
Customer Satisfaction and Local Economic Strength: Evidence from Village Credit Institution (LPD) in Banyuning Traditional Village, Buleleng

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Abstract:

This study explores the determinants of customer satisfaction within the Village Credit Institution (LPD) of Banyuning Traditional Village, Buleleng, Bali, as a reflection of local economic empowerment. Specifically, this research analyzes the influence of service quality, institutional image, and promotional strategies on customer satisfaction. A causal quantitative research design was employed, with the study population consisting of 901 customers of LPD Desa Adat Banyuning. Using probability sampling and the Slovin formula, 100 respondents were selected. The data collection technique involved a structured questionnaire, and the data were analyzed using multiple linear regression analysis. The findings indicate that service quality, image, and promotion collectively have a significant impact on customer satisfaction. Furthermore, each variable—service quality, institutional image, and promotion—was found to have a positive and significant individual effect on customer satisfaction. These results underscore the importance of improving service delivery, enhancing institutional image, and implementing effective promotional efforts to maintain customer trust and loyalty, particularly in the context of increasing competition among financial institutions in semi-urban village areas.

Keywords: *Service Quality; Image; Promotion; Customer Satisfaction; Village Credit Institution (LPD); Local Economy*

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1. Introduction

Village Credit Institutions (LPD) are unique financial entities embedded within the traditional village governance system in Bali, Indonesia. Regulated under Regional Regulation Number 3 of 2017, the core function of LPDs is to foster the economic and social welfare of customary village communities through inclusive financial services. Each LPD operates based on local customs and aims to support village development through accessible savings, loans, and investments, while also strengthening cultural and religious traditions (Rokhman & Abduh, 2020; Ibrahim & Yusheng, 2020).

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LPD Desa Adat Banyuning, established in 1992 in Buleleng District, Bali, is one such institution. It operates within the jurisdiction of five traditional banjars: Banyuning Barat, Banyuning Tengah, Banyuning Timur, Banyuning Selatan, and Banyuning Utara. Strategically located near the urban hub of Singaraja city, Banyuning Traditional Village is not only home to native residents but also a growing number of migrants. This position exposes LPD Banyuning to a highly competitive environment, where it must contend with other financial institutions such as Dana Mukti Cooperative, Bank Indra, and BRI Setia Budi Unit (Putera & Famiola, 2024).

Despite its long-standing presence and community role, recent data indicate significant fluctuations in the financial performance of LPD Banyuning. In 2019, total savings reached approximately IDR 1.3 billion and deposits were at IDR 2.5 billion. However, in 2020, savings declined to around IDR 900 million before gradually increasing to IDR 1 billion in 2021. In 2022, savings dropped again to approximately IDR 800 million but then surged in 2023 to IDR 1.8 billion. Conversely, deposits peaked in 2022 at around IDR 2.2 billion before declining sharply to IDR 1.3 billion in 2023. This volatility raises concerns about customer confidence and satisfaction—critical elements that influence financial stability and institutional sustainability (Felix & Innocent, 2024; Lindberg & Jimmie, 2022).

The trust customers place in LPD Banyuning has allowed it to survive amidst financial instability and growing competition. However, anecdotal evidence from customer interviews reveals persistent dissatisfaction. While field officers are praised for their friendliness and helpfulness, front office staff and leadership accessibility are often criticized. These service inconsistencies can erode customer satisfaction and, in the long term, customer loyalty (Rangkuti in Purnaningsih, 2008; Hardjayanti et al., 2025).

Research on microfinance customer satisfaction consistently emphasizes service quality, institutional image, and promotional efforts as key determinants (Ibrahim & Yusheng, 2020; Shodiya et al., 2024; Ismanto & Mutmainah, 2024). However, studies specifically exploring these factors within LPDs remain limited, especially those that consider the socio-cultural and geographical uniqueness of Balinese traditional villages. This research aims to fill this gap by empirically analyzing the determinants of customer satisfaction in LPD Desa Adat Banyuning.

