The Impact of Service Quality, Company Image and Switching Barrier on Customer Retention: Mediating Role of Customer Satisfaction

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ABSTRACT

A conceptual outline is offered that explore the consequences of service quality, company image, switching barriers on customer retention mediated by customer satisfaction at LB-LIA Banjarmasin. To test the framework, structural equation modelling technique is applied to data gathered from 141 students in this informal education institution. The results revealed that service quality has substantial effect on customer satisfaction and customer retention, corporate image has an effect on customer satisfaction while switching barriers do not significantly influence customer satisfaction or customer retention and lastly customer satisfaction has a major effect on customer retention. It is recommended that service quality, corporate image and customer satisfaction be maintained and switching barrier needs to be improved.

Keywords: Service quality, company image, switching barriers, customer retention, customer satisfaction.

Introduction

In an effort to retain customers, companies need to strive to make customers continue to use services or products offered by a company. Customer retention is designed to ensure the survival of a company, because loyal attitudes do not affect sales and profits. Real action is needed as evidence that customers really survive as a company customer (Buttle, 2004). Measurements of customer retention can alter between industries and companies (Aspinall et al., 2001). There seems to be a common agreement that focuses on customer retention can produce numerous lucrative benefits (Reichheld, 1996, Buttle, 2004). As the time of customer ownership, the volume of customer purchases and referrals increases, at the same time the relationship maintenance costs decline because customers and suppliers learn more about each other. Since fewer customers are moving, the cost of replacing customers drops dramatically. Customers are even willing to pay higher prices than newly acquired customers, and tend not to receive discount offers that are often made to get new customers. All of these conditions combine to increase the current customer's net present value (Reichheld, 1996).

It is much more economical to keep a customer than procure a new customer. The cost of getting customers to substitute lost customers is very high because the cost of acquiring customers only occurs in the early periods of profit-making relationships (Reichheld and Kenny, 1990). In addition, long-term customers purchase more and if content they can generate positive word of mouth marketing for the company. In addition, durable customers also reduce the time companies spend to get new customers and customers are usually less sensitive to price changes. The importance of maintaining customers is not new to marketing, because Drucker (1973) believes that marketing is as important as maintaining and also acquiring customers. However, as competition gets tougher and the market becomes saturated, awareness of retention significance has grown better.

Kotler and Keller (2006) argued that customer satisfaction as somebody's feelings of gratification or discontent resulting from associating the observed performance of the product...
Customer satisfaction is the result achieved when service features or products are in accordance with customer prerequisites and when the company meets or surpasses customer expectations during the lifetime of a product or service. Customer satisfaction is very critical for any business, especially service organizations. Customer satisfaction can impact customer desires in the future and cause profitability, market share, and return on investment (Anderson, Fornell, and Lehmann, 1994).

The world shifted from manufacturing-based to service-based economies (Gronroos, 1990). The study of service quality affects customer satisfaction and its effect on customer retention is reviewed by Edward (2011) and Cronin, Brady, Hult (2000). A number of studies have examined separately the influence of customer satisfaction on customer retention Ranaweera (2003); Hansemark (2004), Danesh (2012). Customer satisfaction is influenced by service quality as researched by Cronin, Brady, and Hult (2000) while Hoisington and Naumann (2003) stated that customer satisfaction is the antecedent of service quality.

The service quality of educational organizations can also be measured in several dimensions, but the most commonly used model to study service quality is SERVQUAL, which was introduced by Parasuraman et al. (1988). According to Zeithaml, Parasuraman and Berry (1990), SERVQUAL is universal and can be practical to any service organization to analyze the quality of services offered. Service quality is defined as consumer evaluation of the overall superiority of the product (Zeithaml, 1988) conceptualized as a consumer appraisal based on a comparison between customer expectations for perceived performance (Parasuraman et al., 1988; Bolton and Drew, 1991).

