SHIFTING ORIENTATION IN COMPETITION FROM PROFIT TO PEOPLE QUALITY: INFLUENCE OF SERVICE QUALITY, PRODUCT, SATISFACTION ON CUSTOMER LOYALTY OF A FASTFOOD RESTAURANT IN JAKARTA

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ABSTRACT
In fast-food industry, food quality and safety become pre-requisite to launch a fast-food restaurant. Thus, the players in this industry offer similar quality of food. This has caused a shift of the focus of competition in the industry from competing in the quality of product to the quality of human resources in serving customers. The aim of this study is to find out whether service quality, product, and satisfaction have any impact on customer loyalty. The study surveyed 30 respondents in the pre-testing and 170 respondents in actual data testing. SmartPLS3.2 software was used to process data, that was collected using questionnaire. Data processing was conducted using validity test, reliability test, multiple regression analysis and hypothesis testing. The test revealed that Service Quality is indeed an important variable to affect Customer Loyalty. The same result applied to Product and Satisfaction what also revealed positive effect on Customer Loyalty.

Keywords: service quality, product, satisfaction, customer loyalty

INTRODUCTION
The increasing role of government in highly regulating the fast-food industry, requiring fast-food restaurants to meet the required standard of food quality and safety, has shifted the competition in this industry from orientation to increasing sales to satisfying customer needs and creating customer loyalty. Thus, efforts to maintain competitive advantage are now moving towards increasing the quality of human resources that can offer value for customers as well as building strong relationship with customers. In other words, customer satisfaction has become the key in creating customer loyalty (Kotler & Armstrong, 2010). Tight competition among fast-food restaurants leaves customers with more choices of alternatives for that product, price, and quality. With the availability of similar product offers with the same standard of quality, makes customers look more for the value of service (Kotler & Keller, 2005). Low quality service will result dissatisfaction with customers, not just customers who enjoy the dish at restaurant but also impact on the community around the dissatisfied customers. Disappointed customers will tell their negative experience to at least 15 other people (Lupiyoadi and Hamdani, 2006). Therefore, fast-food restaurants with human resources that can offer good service quality and in addition to product quality will be much more effective for business continuity.

Sorvino in Forbes.com (2019) reported the top 3 of the world’s most famous brand in food and restaurant industry with McDonald’s occupying the first place, followed by Starbucks and Kentucky Fried Chicken. In Indonesia, Morgan (2018) conducted a survey on visits to fast-food restaurants in Jabodetabek between April 2017 to March 2018. The survey revealed that nearly 8.5 million people Jabodetabek (40.2%) visited a KFC restaurant in an average of six months, compared to the visits to Sederhana Restaurant (21.3% or 4.5 million people) and McDonald’s (17.8%).

Unfortunately, with the outbreak of COVID-19 Pandemic in 2020, and the new normal requirement that limit the restaurant occupancy by 50%, Kentucky Fried Chicken (KFC)
experienced set back in the number of visits to the restaurants due to the level of fear of customers of contracting the virus. This virus outbreak also forced many fast-food restaurants to close many of their outlets, including KFC that had to close 100 outlets (Ferry, 2020).

With this disruption in fast-food restaurant, tighter competition and the urgent need for staying in the business, fast-food restaurants including KFC have to identify ways to win customers and make existing customers loyal. Therefore, there is an urgent need for a study to identify variables that can contribute to customer loyalty. This research aims to do analyze the impact of service quality, product quality and satisfaction customer loyalty at KFC in Indonesia.

**LITERATURE REVIEW**

**Service Quality with Customer Loyalty**

It is important for firms to maintain customer loyalty by analyzing the level of service quality that meets the needs and wants of customers (Ghotbabadi et al., 2015). Another study conducted by Siddiqi (2011) entitled "Interrelations between Service Quality Attributes, Customers Satisfaction and Customer Loyalty in the Retail Banking Sector in Bangladesh" also considered service quality as an important attribute to customer satisfaction and customer loyalty. The research revealed that service quality has a positive and significant influence on customer loyalty. These studies lead to the formulation of the first hypothesis below:

**H1: Service Quality has a positive influence on Customer Loyalty**

**Product Quality and Customer Loyalty**

Kotler and Armstrong (2010) define a product as all that is offered to the market to be consumed to meet the needs and wants of the customers. Further, Kotler and Armstrong explain that product includes physical objects, services, people, places, organizations, and ideas.

