# CHAPTER I
# INTRODUCTION

## 1.1 Background of The Study

Word of mouth can be defined as an interchange of both negative and positive information regarding the products that could possibly have an important effect on consumers' behavior (Goyette et al. 2010; East, Hammond, & Lomax 2008). Moreover, according to Goyette et al. (2010) and Trigg (2011) since new types of online communication are kept on increasing, the idea of word of mouth will always be important, which involves the health care providers in the health industry. This statement is supported by Martin (2017) who stated that word of mouth is a significant source of health information. Today, besides China, India, and the United States, Indonesia is known as the world's fourth most populated country and still has a potential health industry business. According to a research by research institute of Frost and Sullivan that was published by CNBC Indonesia (2018) the health industry growth in Indonesia is expected to double in the next six years. It can be mentioned because the health industry is not affected by fluctuations in the exchange rate of the rupiah to the emergence of a BPJS Health deficit that has pushed down hospital revenues. This statement supported by the fact from the number of the private and government hospitals increases every year and it still does not in accordance with the large number of Indonesian populations (CNBC Indonesia 2018).
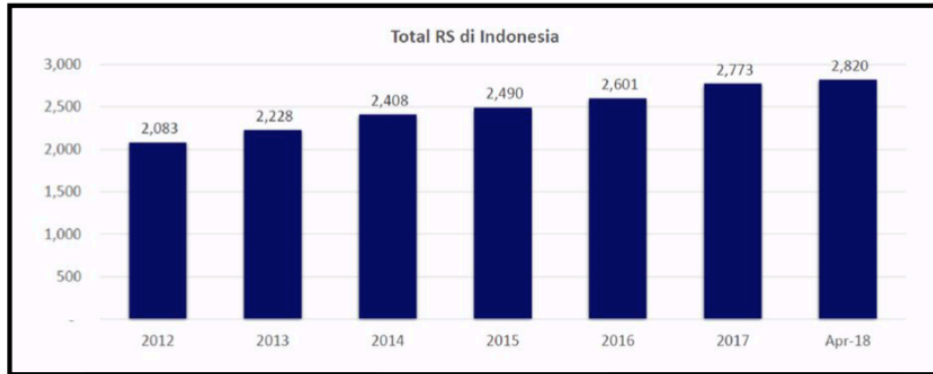
Figure 1.1 Total Number of Hospitals in Indonesia since 2012 to April 2018

Source: Presentation of Kuntjoro and Daniel Budi Wibowo from INDO-HCF (April 25, 2018)

As the diagram above shows, the number of hospitals in Indonesia continuously increased from 2012 to April 2018. It has raised more than 700 hospitals since 2012. This data was published by Indonesian Healthcare Forum (INDO-HCF) under PERSI or *Perhimpunan Rumah Sakit Seluruh Indonesia* (Indonesian Hospital Association) on April 25, 2018 in Jakarta. However, the exact number of the government and the private hospitals will be further elaborated by the figure below.
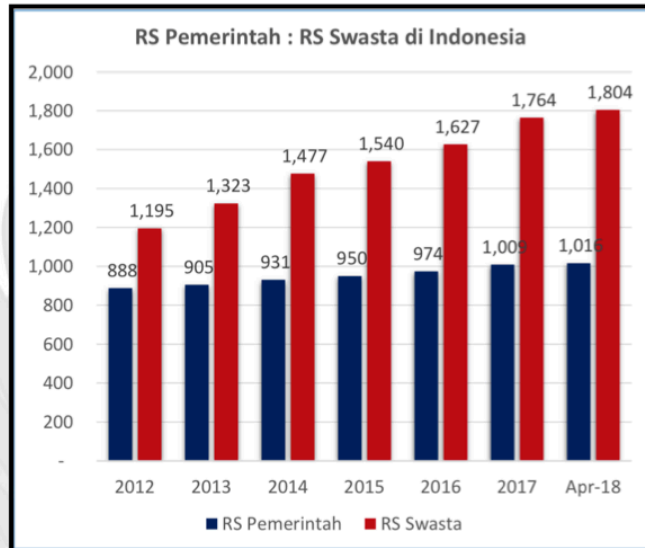
Figure 1.2 The Number of Government and Private Hospitals in Indonesia since 2012 to April 2018

Source: Presentation of Kuntjoro and Daniel Budi Wibowo (INDO-HCF, 2018)

