

**DETERMINANTS OF STUDENTS' SATISFACTION  
AND STUDENTS' LOYALTY IN COLLEGE X:  
A CASE STUDY**

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**by**

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## **DEDICATION**

This thesis is dedicated to my parents, family members and husband for their sacrifices and unconditional love.

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# TABLE OF CONTENTS

<b>ACKNOWLEDGEMENTS</b>	<b>i</b>
<b>TABLE OF CONTENTS</b>	<b>ii</b>
<b>LIST OF TABLES</b>	<b>vi</b>
<b>LIST OF FIGURES</b>	<b>vii</b>
<b>ABSTRAK</b>	<b>viii</b>
<b>ABSTRACT</b>	<b>ix</b>
<b>CHAPTER 1: INTRODUCTION</b>	<b>1</b>
1.0 Introduction	1
1.1 Background of the Study	1
<i>1.1.1 Background of the Higher Education in Malaysia</i>	4
<i>1.1.2 Background of College X</i>	5
1.2 Problem Statement	8
1.3 Research Objectives	9
1.4 Research Questions	10
1.5 Definition of Key Terms	10
1.6 Significance of the Study	11
1.7 Organization of Remaining Chapters	13
<b>CHAPTER 2: LITERATURE REVIEW</b>	<b>14</b>
2.0 Introduction	14
2.1 Review of the Literature	14
<i>2.1.1 Service Quality</i>	14
<i>2.1.2 Measuring Service Quality</i>	17
<i>2.1.3 Difference between Service Quality and Customer Satisfaction</i>	20
<i>2.1.4 Students' Satisfaction</i>	21

2.1.5	<i>Students' Loyalty</i>	23
2.1.6	<i>Corporate Reputation</i>	25
2.2	Herzberg's Two-Factor Theory	27
2.3	Theory of Reasoned Action (TRA)	30
2.4	Theoretical Framework	32
2.4.1	<i>Service Quality</i>	33
2.4.2	<i>Students' Satisfaction</i>	34
2.4.3	<i>Students' Loyalty</i>	35
2.4.4	<i>Corporate Reputation</i>	35
2.5	Summary	35
 <b>CHAPTER 3: METHODOLOGY</b>		 <b>36</b>
3.0	Introduction	36
3.1	Research Design	36
3.1.1	<i>Type of Study</i>	36
3.1.2	<i>Nature of Study</i>	37
3.1.3	<i>Study Setting</i>	37
3.1.4	<i>Time Horizon</i>	37
3.1.5	<i>The Questionnaire</i>	37
3.1.6	<i>Population and Samples</i>	39
3.1.7	<i>Pilot Study</i>	39
3.1.8	<i>Method of Data Collection</i>	40
3.2	Measurement of the Variables	40
3.2.1	<i>Demographic Variables</i>	40
3.2.2	<i>Service Quality</i>	41
3.2.3	<i>Students' Satisfaction</i>	41
3.2.4	<i>Students' Loyalty</i>	41
3.2.5	<i>Corporate Reputation</i>	42

3.3	Data Analysis Method	42
	3.3.1 <i>Factor Analysis</i>	42
	3.3.2 <i>Reliability Analysis</i>	44
	3.3.3 <i>Descriptive Analysis</i>	44
	3.3.4 <i>Multiple Regression Analysis</i>	44
	3.3.5 <i>Hierarchical Regression Analysis</i>	46
3.4	Summary	47
<b>CHAPTER 4: RESULTS</b>		<b>48</b>
4.0	Introduction	48
4.1	Profile of Respondents	50
4.2	Goodness of Measures	50
	4.2.1 <i>Factor Analysis</i>	52
	4.2.2 <i>Reliability Analysis</i>	52
4.3	Descriptive Statistics	52
4.4	Regression Analysis	54
4.5	Hypothesis Testing	55
4.6	Summary of Results	58
<b>CHAPTER 5: DISCUSSIONS AND CONCLUSIONS</b>		<b>59</b>
5.0	Introduction	59
5.1	Recapitulation of the Study Findings	59
5.2	Discussions	59
	5.2.1 <i>Relationship between Service Quality and Students’ Satisfaction</i>	60
	5.2.2 <i>Relationship between Students’ Satisfaction and Students’ Loyalty</i>	62

5.2.3	<i>Relationship between Students' Satisfaction and Students' Loyalty Moderated by Corporate Reputation</i>	63
5.3	Implications	64
5.4	Limitations	65
5.5	Future Research	66
5.6	Conclusion	66
REFERENCES		67
APPENDICES		85
Appendix A:	Cover Letter and Questionnaire	86
Appendix B:	SPSS Analysis Outputs	91
B1:	Frequencies	91
B2:	Factor Analysis	93
B3:	Reliability Analysis	103
B4:	Descriptive Analysis	106
B5:	Regression Analysis	108
B6:	Hierarchical Regression Analysis	111
Appendix C:	Courses Offered in College X	117