According to studies conducted by De Ruter & Wetzels (1998) and Fandos & Flavian (2006), perceived product quality contributes positively to extend loyalty. In addition, they stated that the impact of product quality on loyalty varies from industry to industry.

The results of research by Boulding et al. (1993) revealed that there is a positive relationship between product quality and customer intention to repurchase further as their willingness to recommend to others. This study was also supported by the research conducted by Munger & Grewal (2001) and Chaudhuri & Holbrook, (2001) that confirmed the influence of product quality on repurchase intention leading to customer loyalty. These studies lead to the second hypothesis below.

**H2: Product has a positive influence on Customer Loyalty**

**Customer Satisfaction and Customer Loyalty**

Fornell (1992) stated that customer satisfaction leads to customer loyalty. Sheth et al. (2000) supported this notion by stating that customer satisfaction is positively associated with the corporate value and return on investment (ROI). Chiguvi and Guruwo (2015) also found the positive relationship between customer satisfaction and customer loyalty in their study. In addition, a research by Al-Msallam (2015) found that Customer Satisfaction is positively related to Customer Loyalty. These studies lead to the formulation of the last hypothesis in this study below.

**H3: Customer Satisfaction has a positive influence on Customer Loyalty**
Research framework

This study analyzes several important variables that influence customer loyalty described in the following research framework.

Figure 1. Research Framework

RESEARCH METHOD

Research Paradigm

This research uses quantitative method. This type of method is conducted by using numerical analysis to develop and observe certain population related to phenomena. The purpose of this research is to describe the phenomenon that one directly observes and objectively measures (Sekaran & Bougie, 2016). The researchers will use the result of quantitative data (which is in the form of statistics, numerical data, facts) to answer the research questions regarding the hypotheses formulated in the previous section.

Population and Sample

Population according to Sugiyono (2012) is generalization area consisting of objects or subjects with certain qualities and characteristics set by researchers to be studied and then drawn the conclusion from it. The population of this research involves all customers of KFC Indonesia.

Further, Sugiyono (2012) defines sample as part of the number and characteristics of population. The Sample used in this research is customers of KFC in Jakarta and its surrounding cities (Jabodetabek area).

This research used non-probability sampling which members of the population do not have the same probability or opportunity to be chosen as a sample (Supramono & Haryanto, 2005).

The amount of sample is determined by using the following Slovin formula, which suggests a minimum sample of 105 respondents.

\[ n = P \times (1 - P) \times \frac{Z^2}{\alpha^2} \]

- \( n \) = number of samples
- \( P \) = proportion accepted
- \( 1-p \) = proportion rejected
- \( Z \) = value
- \( \alpha \) = allowable tolerance

Service quality (X1) → H1 → Customer loyalty (Y)
Product quality (X2) → H2 → Customer loyalty (Y)
Customer Satisfaction (X3) → H3 → Customer loyalty (Y)
n = 0.8 (0.2). 1.64 / 0.05² = 104.9 which rounds to 105

Profile of Respondents

The respondents of this research are visitors to KFC in JABODETABEK area. Data was collected using online survey. There were 30 respondents involved in the pre-test and 170 respondents involved in the actual study.

Gender. Most respondents were male, with a total of 112 respondents (54.50%) and female with a total of 88 respondents (45.50%).

Age. Those under 15 years old consisted of 2 respondents (1%), followed by 16–25 years old with a total of 71 respondents (35.50%); 26–45 years old with a total of 78 respondents (39%), and lastly those who are more than 45 years old with a total of 49 respondents (24.50%).

Occupation. There are 65 students (32.50%), 121 employees (60.50%), and 14 respondents (7.00%) fall into the category of “others”.

