

**CUSTOMER LOYALTY AND CINEPLEX PATRONAGE:
THE INFLUENCE OF CORPORATE IMAGE, PERCEIVED QUALITY,
PERCEIVED VALUE AND CUSTOMER SATISFACTION**

By

NORLISHAM BIN NORDIN

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Kesetiaan Pelanggan dan Pengunjungan Pawagam:

Pengaruh Imej Korporat, Kualiti Yang Ditanggap, Nilai Yang Ditanggap dan Kesetiaan Pelanggan

ABSTRAK

Kepuasan pelanggan sering disebut sebagai penentu utama dalam penyelidikan tentang kesetiaan pelanggan. Walau bagaimanapun, bukti empirikal tentang hubungan di antara kesetiaan dan kepuasan pelanggan bagi sektor hiburan dari perspektif Malaysia masih lagi kabur. Dalam penyelidikan ini, penyelidik mengadaptasi model yang cetuskan oleh Andreassen dan Lindestad (1998). Model ini telah berjaya membuktikan bahawa kesetiaan pelanggan dipengaruhi oleh empat faktor penting: imej korporat, kualiti yang ditanggap, nilai yang ditanggap dan kepuasan pelanggan bagi pelanggan Norway. Model ini kemudiannya diaplikasikan bagi pelanggan pawagam tempatan. Tujuan kajian ini adalah untuk menyelidik faktor yang mempengaruhi kesetiaan pelanggan terhadap pawagam. Kedua-dua punca dan kesan kepuasan pelanggan (punca: kualiti yang ditanggap, nilai yang ditanggap dan imej korporat; dan kesan: kesetiaan pelanggan) dapat diuji dalam penyelidikan ini. Keputusan kajian dapat dijadikan panduan dalam memperkayakan pengetahuan dan pemahaman terhadap faktor yang harus dititikberatkan dalam menjamin kesetiaan pelanggan. Analisis diperolehi daripada 120 pelanggan di tiga lokasi pawagam utama di Pulau Pinang. Dengan menggunakan SPSS versi 13.0, analisis faktor, analisis reliabiliti dan analisis regresi dapat diuji. Keputusan analisis ini membuktikan bahawa terdapatnya banyak hubungkait yang signifikan di antara faktor-faktor kontekstual dan kesetiaan pelanggan.

Keputusan analisis mendapati bahawa kualiti yang ditanggap dan nilai yang ditanggap tidak mempengaruhi kesetiaan pelanggan secara langsung. Walau bagaimanapun, imej korporat sesungguhnya memberi kesan secara langsung terhadap kesetiaan pelanggan. Keputusan tersebut juga menunjukkan bahawa kepuasan pelanggan bergantung kepada imej korporat, kualiti yang ditanggap dan nilai yang ditanggap. Namun, kepuasan pelanggan didapati bukanlah pemangkin di antara kualiti yang ditanggap, nilai yang ditanggap dan imej korporat dengan kesetiaan pelanggan. Tetapi, kepuasan pelanggan masih didapati menjadi faktor utama dalam penentuan kesetiaan pelanggan. Selain itu, penyelidikan ini juga menunjukkan bahawa komponen kepuasan pelanggan menyeluruh semasa khidmat diberikan memberi kesan kepada kesetiaan pelanggan. Keputusan membuktikan bahawa komponen kepuasan pelanggan menyeluruh sesungguhnya adalah merupakan penentu yang lebih baik. Selain daripada itu, kajian ini mendapati kualiti yang ditanggap dan imej korporat mempengaruhi nilai yang ditanggap. Kesimpulannya, kualiti yang ditanggap, nilai yang ditanggap dan imej korporat didapati mempengaruhi kepuasan pelanggan. Seterusnya kepuasan pelanggan akan mempengaruhi kesetiaan pelanggan. Imej korporat dikenalpasti sebagai faktor penting kerana ia dapat mempengaruhi kesetiaan pelanggan secara langsung dan tidak langsung. Bagi mendapatkan kesetiaan pelanggan, pihak pengurusan pawagam harus sentiasa memaksimumkan kualiti yang ditanggap, nilai yang ditanggap, imej korporat dan kepuasan pelanggan bagi pelanggan-pelanggannya.

Customer Loyalty and Cineplex Patronage:

**The Influence of Corporate Image, Perceived Quality, Perceived Value
and Customer Satisfaction**

ABSTRACT

In research on customer loyalty in services, customer satisfaction has often been mentioned as an important determinant. However, empirical evidence concerning the relationship between customer loyalty and customer satisfaction in entertainment through Malaysian perspective has remained unclear. In this study, the researcher tries to adapt a model from Andreassen and Lindestad (1998). This model describe the extend to which customer loyalty is influences by four important factors – perceived quality, perceived value, corporate image, and customer satisfaction for Norway’s patrons . This model is then applied to patrons of local cineplex. The purpose of the study is to investigate the factors contribute to customer loyalty in cineplex patronage. Both cause and effect of the customer satisfaction (cause: perceived quality, perceived value and corporate image; and effect: customer loyalty) are encompassed in this study. This study helps to contribute to knowledge and understand which of the factors that really needs to be emphasized in determining customer loyalty. Samples of 120 usable questionnaires are collected and the responses of three main cineplex patrons in Penang are used to analysis the hypotheses. By using SPSS software version 13.0, factor, reliability and regression analysis was conducted. The findings show that there are numerous significant associations between the contextual factors and customer loyalty.

