

# The Role of Customer Relationship Management on Customer Value and Service Quality in Improving Customer Satisfaction

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## ABSTRACT

The purpose of this research is to determine the influence of CRM on Customer Value and Service Quality in improving Customer Satisfaction. This research focuses on banking industry, where customer serve as the research sample. The data in this research using primary and secondary at once. By using Likert scale questionnaire the respondent obtained as much as 360 respondent. The analytical tool used in this research is Structural Equation Modelling (SEM) with Path Analysis for testing hypotheses.

Based on the testing that has been done of the obtained result of the goodness of fit is good, so that all hypotheses can be accepted. This indicates that a good Customer Relationship Management will increase Customer Value and Service Quality are good also. While they will increase the level of satisfaction felt by customer.

So, we can say that Customer Satisfaction will improve while Customer Value and Service Quality increasing by Customer Relationship Management.

**Keywords:** Customer Relationship Management, Customer Value, Service Quality, Customer Satisfaction

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## INTRODUCTION

In the current business world, where competition among companies has become increasingly fierce, companies need to differentiate themselves from other companies in order to keep their relationships with their customers. Since this emphasis on customer relations created a paradigm shift from transactional marketing to relationship marketing (Grönroos, 1994; Sheth and Parvatiyar, 1994; Kyung, 2013).

The development of the business world that is increasingly going forward caused the onset of an increasingly tight competition. One way to maintain the viability of the company is to maintain good relations with customers. Because of the research retain existing customers much easier compared to get new customers. Very important to know and meet customer needs quickly and precisely. The presence of the Customer Relationship Management (CRM) will be able to resolve the issue above because the goal of CRM is to get at the core of the concept of customers who are unclear and put it in the frame of the application. In the process, CRM shows how marketing works and the system that is running must be able to support the e-commerce environment.

In globalization, increasing competition and advances in information and communication technology has forced companies to focus on managing customer relationships in order to efficiently maximize revenues. Customer relationship management (CRM) is the key competitive strategy businesses need to stay focused on the needs of the customers and to integrate a customer facing approach throughout the organization (Ozgener, 2006). At this point, close relationship with customers will require a strong coordination between IT and marketing departments to provide a long-term retention of selected customers (Onut, Semih et al., 2001).

The companies are practicing elements of an approach to marketing that uses continuously refined information about current and potential customers to anticipate and respond to their needs. This is the practice of Customer Relationship Management (CRM). Many businesses today realize the importance of CRM and its potential to help them achieve and sustain a competitive edge. These organizations are already changing their business processes and building technology solutions that enable them to acquire new customers, retain existing ones, and maximize their lifetime value (Peppard, 2000).

Customer relationship management research nowadays has been the attention of researchers and practitioners. Research that developed since the 1990s provide tangible evidence, that if the company can actually implement customer relationship management and the company's performance certainly

will increase (Ismail et al. 2007; Widayati, 2008). It is not an exaggeration given the customer is key for the survival of an organization. Therefore, the customer is the most important asset for the company. This research, pick some invalid constructs research deemed able to explain customer relationship management. Sin et al. (2005) outlines that the success or failure and customer relationship management at least influenced by the existence of a synergy between people (human resources), quality (quality of goods and services), technology, process and customer focus.

Once upon a time retailers, banks, insurance companies and car dealers had a close relationship with their customers. They often knew them individually, understood what they wanted, and satisfied their needs through personal customized service. As a result, they earned loyalty and a large share of their customers' business. This, however, was a costly, inefficient system and customers effectively subsidized this relationship by paying higher prices. Over the years, through mass marketing and increased consumerism customers traded relationships for anonymity, reduced variety and lower prices (Peppard, 2000).

In creating customer satisfaction, the company should be able to enhance customer value, product quality and service quality. According to Isnadi (2005) customer value can be created through the service quality provided by the company to its customers. The better service quality, will be increasingly higher customer value to the company. The high quality of service is also not escape the internal corporate support, particularly support of its human resources.

In addition to increasing customer value company is also not biased to forget about the type and quality of its products. Companies with this type of product which is very innovative, high quality with competitive price so it can compete with other similar products will be able to attract more customers. The more innovative a product so that it can meet all the needs of customer, it will be increasingly higher customer satisfaction (Song and Parry, 1997).

Service in the banking world when it's so good the rapid technological innovation, product and service. What exactly you want the customer of a bank, its size, its popularity or ability in providing credit or promotion and gift to be given, it service quality remains a central point for a bank. Now it can be said all the bank expects good service but in fact between customer expectations and the reality of the service rendered by the bank often happen otherwise.

In this study, Customer relationship management can deliver benefits to customers, and allow competition barriers make it difficult for a

competitor, thereby enabling the company to improve customer satisfaction. So this research is directed to find relationships between variables that have an impact on customer satisfaction, namely customer relationship management as a marketing strategy that made the company to maintain and improve customer satisfaction through customer value and service quality.

Customer relationship management has become the new paradigm for marketing strategy. Customer relationship management is able to empower customers with the desire to pressure the power information technology to give you the satisfaction of the customer. The stimulus to be resurrected from the concept of customer relationship management is a method of attracting attention, maintenance of customer satisfaction as well as improving and strengthening relationships with customer satisfaction. In other words, customer relationship management is attempting to prolong a life time customer (Isnadi, 2005).

In the context of retail banking in particular markets, slow market growth and the pressure of intense competition requires that the company was able to maintain existing customers or exit. The importance of keeping more customers because of the fact that obtain new customers or get the cost more expensive than retaining customers (Stone et al., 1996). Then understanding how or why a feeling of loyalty needs to be developed in the minds of customers is the current management issues (Pritchard et al., 1999).

