Chapter 3

3. REVIEW OF LITERATURE

Customer perceived value is widely recognized as an important determinant in developing marketing strategy and the study of consumer behavior. Percy et al. (2010) considered value as a vital constituent of relationship marketing, thereby the ability of a company to provide superior value to its customers is regarded as one of the most important success factors for a firm (Wang et al., 2004). This ability serves as a means of differentiation and a key to the conundrum of how to achieve a position of sustainable competitive advantage (Ravald and Gronroos, 1996; Heskett et al. 1994). Additionally, marketing strategies call for customer value creation as a means of fulfilling the needs of target customer segments thereby increasing satisfaction and customer loyalty (Porter, 1985, Slater, 1997). Despite its importance no universal conceptualization of perceived customer value exists in the current academic body of knowledge (Sanchez-Fernandez et al. 2009) and, the growing body of research about customer perceived value is quite divergent. Often the concept of perceived value not only lacks a clear conceptual delimitation in relation to other related marketing constructs like quality, satisfaction and loyalty, but the relationships between these constructs are also poorly explained (Lapierre et al., 1999; Sanchez-Fernandez & Iniesta-Bonillo, 2007; Sanchez-Fernandez et al., 2009).

The challenges faced by both academicians and practitioners in understanding customer perceived value and its relationship with other related marketing metrics can be attributed to multiple reasons. Firstly, because the construct of customer perceived value is subjective by nature (Zeithaml, 1988) and perception of value is prone to change depending upon place, time and use of a product or service (Parasuraman and Grewal, 2000) making it difficult to attain a
general consensus. Second, the definitions of customer perceived value have evolved over the period of time to become more and more complex ranging from being “the difference between the ‘utility’ provided by the attributes of a product and the ‘disutility’ represented by the price paid (Tellis and Gaeth, 1990) to “an overall trade-off between price and quality” (Sinha and DeSarbo, 1998) and even beyond to “the customer’s perceptions of what is received and what is given” (Sweeney and Soutar, 2001). Third, most of the earlier studies assumed perceived value as a uni-dimensional construct, however, in the context of marketing, especially in services, the conceptualization of customer perceived value is not only focused on the functional aspects of quality and price (Sheth et al., 1991) but is considered to be a complex construct that involves more than a mere rational assessment of ‘utility’. Several researchers believe value to be a multi-dimensional construct consisting of interrelated dimensions that forms a complex phenomenon (Sanchez-Garcia et al., 2007; Sweeney and Soutar, 2001). Fourth, although a multitude of multidimensional customer value approaches have emerged, no clear consensus on the dimensions has been arrived at on the basis of the empirical results presented. Besides, the inherent characteristics of services like intangibility, perishability, inconsistency and inseparability made the process of exploring the value dimensions difficult. Fifth, several researchers in social science believe “value” and “values” to be one and the same concept without proper theoretical arguments when clear proof against this fact exists that “value” and “values” are obviously different concepts. The difference lies in the relation established between them. The relation is a form of causality, i.e. value is perceived by an individual’s personal values. Simply put, personal values are features of the consumers, and value is perceived by a customer within an exchange process of an analyzed transaction (Woodruff, 1997). Last but not the least the term “value” has often been used interchangeably in marketing literature to identify
what the consumers obtain from the supplier and also what the suppliers obtain from the consumer (Woodall, 2003). Value researchers, who acknowledge these reasons, assert that more advanced measures are needed to understand how consumers perceive the value of products and services and call for developing improved customer value analysis tools to help managers assess the firm’s performance (Kumar et al., 2006). The proceeding sections in this chapter are going to provide the readers with an overview of the theoretical and empirical foundations of the value construct. Additionally the chapter will also touch upon the conceptual underpinnings of satisfaction, loyalty and their relationship with perceived value in services.

3.1. UNDERSTANDING CUSTOMER PERCEIVED VALUE

3.1.1. DEFINING VALUE

Traditionally value has been defined in the marketing literature as a ratio or trade-off between quality and price. Zeithaml (1988) defined value as the consumer’s overall assessment of the utility of a product based on the perceptions of what is received and what is given. However she expressed her concerns over the an exploratory study where some consumers perceived value to be low price, some considered value to be a balance between all the ‘get’ and ‘give’ components during a purchase and more often than not as a trade-off between quality and price. Several other definitions are prominent in the marketing literature. “Buyers’ perceptions of value represent a tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price,” defined Monroe (1990). Anderson et al. (1993) defined value in business markets as the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for the product, taking into consideration the available suppliers’ offerings and prices. Bolton and Drew
(1991) believed perceived value to be a trade-off between price and quality. According to Gale (1994), customer value is market perceived quality adjusted for the relative price of the product. “By customer value, we mean 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” defined Butz and Goodstein (1996). Woodruff (1997) defined customer value as follows: “Customer value is a customer’s perceived preference for the evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations.” Similarly, Ulaga and Chacour (2001) stated that perceived value is the trade-off between customers’ perceived benefits and perceived sacrifices in availing the firm’s offering. Table 3.1 summarizes some of the popular definitions of perceived value in the literature.

Table 3.1

<table>
<thead>
<tr>
<th>Popular Definitions of Customer Perceived Value in Marketing Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rescher, 1969</td>
</tr>
<tr>
<td>“Customer perceived value is defined as the outcome of an evaluation made by a single customer, and it constitutes three overlapping dimensions, namely the object that the customer evaluates, the locus of value in a certain context, and the underlying values that measure what is desirable for the customer.”</td>
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<tr>
<td>Zeithaml, 1988</td>
</tr>
<tr>
<td>“Perceived value is a customer’s overall assessment of the utility of a product based on perceptions of what is received and what is given.”</td>
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<tr>
<td>Monroe, 1990</td>
</tr>
<tr>
<td>“Buyers’ perceptions of value represent a tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price.”</td>
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<tr>
<td>Seth et al., 1991</td>
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</table>
| “Consumer choice is a function of multiple consumption values. These are functional, social, emotional, epistemic and conditional. The consumption values make differential
The various definitions of customer perceived value used in the literature reveal the heavy influence of different fields of social sciences and economics. With a thorough study of the definitions of perceived value WoodRuff (1997) revealed several areas of consensus as well as divergence. The agreements lie in the fact that perceived value is inherent in or linked through the use of some product/service. In addition customer value is perceived by the customers rather than being objectively determined by the seller and finally, these perceptions involves a trade off between what the customer receives and what he or she gets through the use of the product/service. However, the author also put forward several areas of divergence primarily in the way the definitions are constructed with the heavy use of terms like utility, benefits,
sacrifices, quality etc which themselves need a proper definition. Furthermore both the benefit 
and sacrifice components required re examination in order to attain a deeper understanding of 
perceived value (Ulaga, 2003; Huber, Herrmann and Morgan, 2001).

3.1.2. VALUE AS A UNI-DIMENSIONAL CONSTRUCT

The uni-dimensional perspective treats value perceived by the consumers as a singular general 
concept. Perceived customer value concept is thus measured and assessed with the help of a 
single measuring variable (or a set of strongly related variables) (Dodds & Monroe, 1985; 
Monroe & Chapman, 1987; Zeithaml, 1988; Dodds et al., 1991; Bolton & Drew, 1991; Spreng et 
al., 1993; Lapierre et al. 1999; Sweeney et al., 1999, Agarwal & Teas, 2001, 2002). Although the 
concept in itself is treated as uni-dimensional, it puts forward the possibility to include multiple 
antecedents of the customer perceived value into the equation. However, the value construct 
remains in its uni-dimensional form in all these equations and totally ignores the idea that it can 
be in fact formed by aggregation of several distinctive components (Sanchez-Fernandez & 
Iniesta-Bonillo, 2007)

Indeed, the uni-dimensional concept of customer perceived value forms the basis of all further 
value research and its advantage lies in its operational simplicity. Additionally, customer 
perceived value in the uni-dimensional view is treated from a utilitarian perspective and the 
economic and rational thought process of consumers are assessed on the basis of the benefits 
received and sacrifices made pertaining to a consumption situation (Sanchez-Fernandez & 
Iniesta-Bonillo, 2007). However, several value researchers (Holbrook, 1996, 1999; de Ruyter et 
al., 1997; Mattsson, 1992; Sweeney & Soutar, 2001; Sweeney, et al., 1996; Mathwick et al., 2001)
debate that the uni-dimensional approach to perceived value has potential disadvantages as it
does not reflect the complexity of the consumers’ perceptions in a marketing transaction, instead
refers to a general overall concept of value. Therefore, the accuracy in capturing the numerous
affective and emotional elements of consumer perception remains unaccounted for.

3.1.3. TOWARDS A MULTIDIMENSIONAL CONCEPTUALIZATION OF VALUE
Consumer value perceptions and preferences vary across contexts (Ganesh et al., 2000). Extensive review of marketing literature suggests that customer perceived value is multidimensional in nature (Rust et al., 2001; De Ruyter et al., 1997, 1998; Sinha and DeSarbo, 1998; Sweeney and Soutar, 2001). It consists of intrinsic and extrinsic sub dimensions involving both monetary and non monetary attributes (Hartman, 1967; Holbrook and Hirschman, 1982). From the perspective of both firms and consumers incorporation of market oriented practices and their subsequent integration in value dimensions provides a means of exploring and better understanding of customer value (Chen and Pascale, 2006). This approach of multidimensional value conceptualization is better than the earlier approach of considering value as a construct configured by only the benefit and sacrifice components, in a way that it helps in overcoming the narrowness of such an important marketing construct specifically its excessive concentration around economic utility (Zeithmal, 1988). Secondly it also incorporates an experimental view to the study of perceived value. The integration of this experimental view broadens the existing cognitive view of perceived value by taking into account an affective component also (Moliner et. al, 2007). Thus together with the trade-off logic of “getting” and “giving” affective variables like emotional benefits also come into picture (Havlena and Holbrook, 1986).
The multifaceted nature of customer perceived value is reflected in the emergence of a number of theories and empirical research. The means-end model originally developed by (Gutman, 1982) to explain how customers classify and process information about products, was modified by Woodruff and Gardial (1996) in the form of customer value hierarchy to provide a broader perspective of value and to account for customer experiences. Woodruff (1997) refined the same and proposed the customer perceived value hierarchy model including consumption goals, consequences and attributes that result in desired and received value. The hierarchy emphasized the dynamic nature of customer value (Please refer to Table 3.4 for a summary of the theories proposed).

