

TESTIFYING COMPANY IMAGE AS MEDIATING VARIABLE ON THE EFFECT OF PUBLIC RELATION AND REPUTATION TO CUSTOMER LOYALTY ON RURAL BANKS IN CENTRAL JAVA, INDONESIA

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ABSTRACT

The contribution of public relation in developing favorable image and improve customer loyalty was not dubious. Likewise the role of reputation in creating good image and enhancing customer loyalty was consciously understandable. While good image of a company could lead to increase customer loyalty, the position of image as a mediator variable was still in question. The study purported to explore the position of image on the relation of public relation to customer loyalty and the relation of reputation to customer loyalty. A sample which was consisted of 114 respondents, who live at Central Java, was drawn through convenience and judgment technique. Data collected by questionnaires and analyzed by employing Amos 22.0 and SPSS 21.0. The results showed that image was not a mediating variable whether on the effect of public relation to image and customer loyalty or on the effect of reputation to image and customer loyalty.

KEYWORDS: *Public Relation, Reputation, Image, Loyalty*

INTRODUCTION

Indonesia Deposit Insurance Corporation (LPS) since 2005 to September 2019 have liquidated 101 banks. Most of them are Rural Banks (100 banks), in which 7 Rural Banks are in Central Java (Solopos.com). The liquidation was made likely due to systemic and non-systemic causes. Rural Banks have to meet such requirements in operation. Financial ratios should be carefully taken into account to save the banks. Furthermore, all duties as a consequence of operating a bank should be seriously taken an interest. Accordingly, to operate a bank is not a problem of just opening an office, but a careful and faultless preparation should be absolutely concerned.

Customers contribute a strategic position in rural banks, They include those who deposit money, those who borrow money, and everyone who gets benefit from the bank. Always utilizing services and constant are very important for the bank. They absolutely play a part of the bank's development. However, it is not enough. The sum of customers should also grow up. A just small number of customers could not push the development quickly. So, the bank needs a big number of customers who are likely loyal to the bank.

How can the bank come into that ideal condition? Actually, bankers are not rare with marketing. They employ a lot of part timer to persuade important people to deposit money. They also encourage people to get advantage from credit. Nevertheless, getting the ideal condition is not so easy. Actually, not many people are easily persuaded to save money or to take credit. At some extent, they do not know well who the bank is, how about its service and how about its reputation. In

other words, people would obviously be sure about the status of the bank, the condition of the offer (such as rate of interest, collateral etc.), the easiness of getting benefit, in which they are competitive to other banks.

Frequently people do not care about the competitive advantages from other banks. People do not take intention of the rate of interest. They also do not much bother about the services, etc. How come? It might be they are already familiar, whether to the bank or to employees. From their point of view, the bank is so beneficial to their business. Up to now, the bank is so helpful to them. It likely the people have been loyal to the bank. On the other hand, it needs time. The loyalty has been encouraged through experience. The question is how the bank can enjoy it without consuming time?

Actually, an experience of interacting between new customers and the staffs cannot be rejected. A familiarity needs time. However the bank can feel a similar experience as if the new customers have known well about the bank. They look like recognize the bank from a couple of times before, although they are just step in the office for the first time. Why does it happen? Here we talk about reputation and image. The creation of good image to the bank can be developed through improving communication with the target market. A public relation department of the bank can apparently lead the favorable image.

The influence of public relation to image was investigated by Lee & Choi (2009). The result showed that the influence is positive and significant. In addition, The findings of Vera (2013) and Alhadid & Qaddomi (2016) also support the positive and significant influence. Klaayu (2009) examines the relation of company reputation and image. The finding shows that there is a positive and significant influence. Andreassen & Lindestad (1998) explore the influence of company image to customer loyalty. They find that the influence is significant. Likewise the findings of Christina (2009), Upamannyu & Sankpal (2014) and Alqadri, Kadir & Kadir. (2020) reinforce Andreassen & Lindestad's finding.

