PERCEPTION OF SERVICE QUALITY, VALUE, AND SATISFACTION IN DETERMINING CUSTOMER LOYALTY: A STUDY IN 5-STAR HOTELS IN PENANG

by

LIM EE HUI

Thesis submitted in fulfillment of the requirements
for the degree of
Master of Art

July 2004

I would like to dedicate this thesis to my dearest father and mother. They are the people who encourage me in my study and always emphasize the importance of education. For them, education is the most valuable asset in life. To see their children succeed in education is their best satisfaction. However, they have never put any pressure on their children's as far as education is concerned. And to my husband, Earnest, without whose love and support this would not be possible.

The success of this thesis is highly depended on several important persons. My heart felt thanks and appreciation to my supervisor Encik CM Zainol and my co-supervisor Dr. Mohammad Nasser Mohammad Noor for their supportive guidance given during my study. I would also like to express my thankful to Assoc. Professor T. Ramayah for his generous advice and comment on my data analysis.

A word of thanks is also due to my examining committee member's Professor Muhamad Jantan, Assoc. Professor Zainal Ariffin Ahmad, Dr. Norizan Mat. Saad, and Assoc. Professor Ishak Ismail who provided me valuable comments during the proposal and findings defend presentation. I am equally thankful to my friends in the Ph. D. program – Nit and Magdalene for their invaluable support, guidance, and encouragement. To Lilis, Kitima, Iskandar, Abdullah, and many others I felt grateful for their kindness. To Esther, thank you for her assistance in checking through the grammar of my thesis.

Special thanks and appreciation should go to my beloved parents, for providing me the ultimate support and encouragement, whose love and concern can never be paid off. I am really grateful to my family members: Kien Hin, Wei Heng, Ee Chuo, and particularly my husband, Earnest for their constant encouragement, understanding, and love throughout the period of my study. Many thanks also to my beloved husband who patiently accompanied me all provided me the strength, mercy, and love.

Page

Dedication ii

Acknowledgement iii

Table of contents v

List of Tables xi

List of Figures xiii

List of Appendices xiv

Abstrak xv

Abstract xvii

CHAPTER 1 INTRODUCTION

1.0 Introduction 1

1.1 Background of the Study 1

1.2 Problem Statement 2

1.3 Research Questions 4

1.4 Research Objectives 4

1.5 Significance of the Study 5

1.6 Scope of Study 6

1.7 Definition of key Terms 6

1.8 Outline of the Report 7

CHAPTER 2 REVIEW OF THE LITERATURE

2.0 Introduction 10

2.1 Importance of Customer Loyalty 11

2.3 Customer Loyalty 13

- 2.3.1 The Attitude and Behavior Relationship 15
- 2.3.2 Customer Loyalty Measurement 17
- 2.3.3 Customer Loyalty Dimension 19
- 2.3.4 Types of Customer Loyalty 20
- 2.3.5 Factors Generating Spurious Loyalty 21
- 2.3.6 Obstacles of Customer Loyalty 22
  - 2.3.6.1 Defensive Strategy 23

2.4 Differences between Service Loyalty and Product Loyalty 24

2.5 Service 25

2.6 Perception and Expectation 26

2.7 Consumption and Post-Consumption 28

2.8 Theory of Reasoned Action 30

2.9 Behavioral Intention 32

- 2.9.1 Dimensions of Behavioral Intention 32

2.10 Factors Affecting Customer Loyalty 33

- 2.10.1 Service Loyalty 35
  - 2.10.1.1 Definition of Service Quality 36
  - 2.10.1.2 Expectation-Performance Approach 36
  - 2.10.1.3 Performance Approach 37
  - 2.10.1.4 Dimension of Service Quality 38
- 2.10.2 Perceived Value 39

