

## Zillennial Perceptions of Sharia Governance Implementation and Its Implications on the Reputation, Trust, and Loyalty of Islamic Banks

### Persepsi Zillennial Terhadap Implementasi Sharia Governance Serta Implikasinya Terhadap Reputasi, Kepercayaan dan Loyalitas Bank Syariah

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#### ABSTRACT

This study aims to analyze zillennial perceptions of the implementation of Sharia governance and its implications for the reputation, trust, and loyalty of Islamic banks. This research is quantitative research using primary data. The object of this research is zillennial customers of Bank Syariah Indonesia with a sample size of 107 respondents using purposive sampling technique. The analysis method used is Structural Equation Modeling-Partial Least Squares (SEM-PLS). The results found that the influence of Sharia governance significantly and positively contributed to improving Islamic banks' reputation, trust, and loyalty. Then, the reputation of Islamic banks increases customer trust, and customer trust increases customer loyalty to Islamic banks. Finally, customer trust increases customer loyalty to Islamic banks. Therefore, Islamic banks must implement sharia governance properly to improve the reputation, trust, and loyalty of Islamic banks. Future research can explore more deeply related to the variables of this study, where further research can use or add other variables that are also related and use other more comprehensive analysis methods.

**Keywords:** Sharia Governance, Reputation, Trust, Loyalty, Islamic Banks, Zillennials

#### ABSTRAK

Penelitian ini bertujuan untuk menganalisis persepsi zillennial terhadap implementasi syariah governance serta implikasinya terhadap reputasi, kepercayaan dan loyalitas bank syariah. Penelitian ini merupakan penelitian kuantitatif dengan menggunakan data primer. Metode analisis yang digunakan adalah Structural Equation Modeling-Partial Least Squares (SEM-PLS). Hasil penelitian menemukan bahwa pengaruh sharia governance secara signifikan dan positif berkontribusi dalam meningkatkan reputasi, kepercayaan dan loyalitas bank syariah. Kemudian, reputasi bank syariah meningkatkan kepercayaan nasabah dan kepercayaan nasabah meningkatkan loyalitas nasabah terhadap bank syariah. Terakhir, kepercayaan nasabah meningkatkan loyalitas nasabah terhadap bank syariah. Maka dari itu, perlu bagi pihak Bank Syariah untuk dapat mengimplementasikan sharia governance secara baik, guna meningkatkan reputasi, kepercayaan dan loyalitas bank syariah. Penelitian selanjutnya dapat mengeksplorasi lebih dalam terkait dengan variabel penelitian ini, dimana penelitian selanjutnya dapat menggunakan atau menambahkan variabel lain yang juga berhubungan serta menggunakan metode analisis lain yang lebih komprehensif.

**Kata Kunci:** Sharia Governance, Reputasi, Kepercayaan, loyalitas, Bank Syariah, Zillennial

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## I. INTRODUCTION

Islamic banking refers to a banking system that operates in accordance with Islamic law or Sharia. It prohibits the charging of interest on loans, which is considered usury or *riba*, and instead relies on profit-sharing arrangements or other forms of financing that comply with sharia principles. Islamic banking has developed in Indonesia, along with the growth of Islamic financial institutions. The banking industry is the leading institution that acts as an intermediary and source of funding for developing countries, including Indonesia. This reinforces the research of Imam & Kpodar (2016) that Islamic banking has proven to contribute to the development of the national banking sector and has the potential to stimulate economic growth, especially in low and middle-income countries. Islamic banking has been shown to positively impact financial intermediation costs, as it encourages the banking system's efficient allocation of financial resources (Ibrahim & Law, 2020). Islamic banking also has the potential to contribute to sustainable economic development (Eti et al., 2020). Rusydiana et al., (2023) explained that banking has a very diverse role and includes various functions, for example, providing financial services, managing risk, and contributing to economic growth. In the case of economic growth, banks provide funds to businesses and individuals, which helps stimulate economic growth. Banks also facilitate money flow in the economy by processing payments and providing liquidity (Danisman et al., 2021).

Islamic banking faces several challenges in its development, especially for the millennial generation. One of the main challenges is the lack of awareness and understanding of Islamic finance among millennials or zillennials (Iqbal, 2021). This can be caused by the limited availability of Islamic financial products and services and the lack of education and training on Islamic finance. Another challenge is the perception that Islamic finance is less innovative and technologically advanced than conventional finance (Iqbal, 2021). In addition, the lack of standardization and harmonization of Sharia principles and regulations in different countries and regions can pose challenges to the development of Islamic banking (Fitriyah, 2020).

Regarding the millennial generation, millennials in Indonesia have a positive perception of Islamic banking, many of whom consider Islamic bank products to be in line with Sharia principles. A study found that 74.5% of millennial respondents believe that Islamic bank products comply with Sharia principles, and their interest in Islamic banking is due to financial constraints and the absence of administrative fees (Bakry et al., 2021). However, there are challenges in attracting millennials to Islamic banking, including increasing awareness and understanding of Islamic banking products and contracts.

In Islamic banking, understanding how the Zillennial generation views the implementation of Sharia governance is crucial. The Zillennial generation has unique characteristics, where they tend to be more open to social and environmental values. Therefore, understanding the zillennial perspective towards Shariah governance can provide valuable insights into how Islamic banks can attract and retain them as customers in the future. While most Zillennials may not yet have significant involvement in banking or financial decision-making as they are still in school or early in their careers, an early understanding of their preferences and needs can help Islamic banking practitioners design more appropriate strategies to reach out and build long-term relationships with this market segment (Bakry et al., 2021).

