

**HOW SERVICE QUALITY AND CUSTOMER SATISFACTION
CREATE CUSTOMER LOYALTY AT AN INDONESIAN FAMILY
KARAOKE COMPANY: An Empirical Study in PT. NAV Bima Pratama
(NAV Karaoke Keluarga) Branch at @MX Mall Malang**

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Abstract: *The purpose of this research is to examine how Service Quality and Customer Satisfaction create Customer Loyalty at Family Karaoke Company. The use of these variables is able to solve the arising problem within PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch. The samples in this research are the customers of PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch who use karaoke service. The sampling technique is Purposive sampling with 150 respondents. Partial Least Square (PLS) analysis technique is applied to analyze the data and Sobel test is also utilized to examine the relationship of the existing intervening variables in the hypothesis. The results reveal that the Service Quality has significant relationship on Customer Satisfaction, but as direct influence on Customer Loyalty the relationship does not significant. Then, Customer Satisfaction has a significant effect on Customer Loyalty. Finally, in indirect relationship between Service Quality and Customer Loyalty become significant when Customer Satisfaction serve as Mediator.*

Keywords: *Service quality, customer satisfaction, customer loyalty, family karaoke*

BACKGROUND

Nowadays modern era society are changing into more practical and consumptive lifestyles. There is an increasing need of human to seek entertainment facility and place that practically can relieve stress. This phenomenon is supported by Indonesia Law No. 10 2009 about tourism which explains that Karaoke business is a part of tourism business in entertainment event and recreation management. Karaoke business has good business potential in Indonesia so that several investors and business practitioners are interested in investing to this business.

There are a lot of emerging businesses brand in family karaoke such as NAV Karaoke, Inul Vista, Happy Puppy; further, Indonesia celebrities also begin to invest in business through a franchise concept like Rossa with her Diva Family Karaoke. The impact of this business atmosphere causes karaoke business grows significantly from year by year as well as its competition in service quality and price. Top Brand Award shows the survey report about top brand among the family karaoke business are presented in Table 1.

Table 1
Top Brand Survey (2012-2013)

Year	2012		2013		2014		2015	
Brand	TBI	TOP	TBI	TOP	TBI	TOP	TBI	TOP
NAV	43.6%	TOP	39.9%	TOP	38.4%	TOP	35.0%	TOP
Inul Vista	30.6%	TOP	33.3%	TOP	37.0%	TOP	38.0%	TOP
Happy Puppy	11.8%	TOP	10.5%	TOP	8.1%		11.6%	TOP
Diva	1.1%		6.0%		5.9%		5.9%	
Family Fun	1.3%		-		-		-	

Source: <http://www.topbrand-award.com>

Table 1.1 shows that NAV Family Karaoke is quite good as family karaoke company. NAV Family Karaoke achieves 3 awards from Top Brand Award respectively from 2012 to 2014 as the best family karaoke retail company. Which means, in 2012 until 2014 NAV Family karaoke already gives the best service to their customer. NAV family karaoke successfully delivered service value that they have to their customer such as comfortable and attractive room, good sound system equipment and also service problems fastly eliminated by the employee. This condition makes the competition in family karaoke business is even tighter than before as each family karaoke tries to give their best service to its customers. Malang itself has many karaoke brands such as DIVA, Happy Puppy, Charlie VHT, Inul Vista KTV, Vivace, etc. Each karaoke business has different competitive advantages and

basic characteristics. Customers demand comfort, safety, and complete song list in order to meet their needs and satisfaction. Especially young-adults customers (Brawijaya university student), their awareness about new music and their lifestyle creates a challenging problem in this business. It becomes a major problem for PT. NAV Bima Pratama (NAV Karaoke Keluarga) branch at @MX Mall Malang to retain its customers.

Service quality is the key factor to meet customer satisfaction as well as to create customer loyalty. Service quality plays an important role in retaining loyal customers by affecting customer satisfaction and creating customer loyalty. Pollack (2009) explained that service quality has a positive effect on customer satisfaction, and further influences loyalty positively. It means that business organization offering high quality service will increase customer loyalty through customer satisfaction.

According to Lovelock and Wirtz (2011:15), quality service will have an effect on customer satisfaction. Customer satisfaction over the company can be achieved by providing excellent service quality. Highly satisfied or even delighted customers are most likely

become loyal customers of a firm. Those customers will repeat to purchase on one supplier and spreads positive word of mouth. Dissatisfaction, in the contrary, causes customer switch to other providers. Satisfied customers re-buy and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the product to others. Moreover, Oliver (1997:392) defines customer loyalty as a deeply held commitment to rebuy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior. Maintaining customer loyalty can increase profit earned by PT. NAV Bima Pratama (NAV Karaoke Keluarga) branch at @MX Mall Malang.

