

# **Service Quality on Customer Value; Perspective from Rural Banking Sectors in Bandung, Indonesia**

## **Tatang Suhidayat**

Doctorate in Management Program, Pasundan University, Bandung

Email: tsuhidayat@gmail.com

## **Azhar Affandi**

Doctorate in Management Program, Pasundan University, Bandung

Email: azhar.affandi.dim@unpas.ac.id

## **Iwan Sidharta**

School of Economics, Pasundan, Bandung, Indonesia

Email: iw.sidh@gmail

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### **ABSTRACT**

The phenomenon of customer satisfaction issues on banking competition today has become an important topic. This study aims to determine the effect of service quality on customer value in the rural banking. Survey conducted on 29 Bank in the city of Bandung. Exploratory research methods to know influence of service quality toward customer value especially on rural banking. The results showed that service quality significantly influence customer value. This indicates that service quality can improve customer value on rural bank, thus the need for the implementation of good service quality by the bank manager at rural banks.

**Keywords:** *Service Quality, Customer Values, Rural Banks*

### **1. Introduction**

Rural Bank plays an important role as the guardian of the nation's economy. Entering the open market in ASEAN, rural banks will face increasing challenges. Among the task to keep the entry of foreign banks in groups not seizes the Indonesian market. That phenomenon, there have been many banking companies were held with foreign banks, therefore, rural banks into hope to strengthen the economy and domestic market which can compete on the open market and it should be the managers of rural banks continue to work hard to improve the professionalism, because the high competition will require readiness and high competitiveness. In addition to free flow of goods, both Asia Economic Community (AEC) members also marked

the free flow of services and workers from the 10 ASEAN countries, this matter shows that it would be increasing competition in the banking sector, especially in the sectors of rural banks.

Indonesian banking market is still very large, and so far only 27 % coming into the banking system, the rest is still very large, about 73 %. Meanwhile, the market share of the entire ASEAN, Indonesia became a region with 70 % market share potential. Indonesia is currently appearing as the greatest strength of 16 of the world, with a GNP of 3800 US dollars, continue to grow and provide a positive expectation. With a potential market of 180 million people, Indonesia could perched become the fourth-largest economic power if followed by the stability of economic growth. However, to achieve that dream, Rural Bank must continue to improve to face the challenges. Characteristics of rural banks that provide convenience and speed to its customers makes this industry keeps growing and demanding public. The development of rural bank can be proved by its good performance throughout the year 2013. This industry assets grew 14.81 % over the previous year, ie from Rp 67,40 trillion to Rp 77,38 trillion, and supported also by increased lending as much as 18.78 % to Rp 59,18 trillion. Meanwhile, the community collected funds, deposits and savings, also rose. Each grew by 11.44 % and 15.02 % to Rp 33,88 trillion and Rp 16,64 trillion. (Bank of Indonesia, 2014).

However, despite the progress which is likely to increase, the current market share of rural banks began to decline by the emergence of institutions microstructure of several major banks in Indonesia, they also can provide financing micro scale, so that we can be sure the public would prefer to institute micro the bank instead, it could be because of the ease and also the name of the bank that are behind these micro institutions. Banking services is an institution of trust that functions as an intermediary institution, helps smooth the payment system. Due to these functions, then the existence of brand image will still believed both individually and as a whole as the banking system.

Nowadays, competition is no longer a profit business, but value creation and value adding for customers. (Sidharta & Affandi, 2016) The importance of value creation and value addition for customers, the real customers do not buy services, but the purchase value to the benefit of something that is offered. (Zikmund & D'Amico, 2002) The value contained in a product or service, it is much more important to customers than the number of models launched into the market. Therefore the competition that occurs is essentially strives to create superior customer value. (Kotler, 2000)

## **2. Literature Reviews**

### **2.1 Service Quality**

Quality of service is an important concept to attract the customers. Sasser *et.al* and Lehtinen in Guo *et al.* (2008) identified that the quality of service is a comparison of what to expect consumers to what is obtained by consumers. Meanwhile, according to Grönroos (1984; 2000) defines that service quality is output as the evaluation process, which compares expectations with the service received.

