



Decision Making and Patronage Behaviour in Islamic Co-operatives in Aceh, Indonesia

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Abstract

Although the number of Islamic co-operatives' memberships only amounted to 2.51 million people (11.19%) to the total membership of co-operatives in Indonesia nationwide, but it has shown a rising trend in its membership by 76.11% over the last decade (Ministry of Co-Operatives & SMEs, 2019). These figures raise an essential research question: what drives the decision of Indonesian citizens to patronage Islamic co-operatives? Specifically, this study explores pertinent determinants of decision-making made by the members to select Islamic co-operatives in Aceh, Indonesia. A number of 280 members and non-members of Islamic co-operatives were selected as the sample of the study using a purposive sampling technique. Based on the logistic multiple regression technique, the study recorded that the members' decision-making in selecting Islamic co-operatives was mainly determined by their shari'ah compliance and characteristics' uniqueness. Meanwhile, physical facilities and services quality provided by the Islamic co-operatives have insignificant effects on the people's decision-making to become the memberships of Islamic co-operatives. This empirical evidence suggested that to attract more memberships, the Islamic co-operatives should improve their shari'ah compliance and characteristics' uniqueness.

Key words: Decision making, Patronage behavior, Islamic co-operative, Shari'ah compliance, Logistic regression.

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INTRODUCTION

In the last decade, one in each of six residents on the globe is co-operators. Globally, the membership of co-operatives has reached at least 800 million people. The top 300 co-operatives on the globe have created jobs for no less than 280 million people worldwide, contributing to USD2.1 trillion of global co-operatives' turnover (International Co-operative Alliance, 2017). This shows the crucial role of co-operatives to worldwide social-economic development (Hasan, Azhari, & Majid, 2018), including Indonesia.

In Indonesia, the 1945 Indonesian Constitution has mandated co-operatives as the backbone and pillar of the national economy (Majid, et al., 2020a). The launch of the Savings and Loan Co-operative in 1896 in Purwokerto City, Central Java, which is mainly aimed to free the farmers from moneylenders (Nasution, 2007) has marked the first establishment of co-operative in the country's co-operative history. Since then, many co-operatives have emerged into many economic sectors nationwide (Majid, et al., 2020b). Following the appearance of Islamic financial and banking institutions in the Muslim world in the 1970s and the first establishment of an Islamic bank in Indonesia, Bank Muamalat Indonesia (BMI), similar demand has emerged for the presence of co-operatives that are operated based on Islamic tenets (Sakai, 2010; Majid & Hasin, 2014). In their operation, Islamic co-operatives must be free of elements of usury (*riba*), uncertainty (*gharar*), and gambling (*maysir*).

In response to the high demand for the emergence of Islamic co-operatives, the Ministry of Co-operatives and Small and Medium Enterprises (SMEs) of the Republic of Indonesia has issued State Decree No. 91/2004 concerning Guidelines for Islamic

Financial Services Cooperative Business Activities. Since the last three decades, many Islamic co-operatives have been operating in parallel with the conventional co-operatives in Indonesia. In 2019, of 123,048 co-operatives in Indonesia, 4,046 (3.29%) of them were Islamic co-operatives. Comparing to the number of members of conventional co-operatives that reached 22.46 million people in 2019, the Islamic co-operatives memberships only amounted to 2.51 million people or 11.19% to the total membership of co-operatives nationwide (Ministry of Co-Operatives & SMEs, 2019).

In the last decades, the membership of conventional co-operatives has shown a decreasing trend, while a rising trend is experienced by the membership of Islamic co-operatives. The number of conventional co-operatives memberships has declined by -23.17% over the 2009-2019 period, while the number of members of Islamic co-operatives has increased by 76.11% over a similar period (Ministry of Co-Operatives & SMEs, 2019). These figures raise an essential research question: what drives the decision of Indonesian citizens to patronage Islamic co-operatives?

Previous studies on Muslim preferences have been intensively focused on Islamic banking and the financial industry worldwide. The Islamic preferences to Islamic banking and financial institutions have been conducted in Malaysia (Abdelghani & Oladokun, 2012), Jordan (Naser, Jamal, & Al-Khatib, 1999), Bangladesh (Hassan, Khan, & Shahid, 2007), Bahrain (Al-Ajmi, Hussain, & Al-Saleh, 2009), Thailand (Lateh, Ismail, & Ariffin, 2009), the UK (Walid, et al., 2010), and Indonesia (Majid & Zulhanizar, 2016).

