



The Influence of Service Quality and Facilities on Customer Loyalty with Customer Satisfaction as an Intervening Variable at BPR Banks in West Java

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Abstract. The intense competition in Indonesia's banking sector, including the Bank Perekonomian Rakyat (BPR) industry, requires businesses to enhance customer loyalty. Factors such as service quality and facilities (servicescape) play a significant role in this effort. This study aims to investigate the effects of brand image, service quality, and facilities on both customer satisfaction and loyalty at BPR Karyajatnika Sadaya (BPR KS). The research adopts a quantitative approach, using multiple linear regression for data analysis.

Keywords: Service Quality, Servicescape, Customer Satisfaction, Customer Loyalty.

1 Introduction

1.1 Background

The banking industry in Indonesia, particularly Rural Banks (BPR), has undergone significant transformations with the introduction of the Law of the Republic of Indonesia Number 4 of 2023 (PPSK Law), which rebranded BPR as Bank Perekonomian Rakyat. The PPSK Law also expanded the scope of BPR's business activities to include services such as fund transfers and foreign exchange, enhancing their role in the economy. Despite this growth, the BPR industry still faces challenges, including bankruptcies due to internal management issues [29]. Nationally, the BPR industry has grown positively, with the Indonesian Financial Services Authority reporting improvements in fund collection, loan distribution, and profit generation [29]. However, the BPR industry still faces a trend of bankruptcies. According to the Indonesia Deposit Insurance Corporation, two BPRs have gone bankrupt, one of which is located in West Java due to fraud within the bank's management [29].

As of 2023, there were 224 BPRs registered in West Java under the Indonesian Financial Services Authority, leading to increased competition in the sector. BPR Karyajatnika Sadaya (BPR KS) provides credit, savings, and deposit services, and operates in West Java and surrounding areas. With one head office, 34 branches, 1,201 employees, and total assets reaching approximately Rp. 2.21 trillion in 2022, BPR KS ranks among the largest asset holders of BPRs in Indonesia [30].

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V. Mardiansyah and R. A. E. V. Targa Sapanji (eds.), *Proceedings of the 1st Widyatama International Conference on Management, Social Science and Humanities (ICMSSH 2024)*, Advances in Social Science, Education and Humanities Research 886,
https://doi.org/10.2991/978-94-6463-608-6_32

Between 2020 and 2022, BPR KS's economic performance fluctuated. In 2020, it disbursed Rp. 901 billion in credit, decreasing to Rp. 749 billion in 2021, before rising to Rp. 824 billion in 2022. The number of customers also declined, from 106,728 accounts in 2020 to 105,288 in 2021, and 101,886 in 2022. These changes require BPR KS to continuously adjust its marketing strategies to stay competitive and maintain its position in the industry [30].

Recently, companies have shifted their focus from customer acquisition to retention and loyalty-building strategies, such as developing customer loyalty programs [1]. Customer satisfaction is crucial in fostering loyalty [5]. Research has shown that service quality and servicescape significantly impact the loyalty of online transportation users in Central Jakarta [24]. Additionally, customer satisfaction positively affects café customer loyalty in Padang [14], and customer loyalty strongly influences soft drink purchasing decisions in Makassar [11].

2 Literature Review

2.1 Service Quality

According to [2], service quality is determined by how well a service meets or exceeds customer expectations. These expectations are shaped by previous experiences, customer reviews, and advertisements [2][5]. To understand customer desires and expectations, companies often conduct marketing research, such as surveys or focus group discussions [2]. [7] identifies five dimensions of service quality in marketing: (1) reliability; (2) responsiveness; (3) assurance; (4) empathy; and (5) tangible evidence.

2.2 Servicescape

Zeithaml [10] defines servicescape as the physical environment in which services are delivered, encompassing the space where companies and customers interact, along with the tangible elements that facilitate service performance. According to [8], servicescape can be divided into three dimensions: (1) ambient conditions; (2) spatial layout and functionality; and (3) signs, symbols, and artifacts, such as decorations, signage, and other visual cues that help communicate a brand image or guide customers within the service environment. As explained by [3], since services are intangible and cannot be evaluated before purchase, companies use servicescape as a way to convey the quality of their service offerings.

2.3 Customer Satisfaction

According to [5], satisfaction is defined as the feeling of pleasure or disappointment experienced by an individual when they compare the perceived performance of a product or service with their initial expectations. Customer satisfaction is often measured through the Expectancy Disconfirmation Model, which evaluates performance in two dimensions: (1) instrumental performance, referring to the

functional or practical aspects of a product or service; and (2) expressive or symbolic performance, which pertains to the aesthetic or emotional aspects [9].