The analyses finds that the perceived quality and perceived value do not directly effect customer loyalty. However, corporate image affects directly to the customer loyalty. The result also indicates that customer satisfaction is depending on perceived quality, perceived value and corporate image. However, customer satisfaction did not mediate the relationship between perceived quality, perceived value and corporate image to customer loyalty. Nevertheless, the main factor influencing customer loyalty is still customer satisfaction. This study also shows that overall customer satisfaction influences customer loyalty during the service encounter. The result indicates that the overall customer satisfaction components are indeed serving as better predictor. In addition, this study found that perceived quality and corporate image are affecting perceived value. As a conclusion of this study, perceived quality, perceived value and corporate image influenced customer satisfaction. Then, the customer satisfaction will affect customer loyalty. Corporate image has been identified to be an important factor because it directly and indirectly affecting customer loyalty. In order to gain customer loyalty, cineplex management has to maximize perceived quality, perceived value, corporate image and customer satisfaction for their patrons.

Chapter 1

INTRODUCTION

1.1 Introduction

This chapter includes a brief explanation of the research background. It investigates the problem statement, research questions, and research objectives. Finally, it will describe the significance, scope, definition of key terms and organisation of the thesis.

1.2 Background of the Study

Customer loyalty is considered as a main key to organisation success and long-term profit (Oliver, 1997). The development of customer loyalty is a strategic objective for most service company such as cineplex. All marketers agree that new customer acquisition alone will not guarantee long-term success. Acquisition must be balanced with customer retention and customer development to optimize the performance and the shareholder value in the long-term.

A movie theater (North America), also known as cinema (Asia, Australia and United Kingdom, as well as North America) or pictures, is a venue, usually a building, for viewing movies. Nearly all cinemas are commercial operations catering to the general public, who attend by purchasing a ticket. The film is projected with a movie projector onto a large projection screen at the front of the auditorium. Some movie theaters are now equipped for digital cinema projection, removing the need to create and transport a physical film print. Stanley Durwood of American Multi-Cinema (now AMC Theatres) pioneered what would become the multiplex in 1963 after realizing that he could operate several attached auditoriums with the same staff needed for one through careful management of the start times for each movie (Wikipedia, 2008).

A popular movie may be shown on multiple screens at the same multiplex, which reduces the choice of movies but offers more choice of viewing times or a greater number of seats to accommodate patrons. Two or three screens may be created by dividing up an existing cinema as Durwood do with his Roxy in 1964, but newly built multiplexes or Cineplex usually have at least six to eight screens, and often as many as twelve, fourteen or even sixteen (Wikipedia, 2008).

Even though definitions differ, a large multiplex with 18 or more screens is usually called a megaplex. The first megaplex is generally considered to be the Kinopolis in Brussels, Belgium, which opened in 1988 with 25 screens and a seating capacity of 7,500. The first megaplex in the United States was the AMC Grand 24 in Dallas, Texas, which opened on May 19, 1995 (Wikipedia, 2008)

The cinema of Malaysia revolves around a small film industry that dates back to the 1930s. At present, Malaysia produces about 15 feature films annually and imported lots of foreign films as well. Malaysia has adapted the same concept of multiplex bearing resemblance to the same vision and concept of Stanley Durwood but usually called by the name of Cineplex. Currently, there are about 250 movie theatres/cinema and Cineplex's in Malaysia (Wikipedia, 2008).

Even though the term might be different, the intangible product that been supplied by cinema in Malaysia and around the world can be considered the same. The winning strategies that a Cineplex can achieve is by sustaining loyalty of its patrons by making sure the perceived quality, perceived value, corporate image and customer satisfaction among its patrons remain high. In this present study, all of these variables are examined in terms of their influence on customer loyalty.

The increasing role and contribution of the services sector that includes cineplex in Malaysia can be measured from its rapid growth and increasing contributions to total output, total employment and export earnings of the country. Over the last decade, the services sector has registered strong and healthy growth, comparable to that of the manufacturing sector. In the period 1980-2005, on average, the services sector grew by 8.3 per cent per year (manufacturing 9.1 per cent per year). And, growth in the services sector in this period exceeded the gross domestic product (GDP) growth of 6.5 per cent per year (Table 1.1).

Table 1.1

Malaysian growth of GDP, services and manufacturing sectors 1980-2005

	Average Growth Rate (%)			
	1980-1989	1990-1999	2000-2005	1980-2005e
GDP	6.5	7.2	5.4	6.5
Services	8.8	9.2	6.1	6.3
Manufacturing	9.4	10.0	7.1	9.1

Source: Economic Division, Department of statistics, Malaysia (2006)

Table 1.2 also shows that the growth of services sector from 1989-2005 quite significant. The strong growth in the services sector was contributed by the high growth in services sub-sectors such as finance, insurance, real estate and business services by 11.7 per cent per year; electricity, gas and water by 9.5per cent; transport, storage and communication by 8.7 per cent; and wholesale and retail trade; hotels and restaurants; and entertainment by 7.3 per cent. Government services grew at a lower rate of 5.3 per cent per year.

