

THE CUSTOMER SATISFACTION INFLUENCING THE ORGANIZATIONAL FINANCIAL
PERFORMANCE

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UNIVERSITI TEKNIKAL MALAYSIA MELAKA

“Saya/Kami* akui bahawa telah membaca
karya ini dan pada pandangan saya/kami* karya ini
adalah memadai dari segi skop dan kualiti untuk tujuan penganugerahan
Ijazah Sarjana Muda Pengurusan Teknologi (Teknousahawan)”

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Laporan ini dikemukakan sebagai memenuhi sebahagian daripada syarat
penganugerahan Ijazah Sarjana Muda Pengurusan Teknologi (Teknousahawan)

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“Saya akui laporan ini adalah hasil kerja saya sendiri kecuali ringkasan dan petikan yang tiap-tiap satunya saya telah jelaskan sumbernya”

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DECLARATION

This declaration is to clarify that all of the submitted contents of this project are original in its figure, excluding those, which have been admitted specifically in the references. Moreover, all the work process involved is from my own idea and creativity. All contents of this project have been submitted as a part of partial fulfillment of Bachelor of Technopreneurship. I hereby declare that this project is the work of my own excluded for the references document and summaries that have been acknowledge.

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ABSTRACT

Nowadays, competition in market between firms becomes fierce. As a prominent factor in firm's profitability, customer satisfaction has been given much attention in the measurement of a firm's financial performance. However, the factor of customer satisfaction towards the organizational financial performance has been relatively neglected in this research. The purpose of this study is to examine the relationship between customer satisfaction and organizational financial performance. Furthermore, the objective of this research is to identify the characteristics of customer satisfaction that can contribute to the organizational performance and to investigate the relationship between customer satisfaction and organizational financial performance. Besides that, descriptive study used a quantitative method aims to find answers to these questions. A questionnaire will be used to gain data and information. In addition, data for this research will be collected from 50 respondents in organization in Johor and will be collected within the allotted time. Moreover, the data will be analyzed using Statistical Package for Social Sciences (SPSS) and analysis results are displayed in the form of frequencies and percentages. Additionally, findings reveal that the influence of customer satisfaction is reflected in the return on asset (ROA), return on equity (ROE) and profit margin (PM), proxies of a firm's profitability. The results indicate that customer satisfaction positively affect an organizational financial performance in the product and service industry. Recommendations for future research are discussed.

Keywords: Customer satisfaction, customer loyalty, customer retention, organizational financial performance and profitability.

ABSTRAK

Pada masa kini, persaingan dalam pasaran antara firma-firma semakin sengit. Kepuasan pelanggan adalah faktor penting dalam keuntungan firma yang diberi perhatian dalam mengukur prestasi kewangan firma. Walau bagaimanapun, faktor kepuasan pelanggan yang mempengaruhi prestasi kewangan organisasi tidak diambil kira dalam kajian ini. Tujuan kajian ini adalah untuk mengkaji hubungan di antara kepuasan pelanggan dan prestasi kewangan organisasi. Tambahan pula, objektif kajian ini adalah untuk mengenal pasti ciri-ciri kepuasan pelanggan yang boleh menyumbang kepada prestasi kewangan organisasi dan untuk mengkaji hubungan di antara kepuasan pelanggan dan prestasi kewangan organisasi. Selain itu, kajian deskriptif menggunakan kaedah kuantitatif bertujuan untuk mencari jawapan kepada soalan-soalan ini. Soal selidik akan digunakan untuk mendapatkan data dan maklumat. Di samping itu, data untuk kajian ini akan diambil dari 48 responden dalam organisasi di Johor dan akan dituntut dalam tempoh masa yang diperuntukkan. Selain itu, data akan dianalisis dengan menggunakan Pakej Statistik untuk Sains Sosial (SPSS) dan hasil analisis dipaparkan dalam bentuk kekerapan dan peratusan. Selain itu, hasil kajian mendedahkan bahawa pengaruh kepuasan pelanggan mempengaruhi juga pulangan ke atas aset (ROA), pulangan ke atas ekuiti (ROE) dan margin keuntungan (PM), proksi keuntungan firma. Keputusan menunjukkan bahawa kepuasan pelanggan memberi kesan positif kepada prestasi kewangan organisasi dalam produk dan industri perkhidmatan. Cadangan untuk kajian akan datang dibincangkan.

