

## BRAND PREFERENCE, SEGMENTATIONS AND THE IMPLICATIONS ON THE CUSTOMER OF ISLAMIC BANKS IN RURAL AREAS

Chandra Warsito <sup>1+</sup>, Wiwiek Rabiatal Adawiyah <sup>2</sup>

<sup>1,2</sup> Universitas Jenderal Soedirman Indonesia

<sup>+</sup> Corresponding author: [chandra@iainpurwokerto.ac.id](mailto:chandra@iainpurwokerto.ac.id)

### Abstract

*Although the assets of Islamic banks are continuously growing, the proportion of their market share remains stagnant. To date, a few studies on consumer behaviour have investigated the products offered by Islamic banks in Indonesia. Therefore, the purpose of this study was twofold: firstly, it determined the influence of environmental, cultural, personal and psychological factors on choosing Sharia-financing products; secondly, it assessed the role of demographic factors in influencing the choice of Sharia-financing products. The population of the study was Moslem consumers of Islamic banks operating in Banyumas Central Java Indonesia. The method used to test the hypothesised relationships was logistic regression analysis. The result of the study revealed that culture, socio-environmental conditions, personality, and psychological factors influenced Moslem consumers in choosing Sharia-financing products. No demographic differences were found in choosing Sharia-financing products. The result of the study guides Islamic financial institutions in determining the strategy for their future growth. Specifically, Islamic banks need to pay attention to various aspects of the culture.*

Keywords: Cultural, social environment, personal, psychological, Moslem consumers

JEL Codes: G21, J10, J11

### Introduction

A decision-making process has multiple steps: need recognition, information search, pre-purchase evaluation of alternatives, the act of purchasing, consumption, and post-consumption evaluation (J. F. Engel et al., 1995). Internal and external factors influence a consumer's decision-making process. Internal factors include consumer resources, involvement and motivation, knowledge, attitude, personality, lifestyle, and demography while external factors include culture, social class, reference group, and family (J. F. Engel et al., 1995).

Religion is an important component of culture. According to Kamaruddin and Kamaruddin (2017), religion is an important factor in a cultural life where individual, groups and social institutions represent their aspiration through faith and religious practices. Indonesia is a country whose Moslem population is the majority. As a religion, Islam provides guidelines about the human relationship with God, the universe, and ethics in the economy and political system (Adawiyah & Pramuka, 2017). In essence, it can be said the Indonesian culture is a reflection of its religion. Culture plays a major role in determining a person's wants and behaviour. While instinct governs the behaviour of lower creatures, human behaviour is largely learned. A child growing up in a society learns a basic set of values, perceptual preferences, and behaviour through the process of socialisation involving family and other key institutions (Philip & Lane, 2009). Reference groups also influence one's personal behaviour and concepts. A reference group creates pressure for individuals to follow group habits, influencing a person's

choice of products and brands. A family is the most important consumer purchasing organisation in a society, and it has become the object of extensive research. Family members are the primary reference group that has the most influence on everyday buying behaviour. Roles and status include activities that are expected to be carried out by someone. Culture in consumer behaviour has been referred to as value, ideas, meaningful symbol and artefacts, which help individuals to communicate, interpret and evaluate as a member of the society. Culture shapes a consumer's common goal (Yang, Stamatogiannakis, & Chattopadhyay, 2015). Culture also influences consumer perception of price fairness (Bolton, Keh, & Alba, 2010) and brand image (Torelli, Özsomer, Carvalho, Keh, & Maehle, 2012).

Besides cultural factors, social environment is another external factor where a consumer interacts daily. Mehrabian and Russell (1974) concluded that environmental stimuli influenced consumer's emotional state in a way that they might not fully realise, although it could affect their behaviour. Pickett-Baker and Ozaki (2008) studied the influence of the social factor indicator of environmental factors on product quality and shop service image quality. Their study indicated that social-environmental factors were important to attract consumers because consumers demand quality products, good services, and shops with a good image.

