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**DOES SERVICE INNOVATION, REPUTATION RISK, AND WORD OF MOUTH IMPACT CUSTOMER BEHAVIOR IN CHOOSING ISLAMIC BANKING? AN EMPIRICAL EVIDENCE IN INDONESIA**

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**Abstract:** Indonesia is a country with the largest Muslim population in the world. However, since Islamic banks were established in Indonesia in about 20 years, the participation of Muslims in using Islamic banks is relatively low. The purpose of this study is to analyze and find out the impact of service innovation, reputation risk, and word of mouth on customer behavior in choosing Islamic banks as a place for financing, investing, and so on. The research method uses quantitative, with an experimental and survey approach. Probability sampling of 250 questionnaires distributed to customers throughout Indonesia. The research findings show that service innovation and reputation risk have good external validity to the culture of Indonesian society. The most interesting finding is that the word-of-mouth variable greatly increases customer intention and participation in choosing an Islamic bank. Therefore, this research recommends targeting community leaders or opinion leaders to explain Islamic banking to the whole community.

**Keywords:** *customer behavior, Islamic banking and finance, reputation risk, service innovation, word of mouth*

**Abstrak:** Indonesia adalah negara dengan penduduk Islam terbesar di dunia. Namun, sejak bank Islam bertapak di Indonesia selama lebih kurang 20 tahun, penyertaan umat Islam dalam menggunakan bank Islam agak rendah. Tujuan kajian ini adalah untuk menganalisis dan mengetahui kesan inovasi perkhidmatan, risiko reputasi, dan mulut ke mulut terhadap gelagat pelanggan dalam memilih bank Islam sebagai tempat pembiayaan, pelaburan dan sebagainya. Kaedah kajian menggunakan kuantitatif, dengan pendekatan eksperimen dan tinjauan. Persampelan kebarangkalian 250 soal selidik yang diedarkan kepada pelanggan di seluruh Indonesia. Dapatan kajian menunjukkan bahawa inovasi perkhidmatan, risiko reputasi mempunyai kesan luaran yang baik terhadap budaya masyarakat Indonesia. Penemuan yang paling menarik ialah pembolehubah dari mulut ke mulut sangat meningkatkan niat dan penyertaan pelanggan dalam memilih bank Islam. Oleh itu, kajian ini mencadangkan agar pemimpin masyarakat atau pemimpin pendapat menyasarkan untuk menjelaskan perbankan Islam kepada seluruh masyarakat.

**Kata kunci:** *Inovasi layanan, perilaku nasabah, perbankan dan keuangan syariah, pemasaran dari mulut ke mulut, risiko reputasi*

## INTRODUCTION

The establishment of Bank Muamalat Indonesia was a pivotal event in the history of Islamic banking in the country<sup>1</sup>. Bodibe *et al.*<sup>2</sup>, te that Bank Muamalat managed to withstand severe economic conditions that disrupted many conventional banks. During an economic crisis that prompted government intervention via recapitalization and liquidation to stabilize the economy, Bank Muamalat exemplified the resilience of the Islamic banking model and its ability to contribute to economic stability. Usman *et al.*<sup>3</sup> further emphasize the significant role and influence of banking, including Islamic banking, in supporting communities and various industry sectors in Indonesia<sup>4</sup>.

The significance of Islamic banking in Indonesia extends beyond financial transactions; it's become a trusted alternative for capital strengthening and savings for the public<sup>5</sup>. Its role in bolstering public confidence in banking is critical, especially in an Indonesian society urging for an economic system aligned with Islamic principles<sup>6</sup>. Islamic banks operate on sharia-compliant principles, and there's a call for the national economic system to reflect these values of justice and equity<sup>7</sup>. Baidhowi<sup>8</sup>, emphasizes that, in a globalized world, banks must perform well and remain competitive. Service innovation is key, not only as a marker of creativity but as a vital component in achieving customer satisfaction and indicating the bank's commitment to its clientele.<sup>9</sup>

Riyadi<sup>10</sup> asserts that service in banking is both a direct and indirect measure of activities, addressing societal demands while meeting the challenges of the era. Public

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<sup>1</sup> Nugroho, A. P., Hidayat, A., & Kusuma, H. (2017). The influence of religiosity and self-efficacy on the saving behavior of the Islamic banks. *Banks and Bank Systems* (open-access), 12(3), 35-47.