Frequency of visits. Those who visited KFC 2–3 times a month (78 respondents or 39.00%), followed by respondents visiting KFC 4–5 times a month (63 respondents or 31.50%), and those visiting KFC 1 time a month (30 respondents or 15.00%), and finally those visiting KFC more than 5 times a month with 29 respondent (14.50%).

Amount Money Spent in a visit. Most respondents spend ≤ Rp. 50,000 with 169 respondents (64.50%); Rp. 51,000 to Rp. 100,000 with 52 respondents (26%), Rp. 101,000 to Rp300,000 with 18 respondents, and more than Rp. 300,000 with 1 respondent (0.5%).

Research Instrument

In this study, the researchers used online survey with Likert scale (1 = strongly disagree; 5 = strongly agree), because this scale has constant equal distances between each characteristic value measured (Sekaran & Bougie, 2016).

The following is a list of the indicators of each research variable derived from the research conducted by Yesenia & Siregar (2016).

Service Quality. A form of consumers’ assessment of the level of service received by the expected level of service. The construct is measured by indicators (Czerniawski & Maloney 1999): tangibles, reliability, empathy, responsiveness, and assurance.

Product. Product refers to the ability of a product to perform its functions, includes durability, reliability, ease of operation and improved accuracy, as well as other valuable attributes. The construct is measured by indicators (Kotler & Armstrong, 1995): It tastes good, Product Features, and packaging.

Customer Satisfaction. A situation where expectations, wants and needs of customers are met. The construct is measured by indicators (Spreng et al., 1996): The experience of consuming KFC gives happiness, meets expectation, strengthens belief of satisfying experience, evokes pleasant feeling.

Customer loyalty. A sense of satisfaction for what they want according to what is expected during the use of a particular product. The construct is measured by indicator (Foster &
Cadogan, 2000): positive words of mouth, recommendation, no intention to switch brand, revisit, top of mind, positive perception.

RESULTS AND DISCUSSION

This study used PLS-SEM as the analytical tool. In analyzing the data using this tool, two stages were conducted, namely the measurement model test (the outer model) and the structural model test (the inner model).

Outer Model

In the measurement model analysis, the reliability test and the validity test were conducted (Sekaran & Bougie, 2016).

The validity test. Sekaran and Bougie (2016) also stated that validity test is conducted to meet three requirements. First, to test the convergent validity, with the Average Variance Extracted (AVE) value of all variables be more than 0.5. Second, the Outer Loadings value of each indicator must be more than 0.6. Third, to test the discriminant validity, the squared correlation value of each variable should be bigger than the cross squared correlation of the variable with other variables. Table 1 and Table 2 show the results of testing the convergent validity of this study.

<table>
<thead>
<tr>
<th>Variables</th>
<th>AVE</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>0.604</td>
<td>Valid</td>
</tr>
<tr>
<td>Product</td>
<td>0.509</td>
<td>Valid</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.669</td>
<td>Valid</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.607</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Source: Data Processing Result SmartPLS

Two variables (Service Quality, Satisfaction and Customer loyalty) have AVE values more than the benchmark value of 0.6 as suggested by Sekaran and Bougie (2016), thus considered valid. Product has an AVE value 0.509, slightly below 0.6. Fornell & Larcker (1981) and Sekaran & Bougie (2016) considered a value of 0.5 acceptable. Therefore, this product (Product) was still included in the analysis.
Table 2 shows that all indicators in the actual test are valid (all above the benchmark of 0.6). These valid results were obtained after three indicators that were invalid (below a benchmark of 0.6) in the pre-test were removed.

Table 3. Actual Discriminant Validity

<table>
<thead>
<tr>
<th>SQ</th>
<th>Product</th>
<th>Customer Satisfaction</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>0.777</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>0.814</td>
<td>0.713</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.295</td>
<td>0.223</td>
<td>0.818</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.317</td>
<td>0.402</td>
<td>0.723 0.779</td>
</tr>
</tbody>
</table>

The reliability test was carried to measure the internal consistency reliability test with two conditions that must be met. The first requirement is that the value of the Cronbach’s alpha must be higher than 0.6. The second requirement is that the value of the composite reliability variable must be higher than 0.6. Table 4 and Table 5 describe the results of the reliability test in the measurement model of this study.