A consumer is an individual who has freedom in the decision-making process. According to Kotler (2012), consumer's decision-making is influenced by personal characteristics. These characteristics include age and life – cycle stage, occupation, economy, lifestyle, personality, and a buyer's self-concept. According to Setiadi (2003), personality is defined as a distinctive psychological character which causes a relatively consistent and long-lasting response to the environment useful in a product decision-making analysis. Personal factors include lifestyle. Kim, Cho, and Rao (2000) categorised lifestyle as price-oriented style, net-oriented style, and time-oriented style. According to Sumarwan (2011), a lifestyle depicts someone's patterns and behaviour. It is about how he or she lives, how he or she spends his or her money, and how he or she uses time. Lifestyle is different from personality although there is a relationship between the two. Sumarwan revealed that oriented style and time-oriented style influenced purchasing behaviour. His result showed that it is important to acknowledge a consumer's lifestyle as a foundation in marketing strategy to attract consumer purchase.

Psychology plays an important role in the decision-making process. There are four main psychological factors of purchase, namely motivation, perception, learning, faith and self-opinion. Motivation is a tendency (a trait which is a subject of disagreement) inside a person that triggers action. Motivation includes emotional and biological needs which can only be analysed from human behaviour (Nugroho, 2008). Kotler and Armstrong (2008) stated that one of the influential variables in consumer behaviour is psychological factors.

Based on the above description, it appears that various variables could influence a consumer's decision-making process. The variables are culture, social environment, personality, and psychological traits. This research analysed consumer behaviour in selecting Sharia-financial products. Two questions were asked: Do a Moslem's culture, Moslem's social environment, and Moslem's personality has an influence on choosing Sharia-financial products. Secondly, is there any demographic differences in consumers when choosing Sharia-financial products?

## **Literature Review and Hypothesis**

### *Cultural influence on consumer behaviour*

Consumer behaviour in buying is grounded in culture. Kotler (2012) stated that culture is a determinant factor of desire, and it is the most basic form of behaviour. Culture starts from

habit. Culture is a way of life developed and shared by a group of people and passed from generation to generation. Culture is formed by many complex elements including religious system and politics, customs, language, tools and equipment, clothes, buildings, and arts. Culture is distinctive; local culture needs to be studied especially for those who move to a new territory.

The relationship between consumer behaviour and culture is a two-way street. On the one hand, products and services that resonate with the priorities of a culture at any given time have a much better chance of being accepted by consumers. On the other hand, a study of new products and innovations in product design successfully produced by culture at any point in time provides a window on the dominant cultural ideals of that period (Hogg, Askegaard, Bamossy, & Solomon, 2006). Based on that argument, when a product is adjusted to suit the local culture, consumers are likely to buy such a product.

In an area with the Moslem majority, culture is influenced by an Islamic character. So, whether a product will be purchased or not depends much on the Moslem's cultural behaviour. According to Parsa, Nooraie, and Aghamohamadi (2016), there is a difference in consumer behaviour between Iran and France due to cultural differences, i.e., religion. Kacen and Lee (2002) found that culture influenced consumers' impulsive buying behaviour. Based on the arguments, the hypothesis of this study was:

H1: A Moslem cultural factor influences Moslem consumers in choosing Sharia/conventional financial products.

#### *Influence of social environment on consumer behaviour*

A number of studies indicated the role of the social environment in shaping consumer purchasing behaviour. Mehrabian and Russell (1974) showed that environmental stimulation influenced the emotional condition of consumer behaviour. Pickett-Baker and Ozaki (2008) reviewed the influence of social, environmental indicator on product quality, service quality, and store image. Sethi and Chawla (2014) showed the influence of social factor on consumer behaviour in product purchasing. Ketelaar et al. (2016) also showed a connection between social factor and behaviour. Based on the argument, the hypothesis of this study was formulated:

H2: The Moslem social environment influences Moslem consumers to choose Sharia financial products.

