DESTINATION BRANDING AND THE IMPACT OF PERCEIVED QUALITY
and image on the loyalty

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ABSTRACT:

The importance of country brand image has been assessed and based on the reviews of recent developments in nation branding worldwide. To evaluate the loyalty of the visitors the impact of satisfaction and brand image has been evaluated. Quantitative data from Czech Republic have been utilized and PLS modelling was used to evaluate the relative impact of satisfaction and brand image.

KEY WORDS:

nation branding, brand image, satisfaction, net promoter score, loyalty, structural equation modelling, partial least square, hypothesis, willingness to recommend, willingness to revisit

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Introduction

There has been a significant increase in the field of place branding and nation branding research during last five years. Overall interest for nation branding became a mantra for many governments or at least national tourism organizations (NTO). This is natural consequence of continuously increasing competition among the countries, regions, places for the same tourists, or in general for the same consumer. At the same time improvement of competitiveness of several countries which invested in huge communication campaigns and this building the brand awareness and image is pushing this area of research forward.

In majority of cases, the country brand image theory is based on classical theoretical framework (David A. Aaker, 1996) later extended and nation focused (Simon Anhold, 2007; Teemu Moilanne & Seppo Rainsto, 2009 and others). Especially the recent developments of nation branding theory or even nation competiveness theory (Simon Anhold, 2009) are much wider in its description and scope and are widely accepted.

From this short introduction is evident that many scientific articles and books are well covering many different issues of nation branding, nation brand building, etc. This study focuses on the impact of brand image and perceived quality of services (represented by overall satisfaction) on the customer loyalty and drafted hypothesis are verified with the use of the quantitative research data collected from March till April 2010 in the Czech Republic.

Theoretical framework

A brand equity model of Aaker (1996)[1] includes five main categories which increase the value of branded products. The same approach (with small modification regarding the property rights) could be used for places and so brand awareness, brand loyalty, brand image, perceived quality, and brand associations have been surveyed in our research.

Perceived quality is one of the most important aspects for decision making for travellers in the process of next destination selection, return to the same place or providing recommendation to the friends or family members. Favourable perceived quality of place's offerings differentiates the place from a competing one, improves the travellers' perception. The creation of perception of quality for a place is impossible unless the quality claim has substance in the major attraction factors (Moilanen-Raiunisto, 2009). The image of the place is always 'true', being the real experience of the target traveller.

According Anhold (2003)[2] the branding of products and services from places, and branding of those places themselves, will increasingly be seen as a key focus of marketing, as well as a crucial component of foreign and domestic policy, international relations, economic and cultural development, trade and tourism. For the first time, the art and science of branding has an opportunity to prove its value beyond the tired old litany of 'improving shareholder value' and become recognized as one of the most valuable and relevant disciplines of post-industrial society.

While literature is overwhelmed with explorations of perceived quality, there is relatively little empirical attention on brand image, and only few studies on the relationship between these two aspects and their particular impact on customer loyalty. Lindestad, B. and Andreassen, T.W. (1997)[3] have explored different relationship between corporate image, quality and customer satisfaction utilizing a reflective measurement model, where the observed variables are caused by the latent variables. For the analysis the structural equation modelling (LISREL VIII, ML) was used. Findings have been rather controversial revealing the fact that customer satisfaction has no impact on customer loyalty whilst corporate image has had positive impact.

The principal goal of this study is to find the relationship that will show the industry leaders that the image of the place is always 'true', being the real experience of the target traveller and that the quality of provided services is equally important to the brand image, contrary to frequently used approach to boost brand image via extensive brand image building activities and only consequently improve the quality of the offerings. In search for this answer we bear in mind that well established brand is able in spite of the quality issues (Mercedes) manage to maintain a relatively favourable brand image and vice-versa, brand with rather high quality level and unfavourable brand image is fighting with its deeply held negative images among some consumer groups (Hyunday).

Hypothesis

This short and simple study examines impact of perceived quality (represented by customer satisfaction) and brand image on the repeat purchase (revisit) and willingness to recommend the brand as two aspects of loyalty.

Customer satisfaction

Well known concept exists in many scientific branches, e.g. in marketing, economic psychology, consumer research, etc. This concept is based on the assumption that customer is capable of evaluating the service performance and result is compared to expectations prior to consumption or purchase. Discrepancy (positive or negative) between expectations and perceived quality leads either to dissatisfaction (negative discrepancy), or to neutral position (slightly positive discrepancy) or even to high satisfaction (significant positive discrepancy).
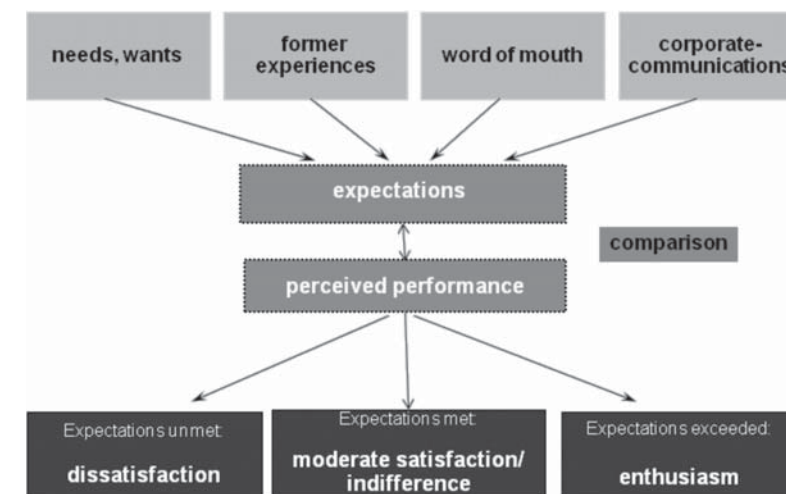

Fig.1: The model of creation of satisfaction.

