

INVESTIGATING THE EFFECT OF SERVICE QUALITY AND PERCEIVED VALUE ON SATISFACTION AND WORD OF MOUTH IN INDONESIA

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Abstract

This research investigates the effect of service quality and perceived value on satisfaction and word of mouth. The primary objective of this research is to empirically test the impact of service quality and perceived value on satisfaction and word of mouth. This research is different from previous studies by integrating the variable of perceived value with satisfaction and word of mouth. There are four variables in this study, namely the service quality, perceived value, satisfaction and word of mouth.

This research is a type of survey research by using a quantitative approach. The population number was 215 and the sample number was determined according to Isaac and Michael's table which is at least 135. The questionnaires were distributed to the postgraduate students of State Islamic Studies College Kudus, using stratified random sampling method. For research model testing technique, it used the path analysis approach.

The research's findings include five items. **First**, service quality positively and significantly has effect on satisfaction. **Second**, perceived value positively and significantly has effect on satisfaction. **Third**, service quality positively and significantly has effect on word of mouth. **Fourth**, perceived value is not related to the word of mouth. However, in this research, it is found that perceived value is indirectly able to influence the word of mouth through satisfaction. **Fifth**, satisfaction positively and significantly has effect on word of mouth. Finally, the research findings suggested that service quality is the important variable that has effect the satisfaction and word of mouth.

Keywords: *Service quality, perceived value, satisfaction, word of mouth.*

A. Introduction

Customer satisfaction is very important for any industry especially service organization. Customer satisfaction can influence customer's future intention and lead profitability, market share and return on investment. The world has been shifting from a manufacturing-based to a service-based economy and the studies of service quality and customer satisfaction have dominated the service related literature (Tuan, 2012: 132). In addition, word of mouth (WOM) is one of most influential decision making factors in the service purchase decision. It has been

proven that WOM is an effective and powerful marketing medium for customers from the initial stage of information generation to the selection of services providers, and finally to the post-purchase stage (Jan, Abdullah and Shafiq, 2013: 15). The education sector is turning from a subsidized entity to become a source for earning money. Therefore, all business concepts and theories can be applied in education sector. Due to this importance, it is necessary to investigate determining factors of satisfaction and word of mouth (WOM).

One factor which should be considered while studying satisfaction is service quality. Service quality is an approach to manage business process in order to ensure full satisfaction of the customers which help to increase competitiveness and effectiveness of the industry. Service quality is very important, especially for the growth and development of service sector business enterprises (Rahaman, Abdullah and Rahman, 2011: 1). With the increase of the importance of service sector in the education, the measurement of service quality became important. According to Tuan (2012: 133), service quality is a key of performance measurement in educational excellence and a main strategic variable for higher education institutions to increase market share. The service quality can also be measured in various dimensions but model which is most widely used to study service quality is SERVQUAL introduced by Parasuraman, Zeithaml and Berry (1988: 12). SERVQUAL is universal and can be applied to any service organization to evaluate the service quality offered.

Another important factor for customer satisfaction and word of mouth (WOM) is perceived value. The expectation of customers toward higher education institutions becomes higher and higher with the increase in the tuition fee and the classification of education as a marketable service (Tuan, 2012: 132). Hence, the main objective of this research is to combine the service quality and perceived value into one model to study their impact on satisfaction and word of mouth (WOM). In other words, the simultaneous examination of the relationships among service quality, perceived value, satisfaction and word of mouth (WOM) is conducted.

B. Literature Review

1. Service Quality

It is difficult to define what quality is. Tuan (2012: 134) stated that whatever customers perceive as important are dimensions of quality. Quality is the key for survival of organization in the global economy. Organizations are undergoing a shift from a production-led philosophy to a customer-focused

approach. Competitiveness of a firm in the post-liberalized era is determined by the way it delivers customer service. Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining and measuring it without no overall consensus emerging on either (Rahaman, Abdullah and Rahman, 2011: 1).

