

**THE IMPACT OF SERVICE QUALITY AND CORPORATE IMAGE
ON CUSTOMER LOYALTY: A STUDY ON PERODUA SERVICE
CENTRE**

By:

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**Research report submitted in partial fulfillment of the requirement for the degree of
Master of Business Administration**

March 2004

DEDICATION

This thesis is dedicated especially to my parent
and my beloved siblings, Azuan, Aziey, Boy and Baby.

ACKNOWLEDGEMENT

I am thankful to Allah for giving me the strength to realize my goal. I also wish to thank my supervisors Dr. Nizam and Associate Professor Ramayah for their guidance and willingness to coach me to complete this research project.

To all those who had directly or indirectly contributed to the completion of this study namely En. Abu Samah (Perodua Headquarter), Mr. Keneng and staffs (Penang Perodua Service Center), En Roslan Yahya (Subang Jaya Perodua Service Center), En. Abdul Jalil and staffs (JB1 Perodua Service Center) and En. Makhadir (Kota Bharu Perodua Service Center), I extended my deepest appreciation.

My greatest appreciation goes to my beloved parent, who has encouraged and supported me to accomplish my study. Mama, your endless prayer has brought me this success! Abah, thanks for everything!

Last but not least, my deepest gratitude to my friends in MBA who have assisted me in the data collection and in statistical analysis. To Ahmad Hakim, a special note of appreciation for his support in this research.

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ABSTRAK

Menghadapi cabaran AFTA (Kawasan Perdagangan Bebas Asia Tenggara) dalam tahun 2005, industri automobil tempatan terutama sekali Perodua telah menyediakan satu strategi untuk maju ke hadapan untuk bersaing dalam pasaran global. Perodua telah menetapkan sasaran untuk mengekalkan bahagian pasarnya, mengurangkan kos dan meningkatkan Indeks Kepuasan Pelanggan (CSI) terutamanya di Pusat Servis Perodua berdasarkan satu slogan iaitu “Ke arah 333”. Oleh yang demikian, kajian ini cuba untuk mengkaji bagaimana kualiti perkhidmatan dan imej korporat akan mempengaruhi hubungkait kualiti dan juga hasil pengaruh tersebut. Kualiti perkhidmatan dan imej korporat dikenali sebagai asas kepada kepuasan pelanggan dan kepercayaan dalam membina kesetiaan pelanggan kepada pusat servis. Borang soal selidik diedarkan kepada 400 pemilik Perodua yang mendapatkan perkhidmatan di empat buah pusat servis Perodua di Pulau Pinang, Selangor, Kelantan dan Johor yang mewakili Semenanjung Malaysia. Akan tetapi, hanya 365 sahaja borang soal selidik yang dikembalikan. Pelanggan Pusat Servis Perodua dipilih dalam mengenalpasti susunan hubungan lima dimensi SERVQUAL Parasuraman et.al (1988) kepada kepuasan pelanggan dan juga kepercayaan kepada kesetiaan pelanggan. Hasil kajian mendapati kepercayaan sangat dipengaruhi oleh satu dimensi kualiti perkhidmatan iaitu “tangibiliti”, dan dua faktor baru yang dikenali sebagai “prompt promises” dan “courteous attention” . Kajian juga mendapati, untuk meningkatkan kesetiaan di kalangan pelanggan, sebagai sebuah organisasi perkhidmatan, Perodua perlu menumpukan kepada imej korporat yang didapati nyata mempengaruhi kepuasan pelanggan dan juga kepercayaan.

ABSTRACT

In order to meet the AFTA (Asean Free Trade Area) challenges in 2005, local automobile industries especially Perodua had prepared its strategy to move forward to compete in the globalization market. Perodua has set its target to maintain the market share, reduce cost and increase Customer Satisfaction Index (CSI) especially in Perodua Service Centre with the slogan “Kearah 333”. Thus, this research attempts to study how service quality and corporate image may influence the relationship quality and its outcome. Service quality and corporate image are recognized to be antecedents to customer satisfaction and trust in order to build customer loyalty in service centres. Questionnaires were distributed to 400 Perodua owners who patronize the service at four Perodua Service Centre in Penang, Selangor, Kelantan and Johor which represent Peninsular Malaysia. However, only 365 questionnaires were returned. Customers of Perodua Service Centres were chosen as samples to find out the relation order of Parasuraman et.al’s (1988) five dimensions of SERVQUAL to customer satisfaction and trust to customer loyalty. Finally, tries to verify the relative importance of corporate image on customer satisfaction, trust and customer loyalty. The findings reveal that trust is very much influenced by one dimension of service quality which is tangibility and two new factors which are combination between reliability and responsiveness, and between empathy and assurance, namely prompt promises and courteous attention. Whereas, customer satisfaction is influenced only by prompt promises and courteous attention. It also implies that in order to boost loyalty among customers, as a service organization, Perodua need to focus on corporate image, which is found significant in influencing customer satisfaction and trust.

