Customer Retention as a Result of Behavioural Intention: Relationship between Customer Orientation of Service Employee and Service Quality

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ABSTRACT

The purpose of this research is to understand the impact of Customer Orientation of Service Employee (COSE) and the quality of services provided in order to determine the customer's behavioural retention motives in the banking industry at Lampung Province. A survey was conducted among 400 customers of commercial banks in Lampung for two months (June - August 2016) with proportional distribution. Survey data was analysed using Structural Equation Modelling (SEM) based on Lisrel 8.71. The findings show the customer's behavior towards banking services determine whether the latter will be retained based on its quality of service and if it is customer-oriented. Overall, the findings suggest that it is important to study the intention of consumer behavior to face competition in banking industry. For further research, it is recommended to research in the areas of customer satisfaction and other relevant variables to expand the research area.

Keywords: Banking, behavioural intention, customer orientation, customer retention, service quality

INTRODUCTION

The Indonesian banking sector has witnessed a dramatic and rapid growth. This is in line with the growing number of national banks and foreign banks in Indonesia that conditions triggers an intense competition among banks, either state-owned or private banks.

Table 1
Banking indicator in Lampung

Indicator from commercial bank	2013	2014	2015
Banking asset	18.70	10.44	10.4
DPK growth	14.0	12.03	12.08
Credit growth	21.0	10.6	7.7
Number of accounts	24.3%	26.2%	-

Source: Regional Lampung Economic Studies, 2016

Table 1 shows banking industry in Lampung experienced downward slope in growth of its total assets, stock of third-party funds (DPK) as well as the lending credit to one of the alleged parties. It was caused by the decline of the customers' satisfaction level towards the banking industry services. In other words, the downward slope of the overall growth happened because of the bank's failure to retain its customers. Due to the high level of competition in the banking industry, customers are getting smarter in choosing the best banking services.

Preliminary research shows that the banking industry in Lampung generally experienced a slow growth in total assets, third party fund raising, credit distribution, and number of accounts. It was noted that customer orientation in banking transactions was also lacking. Therefore, it resulted in negative customer behavior and reduced retention of service.

The aims of this research are to understand the effect of: a) service quality on behavioural

intention; b) Customer Orientation of Service Employee (COSE) on behavioural intention; c) service quality on customer retention; d) COSE on customer retention; and e) behavioural intention on customer retention.

LITERATURE REVIEW

Service Quality

Parasuraman, Zeithaml and Berry (1994) explained quality of service was the gap between wish and reality. Gronroos (1984) opined that quality of service was a function of what the consumer receives (technical quality), and how the service was being delivered (functional quality).

Quality of service in the retail banking environment has been the focus of number of studies, but none of the studies have used Gronroos's service quality model as a framework for developing a method of measuring customer service quality perceptions (Abdullah & Francis, 2002). Chr (1982) reported consumer assessment of the quality service consisted of two dimensions of technical quality and functional quality (Abdullah & Francis, 2002). Gronroos then suggested that comparison between expectation and perception in the form of services played an important role in shaping consumer's assessment.

Abdullah and Francis (2002) studied the quality of services in the retail banking sector with the framework of Chr (1982) to develop methods of measuring customer service quality perceptions. Following *benchmarks*, analysing data and comparing the literature on service quality at banks, a new model of service quality was introduced

in a bank named *SYSTRA-SQ scale* (**SYStem and TRAnsactional Service Quality scale**). *SYSTRA-SQ* is one of the newest method in measuring quality service in bank (Abdullah & Francis, 2002). This model is developed from *service quality method from* Chr (1982) which consists of 12 factors affecting quality service. *SYSTRA-SQ* model consists of four factors (Abdullah & Francis, 2002) which are: 1) *Service System Quality* (SSQ), 2) *Behavioural SQ (*BSQ*)*, 3) *Machine SQ* (MSQ), and 4) *Service Transactional Accuracy* (STA).