Lewis and Booms were among the first to define service quality as “measure of how well the service level delivered matches the customer’s expectation” (El-Refae, 2012: 199). In this context, service quality is thought as an attitude of overall judgment about service superiority, although the exact nature of this attitude is still hazy. Some suggest that service quality stems from a comparison of performance perceptions with expectations (Parasuraman, Zeithaml and Berry (1988: 16). While others see it as derived from a comparison of performance with ideal standards or from perceptions of performance alone (El-Refae, 2012: 199). According to Gronroos in El-Refae (2012: 199), service quality is also defined differently with technical quality (what is delivered) and functional quality (how it is delivered) and as process quality (judged during the service) and output quality/judged after the service.

Parasuraman, Zeithaml and Berry (1988: 15) said that perceived quality could be defined as customer perception about an entity’s overall experience or superiority. According to Tuan (2012: 134), quality is defined as “the degree to which a set of inherent characteristics fulfills requirements”. In addition, Ghobadian, et.al in El-Refae (2012: 199) argued that quality in service business a measure of the extent to which the service delivered meets the customer’s expectations. The nature of most services is the customers’ presence in the delivery process, which means that the perception of quality is influenced not only by the service outcome but also by the service process.

From the above review mentioned, it seems that service quality is a multi-dimensional concept that means different to different people. Moreover, defining quality is a difficult task to its generic nature. Eventhough standards for the definition of quality may be set, these standards vary from phenomenon to phenomenon, culture to culture and acrosstime (El-Refae, 2012: 199).

Although there has been no universal agreement in measurement of the concept, the majority of research has used SERVQUAL to measure service quality. Parasuraman, Zeithaml and Berry (1988: 16) stated that service quality can be defined as the difference between expected service (customer expectations) and perceived service (customer perceptions). The SERVQUAL scale is a principle instrument to assess quality in service marketing (Parasuraman,

Zeithaml and Berry, 1988: 12). It has been extensively used not only by managers, but academics in assessing service quality on customer perceptions for various types of services (banks, credit cards companies, repair and maintenance companies). The five dimensions of service quality in the SERVQUAL instrument have surfaced through a variety of services. These dimensions consist of reliability, responsiveness, assurance, empathy and tangibles (Parasuraman, Zeithaml and Berry, 1988: 23).

2. Perceived Value

Perceived value is the balance between customer's perception obtainment and perception payout. To the industrial product and general service, customer's payouts are mainly embodied as price. In the accepting process to higher education service, student's payouts are not only money but a great lot time, endeavors and other non-price costs to realize the study objective, and the non-price costs for exceeds the price costs. At present, the charge standard of higher education is constituted by the country and the differences among colleges and areas are less, and the price factor is not sensitive to the perception value (Zhang, Han and Gao, 2008: 47).

This gap in the literature shows the possible effect of perceived value on satisfaction which was also suggested by Wibowo (2009: 59). Chandra and Bernarto (2012: 19) conducted the positive influence of perceived value on customer satisfaction. Hence, the intention of this research is to combine the service quality and perceived value on satisfaction and word of mouth. Over the last decade, many researchers have conducted the effect of service quality on customer satisfaction using the SERVQUAL model, but few studies have included perceived value in this model in order to study the effect simultaneously, especially none of them has been carried out in studying student satisfaction.

3. Satisfaction

Consumer satisfaction is a concept that has been widely debated in the literature. The degree of overall pleasure or contentment felt by the customer, resulting from the ability of the service provider to fulfill the customer's desire, expectations and need in relation to the service (Hanzaee and Khanzadeh (2011: 567). Customer satisfaction is a complex construct and has been defined in various ways.

Oliver in El-Refae (2012: 199) defined satisfaction as the consumer's fulfillment response. It is a judgement that a product or service feature or the

product or service it self, provides a pleasurable level of consumption-related fulfillment. Zeithaml and Bitner in El-Refae (2012: 199) translated Oliver's definition of satisfaction to mean that satisfaction is the customer's evaluation of a product or service in terms of whether that product or service has met their needs and expectations. The customer satisfaction literature shows that expectation is the most direct determinant of satisfaction, followed by perceived performance.