Chapter 1

INTRODUCTION

1.1 Introduction

Services have rapidly grown in importance in Malaysia as well as in most rapid growing countries. Almost all economic activities in these countries take place in the service sector. The Malaysian Institute of Economic Research (MIER), an independent research institute, has projected the service sector to grow by 4.3% in 2003 and accelerated to 5.6% growth in 2004 as transportation; financial services and tourism activities perked up. (<http://www.pwcglobal.com>)

Today, services go far beyond what is traditionally called the service sector (Gronroos, 1990). Pursuing a service strategy can be way of differentiating the offering and creating a competitive advantage. As service companies, therefore, they should take advantage on variety approaches that makes quality service, as perceived by the customer, the number one driving force for the operation of the business (Carlzon, 1987).

1.2 Background of the Study

This study is about the service quality that needs to be concerned by the service companies in order to create satisfaction and trust, and in the long term to make customers loyal to them. Besides, favorable corporate image also play an important role in retaining customers. Here, overview and the justification between relationship marketing and Perodua are discussed.

1.2.1 Overview

In today's competitive market, services and service companies within the same industry are becoming increasingly similar (Andreassen & Lindestad, 1998). Competition through the delivery of service is difficult because service cannot be measured as the way it is done. Customers now are looking for higher quality products, brand loyalty, good after-sale service and facilities. Therefore, the objectives of building good service quality and strong corporate image are to create relative attractiveness and retaining customers.

1.2.2 Why Relationship Marketing?

Relationship marketing is a marketing program or strategy to protect an existing customer base through an ongoing process by creating new value for customers and sharing this over a lifetime association (Lewis & Chambers, 2000). Relationship marketing ensures a loyal base of customers. According to Gronroos (1994), the objectives of relationship marketing are to establish, maintain and enhance relationships with customers (at a profit). Rivald and Gronroos (1996) suggest that the success of a relationship that is a mutually profitable relationship for supplier and buyer depends on the ability to provide value of relationship continuously. As the relationship develops, the buyer starts to feel safe with the supplier and thus trust is developing.

1.2.3 Why Perodua?

The importance of the car market to the national economy and the fast pace of technological progress in the automotive industry continue to renew interest in this line of research. Perodua as the second national car project is emerged as a major national

automobile manufacturer and capable of competing in the global market. Perodua has brought car ownership to many middle class Malaysians who could not otherwise have afforded car ownership. Recently in January 2003, it's Managing Director, Tan Sri Abdul Rahman Umar said, Perodua has set a target and move forward to practice "Ke arah 333" which means to maintain the 30% markets share, to reduce cost up to 30%, and to improve Customer Satisfaction Index ranking to rank 3 in 2005 when Malaysia liberalized its automotive sector under AFTA (ASEAN Free Trade Area) regime (Anonymous, Jan 2003).

The ultimate objective of AFTA is to increase ASEAN's competitive edge as a production based geared for world market. Through the elimination of intra-regional tariffs and non-tariff barriers, ASEAN's manufacturing sector will become more efficient and competitive. Furthermore, under the AFTA agreement, Southeast Asian countries were to have cut import duties on automobiles by 2003. Malaysia, however, has asked for an extension of two years to meet this deadline. Once AFTA agreement becomes effective in January 2005, the market is likely to grow as more affordable and attractive imports become available. However, the "inefficient" national car such as Perodua and Proton are expected to lose their market share (Sunako, 2002). Moreover, the impact of Perodua image on relationship marketing is really essential to Malaysia because strong relationship marketing would be difficult to be build if the manufacturer exhibits poor or unfavorable corporate image.

1.3 Problem Statement

In a survey conducted by J.D. Power Asia Pacific, July 2003, Perodua car is now in the fifth place of the Customer Satisfaction Index (CSI) ranking in Malaysia (www.jdpower.co.jp). Please refer Appendix 1 for details. The current top three brands are Mitsubishi, Toyota and Honda. With the globalization and challenges faced by Perodua today and in the future, as well as to meet the demand of automotive industries, Perodua is expected to be more competitive and more innovative. Therefore, it becomes an utmost to appraise the service quality and corporate image of Perodua.

From the above discussion, this study investigates the impact of service quality and corporate image in Perodua. Two factors namely service quality and corporate image are key determinants of customers' retention (loyalty). Service quality and corporate image are found to be key roles in formulating the satisfaction among customers, to trust and to stay with the company (Andreassen & Lindestad, 1998).

This study aimed at assessing whether the link of service quality, trust and satisfaction of the customers in Perodua Service Centre will affect the loyalty to the company. It is also aimed to determine whether corporate image of Perodua will affect customer satisfaction, trust and customer loyalty in Perodua Service Centre.