2.10.2.2 Definition of Perceived Value 40

2.10.2.3 Elements of Perceived Value 41

2.10.2.4 Perspectives of Perceived Value 42

2.10.3 Customer Satisfaction 43

2.10.3.1 Definition of Satisfaction 43

2.10.3.2 Reflections on the Cognitive Component In Customer Satisfaction Studies 44

2.10.3.3 Reflections on the Affective Component In Customer Satisfaction Studies 46

2.11 Pervious Study on Service Quality, Perceived Value, Satisfaction, and Customer Loyalty 48

2.11.1 American Customer Satisfaction Index (ACSI) 48

2.11.2 Other Models that Explain the Same Relationship 49

2.12 The antecedents of Customer Loyalty 53

2.12.1 Perceived Service Quality as Antecedent of Satisfaction 54

2.12.2 Perceived Value as Antecedent of Satisfaction 54

2.12.3 Satisfaction as Antecedent of Customer Loyalty 55

2.13 Theoretical Framework 57

2.13.1 Why Expectation and Customer Complaints are not Included 58

2.14 Research Hypotheses 60

Hypothesis 1 60

Hypothesis 2 60

Hypothesis 4 61

Hypothesis 5 62

Hypothesis 6 62

2.15 Summary 63

CHAPTER 3 METHODOLOGY

3.0 Introduction 65

3.1 Population and Sample 65

3.1.1 Reasons for Choosing Only 5-star Hotels 66

3.2 Data Collection Procedures 67

3.3 Questionnaires Design 67

3.4 Variables and Measures 68

3.5 Pilot Test 70

3.6 Statistical Techniques 70

3.7 Mediation Test 71

3.8 Summary 72

CHAPTER 4 DATA ANALYSIS AND FINDINGS

4.0 Introduction 73

4.1 Response Rate 73

4.2 Profile of the Respondents 74

4.3 Goodness of Measures 76

4.3.1 Factor Analysis of Perceived Service Quality and Perceived Value 76

4.3.3 Factor Analysis of Customer Loyalty 78

4.4 Reliability 79

4.5 Descriptive Statistics 80

4.5.1 Overall Descriptive Statistic 80

4.6 Regression Analysis 81

4.6.1 Hypotheses Testing 83

4.7 Multiple Regression Analysis 88

4.8 Summary 89

CHAPTER 5 DISCUSSION AND CONCLUSION

5.0 Introduction 91

5.1 Recapitulation of the Study Findings 91

5.2 Discussion 93

5.2.1 Perceived Service Quality vs. Perceived Value 93

5.2.2 Perceived Service Quality vs. Satisfaction 94

5.2.3 Perceived Value vs. Satisfaction 95

5.2.4 Perceived Value as Mediating Variable 96

5.2.5 Satisfaction and Loyalty 97

5.2.6 Satisfaction as Mediating Variable 98

5.2.7 Main Findings 99

5.3 Implications of the Study 101

5.3.1 Theoretical Implications 101

5.3.2 Managerial Implications 102

5.5 Direction for Future Research 106

5.6 Conclusion 108

Table No.	Title of Table	Page
Table 2.1	Literature Linking Service Quality, Perceived Value, and Satisfaction to Service Encounter Outcomes	34
Table 3.1	Variables, Dimensions, and Total Statements of the Questionnaire	68
Table 4.1	Rate of Return in Terms of Numbers of Questionnaires Distribution	74
Table 4.2	General Characteristics of the Sample Respondents	75
Table 4.3	Factor and Reliability Analysis on Perceived Service Quality and Value	77
Table 4.4	Factor and Reliability Analysis on Satisfaction	78
Table 4.5	Factor and Reliability Analysis on Customer Loyalty	79
Table 4.6	Reliability of Scale	80
Table 4.7	Descriptive Statistics of Variables	81
Table 4.8	Beta Value, Significance, and R Square of Perceived Service Quality, Perceived Value, And Satisfaction to Customer Loyalty	83
Table 4.9	Beta Value, Significance, and R Square of Perceived Service Quality, Perceived Value, to Satisfaction	86
Table 4.10	Comparison of Beta Coefficient of Perceived Service Quality without Mediator and with Mediator	86
Table 4.11	Comparison of Beta Coefficient of Perceived Service Quality and Perceived Value without Mediator and with Mediator	87

	To Predict Customer Loyalty	89
Table 5.1	Summary of Hypothesis Testing	92
Table 5.2	A Summary of Empirical Support for Research Findings	100

Figure No.	Title of Figure	Page
Figure 2.1	Relationship between Attitudinal differentiation and Attitudinal Strength	16
Figure 2.2	Consumption and Post-Consumption Evaluation	29
Figure 2.3	Theory of Reasoned Action	30
Figure 2.4	The American Customer Satisfaction Index (ASCI) Model	49
Figure 2.5	A Simplified Pre-and Pro-Experience Dining Decision Making Model	50
Figure 2.6	The Drivers of Customer Satisfaction and Future Intention	52
Figure 2.7	The Sheffield Model	53
Figure 2.8	Theoretical Framework	58
Figure 4.1	First Stage Analysis	82
Figure 4.2	Second Stage Analysis	82
Figure 4.3	Result of the First Mediating Analysis	86
Figure 4.4a	Result of the Second Mediating Analysis	87
Figure 4.4b	Result of the Second Mediating Analysis	88
Figure 4.5	Model of the Study	89

Appendix No.	Title of Appendix	Page
Appendix 1	Introductory Letter and Questionnaire	119
Appendix 2	Frequency Tables for Demographics	124
Appendix 3	Descriptive Statistics	126
Appendix 4	Factor and Reliability Analysis for Perceived Service Quality and Perceived Value	127
Appendix 5	Factor and Reliability Analysis for Satisfaction	134
Appendix 6	Factor and Reliability Analysis for Customer Loyalty	139
Appendix 7	Reliability	142
Appendix 8	Frequency Table for Variables	143
Appendix 9	Regression Analysis: Quality and Value	150
Appendix 10	Regression Analysis: Quality and satisfaction	151
Appendix 11	Regression Analysis: Value and Satisfaction	152
Appendix 12	Regression Analysis: Satisfaction and Loyalty	153
Appendix 13	Regression Analysis: Quality, value, and Satisfaction	154
Appendix 14	Regression Analysis: Mediation (Quality and Loyalty)	155
Appendix 15	Regression Analysis: Mediation (Value and Loyalty)	157
Appendix 16	Regression Analysis: Quality, Value, Satisfaction, and Loyalty	159

Dalam Menentukan Kesetiaan Pelanggan: Kajian Di Hotel 5-Bintang Di Pulau Pinang.