## LIST OF TABLES

	<b>Page</b>
Table 1.1: Courses Offered in College X, Penang Branch Campus	7
Table 1.2: Definition of Key Terms	10
Table 3.1: Summary of Items of Measurement	38
Table 4.1: Frequency Count and Percentage Distribution of Respondents Demographic Profile	49
Table 4.2: Result of Factor Analysis	51
Table 4.3: Reliability Coefficients for the Major Variables	52
Table 4.4: Descriptive for the Major Variables	53
Table 4.5: Descriptive Statistics on How Students' Learnt about this College	53
Table 4.6: Results of Regression Analysis	54
Table 4.7: Hierarchical Regression Analysis	57
Table 4.8: Summary of the Findings of Hypotheses Testing	57
Table 5.1: Course Fees Collected for Famous Colleges in Penang	62

## LIST OF FIGURES

	<b>Page</b>
Figure 2.1: Herzberg's Two-Factor Theory	29
Figure 2.2: Theory of Reasoned Action	30
Figure 2.3: Theoretical Framework	32
Figure 4.1: Results of the Regression and Hierarchical Regression Analysis	58

## **ABSTRAK**

Industri pendidikan sedang melalui perubahan yang pesat dengan penambahan pesaing tempatan and antarabangsa di Malaysia. Institusi pengajian tinggi kini mulai sedar tentang kepentingan untuk menarik dan mengekalkan pelajar di institusi tersebut. Satu faktor utama untuk diberi perhatian terhadap keputusan perkhidmatan kualiti ialah kepercayaan bahawa ia akan membawa kesan yang baik kepada prestasi institusi. Kepuasan pelajar dan antisidennya merupakan faktor utama untuk mengekalkan pelajar di institusi pengajian tinggi. Oleh itu, tujuan kajian ini ialah untuk mengkaji hubungan antara kualiti perkhidmatan dan kepuasan pelajar; kepuasan pelajar dengan kesetiaan dan reputasi korporat dengan kesetiaan. Tambahan pula, kajian ini juga akan menerokai peranan reputasi korporat sebagai pembolehubah pemoderat. Sampel kajian terdiri daripada pelajar dari sebuah Institusi Pengajian Tinggi di Pulau Pinang, Malaysia. Data dikutip dengan mengedarkan soal selidik. Dari 500 soal selidik yang diedarkan, 487 (97.4%) telah dikembalikan. Daripada empat hipotesis yang dikaji, hanya dua hubungan yang berkesan iaitu kepuasan pelajar dan kesetiaan serta koporat reputasi dan kesetiaan. Akan tetapi, dua hipotesis yang lain iaitu hubungan antara perkhimdmatan kualiti dan kepuasaan tidak disokong serta pembolehubah reputasi korporat didapati tidak mempengaruhi hubungan antara kepuasan pelajar dan kesetiaan. Implikasi dan cadangan untuk penyelidikan susulan juga dibincangkan.

## **ABSTRACT**

The educational industry is undergoing rapid change and competition has increased with an increasing influx of local and foreign colleges in the country. Higher educational institutions have begun to recognize the importance of attracting students and retaining them once they are in the institution. An important reason for the interest in service quality results from the belief that it has a beneficial effect on the performance of the institution. Students' satisfaction and its antecedents were identified as important factors in order to retain students. Thus, the purpose of this study is to examine the relationship between service quality and students' satisfaction; students' satisfaction and loyalty; corporate reputation and loyalty. In addition, we also explore the role of corporate reputation as a moderating variable. The respondents are students at a higher educational institution in Penang, Malaysia. Out of a total of 500 questionnaires distributed, 487 usable questionnaires were returned, representing a 97.4% return rate. Out of the four hypotheses tested, only two, i.e. students' satisfaction and loyalty and corporate reputation and students' loyalty were significant. However, the other two hypotheses, namely service quality to students' satisfaction and corporate reputation moderating the relationship between students' satisfaction and loyalty were not supported. The implications of this study and suggestions for future research are also highlighted.

## Chapter 1

### INTRODUCTION

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#### 1.0. Introduction

This chapter introduces the research outline of the study. The chapter will touch on the background of the study, problem statement, research objectives, research questions and significance of the study. Definition of key terms will be highlighted as well.

#### 1.1. Background of the Study

The environment that higher educational institutions have operated in has changed dramatically over the years. Among the main precursors to these changes are alterations of the demographic structure, socio-economic changes, the development of new information and communication technologies, the new knowledge society and the debate over the role of education, of human capital and of scientific research in our societies (Fram & Camp, 1995). These changes together with a questioning of the functionality and performance of university institutions, an increase of society's expectations with respect to the performance of public universities, as well as an increase in the demands of the various users of these services have resulted in a concern to improve the quality of teaching, research and all services that a university provides (Capelleras & Veciana, 2001).

The concept of quality has also spread to all service sectors including higher education sector (Athiyaman, A. 2000; Slade, Harker & Harker, 2000). A significant increase in the service industry has increased the awareness of many researchers and consumers to the term "quality" of the services offered by the higher educational institutions. The relationship

between customer satisfaction and service quality has also received a good deal of attention in the literature (Bolton & Drew, 1994).

