

Chapter 4

Research Objectives and Hypotheses

4.1 Introduction

The objectives of this chapter are to develop a conceptual framework and a set of hypotheses based on the theoretical foundations and some of their empirical findings presented in the previous chapter. This chapter is divided into four sections. The first section briefly reviews the relevant constructs and their relationships. The second section deals with the research questions. The previous chapter reviews the relationships between the antecedents (service quality along with brand trust and brand affect) with loyalty and value. Additionally, it explains the relationship between loyalty and value along with its consequences (price insensitivity, positive word-of-mouth and perceived brand image). Moderating variables (collectivism/individualism and business/leisure) are also included in the relationship between the antecedents and loyalty and value. The third section describes the conceptual model derived from the review of literature. Finally, a set of hypotheses is presented.

4.2 The Relationships between Service Quality, Brand Trust, Brand Affect, and Loyalty and Value along with its Consequences, and the Moderating Effects of Collectivism/Individualism and Business/Leisure

Delivering quality service is an essential strategy for success and survival in today's competitive service sector (Parasuraman, Zeithaml et al., 1985; Dawkins and Reichheld, 1990; Reichheld and Sasser, 1990; Zeithaml, Parasuraman et al., 1990). Additionally, the impact of service quality to profit is provided in several studies (Greising, 1994; Rust and Keiningham, 1995) but the relationship of these variables is neither simple nor straightforward. In several studies such as Buzzell and Gale (1987), Gale (1992), Zeithaml, Berry et al. (1996) and Zeithaml (2000), the service quality is an important factor to accumulate profitability such as market share

and price premium. Furthermore, the increasing number of competitors leads marketers and managers to attend to customer retention and the how and why of the customer to repurchase or return. Customer loyalty is an important aspect to retain and defend market share (Winters, 1991; Holbrook, 1992; Park and Srinivasan, 1994; Aaker, 1996). The findings of Jarvis and Mayo (1986), Pritchard and Howard (1997), Pritchard and Havitz (1999), Kim (2005) and Lee and Huang (2005), show a relationship between service quality and loyalty in the service sector.

Zeithaml (1988) defined value as the customer's overall assessment of the utility of a product based on perceptions of what is delivered and what is given. Several researchers such as Bolton and Drew (1990), Kerin (1992) and Maxwell (2001) found a positive relationship between service quality and perceived value in the service sector. However, Kasper, Jr. et al. (1999) found that the impact and strength of the different service characteristics (such as credence and experience properties, customized and standardized services, etc.) may vary by service type and by circumstance. As mentioned before, Thailand is not only a "loosely structured" but also a collectivist culture; therefore, the strength of the indigenous culture unmediated by imposition of a colonial culture together with the peculiar and the contradictory looseness of Thai society, may explain the originally unanticipated pattern of service relationships and service providers (Patterson, Mandhachitara et al., 2001). Hence, the impact of service quality on loyalty and perceived value in luxury hotels in Thailand has received less attention. Bennett and Rundle (2002) also find a relationship between attitudinal and behavioral loyalty in the telephone directory advertising market. However, in the marketing literature, there are a few studies on finding the impact of customer value on favorable behavior intentions (Chang and Wildt, 1994; Gale, 1994; Cronin, Brady, and Hult, 2000).

The role of trust is known to stimulate the relationship between the customers and their service providers. The literature widely focuses on the consequences of perceived trust for outcomes such as loyalty and cooperation, which is consistent with several conceptual (Gundlach and Murphy, 1993; Nooteboom, Berger et al., 1997) and empirical studies (Tax, Brown et al., 1998; Garbarino and Johnson, 1999) showing that trust is a key indicator of relational commitment. Sirdeshmukh, Singh et al. (2002) find that value partially mediates the effect of trust

on loyalty, which implies that the direct effect of trust on loyalty is minimal but that value is completely affected by trust. Furthermore, brand trust and brand affect have an impact on attitudinal and behavioral loyalty, which leads to brand performance or outcomes such as market share and relative price of products (Chaudhuri and Holbrook, 2001, 2002). However, they do not extend the findings to luxury or service products.

Situation-specific variables (business and leisure) also moderate effects on service quality, brand trust, brand affects on loyalty and value. Luxury hotels such as Four Seasons and Six Continents, categorize their guests as either business or leisure customers (Aline, 2002; Upton, 2002). The reason is that the rate of luxury hotels is quite high and they deliver perceived value for money to their customers along with an emphasis on brand drivers. Aline (2002) also concludes that business customers are more concerned with service and value than leisure customers.

There are several studies on the effect of collectivism and individualism on customer behavior in a service quality context. However, most of the studies follow Hofstede's (1980) concept that the wealthy western countries represent individualism, whereas poorer eastern countries represent collectivism, such as Malholtra, Ugaldó et al. (1994), Winsted (1997), Mattila (1999), Reisinger and Turner (1999), Liu, Furrer et al. (2001), Patterson and Smith (2001, 2003) and Mattila and Patterson (2004). This dissertation however, follows the concept that people, especially those who are members of Asian societies, hold both individualist and collectivist attitudes due to younger urban and educated people along with advances in information technology and communication which results in them having a higher level of individualism. Relationship building and maintenance is one of the cornerstones of Thai society. To quote Holmes and Tantongtavy (1995, p.18): "Quality of product is important. Price is very important. But most important of all (...), a Thai wants to know if you are his/her kind of person. If he/she feels comfortable with you then he/she will be inclined to do business with you". Gwinner, Grensler et al. (1998) also suggested that social benefit (i.e. being recognized as a regular customer and being treated as a family member) as well as special treatment benefits, might act as powerful motives for initiating and staying in long-term service relationships. The maintenance of warm personal relationships and personal service

induce values of empathy, performance, success and competition, especially in Asian societies (Patterson and Smith, 2001). Therefore, the individualist and collectivist cultures are the key moderating effects between antecedents and loyalty and perceived value in this dissertation.

