

**THE EFFECT OF SERVICE QUALITY ON CUSTOMER
RETENTION THROUGH CUSTOMER
SATISFACTION:
THE MALAYSIAN FAST FOOD INDUSTRY
PERSPECTIVE**



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Of the requirements for the degree of
Master of Business Administration

DECLARATION

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

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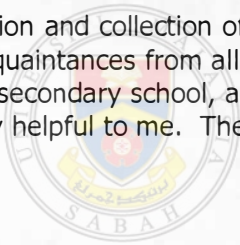
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ABSTRAK

THE EFFECT OF SERVICE QUALITY ON CUSTOMER RETENTION THROUGH CUSTOMER SATISFACTION: THE MALAYSIAN FAST FOOD INDUSTRY PERSPECTIVE

Kajian ini dibuat untuk menyelidiki pengaruh kualiti perkhidmatan dengan menggunakan lima dimensi SERVQUAL (Parasuraman rt. Al., 1988) iaitu 'tangibles', 'reliability', 'responsiveness', 'assurance', dan 'empathy', sebagai sukatan/ukuran keatas 'customer retention' melalui 'customer satisfaction' di atas industri makanan segera di Sabah. Keputusan kajian ini menunjukkan sokongan yang kuat terhadap perhubungan di antara kualiti perkhidmatan dengan kepuasan pelanggan, di tangan sebelah dan perhubungan di antara kualiti perkhidmatan dengan menahan pelanggan melalui kepuasan pelanggan di sebelah tangan.



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ABSTRACT

THE EFFECT OF SERVICE QUALITY ON CUSTOMER RETENTION THROUGH CUSTOMER SATISFACTION: THE MALAYSIAN FAST FOOD INDUSTRY PERSPECTIVE

The current research was conducted to examine the influence of the service quality dimensions using the five (5) dimensions of SERVQUAL (Parasuraman et. al., 1988) namely Tangibles, Reliability, Responsiveness, Assurance, and Empathy as the measurement of perceived service quality on Customer Retention through Customer Satisfaction in the fast-food industry in Sabah. The results provide support for the theory that there are significant positive relationships between the five dimensions of service quality and customer satisfaction on the one hand and between the five dimensions of service quality and customer retention through customer satisfaction on the other hand.



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KEYWORDS

Perceived service quality, customer satisfaction, customer retention, attitude, patriotic prejudice.

CHAPTER 1

INTRODUCTION

1.1 Overview

Many individuals have lots of money. Many individuals aspire to become corporate figures running their own business and be financially independent. But the saying 'many are called, few are chosen' plays an extremely true role in the corporate world. Many wealthy individuals with money and interested in businesses are unable to venture into business. This is because they do not know how or where to start. Even if they do start, they are unable to guide their operation profitably due to many factors. These include lack of advertisements, poor quality of products or services. The entrepreneur may just be satisfied with their current operation without ambition to go big. When the McDonald's brothers started their operation they were not interested or they do not realise the opportunity that their fast food business could do. They remain a mere local fast food operator until the arrival of a far sighted man in the person of Ray Kroc who catapulted the McDonald's fast food operation throughout the globe. The various problems faced by many ambitious entrepreneur who are uncertain of what and where they should be going however can be overcome by these interested individuals should they venture into the franchisee business, specifically food franchisee businesses. In the franchise business, the most crucial area of operations is handled by the franchisors leaving the franchisees to concentrate on sales and implementing various promotional activities being organized by the franchisors.

In line with the importance of customer retention, this study was conducted to examine the influence of service quality measured by the five dimensions of SERVQUAL namely tangibles, reliability, responsiveness, assurance and empathy (Parasuraman, *et. al.*, 1988) as the measurement of perceived quality on customers retention on the fast

food restaurants in Kota Kinabalu. via customer satisfaction, as well as the moderating influence of the customers' attitude and their patriotic prejudice.

