Effect of Functional Service Quality on Customer Satisfaction and Image and the Impact on Loyalty Intention (Study at Three-Star Hotel in Malang City and Batu City)

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ABSTRACT: This study aim is to investigate the effect of functional service quality on customer satisfaction and corporate image as well as its impact on loyalty intention. The study is conducted on all hotels in Malang City and Batu City. The sample used is the consumer in 11 three-star hotel in Malang City and Batu City with total samples used are 312 respondents. Data is collected by questionnaire. Data analysis is performed using Structural Equation Model (SEM) with GESCA as analysis tools. Research findings show that Functional Service Quality significant has significant effect on customer satisfaction and corporate image. Functional Service Quality also has significantly effect the loyal intentions. Corporate image significantly affect on customer satisfaction and loyal intentions. Customer satisfaction affect insignificantly on loyal intentions.


I. INTRODUCTION

Malang City and Batu City are area with good economic growth. It is powered by growth in various fields such as educational institutions, tourism, property, home store, malls, supermarkets, and even vendors that have sprung up along the main roads and in villages. Malang City is the second largest city in East Java. It was promoted as a student city or town education, town business, and tourism city as it appears in Tri Bina Cita Malang. As tourism area, Malang become worth tourism destination for domestic and international tourists because many tourist attractions and shopping centers can be visited (www.malangkota.go.id). Batu City was separated from Malang City and it is changed to become administrative city High-level visit to Malang City and Batu City creates a need for place to stay. It is a business area that very promising for hoteliers. In addition, hotel also offers other services such as meeting rooms, reception, entertainment and others according to customer needs. Department of Tourism Malang Mr. Zulhikmi explains that market for hotel business is still promising in coming years despite the high hotel growth for star and non star category. Hotel business in year 2014 will continue to boost tourism potential in Malang. Future hotel will grow to support tourism sector. The same thing also expressed by some hotel marketing manager. Presence of a new hotel evolve rapidly but we do not worry because hotel business needs remain high prospective and promising (early interviews, January 2014).

Customers need a service as a result of their cost in order to get services in according with their expectations. Therefore, hotel industry will give various best services to customers with expectations the customer will come back to use the same services in future. It is not easy to be met various customers need with different backgrounds. This difference is related to level of social strata, economic income, educational background, place of origin of their local culture, or other interests. This diversity will be taken into consideration for hotel industry to meet customer needs. Service quality has become a major topic lately, especially in face of global competition. Service quality is determined by survival strategy of company, as well as how the hotel industry take position as a superior service compared with competitors. The disappointment to service quality technically and functionally will become a separate record for customer as well as the hotel itself. Grönroos, (1993) stated that functional service quality will affect customer satisfaction. Gronroos (1993) divides service quality into technical and functional service quality. If customers get the service in accordance with their expectations, especially related to money (cost) to obtain services, then they will be proud. This pride can encourage customer’s recommendation to close friends, family, or neighbors (Word of Mouth). Conversely, if they do not get good quality service, they also will tell the closest people and it will give a bad image to hotel industry.

Norman in Kandampully & Suhartanto (2000) states that corporate image is considered to affect the minds of customers through the combination impact of advertising, public relations, physical image, word of mouth communication, and actual experience.
Companies can start a good relationship by creating customer’s confidence and certainty. Companies which showed a high commitment to provide high quality customer service can improve customer satisfaction. It will lead to a successful relationship, which in turn give a plus to service company. Lien and Kao (2008) explains that Functional service quality affect on satisfaction. Lien and Kao surveyed 570 students at University of Taiwan over the phone for six months. Their research proves that Functional Service Quality is very important to create customer satisfaction. The importance of functional service quality relates directly to how it is perceived by customer in service process. Corporate image and loyalty intention requires a strategy to gain a place in customer’s hearts. If hotel does not pay attention very well, it can create losses for company, because it is very sensitive. Customer satisfaction and loyalty intention are supported by customer satisfaction and functional service quality. Customer satisfaction will high create loyalty intention and that begins with good corporate image.

