

CHAPTER I

INTRODUCTION

1.1 Background

Diffusion is a process that described as a series of innovation decision stages cycling through a social system over time: the spread of knowledge, attitudes toward use, use (behavior), and evaluation of use of an innovation or an object that is new to the adopting one unit (Rogers, 1983). In organizations, the process has also been called technology deployment, technology transfer, and dissemination (Tornatzky & Fleisher, 1990).

According to (Tornatzky and Fleisher 1990), technologies cannot be separated from their cultural and social settings. Their use is conditioned by cultural norms and values, and social roles and practices. Organizational factors are often more critical than technical features in determining the success of an innovation (Tushman, 1979; Kanter, 1988). These factors include influences on the ability to develop and use networks: “open communication; frequent mobility, including lateral career moves; extensive use of formal team mechanisms; and complex ties permitting crosscutting access” (Kanter, 1988).

The diffusion studies providing the foundation for this research project are those considering the influence of communication on the diffusion process (Rogers & Shoemaker, 1971). Many studies were conducted in developing countries and focused on the diffusion of agricultural or contraceptive innovations. Recently, diffusion studies have been conducted in formal organizations and consider the influence of communication. Two such studies cover the integration of R&D and marketing functions (Gupta & Rogers, 1991) and the use of data base design tools and techniques (Nilakanta & Scamell, 1990). R&D management studies often stress the importance of communication, for example, Leonard-Barton and Kraus (1985) outlined managerial actions to facilitate the transfer of technology from developers to users. They considered organizational policies and procedures, important roles, and motivation for acceptance of new technology.

Indonesia is one of the biggest country in the world which is currently stated as a developing country with the population of 263,510,146 people (retrieved on <https://www.worldometeres.info>). According to the table below, around 163 million people is considered as productive in the sense they are playing a vital role on the economic growth in Indonesia. With their big domination in the Indonesian, they are the potential of Indonesia future growth.

Table 1.1 Indonesian Population Based on Age and Gender

	Total (%)	Population Men (Absolut)	Women (Absolut)
0-14 Years	27.3	34,165,213	32,978,841
15-64 Years	66.5	82,104,636	81,263,055
65 Years and above	6.1	6,654,695	8,446,603

Source: CIA World Fact Book (retrieved on <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>)

Table 1.2 Demographics in Surabaya

URL: <http://data.go.id/storage/f/2014-04-20T11%3A45%3A06.263Z/processed-data-kependudukan-jenis-kelamin-ke-dalam-format-csv>

Grid Graph Map 20 records « 0 - 100 » surabaya

_id	kode_pro...	nama_pr...	kode_kab...	nama_kabkota	kelompok...	pendudu...	pendudu...
5181	35	Prov. Jaw...	3578	Kota Surabaya	0-4	111593	105731
5182	35	Prov. Jaw...	3578	Kota Surabaya	5-6	penduduk pria	2903
5183	35	Prov. Jaw...	3578	Kota Surabaya	7-9	69766	65577
5184	35	Prov. Jaw...	3578	Kota Surabaya	10-12	63749	59583
5185	35	Prov. Jaw...	3578	Kota Surabaya	13-14	40515	39554
5186	35	Prov. Jaw...	3578	Kota Surabaya	15	21124	21420
5187	35	Prov. Jaw...	3578	Kota Surabaya	16	19727	21329
5188	35	Prov. Jaw...	3578	Kota Surabaya	17	20426	23030
5189	35	Prov. Jaw...	3578	Kota Surabaya	18	21832	25179
5190	35	Prov. Jaw...	3578	Kota Surabaya	19	23242	27077
5191	35	Prov. Jaw...	3578	Kota Surabaya	20-24	127323	137812
5192	35	Prov. Jaw...	3578	Kota Surabaya	25-29	145605	147479
5193	35	Prov. Jaw...	3578	Kota Surabaya	30-34	132778	132902
5194	35	Prov. Jaw...	3578	Kota Surabaya	35-39	122551	121041
5195	35	Prov. Jaw...	3578	Kota Surabaya	40-44	104410	106879
5196	35	Prov. Jaw...	3578	Kota Surabaya	45-49	84940	90860
5197	35	Prov. Jaw...	3578	Kota Surabaya	50-54	72804	74455
5198	35	Prov. Jaw...	3578	Kota Surabaya	55-59	54647	52668

