The Impact of Service Quality and Product Quality towards Customer Loyalty through Emotional and Functional Values in Traditional Markets in Pontianak, Indonesia

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Abstract
The purpose of this study is to analyze and examine the impact of the service quality and product quality variables towards customer loyalty through emotional and functional values in the traditional markets in Pontianak. This research is a confirmatory research or conclusive research, which highlights the relationship between the research variables and tests the formulated hypotheses. The sampling technique used in this study is probability sampling with proportional cluster random sampling. The number of samples in this study is a total of 120 respondents in seven traditional markets in the city of Pontianak, West Kalimantan, Indonesia, managed by the Government of Pontianak. The analysis tool used to test the hypothesis is the Structural Equation Modeling with AMOS (Analysis of Moment Structure) program package. The results of this study showed that out of the eight hypotheses, six showed significant positive effect and influence, namely the service quality towards the emotional value, service quality on functional value, service quality towards customer loyalty, product quality towards emotional value, product quality towards customer loyalty and emotional value on customer loyalty in. On the other hand, two hypotheses showed no insignificant results nor effect or influence, namely the product quality towards the functional value and the functional value towards customer loyalty in the traditional markets in Pontianak.

Keywords: Service Quality, Product Quality, Emotional Value, Functional Value, and Customer Loyalty.

1. Introduction
According to Kotler and Keller (2012:30), a “market” is a physical place where buyers and sellers gather to buy and sell goods. Economists describe a market as a collection of buyers and sellers who conduct transactions over a particular product or product category (such as the housing market or the grain market). Modern and traditional markets are competing in the same market, which is the retail business. According to Berman and Evans (2001:3) retail consists of business activities involved in selling goods and services to consumers for their personal, family or household use. Then Levy and Weitz (2001:8) stated that retailing is a set of business activities that adds value to the product and service sold to consumers for their personal or family use. Almost all of the products sold in traditional markets can be found in the modern market, especially in hypermarkets. The increasing number of modern markets or stores in almost all regions in Indonesia is likely to increase the fierce competition and gradually erodes or eliminates the existence of traditional markets.

The presence of modern market in fact tends to rival the existence of traditional market. It can be seen in the decrease in sales turnover and the reducing number of consumers who shop in traditional markets. However, theoretically and practically, traditional and modern markets can not be considered to be competing directly because there are differences in the characteristics of the distribution activities, which is related to: (Indiastuti, 2006)

- The differences in operating time and service;
- The differences in service and payment systems;
- The differences in the completeness and entirety of types and varieties of goods as the function of the product quality;
- The price differences due to the differences in quality, packaging and brand;
- The differences in the targeted consumers; and
- The differences in the physical facilities and infrastructure.

The current implementation of Presidential Decree No. 112 of 2007 for Development of Traditional Markets, Shopping Centres and Modern Stores could not be implemented effectively due to:

- Unclear classification of Traditional Markets
- Uncompleted database of Traditional Markets
- Single-sectored approach in the implementation of the Regulation
- Ineffective coordination between Ministry of Trade (MENDAG), Ministry of Cooperation, Small and Medium-sized Business (MENEG KUKM) and Municipal Governments
- Hindrances from “status quo” party
- Limited human resources capacity and funding in Government agencies, traditional markets
management institutions, as well as informal traders

- Lack of community participation in the process
- Lack of time for the project implementation

As stated in Presidential Decree No. 112 of 2007, Government of Indonesia is obliged to implement:

- Spatial Planning and Development Control of the Traditional Markets, Shopping Centres and Modern Stores;
- Regulating the supply chain to The Modern Markets (including from The Small – scale Industries);
- Development and Supervision of The Traditional Market (including the Empowerment Program), Shopping Centres and Modern Markets
- Revitalisation of the Traditional Market.

The factor that explains the lack of development among traditional markets is the minimum of support offered to traditional traders. Characteristically, their planning strategies are poor, their access to capital is limited because they do not have sufficient collateral, they have no economies of scale, there is no networking with large suppliers, their procurement management is poor, and they are unable to cater to the needs of the consumers (Wiboonpongse and Sriboonchitta 2006).

In carrying out its activities, the traditional markets in Pontianak also face competition from modern retail business, such as malls, hypermarkets, supermarkets, minimarkets and so on. One of the efforts that needs to be done so that the existence or the sustainability of traditional markets in the future remains strong is to increase customer loyalty. Customer loyalty can be created by keeping to strive to improve the service and product quality through the creation of emotional and functional value by traders in the traditional markets. In facing the increasingly fierce competition, the customer loyalty is the key factor to keep existing in the business competition.

