

## **Chapter 3**

### **Review of Literature**

#### **3.1 Introduction**

This third chapter provides a review of the relevant studies on loyalty and perceived value, which are important factors in driving customer retention and firm profitability. Additionally, the chapter reviews service quality along with brand affect and brand trust as antecedents in determining loyalty and perceived value (mediating variables). In the hospitality sector, service quality is an important factor that enhance loyalty and perceived value. The consequences of loyalty and perceived value, which are price insensitivity, positive word-of-mouth and perceived brand image (dependent variables), are then discussed. The explanation of moderating variables, which are culturally related variables (individualism and collectivism) and the situation specific variable (business and leisure stays) are included. A review of the theory and literature of the antecedents, mediating variables and the dependent variables is provided in the last section.

#### **3.2 Service Quality**

Service differs from product in many distinct ways: their production, distribution and consumption are simultaneous processes; it is intangible and heterogeneous; there is interaction between customers and service providers; customers participate in their production; it can not be kept in stock and there is no transfer of ownership (Gronroos, 2000). Additionally, three important characteristics of service, namely intangibility, heterogeneity, and inseparability, must be acknowledged for a full understanding of service quality (Parasuraman, Zeithaml et al., 1985). It is somewhat difficult to evaluate the quality of services performed according to the characteristics of service mentioned.

Prior to 1983, the definition of quality was primarily based on the concept of quality control, with corresponding standards aimed at achieving this. Juran (1974)

defines quality as "suitable use". Crosby (1979) also defines quality as "consistent with needs", and assumed the existence of correspondence between quality and operational standards. Cornell (1984) considers that the service industry requires a broader definition of quality than that used by the manufacturing industry. Zimmermann (1985) uses the quality control concept of the manufacturing sector applied to service quality and, regarding these, considers practicality, replication of manufacturing ability, immediacy, ultimate user satisfaction, and corresponding standards. Therefore, Parasuraman, Zeithaml et al. (1985) define service quality as a measure of how well the service level delivered matches customer expectations, which is a more appropriate concept to use in the service sector. Bitner and Hubbert (1994) further define service quality as "the consumer's overall impression of the relative inferiority/superiority of the organization and its services". Gronroos (1990) also develops a model in which he contends that consumers compare the service they expect with perceptions of the service they receive in evaluating service quality. He views service quality as both technical and functional quality. Technical quality refers to what the customer is left with after the customer-employee interactions have been completed, such as a guest room in the hotel, a meal in the restaurant, etc. Functional quality refers to the process of delivering the service or product. While the service is being delivered, customers go through many interactions with the firm's employees. For many services, the service industry delivery process or how the service is delivered often takes on equal importance to what is delivered.

Perceived service quality, defined as "a global judgment, or attitude, relating to the superiority of the service" (Parasuraman, Zeithaml et al., 1988) is viewed a key determinant of satisfaction with potential consequences for repeat patronage. Parasuraman, Zeithaml et al. (1985) propose ten dimensions of service quality, which are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customers and tangibles based on a series of focus group sessions. They propose that the differences between perceived performance and expected performance of these ten dimensions determine overall perceived service quality. In service marketing literature, perceptions are defined as consumers' beliefs concerning the service received (Parasuraman, Zeithaml et al., 1985) or experienced service (Brown and Swartz, 1989). Expectations are defined by

Parasuraman, Zeithaml et al. (1988, p.17) as “desires or wants of consumers, i.e., what they feel a service provider should offer rather than would offer”. Later on, they develop SERVQUAL (1988), which recasts the 10 determinants into five specific components using a 22-item scale including tangibles, reliability, responsiveness, assurance, and empathy, which are widely used in the service industry such as by Furrer, Liu et al. (2000), Svensson (2004), Lee and Hwan (2005). Among five dimensions of service quality, the one which is most likely to relate to people is responsiveness. In contrast, tangibles are least likely to relate to people. In 1992 however, Cronin and Taylor question the relevance of the expectations-performance gap as the basis of measuring service quality. They subsequently develop an alternative measurement tool, SERVPERF, which emphasizes only performance, defined as a consumer’s judgment about a brand’s fault-free and long-lasting physical operation and flawlessness in the product’s physical construction (Lassar, Mittal, and Sharma, 1995). Cronin and Taylor (1992) also agree that the performance-based scale (SERVPERF) is an improved means of measuring the service quality construct in comparison with the SERVQUAL scale. However, the comparison of these two scales is inconclusive. The findings of Cui, Lewis et al. (2003) on service quality measurement in Korea, conclude that the SERVQUAL measurement scale developed in the west can not be directly used in the banking sector in Korea because using the original measurement scales without adaptation led to misleading results. Moreover, the SERVPERF scale may not be superior to SERVQUAL when used in Korea. The reason is that the characteristics of SERVPERF may not provide better measurement of the distinct aspects of service quality than SERVQUAL, despite its strength when used as a composite measure of service quality.

For many services, the service delivery process or how the service is delivered, often takes on equal importance to what is delivered. In the service quality literature, functional performance is equivalent to the SERVQUAL dimensions of assurance, empathy, and responsiveness, while technical performance equates more to the reliability dimension (Parasuraman, Zeithaml et al., 1988; Patterson, Mandhachitara et al., 2001). Zeithaml, Berry et al. (1996) and Cronin and Taylor (1992) study high involvement products (refers to a situation when the purchase is perceived as being high in personal importance and involves considerable risk or

uncertainty) and conclude that performance quality has direct and significantly affect satisfaction. Additionally, the findings of Oliver and Bearden (1983) and Patterson and Johnson (1993), show that for high involvement products, perceived performance quality is the most powerful factor to decrease consumers' sensitivity to pre-usage phenomena and to increase their sensitivity to the outcome.

Buzzell and Gale (1987) report that several companies offering superior service achieve higher-than-normal market share growth and service quality influences profits including increased market share and premium price (Phillips, Chang, and Buzzell, 1983). In addition, businesses in the top quintile of relative service quality on average enjoy an 8% higher price than their competitors (Gale, 1992). Perceived service quality is known to have an effect on behavioral intentions in various studies (Parasuraman, Zeithaml et al., 1988; Parasuraman, Zeithaml, and Berry, 1994; Zeithaml, Berry et al., 1996; Liu, D., and Hamer, 2000). Zeithaml (2000) also finds the influences of service quality on profits. In service sector, provision of high quality services increases customer retention rates, helps attract new customers through word of mouth advertising, enhances productivity, lead to high market shares, lower staff turnover and operating costs, and improves employee morale, financial performance and profitability (Lewis, 1993; Julian and Ramaseshan, 1994; Llosa, Chandon et al., 1998). Bolton and Drew (1991) find a positive relationship between global service assessment (easy to do business with) and value in telephone services. Kerin (1992) reports the similar effect on value in a retail context. Maxwell (2001) finds the positive relationship between perceived quality and perceived value cross-culturally between U.S.A. and India. Wang, Lo et al. (2004) also finds that customer perceived service quality drives customer value and it influences behavior intention indirectly by affecting customer value and customer satisfaction in China's telecommunication industry. Zeithaml, Berry et al. (1996) finds a positive relationship between service quality and customers' behavioral intentions (loyalty to the company, propensity to switch, willingness to pay more, external and internal response to problem) in the service (computer, retail chain, insurance) sector. Pritchard and Howard (1997) also find that perceived differences in travel service performance have affected customer loyalty, from airlines, hotels, and recreation service. Furthermore, in several publications, service quality is known

as significantly related to such important parameters such as customer satisfaction, customer behavioral retention, and customer value (Zeithaml, Berry et al., 1996; Kim, 2005). Lee and Kwan (2005) also finds that service quality influences purchase intentions more than customer satisfaction.

Due to the importance of service quality performance, the author includes service quality performance as an important factor in determining the loyalty and value in this dissertation. The author adopts the definition of Patterson, Mandhachitara et al. (2001) on technical and functional performance, because their operational definition deals with the importance as to what and how the service is delivered to customers, especially in the service sector. Additionally, customer loyalty and perceived value depend on the assessment of their using service performance, especially for service high in experience properties such as airlines and hotels.