Higher education is increasingly recognized as a service industry, placing greater emphasis on meeting the expectations and needs of its participating customers, who are the students. According to Astin (1993), just like any form of business, factors related to satisfaction levels and students' perceptions of quality will attract and retain students. Astin (1993) further illustrated that there is a "direct association between student satisfaction and retention. The strength of these associations and their prevalence across all measures suggest that promising ways to reduce an institution's dropout rate is to focus more attention on students' satisfactions." Hence, service providers are also beginning to understand that products or services alone cannot retain their customers. A better and clearer understanding of how customers form an impression of quality can provide valuable information to service providers for designing service delivery system that can improve customer satisfaction and also customer loyalty. An organization must identify attributes that are important to their customers constantly so that they can be in a competitive advantage position.

Zeithaml, Parasuraman, and Berry's (1992) study indicated that poor performance among service related businesses often resulted from inadequate information about their own customers. If organizations do not know what their own customers want in terms of service, then they cannot possibly design programmes that match customer expectations of what constitute good services. To remedy this problem, service organizations would be well advised to conduct their own research prior to the implementation of service programmes. Otherwise, service organizations could never hope to match service expectations to service

deliveries. Knowing what customers expect is the first and possibly most critical step in delivering quality.

The higher learning institution involved in this study received a subsidy of 50% tuition fees from the government on each registered student. The funding is partly based on the intake and students' retention throughout the duration of their study. Government funding is becoming scarcer and more complex, and performances are increasingly being emphasized when public funds are allocated to the various business areas of the educational institutions (Arnaboldi & Azzone, 2005; DeShields Kara & Kaynak, 2005). Thus insight concerning students' loyalty and the drivers of students' loyalty should be great importance when determining the most appropriate management strategy. To compete for this scarce funding, management should allocate more resources to activities that may increase the value offered so that students' retention may be maintained, thus ensuring governmental funding not only for now but also in future. Improving customer satisfaction not only raises the organization's profits, but also facilitates company development (Dubrovski, 2001). Students' loyalty has recently become a very important strategic theme for institutions offering higher education (Hening-Thurau, Lager & Hansen, 2001; Marzo-Navarro, Pedraja Iglesias & Rivera Torres, 2005a). Student loyalty is supposed to be positively related to student satisfaction and it will lead to good performance of an educational institution, at least in the long run (Kotler & Fox, 1995; Zeithaml, 2000; Helgesen, 2006).

It is paramount for higher educational institutions to satisfy their valued customers because a satisfied student will be a good word of mouth in promoting the college to their family members, relatives and friends. This type of promotion plays an important role in marketing and it is called viral marketing. According to Kotler and Keller (2006), viral

marketing involves passing on company-developed products, services, or information from user to user. Viral marketing is a form of word of mouth marketing and it is a powerful source of marketing not only to reach out to people but able to convince them about the products or services.

### ***1.1.1 Background of the Higher Education in Malaysia***

With globalization and the liberalization of higher education in Malaysia, local universities and colleges are facing new challenges in the educational arena. Overseas universities such as Nottingham University, Monash University and Curtin University of Technology, are transforming themselves into global universities by establishing new branch campuses and exporting educational programmes to Malaysia. Given this head on competition, local universities and colleges have no choice but to improve the quality of their programmes and graduates so that they can compete with the best globally.

The Malaysian higher education has undergone substantial growth as a result of efforts made by the Ministry of Education to expand the education industry. This is actually Malaysia's long term objective to make the country a regional centre of excellence in education. The growth of higher education in Malaysia can be seen in several areas such as increased governmental policies in promoting education, increase in student population and enrolment, increase in the number of higher education institutes including private and public universities and colleges. Since the inception of its first university in 1961, Malaysia now has 20 public universities, 32 private universities and university colleges, four branch campuses of international universities, 21 polytechnics, 37 public community colleges and 485 private colleges as compared to year 2000 where Malaysia only had 11 public universities, five

private universities and university colleges, three branch campuses of international universities, 11 polytechnics and 632 private colleges (<http://www.mohe.gov.my>).

The role of higher institution is to produce a competent workforce equipped with knowledge, skills, attitude and behavior to meet the demands of the high technology era. As John F. Kennedy, 35<sup>th</sup> President of the United States of America aptly puts it: “Our progress as a nation can be no swifter than our progress in education. The human mind is our fundamental resource.” Malaysia too believes in investing in education, particularly higher education as a means of achieving greater socio-economic progress and human capital development by consistently setting aside a high proportion of development budget, averaging 20%, for education. Presently, only about 12% of the general populations are pursuing their tertiary education locally whilst a significant number of them are studying abroad. By the year 2020, the government hopes that 40% of the Malaysian population will attend tertiary education (<http://www.mohe.gov.my>). In this respect, the prerequisite of a successful institution of higher learning is to have skilled workforce to provide quality services to their students be it academic or non-academic services. Hence, human resource development in the university is vital and remains significant.

