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## Impact of service quality, trust and perceived value on customer loyalty in Malaysia services industries

Firend A. Rasheed\*, Masoumeh F. Abadi

*Universiti Teknologi Malaysia*

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### Abstract

The purpose of this study is to investigate the effect of service quality, trust and customer perceived value on customer loyalty in the Malaysia services sector. The research examines three factors of service quality, trust and perceived value by customers in the banking, insurance, and telecommunications industry. A quantitative approach was employed to measure the relationships between the variables of the study. Statistical tests included descriptive statistics, internal consistency, reliability, validity, correlation and regression were conducted to determine the relationship and to validate the study. The study found that there is positive relationship between service quality and trust, service quality and perceived value, trust and customer loyalty and perceived value and customer loyalty. Consequently, based on findings, service quality, trust and perceived value are considered to be antecedents of customer loyalty.

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*Keywords:* Service quality; perceived value; customer loyalty; Malaysia

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### 1. Introduction

Copacino (1997) asserts that companies can decrease their operating cost, overall expenses and increase their profit by having loyal customers. Copacino also concluded that that five percent reduction in the number of customers may decrease firm's profits by as much as 50 percent or more. In contrast, an improvement of five

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\* Corresponding author.

*E-mail address:* [firend@ibs.utm.my](mailto:firend@ibs.utm.my)

percent in loyalty and customer retention, may lead to upturn from 25 percent to 75 percent in the company's profit (Reichheld & Sasser, 1990). Some evidence by Wills (2009) suggest that the expense of gaining new customers may cost companies to spend five times more than to keep an existing ones. Hence, customer loyalty can contribute to the improvement of corporate revenues and ultimately, profit margins, while decreasing cost expenditures. Such positive relationship is also made by Reichheld and Teal (1996). This is primarily caused by the fact that consumers generally tend to be price sensitive in the services sector such as banking and insurance according to Reichheld and Teal (1996), who found that 8% of annual sales amongst premium customers is caused by loyalty. Additional factor influencing the increase in annual sales according to Reichheld & Sasser (1990) is the willingness of consumer to repurchase is the perceived positive attitude toward the vendor. This corresponds with Eakuru and Mat (2008) findings, by noting that there is a significant connection between customer loyalty and profitability.

Hence, the relationship between the increase in the number of loyal customers and sales can be used as an indicator of corporate performance as well as its profitability. Berry (1991) concur that improving service quality is a key driver for growth across industries. In fact, one of the key aspects of the relationships between customers and companies is identifies as the perceived value (Kotler, 2005). The value equity and relationship equity (retention equity) are identified by Rust, Zeithaml and Lemon (2001) as two parts of customer equity. Rust et. al., (2001) identifies three key characteristics of value, these are quality, price, and convenience. Rust et. al., (2001) further conclude that customers choose companies that provides them with most value. Quality here is identified as materials and services, price consists of financial and non-financial aspects, and convenience, which is a non-financial matter and related to the degree of benefit of buying or using a particular product/service (Rust et al., 2001).

## **2. Objectives of the study**

The objectives of the study are as following:

1. To investigate the influence of service quality on customer perceived value in the services sector in Malaysia.
2. To probe the influence of service quality on customer's trust.
3. To examine the influence of customer perceived value on customer loyalty.
4. To examine the effect of customer's trust and loyalty

## **3. Problem statement**

Rust and Zeithaml (2001) contended that perceived value provides the basis customer's relationship with a given vendor. If products or services do not meet customer's perceived value, then all plans of the firm are in vane. In the Malaysian setting, there is a need to identify industry perception of customer's perceived value. Specifically, the need to identify the level of managerial awareness and anticipation of their customers perceived values. Although numerous studies have established the impact of service quality on loyalty and customer perceived value and loyalty. Yet, no study have established the impact of service quality, customer perceived value and trust on customer loyalty in the context of Malaysian services industry.

## **4. Research questions**

1. Is there a relationship between service quality and trust in Malaysian services industry?
2. Is there a relationship between service quality and customer perceived value in Malaysian services industry?
3. Is there a relationship between customer perceived value and customer loyalty in Malaysian services industry?
4. Is there relationship between trust and customer loyalty in Malaysian services industry?