Next, table 1 shows the percentage amount of NAV Family Karaoke's market share is decreasing through years, which then in 2015 Inul Vista takes the Top Brand Award over PT. NAV Family Karaoke. Based on the phenomenon can be concluded that customer loyalty also decreasing. A

loyal customer will spread positive word of mouth which can increase NAV Family Karaoke's market share and increase the percentage in Top Brand Award. However, decreasing percentage in Top Brand Award identified that there are a decreasing repeat order and positive WOM in NAV Family Karaoke which mean there are a decreasing amount of loyal customer. Decreasing Customer Loyalty caused by customer that dissatisfied with the quality of the service. Based on the relationships among service quality, customer satisfaction, and customer loyalty in PT. NAV Bima Pratama (NAV Karaoke Keluarga) branch at @MX Mall Malang, researcher would like to analyze and concern on those subjects.

LITERATURE REVIEW

Service Quality

Quality is one of the things that consumers look for in an offer, which service happens to be one (Solomon, 2009:413). Service quality in the management and marketing literature is the extent to which customers' perceptions of service meet and/or exceed their expectations as defined by

Zeithaml et al. (1990), cited in Bowen & David, 2005:340).

Measuring service quality is a better way to dictate whether the services are good or bad and whether the customers will be or are satisfied with it. The service quality scale is designed to measure the gap between customers' expectations of service and their perception of the actual delivered service. According to Parasuraman et al., (1988), there are five dimensions of service quality:

1. *Tangibility*: physical facilities, equipment, and appearance of personnel
2. *Reliability*: ability to perform the promised service dependably and accurately
3. *Responsiveness*: willingness to help customers and provide prompt service
4. *Assurance*: knowledge and courtesy of employees and their ability to inspire trust and confidence
5. *Empathy*: caring individualized attention the firm provides to its customers

Customer Satisfaction

Satisfaction is a person's feelings of pleasure or disappointment resulting

from comparing a product's perceived performance (or outcome) in relation to his or her expectations (Kotler and Keller, 2009:164. According to Schiffman and Kanuk (2007:9), customer satisfaction is individual perception on the performances of a product or service in relation to his or her expectation.

According to Zeithaml, Bitner, and Gremler (2009:105), customer satisfaction is influenced by specific products or service features, perception on service quality, and price. In addition, personal factors such as the customer's mood or emotional state, and situational factors such as family members' opinions will also influence satisfaction.

1. Product and service features

Customer satisfaction with a product or service is influenced significantly by the customer's evaluation on the products or service features.

2. Customer emotions

Customer emotions can also affect their perception of satisfaction with product and services. These emotions can be stable, preexisting emotions – for

example, mood state or life satisfaction.

3. Attribution for service success or failure

When customers are surprised with an outcome, customers tend to look for the reason, and their assessment of the reason can influence their satisfaction.

4. Perceptions of equity or fairness

Customer satisfaction is also influenced by perception of equity and fairness. Customers always ask themselves whether they are treated fairly compared to other customers, whether other customers get better treatment, better prices, or better quality services.

5. Other customer, family member, and coworkers

In addition to product and service features and one's individual feelings and beliefs, customer satisfaction is often influenced by other people.

Customer Loyalty

Loyalty is a consumer's commitment to continue patronizing a specific firm over an extended period of

time (Lovelock and Wirtz, 2011:621). Moreover, Oliver (1997:392) defines customer loyalty as a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.

Customer loyalty is divided into three dimensions: attitudinal, behavioral, and cognitive dimensions (Jones and Taylor, 2007:38).

Hypotheses:

H₁ : Service quality has a positive relationship with customer satisfaction.

H₂ : Service quality has a positive relationship with customer loyalty

H₃ : Customer satisfaction has a positive relationship with customer loyalty.

H₄ : Customer satisfaction serves as mediator in the relationship between service quality and customer loyalty.

RESEARCH METHODOLOGY

This study uses the quantitative approach, which emphasizes on hypothesis testing and the use of parametric or measured data. This study

is also categorized as explanatory research that describes the causal relationships among variables through hypothesis testing.

The population and sample in this research are the University students who have ever used PT. NAV Bima Pratama (NAV Karaoke Keluarga) branch at @MX Mall Malang karaoke facilities.

In Structural Equation Modeling (SEM), a sample should preferably be more than 100 for factor analysis to proceed (Hair et al., 2012), because PLS is considered SEM, then 150 would be appropriate.

The sampling technique used in this study is non-probability sampling. Purposive sampling was selected based on consideration of the sample in accordance with the purposes and intent of the study.

Based on sampling techniques that are used, the criteria of the selected respondents in this study are relied on the following characteristics:

1. Registered as Brawijaya University Students.
2. Capable of making their own decision
3. Decided to use NAV Family Karaoke service by their own will

4. Respondents already have an experience in using NAV Family Karaoke facilities at @MX Mall

No.	Variables	Cronbach's Alpha
1	Customer Loyalty	0.853
2	Customer Satisfaction	0.866
3	Service Quality	0.918

more than once.