This model is selected because only a few researches used SYSTRA-SQ model to study the banking sector in Indonesia. Thus, it motivates the authors to adopt the SYSTRA-SQ model in order to contribute to the measurement of service quality in the banking sector in Indonesia.

Customer Orientation of Service Employee (COSE)

The theory of COSE was first introduced by German social psychologist, Hennig-Thurau (2004) who distinguished between individual knowledge, personal will, and social benefits as a general employee behavioural precondition. This theory was later known as COSE consisting of three dimensions: a) employee customer-oriented skills; b) employee motivation to serve the customer; and c) the employee's authority in his own decision-making.

Hennig-Thurau and Thurau (2003) explained that an employee could only behave in a customer-oriented way in the fullest sense if all the dimensions were present, in which

the employee is motivated, competent, and allows to treat customers according to their needs. With regard to the dimensions of consumer orientation skills of service workers, Hennig-Thurau and Thurau (2003) proposed that employees' technical and social skills were considered separate dimensions of COSE in addition to the motivation and the authority dimensions. To serve the customers, employee motivation should consist of three elements, i.e. the positive valence of customer-oriented behaviour and the consequences associated with such behavior from the employee, employee self-perception to be customer-oriented (Vroom, 1964), and employee expectations in achieving desired outcomes through such behaviour.

In addition, motivation is crucial to transform the employees' social and technical skills in customer-oriented behavior and the employee's decision-making power, which is perceived as the final dimension of COSE. The self-employed decision-making authority as the final dimension of COSE describes the extent to which the service worker feels authorised to decide on issues related to the interests and needs of the customer. The authority of making decisions is concerned with the concept of empowerment addressed in the service (Bowen and III, 1995). Spreitzer (1995) refered to the "purpose" of giving the authority to employees by the organisation, while the decision-making authority was viewed as Subjective. As with motivation, decision-making authority is required to transfer employee's skills and intentions to treat customers in a friendly and competent manner in actual behaviour.

The Hennig-Thurau (2004) study

became a reference in the selecting dimensions such as employee customer-oriented skills and employee motivation to provide service to customers by eliminating the employee authority dimension in decision making because it is less relevant. Selection of the dimension is based on the measurement of customer orientation, measured by the service of actors (how employees' perception who are customer-oriented). There are only very few studies conducted in Indonesia to measure customer orientation of service providers.

Behavioural Intention

The intention of behaving customer is defined as the behavior of customer's intention to the banking product or service which are the result of customer satisfaction process toward banking product or services. Customer's satisfaction with banking products or services can have an impact on the behavior of customers' high or low intentions, depending on the level of the customer's satisfaction.

The tendency of consumer behavior is a set of final results of the items analysed. Various theories suggest that if the number of consumers who abandon the consumption of goods or service is lower, the key to the service providers' ability will generate more profits. According to Zeithaml, Berry and Parasuraman (1996), there are five dimensions of behavioural intentions, such as: (1) attitudinal loyalty; (2) switch propensity; (3) willing to pay more (paymore); (4) external response, and (5) responses to the company (internal response)

Jr, Brady and Hult (2000) stated that consumer behavior trends are related to the service providers' ability to spread instruction to their customers to (a) have positive statements about them (service providers); (b) give recommendations to other consumers about them (service providers); (c) remain loyal to the providers (or buy more from them); (d) spend more time with them; and (e) pay the premium price.

Zeithaml et al. (1996) theoretical study on behavioural intentions, became a reference to select the dimensions of behavioural intentions. They are loyalty, switching, willing to pay more, exit responses and responses to the company. These dimensions will be used in this study to examine samples from the banking industry in Indonesia.

Customer Retention

Some studies have shown satisfied consumers with adopt word of mouth communication (Cranage, 2004) strategy to spread good news about a service provider. Other studies have shown that long-term consumers of the company will make more purchases (Peterson, 1995). Loyal customers will be more responsive to buying any kind of products and services of the company, often paying and creating demand (Cranage, 2004); Peterson (1995) added that as well as cheaper in serving, ultimately, the consumer would not be too sensitive to price, so the margin that would be obtained by the company would be greater.

