

## PRICE AND ISLAMIC SERVICE QUALITY AS DETERMINANTS OF SMES SATISFACTION IN ISLAMIC MICROFINANCE: EVIDENCE FROM KUDUS, INDONESIA

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### ABSTRACT

Small and Medium Enterprises (SMEs) are a key driver of Indonesia's economy, yet they often face limited access to formal financing. Islamic microfinance institutions (IMFIs) provide Shariah-compliant financial solutions that address this gap. This study examines the influence of price and Islamic service quality on SMEs' satisfaction with Islamic microfinance in Kudus, Indonesia. Using a quantitative approach, data were collected from 100 SME respondents through structured questionnaires and analyzed with Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results show that both price ( $t = 3.434$ ,  $p < 0.05$ ,  $f^2 = 0.131$ ) and Islamic service quality ( $t = 5.490$ ,  $p < 0.001$ ,  $f^2 = 0.297$ ) have a positive and significant effect on SMEs' satisfaction, with the model explaining 47.3% of the variance ( $R^2 = 0.473$ ). These findings highlight that competitive pricing and high quality Shariah compliant services are essential in enhancing SMEs' satisfaction. The study provides practical insights for Islamic microfinance institutions to improve service delivery and strategic pricing, while contributing to the literature on customer satisfaction in Islamic finance.

Keywords: Price; Islamic Service Quality; SMEs Satisfaction; Islamic Microfinance.

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## INTRODUCTION

Islamic microfinance has become an increasingly important component of Indonesia's financial landscape, particularly in providing access to formal financial services for segments of society that are financially underserved (Suseno, 2020). Since its introduction in the 1990s, the development of Islamic financial institutions, especially *Baitul Maal wat Tamwil* (BMT), has expanded significantly in both institutional presence and geographic reach across the country. These institutions, commonly referred to as Islamic microfinance institutions (IMFIs), offer Shariah compliant financial services aimed at promoting inclusive economic development (Suseno, 2020).

Small and Medium Enterprises (SMEs) are the backbone of Indonesia's economy, contributing around 61% to national GDP and absorbing more than 97% of the workforce (Ministry of Cooperatives and SMEs, 2023). Despite this significant role, many SMEs face difficulties in accessing formal financial services due to strict collateral requirements and high administrative barriers. As an alternative, Islamic microfinance institutions (IMFIs) particularly *Baitul Maal wat Tamwil* (BMT) have expanded rapidly, with more than 4,500 active BMTs operating across Indonesia (Otoritas Jasa Keuangan (OJK), 2022). These institutions offer Sharia compliant financial products aimed at fostering inclusive growth and supporting SME development.

Islamic Microfinance has been gaining attention as a solution for financing small and medium enterprises (SMEs) in developing countries. For many decades, small and medium enterprises (SMEs) have played a vital role in Indonesia's economy (Antonio, 2011). However, SMEs often face challenges in accessing conventional financial services due to limited collateral or strict loan requirements. This has made Islamic microfinance a favorable alternative

for these enterprises, offering more flexible and Shariah compliant financial products.

The impact of price and service quality on SMEs' satisfaction in utilizing Islamic microfinance services has emerged as a critical topic in both academic and managerial circles. Given the positive outcomes associated with effective service delivery, organizations need to understand how to accurately assess the factors influencing customer satisfaction, which necessitates active engagement from SMEs. By emphasizing the importance of price and service quality, organizations can enhance customer satisfaction, leading to increased market reach, revenue, and profitability (Kotler & Keller, 2016; Zeithaml *et al.*, 2020). Furthermore, understanding these dynamics can result in improved operational efficiency and cost savings. In this study, the problem will be addressed by employing a quantitative approach, utilizing questionnaires to gather primary data and analyzing the relationships through multiple regression analysis.

Previous research has extensively explored the role of price and service quality in shaping customer satisfaction within the financial services industry. Kotler & Keller, (2016) highlight that competitive pricing and high quality service are essential drivers of customer satisfaction. Similarly, Zeithaml *et al.* (2020) underscore the importance of service quality in building customer loyalty, especially in financial services.

