

Strategic Management in Islamic Banking: The Role of Religiosity and Service Satisfaction in Shaping Customer Decisions

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ABSTRACT

Purpose: This study explores the influence of religiosity and service satisfaction on customer decisions, focusing on the dynamics of these variables within the Islamic banking sector in Indonesia, one of the largest markets for Sharia-compliant financial services globally.

Method: A quantitative research approach was used to collect data from 100 respondents via structured questionnaires. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to rigorously test the hypothesized relationships and evaluate the strength and direction of the proposed variables.

Result: The findings indicate that religiosity has a statistically insignificant effect on customer decisions. While religious alignment may influence preferences, it does not substantially drive decision-making. In contrast, service satisfaction is a significant and dominant factor influencing customer decisions. Together, these variables account for 50.7% of the variance in customer decisions, highlighting the critical role of service quality in shaping customer behavior within the Islamic banking sector.

Practical Implications for Economic Growth and Development: The study suggests that enhancing service satisfaction in the Islamic banking sector can significantly drive customer decisions, thereby contributing to economic growth and development by strengthening consumer trust and increasing market participation.

Keywords: *service satisfaction, religiosity, customer decision, islamic banking, financial inclusion, strategic management*

INTRODUCTION

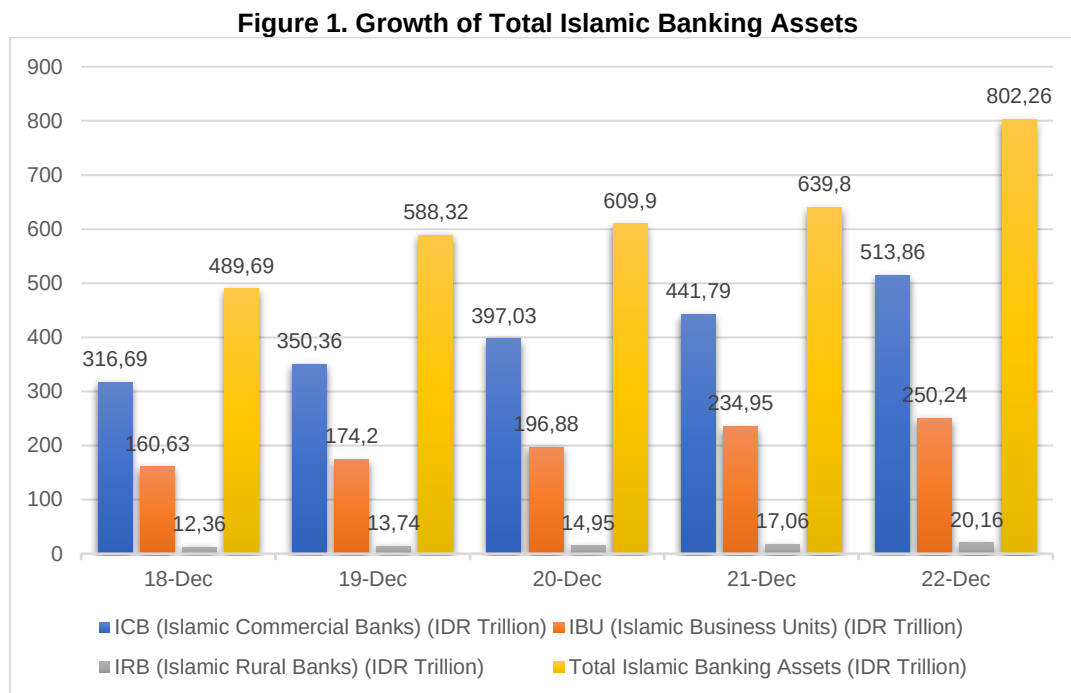
The global financial system has seen substantial growth in Islamic banking, driven by increasing demand for Sharia-compliant financial products that align with ethical values. However, the robustness of this sector was significantly challenged during the COVID-19 pandemic, with studies revealing that both Islamic and conventional financial markets displayed comparable volatility. This raises questions about the notion of Islamic finance as inherently more stable (Khan et al., 2022). The economic downturn prompted Gulf Cooperation Council (GCC) nations to accelerate diversification efforts away from oil dependency, which, in turn, enhanced the appeal of Islamic banking as part of a broader transition towards sustainable, knowledge-driven economies (Ben Hassen, 2022). This shift signifies a broader movement towards ethical finance, attracting both Muslim consumers and individuals interested in socially responsible investments, thereby increasing the relevance of Islamic banking in contemporary financial contexts (Khan et al., 2022; Ben Hassen, 2022).