Table 4. Actual of Cronbach’s Alpha

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>0.914</td>
<td>Reliable</td>
</tr>
<tr>
<td>Product</td>
<td>0.867</td>
<td>Reliable</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.834</td>
<td>Reliable</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.891</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Table 4 shows that Service Quality has a Cronbach’s Alpha value of 0.914, Product has a value of 0.867, Satisfaction has a value of 0.834 and Customer Loyalty has a value of 0.891. This means that all variables have Cronbach's alpha values above the benchmark value of 0.6. Thus, all variables are considered reliable.
In addition to calculating Cronbach’s Alpha, this study also measured Composite reliability (sometimes called construct reliability). Composite reliability is used as a measure of internal consistency in scale items (Netemeyer et al., 2003). Table 5 shows the composite reliability values of all variables also meet the stipulated requirements, namely above 0.6 to be considered reliable (Sekaran & Bougie, 2016).

### Inner (Structural) Model

The hypothesis testing is conducted to determine if H0 (null hypotheses) can be rejected in favor of the alternative hypotheses, namely H1, H2, and H3 (Sekaran & Bougie, 2016, p. 301). Hypothesis testing requires a t-test (t-statistics) and p-value to determine whether the hypothesis is accepted or supported.

The first criterion is t-statistics or critical value, where the hypothesis is accepted if the hypothesis has a critical value (t-statistic) of more than 1.651 for one-tailed test (Ghozali & Latan, 2015). The second criterion is p-value, where the hypothesis is accepted if it has p-value of less than 0.05. The results of hypothesis testing of this study are presented in Table 6.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Standardized Coefficient</th>
<th>Path Coeff</th>
<th>T Statistic (&gt;1.651)</th>
<th>P Value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Service Quality to Customer Loyalty</td>
<td>-0.265</td>
<td>1.725</td>
<td>0.043</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H2 Product to Customer Loyalty</td>
<td>0.462</td>
<td>3.309</td>
<td>0.001</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H3 Satisfaction to Customer Loyalty</td>
<td>0.698</td>
<td>12.412</td>
<td>0.000</td>
<td>Supported</td>
<td></td>
</tr>
</tbody>
</table>

### R Square

In assessing a research construct, the research model is represented by the value of R square (R2). The results of R2 make a research model reliable or not (Ghozali, 2011). In this study, the R-Square value can be seen in Table 7.
Table 7. R-Square

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>R Square adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y</td>
<td>0.607</td>
<td>0.594</td>
</tr>
</tbody>
</table>

Source: Data Processing Result SmartPLS

Table 7 shows the R-square value of 0.607, which means that only 60.7% of all independent variables such as Service Quality, Product and Satisfaction can explain the dependent variable (Customer Loyalty). The remaining 39.3% is explained by other variables not specifically analyzed in this study.

**Hypothesis 1 states that service quality has a positive influence on customer loyalty.**

The result of Hypothesis test in Table 6 shows that first hypothesis has a t-statistics of 1.725, which is greater than 1.651. This means that the hypothesis is accepted. In addition, the hypothesis should have a p-value of less than 0.05 to be considered supported. Because the t-statistics of the first hypothesis is 1.725 > 1.651 and the p-value of the first hypothesis is 0.043 < 0.05, the first hypothesis is accepted and supported.

This result is in line with previous research by Siddiqi (2011) with a study entitled "Interrelations between Service Quality Attributes, Customers Satisfaction and Customer Loyalty in the Retail Banking Sector in Bangladesh." From the research, they found that service quality has a positive and significant influence on customer loyalty. Service Quality provided by qualified human resources plays a significant role in meeting customer needs and wants to provide positive experience of customer and create customer satisfaction (Ghotbabadi et al., 2015).