While numerous studies have explored customer satisfaction in microfinance institutions (Rokhman & Abduh, 2020; Kombo, 2021), there is limited scholarly attention on LPDs, particularly regarding how service quality, image, and promotional efforts influence customer satisfaction in traditional, culturally governed settings. Furthermore, few studies have incorporated fluctuating financial performance data to contextualize satisfaction levels, nor have they captured the nuanced service perceptions in semi-urban areas like Banyuning. This study contributes to the literature by offering a contextualized model of customer satisfaction tailored to village-owned financial institutions, highlighting operational realities and customer experiences in LPD Banyuning.

Understanding customer satisfaction in LPD Banyuning is urgent given its role in the economic and cultural development of the village. As the institution grapples with financial instability and increased competition, retaining loyal customers through enhanced service delivery becomes paramount. Given the crucial role LPDs play in supporting community projects, religious ceremonies, and social infrastructure, their stability has direct implications for village welfare (Wiharso et al., 2022; Senguo & Kilango, 2018). By identifying key satisfaction determinants, this research will offer actionable insights to ensure the LPD remains a trusted and effective financial pillar in Banyuning Village.

This study aims to analyze the influence of service quality, image, and promotion on customer satisfaction at LPD Desa Adat Banyuning, to examine the specific influence of service quality on customer satisfaction, to assess the specific influence of institutional image on customer satisfaction, and to evaluate the influence of promotion strategies on customer satisfaction.

2. Theoretical Background

Service Quality and Customer Satisfaction

Service quality is one of the most critical factors influencing customer satisfaction, especially in financial institutions such as Village Credit Institutions (LPDs). According to Ibrahim and Yusheng (2020), service innovation and quality significantly impact customer satisfaction and organizational performance. In a similar vein, Shodiya et al. (2024) found that quality of service delivery, including staff friendliness and response time, plays a pivotal role in shaping customer experiences in microfinance banks. The presence of friendly and responsive frontline staff—as observed in Banyuning LPD—aligns with the findings of Wiharso et al. (2022), who emphasize that clean environments and efficient services enhance trust and satisfaction.

Furthermore, Salawudeen and Ogunlowore (2019) confirmed that customers of microfinance institutions highly value timely service and problem resolution, which leads to greater loyalty. However, as Kombo (2021) highlighted, poor interactions with staff could lead to dissatisfaction, reinforcing the relevance of reported complaints about unfriendly counter staff at LPD Banyuning.

Corporate Image and Customer Satisfaction

A positive institutional image builds emotional connections and trust, influencing customers' willingness to maintain long-term relationships. Felix and Innocent (2024) suggest that customers' perception of an institution's role in community development boosts their sense of loyalty and satisfaction. This is especially relevant to LPDs, which are deeply integrated into Balinese traditional villages. Rokhman and Abduh (2020) further assert that image directly affects customer loyalty in Islamic microfinance, a model culturally close to LPDs.

Kwarteng (2019) observed that financial institutions that align their image with local values and community goals enjoy stronger customer support. This corresponds with the role of LPD Banyuning, which contributes to religious and social infrastructure, thus enhancing its social image among locals.

Promotion and Customer Satisfaction

Effective promotional strategies communicate value and increase customer engagement. As shown by Putera and Famiola (2024), strategic promotion not only raises awareness but reinforces trust and advocacy. Promotions that align with community development values and offer clear, consistent information—as recommended by Smriti (2022)—can influence customer behavior positively.

According to Toor et al. (2019), promotion strategies must also emphasize reputation and transparency. The challenges faced by LPD Banyuning in providing complete information, as cited in customer complaints, reflect the gaps in promotional effectiveness that can impact satisfaction levels.

Customer Satisfaction and Economic Empowerment

Customer satisfaction plays a strategic role in reinforcing the economic strength of local financial institutions. Senguo and Kilango (2018) demonstrated that satisfied customers are more likely to reinvest and participate in institutional growth, directly impacting village-level development. Lindberg and Jimmie (2022) further link customer satisfaction with financial performance, indicating that it is not only a service issue but a strategic economic priority.

Ngumo et al. (2020) found that customer satisfaction can be a predictor of portfolio quality in microfinance institutions, and a source of resilience during economic uncertainty. In the case of LPD Banyuning, fluctuations in savings and deposits from 2019 to 2023 underscore the importance of understanding and addressing satisfaction as a core driver of financial stability.