<sup>2</sup> Seipati Bodibe, Norman Chiliya, and Christopher Tarisayi Chikandiwa, 'The Factors Affecting Customers' Decisions to Adopt Islamic Banking', *Banks and Bank Systems* 11, no. 4 (2016): 144-51, [https://doi.org/10.21511/bbs.11\(4-1\).2016.05](https://doi.org/10.21511/bbs.11(4-1).2016.05).

<sup>3</sup> Dipa Mulia, Hardius Usman, and Novia Budi Parwanto, 'The Role of Customer Intimacy in Increasing Islamic Bank Customer Loyalty in Using E-Banking and m-Banking', *Journal of Islamic Marketing* 12, no. 6 (2020): 1097-1123, <https://doi.org/10.1108/JIMA-09-2019-0190>.

<sup>4</sup> M. Zidny Nafi' Hasbi, 'The Need for Revitalizing Zakah Regulation Toward Productive Zakah', *Al'Adalah* 25, no. 2 (2022): 125-36, <https://doi.org/10.35719/aladalah.v25i2.302>.

<sup>5</sup> Mulia, Usman, and Parwanto, 'The Role of Customer Intimacy in Increasing Islamic Bank Customer Loyalty in Using E-Banking and m-Banking'.

<sup>6</sup> Nendi Juhandi *et al.*, "The Growth Of Sharia Banking In Asia," *Journal of Research in Business, Economics and Management* 12, no. 2 (2019): 2341-2347, <http://www.scitecresearch.com/journals/index.php/jrbem/article/view/1708>.

<sup>7</sup> Choiriyah Choiriyah, Saprida Saprida, and Emilia Sari, 'Development of Sharia Banking System In Indonesia', *Mizan: Journal of Islamic Law* 5, no. 1 (2021): 17, <https://doi.org/10.32507/mizan.v5i1.923>.

<sup>8</sup> Baidhowi Baidhowi, 'Sharia Banking Opportunities and Challenges in the Digital Era' 192, no. 18 (2018): 157-61, <https://doi.org/10.2991/icils-18.2018.30>.

<sup>9</sup> Rahmayati Rahmayati, 'Competition Strategy in the Islamic Banking Industry: An Empirical Review', *International Journal of Business, Economics, and Social Development* 2, no. 2 (2021): 65-71, <https://doi.org/10.46336/ijbesd.v2i2.133>.

<sup>10</sup> Baidhowi, 'Sharia Banking Opportunities and Challenges in the Digital Era'.

services transcend internal efficiency, aiming to satisfy the public through exemplary services<sup>11</sup>. Muslim<sup>12</sup> states that financial sectors strategize to stand out in the competitive marketplace, with service innovation and quality being pivotal to success<sup>13</sup>. Currently, the competition in the Islamic financial industry is getting higher, so Islamic banking is required to have a competitive advantage that is different from other banking industries so that it can become the people's choice<sup>14</sup>. As the Islamic financial sector grows more competitive, Islamic banks need a distinctive edge to be the preferred choice, a concept supported by Ricadonna et al.,<sup>15</sup> who see digital finance as an avenue for Islamic banking growth through service innovation and outreach expansion.

Service innovation offers a variety of choices and expands reach, which can have a significant impact on a bank's reputation - one of the main reasons consumers choose its services, as noted by Noviarita et al.,<sup>16</sup> Managing a bank's reputation is a collective responsibility, and it's often more difficult to rebuild than to maintain. However, managing a bank's reputation is not an easy thing, even losing a reputation is easier than trying to build that reputation<sup>17</sup>. Service innovation is defined as a new service concept or change that is significantly improved and immediately put into practice<sup>18</sup>. States that service innovation is a variation in product delivery that gets appreciation in the service experience for consumers<sup>19</sup>.

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<sup>11</sup> Adelina Lubis et al., 'The Influence of Customer Relationship Management (CRM) Indicators on Customer Loyalty of Sharia Based Banking System', *GATR Journal of Management and Marketing Review* 5, no. 1 (2020): 84-92, [https://doi.org/10.35609/jmmr.2020.5.1\(8\)](https://doi.org/10.35609/jmmr.2020.5.1(8)).

