SERVICE QUALITY AND ITS RELATIONSHIP WITH CUSTOMER

SATISFACTION TOWARDS CUSTOMER LOYALTY: PERCEPTIONS OF

PUBLIC LISTED COMPANIES

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Research report in partial fulfillment of the requirement for the degree of Master of

Business Administration

2005

ACKNOWLEDGEMENT

In the name of Allah s.w.t ., Most Beneficent and Most Merciful. Praise and thanks to Allah s.w.t for giving me the strength to complete this study. I am very grateful to my supervisors, Associate Professor Dr Hasnah Haron and Associate Professor Dr Ishak Ismail for their full guidance, insight, attention and encouragement throughout this research project. Thanks for everything!

My sincere appreciation and big thanks are dedicated to all my respondents for their valuable feedbacks. Their willingness to answer my questionnaire in a time given is much helpful for me to run this research smoothly. Without their participation, this research is obviously could not be well performed. I am also would like to express my thankful to all course mates and colleagues for their support and encouragement during my study. To all those who had directly or indirectly contributed to the completion of this research, I extended my deepest appreciation.

Last but not least, my greatest appreciation goes to my beloved family and my fiancé for their endless prayer and support. With their love, understanding and priceless motivation has brought me to this success.

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ABSTRAK

Kajian ini dijalankan bertujuan untuk menilai kualiti perkhidmatan yang ditawarkan oleh firma audit dan mengkaji hubungan di antara kualiti perkhidmatan, kepuasan dan kesetiaan pelanggan terhadap perkhidmatan yang ditawarkan oleh firma audit. Model SERVQUAL akan digunakan bagi mengukur tanggapan dan harapan klien (public listed companies)dengan perkhidmatan yang diterima oleh mereka. Borang soal selidik sebanyak 500 telah diagihkan kepada klien yang pernah menerima perkhidmatan audit dari firma audit. Kaedah persampelan mudah dipilih untuk menentukan saiz sampel dan sebanyak 115 responden telah memberi kerjasama dengan menjawab soalan soal selidik di dalam tempoh masa yang ditetapkan. Jurang di antara SERVQUAL telah dikaji dan sebanyak empat andaian utama (hipotesis) telah dibuat bagi memenuhi objektif kajian ini. Setiap hasil kajian telah dilaporkan sepenuhnya selaras dengan objektif kajian. Responden telah diminta untuk mengklasifikasikan harapan mereka ke atas perkhidmatan yang diterima. Seperti yang dijangka dimensi kebolehpercayaan ("reliability") telah diklasifikasi sebagai dimensi yang paling penting. Hasil kajian juga menunjukkan terdapat jurang perbezaan di antara empat dimensi lain kecuali dimensi boleh nampak ("tangible"). Dengan kata lain klien hanya berpuas hati dengan dimensi ini tapi tidak pada empat dimensi lain. Hubungan di antara kepuasan pelanggan terhadap kesetiaan menunjukan nilai signifikasi yang rendah kerana faktor latar belakang industri itu sendiri. Kepuasan pelanggan juga mempunyai pengaruh yang kuat dengan dimensi kebolehpercayaan untuk menjadikan klien setia terhadap perkhidmatan yang ditawarkan. Kesimpulannya, hasil kajian didapati dapat membantu firma audit meningkatkan mutu perkhidmatan mereka di masa akan datang.