The importance of quality of service has contributed to the development of a good relationship of which is not known by the company so that it can be identified on its weaknesses (Holmund & Koc; Turnbull and Gibbs in Guo *et al.*, 2008). Quality of service was

originally proposed by Parasuraman et.al (1988), known as SERVQUAL. SERVQUAL concept was initially used in industries or companies to identify how much the level of services to its employees and customers.

In the banking sector, the concept of service quality measurements using SERVQUAL method there are some changes. It is because of differences between the characteristics of the manufacturing industry to the banking industry, where such differences include that the manufacturing industry is more focused on the quality and quantity of production factors to achieve the level of customer satisfaction, while for the banking industry more focused into services in satisfying customers. Research conducted by Blanchard and Galloway (1994) and Newman and Cowling (1996) of banks in the United Kingdom, proving that the concept SERVQUAL that apply to banks less able to present overall the level of service so that it is necessary to the development of the model SERVQUAL. Research by Cronin and Taylor (1992), which combines the concept of SERVQUAL concept SERPERF. Research results prove that the combination of the model SERVQUAL and SERPERF can prove empirically to measure the quality of service in the banking industry. Research Cronin and Taylor (1992) conducted on a bank in America. Furthermore Avkiran (1994) created a tool to measure the quality of service at a bank, known as BANKSERV consisting of dimensions: Staff conduct, Credibility, Communication, and Access to teller service.

Research conducted by Johnston (1995) combine item SERVQUAL derived from the conceptual framework of the marketing mix, so that the concept evolved with the name of Bank Service Quality (BSQ) consisting of six dimensions: Effectiveness and assurance, Access, Price, Tangible, Service portfolio, which is then added dimensions of Reliability by Bahia and Nantel, (2000). In this study using multiple dimensions refer to previous research then can the concept of measuring the quality of care for people with the concept of BSQ (Bank Service Quality). As for the dimensions as follows: Access, Credibility and reputation, Responsiveness, Reliability and trustworthiness, Effectiveness and assurance and Facilities and equipment.

## **2.2 Customer Value**

Marketing can be seen as the identification, creation, communicating, and monitoring the delivery of customer value. Customers making a purchase will account for a bid that will provide the highest value. The concept that helps consumers choose products to meet their needs is the value and satisfaction. They want value with search costs and limited by knowledge, mobility, and limited income; they form an expectation of value and in accordance with it. (Kotler & Keller, 2007)

According Rangkuti (2003) value is a thorough assessment of the benefits of a product, which is based on customer perception of what has been received by customers and has been given by the product. Meanwhile, according to Kasali (1998) value as something that provides advantages or enjoyment for consumers because it received good service, price is satisfactory, the image of a strong, timely delivery and so on. While Solomon et al. (2009) states that the value refers to the benefits a customer receives from buying a good or service. And according to Walter et al. (2001) that the value of the trade-off is the difference between the perception of multi-benefit and sacrifice were obtained through the customer relationship.

In order to create customer value, business should see itself as a solution provider, is more than just a seller of a product or service (Suwarman *et al.* 2010). Customer problems must be viewed more broadly beyond the products and services with a more comprehensive understanding of the various needs and situations of use by its customers. This provides opportunities for companies to create a benefit that add value to its customers. Kurtz and Clow (1998) categorize the five levels of value: functional value, social value, emotional value, epistemic value, and Conditional value. In this study adopts from research conducted by Wang *et al.*, (2004) with dimensions functional value, social value, emotional value and perceived sacrifices.

Therefore, the following hypotheses are proposed to study the relationship of service quality towards customer value as follow; High Service quality would lead to higher customer value.

### **3. Methods**

The purpose of this research is the study of this research using exploratory method, which is to create a picture of the situation or phenomenon intended to causal-predictive analysis on service quality and customer value Rural Bank in the city of Bandung. When the study was conducted over approximately six months held in Bandung with the observation unit is the entire rural banks both local government-owned and private as many as 29 banks. Sampling method used in this research is to use probability sampling technique; using cluster proportional stratified random sampling as much as 285 customers.