Stoker (2005) agrees the idea that public relation contributes a premium on loyalty, particularly in cultivating the relationships. He scrutinizes the relation between both and suggests the way how public relation can improve loyalty. An & Chung (2008) find that public relation affects customer loyalty. The significant effect is also approved by Taufiq Hidayat (2015) when he exercises a study on similar topic. Gul (2014) investigates a study about a relation of reputation to loyalty. She finds that reputation obviously affects customer loyalty significantly. Gul's finding is supported by Sadeghi *et al.*(2018) and Adi (2019).

Referring to the topic of this study and the review of other studies, it can be assumed that there are seemingly significant effect of (1) public relation to image (2) public relation to customer loyalty (3) reputation to image (4) reputation to customer loyalty and (5) image to customer loyalty. However, it is still in question about the position of image, whether it mediates the influence of public relation to customer loyalty, or it mediates the influence of reputation to customer loyalty. Therefore the aim of the study is to investigate the mediating position of image to (a) the effect of public relation to customer loyalty and (b) the effect of reputation to customer loyalty.

METHODS

Respondents are those who ever deal with Rural Banks whether are active or inactive. Sample consists of 114 respondents who live at Central Java. It is withdrawn by non-probability sampling, particularly convenience and judgment method (Cooper & Schindler, 2001; 2008). Data submitted by questionnaire utilizing Likert scale ranging from 1= completely not agree to 5= completely agree. While confirmatory factor analysis is in use to identify validity, Cronbach's alpha test is exercised to assess the reliability. Further, data are analyzed by the use of Amos 22.0 and SPSS 21.0.

RESULTS

Confirmatory Factor Analysis (CFA)

• **Variable PR and R**

The confirmatory factor analysis shows that loading factors of PR1, PR2, PR3 and PR 4 exceed the cut-off point. Likewise R1, R2, R3, R4, R5, R6 and R7 (Figure 1). It means that the indicators belong to be valid (Ferdinand, 2006) (Table 1).

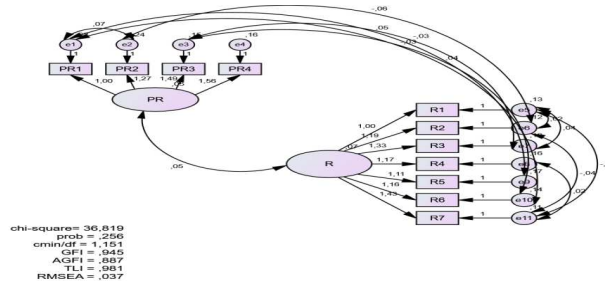


Figure 1: CFA of PR and R

• **Variable PBC and BI**

Indicators IM1, IM2, IM3, IM4 and IM5 surpass the cut-off point. In addition, LO1, LO2, LO3, LO4, LO5, LO6 and LO7 also exceed the cut-off point. Thus, the indicators of IM and LO are valid (Ferdinand, 2006) (Fig. 2) (Table 1).

Test of Reliability

Applying Cronbach’s alpha test, the result is as follows. The Cronbach’s alphas scores of PR, R, IM and LO go above the cut-off point (Table 2). It means that all variables experience reliability (Ghozali, 2011).

Table 1: Indicator PR, R, IM and LO

Indicators	Factor Loading	Cut-off Point	Justification
PR1	0.444	0.4	Valid
PR2	0.551	0.4	Valid
PR3	0.662	0.4	Valid
PR4	0.670	0.4	Valid
R1	0.594	0.4	Valid
R2	0.674	0.4	Valid
R3	0.703	0.4	Valid
R4	0.615	0.4	Valid
R5	0.590	0.4	Valid
R6	0.642	0.4	Valid
R7	0.755	0.4	Valid
IM1	0.755	0.4	Valid
IM2	0.421	0.4	Valid
IM3	0.573	0.4	Valid
IM4	0.900	0.4	Valid
IM5	0.589	0.4	Valid
LO1	0.637	0.4	Valid
LO2	0.776	0.4	Valid
LO3	0.803	0.4	Valid
LO4	0.652	0.4	Valid
LO5	0.771	0.4	Valid
LO6	0.848	0.4	Valid
LO7	0.873	0.4	Valid

