

Building Loyalty of Customs Bond Customer in West Java

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1 Building Loyalty of Customs Bond Customer in West Java

Indonesia

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1 Abstract

The aims of this research were to analyze and recognize the effect significance of product quality, agent competency, and trust to company on the loyalty of customs bond customer in West Java. The research was conducted by survey method to the customers of customs bond users in West Java. The research population was 238 importers and the sampling used purposive random sampling of 173 samples. The data collection technique used questionnaire and documentation. The data analysis used Structural Equation Modeling. The research results show that product quality and agent competency had significant effect on trust to company. Besides, product quality, agent competency, and trust to company had significant effect on customer loyalty. This research also shows that product quality and agent competency had indirect effect on customer loyalty through trust to company's agent. The conclusion of this research shows that it is necessary to improve product quality and agent competency to improve customer loyalty.

Keywords: quality, competency, trust, and loyalty

1. Introduction

Since the enactment of Law No. 2 of 1992 on insurance business in Indonesia, Jasa Raharja Insurance was initially appointed by the government to be the single agent in selling customs bond product and to be reverted to the initial business as social insurance so that it did not sell customs bond product anymore. Then, the Government of the Republic of Indonesia provided a permit to general insurance companies having the licenses to sell customs bond product to businesses (importers) freely. Until September 30, 2010, the Government, through the Minister of Finance Decree number KEP-565/KM.10/2010, had issued the licenses to 38 general insurance companies to sell customs bond product. Consequently, the competition among insurance companies is getting tighter. Customs bond is a kind of bonding which is recently favored by businesses (importers). Customs bond product is commonly called the guarantee of duty payment, which is a kind of insurance guarantee provided by an insurance company in assuring the possibility of importer's failure to pay to obligee (tax authority). Customs bond is needed since the customs regulation in Indonesia requires that all goods imported to be used in Indonesia are dutiable, except the ones are strictly freed in the regulation. Commonly, the use of customs bond is allowed by the Government concerning the presence of incentive element to business persons and the stimulation to increase export-import activities.

One of potential areas to market customs bond product is West Java Indonesia regarding the fact that many industrial areas located in West Java be the places of businesses as the potential customers of customs bond insurance. In other hand, the other fact is the increase of customs bond business return that can be seen from the increase of premium revenue (service cost) in 2011. Total premium revenue (service cost) increased by 16% compared to that in 2010. It indicates the presence of the opportunities of potential market and prospect which tends to increase in the upcoming periods. In addition, it is also a challenge of tighter competition among insurance companies in maintaining and taking over customs bond customers. In this research, the insurance companies examined were the insurance companies who provided customs bond product in West Java in which the customs bond product was marketed to assure the duty for imported goods in specific with the criteria that this customs bond insurance can be used when the local customs policy authority permits the imported goods to get in although the duty is not paid by the importer, and with the condition of the availability of insurance to local government. The customs bond includes the promise that the importer will fulfill his obligation to pay the duty for the goods, and if the importer as Principal is not able to fulfill his obligation, it will be taken over by an insurance company. The criteria is suitable for the customers in West Java who are commonly the importers who can use customs bond because they have good efficiency report and import characteristics so that they get the suspension facility with the assurance of insurance companies of local customs policy authority.

Recently, the business customs bond development concept is directed to create and maintain customer loyalty. The underlying reason is that loyal customers can improve competitiveness and profitability achieved by

company. In other hand, customers feel assured against the risk of service quality and the good procurement as well as reducing the cost to find the services needed. Conversely, disloyal customers or devolving to a competitor because of their disappointment to the quality of services and tell their disappointment to others of influence people not to buy the services of the insurance company so that it affects on the level of profit achieved by the company in long term. There was a tendency, based on empirical data, that the success of an insurance company to attract and maintain customers currently is related to the roles of the company's salesperson (agent) in communicating customs bond service products to future customers or existing customers so that they believe and use the service. It means that there are two main factors influencing customer trust to company, i.e.: agent competency and product quality. Customs bond is a insurance production system which does not produce tangible product and can be saved for future consumption. The output of such a system is called service consumed at the same time as the production process. The input of a service production system is the consumer alone. The production process that changes input into output consists of manpower, technology, information, and so forth. The output of a customs bond service system is client who feels safe from risk that might happen to him.