Respondents were asked to provide a response by choosing one of the choices. Scoring on each item of the question to the problems in this study was done with a Likert scale and with Likert five poin anchor ranging from very unimportant to very important. The service quality domains included in the survey were Access, Credibility and reputation, Responsiveness, Reliability and trustworthiness, Effectiveness and assurance and Facilities and equipment. And the customer values were functional value, social value, emotional value and perceived sacrifices. Total instruments used as many as 47 instruments where as many as 29 instruments is an instrument of service quality and 18 instruments is an instrument of customer value.

Data analysis techniques using Structural Equation Modelling (SEM), component-based Partial Least Squares (PLS). Measurement models Partial Least Squares (PLS) based on measurement predictions have the nature of non-parametric through convergent validity, ie where the size of the reflective individual correlated with the value of loading  $> 0,50$  (Chin, 1988) and the value discriminant validity by comparing the value of the square root of average variance extracted (AVE) of each construct with the correlation between the constructs in the model, if the value AVE is greater than the value of the correlation between the constructs models discriminant then said to have good validity (Fornell & Larcker, 1981). Moreover, it can also use the criteria Cronbahs Alpha with a value  $> 0.6$  (Sekaran, 2000). While the structural models were evaluated using R-squares for the dependent constructs and t test predictive relevance and significance of structural parameters. (Chin, 1999).

#### 4. Result and Discussion

##### 4.1 Result

The result showed there are some indicators that do not meet the loading values > 0.5 so that some indicators did not come included, there are six indicators that have a value that is less than required so that as many as 41 indicators that meet the criteria of model testing Partial Least Squares (PLS). Table 1 shows the value of Cronbach's Alpha, Composite Reliability and Average Variance Extracted (AVE) as follows;

Table 1. The value of Cronbach's Alpha, Average Variance Extracted (AVE) and Composite Reliability

Variables	Cronbachs Alpha	AVE	Composite Reliability
Access	0.620	0.618	0.760
Credibility	0.871	0.668	0.838
Responsiveness	0.803	0.534	0.819
Assurance	0.751	0.667	0.839
Reliability	0.809	0.670	0.868
Fasilities	0.812	0.639	0.876
Function Value	0.808	0.635	0.874
Emotional Value	0.809	0.569	0.868
Social Value	0.775	0.607	0.822
Customer Perceived	0.554	0.559	0.785
Service Quality	0.916	0.551	0.926
Customer Value	0.881	0.676	0.901

Tabel 2 showed the results of path analysis, R squares and significance test as follows;

Tabel 2. Significance, Path Coefficients and R Squares

Variables	Path Coefficients	P Values	Decision
Service Quality -> Customer Value	0.968	0.000	Accept
R Squares	0.937	0.000	Large

The results of t test with the 0.05 level of service quality shows a significant effect on customer value. The value of R squares of 0.937, or 93.7%, meaning that customer value can be explained by the service quality at 93.7%.

##### 4.2 Discussion

###### The influence of service quality on customer value

Based on the data processing by using software obtained PLS models of service quality on customer value as shown in Figure 1 as follows;