Previous research has shown that customer satisfaction is also influenced by the company's image as done by Kuo (2011); Wu (2013); and Giovanis (2016) that consistently found corporate image has a positive and substantial influence on customer satisfaction. Nguyen's Research (2001); and Venetis (2004) showed that the company's image also has a direct effect on customer retention. These studies led to further study of the effect of corporate image on customer retention through customer satisfaction due to research by Ranaweera (2003); Hansemark (2004); Danesh (2012) produces customer satisfaction affecting customer retention. The company's image is described as the overall impression made in the minds of the public about the company (Kotler, 1991). Often associated with signs and values, the building of a corporate image is a long process that can be rapidly enhanced through technological breakthroughs (Dichter, 1985).

According to Ranaweera (2003) besides customer satisfaction that affects customer retention, customer satisfaction is also influenced by switching barriers, so customer retention according to Ranaweera (2003) is influenced by customer satisfaction and switching barriers. Switching barriers affecting customer retention are shown by Kim (2004); and Wulandari (2014), with the results of switching barriers significantly influence customer retention. While Han's study (2014) resulted in switching barriers affecting customer satisfaction. The results that have not been consistent in changing barriers to influencing customer satisfaction and customer retention are gaps for further investigation by placing customer satisfaction as a mediator. Bendapudi & Berry (1997) stated that switching barriers are obstacles faced by customers because they feel comfortable with service providers. Customers will survive in conjunction with the company when customers feel proud to be part of the company because of the reputation of the company.

Informal education institutions such as course institutions and tutoring experience progress very rapidly and gain their own space in the development of the education business. This is due to the demand for better and more effective learning that cannot be fulfilled by formal education institutions such as schools. The growth of informal institutions is due to official schools managed by the government that have not been able to provide better education as expected by the parents and students themselves. Mastery in English is not enough if students just study at school they need to spend some time for additional course in informal institutions. It seems that informal education institutions are the solution to the unavailability of formal educational organizations that can meet the needs of their learners.

A decade ago, competition with foreign informal education institutions may not have crossed the minds of managers of informal education institutions because they had not yet received adequate competitors and were even better than institutions that had long been active in the world of informal education. The proliferation of educational institutions that have a franchise system such as English First, English One, Interact, ELP, then local course institutions need to improve themselves to keep their students from moving to new places where promotion is very intense and using foreign speakers as tutors in classes or the program they provide. One of the language
education institutions that seems to be growing rapidly is LB-LIA which has branches spread throughout Indonesia, including in Banjarmasin. The institute began operations in 1989 and until now still operates as the largest educational institution in Banjarmasin with a total of 834 active students studying.

The tough competition among these language institutions made LB-LIA’s management find ways in order to retain the number of their students survive. This research tries to reveal whether service quality has been performed well by staff and teachers of this institution, and at the same time it is important to know if LB-LIA’s company image is still strong enough to attract their potential students and also if switching barrier have adequate influence conserve students. Customer satisfaction is an important aspect that prolong the retention of students. What is needed for the survival of educational institutions is the enthusiasm of their students to continue studying, so it is necessary to test how strong the influencing factors especially testing whether it is true that customer retention is able to become a benchmark of LB-LIA’s managerial decision maker.

This paper is organized in four sections. First, a review of related literatures on service quality, corporate image, switching barriers, customer satisfaction and customer retention. Second, the methods used are described and third the outcomes of the study are presented and reviewed. Finally, the managerial and research implication are explained.

Literature Review

Service Quality
There are various definitions related to Service Quality. According to Mittal and Gera (2012) service quality is the customer’s assessment of overall service excellence that has been hypothesized as an estimation based on the difference between perceived performance and customer expectations. Crosby (1979) and Parasuraman et al. (1985) defined service quality as how well services meet or surpass customer expectations consistently.

Services provided to customers can be provided in three classifications. First as intangible benefits or products that can be sold freely from other properties, such as legal services, doctor services, beauty care and others. Second is intangible activities provided by tangible properties, such as transportation; flights, shipping, and trains, car taxis and other forms of transportation services. Third is intangible services related to purchases, such as after-sales services carried out by car and motorcycle dealers and other electronic equipment. (Alexander, 2002).