ABSTRACT

This research was conducted to find and get a better understanding of service quality level and to examine the relationship between service quality, customer satisfaction and customer loyalty with the services offered by the audit firms. SERVQUAL model will be used to measure the public listed companies perception and expectation with the audit services received. Questionnaires were sent to 500 audit clients (public listed companies) who engaged the audit services from audit firms. Convenient sampling method was used to determine the sample size and 115 respondents had given their prompt feedback within the suggested time frame. The SERVQUAL gap has been measured and four major hypotheses were developed in order to meet the research objectives. Each of every research questions asked will be answered and reported accordingly based on the insightful findings results. Respondents were asked to rank their expectation of service quality dimensions and as per expected the Reliability dimension was ranked as number one. The results also show there were negative gap for Reliability, Responsiveness, Assurance and Empathy dimension and a positive gap for Tangibles dimension. Meaning to say that audit clients were dissatisfied with those four dimensions except for Tangibles dimension. The relationship between customer satisfaction and customer loyalty showed a very low significant value due to the industry characteristic and background. Reliability dimension was also reported to have a full mediating effect to customer loyalty. This finding will enable audit firms to give more attention on this service dimension in order to ensure their audit clients are being loyal to them. All findings gathered in this research are very useful to the audit firms to enhance their service quality level with their audit clients. Thus, their client expectation will be fulfilled in the future.

Chapter 1

INTRODUCTION

1.1   Overview

The rapid growth of service sectors all over the world and the deregulation of many services industries have lead researchers with an interest in quality issues to the importance of acquiring more understanding about service quality. It is recognized that high quality service is essential for firms that want to be successful in their business (Parasuraman et al., 1998; Rust & Oliver, 1994). It leads to customer loyalty (Lewis 1994), higher profitability (Gundersen, Heide & Olsson, 1996) and lower cost (Grant 1998). Most would agree without any prompting on the importance of offering their customers with service quality.

Service quality, customer satisfaction and customer loyalty are three elements that many services firms would gladly profess to be striving to provide to their customers. Companies of various shades, the popular business press, as well as business schools in particular have relentlessly expounded service quality.

Recent research indicates that these three concepts are quite distinct. Customer satisfaction or dissatisfaction results from experiencing a service quality encounter and comparing that encounter with what was expected (Oliver, 1980). Whereby perceived service quality can be defined as the customer's judgement about the superiority or excellence of a product while 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 (Zeithaml,

1988). The dimensions underlying quality are fairly specific while satisfaction judgement has a broader range of dimensions that also include quality aspects (Oliver, 1993). Moreover, satisfaction assessments require customer experience while quality does not (Bolton & Drew, 1991; Boulding, 1993; Cronin & 1992;Brown, 1993).

Many customer satisfaction studies have concluded that there is a significant relationship between customer satisfaction and loyalty. With consistent findings that service quality and satisfaction are different constructs, and that service quality leads to customer satisfaction, the research interest moved to studying the linkages between service quality and customer satisfaction and customer loyalty or retention.

1.2   Background of the Study

The research is intended to assist audit firm in measuring expectations-perceptions gap to determine the customer's view (public listed companies) of the service quality offered by audit firm. It tries to determine whether there is evidence that the SERVQUAL dimensions are relevant to audit firm. The research also tries to examine the relationship between customer satisfaction and loyalty that customer perceives as offering "quality" and whether this strategy improves the opportunity to attract repeat business.

The SERVQUAL model was used to measure service quality despite the criticisms of the instrument. The research attempts to indicate which dimensions are most relevant in audit

firm services by considering all the five dimensions proposed by Parasuraman, Zeithaml and Berry.

The research was conducted for a practical purpose i.e. identify areas where quality is perceived by customer to be an issue. To this extent the methodology, presentation, and analysis were in line with the requirements specified by audit firm to measure their customer satisfaction and loyalty.

1.3   Problem Statement

Most of the studies consider delivering quality service as an essential strategy for success and survival for any organization. A principle emphasis of recent academic and managerial inquiry has focused on determining what service quality means, developing appropriate measures, and creating market-focused strategies to meet customer's expectation.

Husna, (2004) reported, concluded that it is important for audit firms to adopt service quality program to improve ways of providing products and services to their customers. The study also has developed an instrument to measure service quality in audit firms with five dimensions namely: SERVQUAL. As discussed in previous research, her research has used the SERVQUAL model to test the validity of service quality by audit clients (SME). The study indicates that reliability was the most important variable in determining quality service.