Source: Badan Pusat Statistik Jatim (retrieved on <http://data.go.id/storage/>)

The total population between the age-range of 18 – 60 years is around 400.000 thousand people in Surabaya. Due to the big amount of productive age in Surabaya, the tendency of purchasing power in this group age. The bigger the amount of this group age in the population will make a difference about the purchase behaviour from one another. For example, youth and nowadays are more advance in technology, and they need gadget which could help them in their daily life. Thus in Surabaya there are many retail stores, especially technology industry.



BADAN PUSAT STATISTIK

Table 1.3 Sales Output of Moderate and Large Industry in East Java (triliun Rp.)

	2011	2012	2013	2014	2015
Electronical Industry	1.48	1.34	3.11	4.64	3.19

Source: Badan Pusat Statistik (retrieved on <https://www.bing.com/>)

The table above shows the statistic of Sales Output of Moderate and Large Industry in East Java, it is stated that the data above shows a significant increase of 216% since 2011 from the level of 1.48 Trillion Rupiah to 3.19 Trillion Rupiah in 2015, it hits the highest peak on 2014 with an increase of 314% in the level of 4.64 Trillion Rupiah. The chart shows an uptrend in demand of electronic appliances in East Java. There are several factors that effects the growth of sales in the sector of electronic appliances.



Figure 1.1 Total Population of Indonesia

Source: Lokadata (retrieved on <https://lokadata.beritagar.id>)

The First Factor is increased in population, when population in a region increased, there is a tendency where demand in the market is higher. A high growth of population over a period of time tends to imply a rising demand for essential goods and services in general. While the size of market demand for a product obviously depends on the number of buyers in the market. A large number of buyers will constitute a large demand and vice-versa.

The second factor is the *Income Level*, income is the flow of cash or cash-equivalents received from work or service contributed from an individual, the higher income rate of a country or a region, the higher the purchasing power will be and vice versa. The graph below shows that the income per capita in Indonesia Rises from 2010-2015 from 28 Million Rupiah to 45 Million Rupiah in the year of 2015 and the data also correlate to the sales output in which both of the statistics increases over time.



Figure 1.2 Income Per Capita

Source: DataBoks (retrieved on <https://databoks.katadata.co.id/>)

The level of education from century to century keeps on rising and became more advanced, thus it effects on the demand of technology. In the 19th century inventors create Telegraph and Telephone in order to make communication a lot easier, but in the 21st century there are almost no telegraph and telegram being used

for daily communications. In the figure 1.1, it is stated that the percentage of population 25 years and over who completed high school or college by the group from 1940 – 2015 has increased. In the year 1940, the age group of 25 years and older that graduates college is less than 10%, a significant changes showed up in the 21st century in which in the year 2015, more than 20% has completed their college degree. The correlation between inventions and education level is that telegraph is invented in 1876 under the condition of low education level era, in the other smartphone was invented in the 21st century where the educational level is higher. To operate such high-technology device, it requires a standard level of intelligence, and the number of people with a standard level of intelligence increases throughout the century, the principle of high education level high demand of gadgets can be applied. For an example a bachelor needs a computer rather than a primary school students.



**Table 1.4 Sales Output in all Sector of Moderate and Large Industry in East Java
(triliun Rp.)**

2011	2012	2013	2014	2015
461.78	449.77	553.13	556.24	569.49

Source: Badan Pusat Statistik (retrieved on <https://www.bing.com/>)

A business that provides similar products or services. The presence of competitors in an industry drives down the price of goods and services because consumers have more alternatives from which to choose if the price of a particular good or service is too high, (retrieved on <http://www.investorwords.com.>) Hartono Elektrik was established in 1978 as a small Electronic Industry that sells electronic appliances and located at Jl. Kertajaya 75, Surabaya Indonesia. On the first place, Hartono Elektrik only sells electrical equipment, and then grows into one of the biggest electronic industry in East of Java.

