The Effect of Service Quality on Loyalty using Satisfaction as an Intervening Variable (Study on Entrepreneurs in Bekasi Bonded Zone)

Jumawan

Lecturer of Faculty of Economics, Bhayangkara Jakarta Raya University, Jakarta, Indonesia
jumawan164@gmail.com

Abstract—This research aims to discover and analyse the effect of service quality on loyalty of entrepreneurs in Bonded Zone using entrepreneurs’ satisfaction as the intervening variable. Research population is Bonded Stockpile Entrepreneurs in the Operational Area of Supervision and the Office of Customs and Excise Type Madya A Bekasi, particularly entrepreneurs in Bonded Zone. According to Slovin’s formula, the number of respondents is 70. Data analysis is conducted using path analysis. Result of the research indicates that all proposed hypotheses are accepted and proven true.

Keywords—Service Quality, Satisfaction, Loyalty.

I. INTRODUCTION

In the free trade era, marketing strategy has shifted towards customer-oriented strategy. As stated by Kotler and Armstrong (2001), marketing should be perceived differently from its old definition of telling and selling, but rather as fulfilling customer’s need. Consequently, customer-oriented marketing strategy requires a company to understand and fulfill customer’s behaviour and need to bring customers’ satisfaction.

Customers’ satisfaction must as well build customers’ loyalty. Truly loyal customers are not only potential word-of-mouth advertisers but are also potentially loyal to company's portfolio of product and service for a longer period. Every businessperson certainly desires successful customer relationship with high level of customers’ satisfaction and loyalty. At this position, company will receive many benefits, such as encouraging customer to testify positively to other customers, reducing marketing cost, attracting new customers, responding to competitor's threat, as well as achieving cumulative point of sustainable business (Aaker, 1995, in Hasan, 2009). To achieve such objectives, every businessperson must be able to satisfy customers by improving service quality, as measured in reliability, responsiveness, assurance, empathy, and tangibles dimensions. This is similar to the efforts by Directorate General of Customs and Excise in providing best service for Bonded Stockpile Entrepreneurs. Consequently, service policy, system and procedure of the Directorate General of Customs and Excise must be oriented towards improvement of service quality. Supervision and the Office of Customs and Excise as an operating unit of the Directorate General of Customs and Excise is the spearhead of provision of high-quality service. With its key position, Supervision and the Office of Customs and Excise (SOCE) Type Madya A Bekasi is required to be responsive to the needs of Bonded Stockpile Entrepreneurs (Yusuf, 2009).

Bureaucratic reform in the Directorate General of Customs and Excise in SOCE Type A Bekasi is carried out by providing service to Bonded Stockpile Entrepreneur, particularly in Bonded Area and Bonded Warehouse in the Operational Area of SOCE Type Madya A Bekasi as service user (stakeholders). Bonded Zone refers to a Bonded Stockpile Facility to stockpile imported goods and/or goods sourced from other location within a customs area for processing or combination, where the resulted product will be used for export (Regulation of Director General of Customs and Excise Number 57/BC/2011). Therefore, this research aims to discover how service quality affects loyalty and satisfaction of entrepreneurs in Bonded Zone under the management of SOCE Type Madya A Bekasi. As high level of satisfaction of customs and excise service users implies satisfaction of improved customs and excise service, it is expected that good investment environment and optimum state revenue will be realized. The objectives of this research are to discover and analyse the effect of service quality on loyalty of entrepreneurs in Bonded Zone using entrepreneurs’ satisfaction as the intervening variable.

II. LITERATURE REVIEW

2.1. Service Quality

Service quality is obligatory for a company to be able to survive and gain customers' trust. According to Lewis&Booms in Prabawa (2014), service quality refers to “the degree of capability of a service to meet customers'
expectation”. Under this definition, service quality is determined by company's ability to meet customers' need and wish according to their expectation. Service quality must begin with customers' need and end with customers’ satisfaction and positive perception towards service quality. This is in line with a number of previous researches, which concluded that service quality affected customers’ satisfaction, such as: Ravichandran (2010); Malik, et al (2012); Osman & Ilham (2014); Horsu & Yeboah (2015); and Harahap, et al (2017). Meanwhile, previous researches indicated that service quality affected customers’ loyalty, such as: Kheng et al (2010); Bostanji (2013), Iddrisu et al (2015); Komowal, et al (2016); and Dubey & Srivastava (2016).