## 5. Significance of the study

Generally, companies in the services industry work closely with their customers to determine competitive pricing indicators; service quality indicators along with other anticipatory factors that help determine future need and services. However, in Malaysia there are numerous complaints that the services sector is no match to that of Singapore, Japan or other industrial economies. Hence, this research will help determine key factors contributing to such perception in an attempt to highlight probable causes. And whether managers in the services industry are aware of consumer's perceptions regarding key value determinants, such as awareness of current market position, segmentation, service quality, and reactions to such perceptions in order to improve customer perceived value, trust and service quality.

## 6. Literature review

Eakuru and Mat (2008) argue that creating a strong link with customers with the intention of increasing customer loyalty is a main priority for most firms. Reichheld and Teal (1996) corresponds to this view by stating that better service develops a positive word of mouth and ultimately repurchasing that leads to higher contribution to profitability. Morgan and Hunt (1994) also corresponds to this view, while Fred and Christine (2003) observed that value and better service creates mutually beneficial relationship between the firm and customers. Furthermore, many researchers have identified customer loyalty as a primary driver to organizational success. A significant study is done by Lam and Burton (2006) that suggests that loyal customers tend to have higher likelihood of repurchasing from a supplier than non-loyal customers. They further suggest that loyal customers significantly contribute to market share growth.

This conclusion is also shared by Lam and Burton (2006), Wills (2009), and Yap, Ramayah and Shahidan (2012). Bennet and Rundle-Thiele (2002) described loyalty as customers' intention towards a firm as a function and undergoes a psychological process. Two dimensions are defined for customer loyalty: behavioral and attitudinal. Attitudinal dimension refers to parameters such as repurchasing imagination, resistant to buy to other firms, tend to introduce, persist and persuade the others to use a company's specific product or service (Parasuraman, Leonard, & Zeithaml, 1991). Behavioral dimension refers to a behavior of customers on repurchase and illustrates a priority for services or products (Dick & Basu, 1994). The reason being, is that behavioral dimension can drive customers to the repurchase of products and the utilization of services from vendors. Hence, consumers tendency to commit is higher over time (Lee, Lee, & Feick, 2001). Jacoby (1971) believed that repeating purchase is an indication of some classic key factors of attitude, which he considers to be "effectiveness", "evaluative", "cognitive", and "dispositional". The loyalty is specified by Jacoby to be the amount of customers' service choice, switching tendency, purchase's regularity and the overall shopping. Commitment and repurchasing decision therefore is influenced by customers' loyalty (Bowen & Chen, 2001).

Service quality generally refers to firms' ability to deliver services in accordance to customer's level of expectation Parasuraman et al., (1985). The expectation is categorized by the gap between customers' desires or wants, firms offerings, and customer's post-purchase feelings (Parasuraman et al., 1988). This framework consists of twenty-two items that was derived from several focus groups with customers representing various areas of the service sector. The difference between service qualities can be measured as the degree of difference between one customer's expectations toward the service offered for each quality dimension or items. The following are the five dimensions that Parasuraman used in his research (Parasuraman et al., 1991); responsiveness, reliability, empathy, assurance, and tangibility. Further research studies have also confirms the above findings that there is a significant positive relationship between service quality and perceived value. Value or perceived quality can be defined as the assessment of the difference in perception between actual service performed and customers' expectations (Cronin, 1990; Brady & Hult, 2000; Zeithaml, 1988).

## 7. Theoretical framework

The framework that influenced the work of this research is the measurement of customer behavioral purposes for service or product in a loyalty scheme by (Zeithaml, Berry & Parasuraman, 1996). This provides a multi-dimensional framework in which four dimensions identified by Zeithaml et al., which is; loyal consumers (in a service) that can drive high purchases target, less sensitivity in price aspects, giving some valuable feedback to the firm, and to incur higher frequency of purchases without switching.

The three theoretical methods that define customer loyalty as perceived in this research are viewed from the intangible perspectives. Loyalty is therefore viewed by the researchers to utilize the following three approaches; “Attitudinal Approach” by Bennett and Rundle-Thiele (2002), “Behavioral Approach”, and “Composite Approach” by (Dick & Basu, 1994; Oliver Richard, 1997).