Satisfaction refers to the buyer's state of being adequately rewarded in a buying situation for sacrifice he or she has made (El-Refae, 2012: 199). Howard and Sheth defined customer satisfaction as a psychological state to evaluate the reasonable between what a customer actually pays and gets (Tuan, 2012: 133). Besides, Churchill and Surprenant proposed that customer satisfaction derived from the comparison between expected reward and actual cost of buying (Tuan (2012: 133).

According to Thorsten Hennig-Thurau and Alexander Klee, customers' satisfaction with a company's products or services is the key to a company's success and long-term competitiveness. Customer satisfaction frameworks have been widely used by researchers (Tuan, 2012: 134). Operationally, the construct is similar to an attitude as it can be assessed as the sum of the satisfactions with various attributes of a product or service. Many researchers have conducted studies about the quality of higher education institutions based on student's perception. Tuan (2012: 134) reported that students are the key customers of academic institutions. Student satisfaction has been built continuously with experiences on campus during the college years. Word of mouth from satisfied students to their friends, acquaintances, and relatives can help many academic institutions to attract new students.

4. Word of Mouth

Consumers can gather information about products or services through word of mouth (WOM). WOM is effective advertising medium and a convincing promotional strategy, besides being more proactive and controllable. Nowadays, word of mouth plays a significant role in distributing information to others and consumers feel that it is a reliable source for them to make decisions (Jan, Abdullah and Shafiq (2013: 15).

Hong-Youl Ha (2006: 139) defined word of mouth (WOM) as willingness to recommend and recommendations to others measures are widely used in practice to assess the impact of customers overall levels of satisfaction. Hanzae and Khanzadeh (2011: 567) stated that word of mouth (WOM) consists of oral,

person to person communication between a receiver and a communicator whom the receiver perceives as non commercial, regarding a brand, product and service. In fact, word of mouth (WOM) behavior is generally conceived of as the informal transfer of purchase related and consumption related information between consumers. Moreover, Jan, Abdullah and Shafiq (2013: 16) added that the most influential sources are friends and acquaintances and these are the most effective forms of WOM. Thus, consumer's decision making process is significantly influenced by WOM, especially during the product information search stage.

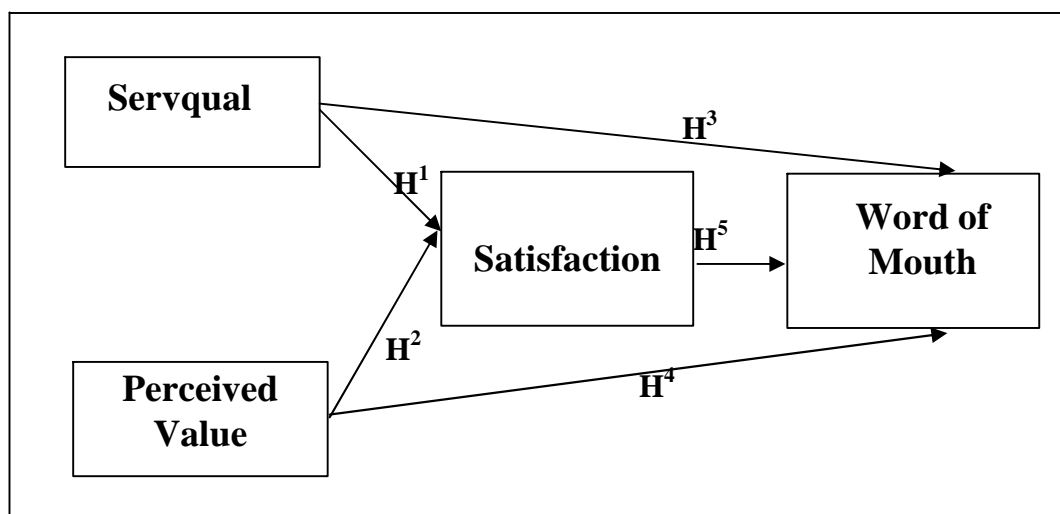
Many researchers who have studied customer satisfaction as a result of consumption experience suggest that customer satisfaction/dissatisfaction plays a crucial role in facilitating word of mouth. Hong-Youl Ha (2006: 139) shows that customer satisfaction is an antecedent of word of mouth intentions on the web. Jan, Abdullah and Shafiq (2013: 14) find that customer satisfaction has a significant positive impact on word of mouth. Moreover, Davidow (2003: 67) reports that word of mouth plays an important role in the complaint process affecting perceived fairness, satisfaction and repurchase intentions.