4.3 Research Questions

(a) To what extent does the service quality (functional and technical performance) impact on loyalty (attitudinal and behavioral) and perceived value?

(b) To what extent do brand trust and brand affect impact on loyalty (attitudinal and behavioral) and perceived value?

(c) Do loyalty and perceived value mediate the relationship between service quality (functional and technical performance) and brand trust and brand affect on brand performance or consequences (positive word-of-mouth, price insensitivity and perceived brand image)?

(d) Do the moderating variables (collectivism/individualism and business/leisure) strengthen or weaken the relationship between the service quality (functional and technical performances) and brand trust and brand affect on loyalty (attitudinal and behavioral) and perceived value?

The objective of this dissertation is to examine the impact of service quality (functional and technical performances) and brand trust and brand affect on brand performance or consequences (positive word-of-mouth, price insensitivity and perceived brand image) through the mediating effects of loyalty constructs (attitudinal and behavioral) and perceived value. Cultural related variable (collectivism and individualism) along with situation specific variables (business and leisure) are the moderating effects in this dissertation.

4.4 Conceptual Model

The proposed conceptual model of this dissertation is to examine the chain effects of determinants of loyalty constructs and perceived value to indicators of brand performance or consequences. Customer loyalty and perceived value play an

important role in linking the determinants to positive word-of-mouth, price insensitivity and perceived brand image. Moreover, the moderating effects of cultural related variable and situation specific variable are also examined.

Building and maintaining loyalty is a primary preoccupation of academic researchers and marketing practitioners. Loyalty can reduce switching costs, enhance price sensitivity, which lead to long-term firm profitability. Customer value is also an important determinant to retain customers and enhance company profitability. Hence, customer loyalty and value are the main important constructs in this dissertation. In the service sector, the positive relationship between service quality and loyalty is widely investigated. However, only few studies are concentrated in luxury hotels in Southeast-Asia context. In this dissertation, the positive relationship between service quality and loyalty is proposed. Additionally, with reference to Maxwell's (2001) study, the proposed positive relationship between service quality and value is investigated in this dissertation.

The positive relationships between brand trust, brand affect and loyalty and value are also investigated in this dissertation by extension the study of Chaudhuri and Holbrook (2001, 2002) along with Sirdeshmukh, Singh, and Sabol (2002). Hence, there are four positive relationships between the antecedents and loyalty and value in this dissertation which are 1) service quality and loyalty (attitudinal and behavioral loyalty), 2) service quality and value, 3) brand trust, brand affect and loyalty (attitudinal and behavioral loyalty) and 4) brand trust, brand affect and value.

On the mediating variables, the author proposes the positive relationship between attitudinal loyalty and behavioral loyalty, In contrast, the author does not propose the positive relationship between value and loyalty according to Gordon (2006) and Warrington' (2002) findings.