Table 1.2
Malaysian growth of services sector, 1980-2005

	Average Growth Rate (%)			
	1980-1989	1990-1999	2000-2005	1980-2005e
Overall Service Sector	8.8.	9.2	6.1	8.5
Electricity, gas and water	9.1	11.1	7.5	9.5
Transport and Communication	8.9	9.5	7.2	8.7
Wholesale and retail trade; hotel and restaurants; Entertainment	7.0	9.4	4.2	7.3
Finance, insurance, real estate and business services	12.7	12.8	8.3	11.7
Government services	6.1	4.5	5.2	5.3
Other services	0.6	8.6	4.7	4.6

Source: Economic Division, Department of statistics (2006)

It is worth noting that growth in the services sector has been more stable than that of the manufacturing sector (Figure 1.1). A standard measure of volatility, the coefficient of variation (standard deviation divided by mean) for growth of the services sector for the period 1980-2005 was estimated at 0.65, significantly lower than 0.82 for the manufacturing sector. During the Asian financial crisis in 1997/98, growth in the services sector only dipped by 0.4 per cent compared to a severe contraction of 13.4 per cent in the manufacturing sector. To a limited extent, this reflects the resilience of the services sector to shocks.

As a result of the strong growth, the contribution of the services sector to GDP continued to increase steadily from 40.1 per cent in 1980 to an estimated 57 per cent in 2005 (Table 1.3). Within the same period, the contribution of the manufacturing sector to GDP also increased from 19.6 per cent in 1980 to 31.9 per cent in 2000 but plateaued at around 32 per cent since 2000. The change in the composition of the national output towards greater proportion of services is regarded as a natural consequence of economic development and progress as experienced by the developed economies.

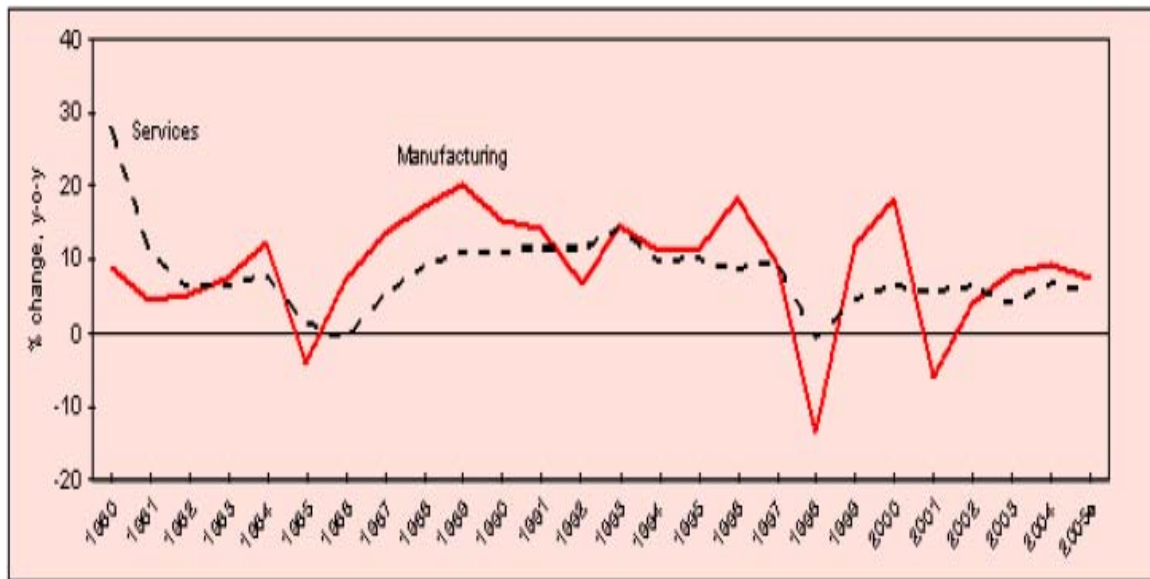


Figure 1.1 Malaysia: Growth of Service and Manufacturing Sectors, 1980-2005e

Source: *Economic Review* (2006)

Table 1.3
Malaysia: GDP by sector

Sector	Share of GDP (%)					
	1980	1985	1990	1995	2000	2000e
Agriculture	22.9	22.8	16.3	10.3	8.9	8.1
Mining and Quarrying	10.1	10.4	9.4	8.2	7.3	7.0
Manufacturing	19.6	19.7	24.6	27.1	31.9	32.3
Construction	4.6	4.8	3.6	4.4	3.3	2.9
Services	40.1	43.6	46.8	51.2	53.9	57.0
Private Service	29.8	31.4	38.0	44.1	47.1	50.0
-Electricity, Gas and Water	1.4	1.7	2.7	3.5	3.9	4.1
-Transport, Storage and Communication	5.7	6.4	6.7	7.4	8.1	8.7
-Wholesale and Retail Trade; Hotel and Restaurant; Entertainment	12.1	12.1	13.2	15.2	14.8	14.2
-Finance, Insurance, Real Estate and Business Services	5.3	5.7	8.2	10.4	12.7	15.2
-Other services	5.3	5.5	7.2	7.7	7.6	7.8
Government Services	10.3	12.2	8.8	7.1	6.8	7.0
(-) Imputed bank service charges	1.9	3.2	4.4	5.3	7.5	9.3
(+) Import Duties	4.5	3.9	3.7	4.1	2.2	2.0
Total	100	100	100	100	100	100

Source: *Economics Division Database* (2006)

1.3 Problem Statement

A lot of people accept the idea that successful service provider such as cineplex depends on the delivery of superior quality, value and satisfaction to its patrons. For this reason, generally cineplex marketers try to understand their customer's perception on quality, value, corporate image, and the extend of their satisfaction by reviewing on-site comment. Though the cineplex marketers have realized the importance good corporate image, it is still overlooked.