1.4 Research Objectives

The main objectives of this study are to determine the impact of service quality and corporate image on relationship quality namely trust and customer satisfaction in

order to improve customer loyalty in service centres. The objectives of the study are basically to determine the followings:

1. To find out how service quality offered in Perodua service center will affect customer satisfaction, trust and customer loyalty.
2. To explore whether corporate image of Perodua will affect customer satisfaction, trust and loyalty.
3. To determine whether satisfaction of the customer can increase the loyalty to the company.
4. To find out how trust can increase the loyalty to the company.
5. To provide information to the management of Perodua to improve customer loyalty to make it more competitive in market with regards to service quality and corporate image.

1.5 Research Questions

This study will analyze and address the following questions:

1. What is the perception of customer towards Perodua's service quality in terms of tangibility, reliability, responsiveness, assurance and empathy?
2. Which of these factors influence customer satisfaction and trust?
3. How can corporate image influence customer satisfaction and loyalty to Perodua?
4. What is the impact of corporate image to customer satisfaction and trust?
5. What are the factors that affect the relationship outcome?

1.6 Definition of Key Terms

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

Service Quality

1. The company / customer interface and relationships and focusing on the customer's experience during the process of the transaction (Christopher, 1986).
2. Focus on meeting customer's needs and requirements and also how well the service matches customer's expectations (Lewis, 1993).

Customer satisfaction

1. The customers' evaluation of a product or service in terms of whether that service has met their needs and expectations (Zeithaml & Bitner, 2000). Satisfied customer remains loyal longer, patronize the service more, fewer price sensitive and talk favorably about the company to create customer satisfaction.

Trust

1. The belief, that an individual or entity can be relied on to keep their word and promise, explicit or implicit (Lewis & Chambers, 2000).
2. A belief or conviction about the other party's intentions within the relationship (Yau, McFetridge, Chow, Lee, Sin & Tse, 2000).

Loyalty

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

Corporate image

- Concern the knowledges, feelings and beliefs about an organization that exist in the thought of its audience (Hatch & Schultz, 1997).
- “What comes to mind when one hears the name or sees the logo.”

1.7 Significant of the Study

Understanding of the customer is very important for developing an effective marketing strategy, 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 as loyalty but the precise nature of the relationship has been opened to debate. Therefore, the study is hoped to shed lights on these issues. This study is significant as it can benefit the customers and the practitioners.

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 loyal to the company.

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 which are measured by profit, revenue growth and cost saving (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, enhanced corporate image and achieving efficiency and effectiveness in business operation.

1.8 Organization of Remaining Chapters

In order to discuss this study in an effective manner, a total of five chapters have been written. This chapter presents an overview of the study, including reasons of conducting such a research. Chapter 2 discusses previous studies conducted in the area of relationship marketing, service quality, corporate image, customer satisfaction, trust and customer loyalty, and the underlying theories of this study. It also discusses theoretical framework and hypotheses formulated in this research.

Chapter 3 looks at research methodology, research design, data collection, measurement instrument used and statistical analyses conducted to test the hypotheses. Chapter 4 mainly discusses the goodness of measurement used and the result of the tested hypotheses. Lastly, chapter 5 presents the discussion on the findings and implication of this study. It also provides suggestion for future research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Malaysia represents one of the biggest automobile markets in Southeast Asia. Malaysia's national car program, begun in the early 1980's was designed to protect and promote the country's local automobile manufacturers, namely Proton and Perodua. The government's efforts to stimulate consumption have worked very well in the automotive market. Over the next few years Malaysia's automotive outlook remains upbeat. The government strongly supports expansion of the country's automobile industry and market and will continue to expand roads and highways to accommodate a rising vehicle population.

In the third quarter of the year 2003, 308,378 cars were sold in Malaysia, versus 268,858 sold in the same quarter in Indonesia (Appendix 2). In Malaysia, Singapore and Thailand, the trend in car sales has switched to smaller cars such as sedans and compact car (The Jakarta Post – Oct.27, 2003). Besides, the car ownership ratio in Malaysia was about one car for 8 people. In Indonesia, the ratio is 1:35, while Thailand is 1:15.

Car producers compete with each other to promote their new product to the consumers. They have their own strategy in promoting innovative product and offering wider choices to the customers. Service quality is considered a critical determinant of competitiveness. Attention to service quality can help an organization to differentiate itself from other organizations and thus gains a lasting competitive advantage. The objective of this study is to establish the link between quality-corporate image-satisfaction-trust-loyalty in Perodua Service Centre in the aid of providing information to

the management of Perodua to improve and formulate customer loyalty to make it more competitive in the market. Better service quality offered in their service centers may help to increase customer satisfaction and trust. This relationship will lead to customer loyalty in the long run. Favorable corporate image in addition plays an important role in customer satisfaction and trust. Thus, it is also will lead to customer loyalty.

2.2 Relationship Marketing

From a business to consumer perspective relationship marketing has been described as “a customer-centered approach” whereby a firm seeks long term business relationships with prospective and existing customers (Evan & Laskin, 1994). Relationship marketing can be used as a tool to overcome service failures or when services are difficult to evaluate by the customers as mentioned by Crosby and Stephens (1987). Relationship marketing has also widely embraced as a method for developing customer loyalty, resulting in positive outcomes for both consumers and marketers (Priluck, 2003).