The description above becomes reason for researchers to conduct a study about the Effect of Functional Service Quality on Customer Satisfaction, Corporate Image and Loyalty intention. Research will be conducted to customers of three-star hotel in Malang and Batu.

II. THEORETICAL REVIEW AND HYPOTHESES

Functional service quality is also referred to as the intrinsic qualities to explain how service was delivered. Functional service quality refers to employee action or human interaction that occurred during the meet and how services are delivered. Good quality functional services will provide a snapshot for a company. Good corporate image can also affect the customer’s views on organizations or companies, which resulted in satisfied customers. Customer’s satisfaction can increase customer retention to purchase repeatedly or recommend to other customers. Companies hope loyal customers and customers dos not switch to other companies. Based on description above, research model can be presented as follows. Description variables in this study can be presented below.

Relationship of Functional service quality on customer satisfaction

Functional service quality has an important role to provide customer satisfaction. Customer’s satisfaction is target of every company. They provide long term benefits for company. Many studies illustrate that service quality has significant positive effect on customer satisfaction: Caruana and Malta, 2002; El-Salam et al. 2013; Rahman et al. 2012; Kang and James 2004; Saura et al. 2008; Polyorat and Sophonsiri, 2010; Holdford and Schulz, 1999).

Relationship of Functional service quality on corporate image.

Significant relationships between functional service quality on corporate image studies were evidenced by Rahman et al. (2012; Howcroft and Lavis, 1986; Grönroos, 1993; Kandampully and Hu, 2007; Chattananon et al. 2007; Caruana, 1997; LeBlanc and Nguyen, 1996; Parasuraman, 1991). Corporate image can be determined from the service quality to customers. Good service quality can affect a company’s reputation. Good reputation will affect on level of customer satisfaction and further affect customer loyalty. Good service quality, customer satisfaction, corporate image and customer loyalty is intertwined relationship although there are other factors to affect customer in a decision making on a company. Many studies have shown that corporate image is affected by service quality level. It becomes an important factor to evaluate company as a whole because of its strength lies in customers’ perception of company.

Relationship of functional service quality on loyalty intention

Functional service quality can affect on customer satisfaction and corporate image, which in turn have an impact on loyalty intention. There are many factors affecting a customer to remain or switch to other company. Many studies have shown that switch behavior to a product or service is caused by service quality they receive when they do transaction or using specific products and services (Akhtar, 2011; Zeithaml, 2000; Lhadari, 2009; Inamullah, 2012; Guillent et al. 2011; Oliver, 1999; Dick and Basu, 1994; Swastha, 1999)

Relationship of corporate image on customer satisfaction

Good corporate image can affect on customer satisfaction. When customers use a product or service and they are proud because it have good corporate image, customer usually be satisfied. For example, when customers use a particular airline, there is a satisfaction for customer. Researchers have shown very strong relationship between corporate image and customer satisfaction (Grönroos, 1993, 1994; Kandampully and Hu, 2007; Bittner, 1990; Chattananon, 2007).
Relationship of corporate image on loyalty intention: Corporate image will affect on customer behavior. Corporate image has meaning for customers when they use products or services. When a corporate has good reputation in customer eyes, customer will tell anyone who would they recommend, even loyal customers will be the advisor for other customers. It show corporate image can affect on loyalty intention.