The figure 1.2 on the above shows that the number of the government hospitals slowly increased between 2012 until April 2018. While looking at the private hospitals, it gradually rose up from 2012 until April 2018. This fact shows that private hospitals grow faster than the government hospitals in only a short amount of time.
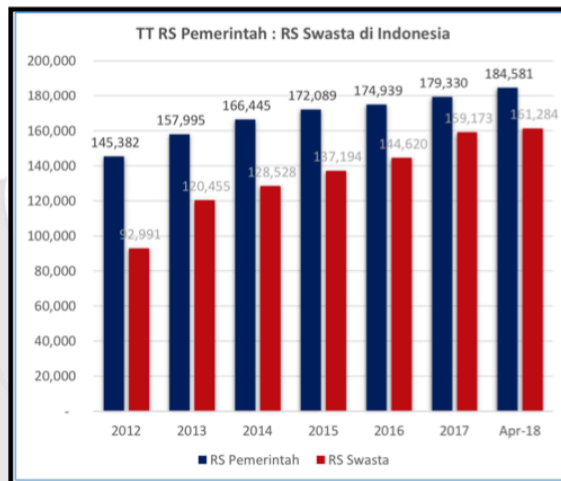
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As the number of both private and government hospitals increases, the availability of hospital beds also increases. Although the number of government hospitals is less than private hospitals, the government hospital beds are more than the private hospitals. The number of bed hospitals is steadily increasing in both government and private hospitals. From 2012 until April 2018, the number of hospital beds in both types of hospital steadily increased from 238.373 beds to 345.865 beds. Even though the number of hospitals in Indonesia has gradually risen since 2012, one of the most important indicators to measure the health industry is from the Bed Occupancy Rate or usually known as BOR.

Bed Occupancy Rate can be obtained by dividing the average hospital beds used to the total number of hospital beds (Usman, Memon, and Shaikh 2015). According to Barber Johnson Graph the method to calculate BOR is:

$$BOR = O / A * 100\%$$

O = The average hospital beds used
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According to Barber Johnson Graphic, the ideal number of BOR is between 75% - 85%. However, according to Kementerian Kesehatan Republik Indonesia, the ideal BOR is between 60%- 85%. However, if the percentage is more than 85%, it can be mean as all of the hospital beds used and probably the service provided by the hospital is not optimal.
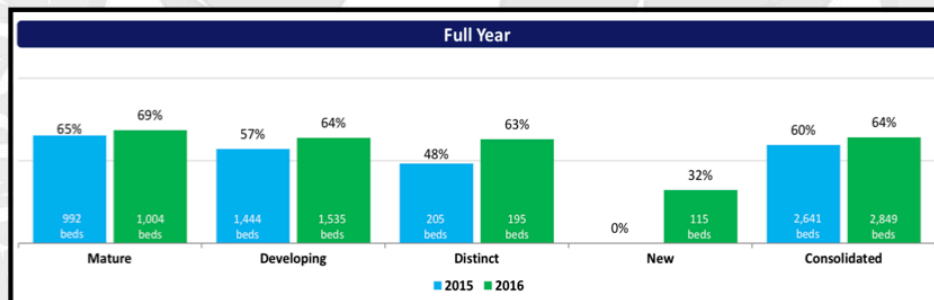


Figure 1.4 Bed Occupancy Rate of Siloam Hospitals in 2015 and 2016
Source: Company Presentation Full Year of Siloam Hospital (2016)

PT. Siloam International Hospitals Tbk. or also may be known as Siloam Hospitals was founded in 1996 as PT. Sentralindo Wirasta and in 2013 the company was going public and listed at the Indonesia Stock Exchange and changed its name to the current brand. Today, Siloam hospitals have 33 technologically advanced hospitals, comprising 12 hospitals in Jabodetabek and 21 hospitals distributed across Java, Sumatra, Kalimantan, Sulawesi, Bali and

Nusa Tenggara. 24 out of 33 hospitals are serving BPJS (National Insurance Program) patients' (Siloam Hospitals Groups 2018). It is reported in the company presentation of Siloam Hospital (2016) that from the year of 2015 to 2016 the bed occupancy rate of all the categories listed of Siloam was increasing as can be seen in figure 1.4. Bed occupancy rate is the measurement of how many beds are in use by inpatients associated with the total number of beds that exist (Lechintan 2017).



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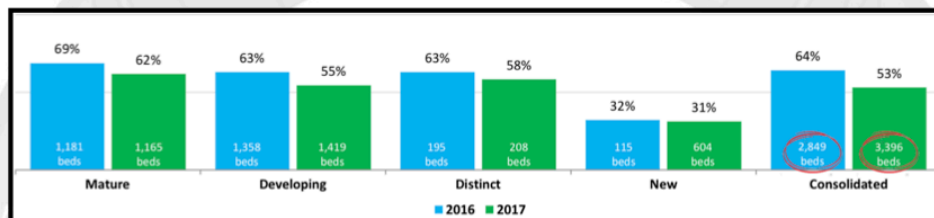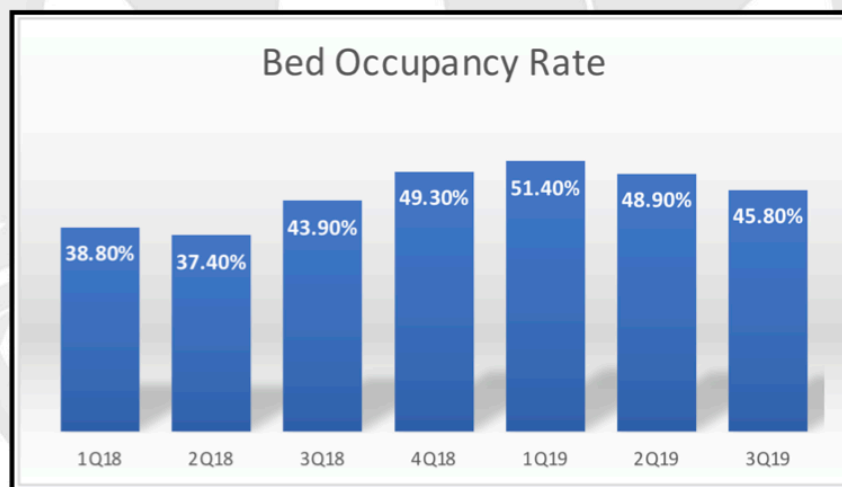