However, Small Medium Enterprise (SME) is not a good sample because they did not all services that offered by audit firms. The study also examined the direct relationship between SERQUAL offered by audit firms and its client's loyalty as it was assumed that SERVQUAL could be equated to quality service.

Husna et al (2004) studied only 19 items upon 22 items of the SERVQUAL items. Consisting of a 22-item, SERVQUAL is based on the idea that service quality is derived from the difference between consumers' expectations about performance of a general class of service providers and their assessment of the actual performance of a specific firm within that class. Service quality has been described as a form of attitude, related but not equivalent to satisfaction, the results from the comparison of expectations with performance (Parasuraman,et al., 1988). So, a 22-item of SERVQUAL will be used in this study. Service quality is defined as the gap between expected service and perception of service actually received. A number of studies suggest that there is a significant positive relationship between customer satisfaction and customer loyalty (Anderson and Sulivan, 1993; Cronin, Brady & Hult, 2000; Shemwell, 1988;Taylor & Baker, 1994). This study will then try to determine the factors influences customer satisfaction and the effect of customer satisfaction on customer loyalty.

1.4 Research Objectives

The main objectives of this study are to examine the impact of service quality and customer loyalty through customer satisfaction. The objectives are:

1. To determine the relative importance of each of the service quality dimensions.

2. To determine the expectations and perceptions of audit clients' regarding the services offered by audit firms.

3. To find whether there is a significant difference between perception and expectation for each of the five service quality dimensions.

4. To examine the relationship of service quality to customer satisfaction.

5. To examine the relationship of customer satisfaction to customer loyalty.

6. To examine whether customer satisfaction mediate the relationship of service quality to customer loyalty.

1.5 Research Questions

This study will analyze and determine the following questions:

1. What are the most important dimensions of service quality from audit firm as perceived by public listed companies?

2. What are the expectations and perceptions of the current level of service of the audit firm along five service dimensions?

3. What are the gap of expectation and perception each of the service quality dimensions?

4. What is the relationship of service quality to customer satisfaction?

5. What is the relationship between customer satisfaction and customer loyalty?

6. Does customer satisfaction mediate the relationship of service quality to customer loyalty?

1.6   Significance of the Study

Understanding of the new concept in business is very important for developing an effective marketing strategy, in order to regulate marketing practice or to cause socially desirable behaviors. Although it is generally accepted that quality and customer satisfaction do have positive impact on outcomes such loyalty but the precise nature of the relationship has been opened to debate. Therefore, the research is hoped to shed lights on these issues.

In the services industry, customers (public listed companies) may be described as being "loyal" because they tend to choose a certain services of audit firm more often than others. Note the use of the word "choose" though; customer loyalty becomes evident when choices are made and actions taken by customers. Customers may express high satisfaction levels with a company in a survey, but satisfaction does not equal loyalty. Loyalty is demonstrated by the actions of the customer; customers can be very satisfied and still not be loyal. Customer's feedback data based on this study can tell which customers are most likely to respond with satisfaction and become loyal. The study will also give benefits to:

1.6.1   Benefits to customers

The importance of delivering superior service quality is becoming increasingly magnified as competition intensifies throughout the service industry. A superior service quality is today's most attractive bait for acquiring and retaining customers. The benefits to customers are that they can attain better service and thus become more loyal to the company.

1.6.2   Benefits to practitioners

In Malaysia, companies are utilizing the quality variable to gain competitive advantages in the global market. The companies capture more customer satisfaction and customer loyalty in improving the performance of the company that is measured by profit, revenue growth and cost savings (Anderson, Fornell & Lehmann, 1994).

The benefits to the company derived from this research study can be summarized relating to increasing the market share, cost reduction and increased profit margins, improved customer service and achieving efficiency and effectiveness in business operation.