Kata Kunci: *Kepuasan pelanggan, kesetiaan pelanggan, pengekaln pelanggan, prestasi kewangan organisasi dan keuntungan.*

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CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter provides an overview background of the study, problem statement, research questions, objectives of the study, scope of the study and hypothesis. Moreover, in this chapter had briefly explained about customer satisfaction and organizational financial performance.

1.1 Background of the study

Customer satisfaction can be defined as measure of how products and services supplied by a company meet or surpass customer expectation. In the current business world, where the competition among the companies has become increasingly fierce, companies need to differentiate their products or services from others competitor in order to keep their relationship with customers (Gronroos, 1994). Furthermore, customer satisfaction is very importance for the firms to increase their financial performance. Customers can recognize the value and benefits of the products or services that offered by the firm to them. Over the time, they had been exhibit loyalty behaviors such as continuing purchasing and increase referrals. Moreover, in a competitive marketplace where

businesses compete for customers, customer satisfaction was seen as a key differentiator and increasingly had become a key element of business strategy.

Within organizations, customer satisfaction ratings can have powerful effects. They were focusing the employees on the importance of fulfilling customer's expectations. Furthermore, when these ratings dip, they warned of problems that affect sales and profitability. Other than that, when a brand has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective. Therefore, it was very essential for businesses to effectively manage the customer satisfaction. To be able to do this, firms needed to be reliable and representative measures of satisfaction.

In researching satisfaction, firms generally ask customers whether their product or service has met or exceeded expectations. Therefore, expectation was a key factor behind satisfaction. When customers had high expectations and the reality falls short, they had been disappointed and will likely rate their experience as less than satisfying. For this reason, a luxury resort, for example, might receive a lower satisfaction rating than a budget motel even though its facilities and service would be deemed superior in 'absolute' terms. When the firms can fulfill customer's needs and wants, the customer satisfaction had occurred. It also can create customer loyalty and customer retention that can contribute to the organizational financial performance.

For instance, statistics about customer was very important in order to measure the satisfaction and the effective of the service and products that offered to the customers. Moreover, consumers were 2 times more likely to share their bad customer service experiences than they were to talk about positive experiences (2012 Global Customer Service Barometer). A customer was 4 times more likely to buy from a competitor if the problem was service related vs. price or product related (Bain & Co.) 70% of buying experiences were based on how the customer feels they were being treated (McKinsey).

Customer satisfaction and a firm's profitability were more likely appeared in the service industry compared to the product (Anderson et al, 1997). Many of the firms they were attempt to measure customer satisfaction in order to evaluate whether they meet their customer needs and wants or not (Fornell et al, 2006).Customer satisfaction can affect organizational financial performance. Whether the customer loyalty and customer retention can affect the organizational financial performance or not? Besides that, firms need to investigate their objective information such as return on asset (ROA), return on equity (ROE), profit margin and stock market performance in order to improve their financial performance.

Traditionally, there are many studies have employed a survey of the managers in the firms in order to measure the financial performance of nonfinancial activities such as customer satisfaction (Chenhall, 2005). Organizational financial performance related to the customer satisfaction which is financial performance had positive impact on customer satisfaction (Grewal et al, 2010). Furthermore, from the as return on asset (ROA), return on equity (ROE) and profit margin , firms can measured and evaluated whether customer satisfaction on their sides or not. The profit of the firms was reflected customer satisfaction towards the firms.

1.2 Problem Statement

The purpose of this researched was to examine the relationship between customer satisfaction and organizational financial performance. Recently, customer satisfaction gives big impact to the organizational financial performance. Firms must concern about customer satisfaction in order to make sure their firms can gain more profit or revenue. Moreover, characteristics of customer satisfaction such as customer retention and customer loyalty can contribute to the financial performance of the firms. Furthermore, firms need to identify what are the characteristics of customer satisfaction can influence

to the firm's financial performance. Besides that, firms need to know the relationship between customer satisfaction and firm's financial performance was related.

Therefore, in order to increase customer satisfaction, the firms need to concentrate not only on their product but also their services simultaneously. Due to the mixture of products and services, it was more difficult for the firms to attain higher customer satisfaction. Consequently, to increase the customer satisfaction, it was occurred a high increase in cost for the firms (Dotson and Allenby, 2010). However, an understanding of the cost in increase customer satisfaction in the firms had been relatively less scrutinized. For instance, the firms need to differentiate themselves from other companies in order to keep their relationships with their customers and at the same time can increase their financial performance.

