

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Technology had become one of the most important factors in people's life. The improvement in technology is rapidly growing. Many companies had spent so much in research and development to have more advance technology. Technology had given so much help in people's life. One of the greatest inventions is internet. Internet was a revolution that change economic and human social world. Internet had change the way people communicate with each other. The previous invention such as: telegram, telephone, radio, and computer were scientific works which lead to the creation of internet which is more integrated and more multifunction. Internet has the capability to broadcast worldwide, it has dissemination mechanism of information and as a media that collaborate and interact within individual with the computer without geographic issues. Internet was the most successful example of a never ending invention and commitment of research towards improvement in Information and Technology infrastructure (<http://www.academia.edu>, retrieved on 10 July 2015).

Table 1
Indonesia Internet User (Individual Who Can Access the Internet at Home)

Year (July 1)	Internet Users**	User Growth	New Users	Country Population	Population Change	Penetration (% of Pop. with Internet)	Country's Share of World Population	Country's Share of World Internet Users	Global Rank
2014*	42,258,824	9%	3,468,057	252,812,245	1.18%	16.72%	3.49%	1.45%	12
2013*	38,790,767	2%	872,427	249,865,631	1.22%	15.52%	3.49%	1.43%	12
2012	37,918,340	27%	7,979,498	246,864,191	1.26%	15.36%	3.49%	1.51%	12
2011	29,938,841	14%	3,656,969	243,801,639	1.30%	12.28%	3.48%	1.31%	17
2010	26,281,872	60%	9,847,779	240,676,485	1.34%	10.92%	3.48%	1.28%	17
2009	16,434,093	-11%	-2,112,087	237,486,894	1.38%	6.92%	3.47%	0.93%	19
2008	18,546,180	39%	5,181,459	234,243,489	1.42%	7.92%	3.47%	1.18%	18
2007	13,364,721	23%	2,514,774	230,972,808	1.43%	5.79%	3.46%	0.97%	17
2006	10,849,947	34%	2,764,090	227,709,821	1.44%	4.76%	3.45%	0.94%	17
2005	8,085,858	41%	2,331,586	224,480,901	1.44%	3.60%	3.45%	0.79%	18
2004	5,754,271	11%	547,092	221,293,797	1.44%	2.60%	3.44%	0.63%	18

* estimate

Note. Internet Live Stats (www.internetlivestats.com) retrieved on 15 July 2015

In Indonesia itself, the user of internet is increasing. This data could be seen in elaboration of data by International Telecommunication Union (ITU), World Bank, and United Nations Population Division on table 1, where the improvement had been rapid in the last 10 years, during that year there were more than 30 million of new user. Furthermore, according to APJII, (*Asosiasi Penyedia Jasa Internet Indonesia*) Indonesia has 71.9 million user of internet on 2013. In a positive view, Cisco Visual Networking Index (VNI) predicted that there will be 164 million internet user, and 530.6 million gadgets that will be connected to the network by 2018 in Indonesia (<http://techno.okezone.com>, retrieved on 15 July 2015). The growth of internet is also part of the involvement of government and public company in Indonesia. One of those companies is PT. Telkom Indonesia.

PT. Telkom Indonesia was one of the biggest provider companies in Indonesia. Telkom Group is the only state-owned telecommunications enterprise as well as telecommunications and network service providers in Indonesia. Telkom Group serves millions of customers throughout Indonesia with a complete range of telecommunications services that includes fixed wire line and fixed wireless connections, mobile communications, networking and interconnection services and Internet and data communication services. Telkom Group also provides various services in the field of information, media and edutainment, including cloud-based and server-based managed services, e-Payment services and IT enabler, e-Commerce and other portal services (<http://www.telkom.co.id/>, retrieved on 10 July 2015).

Following the growth in the industries of technology, Telkomsel also made some improvement to keep up with those growths. All of this expansion done by Telkomsel is not apart from the role of their hard work to reach their customer. Telkomsel had successfully gained their customer interest to use their product and services. The effort had made them get many awards in the past few years.