Generally, there are three different approaches to measure retention such as behavioural measures, measurement of attitudes and composite measurements (Bowen & Chen, 2001). In the service context, retention is defined as the observed behavior (Strandvik

& Liljander, 1994). In addition, behavioural approaches focus on repeat purchases will not offer comprehensive insights into the underlying reason for retention (Bloemer & Kasper, 1995). Consequently, customer retention is the construct of attitude (Hallowell, 1996) to reflect the inherent emotional and psychological ties in retention (Bowen & Chen, 2001), for example, customers' willingness to recommend service providers to other consumers (Zeithaml et al., 1996). However, attitude measures have been criticised by Dick and Basu (1994). The third approach incorporates aspects of behaviour, attitude, and cognitive customer essence (Bloemer & De Ruyter, 1998). Psychological involvement or establishing attitudes with repeat purchases has proven to be important in achieving absolute retention (Oliver, 1999). In this case, customer retention is seen as the first thing that comes to the minds of customers when making purchasing decisions, namely the first customer choice among alternatives including price tolerance (Dick & Basu, 1994; Zeithaml et al., 1996).

The findings of Zeithaml et al. (1996) have been examined by Mohammad, Tony and Leonce (2009) to ensure consumer retention. Mohammad et al. (2009) developed a group of antecedents that reflected a wider range of behavioural, attitude and cognitive intentions to service providers. The four dimensions are word of mouth communications, purchase intention, price sensitivity, and complaining behaviour.

The findings of Mohammad et al. (2009) had also became a reference in studying consumer retention dimensions, namely word of mouth, buying intention, complaining behaviour, and price sensitivity. Mohammad et al. (2009) extended the research of Zeithaml et al. (1996) by studying antecedents of behavioural, attitude and cognitive intentions.

MATERIALS AND METHODS

Questionnaires were used as a tool to collect data and hence, it was necessary to test their validity and reliability. The next stage was analysing and interpreting the data obtained in the field using inferential statistics. The total sample of 400 respondents were drawn proportionately from each bank in Lampung, Indonesia. The distribution of questionnaire was done randomly according to the categories: 71 customers of DPK state own, 243 customers of DPK BPR and 10 customers credit of state own and 76 customers credit of BPR.

To measure the construct dimensions, the 50 items in the questionnaire were adapted from previous studies. The COSE was adapted from Hennig-Thurau (2004), service quality dimension from Abdullah and Francis (2002), behavioural intention from Zeithaml et al. (1996), customer retention from Mohammad et al. (2009). All items were measured by responses in semantic different point scale of 10. Inferential statistical method used in the data analysis was Structural Equation Modelling (SEM) based on LISREL 8.71 software. The SEM was used to test the research hypothesis. The relationship pattern among variables that will be studied was the causal relationship of one or more exogenous variables and one or more endogenous variables. In this study, relationship