Relationship marketing is beneficial to businesses and their consumers. Evan and Laskin (1994) noted that companies might be benefited from more satisfied customers, stronger profitability, better communication and more effective firm planning. A firm can also use relationship marketing to develop competitive advantages (Day, 2000), as cited in Priluck (2003). Treating customers as if the firm has a personal stake in them may lead to long term customer loyalty, increased positive word-of mouth and increased profitability (Priluck, 2003).

To understand customer relationship marketing, we must review the process involves in attracting and keeping customers. The starting point is to focus on suspects, everybody who might conceivably buy the product or service. The company looks hard at the suspects to determine whom the most likely *prospects* (the people who have a strong potential interest in the product and the ability to pay for it). *Disqualified prospects* are those the company rejects because they have poor credit or would be unprofitable. The company hopes to convert many of its qualified prospects into *first-time customers*, and then to convert those satisfied first time customers into *repeat customers*. Both first-time and repeat customers may continue to buy from competitors as well.

The company then acts to convert repeat customers into *clients* – people whom the company treats very specially and knowledgeably. The next challenge is to turn clients into *members*, by starting a membership program that offers a whole set of benefits to customers who join. Hopefully then, the members will turn into *advocates*, customers who enthusiastically recommend the company and its products and services to others. The ultimate challenge is to turn advocates into partners, where the customer and the company work together actively (Kotler, 2000). (See Figure 1).

Relationship marketing involves a dynamic process with continuity as an important objective. As the relationship develops, the customer start to feel safe with the service provider and thus trust is developing. Relationship is often unique to a particular organization and it would take time for a competitor to build trust and commitment in an attempt to retain customer.

Relationship may be particularly useful to firms because the advantages may be sustainable. For example: customer prefers relationship because the buying and

information processing task simplified, risk is reduced and psychological comfort is enhanced. For these reasons customers voluntarily limit their choices by continuing to patronize the same service provider repeatedly (Priluck, 2003). Additionally, relationship may lead to customer delight, a phenomenon stronger than satisfaction, which may keep them from defecting.