**Figure 3.1**

The Evolution of Value Literature

Adapted from: Fernandez and Bonillo, (2007)

Fernandez and Bonillo, (2007) provided a systematic and concrete review of the widespread, extensive literature which tried to conceptualize customer perceived value starting from its links
to the pricing theories where value was considered unidimensional in nature to the recent advancements where in perceived value is considered multidimensional encompassing both utilitarian and hedonic aspects. Some of the important findings of Fernandez and Bonillo, (2007) suggest that the existence of both unidimensional and multidimensional conceptualization of perceived customer value exists only because of difference in understanding but value is essentially multidimensional in nature. Perceived value is relative because of its preferential, perceptual, personal and situational variations implying an interaction between a consumer and a product but the most important of all is its cognitive-affective nature making it essentially multidimensional (Fernandez and Bonillo, 2007).

3.1.4. MEASURING CUSTOMER PERCEIVED VALUE: THE DEVELOPMENT OF MULTIDIMENSIONAL SCALES

3.1.4.1. Consumption Values

In an attempt to understand the customer decision making process Seth et al. (1991) investigated into why customers make the choices that they do. The primary objective of the paper was to explore the different value components that affect customer decision making process and then to validate them in three different choice situations. Second, was to find out the value components which play the most critical role in each of those consumption situations. The authors of the paper attributed the choice behaviour to five different consumption values viz. functional value, conditional value, social value, emotional value and epistemic value. According to Seth et al. (1991) functional value pertained to whether a product was able to perform its functional, utilitarian, or physical purposes, social value referred to an image that was congruent with the norms of a consumer’s friends or associates and/or with the social image the consumer wishes to
project, emotional value was related to various affective states, which can be positive or negative, epistemic value was concerned with a desire for knowledge, whether that be motivated by intellectual curiosity or the seeking of novelty and finally conditional value reflected the fact that some market choices were contingent on the situation or set of circumstances faced by the consumers. However, the authors proposed that these five components of value are independent of one another and make differential contributions in a given choice situation. To operationalize the proposed theory the authors identified three choice situations involving cigarette smoking. The first pertaining to smoking and not smoking, a use versus do not use decision. The second being a choice of product type, use of filtered cigarette versus non filtered cigarettes and the third being the choice of one brand (Marlboro) over the other (Virginia Slims). The questionnaire for the study was designed through standard procedures including focus groups to generate the list of generic items that indicated salient concerns for the five different consumption values followed by a pre-test with respondents sampled from the population of interest. The questionnaire items were modified to suit the choice decision in each case. Data was collected using a wide variety of data collection methods from both smokers (n=65) and non-smokers (n=80) in the buy versus do not buy study, from users of competing product types (Filtered, n=63; Non-filtered, n=29) in the product type choice study and the users of competing brand (Marlboro, n=70; Virginia Slims, n=46) in the brand choice study. The entire set of measurement items for each of the three choice decisions were factor analysed separately. 13 factors were obtained for the use versus do not use situation. 15 factors were obtained in the product type choice situation and 13 factors were obtained in the brand choice situation. Even though no detail of the exploratory factor analysis is provided, the preliminary observations reveal that the authors followed an orthogonal rotation as they proposed earlier that the different consumption values are independent of one another. The
factors in each case served as independent variables in the three different stepwise discriminant model that followed for each choice decision. However, the authors did not mention whether means or factor scores were used. 7 factors, 8 factors and 2 factors were retained in the stepwise discriminant procedure in each choice situation mentioned above respectively. A classification study was also conducted after each discriminant analysis to check for the predictive validity of the discriminant model. The results revealed that emotional value and conditional value were the two most important factors discriminating smokers and non smokers. For the product type decision of the use of filtered or non-filtered cigarettes, functional and social value appeared to be the two most discriminating factors. Finally the brand choice decision was governed by social and emotional value. The classification analysis in each case revealed that the discriminant models were able to correctly classify more than 90% of the respondents.

3.1.4.2. The PERVAL

Sweeney and Soutar (2001) developed a 19 item PERVAL scale in order to measure customers’ perception of the value of a consumer durable good at a brand level. The scale was developed in a retail purchase situation to determine the consumption values that drive customer behaviour. The basic theoretical foundation of the scale was derived from Seth et al. (1991) however; the authors argued that the value dimensions may or may not be interrelated. In addition to it, the authors included price and quality as potential sub factors to the value construct unlike Seth et al. (1991) where they were incorporated into the functional value dimension. The authors followed Churchill’s (1979) approach for developing the measures of the multiple item scale starting with focus group discussions on the various value dimensions resulting in the generation of 107 items. Further refinements with consultation of 9 academic judges 92 items were retained. However,
the items pertaining to epistemic value and conditional value were removed from the final draft of the scale resulting in 85 items (quality =17, price = 15, emotional value = 22, social value = 29). The authors commented that epistemic value holds true in situations where the consumer is experiencing a service for the first time and is probably less important while purchase of a durable good. Conditional value on the other hand is a special case and is derived from temporary functional or social value of a purchase. In stage one of the research responses were collected from 273 postgraduate students at three Australian universities and four weeks later an identical questionnaire was administered to 130 of them. There were few additional questions to account for convergent, discriminant and criterion validity. The responses to the items were assessed on a 7 point Likert scale. 17 items were deleted in the process of analysis due to their test-retest correlation being less than 0.50. Additional 5 items were deleted from social and emotional dimensions due to potential iterations as indicated by the respondents thereby resulting in 63 items. The number of items in the scale was further reduced to 33 by observing the coefficient alpha and plotting the item to total correlation for each dimension. This was followed by a four dimensional principal component analysis with varimax rotation. On removal of the items with cross loadings, 24 items remained. In the confirmatory phase of stage one, the authors followed the technique as suggested by Bollen (1989) where in the four factor solution provided the best model fit with the lowest $\chi^2$ and highest AGFI over the one factor and three factor. Discriminant validity was established with the correlation between the value dimensions being significantly less than 1 (Bagozzi and Heatherton, 1994) as well as by Fornell and Larker’s (1981) method where in the average variance extracted for each dimension was greater than the squared structural path coefficient between two dimensions. In addition to it, the reliability (Cronbach alpha value) of the individual value dimension scales ranged from 0.82 to 0.91. The
second stage of the research with the 24 item scale was examined on a more diversified sample to overcome the criticisms elicited due to empirical investigations with student sample. 303 usable respondent interviews out of 875 respondents, randomly selected from Perth Metropolitan area in Western Australia were used to evaluate the robustness of the scale. Initial item-to-total correlations for the four dimensions resulted in reduction of the 24 scale item to 19 which was followed by an exploratory factor analysis revealing a clear four factor structure. Similar to stage one of the analyses, reliability and validity of this four factor scale was also established. In order to establish criterion validity of this 19 item PERVAL scale the value dimensions were used as independent variables in stepwise regression models with conceptually related constructs as dependent variables. The results indicated that the value dimensions were able to significantly predict variables like “willingness to buy” or “recommend to friends” and the multidimensional value explained consumer outcomes better than a single “value for money” item. In order to further evaluate the robustness of the PERVAL scale the third phase of the research was conducted with a post purchase situation rather than a pre purchase one as in the earlier stages of the research. With usable sample sizes of 323 from a furniture store and 313 respondents for a car stereo purchase the same four factor model was investigated in similar fashion as the earlier two stages of the research resulting in establishment of the scale.

3.1.5. MEASURING CUSTOMER PERCEIVED VALUE IN SERVICES

3.1.5.1. The SERV-PERVAL
The aforementioned PERVAL scale is promising in measuring customer perceived value of tangible products; however services differ from products in being intangible, perishable, variable and inseparable (Lovelock, 1983). Drawing inferences from past research, Petrick (2002) argued that the scales developed for measuring product’s perceived value is difficult to use when measuring perceived value of a service therefore, the multi-dimensional measurement of service value must consider the properties inherent in services. Following Zeithaml (1988)’s conceptualization of value as a trade off between the get and give components while evaluating a product or service Petrick (2002) proposed five dimensions of perceived value in services viz. monetary price, behavioral price, emotional response, quality and reputation. Monetary price was the price of the service as encoded by the consumer in economical terms, behavioural price was the other nonmonetary costs associated with the purchase like search costs, convenience etc. Emotional response was defined as a descriptive judgment regarding the pleasure that a service provides to the purchaser. Quality was viewed as a consumer’s judgment about the service’s overall superiority or excellence and finally reputation meant the prestige or status of the service as perceived by the consumer based on the image of the service provider. With an objective to develop a measurement scale for service value Petrick (2002) pooled 52 items from existing literature and examined those for content validity with the help of a panel of eight judges, all of them being expert in services marketing. This resulted in 25 items (quality = 4, perceived monetary price = 6, emotional response = 5, behavioral price = 5 and reputation = 5). The scale was pretested on 344 undergraduate students in the context of a fast food restaurant. The confirmatory factor analysis that followed using SAS System’s procasis procedures revealed satisfactory values of the goodness of fit indices as well as composite reliability scores which resulted in the scale being accepted for further validation and was named SERV-PERVAL. In
In order to examine the scale’s external validity and generalizability, the instrument was administered to respondents on two different seven-day Caribbean cruises. The instrument was operationalized by asking respondents to rate items on a 5-point Likert scale, 1 being “definitely false” to 5 being “definitely true.” Of the 394 and 398 completed usable questionnaires obtained, confirmatory factor analysis was applied to both of them. The model fit indices reflected good fit of the data. The composite reliability scores for each of the five factors for both the samples were greater than 0.90. Criterion validity of the scale was investigated using Pearson’s correlation between an overall measure of perceived value and the individual five factors followed by a regression analysis with the factors as independent variables and overall measure of perceived value as the dependent variable. The model came out to be significant explaining 63.5 percent of variance. The average variance for each of the factors was greater than any of the inter-correlations of the constructs suggesting discriminant validity of the SERV-PERVAL scale. The author agreed to Parashuraman and Grewal (2000) postulation that perceived value is dynamic and changes during different stages of a purchase, however, the SERV-PERVAL scale measured service value only after completion of a purchase and the role it played in the decision making process with the current conceptualization could only take place after the service has been rendered to the customer.

