

Mediating Effect of Customer Satisfaction on Service Quality and Customer Loyalty Relationship in Malaysian Rural Tourism

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Abstract

The aim of this study is to develop an indirect effect of understanding service quality, customer satisfaction and customer loyalty in Malaysia rural tourism. The model was designed and later examined by utilizing the Partial Least Square (PLS) procedure on data collected from a survey that yielded 295 usable questionnaires. The results confirmed that customer satisfaction have significant and positive partial mediating effect on service quality and customer loyalty relationship in Malaysia rural tourism. It is vital to do the study utilizing experimental design by capturing longitudinal data in Malaysia rural tourism industry using robust measures. The findings imply that the relationship of service quality, satisfaction and customer loyalty will lead to rural tourism operators' profitability. Therefore service quality and customer satisfaction play a crucial function within the Malaysia rural tourism industry. This research is one of the first known attempts to use PLS to test a mediation effect.

Keywords: Rural tourism; service quality; customer satisfaction; customer loyalty.

1. Introduction

Tourism is one of the top and fastest growing sectors and deserves to be given a serious attention. A strong growth catalyst that can generate higher multiplier effect, tourism plays a very important role in the economy and stimulated the growth of other economy. In Malaysia, tourism is the third largest industry in term of foreign exchange earnings after manufacturing and palm oil sector. Tourism sector contributes about 7.9% to the GDP of Malaysia suggesting that the industry which is consider still new but yet offer so much good potential for further and future growth. In 2011, the global tourism and travel sector has generated USD 7 trillion in economic activities and this will offer more than 260 million jobs opportunity (Goeldner and Ritchie, 2003). According to Tourism Malaysia Annual Report 2011, Malaysia had been visited by more than 24.7 million tourists which an increase of 0.4% from 2010 which was about 24.6 million tourists. As at May 2012, the number of foreign tourists visiting Malaysia already hit 9,438,592 tourists. By the year 2020, Malaysia expects to attract 36 million tourists contributing a total of RM168 billion in spending compared to the 24.6 million arrivals last year (2011) with revenues of RM58.3 billion.

In tourism industry, tourist's is very important to ensure the customer will visit again the tourism attraction after they experience it the first time. The concept of loyalty can be defined that a customer would come back or continuously to utilize the same product or service from the same organization, make business referrals, and directly or even indirectly offering strong word-of-mouth references and publicity (Bowen and Shoemaker, 1998). Customers who are loyal not easily influenced or swayed by price enticement from their competitors, and they often buy more compared to those who are not so loyal customers (Baldinger and Rubinson, 1996). Conversely, service providers must not feel comfortable because not all retained customers are satisfied ones and similarly not all of them can be always retained. There are many factors

for such manner of loyal customers. There are customers who will remain loyal because the existing of high switching barriers or unavailability of real substitutes, whereas other customers continue to be loyal since they are satisfied with the service offered. Some customers may remain loyal due to high switching barriers or the lack of real substitutes, while others continue to be loyal because they are satisfied with the services provided. The purpose of this paper to show the link of service quality, customer satisfaction and trust on customer loyalty in Malaysia rural tourism market and to test the conceptual research model that connect, service quality, customer satisfaction, trust to customer loyalty.

1.2 Rural Tourism in Malaysia

Rural tourism comprises various activities in different countries with different environment and culture.

Rural tourism allows tourists to come together with the destinations' nature and culture. It also plays important role in economic and social recovery of rural areas. In Malaysia rural tourism covers all activities that can be carried out in rural environment and draws visitors because of their traditional features and because they are different from their usual lifestyle. Tourists may get involve with nature practicing various activities, such as, sightseeing, fishing, hunting, mountaineering, agri-tourism, cultural tourism, home-stay, health tourism, etc. Those activities happen in a context of respect for the environment and local culture. In Malaysia, rural tourism has impact on the economy. It is an additional activity, besides from the traditional rural labors, rural tourism generates income and creates job and business opportunities for the rural folks. It is a valuable tool for encouraging the development of rural economies in crisis. It provides an incentive for infrastructure development, which boosts growth in other sectors of the economy in rural areas. Rural tourism also has impact on Malaysia environment where the natural environment conservation is the main element of the rural tourism. The conservation of environment and environment protection are the back bone of rural tourism in Malaysia. Therefore it can be said that that rural tourism is the environmentally sustainable activity. Income generated from rural tourism activities can be used to upgrade and maintain the rural area infrastructure and services. Since that local culture and traditions are very important tourist attractions to visitors, rural tourism promotes the preservation and revival of such customs, traditional activities, crafts, cuisine, and many more.

