HOW QUALITY, SATISFACTION AND IMAGE CREATE LOYALTY

AT AN INDONESIAN BANKING COMPANY: An Empirical Study in PT.

Bank Bukopin, Tbk Malang Branch

Cunanda Ayu Oktiviane, Ananda Sabil Hussein
International Management Program, Faculty of Economic and Business,
University of Brawijaya

Abstract: *This study aims to examine and explain how service quality, customer satisfaction and corporate image create customer loyalty in Indonesian banking company. The research was conducted in the area of Malang city, the individual customers who have funding product owned PT. Bank Bukopin, Tbk in Malang city. Further convenience sampling technique is used in this research with 150 people. The analysis tools are Partial Least Square (PLS) to determine the pattern and effect relationships between variables in sequence, i.e. endogenous and exogenous variables. The results of the study explained that there is a significant effect between the service quality to the customer satisfaction and corporate image, the corporate image to the customer satisfaction and the customer satisfaction to the customer loyalty*

Keywords: *Service quality, customer satisfaction, corporate image, customer loyalty*

BACKGROUND

The economic growth in Indonesia has shown the lower growth from previous prediction as the impact of global economic slowdown and the increase of domestic inflation. After recording the growth of 6.0 percent in the first quarter of 2013, Indonesia's economic growth slower to 5.8 percent in the second quarter of 2013 (Purnomo, 2013).

This situation makes industrial sector has to improve their ability in encouraging economic growth in Indonesia. All industrial sectors, especially service industry is expected to have a positive development and a support to the development of economic. According to Trade Minister, Mr. Mohamad Suleman Hidayat,

service sector has an important role in the economic development, "service sector makes everything more efficient and should be increased" (Menperin, 2012).The role of service sector is admitted as the transaction facilitators, production and relating the different stage in a process. Service sector contributes around 50 percent in global trade and 60 percent of labor in the world work in this sector (Antara, 2013)

According to the leader of Indonesian Economists Association (ISEI), Mr. Darmin Nasution, service sector growing in domestic market are banking and insurance (DHO, 2013). As one of the competitive business service segments in Indonesian industry, banking services create a tight market

competition. In these days, 120 commercial banks operate their business in Indonesia, both state banks and private national banks (Bank Indonesia, 2011). The growth of new banks creates the competition among banks to get the funds from third party and therefore challenges a banking sector in maintaining their customer loyalty.

The problems in maintaining the loyal customer also arise in PT. Bank Bukopin, Tbk Malang branch. Based on the data from PT. Bank Bukopin, Tbk Malang branch, between 2011 and 2012 the growth of nominal amount in saving account product was decrease from 42.22% to 28.92%. Furthermore, the number of customers for deposit and giro product also decreased. Many customers of PT. Bank Bukopin, Tbk Malang branch switch to another bank, which is means that the customer of PT. Bank Bukopin, Tbk Malang branch is not loyal.

Service quality plays important roles in maintaining the loyal customer, by affecting customer satisfaction and creates customer loyalty. Pollack (2009) explained that service quality has a positive effect on customer satisfaction, and further influence positively of loyalty. Moreover, service quality also influence corporate image Alfin et al. (2013) in research journal find the significant effect of service quality on corporate image. It means, the lower the quality of the service, the lower the image of the company.

Based on the relationships among service quality, customer satisfaction and corporate image on customer loyalty and the problem that arise in of PT. Bank Bukopin, Tbk Malang branch about customer loyalty, the researcher would like to analyze the relationships among service quality, customer satisfaction, corporate image and customer loyalty of PT. Bank Bukopin, Tbk Malang branch.

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

Corporate Image

Corporate image is the perception that different audiences have of an organization and results from the audience's interpretation of the hint presented by an organization (Kotler and Keller, 2006:299). Corporate image in service marketing literature was early identified as an important factor in the overall evaluation of the service and the company.

Kotler and Armstrong (1990:495) mention that there are five criteria to measure image assessment in service industry customers:

1. High integrity: the company has high integrity in serving and giving their customers' needs, and in providing their services.
2. Innovative: the company is innovative by providing new and better service to the customers.
3. Friendly: the employee of the company is very friendly to the customers and willing to help.
4. Knowledgeable: the employee knows about the services features and knows how to communicate with customers.
5. Large: the company is well-known by the customers and large enough that customer knows their reputation.

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 rebury 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:

H_1 : Service quality has a positive relationship with customer satisfaction.

H_2 : Service quality has a positive relationship with corporate image.

H_3 : Service quality has a positive relationship with customer loyalty

H_4 : Corporate image has a positive relationship with customer satisfaction.

H_5 : Corporate image has a positive relationship with customer loyalty.

H_6 : Customer satisfaction has a positive relationship with 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 customers of PT. Bank Bukopin, Tbk Malang branch who use funding products.