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Unfortunately, from the year of 2016 to 2019, the bed occupancy rate continued to fall, even though there was a time when in 2018, the bed occupancy rate (BOR) in the second quarter up to the first quarter of 2019 were rising

significantly from 37.4 percent to 51.4 percent, which is an increase of 14 percent. However, from the first quarter until the third quarter of 2019, the bed occupancy rate was back to fall apart, from 51.4 percent to 45.8 percent in the third quarter and the evidence is shown in figure 1.5 and 1.6. On the contrary, the bed occupancy rate (BOR) of other famous hospitals such as, Mitra keluarga and Omni Hospitals are increasing from year to year. In fact, the BOR of RS Mitra Keluarga in 2017 was 57 percent, in 2018 it was 54.5 percent and recently, in 2019 it became 61.3 percent (Mitra Keluarga 2017, 2018 & 2019).

While, OMNI hospitals are divided into three areas; Alam Sutera, Pulomas and Cikarang, however, limited information available for this hospital, since the most recent annual reports of OMNI hospitals posted on its website is for the year 2018. To elaborate, OMNI Alam Sutera in 2017 had a BOR of 60 percent and in 2018 it was 62 percent. The BOR of OMNI Pulomas in 2017 was 76 percent and remains the same in 2018. Continued by the BOR of OMNI Cikarang, in 2017 it was 55 percent and increased in 2018 to 59 percent (OMNI Hospitals 2017 & 2018). When the BOR of others are growing, Siloam Hospitals are falling. Furthermore, even though the bed occupancy rate was decreasing, the number of Siloam's branches are growing. This statement is supported by the available data from the company's presentation from 2015 to 2019 shown in figure 1.7 below.

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Source: Siloam Hospitals Annual Report (2015 and 2016) and Company Presentation (2017, 2018 and 2019)

In 2015, the total number of hospitals owned by Siloam was 20, which then increased rapidly to 36 hospitals in the third quarter of 2019. There was several news circulating around the society and reported in the news. There was some evidence or research found that supports the decrease in Siloam Hospitals' Bed occupancy throughout the years shown above. Starting with Kompas news whereas a woman named Ida died when she was given Kalvan Farma Buvanest Spinal drug which is an anesthetic drug for her first caesarean section, she experienced strange symptoms and eventually died. This might happen due to lack of research, or clumsiness of hospitals to not check on the woman's suitability of the drugs (Andri 2015).

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Muhammad was asked to go to the general hospital and take the treatments there, which costs around 100 million rupiah and it was not affordable for Muhammad. He is a janitor and could not cover that large amount of money with his normal month salary. Until this moment, Muhammad have not been surgically handled as his family or himself could not pay 100 million and he will not be served using BPJS. It was said that Siloam should have social functions as a huge namely hospital in Indonesia specifically Makassar and not only trying to earn more and more profit. Additional information about this case; Siloam hospital does not respond and messages by WhatsApp were read without any reply and calls are declined (Asrul 2019).

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Liang and Scammon (2011) and Niehues et al. (2012) reported that currently, the number of patients who want to be involved in the decision-making

process for the choice of health care provider and medical treatment are escalating. In the decision-making process, the patients may find necessary information that can be acquired from word of mouth and it enables the customer to receive original information given by the existing customer of the hospital that have already experienced to be treated there (Swan & Oliver 1989). For instance, the information regarding the prospective medical provider as well as the treatment selections are some of the important medical information that can be the source for choosing medical service (Berry & Bendapudi 2007; Niehues et al. 2012). Customers of service products consider the judgements as well as the experiences of other people to determine the service purchase decisions and it is also believed that the threat related to the purchase decision can be decreased by word of mouth (Murray 1991). Customers have been very important in industries including their responses to the firm, and word of mouth is very effective in affecting their purchase decisions compared to other promotional tools like direct sales or advertising (Katz & Lazarsfeld 1955; Day 1971; Morin 1983). Chandy and Narasimhan (2015) stated that WOM plays an important role in developing markets. Other than brand experience, there is perceived value, Agarwal and Teas (2001) demonstrates that customers get involved in talking about value by considering the quality and the sacrifices. Baumann et al. (2007) stated that giving recommendations is one of the methods for customers to show their loyalty. Furthermore, those consumers who happily given the positive word of mouth communication have greater possibility to become loyal customers (Gremler & Brown 1996 in Chaniotakis & Lymperopoulos 2009). Since, Berry and

Parasuraman (1991) identified a famous fact that excellent service quality triggers word of mouth recommendations generated by the existing customers, it also improves the perceived value and enhances the loyalty of both employees and customers.