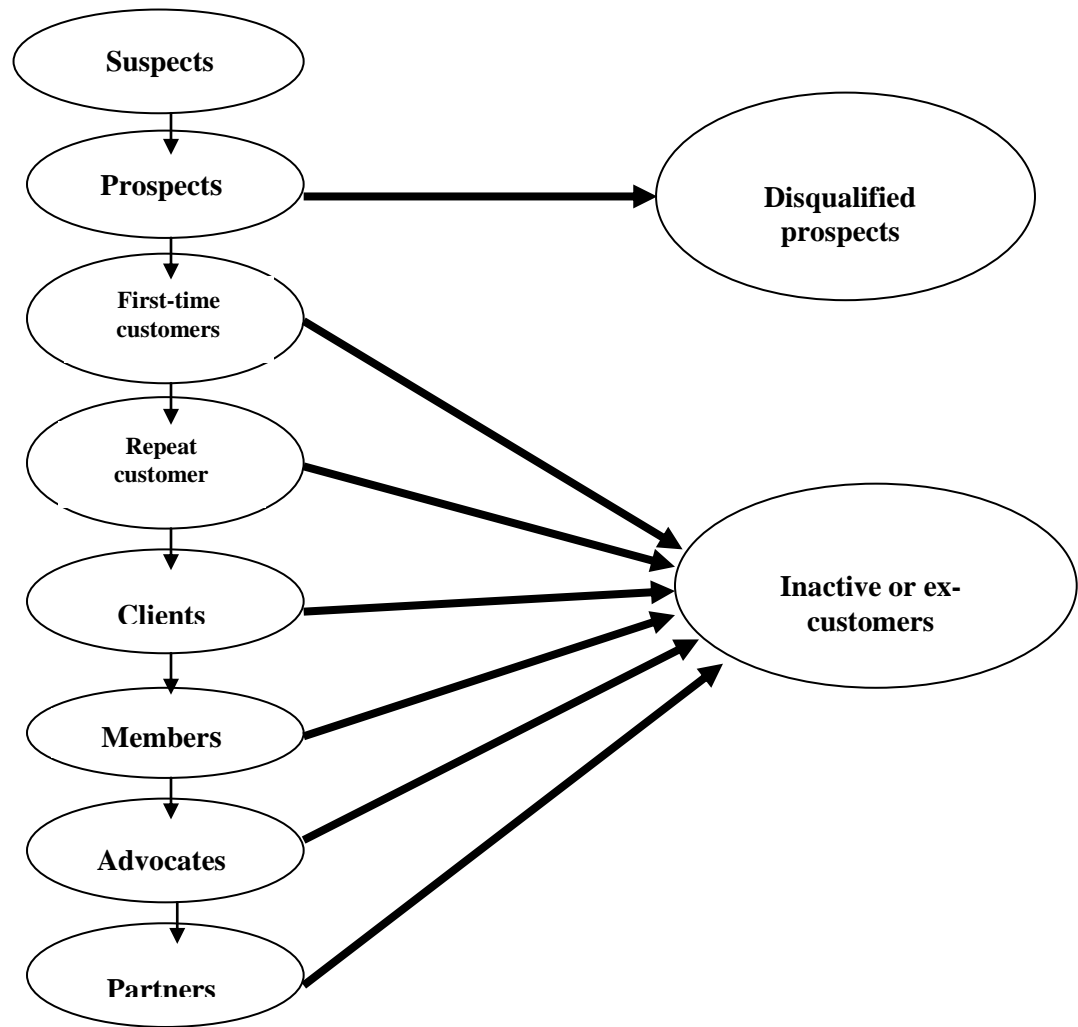


Figure 1: The Customer-Development Process

Source: Jill Griffin, *Customer Loyalty – How to Earn It, How to Keep It* (New York: Lexington Books, 1995), p.36.

2.3 Service Quality

Services are basically intangibles, heterogeneous and inseparable (Zeithaml, Parasuraman & Berry, 1990). Gronroos (2001) describe that the main characteristic of service is their process nature. Hence, a service is a process that leads to an outcome during partly simultaneous production and consumption processes (Gronroos, 2001). Thus, it is more difficult for customers to evaluate service quality than goods quality. In the service marketing literature, service quality is defined as the consumer's judgment about the entity's overall excellence or superiority (Zeithaml, 1987). Customers do not evaluate service quality solely on the outcome of a service but they also consider the process of service delivery.

“My guests are discerning, cultivated people who place special emphasis on quality. We attempt to make our offerings as personal as possible and to pay the greatest attention to each and every customer. Surprise and culinary enchantment are guarantors of their satisfaction and their loyalty”

- Alain Ducasse, top chef from South of France-

Specifically, service quality perceptions stem from how well a provider performs vis-à-vis customer's expectations about how the provider should perform (Zeithaml et. al., 1990). According to Zeithaml et. al. (1990), there is four factors influencing expectation; word of mouth, personal needs, past experience and external communication.

The development of the SERVQUAL scale by Parasuraman, Zeithaml and Berry (1988) has provided an instrument for measuring functional service quality applicable across a broad range of service. They identify that a customer's expectation of a service is influenced, externally, by word of mouth communication, and, internally, by the

customer's personal needs and past experience. The model is a tool used to analyze the causes of service problems, and for understanding how service quality can be improved and refined. Customers form impressions of a service's quality based on their perceptions of the actual service experience, regardless of the level of service quality. By virtue of this theory, it may seem a truism, but is often neglected by service providers who fail to recognize the uniqueness and individuality of each customer's needs and expectations. SERVQUAL contains 22 pairs of Likert type items in its original form (Simon, 1997). Parasuraman et. al. (1988) intends that there are five dimensions of service quality that is applicable to service providing organizations in general.

Tangibles – This dimension includes physical facilities, equipment and appearance of personnel. Anything that customers can see, hear, touch, taste or smell will affect their perception of this dimension.

Reliability – This dimension involves the consistency and reliability of the service performance, and concern the service promise reliable and accurately to the customer.

Responsiveness – This dimension refers to the staff's willingness to help customer and provide prompt service. Also included is the competence of the staff.

Assurance – This dimension refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence in customers.

Empathy – Refers to the human factors involved in the service performance. Caring, friendliness, and individualized attention provided to customers are some of the main aspects of the empathy dimension.

2.4 Corporate Image

The jobs for a big company have become more difficult and more challenging when globalization take places. Corporate companies are struggling and competing among each other to keep up momentum in their businesses. The level of outside scrutiny is far beyond anything a corporate company would have been subjected to in the past. Whatever the reason, people have come to expect more from corporate companies. Therefore, image of the corporate companies are important to attract and influence more people to buy their products or services.

However, there are many cases involve corporate leaders especially in rapid growing countries such as accounting scandals, lavish pay increases and collapsing stock markets have conspired to turn the world against them (Cairncross, 2003). They are regarded with cynicism and mistrust everywhere. According to The Economist, November 2003, a poll in July 2002 found that only 23% of American thought the bosses of large corporations could be trusted and remarkable 75% trusted people who run small businesses. The mistrust of big company is obvious for all to see. Further, investors and consumers are increasingly making decision based on longer-term issues linked to a company's capacity to contribute to a sustainable future (Johns, 2003).

For decades, large corporations have used image marketing to sell their wares (Griffin, 2002). To keep generating new customers, as every thriving business needs to

do, the corporate companies should plan a clear, simple powerful image to those with desire and ability to serve what they are selling. Corporate image concern the knowledge, feelings and beliefs about an organization that exist in the thought of its audience (Hatch & Schultz, 1997).