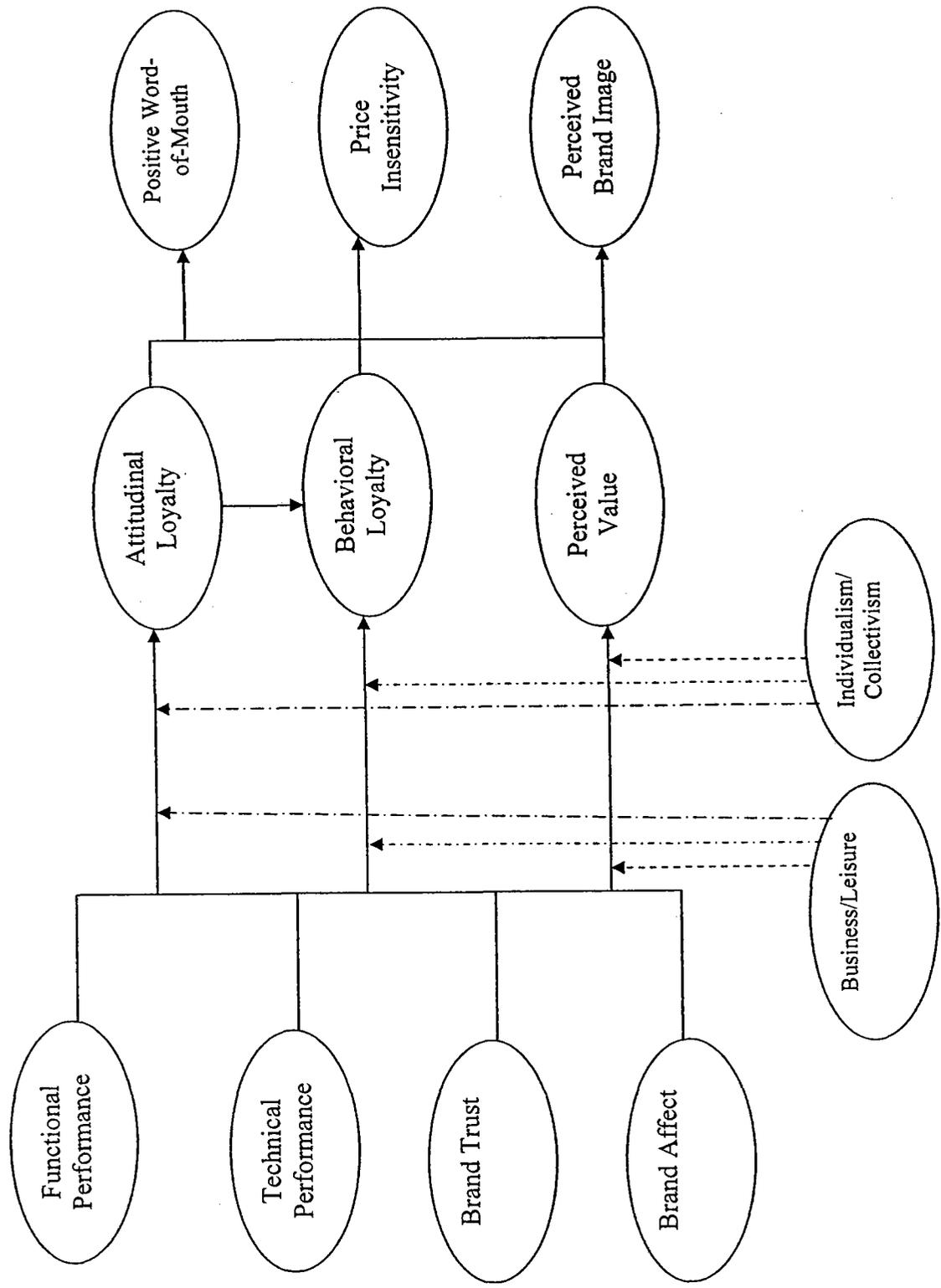
In this dissertation, there are three consequences of loyalty and value, which include positive-word-of-mouth, price insensitivity and perceived brand image. Positive word-of-mouth is a powerful marketing tool especially in the service sector (Bolton and Drew, 1991; Zeithaml and Bitner, 1996; Gounaris and Stathakopoulos, 2004). Hence, the positive relationships between loyalty, value and positive word-of-mouth are proposed in this dissertation. The positive relationships are also proposed

between loyalty, value and price insensitivity, which is supported by Chaudhuri (1999) and Chaudhuri and Holbrook (2001). The positive relationships between loyalty, value to perceived brand image are also proposed in this dissertation. These relationships are supported by several articles and findings such as Mandhachitara (2003) and Beck and Smith (2006).

The author adopts two moderating effects to investigate the relationship between the antecedents and the mediating variables, which are cultural related variables (individualism and collectivism) and situation specific variables. Individualism and collectivism is regarded as the most significant cultural dimension (Triandis, 1995). The effect of different culture on customer behavior in service quality context is widely investigated in several studies (Malhotra, Ugaldó et al., 1994; Winsted, 1997; Mattila, 1999; Liu, Furrer et al., 2001; Patterson and Smith, 2003). However, the moderating effects of these antecedents and the mediating variables are rarely investigated in luxury hotels in Southeast-Asia environment. Most of luxury hotels classify customers into business and leisure (Aline, 2002; Upton, 2002; Aufreiter, Elzinga et al., 2003; Brown, 2004). Therefore, the situation-specific variable in this dissertation deals with the purpose of the trip, which are either business- or leisure-related (Aufreiter, Elzinga et al., 2003 and Suzuki, 2004).

Figure 4.1 demonstrates the conceptual model along with all hypothesized relationships.

Figure 4.1: Theoretical Model



4.5 Hypotheses

This section provides the set of hypotheses for testing the determinants of two aspects of brand loyalty (attitudinal and behavioral) and perceived value. Additionally, it presents the hypotheses for testing the influence of brand loyalty and perceived value to its brand performance or consequences (positive word-of-mouth, price insensitivity, and perceived brand image). The moderating effects of collectivism/individualism and business/leisure are also examined in this section.

4.5.1 Hypothesized Relationships between Service Quality (Functional and Technical) and Loyalty (Attitudinal and Behavioral) and Perceived Value

Service quality related to profitability and customer retention is suggested in several studies (Phillips, Chang et al., 1983; Buzzell and Gale, 1987; Gale, 1992; Zeithaml, Berry et al., 1996). Additionally, the positive relationship between service quality and behavioral intentions is examined in several studies (Parasuraman, Zeithaml et al., 1988; Parasuraman, Berry et al., 1991a; Zeithaml, Berry et al., 1996), whereas favorable behavioral intentions include positive things about the company to others, recommending the company or service to others, paying a price premium to a company and remaining loyal to the company. Loyalty is manifested in many ways such as expressing a preference for a particular company instead of others, increasing business in the future and continuing purchase. Zeithaml, Berry et al. (1996) studied four industries (computer manufacturing, retail chain, automobile insurer and life insurer) and found a strong relationship between service quality and favorable behavioral intentions. This is consistent with Pritchard and Howard's (1997) findings that perceived differences in functional performance (especially empathy) affected customer's loyalty more than technical performance. In contrast, Patterson, Mandhachitara et al. (2001) found that technical performance is more important in shaping satisfaction evaluations than functional performance in four service sectors (medical, auto servicing, hairdressing, and retail banking) in Thailand. Wang, Lo et al. (2004) examined the telecommunications industry in China and found that

perceived service quality has an influence on behavior intentions indirectly by affecting customer value and customer satisfaction. However, Hellier, Geursen et al. (2003) studied a car insurance company and found that perceived service quality has a strong direct positive effect on perceived value of the service, whereas perceived service quality had no effect on customer satisfaction. Lee and Hwan (2005) analyzed the relationships among service quality, customer satisfaction, and profitability in the Taiwanese banking industry and found that service quality has a stronger positive impact on purchase intentions than on customer satisfaction, which implies that loyalty to the bank increases with customer purchase intentions, influencing business activity growth and profitability.