However, there is still a noticeable gap when it comes to research specifically examining how price and service quality impact the satisfaction of SMEs in the realm of Islamic microfinance. There is limited empirical evidence connecting these factors to SME satisfaction. The novelty of this study lies in providing empirical insights into how price and service quality directly influence SME satisfaction in the context of Islamic microfinance in Indonesia. Additionally, it adds to the growing body of knowledge on Islamic finance, focusing on services tailored to SMEs in the Kudus

region. The research seeks to deepen understanding of how Islamic microfinance can be better leveraged to improve satisfaction and support the success of SMEs.

Despite the growing presence of Islamic microfinance institutions in Indonesia, there are still gaps in understanding the factors that influence SMEs' satisfaction with the services provided. This study aims to explore the impact of two crucial elements price and service quality on the satisfaction of SMEs with the implementation of Islamic microfinance in Kudus, Indonesia.

## LITERATURE REVIEW

### Customer Satisfaction

The concept of satisfaction implies the necessary presence of a goal the consumer wants to achieve (Martín-Consuegra et al., 2007). Customer satisfaction is developed by comparing their expectations to their perceptions of the service delivery process (Hoffman & Bateson, 2011). Satisfaction is derived from the customer's sense of happiness and contentment, which arises when the service provider successfully meets or exceeds their expectations (Kashif et al., 2015). Hoffman & Bateson (2011) stated that customers are inclined to pay a premium and remain loyal to a company that effectively caters to their needs rather than switching to a cheaper service. Consequently, Indonesian Islamic banks need to focus on pricing and enhancing their Islamic services to uphold customer satisfaction. In Islamic financial institutions, including *Baitul Maal wat Tamwil* (BMT) and Islamic banks, satisfaction is closely linked to fair and transparent pricing or margin determination, reliable service delivery, and ethical, Shariah-compliant practices, which foster trust and encourage long-term loyalty (Martín-Consuegra et al., 2007; Jannah et al., 2022; Nasrulloh & Saputri, 2024).

Recent research highlights that satisfaction in Islamic financial services is

not only determined by service performance but also by the integration of Islamic values. Fianto et al. (2021) found that mobile banking service quality dimensions such as security, enjoyment, and system reliability significantly enhance satisfaction among Islamic bank customers. Similarly, Priyana et al. (2024) confirmed that service quality and Islamic financial education jointly contribute to customer growth and better risk management in Islamic microfinance institutions.

More recent empirical evidence suggests that customer satisfaction in Islamic financial institutions is closely linked to trust, corporate image, and service delivery performance. Amin et al. (2013) found that customer satisfaction significantly enhances the image of Islamic banks, which in turn strengthens trust and customer loyalty, particularly among Muslim customers who value Shariah compliance. In the context of service quality, Zouari & Abdelhedi (2021) demonstrated that customer satisfaction in Islamic banking is positively influenced by key service quality dimensions, including compliance and digitalization, indicating that satisfaction extends beyond conventional service outcomes to incorporate Islamic values and modern service delivery mechanisms. Furthermore, evidence from Indonesia provided by Krisnanda et al. (2023) shows that both price and Islamic service quality have a positive and significant effect on customer satisfaction in Islamic banking. Despite these findings, existing studies largely focus on Islamic banking institutions and examine satisfaction determinants separately, while integrated empirical evidence on price and Islamic service quality as joint determinants of SMEs' satisfaction in Islamic microfinance institutions remains limited.

### Price

Price is a fundamental element in marketing and service transactions because it represents what consumers must sacrifice to obtain the benefits of a product

or service (Kotler & Keller, 2016). Swasta & Irawan (1997) defined price as the amount of money required to obtain a certain combination of goods and services. Tjiptono (1997) stated that price is a consumer's perspective and is often used as an indicator of value, which should be associated with the benefits perceived from a particular good or service. Hasan, 2013 stated that for a company, pricing is a way to differentiate its offerings from competitors.

Empirical studies in Islamic microfinance institutions, particularly *Baitul Maal wat Tamwil* (BMT), suggest that financing margins play an important role in shaping member perceptions and satisfaction. Jannah *et al.* (2022) found that fair and transparent margin determination contributes positively to member satisfaction. Furthermore, Nasrulloh & Saputri (2024) showed that appropriate pricing policies in the form of margins or *ujrah* are essential in maintaining member trust, which in turn supports the sustainability of Islamic microfinance institutions.