2. Literature Review

Service quality is a focused evaluation that reflects the customer’s perception of elements of service such as interaction quality, physical environment quality and outcome quality (Brady and Cronin, 2001). Service quality has its roots in the business and management field. Marketers realized that to retain customers, and to support market growth, they must provide high quality of service (Dabholkar, Shephard, and Thorpe, 2000; Zeithaml, 2002). It is said that service quality is an important antecedent of consumer assessment of value, which in turn influences customer satisfaction, which then motivates loyalty (Babakus and Boller, 1992). According to Zeithaml et al. (1990) service quality is the extent of discrepancy between customer’s expectations or desires and their perceptions. Furthermore, according to Boone and Kurtz (1995), service quality refers to the expected perceived quality of service offering. It is a primary determinant of customer satisfaction or dissatisfaction. Then, Mangold and Babakus (1991) stated that service quality is the outcome of a process in which consumers’ expectations for the service are compared with their perceptions of the actual delivered service. The measurement model of service quality addresses only the dimensions that form objective measures of the service quality construct. On a broader sense, service quality is an important construct because it influences consumer behavioral intentions (Cronin, et al., 2000).

Traditionally, quality has been defined in four categories, namely excellence, value for money, conformity to requirements and also meeting or exceeding customers’ requirements (Reeves and Bednar, 1994). A product-based approach is used in focusing on the performance, features and durability, while user-based approach is used in focusing on aesthetics and perceived quality, and lastly, manufacturing approach is used in focusing on conformance and reliability (Garvin, 1984). Meanwhile, in manufacturing approach conformance in the product meets the formulated standards or specifications (Crosby, 1979). Based on the value approach, product quality is defined as the fair relations between quality with performance at an acceptable or affordable price. Product quality is always being thought to contribute to the expansion of competitive advantage whereas the product is to be designed and also manufactured to achieve customer requirements in enhancing the product performance (Benson et al., 1991; Flynn et al., 1994).

Garvin (1984) has introduced eight dimensions of quality as a framework to think about the basic elements of product quality. The eight dimensions listed are performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. The factors in the functional dimension include value for money, versatility, (Sweeney et al, 1999), service quality (Sánchez et al, 2006), non monetary sacrifices (Sweeney et al, 1999, Petrick, 2002) and price (Sweeney and Soutar, 2001, Petrick, 2002). Values can be both functional and emotional (tangible and intangible), but the fundamental sense of added value is an emotional one, however, emotional feelings have to be backed up by rational aspects such as functional values and the success of a brand comes from having both functional and emotional values (Bendixen et al., 2004; Bergstrom, 2000; Doyle and Stern, 2006; Lynch and de Chernatony, 2004; Mudambi et al., 1997). Emotional values (intangible aspects) are values that evoke positive feelings about the brand and product to motivate purchase (Bendixen et al., 2004). Intangible aspects are more elusive or visionary and contain an emotional element (Mudambi et al.,
Functional values (tangible aspects) are physically presented or can be seen in a more visualised way, experienced, or measured in some kind of process (Mudambi et al., 1997). According to Sweeney and Soutar (2001), the functional value is determined by the rational and economic valuations of the consumers, and the service quality forms this dimension. Sheth et al. (1991) defined the functional value as a perceived utility of the service attributes. The emotional value consists of feelings or the affective states generated from the experience of the consumption. Sánchez et al. (2006) developed six dimensions of the perceived value. Four of them correspond to dimensions of the functional value: functional value of the establishment, functional value of the contact personnel, functional value of the service quality and functional value of the price. The two remaining dimensions refer to the affective dimensions of the perceived value: the emotional and social value.

Customer loyalty is defined as “a deeply-held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver, 1997). Gremler and Brown (1996) offered one definition of customer loyalty that is related to our purpose in this study: the degree to which a customer exhibits repetitive purchasing behavior from a service provider, possesses a positive attitudinal disposition towards the provider and considers using only this provider when a need for this service exists which meets and sometimes even exceeds customer expectations (Teich, 1997). Customer loyalty is the key factor under consideration of each and every firm (Vesel and Zabkar, 2009). Customer loyalty is the key and important competitive advantage in current market situations (Lin and Wang, 2006). According to Bloemer and Kasper (1995), loyalty is interpreted as true loyalty rather than repetitive purchasing behavior, which is the actual re-buying of a brand, regardless of commitment. Zeithaml et al. (1996) states loyalty is a multi-dimensional construct and includes both positive and negative responses. However, a loyal customer may not necessarily be a satisfied customer. Customer loyalty is measured by word-of-mouth, price insensitivity and purchase intentions (Bloemer and Odekerken-Schröder, 2002).

