

Role of Physical Environment to Create Corporate Image and Customer Loyalty of Thai Airline Customers: The Moderating Role of Perceived Value

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The primary goal of conducting the present research is to examine the role of physical environment when creating brand image and the customer loyalty of Thai Airline customers. The study aims to explore the causal impact of the corporate image developed in the minds of customers as a result of physical evidence like cleanliness, decor and spatial layout in relation to customer loyalty. Corporate image is the response of consumers towards the total offering of the organisation. It is well-defined as being a sum of impressions, ideas and beliefs of service and product providers towards the quality communicated by everyone during client interaction. The study has argued that the image is the perception in the mind of the customer. The study has revealed the fact that the perception of the customer is mainly dependent upon the physical factors of the environment and price perception regarding the service provider. There are a very small number of cues available for service providers. A total of 407 questionnaires were distributed among the international and domestic travellers of Thai Airlines with a response rate of 58.5%. The SEM-PLS is employed to reach the ultimate objectives of research. The existing research aimed to reveal how the management and design of services can impact the perceptions, behaviours and emotions of



customers, and the influence of this association on the services of organisations. The results of current research have shown agreement with the proposed hypothesis. The study will be helpful for policy makers, and researchers in understanding the issues related to customer loyalty towards Thai Airlines.

Key words: *Corporate image, Customer Loyalty, spatial layout, Thai Airlines.*

Introduction

There are a number of fields that have investigated the mechanism of maintaining customer loyalty (LOY) among the existing customers of the organisation. It's been agreed by the researchers that the main objectives of the organisations are to minimise the cost and maximise the organisational profit through the LOY of the customers. It's been more likely that a loyal customer will use word of mouth to promote the services and products of the organisation (Z. Yang & Peterson, 2004). Moreover, its less costly to serve loyal customers because such customers need less information regarding the products or services. Therefore, in the recent past, service providers have focused on developing a mechanism to enhance LOY. Additionally, all efforts being made by the service providers are to retain the customers so they can increase their profitability and sales.

Scholars have defined LOY as a leadership philosophy which seeks management of mutual relationships between customers and organisations (Finnie & Randall, 2002). The profitability of the organisation is increased significantly if the organisation is able to retain customers by 5%. The basic profit is the cause of higher profit of the organisation associated with the activities of the organisation. One of these activities includes a rise in sales and economies associated with the reciprocity of relationships between customers and organisations. If existing customers are satisfied with the services or products of the firm, they will generate word of mouth which is positive, which will impact the profitability of the organisation as well. (Shakil & Majeed, 2018).

Thai Airways is the public limited airway of Thailand. It was previously used for domestic operations. In the past few years, the competition among airlines has increased fiercely due to the entry of a number of airlines from other countries, and private companies offering better services with competitive pricing. This situation has made it difficult for Thai Airways to retain its customers. In this scenario, it is important for airlines to develop strategies by which they can develop a positive perception in the minds of the customers and retain them for longer periods of time (Wongleedee, 2016).



Image is the perception in a consumer's mind when he or she hears about an organisation or any kind of service provider. Corporate image (CI) is the response of consumers towards the total offering of the organisation. It is well-defined as being a sum of impressions, concepts and beliefs of services and product providers towards the quality communicated by everyone during client interaction.

In the service industry, the role of cleanliness (CL) is very important for the quality of services being delivered to the clients. It is one of the the basic motivational factors for customers for using services of the same provider again. CL of the services provider is not been given importance and has not been studied extensively in the past (Harrison-Walker, 2019). A few studies in the past have studied variables related to the interiors of service provider venues where most of the importance is given to colour, odour and music.

Another important aspect of LOY is the satisfaction and image of the customer. As mentioned earlier, image is the perception in the mind of the customer. Scholars have mentioned that the perception of the customer is mainly dependent upon the physical factors of the environment, and price perception regarding the service provider. There are fewer number of cues available for service providers. In a number of cases, physical environment, including SL, décor (DC) and ambient conditions are the only physical cues available. Therefore, from the perspectives of service providers, the physical environment is the key to keep the customer loyal to the organisation (Ryu & Jang, 2007).