3.1.5.2. The GLOVAL

Sanchez et al. (2006) opined that the growing stream of literature which adopted the multidimensional approach to perceived value echoed two common underlying dimensions. The functional dimension which referred to the rational and economic valuations made by a consumer, and the affective dimension which captured the feelings and emotions generated by the purchase of a product or service. However, the authors pointed out the growing consensus
among researchers to separate the affective dimension into an emotional one relating to the internal emotions or feelings and a social one relating to the social impact of the purchase made. Empirical evidence for the aforementioned dimensions were ample in the existing marketing literature, however the authors argued that none of the studies considered overall perceived value of a purchase. The qualitative analysis from research in tourism parlance, Sanchez et al. (2006) inferred that a tourist makes a holistic conceptualization of perceived value taking into account the aspects relating both to the tourism package as well as the travel agency where the purchase was made which were revealed in statements by consumers like “because of all the things that we have been saying” while being asked about their tourism experience. The conclusions were drawn from two focus group discussions with a heterogeneous group of individuals in Madrid (Spain). Such post purchase evaluation of overall perceived value by a customer implied a review of all conscious and unconscious elements that entered into the decision making process in light of the consumption experience. This confirmed the proposition by Parashuraman and Grewal, (2000) that evaluation of perceived value is not a static event but a dynamic one and is continuously modified according to the consumption experience. Thus use of a product or service may give rise to new evaluation parameters in a consumer which were not considered before the purchase however has the potential to act as powerful evaluator elements. On the basis of this view the authors developed an initial measurement scale with 40 items following the PERVAL structure as proposed by Sweeney and Soutar (2001). 402 valid personal interviews across three tourist destinations in Spain was carried out on a 5 point Likert scale for each scale item. An exploratory factor analysis that followed revealed 6 distinct factors jointly accounting for 67.4% of the variance. In the confirmatory stage of the data analysis structural equation models were deployed in LISREL resulting in the establishment of four different functional
values, viz. Functional value of the travel agency: installations (4 items), Functional value of the contact personnel of the travel agency: professionalism (4 items), Functional value of the tourism package purchased: quality (4 items), Functional value: price (3 items), one Emotional value dimension (5 items) and one Social value dimension (4 items). Each of these values was tested for adequate model fit indices and a composite reliability score of .8 and above. The instrument was then subjected to both discriminant and convergent validity tests as suggested by Fornell and Larker’s (1981) and was named GLOVAL. A second order Confirmatory Factor Analysis was carried out to ensure that perceived value of a purchase is determined significantly by the six dimensions in the GLOVAL scale.

3.1.5.3. Extension to GLOVAL

In a theoretical and empirical extension of the GLOVAL scale Chengiz and Kirkbir (2007) proposed that besides the four functional value dimensions (installations, service quality, price and professionalism) and social value, the emotional dimension could be divided into three parts: hedonic perceptions, novelty perception and control perception. Hedonic perceptions pertained to situations where consumers seek fun, amusement, fantasy, arousal, sensory stimulation and enjoyment. Novelty perceptions meant a change from routine, escape, thrill, adventure, surprise even boredom alleviation. Control perception derives its origin from the fact that in services customers experience a series of interaction with the service personnel as well as the surroundings, which leads to higher level of consumer involvement in the entire process. Therefore an increased perception of a customer’s control over the service experience has the potential to result in positive service evaluation. In order to validate the scale the authors collected data through a structured questionnaire from patients aged over 18 years in Farabi
Hospital in Turkey. In total 41 measurement items were adopted from previous literature and anchored to a 5 point Likert scale. A total of 701 completed questionnaires were coded for data analysis. Exploratory factor analysis with varimax rotation revealed an eight factor structure however few items were deleted to adjust for low loadings. This was followed by a measurement model using AMOS 5 and the resulting factors were analysed for internal consistency and discriminant validity following the procedures outlined by Fornell and Larker (1981). The results revealed good fit of data and provided strong evidence towards a reliable and valid scale. A structural model was then developed with the eight value dimensions as exogenous variables and an overall indicator of perceived value as the dependent variable. The theoretical model showed a good fit with data. However, hedonics was not found to be a significant part of perceived value.

3.1.5.4. The Holbrook Typology

Recognizing exchange of values to be the central phenomenon to the marketing concept, Holbrook (1994) highlighted the importance of understanding the nature and types of value customers obtain in a consumption experience. Holbrook (1994) identified four key characteristics of customer value. He defined value as “an interactive relativistic reference experience”. First, its interactive nature is because of the fact that value can only be obtained through an interaction between the customer and the product; while a product may have many qualities, they only come to represent customer value when they are appreciated by customers within the context of a marketplace exchange. Second, value is relativistic because it can never be absolute when it is the result of customers, who differ amongst themselves, making comparisons between alternative possible sources of value in a multitude of different situations.
Customer tastes differ and may change over time or in response to the arrival of new styles. Hence, the third characteristic that value is a judgement of preference. Finally, value is found in the experience of consumption of the product, rather than in its purchase. Typically, the act of purchase is not an end in itself but the means of obtaining experiences derived from the product. In fleshing out the nature of customer value, Holbrook (1994) proposed a framework or typology, classifying customer value by three dimensions: Extrinsic value versus Intrinsic value (an offering appreciated for its functional, utilitarian ability to achieve something vs. an offering appreciated as an end-in-itself). Self-oriented value versus Other-oriented value (an offering prized for the effect it has on one self vs. the effect it has on others). Active value versus Reactive value (the customer acts on the object vs. the object acts on the customer).

Table 3.2

Holbrook’s Dimensions of Value

<table>
<thead>
<tr>
<th>Value Dimension</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extrinsic</td>
<td>The offering is not valued in itself but rather for its ability or function to achieve something, e.g. the extrinsic value of money or the value of a hammer which exists to function to drive in nails.</td>
</tr>
<tr>
<td>Intrinsic</td>
<td>Relates to the essential nature of the offering, which is valued as an end in itself, e.g. a music concert.</td>
</tr>
<tr>
<td>Self oriented</td>
<td>The source of value derived from an offering is its capacity to contribute to an individual for his or her own sake, e.g. reading a book for pleasure.</td>
</tr>
<tr>
<td>Other oriented</td>
<td>Value derived from an offering is in terms of what or how the offering may affect or influence others, e.g. family and friends, or the community, society, the country.</td>
</tr>
<tr>
<td>Active</td>
<td>Value is active when it involves a physical or mental manipulation of a tangible or intangible offering, e.g. value derived from using time saving devices such as using ATM machines instead of queuing in a bank to access money.</td>
</tr>
<tr>
<td>Reactive</td>
<td>Value is reactive when something is undertaken by the offering or with a consumer being part of the consumption experience, e.g. the experience of receiving a quality service.</td>
</tr>
</tbody>
</table>

Adapted from: Holbrook (1999)
Treating each of the three dimensions mentioned above as dichotomies Holbrook (1999) developed a matrix representing eight types of customer value: efficiency, excellence, status, esteem, play, aesthetics, ethics, and spirituality. Holbrook (1994) mentioned: “any or all of the value types distinguished earlier may and often do occur simultaneously to varying degrees in any given consumption experience.” This implies that the typology involved the co-existence of different types of customer value at the same time, which meant that consumption experiences entail many or even all of the value types identified in the typology; an assertion in line with Seth et al. (1991). A further elaboration revealed that the types of value are not mutually exclusive. A luxury automobile may provide different types of value to different customers. For a customer, the luxury automobile may provide the extrinsic, self-oriented, and reactive value of excellence. For another customer, the same luxury automobile may provide a combination of values, perhaps play and excellence in addition to esteem.

**Table 3.3**

**Holbrook’s Typology of Consumer Value**

<table>
<thead>
<tr>
<th>Orientation</th>
<th>Extrinsic</th>
<th>Intrinsic</th>
</tr>
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<tbody>
<tr>
<td>Self: Active</td>
<td>Efficiency (it results from the active use of a product or consumption experience as a means to achieve self oriented purpose, e.g. convenience is a particular type of efficiency where the input is time)</td>
<td>Play (corresponds to the value resulting from an active manipulation of offer being considered as a source of pleasure for the individual, e.g. the fun or enjoyment associated in visiting an amusement park)</td>
</tr>
<tr>
<td>Self: Reactive</td>
<td>Excellence (involves the assessment of the reactive potential capacity of an object or experience to serve as means to achieve a personal goal, e.g. quality of the product or service)</td>
<td>Aesthetics (refers to a passive and personal appreciation of the beauty of the objet or place of consumption, e.g. the ambience of a fine dining restaurant)</td>
</tr>
<tr>
<td>Other: Active</td>
<td>Status (means the ability of the product or consumption)</td>
<td>Ethics (involves doing something for the sake of others,</td>
</tr>
</tbody>
</table>
Holbrook’s conception of the nature and types of customer value is a useful contribution to consumer research and marketing practice. Its merits for consumer researchers lie in the assertion that: i) customer value lies in the consumption experience, not the product; ii) different types of value may be obtained; iii) these types of value may occur simultaneously and to varying degrees in any consumption experience; iv) there is an interrelationship between the different types of value that arise in consumption; and v) the types of value may be subject to a higher-order classification (such as the dimensions proposed in Holbrook’s typology).

