

**SERVICE QUALITY, CUSTOMER
SATISFACTION AND SERVICE LOYALTY
OF SABAH'S TOURISM INDUSTRY**

KINSHAH @ LEE KIM SHAH



UNIVERSITI MALAYSIA SABAH

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SERVICE QUALITY, CUSTOMER SATISFACTION AND SERVICE LOYALTY OF SABAH'S TOURISM INDUSTRY

KINSHAH @ LEE KIM SHAH



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UNIVERSITI MALAYSIA SABAH**

2004

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DECLARATION

The materials in this thesis are original except for quotations, excerpts, summaries and references, which have been duly acknowledged.

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ABSTRAK

SERVICE QUALITY, CUSTOMER SATISFACTION AND SERVICE LOYALTY OF SABAH'S TOURISM INDUSTRY

Dalam pasaran global dan tidak bersempadan ini, kualiti adalah satu keperluan penting untuk terus wujud and berkembang di dalam apa jua jenis perniagaan. Ianya terlalu penting hingga menyebabkan isu kualiti menjadi isu global di dalam industri pelancungan. Banyak penyelidik servis kualiti mendapati servis kualiti mempengaruhi kesetiaan dan kepuasan pelanggan bertindak sebagai penengah di antara servis kualiti dan kesetiaan servis terhadap agensi pelancongan di Sabah. Pengajian ini telah mendapati bahawa terdapat perhubungan kuat di antara servis kualiti dan kesetiaan servis dan kepuasan pelanggan bertindak sebagai penengah di antara servis kualiti dan kesetiaan servis.



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ABSTRACT

SERVICE QUALITY, CUSTOMER SATISFACTION AND SERVICE LOYALTY OF SABAH'S TOURISM INDUSTRY

In today's globalised and borderless market, quality is an essential element for the survival and growth of any business organization. It is so important that quality become an issue of global concern in the tourism industry. Many researchers of service quality have found out that service quality does influence loyalty and customer satisfaction mediates the relationship between service quality and service loyalty. In other word, satisfied customers would tend to stay loyal to the service provider. In this study of service quality, customer satisfaction and service loyalty of the tour and travel agents in Sabah, the result indicates that there is a strong relationship between the service quality and service loyalty and it is also found that the customer satisfaction does mediates the relationship between the service quality and service loyalty.



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CHAPTER 1

INTRODUCTION

1.1 Overview

The tourism and hospitality industry flourished during the past decade despite having to struggle to cope up with difficult challenges especially from terrorism and epidemic diseases like the Severe Acute Respiratory Syndrome [SARS] and the deadly bird flu. Notwithstanding with these challenges, Cetron (2001) was confident that the global tourism would continue to grow rapidly for at least the next 20 years. According to the author, the worldwide international arrivals would grow from 660 million in 1999 to an estimated 700 million in 2000, 1 billion by 2010 and 1.6 billion by 2020. This increase would mean more business for the European and Asian tourist destinations, thus improving balance of trade.

The world tourism industry has shown tremendous improvement in terms of tourist arrivals and tourist receipts. The World Tourism Organization (WTO, 2000) reported that in 1950 tourist arrivals recorded a mere 25.282 million with receipts of only US\$2.1 billion. However, the number increased significantly in 2000 with 698 million tourist arrivals and receipt amounting to US\$476.00 billion (see Table 1 for details).

Apart from generating huge tourism dollars, the travel and tourism industry also provide job opportunities to all works of life. The industry is currently the world's largest industry and the world's largest generator of jobs. It was reported by the World Travel & Tourism Council (WTTC) Tourism Satellite Accounting Research (TSAR) for 2000 estimates that this industry will create direct and indirect employment for 192.2 million employees or in every 12.5 jobs and projected to employ 251.6 million workers in 2010 or 1 in every 11.0 jobs (WTTC, 2000). In 2000, the travel and tourism industry total demand is expected to generate US\$4,506.4 billion worth of economic activity, growing in US\$8,454 billion in 2010.

