Effects of Students' Satisfaction and Co-Creation on the Relationship between Attitudinal Factors and Destination Loyalty: Evidence from International Students in Malaysian Public Universities

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LIST OF ABBREVIATIONS

AVE   Average Variance Extraction

CC   Co-Creation

CL   Customer Loyalty

CMV   Common Method Variance

CRM   Customer Relationship Management

CS   Customer Satisfaction

DART   dialogue, access, risk and transparency

DL   Destination Loyalty

F^2 Effect Size

FP   Foundamental Premise (FP1-10)

GD   Goods Dominant

GoF   Goodness of fit

HEdPERF   Higher Education Performance

HEIs   Higher Education Institutions

OECD   Organization for Economic Cooperation and Development

PI   Perceived Image

PLS   Partial least square

PR   Personal Reasons

PV   Perceived Value

PhD   Doctor of Philosophy

PLS   Partial Least Square

Q^2 Cross Validated Redundancy Measure

R^2 Coefficient of Determination

RM   Relationship Marketing

SEM   Structural Equation Modeling

SERVQUAL   Service Quality

SERVPERF   Service Performance

SD   Service Dominant

SET   Social Exchange Theory

SPSS   Statistical Package for the Social Sciences

SS   Students' Satisfaction

UK   United Kingdom

USA   United States of America

UNESCO   United Nations Educational, Scientific and Cultural Organization

UniMAP   Universiti Malaysia Perlis

Implikasi Kepuasan Pelajar dan Penciptaan Bersama pada hubungan Faktor-faktor Tingkahlaku dan Kesetiaan Destinasi: Bukti dari para Pelajar Antarabangsa di Universiti Awam (UA) Malaysia

ABSTRAK

Memandangkan peningkatan kadar keciciran pelajar-pelajar antarabangsa pada destinasi belajar yang disebabkan oleh peningkatan terhadap pemasaran pendidikan, pengurangan alokasi belanjawan awam, globalisasi, pengantarabangsaaan dan persaingan sengit, kajian ini menumpukan pengisian ruang dengan mencadangkan dan mengesahkan model kesetiaan destinasi, juga menghasilkan paradigma baru hubungan pemasaran dalam sektor pengajian tinggi. Merangka daripada konsep inovasi pemasaran baru daripada logik perkhidmatan dominan [Service Dominant (SD)] dan teori penukaran sosial, kajian ini memeriksa kesan penciptaan bersama pada hubungan antara factor-faktor tingkahlaku dan kesetiaan destinasi.Seramai 498 siswazah dan pasca-siswazah antarabangsa daripada Universiti Awam (UA) Malaysia terlibat dalam kaji selidik kajian ini.Keputusan analisis Pendekatan Kuasa Dua Terkecil Separa (PLS) menyokong semua keputusan, tetapi dua pemboleh ubah dalam hipotesis mempunyai hubungan langsung kepada kepuasan pelajar dan kesetiaan destinasi.Dengan kata lainnya, kualiti servis, penerimaan imej dan nilai yang diterima secara signifikannya mempengaruhi kepuasan pelajar. Pembolehubah pengantara iaitu kepuasan pelajar dan penciptaan bersama juga menunjukan hubungan yang signifikan terhadap kesetiaan destinasi. Walaubagaimanapun, penerimaan imej tidak signifikan kepada kesetiaan destinasi.Alasan peribadi juga tidak signifikan dengan kepuasan pelajar.Ketepatan keputusan terhadap kepuasan pelajar sebagai penyederhana adalah signifikan kecuali alasan peribadi.Keputusan analisis turut mencadangkan bahawa penciptaan bersama telah menyederhanakan hubungan antara kepuasan pelajar, dan kesetiaan destinasi. Keputusan kajian ini memberi sokongan empirikal kepada pandangan bahawa nilai penciptaan bersama antara pengguna dan penyedia perkhidmatan akan memberikan daya saing dalam hubungan perkhidmatan. Oleh itu, pengetahuan tentang FP-4 didalam logik SD akan membantu pengurusan universiti mengembangkan profil pelajar mereka untuk kelebihan berdaya saing yang mampan. Adalah disyorkan bahawa setiap destinasi yang baharu muncul dapat menumpukan perhatian kepada penyediaan perkhidmatan yang unik.Secara khususnya, Universiti Awam (UA) Malaysia perlu memberi fokus kepada pelaksanaan penciptaan bersama untuk mendapatkan kesetiaan pelajar dan meningkatkan pelajar antarabangsa ke negara ini untuk faedah pengantarabangsaan mampan.