### **3.3 Brand Trust**

The growing of relationship marketing has heightened interest in the role of trust in fostering strong relationships. Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Morgan and Hunt, 1994). In the service marketing area, Berry (1983) states that “relationship marketing is attracting, maintaining and enhancing customer relationships”. Furthermore, Berry and Parasuraman (1991) conclude that “relationship marketing concerns attracting, developing, and retaining customer relationships”. Berry (1996) states that “the inherent nature of services, coupled with abundant mistrust in America, positions trust as perhaps the single most powerful relationship-marketing tool available to a company”. Spekman (1988) concludes that trust is the “cornerstone” of long-term relationships. In several conceptual (Gundlach and Murphy, 1993; Nooteboom, Berger, and Noorderhaven, 1997) and empirical studies (Tax, Brown, and Chandrashekar, 1998; Garbarino and Johnson, 1999), which poses trust as a key determinant of relational commitment. Urban, Sultan et al. (2000) explain customer trust as an essential element in building strong customer relationships and sustainable market share. Reichheld and Scheffer

(2000) also propose that “to gain the loyalty of customers, you must first gain their trust”.

Rotter (1967) refers to trust as the importance of confidence. Some literature on trust concludes that confidence on the part of the trusting party results from the firm belief that the trustworthy party is reliable and has high integrity, associated with being consistent, competent, honest fair, responsible, helpful, and benevolent (Rotter, 1967; Altman and Taylor, 1973; Larzelere and Huston, 1980; Dwyer and LaGace, 1986). Anderson and Narus (1990) define trust as the firm’s belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes. Moorman, Deshpande et al. (1993) define trust as a willingness to rely on exchange partner in whom one has confidence. Moreover, Morgan and Hunt (1994) define trust as existing when one party has confidence in an exchange partners’ reliability and integrity. Moorman, Deshpande et al. (1993) along with Doney and Cannon (1997) stress that trust reduces the uncertainty in an environment in which consumers feel especially vulnerable because they know they can rely on the trusted brand. At the same time, Doney and Cannon (1997) find that trust involves an inference regarding the benevolence of the firm to act in the best interests of the customer based on share goals and values. Additionally, Chaudhuri and Holbrook (2001; , 2002) examine the role of brand trust and brand affect on brand performance and outcomes. They define brand trust as the willingness of the average consumer to rely on the ability of the brand to perform its stated function. Sirdeshmukh, Singh et al. (2002) study relational exchanges of service providers and define consumer trust as the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises. Fredendall, Hopkins et al. (2005) study purchasing internal service performance and conclude that one important precursor variable of external cooperation (is a measure of a firm’s relationship with its suppliers) has been trust (Johnston, McCutcheon, Stuart, and Kerwood, 2004). Hence, they apply the definition of trust from Dyer and Chu (2000) as one party in a relationship being confident that the other party will not exploit its vulnerabilities. Moreover, Zineldin and Jonsson (2000) conceptualize that trust is the belief that another company’s actions will create positive outcomes for the firm. Ballester and Munuera (2005)

adopts the definition of Delgado, Munuera et al. (2003) that brand trust is the confident expectations of the brand's reliability and intentions and find the positive relationship between brand trust and brand loyalty, which in turn maintains the positive relationship with brand equity.

As mentioned earlier, trust is an important factor for relationship marketing, commitment, loyalty, and value. For example, the Morgan and Hunt (1994) study, finds that relationship commitment and trust are not only important variables in marketing relationships, as proposed by many researchers (Becker, 1960; Dwyer, Schurr, and Oh, 1987; Achrol, 1991), but also are key mediating variables in marketing relationships. Sirdeshmukh, Singh et al. (2002) study consumer trust, value, and loyalty in relational exchanges on two service sectors, which are retail clothing and non-business airline travel. They find that value completely mediates the effect of frontline employees' trust leading to loyalty in the retailing context. They also state that value partially mediates relationship between trust and loyalty in management policies and practices in the airlines context. They also propose that trust can create value by (1) providing relational benefits derived from interacting with a service provider that is operationally competent, benevolent toward the consumer, and committed to solving exchange problems and (2) reducing exchange uncertainty and helping the consumer from consistent and reliable expectations of the service provider in on-going relationships. Chaudhuri and Holbrook (2001) propose that brand trust induces brand loyalty or commitment because trust creates exchange relationships that are highly valued (Morgan and Hunt, 1994). Gundlach, Achrol et al. (1995) view commitment as essential to a long-term, successful relationship. Brand commitment reduces uncertainty and saves a customer the cost of seeking new relational exchanges with other brands (Aaker, 1991). It suggests that brand loyalty includes some degree of commitment toward the quality of a brand- i.e. that brand loyalty is a function of both positive attitude and repetitive brand purchases (Chaudhuri and Holbrook, 2002). Hence, loyalty or commitment underlies the ongoing process of continuing and maintaining a valued and important relationship that has been created by trust. Chaudhuri and Holbrook (2001) also finds that brand trust and brand affect directly relate to both purchase and attitudinal loyalty and indirectly relate to brand performance (market share and relative price). However,

they also point out in their 2002 study that brand trust and brand affect are positively related to brand commitment, but they are not significantly related to brand outcomes (i.e. market share and the advertising-to-sales ratio). Garbarino and Johnson (1999) find that trust has a direct effect on customers' intentions to stay involved as regular subscribers to a theatre group. Hence, Malewicki (2005) finds that service performance have a strong positive relationship with trust, which in turn affects retention.

In this dissertation, the author adopts the definition of Chaudhuri and Holbrook (2001) on brand trust as "the willingness of the average consumer to rely on the ability of the brand to perform its stated function". The reason is that in luxury hotels such as Four Seasons and Intercontinental, they emphasize the features of their brands that differentiate and create the value to their customers, which lead them to trust and become loyal to their service organization. Additionally, brand trust is also directly related to loyalty and value, which is an important path in this dissertation.

### **3.4 Brand Affect**

To retain customers and drive brand profitability, brand loyalty seems to be an important factor (Winters, 1991; Holbrook, 1992; Park and Srinivasan, 1994; Bello and Holbrook, 1995; Aaker, 1996). The reason is that brand-loyal consumers may be willing to pay more because they perceive a unique value in the brand that no alternative can provide (Pessemier, 1959; Jacoby, Chestnut et al., 1978; Reichheld, 1996). This uniqueness may derive from greater trust in the reliability of a brand or from more favorable affect when customers use the brand. Therefore, brand performance outcomes such as greater market share and a premium price may result from greater customer loyalty. This loyalty is created by trust in the brand and by feeling or affect elicited by the brand. To maintain brand relationships, the emotional determinants of brand loyalty or commitment need to be considered separately. Gundlach, Achrol et al. (1995) suggest that commitment is related to positive affect and this may prevent the exploration of other alternatives in the short run, steady customer benefits are likely to accrue from such affective bonding in the long run. They view affective attachment to be most beneficial in uncertain environments.

Dick and Basu (1994) propose that brand loyalty is greater under conditions of more positive emotional mood or affect. Hence, brands that make customers “happy” or “joyful” or “affectionate” should prompt greater purchase and attitudinal loyalty.

As mentioned above, brand affect is an important factor in driving brand loyalty. Chaudhuri and Holbrook (2001) define brand affect as “a brand’s potential to elicit a positive emotional response in the average consumer as a result of its use”. They also examine the effects of two general product-level, category-related control variables (hedonic and utilitarian value) on brand trust and brand affect. They find that hedonic value in the product category is significantly and positively related to brand affect, whereas utilitarian value of the product category is significantly but negatively related to brand affect. They also suggest that brand trust and brand affect are two separate constructs in driving brand loyalty. This outcome is consistent with much research (Tucker, 1964; Aaker, 1991; Dick and Basu, 1994; Assael, 1998; Garbarino and Johnson, 1999) that brand affect leads to loyalty. Improvement in product value (increased product benefits/lowering costs) does not necessarily result in an improvement in customer loyalty. Furthermore, Ringberg and Gupta (2003) conclude that brand trust and brand affect are crucial factors for brand loyalty. The definition of brand affect used in this dissertation follows Chaudhuri and Holbrook (2001) and also adopts the same pattern as brand trust that brand affect is a major determinant of loyalty and value.