Research into effective governance at Bank Syariah Indonesia (BSI) has significant relevance to the Zillennial generation as they are the primary users of the service. The quality of these governance arrangements directly influences Zillennials' interactions with the platform and affects their level of trust in the institution, both in their personal use of the service and for institutional reasons such as education or employment. In addition, Zillennials are often regarded as agents of change in digital societies, so research on good governance at BSI aims to ensure growth that is inclusive and responsive to their needs and encourages active participation in digital public services.

To address this, Islamic banks need to have a unique corporate governance structure designed to ensure that the bank operates in accordance with Shariah law. Good corporate governance practices are critical in all banking sectors, and even more so in the Islamic banking paradigm. It is explained that governance plays a vital role in Islamic banking, as it ensures that banks operate in accordance with Shariah principles. In this regard, the relationship between Islamic banking and Sharia governance is important to Islamic banking. Sharia governance, represented by the Sharia Supervisory Board (DPS), ensures Islamic banking operations and transactions comply with Islamic principles sourced from the Qur'an and Hadith (Abubakar & Handayani, 2021). DPS oversees Sharia internal compliance, risk, and internal audit to ensure the implementation of Islamic Sharia principles in Islamic banking (Minaryanti & Mihajat, 2023). Shariah governance practices in Islamic banking emphasize independence,

accountability, and transparency, which are important to ensure good governance and compliance with Shariah principles (Ahmed & Mohamad, 2019). Therefore, the relationship between Islamic banking and Sharia governance is integral in maintaining Islamic financial institutions' ethical and legal compliance and ensuring financial health and stability.

Furthermore, implementing Islamic governance is very important for Islamic banks because it can impact their reputation, trust, and loyalty. Sulaeman et al., (2020) explained that implementing Islamic governance can increase customer trust in Islamic banks by ensuring that banks operate according to Sharia principles. In addition, Islamic governance can enhance the reputation of Islamic banks by promoting transparency, accountability, and ethical behavior (Ahmed & Mohamed, 2019). Research by Barus et al., (2021) and Moosa & Kashiramka (2023) explains that implementing Islamic governance can contribute to customer satisfaction and loyalty to Islamic banks. Therefore, it is important to ensure that Sharia governance is effectively implemented to maintain Islamic financial institutions' ethical and legal compliance and ensure their financial health and stability, which can improve reputation, trust, and customer loyalty to Islamic banks.

Several studies have examined the implementation of Sharia governance and its implications for Islamic banks' reputation, trust, and loyalty, including Asiyah et al., (2014), analyzing the relationship between compliance with Sharia principles, corporate social responsibility, trust, and customer loyalty. This study explains that Sharia Compliance Principles (PKS) are the basis for creating customer loyalty, which should be accompanied by positive social efforts such as Corporate Social Responsibility (CSR). With CSR, consumer trust and loyalty will increase. This study examines the relationship between CSR, trust, Shariah compliance, and customer loyalty in Islamic banks. The theoretical review shows that CSR can contribute to increased customer loyalty. Trust is important for Islamic banks to increase public confidence in business development decisions and strategies. CSR and trust are essential for customer loyalty. Therefore, to increase trust, Islamic banks must maintain and improve good behavior and credibility to maintain customer loyalty.

Sunaryo & Bahari (2012) analyzed the effect of ethical reputation of Islamic banking organizations on Muslim customer loyalty and analyzed the role of satisfaction as a mediating effect of ethical reputation of Islamic banking organizations on Muslim customer loyalty to Islamic banking products and services. The results of the analysis in this study indicate that all independent variables have a significant effect on the dependent variable, either directly or indirectly. Satisfaction as a mediating factor has high positive support for the relationship between organizational ethics and reputation of Muslim customer loyalty. Therefore, satisfaction plays an important role in supporting the perception of ethical reputation of Islamic banking organizations in influencing Muslim customer loyalty. In addition, this study also shows that the ethical reputation of an organization helps maintain customer loyalty.

Purnamasari & Darma's research (2015) analyzed the effect of Sharia governance implementation on customer loyalty. The results showed that justice and sharia compliance have a significant positive effect on customer loyalty, while transparency, accountability, responsibility, and independence have no significant positive effect. Junusi (2012) analyzed the implementation of Sharia governance and its implications for the reputation and trust of Islamic banks. The results concluded that Sharia compliance is an indicator that significantly contributes to implementing Islamic governance. Compliance with Sharia is the main factor for customers in establishing partnerships with Islamic banks and deciding to maintain Islamic banks. Asnawi et al., (2020) examined the role of service quality in the satisfaction and loyalty of Indonesian customers and their impact on Islamic banks. Wiyono & Ibrahim (2020) analyzed the effect of Sharia compliance, risk perception, and service quality on the trust and loyalty of Islamic rural bank customers in Indonesia. Wardayati (2011) explains the implications of Sharia governance on the reputation and trust of Islamic banks.

Based on these studies, no research specifically analyzes the implementation of Sharia governance and its implications for Islamic banks' reputation, trust, and loyalty in one research context. The novelty of this research lies in its focus that combines two important aspects, namely the implementation of Sharia governance and its implications for the reputation, trust, and loyalty of Islamic bank customers, as well as the use of a specific object, namely Bank Syariah Indonesia customers. In addition, this study also expands the scope of variables by considering the perception of zillennials customers towards the implementation of Sharia governance, which is still rarely studied. By using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis method, this research has the potential to provide

a deeper understanding of the relationship between Sharia governance implementation and zillennials' customer responses, as well as its implications for reputation, trust, and loyalty of Islamic banks in a more comprehensive manner.

