

THE DRIVING OF CUSTOMER LOYALTY: RELATIONAL APPROACH, PERCEIVED VALUE AND CORPORATE IMAGE

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ABSTRACT

This study is conducted to the customers of Rural Bank in Semarang, Indonesia. The aim of this research is (1) to test the influence of financial, social and structural bond on customer value and customer loyalty, (2) to test the influence of corporate image on customer value and customer loyalty, (3) to test the influence of customer value on customer loyalty, and (4) to test the influence of customer value as the mediator of corporate image influence on customer loyalty. The analysis used in this research is two-step regression and to process the data, the SPSS version 21 is used. The findings of this result show that financial and social bonds are able to significantly increase perceived value, whereas social bond is not. The increase of perceived value will be able to increase customer loyalty. This study also found that corporate image can directly and indirectly affects loyalty. The indirect influence of corporate image on loyalty will be mediated by perceived value. This research contributes to the theory proposing that to build a relational bond in banking industry, especially in Indonesia, it is necessary to take into account market segment. The market segment of Rural Bank is low-middle class in in which the appropriate relational bond is financial and structural bond, different from middle-high class which is more appropriate to use social bond.

Keywords: Financial Bond; Social Bond; Structural Bond; Perceived Value; Corporate Image; Customer Loyalty.

1. INTRODUCTION

Rural banks' growth is shown by the increasing number of customers and the amount of credit. Data from *Bank Indonesia* showed the growing amount of rural bank customers from 11,459,442 in 2010 to 13,867,941 in 2015. Such growth will cause interbank competence. Competition and efficiency in banking sector is essential for social welfare, because they are associated with low price, high quality and the promotion of business innovation (Beier & Stern, 1969).

Since introduced by Berry (1983), relationship marketing becomes an important part in business world. Some researchers started to develop and show the importance of relationship marketing (Abramson & Ai, 1998; Anderson & Narus, 1990; Gronroos, 1994, 1996; Gruen, 1995; Palmatier et al., 2008; Palmatier et al., 2007b; Palmer, 1995; Ravald & Gronroos, 1996). Sheth and Parvatiyar (1995) stated that there is a movement from transaction orientation to relationship orientation. This opinion is in line with Gronroos (1994) arguing that there has been a shift of the marketing mix to

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relationship and network approach. Palmatier et al. (2008) say that consumers tend to seek relationships with salespeople. Consumers are no longer focusing on the transaction, but on how consumers view the seller in having a relationship with them. The essence of relationship marketing is the relationship between the company with the other actors, for example suppliers (Cannon & Homburg, 2001), distributors (Anderson & Barton, 1992; Anderson & Narus, 1990), and costumers (Ardyan et al., 2016; Cannon & Homburg, 2001; Dwyer et al., 1987; Farida, 2017; Liang & Wang, 2005; Lin et al., 2003; Morgan & Hunt, 1994; Peltier & Westfall, 2000; Smith, 1998). Relationship marketing will be able to increase perceived value (Little, 1970), build loyalty and positive word of mouth (Hennig-Thurau et al., 2002). Loyal customers will increase company's profitability through cost reduction and the increase of per customer income (Berry, 1995).

There are various studies that apply the dimensions of relational bond. Wu and Lin (2014) explained that the whole relational ties should affect customer trust before increasing loyalty. In Arabian countries, financial bond has no significant influence on loyalty compared to social and structural bonds. This is because customers in those countries like premium services so as not to respond to the incentives in the form of finance. Sethuraman and Cole (1999) argues that premium consumers will be very insensitive to price, this will keep consumers in Saudi disliked financial bond. Consumers in Taiwan also more focus on social and structural bonds rather than financial bonds, so that financial bond is not able to increase customer loyalty (Stern & Reve, 1980). Lin et al. (2003) found that both structural, social, and financial / economic bonds will be able to improve relational performance in the form of commitment and customer loyalty. This study differs from previous studies in the Arab and Taiwan, where the respondents are bank customers from the lower middle class that have different dimensions from the high-class or premium customers', in which financial bond such as direct gifts, lottery prizes and higher interest become appeal and are still more dominant.