Kata kunci: Kesetiaan destinasi, logik perkhidmatan dominan (SD), alasan peribadi, penciptaan bersama.

Effects of Students' Satisfaction and Co-Creation on the Relationship between Attitudinal Factors and Destination Loyalty: Evidence from International Students in Malaysian Public Universities

ABSTRACT

In view of the ever increasing attrition rate of international students at study destinations occasioned by increased education marketization, reduced public budgetary allocation, globalization, internationalization and stiff competition, this study aimed to fill research vacuum by proposing and validating destination loyalty model using new paradigm of relationship marketing in higher education sector. Drawing from a new marketing innovation concept of service dominant (SD) logic and social exchange theory, this study examines the effects of students' satisfaction and Co-Creation on the relationship between attitudinal factors and destination loyalty. A total of 498 undergraduate and post graduate international students from Malaysian public universities participated in the survey. The result of partial least square (PLS) path analysis supported all but two variables in the hypothesized direct relationship to students' satisfaction and destination loyalty. Specifically, attitudinal factors of service quality, perceived value and personal reasons were found to have significant relationship with destination loyalty. Similarly, service quality, perceived image and perceived value significantly influenced students' satisfaction. The intervening variables of students' satisfaction and Co-creation also show significant relationship with destination loyalty. However, perceived image was not significant to destination loyalty. Personal reason was also not significant with students' satisfaction. The bootstrapping result of students' satisfaction as mediator was significant except with personal reasons. The results of the analysis also suggest that Co-Creation moderates the relationship between students' satisfaction and destination loyalty. Taken together, the findings of this study lend empirical support to the view that joint creation of value between consumers and service providers will confer competitive advantage in service relationship. Hence, knowledge of FP-4 in SD logic will assist universities management to grow their student's profile for sustainable competitive advantage. It is recommended that emerging destinations should concerntrate on retention through unique service provision. Malaysian public universities particularly should focus on the implementation of students' satisfaction and Co-Creation to earn students' loyalty and increase inbound international students for sustainable internationalization benefits.

Keywords: Destination loyalty, service dominant (SD) logic, personal reasons, Co-Creation.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The impacts of globalization on the twenty-first century economy have been paradoxically positedin dual perspectives: first, consumers are confronted with plausible choices that yield less satisfaction; second, top management are strategically laded with increasing options that yield less value (Prahalad & Ramaswamy, 2015). These observations conceptually cut across all spheres of human endeavors including education (Arambewela& Hall, 2009). The mechanics of globalization exerts pressure on tertiary institutions to adapt internationalization policies including marketization of international education to augment global reduction in education budget (Wu & Naidoo, 2016; Altbatch& Knight, 2007; Abubakar & Mokhtar, 2015b). The international education industry is apparently and inherently competitive due to the burgeoning demand for higher education across nations (Lian, 2011; Oplatka & Hemsley-Brown, 2010).

In addition to global decrease in education financing, transformation from manufacturing to knowledge-based economy and adoption of consumerist approach to higher education make retention/loyalty strategies imperatives for countries' survival in the international education market (Wu & Naidoo, 2016; Abubakar & Mokhtar, 2015a; Bowden, 2013; Sheu, 2011; Kusumawati, Yanamanram&Perera, 2010; Maringe& Carter,

2007). Consequently, increasing demand for international higher education services underscores the necessity for the comprehension of contemporary multifaceted determinants of international student's choice and destination loyalty, considering the decisionalprecedenceof nation over institution (Kusumawati et al., 2010; Arambewela& Hall, 2009; Cubillo, Sanchez & Cervino, 2006).