Islamic banking has shown significant growth in Indonesia, the largest Muslim-majority nation. This expansion is attributed to favorable government regulations, the establishment of new Islamic financial institutions, and a growing public inclination toward Sharia-compliant financial services (Pranajaya & Dharma, 2022). Despite this positive trend, Islamic banks in Indonesia face challenges in competing with conventional banks, particularly in areas such as product diversification, technical integration, and customer service excellence.



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Figure 1 below illustrates the steady growth of Islamic banking assets in Indonesia from December 2018 to December 2022. The total assets, represented by the yellow bars, consistently increased from IDR 489.69 trillion in 2018 to IDR 802.26 trillion in 2022. The growth has been driven by contributions from three key components: Islamic Commercial Banks (ICB), Islamic Business Units (IBU), and Islamic Rural Banks (IRB). ICBs, represented by the blue bars, dominate the assets, with substantial growth from IDR 316.69 trillion in 2018 to IDR 513.86 trillion in 2022. IBUs (orange bars) and IRBs (gray bars) also show incremental growth, although their contributions are comparatively smaller. This trend highlights the expanding role of Islamic banking in Indonesia's financial sector, showcasing its ability to meet the demand for Sharia-compliant financial services while contributing to economic growth and financial inclusion (OJK, 2022).



Source: The Indonesian Financial Services Authority (2024)

Previous studies have extensively examined the factors influencing customer decisions in Islamic banking. These studies indicate that religiosity significantly impacts customer acceptance of Islamic banking products, with increased religious commitment correlating with higher acceptance of Sharia-compliant services (Fianto et al., 2020). Other research suggests that religious beliefs strongly influence customers' choices of Islamic banks, as individuals prefer financial services consistent with their faith (Dandis et al., 2021).

Service quality has been widely recognized as a critical factor influencing customer satisfaction and loyalty within Islamic banking (Gazi et al., 2024). High service quality enhances customer satisfaction and fosters stronger loyalty toward Islamic banks (F. M. I. Alnaser et al., 2018). Research has shown that superior service quality directly impacts customer loyalty, underscoring the importance for Islamic banks to deliver exceptional services in order to maintain and expand their customer base (Abror et al., 2020).

Addressing issues related to service quality is crucial for Islamic banks to strengthen their market position and meet the evolving expectations of their clientele. By prioritizing superior service delivery and aligning banking products with customers' values, Islamic banks can bolster their competitiveness and contribute to Indonesia's financial inclusion strategy (Asnawi

et al., 2020). This dual approach not only supports the growth of Islamic banking but also ensures its sustainability in an increasingly dynamic financial landscape.

However, these studies often examine religiosity and service quality in isolation, without considering their combined impact on customer decision-making. Additionally, there is a lack of research focusing specifically on the Indonesian context, particularly in regions with diverse socio-economic and cultural characteristics. This gap underscores the need for comprehensive studies that integrate these factors to better understand customer behavior in Islamic banking.

This study makes a novel contribution by integrating religiosity and service satisfaction into a unified analytical framework to assess their individual and combined impact on customer decisions in Islamic banking. Unlike prior research that focuses on specific factors or markets, this study adopts a holistic approach to understanding how these elements interact within Indonesia's unique socio-economic landscape. By examining the interplay between religiosity and service satisfaction, this research provides fresh insights into strategic management practices for Islamic financial institutions, particularly in emerging economies.