The above-reviewed studies documented that both internal and external factors affected the decision of customers to select the banking

institution. Macroeconomic factors such as income, regulation, interest rate, etc., and internal factors such as psychological, education, services and facilities, religious commitment, and product innovation have differently influenced the decision of the customer to patronage Islamic banking and financial institutions. Do similar factors affect the decision of customers to select other Islamic non-banking financial institutions, such as Islamic co-operatives? If yes, to what extent do those factors influence the customers' decision to select Islamic co-operatives?

Realizing the inexistence of similar previous studies on the determinants of decision making of people to patronage Islamic co-operatives, thus, this research intends to fill those gaps by taking the case of Islamic co-operatives in Indonesia. Additionally, considering the operation of Islamic institutions such as co-operatives should comply with the *shari'ah* principles (Ahmad & Al-Aidaros, 2015), thus this study incorporate *shari'ah* compliance – a factor ignored by many previous studies – as one of the crucial determinants of the decision in selecting Islamic co-operatives in Indonesia.

Specifically, this study explores the effects of *shari'ah* compliance, co-operative characteristics, physical facilities, and services quality on the decision of Indonesian in becoming Islamic co-operative membership.

The study's findings are hoped to offer some policy references for the management of Islamic co-operatives in designing policy to attract more memberships, and for government to design a policy to enhance the presence and contribution of Islamic co-operatives to promote the welfare of Indonesian citizens nationwide.

The remaining parts of the paper are structured in the following manner. Section 2 discusses the research method and data on

which the analysis is conducted. Section 3 provides the findings, discussions, and implications. Finally, the conclusion is presented in the last section.

METHOD

According to Regulation No. 16 (2015) of the Ministry of Co-operatives and SMEs, the Republic of Indonesia, Islamic co-operative is "a non-banking institution whose business activities include savings, loans, and financing following *shari'ah* principles, including managing *zakat*, *infaq*, and *waqf*". Its activities should uphold the fundamental objectives of *shari'ah* (*Maqashid as-Shari'ah*), comprising five basic protections: life (*an-Nafs*); religion (*ad-Din*); lineage (*an-Nasl*); intellectual (*al-'Aql*); and wealth (*al-Mal*) (Majid & Kassim, 2015). Thus, the products and services offered by Islamic co-operatives should be free from *riba*, *gharar*, and *maysir* (Itam, Hasan, & Alhabshi, 2016), thus in harmony with *Maqashid Shari'ah*.

This research empirically probes the effects of *shari'ah* compliance, characteristics, physical facilities, services quality on the decision of people in patronaging Islamic co-operatives in Banda Aceh City, Indonesia. A number of 280 respondents, comprising 140 members of Islamic co-operative members and 140 non-members of Islamic co-operatives were selected as the study's sample using a purposive sampling technique. The members of Islamic co-operatives selected are those with ages of 16 years and above and have been an Islamic co-operative membership at least two years, while the non-members of Islamic co-operative selected are those with ages of 16 years and above. The number of selected respondents in this study is more than sufficient to represent the entire population, considering the minimum sample size of only 100 (Hair, et al., 2010).

In this study, the dependent variable is the people's decision-making in either selecting or not selecting Islamic co-operative. The dummy variable measures the dependent variable (i.e., deciding not to select Islamic co-operative = 0; deciding to select Islamic co-operative = 1). Meanwhile, the four independent variables are investigated in the study, comprising *shari'ah* compliance, physical facilities, characteristics, and services quality. *Shari'ah* compliance is defined as the assurance of the Islamic co-operatives to offer *shari'ah* compliant products and services (Seibel, 2007).

Furthermore, physical facilities are defined as the personnel, equipment, and communication facilities of the co-operatives (Nupur, 2010), while co-operative characteristics refer to the operation, products, and services offered based on profit-loss sharing system (Bond, 2009).

Finally, services quality is defined as the ability of co-operatives to provide the promised services, establish good communication, personal attention, and understand the needs of the members (Vamstad, 2012).

All the independent variables are measured in the interval scale of the 5-point Likert-scale (i.e., strongly disagree = 1; disagree = 2; quite agree = 3; agree = 4; and strongly agree = 5).

