THE ANTECEDENTS OF CUSTOMER LOYALTY
IN MALAYSIAN RETAIL-SHOPPING SETTING

By

LIM CHOW YENG

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Degree of
Doctor of Business Administration
PERMISSION TO USE

In presenting this dissertation in partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the University Library make a freely available for inspection. I further agree that permission for copying of this dissertation in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor, or in her absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this dissertation or parts thereof for financial gain shall not be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my dissertation.

Request for permission to copy or to make use of the materials in this dissertation, in whole or in part, should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah, Malaysia
ABSTRACT

Customer loyalty is gaining considerable interest from academics and business practitioners because both are interested in knowing the driving forces that enhance a company’s competitiveness. Despite the importance of customer loyalty, there is still a lack of comprehensive work to explore how customers develop loyalty to a particular retailing outlet, and how that loyalty can be maintained. The main objective of this study is to explore the antecedents of customer loyalty from both attitudinal and behavioral perspectives based on two underpinning theories. The underpinning theories are the Oliver’s Four-Stage Loyalty Model and the Mehrabian-Russell’s Environmental Psychology Model. The study setting is on retail-shopping in Malaysia, which focuses on the hypermarkets. The data is collected from a few hypermarkets within Klang Valley and Putrajaya. The instrument used in the study is a self-administered questionnaire. As for the statistical analysis, Structural Equation Modeling is used to test the hypotheses. The findings disclose that the antecedents of cognitive loyalty are the components of store image. They are service quality, product quality, product selection, store atmosphere, and promotion activity. The antecedents for affective loyalty are customer satisfaction, loyalty program, and retailer brand equity. The antecedent for conative loyalty is customer commitment. Likewise, the antecedent for action loyalty is conative loyalty. However, there are no mediating effects of emotional states on cognitive loyalty, affective loyalty, and conative loyalty. Thus, there are three strategic tools that dominate attitudinal aspect, namely, store image, loyalty program, and retailer brand equity. In addition, the findings of the study reveal that the relationships between the four stages in Oliver’s model of cognitive loyalty to affective loyalty, affective loyalty to conative loyalty, and conative loyalty to action loyalty are positive and significant. The study concludes that the Malaysian hypermarket’s customer loyalty level is evolving in stages. Hence, the establishment of attitude-behavior relationship has a great meaning to the retailers due to its predictive power, particularly in marketing strategy formulation.

Keywords: Customer Loyalty; Malaysian Retail-Shopping; Attitudinal and Behavioral; Oliver’s Four-Stage Loyalty Model; Mehrabian-Russell’s Environmental Psychology Model.
ABSTRAK


Kata Kunci: Kesetiaan Pelanggan; Peruncitan Malaysia; Sikap dan Perilaku; Model Kesetiaan Empat-Peringkat Oliver; Model Persekitaran Psikologi Mehrabian-Russell.
ACKNOWLEDGEMENTS

I would like to express my appreciation to my thesis supervisor, Associate Professor Nik Kamariah, for her priceless assistance and expert advice in the preparation of this thesis.

I would also like to thank the academic staff in College of Business for sharing their research experiences with me during the course work.

Special thanks to my family members and friends for their support and encouragement.
# TABLE OF CONTENTS

Permission to Use.............................................................................................................. ii

Abstract.................................................................................................................................. iii

Abstrak....................................................................................................................................... iv

Acknowledgements.................................................................................................................. v

## Chapter 1 Introduction

1.1 Introduction ....................................................................................................................... 1
1.2 Background of the Study ................................................................................................. 1
1.3 Problem Statement ............................................................................................................ 11
1.4 Research Questions .......................................................................................................... 16
1.5 Research Objectives ........................................................................................................ 16
1.6 Significance of Study ....................................................................................................... 17
1.7 Scope of Research .......................................................................................................... 20
1.8 Definition of Terms ......................................................................................................... 20
1.9 Organization of the Dissertation ...................................................................................... 22