Integrating religiosity and service satisfaction is essential, as both factors significantly influence customer loyalty in Islamic banking. For instance, the study found that while service quality positively impacts customer satisfaction, religiosity moderates this relationship, indicating that highly religious customers have higher expectations for service quality (Abror et al., 2020). Similarly, other research highlights that religiosity and service quality are antecedents of customer loyalty, mediated by satisfaction and trust (Ali, 2017). However, these studies often examine these factors in isolation or within limited contexts. By integrating them, this research aims to provide a comprehensive understanding of customer behavior in Indonesia's diverse socio-economic environment, offering valuable insights for strategic management in Islamic banking.

Moreover, this study employs advanced analytical methods, such as Partial Least Squares Structural Equation Modeling (PLS-SEM), to rigorously analyze the relationship between variables. This methodological approach enhances the robustness of the findings and offers a deeper understanding of the factors influencing customer decisions in Islamic banking (Jamshidi & Hussin, 2018). The insights gained can inform targeted strategies to improve customer acquisition and retention, thereby enhancing the competitiveness of Islamic banks in Indonesia and similar markets.

The primary objective of this study is to analyze the influence of religiosity and service satisfaction on customer decisions within the context of Islamic banking in Indonesia. By investigating these factors, the study aims to provide actionable recommendations for Islamic banks to enhance customer satisfaction, loyalty, and overall competitiveness in an increasingly dynamic financial environment. The findings are expected to contribute to the development of effective strategic management practices that align with religious principles and customer expectations, supporting the sustainable growth of Islamic banking in Indonesia.

Understanding the interplay between religiosity and service satisfaction is crucial for Islamic banks operating in Indonesia, a nation with a diverse socio-economic landscape and a significant Muslim population (Abror et al., 2020). Islamic banks can foster stronger customer relationships and loyalty by aligning banking services with customers' religious beliefs and ensuring high service quality. This alignment not only enhances customer retention but also positions Islamic banks as viable alternatives to conventional banking, promoting financial inclusion and catering to the unique needs of the Indonesian market (Haron et al., 2020).

METHOD

This study focuses on PT Bank Syariah Indonesia (BSI) customers in Palangkaraya City, aged between 20 and 60 years. With a total population of 47,022 customers, the sample size was determined using the Slovin formula with a margin of error of 10%. The Slovin formula is

widely used to calculate the minimum sample size required for obtaining representative results from a given population (Sarmawa et al., 2020). Based on this calculation, a sample size of 100 respondents was obtained. This random sampling technique ensures that every individual in the population has an equal chance of being selected, thereby enhancing the generalizability and validity of the study's findings.

Data were collected using a structured questionnaire to measure key variables such as religiosity, service satisfaction, and customer decisions. The data were gathered from PT Bank Syariah Indonesia customers in Palangkaraya City, aged between 20 and 60 years. The research employs a quantitative methodology with a positivist approach to explain how religiosity and service satisfaction, both individually and collectively, influence customer decisions in Islamic banking. The hypotheses were tested through quantitative statistical analysis to provide insights into the interplay between religiosity, service satisfaction, and customer behavior within the Islamic banking sector in Indonesia. Data analysis was conducted using the Smart PLS 4.0 application (Hair et al., 2020).

This study focuses on two key independent variables: religiosity and service satisfaction. The customer decision construct, serving as the dependent variable, is used as a proxy for the decision to become a customer of PT Bank Syariah Indonesia (BSI). The econometric model employed for estimation is articulated as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Explanation:

- Y : Customer Decisions (dependent variable)
- X₁ : Religiosity (independent variable 1)
- X₂ : Service Satisfaction (independent variable 2)
- β₁ : Regression coefficient for the effect of Religiosity on Customer Decisions
- β₂ : Regression coefficient for the effect of Service Satisfaction on Customer Decisions
- ε : Error term (impact of factors not included in the model)

