INFLUENCE OF RIVALRY MERGER, BANK FINANCIAL HEALTH RATING, AND CUSTOMER LOYALTY TO THE COMPETITIVE ADVANTAGE

Fajar Kurniawan¹

**Universitas Padjadjaran, Sumedang, Indonesia
fajar19005@mail.unpad.ac.id**

Erie Febrian²

**Universitas Padjadjaran, Sumedang, Indonesia
erie.febrian@unpad.ac.id**

Angki Wibisono³

**Universitas Padjadjaran, Sumedang, Indonesia
angki.wibisono@gmail.com**

Abstract

The growth of the sharia banking market in Indonesia tended to stagnate. The Government had taken initiative to strengthen the sharia banking market by merging the three state sharia banks. PT. Bank Muamalat Indonesia, Tbk. (BMI), which is categorized in one of strategic group, is expected to be affected by considering that both BMI and the three state sharia banks have alike market segment. BMI is known as the first and purely sharia bank, which owns strong customer base. Thus, in last few years it is always the champion in term of customer loyalty among the public sharia banks. Internally, BMI attempts to strengthen its capital as one of indicator in bank financial health rating. The research objective is to analyse the influence of rivalry merger, bank financial health rating, and customer loyalty to the competitive advantage of BMI. The research utilizes quantitative method to test the hypothesis by using Partial Least Square (PLS). The result of data analysis from the survey shows that there is significant influence of rivalry merger, bank financial health rating, and customer loyalty to the competitive advantage.

Keywords: Rivalry Merger, Health Rating, Loyalty, Competitive Advantage

INTRODUCTION

In last few years, the growth of sharia banking tended to decelerate with the objective to increase the market share of sharia banking, the Government of Indonesia had taken initiative to merge 3 (three) state public sharia banks. The merger was decided to stimulate the growth of anorganic sharia bank with intention to result new sharia bank which owns strengths in assets and has capacity to compete with the conventional banks-the top 10 of banking industry in Indonesia. The merger was effective since 1st February 2021 with result namely Bank Syariah Indonesia.

The merger of the sharia banks, which owns by the State-Owned Enterprises (BUMN) and the competitor of PT. Bank Muamalat Indonesia, Tbk (BMI), was based on similarity of strategy and resources, or commonly named market segmentation. Hence, BMI and the three sharia banks of the BUMN are categorized in one Strategic Group. The merger, potentially leads to eliminate the market concentration so that the competition level reduces or there is possibility for the merged banks to derive the more market share in that group due to their stronger capital. Some researches also show influence of the competitor's merger to the company.

There are many studies about influence of merger to the merged entities, though only few studies the horizontal effect of merger to competitor companies. Stigler (1950) informs that it may be beneficial to companies to stay out of the merger since the competitor company can take advantage from the entities' effort in the merger in order to eliminate the market competition.

Chatterjee (1986) informs that the relative profit/loss of Competitor Companies's wealth is reverse with the merged companies. Therefore, the destructive values from some mergers can create competitive opportunity to the competitor company, the opportunity results positive abnormal return to the competitor.

Previous researches on merger and acquisition majorly use financial ratio related dimensions, specifically to measure the performance or result of the merger. In (Ramaswamy, 1997) research about banking merger and acquisition to value the characteristic of strategies base on resource allocation by using several measurement dimensions, i.e market coverage (number of bank branches of the merged as the critical element that influence effective competitiveness), market activity (capability to provide

more common competitive accepted price), risk propensity (bank capability rating of the merged to absorb or control the bigger possible risks, includes bank capital capability of the merged to provide bigger loans), operational efficiency (successfully saved cost rate because of the capability of the merged banks in synergizing to share the cost to revenue with bigger volume (economic of scale), and client mix (rate of the merged banks to serve boarder market segment whether the wholesale banking or retail banking compare to pre-merger, includes the merged banks segment choices). Finally, profitability and return on asset are used to measure performance of a merger and acquisition.

The multi research indicators approach above, in which the management strategic is applied in selecting the indicators, i.e. banking industry characteristic and marketing mix theory (Kotler, 2016). The relationship with marketing mix theory (Kotler, 2016) is the merger in context of market competition between company and the rivalry merger.

Base on (Fee & Shawn Thomas, 2004) research result, if the rivalry merger results a competitive advantage which is not easy to be imitated by the company, then the rivalry merger will influence negatively to the company. The improvement of merged companies' efficiency can give competitive advantage to the merged companies over their competitors. Research of (Clougherty & Dusso, 2011) result that the efficiency based merger will impact negatively to competitor company. When the integration process succeed, the competitor company will lost due to merged entities.

Kato & Schoenberg (2012) presented the empirical investigation result on how customer and competitor response to merger acquisition (M & A) activities. Research data confirmed that customer buying behavior can be positively or negatively affected by the M & A activities. The post-merger integration acts cause changes in main customer relationship variabel, which drives the changes in customer loyalty. The research result also provides an empirical prove that can be adjusted by customer response in reducing customer loyalty after the acquisition.

Hu et al. (2020) states that merger and acquisition can inflict a financial loss to the competitor since the merged companies obtain stronger competitive advantage from efficiency benefit, which makes the merged companies possible to sell their products with cost advantage and increase pricing factor to the similar competitors. The research also shows the existency of negative effect to the competitor and it starts going significant 2

(two) years after the merger and acquisition, even stronger in the third year. Therefore, negative effect to the competitor will not start significant immediately, but through a successful integration process the negative effect will be significant and bigger. The leadership cost factor from the merged companies provides a very strong influence as impact of merger and acquisition. Hence, it negatively impacts the product price and services to competitor.