The aim of this research is (1) to test the influence of financial, social and structural bond on customer value and customer loyalty, (2) to test the influence of corporate image on customer value and customer loyalty, (3) to test the influence of customer value on customer loyalty, and (4) to test the influence of costumer value as the mediator of corporate image influence on customer loyalty.

2. LITERATUR REVIEW

2.1. Relational Bonds

Relational bond is divided into three relationships (Palmatier et al. (2007b), namely: social relationship, financial relationship, and structural relationship. To describe the three relationships, some researchers use the term "relational bond" (Ibrahim & Najjar, 2008; Liang & Wang, 2005; Lin et al., 2003; Peltier & Westfall, 2000; Smith, 1998). Therefore, it can be concluded that there are three kinds of relational bond, they are, social relationship, financial relationship, and structural relationship.

Social bond uses social engagement (eg, food, sporting events) or frequent communications customized to personalize customer relations and convey special status of purchasers. Some experts stated that creating a relationship between buyer and seller can be done through inter-personal interaction, friendship (Berry, 1995; Wilson, 1995), and identification (Smith, 1998). Ties resulting from such special treatment is difficult to duplicate and may prompt customers to reply in the form of repeat purchasing and recommendations, or by ignoring competitive bids.

Structural bond is ties that is related to governance, institution, and norms in a relationship. In the structural bond, there is rules, policies, procedures, and agreements that give formal structure in a relationship. The result of this research stated that structural bond has the highest hierarchy which is able to provide the biggest chance or opportunities for companies to produce benefits from competition (Peltier & Westfall, 2000).

Lastly, financial bond brings economic benefits, such as discounts, gifts, free shipping, or extended payment terms, in exchange for customer loyalty. Berry (1995); Peltier and Westfall (2000) explained that this type of bond will increase customer loyalty through price incentives. However, the advantage of financial bond is likely not sustainable, unless made possible by unique resources (eg, low-cost structure), because competitors easily adapt to the program.

2.2. Customer Value

Roig et al. (2006) explained that literature on financial services shows that bank should focus their efforts on three fundamental points, they are: shareholder value, employee value and perceived customer value. This study will concentrate on customer perceived value. Basically, value is the result of a comparison made by customers between the benefits they gained and the sacrifice they made (Zeithaml, 1988). The definition explains that value is very subjective and personal judgment (Parasuman, 1997). Benefits in the context of value is what customers obtained when getting a product or service, whether functional, experiential, or religious benefits.

There are various terms that are misunderstood or misused as a synonym for perceived value, such as value judgment, shopping value, consumption value, relational value, product value, service value, the expected value, consumer value, customer value, and perceived value (Alves, 2011). Some experts developed the dimensions of perceived value. Roig et al. (2006) explained that the dimensions of perceived value is functional value, social value, and emotional value. Sanchez et al. (2006) propose GLOVAL concept in which the dimensions of perceived quality is divided into two values, namely functional value and effective value (emotional value and social value).

2.3. Corporate Image

Corporate image according to Keller (1993) is the perceptions on an organization that reflect the associations of consumer's memory. Nukpezah and Ngumuyo (2010) see corporate image as attributes both physical and behavioral that are owned by a company, such as business name, architecture, a variety of products or services, and impression about the quality communicated by the company in the minds of consumers. According to Nguyen and Leblanc (2001), there are six factors influencing corporate image from consumers' perspective, namely 1) corporate identity is associated with personality and distinguishing features of the company that covers the key elements of the company name, logo, price and service. 2) reputation, reputation and management has an important role in building a reputation meant by customer, 3) service offering, management should ensure that the services offered are timely 4) physical environment, physical service has a powerful role in the trust attributes, and product or services consumed affect image 5) personal contacts, interactions that take place throughout the meeting will affect the outcome and evaluation, 6) access of service, customers receive an appropriate or timely service.