Using Partial Least Squares Structural Equation Modeling (PLS-SEM), the coefficients β₁ and β₂ are obtained from the path coefficients, which indicate both the strength and direction of each independent variable's influence on the dependent variable

Table 1. Variables Measurements

Variables	Indicators	Statements
Religiosity	Religious Commitment	I ensure that all my financial transactions comply with Islamic principles.
	Adherence to Islamic Practices	I prioritize banking services that align with Sharia law.
	Trust in Islamic Banking	I trust Islamic banks because they adhere to religious values.
	Religious Knowledge	My understanding of Islamic finance influences my decision to choose Islamic banks.
	Spiritual Motivation	I feel spiritually satisfied when using Sharia-compliant financial products.
Service Satisfaction	Quality of Banking Services	The bank provides quick and reliable responses to my inquiries.
	Customer Support Effectiveness	I am satisfied with the professionalism of the bank's customer service team.
	Convenience of Banking Services	The bank's online and offline services are user-friendly and accessible.

	Perceived Value of Services	The bank offers services that meet my expectations.
	Overall Satisfaction	I am satisfied with my overall banking experience with this bank.
Customer Decisions	Likelihood to Continue Banking	I plan to continue using Islamic banking services in the future.
	Preference for Islamic Banks	I recommend Islamic banking services to my family and friends.
	The Decision to Choose Islamic Banks	My preference for Islamic banks is more robust than conventional ones.
	Perception of Ethical Practices	I choose Islamic banks because they align with ethical banking practices.
	Loyalty to Islamic Banking	I am committed to maintaining a long-term relationship with my Islamic bank.

Source: Compiled by the authors (2024)

Hypotheses Development

Research consistently shows that religiosity plays a significant role in shaping customer decisions in Islamic banking. Religious beliefs influence customers' preferences, leading them to seek financial products that align with their faith. A study by Abduh & Omar (2012) found that religiosity positively affects the selection of Sharia-compliant banking services, as customers value financial practices that reflect their ethical and spiritual values. Another study by Muslichah & Sanusi (2019) revealed that customers with strong religious beliefs are more likely to prioritize Islamic financial institutions when making banking decisions. Furthermore, religiosity not only drives initial customer decisions but also fosters long-term loyalty by reinforcing trust in Islamic banking practices. These findings highlight the critical role of religiosity in influencing customer behavior, particularly in markets where Islamic banking is dominant.

Service satisfaction is another key determinant of customer decisions in the banking sector. High service satisfaction enhances trust and loyalty, leading to more positive decision-making behaviors. Research has shown that service quality is directly linked to customer satisfaction, which significantly impacts their decisions to remain with or switch to Islamic banking services (F. M. Alnaser et al., 2017). Further studies emphasize that superior service satisfaction strengthens customers' emotional connections to the bank, promoting loyalty and positive decision-making (Abror et al., 2020). Additionally, research by Wulandari (2022) found that customers who perceive service excellence are more likely to recommend and continue using Islamic banking services. These findings underline the vital role of service satisfaction in shaping customer decisions.

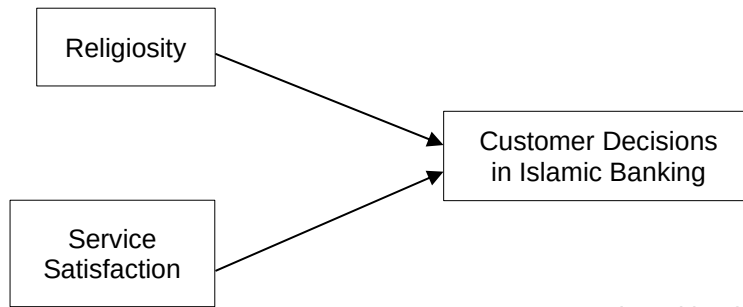
The combined influence of religiosity and service satisfaction creates a synergistic effect on customer decisions in Islamic banking. When customers perceive that their religious values are respected alongside high-quality service delivery, they are more likely to make positive banking decisions. Tabrani et al. (2018) found that the integration of religiosity and service quality strengthens customer trust and satisfaction, which are crucial for decision-making. Similarly, Yusfiarto (2021) highlighted that aligning religious principles with exceptional service delivery offers a competitive advantage for Islamic banks, building stronger customer relationships. This dual approach ensures that both the spiritual and practical needs of customers are met, enhancing their decision-making behaviors.

