

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The world has become a global environment which forces Higher Education institutions to reposition innovatively. In fact, additional resources are needed to meet the long-term challenge to maintain and improve high standards, widening student access, strengthen links with business, and compete globally. The changing demographics will lead to increased competition from rival institutions. (Department of Education and Skills, 2003; Schmidt, 1991; Söderqvist, 2001).

Based on the web (www.republika.co.id), higher Institutions should be able to compete with the foreign institutions as the open global competition occurred, recently. As Manshur (2009) said, on his Higher Education in Indonesia presentation, the rate of enrolment of higher education in Indonesia is still higher than some countries; such as Vietnam and Pakistan. The Indonesian tertiary enrolment rate is lower than some other developing countries, for instance, Mexico, Malaysia, and Thailand. Moreover, the Republic of Korea, one of the countries with Indonesia that was called “the emerging market countries” in 90’s, has significantly higher rate than Indonesia. Korea also has a higher rate compare to developed countries; Japan, Australia, and USA.

The enrolment rates in Indonesian higher education steadily increase from 2001 to 2005, from 14% to 17%. In recent 5 years the participation rate of higher

education is considerably lower from primary and secondary's rates. Based on the National Socioeconomic Survey (2003) the enrolment rate to higher education of students was only 0.17 in 2005 whereas enrolment rate in primary level is 92.6 and 0.55 in secondary level.

Widiatmoko (2008), senior lecturer in the field of Public Health at the University of Salford, Manchester said that higher education is the engine of a community movement toward improvement and modernization. Quality of higher education and its graduates will be able to determine the progress of our country in the long run. Considering there are more than 2000 universities in Indonesia, this amount is very small and should be encouraged so that more colleges are able to compete with the institutions of the world.

Education Attaché Embassy of London, Sihbudi (2008), said that expected to improve teacher quality competitiveness of Indonesia will be more and more universities increased. He admitted that until now only a handful of universities in Indonesia, mainly in Java, which can compete with universities in neighbouring countries. (www.republika.co.id)

As competition reveals, some of institutions in Surabaya, based on Ristinet, (2004), have presenting a Smart-Campus Concept, which is offering full access Information and Technology (IT) facilities in their campus. This is shown that more institutions are already concern on the improvements and innovations.

For many institutions, satisfaction of the student remains caught in the admissions office, and fulfils strictly a sales and promotional function. To fill this gap in knowledge, this research will develop and test a models regarding to the

future behavioural-intention of the student in a higher education institution in Surabaya.

As the role of service quality in Higher Education has received increasing attention during the last two decades. Higher education institutions should ensure that all services encounters are managed to enhance consumer perceived quality. While there is a consensus on the importance of service quality issues in higher education, the identification and implementation of the right measurement instrument is a challenge that practitioners who aim to gain a better understanding of the quality issues with an impact on what students' have experienced.

Sekolah Tinggi Ilmu Ekonomi (STIE) Mahardhika is one of higher institution in economic education field in Surabaya which succeed to develop its higher education system for the Undergraduate [Sarjana Strata 1 (S-1)] Program and the Postgraduate [Pascasarjana, Strata 2 (S-2)] Program of Master of Management (MM) with its significant increases of the student total of regular and executive programs which is spreading on class segments in all over East Java Province.

In general, the development of STIE Mahardhika Surabaya in 1998, where only 14 students left, since its changes in the structural organization and strategy, the better professional and focus improvement, now STIE Mahardhika has more than a thousand students. In 2001, STIE Mahadhika launched its Postgraduate Program, the Master of Management (MM), with the total alumni over 500 students.