Bennett and Gabriel (2001) note how it is possible for a company to possess a favorable corporate image or otherwise inappropriate image consequent inadequacies in marketing communication and this will affect trust and satisfaction of the customer to the company. They also concluded that favorable corporate image including customer loyalty (Saxton, 1998), higher levels of customer purchase intention (Yoon, Guffey & Kijewski, 1993) and greater competitive advantages (Fombrum & Shanley, 1990).

2.5 Customer Satisfaction

Customer satisfaction is a well-known and established concept in several sciences. In marketing and consumer research, customer satisfaction has been used in order to describe differences between specific alternatives and brands (Yi, 1990). Andreassen and Lindestad (1998), however, claim that customer satisfaction is the accumulated experience of a customer's purchase and consumption experiences. Therefore, Yi (1990) mentioned that customer satisfaction is influenced by two factors which are expectations and experienced service performance. Otherwise, customer satisfaction has a direct impact on an organization's performance and that expectations over time are brought in line with actual performance (Fornell, 1992). Because satisfied customers tend to maintain their consumption pattern or consume more similar product or

service, customer satisfaction has become an important indicator of quality, future revenue (Andreassen, 1994), and customer loyalty (Heskett, Sasser & Hart, 1994).

Ever since Cardozo (1965) introduced the concept of customer satisfaction into marketing, scholars have different viewpoints on what is customer satisfaction (Kuo, Chou & Huang, 1998). Hempel (1977) recognizes that customer satisfaction is determined by the degree of realization of product benefits that customers expect from product, as cited in Kuo et. al. (1998). Kotler (1996) recognizes satisfaction as the emotional perception of the consumer and a result from the comparison of the person's perceived functionality of the product (or result) with what he expects of the product.

Bitner (1990) uses the expectation – disconfirmation model and attribution theory to explain customer satisfaction from service encountered with lower perception than expectation, meaning customer dissatisfaction and with higher perception than expectation, meaning customer satisfaction (Chen & Ting, 2002). In other words, a positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction. Additionally, past satisfaction may also affect the consumers' decision to continue the relationship (Crosby, Evans & Cowles, 1990).

Oliver (1980) identifies satisfaction and dissatisfaction in terms of the disconfirmation of consumers' expectation. Satisfaction occurs when the product positively disconfirms consumers' expectations by performing better than expected. Satisfaction can also occur when the product confirms consumers' favorable pre-purchase expectations. Whereas dissatisfaction occurs: when expectations are negatively disconfirmed, or when performance of the product is worse than the consumer anticipated. The amount of dissatisfaction depends on the extent of disconfirmation and

the consumer's level of involvement with the product and the problem solving process (Peter & Olson, 1994).

2.6 Trust

Trust is a quality factor, which a number of studies indicate to be the most important (Zeithaml, Parasuraman & Berry, 1990). Edvardsson (1998) has considered trust as central component of the quality concept from the perspective of the customer. In his studies, he gives an example that any customer who wants to rest assured the service will be delivered as agreed, that what he gets conforms to what has been promised and meets his expectations. Therefore the service personnel must inspire confidence and give him a feeling of credibility and trustworthiness. In simple words, the customer must feel that the service company has the capacity and competence to deliver the service requested.

Trust is an important feature of any relationship. In the business setting, trust in service provider is necessary to encourage customer commitment and willingness to invest in the relationship. According to Achrol (1997), trust help determine a variety of performance-related indicators, including the extent of information exchange, joint problem solving, satisfaction with the outcomes of activities, and a greater motivation to implement decisions.

Trust is likely too built up only gradually overtime (Selnes, 1998). As cited in Priluck (2003), when customers have strong relationship with service provider's trust and commitment become central focuses in the formation of attitudes and belief, and outweighs satisfaction in their re-patronage decision (Garbarino & Johnson, 1999). The

integrity of the service provider is crucial to upholding the consumer's trust (Morgan & Hunt, 1994). Trust depends on confidence in another (Moorman, Deshpande, & Zaltman, 1993) and when poor service performance occurs, the service providers break trust. Therefore, consumers will report lower levels of trust when service performance is poor (Priluck, 2003).

2.7 Customer Loyalty

Customer loyalty is the cornerstone of successful service management (Heskett, Sasser & Hart, 1991). According to marketing literature, loyalty can be defined in two distinct ways. Firstly, it defines loyalty as an attitude. Individual's overall attachment creates different feelings to product, service or organization. These feelings define the individual's degree of loyalty. Second definition of loyalty is behavioral, including relationship continuance, increased scale or scope of relationship or the act of recommendation (Yi, 1990). However, as mentioned by Griffin (2002), the concept of customer loyalty nowadays is geared more to behavior than to attitude.