In credence or experienced properties in the service industry, the distinction between technical and functional performance is drawn (Gronroos, 1995). Technical performance refers to delivery of the core service (what the customer is buying), while functional performance is the customer's perception of the service delivery process (how the service 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 with the reliability dimension (Parasuraman, Zeithaml et al., 1988; Patterson and Smith, 2001). Additionally, loyalty in this dissertation includes two perspectives, which are attitudinal and behavioral (Dick and Basu, 1994; Assael, 1998; Oliver, 1999; Chaudhuri and Holbrook, 2001).

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 1A: Functional performance is *positively* related to attitudinal loyalty.

Hypothesis 1B: Technical performance is *positively* related to attitudinal loyalty.

Hypothesis 2A: Functional performance is *positively* related to behavioral loyalty.

Hypothesis 2B: Technical performance is *positively* related to behavioral loyalty.

Hypothesis 3A: Functional performance is *positively* related to perceived value.

Hypothesis 3B: Technical performance is *positively* related to perceived value.

4.5.2 Hypothesized Relationships between Brand Trust, Brand Affect and Loyalty (Attitudinal and Behavioral) and Perceived Value

Chaudhuri and Holbrook (2001) examined purchase and attitudinal loyalty as linking variables in the chain of effects from brand trust and brand affect to brand performance (market share and relative price) by using the data set of 107 brands. They found that brand trust and brand affect are both indirectly related to market share and relative prices through the constructs of purchase loyalty and attitudinal loyalty. The standardized beta coefficients of brand trust to purchase loyalty and attitudinal loyalty are 0.46 and 0.33, respectively. Furthermore, the standardized beta coefficients of brand affect to purchase loyalty and attitudinal loyalty are 0.25 and 0.30, respectively. From their findings, brand trust has a stronger effect on purchase loyalty and attitudinal loyalty than brand affect. In 2002, Chaudhuri and Holbrook examined the brand commitment (an average consumer's long term, behavioral and attitudinal disposition toward a relational brand) as linking variable in the chain of effects from brand trust and brand affect to brand outcomes (market share and advertising-to-sales ratio) by using the data set of 137 brands. The result shows that the standardized beta coefficients of brand trust and brand affect to brand commitment are 0.28 and 0.46, respectively, which implies that brand affect has a stronger effect on brand commitment than brand trust. From these two findings of Chaudhuri and Holbrook, the results confirm that the effects of brand trust and brand affect are positively related to the constructs of loyalty and commitment, even though the magnitude effects of brand trust and brand affect to loyalty and commitment are inconsistency.

Morgan and Hunt (1994) conclude that commitment and trust are the key variables to mediate successful relationship marketing for automobile tire retailers. They also find a positive relationship between shared values and trust and relationship

commitment, for which both of the standardized beta coefficients are 0.19. Butz and Goodstein (1996, p.63) defined 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 found the product to provide an added value”. In addition, the results of Sirdeshmukh, Singh et al. (2002) support that value completely mediates the effect of employee trust on loyalty in the retailing context and partially mediates the effect of management policies and practices trust on loyalty in the airlines context. Wang, Lo et al. (2004) find that the influences of brand loyalty, customer satisfaction, and functional value have positive effects on customer behavior based CRM performance and that customer value determines the purchasing and word-of-mouth in securities firms in China. They propose that in the modern customer-centered era, customer value is a strategic weapon in attracting and retaining customers.

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 4A: Brand trust is *positively* related to attitudinal loyalty.

Hypothesis 4B: Brand affect is *positively* related to attitudinal loyalty.

Hypothesis 5A: Brand trust is *positively* related to behavioral loyalty.

Hypothesis 5B: Brand affect is *positively* related to behavioral loyalty.

Hypothesis 6A: Brand trust is *positively* related to perceived value.

Hypothesis 6B: Brand affect is *positively* related to perceived value.

4.5.3 Hypothesized Relationship between Attitudinal Loyalty and Behavioral Loyalty

In brand loyalty literature, (Day, 1969; Jacoby, 1971; Jacoby and Kyner, 1973; Jacoby, Chestnut et al., 1978; Dick and Basu, 1994; Chaudhuri and Holbrook, 2001; Balinger, Blair et al., 2002) confirm that both favorable brand attitudes and habitual buying behavior are determinants of brand loyalty. However, there is a controversial issue about the direction of attitudinal and behavioral loyalty [such as in the studies of Fishbein and Ajzen (1975); Ajzen and Fishbein (1980); Ajzen (1985)], who confirm that attitudes lead to intentions and behaviors. Balinger and Rubinson

(1996), in contrast, find that behavior leads to attitudinal loyalty. Bennett and Rundle (2002) also find a relationship between attitudinal and behavioral loyalty in the telephone directory advertising market, which is consistent with the findings of Pritchard, Howard et al. (1992) that behavior is strongly related to the attitudinal dimension. Rundle-Thiele and Mackay (2001, p.532) concluded that “an increase in attitudinal loyalty should result in an increase in behavioral loyalty. An increase in attitudinal loyalty would suggest that behavioral loyalty should increase in the next measurement period for a practitioner tracking both attitudinal loyalty and behavioral loyalty. On the other hand, customers who increasingly use a brand are more behaviorally loyal, are more attitudinally loyal to the brand”. They also suggested that it is more useful for marketing practitioners to monitor attitudinal loyalty rather than behavioral loyalty, especially in the service sector. Due to earlier evidence, it can be concluded that there is a relationship between attitudinal and behavioral loyalty.