<sup>12</sup> Aziz Ur Rehman, Ejaz Aslam, and Anam Iqbal, 'Intellectual Capital Efficiency and Bank Performance: Evidence from Islamic Banks', *Borsa Istanbul Review*, 2021, <https://doi.org/10.1016/j.bir.2021.02.004>.

<sup>13</sup> Mohamad Sodikin, 'Competitive Advantages of Sharia Banks: Role of Ihsan Behavior and Digital Marketing in New Normal', *Journal of Digital Marketing and Halal Industry* 2, no. 1 (2020): 1, <https://doi.org/10.21580/jdmhi.2020.2.1.5769>.

<sup>14</sup> Mulia, Usman, and Parwanto, 'The Role of Customer Intimacy in Increasing Islamic Bank Customer Loyalty in Using E-Banking and m-Banking'.

<sup>15</sup> Nadia Adriane Ricadonna, Muhammad Saifullah, and Ari Kristin Prasetyoningrum, 'The Effect of Trust and Brand Image on Customer Retention with Customer Loyalty as Intervening Variables to Customers of Sharia Commercial Banks', *Jurnal Keuangan Dan Perbankan* 25, no. 2 (2021), <https://doi.org/10.26907/jkdp.v25i2.5145>.

<sup>16</sup> H Noviarita et al., 'Customer Loyalty in Sharia Bank Savings Products', *Utopia y Praxis Latinoamericana* 26 (2021): 109-16.

<sup>17</sup> Suryari Purnama, Andyani Sukmasari, and Rahul Bhandari, 'The Role of Religiosity as a Mediating Variable in the Relationship between Online Transactions and Customer Satisfaction and Loyalty in Islamic Banking', *Aptisi Transactions on Management (ATM)* 5, no. 2 (2021): 143-51, <https://doi.org/10.33050/atm.v5i2.1532>.

<sup>18</sup> Lars Witell et al., 'Defining Service Innovation: A Review and Synthesis', *Journal of Business Research* 64, no. 8 (2016): 2863-72, <https://doi.org/10.1016/j.jbusres.2015.12.055>.

<sup>19</sup> M Zidny Nafi Hasbi, Makhrus Munajat, and Abdul Qoyum, 'Amwaluna : Jurnal Ekonomi Dan Keuangan Syariah A Conceptual Framework of The Islamic Human Development Index (I-HDI) and Its Relationship with Maqāṣid Al - Shari ' Ah', no. 2019 (2023).



Durst et al.,<sup>20</sup> define innovation as a new combination of production factors, a driving force behind consumer appeal, which can include products, services, processes and technologies. Similarly, Dörner et al.<sup>21</sup>, describe service innovation as new services or methods implemented by firms to meet consumer demands. Innovation involves a change in ideas and information aimed at consumer improvement and includes product and process innovation.

Tajeddini & Martin<sup>22</sup> emphasize the importance of measuring service innovation as crucial to a company's success in innovation. This involves developing a new business model with significant changes to the existing one, integrating various business disciplines, and yielding greater customer value. The creation of new services can also greatly impact marketing performance, with effective execution enhancing a company's market position.

Managing reputational risk in Islamic banks can be approached in three ways: optimizing the customer complaints unit, enhancing the role of public relations to strategize communications, and upholding Shari'ah principles. Good Corporate Governance (GCG), which involves all stakeholders to ensure that the right steps are taken to protect their interests, is crucial. The aim of GCG is to establish a system of checks and balances to prevent the misuse of resources and promote corporate growth. In the context of Enterprise Risk Management (ERM), this system assesses and manages risks, including reputational risks<sup>23</sup>.

Word-of-mouth (WOM) is a powerful marketing tool that starts with a simple conversation and can lead to active promotions and sales. Through WOM, consumers become brand ambassadors, influencing the behavior and intentions of other consumers without direct compensation from the company<sup>24</sup>.

Word-of-mouth communication is any form of information that contains positive or negative experiences that are communicated by someone who has purchased or used a product or service. Word of mouth has an important role in influencing consumer behavior and intentions to convince consumers to buy company

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<sup>20</sup> Susanne Durst, Anne Laure Mention, and Petro Poutanen, 'Service Innovation and Its Impact: What Do We Know About?', *Investigaciones Europeas de Direccion y Economia de La Empresa* 21, no. 2 (2015): 65–29 <https://doi.org/10.1016/j.iedee.2014.07.003>.