Despite mentioning that physical environment is one of the most vital aspects for any service provider to retain customers, there are limited studies conducted in past literature regarding the service sector, particularly in the airline industry. Examination of the role of variables, including SL, DC and cleaning to formulate LOY is rarely studied. Additionally, the role of the perceived value (PV) customers obtain by selecting the airline is rarely studied (So, King, Sparks, & Wang, 2016). Thus, the study aims to examine the causal impact of CI developed in the minds of customers as a result of physical evidence like CL, DC and SL in relation to LOY.

Literature Review

Cleanliness (CL)

The study of CL in past literature has been discussed under the two famous frameworks of service quality. The first has a trait of "physical evidence," which is from one of the marketing mix Ps established by scholars for service industries; and also under the SERVQUAL model mentioned by scholars considered as "tangibles." Although it has been discussed that human interaction leaves a great influence on service quality,



separating the effect of the servicescape (Zhang, Xi, Blamire, & Egdell, 2016); when servicescapes are considered, CL is the important outcome.

Scholars have mentioned that the most prominent consideration in a shopping environment is CL, and researchers have also mentioned that when hotel rooms were dirty, customer retention was damaged, Hoffman, Norris, and Wager (2003). Also the scholars mentioned that corporations with major CL problems show the lowest rates of customer retention and often are unable to improve successfully. Likewise, Wakefield and Blodgett (1996) revealed CL of the servicescape to be very important.

Décor and artefacts

To maximise the physical attraction of the place, DC and artefacts play a significant role (Wakefield & Blodgett, 1994). Whenever customers are using the services, they are staying inside the service provider's physical evidence and expect the art work and decoration, including the appearance, to be attractive and eye catching. This attraction leaves an impression in the minds of the customers (Ladhari, Souiden, & Dufour, 2017). In the organisation providing services to the customers, physical environment consists of furniture and its quality, decoration of walls, tables and furniture, ceiling, flowers and plants in and outside the building, paintings, pictures and the area of the wall which appeals to the customer and creates perfection in the form of an image in the memories of the customer and visitors.

Spatial layout (SL)

The basic purpose of the physical environment is to fulfil the requirements and desires of the customers. For this purpose, it is important to develop effective SL (Ladhari et al., 2017). In service-providing organisations, the purpose of SL is to satisfy the customers. SL is referred to as the arrangement of equipment, furniture and objects according to the needs of the customer (Nguyen & Leblanc, 2002). The comfort of the customer depends on the efficiency of service layout settings and the fulfilment of needs (Pizam & Tasci, 2019).

Corporate Image (CI)

CI also known as brand image, is discussed in a lot of studies over time . Basically, image is the overall perception in the minds of the customers relating to any product/service. The CI of the firm is related to the behavioural and physical features of the organisation. These features may also be considered as attributes, including name of the firm, its physical appearance, variety available and its interaction with clients (Nguyen & Leblanc, 2002). When a customer evaluates a product, its image is formed in the memory of the customer in

the form of perception. While buying the products, cost and benefit analyses are carried out by the customers, which develops the perception.

Customer Loyalty (LOY)

The re-buying of a specific service/product by a customer through the same service provider in the future is considered to be LOY. Switching behaviours occur when a customer is not satisfied with the services. Considerably the past LOY research mentioned only the behavioural dimension of LOY in which only characteristics of the behaviour of the customers are mentioned (Watson, Beck, Henderson, & Palmatier, 2015).

Psychological sense of LOY has been explored by scholars, who have mentioned that there exists behavioural as well as attitudinal dimensions of loyalty. Under the behavioural LOY, the extent of repurchase of the product or services are measured by the practitioner. In the past, LOY has been discussed as a multi-item and single-item scale as well (Modaff et al., 2016).

On the other hand, attitudinal LOY is considered as the willingness of the customer to pay more and re-buy the same product or use the same service again. On the other hand, it is perceived that such situations create strong preferences for a product or service.