### **3.5 Loyalty**

Building and maintaining customer loyalty lies at the heart of marketing. The investigation of brand loyalty continues to be a central issue in marketing management literature (Fournier, 1998; Dillon, Madden et al., 2001; Odin, Odin, and Vallett-Florence, 2001; Brown, Kozinets et al., 2003; McAlexander, Kim, and Roberts, 2003; Yi and Jeon, 2003; Stern and Hammond, 2004; Yi and La, 2004). The concept of brand loyalty is of strategic importance for companies in order to obtain a sustainable competitive advantage. Additionally, Reichheld (1996) states that loyalty is an important concept of marketing practitioners for many reasons. It reduces the need to incur customer acquisition costs especially on service markets, saves on

marketing costs due to positive word-of-mouth and less price sensitivity. Jacoby, Chestnut et al. (1978) describes the importance of loyalty as the success of a brand in the long term not based on the number of consumers who buy it once, but on the number of consumers who become regular buyers of the brand. Heskett, Sasser et al. (1997) state that one loyal consumer who returns and spreads positive word-of-mouth has a net present value of more than \$100,000 to a luxury hotel. In addition, loyal consumers are less likely to switch because of price and they make more purchases than non-loyal consumers. Reichheld and Sasser (1990) finds that a 5 percent increase in customer retention resulted in a 25 percent to 125 percent increase in profits in nine service industry groups. This is calculated using the concept of Customer Lifetime Value (CLV) which is defined as the net present value of the future profit flow over a customer's lifetime. Aaker and Keller (1990) also discusses the role of brand loyalty in the brand-equity process, noting specifically that brand loyalty leads to certain marketing advantages such as reduced marketing costs, more new customers, and greater trade leverage. Dick and Basu (1994) also suggest other marketing advantages from loyalty such as favorable word of mouth and greater resistance among loyal customers to competitive strategies. From the standpoint of a buyer, loyalty serves as a purchasing strategy that reduces risk inherent in using multiple vendors, reducing switching costs, and gains the customer access to new technologies faster than non-loyal customers (Chow and Holden, 1997).

### **3.5.1 Defining Loyalty**

Loyalty is widely accepted and measured in terms of both attitude and behavioral elements (Jacoby and Kyner, 1973; Jacoby, Chestnut et al., 1978; Dick and Basu, 1994). Traditionally, brand loyalty is defined by a behavioral measure (Tucker, 1964), which is the same measurement used in defining customer loyalty. These measures include proportion of purchase, probability of purchase (Massy, Montgomery et al., 1970), probability of product repurchase, purchase frequency (Brody and Cunningham, 1968), repeat purchase behavior, purchase sequence (Kahn, Kalwani et al., 1986), and multiple aspects of purchase behavior (Ehrenberg, 1988). However, Baldinger and Rubinson (1996) state that brand loyalty depends on brand

attitudes. The conceptualization and measurement of brand attitudes has been a key area of research in the marketing discipline (Keller, 1993). Attitudes represent overall evaluations of objects that tend to direct behaviors towards the object (Petty, Wegener, and Fabrigar, 1997). Consumers form an affective response to their ownership, use, and consumption of the brand that can be described as an attitude (Chaudhuri and Holbrook, 2002). Moreover, brand loyalty can identify as a complex mixture of attitudinal and behavioral elements (Jacoby and Kyner, 1973; Oliver, 1999). Oliver (1999) defines loyalty as a buyer's overall attachment or deep commitment to a product, service, brand, or organization. Hence, in the next three sections, the concept of the behavioral approach, the attitudinal approach, and a composite dimension of loyalty are reviewed.

### **3.5.2 Behavioral Loyalty**

As defined by Webster's dictionary, loyalty is a faithful, unswerving allegiance. Furthermore, Neal (2000) defines loyalty as a behavior which is consistent with Kumar, Ghosh et al. (1992), Mittal and A.Kamakura (2001), Balinger, Blair et al. (2002) and Bell, Deighton et al. (2002) that loyalty is a repeat buying. In marketing literature, the term loyalty has often been used interchangeably with its operational (measurement) definition referring to: repeat purchase, preference, commitment, retention, and allegiance (Bennett and Rundle-Thiele, 2002). Loyalty can be described in many ways such as Customer A expressing a preference for a company over the others by continuing purchase from it, or by increasing business with it in the future. The behavioral perspective has conceptualized brand loyalty in terms of repeat purchases (Cunningham, 1956; Kahn, Kalwani et al., 1986). Several models have been proposed in the literature in order to study brand loyalty from the behavioral perspective, the Dirichlet model being one of the most prominent (Uncles, Ehrenberg, and Hammond, 1995). These approaches model the consumers' faithful enactment consistently purchasing only brand more frequently than any. Furthermore, based on the behavioral perspective, loyalty is defined as a share of category requirements (Bhattacharya, 1997), implying that a percentage of purchases in a product category are devoted to the particular brand. Hence, share of category or

proportion of purchase is generally used as a behavioral loyalty measure (Bove and Johnson, 2002). Hellier, Geursen et al. (2003) define loyalty as the degree by which the customer has exhibited, over recent years, repeat purchase behavior of a particular company service, and the significance of that expenditure in terms of the customers' total outlay on that particular type of service.

The behavioral definitions alone are not adequate to explain how and why brand loyalty is developed and/or modified. Jacoby, Chestnut et al. (1978) criticizes behavioral measures as lacking a conceptual basis and capturing only the static outcome of a dynamic process. Many authors such as Guest (1944), Jacoby, Chestnut et al. (1978), Sciffman and Kanuk (1987), Dick and Basu (1994), Rundle-Thiele and Mackay (2001) and Gounaris and Stathakoulos (2004) insist that brand loyalty can not be reduced only to its behavioral dimension, which implies that loyalty concepts can not be measured by using behavior or tracking the purchase frequency of a specific brand via store scanning or panel data. Consequently, Oliver (1999, p.36) defines loyalty as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences or marketing efforts having the potential to cause switching behavior". This definition emphasizes two aspects of behavioral and attitudinal loyalty (Assael, 1998; Oliver, 1999; Chaudhuri and Holbrook, 2001). In addition, many researchers view brand loyalty in many ways, such as those of Javalgi and Moberg (1997) who define brand loyalty according to behavioral, attitudinal and choice perspectives. Gounaris and Stathakopoulos (2004) also propose that brand loyalty can be viewed from three different aspects, namely: the behavioral, the attitudinal and the reasoned action perspectives. Based on the literature mentioned above, brand loyalty is mostly defined as: behavioral and attitudinal loyalty.

### **3.5.3. Attitudinal Loyalty**

Many researchers have insisted that there must be "attitudinal commitment" for true consumer loyalty (Day, 1969; Ajzen and Fishbein, 1977; Jacoby, Chestnut et al., 1978; Bagozzi, 1981; Fishbein, 1981; Foxall and Goldsmith, 1994; Mellens, Dekimpe, and Steenkampe, 1996). Attitude has long been considered

to be a relevant predictor of future purchase (Verhallen and Pieters, 1984; Eagly and Chaiken, 1993; Kraus, 1995; Trafimow and Sheeran, 1998). The attitudes of customers to act in a loyal or disloyal way towards a brand can be referred to as attitudinal loyalty. This might involve a preference or an intention to actually buy a particular brand rather than alternatives. Day (1969) pays more attention to attitudinal aspects relating to loyalty and the degree of expressed preferences. Baldinger and Rubinson (1996) also find brand attitude to be a more certain predictor of brand loyalty than behavioral loyalty.

Jacoby and Kyner (1973) state the most notable conceptual definition of brand loyalty as: the biased (i.e., non-random), behavioral response (i.e., purchase), expressed over time, by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, and a function of psychological (decision making, evaluative) processes. Hence, brand loyalty reflects the essential and identifying characteristics of an attitude. To exhibit brand loyalty implies repeat purchasing behavior based on cognitive, affective, evaluative, and predisposition factors, which are classical primary components of an attitude. Jacoby and Chestnut et al. (1978) defines attitudinal loyalty as the consumer's predisposition towards a brand as a function of psychological processes. This includes attitudinal preference and commitment towards the brand. It can measure attitude toward the brand, or attitude towards the act of purchasing the brand. While behavioral loyalty is the observable outcome of attitudinal loyalty (e.g. market share and sales), without a knowledge and understanding of the attitude towards the act of buying the brand, it is difficult to design marketing programs to modify behavioral loyalty (increase brand switching or decrease switching from that brand). Bloemer and Kasper (1993) highlight the theoretical and managerial implications of using this attitudinal bond to the brand to distinguish between spurious (inertia) and true loyalty. Inertia repeat purchasing of a brand appears to be habitual behavior to reduce both mental (attribute comparison) and physical search efforts (store attendance). Spurious loyalty occurs when several brands are approximately equal and induces some buying habits that indeed remain stable because they require no change in the selling conditions. True brand loyalty is defined as "an effective buying behavior of a particular brand (and not only an intention to buy it), repeated over time (its buying proportion exceeding

50% of the purchase made within a product category) and reinforced with a strong commitment to that brand". Hence, spurious loyalty is defined as: the biased (i.e. non-random), behavioral response (i.e. purchase), expressed over time, by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, is a function of inertia (Jacoby and Chestnut et al., 1978, p.80-81).