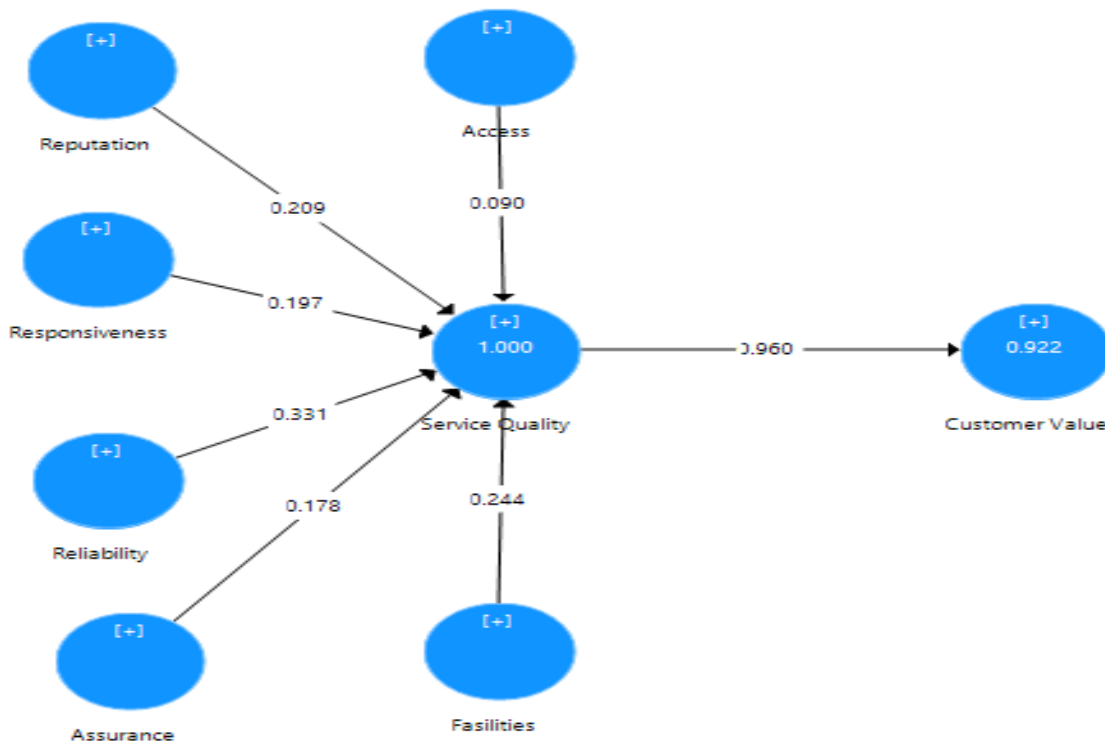


Figure 1. Models of service quality on customer value

One indicator of the success of marketing is customer value. Customer value and service quality has a close relationship, as proposed Lam *et al.* (2004) which states the value of usability consumers of the quality of service will affect loyalty. This proves that the consumer utility value on the quality of service perceived is very important in business relations. Kasali (1998) describe the quality of service as a paradigm of the company to create a value for customers through products and services. The service is one of the important processes in increasing value for customers. Services from early stages are a service aimed at building relationships with customers. However, the services provided after the transaction is a service that will always be remembered by customers. Service excellence pays off because it creates loyal customers, consumers who would use the product again (Handayani *et al.* 2009). Conversely, if the service was very bad and 91% of customers will not repurchase (Wood, 2009). Similarly research by Juhana *et al.* and Hernyanto *et al.* (2016), furthermore Kotler and Armstrong (2008) states by creating superior customer value, the company creates highly satisfied customers and remain loyal and want to buy again. In deciding the final choice tends to maximize customer value, within the limits search costs as well as knowledge, mobility and income. Customers estimate which bids to deliver the highest default values and act on the basis of that estimate. So the value of the customer is one of the factors that influence customer perception (Rangkuti, 2003).

Customer value is an important aspect for a company or organization, because customers are satisfied or not depends on the ability of companies or organizations providing customer value according to the perceived value of customers (Usmara, 2003). So if the value of the

customer is always changing all the time, as a result of customer satisfaction becomes not stay all the time. Today the bank customers are more educated and more knowledgeable. They are more critical to calculate the value offered by the company with a total sacrifice had to be issued.

## 5. Conclusion

Service quality and customer value in the rural bank in the city of Bandung is adequate. The results showed that service quality significantly influence customer value. To improve customer value then the need to improve the quality of services through a variety of skills training. To be able to improve customer value then several indicators such as the benefits of service image, the image of the benefits of the product quality, and indicators settlement teller and customer services, reliability of products and services products by rural bank in the city of Bandung.

In a study of service quality on customer value on people's credit banks are still many shortcomings. Therefore for further research can add some variables thought to influence the customer value so as to produce a more comprehensive research.

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