This study is based on real business problem that occurred in Penang recently. One of the Cineplex companies in Malaysia was recently renamed in order to portray a better corporate image based on its reputation. Most local operators have been renamed to more credible name in order to capture certain markets that are very "image" conscious. This is part of their strategic business strategies since several of the leading cineplex companies have shut down a number of their operations or branches due to lack of customers. The best example of this scenario is when "Mega Pavilion" was renamed into "Cathay Cineplexes" in order to portray better corporate image due to the historical path as a sole descendent of the Cathay-Keris in Malaysia since the 1930's.

The researcher was interested to study customer loyalty and cineplex patronage based on his interaction with the management of the cineplex. The management assumes that patrons in Penang are not loyal to their cineplex possibly because factors such as low perceived quality, perceived value, corporate image and satisfaction. This would be a best place setting to test the model and its influence in Malaysia context. Thus, the problem being investigated in this study is whether corporate image, perceived quality, perceived value and customer satisfaction influence customer loyalty of the cineplex patrons.

1.4 Research Objectives

Based on research background, the general literature, and the problem statement, the research objectives has been formulate as follow.

1. To investigate if there are direct relationships between perceived quality, perceived value and corporate image to customer satisfaction.
2. To investigate if there is a relationship between customer satisfaction and customer loyalty.
3. To examine whether customer satisfaction mediates the relationship between perceived quality, perceived value and corporate image to customer loyalty.

1.5 Research Questions

From the above research above, three research questions has been formulated as follow.

1. Do Corporate Image, Perceived Quality, Perceived Value and Customer Satisfaction influence Customer Loyalty?
2. Does Customer Satisfaction influence Customer Loyalty?
3. Does Customer Satisfaction mediate the relationship between Corporate Image, Perceived Quality and Perceived Value with Customer Loyalty?

1.6 Significance of the Study

Services sector in the Malaysian economy has played an important role in the growth and the development process. The greater presence of the services sector in the Malaysian economy is indeed in line with the growth transformation that has taken place in many of the developed economies and services sector forms a major structural component of the

economy compared to that of the manufacturing or primary sector. With the greater role of the services sector over the last decade such as entertainment, transport and communication, finance, insurance, real estate, business service, electricity, gas and water, wholesale and retail trade, hotels and restaurants, government services, and other services; Malaysia has moved into the third stage of economic development. And in this stage, economic growth is no longer led by the manufacturing sector alone. Instead, economic growth is powered by both the manufacturing and services sectors.

Based on Table 1.1, 1.2 and 1.3 earlier, it shows that cineplex as apart of entertainment sector has contributed significantly in Malaysian GDP. In order to make sure that cineplex services is still relevant as apart of contributor in Malaysian GDP depend solely on how customers react to changes in entertainment sector which included their loyalty to cineplex provider.

Many studies have been done on perceived quality, perceived value and satisfaction but the relationship of future intention which is customer loyalty and actual service experiences in Malaysian perspective is still lacking in confirmation. The study provided the better understanding of perceived service quality, perceived value and satisfaction as antecedents of loyalty. Besides, this study will try to incorporate corporate image, which has been argued as a new key role in service marketing to measure loyalty.

1.7 Scope of the study

The research is limited to major cineplexes in Penang, Malaysia. This study explores the impact of a limited factor influencing customer loyalty that has received high attention in literature in these recent years. The study only focuses on customer loyalty in the first half of 2008 due time limitation in completing this study.

1.8 Definition of Key Terms and Variables

Cineplex

Is a portmanteau of cinema and multiplex and may be used generically as a synonym for a multiplex movie house. The term was coined by Philip Taylor of Toronto in 1978, son of cineplex founder Nathan (Nat) Taylor, a veteran movie exhibitor in Canada (Wikipedia, 2008).

Customer Loyalty

A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1999).

Customer Satisfaction

Commonly abbreviated CS, is a business term which is used to capture the idea of measuring how satisfied customers are with the organisation's efforts in a marketplace. It is seen as a key business performance indicator. It is also defined as the judgment of the overall assessment of service providers that give a pleasurable fulfillment (Oliver, 1980).

Perceived Quality

Is defined as consumers judgment about a product or a service overall excellence or superiority from the comparison of expectation and performance. It is viewed as consisting two primary dimension; core (what is delivered) and relation (how it is delivered) (Zeithaml, 1988).

Perceived Value

Is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Consumer's perception of value is subjected by differences in monetary costs, non-monetary costs, customer tastes, and customer characteristics (Zeithaml et al., 1988)

Corporate Image

Refers to how a corporation is perceived. It is a generally accepted image of what a company "stands for". The creation of a corporate image is an exercise in perception management. It is created primarily by marketing experts who use public relations and other forms of promotion to suggest a mental picture to the public. Typically, a corporate image is designed to be appealing to the public, so that the company can spark an interest among consumers, create share of mind, generate brand equity, and thus facilitate product sales. Corporate image is a filter which influences the perception of the operation of the company (Grönroos, 1988).

1.9 Organisation of the Thesis

The organisation of the remaining chapters is as follows. Chapter 2 reviews the literature on all the main variables, theoretical framework and the development of the hypotheses for this study. Chapters 3 address the methodology for this study. This includes the research design, variables, and population, procedures, measures and techniques used to analyzed data for this study. Chapter 4 explains the result for the analysis in chapter 3, which comprises of profile of respondents, reliability testing and multiple regressions, testing of hypotheses and summary of result. Chapter 5 discusses the recapitulation of the study, findings, discussion, implications, limitations, future research and conclusion.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This present study is trying to examine the influence of corporate image, perceived quality, perceived value, customer satisfaction towards customer loyalty of cinema patrons. A review of related literatures and gaps in the literature will be discussed in this chapter. The conceptual model treating satisfaction as mediating variable with multiple attributes is proposed and to be tested by the researcher.