<sup>21</sup> Nadin Dörner, Oliver Gassmann, and Heiko Gebauer, 'Service Innovation: Why Is It so Difficult to Accomplish?', *Journal of Business Strategy* 32, no. 3 (2011): 37–46, <https://doi.org/10.1108/02756661111121983>.

<sup>22</sup> Kayhan Tajeddini and Emma Martin, 'The Importance of Human-Related Factors on Service Innovation and Performance', *International Journal of Hospitality Management* 85, no. April 2019 (2020): 102431, <https://doi.org/10.1016/j.ijhm.2019.102431>.

<sup>23</sup> Jeffrey Unerm, 'Strategic Reputation Risk Management and Corporate Social Responsibility Reporting', *Accounting, Auditing and Accountability Journal* 21, no. 3 (2008): 362–64, <https://doi.org/10.1108/09513570810363941>.

<sup>24</sup> David Godes and Dina Mayzlin, 'Using Online Conversations to Study Word-of-Mouth Communication', *Marketing Science* 23, no. 4 (2004), <https://doi.org/10.1287/mksc.1040.0071>.

products<sup>25</sup>. Word of mouth is faster to influence consumer behavior than using the media or advertising. Word of mouth can influence consumers in evaluating experiences and is an important marketing tool. Word of mouth is related to the experience of using a product or service. The use of products or services will lead to a sense of satisfaction with consumers, if a company can make a product or service and provide good service to consumers, consumers will feel satisfied, otherwise, consumers will feel dissatisfied if the products and services do not meet their expectations.

Buttle has outlined how companies can leverage word of mouth in their marketing strategies through a progressive three-stage approach. Initially, talking represents the fundamental level where consumers casually discuss products and brands, providing information that isn't directly aimed at driving sales<sup>26</sup>. The next level, promoting, sees consumers becoming advocates, actively recommending products to others. Finally, the selling stage is where the real impact is felt; consumers effectively become brand ambassadors, marketing the company's products through their endorsements, often without realizing their role in boosting sales. This final stage is critical as it represents the culmination of word of mouth as a powerful marketing tool.

This study uses a purposive sample of 250 Indonesian Syariah banking customers and takes a quantitative approach using experimental and survey methods. Multiple linear regression analysis determines the functional or causal relationship between the independent factors - service innovation, reputational risk, word of mouth - and the dependent variable, customer perception. This method predicts the effect of the independent variables on the dependent variable, which is critical to understanding the dynamics of customer perception in Islamic banking<sup>27</sup>.

The population of this study is Raja Boba consumers in Tembung. Therefore, we must determine how to facilitate research and the research process is simplified without being reduced the quality of the research. Some of the characteristics of a population are called a sample. This research, multivariate analysis or correlation analysis is used, So the total sample members are at least multiplied by 10 of the number of research variables, namely 4 research variables, so the sample consists of 100 respondents. Collecting research data from distributing questionnaires. The data collection technique by giving questions verbally and in writing to respondents is called a questionnaire. Questionnaires were distributed to Raja Boba consumers in

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<sup>25</sup> Eugene W. Anderson, 'Customer Satisfaction and Word of Mouth', *Journal of Service Research* 1, no. 1 (1998): 5-17, <https://doi.org/10.1177/109467059800100102>.

<sup>26</sup> Francis A. Buttle, 'Word of Mouth: Understanding and Managing Referral Marketing', *Journal of Strategic Marketing* 6, no. 3 (1998): 241-54, <https://doi.org/10.1080/096525498346658>.

<sup>27</sup> Gül den Kaya Uyanık and Neşe Güler, 'A Study on Multiple Linear Regression Analysis', *Procedia - Social and Behavioral Sciences* 106 (2013): 234-40, <https://doi.org/10.1016/j.sbspro.2013.12.027>.