Perceived Value (PV)

The roots of PV lie in equity theory, according to which outcome/input of the consumer to that of the service provider is considered (Pizam, Shapoval, & Ellis, 2016). The equity concept deals with the evaluation of a service or product regarding what is right or fair in exchange for the cost being offered to the customer. Non-monetary sacrifices and monetary payments are included in the perceived cost. Non-monetary sacrifices include stress, energy consumption and time consumption by the customers. As a result, the PV of the customer results in the evaluation of sacrifices and rewards being offered. Customers are bound to feel satisfied if they feel the ratio of the quality of the product being offered as compared to the cost of the product is comparable. The value of a product for the consumer is related to knowledge or expertise, for using or buying of a product, the relation of the product in terms of consumers perception of a product. The organisation cannot define customer value objectively. Moreover, the customer perception of value is a multi-dimensional concept; and it is the tradeoff between sacrifices and benefits perceived by the customer offering to the customer (Arslanagic-Kalajdzic & Zabkar, 2017).

It is vital for the organisation to maximise customer value to gain competitive advantage. The nature of customer value is still unclear because it can be dynamic and subjective as well

(Alrubaiee et al., 2017). A number of authors have defined customer perceived value. Scholars proposed that customer PV is the difference between customers PV and customer perceived cost. Although a number of definitions and explanations by different authors exist regarding customer perceived value, all of the authors are of the consensus that it is the tradeoff among sacrifices of the customer and what is received by the customers.

Perceived Value: Relationship with Loyalty and Image

Scholars mentioned that there exists a positive impact of PV on customers intent to buy any product/service. When an individual is happy with the PV of the product, he or she stops looking for the alternative product. By this way, PV contributes to the LOY of the service provider. If the PV of the business is low, the customer is bound to look for the alternative brands by which LOY will be declined. Despite that, the customers are satisfied. Still, they can seek other business if better value is offered (Shukla, Banerjee, & Singh, 2016).

Image is basically a perception in the mind of the customer. This overall image in the customer's mind is influenced by the quality of the services and PV. The researcher argued that quality is the cause of creating a CI regarding what is received and experienced by the user, including the manner in which services are delivered. Researchers reported while testing the relationship among CI and service quality that customers who have a perception regarding the quality of services over repeat purchase have positive image regarding the organisation. Scholars also proposed that CI is influenced by the perceived services. Moreover, the image of the company will be stronger if customers believe they are getting good value of the product (Porter & Kramer, 2019).

Image and LOY

Scholars explained CI as the perception held in the memories of the customers regarding the product. It is because image works as the filter in which perception is developed regarding all of the functions of the company. Moreover, prestige and reputation are reflected in it. Scholars mentioned that among the important factors of LOY, image is the most important and influential one. Similarly, scholars state that the images of organisations are related to behavioural responses to the location of the organisation. This includes the name of the business, impressions regarding quality, number of services and architecture communicated during the conversations of each person (Nukpezah & Nyumoyo, 2014). Scholars revealed that CI is positively linked to the LOY of the customer while testing it in three industries, namely retail, education and telecommunications. As customers may not have much experience regarding the product, the source of information and word of mouth play a significant role in forming a CI in the mind of the customer (Nukpezah & Nyumoyo, 2014). Scholars expressed the view that the CI which is held regarding the nature of



products/services impacts on the LOY of the customer. As a result, the CI works like the attitude and impact of the LOY of the customer as well.

Décor, Cleanliness and Spatial layout: Corporate Image

In the past, several research projects have been conducted to analyse the impact of physical evidence and its attributes on the perception and image of the product. Researchers found that the role played by physical equipment and décor is significantly important to develop a perception in mind of the customer. If the perception is high in terms of environment, like CL and decor, it will impact positively towards the CI of the product (K. Yang, Yang, Chang, & Chien, 2017).

