

Analysis of the Effect of Service Quality on Customer Loyalty with Word Of Mouth as an Intervening Variable (A Study on Customers of Setia Florists in Batu-Malang)

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Abstract: This study aims to analyze the Effect of Service Quality on Customer Loyalty with Word of Mouth as an Intervening Variable (A Study of Customers of "Setia" Florist in Batu-Malang).

This is a descriptive quantitative research using non-probability sampling as the data collection technique, based on accidental sampling. It obtained 100 respondents. Analysis of the data used the Path Analysis and t-test.

The result of the Path analysis showed that Service Quality had a significant and positive effect on Word of Mouth, with a standardized beta coefficients value of 0.430 and a significant value of <0.05. The variable Service Quality had a significant and positive effect directly on customer loyalty, with a standardized coefficients beta value of 0.039 and a significant value of <0.05. Furthermore, the variable Word of Mouth had a significant and positive effect directly on Customer Loyalty, with an unstandardized coefficient beta value of 0.536 and a significant values of <0.05. The last hypothesis stated that Service Quality (X) on customer loyalty (Y) through Word of mouth (Z) of 0.230 <direct influence of Service quality (X) on customer loyalty (Y) of 0.039.

Key Word: service quality, customer loyalty, word of mouth

Date of Submission: 04-02-2020

Date of Acceptance: 19-02-2020

I. Introduction

In the era of free trade, every company faces an intense competition. Not only does it happen to companies of international standard, but also to small and medium businesses. Quality of service is very important in running a business. In addition to offering a variety of products, improvements in information technology, and physical and non-physical services are intended to improve service quality (Ariyani, 2008).

The need for cut flowers in Indonesia, especially in big cities, is increasing (Pujihastuti, 2012). This research was conducted on cut flowers customers at "Setia" Florist in Batu. Increasing public demand for cut flowers requires this type of business to improve. In order to maintain the market, a cut flower company must increase the number of loyal customers. According to PartuaPramana (2014), customer loyalty is the result of an initial trial of a product that is strengthened through satisfaction leading to repeat purchases.

When a customer is loyal to a company, it can convince them to make a product purchase and to do a word-of-mouth marketing to their relatives, friends, neighbors or closest people. According to Kartajaya (2006), the most effective promotion is through the word-of-mouth technique or gethoktular. Satisfied customers will be efficient and convincing spokespeople for one's product.

Based on the background, it is necessary to conduct a study entitled "Analysis of the Effect of Service Quality on Customer Loyalty with Word of Mouth as an Intervening Variable (A Study on Customers of "Setia" Florist in Batu-Malang)".

II. Literature Review

2.1. Empirical Studies

The following are the results of previous studies on the effect of service quality, customer loyalty, and word of mouth included for this research:

1. Widayanto (2018) "The Analysis of the Effect of Service Product Quality and Brand Image on Loyalty, with Satisfaction as an Intervening Variable, on IM3 Simcard Users (A Study on Business Administration Students of FISIP of UniversitasDiponegoro)". The result of this study indicates that the first hypothesis is accepted because Service Product Quality has a positive and significant effect on customer loyalty.

2. Putri, YuliaLarasati (2017) "The Effect of Service Quality on Customer Loyalty with Satisfaction as an Intervening Variable (A Perception Study on "Dian Comp Ambarawa" Customers)". The result of this study

indicates that the first hypothesis is accepted because Service Quality has a positive and significant effect on Consumer Loyalty.

3. Husna, AnandhaPutriAsma (2011) "Analysis of the Effect of Price, Image, and Service Quality Perceptions on Customer Satisfaction in Building a Word-of-Mouth Marketing Technique (A Study on Customers of CV. TriaJasaBoga in Semarang)". The result of this study indicates that the hypothesis is accepted because Service Quality has a positive and significant effect on Word of Mouth.

4. Yusfita and Yulianto (2017) The Effect of Experimental and Word of Mouth Marketing Techniques on Customer Loyalty (A Survey on PT Alhamdi Global Wisata for its Umrah batch from 2015 until June 2017). The result of this study indicates that Experiential Marketing and Word of Mouth are accepted for they have a positive and significant effect on customer loyalty.