This research contributes to academia by providing a better understanding of the Zillennial generation's perceptions of Sharia governance and its implications for Islamic banks' reputation, trust, and loyalty. The results of this study can also guide Islamic bank practitioners in designing more effective marketing and reputation management strategies to attract and retain the Zillennial generation as customers. The findings of this study can serve as a basis for regulators to formulate policies that support the growth and stability of the Islamic financial industry. Regulators can use the results of this study to ensure that Islamic banks comply with good Sharia governance standards to increase public trust in Islamic financial institutions as a whole.

## **II. LITERATURE REVIEW**

### **Agency Theory**

The concept of agency theory is rooted in agency issues that arise when a company's management is separated from its ownership (Nuswandari, 2009). As outlined by Jensen & Meckling (1976), agency theory views corporate management as agents acting on behalf of shareholders, with a tendency to act in accordance with their self-interest rather than as prudent and fair to shareholders. In other words, agency theory emphasizes that management cannot always be relied upon to act optimally in the interests of society in general and shareholders in particular.

According to Macey & O'Hara (2003), corporate governance arises because of the separation between ownership and control of the company, often called the agency problem. Agency problems in the relationship between owners of capital and managers are how owners find it difficult to ensure that the funds invested are not misused or directed to unprofitable projects that do not provide the expected return. Corporate governance is needed to overcome these agency problems between owners and managers (Hisamuddin & Tirta K, 2015).

### **Perception Theory**

According to the definition in the Indonesian Dictionary, perception is a direct response or reception of information or is the result of an individual's process of understanding things through their five senses. Each individual has a unique perception, influenced by various factors such as experience, knowledge, and different points of view. Perception also includes a person's mindset towards certain objects, which is formed through interpretation using their senses. From this explanation, it can be concluded that perception is the process of individuals understanding information through their five senses, which are then interpreted to form a meaningful understanding (Purnamasari & Darma, 2015).

### **Sharia Governance**

Sharia governance is a combination of two concepts, namely the concepts of Good Corporate Governance and Sharia compliance. GCG is a scheme or system in which some processes and regulations regulate at least several groups in an institution; these groups include the owners of the company (shareholders), management, and people who are directly or indirectly related to what the company does (Hazri & Laela, 2020). Nursaidah & Laela (2022) explained Good Corporate Governance (GCG) is about how a company is directed to achieve its goals, namely prospering stakeholders and fulfilling its social responsibilities. By running a business in accordance with the rules and norms, it will create a conducive business environment, minimize conflict, and achieve common goals.

Sharia governance is how Islamic financial institutions ensure effective independent oversight of the Sharia compliance process. It is an internal mechanism that helps Islamic financial institutions comply with Sharia in their operations (Grassa, 2013; Hilmy & Hassan, 2019). Sharia governance is explored through functional and organizational divisions rather than its fundamental background (bin Ismail, 2018). The Sharia governance framework effectively ensures Sharia compliance in Islamic financial institutions (Hilmy & Hassan, 2019). Hilmy & Hassan (2019) and Ahmed & Mohamad (2019) explain that the Islamic governance framework usually consists of important key functions: accountability and responsibility, independence, competence, confidentiality and consistency, shariah compliance, research function, management and supervision, shariah advisory board, shariah compliance and review, and transparency and disclosure. The pillars of sharia governance are management and supervision, sharia advisory, Sharia compliance and review, and disclosure and

transparency (Minhas, 2012). These components ensure Islamic financial institutions adhere to Sharia principles, providing effective supervision and compliance (Mizushima, 2014; bin Ismail, 2018).

### **Reputation**

Reputation is an assessment of someone or something, especially by the community or society. In the context of a social entity, reputation is an opinion about that entity, which is usually developed as a result of social evaluation based on a set of criteria, such as behavior or performance. In the context of organizations such as banking, reputation refers to the collective perception of the organization's past actions and expectations regarding its behavior and performance (Pires & Trez, 2018). Organizational reputation is also defined as a collective structure that represents the total perception of various stakeholders about the organization's behavior and performance (Tümtürk & Deniz, 2021). It is considered a reflection of the organization's identity and consists of the overall quality or character as seen or judged by people in general, recognition of certain characteristics or capabilities, and the organization's standing in public awards or accolades (Tümtürk & Deniz, 2021). The components of reputation in the context of organizations, including banking, include various aspects such as trust, reliability, transparency, and perceived value. A positive reputation can increase trust, loyalty, and financial success, while a negative reputation can lead to decreased trust, loss of customers, and financial losses (Bass, 2018). Therefore, maintaining a positive reputation is essential for organizations, including banks, to ensure long-term success and sustainability. Babiü-Hodoviü et al., (2011) explained that in the banking sector, the effect of a bank's corporate reputation on the perceived value of organizational buyers was shown to be positive and significant.

### **Trust**

Trust is a positive expectation that a person or organization will act in a reliable, honest, and competent manner. Trust can be developed through various mechanisms, including trust transfer, institutional trust, and interpersonal trust (Bachmann et al., 2015). In the context of Islamic banking, trust refers to the confidence and belief that customers have in the reliability, integrity, and compliance with the Islamic principles of Islamic banks. Trust is an important factor that influences customers' decisions, satisfaction, and loyalty to Islamic banks (Ashraf et al., 2015; Haron et al., 2020; Albaity & Rahman, 2021). This is also related to religious adherence and trust in people and institutions that run Islamic banks (Ashraf et al., 2015). Albaity & Rahman's (2021) research shows that trust plays a mediating role in customer loyalty to Islamic banks and is an important element that leads to customer loyalty in financial transactions. In addition, trust is proven to have an important role in reducing interest rates ("margins") in Islamic banks, which shows its impact on the financial aspects of Islamic banking (Wijaya & Moro, 2022).

