



Journal of Risk and Uncertainty Issues

P. ISSN : 2986-397X
E-ISSN : 2986-4453
VOLUME 2 NO 1, 2023
PP: 37-49

ANALYSIS OF SERVICE QUALITY IMPROVEMENT AND PRODUCT INNOVATION ON COMPETITIVE ADVANTAGE AND THEIR IMPACT ON INTEREST IN SAVING MILENIAL GENERATION IN MAKASSAR CITY

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Abstract

Analyzing the effect of service quality and product innovation on competitive advantage and their impact on the millennial generation's interest in saving in Makassar City is the objective of this study. The millennial generation is an important group in the economy and has shown different tendencies in financial behavior, especially in terms of saving. For this reason, financial institutions and banking service providers need to comprehend the factors that influence their propensity to save. This research employs a quantitative methodology to examine the millennial generation in Makassar City. According to the findings of this research, service quality has a favorable and considerable impact on competitive advantage. In this context, the higher the quality of services offered by financial institutions, the greater their competitive advantage. In addition, Product innovation has a positive and substantial effect on competitive advantage as well. Product innovation that is attractive and relevant to the needs of the millennial generation can enhance financial institutions' competitive advantage. In addition, the results of this study also show that competitive advantage has a positive and significant impact on the millennial generation's interest in saving in Makassar City. This research makes an important contribution to financial institutions and banking service providers in understanding the factors that influence the millennial generation's intention to save. In facing increasingly fierce competition, financial institutions can increase their competitive advantage by improving the quality of services provided and developing product innovations that are relevant to the needs of the millennial generation. Thus, they can increase the interest of the millennial generation in saving, which in turn will provide benefits for the growth and stability of the financial sector in Makassar City.

Keywords: *Service Quality, Product Innovation, Competitive Advantage, Interest in Saving*

A. INTRODUCTION

The rapid growth of financial technology or fintech requires banks to think about how to design a service model to satisfy customer requirements with a startup mindset. Based on research released by Mckinsey & Company entitled Asia Digital Banking Race: Giving Customers what they want in April 2018, there has been a significant shift in digital channels for daily transactions in Asia. Now banks in Asia only handle around 12% to 21% of customer transaction services each month. Customers are starting to turn to digital services for daily transaction needs such as checking savings, transferring between accounts and paying bills. Based on this research, 55% -80% of customers in Asia said they would consider the option of opening an account digitally.

The dimension of competition is no longer limited to price, but also quality, market scope and time dimension. One of the important things that organizations must focus on to thrive in the market and accomplish their objectives is the establishment of competitive advantage.

Competitive advantage is a benefit that can increase the value of a business. In building a competitive edge, it is anticipated to be able to leverage the company's resources to win the competition (Sunarsih, 2016). Especially nowadays, changes in information technology have changed so much that it makes information easier to process and distribute anywhere. The world seems to be transparent so that nothing can be hidden. A customer can easily access information to find out the quality of service and product advantages they have and compare it with similar services and products before making a purchase decision.

Purchasing decision-making is influenced by customer interest in a product or service. Interest reflects the customer's liking that arises when the customer has the perception that the product/service that the customer believes is of good quality and can meet or even exceed his desires and expectations. As a company effort to increase interest and attract new customers, in conditions of intense competition, the main thing that must be prioritized is the quality of superior service to achieve optimal customer satisfaction. Customer satisfaction is a crucial aspect of marketing. If the customer is satisfied with the quality of the service provided, then the opportunity for the customer to continue using the product/service offered is getting bigger.

Quality refers to efforts to meet customer expectations, which include workforce, products, processes, and the environment. Quality starts from customer requirements and ends with customer perceptions (Kotler & Armstrong, 2008). This can be interpreted that good quality is not seen from the company's perception but from the customer's perception. Customer impression of service quality is a comprehensive appraisal of a product's excellence. Musnaini (2011) in his research on the Analysis of Consumer Service Quality on Competitive Advantages of Land Transportation Services at PT. Kereta Api Indonesia (Persero) Argo Class states that the development of excellent (prime) service quality in line with customer expectations and demands, as well as consistent service quality, may be utilized as a strategy by businesses to thrive in market competition.