Source: data analysis

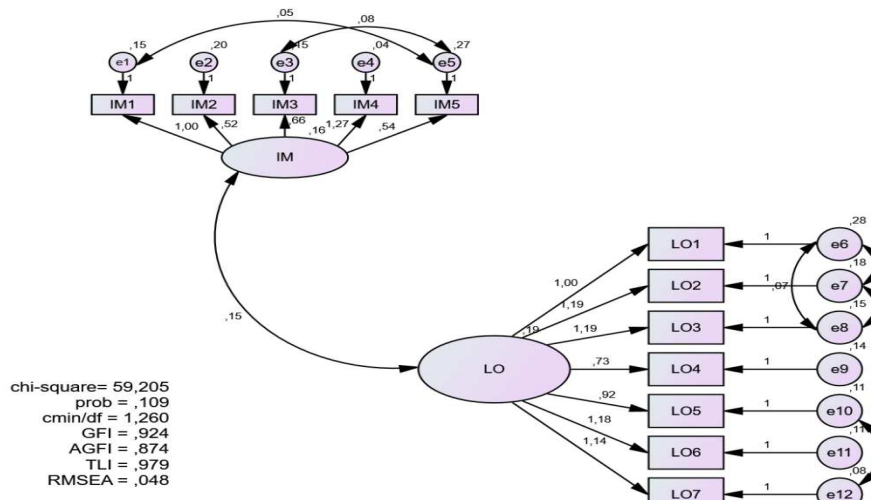


Figure 2: CFA of IM and LO.

Table 2: Reliability of Variables

Variables	Cronbach's α	Cut-off Point	Justification
PR	0.709	0.6	Reliable
R	0.838	0.6	Reliable
IM	0.780	0.6	Reliable
LO	0.918	0.6	Reliable

Source: data analysis

Goodness of Fit of the Model

A structural equation model is drawn by connecting all variables as hypothesized. This model likely does not meet a goodness of fit criteria. Due to modification indices, it is then renovated which likely produces better gauges. Unfortunately, it is likely not thoroughly appropriate to expectancy, since not all indicators are above the criteria. However, although only Cmin/df, TLI and RMSEA which meet the standards, the model is likely supposed to be operated. The reason is that the three indicators already demonstrate the model is in accordance with the structural parameter (Figure 3) (Table 3).

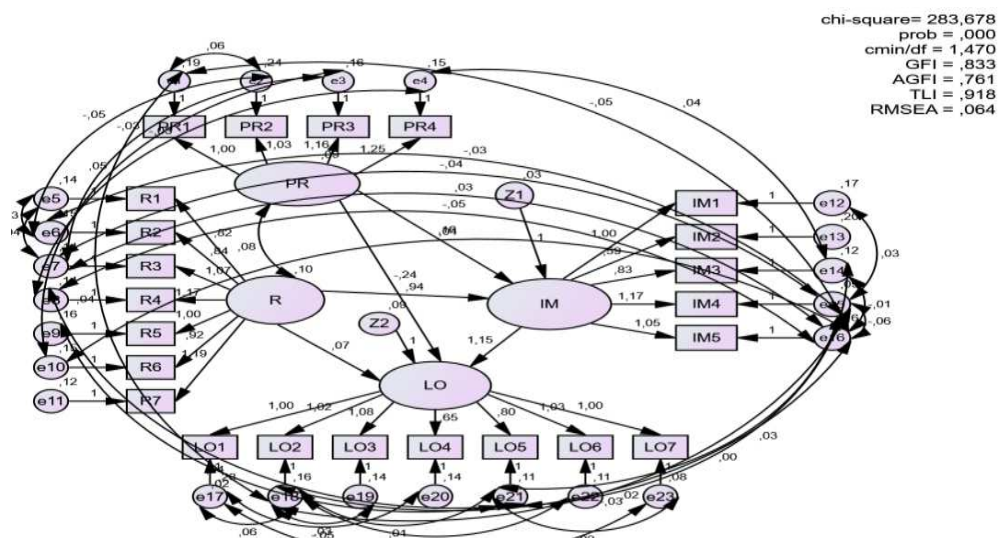


Figure 3: The Modification Model.