In conditions of intense competition, the main thing that should be given priority is customer satisfaction that will ultimately increase customer loyalty, so the company can survive, compete and dominate market share. Pritchard et al (1999) States that customer loyalty to the brand loyalty is influenced directly by the customer satisfaction on a brand that is accumulated over time. In relation to customer loyalty, Isnadi (2005) States that if customers are satisfied with respect to a given product or service then it will create loyal customer.

Large banking company is currently forcing the company to compete in getting the customer as much as possible. A customer saw a company on the basis of what they perceive to be the benefits obtained from these companies, this can be at the show by the banking company through customer value, product benefits and a good quality of service so that it will create a level of satisfaction of customer and will have implications for the customer loyalty will be the presence of the company. All of these things can be known with any customer relationship management.

So based on the background of these problems led to the emergence of a research question is as follows:

- a) Is the Customer Relationship Management has an influence on the Customer Value?
- b) Is the Customer Relationship Management has an influence on the Service Quality?
- c) Is the Customer Value has an influence on the Customer Satisfaction?
- d) Is the Service Quality has an influence on the Customer Satisfaction?

## **LITERATURE REVIEW**

An increase in the importance of customer satisfaction, business differences, rapid technological change and the challenge of global competition demands effectiveness of marketing strategies to maintain and develop the competitive edge of an enterprise. Efforts to improve competitive advantage through long-term cooperation relationship believed to have an effect on the relationship marketing. The complexity of an industry competition caused each company focuses his efforts against the desire as well as customer satisfaction (Harryani, 2013).

### **Customer Relationship Management**

Understanding and cooperation relationship with customers for the company is very essential, not only focused on increasing sales figures alone but long-term relationships with consumers. Wahyu (2005) says that the company is to build long term relationships with customers will make the company's revenue to be increased, as long as the company is aware of any loyal customers and find out what makes them stick to the other competitor. Having a good relationship with the customer have positive consequences for the company, namely the purchase and larger profits.

CRM is the strategic application of people, processes and technology to improve and sustain profitable relationships with customers and partners. CRM refers to all business activities directed towards initiating, establishing, maintaining, and developing successful long-term relational exchanges. Consistent with Kotler and Armstrong (2004); Parvatiyar, et al. (2001) define CRM as "the overall process of building and maintaining the profitable relationships with customers, delivery of superior value and satisfaction for the user". Building the firm relationships with the users is a prerequisite for creating the competitive advantage of the organization (McKenna, 1991; Stojkovic, 2012). In other words, CRM can be defined as an interactive process achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit.

In literature, many definitions were given to describe CRM. The main difference among these definitions is technological and relationship aspects of CRM. Some authors from marketing background emphasize technological side of CRM while the others consider IT perspective of CRM. From marketing aspect, CRM is defined by Couldwell (1998) as “a combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they are like”.

Technological definition of CRM was given as “the market place of the future is undergoing a technology-driven metamorphosis” Peppers and Rogers (1995). The utilization of technology in CRM enables the company to understand customer needs and requirements will strengthen the ties between them. The success of CRM strategy implementation will improve customer satisfaction, customer loyalty, boost sales growth and marketing effectiveness (Bhatti, 2001; Wahyu, 2005).

Consequently, IT and marketing departments must work closely to implement CRM efficiently. Meanwhile, implementation of CRM in banking sector was considered by Mihelis et al., 2001 (Onut et al., 2001). They focused on the evaluation of the critical satisfaction dimensions and the determination of customer groups with distinctive preferences and expectations in the private bank sector. Here’s some measure Customer Relationship Management (Gronroos, 1990; Isnadi, 2005) i.e. ;

1. Long term customer Focus
2. Make communication with customer
3. Involving member organizations in marketing activities
4. Implementation process of interactive marketing
5. Develop a culture of service to the customer

In addition, the important factors that establish the need for CRM in the Banking Industry are detailed below:

### **1. Intense Competition**

There is intense competition among the Private Sector Banks, Public Sector Banks and Foreign Banks and they are all taking steps to attract and retain the customers. New technologies, research facilities, globalization of services, the flood of new products and the concept of all the facilities under one roof to provide better customer service leading to customer delight.

### **2. Well Informed Customers**

The Customers in Banking Industry today are well informed. With the introduction of new technology, the world has become like a small village. Thus, if a Bank wants to have more customers, it should

develop a good relationship with its present customers and try to maintain the same in the future also.

### **3. Decline in Brand Loyalty**

In the present scenario, brand loyalty is on decline. The customers are switching over frequently to avail the better facilities from other banks. Newer and superior products and services are being introduced continuously in the market. Thus, the banks have to upgrade their products, improve customer service and create bonds of trusts through proper care of customer needs and regular communications. With the help of CRM, strong customer loyalty and a good image for the organization can be developed.

### **4. Improved Customer Retention**

In the intensely competitive banking industry, retention of existing customers is vital, which can be achieved through the process of CRM.

Such as research conducted by Isnadi (2005) obtained as a result of that Customer relationship marketing has a positive and significant impact on the value of customer and product excellence, customer value and product advantage a positive and significant impact on customer satisfaction, and customer satisfaction have a positive and significant impact on customer loyalty.

Ariyanti (2006) perform tests on the influence of Customer Relationship Management to Customer Loyalty, which results in the get that in the conditions of tough competition company should be able to create competitive advantage especially in defending consumers. One of the ways that can be done in order to retain customers, is making consumers satisfied. To be able to figure out what can make consumers satisfied with doing a customer relationship management, customer satisfaction if these can be fulfilled then the customer loyalty would be obtained.