Based on the above discussion, the following hypotheses are proposed:

- H₁: Service quality has a direct positive effect on satisfaction.
- H₂: Perceived value has a direct positive effect on satisfaction.
- H₃: Service quality has a direct positive effect on word of mouth.
- H₄: Perceived value has a direct positive effect on word of mouth.
- H₅: Satisfaction has a direct positive effect on word of mouth.

Figure 1 illustrates the research model that summarizes the constructs and hypothesis developed by this study.

Figure 1. Research Model



C. Research Method

1. Population, Sample and Instrument

This research was conducted to examine the effect of service quality and perceived value on satisfaction and word of mouth. The research population in this study consisted of postgraduate student in State Islamic Studies College Kudus, Indonesia. The population number was 215 and the sample number was determined according to Isaac and Michael's table which is at least 135. The questionnaires were distributed among the postgraduate students of State Islamic Studies College Kudus, using stratified random sampling method. Out of 150 distributed questionnaires, the researchers received back 135 responses. The questions relating to the effect of service quality, perceived value, satisfaction and word of mouth.

The questionnaire consists of 40 items, not including some general questions, such as name, sex, age, education level and type of work. The items for the said scale are adopted from a number of relevant research studies (Parasuraman, Zeithaml and Berry, 1988: 23; Nguyen Minh Tuan, 2012: 142, Hong Youl Ha, 2006: 149; Chandra and Bernarto, 2012: 25). All items were measured by using 5 point likert scale, ranging from "1" (strongly disagree) to "5" (strongly agree).

2. Validity and Reliability

This research selects the measurement items whose reliability and validities have been verified from previous studies. A reliability test was used to assess the consistency of the result measurements; and a validity test was used to test the goodness of the measure. The coefficient alpha is the most popular measure of reliability for a multi item scale. Values were all above 0.70. Each construct yielded the following reliabilities: Cronbach alpha coefficient for service quality was 0.95, perceived value 0.73, satisfaction 0.77 and word of mouth 0.78. Thus, these values were above the 0.70 level suggested by Ghazali (2005: 44) indicated internal consistency.

3. The analysis Methods

A path analysis approach was chosen to test the proposed hypotheses. Path analysis provides researchers to model the relationships among multiple independent and dependent constructs simultaneously in a single, systematic, and comprehensive analysis. In this research, the principal software Amos 16.0 is utilized for the measurement data.

D. Data Analysis And Results

1. Sample Characteristic

The demographic characteristics of the sample were shown in Table 1.

Table 1. The Characteristics of Respondents

Demographic Variables	Frequency	Percentage
Gender		
Male	100	74
Female	35	26
Total	135	100
Age		
20-30	43	32
31-40	54	40
41 – above	38	28
Total	135	100
Type of Work		
Teacher	82	60
Worker	35	26
Entrepreneur	18	14
Total	135	100

The respondents characteristic are 100 respondents (74%) are male and 35 (26%) respondents are female; approximately 54 of total 135 respondents (40%) range in age from 31 to 40 years; and the majority type of work are 82 respondents (60%) are teacher.

2. Path Analysis Model Results

The path analysis model suggested in this study was tested using the maximum likelihood method with AMOS 16.0. Overall results are summarized in table 2. All hypotheses examined are accepted; all are significant except for H₄.