Table 3. Indicators of the Model

Indicators	Initial Score	Second Scores	Threshold	Justification
Chi-square/Prob	520.787/0.000	283.678/0.000	89.250/p>0.05	Not meet
Cmin/df	2.323	1.470	≤ 5	Meet
GFI	0.700	0.833	High	Not meet
AGFI	0.630	0.761	≥ 0.9	Not meet
TLI	0.768	0.918	≥ 0.9	Meet
RMSEA	0.108	0.064	0.05 to 0.08	Meet

Source: data analysis

Test of Hypotheses

The hypotheses of the relation between R to IM and IM to LO are supported. The influences are significant (p= 0.002 and p= 0.008). On the other hand, the influences of PR to IM, PR to LO and R to LO are not significant (p= 0.568; p= 0.546; p= 0.909). In addition, the two hypotheses about the position of IM as mediating variable are also not supported. The hypothesis of IM as mediating variable on the influence of PR to LO is automatically dropped, since the influences of PR to IM and LO are not significant (p= 0.568 and p= 0.546). Likewise, the hypothesis of IM as moderating variable on the influence of R to LO is not supported. Although the influences of R to IM and IM to LO are significant, the influence of R to LO is not (p= 0.909) (Table 4).

Table 4: Regression Weight among Variables

	Estimate	S.E	C.R	P	Label
IM ← PR	0.163	0.285	0.571	0.568	par_20
IM ← R	0.941	0.297	3.170	0.002	par_21
LO ← IM	0.146	0.435	2.637	0.008	par_22
LO ← PR	-0.236	0.391	-0.604	0.546	par_24
LO ← R	0.066	0.576	0.114	0.909	par_25

Source: data analysis

DISCUSSIONS

The significant effect of reputation to image is likely in line with the study of Klaayu (2009). Also the significant effect of image to customer loyalty supports the finding of Andreassen & Lindestad (1998), Christina (2009), Upamannyu & Sankpal (2014) and Alqadri *et al.* (2020).

The insignificant effect of public relation to image might be explained as follows. Although for practitioners public relation is very important to enhance customer loyalty (Stoker, 2005), it is not thoroughly implied on Rural Banks, particularly in Central Java. Perhaps, Rural Banks do not take much into account about the importance of public relation. It likely respondents do not see much the activity of public relation department. As a consequence, respondents do not point up the effect of public relation to image. By the same point of view, respondents do not refer the effect of public relation to customer loyalty.

CONCLUSSIONS

The main aim of the study is to investigate the mediating position of image to (a) the effect of public relation to customer loyalty and (b) the effect of reputation to customer loyalty. The aim is apparently achieved. The data analyze shows that the position of image whether on the effect of public relation to customer loyalty or reputation to customer loyalty is not supported as mediating variable.

MANAGERIAL IMPLICATION

The findings whether it is significant or insignificant likely should be carefully taken into account. The significant effect of reputation to image reminds Rural Banks particularly in Central Java to be aware of developing whether internal or external matters. The internal matters likely refer to banks' service quality, banks' products which meet the need of rural society, and the performance. Externally, the purpose of the banks to develop rural society should be hold tightly. The external activities are in line with activities of public relation. Since the finding denotes the insignificant effect of public relation whether to image or to customer loyalty, it likely gives a warning not only do highlight the internal matters but also the external matters.

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