### **Customer Value**

Customer value is the value that a customer can bring to a company from the company’s perspective. One direct value is the profit contributed to the company by the customer. According to Woodruff (1997) Customer value is a customer’s perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations.

In line with Zeithaml’s (1988) definition that “perceived value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”, there has been a general consensus that customer value involves a trade-off between benefits and costs.

One perspective in organizational strategy maintains that creating and delivering superior customer value to high-value customers will increase the value of an organization (Slywotzky, 1996; Spiteri, 2004). High-value customers have their monetary worth as individual customers to the organization quantified, whereas value of an organization quantifies the worth to its owners (stakeholders). On the other hand, customer value takes the perspective of an organization's customers, "considering what they want and believe that can get for buying and using a seller's product" (Woodruff, 1997).

Therefore, Lun (2008) states that the "customer value" concept actually has two meanings. One meaning focuses on the value that a company can bring to the customer as a subjective evaluation from the company's perspective. The other definition focuses on the value a customer can bring to a company as a subjective evaluation of the products and services supplied by the company from the customer's perspective. Customers are always trying to maximize their value. When they buy a product, they always hope to be most satisfied with the lowest cost.

According to research Pramono (2001) about the influence of trust and commitment to the long term relationship marketing between a company and customer on PT Gesuri Lloyd Semarang obtained result that there are a positive relationship between trust and long term relationship marketing; a positive relationship between trust to customer's commitment for long term relationship marketing, and positive relationship between commitment and their willingness to make a long term relationship marketing.

Siwantara (2011) states that customer value significantly influenced the customer satisfaction, customer loyalty, and performance of CRM Halo Corporate of PT Telkomsel Bali, customer satisfaction significantly influenced of customer loyalty and performance of CRM Halo Corporate of PT Telkomsel Bali. The variable of customer value and quality of service has a positive and significant influence to the customer satisfaction, then the customer satisfaction has a positive influence and significantly to customer loyalty by Mukarom (2012). According to research Flint (2011) find that customer value anticipation is a strong driver of satisfaction and loyalty, with satisfaction acting as a mediator for loyalty.

## Service Quality

Knowledge about goods quality, however, is insufficient to understand service quality. Three well documented characteristics of services-intangibility, heterogeneity, and inseparability-must be acknowledged for a full understanding of service quality.

First, most services are intangible (Bateson 1977, Berry 1980, Lovelock 1981, Shostak 1977; Parasuraman, 1985). Because they are performances rather than objects, precise manufacturing specifications concerning uniform quality can rarely be set. Most services cannot be counted, measured, inventoried, tested, and verified in advance of sale to assure quality. Because of intangibility, the firm may find it difficult to understand how consumers perceive their services and evaluate service quality (Zeithaml, 1981; Parasuraman, 1985).

Second, services, especially those with high labor content, are heterogeneous: their performance often varies from producer to producer, from customer to customer, and from day to day. Consistency of behavior from service personnel (i.e., uniform quality) is difficult to assure (Booms and Bitner 1981; Parasuraman, 1985) because what the firm intends to deliver may be entirely different from what the consumer receives.

Third, production and consumption of many services are inseparable (Carmen and Langeard 1980, Gronroos 1978, Regan 1963, Upah 1980). As a consequence, quality in services is not engineered at the manufacturing plant, and then delivered intact to the consumer. In labor intensive services, for example, quality occurs during service delivery, usually in an interaction between the client and the contact person from the service firm (Lehtinen and Lehtinen 1982).

The service firm may also have less managerial control over quality in services where consumer participation is intense (e.g., haircuts, doctor's visits) because the client affects the process. In these situations, the consumer's input (description of how the haircut should look, description of symptoms) becomes critical to the quality of service performance. Service quality has been discussed in only a handful of writings (Gronroos 1982; Lehtinen and Lehtinen 1982; Lewis and Booms 1983; Sasser, Olsen, and Wyckoff 1978).

Examination of these writing sand other literature on services suggests three underlying themes:

- Service quality is more difficult for the consumer to evaluate than goods quality.
- Service quality perceptions result from a comparison of consumer expectations with actual service performance.

- Quality evaluations are not made solely on the outcome of a service; they also involve evaluations of the process of service delivery.

Parasuraman, Zeithaml, and Berry (1985, 1988) conceived that service quality is the difference between customers' expectation and their perceived performance of a service. Based on this concept, the five dimensions defined by Parasuraman et al., (1988) have the foremost role in establishing customers' judgment of perceived service quality:

1. Tangibles

Service environment including physical facilities, personnel, equipment, and marketing materials

2. Reliability

The consistent ability to perform the promised service in a perfect manner

3. Responsiveness

Sensitivity to help customers and provide timely service

4. Assurance

Courteousness and knowledge of the staff and the trust that they instill in their customers

5. Empathy

Firm has individualized concern and cares for its customers

A review of extant marketing literature suggests that service quality, as measured by SERVQUAL, can influence important service outcomes, such as customer satisfaction, intention, or loyalty (Parasuraman et al., 1988). This model has drawn attention from the academic and the practical circles. However, many scholars have questioned about the conceptual framework and measurement method of this model. For instance, Cronin and Taylor (1992) in Kuo et al. (2009) pointed out that using service quality performance (SERVPERF, i.e. the perceived service in SERVQUAL) to measure service quality produces better results of reliability, validity, and predictive power than using SERVQUAL.