**Hypothesis 2 states that product has a positive influence on customer loyalty.**

The second hypothesis has a t-statistics of 3.309 which is greater than 1.651, so the hypothesis is accepted. In addition, if the hypothesis has a p-value less than 0.05, the hypothesis is supported. Because the t-statistics of the second hypothesis is more than 1.651, which is 3.309 > 1.651 and the p-value of the second hypothesis is less than 0.05, which is 0.001 < 0.05, the second hypothesis is also accepted and supported.

The results of this research are supported by a study conducted by Boulding et al (1993). Their study found that there is a positive relationship between product quality and customer intention to repurchase as well as the willingness to recommend to others. This happens because perceptions toward product quality influence value, efforts of marketers have focused on improving product quality to reinforce positive perceptions, so purchase intentions can result in loyalty (Munger & Grewal, 2001). Kotler and Armstrong (2010) seem to agree that products are everything that can be offered to the market to be noticed, obtained, used, or consumed to fulfill wants or needs. This includes physical objects, services, people, places, organizations, and concepts. Thus, it is important for companies in fast-food industry to pay attention to not only improving the physical product features, but also the product attributes and the people providing services to stimulate positive experience in product consumption.

**Hypothesis 3 states that Satisfaction has a positive influence on customer loyalty.**

The third hypothesis has a t-statistics of 12.142 which is more than 1.651, so the hypothesis is accepted. In addition, p-value should be less than 0.05 for the hypothesis to be supported. Because the t-statistics of the third hypothesis is more than 1.651, or to be exact: 12.142 > 1.651 and the p-value of the third hypothesis is less than 0.05, which is 0.000 < 0.05, then the third hypothesis is accepted and supported.

This result is also supported by the results of a research conducted by Oliva et al. (1992) that found that customer loyalty will improve considerably when the customer satisfaction reaches a certain level and customer loyalty will go down significantly if the level of
satisfaction falls to a certain point. A study by Chiguvi and Guruwo (2015) also obtained the same result concerning customer satisfaction that positively affects customer loyalty. This result can be used to inspire fast-food restaurants to integrate strategies to create customer satisfaction in improving their competitive advantage in the fast-food industry.

CONCLUSION AND RECOMMENDATIONS

The aim of this research is to determine if there is a positive effect of Service Quality, Product, Satisfaction on Customer Loyalty. Based on the results of the analysis and data processing, the following conclusions are obtained:

1. The first hypothesis that states a positive relationship between Service Quality and Customer Loyalty was supported. This indicates that the higher the service quality, the more loyal the customers will be. Therefore, companies can put efforts to equip their human resources with the skills to better serve their target customers as well as the existing customers.

2. The second hypothesis that states a positive relationship between Product and Customer Loyalty was also supported. This shows that the higher the product quality, the more loyal the customers will be. When improving product quality, firms should not just focus on physical product features, but also product attributes and the service attached to presenting the product (Kotler & Armstrong, 2010). This becomes critical in the post COVID-19 pandemic, which products to also be processed and served hygienically.

3. The third hypothesis that states a positive relationship between Satisfaction and Customer Loyalty was supported. This indicates that the higher the satisfaction, the more loyal customers will be. When designing strategies to boost customer satisfaction, firms can consider closely monitoring the dynamic and rapid changes in the needs and wants of customers, specifically in the post COVID-19 era.

In addition, here are several recommendations for future research:

1. Because this research was only conducted in a certain area (Jabodetabek area), the results cannot be generalized to draw conclusion about the context of other areas. Thus, it is recommended for further researchers to conduct similar research in the geographical area of interest. It is also recommended to expand the coverage of the geographical area to include other big cities in Indonesia if the researchers would like to get information in the national context.

2. This research shows that the three independent variables only moderately influence (60.4%) the dependent variable (Customer Loyalty). For future researchers, it is recommended to consider adding or using other variables such as the Brand Image or Brand Reputation as additional variables that can affect Customer Loyalty.

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