2. Literature Review and hypotheses development

2.1 Service Quality

Since Parasuraman et al. (1988) initiate the using of SERVQUAL with 22 item scale to measure service quality, the model has been frequently use in across industries. Gowan et al. (2001), Straughan and Cooper (2002) and Zhao et al. (2002) applied the SERVQUAL model as a measurement to gauge the service quality provided by the service provider. However, there are many researchers opposed the use of SERVQUAL to measure service quality due to the industry characteristics differences. Service quality as defined by Ducker (1991) as what the customer gets out and is willing to pay for" rather than "what the supplier puts in. Therefore service quality frequently has been conceptualized as the difference between the perceived services expected performance and perceived service actual performance (Bloemer et al., 1999; Kara et al., 2005). This view also accepted by other researchers with regards to the definition of service quality (Grönroos, 2001; Parasuraman et al., 1988). In some earlier studies, service quality has been defined to the extent where the service fulfills the needs or expectation of the customers (Lewis & Mitchell, 1990; Dotchin & Oakland, 1994). Zeithaml et al. (1996) has conceptualized service quality as the overall impression of customers towards the service weakness or supremacy. Service quality frequently relies on SERVQUAL instrument to gauge the service quality provided to the customers. The SERVQUAL scale was developed in the marketing context and this was supported by the Marketing Science Institute (Parasuraman et al., 1986). Previous research confirms that SERVQUAL instrument is applicable in tourism industry (Yuan et al., 2005; Sohail et al., 2007; Shaikh and Khan, 2011). Parasuraman et al. (1988) stated the five dimensions of service quality are reliability, responsiveness, tangible, assurance and empathy. These dimensions have specific service characteristic link to the expectation of customers.

2.2 Customer Satisfaction

Customer satisfaction is one the most areas being researched in many tourism studies due to its importance in determining the success and the continued existence of the tourism business (Gursoy et al., 2007). Customer satisfaction conceptually has been defined as feeling of the post utilization that the consumers experience from their purchase (Westbrook and Oliver, 1991; Um et al., 2006). Opposite to cognitive focus

of perceptions, customer satisfaction is deemed as affective response to a products or services (Yuan et al., 2005). A consumer is deemed to be satisfied upon the experience weighted sum total produce a feeling of enjoyment when compared with the expectation (Choi and Chu, 2001). In tourism studies, customer satisfaction is the visitor's state of emotion after they experiencing their tour (Baker and Crompton, 2000; Sanchez et al., 2006). Destination holiday's customer satisfaction is the extent of overall enjoyment that the tourists feel, the result that the tour experience able to fulfill the tourists' desires, expectation, needs and wants from the tour (Chen and Tsai, 2007). Taylor et al., (2004) pointed out that customer satisfaction has a direct influence on customer loyalty. Kotler (2008) describes customer satisfaction is the feeling of happiness or unhappiness as a result of comparing the perceived performance of services or products with the expected performance. If the perceived performance does not meet the expected performance, then the customer will feel disappointed or dissatisfied. Homburg et al. (2008) suggested that customer satisfaction has been a crucial issue in marketing field in the past decades since satisfied customers are able to offer to the company such as customer loyalty and continuous profitability.