### **Loyalty**

Loyalty in banking refers to a customer's long-term commitment to a particular bank, which is influenced by service quality, trust, accessibility, proximity, and customer satisfaction. To increase customer loyalty, banks must focus on designing customer experiences that meet the high and evolving expectations of today's consumers, communicate services clearly, fairly, and transparently, and provide personalized financial advice (Bhat et al., 2018; Rashid et al., 2020; Fourie et al., 2022). Haron et al., (2020) and Albaity & Rahman (2021) state that trust is an important factor affecting customer loyalty to Islamic banks, mediating customer loyalty. Customer loyalty in banking is crucial to retain customers, acquire new business, reduce marketing costs, gain competitive advantage, and improve customer experience. Banks prioritizing customer loyalty and providing high-quality services will likely succeed in today's dynamic financial landscape.

### **Hypothesis Development**

#### **The effect of Sharia Governance on the reputation of Islamic banks**

Islamic banking institutions must follow guidelines in accordance with Islamic law when carrying out their banking practices. All transaction activities must avoid usury, gharar, and gambling to ensure that all receipt of funds is halal. Research Yuraida (2016) stated that implementing Sharia compliance can significantly affect the reputation of Islamic banks. Research by Wardayati (2011) also found that implementing sharia governance, especially sharia compliance, will substantially improve the reputation of Islamic banks. This is also in line with Kumaran and Thenmozi's research (2016), which found that good corporate governance significantly improves the company's reputation. Good Sharia governance has a significant role in maintaining Islamic banks' existence, continuity, and growth.

Therefore, this study hypothesizes that Sharia governance has the potential to have a positive impact on the reputation of Islamic banks.

H1: Sharia Governance has a significant and positive effect on the reputation of Islamic banks.

#### **The effect of Sharia Governance on customer trust in Islamic banks**

One of the motives that encourage customers to join Islamic banking services is that Islamic banks adhere to principles that emphasize the avoidance of *riba*, *gharar*, and *maisir* (gambling). Adherence to these principles gives customers confidence in the integrity of the services provided by Islamic banks. Yuraida (2016) explains that implementing Sharia compliance significantly affects customer trust. Nurohmah's research (2013) states that implementing good corporate governance in Islamic banks influences 98.6% of customer trust. This is also in line with research by Andayani (2016), which states that the implementation of good corporate governance has a significant impact on customer satisfaction at Bank Syariah Mandiri at the Tulungagung Sub-Branch Office, which in turn affects the level of customer trust in the performance of Bank Syariah Mandiri. Increased customer confidence in the integrity and transparency of bank operations, increasing confidence in compliance with Sharia principles in the services and products provided, so this study suspects the influence of Sharia governance in a positive direction on the trust of Islamic bank customers.

H2: Sharia Governance has a significant and positive effect on customer trust in Islamic banks.

#### **The influence of Sharia Governance on Islamic bank customer loyalty**

Junusi (2013) explains Sharia compliance is the compliance of Islamic banks with Sharia principles, which means that banks operate themselves in accordance with the provisions of Islamic Sharia, especially in terms of Islamic transactions. The more effective the implementation of Sharia compliance in banking practices, the stronger the confidence and trust of customers that the transactions they make are in accordance with Islamic teachings. Research by Oktapiani & Anggraini (2022), Sharia compliance positively and significantly affects customer loyalty at PT Bank Syariah Indonesia KCP Gunung Tua. Rumadan et al., (2018) also conducted research stating that implementing Sharia governance affects customer loyalty. This aligns with research by Ibrahim & Rachmawati (2020), who found that Sharia compliance and good governance have a positive and significant effect on customer loyalty. Implementing sharia governance will increase confidence in compliance with sharia principles in the services and products provided and assure better risk management. This can increase the sense of customer loyalty to Islamic banks.

H3: Sharia Governance has a positive effect on the loyalty of Islamic bank customers.

#### **The effect of reputation on customer trust in Islamic banks**

Reputation is an overall picture formed from assessments and behavior towards a company, which is formed over a long period, based on the company's programs and performance and how consumers view this behavior (Kuenzel & Halliday, 2008). Reputation can also be considered a brand image that consumers judge based on their opinions, expectations, and beliefs. Marlien & Probo (2011) found that reputation has a positive and significant effect on consumer trust. They also found that company reputation affects consumer trust. Companies with a good reputation will give consumers confidence that the products offered are of quality and trustworthy, which will build trust among consumers.

H4: Reputation has a positive effect on customer trust in Islamic banks

#### **The influence of trust on the loyalty of Islamic bank customers**

Trust is the view held by someone who trusts the information, or that is conveyed by the party he trusts, and customer trust is formed when the customer believes that the quality of service provided is satisfactory. Trust also plays an important role in influencing customer loyalty. Research from Lutfiani & Musfiroh (2022) explains that trust and service simultaneously significantly affect customer loyalty at bank BSI KCP Weleri. Research Tumbel (2016) also found that trust and satisfaction affect customer loyalty at PT BTPN Bank Mitra Usaha Rakyat branch Amurang South Minahasa Regency. This is also in line with research by Ningtyas & Rachmad (2011), who found that trust positively affects consumer loyalty.