This study uses Partial Least Square (PLS) analysis which consists of *inner* model and *outer* model.

FINDINGS AND DISCUSSION

Evaluation of Outer Model

Validity Test

Convergent Validity

The value of *average variance extracted* (AVE) should be higher than 0.50. Based on the data, the AVEs values of customer loyalty and customer satisfaction are higher than 0.50. It proves that the data are valid. The values of service quality are lower than 0.50. It proves that the data are not valid.

Table 2
AVE

No.	Variables	AVE
1	Customer Loyalty	0.632
2	Customer Satisfaction	0.651
3	Service Quality	0.468

Reliability Test

Reliability test can be measured by using *cronbachs alpha*. The result of

reliability tests indicates that the values of *cronbach's alpha* exceed the cut-off value. It means that all latent variables (constructs) are reliable.

Table 3
Composite Reliability and
Cronbach's Alpha
Evaluation of Inner Model

In the evaluation of reflective inner model, it uses *R-Square* for dependent construct, *t test*, and the significance of the path coefficients of structural parameters.

Algorithm calculation is employed to measure the structural model in SmartPLS program. The value of *R-square* for customer loyalty variable (CL) is 0.380 and 0.650 for customer satisfaction variable (CS). This result show that 38% of customer loyalty (CL) can be influenced by service quality (SQ) and customer satisfaction (CS), and the last is customer satisfaction (CS) can be influenced by service quality (SQ) with 65%. Table 4 presents the estimate result of R-square by SmartPLS.

Table 4
R Square

	R Square
CL	0.380
CS	0.650
SQ	

Hypothesis Testing

Hypotheses testing evaluate the result of path coefficient and significance of model. In Table 5, it summarizes the result from the calculation.

Table 5
Hypotheses Testing

Variable	Path Coefficient	T value
SQ ->CS	0.807	23,987**
SQ ->CL	0.178	1,617
CS ->CL	0.463	5,050**
SQ->CS ->CL	0.374	4,795**

*= Significant 0.05 (1,976)

** = Significant 0.01 (2,609)

Service Quality (SQ) t test

By using SmartPLS software shows that service quality (SQ) has a positive and significant effect on customer satisfaction (CS). Its path coefficient is 0.807, and its t-test value is as much as 23,987 that makes $|t_{count}| > t_{table}$ (23.987 > 2,609), which concludes that service quality (SQ) significantly and positively influences customer satisfaction (CS).

Then, service quality (SQ) has a positive but not significant effect on customer loyalty (CL). Its path coefficient is 0.178, and its t-test value is as much as 1,617 that makes $|t_{count}| < t_{table}$ (1,617 < 1,976), which concludes that service quality (SQ) positively but not significantly influences customer loyalty (CL).

Customer satisfaction (CS) t test

The result of this study shows that customer satisfaction (CS) has a positive and significant effect on customer loyalty (CL). Its path coefficient is 0.463, and its t-test value is as much as 5,050 that makes $|t_{\text{count}}| > t_{\text{table}}$ ($5,050 > 2,609$), which concludes that customer satisfaction (CS) significantly and positively influences customer loyalty (CL).

Then, the result of this study shows that service quality (SQ) has a positive and significant effect on customer loyalty (CL) through customer satisfaction (CS). Its path coefficient is 0.374, and its t-test value is as much as 4,795 that makes $|t_{\text{count}}| > t_{\text{table}}$ ($4,795 > 2,609$), which concludes that service quality (SQ) significantly and positively influences customer loyalty (CL) through customer satisfaction (CS) or customer satisfaction (CS) serves as mediator in the relationship between service quality (SQ) and customer loyalty (CL).

CONCLUSION

The conclusions of the study are as follows:

1. Service quality has a positive and significant effect on customer

satisfaction. It means the higher of service quality makes customers of PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch more satisfied.

2. Service quality has a positive but not significant effect on customer loyalty; hence, even service quality is greater, it does not directly increase the customer loyalty of PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch.
3. Customer satisfaction has a positive and significant effect on customer loyalty. It means that high customer satisfaction will increase the customer loyalty of PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch.
4. Service quality (SQ) has a positive and significant effect on customer loyalty (CL) through customer satisfaction (CS). It means that good service quality which make customer satisfied can increase customer loyalty of PT. NAV Bima Pratama (NAV Karaoke Keluarga) at @MX Mall., Malang branch.

ACKNOWLEDGEMENT

Writer would like to thanks to Dr. Mintarti Rahayu, SE., MS for the guidance given during the writing process. Writers also would like to thanks to Drs. Sunaryo , M.Si., Ph.D. and Misbahuddin Azzuhri, SE., MM. for the evaluation of the research.

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