ABSTRAK

Kepuasan pelanggan sering dianggapkan sebagai penentuan utama dalam penyelidikan tentang kesetiaan pelanggan. Bagaimanapun, bukti empirikal mengenai hubungan antara kesetiaan dan kepuasan pelanggan masih kabur. Dalam penyelikan ini kesetiaan pelanggan diaplikasikan dalam sektor perkhidmatan dengan menggunakan model ACSI (American Customer Satisfaction Index). Salah satu sumbangan kepada struktur persamaan model ini ialah penyelipan persepsi nilai sebagai satu faktor sampingan dalam penentuan kesetiaan pelanggan. Oleh yang demikian, model ini menguji sejauh mana kesetiaan pelanggan dipengaruh oleh tiga faktor tersebut – kualiti perkhidmatan, persepsi nilai, dan kepuasan pelanggan terhadap pekhidmatan hotel 5-bintang. Kedua-dua punca dan kesan kepuasan pelanggan (punca: kualiti perkhidmatan dan persepsi nilai; dan kesan: kesetiaan pelanggan) dapat diperolehi dalam kajian ini. Keputusan kajian dapat dijadikan panduan dalam pemeriksaan dan pemahaman terhadap faktor yang perlu sepatutnya dititikberatkan untuk menjamin kesetiaan pelanggan.

Analisis diperolehi daripada 124 tetamu tempatan dan antarabangsa di hotel 5-bintang di Pulau Pinang. Dengan menggunakan SPSS Versi 11.0, analisis faktor, analisis reliabiliti dan analisis regresi dapat diuji. Keputusan

di antara faktor-faktor kontekstual dan kesetiaan pelanggan.

Keputusan analisis mendapati bahawa persepsi kualiti dan persepsi nilai tidak mempengaruhi kesetiaan pelanggan secara langsung, sebaliknya secara tidak langsung melalui kepuasan pengguna. Kajian ini juga mendapati bahawa persepsi nilai berfungsi sebagai pemangkin separuh dalam hubungan antara kualiti perkhidmatan dan kepuasan pelanggan. Keputusan tersebut menunjukkan bahawa kepuasan pelanggan bukan semata-mata bergantung kepada kualiti perkhidmatan. Kualiti perkhidamtaan hanya akan memenuhi kepuasan pelanggan apabila pelanggan mentafsirkan nilai yang diterima telah ditambah-baikkan. Bagaimanapun, keputusan menunjukkan bahawa kepuasan pelanggan tetap menjadi faktor utama dalam penentuan kesetiaan pelanggan. Selain itu, kajian ini juga memaparkan bahawa kedua-dua kognitif dan emosi yang berfungsi sebagai komponen dalam kepuasan pelanggan mempengaruhi kesetiaan pelanggan. Keputusan ini membuktikan bahawa dua-dimensi komponen (kognitif dan emosi) merupakan penentuan yang lebih berpengaruh berbanding dengan uni-dimensi untuk menjelaskan kepuasan pelanggan.

Implikasinya, perkhidmatan dan persepsi nilai yang tinggi hanya akan mempengaruhi kesetiaan pelanggan melalui kepuasan pelanggan, dan untuk memenangi kesetiaan pelanggan, pengurusan hotel perlu memastikan kepuasan pelanggan dari segi kognitif dan emosi.

In research on customer loyalty in services, satisfaction has often been mentioned as an important determinant. However, empirical evidence concerning the relationship between loyalty and satisfaction has remained unclear. This research develops a general service sector of customer loyalty from the model of ACSI (American Customer Satisfaction Index). A key contribution to the structural equation model is the incorporation of perception of value into an integrated of customer loyalty. This model describes the extent to which customer loyalty is influenced by three important factors – service quality, perceived value, and customer satisfaction. The model is applied to customers of 5-star hotels. The purpose of the study is to investigate the factors contribute to customer loyalty in 5-star hotel services. Both cause and effect of the satisfaction (cause: service quality and perceived value; and effect: customer loyalty) are encompassed in this study. The study helps to examine and understand which of the factors that really needs to be emphasized in determining customer loyalty.

Samples of 124 usable questionnaires are collected and the responses from local and international guests of the 5-star hotels in Penang are used to analysis the hypotheses. By using SPSS software version 11.0, factor, reliability, and regression analysis are conducted. The findings show that there are numerous significant associations between the contextual factors and customer loyalty.

not directly affect customer loyalty; they do affect customer loyalty indirectly via customer satisfaction. The study also finds that perceived value is partially mediated the relationship between service quality and customer satisfaction. This result indicates that satisfaction does not depend on service quality alone. Higher levels of quality are perceived to be satisfied to the extent that value is being enhanced. Nevertheless, the main factor influencing customer loyalty is customer satisfaction. This study also shows that customer satisfaction influences customer loyalty via both cognitive and emotion elements during the service encounter. This result indicates that the two dimensional components (cognitive and emotion) serve as better predictor than uni-dimension. The most important implication of this study is high service quality and perceived value influence customer loyalty via customer satisfaction, and in order to gain customer loyalty, hotel management has to make the customer feel cognitively and emotionally satisfied.

1.0 Introduction

This chapter includes a brief explanation of the research background. It investigates the problems statement, research questions, and research objectives. Finally, it describes the significance and outline of the thesis.