Theoretically, it shows that the success of a company to build and maintain customer loyalty is influenced by several things, such as: product quality, salesperson's competency (agent), and customer trust to company or brand (Robert and Wang, 2004; Chen, 2006; Othman et al., 2006; Cater and Cater, 2009; Sharma, 2009). Based on the background above, the author conducted a research on the issue of the **Loyalty of Customs Bond Customer in West Java** with the exogenous variables of Product Quality and Agent Competency, and the endogenous variables were Trust to Company and Customer loyalty.

2. Methodology

This research was a quantitative research (non experimental) through cross sectional approach to identify the effect of product quality and agent competency on customer trust to company and the effect of product quality, agent competency, and customer trust to company on customer loyalty.

The aims of this research were to recognize the effect of product quality and agent competency on customer trust to the insurance companies that provide customs bond product service, and to recognize the effect of product quality, agent competency, and customer trust to company on the loyalty of customs bond insurance customers. This research was conducted using survey method to the insurance customers of customs bond insurance in West Java, Indonesia. The research population was all customers who hold customs bond insurance certificate in West Java (283 customers). The sampling used purposive random sampling, and the number of samples was 173 importers.

The analysis unit in this research was the importers who hold customs bond certificate with the sample criteria determined as follows: (1) customer as the decision maker in buying customs bond, (2) the payment of service cost (premium) is good, (3) having an interaction with agent and company's staffs, (4) having been the customer of customs bond product for at least 1 year. Before sampling was conducted, the importers were firstly grouped based on the types of commodity imported. The data collection used questionnaire and documentation techniques. The use of documentation techniques was to get the secondary data of the general condition and the development of insurance in West Java based on the Central Agency of Statistics (BPS) of West Java Province, Indonesia. The use of questionnaire was to get the primary data from the research subject (importer) on the variables to measure. The data analysis method in this study used the analysis technique of SEM (Structural Equation Modeling) using the program of AMOS 16 (Analysis of Moment Structural) (Ferdinand, 2005).

3. Results and Discussion

The characteristics of respondents indicate that the age of respondents varied between 34 to 63 years old with an average age of 45.2 years old. This means that the respondents in West Java in general were still young and in the age group of energetic and highly productive. The level of education in general was Bachelor Degree (S1). With a minimal level of education of high school, it will support the importers to carry out their business management.

Most of the respondents had their working experience from 5 to 15 years. When viewed from their productive age period and working experience, it indicates the importers' level of productivity tend to be high in West Java. When it is related to the aims of this study to determine the loyalty level of import insurance customer, the importers were quite appropriate to be the respondents considering their long working periods in running import business.

Based on the structural model in the theoretical framework using the primary data obtained from the research results to 173 importers and processed using the program of AMOS version 16, the results of Structural Equation Modeling (SEM) were as follows:

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Table 1. The test result of Goodness of fit overall structural model

No.	Index	Cut-off	Results	Remarks
1	Chi-Square	Small	128.991	Small
2	Chi-Square Probability	≥ 0.05	0.894	Fit
3	CMIN/DF	≤ 2.00	0.882	Fit
4	RMSEA	≤ 0.08	0.000	Fit
5	TLI	≥ 0.90	1.021	Fit
6	CFI	≥ 0.90	1.005	Fit
7	HOELTER	≥ 2.00	240	Fit
In general				Fit

Source: Ghozali (2008) and the analysis result of 2012.