### ***1.1.2 Background of College X***

This study is conducted on an established local college in Penang, Malaysia. Due to the sensitivities and confidential nature of the subject matter, the chosen college will be referred to as College X and not by its actual name. College “X” was set up in 1969 under the leadership of a political party, Malaysian Chinese Association (MCA) in Malaysia to cater to the growing demands for tertiary education among Malaysian youths. The vision of the

founding fathers was to establish an institution of higher learning for young Malaysians who have been deprived of opportunities to seek higher education in public universities and also to meet the rising demand from private sectors, who are always on the lookout for trained and qualified professionals. Now, College X vision is to be a distinguished institution of higher learning acknowledged locally, nationally and globally for its excellence in providing opportunities for intellectual, personal and professional development and growth of its students by fostering their inquiring, creative and innovative minds to succeed in life.

College “X” continues to play an important role by offering quality education at affordable fees to make higher education within the reach of everyone from all strata of society. The Penang branch campus was its first branch campus established in 1994. Since then, the College has also expanded to other parts of the country to bring education nearer to the doorsteps of students, through the setting up of branch campuses in Perak, Johor, Pahang and Sabah. The College has played a pivotal role in producing well sought-after graduates and high caliber professionals who have made significant contributions to the development of the nation.

The Penang branch campus started its operation at a temporary premise with a total number of 80 students. By the time the College moved to its present campus in 1999, the student population had increased to about a thousand. To date, the population of Penang branch campus is about 2,500 students, with Chinese being the dominant group.

In line with Penang State Government’s vision is to make Penang a Centre of Education in South East Asia, College “X” has grown with the introduction of new courses to meet the increasing market demands as well as technological and social developments. College X offered variety of courses listed in Table 1.1.

**Table 1.1***Courses Offered in College X, Penang Branch Campus*

<b>Courses Offered</b>	<b>Diploma</b>	<b>Certificate</b>
<b>School of Arts and Science</b>		
Science (Information Systems Engineering)	*	
Science (Business Information Systems)	*	
Science (Computer Science And Management Mathematics)	*	
Science (Computer Science And Computer Mathematics)	*	
Science (Internet Technology)	*	
Internet Technology		*
Information Technology (Certificate Level III)		*
<b>School of Business Studies</b>		
Business Studies (Accounting)	*	*
Business Studies (Business Administration)	*	*
Business Studies (Marketing)	*	
Business Studies (Banking And Finance)	*	
Business Studies (Human Resource Management)	*	
Business Studies (Finance and Investment)	*	
Business Studies (E-Commerce And Marketing)	*	
Business Studies (International Business)	*	
Office Administration (Certificate Level III)		*
<b>School of Technology</b>		
Technology (Building)	*	*
Technology (Electronic Engineering)	*	*
Technology (Property Management)	*	
Technology (Quantity Surveying)		*
Technology (Architecture)		*
<b>School of Social Science And Humanities</b>		
Mass Communication (Journalism)	*	
Mass Communication (Public Relations)	*	*

The College is 50% subsidized by government for all its recurrent and capital expenditure. Besides, College “X” also receives a subsidy of 50% tuition fees from the government on each registered student. This funding is partly based on the intake and student retention throughout the duration of their study. Thus insight concerning student loyalty and the drivers of student loyalty should be great importance to the management of College X.

## **1.2. Problem Statement**

This study focuses on service quality factors influencing students’ satisfaction and loyalty in higher learning institutions. The higher learning environment is experiencing important changes that have to be managed well in order to ensure the college’s survival. The ever changing higher educational environment puts most of the institutions on their toes in this highly competitive business. The services that satisfied students in previous years may be different now especially with new technologies, techniques, skills and knowledge needed in the field of their studies.

One of the most notable changes is the appearance of new needs from different batches of students. Students from every intake come with different needs and expectations. In order to survive and be successful, the institutions need to look into all these needs. This has caused colleges and universities to expand their educational services through a variety of courses offered, seminars, and specializations to cater to the market needs. Students now demand for the same or higher quality that they received from any other commercial establishments in terms of convenience, low cost and short duration to completion. They would also compare the educational services provided by a specific institution with other educational service provider before they make up their minds as to which is the best choice.

Thus, the higher educational institutions are being forced to consider issues from the perspective of the students and to work towards overall improvement rather than focus on the academic products alone.

With a growing number of professionals returning to universities or colleges to update their knowledge, institutions of higher education are faced with new demands. Therefore, higher learning institutions are required to be capable of increasing the qualifications of persons by increasing their knowledge and updating their knowledge (Chevaillier, 2002). It has also been argued that organizations make assumptions about what is important to the consumers, only to discover later that what the customer values are different from what the organization assumed they valued (Donnelly Wisniewski, 1996; Lam, 1997). Students' opinions about all aspects of academic life are now sought by educational institutions in the form of satisfaction feedback survey. Research consistently demonstrates that it costs more to attract a new customer than it does to retain one (Gemme, 1997), which makes customer retention a crucial factor for the success of every business. Hence, this study focuses on the service quality factors that influence students' satisfaction and loyalty as well as on how to retain them.

It appears that the huge student enrolment of College X may be due to other reasons, other than quality services. Hence, it is hoped that the findings of this study will provide invaluable information to improve the services offered by the researched organization.