Brand experience can be in the form of advertisements targeted to a specific audience, the color chosen for a firm's website, ads and other marketing materials, well-resourced customer service, promotions, unique slogans or jingles and many other things created to expand the feelings and personality of the brand, stimulate the desired trust, emotions, excitement and may cause a brand to stick into the customer's mind (Rouse 2018). Brakus, Schmitt and Zarantonello (2009) suggests that when customers connect with a brand, the emotional and internal responses caused by the brand's stimulation establish the brand experience. Nisa Neese Burton on Roth (2018) stated that in today's business, loyalty can be triggered by customer experience and she mentioned that establishing brand loyalty by experience is also suitable to the health industry. The news written above regarding the problems faced by people in Siloam Hospitals are several issues relating to the brand experience of customers of Siloam.

According to Cronin and Taylor (1992) in Kalaja, Myshketa and Scalera (2016) the most essential role to give judgement regarding a service or product quality are the customers. Hence, a crucial factor in measuring the service quality in the healthcare industry are the patients, since they are the customers and their judgements. Parasuraman, Zeithmal and Berry (1990) claims that service quality is a global assessment to find out the superiority of a service. Ennew (2000)

suggests that favorable word of mouth from satisfied customers can enhance the sales and unfavorable word of mouth from the customers who got disappointed can reduce sales. This suggests that the impact of service quality on word of mouth will have an important role for hospitals. For that reason, this thesis intends to study the relationship further.

Woodruff (1997) pointed out that in today's aggressive market, a great perceived value is the source of competitive advantage and also he claims that perceived value is the evaluation of the worth of products or services that has been invented by a supplier for the buyer, considering the exchange between all advantages and sacrifices in a specific circumstances. Mukerjee (2018) argues that when a bank is capable of giving a good perceived value to the customers, the possibilities of customers participating in word of mouth recommendations would be high and, on this study,, the researcher wants to study whether in the healthcare sector will have the same results or not. Moreover, the role of loyalty as a mediating variable on word of mouth recommendations in the study of Siloam Hospitals in Indonesia has not been studied. Therefore, this paper aims to investigate the relationship of loyalty as a mediating variable between brand experience, service quality and perceived value on word of mouth of Siloam Hospitals in Indonesia.

Another essential issue in the health industry is the perceived value. How customers perceive the value of 'company' can be influenced by the reputation of 'company'. This statement is supported by the theory of Zeithaml et al. in Kertajaya (2004) founded in Mohamad et al. (2017), perceived value is shaped by

three indicators; Fair price, brand reputation and value for money. Stated on Siloam's website it claimed that Siloam Hospitals are the most advanced hospital and has been the standard on the quality of healthcare service in Indonesia (Siloam Hospitals Group 2018). However, how customers perceived the value of Siloam itself might be different than what is stated by Siloam. Based on what have been experienced by the patients of Siloam, it could be one of the factors that influence the perceived value and another possible factor is the price of the services and treatments, as defined by Zeithaml et al. in Kertajaya (2004).

The problems occurred in Siloam hospitals Indonesia seem very relatable to the variables in this study. Starting with brand experience, service quality, perceived value, loyalty and word of mouth. Therefore, the researchers want to further study the relationship of the following variables in Siloam hospitals Indonesia and for this reason, the title of this particular research paper is The Influence of Brand Experience, Service Quality and Perceived Value on Word of Mouth Through Loyalty in Siloam Hospitals Indonesia.

## 1.2    Problem Statement

From the news reported regarding the woman who died due to wrong medication, a man named Muhammad who was rejected by Siloam because he is a BPJS patient and some other information about the poor services of Siloam Hospitals. This negative information may have an impact on brand experience, service quality, perceived value of Siloam Hospitals Indonesia that might affect the loyalty as well as the word of mouth recommendations by the patients.

Furthermore, the bed occupancy rate of Siloam Hospital has been declining, while the health industry in Indonesia is currently rising.