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 7: Attitudinal loyalty is *positively* related to behavioral loyalty.

4.5.4 Hypothesized Relationships between Loyalty (Attitudinal and Behavioral), Perceived Value and its Consequences (Positive Word-of-Mouth, Price Insensitivity and Perceived Brand Image)

In the reviewed literature in the previous chapter, several studies insist that customer loyalty and perceived value provide long-term profitability or performance outcomes. As mentioned in the last chapter, the consequences of loyalty and perceived value include positive word-of-mouth, price insensitivity, and perceived brand image. Therefore, the author will discuss the details of the hypothesized relationship between loyalty, perceived value and its consequences.

4.5.4.1 Hypothesized Relationships between Loyalty (Attitudinal and Behavioral), Perceived Value and Positive Word-of-Mouth

Empirical research such as that by Lau and Lee (1999) propose that brand loyalty does not result only in a specific purchase pattern. It can also lead to positive word-of-mouth communication, which is not tied with the purchase of the brand to which the consumer feels loyal. Gounaris and Stathakopoulos (2004) conclude that loyalty is related to word-of-mouth communication. In their findings, premium loyalty and covetous loyalty are positively related to word-of-mouth with the standardized beta coefficients of 0.24 and 0.32, respectively, whereas inertia loyalty is negatively related to word-of-mouth with the standardized beta coefficient of 0.38. In the service sector, practitioners most often remember that the development of reference customers, who are willing to give favorable recommendations about brands to other customers, is an important consequence of the consumption experience (Moore, 2002; Reichheld, 2003). Retail service with the customer is rewarded with strong positive word-of-mouth (Berry, 2000). Additionally, according to Zeithaml, Berry et al. (1996) proposition, Huang and Lin (2005) conclude that the dimensions of customer behavior intentions include 3 main dimensions, which are word-of-mouth communications, purchase intentions and price sensitivity. In several studies such as Chang and Wildt (1994), Gale (1994) and Cronin, Brady et al. (2000) customer value leads to favorable behavior intentions. Moreover, the findings of Wang, Lo et al. (2004) show that customer value has a positive impact on behavior intention with the standardized beta coefficient of 0.47. In another study by Wang, Lo et al. (2004), they also find that brand loyalty and functional value have positive impact on customer behavior-based CRM performance (repurchasing and word-of-mouth references) with the standardized beta coefficients of 0.48 and 0.17, respectively.

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 8A: Attitudinal loyalty is *positively* related to positive word-of-mouth.

Hypothesis 8B: Behavioral loyalty is *positively* related to positive word-of-mouth.

Hypothesis 8C: Perceived value is *positively* related to positive word-of-mouth.

4.5.4.2 Hypothesized Relationships between Loyalty (Attitudinal and Behavioral), Perceived Value and Price Insensitivity

As mentioned earlier, brand loyalty is a main driver of brand equity because it leads to marketing advantages and outcomes such as reduced marketing costs, price premiums, increased market share and greater trade leverage (Aaker, 1991; Park and Srinivasan, 1994; Bello and Holbrook, 1995). Aaker (1991) defines brand equity outcomes as the profit potential of the brand. There are three outcomes to increase profit, which are lower costs, greater sales, and higher prices. Chaudhuri (1999) analyzes the direct and indirect influences of brand attitude, habit and brand loyalty on brand equity outcomes (such as market share, shelf facings and price premium). The result indicated that brand loyalty has a positive relationship with price premium with the standardized beta coefficient of 0.16. Furthermore, Chaudhuri and Holbrook (2001) find that purchase loyalty has a positive impact on market share with the standardized beta coefficient of 0.21 and attitudinal loyalty has a positive impact on relative price with the standardized beta coefficient of 0.21. Additionally, many studies such as Zeithaml, Berry et al. (1996) and Huang and Lin (2005) state that price sensitivity is the main dimension of customer behavior intentions. Wang, Lo et al. (2004) find that customer value has a little larger effect on customer behavior intention than customer satisfaction.

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 9A: Attitudinal loyalty is *positively* related to price insensitivity.

Hypothesis 9B: Behavioral loyalty is *positively* related to price insensitivity.

Hypothesis 9C: Perceived value is *positively* related to price insensitivity.

4.5.4.3 Hypothesized Relationships between Loyalty (Attitudinal and Behavioral), Perceived Value and Perceived Brand Image

Post-purchase behavior seems to be more widely interested in services marketing than the consumer products industry. The study of long-term consequences of brand loyalty would be valuable for academics and practitioners (Iwasaki and Havitz, 1998). When customers have strong attitudinal commitment and high behavioral loyalty to a brand, they are less likely to indulge in brand switching or complaining behavior.