Gronroos (1982), for example, postulated that two types of service quality exist: technical quality, which involves what the customer is actually receiving from the service, and functional quality, which involves the manner in which the service is delivered.

According Lehtinen and Lehtinen's (1982) basic premise is that service quality is produced in the interaction between a customer and elements in the service organization. They use three quality dimensions: physical quality, which includes the physical aspects of the service (e.g., equipment or

building); corporate quality, which involves the company's image or profile; and interactive quality, which derives from the interaction between contact personnel and customers as well as between some customers and other customers. They further differentiate between the quality associated with the process of service delivery and the quality associated with the outcome of the service.

Thereby, Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis. (Lewis and Booms 1983; Parasuraman, 1985).

### Customer Satisfaction

The pioneering studies of Cardozo (1964), Olshavsky and Miller (1972) and Anderson (1973) stand out in the original research work relating to customer satisfaction (Millan and Esteban, 2003). They used, for the first time, the so-called expectancy disconfirmation model of satisfaction, thereby creating the fundamental theories by which a large amount of subsequent research concerning customer satisfaction would be conducted.

Customer satisfaction has long been considered a fundamental determinant of long-term customer behavior (Oliver, 1980; Yi, 1990; Ryu, 2007), so service firms increasingly dedicate substantial energies to tracking customer satisfaction. Ryu, 2007 defined satisfaction as "an evaluation rendered that the (product) experience was at least as good as it was supposed to be". Similarly, based on the theoretical empirical evidence to date, Oliver (1997) described it as "the consumer's fulfillment response.

It is a judgment that a product or service feature, or the product or service itself, provided a pleasurable level of consumption-related fulfillment, including levels of under or over fulfillment". Although researchers struggle to clearly define the concept of customer satisfaction, an essential aspect of customer satisfaction is an evaluation process (Back, 2005; Ryu, 2007). This evaluative process oriented approach has been regarded as the most effective way to measure the level of customer satisfaction (Oliver, 1997; Yi, 1990; Ryu, 2007).

Besides other definitions of customer satisfaction describe the formation of satisfaction as a process; they define the key variables and the mechanisms of interaction of those variables and they recognize that satisfaction is the final step of a psychological process. It is perceived as the final result of all activities carried out during the process of purchase and consumption and not only of observation and or direct consumption of the product or service (Oliver, 1996; Millan and Esteban, 2003).

## Research Hypotheses

According to Isnadi (2005), Customer relationship management is a form of marketing where the companies has a target in the customer and make the relevant marketing communications. While the value of the customer is the emotional bonds that are formed between consumers and producers after a consumer using a product or service that is produced by the companies and found that the product delivers a scores. In order to obtain optimal results then needed system value for the customer, the system consisting of the company's value chain to deliver value to customers. In delivering value to the customer needed a customer relationship management that focuses on customers in the long term (Gronroos, 1990).

Based on the above description, it can be proposed that the first hypothesis as follows:

**H<sub>1</sub>: Customer Value is affected by Customer Relationship Management (CRM)**

Today competitive market position and good reputation of a company can quickly translate into market share and profit, but that distinction is often earned only through a philosophical commitment to service backed by diligent attention to what customers want and need (Zineldin and Bredenlow, 2001; Zineldin, 2005). Unlike manufacturing and some service industries, bankers are not only selling products and service. First and foremost they are selling their organization reputation with every "customer relationship". An effective customer relationship requires the marketer to make specific efforts to create, establish and develop a good quality package mix in order to be able to maintain and enhance the relationship impact.

In era when intense competition is being greatly facilitated by technology, the need of providing adequate product service quality will necessitate that banks have to focus attention on issues of improving, measuring and controlling their product and service quality efficiency. Efficiency can be defined as the lack of waste of resources, time and optimization of efficiency elements in line with high quality (Armistead, 1990; Zineldin, 2005). A key question is how the company can develop an effective process for establishing and maintaining the relationship with key consumers and industrial customers? The answer is that they have to renew or improve their strategic management and marketing of their core products and supporting services in a more systematic manner (Zineldin, 2005). Those companies with the deepest and strongest customer relationships management will stand the best chance of retaining the customer's transactions.

Based on the above description, it can be proposed that the third hypothesis as follows:

**H<sub>2</sub>: Service Quality is affected by Customer Relationship Management (CRM)**

Customer value is considered a concept that includes many heterogeneous components (Sweeny et al., 2001; Deng, 2010). Sheth, Newman, and Gross (1991) argued that a customer's purchase choice was influenced by a multiple consumption value dimension, and they developed a framework of five dimensions of value: functional value, conditional value, social value, emotional value, and epistemic value. Different dimensions have different roles in the user's decision. For example, functional value and social value determine whether to use this service or another and emotional value is the key to using the selected service. Perceived value occurs throughout the purchasing process of customer, one-time purchase or repurchases (Woodruff, 1997). Perceived value is different from customer satisfaction, but is related to it (Sweeny et al., 2001; Deng, 2010).

A number of studies have provided empirical evidences that customer value has a positive effect on satisfaction (Andreassen and Lindestad, 1998; Cronin et al., 2000; Eggert and Ulaga, 2002; Fornell et al., 1996; Hellier et al., 2003; McDougall and Levesque, 2000; Patterson and Spreng, 1997; Storbacka et al., 1994; Ulaga and Eggert, 2006; Wang et al., 2004). As Hallowell's (1996) empirical study in the context of retail-banking showed, "the service management literature argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship". Customer value is an antecedent to customer satisfaction and behavioral outcomes (Ulaga and Eggert, 2006), and has been recognized as being positively associated with customer satisfaction (Athanasopoulos, 2000).