The study on the impact of price on customer satisfaction was conducted by Sintya *et al.* (2018). The research indicates that there is a significant effect of the price variable on customer satisfaction. The another study conducted by Fadilla *et al.* (2015) showed that there is a significant relationship between price and customer satisfaction when using the Telkom Speedy product. Another study conducted by Rulfiansah *et al.* (2020) showed that the price variable has a positive and significant impact on customer satisfaction for Rainbow Creative Semarang, both partially and simultaneously. Hence, the following relationship is hypothesized.

Recent evidence also points to the role of pricing in Islamic finance. Hartanto *et al.* (2023) through a systematic review, highlighted that SMEs perceive Shariah-compliant pricing mechanisms such as profit-sharing and transparent margin systems as more ethical and favorable

compared to conventional interest-based schemes. These findings reinforce that pricing strategies aligned with Islamic principles not only differentiate IMFIs from conventional providers but also foster stronger satisfaction among SME clients.

Additionally, recent studies emphasize that price fairness and transparency are critical determinants of satisfaction in Islamic financial services. Krisnanda *et al.* (2023) confirm that price perception significantly influences customer satisfaction in Islamic banking, indicating that customers assess pricing not merely based on cost but also on perceived fairness and Shariah alignment. In line with this, Rama (2020) provides empirical evidence from Indonesian Islamic banking customers that price perception is inherently multidimensional. His findings reveal that customers form multiple price expectations in their banking decision-making process, with price transparency, relative price, and price quality ratio emerging as the most influential dimensions affecting customer satisfaction and behavioral intention. These results suggest that Islamic banking customers in Indonesia are highly attentive to transparent pricing disclosure, engage in relative price comparisons, and evaluate prices based on their perceived value-quality alignment. However, existing empirical studies predominantly focus on Islamic commercial banks, while integrated investigations linking multidimensional price perception and Islamic service quality in explaining SMEs' satisfaction within Islamic microfinance institutions remain limited.

H<sub>1</sub>: Price has a positive and significant effect on SMEs' satisfaction.

### **Islamic Service Quality**

Othman & Owen (2001) were pioneers in introducing the CARTER model, which has become one of the most widely used frameworks for measuring service quality in Islamic banking. This model consists of six dimensions, namely Compliance, Assurance, Reliability,

Tangibles, Empathy, and Responsiveness (Aisyah, 2018). Within this framework, compliance with Shariah principles distinguishes Islamic service quality from conventional service models. In the context of *Baitul Maal wat Tamwil* (BMT), Islamic service quality is reflected in fair and transparent margin or ujah determination, reliable service delivery, and ethical interactions with members, which contribute to member satisfaction and trust (Jannah et al., 2022; Nasrulloh & Saputri, 2024).

Previous studies confirm the significant role of service quality in shaping customer satisfaction. For instance, Desiyanti et al. (2018) found that service quality has a positive and significant effect on customer satisfaction. Similarly, Engkur (2018) demonstrated that responsiveness, empathy, and compliance with Islamic principles significantly influence satisfaction in Islamic banks. Supporting these findings, Sintya et al. (2018) showed that service quality positively affects customer satisfaction in the context of transportation services, while Branca et al. (2020) reported a similar impact in the banking sector.

More recent studies provide further evidence. Nurfadilah et al. (2018) identified responsiveness, helpful interactions, and Shariah-compliant product assurance as the most valued attributes in Indonesian Islamic microfinance institutions. Likewise, Priyana et al. (2024) revealed that Islamic service quality enhances customer retention and reduces risk in Central Java. In addition, Fianto et al. (2021) highlighted the importance of digital service quality such as mobile banking usability and security in improving satisfaction.

Recent advancements in the literature further indicate that Islamic service quality has expanded beyond traditional service delivery to include digitalization and value oriented interactions. Zouari & Abdelhedi (2021) demonstrate that extending the SERVQUAL model by incorporating compliance and digitalization significantly

enhances customer satisfaction in Islamic banking, underscoring that Shariah adherence alone is insufficient without effective and technology enabled service delivery. Nurfadilah et al. (2018) indicate that service responsiveness, staff competence, and Shariah-compliant assurance play an important role in shaping customer satisfaction in Islamic microfinance institutions in Indonesia. These findings suggest that Islamic service quality is inherently context sensitive and multidimensional, integrating functional performance, ethical compliance, and relational aspects. Nevertheless, existing studies tend to examine specific service quality dimensions or technological aspects in isolation, with limited empirical evidence simultaneously incorporating Islamic service quality and pricing considerations in explaining SMEs' satisfaction within Islamic microfinance institutions.