## 8. Hypotheses

There are four hypotheses that are defined by the relations between variables identified in the framework.

H1: There is positive relationship between service quality and trust.

H2: There is positive relationship between service quality and perceived value.

H3: There is positive relationship between trust and customer loyalty.

H4: There is positive relationship between perceived value and customer loyalty

## 9. Methodology

A quantitative survey research study was conducted and included multiple services industries to measure the relationships between the variables identified in the literature review. Questions included in the survey were adopted on the bases of how value and trust influence loyalty in (Karjaluoto et al., 2012) and user’s perceived service quality. The questionnaire was designed base on Likert scale and was adopted from prior research studies with high levels of reliability (CronBach Alpha all above 0.7). The questionnaire was distributed amongst subscribers of multiple telecommunications provider, insurance services, and banking at various locations in Kuala Lumpur. Each respondent was asked to participate in the study by answer the questionnaire based on recent transaction with the service provider. The first part of the survey was classified into four dimensions. These four dimensions are consisted of Service Quality (SQ), Customer Perceived Value (CPV), Trust (T) and Customer Loyalty (CL). The survey questionnaire design is derived from multiple-item measurement scales. The measuring scale of items was Likert Scale analyses in a Five Point Scale where number 1 stands for strongly disagree (Completely Disagree) and number 5 stands for strongly agree (Completely Agree) and number 3 stands for no opinion or not important (Natural Opinion).

## 10. Analyses and findings

Descriptive statistics (frequency, mean and standard deviation) were performed to examine customer’s social-demographic characteristics. Descriptive analyses were also performed to examine data distribution, potential problems and the statistical assumptions of parameters.

Descriptive statistics of service quality (SQ) dimension was measured with eight items as suggested by Negi (2009). In this part, the highest score of SQ represents the best service quality. SQ6 was an item that had the highest score, which indicated “Service provider will have sufficient in different geographic areas” (Mean = 3.67 and Std. Deviation = .889). Whereas SQ8 with “I believe the service provider offers excellent services was the item that had the lowest score” (Mean = 3.38 and Std. Deviation = .929).

Descriptive statistics of the “Trust” dimension was measured by five items (from T1 to T5), which is attributed to Eakuru & Mat (2008). The highest score of Trust defines the highest trust level of service provider. The average score of trust that collected from subscribers was 3.47 and the total score was 17.35. The highest score that appointed by customers was “My service provider is very reliable” (Mean=3.59 and Std. Deviation=.813). The

lowest score was for “My service provider is very honest” (Mean=3.36 and Std. Deviation =.852). The Table 4.4 reveals the detail of descriptive analysis for customer’s Trust.

Descriptive statistics of the perceived value dimension consists of five questions, which were recommend by Eakuru and Mat (2008). The total score calculated by customer perceived value item was 16.68. The average score obtained by service subscribers was 3.336. The last question (PV5) was “I enjoy using this service provider” which got the highest score (Mean = 3.54 and St. Deviation = .879). Table 4.5 demonstrates the detail of descriptive analysis for customer perceived value.

Descriptive statistics of customer loyalty dimension was stated by eight items (from CL1 to CL8) as suggested by Eakuru and Mat (2008). The highest score of customer loyalty expresses the highest loyalty intention level by service subscribers. The average score of customer loyalty, which stressed by customers, was 3.38 and the total score was 27.06.

Kaiser Meyer Olkin (KMO) test and Bartlett’s test are convenient options to measure sampling adequacy. The sample is adequate if KMO value is more than 0.7, and is inadequate if less than .50. The KMO test one whether or not enough items are predicted by each factor. In addition, Bartlett’s should be significant value (i.e., a significant value of less than .05). This means that the variables are correlated very sufficient to provide a convenient basis for factor analysis (Barrett & Morgan Jr, 2005).

Table 1 shows that the KMO test was greater than .70 except perceived value. It was more than .50, which is considered to be reasonable. In addition, all Bertlett’s tests were greater than .05, which is significant.