Table 1: World Tourism Growth, Selected Years

| Year | Tourist Arrivals (1) (Million) | Tourist Receipts (2) US\$ billion |
|----------|-----------------------------------|--------------------------------------|
| 1950 | 25.282 | 2.100 |
| 1960 | 69.320 | 6.867 |
| 1965 | 112.863 | 11.604 |
| 1970 | 165.787 | 17.900 |
| 1975 | 222.290 | 40.702 |
| 1980 | 284.997 | 103.320 |
| 1985 | 327.570 | 116.147 |
| 1990 | 455.217 | 263.647 |
| 1998 | 636.581 | 440.986 |
| 1999 | 664.437 | 455.553 |
| 2000 (3) | 698.000 | 476.000 |

- Note (1) : Exclude same-day visitors
- (2) : Excluding international fare receipts
- (3) : Preliminary result

Source : World Tourism Organization

In Malaysia, the numbers as shown in Table 2 demonstrated the importance of the industry to the economy of the country. In 2000, more than 10 million tourists visited Malaysia generating foreign receipts equivalent to RM17.335 billion. Tourist arrivals increased the following year to 12.78 millions and receipts to RM24.222 billions. We saw a slight drop in arrivals in 2003 due to the outbreak of SARS in Asia. Despite the unfortunate happenings, the arrivals of 10.58 millions with foreign receipts of RM21.291 billion were still higher than the figures recorded in 2000. This indicates the attractiveness of Malaysia to international travellers.

Sabah has also enjoyed the significant influx of tourists to the state. The figure in Table 3 portrayed a healthy growth of the industry. With merely 423,284 tourist arrivals in 1998, the number surged higher in 2002 and 2003 recording impressive arrivals of 1.107 million and 1.251 million respectively. The aggressive marketing and active involvement of the government as well as the private sectors in promoting Sabah, would allow the industry to expand further in the near future. With this commitment, existing tourism facilities have undergone major facelift while new destinations and attractions were added

in to the list of places of interest. These concerted efforts by the government and private sectors were to ensure that the number of tourist arrivals in to this country and the tourism receipts would continue to show positive growth in many years to come.

Table 2: MALAYSIA TOURIST ARRIVALS AND RECEIPTS

| YEAR | ARRIVALS (millions) | RECEIPTS (RM billions) |
|------|------------------------|---------------------------|
| 2000 | 10.22 | 17.335 |
| 2001 | 12.78 | 24.222 |
| 2002 | 13.29 | 25.781 |
| 2003 | 10.58 | 21.291 |

Source : Tourism Malaysia

As provided for in the Sabah Tourism Master plan, tourism was identified as a key sector to attain the Vision 2020 target due to its significant contribution to the state coffers (Sabah Tourism Master plan, 1996, pg.24). It was noted that tourism and its related services is one of the areas with highest potential for contribution to Gross Domestic Product [GDP] growth with hotels and restaurants services target to register an annual growth of 14% during the period 1995-2010 and tourism and manufacturing are targeted to account for 80% of all new jobs creation.

1.2 Research Problem

The far-sightedness of the Sabah Tourism Master plan was something that every Malaysian living in Sabah should be proud of. Further to the increase in tourist arrivals from 1998 to 2003 as depicted in Table 3 only to confirm that this industry is an important industry and would continue to stimulate the economy of Sabah. Therefore, every effort must be made to nurture the industry.

In the tourism industry, quality issues cannot be taken for granted and in fact they are no strangers to this industry. As Augustyn (1998) pointed out that quality tourism has become one of the future global tourism policy issues in the light of the rapid growth of

this industry. In consideration of its importance, Sabah’s tourism industry, which is still at its infancy, cannot afford not to deal with quality issue seriously. Quality has become a critical issue for the success and growth of this fragile industry to Sabah’s economy. In support of this statement, Zeithaml & Bitner (1996) stressed that in order to gain customer loyalty the industry must strive to maintain a superior quality of service. No doubt, attracting new customers is not an easy task and it is costly too as lamented by Rosenberg & Czepiel (1983) who indicates that it costs six times more to attract new customers than to retain the existing one. Furthermore as Zeithaml & Bitner (1996) pointed out that there is a dire need for the industry to strive for excellent service quality in order to gain customer loyalty.

However, despite the importance of this industry as clearly explained by the steady growth in tourist arrivals and its significance contribution to the state economy, the industry practitioners and researchers have failed to focus significant attention to quality issues of the industry in Sabah. No doubt there were more talk of the need to improve services but the industry has very little information or data available to assess the perception of tourists towards the service quality provided by the tour and travel agents in Sabah and customers loyalty to the service providers.