Based on the background of the study and problem statement above, these are the research questions this paper aim to answer:

1. Does brand experience have a positive influence towards Word of Mouth?

2. Does service quality have a positive influence towards Word of Mouth?

3. Does perceived value have a positive influence towards Word of Mouth?

4. Does loyalty as a mediator mediate the relationship between brand experience and Word of Mouth?

5. Does the loyalty as a mediator mediate the relationship between service quality and Word of Mouth?

6. Does loyalty as a mediator mediate the relationship between perceived value and Word of Mouth?

## 1.3 Research Objectives

These are the objectives of this research paper, based on the research problem that is further developed into research questions:

1. To discover whether brand experience has a positive influence towards word of mouth.

2. To discover whether service quality has a positive influence towards word of mouth.

3. To discover whether perceived value has a positive influence towards word of mouth.

4. To discover whether loyalty mediates the relationship between brand experience and word of mouth.

5. To discover whether loyalty mediates the relationship between service quality and word of mouth.

6. To discover whether loyalty mediates the relationship between perceived quality and word of mouth.

**1.4    Research Contribution**

This study aims to provide both theoretical and managerial contributions:

1) Theoretical Contribution

Firstly, this research paper theoretically contributes knowledge and insights regarding the influence of brand experience, service quality and perceived    value on word of mouth recommendation from Siloam Hospitals patients through loyalty. Secondly, this study aims to contribute as a reference for future studies about marketing in the healthcare sector.

2) Managerial Contribution

This research paper also contributes to support marketers, businesses, especially the healthcare sector, such as hospitals to recognize the variables that influence word of mouth in the healthcare industry through loyalty.

## 1.5 Research Limitation

Based on this particular research, the limitation is that the researchers only study the impact of brand experience, service quality, perceived value on word of mouth recommendations from customers of Siloam Hospitals Indonesia through loyalty, whereas there are many other industries that can be studied, other than healthcare and service industries. Moreover, there are other factors that the researchers did not study, that might influence the problem in this research, such as; location, satisfaction, trust, sales, profits and other determinants of the variables in this study, that are not mentioned, etc. In addition, limited time available to make this thesis and limited resources available are also included in the research limitation of this study. Moreover, the role of loyalty on word of mouth recommendations in the study of the patients of Siloam Hospitals in Indonesia has not been studied and this would be much harder to gain specific information that would be useful for this thesis.

## 1.6 Research Outline

The structured outline of this final research paper will comprise of five sections and the details are as follows:

**CHAPTER 1          INTRODUCTION**

The introduction chapter will examine the research background, research questions, research objectives, research contribution and research limitations.

**CHAPTER 2       LITERATURE REVIEW**

The second chapter will discuss the literature review, which covers the theoretical definition, concepts of all variables and previous findings that will be used as a foundation and guidance for the research process.

**CHAPTER 3       RESEARCH METHODOLOGY**

The third chapter will discuss the methodology, which will cover the process from how the researchers collect and process the data. The components are the type of study, research object, sample and population, research design and data collection.

**CHAPTER 4       RESULTS AND DISCUSSIONS**

The fourth chapter will discuss the research findings, profile of key respondents, results of the research problems, further explanation regarding the result or known as discussion and the evaluation of concepts and variables, exploring the relationship of the results.