H5: Trust has a positive effect on Islamic bank customer loyalty

### **III. RESEARCH METHODS**

This research uses a quantitative approach. Quantitative methods aim to test or verify theory, putting theory deductively as a foundation for findings and solving problems (Indriantoro & Supomo, 2002). Primary data is obtained from the original or first source (Sarwono, 2006). Primary data from

this study was obtained through distributing questionnaires online through social media. A five-point Likert scale was used to answer each question in the questionnaire, ranging from one (strongly disagree) to five (strongly agree). The Likert scale collects qualitative and quantitative information, aiming to understand or measure a person's views, perceptions, or attitudes toward an event. Data was collected through the random sampling by taking a random sample of respondents. The random sampling approach is a commonly used method in research and surveys. In this study, the number of samples used was 107 respondents, with the characteristics of the respondents namely: (1) Zillennial generation with a maximum age limit of 28 years; (2) Users of Bank Syariah Indonesia banking services; (3) Have a high level of technological skills; (4) Have diverse financial knowledge and experience. The demographics of the respondents are as follows:

**Table 1.** Data Demographics

Demographic Variables	N	%
<b>Gender</b>		
Female	74	69
Male	33	31
<b>Age</b>		
17-20 Years	16	15
21-25 Years	90	84
26-28 Years	1	1
<b>Regional</b>		
Java	102	95
Sumatra	5	5
<b>Jobs</b>		
Student	104	97
Self-employed	1	2
More	2	1

This research uses the SEM-PLS (Structural Equation Modeling-Partial Least Squares) method with the help of SmartPLS 3 software. This method is used to analyze the relationship between variables in the study. This method allows multivariate analysis techniques that combine factor analysis and path analysis using Partial Least Square (PLS) software. PLS is a method that does not require strict assumptions in its calculations because it is used to predict and develop theory (Ghozali & Latan, 2015). The collected primary data is analyzed in two parts. The first is to assess the Outer model by testing the validity of the questionnaire using Convergent Validity, Discriminant Validity, and Composite Reliability. The reliability test is seen from the Chronbach Alpha value. The second is to assess the inner model or structural model.

**Table 2.** Conceptual and Operational Definitions

No.	Variables	Operational Definition	Indicator
1.	Transparency	Transparency is openness in disclosing information. In the context of government, transparency has three meanings: a value or norm of behavior to fight corruption, openness of public information, and participation in decision making (Jubaedah, 2011).	<ul style="list-style-type: none"> <li>• BSI has easy access to service information</li> <li>• The delivery of BSI service information is clear enough</li> <li>• Timely and adequate delivery of BSI service information</li> </ul>
2.	Accountability	Accountability is the reporting of corporate social responsibility in accordance with Sharia principles. In the context of government, accountability refers to the obligation of responsible parties to provide accountability for actions and decisions taken (Rahmawati et al., 2019)	<ul style="list-style-type: none"> <li>• BSI service information delivery is quite accurate</li> <li>• Complete BSI service information</li> <li>• BSI's policies are informed to the public.</li> <li>• BSI policies are consistent and in accordance with applicable regulations</li> </ul>
3.	Responsibility	The Organization for Economic Cooperation and Development (OECD) states that this responsibility principle emphasizes a clear system to regulate the company's accountability mechanism to	<ul style="list-style-type: none"> <li>• BSI complies with applicable laws and regulations</li> <li>• BSI cares about the community and the environment</li> <li>• BSI is responsible for the services</li> </ul>

No.	Variables	Operational Definition	Indicator
		shareholders and stakeholders. This is intended so that the objectives to be achieved in good corporate governance can be realized, namely to accommodate the interests of various parties related to the company, such as the community, government, business associations, and the like (Rama & Novela, 2015).	provided to customers
4.	Independence	Independence is a situation in which an organization or company is managed professionally without any conflict of interest and influence or pressure from management that is not in accordance with applicable laws and regulations and sound corporate principles (Kaihatu, 2006)	<ul style="list-style-type: none"> <li>• BSI protects all customer interests</li> <li>• BSI is always objective in making decisions</li> </ul>
5.	Fairness	Fairness in Sharia governance (SG) refers to the principle of justice that must be practiced in managing Islamic financial institutions. Fairness is also related to justice and equality in fulfilling the rights of stakeholders in accordance with applicable agreements and regulations (Rama & Novela, 2015)	<ul style="list-style-type: none"> <li>• All customer interests are treated equally</li> <li>• BSI provides an opportunity to give input or criticism (complaints)</li> <li>• BSI follows up on customer complaints</li> </ul>
6.	Shariah Compliance	Sharia compliance in sharia governance (SG) refers to the ability of Islamic financial institutions to comply with sharia principles in every aspect of their operations (Rama & Novela, 2015)	<ul style="list-style-type: none"> <li>• No riba, gharar and maysir in BSI transactions</li> <li>• BSI conducts business based on halal profits</li> <li>• BSI carries out the mandate trusted by customers</li> <li>• DPS plays an effective role in overseeing BSI products/services</li> <li>• BSI manages zakat, infaq, and shadaqoh with trust.</li> </ul>
7.	Reputation	Reputation is an assessment of someone or something, especially by the community or society. In the context of a social entity, reputation is an opinion about that entity, which is usually developed as a result of social evaluation based on a set of criteria, such as behavior or performance. In organizations such as banking, reputation refers to the collective perception of the organization's past actions and expectations regarding its behavior and performance (Pires & Trez, 2018).	<ul style="list-style-type: none"> <li>• BSI has a good name among the community and its customers</li> <li>• BSI has its characteristics or advantages compared to other banks</li> <li>• BSI is widely recognized in the community</li> <li>• The abbreviation of Bank Syariah Indonesia's name to BSI is easier to remember.</li> </ul>
8.	Trust	Trust is a positive expectation that a person or organization will act in a reliable, honest, and competent manner. Trust can be developed through various mechanisms, including trust transfer, institutional trust, and interpersonal trust (Bachmann et al., 2015)	<ul style="list-style-type: none"> <li>• I believe that BSI provides many benefits</li> <li>• I have no hesitation in transacting using BSI</li> <li>• I tend to think well of BSI</li> </ul>
9.	Loyalty	Loyalty in banking refers to a customer's long-term commitment to a particular bank, which is influenced by service quality, trust, accessibility, proximity,	<ul style="list-style-type: none"> <li>• I will continue to use BSI products on an ongoing basis.</li> <li>• I recommend friends to become customers at BSI</li> </ul>