### **1.3. Research Objectives**

The purpose of this study is to examine the relationship between service quality, students' satisfaction and loyalty. At the same time, the role of corporate reputation as a moderating

variable between students' satisfaction and students' loyalty will also be analyzed. The educational industry is undergoing rapid change and more competitive now with an increasing number of local and foreign colleges in the country, particularly in Penang. Hence, local higher educational institutions need to double their efforts to attract and retain their potential students.

The objectives of the present study are:

- 1) To analyze the relationship between service quality and students' satisfaction.
- 2) To analyze the relationship between students' satisfaction and students' loyalty.
- 3) To analyze whether the relationship between students' satisfaction and students' loyalty is moderated by their perception of corporate reputation.

#### **1.4. Research Questions**

This study is conducted with the aim of addressing the following questions:

- 1) Does student satisfaction increase with an increase in service quality?
- 2) Does student loyalty increase with an increase in student satisfaction?
- 3) Does a favorable perception of corporate reputation influence the relationship between student satisfaction and student loyalty?

#### **1.5. Definition of Key Terms**

**Table 1.2: Definition of Key Terms**

<b>Key Concept</b>	<b>Explanation</b>
Loyalty	Loyalty is defined as a customer's favorable attitude toward the higher educational institution through positive word-of-mouth by recommending the institution to others (Dick & Basu, 1994; Hagel & Armstrong, 1997).

Student Satisfaction	Student satisfaction is a short-term attitude that results from the evaluation of their experience with the education service received (Elliot & Healy, 2001).
Corporate Reputation	Reputation may be interpreted as the overall perception of an organization, what it stands for, what it is associated with, and what one is supposed to get when buying the products or using the services of the company (Fombrun & Shanley, 1990; MacMillan, Money, Downing & Hillenbrand, 2005).
Service Quality	Service quality can be defined as the customers' attitude or judgment about the superiority of a service (Robinson, 1999). The most progressive view of quality is that it is defined entirely by the customer or end user and is based upon that person's evaluation of his or her entire customer experience. The customer experience is the aggregate of all the touch points that customers have with the company's product and services, and is by definition a combination of these ( <a href="http://en.wikipedia.org/wiki/Quality">http://en.wikipedia.org/wiki/Quality</a> ).

### 1.6. Significance of the Study

In steering the nation to achieve its vision to become a developed nation by year 2020, the Ministry of Higher Education, with its National Higher Education Strategic Plan together with the National Higher Education Action Plan, aims to transform the nation's higher education to produce excellent human capital with a first-class mentality who will drive the nation's economy (College Prospectus 2008/09). With this in mind, Malaysia has placed heavy emphasis on the education sector. With the ever increasing number of higher learning institutions, competition among these colleges is considered a major issue. In order to survive in this competitive environment, sustainable competitive advantage is much sought after by these institutions including the selected institution. Therefore, the educational literature suggests that it is imperative for educational institutions to actively monitor the quality of the services they offer and to commit to continuous improvements in order to survive the

increasingly fierce competition for highly desirable students and the revenue they generate (Brigham, 1994; Dorweiler & Yakhou, 1994).

The present study is based on service quality factors influencing students' satisfaction and loyalty in higher learning institutions. This study will provide better insights into which service quality factors affect students' satisfaction and loyalty. The administrators of these institutions should analyze the service quality factors that determine this satisfaction as it is the key to retaining students. Even though many researches have been carried out on students' satisfaction, majority were conducted in other parts of the world. Studies on students' satisfaction and students' loyalty in the Malaysian context are still lacking when compared with the extensive studies done abroad. As Malaysia is culturally different from many Western nations, with its multi-diverse ethnic groups, religions and culture, the findings from this study would assist both public and private institutions on how best to go about attracting and retaining students in future.

In addition to filling the gaps in the literature as well as to contribute to the body of existing knowledge, it is hoped that the findings from this study will assist both government and private educational institutions in their effort to attract and retain their students. It is also hoped that the findings will boost higher learning institutions' performance in Penang through massive improvement in the quality services that can satisfy their customers by meeting their ever changing demands. In addition, it is hoped that the findings will benefit the researched organization by identifying the key areas it needs to focus on in order to strengthen its position in this competitive industry.

The significance of this study is that even though the researched organization has a huge enrolment as compared with other colleges, service quality and students' satisfaction

should not be compromised. Continuous improvement in terms of service quality, students' satisfaction and students' loyalty is important to make this institution a brand name that is recognized by the community. It is hoped that the findings of this study will assist the researched organization to keep growing and become a brand name that every household wants to send their children to.

### **1.7. Organization of Remaining Chapters**

This research is confined to an institution of higher learning in Penang, Malaysia ([College X](#)).

This study consists of five chapters as follows:

Chapter one provides of an overview of the present study. It covers the background of the study, problem statement, research objectives and research questions. The significance of the study is also addressed to provide readers with the rationale of conducting this study.

Chapter two reviews the work of previous researches on this topic. The antecedent, dependent variable, moderating variable, and independent variables are presented in the theoretical framework.

Chapter three discusses the research methodology which covers research design, nature of the study, the population and sample, data collection method, measurements and the statistical analysis used in this study.

Chapters four presents the results of the statistical tests and focuses on the findings of the research.

Finally chapter five will present the discussion, its implications, research limitations, conclusions and suggestions for future research.

