



THE INFLUENCE OF SERVICE QUALITY ON CUSTOMER LOYALTY AND RETENTION WITH CUSTOMER SATISFACTION MEDIATION AT PT. WÄRTSILÄ INDONESIA: A CONCEPTUAL MODEL

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ABSTRACT

Since 2016, PT. Wärtsilä Indonesia has introduced its latest innovation in the form of remote monitoring services to detect potential issues or disruptions early, allowing for quick and efficient corrective actions or maintenance. Initially, this innovation experienced positive growth, with 21 installations in 2021. Unfortunately, the trend further declined to 11 installations in 2023. The decrease in the number of installations can be interpreted as an indication of declining customer loyalty and retention towards remote monitoring services. Possible causes of this decline include factors such as service quality and customer satisfaction. This quantitative study aims to examine the influence of service quality on customer loyalty and retention, with customer satisfaction as a mediating variable.

Keywords

Service Quality, Customer Loyalty, Customer Retention, Customer Satisfaction, Conceptual Model.

INTRODUCTION

As an integral part of the energy infrastructure, power plants play a strategic role in transforming how we generate and use energy. PT. Wärtsilä Indonesia, a foreign company from Finland, plays a crucial role in driving this transformation. The company primarily focuses on manufacturing power generation engines that use solar and gas fuels. Since 2016, PT. Wärtsilä Indonesia has introduced its latest innovation in the form of remote monitoring services to detect potential issues or disruptions early, allowing for quick and efficient corrective actions or maintenance.

Although this remote monitoring service initially experienced positive growth, with 21 installations in 2021, unfortunately, the trend did not continue in the following years. In 2022, there was a significant decrease to 18 installations, which further declined to 11 installations in 2023. The decrease in the number of installations can be interpreted as an indication of declining customer loyalty and retention towards remote monitoring services. Possible causes of this decline include factors such as service quality and customer satisfaction, as highlighted in the studies by Winton et al. (2023) and Panjaitan et al. (2015).

Service quality plays a crucial role in shaping customer satisfaction (Rahman & Hendarwan, 2023). Customers who feel valued and heard tend to be loyal and have the potential to become repeat customers (Meiriva & Rachmawati, 2022). Empirical research consistently shows that service quality has a significant impact on customer loyalty (Syaifulloh et al., 2018). Service quality also has a significant impact on customer retention, being a key factor in maintaining long-term relationships between companies and their consumers (Sinambela et al., 2022). Consistent, friendly, and high-quality service has a positive impact on customer retention (Lilis, 2013). Customer satisfaction has a significant impact on customer loyalty and forms the basis of the

long-term relationship between the company and its consumers (Meiriva & Rachmawati, 2022).

Empirical research by various researchers, such as Meiriva & Rachmawati (2022), Syaifulloh et al. (2018), and Efita (2023), consistently supports the idea that service quality and customer satisfaction are interrelated factors that have a positive impact on customer loyalty and retention. This research is conducted to examine the influence of service quality on customer loyalty and retention with customer satisfaction as a mediating variable.

LITERATURE REVIEW

A. Service Quality

Various perspectives from experts in management and marketing provide a comprehensive understanding of service quality. Tjiptono (2012) defines service quality as an effort to meet customer needs and desires while emphasizing accurate delivery to balance customer expectations. Kasmir (2017) expands this definition to include actions aimed at satisfying customers, employees, and leaders, emphasizing positive interpersonal relationships within the organization. Sinambela (2008) contributes the idea that service quality encompasses activities providing benefits to customers, extending beyond physical products to encompass all forms of customer satisfaction activities. Lupiyoadi and Hamdani (2006) present a broader concept, stating that service quality covers activities from ordering to service delivery, emphasizing communication processes to strengthen cooperation with consumers.

Factors influencing service quality are crucial in shaping a company's image and reputation. Barata (2020) highlights the importance of employee capabilities, management patterns, human resource development, work relationships, and motivation and incentive policies. These factors collectively form a comprehensive framework for enhancing service quality, ensuring that the company delivers superior customer experiences, strengthens customer loyalty, and builds a positive reputation in the market.