1.1 Background of the Study

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

Malaysia's tourism is a developing industry that has been focused intensively since the year 1990. Every year thousands of tourists from either local or international visited this country. The data from Immigration Department of Malaysia (KL) shows that from January to May 2002 the total amount of international tourists arrived in Malaysia were 5,334,823. In fact, this number is increasing from year to year and Malaysia is looking forward to becoming the tourists' greatest destination in South East Asian region. These recent years have witnessed a rapid growth in Malaysian tourism industry. This rapid growth industry could soon become the top source of foreign exchange earning for the nation (Muhammad & Bartels, 1997). Government of

Malaysia hopes to develop the East Coast of the peninsula, which had been overlooked for many years, as well as several of its islands destinations.

The raise in tourists indicates an increase in the accommodation requirement. The survey by The Art, Cultural, and Tourism Ministry showed that the greatest expenditure of tourists is on accommodation, followed by transportation and food. Hence, delivering quality service in hotel industry becomes important in portraying good image and bringing satisfaction to the tourists.

Today, one of the greatest challenges faced by the hotel industry is the ever-growing volume and keen competition. Due to the great competition, hotels are providing greater alternative choices, greater value for money and augmented levels of service to its customers. Hotel's service and product, however, are hardly to be distinguished from each other. Hence, it is important for hotel to gain customer loyalty from its existing customers.

1.2 Problem Statement

Many people accept the idea that successful hotel business depends on the delivery of superior quality, value, and satisfaction to its customers. For this reason, generally hotel marketers try to understand customers' perceptions on quality, value, and the extent of their satisfaction by reviewing on-site comment cards and conducting occasional customer surveys. Though practice, it is still being overlooked.

The Culture, Arts, and Tourism Minister Datuk Paduka Abdul Kadir Sheikh Fadzir suggested that Malaysians are good in building beautiful hotels and restaurants but the delivering of quality service is not good (Bernama, 4, May 2002). Many times new customers come to the hotel for the services rendered. However, among the new customers who really show preference to the particular hotel and have emotional attachment (feeling of satisfaction, willing to return, or recommend to others) to that hotel after experiencing the services provided is still in question. According to Keaveney (1995) the largest category of service switching is due to the core service failures (mistakes, billing errors, and service catastrophe), followed by the service encounter failures (uncaring, impolite, unresponsive, and unknowledgeable attitude). Therefore, providing an excellent and satisfied service quality is extremely important to capture and retain the customers.

There is not much research done on customer loyalty in the hotel industry in Malaysia. Besides, hotels in Malaysia are not highly aware of the power of customer loyalty. As hotel service is difficult to differentiate (McDougall & Levesque, 2000), many hotels try to attract customer through different kinds of loyalty schemes such as special corporate rate, loyalty card, and promotion packages. But the core product is still the services of the hotel, which is the product that the customers really purchase and consume. This shows that by providing special packages, corporate rate, or other promotion different satisfaction level and certain rewards gained from the hotel promotion might not definitely create loyalty (Louise & Jones, 1995). Therefore, this study aims to measure how customers perceived quality, value, and satisfaction during their stay in the hotel. Such measurement allows hotels to improve their operation to detect and defuse the potential problems before many customers are affected.

This study will make research on service quality, value, and satisfaction perceived by customers from an actual service experience. This study will also examine to what extent does the perception of service experience foster the future behavioral and attitudinal response toward repurchasing the hotel service. In other words, the above research areas are the factors that make customers become loyal in hotel industry.

1.3 Research Questions

Based on the research background, the general literature, and the problem statements, the research questions are formulated as follow:

1. How does the perception on service quality, value, and satisfaction with hotel's performance influence customer loyalty?
2. Which of these variables is the most significant indicator of customer loyalty in hotel industry?

The objectives of this research are as following:

1. To measure the customers' perception on quality and value after the service is delivered.
2. To examine the relationship between service quality and value which in turn have effect on satisfaction.
3. To investigate the effect of satisfaction on customer loyalty.
4. To identify among these variables which one of them has the most powerful indication on customer loyalty.
5. To examine whether perceive value mediate perceived service quality to satisfaction.
6. To examine whether satisfaction mediate perceived service quality and perceived value to customer loyalty.

1.5 Significance of the Study

Studies have been done on service quality and satisfaction, but the relationship between the future intentions (customer loyalty) and actual purchase service experience is still lacking in confirmation. The study provides a better understanding of service quality and satisfaction as the antecedents of customer loyalty. Besides perceived service quality and satisfaction, this study incorporated perceived value, which has been argued as a new key role in service marketing to measure customer loyalty. There and (ii) by mediating effect. The results show that by monitoring the antecedents, which are perceived quality, value, and satisfaction, this can help to predict customer loyalty in 5-star hotels.

Most previous researches on customer satisfaction focused on measuring overall satisfaction by using disconfirmation-expectation, which has been claimed as the cognitive component of satisfaction, but had neglected the role of emotion in explaining customer satisfaction. Other researchers (e.g., Westbrook & Oliver, 1991) declared that emotional element on customer satisfaction is as important as the cognitive element. In order to further examine which satisfaction components influence customer loyalty, this study considers both cognitive and effective (emotional) components in explaining customer satisfaction. By understanding the role of both cognitive and effective components of satisfaction, this could provide insight to facilitate customer loyalty and inhibit customer-switching behavior in hotel industry.

