

THE ROLE OF VALUE CO-CREATION IN IMPROVING CUSTOMER LOYALTY WITH CUSTOMER SATISFACTION AS MEDIATING VARIABLE

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Abstract—The objective of this conceptual paper is to keep up with the changes in marketing paradigm, which involves customer’s active participation in the creation of goods and service values offered by companies in order to maintain customer loyalty to the companies. The success of new products relies not only on product quality but also on market condition customer targeting and even product launching time. The product development process in the new wave marketing era requires companies to co-create with experts who are able to identify and create quality products. This study aims to identify the relationship between value co-creation and customer loyalty, the relationship between value co-creation and customer loyalty with the mediation of customer satisfaction, and the relationship between customer loyalty and customer loyalty. This study uses SEM-PLS by observing its outer and inner models.

Keywords—value co-creation, customer satisfaction, customer loyalty, new wave marketing

I. INTRODUCTION

Changes in marketing philosophy implies the active participation of customers in value creation (Pralhad, 2004, Vargo, 2004). Companies adopt the facilitator role of value creation, and customers feel the motivation and willingness to involve themselves in this service (Payne, Storbacka, and Frow 2008). Several empirical studies have identified the benefit of customer participation for the companies in improving customer satisfaction (Sharma & Patterson, 1999; Vega-Vazquez, Revilla-camacho, and Cossío-silva 2014) and the relationship between level of trust and loyalty in the area of B&B .

A survey conducted by Bain & Co. on 362 companies found that 80% of the interviewed senior

executives stated that they have provided good customer experiences, but interestingly there are only 8% of customers agree to it. The difference is quite possibly caused by perspective gaps. Companies may think that that have created a valuable customer experience through excellent services, but they frequently do not change into a good customer experience since experience quality is determined by individual customer perspective (Vargo & Lusch 2004).

Service quality and customer satisfaction have been considered important, and therefore they have been investigated by many researchers in retail marketing and service management (e.g. Parasuraman Zeithaml, Berry 1988; Verhoef, Langerak, Donkers, 2007). Meanwhile, the importance of customer experience has been recognized by several researchers (e.g. Lemke et al., 2011; Verhoef et al., 2009), and customer experience is a key factor for loyalty (Badgett Boyce & Kleinberger 2007). Verhoef et al. (2009) proposed a conceptual model and suggested several determining factors for customer experience, i.e. social environment service, retail atmosphere, various prices, and promotion.

The empirical study of Francisco Jose (2016) found that the effect of value co-creation on loyalty is not significant, but the results of Eapen (2016) and Ana (2014) indicated that the effect of value co-creation on loyalty is significant. Studies on the influence of value co-creation on loyalty produced contradictory results and caused research gap (Ferdinand, 2014). Therefore, customer satisfaction is used as a mediator to fill the research gap.

II. LITERATURE REVIEW

A. The Definition of Loyalty

Kotler, Hayes, and Bloom (2002) mentioned six reasons why institutions need to attain the loyalty of their customers. The first reason is that existing customers are more prospective, which means that loyal

customers will give more benefits to the institutions. The second reason is that the cost for acquiring new customers is far higher than the cost of keeping and maintaining the existing customers. The third reason is that customers who have trusted the institutions in one matter believe them in other matters. The fourth reason is that the institutions' operational cost becomes more efficient if they have more loyal customers. The fifth reason is that the institutions can reduce psychological and social costs since existing customers have many positive experiences with them. Finally, the sixth reason is that loyal customers will always defend the institutions; they are even willing to attract new customers and suggest people to become customers.

Loyalty is a repetitive purchase response that can be perpetually disclosed by decision makers by considering one or more alternate brands from a number of similar brands, and it is a psychological process function. An emphasis should be made that it is different from repeat purchase behavior, where customer loyalty involves feeling aspect, not involving affective aspect (Dharmesta, in Diah Dharmayanti, 2006, pp. 37-38). Olson (in Trisno Mushanto, 2004, pp. 128) asserted that customer loyalty is a behavioral urge to make repetitive purchases and to build customer loyalty on certain goods and services produced by certain companies, which requires a long time through repetitive purchase processes.

William W. Zikmund (2003:72) proposed aspects that influence customer loyalty as follows.

1) *Satisfaction*

Comparison between pre-purchase expectation and perceived performance.

2) *Emotional Bonding*

Customers feel strong bonds with other customers who use the same products and services.

3) *Trust*

The willingness of a person to trust a company to run a function.

4) *Choice reduction and habit*

Regular purchase of a product as the accumulation of experience from every repetition.