When the customer receive benefit greater than the cost (i.e., receiving added value) after the purchase, they become more satisfied, which in turn affects subsequent customer value expectations and overall customer satisfaction (Hellier et al., 2003; Woodruff, 1997). Storbacka et al.'s (1994) relationship profitability model in the context of financial services sector stated that by improving customer value, customer's satisfaction is improved. Patterson and Spreng's (1997) empirical study, in the business-to-business services context in Australian, supported that customer value has a directly strong and significant impact on satisfaction and repeat purchase intentions. Wang et al.'s (2004) finding from security firms in Chinese also showed that customer value has a positive effect on customer satisfaction.

As Ravald and Gronroos (1996) noted, by adding more value to the core product or service, firms can improve customer satisfaction so that the bonds of relationship are strengthened and thereby customer loyalty achieved. Another support proposed by McDougall and Levesque (2000) also indicated that customer value was a significant determinant of customer satisfaction and should be recognized as a contributing factor to satisfaction. Strongly positive and highly significant impact of customer value on satisfaction does exist (Eggert and Ulaga, 2002).

Based on the above description, it can be proposed that the fourth hypothesis as follows:

**H<sub>3</sub>: Customer Satisfaction is affected by Customer Value**

According to Parasuraman, Zeithaml, and Berry (1988), service quality includes five dimensions: reliability, tangibles, responsiveness, assurance, and empathy. They and many other researchers demonstrated the validity and reliability of those measures for perceived service quality (Cronin & Taylor, 1992; Soteriou & Chase, 1998; Deng, 2010). The literature on the relationship between customer satisfaction and service quality is ambiguous (Chong, Kennedy, Riquire, & Rungie, 1997; Deng, 2010). There are three competing theories about the linkages of service quality and customer satisfaction: satisfaction is an antecedent of service quality, service quality is the predictor of satisfaction, and the two constructs are interchangeable (Kassim & Abdullah, 2008). Despite the disagreement, the claim that customers might take attitudes or actions after using the services has been supported by many studies (Kassim & Abdullah, 2008).

Moreover, Shin and Kim (2008) suggested service quality is a consumer's overall impression of the relative efficiency of the service provider, and they found that service quality is significantly related to customer satisfaction. Our view on the relationship between these two constructs is based on the claim that perceived service quality is a predictor of customer satisfaction.

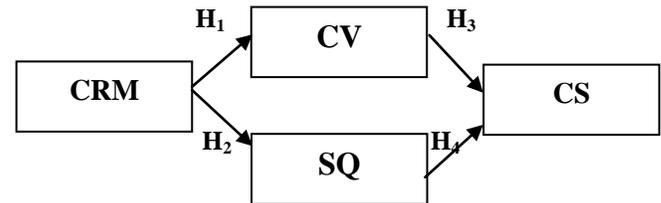
Researchers maintain that perceived service quality is cognitive and thus followed by satisfaction (Oliver, 1999). Several empirical studies confirmed that a higher level of service quality was related to a higher level of customer satisfaction (Brady & Robertson, 2001; Cronin, Brady, & Hult, 2000; Dabholkar et al., 2000; Yang, Wu, & Wang, 2009). Zeithaml et al. (1996) also stated the customer's perception of service quality was the main factor predicting customer satisfaction. High service quality could attract new customers, retain existing customers, and even lure customers away from

competitors whose service quality is perceived to be lower (Babakus, Bienstock, & Scotter, 2004).

Based on the above description, it can be proposed that the sixth hypothesis as follows:

**H<sub>4</sub>: Customer Satisfaction is affected by Service Quality**

Customer relationship management in the study can give benefits to the customer and allows for competition barriers make it difficult for a competitor, thereby enabling the company to improve customer satisfaction. So this research is directed to find relationships between variables that have an impact on customer satisfaction, customer relationship management as the company's marketing strategy to maintain and improving customer satisfaction through the increasing customer value and service quality. From the description, the framework of theoretical thought in this research is as shown below:



**Figure 1**  
**Research Framework**

## RESEARCH METHODS

The variables in this research consists of one independent variable (X), one dependent variable (Y) and four intervening variable (Z).

The Independent variable in this study is Customer Relationship Management (CRM). Customer Relationship Management (CRM) is a strategy that required the company to optimize profits by increasing customer satisfaction.

Intervening variables are the theoretically variables that influence the relationship between independent variable and dependent variable with a relationship that is not directly and cannot be observed and measured. This variable is the mediator between the dependent variable and independent variable, so that the independent variable does not directly affect incidence or centralized the dependent variable. The Intervening variables in this study are Customer Value (CV), Service Quality (SQ).

According Woodruff (1997) in Parasuraman (1997) Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations. Service quality is a measure of how well the service

level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis. (Lewis and Booms 1983; Parasuraman, 1985).

Dependent variable is customer satisfaction that defined by an emotional response in the evaluation of product/service consumption experience which is the evaluation of the selected alternative at least equal/exceed customer expectations.

### **Population and Sample**

Population is the subject of research at least has the same properties. Characteristic and limitation of the research population to collect data that is needed is a banking enterprise.

Determination of the respondent sample using convenience sampling. Convenience sampling, namely the determination of the sample based on availability and the ease to get it (Istijanto, 2009). Reasons to use convenience sampling because of the huge population with a high activity of the respondent, namely the customer of the bank. The Sample in this study amount 360 Questionnaire sent to customer banks. The number of samples is already exceeding the recommended minimum number of samples by Hair et al (1995) in Isnadi (2010). The number of respondents who use more, so that when data is biased or is invalid then it does not reduce the number of respondents below the minimum in samples suggest by Hair et al (1995) in Isnadi (2010).

