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The Influence of Customer Satisfaction on Financial Performance through Customer Loyalty and Customer Advocacy Case Study of Indonesia's Local Brand Jusia Terjang

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From trade we makes every company create and improve their excellence in order to compete with the competitors to attract customer. Trust, Satisfaction and loyalty are powerful keys for the companies to survive because they are important indicators of the company's financial performance. Moreover, the level of customer advocacy also has a strong relationship with the financial performance. Advocacy itself is a special form of customer service where companies focus on what is best for the

customers. The purpose of this research is to determine the impact of customer satisfaction 14

to financial performance through customer loyalty and customer advocacy in various sectors companies in Indonesia. The samples are various sectors companies in Indonesia with criteria listed in the Indonesia Stock Exchange and to be listed in Indonesian Original Brands (IOB) in DIVA magazine. The number of companies that will be criteria are 12 companies with a 4-year research period. Besides the number of research sample is 52 firm-years. The analysis technique using Partial Least Square (PLS) approach. The results showed a positive

Impact of customer satisfaction is customer loyalty, customer advocacy, and financial performance. While customer loyalty 9

and customer advocacy has no impact to financial performance, but customer loyalty has positive impact to customer advocacy. Research—Indonesia original brands, customer satisfaction, customer loyalty, customer advocacy, financial performance. 1. INTRODUCTION Emerging the globalization market in ASEAN, known as ASEAN Economy Community (AEC), Indonesia has become the destination of many varieties of foreign brand since it was seen as a promising market. This was strengthened by the trend of the majority of the Indonesian people that has been contaminated with foreign brands. Therefore that each of entrepreneurs in Indonesia should be able to create and enhance the existing competitive advantage of their products or services. Literally, the local brand of Indonesia is not least when compared with foreign brands. Evidenced by some Indonesia original brand that are well known in the world markets, such as Indosat and Garuda. Based on data from the Indonesian Trade Association (ATI), since 2014 every year Indonesia has recorded an export value for its local brand/brands amounted to US \$ 6 billion. This indicates how local brands have been able to create customer satisfaction for local and foreign. Therefore,

customer satisfaction and loyalty is one of the keys to success for the company to be able to survive in the era of globalization [1]. Reference [2] mentioned that 26

non-financial performance such as customer loyalty and satisfaction 12

are an important indicator of the company's performance. This is due to the existence of customer satisfaction and loyalty will influence on the financial performance of the 2

company [3-5]. Reference [2,6] explained more details that the customer satisfaction and loyalty is a non-financial performance 27

indicator which used to measure the company's performance overall. While the customer advocacy is a form of a deeper relationship and specifically with customers through improving trust and higher commitment and embrace the customer as a company's responsibility to provide an open, honest and complete information. From the previous research conducted by [4] about the relationship of customer satisfaction, customer loyalty and customer advocacy against financial performance, discover the positive relationship between customer 4

loyalties to the company profitability. Gupta and Reference [8] also showed that customer satisfaction is an early indicator and forecast to improve the company financial performance. Reference [10] says that customer loyalty can become a competitive advantage for the company to be able to push the performance of the company relative to competitors. However, [11] also examined the impact of customer satisfaction on financial performance in the banking sector 5

It is shown, showed that customer satisfaction was not shown to improve the bank's financial performance. The result of these studies showed inconspicuous in the results of the impact of customer satisfaction on financial performance. 21

Therefore, customer satisfaction cannot be used as the sole factor to explain the financial business performance increment. A business person also needs to see how the impact of customer loyalty into financial performance. This is supported from research conducted by [12] in the banking sector which shows that customer loyalty can affect financial performance. Furthermore, [8] conducted a research on consumer use of the products of Starbucks, Chick-fil-A, Walmart, Whole Foods, Hobby Lobby and Nike. 17