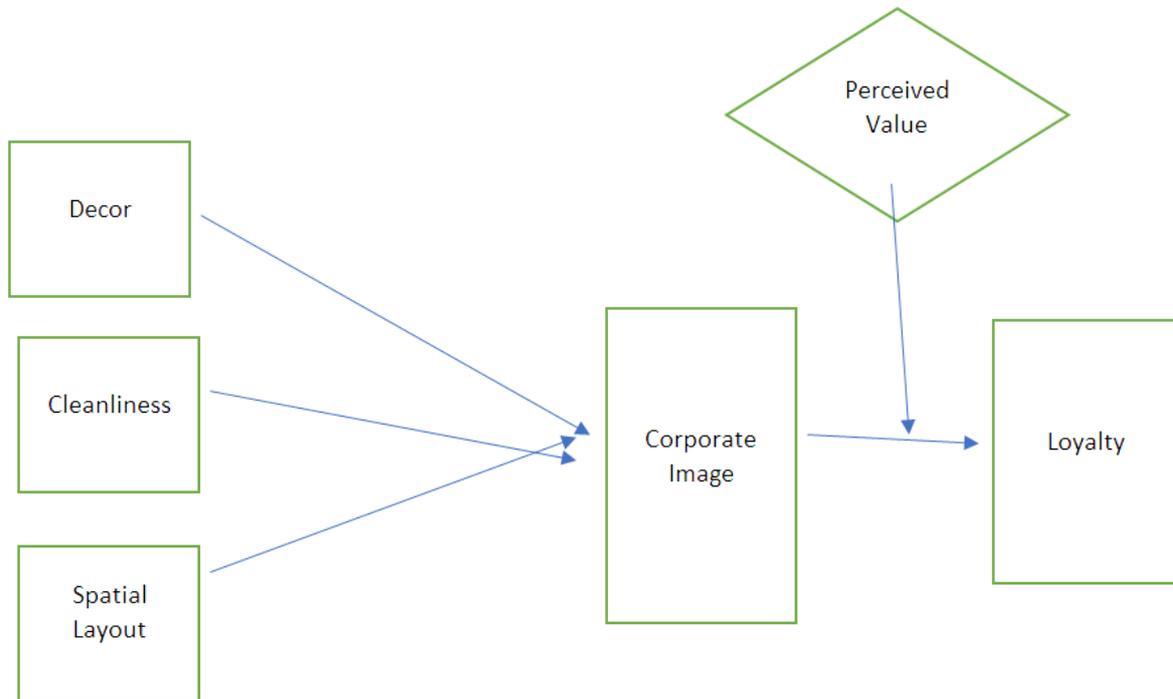
Scholars revealed that physical evidence plays a critical role in developing and shaping image in the mind of the customers regarding the service provider. Scholars mentioned that efforts should be made to use environmental cues so new customers can be attracted (Saleh, Quazi, Keating, & Gaur, 2017). The most common concern of customers is CL from where they are getting services; if the place is dirty, it will negatively influence the perception of the customers.

Additionally, SL plays a significant role to shape the brand image as well. Scholars mentioned that the services cap in the hotel industry plays a significant role in shaping the brand image of the hotel. They also mentioned that to strengthen the brand image, the physical environment of the hotel can be used. Additionally, Baker, Grewal, and Parasuraman (1994) demonstrated that physical environment, especially of the service provider, plays a significant role in shaping brand image.

Hypothesis

- H1: DC has a significant impact on CI.
- H2: CL has a significant impact on CI.
- H3: SL has a significant impact on CI.
- H4: LOY is significantly impacted by CI.
- H5: PV has a significant relationship with LOY.
- H6: PV moderates the relationship between CI and LOY.

Research Framework



Methodology

Following the examination of data screening and descriptive statistics, the measurement model was assessed in the next step. Small sample size and non-normal distributed data are one of the most common issues faced by researchers who are targeting organisations as units of analysis. Basically, this study was facing the same issues. Owing to this reason, PLSSEM was selected as an ideal statistical technique for this study, while CB-SEM was not an option. According to the recommendation of (Hair, C. M. Ringle, & M. Sarstedt, 2011), the sample size of 121 was sufficient to assess with PLS-SEM. Nonetheless, there is a similarity between CB-SEM (Anderson & Gerbing, 1988) and PLS-SEM (Anderson & Gerbing, 1988; Henseler, Ringle, & Sinkovics, 2009; Ringle et al., 2006) in which both adopted a two-step approach. The PLS-SEM path model begins with the assessment of the estimation of measurement model, and it is followed by the assessment of the path relations of structural model (Henseler et al., 2009). The sample finalised in the current study is 287, and the response rate is 58.5 percent. A total of 407 questionnaires were distributed among the international and domestic travelers of Thai airlines.