#### *Influence of personal factor on consumer behaviour*

Since the importance of marketing, there was a relationship between personal variables and consumer behaviour. Unfortunately, studies to predict consumer behaviour using personality had produced disappointing results (J. Engel, Blackwell, & Miniard, 1986; Haugtvedt, Petty, & Cacioppo, 1992; Robertson, Zielinski, & Ward, 1984). In consumer behaviour research, the study on personality variables is more advisable. This is done to understand the role of personality variables. According to Kassarian (1971), researchers need to know the type of consumer situation and existing stimulation conditions so that the results can influence. Conduct studies on personality variables accompanied by stimuli and exposure to conditions that are more real with the consumer situation in generally it is an important first step in a research program that aims to understand the role of personality factors in advertising. The study of personality influence on consumer behaviour is often conducted without the general theoretical framework (Kassarian & Sheffet, 1981; Kassarian, 1971). Consequently, there is less understanding of the process where personality variable is eventually influencing acquired consumer behaviour. The study of personality variable in terms of a more general conceptual framework is suggested as the way to increase personality factor utilisation on consumer

behaviour studies (Haugtvedt et al., 1992). The study of the relationship between personality and consumer behaviour which is managed to find a significant influence of personality on consumer behaviour is conducted by Kim et al. (2000). Based on the arguments, the hypothesis of the study:

H3: Personal factor as a Moslem is influencing consumer behaviour on consumer behaviour of choosing Sharia financial products.

#### *Psychological factor in consumer behaviour*

The psychological factor is an instrument to recognise feelings, to gather and analyse information, to formulate the mind, opinion and take action. The psychological factor is a push factor inside an individual which influences choosing behaviour based on the flexibility of product utilisation, a bigger desire and product practicality compare with others (Lamb, 2001). Based on the study, it shows that there is an influence of psychological factor on consumer behaviour. The influence is positive, which means that the stronger psychological condition as a Moslem, the stronger in choosing Sharia banking products. These Psychological factors include sincerity in embracing Islamic values, the awareness implementing Islamic values in every single piece of life and implementing Islamic values as a reference to the righteous deeds, and believing that Islam is the religion which is to be a foundation in every attitudes and action. The result of this study is similar to the previous works (Limayem, Khalifa, & Frini, 2000; Park & Kim, 2003; Shim, Eastlick, Lotz, & Warrington, 2001). It is known that some psychological factors influence consumer behaviour. Based on the arguments, the hypothesis:

H4: There is an influence of psychological factor as a Moslem on consumer behaviour in choosing Sharia financial products

#### *Difference in consumer behaviour*

Segmentation is conducted to be more focus on various distinctive characteristics of the consumer. Segmentation could be classified into age, sex, education, occupation and so forth (Kasali, 1999). Someone changes the goods and services they buy during their lives. Taste for food, clothing and recreation is often related to age.

A person's work will lead to the needs and desires of someone in consuming the goods and services they want. Work also affects consumption patterns.

Economic conditions greatly influence the choice of products. The choice of products is strongly influenced by economic conditions, namely income that can be spent, savings and assets, the strength of loans, and attitudes toward expenditure and savings.

Lifestyle differs from personality, although different lifestyles and personalities are interconnected. Consumer decisions are also influenced by core values, belief systems that underlie attitudes and behaviour. The study of Muslim consumer behaviour based on Warsito (2015) research on Islamic bank customers stated that customer satisfaction factors had a stronger effect on improving image and loyalty compared to service quality factors. The study from Awad (2011), analysing Green Marketing with the consumer behaviour approach to ecological awareness. The result of the study gives an understanding between the service provider and the government about a demographic profile on purchasing behaviour and suggests the need of suitable strategic implementation to accelerate purchasing and also gives comprehensive understanding on demographic characteristics. Based on the argument, the hypothesis:

H5: There is a difference in consumer behaviour in choosing Sharia finance product based on respondent's demography.