H1: Religiosity positively influences customer decisions.

H2: Service satisfaction positively influences customer decisions.

H3: Religiosity and service satisfaction collectively influence customer decisions

Figure 2. Research Framework



Source: Developed by the authors (2024)

RESULT AND DISCUSSION

Profile of Respondents

The respondents in this study are primarily aged between 21 and 60 years, representing individuals actively engaged in financial decision-making. In terms of gender, 59.9% of respondents are female, while 40.1% are male, indicating a higher proportion of female participants. Regarding occupational distribution, the majority are government employees (39.9%), followed by respondents in other professions (19.7%), entrepreneurs (19%), private-sector employees (13.5%), and students (7.9%). The educational background of respondents shows that most have completed high school or its equivalent (58.7%), followed by those holding a bachelor's degree (25.5%), postgraduate education (12.3%), and a smaller group of diploma holders. This diverse demographic distribution ensures a broad representation of individuals with varying professional and educational qualifications, enhancing the relevance and applicability of the research findings.

Table 2. Demographic Profile of Respondents

Category	Details
Age	21-60 years (actively making financial decisions)
Gender	59.9% Female, 40.1% Male
Occupation	39.9% Government Employees, 19.7% Other Professions, 19% Entrepreneurs, 13.5% Private-sector Employees, 7.9% Students
Education	58.7% High School, 25.5% Bachelor's Degree, 12.3% Postgraduate, Smallest Group: Diploma Holders

Source: Processed data (2024)

Convergent Validity

According to Haryono (2016), convergent validity assesses whether the indicators of a construct are adequately correlated and accurately measure the intended concept. Convergent validity is confirmed when the outer loading values exceed the minimum acceptable threshold of 0.60, indicating that the indicators sufficiently represent the construct. The results of the convergent validity analysis are provided in Table 3 below.

Table 3. Convergent Validity Result

Item	Customer Decisions (Y)	Religiosity (X1)	Service Satisfaction (X2)
X1_1		0.630	
X1_2		0.796	
X1_3		0.847	
X1_4		0.683	

X1_5		0.708	
X2_1			0.873
X2_2			0.883
X2_3			0.889
X2_4			0.764
X2_5			0.821
Y1	0.902		
Y2	0.929		
Y3	0.941		
Y4	0.927		
Y5	0.892		

Source: Processed data (2024)

Based on Table 3 above, most of the indicators for the research variables show outer loading values exceeding 0.60, indicating acceptable convergent validity. These results confirm that the indicators effectively measure their respective constructs, making them valid and suitable for further analysis.

Discriminant Validity

Discriminant validity evaluates whether a construct is truly distinct from other constructs within a model, ensuring that each construct measures a unique concept (Henseler et al., 2015; Ramadhi et al., 2024). It is confirmed when the square root of the Average Variance Extracted (AVE) for each construct exceeds its correlations with other constructs, in accordance with the Fornell-Larcker criterion. In this study, discriminant validity was assessed using this criterion, and the results, including the AVE values, are presented in Table 4 below.

Table 4. Discriminant Validity Result

	Customer Decisions	Religiosity	Service Satisfaction
Customer Decisions	0.918		
Religiosity	0.475	0.737	
Service Satisfaction	0.698	0.505	0.847

Source: Processed data (2024)

Table 4 shows that the loading values of each indicator on their respective constructs exceed their cross-loading values with other constructs. This demonstrates strong discriminant validity for all constructs or latent variables.