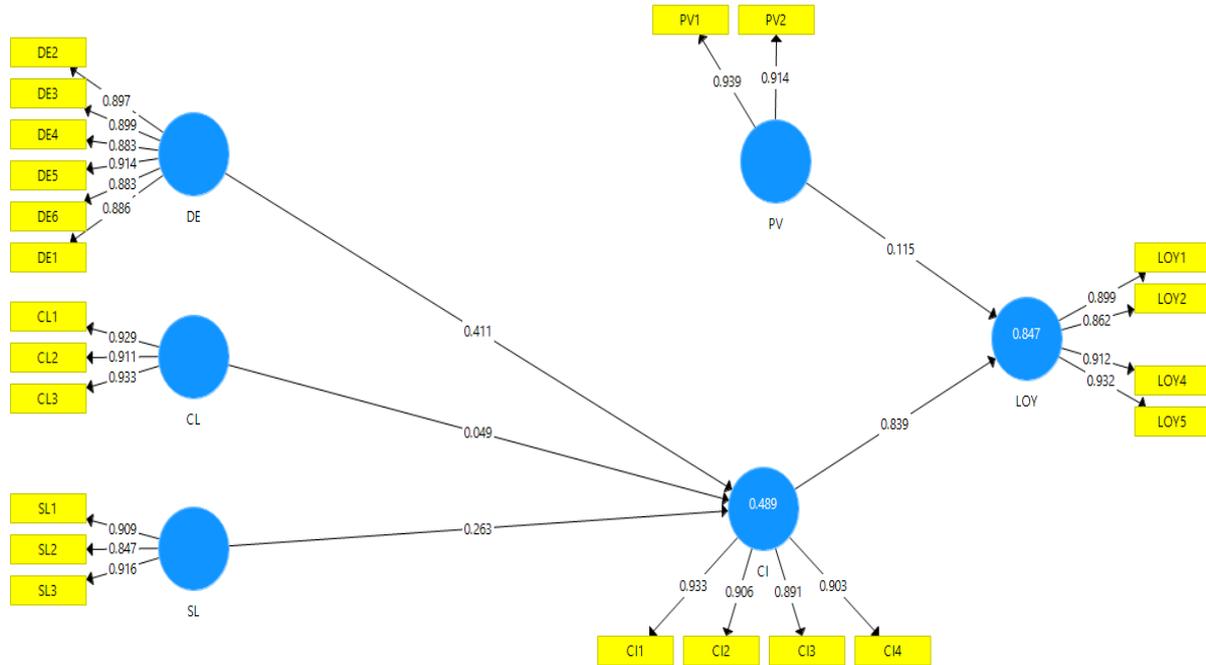
The scale for LOY and CL was adopted from S. Y. Lee and Kim (2014) while items for CI and PV were taken from Ryu, Lee, and Gon Kim (2012). The scales for décor and SL were adopted from (Han & Ryu, 2009).

Results

After the determination of the descriptive statistic and data screening, the next step is the assessment of the measurement model. The issues faced by most of the researchers targeting organisations as units of analysis include small sample size and non-normality of data. The same issues have been experienced in this research study. Because of these reasons, the research has adopted the PLS-SEM approach for analysis. CB-SEM could not be used in this research due to the issue of non-normal data and the small size of the sample. The sample size was determined to be 121 in this research, which is considered sufficient according to (Hair et al., 2011). This sample size can be determined using PLS-SEM approach. There is some resemblance in PLS-SEM and CB-(Anderson & Gerbing, 1988; Henseler et al., 2009; Ringle et al., 2006). Both techniques consist of two-steps. In PLS-SEM path model, the initial step is the assessment of the measurement model, which is followed by the assessment of the structural model (Henseler et al., 2009).