There are 4 (four) factors to quantify bank financial health rating accordance to Circular Letter of Bank Indonesia No. 13/24/DPNP, those are: a) Risk profile, the valuation by bank to inherent risk and potency of loss during banking operational. The risk profile factor is measured by using the Non Performing Financing Ratio (NPF) and the risk liquidity is quantify with Financing to Deposit Ratio (FDR); b) Good Corporate Governance (GCG); c) Rentability (earning): Return on Asset & Operational load and operational income; d) Capital; The valuation in this criteria shows bank capital capability in anticipating the potential risk in the financing sponsored by bank.

The bank financial health rating oftenly becomes a customer preference to choose one partner bank especially when the customer is intended to save the fund into banking. The customer oftenly will cancel the plan to collaborate or save some amount of money if the bank financial health rating is considered as less safe for them. Marrison (2002) states that bank capability to manage the risk profile and spend the capital in minimum amount as required by the regulator (risk profile and capital are part of bank financial health rating), is the source of competitive advantage.

Research of (Njanike, 2009) summarizes that the bank capability to control the risk profile especially credit risk (as an indicator of the bank financial health rating) leads to competitive advantage.

Research of (Ruslan et al., 2018) concludes that capital adequacy ratio (includes in indicator of bank financial health rating) and efficiency (also one of bank financial health rating criteria) have competitive advantage influence to the bank. Improvement in capital adequacy ratio and bank efficiency rating will increase competitive advantage of the bank.

Currently BMI attempts to strengthen its capital, which is planned to be spent for business expansion of the company, by seeking new investor. Some researches in bank financial health rating show conclusions about the influence of bank financial health rating.

Astutik & Djazuli (2014) informed the research result shows that Non Performing Financing (NPF), Good Corporate Governance (GCG), Operational Load & Income (BOPO), Net Operating Margin (NOM), and Capital Adequacy Ratio (CAR) influence the financial performance, in term of Return on Asset (ROA) value of the public sharia bank in Indonesia. Furthermore, refer to (Odour et al., 2017), capital adequacy ratio does not have impact to the competition in the overall banking industry, but it increase the competition among the foreign banks by slightly reduce the competition among the domestic banks. The need to strengthen the capital pressurized BMI that caused stagnancy in the growth of the 3rd parties fund and assets and also declining of the market share.

Long history of the BMI stance as the 1st sharia bank in Indonesia which its presence was awaited by the society, brought emotional ties between BMI and Indonesian society. Its Initial Public Offering (IPO) was collected by broad society, such functionaries, ministries, public figures, civil servant, and Moslem entrepreneurs. This long history brought sense of ownership to Indonesian society, especially the Moslem. Hence, to this date, it is well-known as the 1st and purely sharia bank in Indonesia. The high level of customer loyalty was proven by its consistency to get award for customer satisfaction and loyalty survey from independent research agencies.

The customer loyalty becomes one of BMI strengths to compete. Of these, one of the consideration today is the religiosity (believe in halal and purely sharia products) offers long term commitment from customer to remain loyal for products of BMI. Refer to (Rashid et al., 2020), the loyal customer feels satisfy and can be utilized as marketing aids. Customer loyalty is defined as satisfied customer which tends to repeat the goods and services purchasing. Besides, a loyal customer is the one that impresses the products and services repeated purchasing behavior, recommends it to other customers, and against all types of propaganda. When a customer shows loyalty in repurchasing of the same products or services, that customer is called as “brand loyal”. Chiunova-Shuleska et al. (2015) also informs positive relationship between customer loyalties with financial performance of the company. Suchánek & Králová (2019) states that strong positive and negative correlation engage between customer loyalty and business competitiveness. These show that strengthening customer loyalty by improving the customer loyalty positively correlates with business competitiveness.

According to (Amin et al., 2013), loyalty is impressed in the customer commitment to consistently and continuously reuse the products and services in long term. In the banking industry, the customer is used to improve their purchasing behavior base on future experiences or willingness to shift. Once the customer is very satisfied, they keep communicate with the bank and also share the positive vibes to each person they meet. In reverse, they will react negatively and shift to another service provider, once they are not satisfied.

The religiosity factor in sharia banking also becomes the attention of customer loyalty, as mentioned in (Abror et al., 2019), sharia bank own unique customer with respect to their religiosity. Because of that, the management is mandatory to improve the sharia bank products by considering the religious principles. The religiosity of customer will moderate the relationship between service quality as well as customer satisfaction. It is also supported by (Tabrani et al., 2018), strong commitment and bond from the customer influence the customer loyalty. The position for strong customer commitment and bond as mediator between their believe and loyalty describes that customer has a continued and protected commitment bond with the sharia bank.

Related researches in customer loyalty for sharia banking state that religiosity factor becomes consideration in represent the customer loyalty level. In the Moslem countries, the customer is attracted with sharia banking more likely because of religious call to do business transaction accordance to Islamic principles rather than any other considerations (Mu'allim, 2003). In the sharia bank, there are Islamic values and lessons within that develop more eminent differentiation between the sharia bank and the conventional.