Corporate Image
The corporate image is formed in the minds of consumers through procedures where information is processed and arranged according to meaning based on stored categories. The image is labeled as the general impression made in the minds of consumers. This is related to tradition, ideology, business name, reputation, various services, and impression of quality communicated by everyone who interacts. The company's image is considered a mental picture of an organization. This is the total number of perceived characteristics of the company that we call corporate image.

Gronroos (1984) claimed that the image is very important for service companies and is largely determined by customer ratings of services received. Indeed, because services are insubstantial and based on performance, a better understanding of image components promises to support management increase the company's competitive performance. Therefore, the requirement for image management is an understanding of the process of forming image and trust and the attitude of customers towards the company's product / service offerings. Gronroos (1984) argued that corporate image is made primarily by practical quality, that is what customers get from service practice, and functional quality, how to serve.

Switching Barrier
With competition and costs to attract new patrons to increase, companies gradually focus strategic efforts on customer retention (Berry, 1983; Fornell, 1992; Fornell and Wernerfelt, 1987). Clearly, a vital element in customer retention programs is satisfaction (for example, Cronin and Taylor, 1992; Oliver and Swan, 1989). However, satisfaction is not the only strategy (Bendapudi and Berry, 1997; Fornell, 1992). Barriers to customer defection, such as the improvement of solid interpersonal relationships or the imposition of switching costs, are additional retention strategies.
Such obstacles are important because in general they can help maintain greater retention, and they can help companies overcome short-term instabilities in service quality that might result in defection.

**Customer Satisfaction**
As stated by Oliver, customer satisfaction is a feeling of enjoyment, which comes from feedback as a result of consumption, in another definition Oliver expresses satisfaction as “pleasant results” (Oliver, 1999; Usta & Memiş, 2009) According to other definitions, customer satisfaction is a relationship between customer perceptions of the performance of a product or service and expectations. Thus, the concept of customer satisfaction is a function of customer expectations, if the factors provided are in line with what they hope, customers will be pleased; if not, he feels disappointed and will not be satisfied. Furthermore, if the factors presented are beyond expectations, customers will have a high level of satisfaction.

Satisfaction is the consumer’s judgment that a product or service feature, product or service itself, provides a satisfactory level of satisfaction related to contentment, including a level of under or over-fulfillment (Oliver, 1997). Oliver also added that satisfaction is the happiness response experienced by consumers. This is an assessment that the product or service feature, or the product or service itself, provides a level of satisfaction related to satisfying consumption, including levels below or above fulfillment. Some specialists interpret satisfaction as an emotional assessment of how far customers believe that consumption of services can produce positive feelings (Hunt, 1977; Rust and Oliver, 1994). Kotler and Clarke (1987) defined satisfaction as a state of expectation fulfillment when customers experience or feel the results.

**Customer Retention**
Customer retention is defined as the sustainability of customers in a business relationship with a company (Reichheld and Kenny, 1990). A number of views about customer retention argue that retaining customer’s increases profits, especially by decreasing costs incurred to obtain new customers (Reichheld and Kenny, 1990; Reichheld, 1996; Schmittlein, 1995). The main purpose of customer retention (CR) is to achieve “zero defections” or no customer defection (Reichheld, 1996), so that customers who move can be minimized. Customer retention requires a positive climate where everyone in the organization works to retain customers (Reichheld and Sasser, 1990).

The focus in many literatures is to retain customers who are profitable or potentially lucrative (Reichheld and Sasser, 1990). Relational exchange can be maintained effectively through relationship marketing, based on dialogue with individual customers. Long-term customer retention in competitive markets requires suppliers to go beyond modest basic satisfaction and to find techniques to form loyalty bonds that will help defend against competitors’ attacks. Clark (2002) stated that customer retention has the potential to be one of the most powerful weapons that companies can use to gain strategic advantage and survive in an increasingly competitive environment today. This is very important to understand the factors that influence customer retention and the role it can play in formulating strategies and plans.