**CHAPTER 5       CONCLUSION AND RECOMMENDATION**

The last chapter will discuss the research conclusion, theoretical and managerial implications, research limitations and recommendations for future study.
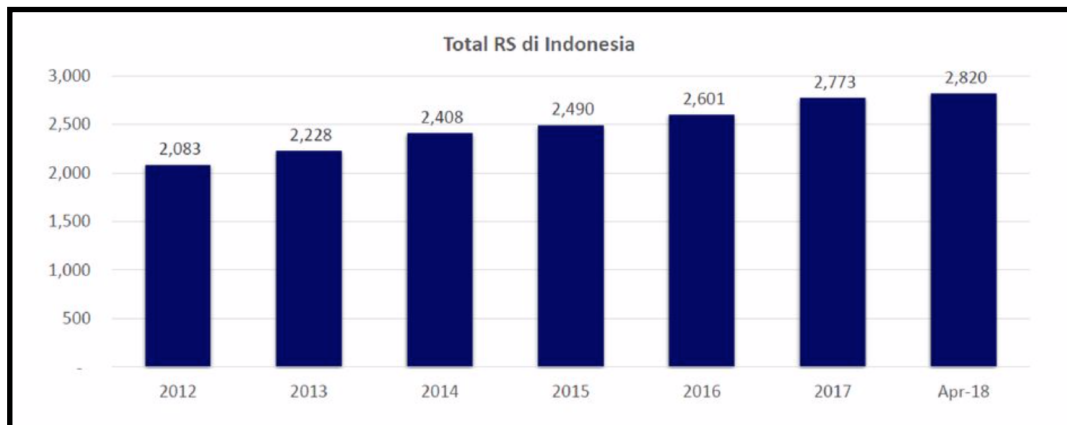
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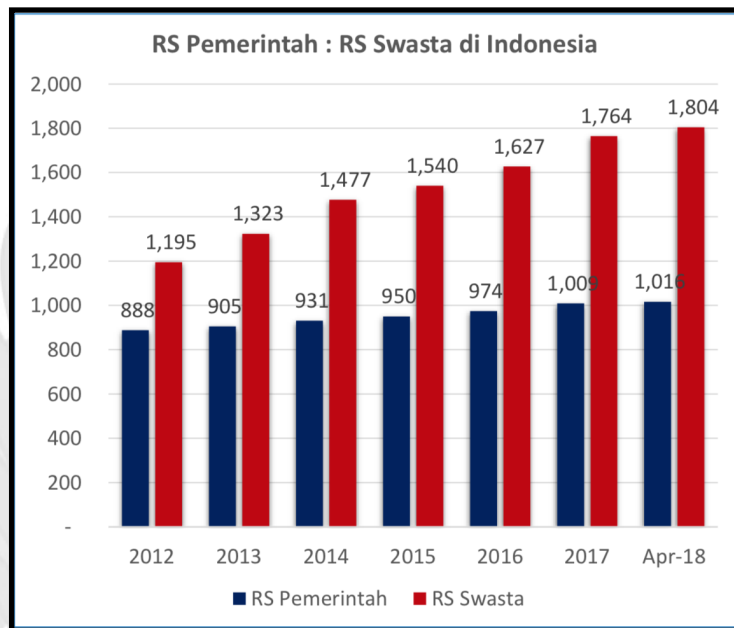
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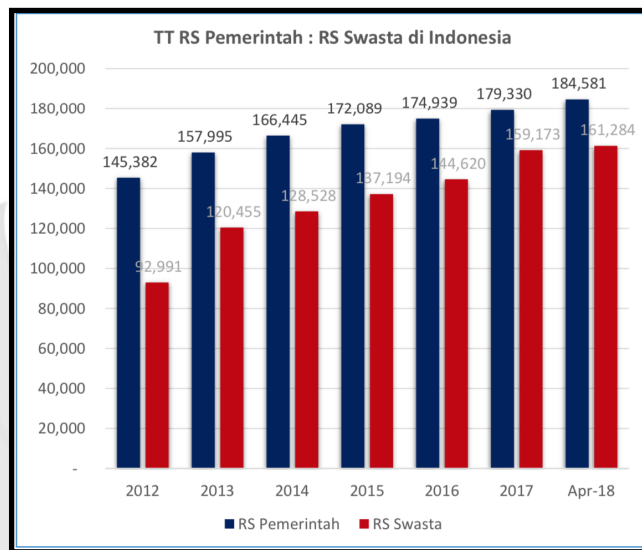
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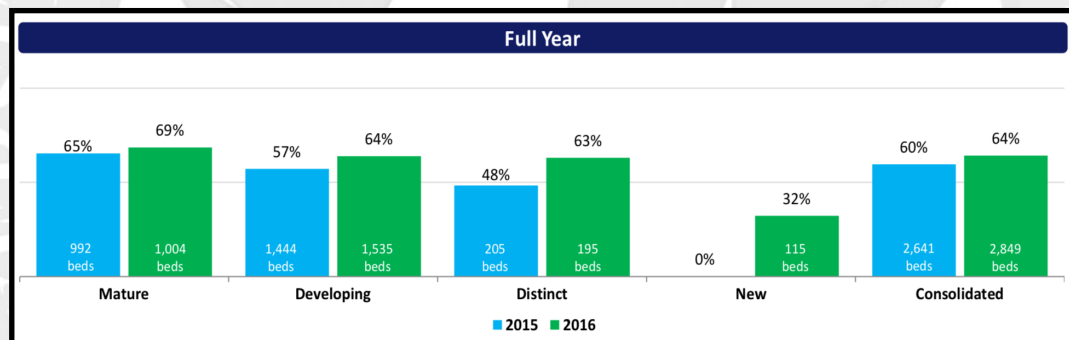