Average Variance Extracted (AVE)

The variance that a construct extracts from its indicators is measured by the Average Variance Extracted (AVE). Good convergent validity is indicated by an AVE score above 0.50, which means the construct accounts for at least 50% of the variance in its indicators (Alarcón & Sanchez, 2015; Ramadhi et al., 2024). Table 5 below shows the Average Variance Extracted (AVE) values for each construct.

Table 5. Average Variance Extracted (AVE) Result

Variables	Average Variance Extracted (AVE)
Customer Decisions	0.843
Religiosity	0.543
Service Satisfaction	0.718

Source: Processed data (2024)

Reliability Test

A reliability metric called Cronbach's Alpha evaluates the internal consistency of a group of indicators, illustrating the degree to which the items in a construct correlate with one another. A Cronbach's Alpha value of 0.70 or higher indicates good reliability (El Hajjar, 2018). Table 6 below presents the reliability analysis findings and the Cronbach's Alpha values for each construct.

Table 6. Reliability Test

Variables	Cronbach's alpha
Customer Decisions	0.953
Religiosity	0.786
Service Satisfaction	0.901

Source: Processed data (2024)

Based on the table above, Cronbach's alpha values for all constructs exceed the acceptable threshold of 0.70, indicating strong internal consistency and good reliability. Specifically, the Cronbach's alpha values are 0.953 for Customer Decisions, 0.786 for Religiosity, and 0.901 for Service Satisfaction, demonstrating that the constructs meet the minimum reliability criteria. These results suggest that the indicators within each construct are well-aligned and consistently measure their respective variables. The high reliability coefficients provide confidence in the robustness of the data for further analysis.

Inner Model

Upon completing the evaluation of the measurement model, the next phase is assessing the structural model, sometimes referred to as the inner model. This evaluation focuses on the relationships between latent constructs within a Structural Equation Model (SEM). A key metric in this context is the coefficient of determination, represented as R^2 , which measures the proportion of variation in the endogenous latent variables explained by the model. Higher R^2 values indicate that the model explains a greater proportion of the variance in the dependent variables, demonstrating a better fit to the observed data.

Hair et al. (2011) assert that in social science research, R^2 values of 0.75, 0.50, and 0.25 are considered substantial, moderate, and weak, respectively. These benchmarks provide a framework for assessing the model's explanatory capacity regarding endogenous constructs.

Table 7. Inner Model

Variables	R-square	R-square Adjusted
Customer Decisions	0.507	0.497

Source: Processed data (2024)

Based on the table above, the R-square value for the Customer Decisions variable is 0.507, or 50.7%, indicating that the model explains 50.7% of the variance in Customer Decisions. The adjusted R-square value of 0.497 further refines this estimate, accounting for the complexity of the model and the number of predictors. According to Hair et al. (2011), an R^2 value of 0.507 is classified as moderate in social science research, suggesting that the model has a reasonable explanatory capacity for the Customer Decisions variable. The remaining 49.3% of the variance is attributed to factors outside the scope of this research, highlighting opportunities for future studies to explore additional predictors that may influence Customer Decisions.

Hypotheses Testing

Table 6 displays the results of the direct effects analysis within the structural model, outlining the relationships among religiosity, service satisfaction, and consumer decisions. The analysis uses the conventional threshold for hypothesis testing, where a t-statistic exceeding 1.96 and a p-value below 0.05 indicate a statistically significant effect. According to Diez et al. (2019) in *OpenIntro Statistics*, these thresholds align with a 95% confidence level, which is commonly employed in social science research to ensure the reliability of the results. This method helps uncover the strength and relevance of correlations across constructs, offering valuable insights into the factors influencing customer decisions in Islamic banking.

