

CHAPTER II

LITERATURE REVIEW AND HYPOTHESIS

A. Theoretical Review

The literature review will explain about variables that are examined such as perceived-value, trust, and customer loyalty.

1. Relationship Marketing

The objective of relationship marketing is to strengthen long-term relationship. In addition, builds up durable economic, practical and social bonds among the parties involved (Kotler, 2012). (Gronroos, 2000) stated that is service providers should sustain the relationship attractive by applying good marketing strategies retaining group relationship with customers. The impact of post-purchased perceived value of a tourism bundle shows that the quality of connection between service provider and clients upgrades long haul an incentive for the two suppliers and clients, particularly for clients (Moliner et al, 2007). When all is said and done, association with clients is a key rule for promoting and turning into an overwhelming advertising worldview (Gummesson, 2002), and relationship marketing is a test for tourism (Fyall, Callod, and Edwards, 2003).

Customer Relationship Marketing focuses on developing mutually valuable long-term relationships with customers (Ravald & Grönross, 1996) on the basis of the core variables of perceived-value, trust, and customer loyalty

(Payne, Christopher, Clark, & Peck, 1995). For the company, appropriate Relationship Marketing leads to effective customer retention and loyalty, resulting in a gradual increase in the customer base, a rise in customer lifespan, a greater acceptance of brand extension, and improvements in business performance (Sirohi, Mclaughlin, & Witink, 1998).

2. **Customer Loyalty**

Customer loyalty is characterized as the conduct where buyers have it at the top of the priority list to repurchase or support favored items or administrations consistently (Oliver, 1999). Loyalty is imperative for an association and it is similarly vital to clients too in light of the fact that clients will put their faithfulness in items or administrations that are relied upon to convey more prominent value contrasted with the association's rivals (Reichheld, 1996). At the point when a customer has created loyalty towards the items or administrations given by a specific association, it has specifically limited the time spent in seeking, finding and assessing similar administrations gave by different contenders. Customer loyalty can be measured by behavioral and attitudinal elements or both (Day, 1969; Grisaffe, 2001; Russell-Bennett, Mccoll-Kennedy and Coote, 2007). As a result, customer loyalty can be a major source of sustained growth and profit and a strong asset to an organization (Anderson and Mittal, 2000).

3. **Trust**

Trust is characterized here as an anticipation held by an individual or a gathering that the word, guarantee, verbal or composed explanation of another individual or gathering can be depended upon (Rotter, 1967). Furthermore, trust is important in relationship between customers and travel agencies (Gilbert & Gao, 2005). Trust is a willingness to rely on an exchange partner in whom one has confidence, (Moorman, Despande, and Zaltman, 1993). Meanwhile, according to Morgan and Hunt (1994) trust influences the way in which exchange partners perceive disagreements and arguments. When trust is present, parties will view conflict as functional. Therefore, concerned parties can discuss problems openly because they do not fear malevolent actions by their partners (Morgan and Hunt, 1994). It is a security felt by customers that a brand would meet their expectations (Delgado-Ballester & Munuera-Aleman, 2001). Furthermore, Bloemer & Odekerken-Schroder (2002) stated that trust was a form of customer's belief to the honesty of service provider. Trust for Moorman et al, (1993) refers to the desire for trusting each other between both customer and service provider. Geyskens et al. (1996) conceptualize Trust as a multidimensional construct in the research of business to business (B to B) or business to consumer (B to C), with two dimensions: honesty/reliability/expectancy and fairness/ benevolence.

4. **Perceived-Value**

According to Zeithaml (1988), perceived value is “the consumer’s overall assessment of the utility of a product or service based on perceptions of what is received and what is given”. To be able to understand customer-perceived value to the full, the buyer’s value chain needs to be presented. Another scholar defined perceived-values as customers’ preference between items that offer more value, which is the entirety of item benefits, both unmistakable and elusive, and costs (Kotler, 2012). The definition of value results from the comparison between the benefits obtained and sacrifices made by (Zeithaml, 1988). Value is considered as a subjective and personal concept toward the products, services and relationships (Parasuraman, Zeithaml and Berry, 1985). Customer perceived value is described as the perception of quality, mindset, benefits gained and the financial value of the products or services (Bishop, 1984; Velimirovic, Velimirovic and Stankovic, 2011). stated that Response-pattern formulated by (Zeithaml & Bitner 2000) consists of four consumers’ perspectives:

1. Value is low price
2. Value is whatever I want in a product/service
3. Value is the quality I get from the price I paid
4. Value is whatever I get from whatever I have given

Moreover, the dimensions of perceived-values are developed into six points (Moliner, Sánchez, Rodríguez & Callarisa, 2007) which consist of:

1. Functional Value of the Travel Agency (Installation)
2. Functional Value of the Contact Personnel of the Travel Agency (professionalism)
3. Functional Value of the Tourism Package purchased (Quality)
4. Functional Value of Price
5. Emotional Value
6. Social Value

B. Previous Studies

This research is conducted based on various recent studies that explain the relationship between perceived-values, trust and customer loyalty in various sectors:

Table 2.1 List of Previous Studies

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|--------------------------------|--|
| Researcher | Kiki Oktora; Adrian Achyar (2014) |
| Title | The Effect of Post-Purchased Perceived-Value Towards The Relationship Quality of Hajj and Umrah Travel Agencies in Indonesia |
| Result | The post-purchase perceived-value significantly affects satisfaction and trust but does not affect commitment. And Satisfaction significantly affects trust and commitment, while trust does not affect commitment |
| Relevance to this study | The variables used are the same and this study refers to this research as the main reference. |

| | |
|--------------------------------|--|
| Researcher | J. Sa ́nchez et al. / <i>Tourism Management</i> 27 (2006) 394–409 |
| Title | Perceived value of the purchase of a tourism product |
| Result | The measurement perceived value of a purchase through 24 items grouped into six dimensions: (1) functional value of the travel agency (installations); (2) functional value of the contact personnel of the travel agency (professionalism); (3) functional value of the tourism package purchased (quality); (4) functional value price; (5) emotional value; and (6) social value. |
| Relevance to this study | The variables used are similar, and this research also assess the post-purchase perceived value in tourism context. |

| | |
|--------------------------------|--|
| Researcher | Koupai, Mona Rezai et al. <i>Advanced Social Humanities and Management</i> 2(1) 2015:102-112 |
| Title | Effects of trust and Perceived value on customer loyalty by mediating role of customer satisfaction and mediating role of customer habit |
| Result | The findings of this research shows that satisfaction variable is mediator in trust and has a positive and significant influence on establishment of loyalty. |
| Relevance to this study | The concept of mediating in both studies is similar. However, the context where the variables used is different, and resulting in the different outcome of managerial implication. |

| | |
|--------------------------------|---|
| Researcher | Hongwei He, Yan Li, et. al (2012) |
| Title | Value, satisfaction, trust, and loyalty |
| Result | Brand identity have direct and indirect effect on perceived value, customer satisfaction, and brand trust, but also have significant indirect effect on brand loyalty via its effect on perceived value. Brand identification mediates the effect of brand identity on perceived value, customer satisfaction, brand trust and brand loyalty. |
| Relevance to this study | The variables used in this research are relatively similar to this study, but used in different context |

C. Research Hypothesis

A hypothesis can be defined as a logically conjectured relationship between two or more variables expressed in the form of a testable statement (Sekaran, 2003). Relationships are conjectured on the basis of the network of associations established in the theoretical framework formulated for the research study. By testing the hypotheses and confirming the conjectured relationships, it is expected that solutions can be found to correct the problem encountered (Sekaran, 2003).

Based on the explanation of literature review and recent studies, the hypothesis will be formulated to investigate the research problems and to fulfill its goals. The hypothesis arranged based on the research framework are listed below:

1. Perceived Values on Customer Loyalty

Perceived value has its root in equity theory, which considers the ratio of the consumer's outcome/input to that of the service provider's outcome/input (Oliver & DeSarbo, 1988). The equity concept refers to customer

evaluation of what is fair, right, or deserved for the perceived cost of the offering (Bolton & Lemon, 1999). Perceived costs include monetary payments and nonmonetary sacrifices such as time consumption, energy consumption, and stress experienced by consumers. In turn, perceived value results from an evaluation of the relative rewards and sacrifices associated with the offering. Customers are inclined to feel equitably treated if they perceive that the ratio of their outcome to inputs is comparable to the ratio of outcome to inputs experienced by the company (Oliver & DeSarbo, 1988). In addition, customers often measure a company's ratio of outcome to inputs by making comparisons with its competitors' offerings. Perceived value is "the fundamental basis for all marketing activity" (Holbrook, 1994, p. 22). Moreover, high value is one primary motivation for customer patronage. In this regard, Sirdeshmukh, Singh, and Sabol (2002) argue that perceived value is a superordinate goal and customer loyalty is a subordinate goal, as it is a behavioral intention. According to goal and action identity theories, a superordinate goal is likely to regulate subordinate goals. Thus, perceived value regulates "behavioral intentions of loyalty toward the service provider as long as such relational exchanges provide superior value" (Sirdeshmukh et al., 2002, p. 21). Prior empirical research has identified perceived value as a major determinant of customer loyalty in such settings as telephone services (Bolton & Drew, 1991), airline travel, and retailing services (Sirdeshmukh et al., 2002). Chang and Wildt (1994) report that perceived

value has been found to be a major contributor to customer loyalty. In light of the preceding discussion and findings, it is proposed that:

**H1 : Perceived-values have a positive effect on customer loyalty
in the context of Umrah travel agencies.**

2. Perceived-Values on Trust

With respect to the link between the perceived post-purchase value of a purchase and the customer's trust in and commitment to the supplier, Morgan and Hunt (1994) consider that the benefits of the relationship are precursors of trust. The perceived value of a purchase can be considered part of the benefits of the relationship. For this reason, it can be posited that the perceived value of a purchase is an antecedent of customer's trust in the supplier (Singh and Sirdeshmukh, 2000). Some authors posit a causality in the opposite direction, i.e. the customer's trust is an antecedent of perceived post-purchase value, though this is a pre-purchase scenario, in which the customer's trust is an antecedent of the expectation of value (Sirdeshmukh et al., 2002). Trust has been conceptualized by some authors as a complex psychological state influenced by motivational and affective components (Bromiley and Cummings, 1996; Kramer et al., 1996; McAllister, 1995). This is a higher order affective process according to the classification of Berkowitz (1993), with slower processing, as against the value implied in a more cognitive evaluative process. For all these reasons of the preceding discussion and findings the hypothesis is:

H2 : Perceived-values have a positive effect on trust in the context of Umrah travel agencies.

3. Trust on Customer Loyalty and Trust mediating customer loyalty

Numerous analysts found that salesman conduct likewise impact customer trust (Pappas and Flaherty, 2008; Swan, Groves and Richardson, 1999). Besides, trust advancement is more reasonable to exchange while considering the business to customer. Consumers put stock in additional on very presumed association and, while showcasing association require more accentuation to relate hierarchical uniqueness more than the item includes (Keh and Xie, 2009). Trust additionally includes between the representatives of an association. At last, trust advancement is more appropriate to exchange while considering the business to purchaser showcase (Wirtz and Lihotzky, 2003) It is additionally discovered that the offer properties and support from staff at any powerful condition make clients reliable (Ruyter, Moorman and Lemmink, 2001). Mac (2009) recommended that the factor of mindfulness and learning with the specialist organization improve customer assumption that is fundamentally affected by affinity development. That relationship fulfillment makes customer reliable (Miyamoto and Rexha, 2004). At the point when the customer has trust on administrations and results of an organization then that thing drives it towards the loyalty (Ribbink, Liljander, and Streukens,2004). There are a few determinants that influence customer

devotion, and trust is pivotal part to determine customer loyalty. In addition, trust has more noteworthy effect over devotion as concentrated by 5, that when the level of trust is more noteworthy on the provider then unwaveringness will expand and customer need to hold with the provider by expanding the level of duty (Rauyruen and Mill operator, 2007). Essentially, Hierarchical achievement was considerably less demanding when its customer is steadfast and that dedication gives the advantage of maintenance, in type of persistent connection of the customer with the association (Kandampully and Suhartanto, 2000). For all these reasons of the preceding discussion and findings the hypothesis are:

H3 : Trust has a positive effect on customer loyalty in the context of Umrah travel agencies.

H4 : Trust mediate the influence of perceived-values on customer loyalty in the context of Umrah travel agencies.

D. Research Framework

This research focuses on post-purchased perceived-values, trust and customer loyalty. The theoretical framework of this study is drawn from the review of the literature related to the study. It gives a clearer picture of the variables influencing customer loyalty and trust based on the perceived value.

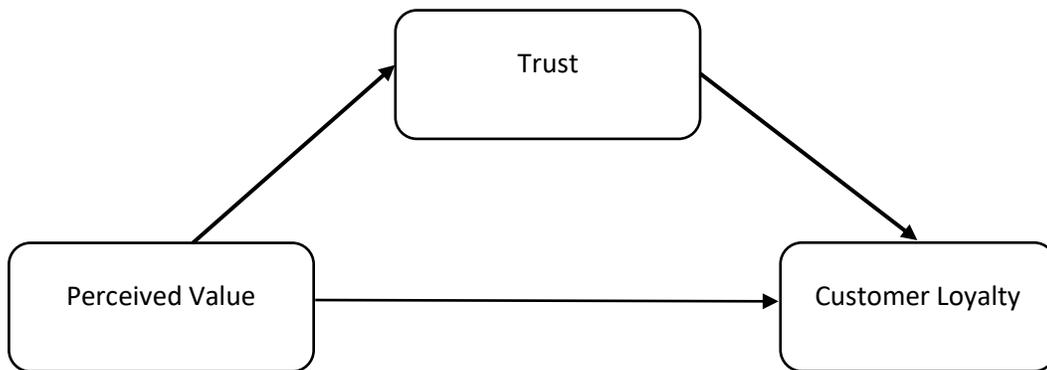


Figure 2.2 Theoretical Framework