2.4. Customer Loyalty

Customer loyalty has an important role for the company. Oliver (1999) sees loyalty as a commitment to make repeat purchases. The concept of loyalty from Dick and Basu (1994) emphasizes on the sequence of purchases, the proportion of purchase or the probability of purchase, it is operational and not theoretical. Loyalty is an important intensity of customers who will not turn to a competitor and decided to buy repeatedly from the same company. In accordance with the opinion of Griffin (2005), loyal customer is someone who is doing the activity of purchasing goods or services that meet the criteria of repeat purchasing at regular intervals, purchasing different products offered by the same manufacturer, and recommending products or services to others.

3. DEVELOPED HYPOTHESES

3.1. Financial Bond and Customer Value

Financial bond is a relational bond or marketing activity developed through the ties between the customers and companies or consumers and producers which is based on economic benefits such as special price offer, promotion or other aspects related to finance. Some researches showed that financial bond has a positive and significant influence on customer value, that is utilitarian value. This finding is in line with research results of El-Ansary and Stern (1972), Nelson (1999), Watson (1999). Financial bond approach can be connected to the driving for customer value which is formulated in the following hypothesis:

H1: Financial bond has a positive and significant influence on customer value.

3.2. Social Bond and Customer Value

The role of social bond is as a relationship based on customer emotional feeling on a company, familiarity, friendship, interpersonal interaction and identification (Berry, 1995; Smith, 1998; Wilson, 1995). Customer value according to Kotler and Keller (2012) is a set of benefits expected by customers from certain product or service, both functional and emotional benefit. Research finding of El-Ansary and Stern (1972) shows that social bond has a positive and significant influence on customer value, that is hedonic value. Thus, the next hypothesis is:

H2: Social bond has a positive and significant influence on customer value

3.3. Structural Bond and Customer Value

Structural bond is the strongest ties compared to social and financial bonds. This is because structural bond is built on an institutional structure, rules, governance, and the valid norms or policies (Berry, 1995). Chiu et al. (2005) stated that structural bond has a positive and significant influence on customer value. Customer value is a choice sensed by the customer and an evaluation on the attribute of product or service and product performance, and the consequence of product use to attain goal and intention of the customers using the products or services (Woodruff, 1997). Thus, the next hypothesis is:

H3: Structural bond has a positive influence on customer value

3.4. Corporate Image and Customer Value

Research finding of Hunt and Nevin (1974) explained that corporate image is the result of a series of customer's processing and comparing several company's attributes. Corporate image is built and developed by consumers through communication and experience that is able to influence customer value given by companies to customers and the consequences of the attribute of product and service use (Wood, 1999). Research finding of Gnyawali and Madhavan (2001) stated that communication, service quality, corporate image and satisfaction value on being moderator can direct and indirectly influence customer loyalty. Therefore, it can be developed the following hypothesis:

H4: Corporate image has a positive influence on customer value

3.5. Customer Value and Loyalty

Customer perceived value is defined as the perception about quality, social psychology, benefit and financial aspect (Palmatier et al., 2007a). Customer value is the difference between total customer value and total customer cost. Total customer value is a set of benefits expected by customer from certain products or services (Kotler & Keller, 2012). Further, a high customer value can influence customer loyalty to the product or service used. Some researchers explained that perceived value will be able to increase the intensity of the word of mouth and repeat purchasing (Cronin et al., 2000; Merlo, 2011). There is a positive association between customer value and loyalty (Jain et al., 2013), therefore the developed hypothesis is:

H5: Customer value has a positive influence on Customer Loyalty

3.6. Corporate Image, Customer Value and Loyalty

Corporate image is a whole description about a company in the mind of customers (Kotler & Armstrong, 2008). A better image of a company affects customers consideration to be loyal to the product of the company (Bigne et al., 2004). Marshall and Reday (2007) viewed that image (brand image or company image) and the expectation of the users will be able to directly increase customer loyalty. Research finding of Gnyawali and Madhavan (2001) stated that communication, service quality, corporate image and satisfaction value on being moderator can direct and indirectly influence customer loyalty. Therefore, it can be developed the following hypotheses:

H6: Corporate image has a positive and significant influence on customer loyalty

H7: Customer value mediates the influence of corporate image on customer loyalty

4. RESEARCH METHOD

4.1. Population, Sample, and Sampling

The design of this research is a quantitative survey research. The population in this research is all customers of Rural Bank in the city of Semarang. This research uses purposive sampling technique with 120 respondents using accidental sampling with the following criteria; 1) respondents are the

active customers of Rural Bank in the past year, Semarang domiciled, minimum age of 17 years old and willing to fill in the questioners.

4.2. Measurement

Each dimension in this research is measured with Likert Scale (7 scales), in which the answer close to the value of 1 is categorized as strongly disagree and the value of 7 as strongly agree.

Financial bond according to El-Ansary and Stern (1972) is defined as relationship or marketing activities developed through the ties among producers or companies based on economic benefits, special price offer, promotion or other financial aspects. The dimensions of financial bond in this research are: 1) bank gives points to be redeemed for rewards or cumulative points program, 2) Bank gives direct gift in the form of goods and cash for regular transaction, 3) bank gives lottery prizes in certain period.

Social bond is defined as relational bond based on emotional feeling, familiarity and friendship, and inter-personal interaction and identification (Berry, 1995; El-Ansary & Stern, 1972; Wilson, 1995). The dimensions of social bond in this research are (1) bank builds a good relationship with customers, (2) bank commits to help fulfilling customers need, (3) bank helps to resolve problem between company and customer, (4) bank gives congratulation for special days or special days for certain religions.

Structural bond is defined as ties built on structure, institution, governance and the valid norms and policies (Berry, 1995). The dimensions of structural bond developed in this research are: (1) bank has a legal organizational structure, (2) bank gives annual report, (3) bank gives report, news and transaction required by the customers.

Corporate image is defined as the result of a set of customers processing and comparing several attributes of a company (Hunt & Nevin, 1974). The dimensions of corporate image in this research are (1) bank has a clear identity, (2) bank has a good reputation, (3) bank keeps their promises, (4) bank has a good operation, (5) bank has professional employees, (6) bank has technological facilities and a wide access.

Customer value is basically divided into three values, namely benefit value, social value and hedonic value (El-Ansary, 1975). The dimensions of customer value in this research are (1) bank can give benefit value for customers, (2) bank can give social value for customers, (3) bank can give hedonic value for customers.

Loyalty is customers loyalty to certain product or service they use (Dick & Basu, 1994). The dimensions of loyalty in this research are: (1) customers always do transaction at the same bank, (2) word of mouth, (3) customers do continuous transactions, (4) customers do not want to move to other banks.

4.3. Respondent Description

The number of respondents is 120 consisting of 49 (32.67%) female and 71 (67.33%) male. Respondents age is: 52 respondents or 43.33% is 31 – 40 years old; 36 respondents or 30% is 20 – 30 years old; 20 respondents or 16.67% is 41 – 50 years old; 12 respondents or 10% is 51 – 60 years

old. Most respondents have become Rural Bank customers for about 3 – 4 years (80 respondents or 66.67%); some respondents have become Rural Bank customers for about 1 – 2 years (21 respondents or 17.5%); and the rest 9 respondents or 7.5% have become customers for more than 5 years. The majority of respondents (69 respondents or 57.50%) have senior high school education; 36 respondents (30%) have diploma and bachelor education, 10 respondents (8.33%) have junior high school education; and 5 respondents (4.17%) have postgraduate education.