In the year 1999, Hartono Elektrik established a new management style and changed its name from Hartono Elektrik to Hartono Elektronika, and then the next 15 years Hartono Elektronika Removes the word 'Elektronika' from its brand name

to Hartono. In the new era of the industry, they developed a new tagline, **Your Lifetime Partner**, and with the tagline itself they promise serve loyal customers and partners better. The loyalty of the Hartono and goals to provide the best services to all customers became the main power to develop Hartono outlet network as an Electronic Industry.

Therefore Hartono achieves several awards from various institution and groups of community. Two of them are **Winner of Surabaya Champion Brand Award** from Mark Plus in 2008, and **Top Brand Award** in national scale that was given by Frontier Consulting Group in 2009 – 2015 consecutively, and many more awards in national scale as well as international scale. Hartono currently owns 9 outlet in several city in Indonesia, such as Surabaya, Jakarta, Sidoarjo, and Malang and also creates its own online store in www.hartonoelektronika.com and *mobile application My Hartono*.

In the region of East Java Hartono had 2 major competitors, the first competitors is UFO (2003), and the second competitors is Electronic Solutions (2005). In East Java, UFO had 2 store Branches, (retrieved on <https://ufoelektronika.com/home/lokasitoko/kota/Surabaya>), and Electronic Solutions has 4 store branches, (retrieved from www.es.id.) Hartono currently has 9 store branches which gives Hartono an advantages on coverage area in East Java, and also better brand image since Hartono was established in 1975.

Based on the situation where Hartono Electronics is facing competitors such as UFO and Electronic Solutions, where three of these companies are selling the same goods with relatively the same price. At this point salesperson plays an important role to lead their company in the competitive market. The role of salesperson is to maintain customer retention which will leads to the growth of the business. One of the keys to customer retention through sales is to perform sales follow-ups. Setting up after-sales calls or meetings is a great way to maintain and build a positive relationship and gives the customer an opportunity to feedback their experience of the product or service. Sales play a key role in the building of loyalty and trust between customer and business. Trust and loyalty are the main reasons why a customer would choose to recommend your company to a friend or family

member, or write a great review of your product or service online. (Retrieved on <https://www.entrepreneur.com>)

Since Hartono is the oldest and the biggest electronic store in east java, there is still a need for sustainability due to many competitors, and to keep Hartono running when many competitors strike the market, it is important for Hartono to have customer loyalty. Therefore the writer would like to analyse the effects of Salesperson Reputation towards Customer Loyalty through Economic Value, Service Efficiency, Service Excellence, and Enjoyable Interaction to the customer of Hartono Electronics. (Retrieved from www.es.id.)

The First Variable is Salesperson Reputation, Salesperson is an individual who sells goods and services to other entities. The successfulness of a salesperson is usually measured by the amount of sales he or she is able to make during a given period and how good that person is in persuading individuals to make a purchase. If a salesperson is employed by a company, in some cases compensation can be decreased or increased based on the amount of goods or services sold, retrieved from businessdictionary.com. Reputation for a salesperson plays a vital key, it could determine how the customers see a salesperson. For an example if a salesperson doesn't perform a good service to the customer, this will give the salesperson a bad reputation. A good salesperson can be achieved in Hartono from the performance on how salesperson approach the customer (Saïd Echchakoui 2015)

The second variable is Economic Value, which is from the customer-salesperson interaction, it is also very probable that the customer cannot always evaluate economic value added by the salesperson, particularly in the case of incomplete information. Consequently, the customer might use the salesperson's reputation as a signal to assess the economic value. If, for an example, the customer perceives the salesperson as a fair and honest person that shows concern for his/her customer, the customer will more likely perceive the salesperson as most appropriate person to recommend the most economical product (Chen & Dubinsky 2003).

The third variable is Service Efficiency, which indicates that a firm's reputation signals information about the firm's quality and performance. Consequently, if a customer feels that in past transaction with the salesperson he

received the best investments ratio in terms of effort, time, energy, or money, this positive perception increases the salesperson's reputation, which in turn, will probably drive the customer's perception of the salesperson's efficiency in the post-purchase stage (Ghosh & John, 2009). In this regard, Keng et al, (2007) have shown that if a customer perceives his interactions with a person as positive, he evaluates the service provided by this person is more efficient.