2.2. Customers’ Satisfaction

Many experts had made definition of customers’ satisfaction. Kotler and Keller (2009) defined satisfaction as "person's feeling of pleasure or disappointment which resulted from comparing a product's perceived performance or outcome against his/ her expectations. When performance does not meet expectation, customers will be unsatisfied. When performance meets expectation, customers will be satisfied. When performance exceeds expectation, customers will be highly satisfied. There are some researches that explain customers’ satisfaction affects customers’ loyalty, such as: Mohsan, et al (2011); Karunanithy (2013); Ibojo, et al (2015); and Khadka (2017).

2.3. Customers’ Loyalty

Customers’ loyalty is one of the key objectives in modern marketing. This is since loyalty is expected to bring long-term advantage for the company from mutualism relationship during a certain period. Literally, loyalty refers to the quality of being loyal to an object. Kotler, Hayes and Bloom (2000) in Mardalis (2005) stated that there are six reasons for an organization to win loyalty of its customers, i.e. 1) Loyal customers will bring great advantage for the organization. 2) Customer retention cost will be lower in comparison to the cost to get new customers. 3) Customers who have trusted an organization for a matter will also trust it for other matters. 4) organization's operating cost will be lower when it has many loyal customers. 5) The organization will be able to reduce psychological and social cost as the existing customers have positive experiences with the organization, and 6) Loyal customers will defend the organization and pursue to attract and suggest others to become a customer of the organization.

There are some researches that suggested the importance of keeping customers’ loyalty continuously, such as: Magatef, et al (2015); Bhakar, et al (2015); and Kamau (2017).

2.4. Conceptual Framework and Hypothesis

Based on the above literary review, the hypothesis of this research is as follows:

Hypothesis 1
It is assumed that service quality directly affects entrepreneurs' satisfaction.

Hypothesis 2
It is assumed that service quality directly affects entrepreneurs' loyalty.

Hypothesis 3
It is assumed that entrepreneurs’ satisfaction directly affects entrepreneurs’ loyalty.

Hypothesis 4
It is assumed that service quality directly affects entrepreneurs’ loyalty through entrepreneurs’ satisfaction.

III. RESEARCH METHOD

This research is an explanatory research. According to Sugiyono (2011), explanatory research examines variables in the hypothesis. There is hypothesis of which the truth will be examined. The population of this research is Bonded Stockpile Entrepreneurs in the Operational Area of Supervision and the Office of Customs and Excise Type Madya A Bekasi, particularly entrepreneurs in Bonded Zone that consists of 222 companies. The guideline to determine sample population is taken from Slovin's theory (Sangadji and Sopiah, 2010) as follows:

\[ n = \frac{N}{1 + N(e^2)} \]

Where:
- \( n \) = Number of samples
- \( N \) = Number of population
- \( e \) = Error rate (10%).

According to Slovin's formula, the number of sample in this research is 70 respondents. As to sampling technique, simple random sampling was used. Respondents were asked to complete research instrument in the form of questionnaires that were distributed directly to them. Path Analysis was used to analyse data Path Analysis was used to analyse relationship pattern between variables with a
purpose to find out both direct and indirect effect of a series of independent (exogenous) variables on the dependent (endogenous) variables (Sugiyono 2011). Meanwhile, variables used in this research are defined operationally as follows:

a. Service Quality (X), refers to any activity carried out by SOCE Type Madya A Bekasi to meet Entrepreneurs’ expectation in Bonded Zone. According to Parasuraman et al., in Darwin & Kunto (2014) and Kristianto (2006), service quality can be measured using 5 indicators of service quality dimensions as follows:
   1) Tangible, i.e. appearance of physical facility, equipment, staffs, and buildings.
   2) Reliability, i.e. ability to provide promised service reliably and accurately.
   3) Responsiveness, i.e. ability to promptly assist the entrepreneurs and provides service.
   4) Assurance, i.e. staff's knowledge, manner and ability to build confidence and trust.
   5) Emphaty, i.e. personal concern and attention given to entrepreneurs.