Jones and Sasser (1995) explain that customer loyalty is the intention to repeat the purchase of some specific product or service in the future. Chaudhuri and Holbrook (2001) emphasize that brand loyalty is described by two different aspects: behavioral and attitudinal. Behavioral loyalty is defined as repeated purchases of the brand, whereas attitudinal brand loyalty consists of a degree of dispositional commitment in terms of some unique value associated with the brand. From an attitudinal perspective, brand loyalty is defined as the tendency to be loyal to a focal brand, which is demonstrated by the intention to buy the brand as a primary choice (Yoo and Donthu, 2001). While the definition of brand loyalty based on the behavioral perspectives insists on the consumer's actual loyalty to the brand as reflected in purchase choices, the definitions based on attitudinal perspective accentuated consumer intentions to be loyal to the brand (Pappu, Quester, and Cooksey, 2005).

#### **3.5.4 Composite Dimension of Loyalty**

In the marketing field, loyalty is defined as a composite blend of brand attitude and behavior, with indexes that measure the degree to which one favors and buys a brand repeatedly (Day, 1969; Pritchard and Howard, 1997). Day (1969) first suggests using a simultaneous consideration of loyal attitude and behavior to generate a composite index of the construct. He insists that the most effective way to view the behavioral aspect of loyalty was with a proportion of purchase measure that concentrated on a specific brand. He also explains that the consistency in a person's purchase behavior do not necessarily applying the customers being brand loyal. That behavior might be spuriously driven by price and not the steadfast allegiance (attitude) attributed to loyalty. Hence, brand attitude has to be assessed as well as brand behavior.

A conceptual model describes the attitudinal (cognitive, affective, and the conative) antecedents of customer loyalty as well as its behavioral consequences is developed by Dick and Basu (1994). The components of relative attitude are divided into three categories: cognitive, affective, and conative. Relative attitude is determined by attitudinal strength and attitudinal differentiation reflecting the degree to which the consumer's evaluation of one service dominates another service. The cross classification between relative attitudes (the cross-classification of attitudinal strength and attitudinal differentiation) and repeat purchase leads to four conditions of loyalty: true loyalty (high repeat purchase, high relative attitude), latent loyalty (low repeat purchase, high relative attitude), spurious loyalty (high repeat purchase, low relative attitude) and no loyalty (low repeat purchase, low relative attitude).

Engel, Blackwell et al. (1990) defining the classic definition of attitude by states that it is a mental and neural state of readiness to respond, which is organized through experience and exerts a direct/or dynamic influence on behavior. The majority of brand loyalty measures can be categorized as either behavioral or attitudinal (Mellens, Dekimpe et al., 1996). They define behavioral loyalty measures as the actual purchase observed over a period of time, whereas attitudinal loyalty measures are based on stated preferences, commitment or purchase intentions. Attitudinal and behavioral loyalty is interrelated. An increase in attitudinal loyalty led to an increase in behavioral loyalty (Gounaris and Stathakopoulos, 2004). Moreover, Wood (2004) states that a composite measure of loyalty is difficult to operationalize and concludes that brand attitude is one determinant of behavioral loyalty.

According to the above, the author adopts two aspects of loyalty: behavioral and attitudinal. The consistency in purchase behavior do not necessary imply that the customers are brand loyal. Brand attitude has to be assessed as well as brand behavior. Regarding attitudinal and behavioral loyalty, the author adopts the definition of Chaudhuri and Holbrook (2001), mentioned earlier. Customer retention can be achieved by attitudinal and behavioral loyalty. If both loyalty are founded, customers have little interest in competitive offering (Jacoby, Chestnut et al., 1978; Dick and Basu, 1994). Finally, the author applies the concepts of Jacoby and Kyner (1973), Bennett and Rundle (2002), and Wood (2004) that behavioral loyalty is followed by attitudinal loyalty.

### 3.6 Value

Customer value is very important in relationship marketing and is researched extensively in the 1970s and 1980s (Gutman, 1982). Customer value is used in the variety such as “creating and delivering customer value” (e.g. how companies can ‘added value’), customer perceived value (e.g. customer lifetime value). Woodruff (1997) suggests that customer value is increasingly seen as the new source of competitive advantage. Creating and delivering superior customer value is recognized as a key activity in the generation of competitive advantage and has become the focus of many researchers (Day, 1990). Wang, Hing et al. (2004) explains that customer value is a strategic weapon in attracting and retaining customers and has become one of the most significant factors in the success of both manufacturing businesses and service providers. Delivering superior customer value has become an ongoing concern in building and sustaining competitive advantage by driving customer relationship management (CRM) performance.

Rokeach (1973) describes value as deeply held and enduring beliefs whereas value implies, through the notion of preference, that it is the result of a trade-off (e.g. between benefits and sacrifices) and an interaction (e.g. between a customer and the product/service). Kotler, Bowen et al. (2003) defines customer delivered value or profit as the difference between total customer value and total customer cost of a marketing offer. Total customer value is the total of all the product, services, personnel, and image values that a buyer receives from a marketing offer. Total customer cost is the total of all the monetary, time, energy, and psychic costs associated with a marketing offer. Hence, the customer delivered value can be summarized as follows:

Total Customer Value	Product, service, personnel, and image values
Minus Total Customer Cost	Monetary, time, energy, and psychic costs
Equals Customer Delivered Value	Profit to the customer

Additionally, Lovelock, Patterson et al. (2001) notes that customers prefer to stay in a relationship when they perceive the sum of benefit exceeds cost. Value represents a trade-off between the give and get components. Loyal customers expect to pay a fair price, but still demand value from the relationship. Service firms that continually provide this perceived value stand a better chance of retaining their established customers, even in the face of intense competition and attractive alternatives. When a firm consistently delivers value, it can induce suppliers to create incremental profits. The reason is that it can sell new services under the same firm, which leads to reducing operating costs, increasing purchases and positive word-of-mouth advertising. Dowling and Uncles (1997) insist that the desired benefits to the firm pertain only to specific market segments, especially heavy users or high-net-worth customers. The "80/20 principle" states that typically 80% of revenue comes from 20% of customers (the frequent, heavy users).

Zeithaml (1988) develops four consumer definitions of value: (1) value is low price; (2) value is whatever I want in a product; (3) value is the quality I get for the price I pay; and (4) value is what I get for what I give. He also defines value as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Holbrook (1994) defines customer value as an interactive, realistic, preference experience. He also develops a typology of customer value that is based on a combination of three dimensions: extrinsic/intrinsic, self-oriented/other-oriented and active/reactive. Butz and Goodstein (1996) define customer value as the emotional bond established between a customer and a producer after the customer has used a salient product or service produced by that supplier and finds the product to have an added value. Woodruff (1997) defines customer-perceived value as a customer's perceived preference for and evaluation of those product

attributes, attribute performance, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations.

In Payne and Holt's (1998) paper, they describe three perspectives of value, which are creating and delivering customer value, the value of the customers (or customer lifetime value), and customer-perceived value. Lovelock, Patterson et al. (2001) define customer-perceived value as the sum of benefits received from choosing and staying with one service supplier minus the sum of costs (financial and non-financial). Customers are more likely to stay in a relationship when they perceive the sum of benefits (e.g. satisfaction with core service attributes, supplementary services and relationship benefits) exceeds the cost. Value therefore represents a tradeoff between the get and give components. When a firm consistently delivers value, the customer has a powerful incentive to stay in the relationship. Sirdeshmukh, Singh et al. (2002) define value as "the consumer's perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider". Relational benefits consist of the intrinsic and extrinsic utility provided by the ongoing relationship and associated costs include monetary and non-monetary sacrifices (such as time effort) that are needed to maintain the relationship (Houston and Gassenheimer, 1987; Zeithaml, 1988). Hellier, Geursen et al. (2003) defines perceived value as the customer's overall appraisal of the net worth of the service, based on the customer's assessment of what is received (benefits provided by the service), and what is given (costs or sacrifice in acquiring and utilizing the service). Wang, Hing et al. (2004) define customer value in terms of get (benefit) and give (sacrifice) components. They also point out that customer value is derived from the perception, preference, and evaluation of customers, and that any consideration of customer value should take account of these factors. In this dissertation, the author does not propose a positive relationship between perceived value and loyalty by followed Warrington's (2002) study on e-shopping that reports perceived value has no impact on loyalty. Moreover, Canning (2004) states that loyalty is difficult to define and he strongly believes that value is the key to the future profitability of a company. He, therefore, proposes value instead of loyalty as a major dependent variable. Gordon (2006) also concludes that value is the least determinant (compared to other

factors which include trust, perceived quality, satisfaction and membership program) of loyalty in upper-upscale hotels in the U.S.