Relationship of customer satisfaction on loyalty intention: Customer satisfaction is very influential on customer behavior. In past this behavior will affect on customers attitudes. Many studies have proven that customer satisfaction affect on customer behavior, whether customers will remain loyal or disloyal. Customer satisfaction is the company’s assets. Maintaining long-term customer behavior is not easy. They tend to switch to other companies that attract new customers on recommendation of a loyal customer. Many factors affect on customer behavior (Keaveney and Parhasarathy, 2001; Schnaars, 1991; Engel et al. 1990; Tse and Wilton, 1988; Kotler, 2007; Barsky, 1992; Anderson et al. 1994; Kandampully and Suhartanto, 2000; Caruana, 2002; Kaboli 2011). Based on description given above, this research can build a model as follows:

**Hypothesis**

Based on conceptual framework from empirical studies and literature review, this study was designed to analyze and explaining effect of functional service quality on customer satisfaction and corporate image and loyalty intention. Exogenous variables in this study are a functional service quality. Endogenous variables are customer satisfaction, corporate image, and loyalty intention. Research hypotheses were tested in this study are follows:

- H1. Functional service quality has significant effect on customer satisfaction.
- H2. Functional service quality has significant effect on corporate image.
- H3. Functional Service quality has significant effect on loyalty intention.
- H4. Corporate image has significant effect on customer satisfaction.
- H5. Corporate image has significant effect on loyalty intention.
- H6. Customer satisfaction has significant effect on loyalty intention.

**III. RESEARCH METHODOLOGY**

This study uses a quantitative approach with explanatory type to identify and explain effect of Functional Service quality on Customer Satisfaction and corporate image as well as loyalty intention. Study was conducted on all hotels in Malang. Samples used are the consumer in 11 three-star hotel in Malang City and Batu City with total number of samples are 312 people. Respondent’s response are measured by Likert scale. Likert scale was designed to test strength of respondent’s agreement to statement in five scales, as shown in table 1 below (Sekaran, 2003).
Data was collected using a questionnaire. Data analysis was performed using Structural Equation Model (SEM). Analysis tool used to test the SEM is GESCA.

**IV. RESULTS AND DISCUSSION**

**Respondents Description**

Respondent's ages have range from the youngest age 18 years to oldest 80 years old, with an average age of 38 years, with 294 respondents were married. Most respondents have S1. Work respondents dominated by private employee, self-employed or civil servants. More than half of respondents were male.

**Study findings**

Model is said to fit if supported by empirical data to further test the path coefficient of structural equation model. This test aim is to determine the relationship between the latent variables in this study. Testing hypotheses on GSCA using t tests are presented in Table 2.

**Table 2. Hypothesis Testing Results**

<table>
<thead>
<tr>
<th>No</th>
<th>Variables Relationship</th>
<th>Path Coefficient</th>
<th>SE</th>
<th>CR</th>
<th>p</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X= Functional service quality</td>
<td>Y1=Customer satisfaction</td>
<td>0.456</td>
<td>0.069</td>
<td>6.58*</td>
<td>0.000*</td>
</tr>
<tr>
<td>2</td>
<td>X=Functional service quality</td>
<td>Y2=Corporate image</td>
<td>0.877</td>
<td>0.017</td>
<td>51.35*</td>
<td>0.000*</td>
</tr>
<tr>
<td>3</td>
<td>X= Functional service quality</td>
<td>Y3=Loyalty intention</td>
<td>0.296</td>
<td>0.075</td>
<td>3.92*</td>
<td>0.000*</td>
</tr>
<tr>
<td>4</td>
<td>Y2=Corporate image</td>
<td>Y1=Customer satisfaction</td>
<td>0.445</td>
<td>0.068</td>
<td>6.5*</td>
<td>0.000*</td>
</tr>
<tr>
<td>5</td>
<td>Y2=Corporate image</td>
<td>Y3=Loyalty intention</td>
<td>0.456</td>
<td>0.081</td>
<td>5.61*</td>
<td>0.000*</td>
</tr>
<tr>
<td>6</td>
<td>Y1=Customer satisfaction</td>
<td>Y3=Loyalty intention</td>
<td>0.120</td>
<td>0.066</td>
<td>1.83</td>
<td>0.068ns</td>
</tr>
</tbody>
</table>