The assessment of statistical elements in the model is referred to as an evaluation of the measurement model. It ensures that the model is sufficiently good enough to proceed with further statistical analysis. Internal consistency, convergent validity, construct validity and discriminant validity has been examined for the measurement model. The validities have been measured through the use of Smart PLS. The pre-requirement of validity is reliability. It is related to the level of error free measures for consistency of results (Peter, 1979). The focus is on reliability because of its defective influence on weakening the association between the measures. Peter (1979) has recommended multiple item scales measurement to deal with the errors of measurement. The research can eliminate the items with measurement errors for improving the reliability of the model. In this research, there were no errors of measurement detected.

Figure 1. Measurement model



According to the recommendation of J. F. Hair, C. M. Ringle, and M. Sarstedt (2011), the value of outer model loading equal or greater than 0.50 is considered as sufficient and acceptable. However, the value of outer model loading less than 0.50 should be deleted to improve the data quality. The loading values of this research according to the constructs have been presented in Table 5.14. It has been indicated that the value of loading for all indicators is in the range 0.749-0.950. Therefore, it ensures that there is sufficient construct validity in the measurement model.

Table 1: Outer loading

	CI	CL	DE	LOY	PV	SL
CI1	0.933					
CI2	0.906					
CI3	0.891					
CI4	0.903					
CL1		0.929				
CL2		0.911				
CL3		0.933				

DE2			0.897			
DE3			0.899			
DE4			0.883			
DE5			0.914			
DE6			0.883			
LOY1				0.899		
LOY2				0.862		
LOY4				0.912		
LOY5				0.932		
PV1					0.939	
PV2					0.914	
SL1						0.909
SL2						0.847
SL3						0.916
DE1			0.886			

Reliability can be seen as a prerequisite of validity. The basic concern is the degree to which measures are error free and thus yield reliable results (Peter, 1979). The reliability is stressed due to the defective impact in which unreliable measures weaken the correlation between measures. Therefore, multi-item scales measurement was recommended by Peter (1979) to handle the issues of measurement errors. With the multi-item scales, the researcher is allowed to delete the items with measurement errors to improve the reliability of the scale. However, this study was free from the issue concerned, since all the measurements were measured by at least five items. The reliability is tested in internal consistency through homogeneity of a set of items (Peter, 1979). The level of items measuring the similar construct is assessed in reliability (DeVellis, 2003). To determine reliability of data, composite reliability (CR) is frequently used by most of the researchers (Cronbach, 1951). The value of composite reliability is interpreted similar to Cronbach's alpha (CA) value. All the reliability values shown in Table 5.13 reveal that they are above the standard rate of 0.70 (Hair et al., 2011; Henseler et al., 2009; Ringle et al., 2006). It indicates high internal consistency shown by every construct. According to the recommendation of Nunnally and Bernstein (1994), the values of reliability in the range of 0.70-0.90 are considered sufficient. The values of Cronbach's alpha to be greater than 0.9 or 0.95 are considered as inappropriate. It reflects that there is a change of indicator variables to determine the similar phenomenon (Hair, Sarstedt, Hopkins, & G. Kuppelwieser, 2014). The discriminant and convergent validity determine the construct validity. The evaluation of loadings and cross-loadings ensures the validity of specific items in constructs along with serving as a requirement for determining convergent validity. Generally, the construct validity is well assessed through convergent and discriminant validity. When the item is highly loaded within the construct, it is considered as

a good indicator of the construct. Moreover, when the item is high loading under a different construct, it reflects some issue with the item.