According to the above, value is an important factor to increase profitability, due to the heavy users or high-net-worth customers, especially in the service firms that continually provide perceived value, to retain their established customers even in the face of intense competition and attractive alternatives from other suppliers. This dissertation concurs with the majority of researchers who define value in terms of benefit and cost. The author also adopts the definition from Zeithaml (1988) and Sirdeshmukh et al. (2002), who define value as the consumer's perception of the benefits minus the cost of maintaining an ongoing relationship.

### **3.7 Loyalty, Value and Consequences**

As mentioned before in this chapter, customer loyalty provides long-term profitability or performance outcomes. In this section, the author describes the definition of brand equity, brand loyalty, behavioral intentions and its outcomes that is necessary in this dissertation.

#### **3.7.1. Brand Equity, Loyalty, Behavioral Intention and its Outcomes**

Building brand equity is considered an important part of brand building (Keller, 1998). Brand equity leads to several advantages to a firm. For example, high brand equity levels causes higher consumer preferences and purchase intentions (Cobb-Walgren, Beal, and Donthu, 1995). Firms with high brand equity are known to have high stock returns (Aaker and Jacobson, 1994).

Brand equity is defined by the Marketing Science Institute as "the set of associations and behaviors on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name" (Leuthesser, 1988). Consistent with this perspective, brand equity outcomes are defined as the profit potential of a brand, as expressed through market share, price, and other outcomes at the market level. There are two aspects to brand equity. One is from the point of view of the firm, the other

from that of the customer. The firm/trade aspect of brand equity appears to be built around brand equity outcomes such as price and market share, whereas the customer-based brand equity appears to have attitude associated with its core (Keller, 1999).

Brand equity is the added value endowed by the brand to the product (Farquhar, 1989). Several researchers have provided the definitions of brand equity that are broadly consistent with Farquhar's (1989) definition of equity as the value added by the brand to the product (Srinivasan, 1979; Leuthesser, 1988; Aaker, 1991; Srivastava and Shocker, 1991; Keller, 1993; Yoo and Donthu, 2001). For example, Aaker (1991, p.15) defines brand equity as "a set of brand assets and liabilities linked to a brand, its name and symbol, that add or subtract from the value provided by a product or service to a firm and/or to that firm's customers". In effect, he proposes five assets of brand equity, which include brand awareness, brand associations, perceived quality, brand loyalty, and other proprietary assets. Yoo et al. (2000) defines brand equity as the difference in consumer choice between the focal branded product and an unbranded product given the same level of product features. Keller (2003, p.60) defines customer-based brand equity as "the differential effect that brand knowledge has on consumer response to the marketing of that brand". Due to Keller's (2003) definition, customer-based brand equity includes two dimensions, which are brand knowledge and brand image.

Srivastava and Shocker (1991) view customer-based brand equity into two components, which are brand strength and brand value. Brand strength constitutes the brand associations held by customers. Brand values are the gains that accrue when brand strength is leveraged to obtain superior current and future profits. Because the source of brand equity is customer perceptions, it is important for managers to be able to measure and track these at the customer level. As mentioned earlier, Aaker (1991) proposes five assets of brand equity, which are brand awareness, brand associations, brand loyalty, perceived quality and other proprietary brand assets. Aaker (1991, p.109) defines brand associations as "anything linked in memory to a brand" and brand image as "a set of brand associations, usually in some meaningful way". Furthermore, he states that brand loyalty can produce brand equity outcomes such as price premiums for a brand.

Chaudhuri and Holbrook (2001) conclude that price premiums and market share have been closely associated with the increasingly salient concept of brand equity (Winters, 1991; Holbrook, 1992; Park and Srinivasan, 1994; Bello and Holbrook, 1995; Aaker, 1996; Atilgan, Aksoy, and Akinci, 2005). These outcomes, which drive brand profitability, depend on various aspects of brand loyalty. Specifically, brand-loyal customers are willing to pay more for a brand because they perceive some unique value in it that no alternative can provide. Similarly, brand loyalty leads to greater market share when the same brand is repeatedly purchased by loyal customers, irrespective of situational constraints (Assael, 1998). Pappu, Quester et al. (2005) propose four dimensions of consumer-based brand equity, which include brand awareness (the strength of a brand's presence in the consumers' minds), brand association, perceived quality, and brand loyalty. They test a four-dimension model on two product categories (cars and televisions) with Australian customers and find that brand awareness and brand associations are only two distinct dimensions of brand equity. However, Atilgan, Aksoy et al. (2005) study the determinants of brand equity. They rely on Aaker's (1991) concept of five brand equity dimensions, which are brand awareness, brand loyalty, brand associations, perceived quality and other proprietary brand assets. They test this model on the beverage market in Turkey and find that brand loyalty is the most influential dimension of brand equity. Kim (2004) also measure customer-based brand equity on quick service restaurants. He proposes four dimensions of brand equity, which include brand loyalty, brand image, brand awareness, and perceived quality. The result shows that brand awareness has the strongest effect on the performance of restaurants, followed by brand image, perceived quality, and brand loyalty, respectively. Hence, brand image is the second most important effect on the performance of the service sector. Finally, Nandan (2005) concludes that brand identity and brand image are the crucial factors in developing strong brand loyalty.

Dick and Basu (1994) conceptualize the consequences of customer loyalty as: (1) search motivation (the motivation to search for information may be viewed of consumers' perceived benefits and costs of search activity); (2) resistance to counter-persuasion; and (3) word-of-mouth. Reichheld and Sasser (1990) and Reichheld (1993) also describe the consequences of enhanced customer loyalty in service firms

as increased revenue, reduced customer acquisition costs, and lower costs of serving repeat purchasers, leading to greater profitability. Chaudhuri (1999) describes two outcomes of brand loyalty. First, brand loyalty exists when customers are willing to pay more to receive some unique value in a brand that no other alternative can provide. It also requires less advertising frequency, resulting in lower costs of advertising and distribution. Secondly, brand loyalty leads to greater sales due to the repeat purchase of the same brand, irrespective of situational constraints. Furthermore, consumers use more of a brand because they identify with its image (Pessemier, 1959; Cunningham, 1967; Jacoby, Chestnut et al., 1978; Aaker, 1991; Assael, 1992; Upshaw, 1995). Price premiums have also recently been closely associated with the notions of brand loyalty and brand equity (Winters, 1991; Park and Srinivasan, 1994; Bello and Holbrook, 1995; Aaker, 1996). Furthermore, Gounaris and Stahakopoulos (2004) concentrate on Greek consumers' behavioral responses to brand loyalty, which include word-of-mouth communication, buying alternative brands, going to different points of sale (stores) and buying nothing. Fullerton (2005) also focuses on customer advocacy (positive word-of-mouth) as a very important consequence of the consumption experience (Moore, 2002; Reichheld, 2003). Retail service brands that create strong connections with the customer will be rewarded with strong positive word of mouth (Berry, 2000).