2.3 Customer Loyalty

The concept of customer loyalty has been researched for the past decades in business industries. Loyalty is a commitment of current customer in respect to a particular store, brand and service provider, when there are other alternatives that the current customer can choose for (Shankar et al., 2003). It forms positive attitudes by producing repetitive purchasing behavior from time to time. There is a strong connection customer loyalty and firm's profit. Zeithaml (2000), states that previous researches look at customer loyalty as being either attitudinal or behavioral. The behavioral perspective the customer is loyal as long as they continue to purchase and use the goods or services (Parasuraman et al., 1988; Zeithaml et al., 1996). Reicheld (2003) suggested that the most superior evidence of the customer loyalty is the proportion amount in percentage of current customers who are having lots of enthusiasm to recommend a specific good or service to their friends. Whereas the attitudinal perspective, the current customers have a feeling of belongings to a specific product or service or commitment of the current customers towards a specific good or service. Baumann et al., (2005) found that Day (1969) had introduced the concept of customer loyalty covering both behavioral and attitudinal dimensions forty years ago.

2.4 Relationship between Service Quality and Customer Loyalty

Many researchers in various studies have studied the relationship between service quality and customer loyalty. Rousan and Mohamed (2010) in their study on 322 hotel guests of hotel industry in Jordon, they found that empathy, reliability, responsiveness, tangible and assurance significantly predict customer loyalty. The similar result also found in Chen and Lee (2008) study when the revealed that service quality has strong and significant relationship with customer loyalty in their International Logistic provider industry. Liang (2008) study on 308 hotel guests of hotel industry in United States revealed that service quality has a positive influence and significant relationship with customer loyalty. Clotey et al., (2008) in their study of 972 retail customers of United States retail industry have found the strong statistical evidence that service quality has a great influence where it positively and significantly correlated with customer loyalty. Jamal and Anatassiadou (2007) besides studying the relationship between service quality and customer satisfaction in banking industry in Greece, they also study the relationship between service quality and customer loyalty and they found their study that service quality has a strong impact and positively and significantly related to customer loyalty in banking industry in Greece. Rizan (2010) has conducted a study on 160 airline passengers of airline industry in Indonesia and has found that service quality has a strong impact and positively and significantly related to service quality. Kheng et al. (2010) in their study on 238 bank customers in Malaysia have found that among the five dimensions used in service quality, tangible has no significant impact on loyalty. Reliability is found to have positive relationship with customer loyalty. Relationship between responsiveness and customer loyalty is insignificant. Empathy has significant positive relationship with customer loyalty. There is significant relationship between assurance and customer loyalty. In view of that we hypothesize:

H₁: There is a positive relationship between service quality and customer loyalty

2.5 Relationship between Service Quality and Customer Satisfaction

Over the past there are greater emphasis has been placed on service quality and customer satisfaction in business and academic world as well. Akbar and Parvez (2009) found that service quality has strong influence and significantly and positively related to customer satisfaction in their study on 304 customers of

a major private telecommunication company operating in Bangladesh. Hossain and Leo (2008) in their study revealed that service quality is a strong antecedent and significantly related to customer satisfaction in their study of banking industry in Qatar. Munusamy et al., (2010) studied the banking industry in Malaysia. In their research they found that Assurance has positive relationship but it has no significant effect on customer satisfaction. Reliability has negative relationship but it has no significant effect on customer satisfaction. Tangibles have positive relationship and have significant impact on customer satisfaction. Empathy has positive relationship but it has no significant effect on customer satisfaction. Responsiveness has positive relationship but no significant impact on customer satisfaction. Jamal & Anatassiadou (2007) conducted the study on 200 bank customers in Greece relating to service quality and customer satisfaction. The result showed that reliability, tangibility and empathy are positively related to customer satisfaction. Chen and Lee (2008) in their study on 261 non vessel owners and shippers in Taiwan found that service quality has a positive influence with customer satisfaction in International Logistic provider. Gounaris et al. (2003) in their study on 240 online shoppers in Greece retailing industry revealed that service quality has significant impact and positive relationship with customer satisfaction. In view of that we hypothesize:

H₂: There is a positive relationship between service quality and customer satisfaction