The test results of goodness of fit as shown in Table 1 summarize that the SEM model meets cut-off and the results of the analysis meet the criteria of goodness of fit. Then, it can test the significance of the functional relationship between the exogenous variables and the endogenous variables. The test was conducted partially by using the value of critical ratio (c.r.) and probability (p) on the regression weights, as presented in Table 2.

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Table 2. The Estimation Results of Structural Model

Dependent Variables	Independent Variables	Estimate	S.E.	C.R.	P
Trust to Company	<--- Product Quality	0,583	0,087	5,723	***
Trust to Company	<--- Agent Competency	0,391	0,083	6,155	***
Customer loyalty	<--- Product Quality	0,282	0,086	2,732	0,001
Customer loyalty	<--- Agent Competency	0,294	0,049	4,720	***
Customer loyalty	<--- Trust to Company	0,592	0,092	6,346	***

Source: The analysis results of the primary data, 2012.

Product Quality to Trust to Company

The SEM analysis resulted in the path coefficient of the direct effect of product quality on importer trust to company of 0.583 with the value of critical ratio of 5.723 and the probability of 0.000. This means that the higher the quality of a product, the higher the importer's trust to company; it will conversely occur when the product quality is lower; with the assumption that the other factors that affect the importer trust to company are considered constant. The quantity of these effects was statistically significant at 1% significance level. Thus, the hypotheses stating that product quality has direct effect significantly on importer trust to company was in the direction of positive influence, supported by the empirical evidence in accordance with the findings of this research. The effect significance of product quality on importer trust to company was in line with the theoretical concepts referenced in this research (Chen, 2006; Robert and King, 2004), and also consistent with the research results of Cater and Cater (2009), Sharma et al. (2009). The effect significance of product quality on importer trust to company was one of the answers in an effort to improve importer trust to company. That means the factor of product quality is important to be considered or can be used as the policy instrument in affecting importer trust to company.

Agent Competency to Trust to Company

The path coefficient of the direct effect of agent competency on importer trust to company was 0,394 with the value of critical ratio 6,155 and the probability 0.000. This study shows that the higher the agent competency, the higher the importer's trust to company; it will conversely occur when the agent competency is lower; with the assumption that the other factors that affect the importer trust to company are considered constant. The quantity of these effects was statistically significant at 1% significance level. Thus, the hypotheses stating that agent

competency has direct effect significantly on importer trust to company was in the direction of positive influence, supported by the empirical evidence in accordance with the findings of this research.

Based on the results of this study obtained information, the effect significance of agent competency on importer trust to company was in line with the theoretical concepts referenced in this research (Othman et al, 2006; Robert and Wang, 2004) and also consistent with the research results of Yu and Hui (2009). The the factor of agent competency is important to be considered as the policy instrument in affecting importer trust to company.

Product Quality on Customer Loyalty

The results of this study indicate that the path coefficient of the direct effect of product quality on customer loyalty of 0,285 with value of critical ratio of 2,732 and the probability of 0.001. The next results of this study can be explained that the higher the quality of a product, the higher the customer loyalty; it will conversely occur when the product quality is lower; with the assumption that the other factors that affect the customer loyalty are considered constant. The quantity of these effects was statistically significant at 1% significance level. Thus, the hypotheses stating that product quality has direct effect significantly on customer loyalty was in the direction of positive influence, supported by the empirical evidence in accordance with the findings of this research. The effect significance of product quality on customer loyalty was in line with the theoretical concepts referenced in this research (Chen, 2006; Robert and Wang 2004) and also consistent with the research results of Cater and Cater (2009), Ou et al. (2011). Based on the analysis results and the first and second hypothesis testing, it can be concluded that the changes of product quality will affect directly on customer loyalty with the coefficient of direct effect of 0,16, and indirectly through the trust to company with the coefficient of indirect effect of 0,276. Thus, the total effect of product quality on customer loyalty was 0.487 in the direction of positive effect. The effect significance of product quality on customer loyalty was one of the answers in an effort to improve customer loyalty to company. In order words that the results of this study recomend that the factor of product quality is important to be considered as the policy instrument in affecting customer loyalty to company.