In this research, we used the primary data and secondary data. The primary data is data that comes directly from the source data collected specifically and directly related to the problems in accurately (Cooper and Emory, 1995; Pramono, 2001). The primary data in order to maximize the results. Measuring instrument used was a questionnaire. Variable items were transformed into Likert-scales and the respondents were asked to indicate their perceptions of their bank on each item using a five point scale ranging from “5 = strongly agree” to “1 = strongly disagree”.

Reliability test is a test of reliability in order to find out how far a measuring instrument is reliable or trustworthy. Reliability relates to the estimation of the extent to which a measurement tool, when viewed from the stability or internal consistency of answers/questions if the observations done repeatedly. When a measuring instrument when used repeatedly and the measurement results obtained relatively consistent then the gauge is considered reliable and reliable. Testing the reliability of the entire item/question used in this study cronbach alpha formula will use (cronbach Alpha coefficient), which is generally considered to be reliable if the value of Alpha cronbach  $> 0.6$  (Ghozali, 2001).

While the validity of the test is done with a purpose to find out the validity of the question form or questionnaire. Validity here has the meaning of questionnaires or question form used is able to measure what should be measured. In this study using confirmatory factors analysis in Structural Equation Modelling to test validity of constructs. In confirmatory factor analysis is said to be valid if a constructs validity having a good loading factor  $> 0.5$  (Hair et al, 1998). Factor loading is the indicator scale validity of constructs.

In the hypothesis testing of this study, data analysis methods used is path analysis, which is part of the Structural Equation Model (SEM). Structural Equation Model (SEM) is a collection of statistical techniques that allow testing of a series of relative relationship "complicated", simultaneously. Complex relationship that can be established between one or more dependent variables with one or more independent variables. By using SEM, researchers can study the structural relationships that are expressed by a set of equations, similar to a set of multiple regression equations. This equation describes the relationship between the constructs (consisting of dependent and independent variables) involved in the analysis.

Until now, multivariable techniques are classified as techniques interdependency or dependency. SEM can be categorized as unique combinations of both of these as the basis of the SEM are the two main multivariable techniques, namely factor analysis and multiple regression analysis. SEM is often also referred to as Path Analysis or Confirmatory Factor Analysis, for surely these two names are the kinds of specific SEM. Processing of the data in this study using path analysis.

### **HYPHOTHESES TESTING**

In this section will be explained about the descriptive data obtained by the respondent. Descriptive research data is presented so that it can be seen the profile of research data and the relationships that exist between the variables used in the study (Hair et al, 1995; Isnadi, 2010).

The descriptive data that describe the state or condition of the respondents need to be noted as additional information for understanding the results of his research. Respondent in this research is a public bank. As many as 360 customer who participated in this research can then itemized based on gender, age and occupation. The third aspect of the demographic has an important role in improving the bank's loyalty.

Composition of respondents based on gender it appears that female respondent are a majority of respondent i.e. 55 % out of a total of 360 respondents who participated in this research. respondent aged 23

– 28 years is the largest respondent i.e. amounting 153 (42,5 %) to a total of 360 respondent who participated in this research.

The majority of the respondent as bank customer for 1 to 5 years as many 199 (55,3 %) for a total of 360 respondent who participated in this research and from among employees has the greatest contribution in this study i.e. amounting 192 (53,3 %) to a total of 360 respondent.

By using AMOS Ver. 6.0 software, the goodness of fit results reflected in Table 1 below:

**Table 1**  
**Goodness of fit index for the model**

Good of fit index	Cut-off value	Model result	Explanation
X <sup>2</sup> - Chi-Square		5,547	Expected small value
X <sup>2</sup> - Significance prob.	≥ 0,05	0,236	Good
RMSEA	≤ 0,08	0,033	Good
GFI	≥ 0,90	0,995	Good
AGFI	≥ 0,90	0,974	Good
CMIN/DF	≤ 3,00	1,387	Good
TLI	≥ 0,95	0,995	Good
CFI	≥ 0,95	0,999	Good

Source: AMOS Primary Data Processed (2014)

It happens because of the number of samples are small. Significance probability is more than 0,05, it shows that the research model is accepted. The RMSEA is at 0,033 and CMIN/DF is at 1,387 is less than cut off value, it means suitability of research model is good. The GFI is at 0,995; AGFI is at 0,974; TLI is at 0,995 and CFI is at 0,999 is more than cut off value, it means suitability of research model is good. So, we can say that over all the model is good.

Testing of hypothesis performed with Path Analysis using the software AMOS version 6.0. Limit of significance (p) which is used in decision making admissibility hypothesis that is equal to 0,05 or 5%. In another words, hypothesis will be accepted if the significance value (p) obtained less than or equal to 0,05 or 5% (p ≤ 5%) (Hair et al., 1998; Sekaran, 2000; Nur'Ainy, 2010).

The first hypothesis examination describes the effect of Customer Relationship Management (CRM) on Customer Value (CV).