Ayuni et al. (2016) states that consumer perception to values received from bank is critical to improve the customer loyalty and satisfaction. In sharia banking, the consumer perception towards the sharia principles which are applied by the sharia banking have a vital role to improve the customer satisfaction and loyalty. The higher the consumer perception to sharia banking capability in implementing the sharia principles in its business, the higher the consumer satisfaction and loyalty.

The indicator of consumer loyalty which will be basis in organizing the questionnaire is adopted from research of (Amin et al., 2013; Tabrani et al., 2018), those are: a) Positive things about sharia banking are always share to other person; b) Willingness to recommend

to the relatives about to engage with sharia banking; c) Providing recommendation about sharia banking to someone that seeks an advice; d) Always using sharia banking services until next few years; e) Always choosing sharia banking as main preference for banking services.

By referring to above indicators trust factor will be inserted as part of religiosity component base on previous researches on customer loyalty impact to sharia banking. The trust indicators are adopted from (Amin et al., 2013), are listed below: a) Conformity of sharia banking to the sharia principles; b) Trust on sharia based products and services offered; c) Trust on sharia banking promise fulfillment. Customer loyalty is the main strength of BMI. The religiosity is the main factor of the company, which is well known as the 1st and purely sharia, the factor that makes company excellence in customer loyalty appraisal.

Abrudan et al. (2015) states that customer loyalty is one main sources in competitive advantage of the company. Loyalty si defined as the patient in trust, sense, attitude, service, and faith. Some related researches on influence of customer loyalty to competitive advantage are conducted by (Denoue & Saykiewics, 2009). The customer loyalty magnitude is strongly influence the competitive advantage of the company (Affran, Dza, & Buckman, 2019; Arslan, 2020; Rashid et al., 2020).

Refer to Porter (1985), competitive advantage is the strength to produce better performance than any other competitor by utilizing the characteristic and resources of the company. According to Barney & Hesterly (2015), framework to build the competitive advantage are VRIO (Value, Rarity, Imitability dan Organization). The strategic management process is a set of sequential steps to provide choices for the company in determining suitable strategy for the company, it is, the one that results competitive advantage (Nuraini, 2021).

Slater (1996) describes that the competitive advantage indicator is originated from quality (capability of company to offer more qualified product than the competitor and accepted by customer), service (capability of company to provide excellent services in order to guarantee long term customer loyalty), cost control (capability of company to control the cost so that competitive products and services can be produced), speed (pace of services based on customer perspective), innovation (capacity of company to create a new

product and/or service that can be accepted by market), and learning culture (capacity of company to create a learning culture that can contribute the necessary knowledge to understand what will shape the competitive advantage today and tomorrow and also to build a strong relation with the customer).

Based on the research of Kamukama et al. (2017) about dimension on competitive advantage of (Porter, 1985) which utilizes leadership cost (capability of company compare to its competitor to reduce the cost lower for higher revenue), differentiation (capability of company to be unique and distinct than its competitor and this capability is accepted and respected by customer), focus (capability of company to focus on its chosen market segment which is comply with company goals and makes excellency in cost as well as its differentiation in that chosen segment).

RESEARCH METHOD

The research applies quantitative method by using survey and also descriptive and verification approach. The research instrument in survey method is questionnaire which exercise Likert scale with up to 5 (five) options.

Survey population is employee of BMI in Bandung and surrounding. Samples is determined by random sampling technique using Nomogram Harry King technique tolerance of error 10% (Sugiyono, 2018). The respondents will give response to research variables, i.e. rivalry merger, bank financial health rating, customer loyalty, and competitive advantage.

The collected data is categorized as primary data in form of questionnaire and secondary data to complete the discussion is retrieved from journal, books, and previous researches. For data analysis purpose, characteristic data is considered through descriptive statistics and further verified by using Partial Least Square (PLS).

The descriptive research is performed with objective to gain characteristics of overall research variables, i.e rivalry merger, bank financial health rating, customer loyalty, and competitive advantage base on response of respondents. Whilst, verification research is exercised to determine causality relationship of the variables by using hypothesis test.

Therefore, hypothesis of the research are:

H 1: Rivalry merger has significant negative influence to competitive advantage of BMI.

H 2: Bank financial health rating has significant positive influence to competitive advantage of BMI.

H 3: Customer loyalty has significant positive influence to competitive advantage of BMI.

Figure 1
Research Framework

RESULTS AND DISCUSSION

Questionnaire collects response of respondents about rivalry merger (X_1) consisting of: market coverage, price, risk prosperity, and product dimensions. Bank financial health rating (X_2) consists of: risk profile, good corporate governance, rentability, and capital dimensions. Customer loyalty variables has dimensions, i.e.: positive feedback sharing, referral, continuous relationship, commitment, and trust. Meanwhile, competitive advantage seize dimensions such leadership cost, focus, and innovation.

Result of data analysis on dimensions of rivalry merger variable (X_1) is described in below table.

Table 1
Recapitulation of Descriptive Analysis on Rivalry Merger Variable (X_1)

No.	Indicator	Total Score	Mean	Category
1	Market Coverage	209	3.43	
2	Price	191	3.13	
3	Risk Propensity	204	3.34	
4	Product	194	3.18	
		798	3.27	Moderate

By considering data in Table 1, total score value is 798 and in overall mean is 3 for rivalry merger variable (X_1). The values are categorized as moderate. According to response of respondents, rivalry merger will provide medium influence to market coverage expansion, capability to produce with competitive price, capability to control the risk better, and capability to provide more variations in products.