Tembung. In this research, the technique for taking samples uses non-probability sampling with purposive sampling, where the sampling technique involves considerations that have been determined by the respondent. In this research, a measurement scale is used, namely the scale that determines the level of agreement from respondents is called the Likert scale. Responses to the questionnaire were then measured using a 1 to 5 Likert scale, start to strongly disagree - strongly agree

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Information:

Y = Dependent Variable (Customer Perception)

a = Regression Coefficient (Constant)

X1 = Service Innovation

X2 = Reputation Risk

X3 = Word of Mouth

b1 = The variable regression coefficient between X1 and Y

b2 = The variable regression coefficient between X2 and Y

b3 = The variable regression coefficient between X3 and Y

## DISCUSSION

Bank Syariah Indonesia (BSI) is a Shariah banking institution that was established on February 1, 2021, three state-owned subsidiary banks merged nationally under the Ministry of State-Owned Enterprises. BNI Syariah, BRI Syariah and Mandiri Syariah, from the three banks merged to form Bank Syariah Indonesia. February to June will be almost one and a half years. For the system itself, it was separated from each parent, initially, the main BNI Syariah was BNI, BRI Sharia from BRI, Bank Mandiri Sharia from Bank Mandiri is already separate and has become itself. The establishment of Bank Syariah Indonesia (BSI) was inaugurated by a letter issued by the Financial Services Authority (OJK). Issued under the number: SR-3/PB.1/2021 dated January 27, 2021 regarding the issuance of a license allowing the merger of PT Bank Syariah Mandiri, Bank BNI Syariah and Bank BRI Syariah Tbk as well as the right to change the name using the business license of PT Bank Syariah Indonesia Tbk as the merged bank. With the issuance of a letter from OJK, BSI's position to conduct banking activities based on Shariah concepts and a combination of 3 banks would be further strengthened.

## 1.1 Multiple Linear Regression Analysis

This study employs IBM SPSS 29.00 software to carry out data analysis using the multiple linear regression method. This method aims to determine the relationship between dependent and independent variables by estimating the average value of the dependent variable for a known value of the independent variable. Multiple linear regression analysis is research that determines one dependent variable and analyzes several independent variables.

Table 1. Coefficient\* dependent variabel costumer perception

Model (Constant)	Unstandardized Coefficients		Standardized Coefficient		
	B	Std Error	Beta	t	Sig
(Constant)	2.973	646		4.604	000
Service Innovation	167	042	331	3.984	000
Reputation Risk	171	048	312	3.599	000
Wod of Mouth	061	037	145	1.670	0000

Data source: SPSS 2023

According to Table 1, the Constanta value ( $\alpha$ ) is 2.973. The b values for service innovation, reputation risk, and word of mouth are 0.167, 0.171, and 0.061, respectively. The constant value for customer perception ( $Y$ ) is also 2.973. This means that if all variables  $X_1$ ,  $X_2$ , and  $X_3$  (i.e. service innovation, reputation risk, and word of mouth) are equal to zero, the customer perception will be 2.97. The  $X_1$  coefficient of 0.167 means that every time the  $X_1$  variable (Service Innovation) increases by 1%, customer perception increases by 0.167 (16.7%) or vice versa every time the  $X_1$  variable (Service Innovation) decreases, customer perception decreases by 0.167 (16.7 %). The  $X_2$  coefficient of 0.171 means that every time the  $X_2$  variable (Reputation Risk) increases by 1%, customer perceptions increase by 0.171 (17.1%). Every time the  $X_2$  variable of Reputation Risk decreases, customer perceptions decrease by 17.1%. Conversely, the  $X_3$  coefficient of 0.061 indicates that with every 1% increase in the  $X_3$  variable of word of mouth, customer perceptions also increase by 6.1%. In contrast, every time the  $X_3$  variable of word of mouth decreases, the customer's perception decreases as well.

Table 2. Coefficient of F test results

Model (Constant)	Unstandardized Coefficients		Standardized Coefficient		
	B	Std Error	Beta	t	Sig
(Constant)	2.973	646		4.604	000
Service Innovation	167	042	331	3.984	000
Reputation Risk	171	048	312	3.599	000
Wod of Mouth	061	037	145	1.670	973

Data source: SPSS 2023



In Table 2, we analyze the relationship between variables X1, X2, X3, and Y by comparing their significance value to the benchmark probability value of 0.05. A significance value less than 0.05 indicates that X1, X2, and X3 have a simultaneous effect on Y. Conversely, a value greater than 0.05 indicates no effect. Comparing the calculated F-value to the F-table value further confirms this: an F-value greater than the F-table value confirms the collective effect of the variables on Y.