forms or equations were tested. The SEM model in this study is described in Figure 1
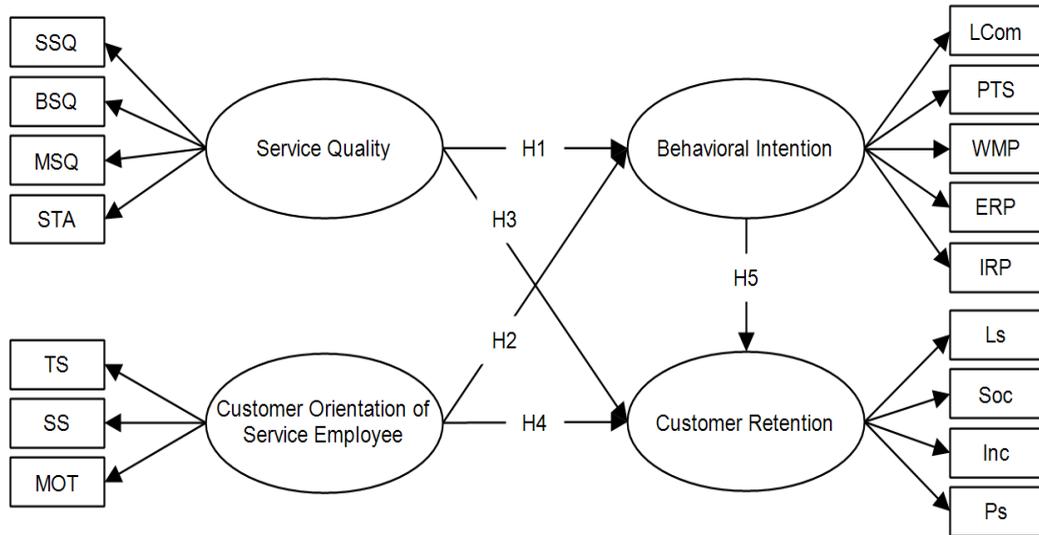
Based on the research model, the

Figure 1. Research model

following hypotheses were developed:

H_1: Service quality affects behavioural intention; H_2: COSE affects behavioural intention; H_3: Service quality affects customer retention; H_4: COSE affects customer retention and H_5: Behavioural intention affects customer retention.

RESULTS AND DISCUSSIONS

Majority of the respondents were females, 55.40%, while those aged between 29 and 38 years accounted for 80.20% of the respondents. Educational attainment (Senior High School – 71.40%) and private company employees (60%) accounted for majority of the respondents. About (36.60%) of the respondents receive information from their friends and use the saving products (70.70%). Respondents on average conducted banking transaction twice in a month (35.60%) and often switched their bank accounts to different banks (79.20%). The average active income of respondents was Rp. 8.100.000/month. Statistically, there is a correlation between the level of education and main job of respondents. This relationship shows that the higher the level of education, there is more positive contribution to the main job as well as their saving behavior.

Confirmatory factor analysis is used for validity and reliability of the testing. The questionnaire consisted of 50 items on service quality, COSE, behavioural intention and customer retention. All indicators in each dimension constructed generated a loading value > 0.5 so no indicators are excluded from the model.

Table 2
First order confirmatory factor analysis results

Construct	Dimension	λ	CR	VE
Service Quality (SQ)	Service system quality	0.950	0.960	0.858
	Behavioural service system	0.940		
	Machine service system	0.840		
	Service transactional accuracy	0.970		
Customer Orientation of Service Employee (COSE)	Technical skills	0.970	0.965	0.903
	Social skills	1.000		
	Motivation	0.970		
Behavioural Intention (BI)	Loyalty	0.890	0.963	0.840
	Propensity to switch	0.890		
	Pay more	0.960		
	External response	0.960		
	Internal response	0.880		
Customer Retention (CR)	Words of mouth	0.730		
	Purchase intention	0.730	0.849	0.584
	Complain behavior	0.780		
	Price sensitivity	0.690		

The model describes the relation between the constants. The value of X^2 177.38 with df 96 (Good), Sig. Probability 0,000 (Less good), GFI 0.95 ≥ 0.90 (Good) RMSEA 0.046 ≤ 0.08 (Good), Normed X^2 1.84 < 5 (Good), NFI 0.98 > 0.90 (Good), NNFI 0.99 > 0.90 (Good), CFI 0.99 > 0.90 (Good), RFI 0.99 > 0.90 (Good), AGFI 0.93 (Good) and PNFI 0.78 (Marginal) are in interval 0 – 1.