2.6 Relationship between Customer Satisfaction and Customer Loyalty

The survival and sustainability of any business organization is largely depends on the customer satisfaction and customer loyalty. Faullant et al. (2008) in their study on 6172 ski-resort customers in Australia have found that customer satisfaction is positively and significantly correlated to customer loyalty. Pantouvakis and Lymperopoulos (2008) have done the study on 388 ferry passengers in Greece and revealed that customer satisfaction has great impact on customer loyalty and positively and significantly correlated with customer loyalty. Akbar & Parvez (2009) in their study on 302 Telecommunication customers in Bangladesh have found that customer satisfaction is significantly and positively related to customer. Hume and Mort (2010) conducted a study on 250 performing arts members and audience and have found that customer satisfaction very much has impact on customer loyalty and positively and significantly related. Chen and Lee (2008) in their study on 261 non Vessel Owners and shippers in Taiwan's International Logistic Provider industry has revealed that customer satisfaction is very critical to customer loyalty and both are positively and significant correlated. Rizan (2010) studied on customer satisfaction and customer loyalty relationship on 160 passengers in airline industry in Indonesia and have found that customer satisfaction has a great impact on customer loyalty and positively and significantly influence customer loyalty. The same result found by Liang (2008) in her study on 308 Hotel guests in United States where she found that customer satisfaction is the determining factor and positively and significant correlated to customer loyalty. Therefore, we hypothesize:

H₃: There is a positive relationship between customer satisfaction and customer loyalty

2.7 Relationship among Service Quality, Customer Satisfaction and Customer Loyalty

Many studies have found that customer satisfaction play a mediating role in the service quality and customer loyalty relationship. Akbar & Parvez (2009), in their study on 302 Telecommunication customers in Bangladesh telecommunication industry have found customer satisfaction to be an important mediator between perceived service quality and customer loyalty. Ismail et al. (2006) in their study of 115 public companies in Malaysia have revealed that customer satisfaction to partially mediate the relationship of reliability and customer loyalty. Kheng et al. (2010) in their study on 238 bank customers in Malaysia have found that satisfaction has mediating effect on service quality and loyalty relationship in banking industry.

Kumar et al. (2010) in their study on 100 bank customers in India have revealed that service quality fosters customer's attitudinal loyalty through latent customer satisfaction. Chen and Lee (2008) in their study on 261 non Vessel Owners and shippers in Taiwan International Logistic Provider industry have found that customer satisfaction has a positive influence on service quality and customer loyalty relationship. Olorunniwo et al. (2006) in their study on relationship of service quality, customer satisfaction and customer loyalty in hotel industry in United States found that customer satisfaction significantly mediates the relationship between service quality and customer loyalty in hotel industry in United States. Olorunniwo et al. (2006) revealed that customer satisfaction significantly and partially mediates the relationship of service quality and bank customer loyalty in United States banking industry. Therefore, we hypothesize:

H₄: There is a positive mediating effect of customer satisfaction on service quality and customer loyalty relationship

4. Methodology

4.1 Model

Tourist attraction operators are keen to know how customer satisfaction can lead to customer trust and eventually create customer loyalty for the tourists. The research applies the research model by a few authors mostly Parasuraman et al. (1985), Zeithaml and Bitner (2003) and Morgan and Hunt (1994). The conceptual model of this study is illustrated in Figure 1.

4.2. Strategy

Survey instrument was developed by extensively reviewing literatures in order to identify scales adopted in the past studies which are having strong reliability and validity. The preliminary draft of the survey questionnaire was tested by reviewing and interview with tourism professional, business professionals and academicians where they were asked to provide comments and suggestions to improve the survey clarity and precision. The survey then was fine tuned based on the feedback obtained. A pilot study conducted and assessed. The results were evaluated to make sure there was no systematic bias in the survey questionnaire. A five-point Likert scale was utilized from strongly disagree to strongly agree. Local and foreign tourists who have visited the rural tourism spot in Malaysia at least once were the main respondents. A total of 410 rural tourism spot tourists were requested to complete a questionnaire that contained measures of the construct. Out of the 410 distributed questionnaires, 329 were returned. This made up the response rate of 80.24%. In view of that, the rate of response is sufficient for SEM analysis. The Mahalanobis distance was determined based on a total of 31 observed variables. The criterion of $p < 0.01$ and critical value of $\chi^2 = 86.40$ is applied. The test conducted identified 34 cases with Mahalanobis value (D²) above 86.40. The Mahalanobis analysis successfully identified the multivariate outliers which were deleted permanently, leaving 295 datasets to be used for further analysis. To examine the relationships among the main constructs by adopting the partial least squares (PLS) technique, SmartPLS 2.0 (Ringle et al., 2005) was applied to evaluate the measurement model and structural model. PLS analysis was selected because it can assess all paths simultaneously (Barclay et al., 1995; Gefen et al., 2000) and does not need a large sample size (Gefen et al., 2000). To examine the relationships, all measurement items were standardized and missing values were substituted by sample means to test validity, reliability, and statistical power. The bootstrapping technique was utilized, which estimates the estimator sampling distribution by re-sampling with substitution from the original sample (Moore and McCabe, 2005; Temme et al., 2006), to obtain more consistent results. The subsamples size to perform the bootstrapping technique followed the propositions in Efron and Tibshirani (1998).