Our results show that the significance value for X1, X2, and X3 is 0.000, which is less than 0.05, and the F count is greater than the F table (31.457 > 2.66), indicating a significant joint effect on the variable Y, which is customer perception of Islamic banking. For individual effects, the T-count for X1 on Y is 3.984, which is greater than the T table value of 1.653, confirming the effect of service innovation (X1) on customer perception (Y), thus accepting hypothesis 1 (H1). Similarly, the significance value for the effect of X2 on Y has a T-count of 3.599, which is greater than the T-table value of 1.653, leading to the acceptance of Hypothesis 2 (H2), indicating a significant effect of reputation risk (X2) on customer perceptions (Y). However, there seems to be a discrepancy in the text regarding the third hypothesis as it repeats the information for H2. It should probably mention the effect of word of mouth (X3) instead, where a T score of 1.670 is just above the T-table value of 1.653, suggesting a positive effect on customer perception (Y) and acceptance of Hypothesis 3 (H3).

## 1.2 Determination Coefficient Test (R<sup>2</sup>)

The coefficient of determination is a vital metric in regression in determining the accuracy of the estimated regression model. The coefficient of determination is a vital metric in regression in determining the accuracy of the estimated regression model. It measures the proximity of the estimated regression line to the actual data. The coefficient of determination is a vital metric in regression in determining the accuracy of the estimated regression model. Additionally, it quantifies the percentage of influence contributed.

Table 3. Test Results for The Coefficient of Determination of The Summary Model

Model	R	R Square	Adjusted R Square	Std. The error in th Estimate
1	.712	.519	.511	.85618

Data source: SPSS 2023

Based on the table 3, the R-squared value is 0.519, indicating that the combined effect of Service Innovation X1, Reputation Risk X2, and Word of Mouth X3 variables on the Customer Perception variable Y is 51.9%.

Bank Syariah Indonesia (BSI) came into existence when three state-owned subsidiary banks merged, creating a robust institution aimed at strengthening the

Islamic banking sector. The significance of this merger is underscored by the analysis of customer perception towards BSI, focusing on service innovation, reputation risk, and word of mouth.

Service innovation is crucial as it introduces new or significantly improved service concepts to practice, enhancing the consumer service experience. Reputation risk, associated with the potential loss of stakeholder trust due to negative news, can impact the bank's non-financial performance. Moreover, word of mouth, the spread of customer experiences, plays a significant role in shaping customer perception. Positive experiences lead to satisfaction, influencing other potential customers' perceptions and decisions.

Statistical evidence from the study's multiple linear regression analysis validates the substantial effects of these factors on customer perception. Service innovation and reputation risk have been proven to positively influence customer perception<sup>48</sup> as indicated by the significant t-values in the analysis. Similarly, the positive impact of word of mouth on customer perception is confirmed, aligning with previous studies in the field. This comprehensive analysis underscores the intertwined relationship of these factors in shaping the customer's view and the strategic importance of managing them effectively in Islamic banking.

<sup>16</sup> Service innovation is defined as a new service concept or change that is significantly improved and immediately put into practice Durst et al.,<sup>28</sup> stated that service innovation is a variation in product delivery that gains appreciation in the service experience for consumers. Reputation risk is the risk of the impact of reduced trust from stakeholders originating from negative news that causes large non-financial losses to banking institutions. One of the approaches used in categorizing sources of reputational risk is indirect and personal. Weaknesses in corporate governance, corporate culture, and company business practices can be a source of reputational risk.<sup>29</sup>

Word of mouth is the act of consuming a product or service to two or more independent and honest consumers. Word of mouth is related to the experience of using a product or service. The use of products or services will lead to a sense of satisfaction with consumers, if a company can make a product or service and provide good service to consumers, consumers will feel satisfied, otherwise, consumers will feel dissatisfied if the products and services do not meet their expectations<sup>30</sup>.

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<sup>28</sup> Durst, Mention, and Poutanen, 'Service Innovation and Its Impact: What Do We Know About?'