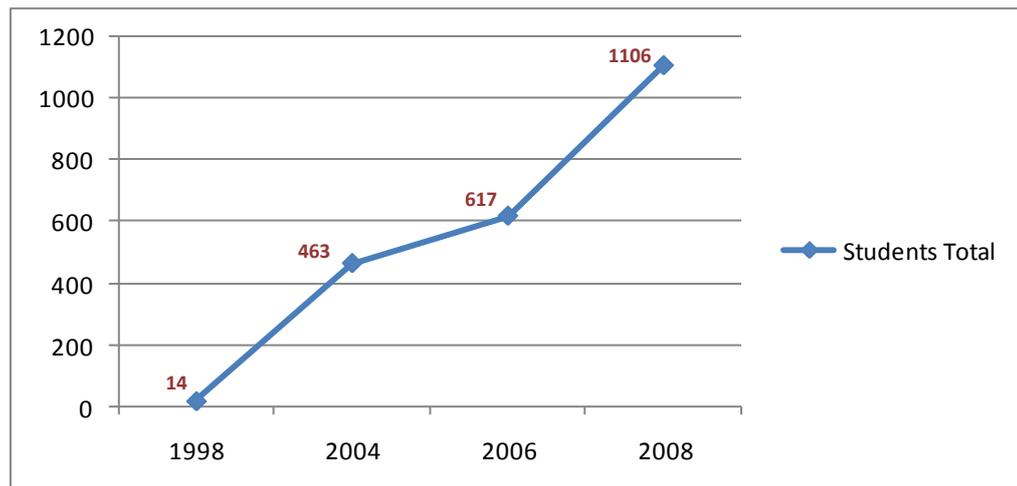


Figure 1.1

Undergraduate Students Total of STIE Mahardhika

Source: STIE Mahardhika, 2010

As the phenomenon arise, a significant and a massive increase in total of Undergraduate student in STIE Mahardhika, Surabaya – since its significant change in the management, especially on its performance – it assumed that there was a link between addressing institution’s performance, so described as ‘Service Quality’, to student’s needs.

Student is a special customer in a special service environment; the student is part of the product development; the students’ satisfaction rate is always varying over the student time and beyond; the student is the one who transports the “picture” of the university worldwide.

Summarizing previous research, they identified why student satisfaction is vitally important to universities and higher education service providers. Satisfied students can be viewed from different perspectives. As a current student, s/he can contribute and facilitate the studying process in the class through own motivation

and interest; in the future, the student can provide different forms of support to the institution such as financial support, promotion through word-of-mouth, cooperating in offering placements for students and participating in research projects. From these observations, it is hypothesized that student satisfaction is significantly related to the likelihood of recommending the institution to prospective students which is indeed increased the total of the students.

In fact, the use of the most appropriate measurement tool would help managers to assess service quality provided by their institutions, thus having the ability to use the results to better design service delivery. A review of the literature reveals that the most popular scales used to measure service quality are SERVQUAL – Service Quality (Parasuraman et al., 1988).

Based on Iacobucci and Ostrom (1995), Service quality and customer satisfaction are important concepts to the academic researchers studying consumer evaluations and to practitioners as a means of creating competitive advantages and customer loyalty. Zeithaml et al., (2006), is also identified some factors that can influence expectations of satisfaction, as word of mouth communications, personal needs, past experience of the service and external communications from the service provider.

Pura (2005) analyzed the direct effect of customer perceived value on attitudinal and behavioural components of loyalty, in a service context. His findings suggested that behavioural intentions were significantly influenced by multidimensional perceived value.

Thus, this research will be investigate the best model concept in analyzing the service quality those created perceived value that influence student satisfaction, and the final-expected results will be the future intentions of the student, specifically on loyalty and words-of-mouth(WOM) action.

1.2 Problem Statement

Based on the background of the study explained and the title statement, thus, it poses the following questions of this research in analyze the influences of service quality of the institutions are;

1. Is the institution's service quality influencing student's perceived value?
2. Is the student's perceived value influencing student's satisfaction?
3. Is the student's satisfaction influencing the loyalty?
4. Is the student's satisfaction influencing the words-of-mouth (WOM)?
5. Is the student's loyalty is significantly influencing words-of-mouth (WOM)?

1.3 Objectives of the Study

In general, the purpose of this research:

1. To analyse the influences of institution's service quality in student's perceived value.
2. To analyse the influence of the institutions' environment factors in student's perceived value.

3. To analyze that the student's perceived value influences student's satisfaction
4. To analyze that the student's satisfaction influence the student's loyalty
5. To analyze that the student's satisfaction influence the student's word of mouth

1.4 Benefits of the Study

This research aims to give theoretical and empirical advantages in the customer behaviour major, especially the future intention that is influenced by the student's satisfaction. Student satisfaction itself is happened when there is a good student's perceived value on the service quality given by the higher institution.

1.4.1 Theoretical Benefits

Theoretically, this research is useful in;

1. Broadening the marketing major which related to consumer behaviour , especially for the future intention of the student in higher institution
2. developing a student satisfaction research in resulting the future intention of the student which focused on the loyalty and word of mouth (WOM)
3. Narrowing the service quality concept in higher institution.

1.4.2 Empirical Benefits

Empirically, the result of this research will be useful for; Higher Education institutions, it can be used for finding the best ways in increasing the total

students, as well as improving the employees and institution's performances. This research is also the best way in evaluating and improving the performances of the employees in a way to get good perceived value from the students and results student's satisfaction.

1.5 Scope and Limitations of the Study

This research is take place in Surabaya. One of the limitation in this study is to the context of respondents is very limited to only one economic higher Institution, STIE Mahardhika that offered only economic courses. This study, also limited only for the Undergraduate Students (S-1), whose in semester 5 to the semester 8 (final year), as the respondents.

Scope of the research is limited to the study on the influences of service quality toward perceived value and student satisfaction which affect loyalty and words-of-mouth (WOM). So variables used in the study will be service quality, perceived value, student satisfaction, loyalty and words-of-mouth.