5) *History with company*

Service Dominant Logic (SDL)

There are many concepts, such as value co-creation and operant resources, that according to SDL do not originate from SDL and are not created by SDL. However, SDL adopts the shift in modern society's thoughts, in which marketing is regarded as a facilitator of continuous process of voluntary exchanges through values that create various relationship among social actors such as individuals and organizations. SDL

started to develop through the merge of various existing paradigms about exchanges.

SDL is based on the convergence of historical ideas and literatures in economic and management marketing (e.g. Gummesson, 1995; Normann and Ramirez, 1993; Shostack, 1977), marketing theories that are influential in services and relationship marketing (e.g. Gummesson, 1995; Gronroos, 1994), resource-advantage theory (Hunt, 2000), core competence theory (Hari, 1994; Prahalad and Hamel, 1990), and network theory (Achrol, 1999; Hakansson and Snehota, 1995; Norman and Ramirez, 1993) that revealed that alternative is centered on market logic service for evolution (Vargo and Lusch, 2004).

B. *Value Co-Creation*

New wave marketing era is an era where producers can collaborate with consumers in developing dynamic, interactive, and multi-source-based co-creation products that involve value creation processes that are not only done by coordinating everything that deals with quality, cost, and delivery but also done through collaboration. The success of the new products is influenced by not only product quality but also market condition, customer targeting, and the time of product launching. The product development process in the new wave marketing era requires companies to co-create with experts who are able to identify and create quality products. Prahalad and Ramaswamy (2004) asserted that the value of a product will be better than the produced product if the company has run the co-creation process well.

C. *DART Model*

DART (*Dialogue, Access, Risk-assessment, and Transparency*) is a model that straightforwardly describes foundations or basic principles that must be built by companies in order to successfully create shared value creation. Consumers' access to information and their possibility to have dialogues in consumer communities have changed the role of consumers in current business systems. According to Prahalad and Ramaswamy (2004: 12), future competition relies on the new approach in value creation that is based on shared value creation that is centered around individuals between customers and companies. Therefore, in order to be successful in co-creation value, companies must focus on a new set of building blocks called the DART. Prahalad and Ramaswamy (2004:23) explained that, to increase the knowledge about organizational knowledge, interactions between consumers and companies as a means for value creation are needed. This also describes the need for co-creation through key building blocks; they are dialogue, access, risk assessment, and transparency, the DART (Co-Creation Value through Customer Experience, 2008). They are explained as follows.

1) *Dialogue*

The dialogues between consumers and companies must focus on the interest of both. Therefore, companies must do more than just listening to their consumers. In addition, rules of engagement and productive interaction are also expected. Dialogue means interaction, deep involvement, and tendency to act on the behalf of both sides. It requires understanding on empathy to build experiences around what consumers experience, recognize emotional context, and recognize social and cultural experiences. This is a knowledge and communication between to identical problem solver. Dialogue creates and maintains a loyal community.

2) Access

Access starts with information and equipment, such as the internet. A company can provide access to data regarding processes and designs for consumers. The traditional focus of companies and value chain is creating and transferring ownership of product to consumers. Nowadays, the objective of consumers is access to desired experience, not always product ownership. Therefore, the idea of ownership access must be submitted.

3) Risk Assessment

The freedom to exchange information, either to predict or share risks. When consumers and companies become value co-creator, the request for information regarding risk potential will increase. Consumers can also predict future risks. The risks refer to the probability of endangering consumers. Managers traditionally assumed that companies can assess and manage risks better. Thus, when communicating with consumers, marketers entirely focus on articulating benefit, and they mostly ignore risks.

4) Transparency

Transparency is created to build trust between consumers and companies, for example about price, and to facilitate them to overcome disturbance potentials in their interactions. Information about products and business system is now easier to access, creating a new level in transparency that increase consumers' desire.

D. Customer Satisfaction

The definition of satisfaction varies across literatures. Kotler (2000, pp. 36) defined customer satisfaction as a pleasure or disappointment of a person with a product after comparing it with his expectation. Wilkie (1994, pp. 541) defined customer satisfaction as positive emotional response to the evaluation about an experience of using a goods or service. Engel (1990) stated that customer satisfaction is post-purchase evaluation where the selected products are at least the same with or exceed customer's expectation. Dissatisfaction appears when the outcome does not meet the expectation. Based on the various definitions above,

it can be concluded that, in general, the definition of customer satisfaction includes differences between expectation and perceived achievement or result.

Customer satisfaction provides some benefits, such as harmonious relationships between companies and their customers, strong foundations for repeat purchase and customer loyalty, and word-of-mouth recommendations that benefit companies (Tjiptono, 2000). Engel (1990) stated that customer satisfaction is a post-purchase evaluation where the selected alternative is at least the same with or exceeds customer's expectation, while dissatisfaction appears when the outcome does not meet customer's expectation. It is generally accepted that the objective of any business is to create satisfied customers. The success of creating customer satisfaction can give several advantages, such as harmonious relationships between companies and their customers, strong foundations for repeat purchase and customer loyalty, and word-of-mouth recommendations that benefit companies (Tjiptono, 2000).

