

EXAMINING REPUTATION AND SERVICE INNOVATION ON THE PERFORMANCE OF ISLAMIC RURAL FINANCING BANK

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ABSTRACT. Islamic Rural Financing Bank have an important role in supporting the economy in Indonesia through financing for the small and medium sectors. West Java is the province with the largest number of Islamic Rural Financing Bank (27) besides Central Java (27), with the highest working capital, investment, and consumption values compared to other provinces. This study aims to examine the effect of bank reputation and service innovation on the performance of Islamic Rural Financing Bank in West Java. This study used a quantitative approach using a cross-sectional survey design. The questionnaire was designed using a 5-point Likert Scale through a census to 27 respondents. The data was processed using the Partial Least Square (PLS) method with SmartPLS 3.0 software. The results of the hypothesis testing show that only service innovation has proven to have a significant effect on the performance of Islamic Rural Financing Bank in West Java, while bank reputation has no significant effect. The results of this study have implications for Islamic Rural Financing Bank management banks to pay more attention to the development of service innovations aimed at creating products with special characteristics that are different from conventional Rural Financing Banks, coupled with a wide variety of products that can be chosen by customers with superior benefits. Excellence in service delivery is also an important factor in making customers satisfied with Islamic Rural Financing Bank services. Better utilization of information and communication technology is needed in providing services so that customers can interact more quickly and easily with the bank.

Keywords: Bank Reputation; Service Innovation; Performance; Islamic Rural Financing Bank.

PENGUJIAN PERAN REPUTASI DAN INOVASI LAYANAN TERHADAP KINERJA BANK PEMBIAYAAN RAKYAT SYARIAH

ABSTRAK. Bank Pembiayaan Rakyat Syariah (BPRS) memiliki peranan penting dalam menunjang perekonomian di Indonesia melalui pembiayaan bagi sektor kecil dan menengah. Jawa Barat merupakan provinsi dengan jumlah BPRS terbanyak (27 buah) selain Jawa Tengah (27 buah), dengan nilai working capital, investasi, dan konsumsi tertinggi dibandingkan provinsi lainnya. Penelitian ini bertujuan untuk menguji pengaruh bank reputation dan service innovation terhadap kinerja BPRS di Jawa Barat. Penelitian ini menggunakan pendekatan kuantitatif dengan menggunakan desain survei cross-sectional. Kuesioner dirancang dengan menggunakan Skala Likert 5 poin melalui sensus kepada 27 responden. Data kemudian diolah dengan menggunakan Partial Least Square (PLS) method with SmartPLS 3.0 software. Hasil pengujian hipotesis menunjukkan bahwa hanya service innovation yang terbukti berpengaruh signifikan terhadap kinerja BPRS di Jawa Barat, sedangkan bank reputation tidak memiliki pengaruh signifikan. Hasil penelitian ini memberikan implikasi bank manajemen BPRS untuk lebih memperhatikan pengembangan inovasi layanan yang ditujukan untuk menciptakan produk dengan karakteristik khusus yang berbeda dengan BPR konvensional, ditambah dengan banyaknya variasi produk yang dapat dipilih oleh nasabah dengan manfaat yang lebih unggul. Keunggulan pemberian layanan juga menjadi faktor penting untuk membuat nasabah puas dengan layanan BPRS. Diperlukan pemanfaatan teknologi informasi dan komunikasi yang lebih baik dalam memberikan layanan sehingga nasabah dapat berinteraksi dengan lebih cepat dan mudah dengan pihak bank.

Kata kunci: reputasi bank; inovasi layanan; kinerja; Bank Pembiayaan Rakyat Syariah.

INTRODUCTION

Referring to Law no. 21 of 2008 concerning Islamic Banking, the definition of Islamic Rural Financing Bank is an Islamic bank that in its activities does not provide services in payment traffic. Sharia banking business activities are based on sharia principles, economic democracy, and the principle of prudence. Funding in this case is funding provided by one party to another party to support planned investments, either by themselves or by an institution.