Product innovation is the most important way for companies to create value for customers and achieve competitive advantage which will directly impact the company's success as indicated by an increase in revenue, profit, and the number of customers. (Gaynor, 2002) asserts that innovation is the fuel for organizational growth; It ensures future success and is the engine that allows companies to remain viable in a global market. Innovation is a core competency that must be possessed by a company to create innovative products and services so as to attract the attention of new prospective customers who live in the modern era, namely the millennial generation. The millennial generation is the current generation that involves technology in all aspects of their lives (Juditha, 2019). This generation is characterized by open communication, enthusiastic social media users, lifestyles strongly impacted by technology advancements, and is more open to political and economic viewpoints. Thus, they look very reactive to environmental changes that occur around them (Kemeneg PP & PA, 2018).

Looking at the behavior of the millennial generation who live in technological sophistication and in terms of their mindset which is different from the previous generation, This generation has matured into individuals who are open-minded, free-spirited, critical, and courageous; therefore, when it comes to making decisions about purchasing a product or service, they are naturally more discerning, this generation has its own considerations according to the benefits they will receive from similar services/products, and places a high priority on convenience and fast access. Therefore, companies engaged in the banking service industry must identify, understand methods to create and improve the quality of the products and services offered.

B. METHODS

Research Design

This is a quantitative study of three categories of banks in Makassar City: Regional Owned Commercial Banks (BUMD), State Owned Commercial Banks (BUMN), and Private Banks. The research time until the reporting stage will be conducted from June to August 2022. Path analysis was used in this study to determine the direct and indirect effects of each variable.

Population and Sample

The millennial generation in Makassar City is the population of this study, namely the generation whose development and growth in life are influenced by environmental conditions, a generation that can respond to their needs by following the use of digital technology. It is known that the population in this study is as many as 573,687 people, so the minimum sample size used in the study was 400 people.

Data Analysis Techniques

Path analysis was employed in this study as a statistical analysis. Path analysis was chosen because, in the research model, there are intervening variables, namely a competitive advantage that moderates the connection between Service Quality, and Product Innovation with Savings Interest. The indirect relationship (indirect effect) will be more difficult to analyze using multiple regression analysis.

Description of Research Variables

Table 1. Operational Definition

| Research variable | Variable Operational Definitions | Indicator | Likert scale (1-5) |
|---------------------------|---|---|--------------------|
| Service Quality (X1) | Service quality is something that describes conditions by comparing the expected service with what is received. | 1. Tangibles 2. Reliability 3. Responsiveness 4. Assurance 5. Empathy (Parasuraman et al., 1988) | Likert scale |
| Product Innovation (X2) | Product innovation is the ability to provide new things or add value to existing products. | 1. Compatibility 2. Complexity 3. Relative advantage 4. Observability (Rangga Agus Wijaya et. al., 2019) | Likert scale |
| Competitive Advantage (Y) | Competitive Advantage is a position where a company has the advantage to dominate business competition. | 1. Competitive ability 2. Network breadth 3. Increasing sources of funds 4. Technology advantage (Keltner in Tahuman, 2016) | Likert scale |
| Interest in Savings | Interest in saving is the behavior of prospective customers in which the | 1. Attention 2. Interest 3. Desire | Likert scale |

| Research variable | Variable Operational Definitions | Indicator | Likert scale (1-5) |
|-------------------|---|-------------------------------------|--------------------|
| (Z) | customer's desire to choose a product and service is based on experience in choosing and using a service product. | 4. Action (Kotler & Keller 2009) | |

C. ANALYSIS RESULTS

Hypothesis Test Results

Simultaneous Significance Test

Table 2. F-Test Results

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|--------------|----------------|-----|-------------|---------|-------------------|
| 1 Regression | 1791.346 | 3 | 597.115 | 249.667 | .000 ^b |
| residual | 947.092 | 396 | 2.392 | | |
| Total | 2738.438 | 399 | | | |

The results of the simultaneous test of the independent variables and the dependent variable are shown in the table above. The calculated F value is 249.667 with a significance value of 0.000 and is below the p-value of 0.05. As a result, it is possible to infer that the factors of service quality, product innovation, and competitive advantage all influence the interest in saving.

Individual Parameter Significance

Table 3. T-Test Results

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | std. Error | Betas | | |
| 1 (Constant) | -.083 | .838 | | -.099 | .921 |
| Service Quality | .265 | .050 | .242 | 5.266 | .000 |
| Product Innovation | .335 | .055 | .230 | 6.149 | .000 |
| Competitive Advantage | .555 | .060 | .444 | 9.171 | .000 |

Based on the t-test results table above, the variables of service quality, product innovation and competitive advantage have a significance value of 0.000 or less than 0.05, which means that these three variables have a significant effect on the intention to save.