Zeithaml, Berry et al. (1996) states that the longevity of a customers' relationship favorably influences profitability. They also purchase more products and services along with the spread of favorable word-of-mouth. The firm can also charge a higher price because these customer values maintain the relationship. Consistently, customers can identify two types of behavioral intentions; favorable and unfavorable. Favorable behavioral intentions include (1) positive things about the company or services to others (Parasuraman, Zeithaml et al., 1988; Reichheld and Sasser, 1990; Parasuraman, Berry, and Zeithaml, 1991a), (2) paying a price premium to a company and (3) remain loyal to the company (Newman and Werbel, 1973; LaBarbera and Mazursky, 1983; Rust and Zahorik, 1993). Unfavorable behavioral intentions, on the other hand, deal with (1) complaining, (2) switching to another company, (3) complaining to external agencies, and (4) doing less business with a company (Richins, 1983; Scaglione, 1988). They also expand 13 items to measure behavioral

intentions from four dimensions (word-of-mouth communications, purchase intentions, price sensitivity, and complaining behavior) to five dimensions, which include loyalty to the company, propensity to switch, willingness to pay more, external response and internal response. They test four companies, which are a computer manufacturer, retail chain, automobile insurer and life insurer. The result indicates that behavioral intentions should be divided into two aspects: favorable and unfavorable. In addition, the result shows that loyalty to the company has the largest effect on behavioral intentions and that service quality has a positive effect on loyalty to the company from customers who are willing to pay more. Huang (2005) proposes three main dimensions of customer behavior intentions in services, which are based on Zeithaml, Berry et al.'s (1996) concept. Hence, the dimensions are word-of-mouth communications, purchase intentions, and price sensitivity.

According to the above, the consequences of brand equity, brand loyalty, or behavioral intentions includes many dimensions such as word-of-mouth, brand image, market share, price sensitivity, search motivation, resistance to change, which leads to the profitability. In this dissertation, the author uses only three consequences of loyalty, which are positive word-of-mouth, price sensitivity, and perceived brand image. The reason is that in the hospitality industry, market share is difficult to measure on the customer side or even share-of-wallet because the customer can use the service infrequently. In addition, positive word-of-mouth is the key success factor in purchases and uses more services. Price premiums and perceived brand image are also closely associated with brand loyalty and value.

### **3.7.2 Loyalty, Value, and Positive Word-of-Mouth**

Many researchers find that customer loyalty drives profitability. Loyalty and positive word of mouth are favorable behaviors that are most likely to occur when the customers are satisfied with the quality of the service they received. Customer loyalty is indicated by an intention to perform a diverse set of behaviors that signals a motivation to maintain relationship with the focal firm, including allocating a higher share of the category wallet to the specific service provider, engaging in positive word of mouth, and repeat purchasing (Zeithaml, Berry et al., 1996). Zeithaml (1988) also

defines value as the consumers' perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider. Sirdeshmukh, Singh et al. (2002) find that value partially mediates the effect of trust on loyalty judgments on the retailing context, which implies that value influences loyalty.

Bolton and Drew (1991) demonstrate that value is a significant determinant of consumers' behavior intentions to remain loyal to a telephone service by continuing the relationship and engaging in positive word-of-mouth. Additionally, Hartline and Jones (1996) is focused on the specific employee performance cues and their affect on consumer's perceived quality, value, and word-of-mouth intentions in their hotel experiences and finds that value has a large effect on word-of-mouth relative to quality. Kumar (2002) also concludes that brand loyal customers start building a relationship with the brand.

Ajzen and Fishbein (1980) explain that the single most expected behavioral outcome of loyalty is brand recommendation. Consumers become loyal as a result of the satisfaction they experience with their purchase. Word-of-mouth is a powerful marketing tool, particularly in a service environment where few tangible clues are available (Berry, 1999). Gounaris and Stathakopoulos (2004) conceptualize brand loyalty into three different aspects, which are the behavioral, the attitudinal, and the reasoned action perspectives and find that all types of loyalty are related to word-of-mouth communication.

According to the above, positive word-of-mouth is a major consequence of loyalty and value, especially in the service sector due to few tangible clues.

### **3.7.3 Loyalty, Value, and Price Insensitivity**

As mentioned earlier, price premiums have been closely associated with the notions of brand loyalty and brand equity. In the findings of Chaudhuri (1999), price premiums are one of brand equity outcomes (price premiums, market share, and shelf facings). The result indicates that knowledge of brand attitudes and habitual buying may not be enough to predict the pricing of brands and, thus, brand value placed by consumers. Brand attitudes and habits do not influence price directly, but

influence it indirectly through brand loyalty. He also finds that brand loyalty has a positive relationship with price premiums.

Hallberg (1995) notes that brand loyalty affects brand profitability because of the effect of loyalty on price, marketer can charge the brand. Brand loyal consumers are not as price sensitive as non-loyal in brand choice decision (Krishnamurthi and Raj, 1991). The relative price sensitivity of brand loyal consumers provides the marketer the possibility of extracting a price premium. A price premium generates additional revenues and may serve as a cue of better brand equity, which further enhances brand equity and consequently brand loyalty. Brand-loyal consumers may be willing to pay more for a brand because they perceive some unique value in the brand that no alternative can provide (Pessemier, 1959; Jacoby, Chestnut et al., 1978; Reichheld, 1996). Keller (1993) also notes that consumers with a strong, favorable brand attitude are more willing to pay a premium price for the brand. De Chernatony and McDonald (1998) propose that firms with more loyal customers can ask for a higher price premium and have the ability to command higher prices. Chaudhuri and Holbrook (2001) find that attitudinal loyalty can result in a higher relative price paid compared to competitors, which is consistent with Aaker (1991); Keller (1993) and De Chernatony and McDonald (1998) that attitudinal loyalty contributes more to price premiums than behavioral loyalty. Finally, Huang and Lin (2005) conceptualize word-of-mouth, price sensitivity, and purchase intentions as the multi-dimensional framework of customer behavioral intentions and supports the positive relationship between customer satisfaction and customer loyalty.

Price insensitivity or price premiums are also the important outcome of brand loyalty or brand equity. Therefore, the author includes price insensitivity as the consequence of brand loyalty and value.

#### **3.7.4 Loyalty, Value, and Perceived Brand Image**

Brand image conceptually consists of statements on the meaning or personality of the brand and association with the brand. Based on Biel (1992), brand image is a concept originated and owned by marketers and advertising specialists. The idea of a brand having an equity that exceeds its conventional asset value is a

notion that is developed by financial people. The image of a brand can be described as having three contributing sub-images: image of the provider/service or corporate image, the image of the user and the image of the product/service itself. Biel (1992, p.4) also notes that "brands are bought for who they are as well as what they are". Hence, the user component of brand image can be described in terms of imputed personality. Amine (1998) describes two major consequences of brand loyalty on consumers' attitudes and behavior, which are the consumers' confidence in the brand and positive word of mouth communication or brand support. The consumers' confidence in a brand allows them to maintain greatly their propensity to buy the habitually purchased brand and to resist brand switching even if the product becomes deficient for a while, less competitive or is a target of negative rumors. More loyal consumers are less tempted to run their backs on their habitual brands as a consequence of small price changes in favor of competitive brands or due to temporary alternation of the brand's image (Agrawal, 1996).

Park, Jaworski et al.(1986) propose that brand image management may focus on its functional or symbolic distinctive characteristics and should not only help establish this brand's position, and therefore, enhance its market performance, but maintain their image over time. Assael (1987) finds that purchasing or repurchasing in consumer behavior contexts is frequently based on symbolic rather utilitarian value. Biel (1992) suggests the use of a well-chosen "visual metaphor" can capture, through association, desirable values to be associated with a brand. The visual metaphor can provide a powerful set of symbols that are particularly important in service categories, where there is no tangible product per se. There are two goals that are normally involved in assessing brand image. The most frequent is revelation and understanding. The second goal is more action-oriented. It addresses the question of modification of the brand's image. Keller (1993, p.3) defines brand image as "perceptions about a brand as reflected by the brand associations held in consumer memory". Brand associations are the other informational nodes linked to the brand node in memory and contain the meaning of the brand for consumers. The favorability, strength and uniqueness of brand associations are the dimensions distinguishing brand knowledge that play an important role in determining the

differential response that makes up brand equity, especially in the high involvement decision making.

According to Boulding (1956) and Martineau's (1958) concept, researchers have frequently examined store image as a potentially valuable theoretical construct. For example, Hirschman (1981) concludes that when customers have a favorable store image, it leads them to increase their repeat store frequently. Zeithaml (1988) along with Rao and Monroe (1989) found that good-image stores attract more attraction, contacts, and visits from potential customers. Moreover, these stores provide greater consumer satisfaction and stimulate active and positive word-of-mouth. However, store image appears to have no relationship with loyalty to a specific brand.