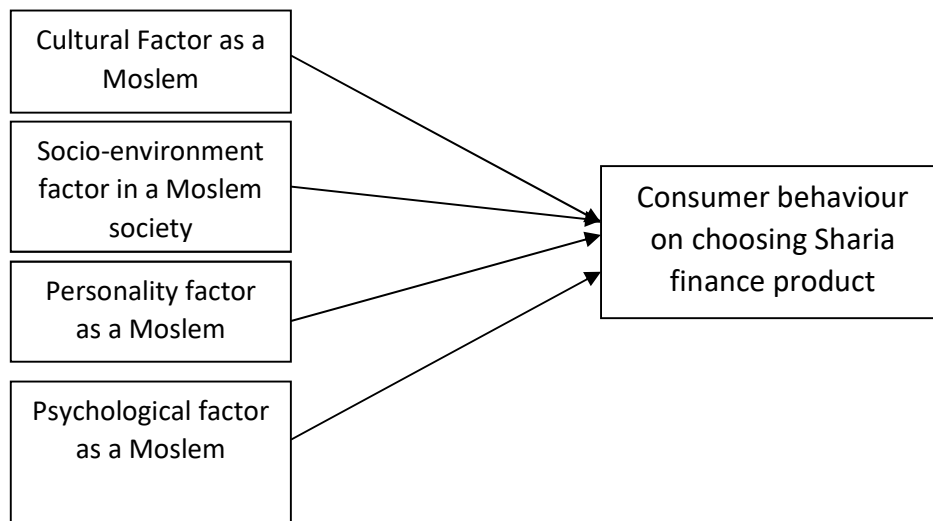


Figure 1. Conceptual model

### Research Methodology

The population of this study was consumers of conventional and Sharia products. Since the size of the population was not known, the sample size was determined by the interval estimation method, resulting in a minimum sample size of 96.04 or 97 respondents. However, the study considered 100 participants instead. Cluster sampling was employed because the population was split into two groups: consumers of Islamic banking products and conventional banking products. Fifty questionnaires were distributed to each group of consumers of a financial institution in Banyumas. Logistics regression analysis was used to test the research hypotheses to predict the size of the dependent variable in the form of binary logistic regression variables. Validity test was conducted with product moment correlation and reliability was checked by using Cronbach's alpha.

### Data Analysis and Results

#### *Descriptive analysis*

Table 1 presents the profile of participants.

Table 1. Profile of participants (n=100)

Variables	Total		Percentage (%)
	Conventional products	Sharia products	
Gender:			
- Women	18	21	39
- Men	32	29	61
Educational level:			
- Elementary school/junior high school	4	3	
- High school	6	15	
- Diploma	6	7	
- Bachelor (S1-S3)	34	25	

Occupation:			
- Civil servants	6	6	12
- Private employees	6	14	20
- Entrepreneurs	14	15	29
- Military	2	4	6
- State-owned enterprises employees	10	5	15
- Farmers	2	1	3
- Students	10	5	15
Age:			
- < 25	5	7	12
- 25 – 40	16	17	33
- > 40	29	26	55
Income per month (IDR):			
- < 5 million	15	16	31
- 5-10 million	24	24	48
- > 10 million	11	10	21

### Logistic Regression

Parameter estimation could be seen on logistic regression coefficient (see Table 2).

Table 2. Regression coefficient

Variable	B	Significance
Moslem cultural factor	0.115	0.020
Moslem social environment factor	0.393	0.019
Moslem personality	0.296	0.009
Moslem psychological factor	0.465	0.008
Constant	-25.273	0.000

Table 2 shows that cultural factor had a positive coefficient of 0.115 ( $p = 0.20$ ), indicating that a Moslem cultural factor influences consumers to choose either Sharia or conventional products. Social environment factor had a positive coefficient of 0.393 ( $p = 0.019$ ), which means that the social environment influences consumers to choose either Sharia or conventional products. Psychological factors had a positive coefficient of 0.465 ( $p = 0.008$ ), which suggests that Moslem psychological factors influence consumers to choose Sharia or conventional products.

Demographic profile of this study is sex, education, occupation, age and income per month. Chi-Square test was conducted to test the difference between the two groups. Table 3 shows that the value of  $\chi^2$  was between 0.080 and 7.568. Table 3 also shows the significance value was between 0.272 and 0.961. Because the p-value was more than 0.05, which falls under  $H_0$  area, no demographic difference in choosing either Sharia or conventional financial products was observed.