Based on data from the Financial Services Authority (2019), the performance of Islamic Rural Financing Bank Indonesia has not been optimal as shown by several indications: first, there have been no significant changes in the BOPO of Islamic Rural Financing Bank in Indonesia in the last 5 years. This ratio is relatively high, namely 87.79% in 2014 and 87.66% in 2018, although it is still below the maximum provisions of Bank Indonesia. This reflects the performance of the BPRS which is still not efficient in managing its funds, meaning that the costs incurred are greater than the profit earned.

Second, the NPF of BPRS has continued to increase over the last 5 years, from 7.89% in 2014 to 9.30% in 2018. (Pebrianti, 2021)

Based on data from the Financial Services Authority (Otoritas Jasa Keuangan, OJK), in January 2023 throughout Indonesia, there were 169 Islamic Rural Financing Bank. The provinces with the highest number of Islamic Rural Financing Bank are West Java and Central Java, each of which has 27 units, followed by East Java with 25 units. In January 2023, Islamic Rural Financing Bank in West Java was recorded as having the highest working capital compared to other provinces, namely IDR2.182 trillion. Likewise in terms of investment and consumption, Islamic Rural Financing Bank in West Java was recorded as the highest compared to other provinces where the investment value reached IDR509.807 million and consumption reached IDR2.056 trillion. Based on these conditions, it is interesting to study the performance of BPRS in West Java.

In addition, from a demographic perspective, West Java has the demographic bonus of having the largest population in Indonesia. In 2020 it is estimated that the population of West Java will reach 49.94 million. (perbarindo.or.id., April 28, 2020). In addition, West Java as a province on Java Island which is recorded as the second most Covid-19 case area in Indonesia poses a challenge for BPRS as the region with the most Islamic Rural Financing Bank offices in Indonesia. This shows that most of the Islamic Rural Financing Bank Offices are in the red zone. (Mardhiyaturrositaningsih, 2021)

Based on data for the first quarter of 2020, the profitability aspect of 13 Islamic Rural Financing Bank in West Java shows a low level of efficiency or more than 87 percent. The Bank's ability to profit from its assets shows a decline, in fact, there were three Islamic Rural Financing Bank that recorded losses, including Islamic Rural Financing Bank. (Mardhiyaturrositaningsih, 2021)

Business performance is described as: the level of achievement or success of a company in a certain period of time; results or overall success rate of the company in a certain period of time for certain business processes; and a measure of how closely a company's activities match its goals or objectives. (Herlinawati et al., 2023). Previous data shows that financing for the MSME sector has increased from IDR 955,423 in 2014 to IDR 1,166,976 in 2018. However, Islamic Rural Financing Bank in West Java still have a high NPF, which is 7.56 percent in 2018. This reflects that Islamic Rural Financing Bank in West Java have not been efficient in managing their funds. (Pebrianti, 2021)

Banks are in turmoil during the Covid-19 Pandemic. This is indicated by the high risk of problem financing at Islamic Rural Financing Bank in West Java which reaches more than 7 percent. The level of efficiency and profit is decreasing, there are Islamic Rural Financing Bank that are losing money. However, the aspects of capital and liquidity are still relatively adequate (Mardhiyaturrositaningsih, 2021).

On the other hand, Muhammad et al. (2020) said that Islamic Rural Financing Bank have an important role for economic activity in Indonesia because they provide financing for the small and medium sector. There are internal factors that influence Islamic Rural Financing Bank, namely: Financing to Deposit Ratio (FDR), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Bank size and third-party funds (TPF). Meanwhile, as one of the performance indicators, Third Party Funds are more influenced by information received by customers such as the level of profit sharing, service, reputation and accessibility of Islamic banks.

Regarding the role of reputation on bank performance, (Na'ami et al., 2017) found that the social responsibility of Bank Shahr's activities had a positive impact on its economic performance through the mediation of customer satisfaction and organizational reputation. This is confirmed by (Murè et al., 2021) that it is important for banks to improve their reputation. A higher reputation is associated with higher profitability and credit quality (Bushman & Wittenberg-Moerman, 2012)

There is a relationship between company reputation and organizational value. A good reputation is the most valuable intangible resource for the organization, because it can reduce uncertainty about the future performance of the organization; strengthening competitive advantage; and contribute to target market trust, play a role in creating corporate value, and can maximize the company's ability to offer products and services with high added value (Pires & Trez, 2018).