5. Results

5.1 Measurement model

Figure 1 demonstrates on the whole results for the hypothesized model. A good model fit in PLS is present when there are significant path coefficients, acceptable R^2 values, and good construct reliability (Gefen et al., 2000). The model predictability reflected by the values of R^2 , is another strength vital determinant of the model (Chin, 1998). For the evaluation of reliability, composite reliability and average variance extracted (AVE), shown in Table 3 are the two major measurements utilized in this research. Composite reliability does not presume that all indicators are equally weighted (Chin, 1998) which suggests that composite reliability may be more suitable to assess reliability. Composite reliability is proposed to be greater than 0.7 (Barclay et al., 1995; Fornell and Bookstein, 1982). The other measurement, AVE, indicates the variance amount that a construct confines from its indicators relative to the amount due to measurement error (Chin, 1998). For the first-order factor, the proposed minimal critical value for AVE is 0.5 (Hu et al., 2004). The composite reliability and AVE values shown in Table 3 are looked to achieve these requirements.

Convergent validity is items in a scale ability to come or load together as a single construct. It is gauged by examining each loading for each block of indicators. The standardized loadings should be larger than 0.7, suggesting that the indicators share more variance with their respective latent variable than with error variance. A lower bound of 0.50 may be adequate (Chin, 1998). Table 5 presents a list of standardized loadings for each construct, and it is seen that they are higher than acceptable minimum values. For second-order constructs, convergent validity is instituted by having path coefficients that are significant, and larger

than 0.7, between each first-order construct and the corresponding second-order construct (Fornell and Bookstein, 1982). The entire path coefficients in this study are statistically significant.

Discriminant validity signifies how well individual item factor connects to its hypothesized construct comparatively to others. Discriminant validity is approximated via cross-loadings; and the relationship between correlations among first-order constructs and the square roots of AVE (Chin, 1998; Fornell and Bookstein, 1982).

The cross-loadings demonstrated in Table 5 display adequate discriminant validity levels for each construct. Each item factor in the bold value of Table 5 demonstrates strong loading values to the corresponding latent construct and low loading values to other constructs. The link between AVE square roots values and the correlations among first-order latent constructs hold the similar conclusion. In Table 4, it is clearly indicated that the square roots of AVE (bold numbers in diagonal) are higher than the correlations among the constructs (off-diagonal values).

5.2 Structural model

Firstly, the first model was presented with direct path from service quality to customer satisfaction and service quality to customer loyalty. Both links were significant at the 0.000 level with the path coefficients of 0.787 and 0.719 respectively. At this point no indirect effect was hypothesized or evaluated. (Table 6)

Then, the second model was presented with customer satisfaction plays a mediating role between service quality and loyalty (refer to table 7). The two distinct models were made based on Baron and Kenny (1986) four-step technique to assess the mediating effect. The two models had:

- 1) A direct path from service quality to customer satisfaction
- 2) A direct path from service quality to loyalty
- 3) A direct path from customer satisfaction to loyalty
- 4) A direct path from service quality to loyalty, and an indirect path from service quality to trust and then from trust to loyalty.

Mediation is said to be existed when the direct path coefficient between the independent variable and dependent variable is decreases when the indirect path through the mediator is established in the model. The direct path is assessed without the intervention of mediator and with the intervention of mediator. The direct path standardized beta was 0.719 and change to 0.439 after the introduction of customer satisfaction as a mediator. The amount of the decrease of the relationship between satisfaction and loyalty accounted by the mediator was 0.28 which represent 38.94% of the direct effect.