**H1: Customer Value is affected by Customer Relationship Management (CRM)**

Based on the result of path analysis, it is known that hypothesis 1 can be accepted because the value of significance (p-value) generated is smaller than the limit, that is equal to 0,05 or 5% (Hair et al., 1998; Sekaran, 2000; Nur'Ainy, 2010). Estimate value is standardized regression weight and the p-value is a significant value, as seen in table 2:

**Table 2**  
**Path Analysis for Hypothesis 1**

	Estimate	Direction	P
CRM → CV	0,491	Positive	***

Source: AMOS Primary Data Processed (2014)

The result of path analysis shows that CRM variable has a value of standardized regression weight at 0,491 in predicting Customer Value. The significance of this can be seen in the p-value which is smaller than 0,001 (in AMOS marked \*\*\*) and smaller than the limit that has been required, which is 0,05 or 5%, so that H1 is accepted. Thus, it can be said that CV is affected by CRM. It can be inferred that the better CRM in the companies then customer value that the customer will obtain is better.

The second hypothesis examination illustrates the effect of Customer Relationship Management (CRM) on Service Quality (SQ).

**H2: Service Quality is affected by Customer Relationship Management (CRM)**

Based on the result of path, it is known that hypothesis 2 can be accepted because the value of significance (p-value) generated is smaller than the limit, that is equal to 0,05 or 5% (Hair et al., 1998; Sekaran, 2000; Nur'Ainy, 2010). Estimate value is standardized regression weight and the p-value is a significant value, as seen in table 3 below:

**Table 3**  
**Path Analysis for Hypothesis 2**

	Estimate	Direction	P
CRM → SQ	0,424	Positive	***

Source: AMOS Primary Data Processed (2014)

The result of path analysis shows that CRM variable has a value of standardized regression weight at 0,424 in predicting Service Quality. The significance of this can be seen in the p-value which is smaller than 0,001 (in AMOS marked \*\*\*) and smaller than the limit that has been required, which is 0,05 or 5%, so that H2 is accepted. Thus, it can be said that SQ is affected by CRM. It can be inferred that with increasingly good CRM that is owned by the company and service quality that is produced by the company will be getting better.

The third hypothesis examination illustrates the effect of Customer Value on Customer Satisfaction.

**H3: Customer Satisfaction is affected by Customer Value**

Based on the result of path analysis using AMOS software, it is known that hypothesis 3 can be accepted because the value of significance (p-value) generated is smaller than the limit, that is equal to 0,05 or 5% (Hair et al., 1998; Sekaran, 2000; Nur'Ainy, 2010). Estimate value is standardized regression weight and the p-value is a significant value, as seen in table 4 below:

**Table 4**  
**Path Analysis for Hypothesis 3**

	Estimate	Direction	P
CV → CS	0,116	Positive	0,008

Source: AMOS Primary Data Processed (2014)

The result of path analysis shows that Customer Value variable has a value of standardized regression weight at 0,116 in predicting Customer Satisfaction. The significance of this can be seen in the p-value which is 0,008 and smaller than limit that has been required, which is 0,05 or 5%, so that H3 is accepted. Thus, it can be said that CS is affected by CV. It can be inferred that the better the customer value that belongs to the company it will be the higher sense of fulfillment of customer against the company.

The fourth hypothesis examination illustrates the effect of Service Quality on Customer Satisfaction.

**H4: Customer Satisfaction is affected by Service Quality**

Based on the result of path analysis using AMOS software, it is known that hypothesis 6 can be accepted because the value of significance (p-value) generated is smaller than the limit, that is equal to 0,05 or 5% (Hair et al., 1998; Sekaran, 2000; Nur'Ainy, 2010). Estimate value is standardized regression weight and the p-value is a significant value, as seen in table 5 below:

**Table 5**  
**Path Analysis for Hypothesis 4**

	Estimate	Direction	P
SQ → CS	0,473	Positive	***

Source: AMOS Primary Data Processed (2014)

The result of path analysis shows that Service Quality variable has a value of standardized regression weight at 0,473 in predicting Customer Satisfaction. The significance of this can be seen in the p-value which is smaller than 0,001 (in AMOS marked \*\*\*) and smaller than the limit that has been required, which is 0,05 or 5%, so that H4 is accepted. Thus, it can be said that CS is affected by SQ. It is stated that the better the quality of service provided by the company shall be the higher level of satisfaction felt by the customer.

R2 Test aims to see how much the ability of independent variables in explaining the variance of the dependent variable (Ghozali, 2006 in Wahdikorin, 2010). By using AMOS, it can be proven through square multiple correlations facilities which is available in the Table 6 below:

**Table 6**  
**Multiple Square Correlation**

	Estimate
CV	.311
SQ	.279
CS	.588

Source: AMOS Primary Data Processed (2014)

Correlation value of variable CV is at 0,311. It means that 31,1 % of the variance CV can be explained by the CRM. The remaining 68,9 % is explained by other factors outside the regression model.

Correlation value of variable SQ is at 0,279. It means that 27,9 % of the variance SQ can be explained by the CRM. The remaining 72,1 % is explained by other factors outside the regression model.

Correlation value of variable CS is at 0,588. It means that 58,8 % of the variance CS can be explained by the CV and SQ. The remaining 41,2 % is explained by other factors outside the regression model.

**DISCUSSION**

CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses. Currently almost all companies view and implement CRM as one strategy for corporate profits could improve, specifically in this study i.e. banking company. Based on the spread of the questionnaire obtained Bank Mandiri customer's is the largest participation in this research. The average respondent participating clients are women with the age of around 23 to 28 years old and the average respondent has been a customer of the bank for 1 to 5 years as well as if seen from the type of work the employee is the largest respondent who has compared to other jobs.

Based on the results of hypothesis testing that has been done on the relationship between CV earned CRM significance value less than 0.001 (in AMOS are marked \*\*\*). So that H1 can be accepted and said that the variable CRM is a good indicator for Customer Value (CV). The results of this research are consistent with research done Gronroos, (1990), Butz

Goodstein, (1996) Too, and Thirkell Souchon (2000) and Leo YM Sin et al. (2002) who says that in delivering value to the customer needed a customer relationship marketing that focuses on customers in the long term.