In today's Malaysian competitive market, services and service companies within the same industry are becoming increasingly similar. During the early 1980s, how to define a service was discussed comprehensively. However so far, there is no common definition in the literature. Based on the Nordic School view, services can be defined as processes that consist of a set of activities which take place in interactions between a customer and people, goods and other physical resources, systems and/or infrastructures representing the service provider and possibly involving other customers, which aim at solving customers' problems (Grönroos, 2000).

2.2 The Underlying Theories and Conceptual Model

Differentiation throughout the delivery channel such as delivery of services against payment is a very intricate process. A growing number of service companies such as cinema multiplex have embarked on a journey of positioning through the communication channel such as advertising and personal selling according to Andreassen and Bredal (1996), with the mission of building strong corporate images in order to create relative attractiveness and competitive advantages.

This development is in line with Lovelock (1984) who claims that images are likely to play only a secondary role in customer choice decisions unless competing services are perceived as virtually identical on performance, price, and availability. Therefore we would expect that corporate image under current Malaysian market conditions will play a significant role in both attracting and retaining consumers in services industry. Research related to consumer behavior in the field of service marketing has increase and progressed steadily over the years.

Measured by the impact, relationship and amount of work done within customer satisfaction research over the years, it is fair to say that the dominant theories are *disconfirmation of expectations* (Swan, 1983; Oliver and DeSarbo, 1988; Oliver, 1980; Churchill and Suprenant, 1982) and *cognitive psychology* (Weiner, 1980; Weiner 1985; Folkes, 1988). In the service marketing literature these teams of theory have been used widely in the prediction of consumer behavior.

Disconfirmation theory focuses on cognition of transaction specific experiences as a foundation for customer dissatisfaction and satisfaction, and subsequent consumer behavior whereas *cognitive psychology* has studied the importance of cognitive schemas in the decision process and consumer behavior. Research within the service marketing literature associated to the impact of corporate image such as attitude towards a company has shown its impact on customer loyalty does not comply the same long traditions as customer satisfaction research. Apart from the early conceptual work discussing corporate image and positioning (Lovelock, 1984), the service management system (Normann, 1991), technical and functional quality (Grönroos, 1984), surprisingly few empirical in impact of corporate image and consumer satisfaction on consumer loyalty.

The disconfirmation-of-expectation paradigm (Oliver, 1980) argues that customer loyalty such as repurchase intentions, willingness to provide positive word-of-mouth is a function of customer satisfaction, which again is a function of a cognitive comparison of expectations prior to consumption and actual experience. Customer satisfaction or dissatisfaction requires experience with the service, and is influenced by the perceived quality and the value of the service (Anderson, 1994). It is the primary driver of consumer behavior in services industry.

Based on the transaction driven nature of the satisfaction experience, several researcher claims that corporate image is a function of the cumulative effect of consumer dissatisfaction and satisfaction for example Oliver and Linda (1981), Fornell (1992), Johnson and Fornell (1991), and Bolton and Drew (1991). When services are difficult to evaluate, corporate image is believed to be an important factor influencing the perception of quality, customer's evaluation of satisfaction with the service, and customer loyalty.

It is commonly recognized that consumer's perception of quality is based on one or more cues. Olson (1972) conceptualized the formation of quality perception as a two-stage process. In Olson's model the information value of a cue depends on its predictive value, its confidence value, and whether the cue is intrinsic or extrinsic to the product. Predictive value is defined as the extent to which the consumer perceives or believes that the cue is related to or is indicative of product quality" and Confidence value is "the degree to which a consumer is confident in his ability to accurately perceive and judge the cue" (Olson, 1972)

Intrinsic cues cannot be changed without changing the characteristics of the product or service, whereas extrinsic cues are related to, but not part of the product or service such as corporate image. Olson (1972) predicts that extrinsic cues have a more tendency to be used when available intrinsic cues have lower predictive value, lower confidence value or both, and a smaller tendency to be used when intrinsic cues have high predictive value and confidence value.

Theory of cognitive psychology (Weiner, 1980; Weiner, 1985; Folkes, 1988) is expected that a service company's image will function as a filter in the perception of quality, value, satisfaction and as a simplification of the decision process when consumers choose where to purchase services. Perceived performance of service quality on attribute level is believed to impact the satisfaction judgment of the transaction and the perception of value. Value is an aggregated variable reflecting the perception of all quality attributes as a function of price is believed to impact the satisfaction judgment of the transaction in services.

“Value for customers is created throughout the relationship by the customer, partially in interactions between the customer and the service provider. The focus is not on products but on customer’s value-creating processes where value emerges for customers” (Grönroos, 2000:24-25). This view is followed by Vargo and Lusch (2004:6): “A service-centered dominant logic implies that value is defined by and co-created with the consumer rather than embedded in the product”.

These arguments suggest that loyalty to the same service company or same service is based on a confirmation, based satisfaction of previous purchases and a general attitude towards the service provider such as cineplex.