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 studyare relied on the following characteristics:

1. Respondents are customers of PT. Bank Bukopin, Tbk Malang branch who use funding product.
2. Respondents are adult or young-adults capable of making their own decision.

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 corporate image, customer loyalty, customer satisfaction, and service quality are higher than 0.50.It proves that the data are valid. Table 1 shows the value of AVE for each indicator.

Table 1.AVE

No.	Indicators	AVE
1	CI	0.811
2	CL	0.683
3	CS	0.643
4	SQ	0.654

- **Discriminant Validity**

In measuring *discriminant validity*, it could use *square root of average variance extracted/$\sqrt{AVE}$*. The result of the calculation (in Table 2) shows that all values of AVE square root (diagonal) are higher than the correlation among other constructs, except for customer satisfaction (CS)..

Table 2.Latent Variable Correlations and AVE Square Root

	CI	CL	CS	SQ
CI	**0.900**			
CL	0.738	**0.826**		
CS	0.868	0.772	**0.801**	
SQ	0.845	0.733	0.854	**0.808**

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.Cronbach's Alpha

No.	Indicators	Cronbach's Alpha
1	CI	0.941
2	CL	0.906
3	CS	0.860
4	SQ	0.954

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.

The value of *R-square* for corporate image variable (CI) is 0.714, 0.624 for customer loyalty variable (CL) and 0.805 for customer satisfaction variable (CS). This result show that 71.4% of corporate image (CI) can be influenced by service quality (SQ), 62.4% of

customer loyalty (CL) can be influenced by service quality (SQ), corporate image (CI), and customer satisfaction (CS), and the last is customer satisfaction (CS) can be influenced by service quality (SQ) and corporate image (CI) with 80.5%. Table 4 presents the estimate result of R-square by SmartPLS.

Table 4.R Square

	R Square
CI	0.714
CL	0.624
CS	0.805
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.Path Coefficient and T Statistic

	Path Coefficient	T Statistics
CI -> CL	0.193	1.660
CI -> CS	0.511	5.895**
CS ->CL	0.434	3.704**
SQ -> CI	0.845	2.230*
SQ ->CL	0.198	1.435
SQ ->CS	0.422	4.857**

*= 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 0.422,and itst-test value is as much as 4.857 that makes $|t_{count}|>t_{table}$ (4.857 >2.609), which concludes that service quality (SQ) significantly and positively influences customer satisfaction (CS).

Furthermore, service quality (SQ) has a positive and significant effect on corporate image (CI). Its path coefficient is 0.845,and itst-test value is as much as 2.230 that makes $|t_{count}|>t_{table}$ (2.230 >1.976), which concludes that service quality (SQ) significantly and positively influences corporate image (CI).

Then, service quality (SQ) has a positive but not significant effect on customer loyalty (CL). Its path coefficient is 0.198,and itst-test value is as much as 1.435 that makes $|t_{count}|<t_{table}$ (1.435<1.976), which concludes that service quality (SQ) positively but not significantly influences customer loyalty (CL).

Corporate image (CI) t test

The result of this study shows that corporate image (CI) has a positive and significant effect on customer satisfaction (CS). Its path coefficient is 0.511,and itst-test value is as much as 5.895 that makes $|t_{count}|>t_{table}$ (5.895

>2.609), which concludes that corporate image (CI) significantly and positively influences customer satisfaction (CS).

Moreover, the result of this study also shows that corporate image (CI) has a positive but not significant effect on customer loyalty (CL). Its path coefficient is 0.193,and its t-test value is as much as 1.660 that makes $|t_{count}|<t_{table}$ (1.660<1.976), which concludes that corporate image (CI) 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 oncustomer loyalty (CL). Its path coefficient is 0.434,and itst-test value is as much as 3.704 that makes $|t_{count}|>t_{table}$ (3.704 >2.609), which concludes that customer satisfaction (CS) significantly and positively influences 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. Bank Bukopin, Tbk Malang branch more satisfied.

2. Service quality has a positive and significant effect on corporate image. In other words, the greater service quality results in better corporate image of PT. Bank Bukopin, Tbk Malang branch in customer mind.

3. 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. Bank Bukopin, Tbk Malang branch..

4. Corporate image has a positive and significant effect on customer satisfaction. It means that better corporate image of PT. Bank Bukopin, Tbk Malang branch creates greater satisfaction on its customers.

5. Corporate image has a positive but not significant effect on customer loyalty. In other words, high corporate image of PT. Bank Bukopin, Tbk Malang branch cannot makes loyal customer.

6. Customer satisfaction has a positive and significant effect on customer loyalty. It means that high customer

satisfaction will increase the customer loyalty of PT. Bank Bukopin, Tbk Malang branch.

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