The influence of perceived service quality, attitudinal loyalty and corporate social responsibility
on repeat patronage intention in retail banking in Indonesia

Dahlia Darmayanti and **Hanwin Cahyono**
Binus Business School, Bina Nusantara University, Indonesia

Keywords

Abstract

The objective of this research is to identify the role of Perceived Service Quality, Attitudinal Loyalty and Corporate Social Responsibility in influencing Repeat Patronage Intention in retail banking in two big cities in Indonesia - Jakarta and Surabaya. In addition, this paper also examines whether there are differences among the four variables above in demographic factors. Convenience sampling was used to conduct the survey. There were 150 respondents who took the survey in Jakarta and Surabaya, Indonesia. A 4 point Likert Scale was adopted and data analysis was performed using Regression analysis, ANOVA and an Independent T- test.

There was a positive relationship between Attitudinal Loyalty towards Repeat Patronage Intention. However, Perceived Service Quality and Corporate Social Responsibility were not positively related with Repeat Patronage Intention. Furthermore, there was a different outcome in age group on Perceived Service Quality and Corporate Social Responsibility and a significance difference in perception of Corporate Social Responsibility within the education level group. The banking industry should have a strategic plan which includes the role of Corporate Social Responsibility and sincerely implement the plan as Corporate Social Responsibility is one of the variable that can enhance the Perceived Service Quality, Attitudinal Loyalty and Repeat Patronage Intention. Further study could expand to other service industries such as the hotel and tourism and conduct in other cities in Indonesia besides Jakarta and Surabaya.

Introduction

A country develops its financial institutions to support and maintain the economic stability of its country. In Indonesia, banking is one of the largest contributions to Gross Domestic Product (GDP) in the finance, real estate, and business service industries. The banking sector has been rapidly growing and has increased from Rp 68,295 billion in 2004 to Rp 104,391 billion in 2012, caused at least in part by an increase in bank offices from 12,837 in 2009 to 14,797 offices in 2011(Bank Indonesia, 2013). Despite the rapid growth in the banking industry, the challenge is to manage and maintain customer loyalty. A study done by Ernst & Young (2012) found out that banks have suffered losses in loyalty and customers tend to use or patronize more than one bank driven by the economic benefits offered such as interest rates. In Indonesia, these economic benefits are important factors in determining customers' preferences when choosing products and services including banking (Asian News Network, 2013). The ADB Institute (2013) in SWA magazine analyzed other trends in Indonesia, such as the emerging of middle class customers, who nowadays are smarter and have stronger purchasing power. Hence they are more critical and aware when they choose their banks and buy the banking products. According to Infobank news (2013) there are several key factors i.e.: product variety, service

quality, bank reputation and benefits offered are crucial in determining the attitudes of Indonesian customers toward a bank. Product variety and benefits will give flexibility to the customers to choose the program that suits and benefits them most. In addition, a good quality of service from the bank will give customers good perceived service, a good attitude toward the bank and ultimately strengthen loyalty. Marketing Service quality in banking is important because it will give satisfaction to the customer and in return the customer will become loyal to the bank. Another driver that influenced customer attitudes toward a bank is the bank's reputation. There are many ways to build a good bank reputation. Besides service excellence, Corporate Social Responsibility activities play a role in the bank's reputation.

According to Thomson and Cowton (2004), banks should be socially responsible because banks are seen as the financial facilitators of industries that could have a strong and direct impact on the society and environment such as: the logging and mining industries. Nowadays customers are more educated, and they will become more critical when choosing the bank in which they want to invest their money. Customers will prefer to choose a bank not only with a good reputation but also one which gives contributions to the society and the environment.