Table 2: Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
CI	0.929	0.930	0.950	0.825
CL	0.915	0.921	0.946	0.854
DE	0.950	0.951	0.960	0.799
LOY	0.923	0.924	0.945	0.813
PV	0.836	0.853	0.924	0.859
SL	0.870	0.877	0.921	0.794

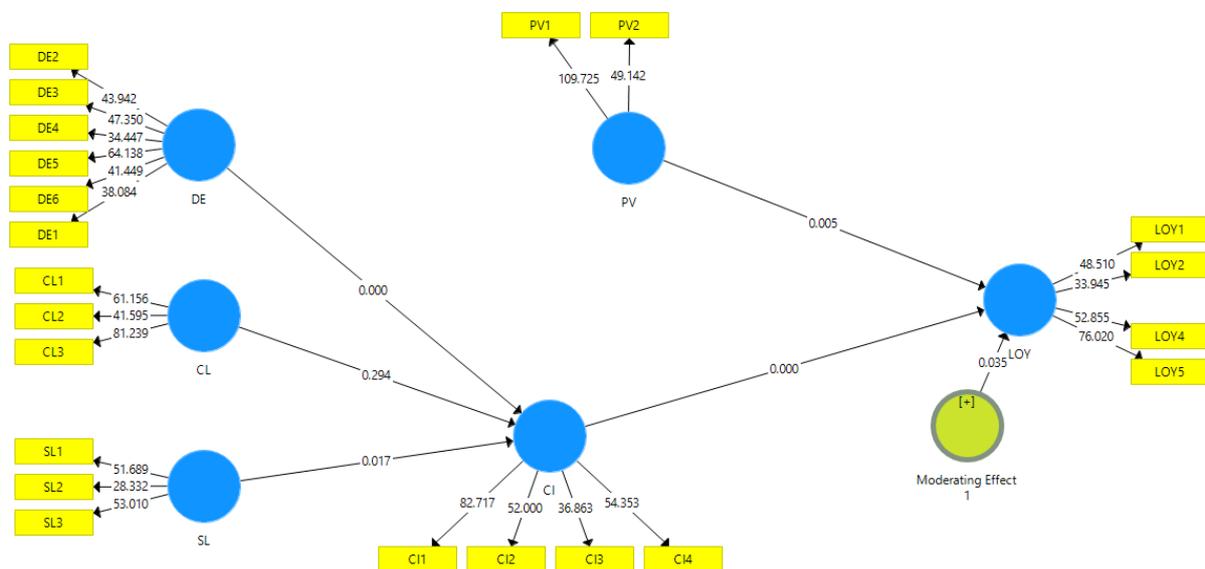
According to the suggestion of Fornell and Larcker (1981), there is need to assess AVE (average variance extracted), as a standard should be greater than 0.50 (Hair et al., 2011). Moreover, there is need to determine CR (composite reliability), factor loadings and AVE and the values of loadings should be greater than benchmark 0.70. The value of CR should be above 0.50 and CR should be greater than 0.70. When the value of AVE comes to be 0.50, it means that half of the variation in the manifest variable is because of the latent variable (Henseler et al., 2009). Another measurement linked with convergent validity is the discriminant validity. The difference among the measurement tools of different constructs is assessed through discriminant validity. The discriminant validity is assessed to ensure the external consistency of the model. It was noted by Fornell and Larcker (1981) that when the value of the square root of every construct is greater than the highest correlation, it confirms the discriminant validity.

Table 3: Discriminant validity.

	CI	CL	DE	LOY	PV	SL
CI	0.938					
CL	0.637	0.924				
DE	0.686	0.878	0.894			
LOY	0.916	0.650	0.673	0.901		
PV	0.676	0.870	0.880	0.682	0.927	
SL	0.669	0.865	0.885	0.720	0.883	0.891

After the assessment of the measurement model, the structural model is assessed. It determines the correlation between the variables and regression. In the process of structural model assessment, there are five steps (Hair et al., 2014). Initially, the issue of collinearity is determined. After this, the significance and structural model relevance is determined. The coefficient of determination is assessed along with the effect size. The coefficient of determination is regarded as R² and the effect size is F². The predictive relevance (Q²) is assessed as well. Moreover, the mediation influences are determined before the completion of data analysis. The next section has discussed this in detail.