Coefficient of Determination

Table 4. Coefficient of Determination Results

| Model | R | R Square | Adjusted R Square | std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .809 ^a | .654 | .652 | 1,546 |

The table above shows that the Adjusted R Square number or the coefficient of determination is 0.654, meaning 65.4% indicating that service quality and innovation through

competitive advantage affect the intention to save. The remaining 34.6% is explained by other variables outside the variables used in this study.

Path Analysis

At this stage, it will calculate the path coefficient of model 1 and the path coefficient of model 2 with the following explanation:

a. Model 1 Path Coefficient

1. Referring to the output of Regression Model 1 as shown in table 5, it can be seen that the significance value of the two variables namely X1 = 0.000 and X2 = 0.000 is smaller than 0.05, which means that the regression model 1 namely variables X1 and X2 have a significant effect on Y.

Table 5. Model Path Analysis Data 1

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|--------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | std. Error | Betas | | |
| 1 | (Constant) | .121 | .695 | | .174 | .862 |
| | Service Quality | .537 | .032 | .612 | 16.855 | .000 |
| | Product Innovation | .318 | .042 | .273 | 7.518 | .000 |

2. The magnitude of the R Square value contained in the table below is 0.628, this indicates that the contribution of X1 and X2 to Y is 62.8% while 37.2% is the contribution of other variables not included in the study. Meanwhile, the value of e1 can be found using the formula $e1 = \sqrt{(1-0.628)} = 0.609$. Thus the path diagram of the structural model 1 is obtained as follows:

Table 6. R Square Path Analysis Model 1

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .792 ^a | .628 | .626 | 1,283 |

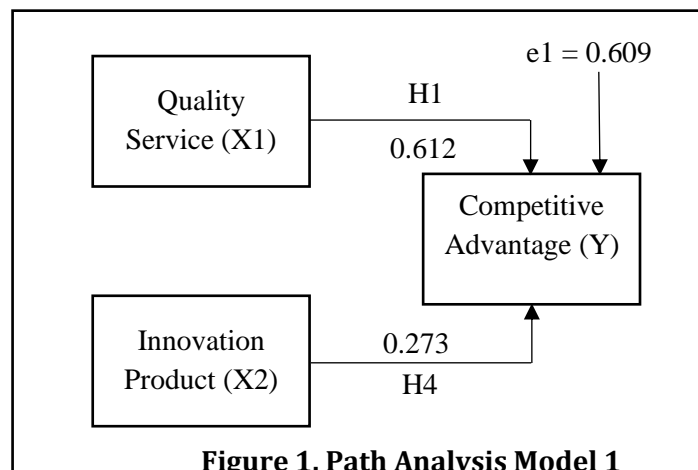


Figure 1. Path Analysis Model 1

Based on model 1 path analysis data, it can be seen that service quality and product innovation have a significance value of 0.000 < 0.05 with the contribution made by the Service Quality variable of 16.855 and Product Innovation variable of 7.518. The results of the analysis

are > 1.966 , so it can be concluded that H1 and H4 are accepted, which means that there is an effect between the variables Service Quality (X1) and Product Innovation (X2) on the Competitive Advantage variable.

b. Model 2 Path Coefficients

1. Based on the output of regression model 2 as shown in table 7, it is known that the significance value of the three variables namely X1 = 0.000, X2 = 0.000 and Y = 0.000 is smaller than 0.05 which means that the regression model 2 namely variables X1, X2, and Y has a significant effect on Z.

Table 7. Data Analysis Path Model 2

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | std. Error | Betas | | |
| 1 (Constant) | -.083 | .838 | | -.099 | .921 |
| Service Quality | .265 | .050 | .242 | 5.266 | .000 |
| Product Innovation | .335 | .055 | .230 | 6.149 | .000 |
| Competitive Advantage | .555 | .060 | .444 | 9.171 | .000 |

2. The magnitude of the R square value contained in the table below is 0.654, this indicates that the contribution of X1, X2 and Y to Z is 65.4% while the remaining 34.6% is contributed by other variables not examined. Meanwhile for the value of $e2 = \sqrt{(1-0.654)} = 0.588$. Thus the path diagram of the structure model 2 is obtained as follows:

Table 8. R Square Path Analysis Model 2

| Model | R | R Square | Adjusted R Square | std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .809 ^a | .654 | .652 | 1.546 |