<p>Business Excellence</p> <p>Frost & Sullivan Asia Pacific ICT Awards 2013</p> <ol style="list-style-type: none"> Wireless Service Provider of the Year <p>Frost & Sullivan Indonesia Service Excellence Awards 2013</p> <ol style="list-style-type: none"> Mobile Service Provider of the Year Mobile Broadband Service Provider of the Year <p>CNET Asia Readers' Choice Award</p> <ol style="list-style-type: none"> Telkomsel - The Best Telco for Indonesia <p>Top Brand Award</p> <ol style="list-style-type: none"> kartuHalo - Postpaid SIM Card simPAIT - Prepaid SIM Card Telkomsel Flash - Mobile Internet Service Provider Telkomsel - BlackBerry Service Provider <p>Excellent Service Experience Award (ESEA) 2013</p> <ol style="list-style-type: none"> Telkomsel - The Best Telecommunication GSM <p>The Indonesia Middle-Class Brand Champion 2013</p> <ol style="list-style-type: none"> simPAIT - Prepaid GSM SIM Card Telkomsel Flash - Internet Provider <p>Indonesia Brand Champion Award 2013</p> <ol style="list-style-type: none"> simPAIT - Most Widely Used of GSM Telkomsel Flash - Most Widely Used of Cable Internet Provider Brand <p>Selular Award 2013</p> <ol style="list-style-type: none"> Telkomsel - Operator of the Year Telkomsel - Best GSM Operator Telkomsel - Best BlackBerry Services kartuHalo - Best Postpaid simPAIT - Best Prepaid <p>Golden Ring Award 2013</p> <ol style="list-style-type: none"> Telkomsel Flash Unlimited 1 Tahun - Operator Product simPAIT Dance Like Agnes - Innovative Program Telkomsel - Best BlackBerry Service Telkomsel - Operator of the Year 2013 <p>The Indonesia Most Recommended Consumer Community Award 2013</p> <ol style="list-style-type: none"> simPAIT - Brand of Choice by Community <p>Indonesia Cellular Award 2013</p> <ol style="list-style-type: none"> The Best GSM Operator The Best BlackBerry Service The Most Favourite Booth <p>Distinctive Achievement Award</p> <ol style="list-style-type: none"> Communication Technology Infrastructure Development <p>Kartini Woman's Choice Brand Award 2013</p> <ol style="list-style-type: none"> simPAIT - GSM Operator simPAIT - BlackBerry Operator <p>SWA - Word of Mouth Marketing</p> <ol style="list-style-type: none"> Telkomsel Flash - Mobile Internet Service <p>Indonesia Best Brand Award 2013</p> <ol style="list-style-type: none"> Best Brand for GSM SimCard <p>Otomotif Choice Award 2013</p> <ol style="list-style-type: none"> Best Mobile Telecommunication Provider 	<p>Social Media Award 2013</p> <ol style="list-style-type: none"> BlackBerry Service Provider Prepaid Cellular Sim Card for simPAIT dan Kartu As Prepaid Cellular Sim Card for Kartu As Postpaid Cellular Sim Card for kartuHalo <p>Indonesia Most Favorite Netizen Brands 2013</p> <ol style="list-style-type: none"> The Best Cellular Operator The Best Internet Provider <p>ICSA 2013</p> <ol style="list-style-type: none"> simPAIT - Prepaid Sim Card kartuHalo - Postpaid SIM Card <p>Indonesia's Minister of Culture and Education</p> <ol style="list-style-type: none"> Anugerah Peduli Pendidikan (APP) 2013 for the Company or State Owned Enterprise
	<p>Customer Service Excellence</p> <p>Contact Center Service Excellence Award (CCSEA) 2013 for Telkomsel</p> <ol style="list-style-type: none"> Excellent Service Performance <p>Service Quality Award 2013</p> <ol style="list-style-type: none"> GraPARI Telkomsel - Cellular Telecommunication - GSM <p>Records Museum of Indonesia</p> <ol style="list-style-type: none"> Simultaneous Operation of the Largest Number of Mobile Service Units in Indonesia <p>OpexCon 2013</p> <ol style="list-style-type: none"> Mobile GraPARI at Your Door - Runner Up Best Project
	<p>Corporate Image</p> <p>Finance Asia, ASIA'S BEST COMPANIES 2013</p> <ol style="list-style-type: none"> Best Managed Company (ranked 9th) <p>The Best of Private Enterprise Inhouse Magazine InMA 2013</p> <ol style="list-style-type: none"> Signal Magazine <p>Corporate Image Award 2013</p> <ol style="list-style-type: none"> Indonesia's Most Admired Companies <p>BUMN Corporate Secretary Public Relations Award</p> <ol style="list-style-type: none"> Best Corporate Website <p>PR of The Year</p> <ol style="list-style-type: none"> The Best Corporate PR Program of The Year <p>Indonesia Public Relation Award 2013</p> <ol style="list-style-type: none"> PR Figure selected by Indonesian media association
	<p>GCG & CSR</p> <p>Finance Asia, ASIA'S BEST COMPANIES 2013</p> <ol style="list-style-type: none"> Best Corporate Governance (ranked 6th) <p>Soegeng Sarjadi Award on Good Governance 2013</p> <ol style="list-style-type: none"> Best Companies Award <p>Ministry of Education and Culture</p> <ol style="list-style-type: none"> Anugerah Peduli Pendidikan (APP) 2013 for best companies/state owned companies <p>Indonesia Social Responsibility Award 2013</p> <ol style="list-style-type: none"> Integrated Digital School - LaTofi School of CSR