Finally, this study focuses on customer loyalty among 5-star hotels found in Penang, Malaysia. The greatest difficulty in this study is the data collection process as the hotel management did not provide support and did not allow collecting data in the hotel compound. As the result, the data collection process had to be done in the public area such as beach, road side, or car park near to the particular 5-star hotels. Even though the data collection process was difficult, the researcher managed to get a good number of

Malaysia as well as other services such as restaurant, airline, and saloon.

1.6 Scope of the Study

The research is limited to the 5-star hotels in Penang, Malaysia. This study explores the impact of a limited factor influencing customer loyalty that has received high attention in literature in these recent years. The study focuses only on customer loyalty in the year 2003.

1.7 Definition of Key Terms

Several key terms would be used in this research. In order to understand and comprehend better, it is important to define the key terms.

- **Customer loyalty** is defined as commitment to repurchase a preferred product or service in the future and express positive word of mouth.
- **Future intentions** are defined as the likelihood of returning to the service provider, tendency to switch, willing to pay more and internal or external complaint (Zeithaml, Berry, & Parasuraman, 1996).
- **Hotel guest** in this context is defined as person who stays or spends at least one night at the hotel.
- **5-star hotel** is defined as the hotel provides the highest quality standard (functional, safe, colourful decoration, aesthetic and comfortable ambience) and facility including all rooms with private bathroom, television, freezer and 16/24-hour room service. The context of 5 stars hotels that are classified under the "Hotel classification

introduced by the Culture, Arts and Tourism Ministry since the middle of 1995.

- **Perceived satisfaction** is defined as the judgment of the overall assessment of service providers that give pleasurable fulfillment. (Oliver, 1980)
- **Perceived service quality** is defined as consumers judgment about a product or a service overall excellence or superiority from the comparison of expectation and performance. It is viewed as consisting of two primary dimensions: core (what is delivered) and relation (how it is delivered). (Zeithaml, 1988)
- **Perceived value** is defined as customer's overall assessment of the utility of a service based on perception of what is received and what is given. (Zeithaml, 1988)
- **Perception** is defined as consumers' beliefs concerning the service received or experienced service. (Parasuraman, Zeithaml & Berry, 1985)
- **Post purchase evaluation** is defined as judgment of a customer after he or she purchased and consumed the service. (Engel, Blackwell & Miniard, 1995).
- **Tourist** is defined as a person who makes a tour or visit to a place for pleasure.

of the Report

This thesis consists of five chapters. In the present chapter, the phenomenon to be explored and the rationale of the study have been discussed. Chapter two focuses on a review of literature that related to customer loyalty, its relevant antecedents, and the theoretical framework. Chapter three illustrates the methodology applied in gathering and analyzing the data. Chapter four explains the findings of the study and finally, chapter five reports the analyzed findings, provides explanation and conclusions related to the research hypotheses, and discusses the implications of the results for future research consideration and practice.

2.0 Introduction

Customer loyalty is increasingly being recognized as a path to long-term business profitability and at the same time also offers an important platform for developing a sustainable competitive advantage (Kotler Siew, Swee, & Chin, 1996). In an increasingly competitive environment, company must be customer oriented in order to win their loyalty. Even Reichheld and Sasser (1990) emphasized the positive relationship existing between customer loyalty and business performance. For this reason, numerous studies have been focused on customer loyalty (Bei & Chiao, 2001; Butcher, Sparks, & Callaghan, 2001; Hellier, Geursen, Carr & Rickard, 2003; McDougall & Levesque, 2000; Selnes, 1993; Sivadas & Baker, 2000) and these studies had assisted a lot of managers in making better decisions while dealing with the market environment which is so complex and competitive.

This chapter formed the platform for the design of this study and also the grounds in analyzing the results. It includes a review of the past theoretical and empirical research that focuses on the area of research problem. This chapter is divided into five sections. The first section consists of discussion on customer loyalty and its evolution. The second section provides explanation on service, consumption model, Theory of Reason Action and behavioral intention. The third section discusses the primary empirical research of various factors that affect customer loyalty. The fourth section describes the development of the model that derived from past empirical hypotheses development.

2.1 Importance of Customer Loyalty

Customer loyalty is the fundaments of business success in the long-run. Maintaining customer loyalty will eventually create positive and extensive financial results. Reichheid and Sasser (1990) have suggested that the cost of recruiting a new customer is five times more than the cost of retaining an existing customer. This is because there are varieties of cost incurred in doing business with new customers, such as cost of advertising to attract new customers; cost of personnel selling to entertain new prospects; cost of setting up new accounts; and cost of inefficient dealings during the customer's learning process (Graham, 1995). Therefore, retaining existing customers indirectly helps to save costs in running the business.

Loyal customers are not only benefiting the company by saving costs, but also build business by buying more of their total requirements, willing to pay premium price, and providing positive referrals through positive word of mouth (Jones & Sasser, 1995). The longer a company can keep a customer; the company would have greater lifetime revenue from that customer (Rechheild & Sasser, 1990). Moreover, while the company is able to generate greater revenue from the same customer, the cost of serving this customer is declined. Research by Baildiger and Robinson (1996) discovered that although there are only 20% of high loyal customers, this 20% of high loyal customers could contribute to 80% of the company's benefit. Therefore, it is retention and customer loyalty (Rust & Zahorik, 1993). Taking hotel for instant, due to the great competition in hotel industry, perhaps it is wise for hotel organization to retain its existing customers than to acquire a new one. For it is more costly to attract new customer than retaining an old one.