Table 3. Result of *chi-square*

No	Demographic factor	$\chi^2$	Significance
1	Sex	0.378	0.539
2	Education	0.557	0.906
3	Occupation	7.568	0.272
4	Age	0.527	0.768
5	Income per month	0.080	0.961

## Discussion

### *The influence of Moslem cultural factor on consumer behaviour*

The result indicated that culture influenced consumer behaviour. The stronger the Moslem culture of an individual, the higher the tendency for consumers to choose Sharia products. This result is consistent with that reported by Parsa et al. (2016) who found a difference in the behaviours of consumers of the Republic of Iran and France. This difference was due to the religious faith between the two countries. The current result also supports the study of Kacen and Lee (2002).

### *Social environmental influence on consumer behaviour*

The result also indicated that social environmental factors influenced consumer behaviour. The influence was positive, which means that if an individual is close enough to the Moslem environment, he or she is likely to choose Sharia banking products. The strength of the environmental factors reflects the inculcation of Islamic values from parents to their children, from a husband to his wife, and the environmental condition that supports the Islamic religion. The present result is consistent with various studies (Ketelaar et al., 2016; Mehrabian & Russell, 1974; Sethi & Chawla, 2014).

### *The influence of personal factors as a Moslem on consumer behaviour*

This study also showed the influence of personal factors on consumer behaviour. The influence was positive, which means that the stronger the Moslem personality of a person, the higher the tendency that he or she will choose Sharia-banking products. The personal factors include the belief in Islam, which means that a Moslem will remain a Moslem until the day he or she dies, and Islamic behaviour such as following the halal and haram when working, when consuming food, in social interaction, in economic activities, praying five times a day, and protecting the family in this world and hereafter (akhirat). The present result is consistent with past studies (Haugtvedt et al., 1992; Kim et al., 2000).

### *The influence of psychological factors on consumer behaviour*

The present study also found an influence of psychological traits on consumer behaviour. The influence was positive, which means that the stronger psychological factors as a Moslem, the higher the tendency that he or she will choose Sharia-banking products. The psychological factors include sincerity in embracing Islamic values, being aware of implementing Islamic values in life, and implementing Islamic values as a reference to righteous deeds (amal sholeh) and believing that Islam is the foundation of attitudes and action. The present result supports past studies (Limayem et al., 2000; Park & Kim, 2003; Shim et al., 2001).

### *The difference of participant's demographic factors in consumer behaviour*

The result showed no difference in the participants' demographic background in consumer behaviour. The result found that demographic factors such as sex, education, occupation, age and monthly income did not influence the decision to choose Sharia products. Therefore, segmenting consumer behaviour based on sex, education, occupation, age and income per month is inappropriate. Salesperson should remain vigilant to the potential bias based on the demographic profile alone (Adawiyah, 2015).

## Conclusion and Implication

This study concludes Moslem cultural factor, the social environmental condition of a Moslem, Moslem personality, and psychological traits as a Moslem influence the choice of Sharia financial products. However, demographic differences seem to have no impact on choosing

Sharia financial products. The result suggests the importance of cultural factors when considering Sharia-banking strategy. The cultural factors include the cultural norm, trust, values, and symbols in the Islamic environmental society. Also, when developing the strategy, Sharia banks must pay attention to social, environmental factors. These factors include the inculcation of Islamic values from parents to their children and from a husband towards his wife, the environmental condition that supports the Islamic religion, and Islamic condition in the working environment.

Sharia banks must also pay attention to Moslem personality factors, include the personal belief that one is a Moslem, from the birth and would be remain as a Moslem until the day he dies, also considering the halal and haram rules toward working attitudes, foods, social interaction, Islamic principles of economic activities, keeping the short (praying) five times, and keeping my family safe for the world (Dunia) and hereafter (akhirat). In determining Sharia-banking development strategy, a Sharia bank also must give attention to psychological factor as a Moslem. The psychological factors include sincerity in embracing Islamic values, the awareness implementing Islamic values in every single piece of life and implementing Islamic values as a reference to the righteous deeds (amal sholeh) and believing that Islam is the religion which to be the foundation in every attitudes and action.

Consumer behaviour research scale of this study was measured in zero and one scale. In the future, a Likert scale should be used. Other analytical tools such as structural equation modelling may also be considered. Future research may also consider examining moderator variables such as the influence of family commitment to Islamic teaching.



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