The mediation effect significance was measured by using PROCESS by Hayes (2012) with the application of bootstrapping technique where the specific model in question with both direct and indirect paths included and execute N bootstrap re-sampling and explicitly compute the product of direct paths that form the indirect path being assessed. Then, the significance of the mediating effect can be ascertained by observing either percentile bootstrap or bias corrected bootstrap which has been shown to have the least biased confidence intervals, greatest power to detect nonzero effects and contrasts, and the most accurate overall Type I error (Williams and MacKinnon 2008) . The result extracted from PROCESS shows that the indirect effect of service quality to loyalty with the present of trust as a mediating factor is significant at $p < .000$ where the lower level confidence level (LLCL) is 0.172 and upper level confidence level (ULCL) is 0.478 (Table 8). The indirect effect is significantly different from zero at $p < .000$ (two tailed). With 95% confidence that, because zero is *not* within this interval, zero is not likely a value for the indirect effect of service quality on loyalty. The true indirect effect is estimated lies between 0.172 and 0.478. Therefore, the indirect path service quality to customer satisfaction and from customer satisfaction to loyalty was $0.787 * 0.355 = 0.28$. The confidence interval level provided by PROSESS was between 0.172 and 0.478, $p < .000$. This shows that the partial mediation effect present. Therefore, all the hypotheses are supported (Table 9).

The paths were analyzed in order to assess the effect size (f^2) to differentiate the path that contribute in explaining the dependent variable to which they are attached. Chin (1998) explains that the R^2 for each latent variable (LV) can be an opening point when evaluating PLS for the structured model, since explanation of the PLS is similar to that of a traditional regression. The author also suggests that the change in the R^2 can be investigated to see whether the impact of a specific independent LV on a dependent LV is extensive. Following Chin (1998) recommendation, effect size can be calculated as:

$$f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{2}$$

Where R^2 included and R^2 excluded are the R^2 provided on the dependent LV, when the predictor LV is used or omitted from the structural equation, respectively. The f^2 of 0.02, 0.15 and 0.35 can be translated as a predictor LV having a small, medium, or large effect at the structural level (Table 7).

The Q-square (Q^2) for the structural model which imply the predictive relevance of the model is acceptable which is 0.811 (Table 7). Q-square for the structural model is to gauge how fit the observations produced by the model and to assess its parameters. If the value of $Q^2 > 0$, it signifies that the model has predictive relevance; on the other hand, if the value of $Q^2 < 0$, it signifies that the model is having predictive relevance deficiency. This shows that the ability of the Partial Least Model to demonstrate the model is 83.4%. Therefore, only 16.6% of other factors are not observable to describe this effect. Therefore it can be concluded that the model can be used appropriately. The predictive measure for the block becomes:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_p^2)$$

6. Discussion & Conclusion

This research aims to institute an understanding of the mediating effect of customer satisfaction on service quality and customer loyalty relationship in Malaysia rural tourism industry. This research is to build probable causal relationship among the variables which are service quality, customer satisfaction and customer loyalty. In view of this, an evaluation on previous study in the area of service quality, customer satisfaction and customer loyalty was conducted. From the preliminary findings of academic studies, the model was constructed and it's found that service quality has a positive and significant direct effect on customer satisfaction. Also from the same model, it was found that service quality has a positive and significant direct effect on customer loyalty. Subsequently, the mediating relationship was introduced in the model where customer satisfaction was introduced as a mediator in service quality and customer loyalty relationship. Theoretically, it is difficult justify the supremacy of any model, so empirical testing was conducted. This study proposed model to empirically test and to validate that are positive direct relationship among service quality, customer satisfaction and customer loyalty. In order to achieve this goal, the PLS technique data analysis was adopted. There are a few points that need to be observed. Firstly, the most accepted relationship between service quality and customer satisfaction is authenticated. The path coefficient of direct relationship between the service quality and customer satisfaction is 0.787 and is significant. Secondly, the most accepted theory that link service quality and customer loyalty also well supported with the path coefficient of direct relationship between service quality and customer loyalty is 0.719 and is significant. Thirdly, this research is to empirically analyze the proposed mediating effect of customer satisfaction on service quality and customer loyalty relationship. The amount of the relationship between customer satisfaction and customer loyalty accounted by the mediator was $(0.719 - 0.439) = 0.28$, which represents 38.94 percent of the direct effect. In view of that, it is concluded that customer satisfaction is partially mediates the relationship between service quality and customer loyalty. Based on the above findings, it is concluded that customer satisfaction plays a role as mediator and has mediating affect on service quality and customer loyalty relationship in Malaysia rural tourism industry.