3. Methodology

This study applies a causal quantitative research design aimed at analyzing the influence of service quality, image, and promotion on customer satisfaction at LPD Desa Adat Banyuning, Buleleng Regency, Bali. The independent variables in this research are service quality (X_1), image (X_2), and promotion (X_3), while the dependent variable is customer satisfaction (Y). The research population consists of 901 customers who have savings, deposits, or credit at the LPD. A probability sampling technique was employed to ensure the representativeness of the sample. Using the Slovin formula, a sample of 100 customers was selected for analysis. Primary data were collected through structured questionnaires distributed to the respondents, while secondary data were obtained from relevant literature such as academic journals, books, articles, and institutional records. The data collected included customer responses and institutional figures related to savings, deposits, and loans. Prior to analysis, the instruments were tested for validity and reliability. The validity test

showed that all items had Pearson correlation values above 0.3 and significance levels below 0.05, indicating that the instruments were valid. Reliability testing confirmed that the questionnaire was consistent and dependable, as shown by Cronbach's Alpha values exceeding 0.70. Data were analyzed using multiple linear regression, supported by classical assumption tests including normality, multicollinearity, and heteroscedasticity to ensure the robustness of the model. Hypotheses were tested using the t-test to evaluate the partial effects of each independent variable, and the coefficient of determination (R^2) was used to assess the explanatory power of the independent variables on customer satisfaction. This method provides a comprehensive approach to understanding the key determinants of customer satisfaction in a traditional, community-based financial institution.

4. Empirical Findings/Result

In this study, 100 respondents were determined as customers of LPD Desa Adat Banyuning, Buleleng Regency, Bali. To obtain research data in accordance with the data collection method, a questionnaire was distributed to 100 respondents. Data collection was carried out for 2 weeks starting from December 27, 2024 to January 10, 2025. Based on the processed research questionnaire data, the characteristics of the research respondent grouping consisted of gender and age. The characteristics of respondents in this study can be seen based on gender and age. Based on gender, 42 respondents or 42% were male, while 58 respondents or 58% were female. Meanwhile, based on age, respondents were divided into several categories, namely 19 people (19%) aged 25-35 years, 26 people (26%) aged 36-45 years, 31 people (31%) aged 46-55 years, and 24 people (24%) aged 56-60 years. These data show that the majority of respondents are female and are in the 46–55 year age range.

The results of the classical assumption test in this study, which include normality, multicollinearity, and heteroscedasticity tests, obtained that the data in this study were normally distributed as indicated by the spread of data around the diagonal line on the normality graph. The multicollinearity test showed that all independent variables, namely service quality, image, and promotion, had VIF values <10 and tolerance >0.1 , so it can be concluded that there is no multicollinearity. Furthermore, the results of the heteroscedasticity test through the scatterplot graph show points that are randomly spread above and below the Y axis, which means that there is no heteroscedasticity.

The analysis model used in this study is multiple linear regression analysis. This technique is used to find out whether there is an influence and relationship between the independent variables, namely service quality, image, and promotion on the dependent variable of customer satisfaction. This test was carried out with the help of the SPSS 27 for Windows program.

Table 2. Multiple Linear Analysis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	1,026		1,569	.120
	X1	.196	.050	.317	.000
	X2	.133	.057	.189	.022
	X3	.257	.047	.450	.000

Source : Data Processed (2025)

Based on the results of multiple linear regression tests, the constant value (α) is 1.026; the service quality regression coefficient value (β_1) is 0.196; the image coefficient value (β_2) is 0.133; the promotion coefficient value (β_3) is 0.257; the error coefficient value (ϵ) is 0.238. So the regression equation is formulated as follows.

$$Y = 1.026 + 0.196X1 + 0.133X2 + 0.257X3 + 0.238\epsilon$$

Where:

Y = Customer satisfaction
X1 = Quality of service
X2 = Image
X3 = Promotion
 ϵ = Standard error