The result of their research which is also supported by [13] indicates that customer advocacy affects company financial performance through customer loyalty. Conversely, a research conducted by [14] states that customer advocacy toward a product or service can have a negative long term relationship. The existence of differences in the results of previous research in different countries related to customer satisfaction, customer loyalty, and customer advocacy is 12

researcher to further examine these variables in the Indonesian context, particularly related to Indonesia's original local brand. It is important to contribute data over Indonesia's original local brand behavior to encounter AEC global competition. 8. LITERATURE REVIEW AND HYPOTHESES A

Customer Satisfaction in the business, customer satisfaction is seen as one of the dimensions of financial performance. Increase of customer satisfaction will generally lead to sales growth in the short and long term [15]. In otherwise customer dissatisfaction will bring a number of risks, such as the decrease in the level of sales, boycotts or protests from consumer organizations, government intervention, and the reaction of competitors and also the loss of substitute products to the market. Reference [7] explained there are four methods that are widely used to measure the level of customer satisfaction, the 27

complaints system and suggestion, ghost shopping, lost customer analysis and customer satisfaction surveys. 36

B. Customer Loyalty Reference [16] considered that customer loyalty can be measured from the tendency of consumer behavior in making purchases. If consumers make repeat purchases of a product or service in the same place it has to be used as loyal customers, but if someone makes purchases only once unless certain time then that person is considered as a not-loyal customer. Reference [17] said that customer loyalty is can be created through service improvement to meet customer needs entirely. According to [16], the customer can have the desire to buy more (delighted to pay more), or otherwise have a tendency to make the turn to other company (dissatisfied behavior). Reference [18] considered that a loyal customer has a high level of commitment, it means consumers will continue to consume a product (delighted to pay more) and will not switch to another product (dissatisfied behavior). C. Customer Advocacy Customer advocacy behavior concept was initially compared to the concept of customer loyalty when associated with the management of the company's relationship with customers, because in addition to making a purchase and accompanied it other people. The customer who has the behavior of advocacy will be the defender and increment of the production they consume [9]. Reference [20] mentioned that Customer Advocacy is able to prevent the company from negative word of mouth. According to [21], customer advocacy greatly encourage the company to create a brand that is desired by consumers. Advocacy is one of customer behavioral attitude to recommend to others in terms of product or service repurchase [22]. They are also explained the importance for companies to select and embrace the customer advocacy to be a loyal representation of the company. In this approach the 26

company must provide an open, honest and accurate information to customers, due to the concept of advocacy reflects honesty and the fact is that customers know the behavior of a product. D. Financial Performance One of financial performance benchmark is a business regression is profitability. Profitability as the classic measurement used to know the organization performance. Generally, profitability ratios include return on assets, return on equity and net profit margin [6]. 13

25. a. Net Profit Margin (NPM) Represented the size of the company's profitability from sales after deducting all costs and income taxes. b. Return on Asset (ROA) Represented the scale of all income of components measured by asset value. This ratio shows the earned financial productivity of the company, both the loan capital, as well as its own. The higher the value of RO, the more efficient the company manage its assets. c. Return on Equity (ROE) Shows the company's effectiveness in managing their own capital, measuring levels of investment profit that have done by the owner of capital or shareholders of the company. ROE indicate average rates of the company, the greater the value of the ROE, will be the average

relationship of Customer Satisfaction and Customer Loyalty Customer loyalty 3

is hard to be defended and it can be a point of reference of customer satisfaction in using a product or service from a company. Customers who are satisfied with a good or services, then it will often to use the product. This is the underlying customer loyalty will increase naturally due to the increasing of customer satisfaction (13,24,25). Reference [1] (website)

that customers who are satisfied with a product or service will be likely to recommend it 29