## Chapter 2

### LITERATURE REVIEW

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#### **2.0. Introduction**

The objective of this chapter is to review the work of previous researchers on service quality, student satisfaction, student loyalty and corporate reputation. Based on the literature reviewed, hypotheses will be formulated and a theoretical model developed.

#### **2.1. Review of the Literature**

In an increasing competitive environment, most fields stressed the strategic importance of satisfaction and service quality in the battle of winning consumer preferences to maintain their sustainable competitive advantages. In the service economy especially, satisfaction, quality and performance proved to be key factors reciprocally interrelated in a causal, cyclical relationship, even though they are often used as synonymous due to the similarity in their meaning (Cronin & Taylor, 1992; Bitner & Hubert, 1994). The underpinning of the marketing concept is that identification and satisfaction of customer needs leads to improved customer retention (Day, 1994). Thus, it is not surprising that organizations spend substantial resources to measure and manage customer satisfaction.

##### ***2.1.1. Service Quality***

There are many ideas suggesting how to describe the concept of service quality. However, the nature of the concept has yet to be agreed upon. The reason that service quality is difficult to

define, describe, and measure is because of the specific subjective nature of services (Brown, Gummesson, Edvardsson, & Gustavsson, 1991). The definition of quality has changed from the producer-oriented “up to specification” to the consumer-oriented “fit for use” until the present day when the most popular expression is “satisfying the consumer’s needs” (Cheng-Nan Chen & Shueh-Chin Ting, 2002).

In discussing the role of service quality in higher education, Shank, Walker and Hayes (1995) noted that “Higher education possesses the characteristics of a service industry. Educational services are intangible, heterogeneous, inseparable from the person delivering it, variable, perishable, and the customer (student) participates in the process. In addition, colleges and universities are increasingly finding themselves in an environment that is conducive to understanding the role and importance of service quality; this environment is a fiercely competitive one”.

Gronroos (1984) asserted that there are two distinct constituents of service quality, “technical quality” and “functional quality”. Technical quality is an objective assessment of what the customer receives from the service organization, and it concerns the outcome or content delivered through the service. Whereas, functional quality is a subjective measure of how the customer perceives the service delivered, and takes the measure of the process of service delivery. Many researchers argued that functional service quality may be seen by the customer as the most important factor in a service transaction because of their frequent inability to judge technical quality of service (Asubonteng, McCleary & Swan, 1996). It may be difficult for the consumer to assess technical quality as they tend to rely on how the service has been delivered, and attributes such as empathy, reliability, responsiveness associated with the service encounter become critical (Parasuraman, Ziethaml & Berry, 1985 & 1988;

Babakus & Mangold, 1992). On the other hand, Parasuraman *et al.*, (1985) argued that service quality can be defined as the difference between predicted or expected service (customer expectations) and perceived service (customer perceptions). There appears to be agreement that service quality can be defined as the customers' attitude or judgment about the superiority of a service (Robinson, 1999). Robinson (1999) and Lee, Lee, & Yoo (2000) argued that it is derived from a comparison of performance with ideal standards.

Service quality research done on education in Malaysia has been conducted on a different area but with the same objective to achieve the excellence of the education sector (Lewis & Mitchell, 1990/1991). This led to research done on reaction towards Total Quality Management's (TQM) philosophy. The student satisfaction approach goes hand-in-hand with the development of a culture of continuous quality improvement (Harvey, 1995).

The SERVQUAL model, developed by Parasuraman *et al.* (1988), highlights five gaps in the delivery of service which influence a customer's judgment about the quality of service. These include the gap between consumers' expectations and management's perceptions of these expectations; the perceptions of service quality held by top management and the translation of these into quality specifications; these specifications and the service delivery at the front line; what is promised in external communications and the actual service delivered; and perceived performance and expectations, which is a function of gaps between all mentioned. Most of the studies used the final gap which has been explored using a variant of the SERVQUAL instrument.

There are two methods of applying SERVQUAL: perceptions-only scale, where the instrument is applied at one point in time as a snapshot of perceived current service quality (Hartline & Ferrell, 1996; Ziethaml, Berry & Parasuraman, 1996), or it can be applied to

assess the gap between the service that customers expected and the service that they actually received (Watson, Richard, Sigmund Akselsen & Leyland, 1998). The literature (Babakus & Boller, 1992; Cronin *et al.*, 1992; Parasuraman *et al.*, 1993) reveals that perceptions-only scores are superior to the gap scores in terms of reliability, convergent validity and predictive validity. The perception-only instrument is most appropriate when assessing the predictive validity of service quality while the gap scale is most appropriate when diagnosing service pitfalls (Ziethaml *et al.*, 1996). Thus, we only look at the respondents' perceptions of service quality in this study and not the gap of perceived performance and expectations.

The idea of looking at the respondents' perceptions of service quality is supported by Cronin *et al.* (1992); Franceschini (1998); Robinson (1999); Lee *et al.* (2000), who determined service quality by measuring only performance which they claimed would best reflect customers' perceptions of service quality as expectations are not part of the concept. In this study, we will only concentrate on measuring performance which best reflect students' perceptions of service quality in terms of service delivery system.