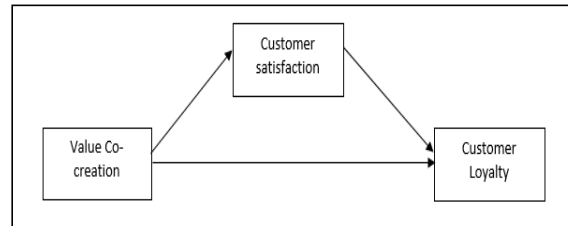


Fig. 1. Conceptual Model

E. Research Hypotheses

H1: Value co-creation significantly influences customer loyalty

H2: Value Co-Creation significantly influences customer loyalty through the mediation of customer satisfaction

H3: Customer Satisfaction significantly influences customer loyalty

F. Previous Research

TABLE 1. MAPPING OF JOURNALS

| No. | Article Title | Author | Research Type | Research Result |
|-----|---|---|---------------|--|
| 1 | Impact of Value Co-Creation on Logistics Customers' Loyalty | Eapen Thiruvattal (2016) | Quantitative | Conducted on 330 SMEs using EFA and SEM. Value co-creation, both internal and external, significantly influences loyalty with the mediation of superior service. |
| 2 | Value Co-Creation via Information and Communications Technology | Ana Isabel Polo Pena, Dolores Maria Frias Jamilena and Miguel | Quantitative | Conducted on 100 service companies and 572 customers using SEM. In terms of the company, there is a significant relationship between technology and |

| No. | Article Title | Author | Research Type | Research Result |
|-----|--|---|---------------|---|
| | | Angel Rodriguez Molina (2014) | | communication and value co-creation. In terms of the customers, there is a significant relationship between value co-creation and perceived value and a significant relationship between value co-creation and loyalty. |
| 3 | Co-Creating Unique Value with Customer | C. K. Prahalad and Venkad Ramaswamy (2004) | Conceptual | The key for value co-creation is the DART model, consisting of dialogue, access, risk assessment, and transparency |
| 4 | Efficacy of Co-Creation and Mastering on Perceived Value and Satisfaction in Tourists' Consumption | Nina Prebensen*, Jinghua Xie (2015) | Quantitative | 395 questionnaires were collected, analyzed using EFA and econometric equation. Co-creation and mastering influences satisfaction with the mediation of perceived value. |
| 5 | Wine Service Marketing, Value Co-Creation and Involvement: Research Issues | Linda D. Hollebeck and Roderick J. Brodie | Conceptual | Consumer Involvement influences service with the mediation of brand and value co-creation. |
| 6 | Value Co-Creation and Customer Loyalty | Francisco-José Cossio-Silva, María-Angeles Revilla-Camacho, Manuela Vega-Vázquez, Beatriz Palacios-Florencio (2016) | Quantitative | Using 547 sample and SEM. Value co-creation behavior significantly influences attitudinal loyalty, but the influence of value Co-Creation behavior on behavior loyalty is insignificant. |

III. METHODS

The data of this study was collected through observations, interviews, and questionnaires (Ranjit Kumar, n.d.), the questioner was sent to customer of Sharia Bank . The population of this study is all of customer of Sharia Bank Indonesia. The sample of this study is purposive sampling 250 customer of Sharia Bank Indonesia. Likert scale was used to measure the attitudes, opinions, and perceptions of respondents about the object. The instrument is said to be good if it meets three main conditions: valid, reliable, and practical according to Cooper and Schindler (2006). If the instrument is invalid or unreliable, the results will not represent the real condition. The assessment on the questionnaire as a research instrument was conducted using test of validity and test of reliability. Test of validity measures the scale accuracy over the instrument being used to ensure the suitability between the instrument, i.e. questionnaire items, and the measured

object. This test calculates the correlation coefficient between the score of the items and their total score using Pearson's product moment correlation. The instrument of the research is declared valid if the r value is greater than 0.30 (Solimun, 2017). Test of reliability measures the internal consistency of indicators in a construct that show to which degree each indicator identifies a general latent factor. This test identifies the reliability and the consistency of an instrument if it is used to measure the same object for multiple times. The test of reliability conducted to statement items uses Cronbach's alpha with the acceptable cut off point of greater than 0.60 (Solimun, 2017). The Definition operational variables are,

- a. Value Co-Creation is measured by Dialogue, Access, Risk Assessment and Transparency.
- b. Customer satisfaction is measured by image sharia bank, Sharia Bank keep the confidentiality of the customer personal person and performance of Sharia Advisory Board.
- c. Customer loyalty is measured repurchase of sharia bank product, reference to others.