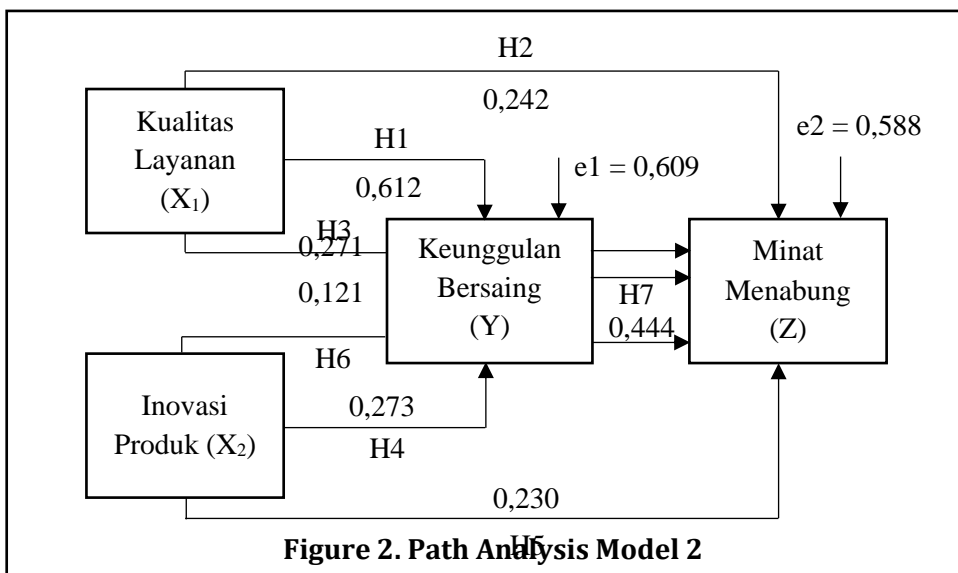


Figure 2. Path Analysis Model 2

Next, based on model 2 path analysis data, it can also be seen that:

- a. The calculated t value of Service Quality is $5.266 > 1.966$ and a significant value of $0.000 < 0.05$, so it can be concluded that H2 is accepted, which means there is a direct effect between the Service Quality variable (X1) on the Interest in Saving (Z) variable.
- b. The calculated t value of Product Innovation is $6.149 > 1.966$ and a significant value of $0.000 < 0.05$, so it can be concluded that H5 is accepted which means there is a direct effect between the Innovation variable (X2) on the Interest in Saving (Z) variable.
- c. The calculated t value of Competitive Advantage is $9.171 > 1.966$ and a significant value of $0.000 < 0.05$, so it can be concluded that H7 is accepted which means there is a direct effect between the Competitive Advantage variable (Y) on the Interest in Saving (Z) variable.
- d. It is known that the direct effect exerted by X1 on Z is 0.242. Meanwhile, the indirect effect of X1 through Y on Z is the multiplication of the beta value of X1 on Y and the beta value of Y on Z, namely : $0.612 \times 0.444 = 0.271$. Then the total effect that X1 has on Z is the direct effect plus the indirect effect, namely : $0.242 + 0.271 = 0.513$. Based on the calculation results above, it is known that the direct effect value is 0.242 and the indirect effect is 0.271, which means that the indirect effect value is greater than the direct effect value. These results indicate that indirectly X1 through Y has a significant effect on Z or in other words H3 is accepted.
- e. It is known that the direct effect that X2 has on Z is 0.230. Meanwhile, the indirect effect of X2 through Y on Z is the multiplication of the beta value of X2 on Y and the beta value of Y on Z, namely : $0.273 \times 0.444 = 0.121$. So the total effect that X2 has on Z is the direct effect plus the indirect effect, namely : $0.230 + 0.121 = 0.351$. Based on the calculation results above, it is known that the value of the direct effect is 0.230 and the indirect effect is 0.121, which means that the value of the indirect effect is smaller than the value of the direct effect. These results indicate that indirectly X2 through Y does not have a significant effect on Z or in other words H6 is rejected.

D. DISCUSSION

The Effect of Service Quality on Competitive Advantage

Based on independent sample t-test results, it is known that service quality has a significant effect on competitive advantage, the t test results obtained show the results of $t_{count} 16.855 > t_{table} 1.966$ and a significance value of $0.000 < 0.05$. These results are reinforced by the research conducted by (Devinta, 2018) which shows something similar, where Service quality has a positive and significant effect on the competitive advantage of Bank OCBC NISP Cik Di Tiro Yogyakarta Branch. The results of this study as well supported by research conducted by (Wilar, 2017), where the results of the study show that service quality has a significant effect on competitive advantage at Bank BCA Manado branch. From the research conducted shows that competitive advantage is influenced by service quality.