Figure 1
PT. Telekomunikasi Selular 2013 Annual Report on Achievement
 Note. PT Telekomunikasi Seluler 2013 Annual Report

Those achievements shown on figure 1 shows that Telkomsel always looks to improve their performance and make their customer as their priority. Moreover, celebrating their 19th anniversary, Telkomsel emphasize that they will be always continue to be the market leader, by being the leader in service and customer satisfaction (<http://kupasbengkulu.com>, retrieved on 15 July 2015).

Customer satisfaction was very important. Studies have found that the level of customer's satisfaction has a positive effect on profitability (Nagar & Rajan, 2005). A totally satisfied customer could contribute 2.6 more revenue to a company as a somewhat satisfied customer, 17 times more revenue as a somewhat

dissatisfied customer. Furthermore, a totally dissatisfied customer decreases revenue at a rate equal to 18 times what a totally satisfied customer contributes to a company. Research also has shown that when a person is satisfied with a company or service are likely to share their experience with other people. However, dissatisfied customers are likely to tell more people of their unfortunate experience. With social media popularity, it makes easier for consumers to tell their story through online, people can easily go to Twitter or Facebook and read about someone's experience with a company or service (<http://www.wparesearch.com>, retrieved on 15 July 2015).

However, focusing only on customer satisfaction has its drawbacks in the marketplace. According to former studies, it can cost as much as six times more to win a new customer than it does to keep an existing one (Rosenberg et al., 1984) Depending on the particular industry, it is possible to increase profit by up to 60% after reducing potential migration by five percent (Reichheld, 1993). The increase and retention of loyal customers has become a key factor for long-term success of the companies. The main emphasis in marketing has shifted from winning new customers to the retention of existing ones. This fact shows that maintaining customer loyalty is not an easy job to do.

Companies that focus only on customer satisfaction could run a real risk a failing to differentiate their brand from others. In order to achieve sustainability, companies must seek for loyalty with the customer that is strong enough to guard off the pros of competitors. Creating loyalty among customers can help the company to increase purchases of existing products, charge premium prices for appreciation of companies' added-value services, and create positive word-of-mouth promotion for companies (Gaunaris & Stathakopoulos, 2004) which is the core marketing objective for companies. Customer loyalty is harder to achieve than satisfaction. When customer is satisfied with the company, it does not make them loyal. There were several factors that could make customer change to the competitors, such as finding better value. However, company cannot achieve customer loyalty without making them satisfied. Thus, though customer

satisfaction does not guarantee the loyalty, it has an important role in achieving customer loyalty (<http://www.wparesearch.com>, retrieved on 10 July 2015). According to Dahiyat (2011) there are three factors that influence the customer loyalty, those are: Service Quality, Customer Satisfaction, and Customer Trust.