### 3.1.5.5. The Service Value Scale

Following the Holbrook typology of value, Sánchez-Fernández et al., (2009) developed an approach of understanding and measuring value in the services context. Holbrook (1999) postulated eight types of customer value; however Sánchez-Fernández et al., (2009) examined that some of the value types in Holbrook’s framework were related in such a way that it was extremely difficult to operationalize them separately. Therefore the authors combined some value types in an overarching category. Status and esteem was combined as social value because “the active nature of status and the reactive nature of esteem tend to blur together in ways that rendered the two hard to distinguish” (Holbrook, 1999). Social value arise when one’s own

---

**Other:**

<table>
<thead>
<tr>
<th>Reactive</th>
<th>Esteem</th>
<th>Spirituality</th>
</tr>
</thead>
<tbody>
<tr>
<td>experience to achieve the success in the eyes of others, e.g. success communicated to others via purchase of a luxury car</td>
<td>e.g. the virtue communicated to others by involving in social service</td>
<td>(involves acceptation, appreciation or admiration of others, e.g. the faith embedded in worship)</td>
</tr>
<tr>
<td>(corresponds to a passive acquisition of possessions appreciated as a means to build a social image, e.g. reputation attained on availing a abroad trip)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Adapted from: Holbrook (1999)*
consumption behavior serve as a means to influence the responses of others (Holbrook, 2006). Similarly, ethics and spirituality was combined under the overarching heading of altruistic value, as they had in common that, both occur outside the sphere of ordinary marketplace exchanges (Sánchez-Fernández et al., 2009). Thus Holbrook, (2006) defined altruistic value as a concern for how one’s own consumption behavior affects others where the experience is viewed as a self-justifying end-in-itself.

In his earlier work, Holbrook did not consider the cost side of the value construct. Holbrook (1999) admitted that his treatment of the customer value concept implicitly regarded value as a cost-free benefit, which meant that only the benefit side and not the sacrifice side was included in his approach. Sánchez-Fernández et al., 2009 circumvented this problem by including negative value inputs like monetary cost, time, and effort in the value type efficiency, because efficiency involves the get-versus-give aspects of consumption (Sánchez-Fernández and Iniesta-Bonillo, 2007). Accordingly Sánchez-Fernández et al., 2009 proposed an exploratory consumer value model that represented an empirical adaptation of Holbrook’s proposal (1999) with six value dimensions (efficiency, quality, social value, play, aesthetics and altruistic value). To empirically investigate the latent variables measurement items were adopted from previous literature and modified to fit the context of study (vegetarian restaurants) and anchored to 5 point Likert scales. The items were selected on the basis of interviews with both vegetarian and non-vegetarian customers from different social groups, and with professionals specialized in market studies. 306 customers of vegetarian restaurants across Spanish cities were interviewed. An initial elimination of items computing the item to total correlation for each dimension was followed by a confirmatory factor analysis using LISREL 8.5. Several items were eliminated in
an attempt to improve the goodness of fit indices resulting in a 24 items in the six conceptualized dimensions. A secondary confirmatory factor analysis with the 24 items resulted in a satisfactory fit of the data. The psychometric property of the measurement instrument was investigated using scale composite reliability (Bagozzi and Yi, 1988) and average variance extracted (Fornell and Larker, 1981) all of which produced acceptable values for all six dimensions. Content validity was already established in the theoretical purification of the items, however convergent and discriminant validity was examined following the tests proposed by Anderson and Gerbing (1988). The results were all consistent with the rules laid. The authors went a step ahead to justify the multidimensional nature of value by estimating a second order reflective structure where in the values of the loadings of the reflective indicators were all significant.

**Figure 3.2**

**Service Value Dimensions**

![Service Value Dimensions Diagram](image)

*Adopted from: Sánchez-Fernández et al., 2009*
3.1.6. THE PLETHORA OF SERVICE VALUE DIMENSIONS

Considering the numerous studies towards a multi-dimensional conceptualization of perceived value, it is interesting to note that not all value researchers and academicians consider the same dimensions of value as developed by Sheth et al., (1991) or as proposed by Sweeney and Soutar, (2001) or the Holbrook typology (1999). This difference can be attributed to the fact that not every dimension is suitable for the context of study and often new dimensions are required to properly capture value in the said contexts. This difference is even magnified in the context of services. Because, customer perceived value of services differ from those of goods due to greater risk and uncertainty involved in the purchase process (Zeithaml, 1988). Additionally, services are more complex in nature and the customer expectations are varied coupled with intense competition making it difficult for practitioners to evaluate value. Although generic models of perceived value exist based on theory, time and again researchers have banked upon empirically exploring the value dimensions pertaining to the context of the study before moving to establishing the relationship of value with other marketing constructs. Thus we find that the generic model of value by Hartman (1967) considering cognitive and affective aspects was broadened by Mattsson (1992) in the context of services marketing with the introduction of three generic value dimensions viz. emotional (hedonic), practical (functional) and logical (rational). Almost at the same time the consumption-value theory (Sheth et al., 1991) was proposed where in values were classified as functional, emotional, social, epistemic, and conditional. Several authors agreed upon the fact that the value dimensions varied depending on market choice (Pura, 2005; Sweeney and Soutar, 2001; Wang et al., 2004) and the customers, who are the ones to evaluate it. Therefore a plethora of studies evolved which is evidenced in the works of

Baker and Crompton (2000), opined that the use of cognitive value perception, which is reflected in the functional value dimensions, are too simplistic in measuring the value perceived in a consumption experience. Therefore, the authors identified three sub dimensions to functional value viz. functional price (value-for-money), functional quality (perceived quality and expected yield of the product or service), and functional versatility (adaptability and practicality of the product). In addition they also put forward the inclusion of the social and emotional value dimensions. As the value literature became richer with theories and empirical studies, Sanchez-Garcia et al. (2006) conceptualized value as a complex six dimensional construct in tourism parlance (functional value of installation, contact personnel, purchase quality, price), emotional value and social value). Many researchers adopted this six dimensions into their study and it was extended further (Cengiz and Kirkbir, 2007) to include the sub dimensions of emotional value (novelty, control and hedonics). Roig et al. (2009) argued that the value dimensions are dynamic
and are subjected to change over time and across context. The authors adopted the eight dimensional value perception to evaluate customer perceived value in retail banking. Khan et al. (2013), in line with Gronroos (1996), asserted that services are complex by nature and a perception of value in service is only possible when there exists a favorable relationship between the customer and service provider. And this customer relationship, which is a combination of special emotions and social norms, drives the creation of service value. Khan et al. (2013) thus made an attempt to conceptualize service value in terms of the functional and relational elements that spread across both cognitive and affective dimensions. Table 3.4 and Table 3.5 summarize the theories developed in value literature and the service value dimensions which are frequently referred to in the marketing literature.

Table 3.4

Theoretical Works in Value Literature

<table>
<thead>
<tr>
<th>Authors</th>
<th>Value Dimensions</th>
<th>Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hartman (1967, 1973)</td>
<td>Extrinsic value, intrinsic value and systematic Value</td>
<td>Axiological model of value</td>
</tr>
<tr>
<td>Hunt (1976)</td>
<td>Transaction of values or exchanges something of value</td>
<td>Nature and scope of marketing</td>
</tr>
<tr>
<td>Holbrook &amp; Hirschman (1982)</td>
<td>Hedonic value</td>
<td>Experiential aspects of consumption</td>
</tr>
<tr>
<td>Holbrook &amp; Corfman (1985)</td>
<td>Hedonic value and utilitarian value</td>
<td>Quality and value in consumption</td>
</tr>
<tr>
<td>Thaler’s (1985)</td>
<td>Mental accounting and consumer choice model</td>
<td>Cognitive psychology and economic theory</td>
</tr>
<tr>
<td>Monroe and Chapman (1987)</td>
<td>Acquisition (net gains from the products or services) and transaction value</td>
<td>Price-perceived value model</td>
</tr>
<tr>
<td>Sheth et al., (1991)</td>
<td>Functional value, social value, emotional value, epistemic value and conditional</td>
<td>Consumption value Theory</td>
</tr>
<tr>
<td>Mattson (1992)</td>
<td>Practical, Logical and Emotional</td>
<td>Service marketing</td>
</tr>
<tr>
<td>Authors</td>
<td>Value Dimensions</td>
<td>Service Context</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Holbrook (1994, 1996, 1999)</td>
<td>Three dichotomies: (i) extrinsic versus intrinsic (ii) self-oriented versus other oriented (iii) active versus reactive</td>
<td>Typology of consumer value</td>
</tr>
<tr>
<td>Woodruff (1997)</td>
<td>Desired value and received value</td>
<td>Customer value hierarchy model</td>
</tr>
<tr>
<td>Sanchez-Fernandez and Iniesta-Bonillo (2007)</td>
<td>Value is preferential, perceptual and cognitive-affective in nature</td>
<td>Literature Review</td>
</tr>
</tbody>
</table>