Company reputation has a positive and significant impact on earnings quality (Harymawan & Nurillah, 2017). The bank's positive reputation also has an impact on consumer behavior (loyalty and word of mouth) (Ruiz et al., n.d.). Previous researches also show that bank reputation mediates the relationship between bank social responsibility and bank performance (Na'ami et al., 2017); (Lotfi Ghahroudi et al., 2020)

An organization's perceived reputation is considered as one of the most important strategic intangible assets that an organization can have

and which it should continually strive to build in a way that is commensurate with the nature of the organization's internal environment and external environment. Reputation is one of the most important measures of organizational success because it attracts customers through the formation of a good mental impression (Keshta et al., 2020).

On the other hand, business performance, both tangible and intangible, is also influenced by the quality of its products and services (Hariadi DP et al., 2022). At the same time, businesses are having difficulty meeting customer needs given the volatility of the environment and the rapid changes in market demand. (Velayati et al., 2020). Industry 4.0 has an impact on the use of technology to get business and economic growth. One of the industries that helps progress development is the financial services industry 4.0. (Bhutto et al., 2023)

Service innovation is institutionalized change based on the reconfiguration of resources, actors, and institutional arrangements, which enables actors to integrate resources and create shared value in new and useful ways (Edvardsson & Tronvoll, 2013). There is a relationship between innovation capability, innovation efforts, and company performance (Rajapathirana & Hui, 2018). Service innovation is related to organizational performance in the banking industry (Ibrahim & Yusheng, 2020). Creativity, and before that, innovation and development, is critical for organizations in strategic competition in the context of a business environment geared towards the new global economy (knowledge economy) (Keshta et al., 2020).

Service innovation is a term that refers to innovations that occur in various service contexts, including the introduction of new services or incremental improvements of existing services. (Durst et al., 2015). Research on innovation in services has received increasing attention in recent years by researchers and practitioners and the concept of service innovation is becoming multidimensional. The multidimensional nature of this service innovation requires further scrutiny of various aspects and perspectives. (Commer et al., 2018).

Service innovation performance can be measured by: new techniques and methods, innovative and creative ideas, budget management for innovation resources, creativity planning, suitable environment for developing new service ideas, new ways to improve business performance, collaboration and sharing of innovative ideas, incentives or promotion schemes for new service innovations, as well as the availability of adequate resources to create new services in achieving innovation performance. (Kumar et al., 2022)

Following up on the findings above, this research aims to examine the influence of bank reputation and service innovation on the performance of Islamic Rural Financing Bank in West Java. This research is expected to enrich the literature on the role of bank reputation and service innovation on bank performance, especially Islamic Rural Financing Bank, given their important role in supporting the people's economy.

Based on the description above in accordance with the research objectives and literature review, the research hypothesis is arranged as follows:

H1: bank reputation has a significant effect on the performance of Islamic rural financing banks

H2: service innovation has a significant effect on the performance of Islamic rural financing banks

METHODS

This study uses a quantitative approach to understand the effect of bank reputation and service innovation on the performance of Islamic Rural Financing Bank in West Java. In particular, this study used a cross-sectional survey design to collect data because it allows data collection whose results can be generalized (Creswell & Creswell, 2017).

The quantitative size of the study was obtained through a structured questionnaire using a Likert Scale which ranged from 1 = strongly disagree to 5 = strongly agree. Some of the questions in the questionnaire adopt and adapt from previous researchers and some are the author's construct. Bank reputation adopt (Keshta et al., 2020). The indicator of the service innovation variable is a construct consisting of questions about the special characteristics of the product, product variety, added benefits, service excellence, and innovation in the interaction process with customers. Meanwhile, the performance of Islamic rural financing bank is measured by indicators: ROA, ROE, NIM, asset growth, financing growth, TPF growth, and market share growth.

The unit of analysis in this study is the Islamic Rural Financing Bank in West Java with the unit of observation being the management of the Islamic Rural Financing Bank. The population is 27 Islamic Rural Financing Bank, so that it was conducted census to all of population. The data is then processed using the Partial Least Square (PLS) method with SmartPLS 3.0 software.