Zeithaml, Parasuraman and Berry (1990) stated that Service Quality is the extent to which a firm successfully serves the purpose of customers. service quality refers to the degree of discrepancy between customer's normative expectations for the service and their perception of service's performance (Serkan & Gorhan, n.d) Prior studies have considered service quality as an antecedent of customer satisfaction (Cronin & Taylor 1992; Anderson et al., 1994; Gotlieb et al., 1994). Empirical findings showed that service quality is related to customer satisfaction (Babakus et al., 2004). Customers who are satisfied with the service quality will have a favorable emotional response, i.e., customer satisfaction.

Following from the aforementioned discussion on service quality, the tangible and intangible attributes of a service have been found to play a crucial role in shaping a customer's perceptions as to the quality level of that service. Such service quality, in turn, drives the customer's evaluation and judgment of the extent to which customer can confide in the provider of such a service. This extent of confidence, in turn, may either deepen or diminish the customer's trust of the service-providing organization (Garbarino & Johnson, 1999; Hsieh & Hiang, 2004; Yieh et al., 2007). In other words, as Yieh et al., (2007) proposed, the better the quality of service, the more likely the customer is to gain confidence in that organization, and the more trusting customer becomes of the service provider.

According to Anderson and Narus (n.d), trust is a belief to another party's word or promise because the party is considered as integral, honest, truthful, and able to perform actions that will result in positive outcomes or prevent actions that will end in negative results. A customer who trusts a certain brand is likely to form positive buying retention towards the brand. In addition, an inherent

relationship exists between customer satisfaction and customer trust, in that the more customers are satisfied with the service experience, the more likely they will feel that they can trust both the organization itself as well as the personnel that provide its service. As for the interrelationships existing among service quality, trust, and customer loyalty, these are explained and clarified by Arasli et al. (2005) from studying service quality in the banking industry in Cyprus. They indicate that if the service provider can instill feelings of confidence (trust) in its customers as a result of delivering high quality to them through handling their affairs competently, dealing with them in a professional and competent way, providing prompt service, and having employees who are always willing to help the customer, then customers will take a step further by recommending it to others (i.e., being loyal).

Based on the phenomenon and theory that being elaborated, this research then aimed to gain the insights on customer loyalty from service quality perspective, mediating by customer satisfaction and trust.

1.2 Research Problems

1. Does service quality have significant effect on Telkomsel customer satisfaction in Surabaya?
 - a. Does service quality dimensions of Reliability have significant effect on Telkomsel customer satisfaction in Surabaya?
 - b. Does service quality dimensions of Responsiveness have significant effect on Telkomsel customer satisfaction in Surabaya?
 - c. Does service quality dimensions of Assurance have significant effect on Telkomsel customer satisfaction in Surabaya?
 - d. Does service quality dimensions of Empathy have significant effect on Telkomsel customer satisfaction in Surabaya?
 - e. Does service quality dimensions of Tangibles have significant effect on Telkomsel customer satisfaction in Surabaya?
2. Does service quality have significant effect on Telkomsel customer trust in Surabaya?