**Table 3.5**

**Empirical Papers in Value Literature**

<table>
<thead>
<tr>
<th>Authors</th>
<th>Value Dimensions</th>
<th>Service Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Danaher and Mattsson (1994)</td>
<td>Practical, Logical and Emotional</td>
<td>Hotel services</td>
</tr>
<tr>
<td>de Ruyter et al. (1997)</td>
<td>Emotional value, Practical value, Logical value</td>
<td>Hotel Service</td>
</tr>
<tr>
<td>Lemmink et al. (1998)</td>
<td>Functional, Logical, Emotional</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Leblanc and Nguyen (1999)</td>
<td>Functional value (want satisfaction), Epistemic value (knowledge), Image, Emotional value, Functional value (price/quality) and Social value</td>
<td>Business School Education</td>
</tr>
<tr>
<td>Babin and Attaway (2000)</td>
<td>Functional (quality, price), Emotional, Social</td>
<td>Shopping experience</td>
</tr>
<tr>
<td>Williams and Soutar (2000)</td>
<td>Functional, Emotional, Social, Epistemic</td>
<td>Tourism</td>
</tr>
<tr>
<td>Sweeney and Soutar (2001)</td>
<td>Functional (price, quality, versatility), Emotional, Social</td>
<td>Durable goods</td>
</tr>
<tr>
<td>Mathwick et al. (2001)</td>
<td>Aesthetics, Playfulness, Service excellence, Customer ROI</td>
<td>Internet and Catalogue Shopping</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Dimensions</td>
<td>Industry/Service</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Bick, Brown, and Abratt (2004)</td>
<td>Operational excellence, Product leadership, Customer intimacy</td>
<td>Retail Banking</td>
</tr>
<tr>
<td>Lam et al. (2004)</td>
<td>Service Quality, Price competitiveness</td>
<td>Courier Services</td>
</tr>
<tr>
<td>Wang et al. (2004)</td>
<td>Functional value, Social value, Emotional value, Perceived sacrifice</td>
<td>Security Firms</td>
</tr>
<tr>
<td>Liu et al. (2005)</td>
<td>Core service, Support services, Economic value</td>
<td>Financial Staffing Services</td>
</tr>
<tr>
<td>Pura (2005)</td>
<td>Social value, Emotional value, Epistemic value, Conditional value, Monetary value, Convenience value</td>
<td>Directory Services</td>
</tr>
<tr>
<td>Lin et al. (2005)</td>
<td>Website design, Fulfilment reliability, Security/privacy, Customer service, Monetary sacrifice</td>
<td>Web Services</td>
</tr>
<tr>
<td>Gallarza and Saura (2006)</td>
<td>Efficiency, Service quality, Social value, Play, Aesthetics, Perceived monetary cost, Perceived risk, Time and effort spent</td>
<td>Tourism</td>
</tr>
<tr>
<td>Lee et al. (2007)</td>
<td>Functional, Overall (practical, logical), Emotional</td>
<td>Tourism Product</td>
</tr>
<tr>
<td>Cengiz and Kirkbir (2007)</td>
<td>Functional value (installation), Functional value (service quality), Functional value (price), Functional value (professionalism), Emotional value (novelty), Emotional value (control), Emotional value (hedonics), Social value</td>
<td>Hospital</td>
</tr>
<tr>
<td>Pihlström and Brush (2008)</td>
<td>Monetary value, Convenience value, Emotional value, Conditional value, Epistemic value, Social value</td>
<td>Entertainment Mobile Services</td>
</tr>
<tr>
<td>Chang and Hsiao (2008)</td>
<td>Functional value, Social value, Emotional value, Context value, and Experience value</td>
<td>Hotel Industry</td>
</tr>
</tbody>
</table>
### Table 3.4

#### 3.1 SECTION SUMMARY

Customer perceived value over the years have gained a lot of importance from both academic community and practitioners due to its significant role in assessing consumer buying behavior and for attaining a sustainable edge in the competitive market. Zeithaml (1988) defined perceived value as a customer’s overall assessment of the utility of a product based on perceptions of what is received and what is given. Multiple definitions of perceived value exist; however, there are certain areas of convergence as well as divergence. The marketing literature on perceived value indicates the systematic propagation from its unidimensional inception to the multidimensional conceptualization for products and subsequently in services setting. To date, several measurement scales have been developed to capture the essence of multidimensional value in services (service value). Some of the popular scales include the Consumption values (Seth et al. 1991), the PERVAL (Sweeney and Soutar, 2001), the SERV-PERVAL (Petrick, 2002), the GLOVAL (Sanchez et al. 2006), the Holbrook typology (Holbrook, 1994) and the Service Value scale (Sánchez-Fernández et al. 2009). However, there is no general consensus to the number of dimensions and no universal conceptualization of the dimensions has emerged. Although academicians believe Holbrook’s value typology to be a major contribution to value paradigm, contrasting research indicates that the dimensions of service value remains to be a function of the consumer choice situation being explored and the service setting being examined.
3.2. ON CUSTOMER SATISFACTION

3.2.1. DEFINING SATISFACTION

Customer satisfaction is an important customer metric for marketing researchers and an important objective for the marketing practitioners (Erevelles and Leavitt, 1992, McQuitty et al., 2000). Gupta and Zeithaml (2006) argued customer satisfaction to be one of the most universally used customer-oriented metric by service/product managers as it can be measured relatively easily for products as well as services. “Customer satisfaction is an attitude like judgment following a purchase act or based on a series of consumer-product interactions” conceptualized Yi (1989). This definition indicated that customer satisfaction is customers’ evaluation of the extent to which a product and or service fulfills their expectations. The widely accepted definition of customer satisfaction is that it is a function of ‘expectancy disconfirmation’ (Rust and Oliver, 1994). This definition states that customers have pre-purchase expectations regarding the performance of a product/service, in terms of both attribute performance and overall performance. Upon consumption of the product/service, if the expectations are confirmed, the customer is satisfied. If expectations are positively disconfirmed (exceeded), the customer is highly satisfied. On the other hand, if expectations are negatively disconfirmed dissatisfaction results (Liyanage, 1999). On similar lines Tse and Wilton (1988) defined customer satisfaction as “the consumer’s response to the evaluation of the perceived discrepancy between prior expectations (or some form of performance) and the actual performance of the product as perceived after its consumption”. Kotler (1997) defined customer satisfaction as a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations. Brown (1992) defined customer satisfaction as “The state in which customer needs, wants and expectations throughout the
product or service's life are met or exceeded resulting in repeat purchase, loyalty and favorable worth-of-mouth.” Friday and Cotts (1995), Gitomer (1998) explained that a customer is satisfied when his needs are met, product and services are satisfactory, and the consumption experience is positive. This implies that if a customer claims to be satisfied or happy about a purchase, the customer’s overall feeling and experiences must either be neutral or positive.

3.2.2. CUSTOMER SATISFACTION MEASUREMENT

Marketing literature suggests that there are two contrasting approaches to measuring satisfaction (Anderson and Sullivan 1993; Boulding et al. 1993; Yi, 1989). Johnson et al. (2001) identified the two broad considerations in customer satisfaction research as (1) transaction-specific satisfaction (2) cumulative satisfaction or an overall satisfaction approach. In the transaction specific approach, customer satisfaction results from a post-consumption evaluative judgment of a particular consumption activity (Bearden and Teel 1983; Cronin and Taylor 1992; Oliver 1980, 1993; Oliver and DeSarbo 1988). The expectancy-confirmation/disconfirmation paradigm largely forms the theoretical rationale behind this approach (Prakash 1984; Oliver and Swan 1989).

The alternative economic psychology-based approach to customer satisfaction which is directly derived from the American Customer Satisfaction Index is measuring cumulative of overall satisfaction of a consumption experience and it tends to be relationship specific. Taking this perspective forward Johnson et al. (2001) defined cumulative customer satisfaction as the overall experience of customers with a product/service. On similar lines Anderson et al. (1994) defined customer satisfaction “as an overall evaluation based on the total purchase and consumption
experience with a good or service over time”. Thus according to Olsen (2002), it is the cumulative post-purchase evaluative judgment of a group of discrete purchase activities or transactions for a particular brand or firm over a duration of time. However, the most widely used measure of customer satisfaction in the marketing literature is in fact the cumulative approach. This is because the transaction specific concept relies on customer satisfaction as an outcome of a single transaction and is too restrictive in nature although in most product or service consumption experience deals with multiple encounters of the customers with the supplier. Additionally, the transaction specific approach lacks predictive power with regard to the association between customer satisfaction and customer loyalty (Anderson and Narus, 1990; Fornell et al., 1996; Ganesan, 1994). Therefore, Oliver (1999) asserted overall satisfaction to be more appropriate for an analysis of the satisfaction-loyalty relationship and highlighted the capability of the cumulative satisfaction construct in aggregating or blending individual satisfaction episodes.

Table 3.4

3.2 SECTION SUMMARY

Customer satisfaction is believed to be is a function of ‘expectancy disconfirmation’ (Rust and Oliver, 1994). It is defined as the consumer’s response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product or a service as perceived after its consumption. This implies that customer satisfaction is essentially a post purchase phenomenon. Satisfaction can be measured through a transaction specific or a cumulative approach; however the later is most widely used in marketing research.

3.3. UNDERSTANDING CUSTOMER LOYALTY

3.3.1. DEFINING LOYALTY
Marketing literature on brand loyalty has emphasized a lot on defining and measuring the brand loyalty construct and understanding the factors leading to the long term buyer-seller relationships. Jacoby and Chestnut (1978) considered brand loyalty as a set of six necessary and collectively sufficient conditions which defined brand loyalty as (1) the biased (i.e. nonrandom), (2) behavioral response (i.e. purchase), (3) expressed over time, (4) by some decision making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) a function of psychological (decision-making, evaluative) processes.