H<sub>2</sub>: Islamic service quality has a positive and significant effect on SMEs' satisfaction.

Based on the formulated hypotheses, the research framework for this study can be presented as follows:

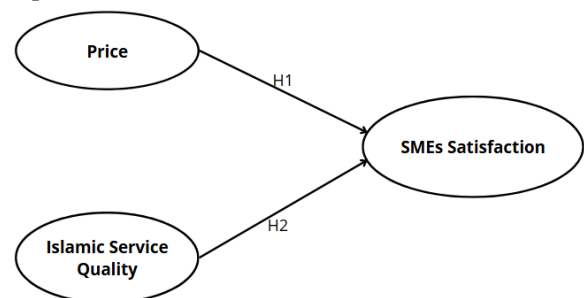


Figure 1. Research Framework  
Source: Author's work (2025)

### Research Method

This study employed a quantitative research approach to investigate the effect of price and Islamic service quality on SMEs' satisfaction toward the implementation of Islamic microfinance in Kudus Regency, Indonesia. The research focused on small and medium sized enterprises (SMEs) that have accessed financing from various Islamic microfinance institutions. The target population consisted of SMEs in Kudus Regency who have experience in

utilising Islamic microfinance services, including but not limited to *Baitul Maal wat Tamwil* (BMT), Islamic cooperatives, and other sharia-based financial service providers. Kudus was selected as the study location due to its strong Islamic cultural background and the active presence of Islamic microfinance institutions.

A simple random sampling technique was employed to ensure objectivity in respondent selection. The sample size was determined based on Hair *et al.* (2022), applying the 10-times rule and confirmed through power analysis. With 100 valid responses, the study satisfies the minimum requirement for PLS-SEM analysis. Data were gathered through a structured questionnaire distributed both online and offline to ensure broader participation. The questionnaire included control questions to verify that respondents had actual experience using Islamic microfinance services. Responses were measured using a five point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree.

The data were analysed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique through SmartPLS version 3.2.9. PLS-SEM was chosen because it is more suitable for relatively small sample sizes, less restrictive on normality assumptions, and capable of simultaneously analyzing latent variable relationships. The analysis followed the two step approach suggested by Hair *et al.* (2022), starting with the assessment of the measurement model (for validity and reliability), followed by the structural model (for hypothesis testing). Key evaluation metrics included indicator loadings, composite reliability, average variance extracted (AVE), discriminant validity, coefficient of determination ( $R^2$ ), predictive relevance ( $Q^2$ ), and path coefficients.

This methodological design ensures the credibility of the research findings and contributes to a better understanding of how Islamic financial principles and service excellence affect SME satisfaction in the

context of Islamic microfinance in Kudus Regency, Indonesia.

## RESULT AND DISCUSSION

The results of the study are expected to provide insights into the effect of price and service quality on SMEs satisfaction towards the implementation of Islamic Microfinance in Kudus, Indonesia. The findings of this study are expected to contribute to the existing literature by providing evidence-based recommendations for Islamic Microfinance institutions on how to improve their services to increase SMEs satisfaction.

Table 1 presents the characteristics of the respondents. In terms of gender, most of the participants were male (57%), while female respondents accounted for 43%. Regarding age groups, the majority of respondents (43%) were aged 30 years or younger, followed by those aged 31–40 years (28%). Respondents aged 41–50 years made up 15%, and those aged 51–60 years represented 14%. In terms of education level, the majority had completed school-level education (76%), while 21% held a bachelor's degree, and only 3% had completed postgraduate education.

Table 1. Characteristics of respondents

Characteristics of respondents	Percentage
<b>Gender</b>	
Male	57%
Female	43%
<b>Age (Years)</b>	
≤ 30	43%
31 – 40	28%
41 – 50	15%
51 – 60	14%
<b>Education</b>	
School	76%
Bachelor	21%
Postgraduate	3%

Source: Data processing, 2025

**Analysis of Outer Model or Measurement Models**

The analysis of measurement models was conducted to ensure that the constructs used in the study were both valid and reliable. Table 2 presents the factor loadings, composite reliability (CR), Cronbach’s alpha, and average variance extracted (AVE) for the constructs of Price, Islamic Service Quality, and SMEs Satisfaction. To assess reliability, both composite reliability and Cronbach’s alpha were examined. The CR values for Price (0.923), Islamic Service Quality (0.917), and SMEs Satisfaction (0.898) exceed the minimum threshold of 0.70, indicating high internal consistency. Similarly, all Cronbach’s alpha values also exceed 0.70, confirming reliability. In terms of convergent validity, the outer loadings of all indicators range from 0.787 to 0.887, which are above the recommended cutoff of 0.70.