Table 3: VISITOR ARRIVALS TO SABAH

| YEAR | TOURIST ARRIVALS |
|------|------------------|
| 1998 | 423.284 |
| 1999 | 483.991 |
| 2000 | 774.475 |
| 2001 | 819.523 |
| 2002 | 1.107.356 |
| 2003 | 1.251.454 |

Source: Sabah Tourism

1.3 Research Objectives

Chan & Yeoh (2001) described tourism as an activity in which people are engaged in travel away from home for either business or pleasure or both. In their research, they found out that there was no universal definition of tourism due to different interpretation by different authors. Accordingly, the tourism industry consists of the following:

- (a) Tourists – people who travel.
- (b) Destinations – place where the tourist travel.
- (c) Accessibility – consists of transportation elements.
- (d) Amenities – support facilities such as accommodations, eating outlets, shops and others supplementary services.
- (e) Visit or tour packages.

According to Robinson (2003), tourism is not a cohesive industry as it involves many different type of business. These businesses range from airlines, boats, bus companies, hotels and other accommodation, attractions, car hire, festivals and events, tour guides, retailing, sightseeing destinations and many more. Unlike other products offered by manufacturing or other service companies, tourism products are more complex. Each tourism product is heterogeneous and includes components furnished by numerous relatively small private or public suppliers. The purchase and consumption of the tourism product is spread over time and distance.

Both the private and public tourism sectors have recognized the importance of developing quality tourism products and services as the industry has contributed significantly to the global economy. As the competition in the global tourism market is growing (Augustyn, 1998), the industry has to strive for quality excellence in order to instil customers' confidence and gain their loyalty.

Tour and travel agents in Sabah play an important role in the development of the tourism industry. It provides the linkages and support between the customers and other tourism suppliers such as the hotels, restaurants, gift shops, sightseeing destinations, etc.

Under the Malaysia Tourism Acts 1992, Part II, Section 5 (2) (a) provides that only the licensed tour and travel agents are authorized to handle tourists in this country. Indeed, the service rendered by the tour and travel agents is so important that its services must be regularly tagged or benchmarked to a certain standard.

In consideration of its importance to the global economy and as well as its significant contribution to the Sabah's economy, the research is being carried out to fulfil the following objectives: -

1. to examine whether the level of service quality provided by the tour and travel agents in Sabah would strongly influence customer service loyalty;
2. to examine whether customer satisfaction mediates the relationship between the service quality and customer service loyalty, and
3. to examine differences in demographic characteristics and their perceptions towards service loyalty.

1.4 Definition of Variables

For the purpose of this study, the following terms need further clarification.

1.4.1 Service Quality

Service quality is no longer an alien subject matter to the tourism business. It is so important that the future global tourism policy would emphasize on quality tourism. No doubt, different researchers defined quality rather differently. Some would look at the technical aspect of quality (or output) – would customers would be satisfied with what it is supposed to give but others would view it on the aspect of process. In operationalising the service quality constructs, this study would use the definition by Parasuraman et al. (1985) that defined service quality as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed.

1.4.2 Customer Satisfaction

Customer satisfaction is another important variable that is always being associated with loyalty. We often heard people made remarks that they are satisfied with the products or services therefore we place our loyalty to sellers or producers. It is rather unrealistic or so unnatural to continue using the same product or patronizing the same service provider if they are not satisfied with the services.

According to Bearden and Teel (1983), customer satisfaction is important to marketers because it generally assumed to be significant determinant of repeat sales, positive word of mouth and consumers loyalty. The significance of this construct in leading to consumer loyalty cannot be denied. Therefore, in an attempt to measure this construct, this study uses the definition by Giese and Cote (2000) that defines customer satisfaction as a summary affective response of varying intensity, with a time-specific point of determination and limited duration, directed toward focal aspects of product acquisition and/or consumption.

1.4.3 Service Loyalty

Loyalty is always the best outcome that one would expect from his or her customers. However, keeping customer loyalty is not always easy. Perhaps, losing customer loyalty and failure to gain a new one could lead to failure of many businesses. Nonetheless, can enhancement in service quality lead to customer loyalty? Or rather would a satisfied customer maintain his or her loyalty to the same firm that provided the service or product? In the context of service loyalty, the definition by Gremler and Brown (1996) is appropriate for this study. They defined service loyalty as the degree to which a customer exhibits repeat purchasing behaviour from a service provider possesses a positive attitudinal disposition toward the provider, and consider using only this provider when a need for this service arises.