Result of data analysis on dimension of bank financial health rating variable (X_2) is presented in below table.

Table 2
Recapitulation of Descriptive Analysis on Bank Financial Health Rating Variable (X_2)

No	Indicator	Total Score	Mean	Category
1	Risk profile	174	2.84	
2	GCG	198	3.25	
3	Rentability	171	2.80	
4	Capital	171	2.80	
		714	2.92	Moderate

By considering detail of data in Table 2, the total score of respondent response on bank financial health rating (X_2) is 714 and the mean is 2.92. The values are categorized as moderate.

Result of data analysis on dimensions of customer loyalty variable (X_3) is described in below table.

Table 3
Recapitulation of Descriptive Analysis on Customer Loyalty Variable (X_3)

No.	Indicator	Total Score	Mean	Category
1	Share positive feedback	247	4.05	
2	Referral	250	4.10	
3	Continuous relationship	258	4.23	
4	Commitment	232	3.80	
5	Trust/Religiosity	271	4.44	
		1258	4.12	High

By considering data in Table 3, the total score value for customer loyalty variable (X_3) is 1258 and the mean value is 4.12. It is categorized as high. In term of religiosity, the respondents show more agrees in this dimension, means that customer of BMI feel believe the offered products is already comply with sharia principles compare to other product offered by other sharia banks. This result indicates that with the religiosity about products of BMI, which is known as the 1st and purely sharia bank, the customer loyalty can be built. It is often matter to consider type of product to purchase. Base on this respondent responses, customer loyalty of BMI is good or high. It is indicated by willingness of customer to share positive feedback, recommend to their relations, mean of their long term relationship with bank, willingness to choose products of BMI as preference rather than competitor, and their belief the products are comply with sharia principles.

Result of data analysis on dimension of competitive advantage (Y) is presented in below table.

Table 4
Recapitulation of Descriptive Analysis on Competitive Advantage Variable (Y)

No	Dimension	Total Score	Mean	Category
1	Leadership cost	218	3.57	
2	Differentiation	234	3.84	
3	Focus	230	3.77	
4	Inovation	228	3.74	
		910	3.73	High

By considering detail of data in Table 4, respondent responses on competitive advantage is categorized as high.

The structural model formula is as below:

$$\eta = \gamma_1 \xi_1 + \gamma_2 \xi_2 + \gamma_3 \xi_3 + \zeta$$

Note:

η (eta) = endogenous latent (dependent)

ξ (ksi) = exogenous latent variable (independent)

γ (gamma) = direct relation between exogenous to endogenous variable

ζ (zeta) = error of formula, i.e. between exogenous variable and/or endogenous variable to endogenous variable Smart PLS 3.0 program is utilized to estimate the model.

The first step in evaluating the outer model is by doing valuation through convergent validity test. The indicator can be described as indicator that has a good validity if it has a loading factor value bigger than 0.70. Whilst, the loading factor between 0.50 to 0.60 can be maintained as a development phase model (Ghozali, 2014). Based on estimation result by using Smart PLS 3.0 program, the output is described in below figure.

Figure 2
Structural Model (Path Coefficient and Loading Factor Value)

By considering the structural model figure above, it can be seen that all the loading factor value is 0.70. Therefore, it is concluded that the validity of research construct is good. In the rivalry merger variable, the most dominant indicator which built the rivalry merger variable is the indicator that shows the resulted product from rivalry merger will be more vary with the loading factor 0.934. Meanwhile, from the bank financial health rating, the indicator which is related with rentability is indicated as the most dominant factor in building the bank financial health rating with loading factor value 0.866.

Customer loyalty variable is identified that the most dominant factor in building customer loyalty variable is the indicator to always share positive feedback about BMI, with loading factor value 0.863. In term of competitive advantage variable, the most

dominant indicator that shapes the competitive advantage variable is the differentiation with loading factor value 0.841.

Furthermore, Average Variance Test (AVE) is performed to strengthen the convergent validity result, with criteria if the value of $AVE \geq 0.5$, then the construct used in the research is valid. Below are the Average Variance Test results by using Smart PLS 3.0 program.

Table 5
Average Variance Extracted Value

Latent	Average Variance Extracted (AVE)	R Critical	Criteria (AVE ≥ 0.5)
Rivalry merger	0.838	0.5	Valid
Bank financial health rating	0.658	0.5	Valid
Loyalty Customer	0.679	0.5	Valid
Competitive advantage	0.639	0.5	Valid

By considering detail of data in Table 5, it is interpreted that the convergent validity result base on average variance extracted shows all latent variable have AVE value less than 0.50. These indicate that the indicator in building the latent construct has a good convergent validity if it is seen from the average variance extracted value.

The test in next step is by criteria of Cronbach's Alpha and Composite Reliability valuation.

Table 6
Cronbach's Alpha and Composite Reliability Values

Latent	Cronbach's Alpha	Composite Reliability
Rivalry merger	0.936	0.954
Bank financial health rating	0.913	0.931
Customer loyalty	0.883	0.913
Competitive advantage	0.811	0.876

By considering the detail data in Table 6, it is interpreted that there is latent construct with Cronbach's Alpha value bigger than 0.70. This value indicates that the latent construct has a good reliability. Besides, the composite reliability value of all latent constructs also has value bigger than 0.70 which indicates that the latent constructs have a good reliability.

