greening, 1997). Empirical research also confirms the effect of organizational ethics perceptions level on consumer trust (Lagace et al. 1991). Perception that company does relationship is the basis of trust that all partners will have an honest relationship. Customer loyalty is a behavioral motivation to buy repeatedly and to build customer loyalty to a product/service produced by these companies. This take a long time through a process of repeated purchases (Olson, 1996). Repeat purchase in financial services (BMT) makes consumer can be said to have had a loyalty to BMT services. Furthermore, customer loyalty can be defined as a repetition of behavior that has become habitual purchases, which have no relevance and high involvement in consumer’s choice of a particular object, and is characterized by absence of external information search and evaluation of alternatives (Engel et al., 1995). Based on idea described above, research model of this study is follows:

**Figure 1. Research Model Development**

- CSR
- Trust
- Customer Loyalty
- Shariah Principle Adherence

Description of previous research that become basis for model development.
2. Farouk et al. (2011)
5. Mandachitara et al. (2011), Chen et al. (2012)

**Theoretical Contributions**

[1] This model development can enrich science of marketing management, consumer behavior, especially in theory of Corporate Social Responsibility and Sharia-based customer loyalty.
Mediation relationship between SPA and trust on customer loyalty that mediated by CSR is expected to produce a model of the relationship between adherence to Shariah principles on customer loyalty with mediation of Corporate Social Responsibility (CSR) and reliance on non-bank financial services industry such as BMT is based on Shariah principles.

IV. CONCLUSION

Based on model development, some conclusions can be stated as follows:

1. CSR can contribute to increasing customer loyalty. CSR is seen not only as a rule or to comply with government regulations, but the CSR should be viewed as a form of charity/charity which should always be added as a form of obedience to God.
2. Trust is essential for BMT that managed by Islamic principles to improve public trust in decisions and business development strategies. BMT should avoid gharar and maysir, always honest and maintain transparency in all financial transactions in order to continue to increase public trust.
3. Both CSR and trust are very important for customer loyalty, because by CSR implementation is a symbol of generosity and trust as a symbol of honesty, then BMT will receive blessings as Allah’s promise
4. CSR implementation is not just about compliance with legal and moral obligation, but also as an application of our character and behavior as a Muslim. This behavior becomes a sign of submission or obedience of man who claimed himself as a believer. This charity should be given to people in need, in order to achieve a powerful and prosperous society.

V. SUGGESTION

1. To increase trust, BMT should maintain and improve the benevolent behavior and credibility, to maintain customer loyalty.
2. This model development provides input for BMT leadership, that in order to increase customer loyalty they should implement CSR and maintain customer trust. BMT is also required to run sharia principles properly.
3. This model development can become basis for future research to examine empirically to know weather the model is supported or rejected by empirical findings.

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