The research findings suggest that customer's satisfaction among rural tourism tourists can be improved and enhanced by focusing on factors that can enhance service quality. On the other hand, rural tourism tourists' loyalty can be strengthened and enhanced by raising the level of customer satisfaction among rural tourism tourists. Eventually, customers' satisfaction among rural tourism tourists should play an important factor to increase rural tourism operators' profit. This research highlights the belief that customers' satisfaction plays a crucial role in Malaysia rural tourism industry. It puts forward one probable the elusive link causal explanation between customers' satisfaction and profitability of the business.

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Figure 1: Hypothesized Model Structure and Results

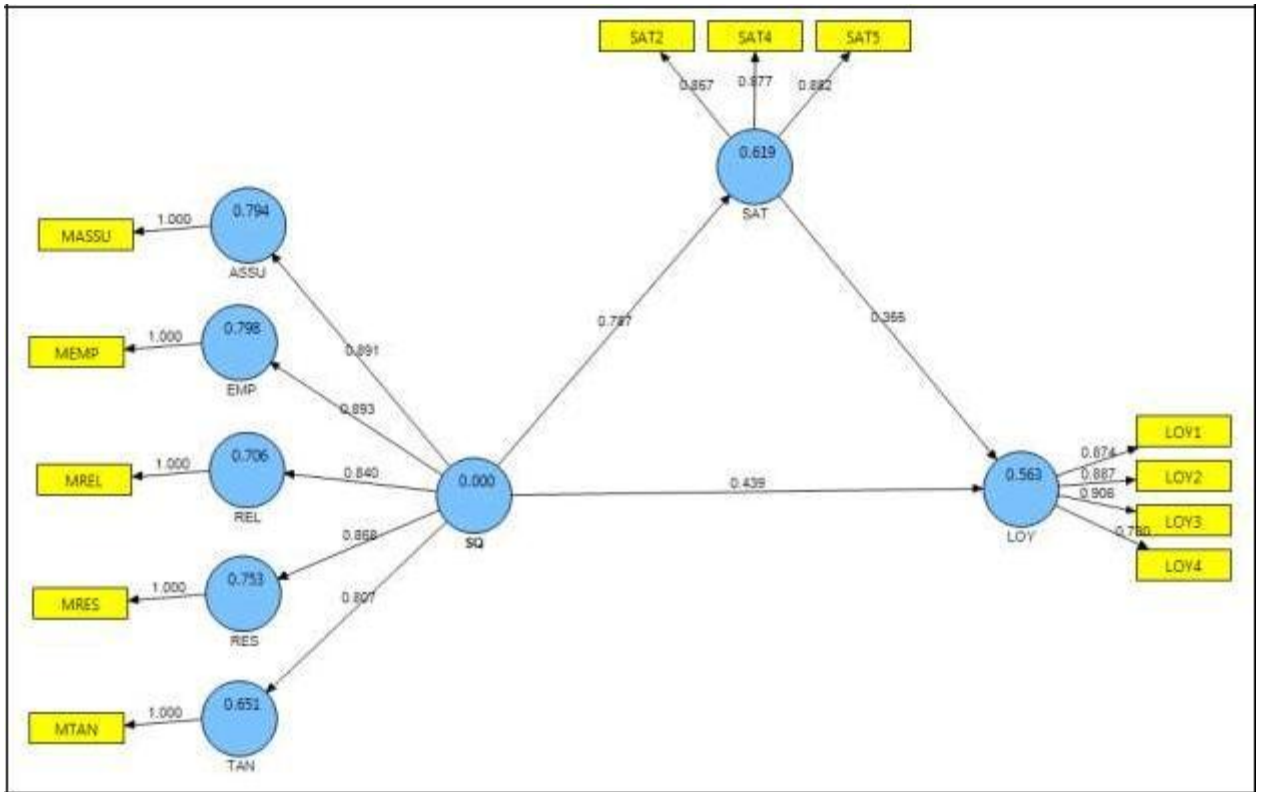


Table 1: Number of Tourist Arrivals from 1998 - 2011

TOURIST ARRIVALS & RECEIPTS TO MALAYSIA		
YEAR	ARRIVALS	RECEIPTS (RM)
2011	24.7 Million	58.3 Billion
2010	24.6 Million	56.5 Billion
2009	23.6 Million	53.4 Billion
2008	22.0 Million	49.6 Billion
2007	20.9 Million	46.1 Billion
2006	17.4 Million	36.3 Billion
2005	16.4 Million	32.0 Billion
2004	15.7 Million	29.7 Billion
2003	10.5 Million	21.3 Billion
2002	13.2 Million	25.8 Billion
2001	12.7 Million	24.2 Billion
2000	10.2 Million	17.3 Billion
1999	7.9 Million	12.3 Billion
1998	5.5 Million	8.6 Billion

Table 2: Operationalization of Variables

Service Quality	the difference between customer expectations regarding a service to be received and perceptions of the service being received	Grönroos (2001)
Customer Satisfaction	Customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations.	Zeithaml and Bitner (2003)