In next step, the structure of inner model is evaluated by analyzing the relationship between the constructs.

Tabel 7
R Square

	R Square	Relationship Strength
Competitive advantage	0.602	Moderate

Tabel 8
F Square

Latent	Effect Size	Rating
Rivalry merger	0.143	Small
Bank financial health rating	0.223	Medium
Customer loyalty	0.380	Big

By observing Table 7, it is seen that the R-Square of competitive advantage is 0.602, means that rivalry merger, bank financial health rating, and customer loyalty contribute 0.602 or 60.2% into competitive advantage. Whilst, 39.8% is the influence of unmonitored other factors. Table 8 exemplifies that the rivalry merger variable has a small influence to competitive advantage, the bank financial health rating variable has medium influence to competitive advantage, and last the customer loyalty variable has a big influence to competitive advantage.

The hypothesis test in this research is performed by exercising path coefficient value, t-value, and p-value. The significance and prediction in hypothesis test are derived from path coefficient value and t-value (Abdillah W. H., 2015).

Figure 3
Significance Value

Above figure describes bootstrapping result by using Smart PLS 3.0 program. The figure represents the influence of rivalry merger (X_1), bank financial health rating (X_2), and customer loyalty (X_3) to competitive advantage (Y).

Statement of hypothesis in research 1 is: There is negative influence from rivalry merger to competitive advantage of BMI. This hypothesis is developed to be statistical hypothesis below.

H_{0.1}: There is no negative influence from rivalry merger to competitive advantage of BMI;

H_{1.1}: There is negative influence from rivalry merger to competitive advantage of BMI.

Table 9
Path Coefficient and t Calculation of
Rivalry Merger (X_1) $\rightarrow$ Competitive Advantage (Y)

Influence	Path Coefficient (beta)	t-Calculation	P Value	Conclusion
Rivalry merger to competitive advantage	-0.239	2.258	0.025	Accept H _{1.1}

Result in Table 9 represents that path coefficient value with negative magnitude - 0,239 means the direction of rivalry merger influence to competitive advantage is negative or opposite. In other words, if the rivalry merger increases than the competitive advantage will decrease. The influence of rivalry merger to competitive advantage is significant, with statistical-t 2.258. This value is bigger than t-table 1.96, or $2.258 > 1.96$. Whilst, p-value is 0.025 smaller from alpha 5% (0.05). Therefore, the $H_{1.1}$ is accepted, it is proven that **there is negative and significant influence from rivalry merger to competitive advantage of BMI.**

Hypothesis statement of research 2 is: There is positive influence from bank financial health rating to competitive advantage of BMI. This hypothesis is developed to below statistical hypothesis.

H_{0.2}: There is no positive influence from bank financial health rating to competitive advantage of BMI;

H_{1.2}: There is positive influence from bank financial health rating to competitive advantage.

Table 10
Path Coefficient and t-Calculation of
Bank Financial Health Rating (X₂) → Competitive Advantage (Y)

Influence	Path Coefficient (beta)	t-Calculation	P Value	Conclusion
Bank financial health rating to competitive advantage	0.362	4.751	0.000	Accept H _{1.2}

By observing the Table 10, it is seen that the path coefficient value is positive 0.362. This means the direction of bank financial health rating influence is positive or one way. In other words, if the influence of bank financial health rating increases, the competitive advantage will also increase. The influence of bank financial health rating to competitive advantage is significant, with t-statistic 4.751 bigger which is bigger than t-table 1.96 or $4.751 > 1.96$. The p value is 0.000 (0%) or smaller than alpha 5% (0.05). Therefore, the $H_{1.2}$ is accepted means it is proven that **there is positive and significant influence of bank financial health rating to competitive advantage of BMI.**

Hypothesis statement from research 3 is: There is positive influence from customer loyalty to competitive advantage of BMI. This hypothesis is arranged in statistical hypothesis as below.

H_{0.3}: There is no positive influence from customer loyalty to competitive advantage of BMI;

H_{1.3}: There is positive influence from customer loyalty to competitive advantage of BMI.

Table 11
Path Coefficient and t-Calculation of
Customer Loyalty Variable (X₃) → Competitive Advantage (Y)

Influence	Path (beta)	Coefficient	t- Calculation	P Value	Conclusion
Customer loyalty to competitive advantage	0.473		6.054	0.000	Accept H _{1.3}

Table 11 shows that the path coefficient value is positive 0.473. It means the direction of the customer loyalty influence to competitive advantage is positive or in one way. So, in case the customer loyalty increase, the competitive advantage will increase. The influence of customer loyalty to competitive advantage is significant with t-statistic 6.054, it is bigger than t-table value 1.96 or $6.054 > 1.96$. The p value is 0.000 (0%) or smaller than alpha 5% (0.05). Therefore, it summarized that H_{1.3} is accepted, means **there is positive and significant influence from customer loyalty to competitive advantage of BMI.**

The merger of state enterprise sharia banks was effective on 1st February 2021. The merger impacted to the competition map of sharia banking in Indonesia. The new post-merger entity, Bank Syariah Indonesia (BSI), had left its competitor behind. In other words, with the existence of rivalry merger to BMI, the market coverage, price, risk propensity, and variation of products increased more than the merged competitor. This will significantly reduce the competitive advantage of BMI, in term of reduction of leadership cost, differentiation, focus, and innovation (capability to always innovate). This case implies that competitive advantage is going weak once the competitors merged. According to Fee & Shawn Thomas (2004), the competitive advantage of merged competitors cannot be imitated. In this case, competitive advantage of BMI is potentially weakened. When the integration process completes, the competitor damages with the collaboration of the entities