<sup>29</sup> M Z Nafi'Hasbi, I Widayanti, and ..., 'The Excellence of The Ummah Through The Integration of Islamic Philanthropy and Islamic Social Finance in Realizing Economic Independence', *The 4th International ...*, 2022.

<sup>30</sup> Sodikin, 'Competitive Advantages of Sharia Banks: Role of Ihsan Behavior and Digital Marketing in New Normal'.

<sup>8</sup> Perception is an individual process of organizing and interpreting sensory impressions to give meaning to their environment. This theory illustrates that perception is an attempt to see a person's view of a situation that occurs around him based on things felt him and a customer is a person who can become a customer in a bank in terms of finance.<sup>31</sup>

### 1.3 The effect of Service Innovation on the perceptions of Islamic banking customers

<sup>46</sup> Based on the t-test which shows the sig value for the effect of variable X1 on Y is Account 3,984 > T table 1,653. So, it can be concluded that H1 Service Innovation is accepted, which means there is an influence on customer perceptions. This is in line with research conducted by Putri Hardianti Rukmana who concluded that product innovation on customer satisfaction at PT. BNI Syariah City of Medan has a positive and significant effect. This means that the more innovative services provided by Bank BSI to customers, the better customer perceptions of Islamic banking (BSI) will be. Thus, it can be stated that the hypothesis in this study is proven<sup>32</sup>.

### 1.4 Effect of Reputation Risk on sharia banking customer perceptions

Based on the t-test which shows the sig value for variable X2 to Y is the Account 3,599 > T table 1,653. So, it can be concluded that H2 Reputation Risk is accepted, which means there is an influence on customer perceptions. This is in line with research conducted by Lilis Suganda which concluded that bank reputation has a positive and significant effect on customers' decisions to save at Bank Sumsel. This means that the better the reputation of Islamic banking (BSI), will affect the perceptions of Islamic banking customers regarding the reputation of Bank BSI. Thus, it can be stated that the hypothesis in this study is proven<sup>33</sup>.

### 1.5 The influence of Word of Mouth on the perceptions of Islamic banking customers

<sup>43</sup> Based on the t-test which shows the sig value for variable X3 to Y is Account 1.670 > T table 1.653. So, it can be concluded that H3 Word of Mouth is accepted, meaning there is an influence on customer perceptions. This is in line with the research conducted by Roh Hayati which concluded that Word of Mouth had a positive and significant effect on the interest in saving at community sharia banks in the Gubug

<sup>31</sup> Mulia, Usman, and Parwanto, 'The Role of Customer Intimacy in Increasing Islamic Bank Customer Loyalty in Using E-Banking and m-Banking'.

<sup>32</sup> M Zidny Nafi Hasbi, 'Potret Pelaksanaan Zakat Di Indonesia Sebagai Stimulus Aktualisasi Triple Bottom Line Pada Perusahaan' 4, no. 1 (2023): 1-13.

<sup>33</sup> Ipuk Widayanti, 'Laporan Akuntabilitas Dan Transparansi Kinerja Instansi Pemerintah (Studi Kasus Kota Temanggung Jawa Tengah' 4, no. 1 (2023): 1-13.

sub-district. This means the better the service provided and the good reputation of Islamic banking (BSI), the better Word of Mouth or information from customers to other customers. Thus, it can be stated that the hypothesis in this study is accepted<sup>34</sup>.

## CONCLUSION

The study confirms that <sup>1</sup> service innovation, reputation risk, and word of mouth significantly shape customer perceptions of Islamic banking. Innovations in services lead to positive customer views, while a bank's good reputation, affirmed by the experiences of most respondents, is crucial to maintaining customer trust. Similarly, effective word-of-mouth communication fosters strong customer relationships. To enhance BSI Indonesia's standing, the study suggests leveraging the internet to highlight awards and recognitions, thereby solidifying its reputation. Additionally, maintaining the quality of services is essential. For further research, a larger sample size is recommended for more precise data and improved results.

## DISCLOSURE

### Conflicts of Interest

<sup>2</sup> There is no conflict of interest regarding the publication of this paper

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### Author Bionote

Ipuk Widayanti M.Sc, is currently diligently researching research on Islamic Banking and Finance at Gadjadara University and has published twenty (20) research articles in a Journals of international repute include Web of Science and the Scopus database.

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<sup>34</sup> Widayanti.



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