**Research Method**
This research is a quantitative research with explanatory research approach guided by a questionnaire that examines the relationship and influence among research variables obtained by means of using SEM approach in analyzing 141 students who have studied for at least two terms or six months at LB-LIA Banjarmasin. The reasons for selecting those students as they have known much about the staff, teachers, lessons, facilities and class mates.
Conceptual framework of the Study

Figure 1. Conceptual framework of the study

Developing the Study Hypotheses

Several studies related to current research have been carried out by Olorunniwo (2006) and Ladhari (2009) which show that the direct effect of Service Quality on Customer Satisfaction is significant. Al-Hawari (2008) and Edward (2010) highlight the importance of service quality factors on customer retention in the context of traditional services, while Kuo (2011) examines the relationship between service quality, corporate image, customer satisfaction in elderly passengers on service high speed train. Venetis (2004) shows that service quality does contribute to long-term relationships and customer retention.

Wu (2013) and Nguyen (2001) state that corporate image directly affects customer satisfaction and retention. Satisfied customers form good behavior intentions to repurchase service providers. The relationship between barriers to switching and satisfaction is examined by Giovanis (2016).

The relationship between switching barriers and customer retention was examined by Jones (2000), Jen (2011), Baber (2015), Kim (2004) and Wulandari (2014). Ranaweera (2003) specifically states that switching barriers have a significant positive effect on customer retention and also a moderate effect on the relationship between satisfaction and retention. Therefore, it is expected that:

H1: Service quality, company image, and switching barriers have significant effect on customer satisfaction of LB-LIA Banjarmasin.
H2: Service quality, company image, switching barriers significantly influence customer retention of LB-LIA Banjarmasin.
H3: Customer satisfaction has a significant effect on customer retention of LB-LIA Banjarmasin.
H4: Service qualities, company image, switching barriers mediated by customer satisfaction have significant effect on customer retention at LB-LIA Banjarmasin.

Data Analysis

In Table 1, it shows that the loading factor value for each latent variable has exceeded the cut-off points of 0.5 meaning that the indicators analyzed have been tested capable of forming latent variables in a construct model.

| No. | Latent Variables         | Indicators            | Factor Loading | Probability | Result |
|-----|--------------------------|-----------------------|----------------|-------------|--------|
| 1   | Service Quality          | Responsiveness        | 0.712          | 0.000       | Valid  |
|     |                          | Empathy               | 0.967          | 0.000       | Valid  |
| 2   | Corporate Image          | Reputation            | 0.924          | 0.000       | Valid  |
|     |                          | Physical Environment  | 1.011          | 0.000       | Valid  |
| 3   | Switching Barriers       | Interpersonal Relation| 0.608          | 0.000       | Valid  |
Alternative Attractiveness 0.770 0.000 Valid
Switching Cost 0.653 0.000 Valid
Customer Recommend Others 0.733 0.000 Valid
Satisfaction Loyal 0.874 0.000 Valid
Customer retention Brand preference 0.817 0.000 Valid
Commitment 0.873 0.000 Valid

The acceptance criteria for structural equation models are done by comparing the size of the suggested cut-off values. Evaluation of the value of indices goodness of fit made by the structural equation model can be seen in table 2.

Table 2
Goodness of Fit Model

| Goodness of fit Indices | Result | Cut-off Value |
|-------------------------|--------|---------------|
| $\chi^2$ - Chi-Square   | 36.275 | 169.711       |
| Probability (p)         | 0.363  | $\geq 0.05$   |
| CMIN/DF                 | 1.067  | $\leq 2.00$   |
| RMSEA                   | 0.022  | $\leq 0.08$   |
| GFI                     | 0.955  | $\geq 0.90$   |
| TLI                     | 0.997  | $\geq 0.95$   |

Table 2 notifies about the results of testing structural equation models. The evaluation results show that the absolute criterion size is the Chi-Square value and Probability according to the suggested chi-square value (36.275) <chi-square table (169,711) with a probability level of 36.3% greater than 5%. As for the magnitude of incremental criteria such as RMSEA, GFI and TLI, the recommended cut-off value is met. Thus, the structural equation model that is built can be accepted henceforth it can be used to analyze the influence between research variables and prove the research hypothesis.