(Clougherty & Dusso, 2011). This study strengthens previous researches, such research of Hu et al. (2020) mentions that merger causes more negative impact to performance sustainability of the competitor, particularly at the time of the merged companies successfully run the strategy for leadership cost and capable to adopt better technology than the competitors. There is important lesson learn for the company which deals with rivalry merger and today global competition. Company has to be capable in adjusting the cost structure and develop all sources or strategic assets to seek alternative to compete with its competitor in order to gain sustainable competitive advantage and long term performance.

Uhlenruck et al. (2016) states that merger can create a synergy base on completing each other resources, scale, and economic coverage, and also any other benefit which can boost in achieving or maintaining the competitive advantage. He also shows that the competitor can take advantage from rivalry merger in term of competition due to the existence of the industry consolidation which requires a correct quick response.

Though the research indicates that merger variable has lower influence compare to another variables, but by the merged companies have similarity in resources and market segment. A correct company action especially with the integration issues which will influence the behavior of the merged companies, such lowering the comfort and customer trust along with the changes in systems, e.g. there is a feature which was available before the merger, disappears after the merger. This chance can be grabbed by BMI to takeover that type of customers. If the integration process has completed and that type of customers have adapted, this chance is overdue.

This study about influence of bank financial health rating is align with research of (Njanike, 2009) which implies the capability of a bank in controlling its risk profile particularly credit risk (one of indicator of bank financial health rating), the competitor bank will gain competitive advantage.

Besides, Ruslan et al. (2018) explains that capital adequacy ratio (as one of indicator of bank financial health rating) and efficiency (also one of indicator of bank financial health rating) have competitive advantage influence from bank. Hence, improvement on capital adequacy ratio and banking efficiency level will increase the competitive advantage of a bank.

The enhancement of customer loyalty, in which the customer becomes more open to share the positive feedback, referral, and build continuous relationship along with the uplift on commitment and trust to BMI, will significantly impact to the competitive advantage enhancement of the company. In BMI case, the loyalty factor becomes the main strength where religiosity as main reason in choosing the bank, since BMI is the 1st and purely sharia bank in Indonesia. Finding of this research, the competitive advantage is determined by customer loyalty, also implies in (Denoue & Saykiewicz, 2009), (Affran et al., 2019), (Arslan, 2019), and (Ruslan et al., 2018) researches. The researches find there is a very significant influence between customer loyalty and competitive advantage of the company.

Research result shows that customer loyalty produces the biggest path coefficient value compare to other variables. It indicates that customer loyalty is the most dominant variable compare to rivalry merger and bank financial health rating variables.

Table 12
Financial Ratio Movement of PT. Bank Muamalat Indonesia, Tbk Period 2017 – 2021

Details	March 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Total Assets	51,775	51,241	50,556	57,227	61,697
Financing	28,772	29,084	29,877	33,566	41,332
Third Parties Fund	42,674	41,424	40,357	45,636	48,686
Nett Profit	2.5	10	16	46	26
ROA	0.02%	0.03%	0.05%	0.08%	0.11%
BOPO	98.51%	99.45%	99.50%	98.24%	97.68%
FDR	66.72%	69.84%	73.51%	73.18%	84.41%
NPF Nett	4.18%	3.95%	4.30%	2.58%	2.75%
CAR	15.06%	15.21%	12.42%	12.34%	13.62%

Source: Audited Report of PT. Bank Muamalat Indonesia, Tbk 2017 – March 2021

Table 12 informs that amount of third parties fund decline in 2018 and 2019, but increase in 2020 and in the next year (Mac 2021). In fact, in 2021, the merger of the public state sharia banks occurs. In term of financing, BMI tends to decline since 2016 to 2021. The declining on financing amount may be caused by the rivalry merger and surely prior as result of capital adequacy ratio as one indicator in bank financial health rating. This condition causes the company cannot expand the financing smoothly. The survey shows that financing ratio in bank financial health rating has lower mean compare to other indicators. Hence, the need for capital is also sensed by the employees. Less capital will

reduce competitive advantage of BMI and vice versa, or also known as positive direction relation.

The financing declining directly influences the rate of return and BOPO comparison. BOPO value improves by capability of company to reduce cost and maintain amount of revenue. This capability of company to reduce cost and maintain its capability to increase the revenue (leadership cost) also receive high value response from the respondents.

Survey result informs that BMI has high competitive advantage which is indicated by a strong dominancy of customer loyalty to competitive advantage of the company. This keeps the competitive advantage high though the rivalry merger which has a negative influence direction to competitive advantage occurs and also with lower bank financial health rating and its indicator than the competitors even though the influence direction is positive.

Competitive advantage of BMI can be maintained by keeps monitor the customer loyalty and maintain the customer perception as the 1st and purely sharia bank, with focus on developing the sharia principles complied products. This strategy is aligned with company vision to remain focus on developing Moslem segment and the products which can support customer in performing the sharia obligations and any other needs.