Table 8. Direct Effect

Direction	Original sample (O)	T statistics (O/STDEV)	P values
Religiosity → Customer Decisions	0.164	1.457	0.145
Service Satisfaction → Customer Decisions	0.615	6.266	0.000

Source: Processed data (2024)

The results in the table above offer insights into the relationships between the variables. The hypothesis that religiosity affects customer decisions is not supported, as the t-statistic of 1.457 is below the critical threshold of 1.96 and the p-value of 0.145 is above the 0.05 significance level. This suggests that religiosity does not have a significant impact on customer decisions in this study. On the other hand, the hypothesis that service satisfaction affects customer decisions is strongly supported. With a t-statistic of 6.266, which exceeds the critical threshold of 1.96, and a p-value of 0.000, well below the significance level of 0.05, the results show a strong and significant relationship. This confirms that service satisfaction plays a key role in influencing customer decisions.

Discussion

Religiosity and Customer Decisions

The research findings suggest that religiosity has a weak and statistically insignificant impact on customer decisions. While religiosity may influence preferences for Sharia-compliant banking services, it does not play a decisive role in customers' decision-making processes. These results imply that customers are likely to prioritize practical factors, such as service quality, convenience, or technological advancements, over religious considerations when selecting a financial service provider.

This finding aligns with studies by Abduh and Omar (2012), who noted that while religiosity strengthens customer alignment with Islamic principles, it is often overshadowed by the tangible benefits offered by Islamic banks. Customers tend to focus on factors like competitive rates, accessibility, and efficient service delivery, which may explain why religiosity alone does not significantly influence their decisions. Furthermore, Jamshidi and Hussin (2018) emphasized that religiosity tends to support trust and loyalty, rather than acting as a primary driver of financial decisions. This suggests that religiosity functions more as a reinforcing factor than as a determinant.

The limited role of religiosity in decision-making may also reflect the increasing competition between Islamic and conventional banks, which encourages customers to place more emphasis on practical benefits. This finding underscores the need for Islamic banks to complement their religious branding with strong customer service and innovative product offerings to appeal to a broader customer base. For example, providing superior digital banking experiences or personalized financial solutions could help Islamic banks remain competitive while maintaining their distinct religious identity. In summary, while religiosity

remains a critical component of Islamic banking identity, its impact on customer decisions may be indirect, mediated through trust and long-term loyalty rather than immediate choice.

Service Satisfaction and Customer Decisions

Conversely, the findings reveal that service satisfaction strongly influences customer decisions, confirming its critical role in choosing Islamic banking services. Customers place high value on the quality of service they receive, as it directly impacts their perceptions of trustworthiness, convenience, and their overall banking experience.

Studies by Alnaser et al. (2017) highlight that service quality enhances both customer satisfaction and loyalty, making it a key factor in decision-making. Superior service creates a positive impression and fosters a stronger emotional connection between the customer and the bank. Similarly, Tabrani et al. (2018) emphasize that trust and satisfaction derived from superior service quality significantly contribute to long-term customer engagement. This reinforces the importance of consistent, high-quality service delivery for customer retention and loyalty in the highly competitive banking sector.

Furthermore, the dominance of service satisfaction over religiosity highlights a shift in customer priorities, with an increasing emphasis on practical benefits such as efficiency, responsiveness, and ease of use. In today's digital era, seamless digital banking platforms and personalized customer care are essential for many consumers. As Islamic banks strive to differentiate themselves, offering exceptional service experiences can serve as a cornerstone of their strategic management practices. Providing innovative financial products, leveraging technology for improved service delivery, and ensuring robust customer support are key to meeting evolving customer expectations.

These findings underscore the strategic importance of integrating service excellence into the operations of Islamic banks. By prioritizing service satisfaction, Islamic banks can attract new customers and strengthen relationships with existing ones, thereby enhancing their market share and ensuring sustainable growth.

Religiosity and Service Satisfaction on Customer Decisions

The combined analysis of religiosity and service satisfaction shows that these variables explain 50.7% of the variance in customer decisions, as indicated by the R-square value of 0.507. This suggests a moderate explanatory power of the model, leaving 49.3% of the variance to be explained by other factors beyond the scope of this study. The results reveal that while religiosity (path coefficient = 0.164, t-statistic = 1.457, p-value = 0.145) has a weak and statistically insignificant influence on customer decisions, service satisfaction emerges as a dominant predictor, with a path coefficient of 0.615, a t-statistic of 6.266, and a p-value of 0.000.

