

# RELATIONSHIP MARKETING AND DESTINATION LOYALTY: EVIDENCE FROM PENANG, MALAYSIA

Fatemeh Mostafavi Shirazi, Universiti Sains Malaysia  
Ahmad Puad Mat Som, Universiti Sains Malaysia

## ABSTRACT

*Relationship marketing is a strategy to obtain a competitive advantage in tourism destinations. The term is defined as marketing activities for creating and maintaining customer loyalty. Despite the fact that creating customer loyalty is the main objective of relationship marketing, there is little agreement on which antecedents could be used to achieve it. This is particularly true in the competitive market of tourist destinations. This study attempts to examine the level of international tourists' satisfaction with basic elements of destination (attraction, amenities, accessibility, image, price, people working in tourism), as well as the relationship between 'overall satisfaction' and destination loyalty in terms of revisit intention and recommendation. The results support the existing relationships between overall satisfaction and destination loyalty. We find that overall satisfaction is significant for revisit intention and recommendation. Finally, the paper discusses managerial implications as well as potential for further research in light of the findings.*

**JEL:** M30

**KEYWORDS:** Relationship Marketing, Satisfaction, Basic Elements, Destination Loyalty

## INTRODUCTION

Economic and technological changes as well as services sector growth provide a ground for strong and considerable competitive market in the tourism industry. Tourism destinations operate in competitive markets. Customers (tourists) have many choices. Most people like to try a new place. Due to the increased competition between destinations, the major way to grow market share is to build long-term relationships and create loyal tourists. It is argued that "with increasing global competition owing to newly-emerging destinations and tourists becoming more exacting in their choice and desire for a variety of options, relationship marketing arguably offers considerable potential to achieve competitive advantage" (Fyall *et al.* 2003:645). In the words of Flambard-Ruaud (2005), globalization of markets, competitive pressure, brand multiplication and, above all, changing life styles and consumer behaviors have forced companies to develop strategies to keep their clients, create consumer loyalty programs and thus carry out relationship marketing.

Kotler *et al.* (1999) make the point that customer satisfaction is the core issue in relationship marketing and a requisite for loyalty. Several scholars note that tourist satisfaction is a crucial factor to generate destination loyalty (e.g. Oh & Mount, 1998; Yoon and Uysal, 2005; Chi & Qu, 2008; Meng *et al.*, 2008), although a few studies assert that satisfied tourists may not return to the same destination. Therefore, it is imperative to evaluate tourist satisfaction to achieve a definite and significant competitive advantage. The aims of this study are to assess international tourist satisfaction with basic elements in Penang as well as its relationship with loyalty in terms of revisit intention and recommendation. The study also identifies significant factors that contribute to international tourist satisfaction and subsequently destination loyalty.

Penang is located in the northern region of Peninsular Malaysia. It is approximately 1,030 square kilometers, consisting of two separate areas, the Penang Island and Seberang Perai in the mainland with 1,773,442 inhabitants in 2010. On 7 July 2008, George Town, the historic capital of Penang, was

formally inscribed as a United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Site. Tourism is the second largest contributor to Penang's economy (OECD, 2011). Direct international tourist arrivals increased from 39,357 in 1970 to 583,097 (through international airport and Port Swettenham) in 2008. Major disembarkation countries for Penang were Indonesia, Singapore, China, Japan, Taiwan and Thailand in 2009. Penang is known as the 'Pearl of the Oriented' for its various attractions such as white sandy beaches, beautiful landscape and unique and diverse culture.

The degree to which a country can benefit from its tourism sector depends largely on the sector's competitive position in the international tourist market (Gomezelj & Mihalic, 2008: 249). Hence, in a highly competitive market, it is vital for a tourist destination to investigate international tourist satisfaction since customer loyalty is influenced by customer satisfaction (Okello *et al.*, 2005; Singh, 2006; Chi & Qu, 2008). The paper is structured as follows: the introductory section highlights the aims of the study. The next section presents the relevant literature about customer satisfaction in tourism destinations. The research methodology is then explained, followed by findings and discussions.