b. Entrepreneurs’ Satisfaction (Z), i.e. entrepreneurs’ feeling of pleasure resulted from having service expectation and performance fulfilled by SOCE Type Madya A Bekasi. According to Yusuf (2009) and Kristianto (2006), Entrepreneurs’ Satisfaction can be measured by using the following indicators: 1) Orientation towards customers' need is the ability to understand customers' need to create superior values for the organization. 2) Service effectiveness indicates timely completion of work as scheduled. 3) Delighted and sincere acceptance by customers indicates customers’ satisfaction, i.e. when customers accept treatment and their rights delightfully and sincerely. And 4) Organization image implies that the organization is committed to satisfy customers' needs.

c. Entrepreneurs’ Loyalty (Y) refers to loyalty of service users to keep on subscribing the service for long term. Jill Griffin (in Hurriyati, 2010) stated that loyalty can be measured using the following indicators: 1) Recommendation of service for other users. 2) Not affected by another stockpile location. And 3) Use of facility in long term.

IV. RESEARCH FINDINGS AND DISCUSSION

4.1. Result of Instrument Testing and Prerequisite Testing

Result of validity and reliability testing indicated that all question indicators, both under independent variables (X) and dependent variables (Y), had r value of ≥ 0.3, while reliability value of ≥ 0.6 indicated that the result was valid and reliable, by which research could proceed to the next analysis. Meanwhile, assumption testing resulted in linier data, normal data and there was no multicollinearity.

4.2. Result of Hypothesis Testing

The results of path analysis and hypothesis analysis as follows:

From the picture above, we get the equation of path analysis as follows:
\[ Z = 0.61X + e1 \]
\[ Y = 0.61X + 0.24Z + e2 \]

The hypothesis test results as follows:

<table>
<thead>
<tr>
<th>Variables Influence</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>X (\rightarrow) Z</td>
<td>0.542</td>
<td>0.084</td>
<td>6.431</td>
<td>.000</td>
</tr>
<tr>
<td>X (\rightarrow) Y</td>
<td>0.353</td>
<td>0.065</td>
<td>5.459</td>
<td>.000</td>
</tr>
<tr>
<td>Z (\rightarrow) Y</td>
<td>0.173</td>
<td>0.073</td>
<td>2.370</td>
<td>.018</td>
</tr>
</tbody>
</table>

Based on the result of path analysis, below is the result of hypothesis testing in this research:

a. Service quality variable (X) directly and significantly affected entrepreneurs’ satisfaction (Z), with significance value of 0.000 < 0.05.

b. Service quality variable (X) directly and significantly affected entrepreneurs’ loyalty (Y), with significance value of 0.000 < 0.05.

c. Entrepreneurs’ satisfaction variable (Z) directly and significantly affected entrepreneurs’ loyalty (Y), with significance value of 0.018 < 0.05.

d. Service quality variable (X) indirectly and significantly affected entrepreneurs’ loyalty (Y) through entrepreneurs’ satisfaction (Z) and, therefore, the first to the third hypotheses were accepted.

4.3. Direct, Indirect and Total Effect

The levels of both direct and indirect effect of each variable, as well as the total effect, are as follows:
Based on the above table, it can be explained as follows:

a. Service quality variable (X) had direct effect on entrepreneurs’ satisfaction (Z) with a score of 0.612.

b. Service quality variable (X) had direct effect on entrepreneurs’ loyalty (Y) with a score of 0.562 and indirect effect of 0.149. Total effect score was 0.711.

c. Entrepreneurs’ satisfaction variable (Z) had direct effect on entrepreneurs’ loyalty (Y) with a score of 0.244.

Meanwhile, the levels of simultaneous contribution of the variables to other variables are explained as follows:

a. Service quality variable (X) contributed to entrepreneurs’ satisfaction (Z) at 37.5%.

b. Service quality variable (X) contributed to entrepreneurs’ loyalty (Y) through entrepreneur’s satisfaction at 54.3%.