Table 2. The Outer Model evaluation based on the Loading, AVE, and CR

Construct/Item	Convergent Validity test	Composite Reliability test	Discriminant Validity test	AVE
<i>Price</i>	Outer Loading	Composite Reliability	Cronbach’s Alpha	
X1.1	0.866	0.923	0.896	0.705
X1.2	0.858			
X1.3	0.846			
X1.4	0.841			
X1.5	0.787			
<i>Islamic Service Quality</i>				
X2_1	0.810	0.917	0.887	0.689
X2_2	0.852			
X2_3	0.821			
X2_4	0.806			
X2_5	0.860			
<i>SMEs Satisfaction</i>				
Y_1	0.887	0.898	0.829	0.749
Y_2	0.830			
Y_3	0.873			

Source: Data processing, 2025

For the discriminant validity test, the Fornell–Larcker criterion was used. According to this criterion, the square root of AVE for each construct (shown on the diagonal and in italic in Table 3) should be greater than its correlations with other constructs. The diagonal values 0.830 for Islamic Service Quality, 0.840 for Price, and 0.864 for SMEs Satisfaction are all higher than their corresponding inter-construct correlations, supporting good discriminant validity.

Table 3. Discriminant Validity

Variables	Islamic Service Quality	Price	SMEs Satisfaction
Islamic Service Quality	0.830		
Price	0.569	0.840	
SMEs Satisfaction	0.644	0.582	0.864

Source: Data processing, 2025

**Analysis of The Inner Model or Structural Model**

The evaluation of the inner model was conducted using several key indicators, including the Coefficient of Determination (R<sup>2</sup>), Predictive Relevance (Q<sup>2</sup>), and the Goodness of Fit Index (GoF) (Ferdinand, 2015). As presented in Table 4, the R<sup>2</sup> value for SMEs Satisfaction is 0.473, indicating a moderate level of explanatory power, where 47.3% of the variance in SMEs satisfaction can be explained by the constructs Price and Islamic Service Quality. The Q<sup>2</sup> value of 0.349, being greater than 0, confirms that the model possesses predictive relevance and is capable of adequately predicting the endogenous construct. Furthermore, the GoF value of 0.077, although relatively low, remains within the acceptable range (0 < GoF < 1), suggesting that the overall model fit is weak but still acceptable for exploratory research purposes.

Table 4. The Coefficient of Determination, Predictive Relevance, and Goodness of Fit Index

	<b>R2</b>	<b>Q2</b>	<b>GoF</b>
SMEs Satisfaction	0.473	0.349	0.077

Source: Data processing, 2025

The effect size ( $f^2$ ) was evaluated to determine the relative contribution of each exogenous variable to the endogenous construct. As shown in the Table 5, the effect of Price on SMEs Satisfaction yields an  $f^2$  of 0.131, indicating a moderate contribution to the model. Similarly, the effect of Islamic Service Quality on SMEs Satisfaction presents an  $f^2$  of 0.297, also falling within the moderate category. These results suggest that both variables play a meaningful role in shaping SMEs satisfaction within the Islamic microfinance context.

Table 5. Effect Size ( $F^2$ )

	<b>F2 Value</b>	<b>Interpretation</b>
Price → SMEs Satisfaction	0.131	Medium
Islamic Service Quality → SMEs Satisfaction	0.297	Medium

Source: Data processing, 2025

The bootstrapping analysis was conducted to examine the significance of the path coefficients within the structural model. Hypotheses are considered accepted if the t-statistic exceeds 1.96 and the p-value is less than 0.05. Based on the results in Table 6, both proposed hypotheses meet these statistical thresholds and are thus supported. Specifically, H1 (Price → SMEs Satisfaction) yielded a t-statistic of 3.434 with a p-value of 0.001, signifying a significant and positive effect. Similarly, H2 (Islamic Service Quality → SMEs Satisfaction) showed a t-statistic of 5.490

and a p-value of 0.000, indicating a strong and significant influence. Therefore, both H1 and H2 are accepted.