Furthermore, the government strongly suggests making Corporate Social Responsibility as part of the business culture in Indonesia. The law that controlled the regulation of Corporate Social Responsibility in Indonesia is stipulated in 'Undang-Undang No. 40' about corporations, article 74: 1-4" which states that Corporate Social Responsibility should be implemented as part of the business plans for every public-listed company and there would be prosecution for those that failed to comply with the conditions (BAPEPAMLK, 2012). There are 4 public-listed banks which are famous for their reputation based on the total assets accumulation. Bank Mandiri is in the first place with Rp 481 Trillion of total assets accumulations compare with the 3 other banks: Bank Rakyat Indonesia (Rp 418 Trillion), Bank Central Asia (Rp 393 Trillion) and Bank Negara Indonesia (Rp 273 Trillion). These 4 public-listed banks have already incorporated Corporate Social Responsibility as part of their strategic plan.

Research Problem

Adapted from previous research conducted in Thailand by Mandachitara and Poolthong (2009) 'A Model of Customer Loyalty and Corporate Social Responsibility' this study would like determine the factors that contribute to the Attitudinal Loyalty and the Repeat Patronage Intention of customers in the retail banking sectors; namely Perceived Service Quality and Corporate Social Responsibility in Indonesia.

Research Questions

The following set of questions can be used as the guidelines to conduct this study:

RQ 1: Is Attitudinal Loyalty positively related to Repeat Patronage Intention?

RQ 2: Is Perceived Service Quality positively related to Repeat Patronage Intention?

RQ 3: Is Corporate Social Responsibility positively related to Repeat Patronage Intention?

RQ 4: Is Perceived Service Quality positively related to Attitudinal Loyalty?

RQ 5: Is Corporate Social Responsibility positively related to Attitudinal Loyalty?

RQ 6: Is Corporate Social Responsibility positively related to Perceived Service Quality?

Theoretical foundation

Customer Loyalty

According to Lovelock et al (2009), service is an economic activity offered by the provider to the buyer where the buyer does not possess any ownership from the thing bought because the customers' presence is required for the service to be delivered. Dick and Basu (1994) said that good

service is essential in the service industry as the goal is to give satisfaction to customers that could lead to loyalty and customer loyalty is defined as a condition where customers will regularly patronize a particular business although faced with many alternatives. Customer loyalty is a vital objective for firms' survival and sustainability. The bigger the customer loyalty, the bigger the profit that is cultivated. The cost needed to maintain an already loyal customer is much cheaper compared to nurturing a new customer into becoming a loyal one because loyal customers no longer need any marketing efforts (Reincheld and Detrick, 2003). Dick and Basu (1994) proposed that loyalty is a mixture of attitude and behavior. Dick and Basu (1994), Chaudhuri and Holbrook (2001) revealed that customer loyalty is predicated on the attitude and behavior of customers toward goods/services offered and the actual repetition of patronage intention.

Perceived Service Quality

During the service encounter time, usually customers tend to have expectations towards the service they will get from the provider. When the service provider fails to fulfill their expectations, it will create a gap between the expected services and perceived service. This gap is called Perceived Service Quality (Javagi and Moberg, 1997 in Mandachitara and Poolthong, 2009). According to Parasuraman et al (1985), Perceived Service Quality is the stimuli each customer perceives during the service encounter. The customer will evaluate the service by comparing the perceived stimuli (perceived service performance) with the stimuli they expected to perceive (service expectations). Service quality has also become a foundation for bank customer loyalty (Mandhachitara and Poolthong, 2009). In the banking industries where most of the product offered is homogenous (less differentiation), bank managers began to rearrange the strategy from product-oriented to a more customer-oriented strategy that focuses on service quality such as service speed, staff-friendliness, and environmental conditions (Lewis and Soureli, 2006).

Furthermore, Mohr et al., (2001) also found out that service quality is not the only driver of loyalty in the banking industries but also corporate social responsibility has been revealed to have a connection or relation to bank loyalty. The biggest incentive for corporations to conduct corporate social responsibility is because it has been recognized for its potential to increase customer loyalty (Mohr et al., 2001).