Figure 2. Structural Model



It is important to determine the issues of collinearity in the assessment of the structural model. This refers to a high level of association among the indicators (Hair et al., 2014). The findings have been depicted in Table 5.12, which shows the standard collinearity values as having a tolerance greater than 0.20 and the value of VIF to be less than 5. Therefore, it is revealed that there is no multicollinearity. The VIF and tolerance of all the variables lie in the range of 2.278-4.122 and 0.243-0.439 respectively.

Similarly, the next step is the determination of relationships between the structural model and the significance of variables. The structural model path coefficients are examined for the testing of a hypothesised relationship between the constructs (Hair et al., 2014). The relation between the constructs, t-values and path coefficients are assessed in PLS-SEM. The use of path coefficient in PLS-SEM is equivalent to the standardised beta coefficient used in regressions.

Using a re-sampling iteration of 5000, t-values were calculated (Hair et al., 2014). A sample of 5000 bootstrap was selected to ensure the empirical sampling distribution by every parameter model and standard deviation of the distribution to be used as empirical standard error (Hair et al., 2011). The one-tail test was done and the critical values were used to determine the level of significance. The critical values were 2.33, 1.65 and 1.28 at 1%, 5% and 10% significance level respectively.

Table 4: Regression result

	(O)	(M)	(STDEV)	(O/STDEV)	P Values
CI -> LOY	0.852	0.845	0.046	18.461	0.000
CL -> CI	0.049	0.053	0.089	0.556	0.289
DE -> CI	0.411	0.406	0.110	3.727	0.000
DE -> LOY	0.350	0.341	0.090	3.866	0.000
Moderating Effect 1 -> LOY	0.038	0.038	0.021	1.824	0.034
SL -> CI	0.263	0.266	0.123	2.134	0.016

The predictive accuracy of the model is assessed by the coefficient. It is determined by the square value of correlation between the actual and predicted value of the dependent construct. The combined effects of independent latent variables on the dependent latent variable are represented by the coefficient (Hair et al., 2014). The value of R^2 is in the range of 0-1 and the higher the value the greater is the predictive accuracy. There is no standard value of R^2 . It was suggested by Henseler et al. (2009) and Hair et al. (2011) the value of R^2 as 0.75, 0.50, and 0.25 are considered good, moderate and weak respectively. The greater the paths reflecting towards a target construct, the greater is the value of R^2 of the construct.

Table 5: R-Square

	R Square
CI	0.489
LOY	0.847

Conclusion

The primary goal when conducting the present study was to explore the role of physical environment in the creation of Brand Image and LOY of Thai Airline customers. The study aims to explore the causal impact of corporate image developed in the minds of customers as a result of physical evidence such as CL, DCE and SL in relations with LOY. CI is the response of consumers towards the total offering of the organisation. This is the sum of



impression, ideas and beliefs of service and product providers towards the quality communicated by everyone during client interaction. The study has argued that the image is the perception in the mind of the customer. The study has revealed the fact that perceptions of the customer are mainly dependent upon the physical factors of the environment and price perception regarding the service provider. There are a very small number of cues available for service providers. A total of 407 questionnaires were distributed among the international and domestic travellers of Thai Airlines, with a response rate of 58.5%. The SEM-PLS is employed to accomplish the objectives of the study. The existing study tried to broaden our thoughts about how the management and design of services can impact the perceptions, behaviours and emotions of individual customers, and the influence of this association on the organisation's service. The findings of the study have shown agreement with the proposed hypothesis.

The study findings have argued that the satisfaction of the customer depends on the efficiency of service layout settings and the fulfillment of functional needs. A highly noticeable thing to customers concerning an airline is the SL of the surroundings, where sufficient space is necessary for moving around and sitting in comfort. To keep the airline crowd free, an effective layout of the physical environment is very important. The increase in brand purchases over time makes it a prominent factor in scaling the consumer behavioural LOY. On the other hand it was assumed that the brand preference reveals attitudinal LOY, that has been scaled by psychological commitment properties. The study will be helpful for policy makers, and researchers in understanding the issues related to LOY concerning Thai Airlines.



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