1.7   Definition of Key Terms

To provide a precise terminology, the following key terms need further explanation:

1.7.1   Service Quality

Christopher (1986) cited that service quality is customer interface and relationships by customer. And service quality focused on the customer's experience during the process of the transaction. Lewis (1993) was also saying that service quality is the focus on meeting customer's needs and requirements and also how well the service matches customer's expectations.

In his research, Parasuraman, et al. Zeithmal and Berry (1988), have developed an instrument called SERVQUAL to measure customer's perceptions and expectations of service quality.

1.7.2   Service Quality Dimensions

1.   *Tangibles*: The appearance of the physical facilities, equipment, personnel   and communication material.

2.   *Reliability*: The ability to perform the promised service dependently and accurately.

3.   *Responsiveness*: The willingness to help a customer and provide prompt service.

4.   *Assurance*: Assurance refers to knowledge and courtesy of employees and their a bility to inspire trust and confidence

5.   *Empathy*: Empathy refers to caring, individualized attention the firm provides its customer.

1.7.3   Customer satisfaction

Zeithaml and Bitner, (2000) defined that customer satisfaction is the customers' evaluation of a product or service in terms of whether that service has met their needs and expectations. The satisfied customer would remain loyal, required service more often, fewer price sensitive and shall talk favorable things about the company.

1.7.4   Customer Loyalty

Customer retention, who continues to patronize the service, is a loyal customer. Customer loyalty has an effective or attitudinal component: it's about having an experiences of the things that customer feel are important (Morris, Barnes & Lynch, 1999).

1.8 Organization of Remaining Chapters

In order to discuss this research in an efficient manner, a total of five chapters have been developed. The first chapter presents an overview of the research and reasons of conducting the research is clearly been explained.

Chapter two is mostly discusses on previous studies conducted in the area of service quality, quality of audit service, relationship marketing, customer satisfaction and customer loyalty. The theoretical framework and hypothesis development are also been discussed in this second chapter.

Furthermore, in chapter three, researcher is looking at the research methodology, research design, data collection, measurement instrument used and statistical analyses conducted in testing the hypotheses.

Chapter four is mainly to discuss with the goodness of measurement used and the result of the tested hypotheses.

 Last and foremost, chapter five will presenting the overall findings and implication of the research will be discussed. At the end some suggestion will be provided for further research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Services have rapidly grown in importance in Malaysia as well as in most rapid growing countries. Pursuing a service strategy can be way of differentiating the offering and creating a competitive advantage. Many studies have concluded that quality service has quantifiable impact on customer retention, market share and profitability in the commercial world. As a service company, example like banking and financial sector (including audit firms), transportation, hotels and etc, they should take an advantage on variety approaches that makes quality service, as perceived by the customers, the number one driving force for the operation for the business (Carlzon, 1987). Significance with the current market situation, the research *"Service Quality and its relationship with Customer Satisfaction towards Customer Loyalty: Perceptions of Public Listed Companies "* will be conducted. This research is about the service quality that needs to be concerned by the service companies in order to create satisfaction and in the long term to make customers loyal to them.

2.2 Service and Service Quality

The concept of service comes from business literature. Many scholars offered various definitions of service. For example, Ramaswamy (1996) described service as "the business transactions that take place between a donor (service provider) and receiver

(customer) in order to produce an outcome that satisfies the customer. For Zeithaml & Bitner (1996) they defined service as "deeds, processes, and performances". Whereby, Gronroos (1990) pointed out that:

A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and /or systems of the service provider, which are provided as solutions to customer problems.

Some researchers view service from the perspective of a system-thinking paradigm:

A production system where various inputs are processed, transformed and value added to produce some outputs which have utility to the service seekers, not merely in an economic sense but from supporting the life of the human system in general, even may be for the sake of pleasure (Lakhe and Mohanty, 1995).