This study utilizes primary data gathered by distributing questionnaires to respondents. A 16-closed question was asked about the determinants of respondents' decision-making either in selecting or not selecting Islamic co-operatives. 4-question was asked respectively relating to the *shari'ah* compliance, physical facilities, and services quality, while 3-question was asked about the Islamic co-operative's characteristics.

Before the data are further analyzed using multiple logistic regression, the instrument tests of reliability and validity,

and the classical assumptions of normality, heteroscedasticity, and multicollinearity were conducted using the standard techniques. After ensuring the validity, reliability, and fulfillment of classical assumptions of the data, the study estimates the following logistic multiple regression equation:

$$\text{Log}(P/1-P) = \text{DMK} = \beta_0 + \beta_1\text{SHC} + \beta_2\text{PFC} + \beta_3\text{ICR} + \beta_4\text{SRQ} \quad (1)$$

Where P is the probability that DMK (the decision making) is equal to 1, and SHC is the *shari'ah* compliance, PFC is the physical facilities, ICR is the Islamic co-operative characteristics, SRQ is the quality of the services, β_0 is the constant term, and $\beta_1 - \beta_4$ are the estimated regression coefficients.

RESULTS AND DISCUSSION

In this study, a number of 280 respondents (i.e., 140 members and 140 non-members of Islamic co-operatives) in the city of Banda Aceh, Indonesia were investigated their decision-making in selecting and not selecting Islamic co-operatives. Based on their characteristics, the majority of the respondents were male (56%), with ages between 20 to 30 years old (34%), university graduates (39%), government employees (35%), and monthly income of IDR3 million.

Table 1 further illustrates the perception of respondents on the investigated variables. As observed from Table, the respondents perceived the *shari'ah* compliance, physical facilities, co-operative characteristics, and services quality of the Islamic co-operatives were in the "good" category with the average score of 3.91, 3.62, 3.89, and 3.73, respectively.

Table 1. Perception of the Respondents

Variable	Minimum	Maximum	Mean	Standard Deviation
<i>Shari'ah</i> Compliance	2	5	3.91	0.607
Physical Facilities	1	5	3.62	0.618
Co-operative Characteristics	1	5	3.89	0.747
Services Quality	2	5	3.73	0.531

After ensuring the validity and reliability of all instruments and the data satisfied the classical assumptions, the study proceeds to explore the effects of *shari'ah* compliance, physical facilities, co-operative

characteristics, and services quality on the decision-making in selecting Islamic co-operatives.

Table 2 provides the findings of the estimated logistic multiple regression analysis.

Table 2. Findings of Estimated Logistic Multiple Regression Analysis

Variable	β	Odds Ratio	P-value
<i>Shari'ah</i> Compliance	1.353 ^{***}	3.898	0.000
Physical Facilities	0.205	0.875	0.636
Co-operative Characteristics	0.492 ^{**}	1.796	0.049
Services Quality	0.259	0.903	0.476

-2 Log Likelihood = 210.402; Cox & Snell's R^2 =0.264; Nagelkerkes' R^2 = 0.352

Overall (%) = 76.54; Hosmer & Lameshow Chi-Square = 5.142 (p-value = 0.531)

Note: *** and ** indicates 1% and 5% significant levels.

As reported in Table 2, of four independent variables, only *shari'ah* compliance and co-operative characteristics were documented to have a significant effect on the decision to select Islamic co-operatives. In contrast, other variables have an insignificant effect. Specifically, the *shari'ah* compliance is found to have a positive significant influence on the decision of people to select Islamic co-operatives at the 1% level significance with an odds ratio of 3.898. This shows that the higher the operation, products, and services of Islamic co-operatives comply with the *shari'ah*; the possibility of people decide to select Islamic co-operatives was 1.353 times higher as compared to their decision of not choosing Islamic co-operatives.

The positive effect of the *shari'ah* compliance on the possibility of people decide to select Islamic co-operatives could

partially be due to the practices of profit-sharing, contracts adopted, services provided, and Islamic co-operative operations have been running in harmony with the Islamic business (*mu'amalah*) principles (Majid & Zulhanizar, 2016). The presence of the Shariah Advisory Board of the Indonesian Ulama Council to issue fatwa and ensure the adherence of the Islamic co-operatives to *shari'ah* principles has driven more Islamic co-operative memberships. *Shari'ah* compliance is a manifestation of all Islamic principles fulfillment in co-operatives with strong characteristics, credibility, integrity (Ahmad & Al-Aidaros, 2015). This finding further implies that, to expand their business by attracting more memberships, Islamic co-operatives must continuously improve their operations, products, and services to comply with *shari'ah* principles.