As regards the looming choice of educational destination, macro-economic variables such as security, cost of living, GDP, per capital income, infrastructure, visa and immigration, culture, religion, geographical location, friends/ relatives resides, amongst others are cardinal factors worthy of due individual deliberation (Veloutsou, Paton & Lewis,2005; Arambewela, 2003). In the selection of institution, micro-economic variables such as cost of study, learning environment, quality of service, recognition of certificate, employment, program availability, prestige of the institution are some of the germane factors of plausible consideration (Veloutsouet al., 2005; Arambewela, 2003; Ahmad & Nordin, 2013).

In alliance with contemporary business ambience, the introduction of marketing theories into higher education as part of survival strategy to cope with government disinvestment in education pose some global institutional challenges (Wu & Naidoo, 2016; Moore & Bowden-Everson, 2012; Hemsely-Brown &Oplatka, 2006). The challenges resulting from international student's mobility across the globe mandates each country to design coping strategies such as robust students' support schemes, reduced tuition fee, financial aids, course waivers, conducive environment and advertising/market approaches, not only to attract but importantly to retain students at the destination(Abubakar, 2015; Hashim, Abdullateef & Sarkindaji, 2015; Arambewela& Hall, 2009; Naidoo & Wu, 2014). Essentially, the target is to gain and sustain competitive advantage in the market which is a

function of operant resources advocated in fundamental premises (PF-4) of service-dominant (SD) logic (Vargo & Lusch, 2004).

Another critical asuumption of SD logic is theview thatproviders are service providers, and service is the fundamental basis for exchange (Zhang & Chen, 2008). Service is the use of resources for the benefit of another party, which forms the basis for all exchange (Vargo & Lusch, 2004). The key resources for competitive advantage are competences, skills and knowledge, and are usually applied to other resources for the benefits of the relational parties (Vargo, Maglio & Akaka, 2008). Under this innovative marketing concept, there is no value until an offering is used to essentially determine value through experience and perception via service system (Vargo & Lusch, 2008). Service system in SD logic is an arrangement of resources (people, technology, and information) connected to other systems by value propositions. In this manner, the system makes use of its own resources and resources of others to improve its circumstances and also those of others (Vargo et al., 2008).

Hemsley-Brown and Oplatka (2006) observed that country that wishes to open her border to international students must acknowledge the necessity of marketing both country and the institutions in an ambience of international competition. The key strategy is to first understand factors that trigger prospective student's choice of a country and then higher education institution (Mazzarol&Soutar, 2002).Interestingly, the market for international education is getting more and more competitive with increased number of countries but less satisfaction and loyalty (Prahalad & Ramaswamy, 2004; Cubillo et al., 2006; Bowden, 2013). Furthermore, as the demand increases so does the supply, the more countries join the booming international education market, with little or no unification, the more the

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complexity inherent in student's mobility ansd which in turn affect their loyalty behavior (UNESCO, 2013; Bowden, 2011; Mazzarol & Soutar, 2008).

In line with the new marketing innovation assumptions of SD logic, destination loyaltythrough value Co-Creation, unique student experience would be a measure recommended to destination countries to differentiate themselves from other competitors (Othman & Jelahni, 2013; Edvardsson, Tronvoll & Gruber, 2011; Olins, 2002). In SD logic, operant resources (Knowledge, competency and skills) are the key resources for competitive advantage as stated in FP-4 (Vargo et al., 2008). However, the issues surrounding destination loyalty from country perspective as education destination has not being explored using these premises (Mazzarol & Soutar, 2012; Hemsely-Brown & Oplatka, 2006). Industrial survival in a competitive environment particularly education services industries, effortsmust be geared towardscreating and maintaining loyalty with existing students (Bowden, 2013; McMullan & Gilmore, 2008). Loyalty in service will not only increase business performances but will also create unique customer experiencesthereby retaining existing students and attract potential students (Vargo & Lusch, 2008; Keiningham, Aksoy, Cooil & Andreasen, 2008).