Yong (2000) reviewed these definitions of service and pointed out that the following features of service are noteworthy in order to better understand the concept. First, service is a performance. It happens through the interaction between consumers and service providers (Deighton, 1992; Gronroos, 1990; Ramaswamy, 1996; Sasser, Olsen, & Wyckoff, 1978; Zeithaml & Bitner, 1996). Second, other factors such as physical resources or environments play an important medium role in the process of service production and consumption (American Marketing Association, 1960; Collier, 1994; Gronnroos, 1990). Third, service is needed by consumers to provide certain functions

such as problem-solving (Gronroos, 1990; Ramaswamy, 1996). These points put together lead to the conclusion that, "a service, combined with goods products, is experienced and evaluated by customers who have particular goals and motivations for consumers for consuming the service".

Although there have been many efforts made to understand the concept of service, there is no consensus among researchers on the characteristics of service. Furthermore, according to Yong (2000), the conceptualization could be divided into two groups. First, some researchers view the concept from the perspective of service itself - they pay attention to the discrepancy between the marketing strategies of service and goods. This approach differentiates service (intangible) from goods (tangible), which suggests that different marketing strategies should be taken for each of these concepts. Parasuraman, Zeithaml, and Berry (1985), and Zeithaml and Bitner (1996) identified four features of service that distinguish it from goods. Service is intangible, heterogeneous, simultaneous, simultaneous in production and consumption, and perishable. This approach distinguishes service from goods, by pointing out the unique features of service. It advances the understanding of the concept. However, it has drawn many critiques. On the one hand, the four characteristics mentioned above are not universal in all service sectors. Wright (1995) criticized this first approach for four reasons. First, a service industry depends more on tangible equipment to satisfy customers' demand while some customers do not care about whether goods are tangible or not. Second, some service businesses are well standardized such as franchise industries. In addition, in some cases, customers value the equality and fairness from the service provided. Third, many services are not simultaneously produced and consumed. Fourth, highly technological or equipment-

based services could be standardized. On the other hand, this approach focuses on service and ignores the role of customers (Wyckham, Fitzroy, & Mandry, 1975).

The second approach is based on the ideas of some researchers who view service from the perspective of service customers - they focus on the utility and total value that the service provides for the consumer. This approach points out that service combines tangible and intangible aspects to satisfy customers during the business transaction (Gronroos. 1990; Ramaswamy, 1996). So, this approach implies that because consumers evaluate service quality in terms of their experiences, customers' subjective perceptions have great impact upon service success or failure (Shostack, 1997).

2.3   Conceptualization and Operationalization of Service Quality

Although researchers have studied the concept of service for several decades, there is no consensus about the conceptualization of service quality (Cronin & Taylor, 1992; Rust & Oliver, 1994). Different researchers focused on different aspects of service quality. Reeves and Bednar (1994) noted, there is no universal, parsimonious, or all-encompassing definition or model of quality.

The most common definition is the traditional notion that views quality as the customer's perception of service excellence. That is to say, quality is defined by the customer's impression of the service provided (Berry, Parasuraman, & Zeithaml, 1988; Parasuraman, Zeithaml, & Berry, 1985). The assumption behind this definition is that customers form the perception of service quality according to the service performance they experience

and based on past experiences of service performance. It is therefore the customer's perception that categorizes service quality.

Many researchers accept this approach of service quality. For example, Bitner and Hubbert (1994) defined quality as "the consumer's overall impression of the relative inferiority/superiority of the organization and its services". Bitner and Hubbert's (1994) said that service quality is differs from that of the traditional approach. The traditional approach for defining service quality emphasizes that service quality perception is a comparison of consumer expectations with actual performance (Gronroos, 1984; Lewis & Booms, 1983; Parasuraman, Zeithaml, & Berry, 1985; Parasuraman, Zeithaml, & Berry, 1990). Parasuraman, Zeithaml, and Berry (1985) viewed quality as "the degree and direction of discrepancy between customers' service perception and expectations" (Parasuraman, Zeithaml, & Berry, 1985). According to this approach, services are different from goods because they are intangible, heterogeneous and are simultaneously produced and consumed. Additionally, as the disconfirmation paradigm stated, service quality is a comparison between consumers' expectations and their perceptions of the service they actually receive.