2.2. Theoretical Review

2.2.1. Service Quality

Kotler and Keller (2009: 143) states that "quality is the totality of features and characteristics of products or services which depend on their ability to satisfy expressed or implied needs". The dimensions developed by Parasuraman et al., in Walker, Mullins, and Larreche, (2008) include:

1. Tangibles (physical), include the ability of a company to show its existence to external parties; its appearance and ability with regards to physical facilities and infrastructure.
2. Reliability (reliability), includes the company's ability to provide services in accordance with what was promised accurately and reliably. This consists of timeliness, the equal service for all customers without errors, with sympathetic attitude, and high accuracy.
3. Responsiveness (responsiveness), which is a policy to help and provide services that are fast (responsive) and appropriate to customers, accompanied by clear information.
4. Assurance (guarantee), includes knowledge, politeness, and the ability of company employees to instill customers' trust to the company. This may consist of communication, credibility, security, competence, and courtesy.
5. Empathy, which means giving sincere and individual or personal attention to customers by trying to understand what they need.

2.2.2. Customer Loyalty

Long-term repurchases by a customer showing their commitment to a brand, supplier, or store is the definition of customer loyalty (Tjiptono, 2008). Understanding customer loyalty is not only indicated by the transaction or repeat purchases (repeat customers).

According to Kotler and Keller (2006:57), indicators customer loyalty include:

1. Repeat purchase (loyalty in buying products)
2. Retention (resistance to negative news about the company)
3. Referrals (reference to the total existence of the company)

2.2.3 Word of Mouth

Word of Mouth is a communication technique about views or assessments of a product or a service, either individually and jointly, aiming to provide personal information. Word of Mouth is one of the most effective strategies influencing consumers' decisions in using products or services and it can build customers' trust according to Kotler and Keller (2009: 512).

According to Sernovitz (2009: 31), there are five dimensions or basic indicators of Word of Mouth known as 5T, including:

1. Talkers
2. Topics
3. Tools
4. Talkingpart
5. Tracking

III. Methodology

3.1. Research Type

This is a quantitative research, based on the philosophy of positivism, examining populations or specific samples. The sampling technique was generally conducted randomly. Data collection uses research instruments, data analysis and quantitative statistics in order to test the hypothesis set (Sugiyono, 2014: 14).

3.2. Population and Sample

3.2.1. Population

The population of this study included all visitors of "Setia" Florist in Batu-Malang within 1 month of study period. It was estimated that it had 15 visitors a day. This research was conducted on 1 December 2019 until 1 January 2020, showing a population of around 450 visitors to the florist.

3.2.2. Sample

This study used the non-probability sampling technique. The number of respondents was based on the accidental sampling technique, as it determines samples based on chance. This means that anyone who accidentally or incidentally meets with the researcher can be considered a sample, but only if they fit as a source of data.

Using the Slovin formula, the calculation of the number of samples indicated 100 people.

3.3. Data Collection Technique

According to Sugiyono (2014:142) "A questionnaire is used for the data collection, containing a set of questions or written statements for the respondents to answer. This is an efficient data collection technique, provided the researcher knows what the respondent may expect". Respondents were determined based on the sampling technique.

3.4. Path Analysis

According to Ghozali, path analysis is an extension of multiple regression analysis to estimate causality relationships between variables (Casual Model) that have been predetermined based on a theory (Ghozali, 2007).

The equation in this model consists of two stages:

$$Y1 = b1 X1 + e1 \quad (1)$$

Description:

Y1 : Word of Mouth

X1 : Service Quality

b1 : regression coefficient of Word Of Mouth

e1 : Residual

$$Y2 = b1 X1 + b2 X2 + e2 \quad (2)$$

Descriptions :

Y2 : Customer Loyalty

X1 : Service Quality

X2 : Word Of Mouth

b1 : regression coefficient of Service Quality

b2 : regression coefficient of Word Of Mouth

e2 : Residual

3.8. Determinant Test

According to Sanusi (2013: 136), coefficient of determination (R^2) is also called a multiple coefficient of determination, which is almost the same as the coefficient r^2 .

According to (Ghozali, 2013: 97), the coefficient of determination (R^2) essentially measures how far the ability of the model in explaining the variation of the dependent variable. The coefficient of determination ranges between $0 (0\%) < R^2 < 1 (100\%)$.

3.5. t-test (Partial)

According to Ghozali (2013: 98), t-test basically shows how great the effect of one explanatory or independent variable on explaining the variation of the dependent variable.

The testing criteria in the t-test are described below:

a. if $t_{count} < t_{table}$ or $t_{sig} > (\alpha = 0,05)$ then H_0 is accepted and H_a is rejected, meaning that the independent variable (X) partially did not affect the dependent variable (Y).

b. Jika $t_{count} > t_{table}$ and $t_{sig} < (\alpha = 0,05)$ then H_0 is rejected and H_a is accepted, meaning that the independent variable (X) partially affected dependent variable (Y).