## LITERATURE REVIEW

### Satisfaction-loyalty in Relationship Marketing (RM)

Relationship marketing has drawn significant consideration since the 1990s, because customers have become more demanding in their exchanges and competition has increased (Sherrell and Bejou, 2007). Casielles *et al.* (2005:83) argue that in circumstance of global competitive market, international changes impact tourism destinations creating challenges to survive in market. Relationship marketing as a competitive strategy aimed at the creation, maintenance and development of successful relationship with customers is currently considered a management approach to cover all marketing activities and generate important advantages in its implementation, both for firms and customers". Berry (1983:26) defines relationship marketing as "attracting, maintaining and - in multi-service organizations - enhancing customer relationships". He believes the marketing mind-set is that the attraction of new customers is merely the first step in the marketing process. Cementing the relationship, transforming indifferent customers into loyal ones, serving customer as clients – is marketing too (ibid). Stated in another way, the focus of relationship marketing is elaborating on long-term relationships and improving corporate performance through customer loyalty and customer retention (CRM Today, 2007). According to Bruhn and Frommeyer (2004), measuring customer satisfaction, its antecedent and the consequence is important for effective control and management of relationship marketing.

Many scholars in the marketing literature examined satisfaction-loyalty relationships (e.g. Hallowell, 1996; Oliver, 1999; Homburg & Giering, 2001; Singh, 2006; Sharma, 2007; Bodet, 2008). Customer loyalty is influenced by customer satisfaction (Bitner, 1990; Dick & Basu, 1994; Oliver, 1999; Okello *et al.*, 2005; Singh, 2006; Chi & Qu, 2008) which in turn affects profitability (Zeithaml *et al.*, 1990; Reicheld & Sasser, 1990; Gummesson, 1993; Anderson & Fornell, 1994; Heskett *et al.*, 1990, 1994; Strobacka *et al.*, 1994; Rust *et al.*, 1995; Schneider & Bowen, 1995). In tourism research, various studies have identified a positive relationship between satisfaction and loyalty (e.g. Alexandris *et al.*, 2006, Yuksel & Yuksel, 2001, Chi & Qu, 2008) but some researchers demonstrate a non-positive as well as non-linear, asymmetric relationship between satisfaction and loyalty (e.g. Bowen & Chen, 2001, Niininen *et al.*, 2004). A number of studies note a complicated relationship between satisfaction and loyalty (e.g. Bennett & Rundle-Thiele, 2004). More recently, Velazquez *et al.* (2011:68) maintain that even though several studies have examined loyalty and satisfaction in the service literature, "there are still deficiencies in the conceptualization and measurement of loyalty and the nature of its relationship with satisfaction". Throughout the literature, there is consensus that satisfaction leads to repeat purchase and optimistic word-of-mouth recommendation, which are focal indicators of loyalty (Chi & Qu, 2008).

### Customer Satisfaction and Destination Loyalty

The works by Anderson & Sullivan (1993); Taylor & Baker (1994) and Cronin *et al.* (2000) confirm a considerable positive relationship between customer satisfaction and loyalty/retention. Valle *et al.* (2006:27) assert “the satisfaction that tourists experience in a specific destination is a determinant of the tourist revisiting”. In contrast, Reese (1996) found no positive relationship between customer satisfaction and customer retention. McDowell (2010:24) argues that satisfaction is a valuable concept in understanding the destination performance. Destinations that can identify attributes that satisfy tourists increase their chances of having loyal tourists. Reichheld (1993) argues that satisfaction indices do not fully predict loyalty. In this respect, Jang and Feng (2007:581) assert that although repeat visits are not the same as loyalty. It is meaningful to look at tourists’ revisits from a loyalty perspective. In the tourism industry, customer retention is a key factor for success in competitive marketing (e.g. Yoon & Uysal, 2005; Valle *et al.*, 2006; Hui *et al.*, 2007). Kotler (1994: 20) asserts that the key to customer retention is customer satisfaction which is crucial for successful tourism destination business (Yoon & Uysal, 2005).