Test results of structural equation models

Observation data has fulfilled the requirements to be tested on the structural equation model made by researchers using AMOS (Analysis Moment of Structure) program. Modeling Test Results can be seen in the following Figure:

Figure 2. Final Model

Table 3
Regression Weights

| Label | Estimate | S.E.  | C.R.  | P   | Label |
|-------|----------|------|-------|-----|-------|
| CS    | .332     | .159 | 2.088 | .037| Sig   |
| CS    | .542     | .130 | 4.166 | ***| Sig   |
| CS    | -.012    | .107 | -.113 | .910| NS    |
| CR    | .048     | .108 | .442  | .658| NS    |
| CR    | .507     | .135 | 3.753 | ***| Sig   |
| CR    | .005     | .082 | .057  | .954| NS    |
| CR    | .788     | .124 | 6.376 | ***| Sig   |

From Table 3 we can learn that Service quality and Corporate Image have substantial influence on Customer Satisfaction. Service Quality and customer satisfaction also influence on customer retention significantly. On the other hand, corporate image has no significant influence on Customer retention and finally Switching Barriers have no influence on neither customer satisfaction nor customer retention.

Discussion

This study describes the perceptions of respondents about service quality, company image, switching barriers, customer satisfaction and customer retention at LB-LIA Banjarmasin. Respondents in this study were students who had studied for more than 6 months and the level of education is at least high school. The results of the research are explained sequentially as follows.

Effect of service quality, company image and switching barriers to customer satisfaction

The results showed that the quality of service at LB-LIA is dominated by empathy from both employees and teachers to serve and provide solutions for students. This can be seen from the concern of the instructors or teachers on the needs of the students even they are assisted by teachers to review English lesson from school or help them prepare tests for joining AKPOL, SBMPTN, job interviews, and scholarships for higher education abroad. The company’s image is supported by the reputation of this institution which is well-known all over Indonesia and the physical environment of LB-LIA is highly eligible for course institutions, but the switching barriers have little effect on customer satisfaction. Students can switch to other language institutions although these students have good relationship with teachers and feel familiar with classmates.

Satisfaction is the consumer’s judgment that a product or service provides a pleasant level of fulfillment after being consumed or used (Oliver, 1997). In LB-LIA students’ satisfaction is seen in the goal fulfillment of getting high grades in school or TOEFL score, others especially those who have worked, they study only to improve communication skills to assist them in work place.

Effect of customer satisfaction on customer retention.

Customer satisfaction occurs when the consumer feels the purpose of consumption has been fulfilled according to what he experienced. Oliver (2006) stated “Customer satisfaction can be perceived as a contentment of consumers’ consumption objectives experienced and described by consumers”. Based on the results of the LB-LIA research, students who were satisfied with what was obtained from this course institution continued their studies to a higher level or after finishing
with one program students still want to continue to other programs even though the cost of the course is more expensive.

**Effect of service quality, corporate image and switching barriers on customer retention through customer satisfaction.**

Based on the results of the research it is proven that service quality has a direct effect on customer retention while the company's image and barriers have little impact on customer retention. With the mediation of customer satisfaction, service quality and corporate image influence customer retention, but switching barriers do not have an impact on customer retention either through satisfaction or do not cross these variables.

**Managerial Implication**

Based on the results of empirical studies, service quality has a significant effect on customer satisfaction and customer retention in that service quality especially empathy and responsiveness must be retained. The influence of company's image only extents to satisfaction but does not stretch to customer retention. Efforts are still needed to strengthen the image of LB-LIA so that students at this institution will be proud to be members of this institution and is reflected in their ability to use English. Switching barriers are the least influential variables on customer satisfaction and retention. It is compulsory to increase interpersonal relationships with learning participants so that students feel comfortable learning at this institution. A program is also needed in accordance with needs, flexible learning time and attractive pricing policy for students who have studied more than one program or level. Service managers need to develop an operating strategy that focuses on service quality dimensions that increase customer satisfaction, which in turn can lead to customer retention.

In the future, more extensive research needs to be done involving other LB-LIA branches or affiliates with a larger number of samples so that the generalization of the results can exemplify more LB-LIA regionally or nationally. It should be considered to examine other variables such as perceived value, behavior intention, and brand image to increase customer retention.

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