The second hypothesis regarding the relationship between SQ generated by CRM with significance value less than 0.001 (in AMOS are marked \*\*\*). So that H2 can be accepted and said that the variable CRM is a good indicator for Service Quality (SQ). The results of this research are consistent with research conducted by Zineldin (2005) stating that High product service quality maintains the existing customers over long time and attracts a new customer and business.

Competitiveness enables banks to provide high quality prodserv with a reasonable cost relative to the competitors. Evidence suggest that higher quality improves margins by helping to create a competitive edge, thus increasing market share, which in turn leads to higher profitability and scale economies. Quality and differentiation provide a bank with opportunities to offer the customer something, which is distinctive, and special need to be exploited. CRM, high quality attributes of the prodserv and differentiation are, thus, most important factors in creating a unique position for the bank in the minds of the target customers. According Payne and Clark (1996) in Zineldin (2005) that a formal marketing plan for internal markets is of little value if customer contact staff are not motivated and empowered to deliver the level of service quality required.

The third hypothesis regarding the relationship between CS generated by CV with significance value less than 0.008. So that H3 can be accepted and said that the variable CV is a good indicator for Customer Satisfaction (CS). CV regression here is the result of a variable CRM, where CV is an intervening variable between variable CRM to the variable CS. Thus it can be said that the better a company's CRM will increase customer satisfaction by intervening of customer value. The results of this research are consistent with studies of Slater and Narver, (1994), who argued that the concept of customer value indicates a strong relationship to the satisfaction of the customer, where those concepts describing evaluative consideration the customer about the products offered. The desired value of the customer form when they form the perception of how good the bad a product played in situations of use. Overall satisfaction is customer feelings in response to the evaluation of one or more customer experiences in the use of a product. According Lun (2008) normally, the customer with higher loyalty will bring more profit to the company, so customer value has an important impact on the customer satisfaction.

The fourth hypothesis regarding the relationship between CS generated by SQ with significance value less than 0.001 (in AMOS are marked \*\*\*). So that H4 can be accepted and said that the variable SQ is a good indicator for Customer Satisfaction (CS). SQ regression here is the result of a variable CRM, where SQ is an intervening variable between variable CRM to the variable CS. So it can be said that the better CRM that is owned by the company in improving the customer satisfaction can be done to create a good quality service. The relationship of customer satisfaction and service quality of banking services creativity talks. To achieve a quality service that is customer satisfaction boils down to, banks must be able to identify who the clients so that it is able to understand customer perceptions and expectations of the level of service quality. Customer satisfaction is the comparison between the perceptions of customer expectations with respect to perceived customer banking service.

Angelova (2011) states that customer satisfaction has a positive effect on an organization's profitability. The more customers are satisfied with products or services offered, the more are chances for any successful business as customer satisfaction leads to repeat purchase, brand loyalty, and positive word of mouth marketing. Customer satisfaction leads to repeat purchases, loyalty and to customer retention (Zairi, 2000; Angelova, 2011). Satisfied customers are more likely to repeat buying products or services. They will also tend to say good things and to recommend the product or service to others. On the other hand dissatisfied customers respond differently. Dissatisfied customers may try to reduce the dissonance by abandoning or returning the product, or they may try to reduce the dissonance by seeking information that might confirm its high value (Kotler, 2000). The results of this research are consistent with research Sureshchandar et al (2002), Ginting (2006), Wang (2006) and Đukić (2012).

## CONCLUSION

In conditions of intense competition, the company should be able to create competitive advantage especially in defending consumers. One of the ways that can be done in order to maintain consumers is making consumers feel satisfied. Consumer satisfaction obtained through the fulfillment of the needs and desires of consumers. In order to know what is needed and desired by consumers, companies should establish customer relationship. So customer relationship management (CRM) is a strategy that required the company to optimize profits by increasing customer satisfaction. If the customer is satisfied then the customer will possess loyalty to the bank. The success of CRM

strategy implementation will improve customer satisfaction.

The implications will be derived from this research is increasingly viewed as a source of customer benefits from the company, so that the customer will be better cared for and given comfort, ease of transaction in the bank. The company realized that new customer get more difficult than retaining an existing customer. Therefore the existence of good customer relationship management (CRM) company, employee and client itself will benefit, so will the creation of loyalty towards the company.

Customer value and service quality can be improved through customer relationship management through 5 dimensions that is, customer focus over the long term, establish good communication with the customer, involve the organization-members in marketing activities, develop a culture of service to the customer, and obtain and use customer information. Advice for the management of the bank in order to keep the relationships built with both to clients by remaining focused on the commitment of its employees in order to keep paying attention to and enhance interwoven good communication with the customers in any transaction undertaken such as deposits, loans, transfers and other services.

Based on the obtained results and the limitations of this study, it can be given the following advice for further research as follows:

Add an independent variable that affects customer satisfaction in improving loyalty. The suggested variables such as Brand image (Cretu, 2007; Lai, 2008), Customer Commitment (Pramono, 2001), Company reputation (Cretu, 2007; Caruana, 2009) and Customer Trust (Pramono, 2001; Saputro, 2010).

Customer satisfaction is not only influenced by customer value and service quality. In addition to this indicator of research used in this study should be specified to be able to describe how the strategy is being run and the target set out in the companies increase customer loyalty.

Research is carried out not only on the banking industry but also needs to be done research on other industry such as manufacturing, real estate and industrial property as well as on other industry.

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