3.6. F-test (Partial)

According to Ghozali (2013: 98), "F-test is conducted to determine the significant level of effect of the independent variable on the dependent variable simultaneously". Acceptance and rejection of the hypothesis can be described as follows:

1. If $F \text{ count} \geq F \text{ table}$, and the significance value P is $< 0,05$, then H_0 is rejected and H_a is accepted
2. If $F \text{ count} < F \text{ table}$, or the significance value P is $\geq 0,05$, then H_0 is accepted and H_a is rejected

IV. Research Result

4.1 Hypothesis Test

4.1.1 Regression Analysis of Model 1

Regression analysis of model 1 (one) is used to determine the significance of the relationship of the independent variable and the intervening variable. In the regression analysis of model 1 (one), the structural equation is as follows:

$$\text{Word of Mouth} = b_1 \text{ service quality} + e_1$$

a. Significance Test of individual parameter (t-test)

Based on the result of SPSS testing of individual parameters, Quality of Service showed a standardized coefficient beta value of 0.430 and also a significance value of < 0.05 , suggesting that Service Quality had a significant and positive effect on Word of Mouth. Thus, **H1 is accepted**. This suggests that the variable Service Quality had a significant and positive effect directly on Word of Mouth.

$$Z = 0.430 X_1 + e_1$$

Descriptions:

Z = Word of Mouth

X_1 = Service Quality

e_1 = Error

b. Coefficient Value of Determination (R^2)

The result of analysis of the SPSS summary model showed that the value of Adjusted R Square was 0.177 or 17.7%. The variable Word of Mouth can be explained by the variable Service Quality by 17.7% and the remaining 82.3% shall be explained by other variables outside the model.

4.1.2 Regression Analysis of Model 2

Regression analysis of model 2 (two) is used to determine the strength of the relationship of the independent variable and the dependent variable. In the regression analysis of model 2, the structural equation is as follows:

$$Y = b_1 \text{ Service Quality} + b_2 \text{ Word of Mouth} + e_2$$

a. Significance Test of individual parameters (t-test)

Based on the result of SPSS testing of individual parameters, service quality showed a standardized coefficient beta value of 0.039 and a significance value of < 0.05 . Thus, H_2 is accepted. This suggests that the variable Service Quality had a significant and positive effect directly on customer loyalty.

Based on the result of SPSS testing of individual parameters, Word of Mouth showed an unstandardized coefficient beta value of 0.536 and a significance value of < 0.05 . Thus, H_3 is accepted. This suggests that the variable Word of Mouth had a significant and positive effect directly on customer loyalty.

Based on the SPSS test result, the regression equation that reflects the variables in this study is:

$$Y = 0.039 X_1 + 0.536 X_2 + e_2$$

Descriptions:

Y = Customer Loyalty

X_1 = Service Quality

X_2 = Word of Mouth

e_2 = Error

b. Coefficient Value of Determination (R^2)

The result of analysis of the SPSS summary model showed that the value of Adjusted R Square was 0.292 or 29.2%. The variable Customer Loyalty can be explained by the variable Service Quality by 29.2% and the remaining 70.8% shall be explained by other variables outside the model.

4.2. Path Analysis

Based on R^2 test presented in Table 17, the value of $e_1 = \sqrt{1-R^2} = \sqrt{1-0.177} = \sqrt{0.823} = 0.907$. The empirical causal effect between the variable service quality (X) on Word of mouth (Z) can be described through the following structural equation 1 (one):

$$\text{Word of Mouth} = b_1 \text{ service quality} + e_1$$

Or

Word of Mouth = 0.431 service quality + 0.907 e₁

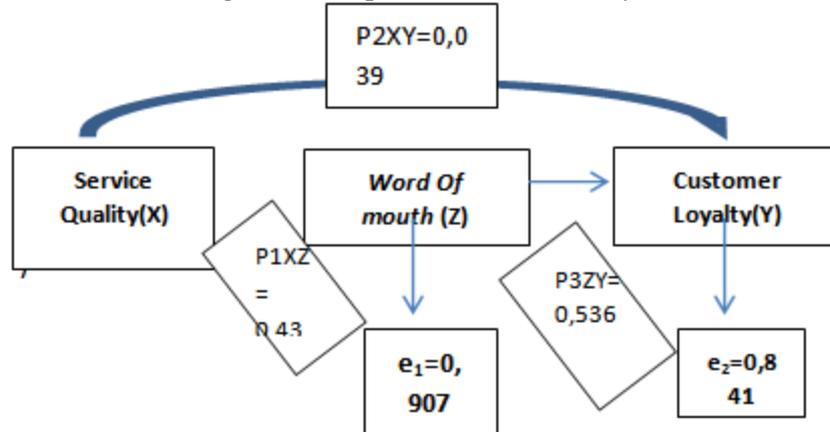
Based on R² test presented in Table 16, the value of e₁ = √(1-R²) = √(1-0.292) = √(0.708) = 0.841. The empirical causal effect between the variable service quality on word of mouth can be described through the following structural equation 2 (two):

Customer loyalty = b₁ Service Quality + b₂ Word of Mouth + e₂

Or

Customer Loyalty = 0.039 Service Quality + 0.536 word of mouth + 0.841 e₂

Figure 1. Interpretation of Path Analysis



Source: Processed Data, 2020

In the path model, the direct and indirect effects of exogenous variables on endogeneous variables are explained.