Service quality indicators, as outlined by Kotler and Keller (2018), include reliability, responsiveness, assurance, empathy, and tangibles. Reliability assesses a company's ability to deliver services accurately and consistently, while responsiveness measures its speed and accuracy in addressing customer needs. Assurance evaluates employee knowledge and politeness in building customer trust, while empathy focuses on sincere and individual attention given to customers. Tangibles involve the physical evidence of service quality, such as facilities and appearance. Evaluating these indicators provides a basis for continuous improvement, ensuring that the company consistently exceeds customer expectations and delivers exceptional service.

The study conducted by Rahman and Hendarwan (2023) indicates that certain aspects of service quality, such as employee friendliness, service speed, and product quality, significantly contribute to customer satisfaction. Research by Agung, Kurniawan, and Juru (2023) shows that improving service quality involving efficient product delivery, stock availability, and customer interaction with the company can enhance customer satisfaction and build long-term relationships. From both studies, it can be concluded that service quality plays a significant role in shaping customer perceptions and their satisfaction.

Meiriva and Rachmawati's study (2022) demonstrates that good service quality directly correlates with the level of customer loyalty, and effective communication plays a key role in creating emotional bonds between brands and consumers. Research by Setyasari, Salsabila, and Kurniawan (2022) indicates that adequate service quality such as service reliability, responsiveness, and interpersonal interaction with customers shapes positive customer perceptions and, in turn, enhances their loyalty to the workshop. The conclusion from both of these studies is that service quality plays a vital role in shaping customer loyalty.

Research by Sinambela et al. (2022) shows that high service quality and positive company image have a significant positive impact on customer retention. Research by Anggraini et al. (2020) indicates that good service quality, satisfying product quality, and customer satisfaction collectively form the basis of strong customer retention. Both of these studies provide consistent insights that service quality plays an important role in influencing customer retention.

B. Customer Satisfaction

Customer satisfaction is a multifaceted phenomenon involving various emotional and evaluative aspects that emerge after customers interact with a product or service. Definitions by marketing experts provide insights into the essence of customer satisfaction. Tjiptono (2012) defines it as a feeling of pleasure or disappointment that arises from comparing perceived product performance with expectations, highlighting its relative nature. Daryanto and Setyobudi (2014) view customer satisfaction as an emotional assessment after product use, emphasizing emotional dimensions. Kotler and Keller (2018) define it as a pleasure or disappointment resulting from comparing perceived product performance with expectations, underscoring its relative nature and importance in marketing strategies.

Factors influencing customer satisfaction play a crucial role in shaping long-term relationships between customers and products or services. Manurung (2009) identifies key factors including expectations, actual performance, comparison, and confirmation/disconfirmation. Expectations refer to customer anticipations before purchase, while performance pertains to actual experiences during use. Comparison involves assessing whether the actual performance meets expectations, and confirmation/disconfirmation deals with how customer expectations are influenced by their experiences and perceptions. These factors collectively impact customer satisfaction, influencing post-purchase decisions and brand loyalty.

Customer satisfaction indicators are critical elements in assessing how well a company meets its customers' expectations and

needs. Kotler and Armstrong (2011) identify key indicators including service systems, employee friendliness, needs fulfillment, and information speed. These indicators reflect the quality of service systems, the friendliness of employees, the fulfillment of customer needs, and the speed of information delivery, all of which contribute to customer satisfaction. Monitoring and evaluating performance based on these indicators are crucial for companies to improve their services, products, and interactions with customers, ultimately enhancing customer satisfaction, brand reputation, and business sustainability.

Research by Arsuni (2020) indicates that customer satisfaction significantly influences customer loyalty. Efitas study (2023) shows that customer value and satisfaction positively affect customer loyalty. From both studies, it can be concluded that customer satisfaction plays a crucial role in shaping customer loyalty. Research conducted by Syaifulloh, Wulandari, and Afandi (2018) demonstrates that customer satisfaction has a significant positive influence on customer retention. Lilis (2013) shows that customer satisfaction, trust, and switching barriers collectively influence customer retention. From these two studies, it can be inferred that customer satisfaction plays a primary role in customer retention.