Based on marketing theories related to education services (Hill, 1995; Brookes, 2003; Sheu, 2011) destination loyalty has been established to enhance performance through increase in price premium, referral and growth in revenue, while it reduces switching cost, lower marketing cost and attrition rate (McMullan & Gilmore, 2003, 2008; Rowley, 2005; Gounaris&Stathakopoulos, 2004; Moore & Bowden-Everson, 2012). Surprisingly, destination loyalty is fast declining despite its importance for sustainable competitive advantage in business to customer (B2C) relationship (Gounaries&Stathakopoulos, 2004) and in tertiary education services (Naidoo, 2007; Abubakar & Mokhtar, 2015a; Sheu, 2011;

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Gummeson & Gronroos, 2012; Mazzarol & Soutar, 1999; Jamaludin et al., 2016). Some of

the reasons advanced for declining loyalty are volatile stability at international education

destinations and insatiable demands from the students (Chen, 2016; Jamaludin et al., 2016;

Arambewela & Hall, 2009).

Generally, developing and sustaining destination loyalty is one of the biggest

challenges in the rising competitionmarket (Gummeson & Gronroos, 2012;

Punniyamoorthy& Raj, 2007; Wu, 2015).While other services industries like hotel, tourism,

transportation, medical have studies conducted on provider/customer loyalty behavior

(Suhartanto, 2011; Sumeadia et al., 2012; Chi, 2012; Chen & Tsai, 2007), less work have

been conducted on determinants of destinationloyalty in education industryusing SD

logic(Abubakar, 2015; Hashim et al., 2015; Peralt& Ribes, 2013).

In tourism and other related service industries, destination loyalty is rarely examined

solely, the antecedents and intervening variables are often considered together, since the

ultimate target of a service provider is to keep old customers and win new customers (Ali,

Hussain, Naira & Ragavan, 2016; Chi, 2012). The focus of previous researches has been on

choice factors or selection criterion for destination country or institution (Soutar& Turner,

2002; Binsardi&Ekwulugo, 2003; Price, Matzdorf, Smith & Agahi, 2003; Shanka, Quintal

& Taylor, 2005; Yamamoto, 2006; Maringe& Carter, 2007, Bodycott, 2009; Baharun,

Awang & Padlee, 2011; Wilkins, Shams&Huisman, 2012). Considering the importance of

destination loyalty in competitive business environment (Suhartanto, 2011), exploring the

determinants of destination loyalty from country perspective will enhance the performance

of international education service industry, particularly for emerging destinations

(Abubakar, 2015; Ali et al., 2016). Interestingly, satisfaction leads to both attitudinal and

behavioral loyalty, thus integratingCo-Creation into the relationship between satisfaction

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and loyalty is capable of conferring competitive advantage in an organization (Giner & Rillo, 2015). However, Co-creation is a relatively new research focus with many opportunities and expanding possibilities (Mathis, 2013; Carvilho & Mota, 2010). Some of the opportunities include: unique service experience, assessment of value-in-use, conferring competitive advantage and preposition that value is determined by the beneficiary.

Contextually, emerging destinations like Malaysia was hitherto known as one of the sending Nations, turned to be a destination country as part of the measure to mitigate the once prevailing economic challenges and to key into the social-economic benefits of this booming market within Asian continent (Mazzarol & Soutar, 2001; Akiba, 2008; UNESCO, 2013). The major source countries world over for international education has being China and Indian while the world major host countries are America and Britain (Altbatch& Knight, 2007). The percentage contribution of major destination countries are: USA 19%, UK 10%, Germany 7%, France 7%, Australia 7% and Canada 5.5% (OECD, 2010, 2012). However, new destinations have emerged especially from Asia and the pacific. The emerging destinations are Russia, Japan, Korea, New Zealand, China, Singapore, Malaysia, Thailand, India and Hong Kong (Hendarman, 2013). Most Asian countries like Singapore, Thailand, China, Indian and Malaysia begin to expand international education after the Asian financial crisis of 1990s (UNESCO, 2013).