product or service provider, otherwise

if customers are not satisfied because of the poor quality of service or 24

products offered, or any other factors, then they tend to switch to other service provider or products. Some of the things above which equally influenced the following hypothesis: H1. There is influence of customer satisfaction toward customer loyalty. F. Indonesian Original Brands (IOB) Index IOB is an index published in the IOB magazine, a syndicated business magazine in Indonesia. Every year the magazine publishes the IOB index, it has become a national reference of the original brand of Indonesia. The variables in this research that uses the index of the IOB variables, which are customer satisfaction, customer loyalty, and customer advocacy. IOB research involved 5241 respondents taken from six of a big city (area) in Indonesia, which are: Jabodetabek, Medan, Bandung, Semarang, Surabaya and Makassar (2). G. The relationship of Customer Satisfaction and Customer Advocacy Reference (8) explain the customer satisfaction can be positioned at the base of the pyramid while advocating customer as the summation of the pyramid. Customer satisfaction will foster a trust so that customer advocacy is formed by itself when the customer received satisfaction consistently. Reference (2) also reinforces that advocacy becomes one of the preferred strategy for enterprises to make customers are able to in control of the company. Reference (27) in her research shows customer satisfaction can increase customer advocacy significantly. Reference (28) mentioned that customer satisfaction is able to improve the perception of consumers, it encourages them to promote it to others. Based on theory and the result of empirical research, it can be formulated as the following hypothesis: H2. There is influence of customer satisfaction toward customer advocacy. H

The relationship between Customer Satisfaction and Financial Performance According to 16

[25] (website)

customer satisfaction lead to accelerated cash flow, 42

sales volumes increased, as well as the reduction of the risk which related to the cash flow. Customer satisfaction lead to higher sales revenue and reducing operational costs (11, 12, 20, 31)

Satisfaction-profit-chain is a model which shows the relationship between customer satisfaction and 26

financial performance (22). This model considered that service performance will lead to increased customer satisfaction, which eventually produce a higher financial performance. Based on theory and the result of empirical research, it can be formulated as the following hypothesis: H3. There is an

Influence of customer satisfaction on financial performance I. The relationship between Customer Loyalty and Customer 25

Advocacy Reference (24) describe a customer loyalty is understood as the desire of the customer to buy products and continue the relationship with the provider. Customer loyalty is very important because it

has a positive impact on sales and customer retention, while advocacy is the customer 26

desire to give a strong recommendation and praise

for the manufacturer of a product or service to other customers. 39

According to (20), customer

loyalty is able to increase the commitment or the customer's trust with the 32

service provider, so that they are easy to recommend to others. Consumer behaviour theory asserts the existence of a difference between loyalty and advocacy, where customers are not not necessarily be advocacy, but customers who are truly loyal, likely to be advocacy. Santosa et al (2013) show that the customer loyalty recommends the direction of customer advocacy on the product service that were. Based on the explanation above, hypothesis can be formulated as follows: H 4. There is an influence of customer loyalty to customer advocacy. J. The relationship Customer Loyalty and Financial Performance Reference (24) stated that customer loyalty is the sign of the difference between a successful business and not. Customer loyalty gives a huge impact for the company, where the loyal customers would buy back the products/benefits the study meaning below (25). According to (20),

to the company's financial performance is 6

the future. Reference (4)

found a positive relationship between customer loyalty and financial performance in the 19

banking sector in particular in the Return on Assets (ROA). Reference (4) found that increased

one point in satisfaction (on a scale 41

of 1) will increase by 0.59% ROA. Based on theoretical and empirical research, it can be formulated hypothesis as follows: H 5. There is an influence of

customer loyalty against financial performance K. The relationship between Customer Advocacy and Financial Performance (Advocacy) is 4

the attitude of customers to give recommendations to others. Consumer behaviour theory asserts the existence of a difference between loyalty and advocacy, where customers are not not necessarily be advocacy, but customers who are truly loyal, likely to be advocacy. Santosa et al (2013) show that the customer loyalty recommends the direction of customer advocacy on the product service that were. Based on the explanation above, hypothesis can be formulated as follows: H 4. There is an influence of customer loyalty to customer advocacy. J. The relationship Customer Loyalty and Financial Performance Reference (24) stated that customer loyalty is the sign of the difference between a successful business and not. Customer loyalty gives a huge impact for the company, where the loyal customers would buy back the products/benefits the study meaning below (25). According to (20),