2.4   The SERVQUAL model and its Underlying Theories

Prior to the inception of the SERVQUAL instrument, Parasuraman, Zeithaml, and Berry (1985) presented their Gaps model in an article printed in the Journal of Marketing, to stimulate research into service quality. This model suggested five gaps that can be used to

examine the difference between service expected by the customer and Management's perception of Customer Expectation.
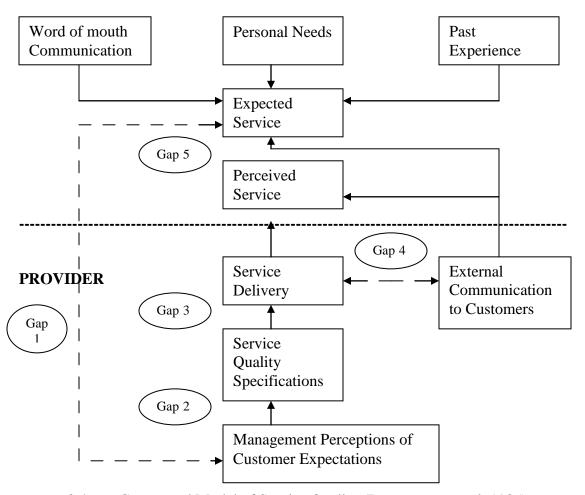
CUSTOMER

Figure 2.1:   Conceptual Model of Service Quality (Parasuraman et al. 1985)

These gaps, as shown in Figure 2.4, are identified as:

Gap 1: Not Knowing What the Customers Expect

The gap between management perceptions of consumer's expectations and expected service,

Gap 2: The Wrong Service-Quality Standards

The gap between management perceptions of consumer's expectations and the translation of perceptions into service quality specifications,

Gap 3: The Service Performance Gap

The gap between translation of perceptions of service quality specification of service delivery,

Gap 4: When Promises do not Match Delivery

The gap between service delivery and external communications to consumers,

Gap 5: The overall gap created by above gaps.

The gap between the customer's expected level of service and the actual service performance

The Gaps model compares favorably with other models of service quality proposed by other writers.

Parasuraman, Zeithaml, and Berry continued their pioneering work in service quality through the introduction of the SERVQUAL instrument in 1998 as a questionnaire to measure consumer perception of service quality. This instrument, and the gaps model, were combined and further explained in their book Delivering Service Quality published in 1990. The authors originally identified ten dimension of service quality:

1. Tangibles

2. Responsiveness

3. Courtesy

4. Security

5. Communication

6. Reliability

7. Competence

8. Credibility

9. Access

10. Understanding the Customer

From the quantitative research phase in the development of SERVQUAL they finally arrived at five distinct attributes of quality service-reliability, empathy, responsiveness, assurance and tangibles. These dimensions are explained as:

1. Reliability refers to the ability to perform the promised service dependently and accurately.

2. Responsiveness reflects the willingness to help a customer and provide prompt service.

3. Tangible refers to the appearance of the physical facilities, equipment, personnel and communication material.

4. Assurance refers to knowledge and courtesy of employees and their ability to inspire trust and confidence

5. Empathy refers to caring, individualized attention the firm provides its customer.

The model provides a measure of the gap between customers expected quality and perceived service using a 22-item questionnaire split between each of the five dimensions. The measures were recorded on a seven-point Likert scale between 'Strongly Disagree' and 'Strongly Agree' with the questionnaire being used twice one to measure expected quality and the second to measure perceived service. The unweighted SERVQUAL score being calculated as 1/22 of the sum of the individual gaps; the weighted score involved assessing the relative importance to the customer of the five dimensions.