Brand image consists of statements about the meaning or personality of the brand as well as association of the brand (Mandhachitara, 2003). Biel (1992, p.10) defined brand image as “cluster of attributes and associations that consumers connect to the brand”. In addition, Keller (1998) concluded that brand image involves perceptions about a brand as reflected by the brand associations held in consumer memory.

Generally, there are two types of brand attributes: product-related attributes i.e. core physical composition, non-product related attributes and brand symbolism. In the era of increasingly similar products, consumers are more likely to rely more on non-product-related attributes than product-related attributes. The perception of and ability to recall, brand image attributes (brand salient) differs between users and non-users of the brand (Mandhachitara, 2003). Upshaw (1995) also indicated that loyal customers do not just use more of the brand – they also like the brand’s image. In addition, brand image was shown to enhance value in India , where society is hierarchical and consumers are highly status conscious (Maxwell, 2001). Nandan (2005) concludes that brand identity and brand image are related but that these are also distinct concepts. Therefore, a key communication strategy is to strengthen the identity-image linkage, which can create value for the customer and enhance brand loyalty.

According to the above reviewed literature, the author proposes the following hypotheses:

Hypothesis 10A: Attitudinal loyalty is *positively* related to perceived brand image.

Hypothesis 10B: Behavioral loyalty is *positively* related to perceived brand image.

Hypothesis 10C: Perceived value is *positively* related to perceived brand image.

4.5.5 The Moderating Effects of Individualism/Collectivism and Business/Leisure on the Hypothesized Relationships between Antecedents (Service Quality, Brand Trust and Brand Affect) and Loyalty (Attitudinal and Behavioral) and Perceived Value

As mentioned in the previous chapter, the moderating effects of this dissertation include cultural related variables (individualism and collectivism) along with situation specific variables (business and leisure). Therefore, the hypothesized relationship between antecedents (service quality and brand trust and brand affect) and loyalty (attitudinal and behavioral) and perceived value is discussed in the following section.

4.5.5.1 The Moderating Effect of Individualism/Collectivism on the Hypothesized Relationships between Antecedents (Service Quality, Brand Trust and Brand Affect) and Loyalty (Attitudinal and Behavioral) and Perceived Value

In today's global marketplace, it needs to be understood how consumers in different countries make purchase decisions. Triandis (1994) found that culture is an antecedent to human thought and behavior. In addition, cultural factors are part of the fundamental factors contributing to the formation of a person's general perceptions. Malhotra, Ugaldo et al. (1994) also proposed that developing nations with collectivist culture place more emphasize on human touch and personal contact (functional performance) than on reliability (technical performance) to assess service quality. Therefore, cultural factors can influence customer behavioral intentions (such as loyalty, positive word-of-mouth) through perceived service quality. In the service sector, many researchers such as Parasuraman, Zeithaml et al. (1988) Kasper, Jr. et al. (1999) concluded that cultural values impact on customer-service provider

relationships, where social interaction is often essential for the service to be “produced”. This forms the basis for longer term relational exchanges between buyer and seller and is a key determinant of service quality and loyalty (Patterson and Smith, 2001).

National culture is important because people from high culture context, where collectivist societies establish and maintain relationships, especially in the service sector where there is a high degree of interpersonal relationship between buyer and seller during both the production and delivery stage. Usunier (1996, p.114) concludes that “Loyalty is a key concept in collectivist cultures, which spreads from people to product, in as much as they are extensions of the self”. Chiou (1995) describes that collectivist Eastern cultures are highly loyal due to greater reliance on word of mouth about the product and through group evaluation of product performance rather than media claims, which is consistent with Triandis (1995) findings. Additionally, Donthu and Yoo (1998) find that customers’ cultural orientation affects their service quality expectations.

Mattila (1999) finds that customers from Western cultural backgrounds form their values perceptions based more on tangible cues from a physical environment to evaluate service quality than are their Asian counterparts and the cultural value of self-orientation of Western culture is more attracted to the hedonic dimension than for Asians. Furrer, Liu et al. (2000) find that customers from different cultures assigned different importance weights to the five SERVQUAL dimensions for measuring perceived service quality. Liu, Furrer et al. (2001) also study the relationships between culture and behavioral intentions (such as loyalty, positive word-of-mouth, etc.) toward services and find that customers from cultures with lower individualism or higher uncertainty avoidance tend to have higher behavioral intentions when they receive positive service quality.

Ueltschy and Krampf (2001) find that there are significant differences in perceived service quality between Mexican-Americans and Anglos, with Mexican-Americans perceiving a higher level of service quality than did Anglos given the same situation. Mattila and Patterson (2004) study the impact of two recovery attributes (compensation and explanation) on customers’ post-recovery perceptions between East-Asia (Malaysia and Thailand) and the United States. The result shows that

compensation seems to drive customers' fairness perceptions, especially in the United States, whereas offering an explanation for the failure has a positive impact on customer perceptions regardless of the customer's cultural orientation. Patterson and Smith (2001) however, find that an Eastern collectivist culture such as Thailand is also "loosely structured", which is a condition normally associated with Western individualism rather than Eastern tightness and cultural simplicity.