The emergence of Malaysia as education destination was a result of government deliberate efforts aimed at attracting international students to the country since late 90s (Akiba, 2008). To a large extent, appreciable progress has been made as the country registered over 100,000 international students from more than 100 countries of the world (MOHE, 2016; EMGS, 2015). Malaysia was ranked 11th most preferred study destination in the world and has global market share of 2% (EMGS, 2015; UNESCO, 2013). The

enabling environment provided by the government through various Acts enacted increased the number of institutions and enrolment drastically, yet the quest to expand the market horizon to dominate the sub-region as educational hub was not attain because the desired number of international students were not recorded. The total number of international students' enrolment in both public and private institutions was 131,407 (public 26,405 and private 87,002) at the fall of 2015 (MOHE, 2016).

The proliferation of private institutions and Malaysian government policy of 5% international students for undergraduates at public universities could account for increased enrollment in private institutions (MOHE, 2014). Moreover, previous efforts of Malaysia were targeted towards recruiting new students with little efforts made to keep them loyal to the country as education destination (Akiba, 2008). Peralt and Ribes (2013) highlighted the significance of Co-Creation in their findings as a strong indicator for education institution to gain and sustain competitive advantage over others through satisfaction andloyalty. Interestingly, Reicheld (1996) concluded that 5% increases in customer retention generate 25-95% profit growth across a range of industry. Hence, the country will profit more by creating unique student's experience through strategic marketing innovations such as Co-Creation and other management capabilities that could influence international student's loyalty (Prahalad &Ramaswamy, 2004).

Invariably, the simultaneous experimentation of international education liberalization policy by other Asian countries triggers competition at regional and continental levelthereby retarding the growth and global market share of Malaysia (Othman & Jelahni, 2013). Thus, Malaysia had to develop robust strategy through value-in-use rather than value-in-exchange to compete with Countries like Singapore, Thailand and Vietnam, countries identifled as threats to its regional share (Edvardsson et al., 2011).Giner and Rillo

(2015) found Co-Creation as an emerging strategy that can be applied to highly volatile market situation as the case of Malaysia with imminent threat from neighbors. Based on this argument, the liberalization policy was a strategy build on premise that recruitment could lead to retention (Chi, 2012; Abubakar, 2015). However, there is need to move beyond recruitment strategies to retention capabilitiesof international students not only to make them continue to study but also to recommend the destination.

In preparation to liberalization policy, Malaysian government passed three important Acts to strengthen the education sector (Akiba, 2008). The Acts were aimed at addressing the needs of an increasingly complex social order and increase the range of choices for students in the market-based policies (Lee, 2004), these Acts are: (1) the National Council on Higher Education Act (1996), (2) the Private Higher Education Institutions Act (1996) and (3) the National Accreditation Board Act which gave birth to Malaysian Qualification Agency (2007). Education was identified as key player on human capital development in the 9th Malaysian plan (2006-2010). Hence, these laws provided the framework for booming education market in Malaysia (Akiba, 2008) as noticed in the number of institutions and international student's enrolment in the country (Ming, 2010). However, specific targets were been set at intervals to encourage all concerned agencies to pursue with vigour the realization of the country'sgoals (Bahrun et al., 2011).

To achieve the country's target, various institutions adopted strategic marketing and recruitment policies to show case the institution and the image of the country (Padlee &Yaakop, 2013). While private institutions established a full-fledged department or unit to market and recruit international students, the public institutions enjoyed government supports in terms of infrastructural development and funding (Morshidi, 2005). Unfortunately, at the fall of 2010, the first target was not realized (MOE, 2012).However,

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another target of 200,000 was included in the 10th Malaysian plan (2012) for the year 2020. By setting the first and second target, Malaysia has joined the league of countries that engaged in international education market globally, irrespective of some concessions like subsidy in tuition fee, research assistance, teaching assistance, graduate assistance and other forms of rebate granted to somestudents (Akiba, 2008; Fernandez, 2010).Diaz-Mendez & Gummeson (2012) advocated for a paradigm shift in education service industry, suggesting a shift from university serving education to student to a new innovation, of students actually Co-Creating education services with the university through the integration of operant and operand resourcesin academic and non-academic engagements.