In relation to the results of the regression equation above, it can be explained regarding the influence of the variables of service quality (X1), image (X2), promotion (X3), on customer satisfaction (Y) as follows: (1) A constant of 1.026 means that if the value of service quality (X1), image (X2), and promotion (X3) is equal to zero, then customer satisfaction (Y) is 1.026. (2) The value of the service quality coefficient (β_1) of 0.196 has a positive effect on customer satisfaction (Y). This means that for every increase in service quality (X1) of one unit, the customer satisfaction value (Y) will increase by 0.196 with the assumption that the other independent variables remain the same. (3) The value of the image coefficient (β_2) of 0.133 has a positive effect on customer satisfaction (Y). This means that for every increase in image (X2) of one unit, the customer satisfaction value (Y) will increase by 0.133 with the assumption that the other independent variables remain the same. (4) The promotion coefficient value (β_3) of 0.257 has a positive effect on customer satisfaction (Y). This means that for every one unit increase in promotion (X3), the customer satisfaction value (Y) will increase by 0.257 with the assumption that the other independent variables remain constant. (5) The error value (ϵ) is 0.238 with the assumption that there are still other variables that affect customer satisfaction besides service quality (X1), image (X2), promotion (X3). The results of the determination coefficient test obtained an R Square result of 0.762, meaning that the dependent variable, namely customer satisfaction, is influenced by the independent variables, namely service quality, image, promotion by 76.2% and the remaining 23.8% is influenced by other variables outside the research variables.

The structure of the relationship between service quality, image and promotion towards customer satisfaction is as shown in Figure 1.

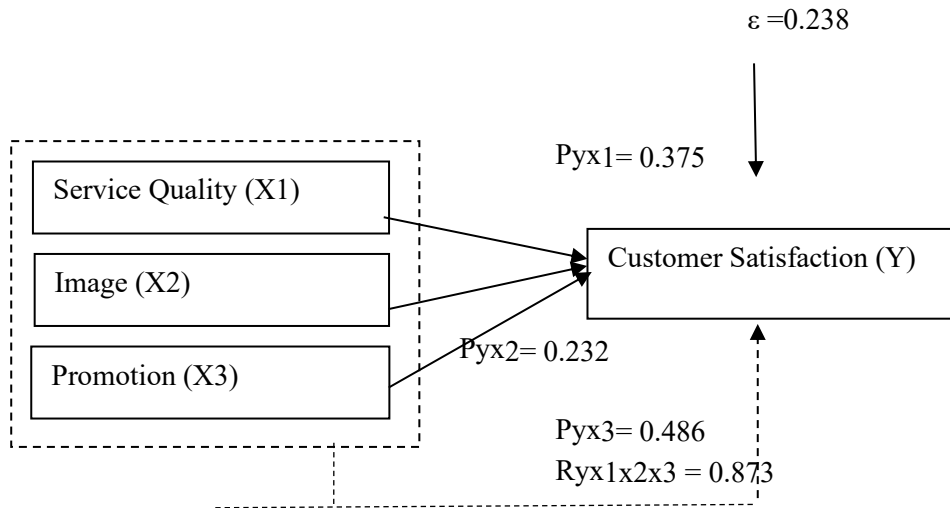


Figure 1. Structure of the Relationship between Service Quality, Image and Promotion to Customer Satisfaction

Where:

- :Partial Influence
- - - - -→ :Simultaneous Effects

Based on the results of simultaneous hypothesis testing using the F Test, the F count value was obtained at $102.361 > F$ table 2.696 with a significance level of $p\text{-value } 0.00 < \alpha (0.05)$, so the first hypothesis is accepted. This shows that service quality, image, and promotion together have a significant effect on LPD customer satisfaction. The amount of contribution from the three variables to customer satisfaction is 76.2%, while the remaining 23.8% is influenced by other variables outside this research model.

Partially, each variable also shows a positive and significant influence on customer satisfaction. Service quality has a significant influence with a $t\text{-value of } 3.961 > t\text{-table } 1.660$ and a $p\text{-value of } 0.00 < \alpha (0.05)$, which means that the higher the service quality, the higher the customer satisfaction. Image also shows a significant influence with a $t\text{-value of } 2.335 > t\text{-table } 1.660$ and a $p\text{-value of } 0.022 < \alpha (0.05)$, which indicates that the better the LPD image, the higher the level of customer satisfaction. Likewise with promotion, which has a significant influence on customer satisfaction with a $t\text{-value of } 5.446 > t\text{-table } 1.660$ and a $p\text{-value of } 0.00 < \alpha (0.05)$, which means that the more effective the promotion is, the higher the level of customer satisfaction in entrusting their finances to LPD.