Table 2 also shows that co-operative characteristics have a significant positive effect on the people's decision to select Islamic co-operatives at the 5% level with an estimated odds ratio of 1.796. This finding signifies that with the higher uniqueness of the Islamic co-operatives in terms of their products and services the possibility of people's decision to become members of Islamic co-operatives would be higher by 1.796 times as compared to the non-selection of Islamic co-operatives. To become a member of a co-operative, a prospective member would observe the co-operative-related characteristics, particularly the uniqueness of its offered products and services. Thus, to attract more memberships, the Islamic co-operatives should continuously enhance the uniqueness of their characteristics distinguished themselves from conventional co-operative counterparts.

Unlike the shariah compliance and co-operative characteristics, the physical facilities and services quality of the Islamic co-operatives have insignificant influences on the people's decision to become memberships of Islamic co-operatives. This might be, *inter alia*, caused by the attraction of co-operatives' members to *shari'ah* compliances and the uniqueness of the co-operatives. As long as their operating is in line with the Islamic principles, they tend to pay no attention to their facilities and quality services. Islamic co-operatives are viewed to offer tremendous benefits over other conventional co-operatives both financially and spiritually. These superiorities of Islamic co-operatives are the main reason for the people's decision to become members of Islamic co-operatives.

In addition, the lack of insignificant influence of the physical facilities and service quality on the people's decision to become memberships of Islamic co-operatives might be contributed by similar limited physical facilities and relatively low level of service

quality provided by Islamic co-operatives in Aceh, Indonesia. Islamic co-operatives are included in the category of the Micro, Small, and Medium Enterprises (MSMEs), which have limited physical facilities and commonly manage and operate in traditional ways.

Many Islamic co-operatives in Aceh, Indonesia have not implemented good co-operative governance principles as their management members comprise less-skilled laborers and work as part-time employees as side jobs (Majid, et al., 2020b). The majority of Islamic co-operative management members have their own job either as government employees or own businesses. In addition, the lack of adoption of advanced technological facilities in Islamic co-operatives has contributed to the low level of services quality offered by Islamic co-operatives to their members. These existing conditions contributed to the insignificant effect of physical facilities and services quality of Islamic co-operatives to attract their memberships.

Finally, referring to the last row of Table 2, overall, the variables of shariah compliance, co-operative characteristics, physical facilities, and service quality are found to explain the variation in the possibility of people's decision to become the Islamic co-operative memberships by 35.20%, as shown by the Nagelkerke's R^2 . Meanwhile, the rest 64.80% variations in the decision to select Islamic co-operatives are described by other than the determinants investigated in our study. These include co-operative good governance principles, social and economic factors, regulation, etc. Our research also recorded the value of an overall percentage of 73.54, showing the ability of our proposed model to forecast by 73.54% of the true condition correctly. Finally, the estimated model is documented to be a good fit enough and did not suffer from the misspecified model, as shown by the insignificance of the Hosmer and Lemeshow

test ($0.531 > 0.10$). These findings further confirm the robustness of our empirical findings, thus they could provide a better inference for designing appropriate policies to promote Islamic co-operatives as the best choice for Muslim society.

CONCLUSION

This study empirically assessed the pertinent determinants of people's decision to become Islamic co-operatives' membership. Using a number of 280 respondents and logistic multiple regression technique, the study documented that the shariah compliance and co-operative characteristics have a significant positive influence on the probability of people's decision to become the memberships of Islamic co-operatives in Aceh Province, Indonesia. Meanwhile, the physical facilities and services quality have an insignificant effect on the decision to become the memberships of Islamic co-operatives. These empirical findings imply that to capture more memberships, the Islamic co-operatives should improve their *shariah* compliance and unique characteristics. The Islamic co-operatives should meet the expectations of members to fully adopt Islamic principles in their operation, products, and services.

To provide more robust and comprehensive empirical findings, future studies on this issue might incorporate both external and internal determinants of people's decision in patronaging Islamic co-operative institutions, cover more Islamic co-operatives across 34 provinces nationwide, and adopt the various advanced analysis of fuzzy models.

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