### ***2.1.2. Measuring Service Quality***

It is becoming increasingly important to measure quality of service provision so that resources can be directed effectively and efficiently towards improvement (Kearney, 1999; Scottish Executive Health Department, 2001a). In fact, Gronroos (1990) has argued that we are living in a service economy and suggested that due to the essential differences between product and service marketing, there are special challenges in defining and measuring the quality of services.

There are various tools proposed by different researchers to measure service quality. SERVQUAL is the first and the most popular service quality measurement tool proposed by Parasuraman *et al.* (1988). SERVQUAL is based on the disconfirmation model, measures service quality by calculating the gap between what the customers expect and what they perceive. In its original form, SERVQUAL consisted of two sets of 22 statements structured around five service quality dimensions. Each statement appears twice. One measures customer expectation of a particular service industry and the other measures customer perception to the firm's performance. The gap between expectations and performance perceptions is measured by the difference between the two scores that is, performance minus expectations. Positive scores showed that the performance is better than what the customer expects, while negative scores meant that customer expectations are greater than performance. This does not necessarily mean that the service is of low quality but rather that customer expectations have not been met.

Shostack (1977) argued that services are more intangible than products and that the most intangible service of all is teaching. Thus, there would appear to be merit in evaluating the performance of tertiary education institutions with a services marketing instrument such as SERVQUAL. However, according to Hittman (1993), it would seem rational to use this instrument not only to evaluate the teaching component but also to include aspects of the total service environment as experienced by the student.

This view is shared by the Accounts Commission for Scotland (1999a), which stated that SERVQUAL results can be used in a variety of ways: "understanding current service quality; comparing performance across different customer groups; comparing performance

across different parts of the service; understanding the internal customer; comparing performance across services; assessing the impact of improvement initiatives”.

SERVQUAL measures the level of importance of the following five dimensions to the customer (Parasuraman *et al.*, 1988):

- (i) **Tangibles:** This dimension deals with the physical environment. It relates to customer assessments facilities, equipment, communication materials and appearance of those providing the service.
- (ii) **Reliability:** This dimension deals with customer perceptions that service provider is providing the promised service in a reliable and dependable manner.
- (iii) **Responsiveness:** This dimension deals with customer perception about the willingness of the service provider to help customers and provide prompt service.
- (iv) **Assurance:** This dimension deals with customer perceptions that the service provider’s behavior instills confidence through the provider’s knowledge and courtesy.
- (v) **Empathy:** This dimension deals with customer perceptions that service provider is caring and giving them individualized attention and has their best interests at heart.

### ***2.1.3. Difference between Service Quality and Customer Satisfaction***

It has been understood that customer satisfaction and service quality are conceptually distinct from one and another but closely related. Several researchers including Parasuraman *et al.* (1988); Bitner (1990); Bolton *et al.* (1994) supported the idea that customer satisfaction leads to service quality. Other researchers such as Spreng and Mackoy (1996); Woodside Frey and Daly (1989) cited in Lee *et al.* (2000) Hoisington and Naumann (2003) believed that service quality as an antecedent of customer satisfaction. This research takes the latter view of service quality as a precursor of satisfaction, concurring with much of the empirical research including Cronin *et al.* (1992); Dion Javalgi and Dilorenzo-Aiss (1998) and Lee *et al.* (2000). Cronin *et al.* (1992) argued that the distinction between satisfaction and quality is important because service providers need to know whether their objective should be to deliver satisfied customers, who will then develop a perception of high service quality or that they should aim for high service quality as a way of increasing customer satisfaction. Keeping customers satisfied either partially or completely will lead to customer loyalty.

Numerous studies have been carried out to see the relationship between service quality factor, customer satisfaction and loyalty/retention. Study carried out by Cheng-Nan Chen *et al.* (2002), showed that each quality factor had a different degree of influence on overall service quality and customer satisfaction. They also confirmed that service quality and customer satisfaction were two different constructs. Functional quality had a greater impact upon service quality and customer satisfaction than technical quality had. Rust and Oliver (1994) suggested that customer satisfaction or dissatisfaction is a “cognitive or affective reaction” and it emerges as a response to a single or prolonged set of service encounters. Satisfaction is a “post consumption” experience which compares perceived quality with expected quality,

whereas service quality refers to a global evaluation of a firm's service delivery system (Anderson & Fornell, 1994; Parasuraman *et al.*, 1985).

Iacobucci, Ostrom and Grayson (1995) concluded that the key difference between service quality and customer satisfaction is that quality relates to managerial delivery of the service while satisfaction reflects customers' experiences with that service. Thus, quality improvements that are based on customer needs will lead to improved customer satisfaction; if not, it will not lead to higher customer satisfaction. This view is shared by Bolton *et al.* (1994, p. 176) who pointed out that "customer satisfaction....depends on preexisting or contemporaneous attitudes about service quality." Bitner, Booms and Mohr (1994) and Anderson *et al.* (1994) also supported this view by suggesting that improved service quality will result in satisfied customers and suggested that to a large extent this relationship is intuitive.

