

# The Role of Communication Effectiveness, Service Quality, Relationship Quality on Developing Customer Loyalty in Enterprise Service Division PT. Telkom Indonesia Tbk.

Ikka Novitasari

**Abstract.** This study aims to investigate the effect of communication effectiveness (CE) on service quality (SQ) and relationship quality (RQ) leading to customer loyalty (CL) in the context of a professional service where customers have difficulty in evaluating service quality confidently, even purchase, and consumption. CE was decomposed into frequency, bi-directionality and quality of communication while SQ was decomposed into functional and technical qualities, RQ into trust and relationship commitment, and CL into attitudinal and behavioral loyalty. The impact of seven key of explanatory variables is examined. The result supports the hypothesized model and shows that good CE with three dimensions can impact directly to SQ, but there is no influence of communication frequency to technical service quality. The dimension of RQ, relationship commitment has no influence on attitudinal loyalty but has a strong influence on behavioral loyalty. Detailed findings imply that quality and bi-directional SQ communication is more critical than frequency communication. Technical and functional SQ influencing the RQ. Trust and relationship commitment mediate the mutual influence on CL.

**Keywords.** communication effectiveness; service quality; trust; relationship quality; customer loyalty.

## I. INTRODUCTION

Marketing Unit is one of the important division in a company (Kotler & Philip, 2009). Telkom is a very much aware of the importance of the field of marketing, therefore, by focusing on the winning of a tight telecommunication industry competition, Recently, Telkom has divided their customer into 3 (three) large segments namely, Personal Customer, Corporate Customer and other Licensed Operators (OLO). In business services such as Telkom, customer and employees of the company are located in the front line to interact each other by creating services. As the result, effective interaction depends on the expertise of the services employees in the front line and accompanied process that supports employees. Therefore, in order to succeed, services company must focus on both of the customer and employees. Services companies must understand the service-profit chain which connects service-profit chain with employees and customer satisfaction.

Telkom has divided their operational customer service into 2 (two) main fields namely *Distribution Center (DC)* as the unit which is located on the front line and interact directly with the customer and capture customer needs and *Product Owner (PO)* as supporting unit that provides a service that is needed by the customer. In the management of *corporate customer (CC)*, Telkom establishes the division of Enterprise, Government and Business Services (EBIS) as the distribution center (DC) which interacts directly with Corporate Customer (CC).

The character of EBIS customer management is different with personal customer, Account manager (AM) is Telkom front liner employees which interact directly with Corporate Customer (CC) At the beginning of every year, it has been agreed upon the number of CC which has been managed by the EBIS and divided into 3 segments *Enterprise*, *Government*, and *Business*. Customer Enterprise as much as 1285 of CC, Government 1245 of GC and Business 1.072.875 of BC. The number of customer or *customer base* on the Division of *Enterprise Services (DES)* who manages the *High-End Market (HEM)* is determined and cannot be increased again, means the addition of *revenue* can only be done by increasing Telkom share *revenue* on every managed CC (*Farming*). Therefore, customer

loyalty determining the performance of EBIS. Although only managing 10% of the EBIS total customer ,yet ES share *revenue* segment is 58 % of the total EBIS *revenue*, this is due to the large *revenue* from the average CC customers of cluster 1 and 2 compare to the cluster 3. Therefore, it is an important to maintain the *corporate customer loyalty*,in order to keep the stability oreven increase the *revenue*.

The determination of *Key Performance Indicators (KPI)*as the measurement of success which is clearly *stated in the management contract*. *KPI that will be the basis for assessing performance for your account manager (AM)* are:

1. *Revenue* targets can be in form of revenue sustain,scaling, net revenue or gross revenue.
2. *Sales Target* for various products and solutionsTelkom Group.
3. *Collection Target Rate*.
4. *Customer Satisfaction Index Target*.
5. *Customer Loyalty Index Target*.