Customer Loyalty	The mind-set of the customers who hold favorable attitudes toward a company, commit to repurchase the company's product/service, and recommend the product/service to others	Zeithaml et al. (1996)

Table 3: Construct Reliability & Validity

	AVE	AVE SR	CR	R ²	Cronbachs Alpha	Communality
LOY	0.745	0.863	0.921	0.563	0.884	0.745
SAT	0.760	0.872	0.905	0.619	0.842	0.760
SQ	0.740	0.860	0.934	0.000	0.912	0.740

Table 4: Variable Correlation Matrix based on AVE Square Root

	LOY	SAT	SQ
LOY	0.863		
SAT	0.700	0.872	
SQ	0.718	0.787	0.86

Table 5: Cross Loading & Items Loading

	LOY	SQ	SAT
LOY1	0.874	0.649	0.649
LOY2	0.887	0.600	0.591
LOY3	0.906	0.624	0.662
LOY4	0.780	0.603	0.501
MASSU	0.614	0.891	0.691
MEMP	0.660	0.894	0.696
MREL	0.606	0.840	0.654
MRES	0.619	0.868	0.727
MTAN	0.587	0.807	0.612
SAT2	0.593	0.692	0.857
SAT4	0.619	0.648	0.877
SAT5	0.619	0.716	0.883

Table 6: Direct Path Coefficient

Direct	Beta	t-values
SQ -> LOY	0.719	13.070
SQ -> SAT	0.787	16.523

Table 7: Path Coefficient, t-value, f^2 and Q^2

Path	Beta	t-value	f^2	Q^2
SQ => LOY	0.439	3.293	0.162	0.834
SQ => SAT	0.787	16.977	1.625	
SAT=> LOY	0.355	2.503	0.105	

t-values are significant at $p < 0.000$

Table 8: Indirect Effect Significance Test

Indirect	Effect	Boot SE	Boot LLCI	Boot ULCI
Trust	0.322	0.077	0.172	0.478

Table 9: Hypotheses Result

	Hypothesizes Relationship	Path Coefficient	p-value	Conclusion
H1	There is a positive relationship between service quality and customer satisfaction	0.439	0.00*	Supported
H2	There is a positive relationship between service quality and customer loyalty	0.787	0.00*	Supported
H3	There is a positive relationship between customer satisfaction and customer loyalty	0.355	0.00*	Supported
H4	There is a positive mediation effect of customer satisfaction on service quality and customer loyalty relationship	0.322	0.00*	Supported

* Significant at $p < 0.000$