2.4 Customer Loyalty

Loyalty, as defined by [3], refers to a strong commitment to continuously use or repurchase a product or service in the future, even in the face of situational factors or marketing efforts that could influence consumer choices. Additionally, loyal customers are valuable assets for companies because they often engage in positive word-of-mouth marketing [6]. Tjiptono [8] describes loyalty in two dimensions: (1) behavioral and (2) attitudinal

With increasing competition among BPRs in West Java, as seen from the 224 BPRs registered in 2023, maintaining a competitive edge has become essential. BPR Karyajatnika Sadaya (BPR KS), a leading BPR with Rp. 2.21 trillion in assets in 2022, has experienced fluctuations in customer numbers and credit distribution between 2020 and 2022. This necessitates the adoption of new marketing strategies to retain customers. Recent trends in business indicate a shift from customer acquisition to customer retention and loyalty programs as a key competitive advantage [1]. Research shows that factors like service quality and servicescape—the physical and environmental aspects of service delivery—play a critical role in customer satisfaction and loyalty formation in various industries [5].

2.5 Proposition

This research includes five propositions that explain the relationships between the variables studied. [28] demonstrated that service quality has a significant effect on customer satisfaction at coffee shops in Bogor. Similarly, [20] study concluded that customer satisfaction at fitness centers in Depok is highly influenced by service quality, and that improving service quality will positively enhance customer satisfaction. [23] also found that service quality has a significant impact on customer satisfaction at Sharia hotels in Makassar. Based on the research conducted by [28], [20], and [23], it can be concluded that service quality positively and significantly affects customer satisfaction.

P₁: There is a positive and significant relationship between service quality and customer satisfaction at BPR KS.

According to [12] in their research findings, stated that servicescape have a positive effect on customer satisfaction at cafés in Sampit City. [22] in their study, concluded that servicescape have a partially positive and significant influence on customer satisfaction at restaurants in Solo Raya. Based on the studies by [12] and [22], it can be concluded that servicescape positively and significantly affect customer satisfaction.

P₂: There is a positive and significant influence of servicescape on customer satisfaction at BPR KS.

According to [15], in their research, revealed that providing customers with a better service quality experience leads to greater satisfaction and loyalty, establishing service quality as a foundation for customer satisfaction and loyalty. The findings of [13]

indicated that service quality has a positive and significant effect on customer loyalty at bank branches in Banda Aceh. Meanwhile, according to [19], service quality positively impacts customer loyalty at clinics in Bandung City. Based on the studies conducted by [15], [13], and [19], it can be concluded that service quality positively and significantly influences customer loyalty.

P₃: There is a positive and significant influence of service quality on customer loyalty at BPR KS.

According to [16], in their research, stated that servicescape have a positive and significant effect on customer loyalty at a toast shop in Tangerang. According to [26], servicescape have a significant impact on customer satisfaction for DAOP 8 Surabaya train passengers. Meanwhile, research by [21] found a positive but not significant influence of servicescape on the loyalty of SME customers in Lamongan Regency. Based on the studies by [16], [26], and [21], it can be concluded that servicescape positively and significantly affect customer loyalty.

P₄: There is a positive and significant influence of servicescape on customer loyalty at BPR KS.

According to research by [17], customer satisfaction has a positive and significant effect on the loyalty of e-commerce customers in the Special Region of Yogyakarta. [18] demonstrated in their study that customer satisfaction significantly influences the loyalty of customers at a logistics company branch in Denpasar. [25] stated in their research that customer satisfaction significantly impacts the loyalty of motorcycle users in Indonesia. Based on the studies conducted by [17], [18], and [25], it can be concluded that customer satisfaction positively and significantly affects customer loyalty.

P₅: There is a positive and significant influence of customer satisfaction on customer loyalty at BPR KS.

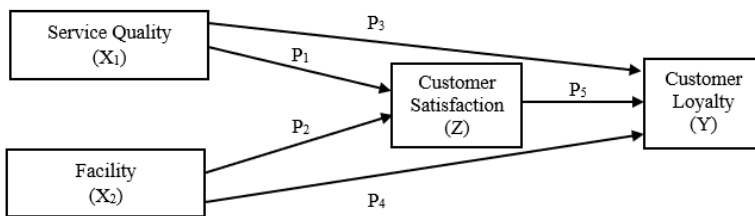


Fig. 1. Conceptual Framework depicting the relationships between Service Quality (X₁), Facility (X₂), Customer Satisfaction (Z), and Customer Loyalty (Y). Arrows represent the proposed paths (P₁–P₅) influencing customer satisfaction and loyalty.

3 Conclusion

3.1 Conclusion

Based on the aforementioned discussion, in order to maintain customer loyalty, particularly in the service sector where offerings are intangible and cannot be owned, it is essential to focus on service quality and facilities as added value that can be offered

to customers. This will lead to customer satisfaction, ultimately fostering loyalty toward a particular service or offering.

3.2 Recommendation

Further exploration of other factors that may influence customer loyalty is still needed.

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