RESULTS AND DISCUSSION

Model Evaluation (Goodness of Fit Model)

This research model will be analyzed using the Partial Least Square (PLS) method with SmartPLS

3.0 software. PLS is an alternative method of Structural Equation Modeling (SEM) that can be used to solve problems in the relationship between variables which are very complex but the sample data size is small (30-100 samples). The coefficient of determination (R Square) is a way to assess how much an endogenous construct can be explained by an exogenous construct. Chin provides criteria for R Square values of 0.67, 0.33 and 0.19 as strong, moderate, and weak (Chin, 1998).

Table 1. Value of R² dan f²

	R Square	f ²
Bank Reputation	-	0.011
Service Innovation	-	0.215
Performance of Islamic Rural Financing Bank in West Java	0.740	-

Source: SmartPLS 3.0(2023)

Evaluation of relationship between variables, a researcher should also assess the magnitude of the influence between variables with the Effect Size or f-square (Wong, 2013). The f square value of 0.02 is small, 0.15 is medium, and 0.35 is large. Values less than 0.02 can be ignored or considered as having no effect (Sarstedt et al., 2017).

In order for the model to meet the model fit criteria, the SMSR value must be less than 0.05 (Cangur and Ercan, 2015). RMS Theta value or Root Mean Square Theta < 0.102, SRMR or Standardized Root Mean Square Value < 0.10 or < 0.08 and NFI Value > 0.9.

Table 3. Measurement Model

Variable	Indicator	Loading factor	t statistics	Prob	Composite Reliability	Average Variance Extracted (AVE)
Performance	Perf1 <- Performance	0.921	25.972	0.000	0.978	0.863
	Perf2 <- Performance	0.935	28.412	0.000		
	Perf3 <- Performance	0.949	56.682	0.000		
	Perf4 <- Performance	0.951	63.255	0.000		
	Perf5 <- Performance	0.966	84.781	0.000		
	Perf6 <- Performance	0.930	39.970	0.000		
	Perf7 <- Performance	0.846	21.492	0.000		
Bank Reputation	Rep1 <- Bank Reputation	0.905	24.261	0.000	0.979	0.810
	Rep10 <- Bank Reputation	0.827	14.414	0.000		
	Rep11 <- Bank Reputation	0.758	9.616	0.000		
	Rep2 <- Bank Reputation	0.876	25.184	0.000		
	Rep3 <- Bank Reputation	0.929	30.624	0.000		
	Rep4 <- Bank Reputation	0.945	47.800	0.000		
	Rep5 <- Bank Reputation	0.937	36.720	0.000		

Following are the results of the fit model assessment:

Table 2. Model Fit

	Saturated Model	Estimated Model
SRMR	0.047	0.047
d_ ULS	1.243	1.243
d_ G	3.321	3.321
Chi-Square	623.365	623.365
NFI	0.739	0.739
rms Theta	0.042	

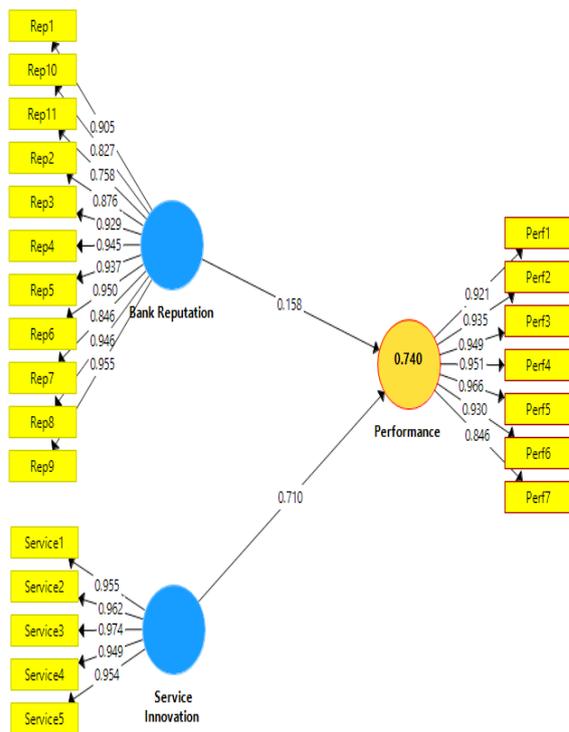
Source: SmartPLS 3.0(2023)