Management contract (KM) is the document that contains the target of KPI AM, KM is required to be signed by AM concerned and become the basis for the general evaluation in achieving its performance.

Telkom applied the *Customer Satisfaction and LoyaltySurvey (CSLS)* in order to know the perception and customerexpectations toward Telkom services There are several factors that become reason from the result of recapitulation which has shown the declines of CC from selecting Telkom as the *service provider* in a previous year. One of the factors thathave been strong reasons for the customer to choose Telkom is because they had a is high-quality products, In 2015 survey showed a significant decrease from the previous 49,78% become 22,51%. In addition to the other factors, the level of trust from qualified *after sales*,quality guarantee or *ServiceLevel Guarantee (SLG)* are declining, thus the available of *Account Manager (AM)* and trouble investigation isnecessary.

*Customer satisfaction, relationship dimension* and *customer loyalty* also is also measured every year. From theresults of the survey is also obtained the reduction of *customersatisfaction index, relationship dimension* and also *customer loyalty index* during the last two years. From the results of theCSLC, it can be seen in the year of 2015,CSI DES decline is greater than the CSI industry, with -2,45 %,yet it is still above the CSI industry. RDI data shows improvement occurs at *shopper* level and *client*. Meanwhile,the level of *partner and advocate* are declined. This indicates a decline in *relationship quality (RQ)*. The CLI in 2015 is also showed a decline, evenunder the CSI industry which increased.

From the summary of the CSLS *voice of customer* results, it can be known that the customer expectation is the update information in within Telkom service utilization. This will be directly related to the quality of service, if the information is reinforced in a good way, it will support the *service quality*. *Service quality (SQ)* consists of two maincomponents, namely *technical quality* (core service or services what is delivered to the customer) and *Functional ServiceQuality* (how such services delivered) (Gronroos, 1983;Parasuraman et al. 1985). *Technical Quality* related to the actual results from the *core service* felt by the customer (Locelock, 1996). How Telkom can understand all these perceptions and expectations of the customer if there is no good communication between AM and customer. AM willfind difficulties in obtaining the information needed from the customer if there is no trust from the customer toward AM. How AM can obtain customer trust, until finally, AM can build a *relationship* with the customer, which can create customer loyalty, these are things that will be sought from this research.

Based on the literature study that has been done, there are numbers of journals which support this research because the condition of the research object is similar. One of them is the journal written by Lee, Lee, and Park (2013) about "*Communication effectiveness on IT service relationship quality*". The similarity between the journal with this research is the relationship between IT experts and its clients with the relationship between AM and CC which they have managed. In the journal written by Park. et. All (2013) has been discovered *the influence of independent variables communication effectiveness (CE) and service quality (SQ) against relationship quality (RQ) on dependent variables*. While in this research RQ is being used as independent variables, where its dependent variable is customer loyalty. The adding of this variable is done in accordance with the journal that was written by Giovanis, Athanasopoulou, and Tsoukatos (2014), "*The role of service fairness in the service quality-relationship quality-customer loyalty chain*". The addition of this dependent variable is because the number of DES customer base has been assigned to be managed, then, the *customer loyalty* is important for DES.

## II. PROBLEM STATEMENT

From the exposure of the background on the subchapter 1.2, the formulation of the problem of this research are as follows:

1. The number of *corporate customer* that are managed by the division of Enterprise Services (DES) has been determined and defined as the customer base CC. This CC and all of its affiliates can be managed by the DES, so that, the *revenue* target can be fulfilled. The biggest obstacle in making the *revenue* grow is that the number of CC that cannot be added during recent years as well as an efficiency that was done by each company including telecommunication expenditure.
2. Good *Relationship* between the AM and CC can provide new opportunities to increase *revenue*. Customer satisfaction on Telkom services is also expected to be able to increase customer loyalty and making the enhancement on Telkom service expenditures which are very influential on the achievement and DES growth *revenue*. DES through AM is not selling products or services, but to build the relationship with the customer so that they can know the *value chain* ecosystem of customer business and provide the solution and innovation that which can be value added to the development of the customer business and increasing Telkom share *revenue*.
3. Effective communication between AM with the customer is required, AM can understand customer business process better. The provision of an appropriate solution can improve *The Quality Service* and build *Relationship Quality* along with *Customer Loyalty*.
4. According to the results of the *literature review* that have been done on the model of the research done by the Park. et al (2013) on IT companies where bi-directional and the quality of communication has a significant impact on the *service quality* both technical and functional. While the frequency of communication did not affect significantly against the *service quality*. *Service quality* significantly affect the level of trust in the customer both technical and functional though not directly influence the commitment of a relationship. But the level of trust in the customer significantly effect on relationship commitment. Because the relationship between system between AM and CC with IT experts and its clients have similarities, then there is a research question on the influence of effective communication to the *service quality -relationship quality*. However, this research adds the customer loyalty variable as the final dependent variables by referring to the research Giovanis et al (2014).

### III. RESEARCH FRAMEWORK

On services company where services are felt by the customer is an intangible service, the service delivered is knowledge-based professional services. Effective communication in the whole process is playing a critical role to get the trust of the customer and also a long-term commitment. Trust and commitment depending on the perception of the quality of the service provided (de Brabander & Thiers, 1984; Sharma & Patterson, 1999; Masey & Kyriazis, 2007; Park et al. 2012). Based on the review of the service and relationship research (Aurier & Goala, 2010) concluded that the cause of the establishment of the relationship in marketing on services industries and encouraging the relationship quality is service quality and customer satisfaction.

#### 3.1 Transactional dan Relation Marketing

The differences between *transactional marketing* and *relationship marketing* mentioned by Gronroos (2000) which is stated as *marketing strategy continuum* refer to table 2.1. The approach of *relationship marketing* is a long-term type, while *transactional marketing* is used to get the customer (Christopher, 1999:9). Keeping the customer is more important because the cost is smaller than the cost to get new customers (Kotler, 2000). This concept is a shift from the concept of the previously known with "focus on single sale" *transactional marketing* that focus more on the exchange.

Meanwhile, "focus on developing 6 relational exchange" *relationship marketing* is concentrate more on building relationships based on the values and marketing network (Christopher, 1991). "*Relationship marketing refer to all activities directed toward establishing, developing and maintaining successful relational exchange*", the basic concept of *relationship marketing* is all forms of exchange activities with the emphasis that build and maintain long-term relationships with the customer (Morgan & Hunt, 1994).

*Relationship marketing* aims to build customer loyalty because customer loyalty will increase revenue that culminated in the improvement of profitability. The process of the development of the relationship caused the emergence of some levels in *relationship marketing* which affect on the level of profit obtained the company (Kotler, 2003:77).

#### 3.2 Communication Effectiveness

Communication is a very important and needed in making the decision process more effectively (Dhawan, 2002). The communication also connects the organization with the external environment of the company, because each member of the organization must be concerned with the interests of all *stakeholders*, the availability of supplier and *community* related to the organization. The communication process is the psychological process that most complex. Communication can be defined as a series of the process in the group to share and gather information with the aim of promoting the interest of the general public. Communication behavior associated with the exchange and sharing of information to improve the effectiveness of the organization (Tzafir, Harel, Baruch & Ayo Dolan, 2004). Communication at the IT company also applies the interaction between the IT experts and clients in the environment of IT services. De Brabander and Thiers (1984) conclude the effective communication between IT experts and clients contributing to improving customer satisfaction in the development process of an information system.

Massey and Kyriazis (2007) measure the three dimensions in the effective communication, namely: *communication frequency*, *bi-directional communication* and *communication quality*. Communication frequency refers to the number of the communication activity per unit of *communication Effectiveness* (CE) at a time, while bi-directional communication defines the level of success of the process of delivering information in two-