The external environment such when the competitors merge into a new entity which potentially increase the competitive advantage and decrease the competitive advantage of company. The capital reinforcement with the entrance of new ongoing investors is an improvement action for its contribution as one of bank financial health rating indicators. Hence, maintaining the customer loyalty is the only way to compete. Maintaining the customer loyalty value is one of alternative strategies, called as stability strategy. Stability strategy is taken since it has the lowest risk so that company can focus in maintaining its current market segment through internal functional and process improvements. Through this strategy, all resources will be centralized in the current market and reduce bigger potential loss.

Capability of company to maintain the customer loyalty influences another competitive advantage, i.e. focus. Company is successfully to stay focus in suitable Moslem market segment, from education, health, philanthropy, and also personal needs of a

Moslem, such an aggressively promoted prohajj (hajj endowment fund) services in collaboration with Hajj Financial Management (BPKH).

The fast pace of technology development, the rise of financial technology (fintech) companies which expand its function to similar function like banking, and the presence of digital banking, the initiative to develop the digital banking is required. Forcadell et al. (2019) conveys that innovation performance of a company will increase its competitive advantage and support its continuity in banking industry.

Mihet & Philippon (2019) states that technology and big data can be treated as an intangible asset as source of competitive advantage of company in innovation. Intangible asset creation requires high fixed cost and low marginal cost. Therefore, the big company with technology and financial resources, or the company with capability to produce initial capital has competitive advantage compare to small company or the company with limited access to financing. Having limited capital and pressurized profitability rate, this investment should be allocated carefully. Capability of company to predict the customer needs and remain focus in market segment, i.e. Moslem segment as key of success to take advantage from technology.

The company is also excellence in leadership cost, focus, and innovation indicator, which lead BMI as a unique company and successfully maintain the tagline as “The 1st and purely sharia bank”. This keeps the company as the leader in sharia ecosystem even though there are boundaries such massive expansion from competitors or capital limitation which then this strategy is considered as the most relevant and has minimum cost. This uniqueness is responded by the respondents contributes to the biggest mean value than other competitive advantage indicators. In other words, BMI is very excellent in uniqueness due to its consistency to focus and perform to comply with sharia principles

CONCLUSION

The research provides data about BMI: rivalry merger has medium strength, the bank financial health rating is moderate, the customer loyalty is high, and the competitive advantage of company is high. Rivalry merger variable gives negative influence to competitive advantage of BMI so if the strength of rivalry merger increase, the competitive advantage of company will decrease.

Bank financial health rating contributes positive influence to competitive advantage of BMI. It means, if the bank financial health rating increase, the competitive advantage will follow. Whilst, customer loyalty variable gives positive influence to competitive advantage of BMI. In other words, if customer loyalty increases the competitive advantage will increase too.

It is suggested to conduct a further research about influence of the merger of publish states sharia banks after the merger and integration process took place with objective to evaluate the magnitude of its influence to competitive advantage of the company. Related research on competitive advantage is also necessary to conduct by considering the digitization development and changes in competition map in banking industry due to the expansion of fintech's function alike banking function.

REFERENCES

- Abdillah, W. H. (2015). Partial Least Square (PLS). *Yogyakarta : Penerbit Andi*.
- Abror, A., Patrisia, D., Engriani, Y., Evanita, S., Yasri, Y., & Dastgir, S. (2019). Service Quality, Religiosity, Customer Satisfaction, Customer Engagement and Islamic Bank's Customer Loyalty. *Journal of Islamic Marketing, emerald.com*.
- Abrudan, I. N., Plaias, I., & Dabija, D.-C. (2015). The relationship among image, satisfaction and loyalty – innovative factor of competitiveness for shopping centers. *Amfiteatru economic, 2015 - papers.ssrn.com*.
- Affran, S., Dza, M., & Buckman, J. (2019). Empirical conceptualization of Customer loyalty on relationship marketing and sustained competitive advantage. *Journal of research in marketing, 2019 - core.ac.uk*.
- Amin, M., Isa, Z., & Fontaine, R. (2013). Islamic banks Contrasting the drivers of customer satisfaction on image, trust, and loyalty of Muslim and non-Muslim customers in Malaysia. *International Journal of Bank Marketing, 2013 - emerald.com*.
- Arslan, I. K. (2020). The Importance of creating of customer loyalty in achieving sustainable competitive advantage. *Eurasian Journal of Business and Management, 2020 - search.proquest.com*.
- Astutik, P., & Djazuli, A. (2014). Pengaruh Tingkat Kesehatan Bank Menurut Risk Based Bank Rating terhadap Kinerja Keuangan (Studi pada Bank Umum Syariah di Indonesia). *Jurnal Ilmiah Mahasiswa Fakultas Ekonomi dan Bisnis, Fakultas Ekonomi dan Bisnis, Universitas Brawijaya*.
- Ayuni, R. F., Hussein, A. S., & Handrito, R. (2016). Role of religion motives and brand image towards consumer satisfaction and consumer loyalty of islamic banking. *The International Journal of Accounting and Business Society, ijabs.ub.ac.id*.