The conceptualization of the loyalty construct has evolved over the years. In the early days the focus of loyalty was brand loyalty with respect to tangible goods (Cunningham, 1956; Day, 1969; KostECKI, 1994; Tucker, 1964) as cited in Caruana (2002). A few studies have also looked at customer loyalty of services (Oliver, 1997; Caruana, 2002). Loyalty is evidenced both by a more favourable attitude towards a brand (as compared to other alternatives) and repeat patronage (Dick & Basu, 1994). They recognize that low relative attitude with low repeat purchase connotes absence of loyalty, while low relative attitude with high repeat purchase indicates spurious loyalty.

On the other hand, Griffin (2002) recommends that to make any loyalty plan work well, the employer first have to realize that the employees, the people on the front line, are the ones in direct contact with customers. The employee represents the company's products or services for better or worse and can win loyalty for a company or turn a customer away. Conversely, Gronroos (1994) suggest that the firm should strive to keep the right customer from defecting. He claims in his studies that the firm must not retain the wrong customer. Doing a thorough customer relationship profitability analysis is equally important as efforts directed towards creating a loyal customer base and retaining customer.

2.8 Underlying Theories

2.8.1 Model of Service Marketing

Starting point for planning is a service concept, that is, an idea about how the quality-generating resources should function and what result they should achieve for the customer.

2.8.2 Disconfirmation of Consumers' Expectation Model

The overall theory for this study is from Oliver (1980) of the disconfirmation of expectation paradigm. He argues that customer loyalty is a function of customer satisfaction, which again is a function of a cognitive comparison of expectation 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 service (Anderson et.al., 1994).

Base on the transaction driven nature of the satisfaction experience, several researchers claim that corporate image is a function of cumulative effect of customer satisfaction (Fornell, 1992). When service is difficult to evaluate, corporate image is believed to be an important factor influencing the customer's evaluation of satisfaction with the service and customer loyalty.

2.8.3 The Relationship Quality

Crosby et.al. (1990) identify key model antecedent and relationship quality outcome dimensions in the services selling context are integrated with the customer and physical environment dimensions identified in Bateson and Hoffman's (1999) generalized servuction services model to better understand and predict relationship trust, satisfaction and loyalty in a personalized service delivery context (Shamdasani & Balakrishnan, 2000).

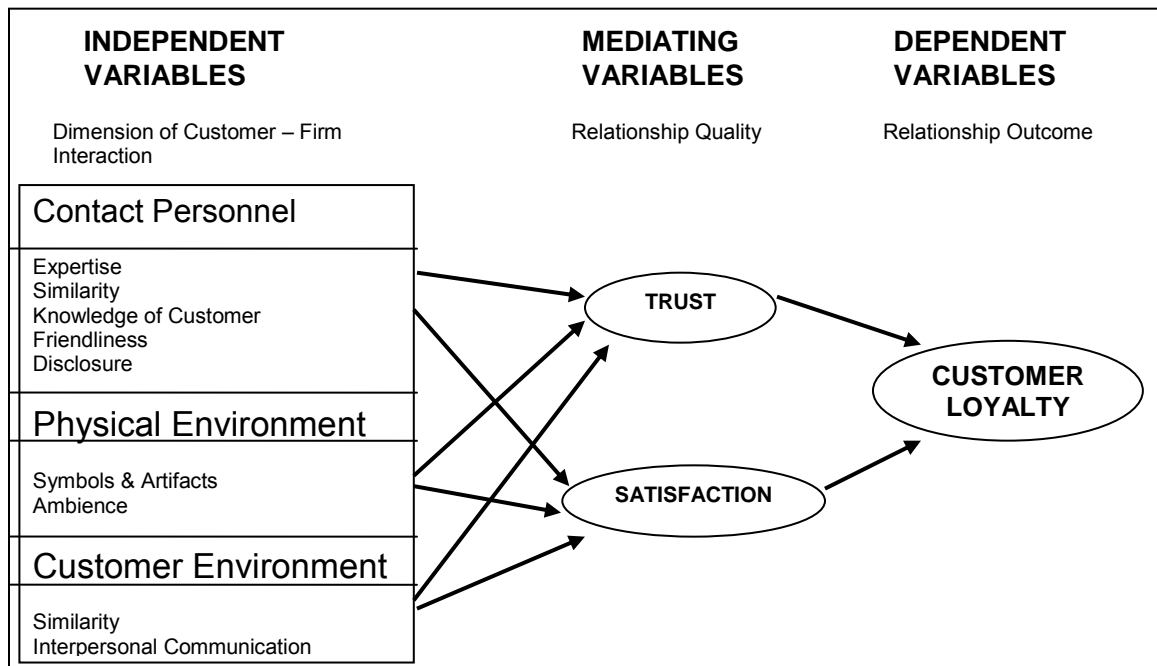


Figure 2: Shamdasani & Balakrishnan Model (2000)

2.8.4 Corporate Image-Satisfaction-Loyalty Model

Andreassen and Lindestad (1998) identify that customer satisfaction; loyalty and reputation (including corporate image) become important indicators of market orientation in the public sector influencing government performance. Reputation (corporate image) is the strongest driver of loyalty. They claim that the customer's voice is believed to be important in this respect. According to them, as the service company develops closer relation with the customer by offering services of high quality and by stimulating customer voice, strong correlation between satisfaction and loyalty will emerge.