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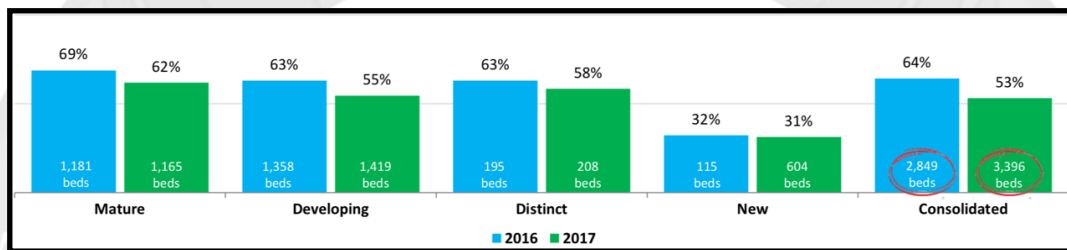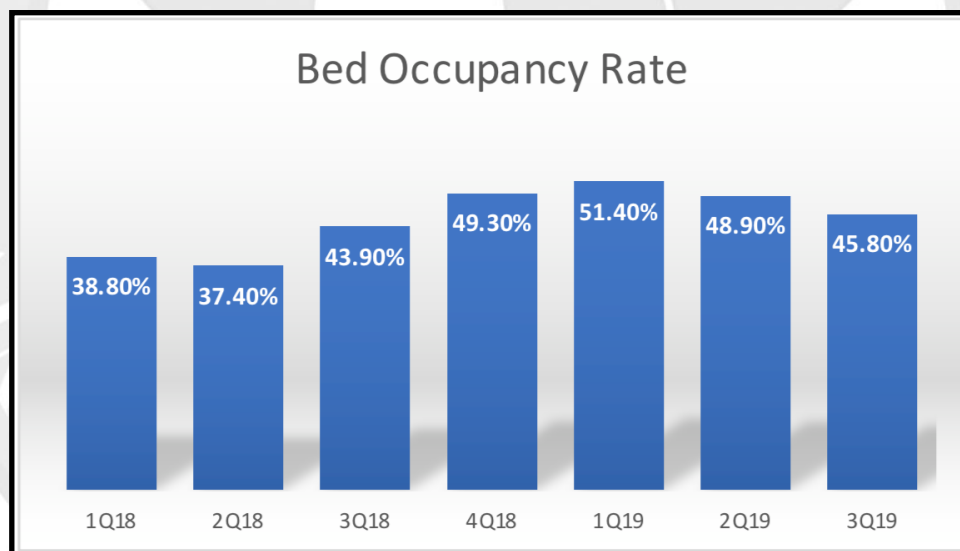


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significantly from 37.4 percent to 51.4 percent, which is an increase of 14 percent. However, from the first quarter until the third quarter of 2019, the bed occupancy rate was back to fall apart, from 51.4 percent to 45.8 percent in the third quarter and the evidence is shown in figure 1.5 and 1.6. On the contrary, the bed occupancy rate (BOR) of other famous hospitals such as, Mitra keluarga and Omni Hospitals are increasing from year to year. In fact, the BOR of RS Mitra Keluarga in 2017 was 57 percent, in 2018 it was 54.5 percent and recently, in 2019 it became 61.3 percent (Mitra Keluarga 2017, 2018 & 2019).

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Parasuraman (1991) identified a famous fact that excellent service quality triggers word of mouth recommendations generated by the existing customers, it also improves the perceived value and enhances the loyalty of both employees and customers.

Brand experience can be in the form of advertisements targeted to a specific audience, the color chosen for a firm's website, ads and other marketing materials, well-resourced customer service, promotions, unique slogans or jingles and many other things created to expand the feelings and personality of the brand, stimulate the desired trust, emotions, excitement and may cause a brand to stick into the customer's mind (Rouse 2018). Brakus, Schmitt and Zarantonello (2009) suggests that when customers connect with a brand, the emotional and internal responses caused by the brand's stimulation establish the brand experience. Nisa Neese Burton on Roth (2018) stated that in today's business, loyalty can be triggered by customer experience and she mentioned that establishing brand loyalty by experience is also suitable to the health industry. The news written above regarding the problems faced by people in Siloam Hospitals are several issues relating to the brand experience of customers of Siloam.

According to Cronin and Taylor (1992) in Kalaja, Myshketa and Scalera (2016) the most essential role to give judgement regarding a service or product quality are the customers. Hence, a crucial factor in measuring the service quality in the healthcare industry are the patients, since they are the customers and their judgements. Parasuraman, Zeithmal and Berry (1990) claims that service quality is a global assessment to find out the superiority of a service. Ennew (2000)

suggests that favorable word of mouth from satisfied customers can enhance the sales and unfavorable word of mouth from the customers who got disappointed can reduce sales. This suggests that the impact of service quality on word of mouth will have an important role for hospitals. For that reason, this thesis intends to study the relationship further.

Woodruff (1997) pointed out that in today's aggressive market, a great perceived value is the source of competitive advantage and also he claims that perceived value is the evaluation of the worth of products or services that has been invented by a supplier for the buyer, considering the exchange between all advantages and sacrifices in a specific circumstances. Mukerjee (2018) argues that when a bank is capable of giving a good perceived value to the customers, the possibilities of customers participating in word of mouth recommendations would be high and, on this study,, the researcher wants to study whether in the healthcare sector will have the same results or not. Moreover, the role of loyalty as a mediating variable on word of mouth recommendations in the study of Siloam Hospitals in Indonesia has not been studied. Therefore, this paper aims to investigate the relationship of loyalty as a mediating variable between brand experience, service quality and perceived value on word of mouth of Siloam Hospitals in Indonesia.