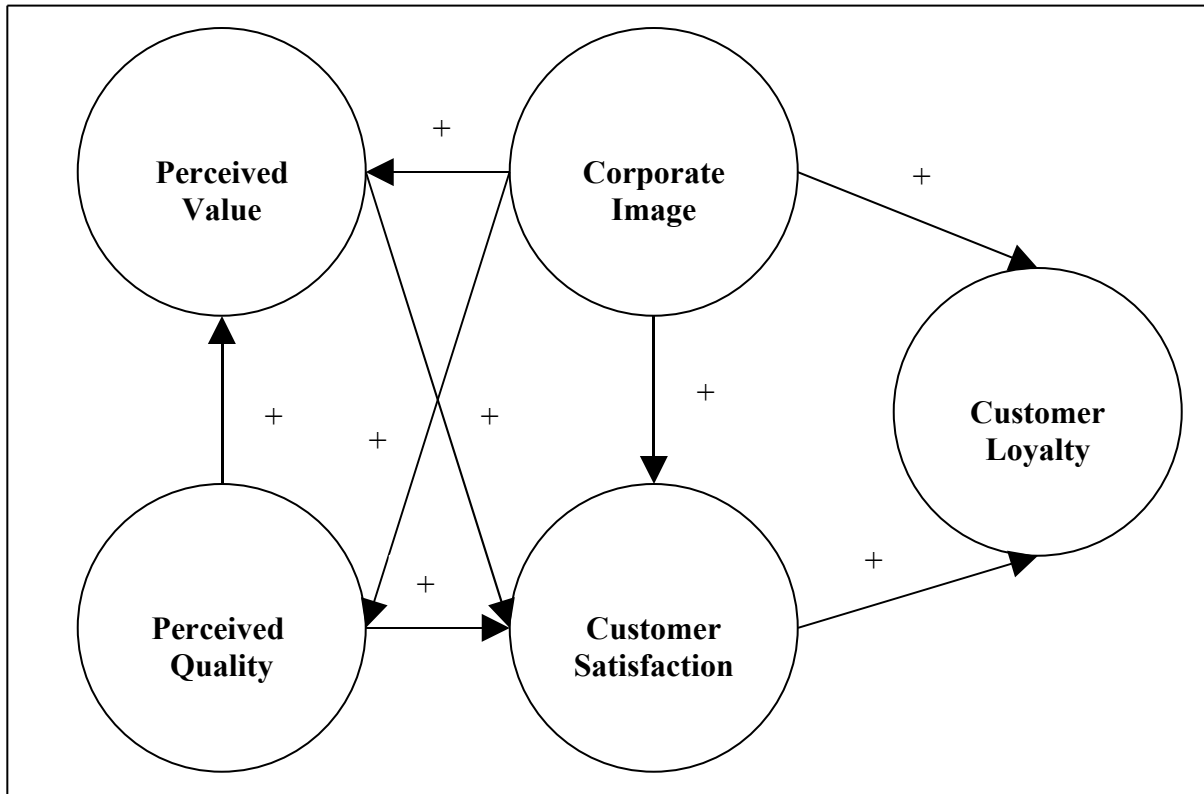


Figure 2.1 The Conceptual Model

Source: Andreassen and Lindestad (1998)

Figure above proposed that perceived quality is believed to have a positive impact on value. Perceived quality and value however are believed to have positive impacts on customer satisfaction. In addition, customer satisfaction is believed to have a positive impact on customer loyalty. On the other hand, corporate image is believed to have a positive impact on customers' perception of quality, value and customers satisfaction. Beside that, repurchase intention and willingness to provide positive word of mouth is indications of customer loyalty. This model is unique in that it presents an overall approach to service evaluations which considers a set of previously tested relationships in services provider. The following discussion presents an underlying theories and overview of the literature related to the constructs towards the proposed theoretical framework of the study in Figure 2.3.

2.3 Customer Loyalty

Customer loyalty expresses an intended behavior related to the service or the company. This includes the likelihood of future renewal of service contracts, how possible it is that the customer changes patronage, how possible the customer is to provide positive word-of-mouth, or the likelihood of customers providing voice. If real alternatives exist or switching barriers are low, management discovers the organisation's lack of ability to satisfy its customers via two feedback mechanisms which are exit and voice (Hirschman, 1970).

Customer exit implies that the customers stop using the company's services while voice is customer complaints expressing the consumer's dissatisfaction directly to the company. Customers' exit or change of patronage will have an impact on the long-term profits of the company. Effects caused from changes in the retention rate are exponential which is not linear with regard to effects on the long term profits. Even a marginal reduction or increase in retention rate has important effects on future revenue (Andreassen, 1995; Reichel and Sasser, 1990).

Customers may be loyal due to high switching barriers or lack of real alternatives. Customers may also be loyal because they are satisfied and thus want to continue the relationship. History has proven that most barriers to exit are limited with regard to durability; companies tend to consider customer satisfaction the only viable strategy in order to keep existing customers. Few authors have found a positive relationship between customer satisfaction and loyalty (Anderson and Sullivan, 1993; Bearden, Teel et al., 1980; Bolton and Drew, 1991; Fornell, 1992).

Organisations, which are acting on free markets, are encountering intense competition and demanding customers (Grönroos, 2000). To be able to survive and create a long-term growth and profit, it is acknowledged by theorists that organisations need to build and nourish mutual and earned loyalty (e.g. Grönroos, 2000; Reichheld, 1997; Reichheld et al., 2000; Söderlund, 2003).

According to numbers of researchers, loyalty is indeed something for organisations to invest resources in, there are certain linkages between customer satisfaction and loyalty (Link 1 in Figure 2.2) and between customer loyalty and profitability (Link 2 in Figure 2.2) that need to be investigated. Söderlund (2003) supports this notion by claiming that profitability is one of the most central reasons for why organisations focus on customer loyalty. In addition, these linkages are being identified in a so-called service-profit chain developed by Heskett et al. (1994).