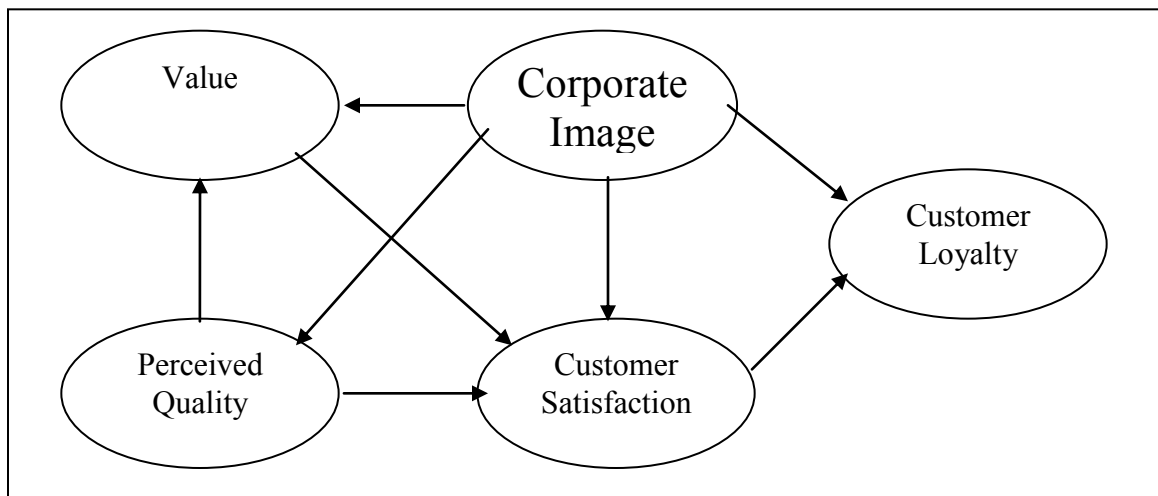


Figure 3: Andreassen & Lindestad Model (1998)

2.9 Perusahaan Otomobil Kedua Sdn. Bhd. (PERODUA)

2.9.1 Background of PERODUA

The establishment of Perodua to undertake the second national car project is an extension of the Prime Minister's vision for the nation to emerge as a major automobile manufacturer, capable of competing in the global market. Perodua was officially opened on 1st August 1994. Through proper planning and focus, Perodua has provided the

Malaysian population with the opportunity of owning compact, affordable and reliable vehicles whose standard and quality are second to none.

Perodua aims to be a world-class automobile company renowned for excellent quality and reliability through Professionalism in all their operations. Efficiency in utilizing technologies and available resources. Resilience in meeting the challenges. Optimizing benefits to customers and stakeholders. Dedication towards social responsibility to community. Uniqueness in their products, the environment and development of competent workforce, and Aspiration to glorify the name of **PERODUA**.

Perodua has wide 64,000 square meters factory area with the production capacity of 120,000 units of cars per annum on 2 shift cycle. Besides, Perodua facilities divided into Press shop, Body shop, Casting, machining, engine assembly (CMK), Paint shop, Logistic, Assembly shop, Training center/ Quality audit, Pre-delivery inspection (PDI), stockyard and Parts warehousing.

Perodua has invested in Research and Development (R&D) which focused on developing their capabilities in automotive technologies ranging from basic testing, design and styling engineering to ultimately manufacturing engineering skills. Towards this end, PERODUA has invested substantially in manpower training, computer related facilities and equipment, to provide the necessary basic infrastructure for R&D work.

The manufacturing capabilities of Perodua and local Malaysian component manufacturers have resulted in their Kancil achieving 75 LMCP (Local material component points) i.e. an optimal level for localization given economies of scale requirements. Perodua localization activities are divided into 3. Firstly, In-house localization is divided into Press parts and Engine parts (intake manifold, cylinder head,

camshaft, crankshaft, cylinder block). Secondly, Third party vendors and SMI (metal, plastic, electrical, rubber, sub-assembly, others). Lastly is a Joint-venture operation. As of today, Perodua has 25 branches in Malaysia, including 29-service center and 78 authorized service and parts dealers. (See Appendix 3)

2.10 Theoretical Framework

Based on the review of literature, below is the proposed theoretical framework for this study. The proposed framework is adapted from Crosby et.al. (1990) and Andreassen & Lindestad (1998) models. Referring to Figure 2, there are five general constructs in this study:

- 1) Service quality
- 2) Corporate image
- 3) Customer satisfaction
- 4) Trust
- 5) Customer loyalty

The dependent variable is customer loyalty, which is the variable of primary interest, the variance in which is explained by independent variables of (1) service quality, which have five dimensions of tangibility, reliability, responsiveness, empathy and assurance, and (2) corporate image. Whereas customer satisfaction and trust as a mediating variables.