Another essential issue in the health industry is the perceived value. How customers perceive the value of 'company' can be influenced by the reputation of 'company'. This statement is supported by the theory of Zeithaml et al. in Kertajaya (2004) founded in Mohamad et al. (2017), perceived value is shaped by

three indicators; Fair price, brand reputation and value for money. Stated on Siloam's website it claimed that Siloam Hospitals are the most advanced hospital and has been the standard on the quality of healthcare service in Indonesia (Siloam Hospitals Group 2018). However, how customers perceived the value of Siloam itself might be different than what is stated by Siloam. Based on what have been experienced by the patients of Siloam, it could be one of the factors that influence the perceived value and another possible factor is the price of the services and treatments, as defined by Zeithaml et al. in Kertajaya (2004).

The problems occurred in Siloam hospitals Indonesia seem very relatable to the variables in this study. Starting with brand experience, service quality, perceived value, loyalty and word of mouth. Therefore, the researchers want to further study the relationship of the following variables in Siloam hospitals Indonesia and for this reason, the title of this particular research paper is The Influence of Brand Experience, Service Quality and Perceived Value on Word of Mouth Through Loyalty in Siloam Hospitals Indonesia.

## 1.2    Problem Statement

From the news reported regarding the woman who died due to wrong medication, a man named Muhammad who was rejected by Siloam because he is a BPJS patient and some other information about the poor services of Siloam Hospitals. This negative information may have an impact on brand experience, service quality, perceived value of Siloam Hospitals Indonesia that might affect the loyalty as well as the word of mouth recommendations by the patients.

Furthermore, the bed occupancy rate of Siloam Hospital has been declining, while the health industry in Indonesia is currently rising.

Based on the background of the study and problem statement above, these are the research questions this paper aim to answer:

1. Does brand experience have a positive influence towards Word of Mouth?

2. Does service quality have a positive influence towards Word of Mouth?

3. Does perceived value have a positive influence towards Word of Mouth?

4. Does loyalty as a mediator mediate the relationship between brand experience and Word of Mouth?

5. Does the loyalty as a mediator mediate the relationship between service quality and Word of Mouth?

6. Does loyalty as a mediator mediate the relationship between perceived value and Word of Mouth?

## 1.3 Research Objectives

These are the objectives of this research paper, based on the research problem that is further developed into research questions:

1. To discover whether brand experience has a positive influence towards word of mouth.

2. To discover whether service quality has a positive influence towards word of mouth.

3. To discover whether perceived value has a positive influence towards word of mouth.

4. To discover whether loyalty mediates the relationship between brand experience and word of mouth.

5. To discover whether loyalty mediates the relationship between service quality and word of mouth.

6. To discover whether loyalty mediates the relationship between perceived quality and word of mouth.

## 1.4 Research Contribution

This study aims to provide both theoretical and managerial contributions:

1) Theoretical Contribution

Firstly, this research paper theoretically contributes knowledge and insights regarding the influence of brand experience, service quality and perceived value on word of mouth recommendation from Siloam Hospitals patients through loyalty. Secondly, this study aims to contribute as a reference for future studies about marketing in the healthcare sector.

2) Managerial Contribution

This research paper also contributes to support marketers, businesses, especially the healthcare sector, such as hospitals to recognize the variables that influence word of mouth in the healthcare industry through loyalty.

## 1.5    Research Limitation

Based on this particular research, the limitation is that the researchers only study the impact of brand experience, service quality, perceived value on word of mouth recommendations from customers of Siloam Hospitals Indonesia through loyalty, whereas there are many other industries that can be studied, other than healthcare and service industries. Moreover, there are other factors that the researchers did not study, that might influence the problem in this research, such as; location, satisfaction, trust, sales, profits and other determinants of the variables in this study, that are not mentioned, etc. In addition, limited time available to make this thesis and limited resources available are also included in the research limitation of this study. Moreover, the role of loyalty on word of mouth recommendations in the study of the patients of Siloam Hospitals in Indonesia has not been studied and this would be much harder to gain specific information that would be useful for this thesis.

## 1.6 Research Outline

The structured outline of this final research paper will comprise of five sections and the details are as follows:

**CHAPTER 1        INTRODUCTION**

The introduction chapter will examine the research background, research questions, research objectives, research contribution and research limitations.

**CHAPTER 2**    **LITERATURE REVIEW**

The second chapter will discuss the literature review, which covers the theoretical definition, concepts of all variables and previous findings that will be used as a foundation and guidance for the research process.

**CHAPTER 3**    **RESEARCH METHODOLOGY**

The third chapter will discuss the methodology, which will cover the process from how the researchers collect and process the data. The components are the type of study, research object, sample and population, research design and data collection.

**CHAPTER 4**    **RESULTS AND DISCUSSIONS**

The fourth chapter will discuss the research findings, profile of key respondents, results of the research problems, further explanation regarding the result or known as discussion and the evaluation of concepts and variables, exploring the relationship of the results.

**CHAPTER 5**    **CONCLUSION AND RECOMMENDATION**

The last chapter will discuss the research conclusion, theoretical and managerial implications, research limitations and recommendations for future study.