The principles underlying the concept of service quality when discussing it, are that service quality is more difficult to measure than quality of a good, that service quality is based on the consumers' perception, and service quality is the difference between the outcome of the service and what the customer expected prior to the service (Parasuraman, *et. al.*, 1985)

Consistent with the Malaysian Vision 2020 policy, whereby Malaysia aim to achieve 'fully developed country' status by the year 2020, the Malaysian lifestyle are also changing. The country's rapid socio-economic pace has resulted in significant changes in the lifestyle of the communities, including their consumption patterns, food habits and purchasing trends. More and more Malaysians are eating out, busy executives skip meals, and the younger generations are heavily on fast food breakfast. These activities lead to increased consumption of meat and meat products in Malaysia (Malaysian Journal of Nutrition, 1999). Though there are plenty of criticism on these changing eating habits of Malaysians, the fact is that this trend is on the increase. It is an area of growth which is not affected by inflation or devaluation of the Malaysian Ringgit. There is a great business opportunity in the fast food industry business. Per capita consumption of meat and meat products in Malaysia more than doubled from 15.70 kg in 1970 to 35.71 kg in 1990. This increase in meat consumption is mainly due to the rapid development and wide acceptance of value added meat and poultry products amongst Malaysian consumers. Meat products such as burgers, sausages, hotdogs and nuggets are widely accepted and consumed by all ethnic groups at home as well as in the fast food restaurants. The significant expansion of the fast food industry and the increase consumption of processed meat products make it necessary for a re-evaluation of the nutritional quality of popular

meat products currently available in the market (Abdul Salam Babji and Seri Chempaka Mohd. Yusof, Malaysian Journal of Nutrition, 1995)

The fast food industry is 'inhabited' by many fast food giants like McDonald's, Burger King, Kentucky Fried Chicken, etc from foreign countries. There are also local fast food restaurants in Malaysia such as RCH, Sugar Bun, Marrybrowns, etc. This study attempt to examine the reaction of the consumers to their perception of the standard of service quality of the fast food restaurants operating in Kota Kinabalu, Sabah.

1.2 Issues and rationale of this study

The importance of studying customer retention via customer satisfaction is economics. In order to increase a company's profitability to nearly double without having to cut costs, increase prices, or find new customers, simply hold on to your existing customers. Customer retention is important because it is far more expensive to find new customers than to keep your current customers happy (Pegler, PRTM's Insight Magazine, 2002). Customer retention will help in realizing economic goals like profitability, market share, return on investment and other positive financial issues. The business of fastfood is both service and products marketing. It is therefore important that problems are analyzed carefully and yet speedily and the correct cure applied to solve specific problem. But like a living organism, an organisation functions best if it can rely on a nervous system that will simultaneously deliver information to the parts that need it. If all systems and processes under one common infrastructure releasing rivers of information can be unified, it will allow your company to make quantum leaps in efficiency, growth and profit (Gates 1999). This study examines what activities lead to customer retention in the local fast food industry in Sabah.

1.3 Research problem

Jollibee is a fastfood restaurant chain in Asia which originates from the Philippines. It is one of the top if not the top selling fast food restaurant operating in Asia and once it has extended its operation in Kota Kinabalu, Sabah. Unfortunately it failed after merely a few years in operation. What was or were the cause of Jollibee's failure? Since no concrete research has been conducted to establish the cause of Jollibee's failure, one can only speculate. Marketers will state that customers are the main engine of success for any business and dealing with repeat consumers will greatly enhance the profitability of the business operations. We therefore study what is the effect of service quality on customer retention via customer satisfaction in Malaysia using Kota Kinabalu Sabah as the location for the research.

The current research examines the influence of service quality dimensions such as Tangibles, Reliability, Responsiveness, Assurance, and Empathy on Customer Retention via Customer Satisfaction in the fast-food industry in Sabah. Additionally, the above relationships are theorized to be moderated by other factors such as the Attitude of consumers towards fast food, and the Patriotic Prejudice (Nationalist mindset) of the consumers. The effects of these moderating variables are also examined together with the above.

In a nutshell the problem statement that this research has attempted to undertake is to understand the implications of service quality of fast-food restaurants on customer retention through customer satisfaction, as well as the moderating influence of the customers' attitude towards fast food, and their patriotic prejudice, the Malaysian fast food industry perspective.