Agent Competency on Customer Loyalty

The influence on customer loyalty agent competency in product sales of customs bond can be explained with reference of the results the path coefficient of the direct effect of agent competency on customer loyalty of 0,294 with the value of critical ratio of 4.720 and the probability of 0.000. This means that the higher the agent competency, the higher the customer loyalty; it will conversely occur when the agent competency is lower; with the assumption that the other factors that affect the customer loyalty are considered constant. Given the significance level of the results of this study were 1%, it can be the hypotheses stating that agent competency has direct effect significantly on customer loyalty was in the direction of positive influence, supported by the empirical evidence in accordance with the findings of this research. This was in line with the theoretical concepts referenced in this research (Othman et al. 2006; Robert and Wang, 2004), and also consistent with the research results of Colwell et al. (2009), George and Guenzi (2004) . Based on the analysis results and the hypothesis testing, it can be concluded that the changes of agent competency will affect directly on customer loyalty with the coefficient of direct effect of 0.257, and indirectly through the trust to company with the coefficient of indirect effect of 0.186. Thus, the total effect of agent competency on customer loyalty was 0.443 in the direction of positive effect. Basing the results of this research can be explained that the agent competency factors need to be considered by insurance companies as an instrument in making policies related to consumer loyalty to the company.

Company Trust on Customer Loyalty

Company trust to customer loyalty in this study can be explained by observing the path coefficient of the direct effect of importer trust to company on customer loyalty was 0,592 with the value of critical ratio 6,346 and the probability 0.000. This suggests that the higher the importer trust to company, the higher the customer loyalty; it will conversely occur when the importer trust to company is lower; with the assumption that the other factors that affect the customer loyalty are considered constant. The quantity of these effects was statistically significant at 1% significance level. Thus, the hypotheses stating that importer trust to company has direct effect significantly on customer loyalty was in the direction of positive influence, supported by the empirical evidence in accordance with the findings of this research. The effect significance of importer trust to company on customer loyalty was in line with the theoretical concepts referenced in this research (Chen, 2006; Robert and Wang 2004) and also consistent with the research results of Cater and Cater (2009), Ndubisi (2007), Ogba and Tan (2009). The effect significance of importer trust to company on customer loyalty was one of the answers in an effort to improve customer loyalty to company. The implications of these results were that the factor of

importer trust to company is important to be considered or can be used as the policy instrument in affecting customer loyalty to company.

Overall, the functional relationship model of customer loyalty to the insurance companies shows that product quality and agent competency has direct effect significantly on customer loyalty to company and has direct effect through customer trust to company in the direction of positive effect. The implication of the research results is that product quality and agent competency can be used as the policy instruments or variables in affecting customer loyalty to company, either partially or jointly. The intensity of the use of the two independent variables, of course, depends on the target of customer loyalty level at which the company wants to achieve.

4. Conclusions

Based on the analysis, it can be concluded that that product quality and agent competency have direct effect significantly on customer trust to company in the direction of positive influence. This means that the higher the product quality and/ or agent competency, the higher the customer trust, and vice versa.

Product quality, agent competency, and customer trust to company have significant direct effect on customer loyalty in the direction of positive effect. This means that the higher the product quality, agent competency, and/ or customer trust to company, the higher the customer loyalty, and vice versa. Besides, product quality and agent competency have indirect effect on customer loyalty through customer trust to company in the direction of positive effect.