The problem facing a service a service provider that does not deliver the service directly to the client is how to analyze these gaps. One possibility, for companies in this position, is to use the SERVQUAL model to identify the main areas where the customer's expected service level are not achieved within each of the five dimensions as a basis for quality discussions with the service provider. The results of the SERVQUAL study would indicate where a gap analysis, as suggested by Parasuraman, Zeithaml, and Berry, maybe required.

The advantage of the SERVQUAL model is that it was easy to use by managers in service companies and was the first qualitative method of measuring service quality. In their seminal study, SERVQUAL measures service quality as a gap between expectation and perception in an appliance repair and maintenance firm, several retail banks, a long-distance telephone provider, a securities broker, and credit card companies (Parasuraman et al., 1988). This study provided a comprehensive conceptualization of service quality

with an instrument to measure perceived service quality for the first time in service quality studies. It became very popular among service quality researchers.

2.5   Customer Satisfaction

Satisfaction applies to both tangible and intangible goods, which it emphasis in this study on the service quality where the concept has been the subject of investigation in many studies before this. In doing so, many researcher define satisfaction as a relative concept that involves both cognitive and affective components, and it is a consumer-related (rather than product-related), mainly transactional, and incorporating an appraisal of both benefits and sacrifices.

However, Roest and Pieters stated that satisfaction might become or influence on product attitude, which may be regarded as an aggregated but not relativistic construct involving a readiness to act. Yi, (1990) mentioned that customer satisfaction is influenced by two factors, which are expectations and experience with service performance. But, Fornell (1992) said that customer satisfaction has a direct impact on the organization's performance and the expectations over time are brought in line with the actual performance. Actually, the satisfied customer tends to maintain their consumption pattern and will consume similar product or services. Thus, customer satisfaction has become the important indicator of quality and revenue in the future (Andreassen, 1994).

Moreover, many authors make it a point to highlight that service quality and satisfaction are distinct constructs (Bitner,1990; Bitner & Hubbert, 1994). Bitner (1990) uses the expectation-disconfirmation model and attribution theory to explain customer satisfaction from services encountered with lower perception than expectation. In other words, a positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction. Furthermore, Peter and Olson (1994) said that the amount of dissatisfaction is depends on the extent of disconfirmation and the consumer's level of involvement with the product and the problem solving process.

But for Oliver (1980) he identified satisfaction and dissatisfaction in terms of the disconfirmation of consumers' expectation. According to him, satisfaction occurs when the product positively disconfirms consumers' expectation by performing better than expected. He also claimed that satisfaction could also occur when the product confirms consumers' favorable pre-purchase expectations. Anyway, for Crosby, Evans and Cowles (1990) they said customer's past satisfaction may also affect their decision to have continue relationship with the service provider.

Andreassen and Lindestad (1998), claimed that customer satisfaction is the accumulated experience of a customer's purchase and consumption experiences which are expectations and experienced service performance.

Hempel (1977) cited that customer satisfaction is determined by the degree of realization of product benefits that customers expect from product and services. Kotler (1996) was

saying that satisfaction as the emotional perception of the consumer and a result from the comparison of the person's perceived functionality of the product with what they expect of the product.

2.6   Customer Loyalty

According to marketing literature, loyalty can be defined as two distinct ways. Firstly, loyalty is defined as an attitude. Individual's overall attachment will creates different feelings to product and services. These encounter feelings describe the individual's degree of loyalty. Secondly, loyalty is also defines as behavioral, which includes the relationship continuance, increased a scale or scope of relationship and acting for recommendation (Yi, 1990). However, Griffin (2002) claimed that the concept of customer loyalty is geared more to behavior than to attitude nowadays.

In the early days most authors was focused loyalty as brand loyalty with respect to tangible goods (Cunningham, 1956; Day, 1969; Kostecki, 1994; Tucker, 1964) as cited in Caruana, 2002). Dick and Basu (1994) said that loyalty is a more on favorable attitude towards a brand and shall create a repeat patronage. They were also recognized that low relative attitude with a low repeat purchase connotes absence of loyalty, while a low relative attitude with high repeat purchase may indicates spurious loyalty.