1.4 Research objectives

Empirical studies to examine whether a number of variables have any effect in customer retention through customer satisfaction is the main objective of this research.

The other objective is to determine whether the moderating effect of customers' attitudes towards fast food and their patriotic prejudices contributes towards customer retention in this industry.

1.5 Scope of the study

The study will be conducted within the vicinity of the city of Kota Kinabalu at all the premises of the fast food restaurants. The samples will be those fast food restaurants customers in Kota Kinabalu from all walks of life such as students and working adults in both public and private employment.

1.6 Significance of the study

Apart from pushing back the frontier of knowledge in the field of marketing, it is hoped that the result of this research will enable the existing fast food restaurants operators to carry out the necessary reengineering in their respective organization with a view to increasing productivity and improving bottom line. To prospective fast food entrepreneurs, the outcome of the present study will also be of immense benefit to start them on the right footings.

The fast food restaurants operators should endeavour to establish a symbiotic relationship with their customers in order to create an atmosphere of a 'win-win' situation. The symbiotic pattern to be adopted is 'mutualism' whereby both fast food restaurants operators and customers will perceive themselves deriving mutual benefit from doing business with each other. (Ndubisi, 2003)

1.7 Organisation of Study

This research focuses on the five dimensions of SERVQUAL as the measurement of perceived service quality and its influence on customer retention via customer

customer satisfaction. This research also determine what effect the customers' attitude towards fast food and their patriotic prejudice have on customers' retention.

Chapter one gives an overview of the current research touching on general matter relating to relevant issues involved. The research problem are identified and the rationale addressing the problem stated indicating the importance of the research.

Chapter two basically review the various literature and past studies on service quality, customer satisfaction, customer retention, attitude and patriotic prejudice or nationalistic mindsets, and their effects and relationship with each other.

In chapter four the research findings are discussed. The profile of the respondents such as gender, race, age, marital status, education level and occupation are explained based on the frequencies tests conducted. The reliability test and its results including deleted item, result of test of differences as well as interpretation of the data analysis are discussed in this chapter.

The overall findings and the implication of this research is discussed in chapter five. Answers are attempted to be provided for the problem statement in chapter one. The limitation of the research is also stated in this chapter with the necessary comments or recommendation of conducting further study to enhance the research further.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This research has been undertaken to study and examine the relationship between the 5 dimensions of perceive service quality and customer satisfaction, between the 5 dimensions of perceive service quality and customer retention through customer satisfaction, and the moderating effects of consumers' attitude and their patriotic prejudice (patriotic mindset) towards fast food on customer satisfaction, customer retention and the relationship between customer satisfaction and customer retention.

The various variables in this study have been addressed in this chapter by referring to previous literature and research in the relevant areas. Literature on the creation of the methods of measuring service quality and its various criticisms, the related literature on customer satisfaction and customer retention is deliberated and discussed in this chapter. The literatures on customers' attitudes and their patriotic prejudice (nationalistic mindset) are also considered and their effect on customer retention via customer satisfaction analyzed.

The linkages between customer satisfaction and customer loyalty (retention) and the measures of service quality will be examined. Mittal and Lassar (1998) stated that there are several reasons for using measures of service quality to understand customer loyalty: Firstly, satisfaction is a rating of customer's experience with the service outcome, whereas quality is a judgment made about a firm's resources and skills. Unsatisfactory personal outcomes may be due to factors related to the customer's specific characteristics, and the customer may still rate the firm high or low on quality. Secondly quality ratings tell us the state of the service provider's resources and actions,

whereas, quoting Johnson *et al.*, 1995, satisfaction ratings tell us about the state of the consumers. That measuring satisfaction only tells us whether the customer is satisfied or not, but not what to do about it, whereas measuring quality tells us what aspect of service are below par and need improvement.