of customer satisfaction on financial performance through customer loyalty and customer 9

advocacy. This research is quantitative research with secondary data. To test the hypothesis,

this study using partial least square (PLS). To test the 1

hypothesis in this study used secondary data which the customer satisfaction, customer loyalty and customer advocacy data obtained from Indonesian Original Brand (IOB) which published in the business magazine SWA. While the financial performance (ROA, ROE, and NPM) using

data from the financial reports of companies listed on the Indonesia Stock Exchange 22

(BEI) year of 2011-2014. The measurement scale used in this research is ratio scale. The sample selection technique used is the purposive sampling, where the samples will be selected based on specific criteria. Research criteria are as follows: a. Number of companies according to the number brands registered in IOB (Indonesian Original Brands) in Medan and survived during the years of 2011-2014. Brand source under the same company will be considered as one sample representative. b. The company is registered

as a public company on the Indonesia Stock Exchange between the 35

years of 2011-2014. c. The company publishes its annual financial reports periodically from the year of 2011-2014. Based on above criteria, the following calculation results obtained: TABLE 1 The Sample Dimension Number of brands registered in IOB between 2011 - 2014 is 3 brand (1 Number of company not listed on BEI (1) Indosat Brand registered in BEI 21 brands (1 Brand source under the same company 8 brands Number of company's total sample 13 companies (13 Dimensional sources of 2011-2014) 4 items Number of observation 52 samples (4 samples (4 RESEARCH RESULT AND DISCUSSION) Total data used in this research are 52 samples (50 years), which are consists of 13 Companies with their years study period. To test the hypothesis of the study, used analysis Partial Least Square (PLS) with SmartPLS program. The following is the list codes from PLS analysis which is under heading: TABLE 2 The Value of Outer Loading Variable Indikator Outer Loading Customer satisfaction CS 1 Customer loyalty CL 1 Customer advocacy CA 1 Financial performance ROA ROE NPM 0.825 0.807 0.801 Table 2 above shows the outer loading value of each indicator on variable

customer satisfaction, customer loyalty, customer advocacy and financial performance. 46

all of which have a value of more than 0.50. This means that the relationship used in this research has met the convergency valid, and therefore could be used to create a model for research. TABLE 3 Outer Loading Value Indikator Customer Satisfaction Customer Loyalty Customer Advocacy Financial Performance CS 1 0.825 0.807 0.801 0.825 0.807 0.801 CL 1 0.825 0.807 0.801 0.825 0.807 0.801 CA 1 0.825 0.807 0.801 0.825 0.807 0.801 ROA 0.188 0.188 0.188 0.026 0.026 0.026 NPM 0.352 0.352 0.352 0.352 0.352 0.352 Table 3 shows the value of the indicator variable cross loading at

customer satisfaction variable, customer loyalty, customer advocacy and financial performance. From the

11

value proved in hold can be seen that the value of cross loading has met the discriminant validity since the variable formed have the greatest value of the cross loading. TABLE 4 Discriminant Validity Tested with AVE from Variables AVE AVE Root Correlation between Variables C2, C3, C4, C5, C6 Customer satisfaction (C2) 1 C3 1 Customer loyalty (C3) 1 C4 0,429 1 Customer advocacy (C4) 1 1 C5 0,618 0,724 1 Financial Performance (FP) 0,807 0,698 0,305 0,125 0,092 1 Table 4 above shows that each

customer satisfaction variable, customer loyalty, customer advocacy and financial performance have the

11

greater AVE roots value compare with the value of the correlation of other variables in the model, therefore