No.	Variables	Operational Definition	Indicator
		and customer satisfaction. To increase customer loyalty, banks should focus on designing customer experiences that meet the high and evolving expectations of today's consumers, communicate services clearly, fairly, and transparently, and provide personalized financial advice (Bhat et al., 2018; Rashid et al., 2020; Fourie et al., 2022)	<ul style="list-style-type: none"> <li>I recommend to friends or relatives about the benefits of being a customer at BSI</li> </ul>

The research model for this study is as follows:

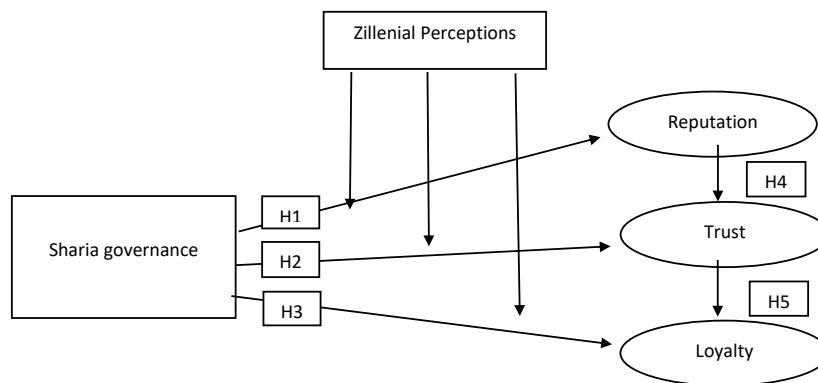


Figure 2. Research Model

#### IV. RESULTS AND DISCUSSION

##### RESULTS

A total of 107 people participated in this study. Male respondents comprised 69% of the total, while female respondents comprised 31%. The profile characteristics of the respondents can be seen in Table 2. Once the overall measurement model was acceptable, a structural equation model was conducted to test the relationship between the study constructs. It was tested with the entire sample. The model fit indices are summarized in Table 3. The initial structural model showed that the data fit the model reasonably well.

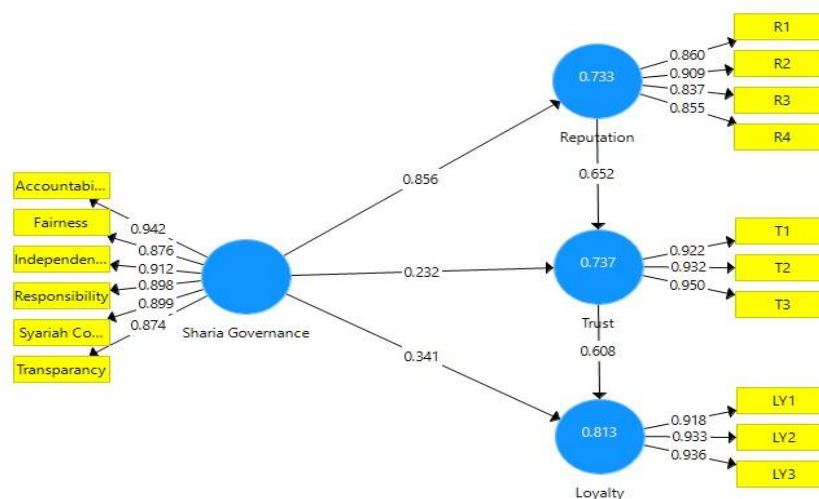


Figure 3. SEM-PLS Results

##### Validity and Reliability Test

Convergent and discriminant validity are two types of statistical validity tests. The values used are Average Variance Extracted (AVE) and Loading Factor to determine convergent validity. If the item has an AVE value greater than 0.5 on each variable and a Loading Factor value greater than 0.5, it is free from convergence validity defects. Meanwhile, the values used are Cross-Loading and Square roots AVE to determine discriminant validity. The square roots AVE value must be higher than the correlation value of

all variables. The cross-loading value is another method that can pass the discrimination test by considering that the cross-loading value must be greater than the value of other constructs (Hair et al., 2014).

Furthermore, the reliability test shows the internal consistency of the instrument used. The method is to look at the composite reliability value and Cronbach's Alpha, where, according to Cooper, the value must have  $> 0.7$ . The reliability test is carried out to see the internal consistency of the measurement instrument by looking at the composite value of reliability, and Cronbach's Alpha with a higher value will show the consistency value of each latent variable measurement item reliability (CR) and Cronbach's alpha score if it is more than 0.70, the reliability of the test is considered reliable (Hair et al., 2014). Table 2 below illustrates the results of convergence validity and construct reliability.