Thailand is classified by Hofstede (1980) as a collectivist society. People in collectivist culture are integrated into strong, cohesive in-groups, which throughout a lifetime serve to protect them in return for their unquestioned loyalty (Patterson and Smith, 2003). Mattila (1999) concluded that first-class hotel services are delivered by people; cultural factors are likely to mediate the hotel customers' attitudes toward the service component of their hotel experience. Service styles in Asia are more people-oriented than in the West, where the efficiency of the service delivery is highly valued. Emotions are social and cultural products, and the culture teaches people which emotions should be expressed as well as when and where (Kitayama and Markus, 1995). Asian cultures set high value on group harmony (De Mooij, 1998), and commonly place restraints on expressions of emotions in public (Argyle, Henderson, Bond, and Contarello, 1984). Therefore, customers in collectivist eastern culture tend to believe, trust and create high personal relationships with the service providers than customers in individualist western culture. This leads to higher levels of loyalty and perceived value in collectivist cultures (Mattila, 1999; Patterson and Smith, 2003; Mattila and Patterson, 2004). Mattila (1999) also found the difference between Western business travelers and Asian business travelers in the luxury hotel experience. She concluded that Western business travelers tend to choose hotels that permitted them to act efficiently, get more work done in less time, and shorten longer stays. However, Asian business travelers appeared to desire a frictionless hotel experience characterized by a high level of personalized service. According to the explanation above, the author does not separate culture into collectivist Eastern and individualist Western aspects; however, the author divides culture into two dimensions, which are individualism and collectivism. According to the above reviewed research, the author proposes the hypotheses as follows:

Hypothesis 11A: The *positive relationship* between functional performance and loyalty (attitudinal and behavioral) and perceived value will be *stronger* under the condition of *collectivist culture* than under the condition of *individualist culture*.

Hypothesis 11B: The *positive relationship* between technical performance and loyalty (attitudinal and behavioral) and perceived value will be *stronger* under the condition of *collectivist culture* than under the condition of *individualist culture*.

Hypothesis 11C: The *positive relationship* between brand trust and loyalty (attitudinal and behavioral) and perceived value will be *stronger* under the condition of *collectivist culture* than under the condition of *individualist culture*.

Hypothesis 11D: The *positive relationship* between brand affect and loyalty (attitudinal and behavioral) and perceived value will be *stronger* under the condition of *collectivist culture* than under the condition of *individualist culture*.

4.5.5.2 The Moderating Effect of Business/Leisure on the Hypothesized Relationships between Antecedents (Service Quality, Brand Trust and Brand Affect) and Loyalty (Attitudinal and Behavioral) and Perceived Value

The travel and tourism industry has long recognized that the consumption-related needs and expectations of business travelers can be very different from those of leisure travelers (Kaynak and Yavas, 1981; Johar and Sirgy, 1995). Furthermore, purchase motivation has been shown to influence travelers' perceptions of service quality of hospitality products (Gilbert, 1991). Efficiency-driven business travelers seem to value any time savings that hotels can offer them, while leisure travelers seem to place more emphasis on the positive feelings they experience as a result of interactions with the hotel's service employees (Mattila, 1999). Gaining some insight into the customers' affective responses to service encounters is important given the centrality of emotions in understanding the consumption experience. Aufreiter, Elzinga et al. (2003) also propose that the key to building brands more scientifically is to combine the forward-looking market segmentation with a better understanding of customers and a brand's identity. The

information about the customers and buying patterns along with the availability of more sophisticated and accessible statistical tools make it possible to undertake these tasks with more precision and accuracy than ever. The most important issue for business today is to consider the long-term profit potential of each customer segment, otherwise, marketers can waste a huge amount of effort to define and deliver brands for segments that do not warrant the investment.

The hospitality sector generally divides customers into two segments, which are service-oriented business travelers and the price-driven leisure travelers. Due to the high competition in the luxury hotel business, some hotel chains create “value rates” within their existing properties or by creating value sub-brands such as Holiday Inn and Marriott. Watkins (2003) also provides examples of different types of guests choosing hotels. He divides the customers into business and leisure travelers. He notes that price is the most important factor to select the upscale hotels for both types of travelers, whereas location and amenities are the most important factor to select the mid-range hotels for business travelers. Price is still the important factor to select the mid-range hotels for leisure travelers. Furthermore, he concludes the value drives for both types of customers. He also surmises that hotel location, night room rate and previous experience are the three most important factors in driving business customers, whereas hotel location, night room rate and value for the price are the important factors in driving leisure customers, respectively. Mattila (1999) concluded in her study that Western business travelers tend to focus on the output; therefore, efficiency is more crucial than the functional quality of the interaction. However, Asian leisure travelers tend to prefer the importance of the quality of service interaction (Riddle, 1992).

In the airline sector, travelers are also separated into business and leisure travelers. In Suzuki’s (2004) study about the impact of airline service failures on travelers’ carrier choice, he hypothesizes that traveler’s reactions to service failures may be different due to the trip purpose. The reason is that leisure travelers may choose airlines on the basis of airfares only, regardless of their service failure experiences, whereas business travelers may not be willing to sacrifice service qualities for alternative airlines. However, the result shows that travelers’ airline choices are not affected by any service failure experience for both business and

leisure trips. They choose the airlines that maximize their utilities without regard to past service failures. Even though the results on the above do not differ between both types of customers, most of luxury hotels still divide their customers into business and leisure guests. The reason is that business customers lead to higher revenue for the company compared to leisure travelers. Four Seasons, Marriott and Intercontinental groups for example, offer value and concentrate more on business customers. For Four seasons, it can count 67 percent for business and only 33 percent for leisure customers (Aline, 2002). Brown (2004) also states that frequent (business) travelers (stay more than 23 nights a year) tend to stay in the same hotel chain than light travelers (stay 1-5 nights a year), which leads to higher loyalty and value from business customers than from leisure customers. He also concluded that frequent travelers (approximately 10 percent of the total customers) have a share of 44 percent of hotel nights. These business travelers also generate higher revenue and more profitability to the hotel.