H₁ examined the positive effect between service quality (Servqual) and satisfaction (STS). The significant impact of service quality on satisfaction ($\beta=.462, CR= 6.957$) was supported. H₂ examined the positive effect between perceived value (PV) and satisfaction (STS). The significant impact of perceived value on satisfaction ($\beta=.409, CR= 6.161$) was supported. H₃ explicated the impact of service quality (Servqual) and word of mouth (WOM) was also supported ($\beta=.266, CR= 3.022$). While H₄ examined the positive effect between perceived

value (PV) and word of mouth (WOM) and it was not supported ($\beta=.147, CR=1.720$). Lastly, H₅ explicated the impact of satisfaction (STS) and word of mouth (WOM) was also supported ($\beta=.366, CR= 3.729$).

In sum, the constructs service quality (Servqual) and perceived value (PV) have a significant effect on satisfaction (H₁, H₂). The most significant impact on satisfaction is service quality, while perceived value have relatively less impact on satisfaction. Summary of hypotheses test results are shown in table 3.

Table 2. Path Analysis Results

<i>Independent Variable</i>	<i>Dependent Variable</i>	<i>Standardized Path Coefficients</i>	<i>C R</i>	<i>Prob.</i>	<i>Squared Multiple Correlations (R²)</i>
<i>Servqual</i>	STS	0.462	6.957	0.000	0.593
<i>PV</i>		0.409	6.161	0.000	
<i>Servqual</i>	WOM	0.266	3.022	0.003	0.476
<i>PV</i>		0.147	1.720	0.085	
<i>STS</i>		0.366	3.729	0.000	

Table 3. Summary of Hypotheses Test Results

Items	Hypotheses	Findings
H ₁	Service quality has a direct positive effect on satisfaction	Supported
H ₂	Perceived value has a direct positive effect on satisfaction	Supported
H ₃	Service quality has a direct positive effect on word of mouth	Supported
H ₄	Perceived value has a direct positive effect on word of mouth	Not Supported
H ₅	Satisfaction has a direct positive effect on word of mouth	Supported

E. Discussion

This research examines the effect of service quality and perceived value on satisfaction and word of mouth. The results of the research suggest that service quality and perceived value have a positive direct effect on satisfaction. However, the positive effect between perceived value and word of mouth was not supported.

As hypothesized, service quality has a direct positive effect on satisfaction. This result supports the findings of Zhang, Zhijun dan Qun (2008: 46; Tuan, 2012:

132) which demonstrated the positive effect of service quality on satisfaction. The results suggest that service quality plays an important role on satisfaction in higher education. Similar to the findings of Zhang, Zhijun dan Qun (2008: 46; Wibowo, 2009: 59; Chandra and Bernarto, 2012: 19), perceived value is strongly gives effect on satisfaction. Service quality has a direct positive effect on word of mouth. This result is consistent with the findings of Trarintya (2011: 82). However, the relationship of perceived value with word of mouth was not significant. Thus, the leader of higher education should focus on keeping student satisfaction through perceived value. Satisfaction has a direct positive effect on word of mouth. This result is consistent with the findings of Hong-Youl Ha (2006: 137; Jan, Abdullah and Shafiq, 2013: 14). These findings emphasize the importance of measuring consumer satisfaction throughout the service process.

F. Conclusion And Implication

The main objective of this research was to investigate the effect of service quality and perceived value on satisfaction and word of mouth (WOM). The finding of this research has some important contributions. Firstly, service quality has significant contribution on satisfaction, especially its impact on word of mouth. Therefore, the most significant impact on satisfaction is service quality. Second, this research supports that perceived value has a significant impact on satisfaction. Nevertheless, the positive effect between perceived value and word of mouth was not supported. This inconsistency suggests that the evaluation perceived value in higher education is the direction that we should study in future.

The present research suggests that higher education should focus more on satisfying their customers, as it influences the use of word of mouth. Especially, in today's fast growing technological era messages can be communicated around the world. It has also proven that word of mouth is an effective and powerful marketing medium for customers.

Lastly, the research findings must be considered within the limitations of research methodology. This research focuses only on the higher education. Additional research is needed to examine these relationships within and across additional sector. This research is conducted in one country, perhaps other countries should also be considered to be more promising and generalizable. Another limitation is from the use of variable. Relationships investigated in the present research deserve further research, especially by adding some other variables, like college reputation, student expectation, perceived justice and student activity.

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