Martin and Brown's (1990) paper on brand equity proposes five dimensions, which include perceived quality, perceived value, image, trustworthiness and commitment. However, Lassar, Mittal et al. (1995) limit the image dimension to social image dimension. They define social image as the consumer's perception of the esteem in which consumer's social group holds the brand. Based on Keller's (1991, 1993) concept, brand equity includes brand associations that consist of brand awareness, knowledge and image. Kumar (2002) also concludes that symbolic associations may play an important role in strengthening loyalty to a brand. Symbolism has an impact on loyalty related to products, which are consumed for sensory gratification such as perfume and beer. In categories which are highly 'experienced-related' like hotels or airlines services, symbolism can enable consumers to try the service. Kumar (2002) also suggests that a hotel or an airline can bring in appealing symbolism in its advertisements but the 'experience' will prove to be the final dimension which will trigger loyalty. An ideal approach for a brand will be to use the functional route to loyalty and then use appropriate symbolic communication to strengthen the loyalty over a period of time. In addition, loyal customers may use more of the brand due to the likeliness of the brand or identify with its image (Upshaw, 1995), which is consistent with Kim and Kim (2004) that brand image is an important factor in determining the performance of restaurant service. Hence, a new marketing program may be necessary to improve the strength, favorability and uniqueness of brand associations making up the brand image (Keller, 1998). Nandan

(2005) also claims that to enhance brand loyalty and create value to the customer, the concepts of brand identity and brand image are necessary. Mandhachitara (2003) proposes perceived brand image as a consequence of loyalty and the standardized estimate parameter is 0.52. In addition, Beck and Smith (2006) conclude that customer loyalty can result in increased public support, enhanced brand image, and the potential for greater support for budget requests. VanScoyoc (2000) also reports that perceived value has a positive impact on brand image in internet purchasing.

According to the above, the author adopts perceived brand image as another important outcome of brand loyalty and value.

### **3.8 Moderating Variables: Individualism and Collectivism, Business and Leisure**

In this dissertation, the author adopts the cultural related variable (individualism and collectivism) along with the situation specific variable (business and leisure travelers) as the moderating variables. Usunier (1996) notes that loyalty is a key concept in collectivist cultures and relationships are expected to endure. In a collectivist culture, people have a high loyalty to people with whom they deal regularly. Additionally, they have a strong cultural incentive to stay in relationships and maintain high levels of loyalty to service providers. Even though in several studies such as Mattila (1999) and Liu, Furrer, and Sudharshan (2001) the cultural related variable has an influence on behavioral intentions. Customers within a collectivist culture tend to have a greater intention to praise if they receive positive service quality. However, the situation specific variable is also the important moderating variable in this dissertation. For example, Aufreiter, Elzinga et al. (2003) conclude that for decades, the hospitality sector has separated customers into two segments, which are business travelers and leisure travelers. This is consistent with Aline (2002), who also notes that Four Seasons have classified their customers into the same two groups. Due to the importance of these variables, the authors include two moderating variables in this dissertation.

### 3.8.1 Individualism and Collectivism

The individualism-collectivism cultural syndrome (Triandis, 1996) seems to be the most significant cultural difference among cultures. Greenfield (2000) calls it the deep structure of cultural differences. While there is a myriad of cultural differences, the individualism-collectivism appears to be important both historically and cross-culturally. For example, Hofstede (1980) proposes that the clearest distinction between Western cultures (such as those of the USA, UK and Australia) and Eastern cultures (such as those of Thailand, China and Korea) is on the individualism/collectivism dimension.

Triandis (2001, p.908) adopts the idea of culture from Kluckhohn (1954) that "culture is to society what memory is to individuals". It consists of what has worked in the experience of a society that was worth transmitting to future generations. Language, time, and place are important in determining the difference between one and another culture (Triandis, 1994), since language is needed to transmit culture and it is desirable to have the same historical period and geography to do so efficiently. However, Sperber (1996) uses the analogy of an epidemic. An idea that is useful is adopted by more and more people and becomes an element of culture. Elements of culture are shared standard operating procedures, unstated assumptions, tools, norms, values, habits about sampling the environment, and the like. To understand culture, it is advisable to study the work of Hofstede (1980) who establish four dimensions of national culture, which are power distance, individualism, masculinity and uncertainty avoidance. In addition, Bond (1987) and Hofstede (1991) include a fifth dimension, which is long-term orientation.

At the root of difference between Western and Eastern cultures is a fundamental issue of human societies: the role of individual versus the role of the group. The vast majority of people in the world live in societies where the interest of the group prevails over that of the individual. These societies are referred to as collectivist. In the most collectivist societies the family within which the child grows up includes a number of people living in a small house, not only parents and their children, but also extended family members. When children grow up, they learn to think of themselves as part of a 'we' group (or in-group), a relationship which is not

voluntary but given by nurture. The 'we' group is the major source of one's identity, and the only protection one has against the hardships of life. Hence, one owes lifelong loyalty to one's in-group, and breaking this loyalty is one of the worst things a person can do. Between the person and the in-group a dependence relationship develops which is both practical and psychological.

In contrast, a minority of people in the world live in societies in which the interests of the individual prevail over the interests of the group. These societies are called individualist. In these, most children are born into families consisting of two parents although there is an increasing share of one-parent families. Other relatives might live elsewhere and are rarely seen (Hofstede, 1991). This is also called the nuclear family. Children from these families learn to think of themselves as 'I' (individualism). This 'I', their personal identity, is distinct from other people and these others are not classified according to their group membership but to individual characteristics. Education is to enable the child to live independently. The child is expected to leave the parental home as soon as they become an adult. A person in this type of society is not supposed to be dependent on a group (Hofstede, 1980). Hofstede (1980) also studies the individualism and collectivism dimension attached to work goals of IBM employees in 50 countries (3 regions: Latin America; The British West Indies; and Asia) and finds that nearly all wealthy countries (such as U.S.A., Canada, England) have a high score on individualism, whereas nearly poor countries (such as Panama, Venezuela, Guatemala, Thailand) receive a low score. Japan and India; however, receive the moderate score on individualism dimension (46 and 48 from the total of 100 score, respectively). He concludes that there is a strong relationship between a country's national wealth and the degree of individualism in its culture.

Many researchers have studied the effect of culture on customer behavior in a service quality context. For example, Malhotra, Ugaldo et al. (1994) propose that developing countries are high in power distance and collectivism, and place greater emphasis on human touch and personal contact than on reliability to assess the quality of the service. Winsted (1997) finds significant differences between the service quality dimensions in Japan and the United States. Reisinger and Turner (1999) find five dimensions that differ between Japanese tourists and Australian hosts are

courtesy and responsiveness, competence, interaction, idealism, and communication. Mattila (1999) concludes that customers with a Western background rely more on tangible cues than those from an Asian background and the hedonic dimension is more important for Westerners than for Asians. Strauss and Mang (1999) also find that cultural differences have a significant effect on service evaluation. Sultan and Simpson (2000) find that the relative importance of SERVQUAL dimensions differ significantly for reliability and tangibility, but not for responsiveness, or empathy. Bianchi (2001) proposes that the relationships between cultural differences and customer satisfaction with the service encounter are mediated by congruency in expectations and mutual understanding and moderated by intangibility and proximity.

Liu, Furrer et al. (2001) find that cultural factors influence the behavioral intentions. Customers with lower individualism or high uncertainty avoidance tend to have a higher intention to praise if they receive positive service quality. On the other hand, customers with higher individualism or lower uncertainty avoidance tend to complain if they receive poor service quality. But they do not tend to praise when they receive positive service quality. Patterson and Smith (2003) examine the relationship between switching barriers and customers retention. Three service types (travel agencies, medical services and hairdressers) are studied across two diverse cultures, which are Australia (Western, individualistic culture) and Thailand (Eastern, collectivist culture). The result shows that these switching costs appear to be a similar strong effect on propensity to remain with service supplier in Australia than in Thailand on two service industries (medical and travel services). The reason is that collectivist cultural norms propel one to maintain a relationship, unless it turns out to be a very unsatisfactory one (Patterson, Mandhachitara et al., 2001). Finally, Mattila and Patterson (2004) focus on cultural differences between East Asian (Thai, Malay) and American customers' evaluations of failed service encounters in the restaurant industry. They find that compensation seems to drive customers' fairness perceptions, especially for American consumers. Offering an explanation for the failure has a positive impact on customer perceptions regardless of the customer's cultural orientation.