In order to be able to see the reason why Jollibee failed to establish itself in Kota Kinabalu, researchers must look at the consumer behaviour and the consumers' perception towards Jollibee. Question has been raised as to why some of the fast food restaurants like McDonald's and Burger King are successful in selling their products. According to Vignali (2001) who did a research on the marketing mix of McDonald's, McDonald's believe in going glocal, combining elements of globalisation and internationalisation in their marketing mix of the 7Ps – Product, Place, Price, Promotion, People, Process and Physical. In this way, McDonald's understands the cultures of other countries' which enable them to sell their product effectively. McDonald's products has the same standardised set of items and tastes but they adapted the food to suit consumers' tastes / preferences and laws or customs. McDonald's continue to open branches throughout the world and the price is set at localised pricing after considering the price objective (Soriano, 2002), determining demand, estimating costs, analysing competitors' cost, prices and offers, selecting a price method and lastly selecting the final price. As for promotion, they localise its marketing communications strategy to cater to the range of different cultures and differences in each country, they believe in staffing locally and promotion within to be able to satisfy the local customers' needs, their system is translated to different languages, the process of making food is the same everywhere and lastly the physical of the restaurants are clean and family friendly (Soriano, 2002). It can be said that McDonald's emphasize is mostly on how they understand the culture of each country to be able to sell and market their products effectively. In doing so McDonald's have to understand what satisfy the customer , what will retain them and also understand the customer attitudes and patriotic

prejudice in order to have an effective customer retention situation.

Also, for smaller restaurants or family owned restaurants, in order to retain the customers' loyalty, they most probably would focus on the quality of the food and the level of service given to the customers. If the food is of good quality, a wide range of food to choose from (Clark and Wood, 1999), reasonable and good service and atmosphere, most likely they have a higher attrition of customers as compared to the bad quality food. Customers also look for the level of service given to serve them and including the time they are shown to a table, take the order, waiting time period, when they are served and lastly the friendliness of the staff is the second most important (Clark and Wood, 1999). This is also supported by Soraino (2002), who did a survey of the customers' expectations factors in restaurants in Spain. In Spain, it is strongly influenced by the tourism industry, demographic factors, lifestyles and customs (Wright, Nancarrow and Kwok, 2001) as well as the economic situation of the country. It was found that the most important reason for customers to return to the same restaurant is the quality of food but the cost value and the service is also equally important to attract the customers and retain them as in Asian cultures, they like the individual attention and customers' pampering (Lee and Ugado, 1997). Restaurants are also a place for family gathering where strong family ties are significant like in Greece and China (Wright, Nancarrow and Kwok, 2001). Most of the time the restaurant failures are partly a result of the management's lack of strategic orientation of measuring and focusing on customers' satisfaction (Soriano, 2002).]

2.2 Definition of Concepts

2.2.1 Service Quality

Parasuraman *et al.*, (1985) defined perceived 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.

Zeithmal & Bitner (2000) defined perceived service quality as a global judgment or attitude relating to the superiority of a service. The concept of perceived service quality as enunciated by Parasuraman has been studied and critized by various researchers. Criticism were mainly made towards the difficulty of measuring the gap between one's perception against their expectation of service quality. In 1988, Parasuraman et al. came up with the SERVQUAL methodology and it has since been base for majority of research on service quality to be built upon.

The measure of perceived service quality used is the five dimensions of SERVQUAL developed by researchers Parasuraman et al.,(1988). SERVQUAL measures the five dimensions of service quality, namely reliability, responsiveness, assurance, empathy, and tangibles. These dimensions are defined as follows:

- (1) Reliability: In this research reliability refers to service reliability as opposed to product reliability. It relates to the ability to perform the promised service dependably and accurately;
- (2) Responsiveness: This refers to the service providers willingness to help customers and to provide prompt service;
- (3) Assurance: This refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence to the customers.
- (4) Empathy: This refers to the customers' need provision of caring and individualized attention to customers' need that the firm provides its customers. .
- (5) Tangibles: This refers to the appearance of the physical appearance of the service provider, the equipment, the

appearance of personnel and the communication (advertising) materials.