The aforementioned definition highlights brand loyalty to be an evaluative process (the sixth condition) that facilitates a customer to develop a commitment towards a product/brand/service/company. This concept of commitment differentiates brand loyalty from the repeat purchasing behavior. The concept is based on the belief, attitude and intention structure of consumers for a certain brand (Back and Parks, 2003). A brand loyal customer is committed to a particular brand (Bloemer and Kasper, 1995). This commitment leads the customer to buy the same brand each time the same product is required. Therefore, Oliver (1996) defined customer loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior”. Pertaining to services, Gremler and Brown (1996) defined loyalty as “the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.”
However, the literature on loyalty reveals a varied nomenclature based on the context of study. Kostecki (1994) coined the term “brand loyalty” and defined it as “the degree to which clients are attached to a brand and also the degree to which they are likely to shift among brands”. Peter and Olson (1990) believed brand loyalty to be a customer’s purchase intention and behavior. Enis and Paul (1970) proposed “store loyalty” defining it as “the consumer's inclination to patronize a given firm (store) during a specified period of time” Biong (1993) introduced the term “vendor loyalty” which is “the intention to buy repeatedly from the same supplier and the intention of continuing the relationship with the supplier”. Morris and Holman, (1988) defined the same as “the predisposition’s to respond in certain ways to given stimuli, strength of preference over time, and future purchase intentions”. Dick and Basu (1994) as mentioned earlier said “customer loyalty” to be “the relationship between relative attitude toward one entity (brand/store/service/vendor) and repeat patronage” On similar line Hallowell (1996) opined that customer loyalty “is reflected by both length (retention) and depth (cross sell) of the bank-customer relationship”. In service parlance Czepiel and Gilmore (1987) defined “service loyalty” as “an attitude which develops under specific conditions and as a result of particular psychological processes”. Pritchard (1991) too believed service loyal customers to be “a customer [who] is perceived to purchase a service or product repeatedly and to possess a positive attachment or attitudinal disposition toward that service or product”

3.3.2. CUSTOMER LOYALTY AND ITS DIMENSIONS

Traditionally customer loyalty has been considered as a behavioral measure which is a representative of the proportion of purchase (Cunningham, 1966), the probability of purchase (Farley, 1964), probability of product repurchases (Kuehn, 1962), purchase sequence (Kahn et al.
1986) and purchase frequency (Brody and Cunningham, 1968). However, researchers have explored the psychological meaning of loyalty to distinguish it from the behavioral approach. They posit that true brand loyalty can only be assessed by understanding the attitudes, beliefs and intentions of customers. Behavioral loyalty is not enough to explain why and how true loyalty develops.

Day (1969) postulated a two dimensional concept of brand loyalty (i) true brand loyalty and (ii) spurious brand loyalty. The former being based on commitment whereas the later is based on inertia. Spurious brand loyal consumers are not committed to any brand and so their intention to repurchase the same brand is not as strong as that of the true brand loyal customer. These set of customers show no attachment to a particular brand and hence they can be easily attracted by the competitors offering a better deal or enhanced promotional activities. Therefore, the author proposed that brand loyalty should be evaluated by using both the attitudinal and the behavioral measures of loyalty. The author further argued that once attitudinal component is explored and used, loyalty becomes a concept specific to a brand and not a general one which describes customers’ overall behavioral pattern. This implies that once customers develop attitudinal loyalty towards product/service the probability of the customer switching to the competitive offerings in the market place becomes less.

Dick and Basu (1994) defined customer loyalty “as the strength of the relationship between a customer’s relative attitude towards brand/store/service/vendor and patronage behavior such as proportion of purchase, and the probability of purchases from the same supplier”. The authors highlighted that behavioral loyalty measures were not adequate enough to understand the factors
leading to brand loyal purchase behavior. They further argued that behavioral measures were insufficient to explain how and why true brand loyalty developed. In an attempt to understand the relative attitude-behavior relationship the authors proposed a cross classification with relative attitude in one axis and repeat patronage in the other (both at two levels-high and low). This gave rise to four specific conditions: 1) No Loyalty (low relative attitude with low repeat patronage), 2) Spurious Loyalty (low relative attitude with high repeat patronage), 3) Latent Loyalty (high relative attitude with low repeat patronage) and 4) Loyalty (high relative attitude with high repeat patronage). Dick and Basu (1994) opined that understanding loyalty incorporating relative attitude is likely to increase the predictive ability of the construct. The authors went a step forward to conceptually identify the antecedents to relative attitude. The antecedents were classified into three categories; cognitive antecedents, affective antecedents and conative antecedents. A consistently favorable cognitive, affective and conative antecedent for a particular brand is expected to increase repeat patronage. Dick and Basu (1994) argued that if companies fail to account for attitudinal loyalty then that could lead to spurious customer loyalty.

**Figure 3.3**

**Cross Classification of Loyalty Types**
Consistent with Dick and Basu (1994), Oliver (1999) highlighted that loyalty developed at four levels namely, cognitive loyalty, affective loyalty, conative loyalty, and action loyalty. The cognitive loyalty, affective loyalty and conative loyalty together formed the attitudinal loyalty component of customer loyalty whereas; action loyalty represented the behavioral loyalty component of customer loyalty. Oliver (1999) theorized that customers become loyal in a cognitive sense first, then later in an affective sense, still later in a conative manner and finally in a behavioral manner. Cognitive loyalty is based solely on brand belief which results from prior knowledge or on recent experience based information. This customer state is shallow in nature, however, if satisfaction is processed; it becomes a part of consumer’s experience and begins to take affective overtones resulting in affective loyalty state. The commitment resulting from cumulative satisfying usage situations leads to affective loyalty. This state of loyalty is directed towards a direct liking or the degree of affect for the brand. Unlike cognitive loyalty the affective state of loyalty is not easily dislodged however it still remains subject to switching as evident with defectors who claimed to have been satisfied previously by the brand. Repetitive episode of positive affect for a brand leads to the next stage; conative loyalty, which implies a brand specific strong commitment to repurchase. And finally when intentions are converted to action it becomes action loyalty.

Griffin, (1995) illustrated that the repeat buying process of a consumer follows a purchase cycle, consisting of awareness of the product followed by an initial purchase, a post purchase evaluation of the product and finally a repurchase decision that included a positive attitude towards the product, and actual repurchase. The author opined that a high attachment of the customer with the product or service as compared to potential alternatives is necessary for
customer loyalty to exist. In addition to attachment, loyalty was also determined by repeat patronage. On the basis of attachment and repeat patronage the author proposed a cross classification of 4 loyalty types: (1) no loyalty (low attachment and low repeat patronage), (2) latent loyalty (low repeat patronage but high attachment), inertia loyalty (high repeat patronage but low attachment), and (4) premium loyalty (high attachment and high repeat purchase). The author mentioned that premium loyalty is the most desired loyalty type where as inertia loyalty is buying based on a habit, latent loyalty is dependent on situational effects rather than attitudinal influences.

3.3.3. CUSTOMER LOYALTY MEASUREMENT IN SERVICES

A review of the existing marketing literature reveals that most of the research in brand loyalty has been carried out on tangible goods. Gremler (1995), Gremler and Brown (1996), and Oliver (1997) pointed out the lack of both theoretical and empirical research within the context services. Czepiel and Gilmore (1987); Zeithaml (1981); and Snyder (1986) have argued that service loyalty and brand loyalty are in fact different constructs and the results obtained from tangible goods loyalty studies cannot be extrapolated to services because the consumer evaluation processes differs significantly in services parlance. The authors attribute this difference to the intrinsic characteristics of services, being intangible, heterogeneous and inseparable.

In one of the earliest studies on loyalty Snyder (1986), laid the conceptual foundation for service loyalty research. The study made an attempt to establish a reliable measure of service loyalty. However, the primary focus of the paper was to examine the relationship between purchase frequency of a service and the correlation between consumer demographics and service loyalty.
According to Prus and Brandt (1995) customer loyalty is reflected in terms of both attitudes and
dehaviors. The attitude component includes intention to purchase again, willingness to
recommend the service provider, and a resistance to switch to a competitor. On the other hand
the behavior component includes repeat purchase, purchasing of more and different products or
services from the supplier, and actually recommending the supplier to others. Thus Prus and
Brandt (1995) proposed the inclusion of customer behavior, intended customer behavior, and the
factors that impact customer behavior in customer loyalty measurement. Customer behavior
relates specifically to actual customer buying and referral activity and intended customer
behavior is what the customer tells the service provider that they intend to do.

Backman (1988) developed a conceptual model in recreational services in an attempt to explore
the utility of personal and marketing characteristics consumer loyalty. He incorporated a
behavioral as well as a cognitive component to operationalise service loyalty. In the two-
dimensional loyalty construct the psychological (cognitive) component involved attachment or
process presupposing that consumers would behave in a selected way and the behavioral
component referred to the repeat usage of the service. On the basis of these two components
Backman (1988) classified service loyalty behavior into four loyalty types: (1) High loyalty:
when consumers have a strong psychological and behavioral loyalty to a service, (2) Spurious
loyalty: when consumers exhibit high behavioral loyalty but their psychological loyalty to a
service is low, (3). Latent loyalty: when consumers have low behavioral loyalty but who exhibit
psychological loyalty and (4) Low loyalty: when consumers have low psychological and
behavioral loyalty. The author established that personal and marketing variables can discriminate
between these four loyalty groups. Although the distinction between 'true' and 'spurious' loyalty
dates back to the early studies of Day (1969), the importance of Backman's (1988) study is
apparent with the usage of the composite two dimensional service loyalty construct. Much later
Dick and Basu (1994) hypothesized a similar underlying model; however, it was never
empirically tested.

Pritchard (1991) asserted that the majority of loyalty studies in marketing literature took use of
the behavioral dimension in terms of repeat purchase behavior to operationalize customer loyalty
because of its simplicity and straightforward nature. The author undertook an exploratory and
then confirmatory approach to develop and validate a psychological commitment instrument
(PCI) for measuring service loyalty in the travel service industry. The three distinct factors that
emerged were: (1) Resistance: the factor reflected the overall reluctance, or resistance to change
either in beliefs or in association with the service provider; (2) Volition: it reflected the free
choice or one’s own responsibility on the decision to use a particular service provider and (3)
Complexity: the cognitive element and commitment towards the service provider. Although the
PCI index examined a travelers’ psychological commitment towards a specific travel service
provider, the importance of the study lies in the theoretical understanding of the attitudinal
components of service loyalty.

**Figure 3.4**

**Three Dimensional Concept of Loyalty**
Adapted from: Gremler and Brown (1996)

Gremler (1995), and Gremler and Brown (1996) defined loyalty in services as follows: “Service loyalty is the degree to which a customer exhibits repeat purchasing behavior from the service provider, possesses a positive attitudinal disposition toward the provider, and consciously considers using this provider, as a first choice, when a need for this service arises.” This definition is one of the earliest attempts to extend the loyalty literature to intangible goods and service. The authors put forward a three dimensional conceptualization (cognitive, attitudinal and behavioral) in their operationalisation service loyalty construct. The behavioral component depicted the repeat purchasing act of consumption, the attitudinal component included the positive feelings aspects towards the service provider and the cognitive component, included the consideration that consumers will consciously use the same service provider, as a first choice, when the need for the service arises once again.

