

# CHAPTER 1

## INTRODUCTION

### 1.1 Theoretical background

One of the main problems faced by every industry in the last two decades is the increasing levels of competition to get new customers. Especially for the banking industry in Indonesia, the problem is more complex. In addition to high levels of competition, new customer growth rates have decrease, even stop. On the other hand, customers or existing customers also tend to be not loyal. The results of the study by MarCSlus Insight (2013) showed that 45 % of customers in Indonesia have more than one account. This phenomenon is an indication that banking customers tend to be not loyal and do not want to be tied to one of the banks.

This has attracted the customers to switch from one bank to another, something which is not profitable for both the banks and their clients. In the past, many companies took their customers for granted. Customers often did not have any alternative choices because the market was growing so fast and competition was very low such that the company did not worry about fully satisfying its customers. A company could lose 100 customers a week, but gain another 1000 customers and considers its sales to be satisfactory.

Facing such industrial environment, customer retention is regarded as an important managerial issues - as practiced by almost all the leading companies in the world since 1990s. The importance of customer retention has been recognized by researchers and

Practitioners. According to Ahmad and Buttle (2002), multinational companies and leading mass marketing drivers such as Lever Brothers and Elida Gibbs also began to re structure their marketing departments and ask their managers to give more attention to their existing customers. They did for against the brand managers and formed a team of developers who were responsible for maintaining good relations with retailers between brands of the company.

So the important thing to do this the research to analysis the strategy of Bank NTT to attract the new costumer to join, and also approve the service quality that bank have based on their motto to the consumer with the variable that researcher make to measure the costumer loyalty to the bank.

The fact that the perceived quality of the product is becoming the most important competition factor in business world has been the reason of naming the present business era as “Quality Era” (Peeler, 1996). Consequently, service marketing intellectuals and researchers have offered several metaphors of this issue. For example, Berry (cited in Kandampully, 1998, p 423) calls it the most powerful competition weapon and Clow (1993) calls it the organization’s life-giving blood. Because if we give the customer a good impression for their experience or feel or view about the organization the will always remember the product or service that they get from the industry or organization or the specific in banking service for the customer.

Now researcher will explain what is Bank NTT and how Bank NTT can related with this topic. So Bank NTT (formerly NTT Regional Development Bank / BPD NTT) is the only regional bank that is useful to improve the economy of the community, especially in East Nusa Tenggara. Bank NTT is based in the Kupang city Bank NTT was established in 1962 under the name of PT Bank Pembangunan Daerah NTT (PT BPD NTT). The establishment was spearheaded by the Regional Government along with public figures and private entrepreneurs in NTT on the basis of the need for a financial institution in the form of a Bank, which specifically assisted the government in carrying out development in the region. Bank NTT also have a good predicate from PEFINDO affirmed the "A" rating for PT Bank Pembangunan Daerah Nusa Tenggara Timur (BNTT) and Bank Bonds I / 2011 is still outstanding. The rating reflects a strong Bank NTT captive market share, strong capital, and consumer financing business segments that provide strong margins. However, the ratings are limited by the Bank's inability to raise third party funds, pressure on asset quality, and increasing competition in the productive credit segment. Ranking can be increased if Bank NTT is able to improve its market position and increase its diversity of funding sources consistently, while maintaining good bank performance. Now haow to increase the Bank NTT performace with some factor.

First thing that researcher want to show is about the service quality, this is one of strategy for Bank NTT based on their motto,

quality is a multi-dimensional phenomenon. Thus, reaching the service quality without distinguishing the important aspects of quality is impossible. In his discussion of service quality, Gronroos (2000) refers to three dimensions of output technical quality, service performance quality, and organization's mental picture. Also, Lehtinen and Lehtinen (cited in Harrison, 2000) have referred to dimensions of physical quality, interactive quality, and organizational quality as three dimensions of service quality. Although these attempts have had a major role in division of service quality into process quality and output quality, but they lack enough details. On this basis, Zeithaml et al. (1996) have referred to ten dimensions of service quality in their primary researches. But, in their further researches, they found a strong correlation among those dimensions. Thus, they combined these dimensions and applied the fivefold dimension of Reliability, Responsiveness, Assurance, Empathy and Tangibles as a basis for making a tool for testing the service quality, known as SERVQUAL. In their researches, they emphasize that SERVQUAL is a lasting and reliable scale of service quality (Parasuraman et al., 1994). They also said that this tool is applicable in an extensive spectrum of service domains such as financial institutions, libraries, hotels, medical centers and although some of its components should be rephrased, or more components should be added to it. Many researchers have tried to use this tool in different service domains.

The second is about the purpose in the banking industry, the importance of consumers perceptions for business success has been underestimated. For this reason, the present work aims to focus on the corporate brand image construct like Bank NTT do to analyzing how to associations of financial brands are generated and the way such association influence consumer behavior.

Corporate image has become a prominent paradigm and has begun to be linked to strategic management decisions of organizations including banks. The concept is based on the recognition that clients buy brand products not because of their inherent qualities but also because of a bias, a disposition towards the providers. Sunter (1993) indicates that the only way consumers will be able to differentiate between institutions in future is through image and brands. The importance of having a well-defined identity is therefore of major relevance for service providers such as banking institutions.