1.5 Research Design

As explained by Robinson (2003) that the tourism industry is not a cohesive business and there are many components of service providers that compliment with each other irrespective of their size. With respect to this, the research study is focus on study the relationship of service quality provided by the tour and travel agents to service loyalty of the providers in Sabah. This is necessary due to the constraint of time and budget.

There has been significant effort in the past to look at the area of service quality, customer satisfaction and service loyalty. In respect to Sabah tourism, little attention was given to studying the effect of service quality to loyalty because the importance of the constructs was taken for granted. Therefore, this study identifies service quality as the independent variable and service loyalty as the dependent variable.

Through literature review, customer satisfaction has always been confused with service quality. There is a number of distinction can be drawn between customer satisfaction and service quality. Satisfaction is a post-decision customer experience while quality is not (Bolton and Drew, 1991; Cronin and Taylor; 1992; Parasuraman et al., 1988). In addition, the satisfaction literature mentioned expectation reflect anticipated performance (Churchill and Suprenant, 1982) made by the customer about the levels of performance during a transaction. However, the service literature explained expectations are conceptualized as a normative standard of future wants (Boulding et al., 1993). Due to the fact that both variables are essentially different, this study indicates customer satisfaction as acting as a mediator in the link between service quality and service loyalty. Therefore, the focus of this study is to examine the relationship between service quality of providers to service loyalty and the mediating roles of customer satisfaction between the service quality and service loyalty.

The study is conducted by distributing the structured questionnaires to randomly selected Malaysian and foreign tourists. Selection of the respondents has to be given due consideration so that only individual travellers that uses the services of tourism firms would be considered in this study.

The relationships of variables are statistically tested using multiple and hierarchical regression analysis.

1.6 Significance of Study

As depicted earlier in Table 2, the tourism industry has contributed significantly to the national coffer. The growth of the tourism industry has also been experienced by the state of Sabah. Table 3 that depicted the significant growth in tourist arrival from 1998 to 2003 portrayed the importance of this industry to the growth of Sabah's economy. In the state of Sabah, tourism industry is second in term of revenue contribution after the manufacturing industry. In consideration of its significant contribution to the Sabah economy, the research on this topic is timely. A clearer understanding of the relationship between service quality, customer satisfaction and service loyalty could assist practitioners in the development of a model of service marketing. It would also provide practitioners with indications as to where best to devote marketing attention and how best to spend the scarce corporate resources.

With a clearer understanding of the relationship between these variables mentioned in this study would enable the tour and travel agents, which undertake their own marketing of their products and services, to pay more attention and effort of what to market and to which customers profile to target to.

1.7 Organization of Study

The research study has been organized to consist of five chapters. In Chapter 1, it introduces the importance of tourism industry to the globe and provided past statistics of the growth in arrivals and receipts. It also explained how Malaysia has benefited from the increased in global travellers and this benefit has also been passed on to the Sabah's economy. The statistic has portrayed a significant contribution to the national economy but the insufficient data indicated little attention was given to the issue of quality. Therefore, in this chapter it leaves us with a big question of why such an important industry but little information was available to assess the perception of tourists on the

service quality, customer satisfaction and service loyalty on the Sabah tourism industry. Due to the constraint of time and budget, the research study has been narrowed down to focus on the services provided by the tour and travel agents in Sabah.

The literature review is presented in Chapter 2. Various literatures have been reviewed to understand the concepts and issues of service quality, customer satisfaction and service loyalty and examined the different mechanism and tools being used by many researchers in measuring the variables mentioned above using the already established tools.

In Chapter 3, the theoretical framework of the research study is introduced. This chapter discusses the theoretical framework developed by Albert Caruana, who constructed and used the model for the banking industry. The same model is being replicated to further understand the relationship of the service quality, customer satisfaction and customer loyalty in the Sabah's tourism industry. Five hypotheses are developed and would be tested for its relationship. In carrying out this study, the research methodology employed includes sampling, data collection method, questionnaire development, measurement tools and statistical analysis are discussed in this chapter.

The statistical result of the study is analyzed and discussed in Chapter 4. Firstly, the descriptive and reliability analysis of the data are performed. Secondly, the data collected would be analyzed using the SPSS statistical software and the results would be interpreted and reported.

The last chapter, Chapter 5, wraps up the whole study by discussing on the findings, its implication, limitation of the study and recommended suggestions for future research.