- a. Does service quality dimensions of Reliability have significant effect on Telkomsel customer trust in Surabaya?
 - b. Does service quality dimensions of Responsiveness have significant effect on Telkomsel customer trust in Surabaya?
 - c. Does service quality dimensions of Assurance have significant effect on Telkomsel customer trust in Surabaya?
 - d. Does service quality dimensions of Empathy have significant effect on Telkomsel customer trust in Surabaya?
 - e. Does service quality dimensions of Tangibles have significant effect on Telkomsel customer trust in Surabaya?
3. Does service quality have significant effect on Telkomsel customer loyalty in Surabaya?
 - a. Does service quality dimensions of Reliability have significant effect on Telkomsel customer loyalty in Surabaya?
 - b. Does service quality dimensions of Responsiveness have significant effect on Telkomsel customer loyalty in Surabaya?
 - c. Does service quality dimensions of Assurance have significant effect on Telkomsel customer loyalty in Surabaya?
 - d. Does service quality dimensions of Empathy have significant effect on Telkomsel customer loyalty in Surabaya?
 - e. Does service quality dimensions of Tangibles have significant effect on Telkomsel customer loyalty in Surabaya?
 4. Does customer satisfaction has significant effect on Telkomsel customer loyalty in Surabaya?
 5. Does customer trust has significant effect on Telkomsel customer loyalty in Surabaya?

1.3 Research Objectives

1. To examine the effect of service quality on Telkomsel customer satisfaction in Surabaya
 - a. To examine the effect of service quality dimensions of Reliability on Telkomsel customer satisfaction in Surabaya

- b. To examine the effect of service quality dimensions of Responsiveness on Telkomsel customer satisfaction in Surabaya
 - c. To examine the effect of service quality dimensions of Assurance on Telkomsel customer satisfaction in Surabaya
 - d. To examine the effect of service quality dimensions of Empathy on Telkomsel customer satisfaction in Surabaya
 - e. To examine the effect of service quality dimensions of Tangibles on Telkomsel customer satisfaction in Surabaya
2. To examine the effect of service quality on Telkomsel customer trust in Surabaya
 - a. To examine the effect of service quality dimensions of Reliability on Telkomsel customer trust in Surabaya
 - b. To examine the effect of service quality dimensions of Responsiveness on Telkomsel customer trust in Surabaya
 - c. To examine the effect of service quality dimensions of Assurance on Telkomsel customer trust in Surabaya
 - d. To examine the effect of service quality dimensions of Empathy on Telkomsel customer trust in Surabaya
 - e. To examine the effect of service quality dimensions of Tangibles on Telkomsel customer trust in Surabaya
3. To examine the effect of service quality on Telkomsel customer loyalty in Surabaya
 - a. To examine the effect of service quality dimensions of Reliability on Telkomsel customer loyalty in Surabaya
 - b. To examine the effect of service quality dimensions of Responsiveness on Telkomsel customer loyalty in Surabaya
 - c. To examine the effect of service quality dimensions of Assurance on Telkomsel customer loyalty in Surabaya
 - d. To examine the effect of service quality dimensions of Empathy on Telkomsel customer loyalty in Surabaya
 - e. To examine the effect of service quality dimensions of Tangibles on Telkomsel customer loyalty in Surabaya

4. To examine the effect of customer satisfaction on Telkomsel customer loyalty in Surabaya
5. To examine the effect of customer trust on Telkomsel customer loyalty in Surabaya

1.4 Research Contributions

The result of this research is expected to provide more information to the existing theory about service quality, customer satisfaction, customer trust, and customer loyalty to a internet service provider. Specifically, the research will be beneficial to the following:

1. The academic institution

This research can be used as reference for other students who will conduct related research thesis topic.

2. Current and future researchers

This research may help current and future researchers to have more understanding on service quality and its relation to customer satisfaction, customer trust, and customer loyalty, especially on Telkomsel in Surabaya.

3. The author

The study gave the author the opportunity to enhance the theoretical knowledge gained from lectures, text books, and other literature, as well as practice the analytical skills in solving managerial problems.

4. Telkomsel

The result of this research can be used as an input for Telkomsel to improve its service quality, customer trust, and customer satisfaction to maintain customer loyalty.

1.5 Research Limitations

This study was conducted with Telkomsel user as the research object. This research used service quality, as the independent variable, customer satisfaction and customer trust as intervening variables, and customer loyalty as the dependent variable. The researcher is limited in terms of location because the research is done in Surabaya, Indonesia. The respondents is limited to male and female

within the age of 18-35 who have had been using Telkomsel as their mobile service provider within the last one year.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

Chapter IV

This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.