Effect of Service Quality on Customer Loyalty

Direct Effect (XY) = 0.039

Indirect Effect

(through Word of Mouth)

X*Z= (0.430)*(0.536) = 0.230

If the indirect effect is greater than the direct effect, it can be concluded that the actual relationship is indirect, or that it contains a mediating variable.

Table 1. Results of Analysis of Direct & Indirect Effects

Variab le	Direc t	Indir ect	Total	Criteria	Conclusion
Servic e Qualit y	0,039	0,230	0,269	Direct effect > Indirect = Intervening	Word of Mouth not as an intervening variable

Source: Processed data, 2020

Based on the description of the table above, the indirect effect of Service Quality (X) on customer loyalty (Y) through Word of mouth (Z) was 0.230 in value. It is smaller than the direct effect of Service Quality (X) on customer loyalty (Y), which was 0.039. Thus, H₄ is rejected.

From these results, it can be concluded that the service quality did not affect customer loyalty through word of mouth. This suggests that word of mouth is not an intervening variable between service quality and customer loyalty.

4.4. Discussion

Based on the overall results of the study, service quality had a directly positive effect on the customers loyalty of "Setia" Florist. This conclusion is drawn upon the value of significance being smaller than the level of significance specified. In addition, most respondents stated that they were loyal to "Setia" Florists because the employees were polite in their language and maintain good behavior towards visitors. It is also supported by complete facilities offered to customers.

Furthermore, the results of this study indicate that service quality had a positive effect on Word of Mouth directly. This can be seen from the value of the path coefficient, as the directional sign on the path coefficient shows a positive change suggesting that better quality of service will affect Word of Mouth. Some of

the quality of services that have been provided by "Setia" florist include employees' being neat-looking, quick and skillful service, employees' verbal politeness, clear information about the products.

The results of the study also indicate that word of mouth had a significant and positive effect directly on the customer loyalty. This is concluded from the value of significance being smaller than the level of significance specified. Other factors affecting customer loyalty include the high expectations of respondents for service, as well as the quality of products or the quality of flowers sold by the florist.

Word of Mouth did not mediate the relationship between service quality and customer loyalty in this research model. The variable Word of Mouth did not cause the service quality to affect the customer loyalty indirectly. This is indicated by the value of the indirect effect of service quality on customer loyalty through the Word of Mouth, which is smaller than the value of the direct effect of service quality on customer loyalty. In addition, most respondents expressed interest in the products sold by "Setia" Florist because of the politeness of employees, and they considered it sufficient to maintain customer loyalty without having to feel satisfied first.

V. Conclusion

Based on the analysis and discussion, the quality of service affected customer loyalty with Word of Mouth (WOM) as a mediator for the customers of "Setia" Florist in Batu-Malang, the following conclusions are obtained:

1. Service quality had a directly positive effect on customer loyalty in "Setia" Florist in Batu-Malang. This means that the better the quality of service being implemented, the better the customer loyalty, and vice versa.
2. Word of mouth had a directly positive effect on customer loyalty in "Setia" Florist in Batu-Malang. The better the performance of Word of mouth, the better the customer loyalty, and vice versa.
3. The service quality had a directly positive effect on Word of mouth in "Setia" Florist in Batu-Malang. This means that the better the quality of service being implemented, the better the performance of Word of, and vice versa.
4. Service quality did not affect customer loyalty indirectly through word of mouth as an intervening variable in "Setia" Florist. This is due to the value of the direct effect of service quality on customer loyalty being greater than the value of the indirect effect of service quality on loyalty through word of mouth. Basically, to make loyal customers, word of mouth is not really required.

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Chainis Muspa Munica, SST. "Analysis of the Effect of Service Quality on Customer Loyalty with Word Of Mouth as an Intervening Variable (A Study on Customers of Setia Florists in Batu-Malang)." *IOSR Journal of Business and Management (IOSR-JBM)*, 22(2), 2020, pp. 09-14.