Service is a form of activity in providing assistance or providing the need for goods or services, while quality refers to everything that determines customer satisfaction, so as to prepare the best quality of service requires the ability to produce service performance quickly, precisely and accurately, to have knowledge and respect for customers for the certainty of services provided, and to have inspiration and personal attention to customers supported by facilities and means of communication. Improved service quality can increase the company's competitive advantage.

The Effect of Product Innovation on Competitive Advantage

Based on independent sample t-test results, it is known that product innovation has a significant effect on competitive advantage, the t test results obtained show the results of $t_{count} 7.518 > t_{table} 1.966$ and a significance value of $0.000 < 0.05$. This result is reinforced by research conducted by (Devinta, 2018) where Product innovation has a positive and significant impact

on the competitive advantage of Bank OCBC NISP Cik Di Tiro Yogyakarta Branch. Cooper (2010) explains that the advantages of new products are very important in highly competitive global market circles. This advantage cannot be separated from the development of innovative products that are produced, so that they will have an advantage in the market which will then win in the competition. High and good product innovation can increase the company's competitive advantage.

Research results (Haryono & Marniyati, 2017) also stated that Product innovation has a direct positive effect on competitive advantage. This means that there is a unidirectional effect between existing product innovations in products obtained from CV. MGA, with competitive advantage. Furthermore, according to (Haryono & Marniyati, 2017), one form of product innovation is a new product. New products include original products, enhanced products, modified products and new brands developed through research and development efforts. So based on the description above it can be concluded that to be able to compete, banks must have superior products that differentiate them from their competitors.

The Effect of Service Quality on Saving Interest

Based on independent sample t-test results, it is known that the quality of service has a significant effect on the intention to save, the results of the t test obtained show the results of $t_{count} 5.266 > t_{table} 1.966$ and a significance value of $0.000 < 0.05$. This result is reinforced by research (Darmawan et al, 2019), where in the research conducted it shows that services effect customers' interest in saving at Bank Jateng Syariah, good service to customers makes customers willing to make transactions and save at Bank Jateng Syariah.

Service quality is a benchmark in determining whether or not someone is interested in the goods or services offered. Kotler (2007) states that service quality must start from customer needs and end with customer perceptions, where customer perceptions of service quality are an overall assessment of the excellence of a service so as to shape customer interest. This statement is supported by research conducted by (Damayanti, 2016) at Bank Syariah Mandiri, where the results of the research show the similar thing, service has a positive effect on customer interest and vice versa.

Therefore, to create an interest in saving for the Millennial Generation, Banks need to pay attention to the quality of the services provided, whether they are as expected. One of the strategies that can be carried out by the Bank to support the success of its business is to offer quality services with high service that takes into account the dimensions of service quality that can effect customer behavior, including tangibles, empathy, reliability, responsiveness, assurance. The more the expected needs are met, the higher the Millennial Generation's interest in saving.

The Effect of Product Innovation on Interest in Saving

Based on independent sample t-test results, it is known that product innovation has a significant effect on the intention to save, the results of the t test obtained show the results of $t_{count} 6.149 > t_{table} 1.966$ and a significance value of $0.000 < 0.05$. The results of this study are in line with research (Firdaus, 2017), where the results of his research show that the product innovations carried out by BMT Mu'allimin have played a significant role in triggering and increasing customer interest in saving. In addition, it is reinforced by research conducted by (Novela & Hanafie, 2017) where from the research conducted it is known that product innovation has a significant effect on customers' decisions to save at state-owned banks. Based on the research above, it shows that the interest in saving is influenced by product innovation.

Customer interest in deciding to own and buy a product or service is influenced by encouragement from within the consumer. Interest as encouragement, namely a strong internal stimulus that motivates action, where this encouragement is influenced by positive stimulus and feelings about the product (Susanto and Kotler, 2000). Interest in buying is a thought that arises because of feelings of being attracted and wanting to own an expected item

or service (Schiffman and Kanuk, 2007). Interest is the tendency of customers to buy a brand or take actions related to purchases as measured by the level of probability of customers making purchases (Assael, 2001). Interest will encourage customers to make decisions to buy or not the desired product.

The relationship between product innovation and buying interest lies in the addition of product innovations that can increase buying interest in a product or service. According to (Setiadi, 2003), product innovation is creating new products that can meet the needs of customer desires so that an interest in buying the product arises.