According to the fit model table above, the RMS Theta or Root Mean Square Theta value is 0.042 < 0.102 and the NFI value is 0.739 < 0.9. The value of SRMR or Standardized Root Mean Square is 0.047 < 0.05. So based on the two model assessments, it meets the fit model criteria. (Figure 1)

The Outer Model explains the relationship between each construct and indicators where the values are used to test validity and reliability. This analysis can be explained by the value of discriminant validity, loading factor, Construct Validity and Composite Reliability. Construct Validity is explained by the factor loading value. Composite Reliability and Cronbachs Alpha are used to see the reliability or level of reliability of dimensions in measuring research variables. Analysis of the relationship between the indicator variables and their latent variables which are referred to as the measurement equation (measurement equation) is shown in Table 3.

	Rep6 <- Bank Reputation	0.950	44.308	0.000		
	Rep7 <- Bank Reputation	0.846	22.803	0.000		
	Rep8 <- Bank Reputation	0.946	43.267	0.000		
	Rep9 <- Bank Reputation	0.955	50.562	0.000		
Service Innovation	Service1 <- Service Innovation	0.955	54.265	0.000	0.983	0.919
	Service2 <- Service Innovation	0.962	76.319	0.000		
	Service3 <- Service Innovation	0.974	108.824	0.000		
	Service4 <- Service Innovation	0.949	47.543	0.000		
	Service5 <- Service Innovation	0.954	45.392	0.000		

Source: SmartPLS 3.0(2023)



Source: SmartPLS 3.0(2023)

Figure 1. Model Result

The outer model is measured by assessing convergent validity and discriminant validity as well as the reliability of the construct or latent variable as measured by the composite reliability value. Convergent Validity which is indicated by the loading factor value that shows the correlation between the score of an item in question and the score of the construct indicators that measure the construct. The loading factor value greater than 0.7 is said to be valid. However, according to Hair et al. (1998) for initial examination of the matrix loading factor is approximately 0.3 considered to have met the minimum level, and for loading factors of approximately 0.4 is considered better, and for loading factors greater than 0.5 is generally considered significant.

The model has better discriminant validity if the AVE square root for each construct is greater than the correlation between the two constructs in the model. A good AVE value is required to have a value greater than 0.50. The construct is reliable if the composite reliability has a value > 0.7.

The table above shows the results of measuring the first order construct for variables with a factor loading (λ) > 0.50 with a prob < 0.05 meaning that the indicator has good enough validity to explain latent constructs (Hair et al, 2010; Ghozali, 2008). The results show that the six variables have valid dimensions and indicators with arithmetic > t table at $\alpha = 0.05$.

Construct Reliability (CR) value shows that all dimensions and indicators have a fairly high consistency with a value of > 0.7 (Nunnally, 1994). Discriminant validity is explained by the value of the square root of average variance extracted (AVE). The recommended value is above 0.5. and the results show that AVE > 0.5. So, in general that the indicators and dimensions reflect all latent variables.

Hypothesis Testing

The result of hypothesis testing is shown in the following table 4.

Table 4. Hypothesis testing

No	Hypothesis	Coeff. Estimate	standar error	t stat	Prob.	R ²
1	Bank Reputation > Performance	0.158	0.217	0.728	0.467	0.131
2	Service Innovation > Performance	0.710*	0.212	3.340	0.001	0.610

*Significant at (t table = 1.98)

Results of hypothesis testing on the table 4 show that service innovation has a significant effect

on performance (prob <0.05), while reputation has no significant effect (prob >0.05). Services innovation has contributed to changes in performance by $R^2 = 0.61$.

These findings reveal that for Islamic rural financing banks in West Java, service innovation has a more significant role in building their performance. This finding is in line with (Edvardsson & Tronvoll, 2013), (Rajapathirana & Hui, 2018) and (Ibrahim & Yusheng, 2020).