The fourth variable is service excellence, which is the reputation for fairness, honesty and concern in built over time. Such a reputation enhances the salesperson's perceived work performance and his/her capacity to meet customer expectations, if a customer perceives the salesperson's reputation as positive, he possibly also perceives the salesperson;s service as excellent.

The fifth variable is enjoyable interaction, which is when a customer perceives a salesperson as having a good reputation (fairness, honesty, and concern), he probably sees more on consistency between the salesperson's verbal and non-verbal messages during the interaction. This congruency will probably lead the customer as positive. Furthermore, congruency of the salesperson's communication can induce the customer to memorize a positive image of the salesperson, which in turn enhances the customer's enjoyment of the interaction with this salesperson (Sharma & Levy, 2003).

The last variable is customer loyalty, the author would like to see how each result from previous variables affect customer loyalty. The model mediate the relationship between salesperson reputation and SOW and Customer Loyalty, the author expect that experimental value added by the salesperson serves as a mediating mechanism between salesperson reputation, and both SOW and Customer Loyalty towards the salesperson. Indeed, a customer who deals with a salesperson that scores high in reputation will probably perceive the value delivered by this salesperson more favorably. In turn, if the customer perceives that the salesperson delivers more value compared to the competitors, he will be very likely feel more loyal to the relationship with the salesperson and buy more from this salesperson (Fombrum & Riel, 2009)

1.2 Research Problems

1. Does Salesperson Reputation have a significant effect on the Economic Value?
2. Does Salesperson Reputation have a significant effect on the Service Productivity?
3. Does Salesperson Reputation have a significant effect on the Enjoyable Interaction?
4. Does Economic Value have a significant effect on the Customer Loyalty?
5. Does Service Productivity have a significant effect on the Customer Loyalty?
6. Does Enjoyable Interaction have a significant effect on the Customer Loyalty?

1.3 Research Objectives

1. To examine Salesperson Reputation have a significant effect on the Economic Value?
2. To examine Salesperson Reputation have a significant effect on the Service Productivity?
3. To examine Salesperson Reputation have a significant effect on the Enjoyable Interaction?
4. To examine Economic Value have a significant effect on the Customer Loyalty?
5. To examine Service Productivity have a significant effect on the Customer Loyalty?
6. To examine Enjoyable Interaction have a significant effect on the Customer Loyalty?

1.4 Research Contribution

The result of this research is expected to provide enrich and deepen the existing theory about management strategies. Specifically, the research will be beneficial to the current and future researchers. This research will help to complete

previous research especially towards customer loyalty from the point of view of salesperson reputation, and customer experiential value. Lastly this research will be beneficial for the researcher to develop marketing knowledge.

1.5 Research Limitations

The variables used in the is few; they are Salesperson reputation which then leads to four different variables which are Economic Value, Service Efficiency, Service Excellence and Enjoyable Interaction to determine whether Salesperson Reputation could significantly affect the Customer Loyalty The research will be conducted January – September 2018, in Surabaya

1.6 Research Outline

Research outline is written to explain the systematic writing of this study. The study will compose of five (5) chapters as follows:

Chapter I - Introduction

This chapter will give the background information about the problem that this study covers. This will include previous studies and defining important terms that will be used throughout the study. It will also specify the research objectives discussed in greater detail in order to be able to contribute for future research.

Chapter II - Review of Related Literature

This chapter will describe the methods being used while performing the experiment. It will summarize all major findings that has been published to public and then will show on how this study can contribute for the future. Description of theories will be described on why it is applicable for the current research, an explanation why it is relevant, and how the modelling effort address the hypothesis to be tested.

Chapter III - Research Methodology

This chapter will showcase and discuss the detailed scientific and technical activities done in order to accomplish the current study. This will include the research design, sampling plan, instruments being used, statistical tools and treatment of the data collected.

Chapter IV - Results and Discussion

This chapter provide organized logical presentation of all the findings that have been collected in the research questions and scrutinize more on how these key findings can be related back to the theory and prior researches that is presented in the beginning of the study.

Chapter V - Summary

This chapter provides the summary of the whole study, implications on how the study can be related back in real life, conclusion and recommendations that is created in order to advance the study of the research topics theoretically, methodologically and substantive contributions that may be necessary to overcome the limitations of existing empirical facts.