In an empirical extension of Oliver (1999)’s propositions, Back and Parks (2003) developed a robust model in the context of the lodging industry which also encompassed the effect of satisfaction on the loyalty cascade. The survey instrument was developed based on a through literature of the existing scales used for measuring satisfaction, and the different stages of
attitudinal loyalty. However, the authors defined behavioral loyalty as the customers’ explicit behavior towards a specific brand in terms of repeat patronage behavior and believed that behavioral loyalty could be measured by determining the proportion of purchase of a particular brand as compared to the total number of brands purchased. Therefore the actual number of days a customer stayed in a specific brand of hotel as compared to the total number of days stayed at all brands of hotel over the past 12 months were recorded. The measurement items were anchored to 7 point Likert type scale. A total of 194 usable questionnaires were obtained from respondents who stayed at a national mid to upper scale hotel in North Carolina and were coded for data analysis. All the constructs appeared to be reliable following a reliability test using coefficient alpha. The authors then followed Anderson and Gerbing’s (1988) two step approach in which measurement models for all the constructs were tested for appropriate fit indices before moving on to the structural model. Discriminant validity for the constructs was also examined using Fornell and Larker’s (1981) method where in the average variance extracted for each construct appeared to be greater than the squared path coefficients between the constructs. The structural model that followed using LISREL 8.5 showed better fit to data in the four factor model with respect to the 2 factor or three factor model in terms of all the fit indices considered. The hypothesized relationships between the constructs were then examined. The results revealed that customer satisfaction had a significant indirect effect on behavioral loyalty only when mediated by attitudinal brand loyalty, including cognitive-affective-conative brand loyalty stages. The results confirmed the theory of reasoned action as postulated by Ajzen and Fishben (2000) as well as the brand loyalty stages put forward by Oliver (1999) i.e. a customer’s strong belief about a particular brand increases the degree of liking for the same which in turn is indicative of a strong intention or commitment to purchase or repurchase the brand finally
resulting in actual behavior of a high proportion of purchase frequency over other competing brands.

**Figure 3.5**

The Loyalty Cascade

Adapted from: Back and Parks (2003)

Table 3.4

3.3 SECTION SUMMARY

The brand loyalty literature has emphasized a great deal on defining and measuring the brand loyalty construct and understanding the factors leading to the long term buyer-seller relationships. Oliver (1996, p.392) defines customer loyalty as: “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour”. Traditionally customer loyalty has been considered as a behavioural measure. However, researchers have explored the psychological meaning of loyalty to distinguish it from the behavioural approach. They posit that true brand loyalty can only be assessed by understanding the attitudes, beliefs and intentions of customers. Behavioural loyalty is not enough to explain why and how true loyalty develops. The general consensus is that loyalty develops at four levels namely, cognitive loyalty, affective loyalty, conative loyalty, and action loyalty. The cognitive loyalty, affective loyalty and conative loyalty together
3.4. PERCEIVED VALUE AND CUSTOMER BEHAVIOR

3.4.1. VALUE, SATISFACTION AND LOYALTY LINKAGES

Despite a broad agreement in the literature on the conceptualization of the constructs like customer perceived value, perceived quality customer satisfaction and customer loyalty, there exists much disagreement among the various approaches with regard to the interdependencies between these three constructs. In an extensive review of literature Graf and Mass (2008) identified several competing models which examined the aforementioned relationships. Numerous authors (e.g. Zeithaml 1988, Cronin et al. 1997; Grewal et al. 1998, Sweeney et al. 1999; Kashyap and Bojanic 2000; Chen and Dubinsky 2003) assumed a direct relationship between customer perceived value and behavioral intentions, without explicitly involving customer satisfaction as a relevant construct as opposed to authors such as Andreassen and Lindestad (1998) and Ball et al. (2004) who opined that there is no direct relationship between customer value and behavioral intentions, rather satisfaction acts as a mediating variable in the relationship. On similar lines in a cross-industry survey Eggert and Ulaga (2002) concluded that customer satisfaction is a better indicator of customer behavior, and has a stronger effect on the cognitive variables such as repurchase behavior and recommendation than the cognitive construct customer value. As the perceived value literature evolved researchers examined the relationships between perceived value and behavior mediated through customer satisfaction, however, instead of considering value to be a construct of higher order, it was viewed as being
comprised of individual value dimensions. Several authors such as Wang et al. (2004), Liang and Wang (2004), and Spiteri and Dion (2004) assumed that a direct relationship exist between the individual value dimensions and satisfaction. There were others who believed that the value dimensions also had a direct impact on behavior (Gallarza and Saura, 2006; Molina and Saura; 2008). Few authors posit empirical evidence to a direct relationship between customer value and customer satisfaction as well as a direct effect of the two constructs on customer behavior (Oh 1999; Durvasula et al. 2004; Lam et al. 2004; Yang and Peterson 2004; Liu et al. 2005). However, Cronin, Brady and Hult (2000) and Durvasula et al. (2004) investigated whether, in addition to value and satisfaction, quality has any impact on customer behavior. The two papers tested different models. On the one hand, Durvasula et al. (2004) were able to show that perceived value and satisfaction had a direct influence on customer recommendation and repurchasing behavior, but quality only had an indirect effect. On the other hand, in an empirical study of six service industries, Cronin et al. (2000) confirmed the direct influence of quality, value, and satisfaction on recommendation and repurchasing behavior. Although the authors examined the direct impact of quality on satisfaction and behavior, the recent developments in value literature argue quality to be a functional sub-factor to value (Sanchez et al., 2006) and value to be a higher level of abstraction as opposed to quality (Zeithaml, 1988).

In a recent study, Wang et al. (2004) developed an integrated model to explore the decomposed effect of the customer perceived value dimensions on customer relationship management performance in terms of relationship quality and customer behaviors. The authors adopted the PERVAL framework as suggested by Sweeney and Soutar (2001), however they also incorporated customer perceived sacrifices as an additional dimension in terms of both monetary
and nonmonetary sacrifices. Customer focus group discussions and an initial exploratory factor analysis justified the inclusion. The tentative measurement items were adapted from extant literature which were then subjected to refinement by a focus group conducted among 20 customers. The final survey instrument had 18 items pertaining to service value, three items on customer behavior based performance and three items each on customer satisfaction and loyalty. The authors deployed stratified random sampling across two large Chinese securities firm. In all 320 completed questionnaires were considered valid and used for empirical analysis. Four service value dimensions as theorized were identified through a factor analysis explaining 86.1% of the variance. The adequacy of each multi-item scale was assessed through internal consistency, reliability convergent and discriminant validity.

**Figure 3.6**

**Competing models**

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
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<tbody>
<tr>
<td>CPV → BI</td>
<td>CPV → CS → BI</td>
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<table>
<thead>
<tr>
<th>Model 3</th>
<th>Model 4</th>
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<tbody>
<tr>
<td>CPV..D1</td>
<td>CPV</td>
</tr>
<tr>
<td>CPV..D2</td>
<td></td>
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<tr>
<td>CPV..D..</td>
<td>CS → BI</td>
</tr>
</tbody>
</table>

*CPV = Customer Perceived Value, CS = Customer Satisfaction, BI = Behavioral Intention, CPV D = Customer Perceived Value Dimension*

*Adapted from Graf and Mass (2008)*
Having established confidence in the measurement model the authors specified a structural equation model in PLS to test for the hypothesis. The findings revealed that apart from satisfaction, loyalty and functional value the rest of the value dimensions did not exert any significant impact on customer behavior based CRM performance. However all the value dimensions had a significant positive impact on customer satisfaction with the exception of perceived sacrifice which had a negative impact on the same as opposed to brand loyalty on which none of the value dimensions had any significant influence. As hypothesized customer satisfaction also exerted a positive impact on brand loyalty.

Gallarza and Saura (2006) adopted Holbrook’s (1999) value typology, combined it with the negative aspects of value following the traditional definition of tradeoff by Zeithaml (1988) and explored the relations between consumer perceptual constructs such as perceived value, satisfaction and loyalty. With reference to empirical research in literature and as a logical response to the means end model (Zeithaml, 1988) the authors proposed a model in which customer perceived value (an outcome of the customer perceptions on the individual value dimensions viz. efficiency, quality, social value, play, aesthetics, perceived monetary price, perceived risk, time and effort spent) was considered to be the best and most complete antecedent to customer satisfaction which in turn was an unique direct antecedent to customer loyalty. The survey questionnaire was designed by adopting empirically tested scales from the existing services marketing literature and the individual items were anchored to 5 point Likert type scales. Tourism being the context of study, a convenience sample of 274 was collected from students of two private universities in Spain to access university students’ travel behaviour. Thereafter the authors followed Anderson and Gerbing’s (1982) two step approach to first
establish the measurement model confirming the factor structure followed by the structural model using maximum likelihood estimation procedure in LISREL to test for the hypotheses. The results of the structural model revealed low levels of integrity for the proposed model with poor indications on all the fit indices. Nevertheless, it paved the way for a revised model to be examined which provided adequate fit to data. However two latent constructs (perceived risk and perceived monetary price) faced elimination. Time and effort was the only sacrifice component having a significant negative impact on perceived value. Besides as hypothesized, quality, aesthetics, play and social value appeared to be positive antecedents to value. Although the value-satisfaction-loyalty chain was empirically justified, the new model revealed that social value and play were strong antecedents to satisfaction and efficiency and quality to be strong antecedents to loyalty.