Note: * = significant at α = 5%; ns = not significant at α = 5%

This research hypothesis testing can be presented in form path diagram in Figure 2 below.
Functional Service quality (X) positively and significantly affect on Customer Satisfaction (Y1). Path coefficient is 0.456 and p-value = 0.000 (significant and positive). Therefore, hypothesis 1 is accepted. Path coefficient is positive; it means that better functional service quality to customer of three-star hotel in Malang City and Batu City will increase customer satisfaction of hotel. Functional Service quality (X) positively and significantly affect on Corporate Image (Y2). Path coefficient is 0.877 and p-value = 0.000 (significant and positive). Therefore, hypothesis 2 is being accepted. Path coefficient is positive, it means that better functional service quality to customer of three-star hotel in Malang and Batu will improve corporate image of hotel.

Functional Service quality (X) positively and significantly affect on Loyalty intention (Y3). Path coefficient is 0.296 and p-value = 0.000 (significant and positive). Therefore, hypothesis 3 is accepted. Path coefficient is positive; it means that better functional service quality provided to customer of three-star hotel in Malang City and Batu City can increase loyalty intention. Image Company (Y2) positively and significantly affect on Customer satisfaction (Y1). Path coefficient is 0.445 and p-value = 0.000 (significant and positive). Therefore, hypothesis 4 is accepted. Path coefficient is positive, it means that better corporate image of three star hotel in Malang City and Batu City will increase customer satisfaction.

Corporate image variable (Y2) positively and significantly affect on Loyalty Intention (Y3). Path coefficient is 0.456 and p-value = 0.000 (significant and positive). Therefore, hypothesis 5 is accepted. Path coefficient is positive; it means that better the image of a three star hotel in Malang and Batu, desire of customer loyal to hotel is getting better. Customer Satisfaction (Y1) does not affect significantly on Loyalty Intention (Y3). Path coefficient is 0.120 and p-value = 0.068 (not significant and positive). Therefore, hypothesis 6 is rejected. This indicates that customer’s satisfaction of three-star hotel in Malang City and Batu City have insignificant effect on loyalty intention. Loyalty intention of customers at three star hotels in Malang City and Batu City do not overly affect by customer satisfaction but be affected by company’s image and functional services quality.

V. CONCLUSIONS AND SUGGESTIONS

Based on research result at three-star hotel in Malang City and Batu City, it is obtained the following results:

1. Functional service quality significant affect positively and significantly on customer satisfaction. Better functional services quality will increase customer satisfaction at three-star hotel in Malang City and Batu City.

2. Functional service quality significant affect positively and significantly on corporate image. Better functional services quality will improve corporate image at three-star hotel in Malang City and Batu City.

3. Functional service quality significant affect positively and significantly on loyal intentions. Better functional services quality will increase loyalty intention at three-star hotel in Malang City and Batu City.

4. Corporate image affect positively and significantly on customer satisfaction. Better corporate image will increase customer satisfaction of three-star hotel in Malang City and Batu City.

5. Corporate image affect positively and significantly on loyal intentions. Better corporate image will increase loyalty intention of three-star hotel in Malang City and Batu City.

6. Customer satisfaction insignificantly affect on loyalty intention. Higher customer satisfaction insignificantly improve loyalty intention at three-star hotel in Malang City and Batu City.

Based on conclusion above, suggestions for three-star hotel in Malang City and Batu City are below. Service quality Functional of three-hotel in Malang City and Batu City should be intensified. Hotel should improve the various factors that affect the functional services quality to improve customer satisfaction perfectly. Service quality Functional of three-hotel in Malang City and Batu City should be improved. Three-star hotel should improve various factors of functional services quality to improve good corporate image. Service quality Functional of three-hotel in Malang City and Batu City should be increased. Three-star hotel should increase various factors of functional services quality to increase loyalty intention. Corporate image of three-hotel in Malang City and Batu City should be intensified. Three-star hotel should improve various factors of corporate image to make perfect customer satisfaction. Corporate image of three-hotel in Malang City and Batu City should be improved. Three-star hotel should improve various factors of corporate image to increase loyal intentions.

REFERENCES


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