As mentioned earlier, there is consensus that satisfaction leads to intention of word-of-mouth (WOM) recommendation, which is another key indicator of loyalty. Chi and Qu (2008:626) assert that if customers are satisfied with the product, they will more likely continue to purchase, and be more willing to spread positive WOM. Simpson & Siguaw (2008:167) argue that satisfied travelers might promote a destination because of their desire to help others (altruism), to appear travel wise (instrumentalism), or to reassure themselves and others about destination selection (cognitive dissonance reduction). Baloglu and McCleary (1999:892) found that word-of-mouth recommendations from friends and relatives was the most important source in forming touristic images. Zairi (2000) notes that satisfied customers are most probable to share their experiences with others, to the order of perhaps five or six people. Similarly, dissatisfied customers are likely to tell another ten people of their unpleasant experience. Yoon & Uysal (2005) mention that WOM recommendations are notably significant in tourism marketing for the reason that they are considered to be the most trustworthy, and hence one of the most preferred information sources for prospective tourists. It is likely to affect travelers’ destination choices considerably (Gitleson and Crompton 1984).

A positive relationship between satisfaction and loyalty in tourism destinations is acknowledged in several tourism studies (e.g. Valle *et al.*, 2006). Still there are open questions. Mckerecher and Guillet (2011:121), note that while loyalty research has focused on the individual, a strong body of evidence suggests that individual tourist revisits to international destinations are rare. In Chen and Gursoy’s view (2001), it may be true that loyal tourists are more inclined to use the same airline and stay the same franchised hotel wherever they travel; however, the tenet may not necessarily be applied to the selection of travel destination” (ibid). Importantly, as Andriotis *et al.* (2008:221) mentioned, tourist satisfaction has been considered as a tool for increasing destination competitiveness.

### **OBJECTIVES OF THE STUDY**

In the light the above literature review, this study proposed the following objectives to examine the relationship between satisfaction with basic elements and destination loyalty in terms of revisit intention and recommendation. The objectives of this study are 1) examine the satisfaction level of international tourists with basic elements of Penang, 2) identify the importance of basic elements of Penang in terms of revisit intention and recommendation and 3) examine the influence of overall satisfaction on destination loyalty in terms of revisit intention and recommendation.

## METHODOLOGY

A quantitative method was employed to collect data for this study. A survey questionnaire was used to conduct this study between June and December 2010. It was developed based on studies of Valle *et al.* (2006), Fabricius *et al.* (2007), Andriotis *et al.* (2008) and McMullan and O'Neill, (2010), because each tourist destination has particular attributes (Andriotis *et al.*, 2008). First, international tourists were asked about trip characteristics. Next they were asked to indicate the level of satisfaction or dissatisfaction concerning basic elements in Penang. Constructs have been operationalized using 5-point Likert scales, ranging from 1= strongly dissatisfy to 5= strongly satisfy), with expectation of questions related to the importance of basic elements of a destination, which were assessed on scales ranging from 1= not important to 5= strongly important. According to Allen & Rao (2000, p. 23), most, if not all, scales in customer satisfaction research yield interval data and, particularly, in tourism research, the Likert scale is widely used in questionnaires (Hsu *et al.*, 2008). The survey comprised 42 items including destination attributes (33 items) and overall perception of Penang (9 items). The 33 destination attributes were divided into six basic elements: attractions, amenities, accessibility, image, price and people working in tourism (Fabricius *et al.*,2007). International tourists were also asked to indicate the importance of basic elements in deciding whether to revisit or recommend Penang. According to Valle *et al.* (2006:28), several scholars agree that customer satisfaction can be estimated with a single item, which measures overall satisfaction. Accordingly, respondents were asked about overall satisfaction (1 question), their future intention for revisit to Penang and recommend it to others (2 questions). Demographic information was requested in the last part of questionnaire. The survey instrument also contained a covering letter, and short directions on how to fill the questionnaire. A pre-test was carried out to make certain the questionnaire was appropriate for this study. Based on a pre- test process, minor changes to wording and layout were made to ensure the questions were clear to all respondents. The self-administered questionnaire needed 10 minutes to complete.