2.2 Evolution of Customer Loyalty

The term "brand loyalty" was coined in 1923 and was defined as "purchase your brand 100% of the time" (Copeland, 1923). But later researchers found that this definition was not applicable. Brand loyalty continues to be a topic that is interested among marketing academicians and practitioners. Research on the concept of brand loyalty began in the 1950's with 'share of requirement' as the method that was most extensively used in USA (Cunningham, 1956). 'Share of requirement' measured the degree of a person's loyalty by looking at the amount of 'share' of the person's 'requirements' in a brand. This method, however, was found to be inconsistent. Later, the definition of brand loyalty was developed into more measurable form by focusing on the aspect of simply repeated purchase (Newman & Werbel, 1973). In the same year, Jacoby and Kyner emerged with a most famous conceptual definition of brand loyalty which was defined by a set of six necessary and collectively sufficient conditions. Jacoby and Chestnut (1978) then explored the psychological meaning of loyalty in an effort to distinguish it from the behavioral (repeat purchase) definition, which had become the pathway for further understanding of brand loyalty. Though brand loyalty remained as a behavioral response.

Lately, researchers were concerned about customer loyalty (LaBarbera & Mazursky, 1983; Oliver, 1999; Selnes, 1993) and actually the term "customer loyalty" does also encompasses brand loyalty (for frequently purchased package goods), service loyalty (for services) and store loyalty (for retail establishments) (Bloemer & Ruyter, 1998; Caruana, 2002; Dick & Basu, 1994). In 1994, Dick and Basu developed a conceptual model describing the attitudinal (cognitive, affective, and conative) antecedents of customer loyalty as well as its behavioral consequences (composite brand loyalty). According to Dick and Basu, loyalty is depending on attitude strength and attitudinal differentiation. Later, Oliver came out with his operational definition of loyalty to detect true loyalty. Oliver (1997) proposed that true loyalty must follow cognition-affect-conation pattern. Almost all the present researches on customer loyalty have agreed that measuring customer loyalty involves both attitudinal and behavioral approach.

2.3 Customer Loyalty

Generally, loyalty has been, and continues to be defined as repeat purchasing frequency. Many definitions in the literature suffered from a problem, which is they measured customer loyalty from the aspect of behavioral without considering both the cognitive aspect of customer loyalty (Choong, 1998) and the psychological meaning of loyalty (Oliver, 1999). For instance, Fader and Schmittlein (1993) had conducted a research on that high share brands have significantly higher brand loyalty than low share brands. Newman & Werbel (1973) also described loyal customer as those who repurchase a product only considered that brand without doing brand related information seeking.

According to Jacoby and Kyner (1973), the six sufficient conditions for customer loyalty are: (1) the biased (i.e. non-random) (2) behavioral response, (3) expressed over time, (4) some decision-making unit, either on the part of an individual, family, or organization, (5) with respect to one or more alternative brands out of a set of such brands, which means that it is necessary to distinguish between individuality and loyalty, and (6) is a function of psychological process, which involves the evaluation of different alternative using specific standard of judgment. Similarly, Oliver (1997, p.392) defined loyalty as “a deeply held commitment to repurchase or repatronize a preferred product or service consistently in the future, thereby causing repetitive of same brand or same brand set purchasing despite situational influences and marketing efforts having the potential to cause switching behavior”.

In 1978, Jacoby and Chestnut have discovered the psychological meaning of loyalty in an effect to differentiate it from behavioral (i.e. repeat purchase) definition. Their finding concludes that consistent purchasing as an indicator of loyalty could be invalid because of happenstance buying or a preference for convenience, and that inconsistent purchasing could conceal loyalty if consumers were multi-brand loyal. Similarly, Reynolds, Draden, and attitudinal element. They suggested brand loyalty as the tendency for a customer to continue over time in showing similar attitude in situation which is similar to those he/ she had previously encountered.

Since loyalty is a variable that consists of dimension related to behavior and another related attitude, where commitment is the important feature, therefore, it is a concept that goes beyond simple purchase repetition behavior (Jacoby and Kyner, 1973; Oliver, 1997). In 1994, Dick and Basu proposed that combination of behavioral and attitudinal components enables us to distinguish true loyalty. The relationship between attitude and behavior will be discussed in the following section.

2.3.1 The Attitude and Behavior Relationship

In marketing perspective, attitudes are considered as consistent learned tendency (whether favorable or unfavorable) that people hold toward a product or service (Azjen & Feishbein, 1980). Attitudes are thus mental states and part of our psychological make up. Relative attitudes develop when there are some other alternatives or objects. Once a person can compare and differentiate a particular brand with other alternative brands and show preference on that particular brand, relative attitude is cultivated. Naturally, a relative attitude is expected to provide a stronger indication of repeat patronage.

toward a product or service is determined by two dimensions: the degree of attitudinal differentiation and the degree of attitudinal strength. Attitudinal differentiation refers to consumer's ability to distinguish a product or service from its competitors, while attitudinal strength is regarding the degree of customer's liking towards a product or service from another. The degree of relative attitude is highly controlled by the degree of attitudinal differentiation. High relative attitude is obtained when significant attitudinal differentiation perceived is associated with strong attitudinal strength. Even though with a low attitudinal strength, when customers are able to make comparison and notice the differences (i.e., the presence of attitudinal differentiation) among the competitors this could lead to high relative attitude too (please refer to the Figure 2.1a). When relative attitude is correlated with repeat patronage, the behavior (at two level – high and low of each) lead to four specific conditions related to loyalty- true loyalty, spurious loyalty, latent loyalty and no loyalty (Figure 2.1b). In conclusion, a favorable correspondence between relative attitude and repeat patronage will determine loyalty.

a. **Attitudinal differentiation**

Attitudinal strength	No	Yes
Strong	Low relative attitude	Highest relative attitude
Low	Lowest relative attitude	High relative attitude

b. **Repeat patronage**

Relative attitude	High	low
High	True Loyalty	Latent loyalty
Low	Spurious loyalty	No loyalty

Figure 2.1. Relationship between attitudinal differentiation and attitudinal strength and its outcomes.