4.3. Result

a. Service quality (X) directly affects entrepreneurs’ satisfaction (Z).

Result of the research indicated that service quality variable (X) positively and significantly affected entrepreneurs’ satisfaction (Z), with a score of 0.612. This implies that better service provided by SOCE Type Madya A Bekasi will better satisfy entrepreneurs who use the facility in the bonded stockpile. With significance score of 0.000 < 0.05, the first hypothesis that states service quality has direct effect on entrepreneurs’ satisfaction is accepted. Result of this research is in line with previous researches by Kheng et al (2010); Bostanjii (2013); Idris et al (2015); Komowal, et al (2016), and Dubey & Srivastava (2016) Research by Hennis and Klee (Cadogen&Foster, 1999) explains that loyalty rises from perception of service quality. Customers’ loyalty is achieved after psychological experience encountered by customers with regard to the service that is properly provided by service provider, by which such memory will be kept by customers for a long term. Therefore, it is important for service provider to maintain customers’ loyalty continuously, as suggested by researches by Magatet, et al (2015), Bhakar, et al (2015), and Kamau (2017).

c. It is assumed that entrepreneurs’ satisfaction (Z) directly affects entrepreneurs’ loyalty (Y).

Result of the research indicated that entrepreneurs’ satisfaction variable (Z) positively and significantly affected entrepreneurs’ loyalty (Y), with direct effect score of 0.244. This means that the more entrepreneurs are satisfied with bonded stockpile facility provided by SOCE Type Madya A Bekasi will increase loyalty of entrepreneurs in the Bonded Zone. With significance score of 0.018 < 0.05, the third hypothesis that states entrepreneurs’ satisfaction has direct effect on entrepreneurs’ loyalty is accepted. Result of this research is in line with previous researches by Mohsan, et al (2011), Karumanithy (2013); Ibojo, et al (2015), and Khadka (2017). According to Hesket and Sasser (1997), relationship between customers’ satisfaction and customers’ loyalty is illustrated with a single-directional straight line. This means that when a company increases customers’ satisfaction, customers’ loyalty will also increase.

d. It is assumed that service quality (X) indirectly affects entrepreneurs’ loyalty (Y) through entrepreneurs’ satisfaction (Z).

Result of this research indicates that the first hypothesis to the third hypothesis are accepted, by which the fourth
hypothesis that states service quality indirectly affects entrepreneurs’ loyalty through entrepreneurs’ satisfaction is accepted. The result is in line with the research conducted by Ravichandran et al (2010), in which increase of service quality may satisfy and increase customers’ satisfaction, which will eventually maintain customers’ loyalty. Gonderson in Cadogen&Foster (1999) explained that when service quality factor is really taken into company's consideration, customers’ loyalty will be built through satisfaction.

As to this research, entrepreneurs’ satisfaction (Z) is the intermediate variable between service quality (X) and entrepreneurs’ loyalty (Y). This means that entrepreneurs’ satisfaction variable (Z) may increase and decrease the effect of service quality on customers’ loyalty. Total score of service quality (X) effect on entrepreneurs’ loyalty was at 0.562. Meanwhile, service quality (X) effect on entrepreneurs’ loyalty (Y) through entrepreneurs’ satisfaction variable (Z) increased to 0.711. It can be concluded that entrepreneurs’ satisfaction (Z) is capable of being an intermediate to strengthen relationship between service quality and entrepreneurs’ loyalty in the Bonded Zone within operating area of SOCE Type Madya A Bekasi.

V. CONCLUSION

Based on the result of the research and the discussion, the following conclusions can be made: Service quality variable positively and significantly affects entrepreneurs’ satisfaction in the Bonded Zone. Service quality variable positively and significantly affects entrepreneurs' loyalty in the Bonded Zone. Entrepreneurs’ satisfaction variable positively and significantly affects entrepreneurs’ loyalty in the Bonded Zone. Service quality indirectly and significantly affects entrepreneurs’ loyalty through entrepreneurs’ satisfaction.

REFERENCES