Judgmental sampling was used where international tourists were approached at the departure lounge of the international airport of Penang Island. Purposive or judgmental sampling is a technique in which elements of the sample are selected based on the judgment of the researcher (Hsu *et al.* ,2008, p.142). The justification behind using judgmental sampling is that, it is more effective than other types of samples because the population (international tourists who visited Penang Island in 2010) may include international visitors who had transit visas or residency in Malaysia. A total of 445 usable questionnaires were collected from international airport of Penang Island. Descriptive statistics alongside factor analysis and multiple regressions were used to analyze data collected for this study.

## RESEARCH FINDINGS

Out of 500 questionnaires distributed, 445 were found usable for the study representing a response rate of 89%. Approximately 51% of respondents were males with 48% aged between 21 and 40 years of age. A total of 56% of respondents were married, employed as managers, professional or businessmen (43.3%) while 16.5% were retired or self employed and 13.5% were studying. Approximately 31% of respondents had income over US\$5000 per month, while 13.2 % earned less than US \$1000 per month. The vast majority of international tourists (72%) surveyed were from Europe, Australia and New Zealand, and North America, while 25.7% from Asia. The main purpose of visit was holiday (77.8%). Approximately 57% of respondents visited Penang for the first time. The internet was the main source of information for travel planning to Penang (57.3%) followed by friends and relatives (42.9%). More than half of the respondents visited Penang with family or families (56.3%). Approximately 67.8% of respondents stayed between two to six nights in Penang, while 25.1% of them stayed more than one week.

To investigate which destination attributes contribute the most or least to international tourists' satisfaction, respondents were asked to indicate how much they were satisfied or dissatisfied with each of

the destination attributes in Penang. Table 1 reports the ranking of mean values (M) of destination attributes. Variety of food was ranked the highest among destination attributes (M= 4.32), followed by friendliness of people (M = 4.25), reasonable price of food and beverages (M = 4.23), friendliness of people working in tourism (M = 4.13) and attitude of people working in tourism (M = 4.04). While cleanliness of environment was ranked the lowest among destination attributes.

Table 1: Ranking of Destination Attributes

Rank	Items	Mean
1	Variety of food	4.32
2	Friendliness of people	4.25
3	Reasonable price of food and beverages	4.23
4	Friendliness of people working in tourism	4.13
5	Attitude of people working in tourism	4.04
6	Services in restaurants and cafes	4.03
7	Diversity of accommodation	4.01
8	Variety of shops	3.98
9	Ease of access to Penang	3.98
10	Reasonable price of transport	3.92
11	Reasonable price of accommodations	3.90
12	Quality of service of people in tourism	3.90
13	Reasonable price of attractions	3.89
14	Diversity of transportation	3.87
15	Uniqueness of destination	3.84
16	Reasonable price of tour services	3.83
17	Communication skills of people in tourism	3.82
18	Distinctiveness of sight or scenes	3.80
19	Availability of financial services	3.74
20	Safety and security	3.71
21	Variety of cultural attractions	3.69
22	Variety of built attractions	3.66
23	Variety of natural attractions	3.66
24	Convenience of public transportation	3.59
25	Availability of visitor information	3.58
26	Availability of tour guides	3.57
27	Variety of recreation facilities	3.51
28	Helpfulness of welcome center	3.49
29	Quality of service in public utilities	3.47
30	Variety of entertainment	3.35
31	Availability of welcome center	3.31
32	Variety of special events or festivals	3.21
33	Cleanliness of environment	3.12

Note: Measurement Scale, 1=strongly dissatisfy and 5= strongly satisfy

Table 2 reports the mean scores of the importance of basic elements in Penang for repeat visitation or recommendation. Respondents were asked to indicate the importance of attractions, amenities, accessibility, image, price and people working in tourism in deciding whether to revisit or recommend Penang. The importance of the items was measured by five point Likert scales ranging from 1 being Not Important to 5 being Strongly Important. The items are sorted in descending order according to the mean importance scores. All basic elements have importance mean scores over 3, which are Price (M=4.05), Accessibility (M= 3.81), Image (M= 3.79), People working in tourism (M= 3.77), Amenities (M= 3.75), Attraction (M= 3.68).