But loyalty is interpreted as true loyalty rather than repeat purchasing behavior, which is the actual re-buying of brand, regardless of commitment (Bloemer & Kasper, 1995). True

loyalty, in this context, encompasses a non-random, behavioral response that results from evaluation processes that result in commitment (Bloemer & Kasper et al., 1995). However, loyalty is a multi-dimensional construct and includes both positive and negative responses (Zeithaml et al., 1996). In this research, loyalty is to service provider and is therefore service loyalty, rather than brand loyalty as has been developed in relation to goods.

There is consensus among researchers that loyalty is a complex construct, evident in the variety of perspectives that have been used to study it (Javalgi & Moberg, 1997). These perspectives include behavioral, attitudinal and cognitive process; however, the early customer loyalty studies focus mainly on the behavioral perspective and then later shift to an attitudinal approach (De Ruyter, 1998). Based on the attitudinal approach, customer loyalty can be studied via its dimensions, such as word-of-mouth, complaining behavior and purchase intention.

However, there are different findings in relation to loyalty dimensions, even when the same loyalty scales are employed. Parasuraman et al. (1994) developed a loyalty scale and found that loyalty consists of loyalty to company, propensity to switch, willingness to pay more, external response to problem and internal response to problem. De Ruyter et al. (1998) later adopted the same scale but found that loyalty consists of three dimensions: preference, price indifference and dissatisfaction response.

2.7   Audit Firm Research

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Arens, Elder & Beasley, 2003). Whereas quality service is a measure of how well the service level delivered matches customer expectations (Lewis & Boom, 1983). Quality Service is basically the difference between customer expectation and customer perception of the service(s) received. Audit Quality is defined as the market-assessed joint probability that the auditor will both discover *and* report a breach in the client's accounting system (De Angelo, 1981). This term paper is focused on the Quality of Services that Audit Firms provide – the factors that influence quality, both the customers' and auditors' perception of the quality, and other relevant issues. Which to measure the quality of audit services provided by auditors pays particular attention to the issue of developing standard criteria.

Audit quality is defined as the probability that the auditor will both discover and report a breach in the client's accounting system. The probability of discovering a breach depends on the auditor's technical capabilities and the probability of reporting the error depends on the auditor's independence. Two explanations for variation in audit quality vis-à-vis the independence issue are found in the literature. These involve auditor reputation and power conflict.

Incumbent auditors capture clients-specific quasi-rents and have incentives to lower quality in future periods to retain the client. Audit firm size can militate against such

opportunistic behaviour because large firms have more audit clients and have more to lose from loss of reputation. Thus, two proxies of audit firm size thought to affect audit quality are the number of clients and the percentage of audit fees dependent on retaining any client.

Faced with competitive pricing pressure, an incumbent auditor can choose to lower both audit quality and audit price contemporaneously to retain the client and preserve quasi-rents. Additionally, over a long association with a client, the auditor may become less challenged and less likely to use innovative audit procedures, and may fail to maintain an attitude of professional scepticism. In conclusion, the audit quality will be decreased as auditor tenure increases.

Besides, the consequences of a tarnished reputation conflicts with opportunistic behaviour by an incumbent auditor. An auditor with many clients will be more concerned with maintaining their reputation; hence it is less likely to lower audit quality. The number of clients served reflects industry expertise and therefore measures variations in technical capabilities. Thus, audit quality increases with the number of audit clients.

This explanation focuses on the ability of the auditor to resist pressure from the client to violate professional standards. The balance of power tilts toward the audited client whenever the auditor places more significance on the remuneration received from the client, than the client places on the rewards obtained from the auditor. The client may desire attested financial statements that will have an expected effect on particular third