3. Hypotheses

In this study, 8 (eight) hypotheses examined in traditional markets in Pontianak are as follows:

H1 : Service Quality has a significant effect on Emotional Value
H2 : Service Quality has a significant effect on Functional Value
H3 : Service Quality has a significant effect on Customer Loyalty
H4 : Product Quality has a significant effect on Emotional Value
H5 : Product Quality has a significant effect on Functional Value
H6 : Product Quality has a significant effect on Customer Loyalty
H7 : Emotional Value has a significant effect on Customer Loyalty
H8 : Functional Value has a significant effect on Customer Loyalty

4. Research Methodology

The type of research conducted in this study is a confirmatory research or conclusive research. According to Kuncoro (2009:89-90) confirmatory research or conclusive research is a research that aims to test or to prove something and to assist the researcher in choosing a particular further action. The population in this study consists of a set of people or consumers who shop in the traditional markets in Pontianak which is divided into seven clusters of traditional markets. The population criteria are consumers or shoppers who act as decision makers (deciders) while shopping in traditional markets in Pontianak. The number of samples used in this study is a total of 120 people. The sampling method used is probability sampling with the specific use of proportional cluster random sampling. The analysis technique used is the analysis of Structural Equation Modeling (SEM) with AMOS (Analysis of Moment Structure).

In this study, five variables and 24 indicators were used (Likert scale 1-5), namely:

1. Service Quality (8 indicators)
2. Product Quality (4 indicators)
3. Emotional Value (4 indicators)
4. Functional Value (4 indicators)
5. Customer Loyalty (4 indicators)
Proposed research/conceptual model and hypothesized relationships can be seen in Figure 1.

![Figure 1: Conceptual Model and Hypothesized Relationships](image)

**5. Research Findings**

Based on the results of hypotheses testing, as shown in Table 1 and Figure 2, it turns out that H1 (Hypothesis 1): Service Quality has a significant effect on Emotional Value, this is proven by the value of the path coefficient = 0.540; CR (Critical Ratio) = 3.824, and p (significance probability) = 0.000 < 0.05. The findings of this study support the results of the empirical study conducted by Wong (2004), Yuan and Wu (2008), Nadiri and Gunay (2013), Chang and Tseng (2010), Ladhari (2009), and Rajaguru and Matanda (2011) that the service quality significantly influences the emotional value. The findings of this study also support the idea Mano and Oliver (1993) which states that a high service quality can affect the emotional value. Similarly, it also supports the opinion of Brady and Robertson (2001) that the evaluation of service quality can create an emotional response to satisfaction estimation.

H2: Service Quality has a significant effect on Functional Value, this is proven by the value of the path coefficient = 0.737; CR = 3.824 and p = 0.000 < 0.05. The findings of this study support the results of the study of Nadiri and Gunay (2013), Yuan and Wu (2008), Chang and Tseng (2010), and Rajaguru and Matanda (2011) that the service quality significantly influences the functional value. The findings of this study also support the idea of Grönroos (1984), which emphasizes two main dimensions of service quality; technical quality that refers to what is actually perceived by customers from the acquired service and functional quality which refers to how those services are provided. Functional quality is a very important aspect and has nothing to do with the psychological interaction which plays an important role in the event of a transaction process.

H3: Service Quality has a significant effect on customer loyalty, this is proven by the value of the path coefficient = 0.969; CR = 3.504 and p = 0.000 < 0.05. These findings support the research conducted by Jandaghi (2011); Shpëtim (2012); and Gwin (2010) which concluded that the service quality significantly influences customer loyalty. However, the findings of this study are inconsistent or different from the study results of Yee and Fazharudean (2010) which showed different results, that the service quality does not significantly affect the customer loyalty. The results of this study support the notion of Voss et al. (2004), Weile et al. (2002), and Babakus et al. (2004) that good or high service quality can attract new customers, retain existing customers and even lure customers from competitors with lower perceived service quality.

H4: Product Quality has a significant effect on Emotional Value, this is proven by the value of the path coefficient = 0.245; CR = 1.995 and p = 0.046 < 0.05. The findings of this study support the results of empirical research conducted by Shah et al. (2012), Yan et al. (2011), and Choi and Kim (2013) that the product quality significantly influences emotional / hedonic value. The findings of this study also support the idea of Hawkins and Motherbaugh (2010:395) that in perceiving the product quality, a consumer is influenced by affective components. Affective component in question is the emotional value or feelings obtained from the product.
H5: Product Quality has an insignificant effect (not significant) on Functional Value, this is proven by the value of the path coefficient = 0.188; CR = 1.532 and p = 0.125 > 0.05. The results of this study contradict the research conducted by Yan et al. (2011) and Choi and Kim (2013) that the product quality significantly influences the functional value. The findings of this study are also contrary to the opinion of Oliver (1997) which states that the product quality is one of the determining factors of the customer satisfaction. From the consumers’ perspective, the value of a product is a product quality that can be enjoyed by consumers at the expense of a sum of money or other resources.