5. Discussion

The Influence of Service Quality, Image, and Promotion on Customer Satisfaction

Efforts to continuously improve the implementation of service quality, company image, and promotion strategies are crucial to enhancing customer satisfaction at LPD Desa Adat Banyuning. Service quality, in this context, refers to the degree to which services meet the expectations and needs of customers. High-quality service is realized when an institution delivers products and services aligned with customer desires, thereby ensuring satisfaction (Shodiya et al., 2024).

Customer satisfaction is influenced by several factors. These include product excellence, service quality, and corporate image (Wiharso et al., 2022). Research has also shown that customer satisfaction is impacted by aspects such as location, facilities, promotional gifts, convenience, service, product recognition, and security (Felix & Innocent, 2024). Furthermore, price fairness and promotional strategies also play a role in shaping satisfaction (Ismanto & Mutmainah, 2024). Tjiptono and Gregorius (2011) further elaborate that key influencers include products, pricing, promotions, service quality, facilities, location, and the overall service environment.

The Influence of Service Quality on Customer Satisfaction

Implementing high service quality is essential in meeting or exceeding customer expectations, which is a foundation for customer satisfaction and loyalty (Ibrahim & Yusheng, 2020). At LPD Desa Adat Banyuning, services such as savings and loan provisions are supported by reliable infrastructure and customer-focused procedures. For example, customers receive a savings book and official receipts as tangible proof of their transactions, increasing transparency and trust.

Speed and responsiveness are also emphasized, as delays in service can harm the institution's image (Salawudeen & Ogunlowore, 2019). The current study at LPD Desa Adat Banyuning confirms previous findings that service quality significantly and positively affects customer satisfaction (Ngumo et al., 2020; Shodiya et al., 2024).

The Influence of Image on Customer Satisfaction

An institution's image, built through consistent service quality and transparency, contributes greatly to customer satisfaction (Putera & Famiola, 2024). A distinctive brand identity that reflects trust, community engagement, and financial accessibility enhances positive customer perception (Hardjayanti et al., 2025). At LPD Desa Adat Banyuning, the emphasis on supporting local economic activities and empowering communities reflects its commitment to both economic and social goals.

The organization's image is further supported by its management structure, involving local community members, and a mission aligned with cultural and social values. This alignment enhances credibility and strengthens customer satisfaction (Rokhman & Abduh, 2020). Previous research supports this view, showing that an improved image leads to greater customer satisfaction (Lee et al., 2022; Lindberg & Jimmie, 2022).

The Influence of Promotion on Customer Satisfaction

Promotional strategies are crucial for informing and attracting customers. At LPD Desa Adat Banyuning, promotions such as gifts, lucky draws, and incentives during social and ceremonial events are used to build engagement and satisfaction. These are complemented by continuous outreach through print and social media (Senguo & Kilango, 2018).

Direct marketing—via community events, brochures, and personal interactions—plays a significant role in rural settings where financial literacy may be limited. These strategies increase customer awareness and trust in LPD services (Kombo, 2021). Research consistently shows that increased promotion has a significant positive impact on customer satisfaction (Toor et al., 2019; Kwarteng, 2019).

6. Conclusions

Based on the discussion presented, it can be concluded that service quality, image, and promotion simultaneously have a positive and significant influence on customer satisfaction at LPD Desa Adat Banyuning. This indicates that implementing high-quality services, building a favorable institutional image, and conducting effective promotional efforts are crucial in enhancing customer satisfaction. Individually, service quality significantly contributes to customer satisfaction through both outcome and interaction processes, strengthening customer loyalty and organizational competitiveness. A strong institutional image increases customer trust and confidence in the quality of services, while well-executed promotions raise interest and inform potential customers about product advantages, thereby influencing their purchasing decisions. For future research, it is recommended to incorporate additional variables such as customer trust or emotional satisfaction, apply mixed-method approaches to gain deeper insight into customer perceptions, expand the study to include other LPDs in different regions for broader generalization, and explore long-term impacts of customer satisfaction on loyalty and customer retention for the sustainability of LPDs.

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