## Chapter 2 Literature Review

2.1 Introduction ....................................................................................................................... 23
2.2 Objects and Dimensions of Loyalty ................................................................................ 23
2.3 Theoretical Underpinning of Oliver’s Four-Stage Loyalty Model................................. 27
2.4 Theoretical Underpinning of Mehrabian-Russell’s Environmental Psychology Model... 32
2.5 Oliver’s Four-Stage Loyalty Model........................................ 36
2.6 Antecedents of Customer Loyalty from Attitudinal Perspective........ 44
  2.6.1 Antecedents to Cognitive Loyalty..................................... 45
  2.6.2 Antecedent to Affective Loyalty........................................ 66
  2.6.3 Antecedents to Conative Loyalty.......................................... 70
2.7 Mediating Effect of Emotional Variable in Cognitive Loyalty.......... 81
2.8 Research Framework................................................................ 87
2.9 The Development of the Proposed Conceptual Model.................... 89
2.10 Summary.............................................................................. 96

Chapter 3 Methodology
3.1 Introduction............................................................................ 97
3.2 Research Design...................................................................... 97
3.3 Sampling Design..................................................................... 98
3.4 The Development of the Instrument........................................ 104
3.5 Instrument of the Study.......................................................... 116
3.6 Data Screening Method........................................................... 116
3.7 Data Analysis Method............................................................. 119
3.8 Mediation Analysis Method....................................................... 126
3.9 Pre-test and Pilot Study............................................................ 127
3.10 Summary............................................................................... 129
Chapter 4  Findings

4.1  Introduction..................................................................................................................131

4.2  Demographic Analysis.................................................................................................131

4.3  Data Screening Analysis.............................................................................................137
    4.3.1  Missing Data........................................................................................................137
    4.3.2  Outlier...............................................................................................................137
    4.3.3  Normality............................................................................................................138
    4.3.4  Linearity.............................................................................................................139

4.4  Data Analysis..............................................................................................................140
    4.4.1  Descriptive and Reliability of the Construct.......................................................140
    4.4.2  Factor Loading....................................................................................................141
    4.4.3  Correlation Validity..............................................................................................144
    4.4.4  Discriminant Validity...........................................................................................145

4.5  Measurement Model....................................................................................................146
    4.5.1  Confirmatory Factor Analysis for the Individual Construct.................................146
    4.5.2  Confirmatory Factor Analysis for the Measurement Model of
           Cognitive Loyalty......................................................................................................148
    4.5.3  Confirmatory Factor Analysis for the Measurement Model of
           Conative Loyalty...................................................................................................149

4.6  Structural Model.........................................................................................................151

4.7  Hypotheses Testing......................................................................................................157
    4.7.1  Direct Effect........................................................................................................157
    4.7.2  Indirect Effect.....................................................................................................159
4.7.3 Squared Multiple Correlations for Endogenous Variables ........... 162

4.8 Summary ............................................................................................................. 162

Chapter 5 Discussion and Conclusion

5.1 Introduction ........................................................................................................ 166

5.2 Discussion of Research Findings ................................................................. 166

5.2.1 Research Findings for Objective 1 ............................................................ 166

5.2.2 Research Findings for Objectives 2 ......................................................... 170

5.2.2.1 Cognitive loyalty and Its Antecedents .............................................. 170

5.2.2.2 Affective loyalty and Its Antecedents .............................................. 177

5.2.2.3 Conative loyalty and Its Antecedent ............................................... 182

5.2.3 Research Findings for Objective 3 ............................................................ 184

5.3 Theoretical Implications .................................................................................. 186

5.4 Practitioner Implications .................................................................................. 189

5.5 Implications to the Government and Consumer ........................................ 194

5.6 Limitations ......................................................................................................... 196

5.7 Recommendations for Future Study ............................................................. 196

References ............................................................................................................... 199