The Effect of Competitive Advantage on Saving Interest

Based on independent sample t-test results, it is known that competitive advantage has a significant effect on the intention to save, the results of the t test obtained show the results of $t_{count} 9.171 > t_{table} 1.966$ and a significance value of $0.000 < 0.05$. These findings are supported by study undertaken by (Devinta, 2018) which demonstrates something similar, where competitive advantage has a positive and significant effect on customer interest at Bank OCBC NISP Cik Di Tiro Yogyakarta Branch.

Competitiveness is how a company can continue to grow and gain profits in the midst of market competition. According to Keltner in Tahuman (2016) competitive advantage includes competitive ability, network breadth, increased sources of funds, and technological advantages possessed by the company. Banks that have a competitive advantage will influence the increase in interest in saving for the Millennial Generation, where interest is a component of customer behavior in consuming attitudes, the tendency of respondents to act before buying decisions are actually implemented (Kinnear & Taylor, 2003). The greater the benefits provided, the greater the interest formed.

Basically, competitive advantage grows from the values or benefits created by the company for its customers, so that the greater the benefits provided, the greater the interest that is formed.

The Effect of Service Quality on Interest in Saving Through Competitive Advantage

Based on the results of the research in this study, the effect of service quality on the intention to save through competitive advantage is greater than the direct effect of service quality on the intention to save. The direct effect of service quality on the interest in saving is 0.242. Meanwhile, the indirect effect of service quality on the intention to save through competitive advantage is 0.27. The value of 0.271 obtained from the multiplication of the beta value of service quality to competitive advantage with the beta value of competitive advantage to the interest in saving. So the total effect given by the quality of service on the intention to save is the direct effect plus the indirect effect, namely : $0.242 + 0.271 = 0.513$.

Based on the findings of the above computations, it is clear that the competitive advantage variable is proven to be an intervening variable on the interest in saving. The direct effect value is 0.242, smaller than the indirect effect of 0.267. This value proves that indirectly service quality through competitive advantage has a significant effect on the intention to save. This implies that service quality can increase competitive advantage, which in turn will increase Millennial Generation's interest in saving. In other words, competitive advantage is a mediating variable between service quality and Millennial Generation's interest in saving. Millennial Generation's interest in saving can be increased by increasing competitive advantage by improving service quality.

The development of the industrial revolution brought very rapid changes and consumer demands to provide services in accordance with expectations, thus requiring banks to perform better and strive to realize improvements to the services provided.

The Effect of Product Innovation on Interest in Saving Through Competitive Advantage

Based on the findings of this study's research, the effect of product innovation on interest in saving through competitive advantage is smaller than the direct effect of product innovation on the intention to save. The direct effect of product innovation on the interest in saving is 0.230. Meanwhile, the indirect effect of product innovation through competitive advantage on the interest in saving is 0.121. The value of 0.121 obtained from the multiplication of the beta value of product innovation on competitive advantage and the beta value of competitive advantage on the interest in saving. So the total effect given by product innovation on the intention to save is a direct effect plus an indirect effect, namely : $0.230 + 0.121 = 0.351$.

Based on the calculation results above, it is known that the value of the direct effect is 0.230 is greater than the indirect effect 0.121. These results indicate that indirectly product innovation through competitive advantage has no significant effect on the intention to save. The competitive advantage variable is not able to mediate product innovation on the intention to save Millennials. This implies that product innovations developed by banks can increase Millennial Generation's interest in saving without having to go through competitive advantage variables. In other words, product development or innovation carried out by banks can have a direct effect on increasing Millennial Generation's interest in saving.

E. CONCLUSION

This study established a substantial relationship between the factors of service quality and product innovation and competitive advantage, and between service quality and intention to save has an indirect effect through competitive advantage. Competitive advantage is a mediating variable between service quality and Millennial Generation's intention to save. Millennial Generation's interest in saving can be increased by increasing competitive advantage through improving service quality.

In addition, based on this research it can also be concluded that product innovation on the intention to save through competitive advantage does not have an indirect effect, the competitive advantage variable is not able to mediate significantly the product innovation variable on the intention to save. In other words, product development or innovation carried out by banks can have a direct effect on increasing Millennial Generation's interest in saving. So that it can be concluded, when banks increase their competitive advantage by improvising service quality and coupled with the development of product innovations, it will increasingly attract Millennials' interest in saving.

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