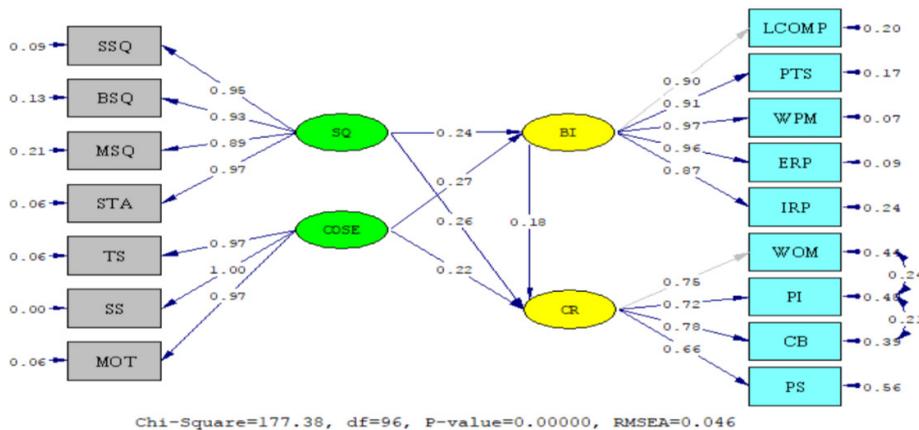Chi-Square=177.38, df=96, P-value=0.00000, RMSEA=0.046

Figure 2. Customer retention model for bank

Results show that service quality influences behavioural intention with coefficient value 0.24 and t-value 4.77 (H1: received). Service quality can change customer's behaviour in using banking services. The COSE has an effect on behavioural intention with coefficient value 0.27 and t-value 5.40 (H2: received). Customer behavior intention can be influenced positively if it is supported by customer-oriented behavior and attitude of employees in providing their service. Service quality influences consumer retention with coefficient value 0.26 and t-value 4.49 (H3: received). Customer service has become an important factor in customer retention. In fact, studies explained that customer service determines whether a customer will stay or switch to another company. The COSE has effect on consumer retention with coefficient value 0.22 and t-value 3.85 (H4: received). In providing services, employee must be customer-orientated and focus on retention programme for *sustainable growth*. Behavioural intention has an effect on consumer retention with coefficient value 0.18 and t-value 3.14 (H5: received). Thus, customer's behavioural intentions are formed on the experiences of services and behaviours of bank employees.

This means that all relationships between variables are significant because the value of t-value is greater than the cut off, 1.96. Behavioural intention has a value of R^2 equals to 0.17. Service quality and COSE account for 17% of behavioural intention while customer retention equation is expressed in the value of R^2 of 0.24. Service quality, COSE and behavioural account for 24% of customer retention. Behavioural intention intervenes in the relationship between service quality and COSE with customer retention due to their direct relationship, which initially is significant but after adding the behavioural intention value its significance declines.

CONCLUSION

Findings of this research show that service quality and COSE have significant effects on behavioural intention and customer retention. Furthermore, behavioural intention affects customer retention and is an intervening function between service quality and COSE to customer retention. This study reveals the intention of customer behavior will determine whether they will retain the services of the bank based on the latter's service quality and customer perceptions on COSE. Moreover, this research contributes to literature by pointing to the relationship between COSE and customer's behavioural intention, which has not been studied before in the banking industry. In addition, the use of dimensions SYSTRA-SQ in discussing the quality of services in the banking industry associated with customer's behavioural intention and customer retention is also a novel approach.

Overall, the hypotheses of the study were all supported. COSE is the most dominant variable in shaping consumer retention through behavioural intention. It means that consumers will retain the services of the bank if they have the intention to behave positively toward companies based on the latter's consumer-oriented behavior. For the banking players, the employee-oriented factor in providing

service becomes a benchmark for creating satisfaction that can ultimately lead to the intention of behaving in a positive direction and impacting customer retention behaviour.

Enhancing customer-oriented innovation is essential to maintain and keep customers as it affects the *sustainability* of banks. Customer-based strategy is premised on customer's behavior and responses to the quality of service and marketing that has been implemented, including customer orientation of service employee, so as to establish the customer's behavior intention that can create loyal customers.

The limitation of this research lies in its limited samples (focus was only one province). It is recommended that future research uses the same variables or adds another variable to expand the research area.

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