Appendices ............................................................................................................. 219
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.</td>
<td>Shopping behavior comparison between hypermarkets, supermarkets, and convenience stores</td>
<td>4</td>
</tr>
<tr>
<td>1.2.</td>
<td>Customer loyalty/retention’s ranking in top 10 challenges for CEO</td>
<td>7</td>
</tr>
<tr>
<td>2.1.</td>
<td>Definitions of loyalty</td>
<td>26</td>
</tr>
<tr>
<td>2.2.</td>
<td>Categories of loyalty</td>
<td>27</td>
</tr>
<tr>
<td>2.3.</td>
<td>Previous studies of loyalty based on Oliver’s Four-Stage Loyalty Model</td>
<td>39</td>
</tr>
<tr>
<td>2.4.</td>
<td>Research models from previous studies on Oliver’s Four-Stage Loyalty Model</td>
<td>40</td>
</tr>
<tr>
<td>2.5.</td>
<td>Definition of action/behavioral loyalty</td>
<td>43</td>
</tr>
<tr>
<td>2.6.</td>
<td>Recent loyalty studies in retail-shopping setting</td>
<td>48</td>
</tr>
<tr>
<td>2.7.</td>
<td>Recent studies on store image</td>
<td>52</td>
</tr>
<tr>
<td>2.8.</td>
<td>Previous studies on relationship between loyalty program and customer loyalty</td>
<td>76</td>
</tr>
<tr>
<td>2.9.</td>
<td>Previous studies of store image with emotions as mediating variable</td>
<td>82</td>
</tr>
<tr>
<td>2.10.</td>
<td>Research models from past studies on store image with emotions</td>
<td>83</td>
</tr>
<tr>
<td>2.11.</td>
<td>Research objectives and its hypotheses</td>
<td>88</td>
</tr>
<tr>
<td>3.1.</td>
<td>Locations of respective hypermarkets in Klang Valley</td>
<td>103</td>
</tr>
<tr>
<td>3.2.</td>
<td>Sampling size</td>
<td>103</td>
</tr>
<tr>
<td>3.3.</td>
<td>Original measurement scales and its reliability</td>
<td>105</td>
</tr>
</tbody>
</table>
Table 3.4: Items of perceived value ................................................................. 106
Table 3.5: Items of service quality ................................................................. 106
Table 3.6: Items of convenience ................................................................. 107
Table 3.7: Items of product quality ............................................................. 108
Table 3.8: Items of product selection ......................................................... 108
Table 3.9: Items of store atmosphere ......................................................... 109
Table 3.10: Items of promotion activity .................................................... 109
Table 3.11: Items of customer satisfaction ................................................ 110
Table 3.12: Items of customer commitment ............................................. 110
Table 3.13: Items of loyalty program ......................................................... 111
Table 3.14: Items of retailer brand equity ............................................... 112
Table 3.15: Items of emotional states ....................................................... 112
Table 3.16: Items of cognitive loyalty ....................................................... 113
Table 3.17: Items of affective loyalty ....................................................... 113
Table 3.18: Items of conative loyalty ....................................................... 114
Table 3.19: Items of action loyalty ............................................................. 114
Table 3.20: Instrument of the study .......................................................... 115
Table 3.21: Mediator effect ...................................................................... 127
Table 3.22: Reliability test on survey instrument ....................................... 129
Table 4.1: Demographic characteristics ..................................................... 132
Table 4.2: Shopping behavior of hypermarket respondents ...................... 135
Table 4.3: Univariate and multivariate normality for all items .................... 139
Table 4.4: Descriptive statistics and reliability of normalized variables ....... 142
Table 4.5: Factor loading for constructs………………………………………………..142
Table 4.6: Correlation estimates and correlation squares for cognitive loyalty……..144
Table 4.7: Correlation estimates and correlation square for conative loyalty………..145
Table 4.8: Discriminant validity for cognitive loyalty……………………………………146
Table 4.9: Discriminant validity for conative loyalty………………………………….146
Table 4.10: Goodness-of fit for revised individual construct…………………………147
Table 4.11: Goodness-of-fit for cognitive loyalty………………………………………148
Table 4.12: Goodness-of-fit for the antecedents of conative loyalty…………………..150
Table 4.13: New linkages as proposed by the structural model………………………152
Table 4.14: Goodness-of-fit for the conceptual model of customer loyalty……………154
Table 4.15: Direct impact of revised model – Structural parameter estimate………..157
Table 4.16: Indirect impact of revised model – Structural parameter estimate………..160
Table 4.17: Research objectives, hypotheses, and results………………………………..163
Table 4.18: Retained constructs with their items and factor loading of respective
items in the revised model…………………………………………………..……164
LIST OF FIGURES