Customer loyalty, which also includes brand loyalty (Dick & Basu, 1994), has been described as a behavioral response and a function of psychological processes (Jacoby & Chesnut, 1978). Although different authors have different points of view in defining customer loyalty, in general, there are three distinctive approaches to measure loyalty:

1. behavioral measurements;
2. attitudinal measurements; and
3. composite measurements.

The behavioral measurements considered consistent and repetitious purchase behavior as an indicator of loyalty (Oliver, 1997). A problem with the behavioral approach is that repeat purchases are not always the result of psychological commitment towards the service. For instance, a tourist may stay at a hotel because it is the most convenient location. When a new hotel opens nearby, they switch because the new hotel provides better value. Thus, repeat purchase does not always mean commitment.

The second approach, which is attitudinal measurements, is using attitudinal data to reflect the emotional and psychological attachment inherent in loyalty (Jacoby & Chestnut, 1978; Reynolds, Draden, & Martin, 1975). The attitudinal measurements are concerned with the sense of loyalty, engagement, and allegiance. There is a possibility that a customer could hold a favorable attitude towards a hotel, but he/she does not stay at that hotel. Sometimes, a guest could hold a hotel in high regard and recommend the hotel to others, but feel that the hotel is too expensive for him/her to stay.

combines the first two dimensions and measure loyalty by customer's product-preference, frequency of purchase, intention to recommend, and total amount of purchase (Dick & Basu, 1994). The use of both attitude and behavior in defining loyalty significantly increase the predictive power of loyalty (Baldinger & Rubinson, 1996, Dick & Basu, 1994).

There is another measurement that is cognitive measurements. This measurement serves as the additional to the composite measurement on customer loyalty. The cognitive aspect of customer loyalty is frequently demonstrated with the following situation (1) the product or service that first comes to mind when making a purchase decision (Dwyer, Schurr, & Oh, 1987; Newman & Werbel, 1973); (2) the product or service that is a customer's first choice among alternatives (Ostrowski, Brien, & Gordon, 1993) or (3) price tolerance (Fornell et al.,1996; Zeithmal, Berry, & Parasuraman, 1996).

This study has adopted behavioral, attitudinal, and cognitive aspects in the development of a composite index in measuring customer loyalty. When loyal customers is mentioned in this study, it refers to customers who hold favorable attitudes towards the company, commit to repurchase the service, express positive word of mouth, willingness to recommend the service to other, and apply price tolerance.

Numerous researchers have suggested that customer loyalty should be measured not only on the single aspect of either behavior or attitude but should include both behavior and attitude components (e.g. Baldinger & Rubinson, 1996; Caruana, 2002; Cronin, Brady, & Hult, 2000; Fornell, Johnson, Anderson, Cha, & Bryant, 1996; Shamdsani & Balakrishnan, 2000). The behavioral dimension refers to a customer's behavior on repeat purchases, indicating preference for a brand or service consistently over time (Oliver, 1997). While attitudinal dimensions refers to favorable customer intention to repurchase and recommend, which are good indicators of a loyal customer (Dick & Basu, 1994; Jones & Sasser, 1995). A customer who has the intention to repurchase and recommend is very likely to remain with the company (Sivadas & Baker, 2000). In addition to the behavioral and attitudinal approach to customer loyalty, it has been argued by Bloemer, Ruyter, and Wetzels (1999) that there is also a cognitive dimension to customer loyalty. Cognitive dimension of customer loyalty is verified as the product or service that first come to mind when making a purchase decision (Newman & Werbel, 1973). This also means that the product or service is a customer's first choice among alternatives and is price tolerance (Fornell, Johnson, Anderson, Cha, & Bryant, 1996).

Put it simply, four dimensions of customer loyalty can be clearly distinguished in the service literature. These dimensions are:

(1) Greater repurchase intention (Boulding, Kalra, Stealin, & Zeithaml, 1993)

(3) Express positive word of mouth (Dick & Basu, 1994)

(4) Price tolerance (Fornell Johnson, Anderson, Cha, & Bryant, 1996)

With regards to the dimension of customer loyalty, positive word-of-mouth is a common indicator to customer loyalty because loyal customers can become an advocate for the service (Reichheid & Sasser, 1990). There are four variations of the advocacy concept, which can be identified as: (1) providing positive word-of-mouth (e.g. Zeithaml et al., 1996); (2) recommending the service to others (Boulding et al., 1993); (3) encouraging others to use the service; (4) defending the service provider's quality.