1.4 Research Question

In this research, the focus is to determine the relationship between the customer satisfaction and organizational financial performance. So, the research question constructed as:

1. What are the characteristics of customer satisfaction that can contribute to the organizational financial performance?
2. What is the relationship between customer satisfaction and organizational financial performance?

1.5 Research Objectives

In this research, the objectives that must be achieved were:

1. To investigate the characteristics of customer satisfaction that can contribute to the organizational performance.
2. To investigate the relationship between customer satisfaction and organizational financial performance.

1.6 Scope and Limitation of the study

Recently, customer satisfaction was very important in order to increase and gain more profit in organizational. Besides that, customer satisfaction also reflects the organizational financial performance. Therefore, the scope of this research was focusing in the characteristics of customer satisfaction that can influences to the organizational financial performance. In addition, this research also focuses on relationship between customer satisfaction and organizational financial performance. Other than that, this research had been focus on Peninsular Malaysia with Johor being the main base of the research. However, there were constraint that maybe faced by the researcher during doing this research which is related to the number of respondents. The questionnaire that distribute to the respondents, not all had been return back to the researcher. Therefore, this research was limits to the number of respondents.

1.7 Motivation To Conduct The Research Or Why The Topic Is Interesting Or Important

The researcher does this research and chooses this topic because the researcher wants to investigate, understand and test the relationship between customer satisfaction and organizational financial performance. Moreover, previous research only focus on how to increase the firm's profit .The research not investigate on characteristics of customer satisfaction that can contribute to the organizational financial performance. Lastly, this research provide empirical evident to support the results of this research.

1.8 Summary

Customer satisfaction was becoming one of the important factors in order to have a better financial performance of the firms. Therefore, firms need to concern, alert, and focus and emphasize on the customer satisfaction that can contribute to the firm's profitability. For instance, firms also need to identify what were the characteristics of customer satisfaction that can contribute to the firm's financial performance. Lastly, it was very important for the firms to understand the customers.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter had been discussing the existing of the literature review on topics that related to this research title especially in terms of characteristics of customer satisfaction and also the correlation between customer satisfaction and organizational financial performance. In addition, the theoretical framework was explained in section 2.2. Moreover, the characteristics of customer satisfaction were discussed in section 2 while the customer loyalty was discussed in section 2.3.1. Follow by section 2.4, the researcher described about the organizational financial performance. Lastly, in section 2.4.1, the researcher was described about profitability. Literature review was very important as the initial step in undergoing to do a research.

2.2 Theoretical Framework

The theoretical framework below shows that customer satisfaction can influence the organizational financial performance. According to the (Manafi, 2011) indicates that customer satisfaction links to the long-term financial performance. However, there were two characteristics of customer satisfaction that can influence or contribute to the organizational financial performance which are customer loyalty and customer retention. All those characteristics contribute to the profitability of the firms. In the profitability, this research was explained and calculated the return on equity (ROE), return on asset (ROA), and profit margin (PM).