Causal relationship is a relationship pattern across research variables from exogenous variables and endogenous variables. The causal relationship of this study is between the exogenous variable. customer loyalty and the endogenous variable. value co-creation with the mediation of customer satisfaction. To analyze causal relationships or a series of interdependent relationships between variables, a multivariate analysis technique that can explain and predict the relationship between variables simultaneously and assess the structural model is needed. The technique is Partial Least Squares (PLS).

The data analysis of this study uses SmartPLS version 2.0.m3. According to Ghazali (2006), PLS is a variance based structural equation modelling (SEM) that is able to simultaneously assess measurement and structural model. Measurement model is used to assess validity and reliability, while structural model is used to assess causality (i.e. hypothesis testing with predictive model). Furthermore, PLS is a soft modelling analysis method because it is not based on multiple data assumptions, uses measurement scale, does not require large sample size. Hence, it only requires small sample size, from 30 to 50 (Ghozali and Latan, 2015).

There are several reasons behind the use of PLS in this study. The first reason is that PLS is a method of data analysis that is based on the assumption that the sample does not have to be large and the assumption of residual distribution. The second reason is that PLS can be used to analyze theory-based data, empirical research results, relationship between variables in other disciplines, and other rational relationships, so the theoretical foundation of PLS can be strong, weak, or even explorative. The third reason is that the PLS

approach assumes that all variance sizes can be used to explain relationships between variables.

The model testing, was performed to analyze the relationship between variables and indicators, was conducted as follows.

1. Outer model, which is the specification of a relationship between latent variables and their indicators, explains the characteristics of the latent variables with their indicators or manifest variables (Wiyono, 2011). This model is a measurement to assess the validity and reliability of a model (Abdillah dan Hartono, 2015). To determine whether the research instrument measures what it has meant to measure, test of validity is conducted (Cooper, *et al.*, 2006). Meanwhile, to measure the consistency of an instrument in measuring a concept of research instrument, test of reliability is conducted (Abdillah dan Hartono, 2015).

Test of validity uses the confirmatory factor analysis by referring to the results of convergent validity and discriminant validity test on the measurement instrument. Outer model with reflective indicator is evaluated through convergent validity. Assessment criteria are said to have convergent validity if the loading factor value is 0.7 and the p value is significant (<0.05). The loading factor that is greater than 0.6 to 0.7 is acceptable if the research has not settled, the value of *average variance extracted* (AVE) must be greater than 0.5, and the good discriminant validity is shown by the square value of AVE for each construct that is larger than the correlation between constructs (Latan dan Ghozali, 2012). Reflective variable assumes that indicators are as if influenced by other latent variables hence demand correlations among indicators.

2. Inner model, which is the specification of relationships between latent variables, shows the relationship between latent variables based on the substantive theory of Wiyono (2011). Inner model is a structural model to predict the causality relationship between latent variables. This structural model is evaluated by using R^2 for dependent construct and path coefficient value (t-value) of each path for inter-construct significance test in a structural model. The R squared value is used to measure the variation level of changes of exogenous variable on endogenous variable. The path coefficient value

(t-value) shows the significance level in a hypothesis testing (Abdillah dan Hartono, 2015).

IV. DISCUSSION

The research of Eapen (2016) about the relationship of Value Co-Creation to customer loyalty shows significant results while the study of Francisco jose (2016) has no significant relationship between value Co-Creation. This causes a gap that results are not consistent. To fill in the gap between value Co-Creation and customer loyalty by adding mediation namely customer satisfaction. Research on the relationship of value Co-Creation to loyalty can be applied to sharia banks as the object of research.

Customer value creation and sharia banks must always improve customer involvement in creating shared value in products of sharia bank products in accordance with the sharia principle. Value Co-Creation between customer and sharia bank will increase customer satisfaction, high customer satisfaction will increase customer loyalty so that the relationship of value Co-Creation to customer loyalty is significant by mediating customer satisfaction.

V. CONCLUSION

Changes in the marketing paradigm namely customer involvement in the creation of products and services (value Co-Creation) will increase customer loyalty by mediating customer satisfaction. Implementation of these models in companies can be applied to products and services of the Sharia Bank. Implementation at Bank sharia is by adding performance indicators of the sharia supervisory board to the customer satisfaction variable. The implementation of the value Co-Creation at sharia banks is very influential on customer satisfaction. The policies of each sharia bank are different in the implementation of bank sharia products such as the types of savings and time deposits offered and profit sharing according to customer needs and expectations.

The development of the business world is increasingly supported by high technology so that all businesses can be accessed on line so that customers can choose the type of product they want. Companies need customer involvement in creating / designing new products that can satisfy customer desires. Customers who are satisfied to the service of the company will be loyal and provide references to other people to use the company's products or services

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