According to the above reviewed literature, the author proposes the following hypotheses:

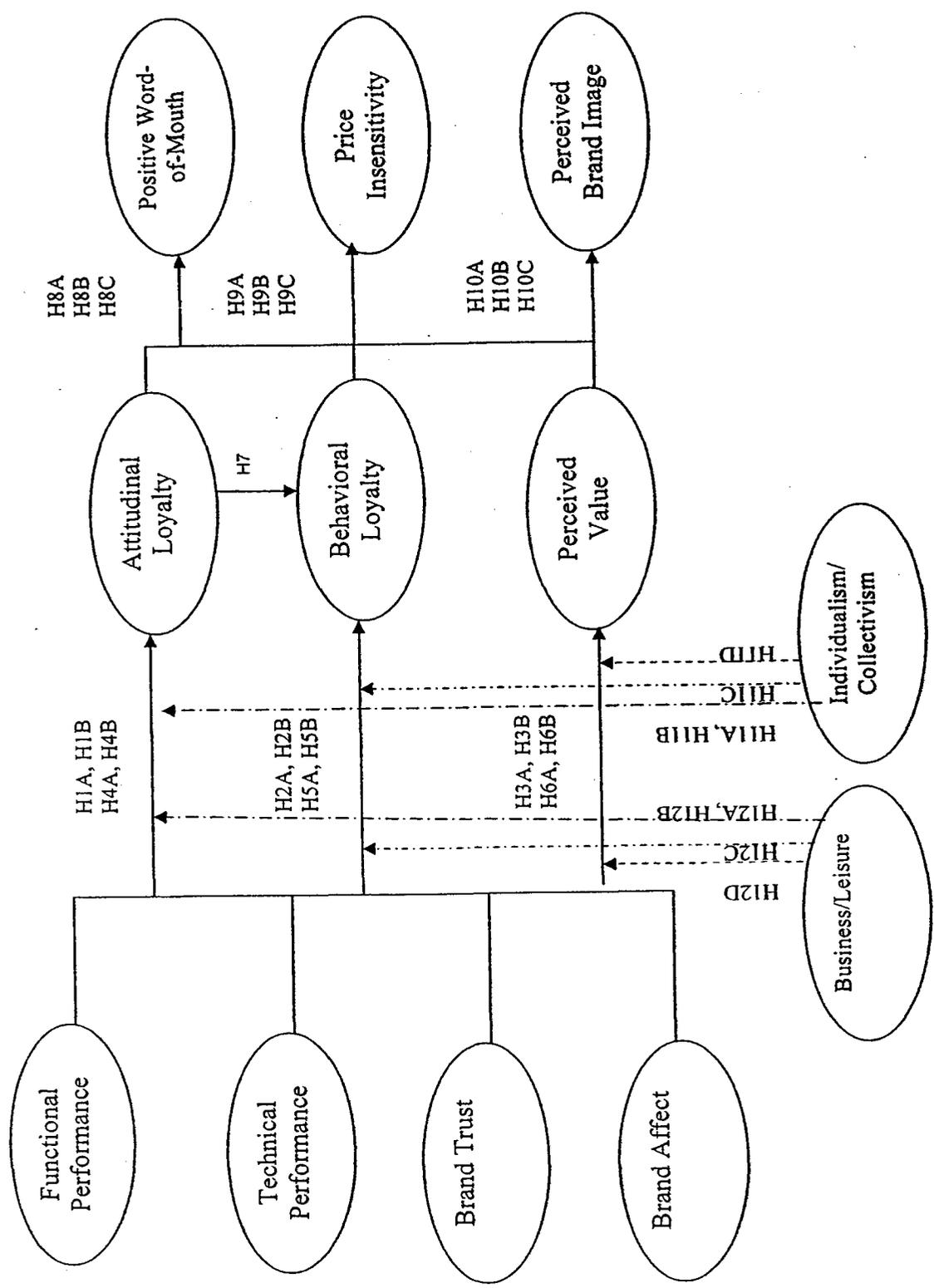
Hypothesis 12A: *Business customers have a stronger positive relationship between functional performance and loyalty (attitudinal and behavioral) and perceived value than leisure customers.*

Hypothesis 12B: *Business customers have a stronger positive relationship between technical performance and loyalty (attitudinal and behavioral) and perceived value than leisure customers.*

Hypothesis 12C: *Business customers have a stronger positive relationship between brand trust and loyalty (attitudinal and behavioral) and perceived value than leisure customers.*

Hypothesis 12D: *Business customers have a stronger positive relationship between brand affect and loyalty (attitudinal and behavioral) and perceived value than leisure customers.*

Figure 4.2: Hypotheses



4.6 Summary

This chapter discusses the research objectives and research questions along with the conceptual framework and the proposed model based on the literature review. Four research questions and 30 hypotheses are drawn from the model. All hypotheses of this dissertation are set to examine the antecedents to loyalty and value along with the contribution of loyalty and the value to its consequences. The model demonstrates the role of loyalty and value in the chain effects from the antecedents of loyalty and value to its consequences. The research methodology is designed to examine all these hypothesized relationships are provided in the next chapter.