In most research studies done by SERVQUAL's authors, Reliability has been found to be the most influential determinant of overall service quality or of customer satisfaction with the service (Mittal & Lassar, 1998). The issue of service quality dimensions being contextual is an important impetus for adapting and replicating the instrument across several services, and offers some future research directions such as testing the model in different environment, service sector, and scenario (Ndubisi, (2003)

2.2.2 Customer satisfaction and customer retention

Satisfaction in the concept of customer satisfaction is an overall customer attitude towards a service provider (Levesque & McDougall, 1996:14) or an emotional reaction to the difference between what customers anticipate and what they receive (Zineldin, 2000), regarding the fulfillment of some need goal or desire (Oliver, 1999). Gerpott et al. 2001 has also provide a similar definition by proposing that satisfaction is based on a customer's estimated experience of the extent to which a provider's services fulfill his or her expectations.

Retention in the concept of customer retention has been defined by Zineldin, (2000) as a commitment to continue to do business or exchange with a particular company on an ongoing basis. Stauss et al. 2001. gave a more elaborate definition of retention as the customers' liking, identification, commitment trust, willingness to recommend, and repurchase intentions, with the first four being emotional-cognitive retention constructs, and the last two being behavioral intentions.

The development of customer retention is a strategic objective for most companies and marketers around the world agree that new customer acquisition alone will not ensure long-term success (Duffy, 2003). Retaining existing customer is cheaper than getting new customer. It has been suggested that getting new customer is five times more costly than retaining existing customers (Barsky, 1994; Reichheld & Sasser, 1990 as quoted by Mittal & Lassar, 1998). In addition to continuing to make profit by retaining an existing customer, as the longer a business firm can keep a customer, the greater the life-time revenue from the customer, the cost of serving that customer decline (Mittal & Lassar, 1998) thus, customer retention becomes an important source of long-term business success (Rust & Zahorik, 1993).

The relationship between customer satisfaction and customer retention has been researched by many researchers. The intention is to establish whether satisfaction always imply customer retention as "customer satisfaction drives future profitability, it being a vital measure of performance for firms, industries, and national economies' (Anderson *et al.*, 1994). Jones & Sasser (1995) opined that heavy use of satisfaction surveys by service industries is driven by the assumption that a satisfied customer will return for a repurchase.

The opinion by Jones & Sasser (1995) above has been disputed by other researchers. Mittal & Lassar (1998) were of the view that satisfaction does not always lead to customer retention. The reasons they gave were, firstly a dissatisfied customer may still continue his/her patronage if he/she expects no better from alternative suppliers. And secondly, quoting from Rust & Zahorik (1993), a satisfied customer may be willing (or even eager) to patronize alternative suppliers hoping to receive even more satisfying results.

According to Eriksson Lofmarck Vaghult, (2000), satisfaction increases customer retention, and customer retention depends on the substance of the relationship between parties. Satisfied and properly served customers are more likely to return to an organization than a dissatisfied customers who could choose simply to go elsewhere (Ovenden, 1995).

However other researchers have found that eventhough customers are satisfied, they may still decide to switch to another service provider. These satisfied customers may or may not intend to return to that particular service provider. This is the reason satisfaction does not necessarily lead to customer retention. (Hansemark & Albinsson, (2004) Even when customer satisfaction increase in a company, the retention level may remain unchanged (Lowenstein, 1995). Eriksson and Lofmarck Vaghult (2000) has also found that not all retained customers are satisfied customers and that they may only stay with a provider because of the lack of alternatives. It has also been argued that satisfaction does not necessarily lead to repurchase or retention. (Reichadd Aspinall, 1993). Customer satisfaction on its own cannot produce lifetime customers even though satisfaction can result in retention (Hallowel, 1996). Satisfaction is merely indicating a step towards the goal of customer retention and that retention effects increase with the degree of satisfaction (Stauss et al., 2001).

The various literature defines customer satisfaction as based on the difference between what customers expect and what they get and that the benefits of satisfaction are many with the most prominent being less price sensitivity, purchase of additional products and less interest in competitors (Hansemark, O.C. & Albinsson M, 2004). Retention is defined as repurchase intention and is obtained by good service and god relationships with the benefits amongst others of lower costs for the company, less price sensitivity,