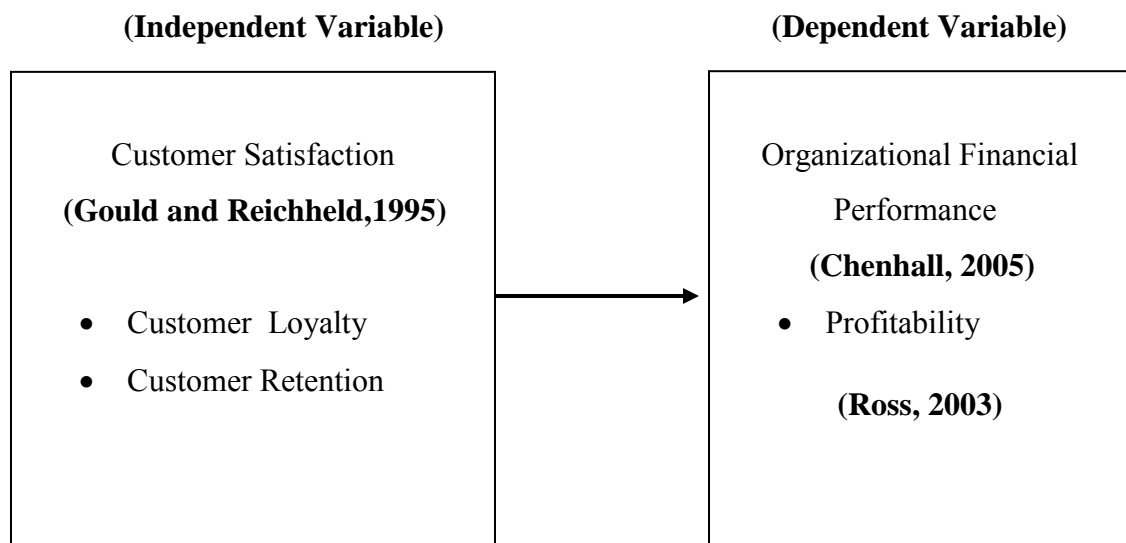


Figure 2.1: Theoretical framework of customer satisfaction and organizational financial performance

2.3 Customer Satisfaction (Independent Variable)

Customer satisfaction can be defined as an "evaluation of the perceived discrepancy between prior expectations and the actual performance of the product" (Tse and Wilton, 1988, Oliver 1999). Satisfaction of customers with products and services of a company was considered as most important factor leading toward competitiveness and success (Hennig-Thurau and Klee, 1997). Customer satisfaction is actually how the customer evaluates the ongoing performance (Gustafsson, Johnson and Roos, 2005). According to Kim, Park and Jeong (2004) customer satisfaction is customer's reaction to the state of satisfaction, and customer's judgment of satisfaction level. Moreover, customer satisfaction was very important in today's business world as according to Deng et al., (2009) the ability of a service provider to create high degree of satisfaction was crucial for product differentiation and developing strong relationship with the customers.

Other than that, customer satisfaction was vital for firms to survive in the fierce competition. For instance, studies indicate that satisfying customers and retaining them was cost-efficient. It can be effective survival strategy for the firms if it can increase customer satisfaction and retaining the customers (Naunam, 1995). In addition, customer satisfaction was the important criterion for determine the quality of the products and services (Grigoroudis and Sisko, 2010). Firms need to be alert and concern about customer satisfaction because if the customer needs and wants not be fulfilling, it will affect the firm's financial performance. According to (Fornell et al, 2006) said that many firms attempt to measure the customer satisfaction in order to evaluate whether they meet their customer needs and wants or not.

Moreover, the satisfaction of the customer needs were one of the issues which had awoken most interest in the marketing literature in general and in the sphere of services in particular. However, the variety of approaches that indicates a certain amount of confusion which may have arisen due to the dual process-result focus which has marked the contributions in the literature. The lack of an agreement on conceptualizing satisfaction creates certain difficulties for researchers when it comes to choose the most

appropriate definition, developing valid measurements and comparing empirical results (Giese & Cote, 2000). There were many definitions that can describe satisfaction as an evaluation process, whose antecedents can be clearly identified.

According to (Giese and Cote, 2000) criticize definitions which treat satisfaction as an evaluative process given that these definitions do not determine the character of this phenomenon. These authors prefer to approach satisfaction as a summary affective response which varies in intensity, reflecting satisfaction as a holistic evaluative outcome. According to the Gould (1995), the customer satisfactions can create criteria such as customer retention and customer loyalty which is directly influences the sales of organizational. Therefore, satisfied the customer can increase the sales and profitability. Other than that, customer satisfaction can reduce costs by generating efficiency related outcomes on financial performance (Bowen and Chen, 2001).

2.3.1 Customer Loyalty

The phenomenon of decrease in customer loyalty was important to notice because it was the factor that can influence the performance of products and services provider companies in that it causes the shrink of market share and firm's profit. Furthermore, according to (Oliver, 1999) customer loyalty can be explained in three things which are the first one is loyalty was shown by the customer's behavior in doing repeat purchase. Next is, loyalty was indicated by customer's attitude toward the firm.

It also includes preference and commitment towards the brand and recommending it to others. The last one, it was the combination of the customer's behavior and attitude towards the firm. In other words, besides actively repeating purchase, the customer also gives the positive appraisal toward the brand and in sharing the company positive value to others. In addition, for a firm, customer loyalty needs to be improved because of the following. Loyal customers can boost income and create efficiency to the operation of