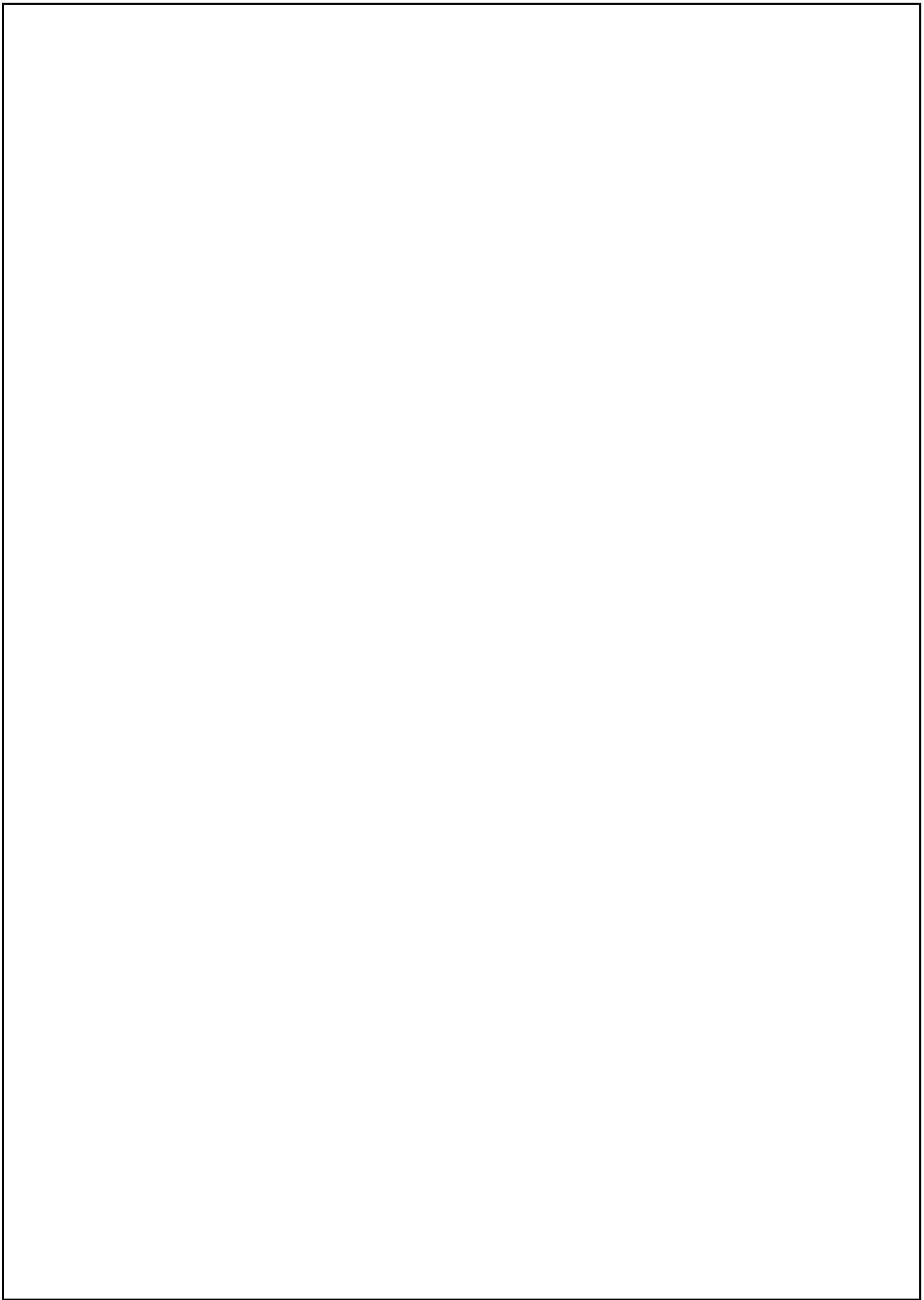
5. Suggestion

The research results can be used as the input for insurance companies having customs bond product in order to manage their product quality and agent competency optimally because both factors affect the trust and loyalty of customers to the insurance companies. Besides, this research can serve as a reference for other researchers who are interested in examining in the field of customer loyalty.

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