Corporate Social Responsibility (CSR)

The increasing awareness of social issues in society has resulted in the increasing demand for CSR and thus has made CSR the standard in every company's strategic planning. The definition of CSR according to Mohr et al (2001) is: "The Integration of business operations and values whereby the interests of all stakeholders including customers, employees, investors and the environment are reflected in the company's policies and actions." As stated in the definition above, companies must take responsibility not only for their shareholders (investor's welfare) but also for their stakeholders. Stakeholders are people or systems that are affected and can be affected by a company's actions (Freeman and Evan, 1990). Carroll (1991) has described the four principle types of responsibilities of companies to commit to CSR
1. Economical (be profitable)
2. Legal (obey the law)
3. Ethical (be ethical)
4. Philanthropic (be a good corporate citizen)

Jain, Pinson, and Malhotra (1987) suggested that attitudinal commitment is required for true loyalty to exist because the higher attitudinal commitment of a customer tends to

provide service recommendation. Many researchers believe that attitudes go before behavior in the context of re-patronizing a product/service because attitudes towards products and services determine the choice or intention to buy (Traylor 1981). Hence:

H1: Attitudinal loyalty is positively related to repeat Patronage Intention.

Chiou and Droge (2006) also demonstrated layers of attitudinal loyalty: attitudinal loyalty derived from satisfaction and trust toward the brand that was created from good service quality. Therefore it can be hypothesed that:

H2: Perceived Service Quality is positively related to Repeat Patronage Intention.
H4: Perceived Service Quality is positively related to attitudinal loyalty.

Mohr et al (2001) proved that CSR is one of the factors that influence customer loyalty besides service quality. Studies from Berens et al (2005) shows that companies that have high level of capability should apply CSR because it has a substantial effect on purchase intention. Therefore it can be concluded that:

H3: Corporate Social Responsibility is positively related to repeat Patronage Intention.

Company reputations are often used by customers to measure the quality of the products and service; a positive reputation means a high level of perceived product and service quality. The biggest incentive for corporations to conduct CSR is because corporate social responsibility has been linked to increased loyalty of customer (Mohr et al., 2001). Hence it can be hypothesised that:

H5: Corporate Social Responsibility is positively related to Attitudinal Loyalty.
H6: Corporate Social Responsibility is positively related to Perceived Service Quality.
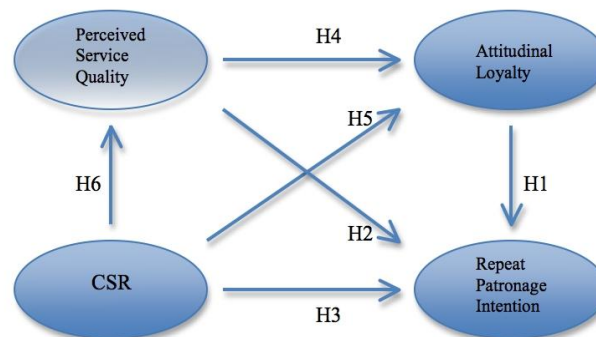

Figure1.1 – Conceptual Model
Adapted from Mandachitara and Poolthong (2009)

Research Design and Methodology

A convenience sampling was used in this research and 150 valid participants who resided in Jakarta and Surabaya participated in the online and offline surveys. All respondents were employees in various industries and who had bank accounts at the minimum one year in one of the 4 most famous publically listed banks, namely Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia, and Bank Negara Indonesia. These banks were chosen not only for their total assets, but because they also were engaged in CSR activities. A Likert scale was used in the questionnaire but only four scales were applied to avoid any 'neutral' answers. According to Maholtra (2012), an even number on the scale is used when the researcher believes that no neutral response can exist. The questionnaire was divided into 2 parts: demographic questions, and a variables question which contained 4 variables (perceived service quality, corporate social responsibility, attitudinal loyalty, and repeat patronage intention) with a total of 32 questions.

Before the full-scale survey, a pre-test involving 30 respondents was performed to test reliability and validity.