It can be inferred that the variable customer satisfaction, customer loyalty,

5

customer advocacy and financial performance has had good discriminant validity. TABLE 5 Composite Reliability Value Variables Composite Reliability Customer satisfaction 1 Customer loyalty 1 Customer advocacy 1 Financial performance 0,905 Table 5 above indicated that the composite reliability value from each research variable has value more than 0,70.

therefore it can be concluded that each customer satisfaction variable, customer loyalty, customer advocacy and

7

financial performance have met the composite reliability. TABLE 6 R-Square Value Variable R-square Customer satisfaction - Customer loyalty 0,184 Customer advocacy 0,039 Financial performance 0,117 The value of R-Square for the customer loyalty variable is 0,184 has the same first percentage magnitude influence customer satisfaction toward customer loyalty is 18,4%

while the rest is 81,6% explained by other variables. The

6

R-Square value for customer advocacy is 0,039 have a sense that the magnitude of the influence of the percentage

of customer satisfaction and customer loyalty towards the customer

5

advocacy is 63,9% while the rest of 36,1% explained by other variables. The value of R-Square for variable financial performance is 0,117 has the meaning that the percentage

of the magnitude of the influence of customer satisfaction,

2

customer loyalty and customer advocacy against financial performance is 11,7%

while the rest is 88,3% explained by other variables. From the results can be concluded that

6

the biggest predictor for customer loyalty is customer satisfaction. However both of the customer satisfaction and loyalty is only 11,7% influence the financial performance. It means, there are many variables that still can explain the financial performance for Indonesia Original Brands (OB) context. On the PLS model, assessment of goodness of fit is known from Q2 value. Q2 value had the same meaning as determination coefficient (R-Square) in the regression analysis, where the higher the Q2, then the model can be said to be more fit with data. From the result of the calculation, it determined that Q2 value was 0,7462, meaning a good

diversity of research data can be explained by the structural model

21

developed in this study is 74,62%. TABLE 7 Coefficient Path and Statistics Through Arise Variable Original Sample (S) Statistics Customer satisfaction - Customer loyalty 2,622 0,020 Customer satisfaction - Customer advocacy 0,377 3,358 Customer satisfaction - Financial Performance 0,405 2,613 Customer loyalty - Customer advocacy 0,565 4,066 Customer loyalty -

Financial Performance 0,137 0,513 Customer advocacy - Financial Performance -0,

16

257 1,009 The value of customer satisfaction impact coefficient against customer loyalty is 0,429 with t-statistic 2,622 (p<1,96). This indicates the existence of

a positive and significant influence between the customer satisfaction toward customer loyalty.

1

Therefore the higher customer satisfaction on a

product or service of the company, the customer

6

will be more loyal towards a

product or service from the company. Therefore, the

6

test hypothesis suggested

that customer satisfaction has an influence on customer loyalty, on the

5

company's various sector in Indonesia can be supported. The coefficient value of customer satisfaction impact to customer advocacy is 0,377 with t-statistic 3,358 (p<1,96). This shows

there is a positive and significant influence between the customer satisfactions against customer

1

advocacy, the higher the customer satisfaction on product or services of the company, then the customer advocacy will higher towards the company's product or service, which is mean H2 is supported. The coefficient impact value of

customer satisfaction to financial performance is

2

0,405 with t-statistic 2,613 (p<1,96). This shows

there is a positive and significant influence between customer satisfaction against financial performance, the higher the customer satisfaction

16

on product or service of the company, it will increase the company financial performance, which is mean H3 is supported. The value of the coefficient influencing customer loyalty towards the customer advocacy is 0,562 with t-statistic 4,066 (p<1,96). This shows there is

a positive and significant influence on customer loyalty against customer advocacy, the higher customer

7

loyalty over the company's product or service, then customer advocacy will be more increase in the company's product or service.