Table 1. KMO and Bertlett Test

Construct	KMO and Bartlett's Test		
	KMO adequacy	df	Sig. (p)
Service Quality	.879	28	0.000
Trust	.822	6	0.000
Perceived Value	.627	3	0.000
Customer Loyalty	.917	21	0.000

Of the eight items in customer loyalty, only one item (CL6) was removed. Factor loading ranged from .570 to .965 for customer loyalty. Additionally, service quality had eight items, but no item was removed. The range was .411 to .980 for service quality. Furthermore, one of five items the variable trust was removed (T5). The range of trust was .841 to .922. Two items of perceived value were removed (PV1, PV5). In addition, the range of perceived value was .463 to .909. Principal axis factor analysis with Promax rotation was also performed as shown in Table 2. to assess the underlying structure for the 26 items. Four factors were requested, because the items were designed to index four constructs: Service Quality, Trust, Customer Perceived value and Customer Loyalty. After rotation, the first factor accounted for 46.269 % of the variance, the second factor accounted for 10.396 %, the third factor accounted 6.024 % and fourth factor 5.249 %. Table 4.8 displays the items and values loading for the rotated factors, omitting loading values less than .4 for improving clarity.

Table 2. Total Variance

Component	Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	10.179	46.269	46.269
2	2.287	10.396	56.665
3	1.325	6.024	62.689
4	1.155	5.249	67.938

Hypothesis H1 proposed that there is a positive relationship between service quality and trust. Therefore, simple regression analysis was applied to test the direct relationship between service quality and trust. As shown in the table5, R = .640 and R Square is equal to .409. It can mean that 40.9 percent of variation in trust can be described by service quality. Hypothesis H2 proposes that there is a positive relationship between service quality and perceived value. Therefore, simple regression analysis was applied to test the direct relationship between service

quality and perceived value. As shown in the table 6,  $R = .326$  and  $R$  Square is equal to  $.106$ . It can mean that 32.6 percent of variation in perceived value can be described by service quality. Hypothesis H3 proposed that there is a positive relationship between Trust and Customer Loyalty. Therefore, simple regression analysis was applied to test the direct relationship between Trust and Customer Loyalty. As shown in Table 7,  $R = .549$  and  $R$  Square is equal to  $.353$ . It means that 35.3 percent of variation in Customer Loyalty can be described by Trust. Hypothesis H4, suggests there is a positive relationship between Perceived Value and Customer Loyalty. Therefore, simple regression analysis was applied to test the direct relationship between Perceived Value and Customer Loyalty. As shown in Table 8,  $R = .682$  and  $R$  Square is equal to  $.465$ . It can be given the meaning that 46.5 percent of variation in customer loyalty can be described by perceived value. The above analyses shows that there is a positive relationship between service quality and trust, and service quality and perceived value. In addition, there is a positive relationship between trust and customer loyalty and also perceived value and customer loyalty in the services sector. However, each hypothesis has provided a different measure of the strength. Overall, it appears to suggest an acceptable relationship between service quality and customer loyalty.

The results of this study shows that the relationship between service quality and trust is stronger than service quality and perceived value while, the relationship between perceived value and customer loyalty is stronger than trust and customer loyalty. Additionally, the scale reliability was confirmed for service quality, trust, perceived value and customer loyalty. The findings of this study provide us with the understanding of the key drivers of consumer loyalty. The results of this study also show that improving service quality leads to increase appropriate customer loyalty among subscribers of various services, and customers desire to deal with service providers that provide excellent services with reasonable prices. The findings of the study indicate that good service quality could cause customer perceived value and trust and customer perceived value and trust lead to increasing loyal customer. In other words, the managers could improve customer perceived value and trust by emphasizing on service quality and consequently gain customers that are more loyal. A perceived superior value by customer is widely accepted to be a competitive advantage for the firm. Moreover, it is valid to suggest that customers' loyalty may have a significant impact on the revenue of the Malaysian services sector. Hence, while managers attempt to create profitable strategies for the company and try to develop larger market share, they should not forget the importance of customer loyalty. Attention should be given to loyalty of customer in strategy development to maintain service quality, improve trust and increase customer perceived value.

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