This chain covers many variables and linkages and stretches from internal to external conditions such as from employees to customers. One of the reasons for creating the service-profit chain was to prove the importance for service-oriented organisations to put customers and employees first. Heskett et al. (1994) stated that, when organisations manage to prioritize these two stakeholders, a change will occur in the way they manage and measure success.

The service-profit chain establishes relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity. Therefore, it is claimed that revenue and growth are stimulated by customer loyalty, which in turn is a result of customer satisfaction. Satisfaction depends on the customer's perception of service value.

Furthermore, since it is employees together with customers that are producing and creating service value, their satisfaction, loyalty and productivity are also influencing the value generating process. Within this segment, more focus will be put on the external aspects of the chain; the relationships between an organisation and its customers (refer Figure 2.2). Thus, the chain is not shown in total. This is done since the purpose of the researcher study is partly to study customer loyalty not employee loyalty. Although the internal employee-oriented linkages are not being further examined, it is vital to be aware of their existence because they are influencing the external customer-oriented linkages (Heskett et al., 1994).

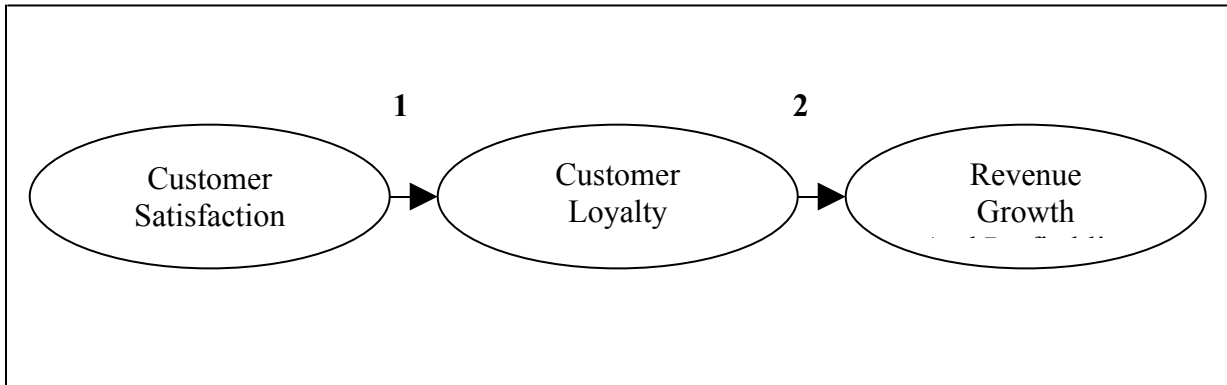


Figure 2.2 A remodeled service-profit chain (Heskett et al., 1994)

Similarly, other researcher expressed in the form of an attitude or preference must also be included within the concept of loyalty. In so doing, this yields a more comprehensive view of loyalty (Anderson and Sullivan, 1993). Indeed, Dick and Basu (1994), in their conceptual framework of customer loyalty, propose that loyalty is greatly affected by the relative strength of the relationship between attitude and behaviour. According Hui (2004) and Bearden and Teel et al. (1980) it is preferable to analyze purchase behaviour that is repeated in contexts where the customer experiences competitive pressures aimed at changing buying habits.

2.4 Perceived Quality

Perceived service quality can be defined as "the consumer's judgment about a product's overall excellence or superiority" (Zeithaml, 1988). According to Juran (1988) quality consists of two primary elements: The first is to what degree a product or service meets the needs of the consumers, and the second to what degree a product or service is free from deficiencies. Service quality is believed to depend on the gap between expected and perceived performance (Anderson and Fornell, 1994).

The concept of perceived service quality, where quality perception takes place during the consumption process, was developed and introduced to help understand the consumption of services (Grönroos, 1984). However Edvardsson (2005) mentioned on the role of service quality and the service experience when consuming services. Perceived service quality was picked up by researchers in North America (first and predominantly by Berry, Parasuraman and Zeithaml, 1988).

The perceived service quality model was extended to the gap model (Parasuraman, Zeithaml and Berry, 1988; see also a comparison between the Nordic School and American approaches to service quality and for an extension of such models in Brady and Cronin, 2001), also to the Servqual measurement instrument (Parasuraman, Zeithaml and Berry, 1988), to Servperf (Cronin and Taylor, 1992; Liljander, 1995), and subsequently extended to include the notion of tolerance zones (Berry and Parasuraman, 1991; Strandvik, 1994). However, it is interesting to note that service quality research have been positioned, as studies of how the quality of services is perceived.

Few studies where service quality and marketing are clearly integrated are exceptional (Christopher, Payne and Ballantyne, 1991). Although service quality research has been presented at marketing conferences and published in service marketing journals, studies of service quality have, if at all, only vaguely and indirectly through the customer expectations variable been related to marketing and to understanding the consumption process and to how to facilitate the interactions with services customers as part of marketing. The reason for this is probably that the expert marketing function alone cannot manage the perception of quality, and accordingly, the mainstream perspective of marketing is restricted to what it can do.

To manage service quality, a customer consciousness has to permeate all business functions. An interest in customers must be extended to everyone – and every system and physical resource as well – who has a direct or indirect impact on the customers' perception of quality. No matter how, a customer focus has to be present throughout the firm and not be restricted to the marketing department.