These findings highlight the critical role of service satisfaction in shaping customer decisions within Islamic banking. High-quality service not only enhances customer satisfaction but also fosters loyalty, making it a key element in strategic management practices. While religiosity plays a supplementary role by aligning the bank's image with its customers' ethical and spiritual values, service satisfaction is the primary factor influencing decision-making. Customers are increasingly prioritizing practical benefits—such as seamless digital banking platforms, responsive customer care, and personalized services—over religious branding alone.

By integrating these approaches, Islamic banks can effectively meet the diverse and evolving needs of their customers. Emphasizing service satisfaction while maintaining alignment with religiosity allows Islamic banks to build trust, attract new customers, and retain existing ones. This strategic combination provides a competitive edge in a dynamic financial market and ensures long-term sustainability and growth for Islamic banking institutions.

CONCLUSION

This study examines the influence of religiosity and service satisfaction on customer decisions in Islamic banking. By focusing on these factors, the study sought to identify the key determinants of customer preferences and behavior within a Sharia-compliant banking framework. The goal was to provide actionable insights for Islamic banking institutions to refine their strategies and enhance their competitiveness. Specifically, the research explored how religiosity and service satisfaction, both individually and in combination, shape customer decisions, with the aim of quantifying these effects and uncovering practical implications for improving customer engagement and satisfaction in an evolving financial landscape.

The findings reveal that religiosity has a weak and statistically insignificant impact on customer decisions. This is evidenced by a low path coefficient and a p-value above the significance threshold, suggesting that while religiosity aligns with customers' ethical and spiritual preferences, it does not play a decisive role in their decision-making process. In contrast, service satisfaction emerged as a dominant factor, demonstrating a strong and significant influence on customer decisions. Additionally, the combined analysis of both variables explains 50.7% of the variance in customer decisions, reflecting moderate explanatory power. These results highlight the importance of prioritizing service quality, while maintaining religiosity as a complementary element to strengthen trust and brand positioning.

This study emphasizes the need for Islamic banks to prioritize service excellence as a core strategy. This includes investing in comprehensive training programs to ensure employees deliver professional and responsive service, thus building customer trust and loyalty. Furthermore, integrating efficient queuing systems and offering seamless offline-online service experiences can significantly enhance customer satisfaction. The use of technology, such as advanced digital banking platforms and chatbot services, should support high-quality service delivery, ensuring responsiveness and reliability in meeting customer needs.

Another critical strategy involves strengthening brand positioning through alignment with religious values. This helps build trust and resonates with the target audience's ethical beliefs. Marketing campaigns should highlight the unique value propositions of Islamic banking, such as ethical investments and interest-free financial services, while also emphasizing the bank's ability to meet practical customer needs. Complementing these efforts, financial literacy programs can increase awareness and understanding of Sharia-compliant products, fostering greater engagement with potential customers.

Islamic banks should also focus on cultivating long-term customer relationships by introducing loyalty programs and feedback mechanisms. Rewarding loyal customers and incorporating their feedback into service improvements can enhance retention and engagement. Expanding product offerings with innovative, Sharia-compliant solutions, such as halal investment options or bundled services, can attract a broader customer base. These initiatives, when combined, create a holistic approach to improving customer satisfaction and decision-making in Islamic banking.

Future research should explore additional variables influencing customer decisions in Islamic banking, such as technological innovation, financial literacy, or cultural factors. Examining these variables could offer a more comprehensive understanding of customer behavior and preferences. Longitudinal studies are also recommended to assess how customer decisions evolve over time and under changing market conditions. Comparative studies across different regions or countries could further reveal how contextual factors shape customer decisions in Islamic banking.

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