H6: Product Quality has a significant effect on customer loyalty, this is proven by the value of the path coefficient = 0.562; CR = 4.073, and p = 0.000 < 0.05. The findings of this study support the results of research conducted by Lee et al. (2009), Nwokah (2009), Yeng and Kamariah (2013) that the product quality has a significant effect on customer loyalty. The findings of this study also support the idea of Griffin (2002) that in order to gain loyal customers, the company must provide value to customers by continuously improving, fixing or even changing the products or services to increase benefits for customers.

H7: Emotional Value has a significant effect on customer loyalty, this is proven by the value of the path coefficient = 0.838; CR = 6.170 and p = 0.000 <0.05. The results of this study support the empirical study conducted by Wong (2004); Roig et al. (2009), and Koller et al. (2011) that the emotional value has a significant effect on customer loyalty. However, the results of this study contradict or do not support the research conducted by Lin et al. (2009) and Hu and Chuang (2012) that the emotional / hedonic value has insignificant effect on customer loyalty. The results of this study are also in line with the opinion of Barnes (2001:9) which states that the relationship between value and customer loyalty has demonstrated that customers with high loyalty feel the emotional bond with the company. Emotional bond is what makes the customers loyal and encourages them to continue to make purchases of the company’s products.

H8: Functional Value has an insignificant effect (not significant) on customer loyalty, this is proven by the value of the path coefficient = 0.062; CR = 0.285, and p = 0.775 > 0.05. The findings of this study contradict the results of research conducted by Roig et al. (2009), Koller et al. (2011), Lin et al. (2009), and Hu and Chuang (2012) that the functional value has a significant effect on customer loyalty. The findings of this study are also not in line with the opinion of Scott Robinette (2001) that the success and growth of the company depends on the relationship between value, profits and customer loyalty.

### TABLE 1
RESULTS OF PROPOSED RESEARCH MODEL

<table>
<thead>
<tr>
<th>Structural Path</th>
<th>Factor Loading</th>
<th>Critical Ratio (CR)</th>
<th>Significance Probability (p)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality (X1) → Emotional Value (Y1)</td>
<td>0.540</td>
<td>3.824</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Service Quality (X1) → Functional Value (Y2)</td>
<td>0.737</td>
<td>4.461</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Service Quality (X1) → Customer Value (Y3)</td>
<td>0.969</td>
<td>3.504</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Product Quality (X2) → Emotional Value (Y1)</td>
<td>0.245</td>
<td>1.995</td>
<td>0.046</td>
<td>Significant</td>
</tr>
<tr>
<td>Product Quality (X2) → Functional Value (Y2)</td>
<td>0.188</td>
<td>1.532</td>
<td>0.125</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Product Quality (X2) → Customer Value (Y3)</td>
<td>0.562</td>
<td>4.073</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Emotional Value (Y1) → Customer Loyalty (Y3)</td>
<td>0.838</td>
<td>6.170</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Functional Value (Y2) → Customer Loyalty (Y3)</td>
<td>0.062</td>
<td>0.285</td>
<td>0.775</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>
6. Conclusion and Implications

Based on the results of hypotheses testing about the Impact of Service Quality and Product Quality towards Customer Loyalty through Emotional and Functional Values in Traditional Markets in Pontianak, it can be concluded that from 8 hypotheses formulated in this study, there are 6 hypotheses whose results show a significant effect, such as H1 (Hypothesis 1), H2, H3, H4, H6 and H7, while the results of the other two hypotheses testing, H5 and H8, show insignificant effect. The six hypotheses which show significant effect are as follows: the influence of Service Quality on Emotional Value, Service Quality on the Functional Value, Service Quality on Customer Loyalty, Product Quality on the Emotional Value, Product Quality on Customer Loyalty and Emotional Value to the Customer Loyalty. The two hypotheses which show no significant effect are as follows: the impact of the Product Quality on Functional Value and the Functional Value to Customer Loyalty.

The implications of the results of this study is that traders in the traditional markets in Pontianak should need to always continue improving the service quality for their customers who shop in the traditional markets in Pontianak. They also need to pay attention to, and improve the quality of the products sold, both related to freshness and cleanliness (hygiene), and keep the environment clean.

A particular reminder to the Government of Pontianak, in this case the Department of Industry, Department of Trade, Department of Cooperatives and Small and Medium Enterprises in Pontianak as the managers and administrators of the seven traditional markets in Pontianak, they should be able to create and organize neat, beautiful, clean, and safe traditional markets, as well as providing adequate vehicle parking space.

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