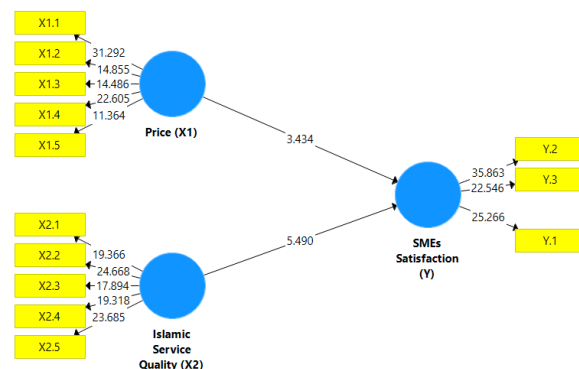


Figure 2. Bootstrapping results

Source: Data processing 2025

Table 6. Path Coefficients

	<i>Original Sample</i>	<i>T-Statistic</i>	<i>P-Values</i>	<i>Supported</i>
H1. Price → SMEs Satisfaction	0.320	3.434	0.001	Yes
H2. Islamic Service Quality → SMEs Satisfaction	0.462	5.490	0.000	Yes

Source: Data processing, 2025

The findings of this study reveal that both price and Islamic service quality significantly influence SMEs' satisfaction with Islamic microfinance services in Kudus. The path analysis showed that price ( $t = 3.434$ ,  $p < 0.05$ ) and Islamic service quality ( $t = 5.490$ ,  $p < 0.001$ ) are positively associated with satisfaction, with Islamic service quality having a stronger effect ( $\beta = 0.462$ ) compared to price ( $\beta = 0.320$ ).

These results are consistent with previous research. Sintya *et al.* (2018) and Rulfiansah *et al.* (2020) confirmed that competitive pricing plays a critical role in shaping customer satisfaction across service industries, while Aisyah (2018) and demonstrated that Islamic service quality dimensions are significant determinants of satisfaction in Islamic financial institutions.

More recent studies further support these findings: Nurfadilah et al. (2018) highlighted responsiveness and Shariah-compliant product assurance as the most valued attributes in Indonesian IMFIs, while Priyana et al. (2024) found that Islamic service quality improves both customer retention and risk management in Central Java. The present study aligns with these findings, reinforcing the view that fairness in pricing and compliance-based service delivery are central to customer satisfaction in Islamic financial services.

Beyond statistical confirmation, contextual factors in Kudus help explain why these relationships are particularly strong. Kudus is known as a region with a deep Islamic cultural heritage and strong religiosity. SMEs in this area not only seek financial products but also value compliance with Islamic principles, which strengthens the influence of service quality dimensions such as compliance, empathy, and responsiveness. Furthermore, many SMEs in Kudus operate in traditional and family-based sectors, where trust, fairness in pricing, and ethical practices carry substantial weight in financial decision-making. The finding that service quality exerts a stronger impact than price suggests that, for SMEs in Kudus, receiving services that reflect Shariah values and personalized attention is even more important than cost considerations.

These results also highlight the managerial implications for Islamic microfinance institutions. While competitive pricing remains essential, IMFIs in Kudus should prioritize consistent Shariah-compliant service delivery, customer relationship management, and staff training on Islamic ethics. This approach not only aligns with customer expectations but also differentiates IMFIs from conventional microfinance providers. In addition, regular evaluations of customer needs and localized financial education programs can further strengthen SMEs' satisfaction and loyalty.

## CONCLUSION

This study examined the influence of price and Islamic service quality on SMEs' satisfaction with Islamic microfinance institutions in Kudus, Indonesia. The findings revealed that both price and Islamic service quality have a positive and significant effect on satisfaction, with Islamic service quality showing a stronger impact. These results underscore the importance of fair pricing strategies and high quality, Shariah compliant services in enhancing customer satisfaction among SMEs. Theoretically, this research adds to the literature on Islamic microfinance by showing how price and service quality shape SME satisfaction, while practically it suggests that BMTs and other IMFIs should improve service delivery through fair pricing, staff training, and customer engagement. The study has some limitations, including a small sample size from one region and a focus on only two variables. Future research could involve larger samples, different regions, and additional factors such as trust, religiosity, or loyalty to provide deeper insights.

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