- Barney, J. B., & Hesterly, W. S. (2015). *Strategic Management & Competitive Advantage : Concepts & Cases*. Edinburgh Gate Harlow: Pearson Education Limited.
- Chatterjee, S. (1986). Types of Synergy and Economic Value: The Impact of Acquisitions on Merging and Rival Firms. *Strategic Management Journal*, 7, 119-139 (1986), Wiley Online Library.
- Ciunova-Shuleska, A., Palamidovska-Sterjadovska, N., Osakwe, C. N., & Ajayi, J. O. (2015). The Impact of Customer Retention Orientation and Brand Orientation on Customer Loyalty and Financial Performance in SMEs: Empirical Evidence from a Balkan Country. *Journal of East European Management Studies*, Jstor.org.
- Clougherty, J. A., & Dusso, T. (2011). Using rival effects to identify synergies and improve merger typologies. *Strategic Organization*, 2011 - journals.sagepub.com.
- Denoue, M., & Saykiewicz, J. N. (2009). Brand Loyalty as a Tool of Competitive Advantage. *Master of Business Administration*, 2009 - 31.186.81.235.
- F.Slater, S. (1996). The Challenge of Sustaining Competitive Advantage. *marketing management*, 1996 – Elsevier.
- Fee, C., & ShawnThomas. (2004). Sources of gains in horizontal mergers: evidence from customer, supplier, and rival firms. *Journal of Financial Economics*, elsevier.
- Forcadell, F. J., Aracil, E., & Úbeda, F. (2019). The Influence of Innovation on Corporate Sustainability in the International Banking Industry. *Sustainability*, 2019-mdpi.com.
- Hu, X., Yin, X., Jin, Z., & Li, J. (2020). How Do International M&As Affect Rival Firm's Sustainable Performance? *Empirical Evidence from an Emerging Market*, Sustainability, 2020 – mdpi.com.
- Kamukama, N., Kyomuhangi, D. S., Akisimire, R., & Orobia, L. A. (2017). Competitive advantage Mediator of managerial competence and financial performance of commercial banks in Uganda. *African Journal of Economic and Management Studies*, emerald.com.
- Kato, J., & Schoenberg, R. (2012). Customer and Competitor Responses to Mergers and Acquisitions: An Empirical Investigation in the Logistics Industry. *Advances in Mergers and Acquisitions*. *Advances in mergers and acquisitions* - emerald.com.
- Kotler. (2016). *Marketing Management*. Harlow, : England : Pearson.
- Loveman, G. W. (1998). Employee satisfaction, customer loyalty, and financial performance : an empirical examination of the service profit chain in retail banking. *Journal of service research*, 1998 - journals.sagepub.com.
- Marrison, C. (2002). *The Fundamentals of Risk Measurement*. New York: McGraw-Hill Education.
- Mihet, R., & Philippon, T. (2019). The Economics of Big Data and Artificial Intelligence. *Disruptive Innovation in Business and Finance in the Digital World*, emerald.com.
- Mu'allim, A. (2003). Persepsi Masyarakat terhadap Lembaga Keuangan Syariah. *Mawarid Journal of Islamic Law*, 2003 - neliti.com.

- Njanike, K. (2009). The Impact of effective Credit Risk Management on Bank Survival. *Annals of the University of Petroșani, Economics*, 2009 - *researchgate.net*.
- Nuraini, N., Sarkum, S., & Halim, A. (2021). Analysis of Company Capability, Supply Chain Management of Competitive Advantage, and Company Performance. *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)*, 4(1), 87-104. <https://doi.org/10.31538/ijse.v4i1.1463>.
- Oduor, J., Ngoka, K., & Odongo, M. (2017). Capital requirement, bank competition and stability in Africa,. *Review of Development Finance, Elsevier*.
- Porter, M. (1985). *Competitive Advantage : Creating & Sustaining Superior Performance*. New York: FreePress.
- Ramaswamy, K. (1997). The Performance Impact of Strategic Similarity in Horizontal Mergers: Evidence from the U.S. Banking Industry. *Academy of management Journal*, 1997 - *journals.aom.org*.
- Rashid, M. H., Nurunnabi, M., Rahman, M., & Masud, M. A. (2020). Exploring the Relationship between Customer Loyalty and Financial Performance of Banks: Customer Open Innovation Perspective. *Journal of Open Innovation*, 2020 - *mdpi.com*.
- Ruslan, A., Pahlevi, C., Alam, S., Nohong, M., & Reni, A. (2018). Determinants of Banking Efficiency and its Impact on Banking Competitive Advantage. *Advances in Economics, Business and Management Research (AEBMR)*, 3rd International Conference on Accounting, Management and Economics 2018 (ICAME 2018)-*Atlantis-Press.com*.
- Stigler, G. J. (1950). Monopoly and Oligopoly by Merger. *The American Economic Review*, *JSTOR.org*.
- Suchánek, P., & Králová, M. (2019). Customer Satisfaction, Loyalty, Knowledge and Competitiveness in the Food Industry. *Economic Research-Ekonomska Istrazivanja* 2019, 32(1), 1237–1255.
- Sugiyono. (2018). *Metode Penelitian Manajemen, Pendekatan Kuantitatif, Kualitatif, Mixed Methods*. Bandung: Alfabeta Bandung.
- Tabrani, M., Amin, M., & Nizam, A. (2018). Trust, Commitment, Customer Intimacy and Customer Loyalty in Islamic Banking Relationships. *International journal of Bank Marketing*, 2018-*emerald.com*.
- Uhlenbruck, K., Uhlenbruck, K., Hughes-Morgan, M., Hit, M. A., Ferrier, W. J., & Brymer, R. (2016). Rivals' Reactions to Mergers and Acquisitions. *Strategic Organization*, 2016 *SAGE Publication*.