Table 2: Importance of Basic Elements in Penang

Basic elements	Mean	Standard Deviation
Price	4.05	0.86
Accessibility	3.81	0.86
Image	3.79	0.92
People working in tourism	3.77	0.96
Amenities	3.75	0.92
Attraction	3.68	1.05

Note: Measurement scale, 1= Not Important and 5 = Strongly Important

International visitors were asked to indicate how satisfied or dissatisfied they were with their visits to Penang generally. Table 3 presents the overall perception of respondents about Penang. Respondents were asked to provide answers on each item that was measured by a five point Likert scale ranging from 1 being strongly dissatisfied to 5 being strongly satisfied. Based mean scores of each item, respondents tended to strongly satisfy with friendliness of local communities (M = 4.19), followed by value for money vacation (M = 4.10). Additionally, they were satisfied with overall quality of holiday experience (M = 4.08). The lowest mean value was on cleanliness (M = 3.16). Overall, the results indicate that international tourists surveyed were satisfied with the majority of Penang’s destination attributes.

Table 3: Overall Perception of Penang

Items	Mean	Standard Deviation
Friendliness of local communities	4.19	.805
Value for money vacation	4.10	.804
Overall quality of holiday experience	4.08	.747
Safety at destination	4.02	.808
Peaceful and restful atmosphere	4.00	.905
Quality of service	3.88	.821
Ease of communication	3.77	.826
Quality of facilities	3.55	.831
Cleanliness	3.16	1.023

Note: Measurement scale, 1= Strongly Dissatisfy and 5 = Strongly Satisfy

Relationship between Overall Satisfaction and Destination Loyalty

Regarding international tourists’ overall satisfaction with their trips to Penang, approximately 86% of respondents were very satisfied or satisfied with their trips overall. Only 11.6 % were neither satisfied or dissatisfied, while 1.8% dissatisfied and 0.9% very dissatisfied.

The regression analysis indicated a relationship between overall satisfaction and destination loyalty in terms of revisit intention and recommendation. Simple regression analysis was performed using overall

satisfaction as the independent and revisit intention and recommendation as dependent variables. Table 4 shows the relationship between overall satisfaction, revisit intention, and recommendation.

Table 4: Relationship between Overall Satisfaction, Revisit Intention and Recommendation

Coefficients										
Independent Variable	Revisit Intention					Recommendation				
	$R^2$	Beta	$F$	$T$	$Sig$	$R^2$	Beta	$F$	$t$	$Sig$
Overall satisfaction	0.032	.180	14.503	3.808	.000	0.303	.550	188.678	13.736	.000

Note: a. Dependent Variable = intention to revisit Penang in future b. Dependent Variable = recommendation to friends and relatives to visit Penang. \*\*Significant at the 0.05 level

The result of regression analysis indicates that overall satisfaction makes a statistically significant contribution in revisit intention. However, its effect explains only 3 percent of variance ( $R^2=0.032$ ) in respondents' scores on the revisit intention scale. The result is in agreement with previous studies in which overall satisfaction were found significant in predicting revisit intention. For example, Kozak and Rimmington (2000) found that the level of overall satisfaction with holiday experiences had a considerable influence on revisit intention to the same destination. Alegre and Cladera (2006:293) found that overall satisfaction has the greatest explanatory capacity, followed by the repeat visitation rate. The result of this study showed that overall satisfaction has a significant impact on recommendation intention. Overall satisfaction helps explain nearly 30 percent of the variance in respondents' scores on the recommendation scale ( $R^2=0.303$ ). In other words, the likelihood of international tourists recommending Penang to others was positively related to their overall satisfaction.