4.4. Analysis

The analysis in this research uses two step regression analysis. For data processing, this research uses SPSS version 21. Besides two step regression, Sobel testing is used to test whether there is the influence of mediation of a path analysis equation.

5. RESULT

5.1. Reliability and Validity Testing

To test the instrument, reliability and validity testing is needed. Reliability testing in this research uses cronbach alpha. All variables in this research have been reliable since the value of cronbach alpha is above 0.06. Validity testing uses corrected item-total correlation. All dimensions in this research have been valid. Table 1 shows the result of reliability and validity testing.

Table 1: The Result of Reliability and Validity Testing

Variable & Dimension	Cronbach Alpha	Corrected Item-Total Correlation
Financial Bond	0.778	
• Bank gives points to be redeemed for rewards or cumulative points program		0.657
• Bank gives direct gift in the form of goods and cash for regular transaction		0.645
• Bank gives lottery prizes in certain period.		0.544
Social Bond	0.864	
• Bank builds a good relationship with customers		0.766
• Bank commits to help fulfilling customers need		0.658
• Bank helps to resolve problem between company and customer		0.696
• Bank gives congratulation for special days or special days for certain religions		0.774
Structural Bond	0.751	
• Bank has a legal organizational structure		0.592
• Bank gives annual report		0.588
• Bank gives report, news and transaction required by the customers		0.685
Customer Value	0.912	
• Bank can give benefit value for customers		0.741
• Bank can give social value for customers		0.785
• Bank can give hedonic value for customers		0.783
Corporate Image	0.876	
• Bank has a clear identity		0.701
• Bank has a good reputation		0.710
• Bank keeps their promises		0.722
• Bank has a good operation		0.712
• Bank has professional employees		0.678
• Bank has technological facilities and a wide access		0.693

Table 1: The Result of Reliability and Validity Testing (cont.)

Variable & Dimension	Cronbach Alpha	Corrected Item-Total Correlation
Customer Loyalty	0.795	
• Customers always do transaction at the same bank		0.538
• Word of mouth		0.731
• Customers do continuous transactions		0.674
• Customers do not want to move to other banks		0.587

5.2. Hypothesis Testing

Hypothesis testing is used to test the hypotheses proposed in this study. From 6 hypotheses of this research, only one is rejected (hypothesis 2). The following is the explanation for hypothesis testing.

Hypothesis 7 is tested using Sobel test with the aid of Sobel Testing Calculator. This calculator uses Sobel test to tell whether mediator variable significantly bring the influence of independent variable on dependent variable, that is, whether the indirect effect of independent variable on dependent variable through mediator variable is significant. This calculator produces the statistical test both one-tailed and two-tailed of the probability value. Hypothesis 7 in this study stated that customer value mediates the influence of corporate image on customer loyalty. The result showed that customer value mediates the influence of corporate image on customer loyalty on the value of the t count = 2.956 greater than t table = 1.658. So the hypothesis 7 is accepted.

Table 2: Hypothesis Testing Result

Hypothesis	β	Result
H1: Financial bond has a positive and significant influence on customer value	0.824*	Hypothesis is accepted
H2: Social bond has a positive and significant influence on customer value	-0.254	Hypothesis is rejected
H3: Structural bond has a positive and significant influence on customer value	0.706*	Hypothesis is accepted
H4: Corporate image has a positive and significant influence on customer value	0.493*	Hypothesis is accepted
H5: customer value has a positive and significant influence on customer loyalty	0.302*	Hypothesis is accepted
H6: Corporate image has a positive and significant influence on customer loyalty	0.303*	Hypothesis is accepted
H7: Customer value mediates the influence of corporate image on customer loyalty	t = 2.956*	Hypothesis is accepted

Note: * $\alpha < 0,05$.