The relationship between overall service quality and individual service loyalty by Cronin and Taylor (1992) focused solely on repurchase intentions, whereas Boulding et al. (1993) focused on both repurchase intentions and willingness to recommend. In the study by Cronin and Taylor (1992) service quality did not appear to have a significance (positive) effect on intentions to purchase again, while Boulding et al. (1993) found positive relationships between service qualities and repurchase intentions and willingness to recommend. Lastly, with regards to the response to a negative service experience, it has been suggested that the majority of customers simply remain inactive and do not undertake any action (Day, 1984).

2.5 Perceived Value

Perceived value takes into account the price of the service in addition to the quality. According to Zeithaml et al. (1988), perceived value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Consumer's perception of value is subjected by differences in monetary costs, non-monetary costs, customer tastes, and customer characteristics (Bolton and Drew, 1991). Suppliers only create the resources or means required to make it possible for customers to create value for themselves. When service provider and customers interact, they are engaged in co-creation of value (Prahalad and Ramaswamy, 2004).

Value creation has been a popular area in consumer and industrial marketing research and the interest is equally extensive in academia and service industry. Academic research has built on defining the value construct as well as on linking it to other constructs such as loyalty, satisfaction and repurchase behavior. Customer perceived value has been given many definitions in the marketing literature (Woodruff, 1997; Holbrook, 1994; Zeithaml, 1988) and following one of the more traditional perspectives (Monroe, 1990), perceived value has been defined as “the consumer's overall assessment of the utility of a product based on perceptions on what is received and what is given” (Zeithaml, 1988: 14).

Quality, a related construct (Rust and Oliver, 1994), has been suggested to form a part of value (Liljander and Strandvik, 1995). Dimensions that affect service quality thus indirectly affect perceived value and quality dimensions sometimes may thus be used to define perceived value. There is item available to measure perceived value but it is very limited compared to perceived quality (Bolton and Drew, 1992; Zeithaml, 1988).

According to quality definitions found in the service management literature, perceived quality is the result of an evaluation process of the expected and experienced service (e.g. Grönroos, 1982; Parasuraman et al., 1985). Although not explicitly involving sacrifice, this definition of quality involves technical and a functional dimension as sources of quality (Grönroos, 1982). Technology has been suggested to influence value creation processes (Parasuraman and Grewal, 2000), resulting in a need to broaden the value construct. Internet services, mobile services and other self-service technologies have created empowered customers who may independently perform the service process.

These technology-based services are “services delivered via technological interfaces that enable customers to produce a service independent of direct service employee involvement” (Meuter et al., 2000:50). In the marketing literature there has occurred a shift in focus towards value co-created by the customer (Ramirez and Wallin, 2000). On the other hand, extant service management models have not considered the role of the empowered customer who may perform the service at various locations and time frames not controlled by the service provider. Even though time and location have been implicitly noted as factors influencing customer perceptions, there are no theoretical conceptualizations that include time and location as explicit value dimensions

It has been suggested that customer perceived value is formed of the trade-off between benefit and sacrifice (Monroe, 1990). Many of the conceptualizations involve quality as the benefit and price as the sacrifice. Few study also has proven that perceived value has a direct relationship to customer satisfaction (Andreassen and Lindestad, 1997; Hui, 2004; Fornel et al., 1996; McDougall and Levesques, 2000).

3.6 Corporate Image

According the marketing literature of goods we have learned that brand reputation has been defined as a perception of quality associated with the name (Aaker and Keller, 1990). On the company level, image has been defined as perceptions of an organisation reflected in the associations held in consumer memory (Keller, 1993).

Corporate image in the service marketing literature was early identified as an important factor in the overall evaluation of the service and the company (Grönroos, 1984; Gummesson and Grönroos, 1988; Bitner, 1991). Separated from image as a function of accumulation of purchasing or consumption experience over time, most company also provides intricate and noisy informational environments such as advertising, direct marketing, or public relation in order to attract new and retain existing customers.

In the Perceived Quality Model (Grönroos, 1988), perceived quality is a function of expected quality which generated from market communication, image, word-of-mouth, and customer needs, and experienced quality which generated from technical quality and functional quality. According to Grönroos (1988), corporate image is a filter which influences the perception of the operation of the company. This is in line with Gummesson (1993:229), who states that customer perceived quality is a function of “quality in fact and quality in perception”. People develop knowledge systems such as schemas to interpret their perception of the company.

Corporate image is believed to have the same characteristics as self-schema (Markus, 1977) with regard to influencing the buyers purchasing decision, such as good corporate image stimulates purchase from one company by simplifying decision rules. In this context, corporate image becomes an issue of attitudes and beliefs with regard to awareness and recognition (Aaker, 1991), customer satisfaction and consumer behavior (Fornell, 1992).

Corporate image can be an extrinsic information cue for both existing and potential buyers and may or may not influence customer loyalty such as willingness to provide positive word-of-mouth. Corporate image is therefore assumed to have an impact on customer's choice of company when service attributes are difficult to evaluate. Corporate image is established and developed in the consumers mind through communication and knowledge.

Corporate image is believed to create a "halo effect" on customer's satisfaction judgment. When customers are satisfied with the services rendered, their attitude towards the company is enhanced. This attitude will then affect the consumer's satisfaction with the company. In certain journal, they treat corporate image as an accumulated attitude experience based or not towards the company.

In the services marketing literature, the (corporate) image concept has not featured significantly. Although some attention has been paid to the conceptualization of corporate image in services positioning (Grönroos, 1993), the concept has remained indistinct. From the marketing of goods literature, it has become clear that corporate image represents the impressions and associations, the beliefs and attitudes that are held in consumer memory with regards to the company (Barich and Kotler, 1991).