The result is consistent with the findings of Ritchie *et al.* (2008). They found that intention to recommend from international tourists had a high correlation with overall satisfaction in Australia. In addition, they assert that overall satisfaction is highly correlated with intention to recommend than to revisit in future. The findings of this study highly support the previous research conducted by Hui *et al.* (2007) and Ritchie *et al.* (2008) who found that satisfied international tourists were more willing to recommend a destination than to return to the same destination in the future. Accordingly, the findings of this study are in agreement with Chi and Qu's study (2008:631) who assert that overall satisfaction positively affected destination loyalty.

In identifying the significance of basic elements that account for tourists' overall satisfaction level, a regression analysis was utilized. The R square in Table 5 explains the variance in the overall satisfaction with basic elements of destination. In this case the value is 0.296. This means that satisfaction with basic elements in Penang explains 29.6 percent of the variance in overall satisfaction.

Table 5 Regression Analysis between Satisfaction with Basic Elements of Penang and Overall Satisfaction

Independent variable	$R^2$	$R^2$ adj	F	Sig.
Basic elements of destination	0.296	0.288	36.116	0.000

Dependent Variable: Overall satisfaction

According to Alegre & Garau (2010), it is well established that both overall tourist satisfaction and tourist's intention to return are partially determined by his/her assessment of the destination's different

attributes (p. 52). They found that in addition to a tourist's declared satisfaction with different attributes, certain negative situations or characteristics can partially explain overall satisfaction and intention to return (p. 53). The results of this study indicate that the influence of satisfaction with basic elements in Penang on overall satisfaction is statistically significant. It is in concordance with Chi and Qu's study (2008). They found the satisfaction attribute is positively affected overall satisfaction (p. 631).

## CONCLUSIONS

The investigation of satisfaction and future behavior is of great interest to both researchers and practitioners due to intense competition among international destinations (Kozak, 2000:800). The measurement of customer satisfaction is a crucial issue in relationship marketing. In the competitive market of tourism destinations, visitor satisfaction is a requisite for destination loyalty in terms of revisit intention and recommendation. However, the measurement of visitor satisfaction is complex and multi-dimensional. The results of this study indicate that international tourists were generally satisfied with Penang Island as a tourist destination. The results suggest that overall satisfaction is related to satisfaction with destination attributes. The highest satisfaction scores were variety of food, friendliness of people and reasonable price of food and beverage. On the other hand, cleanliness of environment received the lowest score on satisfaction. International tourists placed the highest importance on price in deciding to revisit or recommend Penang in future. The survey results also showed that the overall perception and satisfaction of international tourists about their trip to Penang was generally positive, and friendliness of local communities had the highest mean score.

This study has extends the research of overall satisfaction by investigating its influence on destination loyalty in terms of revisit intention and recommendation. The results revealed overall satisfaction was significant for both revisit intention and recommendation. The findings showed that overall satisfaction as a whole explained 3.2 percent of the variance in revisit intention, while it explained 30.3 percent of the variance in recommendation. While overall satisfaction has positive influence on destination loyalty, destination managers in Penang should provide the groundwork to increase overall satisfaction to achieve higher level of revisit intention and recommendation if it is to remain as one of the prominent international tourism destinations. A comprehensive understanding of the key findings of this study is important and prerequisite for tourists' destination loyalty. Since tourist destinations include a number of basic elements, a systematic analysis for evaluating tourists' satisfaction is imperative and required to achieve competitive advantages. Although the results of this study are specific to Penang Island, it offers theoretical and managerial implications to enhance the effectiveness of relationship marketing and competitive advantages of tourist destinations. Assessing satisfaction of destination attributes is a prerequisite for identifying the determinants of loyalty, but it is not sufficient. An evaluation of tourists' expectation to achieve a detailed analysis of determinants of destination loyalty shall be investigated in further research.

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## BIOGRAPHY

S. Fatemeh Mostafavi Shirazi, PhD in Tourism Business and Marketing can be reached at: mah\_mshirazi@yahoo.com Tel: =9821 22816044

Ahmad Puad Mat Som, Associate Professor, PhD is principle researcher, University's Research Grant in Tourism, Universiti Sains Malaysia. Ahmad can be reached at puadum@gmail.com Tel: 0060169573696