Service quality has become a key management issue as it is central to private sector competitiveness (Parasuraman *et al.*, 1988). Consumers demanding increasingly higher quality services exert pressure on the service provider to provide quality services in order to remain commercially competitive (Parasuraman *et al.*, 1985; Cronin *et al.*, 1992). A key factor in designing and delivering quality services is the need to understand customer needs in order to provide services which meet those needs within available resources (Cohen, Forbes & Garraway, 1996).

#### ***2.1.4. Students' Satisfaction***

The concept of customer satisfaction is challenging to understand due to the variety of components that it affects. Numerous attempts have been made by researchers to define the

concept of satisfaction and they acknowledge that satisfaction is the final state of a psychological process although a consensus about a generally accepted definition has not been reached. In fact students' satisfaction is an essential management variable in order to reach the strategic survival objectives of higher learning institutions. However, there are too many approaches to the measurement of students' satisfaction and it is pretty difficult to measure satisfaction. Different institutions and even different academic departments within the same institution use different questions on student evaluation forms. All institutions vary in the data collection yardsticks they impose (Ramsden, 1991).

Even though there is no consensus regarding its definition, the multi-dimensional nature of customer satisfaction is unanimously acknowledged, whether for any service in general or for higher education in particular (Hartman & Schmidt, 1995). Thus, the main focus regarding the concept of satisfaction within the higher education environment will be of a multi-dimensional nature.

The satisfaction concept has been defined in various ways (Hausknecht, 1990; Giese & Cote, 2000; Wiers-Jenssen, Stensaker & Groggaard, 2002). An adaptation of the definition of satisfaction regarding students was proposed by Elliot *et al.* (2001) who indicated that student satisfaction is a short-term attitude that results from the evaluation of their experience with the education service received. According to Seymour (1993), developing many happy satisfied customers, be they students, parents of students, alumni, or company and government employers, should be a primary goal of higher education. Thus, focusing on enhancing customer satisfaction at colleges and universities is crucial in developing customer value.

A study by Bolton (1998) explored the relationships between customer retention, intention and satisfaction. This study argued that changes in customer satisfaction can have important financial implications for the organization because lifetime revenues from an individual customer depend on the duration of his/her relationship, as well as the dollar amount spent across billing cycles. Poor retention rates have adverse funding consequences for institutions (Rowley, 2003).

Customer (student) satisfaction is not only positively related to customer loyalty, but also to corporate image, corporate reputation and brand reputation (Oliver, 1980; Selnes, 1993; Anderson *et al.*, 1994; Johnson & Gustafsson, 2000; Johnson *et al.*, 2001). Finding by Marzo-Navarro *et al.*, (2005a) confirmed that satisfaction explained the intention to recommend the courses to others. Thus, student satisfaction and retention are closely linked and student satisfaction has become an extremely important issue for universities and their management.

#### ***2.1.5. Students' Loyalty***

The importance of measuring the satisfaction variables stem from its relationship to customer loyalty (Galloway, 1998). In the current competitive environment, in order for organizations to be able to guarantee their survival, repeated purchases by their customers are necessary, which means customer retention leads to loyalty. Students' loyalty is becoming one of the key objectives of education institutions.

Lipstein (1959) and Kuehn (1962) measured loyalty by the probability of product repurchase. Some researchers (Day, 1969, Jacoby & Chestnut, 1978) have suggested that a behavioral definition is insufficient because it does not distinguish between true loyalty and spurious loyalty that may result from a lack of available dimension. In response to these

criticisms, Dick *et al.* (1994) and Gremler (1995) proposed measuring loyalty by means of an attitudinal dimension in addition to a behavioral dimension.

It is generally believed that the ultimate goal of customer satisfaction should be customer loyalty (Zeithaml *et al.*, 1996; Fitzell, 1998; Reynolds & Beatty, 1999; Sivadas & Baker-Prewitt, 2000). In the marketing literature, loyalty has been widely recognized as being of the utmost importance (Howard & Sheth, 1969; Samuelson & Sandvik, 1997; Oliver, 1999). This view is supported by Reichheld (1996) who studied the positive effect on profits of having a loyal customer base. In general, customer loyalty increases profit and growth in many ways (Heskett, Jones, Loveman, Sasser & Schlesinger, 1994; Chow & Reed, 1997) to the extent that increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85%, depending upon the industry involved (Reichheld & Sasser, 1990). With the study results indicate that the recruitment of students is several times more expansive than their retention, German universities have to treat their students more as customers and try to retain them (Roediger Voss & Thorsten Gruber, 2006; Joseph, Yakhou and Stone, 2005).

Student loyalty has recently become a very important strategic theme for institutions offering higher education (Henning-Thurau *et al.*, 2001; Marzo-Navarro *et al.*, 2005a). According to Kotler *et al.* (1995); Zeithaml (2000); Helgesen (2006), student (customer) loyalty is purported to be positively related to student satisfaction and to the long term performance of an educational institution (business unit). Several researchers have theorized that customer satisfaction, customer loyalty, and profitability are related (Zeithaml, Parasuraman & Berry, 1990; Reichheld *et al.*, 1990; Heskett *et al.*, 1990 & 1994; Gummesson,