According to the above, the author considers individualism and collectivism to be a moderating effect on the independent variables (service quality,

brand trust, brand affect) of loyalty and value. However, the author does not separate customers into an East and West dimension as have many researchers such as Mattila (1999) or Patterson and Smith (2001, 2003). The reason to support this concept is that some societies, such as those in Japan, China, and India can not be considered pure collectivist societies, as individuals hold both individualist and collectivist attitudes (Ho and Chiu, 1994; Schwartz, 1994; Sinha and Tripathi, 1994; Yamagushi, 1994). These countries are neither predominantly individualist nor predominantly collectivist because they incorporate both cultural features. Additionally, Mishra (1994) studies the changes in individualist-collectivist orientation across generations and does not find a high degree of either individualism or collectivism. He also finds that younger urban and more educated participants tended to be less collectivist, which is consistent with Hofstede's (1980) concept that education causes the children to live independently, which is characteristic of a high individualistic culture.

### **3.8.2 Business and Leisure**

Aufreiter, Elzinga et al. (2003) classify the hospitality sector into two segments, which are service-oriented business travelers and price-driven leisure travelers. However, Brown (2004) concludes that hotels get nearly half of the revenue from small segment of travelers, namely frequent travelers. He classifies customers into three segments according to how many nights they stay in a hotel each year: frequent travelers, who spend more than 23 nights a year; moderate travelers, who spend about 6-22 nights a year; and light travelers, who spend about 1-5 nights a year. He also concludes that frequent travelers (about 10 percent of the total customers) have a share of 44 percent of hotel nights. Hence, in the early of 1980s, hotel chains begin to recognize the value of customers by introducing loyalty programs as did many airlines. Lovell (2005) proposes that business travel agents no longer classify travel as business and leisure, but as 'managed' and 'unmanaged' travel. However, Aline (2002) notes that Four Seasons, which is a luxury hotel brand that includes 55 hotels and resorts in 25 countries, still considers their guests as business and leisure customers. Additionally, this hotel can count 67 percent for business and 33 percent for leisure and the room rate of this hotel is higher than any

other luxury hotel in the same cities. The room rate at Four Seasons represents genuine value of money, which implies that the customers believe that the benefits they receive are greater than the cost. Additionally, Upton (2002) finds that the six Continents has the largest number of luxury hotels of the big four hotel chains with more than 3,200 properties in 100 countries divided into five brands, which are Inter Continental, Crowne Plaza, Holiday Inn, Express by Holiday Inn and Staybridge Suites. This hotel chain still categorizes guests as either business or leisure customers.

Watkins (2003) focuses on how business and leisure travelers choose a hotel. He concludes that business travelers tend to prefer mid price range hotels for 41 percent of their trips, whereas leisure travelers choose economy hotels for 47 percent of their trips. Additionally, price is the most important selection criterion for business, whereas amenities (such as room decoration, mini-bar, shuttle bus to and from the airport) are the most critical factors for leisure travelers. Chain loyalty programs are nearly three times more important to business travelers than leisure travelers. Business travelers value airline miles and retail points equally as redemption options for frequent guest programs. Suzuki (2004) studies the effects of service failure experiences of business and leisure travelers by type of service failures (seat denials, flight delays and baggage mishandling). The reason to separate travelers' reactions to service failures may be different depending on the trip purpose. The service failure experiences may have stronger impacts on choices when the trip purpose is business than leisure because leisure travelers may choose airlines on the basis of airfares only, whereas the business travelers may not be willing to sacrifice service qualities for airlines. However, the result shows that service failure experiences may have minimal effects on their future airline choice decisions (for both business and leisure travelers). Aufreiter, Elzinga et al. (2003) report that chain hotels (such as Westin and Four Seasons) have emphasized features that are both important to consumers and differentiated from their competitors. These features are called brand drivers. For example, Westin Hotels & Resorts offer serenity and efficiency for business travelers with its "Heavenly Beds", whereas the Four Seasons relies on personal touches such as higher-powered employees who understand the needs of business travelers.

According to the above, the author adopts business and leisure customers as another moderating variable on service quality, brand trust and brand affect to loyalty and value. The reason is that all luxury hotels still categorize their guests into business and leisure customers. Additionally, most of luxury hotels try to differentiate between each other by creating brand and value for their customers, especially those on business. Service quality should also be different for business and leisure guests due to their trip purposes, which is consistent with Suzuki's (2004) concept.

### 3.9 Summary

This chapter has provided a theoretical and empirical review of service quality, brand trust, brand affect influencing loyalty and value. Additionally, customer retention is also available in this dissertation. Customer retention and profitability includes positive word-of-mouth, price insensitivity and perceived brand image. The moderating variable includes two variables, which are individualism and collectivism along with business and leisure customers.

This chapter starts with a review of service quality because it is the consumer's overall impression of relative inferiority/superiority of the organization (Bitner and Hubbert, 1994). Parasuraman, Zeithaml et al. (1985) propose the differences between perceived performance and expected performance to determine overall perceived service quality and develop SERVQUAL to measure five dimensions (tangibles, reliability, responsiveness, assurance and empathy) of service quality. However, Cronin and Taylor (1992) develop an alternative measurement tool, SERVPERF, which emphasizes only performance. Gronroos (1990) concentrates on technical and functional performance to determine perceived service quality, especially in the service sector. Functional performance is equivalent to the SERVQUAL dimensions of assurance, empathy and responsiveness, whereas technical performance equates to the reliability dimension (Parasuraman, Zeithaml et al., 1988; Patterson, Mandhachitara et al., 2001).

Brand trust and brand affect are the important variables in determining relationship marketing, commitment, loyalty and value. In many studies such as

Garbarino and Johnson (1999) and Chaudhuri and Holbrook (2001) brand trust has a direct affect on attitudinal and behavioral loyalty along with customers' retention. Chaudhuri and Holbrook (2001) also suggest that brand trust and brand affect are two separate constructs in driving brand loyalty.

Loyalty is the important concept in this dissertation because it is of strategic importance for organizations to obtain a sustainable competitive advantage and leads to customer retention and provides long-term profitability. Additionally, loyal customers spread positive word-of mouth and are less price sensitive ((Heskett, Jones, Loveman, Sasser, and Schlesinger, 1994). In this dissertation, both attitudinal and behavioral loyalty is measured (Jacoby and Kyner, 1973; Jacoby, Chestnut et al., 1978; Dick and Basu, 1994), even though brand loyalty is traditionally defined as a behavioral measure. However, many researchers such as Jacoby, Chestnut et al. (1978), Dick and Basu (1994), and Gounaris and Stathakoulos (2004) insist that loyalty can not be measured only in terms of a behavioral dimension.

Customer value is another important concept in relationship marketing. Customer delivered value or profit is defined as the difference between the total customer value and total customer cost (Kotler, Bowen et al., 2003). Wang, Hing et al. (2004) point out that customer value is derived from the perception, preference, and evaluation of customers.

Price premiums and market share are closely associated with brand equity and brand loyalty (Winters, 1991; Holbrook, 1992; Bello and Holbrook, 1995; Aaker, 1996). Brand-loyal customers are willing to pay more because they receive some unique value in that brand that no alternative brand can provide. However, the market share is always related to the supplier concept more than customer-based brand equity. Additionally, Dick and Basu (1994) propose the consequences of customer loyalty as search motivation, resistance to counter-persuasion and word-of-mouth. Fullerton (2005) also focuses on positive word-of-mouth as the important consequences of the consumption experience. As mentioned earlier, the members of hotel industry try to build brands and create features to differentiate themselves from their competitors. Hence, brand image is another important consequence on brand equity, especially in the high involvement decision making (Keller, 1993). Kumar (2002) also concludes that experience services like hotel service or airlines service,

symbolism can enable customers to try their service. In this dissertation, the consequences of loyalty and value include three constructs, which are positive word-of-mouth, price insensitivity and perceived brand image.

Finally, the individualism/collectivism cultural dimension along with business and leisure are the moderating variables in this dissertation. Many researchers such as Malhotra, Ugaldo et al. (1994), Winsted (1997), Mattila (1999) and Liu and Furrer et al. (2001) found that customers from collectivist cultures tend to have higher loyalty and intent to praise if they receive positive service quality. The hotel chains also lead to separate their customers into two segments, which are business and leisure. Furthermore, they try to induce the frequent guests (business type) to enjoy better expense and more frequently use the service with the organization because this type of customer is less price sensitive compared to leisure guests (Suzuki, 2004).