A study by Winton et al. (2023) indicates that service quality positively affects customer satisfaction, and this satisfaction then forms a strong basis for customer loyalty. Research by Wiguna & Padmantlyo (2023) demonstrates that service quality and price influence customer satisfaction, which subsequently serves as a critical link in forming customer loyalty. From both studies, it can be concluded that customer satisfaction acts as a crucial adhesive in the relationship between service quality and customer loyalty. Panjaitan et al.'s study (2015) shows that service quality significantly influences customer satisfaction, and this satisfaction then mediates the effect of service quality on customer retention. Sulistyan et al. (2018) demonstrate that service quality and institutional image positively influence student satisfaction, and this satisfaction plays a key role as a mediator in influencing student retention. From these two studies, it can be concluded that customer satisfaction plays an important mediating role in the relationship between service quality and customer retention.

C. Customer Loyalty

In the exploration of customer loyalty, various experts contribute nuanced definitions that underscore its significance in fostering long-term business success. Tjiptono (2012) defines customer loyalty as a response closely tied to a commitment to sustain the relationship between consumers and companies, often manifested through consistent repurchasing behavior. Hurriyati (2010) adds a dimension of commitment, emphasizing deep commitment from customers to remain loyal, reflected in repeated subscriptions or purchases. Sutisna (2001) emphasizes the emotional aspect, framing customer loyalty as a fondness for a brand, leading to consistent purchasing behaviors and forming positive emotional connections between customers and brands. Kotler and Keller (2018) highlight customers' deep commitment to preferred products or services, driving them to continue purchasing or supporting a particular product or service, thereby fostering brand loyalty.

Factors influencing customer loyalty are pivotal in marketing strategies and business management. Drawing from Gaffar (2007) and Marconi (2002), these factors include customer satisfaction, emotional attachment to the brand, trust, customer experience, value (price and quality), brand image, convenience, and service quality. Satisfaction arises when a company consistently provides satisfying experiences, motivating customers not only to be content but also to return. Emotional attachment fosters a strong connection between customers and brands, leading to increased loyalty. Trust plays a significant role in forming enduring relationships, with consistent, reliable service being crucial. Customer experience shapes behavior, with high perceived service quality encouraging ongoing relationships.

Customer loyalty indicators reflect behaviors indicating the level of attachment and loyalty to a brand or company. Griffin's (2005) outlined indicators include regular repeat purchases, purchases across product lines, referrals, and resistance to competitors' allure. Regular repeat purchases and product line expansions showcase high levels of trust and satisfaction. Referrals signify customers' confidence in the value provided by the company, while resistance to competitors' temptations demonstrates strong emotional or practical ties to a specific brand or product. Collectively, these indicators depict the extent to which customers maintain long-term relationships with a company, laying the foundation for sustainable business relationships. Understanding and measuring these indicators allow companies to assess customer loyalty levels, evaluate the effectiveness of customer retention strategies, and develop better approaches to meeting customer expectations and maintaining strong relationships with their market share.

D. Customer Retention

Customer retention, a concept elucidated by Buttle (2004), stands as a critical pillar in the realm of business, delineating the extent to which a company can uphold enduring relationships with its clientele. It conventionally quantifies the number of steadfast customers utilizing a company's offerings at the end of a specified period, expressed as a percentage. Simbolon (2011) further elucidates that customer retention mirrors the efficacy of a company in mitigating the exodus of consumers from its products or services. In today's competitive landscape, where acquiring new customers can be significantly more costly than retaining existing ones, customer retention emerges as a strategic imperative for businesses aiming for sustainable growth. It not only signifies the ability to maintain a loyal customer base but also underscores a company's capacity to deliver value consistently and cultivate lasting bonds with its clientele.

Customer retention entails a suite of strategies and policies deployed by companies to ensure sustained loyalty. Per Ranaweera and Prabhu (in Danesh, Nasab & Ling, 2012), it encapsulates customers' future proclivity to persist in using the same goods or services

over time, transcending mere present success to establish a framework for enduring relationships. Gerpott, Rams, and Schindler (in Khan, 2012) underscore that customer retention hinges on the continuous business rapport between customers and the company, emphasizing the imperative of fostering communication and mutual understanding. Through initiatives such as personalized customer service, loyalty programs, and proactive engagement, companies endeavor to create positive experiences that resonate with customers, fostering a sense of loyalty and connection. By consistently meeting and exceeding customer expectations, businesses can engender trust and loyalty, thereby solidifying their position in the market and mitigating the risk of customer churn.