Cronbach's alpha is the most appropriate tool to measure and test the reliability of the survey. A Cronbach's alpha value of 1.0 indicates perfect reliability, but the minimum value of Cronbach's Alpha to be deemed as reliable is ≥0.6 (Sekaran and Bougie, 2009). All variables had a Cronbach's alpha value of higher than 0.6. Confirmatory Factor Analysis (CFA) was used to test the validity. Within the CFA, Kaiser-Melyen-Olkin (KMO) value is the common measurement in the validity analysis. A KMO value should be greater than 0.5 to be considered as valid (Malhotra, 2012). Additionally, factor loading will also be examined to indicate how well the questions in the survey represent the variables on the model. A factor loading value of more than 0.700 indicates that the questions in the survey are suitable and valid indicators of the variable (Malhotra, 2012).

The KMO values of all the variables were higher than 0.5 and the factor loading variables have shown a value of greater than 0.7. This means that all of the variables are valid. Multiple regression analysis was conducted to measure the influence of Perceived Service Quality (PSQ), Corporate Social Responsibility (CSR), and Attitudinal Loyalty (AL) toward Repeat Patronage Intention (RPI) and the influence of PSQ and CSR toward AL.

Further, Independent T-Test and ANOVA were conducted also to find out whether there were any differences in the perception of the main dimension variables, which were PSQ, CSR, AL and RPI when it was related to demographic sectors such as gender, age, education, and occupation.

Findings

The first multiple regression was to measure the influence of PSQ, CSR, AL towards RPI. The result of the R-square was 0.382 and the significant level was 0.000. Therefore it could be inferred that AL, PSQ, and CSR had a linear relationship with RPI. AL had the highest effect on the dependent variable with a B value of 0.645 compared to PSQ 0.072 and CSR 0.029. Since AL had a significant value of 0.000, which was lower than $\alpha = 0.05$, therefore it could be concluded that the AL variable was statistically significant on the RPI variable. *Thus H1 was accepted: Attitudinal Loyalty was positively related to repeat Patronage Intention.*

PSQ had a significant value of 0.474, which was higher than $\alpha = 0.05$, therefore it could be concluded that PSQ variable was not statistically significant on the RPI variable. Therefore, *it failed to reject H0, hence do not accept H2, which was: Perceived Service Quality is not positively related to repeat Patronage Intention.* CSR had a significant value of 0.636, which was higher than $\alpha = 0.05$, therefore it could be concluded that the Corporate Social Responsibility variable was not statistically significant toward the Repeat Patronage Intention variable. *It failed to reject H0, and hence do not accept H3, which is: Corporate Social Responsibility is not positively related to repeat Patronage Intention.*

Table 1.1 First Multiple Regression

Hypothesis	B value	Partial Sig	Result
H1	0.645	0.000	Accept H1
H2	0.072	0.474	Reject H2
H3	0.029	0.636	Reject H3

The second multiple regression was conducted. to measure PSQ and CSR toward AL, and it showed that the R-square was 0.271. The significant value of PSQ was 0.000 and CSR was 0.045. Therefore, *H4: Perceived Service Quality was positively related to Attitudinal Loyalty and H5: Corporate Social Responsibility was positively related to Attitudinal Loyalty were accepted.*

Table 1.2 Second Multiple Regressions

Hypothesis	B value	Partial Sig	Result
H4	0.513	0.000	Accept H4
H5	0.116	0.045	Accept H5

Simple Linear Regression was conducted to measure the influence of CSR toward the likelihood of PSQ. The R-square was 0.138. It could be inferred that CSR helped to predict 13.8 percent of the variance in respondents' scores on the PSQ variable. The significant value was 0.000 (less than α = 0.05), therefore it could be inferred that the CSR variable was statistically significant toward the Perceived Service Quality variable. *H0 was rejected and accepted H6, which was Corporate Social Responsibility, was positively related to Perceived Service Quality.*

ANOVA and Independent T-test

ANOVA was conducted to find out whether there were significant differences in the perception of PSQ, CSR, AL, and RPI when it was related to age, educational background, and occupational background. Below are the findings summaries:

1. Age group, the finding showed that there were statistically significant differences in the perception of PSQ (Sig value of 0.07), and CSR (Sig value of 0.018). From the Scheffe-Post-Hoc test results for PSQ significant differences occurred between the age groups of 21-30 years and 50 years and above (Sig value of 0.007). For CSR, similar to PSQ, significant differences occurred between the age groups 21-30 years and 50 years and above (Sig value of 0.021).
2. For the education group, the findings showed that there were significant differences in the perception toward CSR (Sig value of 0.020). It could be concluded that the perception toward CSR was different when it was related to the educational background of Indonesian banking customers.
3. In the occupation group, the findings showed that there were no statistically significant differences in the perception of PSQ, CSR, AL, and RPI (Sig values of 0.138, 0.140, 0.624, 0.640 respectively). It could be concluded that Indonesian banking customers with different occupational groups do not have any differences in their perception toward PSQ, CSR, AL, and RPI.

Independent T-Test was conducted to find out whether there was a significant difference in the perception of PSQ, CSR, AL and RPI toward Gender and Demographic Location. The result showed that there were no statistically significant differences in the perception of PSQ, CSR, AL, and RPI when it was related to gender and location.

Conclusion and Recommendation

The findings had shown that only AL had immediate significant effect towards RPI. The higher the AL of bank's customers, the higher their RPI to a particular bank. Meanwhile, PSQ and CSR had no direct significant effect toward RPI. Therefore, it could be inferred that Indonesian bank customers' PSQ and the bank CSR initiatives had fewer influence for customers' RPI. In addition, both PSQ and CSR had direct significant effect toward AL. Further, CSR had direct significant effect towards PSQ. The higher the bank had initiatives on CSR activities, the higher customer's PSQ on such bank. Therefore, it could be concluded that Indonesian customer expectations toward CSR activities would strengthen the PSQ. From ANOVA and Independent T-test analysis, it showed that there were significant differences on the perception of PSQ and CSR when it related to age group specifically between "21-30 years" group and "below 50 years" group. Furthermore, significant differences also existed within the

education group on the perception of CSR. However, there were no significant differences on the gender, occupation, and location.

PSQ has been proven important in the building of a loyal customer base, especially staff competency and service reliability were the most important elements in PSQ dimension because service reliability and responsiveness of staff have always been the criterion in evaluating the service quality in retail banking sector. Therefore, proper and continuous staff training should be conducted in order to achieve and maintain high level of competency and service reliability. When the service is reliable and customer is served by knowledgeable staff, the customers will increase their satisfaction level and loyalty. In addition, activities on CSR have created the positive association with PSQ and AL. Given this information, it would be wise for bank to be proactively engaged in the CSR. This action can be realized by allocating some budgets toward community and environment support such as donate to charities, disaster relief, help the disadvantages, support forest preservation, support environment preservation.

The result from post hoc test in the ANOVA on age group showed that there are significant differences on the perception of PSQ and CSR specifically between group of 21-30 years old and above 50 years old. In addition to that, in the educational group, found out that there is significant difference on the perception of CSR.

With this findings, bank manager should treat their customers differently especially between the group of 21-30 years old and above 50 years old considering their different point of view in life. When choose a bank, the 21-30 years old customers don't pay attention to social activities but more on to economical benefits such as higher interest rate. Therefore, bank managers should offer competitive interest rate when they approach this particular group. On the other hand, customers who are above 50 years old who are financially independence and start to build social status, they will pay more attention not only to the bank's reputation (SERVQUAL) but also the bank social activities and community contribution.

Due to the time constraint, only 150 respondents joined the research covering two big cities in Indonesia which were Jakarta and Surabaya. To analyze the study, regression analysis was applied. It would be better to use more advance analysis tools to answer the hypotheses. For future research, it was recommended to add more respondents covering other cities in Indonesia. On the questions parts in order to enhance the clarity of the questionnaire, it is advisable to divide the questionnaire Staff Competence and Service Reliability", Convenience and Product".

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