For banks, it is significant for measuring innovation in the performance of banks (Wang et al., 2020). In addition, (Ngari et al., 2014) evaluated the effect of financial innovation on the financial performance of commercial banks in Kenya. The researchers aimed to assess the effect of credit cards, mobile banking, internet banking and agency banking on bank performance. It was revealed that all variables affect performance positively. These findings support the results of this study that service innovation contributes to the improvement of banks.

Customers care more about and need services that can meet their needs. Islamic Rural Financing Bank products have special characteristics that are different from other banks, there are a variety of products offered according to customer needs, there are more benefits that are different from products from other banks, there are superior services received, as well as new ways of interacting with customers, are aspects of service innovation that have proven to have an impact on the performance of Islamic rural financial bank in West Java.

Service innovation for Islamic rural financing banks is important because awareness of the importance of service innovation as an engine for economic growth is a recent phenomenon (Morrar, 2014). In addition, the banking sector is one of the most advanced, innovative, high-performing, dynamic and competitive sectors (Commer et al., 2018). Service innovation is innovation carried out in various service sector scenarios that include developing completely new services or gradually upgrading existing services (Durst et al., 2015).

Islamic rural financing banks that implement service innovation will seek to develop a variety of new services that are tailored to customer needs, either by creating a new service system or modifying and improving existing services. This will increase customer satisfaction.

Customer satisfaction is an important factor in improving bank performance and income. Therefore, banks must continue to strengthen relationships with customers because the banking system is very responsive to customer choices. (Alhawamdeh et al., 2022). One way is to apply service innovation to

provide more satisfying services to customers so as to improve bank performance.

In today's business environment, only banks integrate and deploy the best innovations in information and communication technology, as innovations that instill confidence in customers and produce a safe, efficient, transparent, reconciliation and seamless system to provide payment and financial solutions to customers. customers, which will prove to be sustainable and profitable in the long run (Parameswar et al., 2017). Islamic banks can be relied on by customers if they are able to pay attention to customer interests, increase customer confidence, provide the assistance needed to complete tasks effectively, and have the overall capabilities needed by customers (Kishada & Wahab, 2013)

Meanwhile, the role of bank reputation was not significant in boosting the performance of Islamic rural financial bank in West Java. This is contrary to previous research (Na'ami et al., 2017); (Lotfi Ghahroudi et al., 2020); (Bushman & Wittenberg-Moerman, 2012). Customers do not pay too much attention to the bank's reputation, because the most important thing is that the bank can meet their needs with satisfying service innovations that make customers loyal and dependent on the bank's services.

In fact, banks with a good reputation generally have a positive image in the eyes of the public, which can assist in expanding market reach and increasing customer loyalty. Conversely, a bad reputation can damage the Islamic Rural Financing Bank's image and branding, reduce public interest and trust in dealing with the institution. However, in this study it was found that the role of reputation is smaller than service innovation. This is possible because of changes in customer behavior in using bank services. Customers are more interested in the variety of products that fulfill their needs and provide more benefits that are different from products from other banks. Besides, the superior services received, as well as new ways of interacting with customers, are also more attractive to customers.

So, reputation alone is not enough to improve the performance of Islamic Rural financing banks. This is because customers will trust the bank more if they can experience a satisfying service. In this case service innovation will play a more direct role in creating a memorable customer experience rather than just reputation according to others. A service will be felt by customers themselves, so that it will have more impact on their alignment with a bank. High alignment of customers can contribute to increased transactions and attract new customers which will have an impact on improving bank performance.

CONCLUSION

The results of the hypothesis testing show that:

1. Service innovation has proven to have a significant effect on the performance of Islamic Rural Financing Bank in West Java,
2. Bank reputation has no significant effect on the performance of Islamic Rural Financing Bank in West Java.

The results of this study have implications for management of Islamic Rural Financing Bank to pay more attention to the development of service innovations aimed at creating products with special characteristics that are different from conventional Rural Financing Bank, coupled with a wide variety of products that can be chosen by customers with superior benefits. Excellence in service delivery is also an important factor in making customers satisfied with the services provided by Islamic Rural Financing Bank. What's more, it requires better utilization of information and communication technology in providing services so that customers can interact more quickly and easily with the bank.

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