In essence, customer retention is not solely about preserving existing clientele but also about laying the groundwork for robust and enduring relationships. By comprehending the definition of customer retention and implementing suitable strategies, companies can bolster not only customer satisfaction but also long-term profitability. Moreover, customer retention serves as a barometer of a company's ability to adapt to evolving customer needs, innovate its offerings, and maintain relevance in a dynamic market landscape. As such, businesses must prioritize customer retention efforts as part of a comprehensive approach to building brand loyalty, driving sustainable growth, and fostering a thriving ecosystem of satisfied customers and loyal advocates.

CONCEPTUAL MODEL

Based on the literature review above, the conceptual model is formulated as follows:

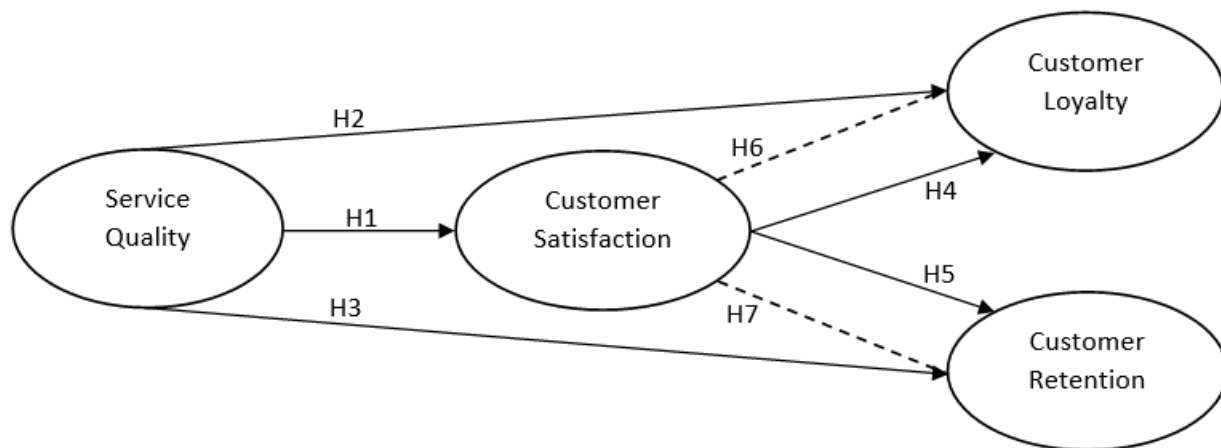


Figure 1. Conceptual Model

HYPOTHESES

Based on the conceptual model and literature review, the hypotheses can be formulated as follows:

- H₁: Service quality directly influences and significantly affects customer satisfaction.
- H₂: Service quality directly influences and significantly affects customer loyalty.
- H₃: Service quality directly influences and significantly affects customer retention.
- H₄: Customer satisfaction directly influences and significantly affects customer loyalty.
- H₅: Customer satisfaction directly influences and significantly affects customer retention.
- H₆: Customer satisfaction mediates the relationship between service quality and customer loyalty.
- H₇: Customer satisfaction mediates the relationship between service quality and customer retention.

METHODOLOGY

This research employs an explanatory research approach, focusing on revealing the cause-and-effect relationships among the involved variables, adopting a quantitative method for data collection and analysis. The study population includes 21 remote monitoring service installations provided by PT. Wärsilä Indonesia. This research chooses to explore the entire population with a saturated sampling due to its limited number. Data is collected primarily through questionnaires. The study adopts a robust data analysis method, namely path analysis technique. Additionally, path analysis assumption tests and hypothesis testing will also be conducted.

CONCLUSION

The objective of this research is to create a conceptual framework exploring how service quality affects customer loyalty and retention, with customer satisfaction as a mediator, specifically within PT. Wärsilä Indonesia. This study encompasses background

information, a review of relevant literature, hypotheses, and research methodology. By employing the conceptual model proposed in this research, we can ascertain the extent to which service quality influences customer loyalty and retention through the mediation of customer satisfaction.

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