Maintaining or expanding market share, keeping customers and business relations loyal, pre-empting competitive moves, and maintaining a profitable position will depend on differentiation and a unique positioning in the minds of corporate audiences (Van Heerden and Puth, 1995).

The third is about costumer perceived value, In recent years, the relationship perspective of marketing has had a profound impact

on the customer service business. The new focus on customer profitability revealed that the effective management of satisfied and faithful customers gains the company an improvement of economic and competitive situation (Yang & Peterson, 2004). Thus the delivering of superior customer value has become vital for a company to maintain long-term relationships with their customers. However, significant changes in both economic environment and marketing thought have altered the customer value perception. From customer perspective, whether or not the customers receive the value they expect will very much depend on the many ever changing factors.

Bank marketing experts should continuously analyze how the customer qualify the bank, how customers' perception has changed or is likely to change and create the higher value than those offered by competitors. Consequently, a number of authors analyzed how the economic and financial crisis acted the perception of customers (Zurawicki & Braidot, 2005; Kim et al., 2009; Ferguson et al., 2011). On the other hand, the data, giving the understanding of how the particular dimensions of value change due to the alternation of certain aspects in the literature. No unambiguous answer exists on how customers perceive value, why they switch the bank and what value dimensions are of key significance while making the above decisions. It can be supposed that banks evaluate customers' expectations and perceived value, therefore, their or sometimes is not valuable for customers.

The last thing is about the customer satisfaction and the important one in the banking industry cause It has been stated that the antecedents of customer satisfaction and loyalty are intricate, developing over time and dynamic ( Johnson et al., 2006) and the full extent of the interrelations among the factors that affect them have not been completely understood (Taylor et al., 2006). The main objective of the present study is to determine the factors that affect customer satisfaction, as well as the factors that influence customer loyalty. And then both of these constructs are tested in order to underline their importance towards the profitability of banks. This study is in a position to provide managers with a more complete view of which factors determine customer's satisfaction and loyalty and furthermore, the extent to which they affect the financial performance of banks.

The level of competition in the banking sector in Indonesia has risen quite sharply amidst the slow growth rates of new customers. It is almost certain that the level of competitiveness of banking industry in Indonesia rises highly after the Economic ASEAN Community in 2015 and—especially—the integration of the financial sector in 2020. This condition has been addressed by the ASEAN countries by establishing ASEAN Banking Integration Framework (ABIF) which believed to be able to open up opportunities for ASEAN countries banks to expand their operations and markets to Indonesia.

Facing the competitive situation, however, Bank NTT (as Local Government Owned Bank) will be able to survive and compete effectively as well as protect its market share in the midst of banking industry competition if the Bank is willing to take all the necessary steps to invest and retain customers. Therefore, this study aims to analyze and explain the relationship SQ, CV, CS, CI can impact the CL, With This research also studied the impact of each variable to the CL, including the variable which mostly affect the CL.

Delivering quality service to customers is a must for success and survival in today's competitive banking. According to Portela & Thanassolis, (2006), not only empirically studies of the relationship between service quality and customer loyalty in banking system are limited, but also the existing studies on bank branches efficiency in general do not account for the changing role of bank branches. Service is of utmost importance in analyzing the performance of bank branches, since their survival depends on their service performance levels they provide (Portela & Thanassolis, 2006). Excellence in service quality is a key to achieve customer loyalty which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006).

Today, the increasing awareness among bank customers of their rights, changing demands and highly competition requires constant progress in service quality from the bank for their customers to stay loyal. The present research intends to test whether the bank

customers are happy with the services provided to them, which will eventually lead to customer loyalty.

Centre for Promoting Ideas, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which resultantly motivates them to continue to do business with the organization on on-going basis (La Barbera, & Mazursky, 1983).

## **1.2 Problem Statement**

Based on the background, problem statement are found as follows :

1. Does Service Quality have impact directly on Customer Satisfaction in Bank NTT, Surabaya?
2. Does Corporate Image have impact directly on Customer Loyalty in Bank NTT, Surabaya?
3. Does Customer Perceived Value have impact on Customer Satisfaction in Bank NTT, Surabaya?
4. Does Customer Satisfaction have impact on Customer Loyalty in Bank NTT, Surabaya ?

## **1.3 Objective of The Research**

The research aims to:

1. To analyze whether Service Quality has impact directly toward Customer Satisfaction in Bank NTT, Surabaya.

2. To analyze whether Corporate Image has impact directly toward Customer Loyalty in Bank NTT, Surabaya.
3. To determine whether Customer Perceived Value has impact toward Customer Satisfaction in Bank NTT, Surabaya.
4. To determine whether Customer satisfaction has impact toward Customer Loyalty in Bank NTT, Surabaya.

#### **1.4. Research Significances**

##### **1.4.1. Academic benefits**

1. Strengthen the theory about the impact of service Performance and corporate image as a Moderating Variable also Costumer Value Toward Customer Loyalty in Bank NTT, Surabaya.
2. Identify and analyze clearly about the impact of Service Quality, Corporate Image, Costumer Perceived Value as a Moderating Variable Toward Customer Loyalty in Bank NTT, Surabaya.

##### **1.4.2. Practical/Company Benefits**

1. Provide information for companies who wants to increase the employees performance
2. To provide information for company or as a reference to create creativity and innovative to increase employees performance.
3. To be a reference for managers/leader to make decisions in the future.