For a customer to remain loyal he/she must believe that the firm's service continues to serve the best choice alternative. Therefore, practices of customer loyalty would have to consider behavioral, attitudinal, and cognitive dimensions in developing a composite index.

2.3.4 Types of Customer Loyalty

Customer loyalty is divided into several types. There are multi-brand loyalty, behavioral loyalty (spurious loyalty), attitudinal loyalty (latent loyalty), and true loyalty. Multi-brand loyalty refers to preference of varieties, which means the customer may not always purchase the same brand but switch between several brands which he/she prefers (Newman & Werbal, 1973). Behavioral loyalty is the action to purchase the same brand without emotional attachment or commitment to that brand, and has been described as spurious merely because this takes less effort. However, the consumer will not hesitate to switch to another brand if there the other brand product could be more conveniently accessible. Besides, customers who are spurious loyal also can be immediately captured by another brand that offers better deal or discount (Day, 1969). On the other hand, attitudinal (latent) loyalty means that the customer has the pleasure or preference toward certain brands that he/she will recommend it to others. However, though this customer does say positive things about that brand, he/she does not show any repeat purchase behavior to that particular brand. Therefore, behavioral (spurious) loyalty and attitudinal (latent) loyalty can not be considered as true loyalty because the former is lack of the attachment of commitment and the later is lack of behavioral response of repeat purchase (Dick & Basu, 1994). Only those who have both behavioral and attitudinal loyalty are considered as true loyal customer.

2.3.5 Factors Generating Spurious Loyalty

Spurious loyalty is not true loyalty. According to Jones and Sasser (1995) spurious loyalty is generated by several factors. First, government regulations that limit competition in the market place. If it was government's intention to protect some of the industries or companies, the regulations are set to reduce the competitive environment. Limited competition means limited alternative. Hence customer has to depend on that particular brand or service to fulfill their needs and wants even though the service is dissatisfactory. Second, high switching cost acts as a barrier to switch over to the alternative (Fornell, 1992). Search cost, customer habit, transaction cost, learning cost true loyalty. Finally, strong loyalty promotion programs that enhance repeat purchase do not guarantee true loyalty. Customers who repurchase that particular brand or service because of certain benefits rendered by the program do not have the commitment attached. They are most likely to switch if there is a better offer (Day, 1969).

2.3.6 Obstacles of Customer Loyalty

Customers want to be loyal provided their needs and desires are fulfilled. However the needs and desires of human being are unlimited. Human nature is seldom satisfied for what he/she has obtained. Furthermore, human nature wants to seek for alternatives. Variety seeking is one of the behaviors of mankind. Naturally one will seek for better alternatives or try other alternatives simply because of curiosity or interest (Kahn, Kalwani, & Morrison, 1984). Therefore, the first obstacle of customer loyalty is customers' variety seeking behavior.

Based on this, hence the market keeps on improving and introducing new products. The ongoing introduction and innovation of better products or services generates a more competitive environment for marketers. This competitive environment provides customers with better information – information that is unbiased, comparative, accurate and immediate through on-line services, interactive television, magazines, and newspaper (Jones & Sasser, 1995). Customers can easily switch to other competitors who provide better deal without any restriction on market accessibility or limited information makes sense that customer loyalty in today's competitive marketplace is more difficult to obtain.

2.3.6.1 Defensive Strategy

Due to the competitive marketplace and the obstacles of customer loyalty, firms which want to have successful business need to plan ahead. Overall business strategy consists of two parts, the offense and the defense (Kotler, Siew, Swee, & Chin, 1996). To have a successful business, all firms apply some of the combination of offensive and defensive strategy – the offense for new customer acquisition and the defense to protect the existing customer. Traditionally, firms put more effect in acquiring customers than retaining customers. However, in a highly competitive market place, good defense is vital. Defensive strategy involves reducing customer defect and switching, which consequently minimizes customer turn over.

Creating customer satisfaction is a defensive strategy and the behavioral objective for defense is customer loyalty (Fornell, 1992). In his study, Fornell discussed that customer satisfaction will be influenced if the demand and supply are different. Satisfaction will be low when the customer demand is heterogeneous and the supply is homogeneous. To retain customer, two basic practices which need to be fulfilled are switching barrier and customer satisfaction. Switching barriers make it costly for customer to switch to competitors and customer satisfaction makes it costly for competitor to take away another firm's customer. According to Fornell (1992), switching high customer satisfaction reduces the competition in terms of price promotion, whereas switching barrier greatly involves in price promotion. This study concentrates on using defensive strategy, particularly customer satisfaction and its antecedents to win customer loyalty.

2.4 Differences between Service Loyalty and Product Loyalty

In marketing point of view a loyal customer is assumed to be people who repurchase from the same service provider whenever possible, and who continues to recommend or maintain a positive attitude towards the service provider. However, product loyalty and service loyalty are not the same (Keaveney, 1995). Customer loyalty in service context is more dependent on the development of interpersonal relationship as compared to loyalty with tangible products (Macintosh & Lockshin, 1998) for person-to-person interaction is the essential element in service marketing. Moreover, the inconsistency of service is highly depended on who is providing the services; therefore, the influence of perceived risk is greater in the case of services. Indeed, it has been verified that loyalty is more common among service customers than among customer of tangible product (Snyder, 1986). In service context, intangible attributes such as reliability and confidence may play a major role in building and maintaining loyalty (Dick & Basu, 1994).