Figure 1.1: Retail and shopper trends in Malaysia: monthly spent…………………5
Figure 1.2: Retail and shopper trends in Malaysia: monthly visitation……………..5
Figure 2.1: Oliver’s Four-Stage Loyalty Model……………………………………28
Figure 2.2: Synchronization of Theory of Reasoned Action with Oliver’s
Four-Stage Loyalty Model…………………………………………………………30
Figure 2.3: Theory of Reasoned Action………………………………………………30
Figure 2.4: Theory of Planned Behavior……………………………………………31
Figure 2.5: Mehrabian-Russell’s Environmental Psychology Model………………33
Figure 2.6: The Stimulus-Organism-Response model……………………………34
Figure 2.7: Loyalty scale based on Oliver’s Four-Stage Loyalty Model…………41
Figure 2.8: Satisfaction levels in Oliver’s model……………………………………69
Figure 2.9: The top tier of the conceptual model……………………………………90
Figure 2.10: The basis of middle tier for the conceptual model…………………..90
Figure 2.11: The middle tier of the conceptual model……………………………..91
Figure 2.12: The top and middle tiers of the conceptual model…………………..92
Figure 2.13: The top, middle, and bottom tiers of the conceptual model………..94
Figure 2.14: Conceptual model of customer loyalty in retail-shopping setting…..95
Figure 4.1: CFA of the measurement model for the antecedents of cognitive
loyalty………………………………………………………………………………..149
Figure 4.2: CFA of the measurement model for the antecedents of conative
loyalty………………………………………………………………………………..151
Figure 4.3: Hypothesized model for the customer loyalty conceptual model........ 155

Figure 4.4: Revised model for the customer loyalty conceptual model............ 156

Figure 4.5: Revised conceptual model of customer loyalty in retail-shopping setting………………………………………………………………………………… 165

Figure 5.1: Approach to obtain higher attitudinal loyalty.......................... 193
LIST OF APPENDICES

Appendix 1: Feature comparisons of five leading retailers in Malaysia…………… 220
Appendix 2: Previous studies of intercept method deployed in retail setting……… 222
Appendix 3: Questionnaire………………………………………………………… 224
Appendix 4: Outlier - Mahalanobis distance……………………………………… 230
Appendix 5: Normality……………………………………………………………… 235
Appendix 6: Linearity……………………………………………………………… 241
Appendix 7: Confirmatory factor analysis for the individual construct…………… 260
Appendix 8: AMOS test outputs for conceptual model…………………………… 269
CHAPTER 1
INTRODUCTION

1.1 Introduction
This introductory chapter begins with describing the background of the study, and
highlights the nature of the problem. Subsequently, the chapter presents the research
questions, and research objectives. It also discusses the significance of the study, and the
scope of research. The chapter ends with providing the definition of terms, and the
organization of the dissertation.

1.2 Background of the Study
The wholesales and retail trade sub-sector is one of the important service sectors in
Malaysia’s economy, it has contributed 13.3 percent of GDP in 2009. Likewise, this sub-
sector together with accommodation and restaurant sub-sector, employed 18.4 percent of
the total workforce in 2009 (Economic Report, 2010-2011). The Economic Report (2010-
2011) reveals that the wholesales and retail trade sub-sector registered an impressive
growth of 9 percent in 2009, partly contributed by the aggressive expansion of
hypermarkets and superstores. As at end of September 2010, there were a total of 125
foreign-owned hypermarkets and superstores operating nationwide.

In recent years, multinational hypermarket retailers such as Carrefour, Giant, and Tesco,
as well as reputable general merchandize stores such as Jusco, have succeeded in gaining
market share in Malaysia’s retailing market. They are leveraging on their financial power
The contents of the thesis is for internal user only
REFERENCES