Although in the automobile sector, Gounaris et al. (2007) conceptualized customer perceived value as a formative construct with multiple dimensions and empirically examined the role of the same in influencing customer satisfaction, loyalty and behavioral intentions by proposing a model similar to Gallarza and Saura (2006). The authors believed perceived value to be subjective in nature and postulated it to be a function of six elements viz. product value, procedural value, personnel value, emotional value, social value and perceived sacrifice. With regard to the survey instrument, measurement items were adopted primarily from existing literature except for personnel value and procedural value for which new measures were developed following Churchill (1979). However brand loyalty was measured on two aspects: premium loyalty (the highest level of loyalty where in customers have favorable attitude towards a brand as well as they repeat purchase), and inertia loyalty (wherein customers repeat purchase
indeed, but lack favorable attitude and social reinforcement). In addition the questionnaire deployed also had items measuring behavioral intents relating to repurchase intention, positive word of mouth and cross purchases. Following a pretest on 20 respondents, 170 completed questionnaires were obtained through computer assisted telephonic interviews from a random sample using the telephone directory of Greece as the sample frame. An initial Cronbach’s alpha reliability scores of all the latent constructs appeared well above threshold values however the authors proceeded with a confirmatory factor analysis to validate the six sub-dimensions of value together with examining the uni-dimensionality of the other latent constructs. The convergent, discriminant and criterion validity of the constructs were examined following standard protocols however social value was eliminated from the subsequent phases of analysis in order to improve upon the fit indices. In the next phase the authors tested the hypotheses with the help of regression models. The results provided empirical evidence to the fact that the value dimensions had a significant positive impact on satisfaction with the exception of personnel value which was not significant and perceived sacrifice though significant the relationship was negative. The relationship between satisfaction and premium loyalty was statistically strong and significant indeed, however satisfaction had no impact on inertia loyalty. In addition, premium loyalty was related to cross purchase, positive word of mouth and repurchase intentions.

Molina and Saura (2008) believed customer perceived value to be an evaluative judgment which is subjective in nature, comprised of multiple components that determine its significance and an important determinant of attitudinal and behavioral loyalty. The authors pointed out that conceptualizing loyalty in a service business is difficult due to the inherent characteristic of services to be intangible, heterogeneous and inseparable. Therefore the authors tried to examine the differential influence of the components of perceived value on customer attitude and on
customer loyalty across retail stores. The perceived value items in the questionnaire were adapted from the scale developed by Sweeny and Soutar (2001). The measures for attitude and loyalty towards the store were also adopted from the literature. All the items were anchored to 5 point Likert scales. The retail stores selected for the study was identified from a national classification database of most important Spanish and Portuguese companies. The consumer sample of 390 was selected at the exit of the stores indentified earlier following a probability sampling process to account for sample representativeness across age and gender. A comparison of the mean scores of each value dimension across retail settings revealed statistically significant differences which revealed that customer assessment of perceived value varied across retail activities. Linear multiple regression models were estimated to test for the influence of the four value dimensions on customer attitude and customer loyalty towards the retailer. Quality and emotional value appeared to be the most potent value dimension affecting customer attitude and loyalty across various retail activities. Price appeared only statistically significant in affecting loyalty in clothing and footwear purchases. Social value seemed to have no impact on either of customer attitude or customer loyalty.

Roig et al. (2009) examined the relationships between multidimensional service value, satisfaction and customer loyalty in the financial services market. For this purpose the authors adopted the GLOVAL scale, empirically validated by Moliner et al. (2005) and Sánchez et al. (2006). A structured survey questionnaire was developed with closed ended questions on a 5 point Likert type response scale on the GLOVAL dimensions of value as well as the latent constructs of satisfaction, intentional loyalty and behavioral loyalty. A pretest on 20 users of banking services was carried out prior to the final field work in the Spanish provinces of
Castellon and Valencia resulting in 200 usable surveys. An initial confirmatory factor analysis was carried out in Lisrel 8.3 to account for the reliability, convergent and discriminant validity of the six dimensional service value scale. The scales used for satisfaction and two dimensional loyalty also met the standard requirements of reliability and validity. A structural model was deployed thereafter to test for the hypotheses on the impact of the individual value dimensions on satisfaction and loyalty dimensions. The model fit stood adequate with the probability of the χ² statistic greater than .05, GFI and AGFI being close to unity and the RMSEA being close to zero. The results revealed that satisfaction is determined, in order of importance, the functional value of the service, functional value of the personnel, the functional value price, emotional value and social value. Satisfaction had a direct positive impact on intentional loyalty which in turn had a direct influence on behavioral loyalty. Additionally emotional value, social value, functional value of the service and functional value price had a substantial positive effect on the formation of intentional loyalty. However, functional value of the installations neither had any effect on satisfaction nor on intentional loyalty.

Table 3.4

3.4 SECTION SUMMARY

Review of marketing literature indicates the existence of competing models that establish the relationships between perceived value, customer satisfaction and customer loyalty. Few authors assume a direct relationship between customer perceived value and behavioral intentions, as opposed to some who opine that satisfaction acts as a mediating variable in the relationship. As the perceived value literature evolved researchers examined the relationships between perceived value and behaviour mediated through customer satisfaction, however, instead of considering value to be a construct of higher order, it was viewed as being comprised of individual value dimensions. Although the dimensions of value adapted by the researchers are specific to the context of the study and the author’s arguments on the scales used, the findings provide empirical evidence to the existence of the relationship between the individual dimensions and satisfaction.
3.5. SATISFACTION AND LOYALTY ASSOCIATION

3.5.1. CUSTOMER SATISFACTION TO LOYALTY

In contemporary research, both academicians and practitioners have shifted their research focus from designing customer satisfaction metrics to evaluating loyalty in customers due to the latter’s impact on the firms’ bottom line. However there have been constant attempts in the marketing literature to improve upon existing measures of customer satisfaction and to understand how satisfied customers can be translated into loyal ones thereby increasing a firms market and financial performance. Indeed the positive relationship between customer satisfaction and customer loyalty has been univocally established in marketing literature and is empirically evidenced in the works of several researchers (Anderson 1996; Anderson et al. 1994; Fornell 1992; Fornell et al 1996; Ping 1993; Rust and Zahorik 1993; Rust, Zahorik, and Keiningham 1995; Taylor and Baker 1994), however, few authors argue that the positive relationship is not always generalisable. A loyal customer is believed to be a customer whose expectations from a purchase are met or exceeded (satisfied) and they proactively refer the supplier to others. However, customer satisfaction does not always indicate that there will be customer retention. Authors such as Ganesh, Arnold, and Reynolds (2000); Bendapudi and Berry (1997); Keaveney (1995) found out that there are instances where a satisfied customer shows lower levels of loyalty and vice versa. On similar lines, Oliver (1999); Seiders et al. (2005) pointed out that high customer satisfaction does not always indicate high loyalty and simply maintaining a assortment of satisfied customers is not enough to guarantee their loyal behavior (Deming 1986; Jones and Sasser 1995). Reichheld (1992) thus asserted that even satisfied customers often including the
highly satisfied ones defect. Thereby in addition to exceptional customer satisfaction favorable attitude towards the brand needs to be developed. A positive attitude has the potential to get reflected in true repeat purchase which satisfaction alone cannot achieve unconditionally (Kamakura et al. 2002; Reichheld 1996).

Liljander and Strandvik, (1992) found out that customer satisfaction and repurchase intentions correlate positively. However, they put forward that the nature of loyalty has changed over time in the society is based on mutually earned loyalty by the constant delivery of superior value to the customers. According to Reichheld and Sasser (1990) and Reichheld (1996) retaining customers means getting into a continuous active relationship with a customer by listening to their complaints, anticipating their defection, and understanding why customers move to competitors. This is made possible by providing better value in a consumption experience.

### 3.5.2. SERVICE SATISFACTION TO LOYALTY

Empirical literature on customer satisfaction measurements often yielded results which suggest that the relationship between satisfaction and loyalty is not always constant. Pertaining to services, Oliva et al. (1992) pointed out that the relationship between service satisfaction and loyalty to be nonlinear although, in cases where customer satisfaction levels are high, a direct relationship with service loyalty exists. The authors added that, that customer's behavior lags behind customer satisfaction, making the phenomenon way too complicated to model the relationship between satisfaction and loyalty. Therefore Oliva et al. (1992) asserted that the satisfaction-loyalty relationship can be either linear or non-linear depending on the levels of customer involvement. Anderson and Mittal (2000) argued on similar lines that the link between
customer satisfaction and customer retention has the possibility of being asymmetric and non-linear.

Ruyter and Bloemer, (1999) proposed that the relationship between service loyalty and satisfaction is ambiguous and is more prominent for services which are delivered over longer period time. Ruyter and Bloemer (1999) further asserted that, in cases where levels of satisfaction are relatively high, satisfaction becomes the most important determinant of customer loyalty.

Tschohl (1995) postulated that it is often cheaper to retain existing customers rather than to attract new ones. Wiersema (1998) mentioned that it is six times more costlier to acquire new customers rather than satisfying an existing one. This is attributed to the fact that the benefits of loyalty are accrue over a period of time and is cumulative making it easier for firms to serve its existing customers. Treacy and Wiersema (1993); Wiersema (1998), Anderson and Mittal (2000) asserted that customers, who face no service problems show the strongest levels of loyal intentions, although, their intentions to pay more are not significantly higher than customers who are experience service problems that are resolved satisfactorily. Therefore in order to capitalize on the possibility of a customer to pay extra for a service, Treacy and Wiersema (1993), advised companies to craft their offerings to fit customer demand and deliver the same with minimal inconvenience and at competitive prices.

Table 3.4

3.5 SECTION SUMMARY

The strong association between customer satisfaction and customer loyalty is well documented in the marketing literature. Almost all these studies have considered the behavioral loyalty construct as the outcome of customer satisfaction. There are a very limited number of studies which have considered the
impact of customer satisfaction on the dimensions of customer loyalty. Past research also show that the attitudes people hold predicts their behaviour. The theoretical footing for the effect of attitude on behaviour lies in the ‘Theory of Planned Behaviour’ of Ajzen and Fishbein, (2000). Moreover, Dick and Basu (1994) state that if customers hold positive attitude towards a brand their previous purchase behaviour will continue. Both theoretical as well as empirical evidence also exit in services literature, however researchers indicate that the relationship tend to become more complex and nonlinear at times.