Based on the results of the fourth hypothesis of the research

20

pressure that customer loyalty has an influence on customer advocacy at various company sectors in Indonesia are also supported. The value of the coefficient influence customer loyalty towards financial performance is 0,137 with t-statistic 0,513 (>1,96). This shows the influence of customer loyalty towards the financial performance is not significant, the higher customer loyalty over the products or services of the company, will have no significant impact on the rest against the increase in the financial performance of the company, which is mean H5 is not supported. It can be inferred that customer loyalty require providing the intervening variable impact on financial performance. Other analysis can also occur as revealed by The company must be able to gain loyalty programs against the customer, do not let the program impact reduce the company's financial performance, that resulted in an increase in sales. But that could do to customer loyalty will not able to boost financial performance significantly because ultimately profit organization did not experience an increase [37]. The value of the coefficient influence customer advocacy toward financial performance is -0,221 with t-statistic 1,002 (<1,96). This shows the influence of customer advocacy against financial performance is not significant, the higher the customer advocacy over the company's product or service not significant impact on the company's financial performance, which is mean H6 is not supported. Strauch (2007) concluded that customer advocacy for products or services can affect sales

In the short term, but in the long term, the program is

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able to improve customer advocacy sales, when balanced with the considerable cost, it will be less real impact towards the improvement of the company's financial performance. V. CONCLUSION AND RECOMMENDATIONS The research uses customer satisfaction independent variables, while the customer loyalty and customer advocacy variables is the intervening variables. The dependent variable in this research is financial performance as measured used ROA, ROE, and ROF. Hence a suggestion for companies and further research is: To maintain or even improve the performance of the finance, the company should more focus on a customer satisfaction, which already proved that customer satisfaction on customer loyalty and company's financial performance through customer loyalty. The company requires making an improvement in customer satisfaction and customer loyalty with more efficiency in cost. Improvement program for loyalty and advocacy should be designed with minimal cost, in the term to increase in sales, as a result from the effective loyalty and program. C. On the next research can add other intervening variables that also give an impact on financial performance, such as leadership, employee satisfaction etc. This research has its limitations since it uses only indexes of customer satisfaction, loyalty and advocacy as the predictor or profitability. REFERENCES [1] Blocher, E., Smith, D. E., Juran, P. E., and Collins G. (2013), Cost Management: A Strategic Approach (9th ed.), 101 McGraw-Hill Company. [2] Davis, R. E., and Virgitz, W. F. (2004), Determinants of customer loyalty toward financial performance. Journal of management accounting research, vol. 16, no. 1, pp. 183-205. [3] Lee, B. and Zaverim, P. (1996), The Boundaries of Financial Reporting and How it Exceeds Them (Eprint Summary), Journal of Accounting research, vol. 37, no. 2, pp. 263-280. [4] Holwell, R. (1996), The relationships of customer satisfaction, customer loyalty and profitability: an empirical study. International Journal of Service Industry Management, vol. 7, no. 4, pp. 27-42. [5] Baskerville, K., Sivaraman, T., and Gilmore, C. (1994), Managing customer relationships for profit: the dynamics of relationship quality. International Journal of Service Industry Management, vol. 5, no. 3, pp. 21-38. [6] Doshier, M. D. and Supp, D. W. (2014), Conceptualizing and Measuring Corporate Social Advocacy Communication: Examining the Impact on Customers' Financial Performance. Public Relations Journal, vol. 8, no. 3. [7] [8] Kiefer, P. and Kiefer, K. L. (2005), Manipulating and Measuring Corporate Social Advocacy. Public Relations Journal, vol. 8, no. 3. [9] [10] Loken, C. L. (2005), Customer Advocacy: A New Era in Marketing. Journal of Public Policy & Marketing May 2005, vol. 24, no. 1, pp. 155-159. [11] Yousif, U. (2014), Correlates of customer loyalty to financial institutions: a case study. Journal of Consumer Marketing, vol. 31, Issue No. 3, pp. 219-227. [12]

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