Internationalization was part of the manifestation of the world as a global village in which institutions need to imbibe. While private institution is flexible and hunt for profits, public universities enjoy government supports and funding, but in keeping with the internationalization policy, they must recruit and retain certain percentage of international students as part of pre-requisite for universities rating and ranking (Akiba, 2008). Thus, public universities with wide range of courses/programs and good funding from the government stands a better chance to promote Malaysia as education destination.Moreover, students/parents are conscious of global university rating and ranking when making a choice decision, Malaysian public universities are the most visible institutions at these annual statistical publications. In addition, the scope of public universities in Malaysia encourages Co-Creation in view of segmentation into research universities, focus universities and comprehensive universities (Ali, Hussain & Ragavan, 2014; Fernandez, 2010; MOHE, 2016).

Thus, it becomes imperative for destination promoters in Malaysiato understand the factors influencing the purchase intention of prospective students and the nature of

therelationship among other factors (Cubillo et al., 2006). This is because international students can manifest their loyalty to a country (in this case Malaysia) in several ways: they may choose to stay and complete their program, and they may re-enroll for next degree or even both, thus generating higher revenue for the country (Chen, 2016). They may also become ambassadors of the country concerned, by playing a powerful role in the decision making of others, thus reducing the country's marketing communication costs and also increase alumni participation (Ali et al., 2016; Moisescu, 2014; Abubakar, 2015). The expected sequence of students' loyalty should be from Bachelor degree to Master; from Master to doctoral degree; and from Doctoral to post-doc program within the country. However, exceptional cases of students taking more than one bachelor degree or masters in different fields were also encouraged to enhance loyalty to destination.

1.2 Malaysia International Higher Education Experience

In Malaysia the major providers of higher education services are public and private Higher Education Institutions (HEIs) as does globally (Rounsaville, 2011). Due to their relatively long history and support from the state, public universities are often perceived as more prestigious institutions (as compared to private institutions) and admission is frequently limited and very competitive (Altbach, Reisberg & Rumbley, 2009).Most public universities are not yet completely marketized entities, as are most private institutions, but rather still operate under combined public-private funding, although they now often have to compete for some types of funds, such as research grants, project support fund, industry/institution collaboration (Turner & Robson, 2008).

However, both public and private HEIs generate income from tuition fees, research output, selling university-related products, and offering consulting services (Altbach et al., 2009). More so, Malaysian government generates revenue from transnational and other international education activities like recruiting international students (Knight, 2004; Marginson, 2004; Chadee & Naidoo, 2009). International student recruitment is an important part of the internationalization and revenue-generating strategies of many public and private higher education institutions world over, including Malaysia (Becker & Kolster, 2012; Bolsmann & Miller, 2008; Arokiasamy, Ismail, Ahmad & Othman, 2009).

Prior to the introduction of liberalization policy in education in the 90s, Malaysia used to "push" away many students to study overseas due to limited access to higher education in the home country (Baharun, Awang & Padlee, 2011; Ghazali & Kassim, 2003). During this period, the country expended millions of Ringgits in training her citizens in some major destinations such as Australia, United Kingdom, Egypt, USA and neighboring countries like Indonesia, Taiwan and China (MOH, 2010). The focus of their studies was in line with the 9th MP which recommended education for human capital development in strategic areas such as medicine, engineering, law and commerce (Akiba, 2008). The impact of globalization and internationalization changed the consumption and pattern of flow whereby source countries become destination country to international students from same region and elsewhere in the world (Becker & Kolster, 2012; Mazzarol & Soutar, 2012). Malaysia, India, Singapore, China and host of other Asian countries benefited from this revolution (Ooi, 2004; Odin, Odin & Valette-Florence, 2001).

However, the impact of Asian financial crisis (1997) made Malaysia to change strategy for two important economic reasons: (1) to save cost incurred on foreign training and (2) to generate revenue from the liberalization policy of education sector (Morshidi,

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