**Table 3.** Convergence validity and construct reliability

Items	Loadings	AVE	Alpha	CR
<b>Sharia Governance</b>		0.811	0.953	0.963
Transparency	(0.874)			
Accountability	(0.942)			
Responsibility	(0.898)			
Independence	(0.912)			
Fairness	(0.876)			
Sharia Compliance	(0.899)			
<b>Reputation</b>		0.749	0.888	0.923
R1	(0.860)			
R2	(0.909)			
R3	(0.837)			
R4	(0.855)			
<b>Trust</b>		0.874	0.928	0.954
T1	(0.922)			
T2	(0.932)			
T3	(0.950)			
<b>Loyalty</b>		0.863	0.921	0.950
L1	(0.918)			
L2	(0.933)			
L3	(0.936)			

### Hypothesis Testing Results

**Table 4.** Hypothesis Testing Result

Path	Path C	PValue	Remark
Sharia Governance → Reputation	0.856	<0.000*	Supported
Sharia Governance → Trust	0.232	<0.035*	Supported
Sharia Governance → Loyalty	0.341	<0.000*	Supported
Reputation → Trust	0.652	<0.000*	Supported
Trust → Loyalty	0.608	<0.000*	Supported

Notes: \*P-value<0,05(significant); <sup>ns</sup>= not significant

The effect of *sharia governance* on the reputation of Islamic banks among generation Z can be observed through statistical test results (p-value = <0.000), indicating that H1 is supported. Meanwhile, *sharia governance* affects the level of trust of Islamic bank customers among Generation Z (p-value = 0.035), with H2 also gaining support. Furthermore, the findings show that *sharia governance has an impact on the level of customer loyalty of Islamic banks* (p-value = 0.000), so H3 receives support. Reputation variables also influence the level of trust of Islamic bank customers (p-value = 0.000), with H4 receiving support. In addition, it was revealed that the level of trust also has an impact on the level of loyalty of generation Z Islamic bank customers, with statistical results (p-value = 0.000), so H5 also received support. More information about the model hypothesis testing results can be found in Table 5.

### DISCUSSION

SEM results reveal that the influence of Sharia governance significantly and positively contributes to improving Islamic banks' reputation, trust, and loyalty. The implementation of sharia governance in Islamic banks aims to create prosperity for Islamic banks and the economy of the people and the country

in the future. Sharia attributes are very valuable for actors and developers of Islamic economics. More than that, the main focus is to maintain the image as a financial institution that applies sharia principles. If the public considers that Islamic banks do not comply with Sharia principles, arguments may arise that Islamic banks are equal to conventional banks. The impact of this view will undoubtedly be very detrimental because it can destroy the reputation and trust of Islamic banks (Junusi, 2012). This shows that Sharia governance increases customer reputation and trust in Islamic banks.

This finding is consistent with research by Sulistiyo et al., (2020) which shows that one of the principles of Good Corporate Governance, namely transparency and sharia compliance, positively affects customer trust. Sharia compliance is an indicator that contributes significantly to increasing customer trust. This result aligns with research by Zhafarina (2019) which reveals that corporate governance and Sharia compliance significantly influence reputation and customer trust in Islamic banks. Research Sulaeman et al., (2021) also states that Good Corporate Governance positively affects the trust of Islamic banks. Likewise, Sharia compliance has a positive and significant impact on customer trust. The better Sharia compliance, the higher the customer trust in Islamic banks. So, in increasing customer trust in Sharia banking, it is necessary to improve Islamic banks' governance while prioritizing improving Sharia compliance.

Effective implementation of Sharia governance principles will result in customer transparency of information. This information includes clarity in services, with the expectation that customer rights are recognized equally. Thus, the Islamic bank is ensured to comply with the applicable sharia principles. Islamic banks that successfully fulfill their responsibilities will build customer trust, which is reflected in a high confidence level in the bank (Arifah et al., 2023).

This study reveals that Sharia governance has a positive and significant influence on the loyalty of Islamic bank customers. This is in accordance with the findings of Rumadan et al., (2018), which state that accountability, responsibility, independence, justice, and Sharia compliance affect customer loyalty. The critical factor that makes customers maintain relationships or remain loyal to Islamic banks is their loyalty to Sharia principles. Customers' decisions to stay in touch with Islamic banks are based on considerations of faith and belief in the prohibition of usury in Islamic teachings. A bank implementing Sharia governance shows that customer needs can be met satisfactorily. When customers perceive performance and benefits that meet or even exceed their expectations, this satisfaction creates a high level of loyalty among customers (Arifah et al., 2023).

Furthermore, this study found that the reputation of Islamic banks increases customer trust, and customer trust increases customer loyalty to Islamic banks. Reputation plays a crucial role in shaping cooperation between Islamic banks and customers. Reputation is an assessment factor that underlies the decision of whether an Islamic bank is a viable option for customers to use as a cooperation partner (Wardayati, 2011). Research results from Saxton (2014) showed that reputation has a correlation with trust. Meanwhile, trust is key in building partnership relationships between Islamic banks and customers. Without trust, a partnership will not be able to last for a long period of time. Trust arises due to the reliability and integrity of partners, which is reflected in various attitudes such as consistency, competence, fairness, responsibility, helpfulness, and caring.

This study also found that customer trust increases customer loyalty to Islamic banks. According to Kabadayi (2016), the higher the customer trusts their bank, the more likely they will continue transacting with it. trust increases consumers' willingness to engage in future banking transactions and the chances of recommending the bank to others. As a result, a high level of trust can turn satisfied customers into loyal customers. Trust is an important indicator in building customer loyalty in Islamic banking. This is in accordance with research by Tabrani et al., (2018), which states that customer trust has a positive effect on customer loyalty to Islamic banks.