6. DISCUSSION

In this research, the dimensions of relational bond is analyzed in the aspect of its influence on perceived value. The result of this research showed that financial bond has a positive and significant influence on customer value. The financial aspect of relational bond can be seen from: (1) bank gives points to be redeemed for rewards or cumulative points program, (2) bank gives direct gift in the form of goods and cash for regular transaction, (3) bank gives lottery prizes in certain period. Prizes and rewards are the important things that must be paid attention by companies to increase customer perceived value. The tendency of the Indonesian is very fond of prizes of a marketing program. Marketing program is able to increase business success (Park, 2015). Some banks make programs such as cash transfers, motor vehicles, Umrah, and many other prizes or rewards. The gifts will increase the value in the minds of consumers. Consumers will perceive that the bank is attractive and continue to make transactions through the bank.

Aspect of social bond has insignificant influence on perceived value. This relates to the low level of customer. Social bond implies on social condition such as consumer target or communication realized to personalize customer relation and indicate advantaging condition of customer. Social cohesion will be more successful if developed in the premium segment. Premium segment prefers their social engagement, building networks, and establishing intense communication with each other. In contrast, lower-middle segment prefer feedback in the form of goods or real action of the bank. They prefer the fulfillment of their basic needs to social involvement.

Structural bond can increase perceived value. The findings in this study support previous studies, in which structural bond has a positive and significant effect on perceived value (Chiu et al., 2005). Structural bond can be seen from (1) bank has a legal organizational structure, (2) bank gives annual report, (3) bank gives report, news and transaction required by the customers. The three points will be able to make consumers think that the bank has legality, transparency and high responsibility. These things will be able to increase the perceived value of the consumer to the bank.

The study also found that perceived value and corporate image will be able to increase customer loyalty. The two constructs are customer's perception or ratings on the bank. If customer ratings on the company is good, it will be able to increase both customer interest and loyalty. On the other hand, the research also viewed perceived value as an intervening variable between the influence of corporate image and customer loyalty. The results show that perceived value is able to be a construct of moderation between the influence of corporate image on customer loyalty. If the image of the company increases, the value of customers will also increase and will eventually be able to build customer loyalty

Theoretical implications in this research is to build relational bond in banking industry, especially in Indonesia, it is necessary to pay attention to the market segment. Rural Bank market segment is the middle and lower class. For the lower-middle class segment, the appropriate relational bond is a financial and structural bond. The lower middle class segment tend to want real feedback from the bank in the form of gift or reward. In addition, the Rural Bank need to highlight its legality by emphasizing that Rural Bank customers are guaranteed by the government through Deposit Insurance Agency. Transparency and high responsibility in serving customers is also needed. For the high class customers, the appropriate bond is a social bond since premium customers prefers social engagement, building networks, and establishing intense communication between the bank and the customer.

Managerial implications in this research is that Rural Bank needs to create programs relating to the award to the customer such as: giving direct or indirect gifts through lottery and reward. It will be able to increase consumer ratings on the bank and ultimately will affect customer loyalty.

7. CONCLUSION

In this research, there are four objectives that need to be addressed. Financial bond and social bond will be able to significantly improve perceived value, while social bond is not. The increase in customer value will be able to increase customer loyalty. The study also found that corporate image can directly and indirectly affect loyalty. The indirect effect of corporate image on loyalty will be mediated by perceived value.

7.1. Research Limitations

The limitations of statistical test results in this study show that customer value mediates the influence of corporate image on customer loyalty. Customer value mediates the influence of corporate image on customer loyalty using regression analysis with the aid of Sobel test calculator. For future research, it is recommended to use the analysis of Structural Equation Modeling (SEM) so that it will be more comprehensive.

7.2. Future Research Agenda

For future research, it is suggested that research object is not only the customers of Rural Bank but also the customer of conventional bank or sharia bank in a wider area, for instance Central Java. It is also recommended to add other variables such as experimental marketing, emotional satisfaction and service quality.

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