

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Companies that enter the era of free trade today, will be very fierce competition. With business competition that is increasing and tighter at this time, it will make companies need more effort to develop their current business conditions. The intensity of competition requires companies to always pay attention to customer needs wants and strive customer expectations, by providing better service, so as to provide customer satisfaction.

In implementing good entrepreneurship, an entrepreneur who runs a company will pay attention to the services provided to customers with good service and in accordance with the expectations of customers. Blackburn et al (2018, p.25), entrepreneurship is a way of contextualizing leadership they suggest that pedagogy can draw on a variety of types of leadership theory including team-oriented leadership, value-based leadership and transformational and neo-charismatic leadership. While their aim to incorporate a wide-ranging number of ideas and theories into their model is commendable and their classification of existing literature is valuable, they do not really address the challenges of operationalizing entrepreneurial leadership.

Customer loyalty is a condition that shows someone's loyalty and determination in buying certain products or services over a long period of time and repeatedly. Iqbal et al (2018), customer loyalty is a mindset of customers who

has favorable approaches concerning the company, promises to purchase the company's product/service frequently, and endorses the product/ service to others. It can be discovered through past literature; service quality is a vital component of customer loyalty.

Loyalty is defined as an attitude that implies individual's overall attachment creating different feelings to products and also identified as "behavior" meaning relationship continuance, a scale or scope of relationship and recommendation. Loyalty as the strength between repeat patronage and relative attitude, where relative attitude results from comparing a particular brand with competing brand (Yadav and Rai, 2019).

In terms that probably have an impact on customer loyalty, namely service quality. Quality of service is a condition related to providing services from the company to customers when purchasing products or services. By providing good service, it will certainly increase customer loyalty. Al-Ababneh, (2017), loyal customers must also get better service than expected so that customers do not feel disappointed. Many advantages can be accomplished through service quality: client satisfaction, company images, customer loyalty and a competitive advantage to a company. Service quality efficiency can differ for distinct individuals, for instance, staff can demonstrate greater service quality perceptions than perceived clients and therefore executives and staff can never find service quality deficiencies.

PT Dharma Jaya Kimia Pratama was founded in 2015 which was founded by Mr. Hasan Kosasi as family company. The company's line of business is a

company engaged in the production and sale of thinners. The company's customers are generally building material stores located in Medan City and its surroundings. At PT Dharma Jaya Kimia, a company engaged in the production and sale of thinners, is currently experiencing a decrease in the number of customers who buy thinners. This can be seen in the following data.

**Table 1.1**  
**Data Customers of PT Dharma Jaya Kimia Pratama**

| Year | Customers Per Year | Adding New Customers | Switching of Customers to Other Company | Total Customers |
|------|--------------------|----------------------|---|-----------------|
| 2016 | 168 customers      | 15 customers         | 20 customers                            | 163 customers   |
| 2017 | 163 customers      | 5 customers          | 23customers                             | 145 customers   |
| 2018 | 145customers       | 16 customers         | 21customers                             | 140 customers   |
| 2019 | 140customers       | 11 customers         | 15customers                             | 136 customers   |

Source: PT Dharma Jaya Kimia Pratama, 2016-2019

From the data on the number of company customers, the number of consumers tends to decrease. Even though the number of purchases made is still the same and the company's sales remain stable, on the other hand the existing customers are decreasing. This shows that consumer loyalty has not become a major concern in the company.

**Table 1.2**  
**Complaint Data from PT Dharma Jaya Kimia Pratama**

| Year | Amount of Complaint | Reasons of Complaint   |
|------|---------------------|--|
| 2016 | 21                  | 1. Sales employees who rarely follow up on customers<br>2. The product did not arrive on time when the customer ordered it<br>3. Billing that is not on schedule<br>4. Sales employees who are less active in communicating with customers |
| 2017 | 16                  |  |
| 2018 | 18                  |  |
| 2019 | 23                  |  |

Source: PT Dharma Jaya Kimia Pratama, 2016-2019

From customer complaint data, the number of complaints that still often occur because the services provided are not yet optimal, with various problems from customers, including sales who rarely follow up to customers, products that

do not arrive on time, billing that is not on schedule and lack of communication between sales employees and customers. This shows that the quality of services provided is still not good.

Customer loyalty decreased due to the quality of service owned by the company has not met consumer expectations. Services that are not maximized include sales parties who do not regularly visit consumers, rarely follow up to consumers, are less active in communicating with consumers. This causes customers to tend to move to other competing companies that sell similar products.

Based on this review, the writer decides to conduct a research entitled **“The Influence of Service Quality towards Customer Loyalty at PT Dharma Jaya Kimia Pratama”**

## **1.2 Problem Limitation**

However, due to the limitation of time, budget, and data access. In this research, the writer will focus only on service quality and its influence and customer loyalty at PT Dharma Jaya Kimia Pratama. The writer chooses service quality as the main problem of this study. Problem limitations are service quality as the independent variable (x) and customer loyalty as the dependent variable (y). Indicators of service quality as the independent variables include service reliability, service responsiveness, service assurance, empathy and tangible (Venkataraman & Pinto, 2017) and indicators of customer loyalty as the dependent variables include makes regular repeat purchases, purchases across

products and service lines, refers other the product, demonstrate immunity towards the competition (Jabeen & Hamid, 2019). This research will focus on customers of PT Dharma Jaya Kimia Pratama.

### **1.3 Problem Formulation**

Based on the background of the study, the question to be answered in this research are as follows:

1. How is service quality at PT Dharma Jaya Kimia Pratama?
2. How is customer loyalty at PT Dharma Jaya Kimia Pratama?
3. Does the service quality have influence towards customer loyalty at PT Dharma Jaya Kimia Pratama?

### **1.4 Objective of The Research**

The purposes in doing this research are as follows:

1. To explain about the service quality at PT Dharma Jaya Kimia Pratama
2. To explain about the customer loyalty at PT Dharma Jaya Kimia Pratama
3. To analyze whether service quality influence to customer loyalty at PT Dharma Jaya Kimia Pratama

### **1.5 Benefit of the Research**

Benefits of this research can be listed as follow:

#### **1.5.1 Theoretical Benefit**

The theoretical benefit of this research is as follow:

1. Enrich the knowledge of the writer by doing the research also increase the experience of the writer in doing research.
2. Reading material for all students at Universitas Pelita Harapan, Medan

### **1.5.2 Practical Benefit**

1. For the Company.

To get information whether the survey that has been made will be useful to improve the company's productivity.

2. For future researcher, readers.

To be a guide in leading the reader to do another research that are compatible with this research. Also, to gain insight about what is need to update the relevant data provided from this research, so reader will get a picture on how to improve the quality of their data.

3. For the researcher

To expand the knowledge of researcher so that the researcher knows more about how to improve the service quality towards customer loyalty.