The findings of this study support the theory of Good Corporate Governance, which states that transparency and sharia compliance have a positive effect on customer trust. Sharia compliance is an important indicator in increasing customer trust, which is in line with previous research, which found that corporate governance and Sharia compliance significantly impact reputation and customer trust in Islamic banks. Customer loyalty to Sharia principles is a key factor in maintaining relationships or loyalty to Islamic banks, considering faith and belief in Sharia principles as the basis for their decisions.

Effective implementation of sharia governance principles helps create information transparency for customers, ensuring Islamic banks comply with applicable sharia principles. Clear information and services that meet customer expectations help build customer trust and loyalty to Islamic banks.

The reputation of Islamic banks plays an essential role in shaping customer trust, while such trust is a key factor in building lasting relationships between Islamic banks and customers. A high level of trust then contributes to customer loyalty towards the Islamic bank by increasing their willingness to transact in the future and recommend the bank to others.

Based on previous studies, no research specifically evaluates the implementation of Sharia governance and its impact on Islamic banks' reputation, trust, and loyalty in one research framework. The innovation of this research is that it focuses on Bank Syariah Indonesia customers as the subject. The variables studied are also more comprehensive, including the effect of the implementation of sharia governance and its impact on reputation, trust, and loyalty of Islamic bank customers. In addition, this study examines how the Zillennial generation customers perceive the implementation of Sharia governance. The purpose of this study is to analyze the perception of the Zillennial generation towards the implementation of Sharia governance and its impact on reputation, trust, and loyalty of Islamic banks using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) method.

Zillennial perceptions of the implementation of Sharia Governance and its implications for the reputation, trust, and loyalty of Bank Syariah Indonesia are important in understanding consumer behavior in the Islamic finance industry. The Zillennial generation, with its technology-oriented characteristics and social values, demands high transparency and accountability from financial institutions. Therefore, this study focuses on how Zillennials perceive the appropriateness of Sharia principles applied by Bank Syariah Indonesia and how these perceptions affect consumers' reputation and loyalty towards the bank. The results of this study will provide important insights for BSI in developing more effective marketing and reputation management strategies to meet the expectations and needs of the Zillennial generation in the context of Sharia Governance.

This research contributes to the academic world by providing a deeper understanding of the Zillennial generation's perceptions of Sharia governance and its impact on Islamic banks' reputation, trust, and loyalty. A deeper understanding of the Zillennial generation's perception of Sharia governance provides important insights for the academic world and Islamic bank practitioners. It allows researchers to explore the unique motivations, preferences, and needs of the Zillennial generation in the context of Islamic finance. With this understanding, Islamic bank practitioners can design more targeted marketing strategies and more effective reputation management, enabling them to attract and retain the Zillennial generation as customers.

The results of this study can also serve as guidelines for Islamic bank practitioners in designing more effective marketing and reputation management strategies to attract and retain Zillennials as customers. Effective marketing strategies may include the use of social media and digital platforms to build engagement and awareness, emphasis on social and environmental values in marketing communications, and the development of products and services that suit Zillennials' preferences and values, such as user-friendly mobile banking applications and features that emphasize transparency and Shariah fairness. By strengthening emotional connections and meeting the expectations of the Zillennial generation, Islamic banks can improve their reputation and increase customer loyalty. The findings from this study can serve as a foundation for regulators in formulating policies that support the growth and stability of the Islamic finance industry. Regulators can use the results of this study to ensure that Islamic banks adhere to good Sharia governance standards, thereby increasing public trust in Islamic financial institutions as a whole.

## **V. CONCLUSION**

This study aims to analyze the perception of the Zillennial generation towards the implementation of Sharia governance and its impact on reputation, trust, and loyalty of Islamic banks, using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) analysis method. The results of the analysis show that the implementation of sharia governance significantly and positively contributes to improving the reputation, trust, and loyalty of Islamic banks. Furthermore, the reputation of Islamic banks is identified as a factor that strengthens customer trust, increasing customer loyalty to Islamic banks.

This study fills a gap in the previous literature by exploring the relationship between implementing sharia governance and its impact on Islamic banks' reputation, trust, and loyalty. Using Bank Syariah Indonesia customers as subjects, this study provides a deeper insight into the Zillennial generation's perception of Sharia governance. The analytical approach using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) method makes a new contribution to understanding the factors that influence

the perception and behavior of Islamic bank customers. The findings provide a deeper understanding of the academic world's perception of the Zillennial generation towards Sharia governance and practical implications for Islamic bank practitioners in designing more effective marketing and reputation management strategies to attract and retain the Zillennial generation as customers.

A deeper understanding of the Zillennial generation's perception of Sharia governance provides important insights for the academic world and Islamic banking practitioners. It allows researchers to explore the unique motivations, preferences, and needs of the Zillennial generation in the context of Islamic finance. With this understanding, Islamic bank practitioners can design more targeted marketing strategies and more effective reputation management, enabling them to attract and retain Zillennials as customers. In practice, this could mean developing products and services that better suit the values and needs of the Zillennial generation and strengthening communications and branding to build strong relationships with this market segment. In addition, the results of this study provide a foundation for regulators to formulate policies that support the growth and stability of the Islamic finance industry by emphasizing the importance of ensuring that Islamic banks adhere to good Sharia governance standards to increase public trust in Islamic financial institutions as a whole.

Nevertheless, this study also has limitations that need to be considered. For example, this study was limited to respondents in Java and had a limited number of respondents. Therefore, generalization of the findings needs to be done with caution. In addition, the limited variables used may also affect the depth of analysis. Therefore, for future research, a broader geographical expansion, additional variables, and an increase in the number of respondents are needed to gain a more comprehensive understanding of the Zillennial generation's perceptions of Sharia governance implementation and its implications for Islamic banks' reputation, trust, and loyalty.

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