Hallowell[4] tried to illustrate the relationship of profitability to intermediate, customer-related outcomes that managers can influence directly using empirical analysis of one retail bank, limiting the findings' ability to generalize. His approach is consistent with the Nordic School's view that services are highly interdisciplinary, requiring a "service findings support the theory that customer satisfaction is related to customer loyalty, which in turn is related to profitability (Heskett et al., 1994,[5] and discussed in Storbacka et al., 1994).[6]

The research presented by Hallowell, while unable to demonstrate causality because of its reliance on Ordinary Least Square (OLS) regression of cross-sectional data, does illustrate that customer satisfaction, customer loyalty, and profitability are related to one another. The research and regression results supports in this case that customer satisfaction may be responsible for as much as 37 per cent of the difference in customer loyalty levels among the divisions (of the bank) examined.

Customer loyalty

The term customer loyalty is used to describe the behaviour of repeat customers, as well as those that offer good ratings, reviews, or testimonials. Some customers do a particular company a great service by offering favourable word of mouth publicity regarding a product, telling friends and family, thus adding them to the number of loyal customers.

To determine a useful metric for gauging customer loyalty, Fred Reichheld did something rarely undertaken with traditional customer surveys: match survey responses from individual customers to their actual behaviour – repeat purchase and referral patterns – over time. He found that one question was best for most industries. "How likely is it that you would recommend [Company X] to a friend or colleague?" In cooperation with Satmetrix they looked at relative growth rates for competitors in a given industry. In the first quarter of 2001, Satmetrix began tracking the "would recommend" scores of a new universe of customers, many thousands of them from more than 400 companies in more than a dozen industries. In each subsequent quarter, they then gathered 10,000 to 15,000 responses to a very brief e-mail survey that asked respondents (drawn again from public sources) to rate one or two companies with which they were familiar.[7]

Daniel Schneider, Jon Krosnick, et al. found that out of four scales tested, the 11-point scale advocated by Reicheld had the lowest predictive validity of the scales tested.[8] Others have taken issue with the calculation

1   Aacker, D.A.: Building Strong Brands, 1996. Free Press, Computer Press 2003. ISBN 80-7226-885-6
2   Anholt, S. (2004) Nation/brands and the value of provenance. In: Destination Branding. Elsevier Butterworth- Heinemann, Oxford. ISBN 978-7506-5969-7
3   Andreassen, T.W / Lindestad, B.: Customer Loyalty and Complex Services: The Impact of Corporate Image on Quality, Customer Satisfaction and Loyalty for Customers with Varying Degrees of Service Expertise. In: The International Journal of Service Industry Management, Vol.8, No 4, 1997

4   Hallowell, R.: The relationships of customer satisfaction, customer loyalty, and profitability: an empirical study. In: International Journal of Service Industry Management, Vol. 7 No. 4, 1996, pp. 27-42.
5   Heskett, J.L., Sasser, W.E. and Hart, C.W.L. (1990), Breakthrough Service, The Free Press, New York, NY.
6   Storbacka, K., Strandvik, T. and Grönroos, C. (1994), "Managing customer relationships for profit: the dynamics of relationship quality", International Journal of Service Industry Management, Vol. 5 No. 5, pp. 21-38.
7   Reichheld, Frederick F. (December 2003). "The One Number You Need to Grow". Harvard Business Review.
8   Schneider, Daniel; Berent, Matt; Thomas, Randall; Krosnick, Jon (2007): "Measuring Customer Satisfaction and Loyalty: Improving the 'Net-Promoter' Score"; paper presented at the Annual Conference of the World Association for Public Opinion Research (WAPOR);

methodology, claiming that by collapsing an 11-point scale to three components (e.g., Promoters, Passives, and Detractors), significant information is lost and statistical variability of the result increases.[9] The validity of NPS scale cut-off points across industries and cultures has also been questioned.

On the other hand, other independent research confirms the fundamental claim of a relationship between relative competitive Net Promoter Scores and competitive growth rates. Proponents of the Net Promoter approach point out that the statistical analyses presented prove only that the "recommend" question is similar in predictive power to other metrics, but fail to address the practical benefits of the approach, which are at the heart of the argument Reichheld and Satmetrix put forth.

Proponents of the approach also counter that analyses based on third-party data are inferior to analyses conducted by companies on their own customer sets, and that the practical benefits of the approach (short survey, simple concept to communicate) outweigh any statistical inferiority of the approach.

For this reason we have taken this question as a main description of the loyalty supported by willingness to repurchase/return to the same destination, which is influenced by the satisfaction and we have drafted first two hypothesis:

H1:   *The repurchase intention is strongly supporting willingness to recommend (referral).*

In this study we estimate that

H2:   *Customer satisfaction has positive impact on customer loyalty.*

As far as we prefer to measure customer loyalty through two independent measures – willingness to return (repurchase, revisit) and willingness to recommend, two derived sub hypotheses have been developed:

H2a: *Customer satisfaction has positive effect on repeat purchase (revisit).*

H2b: *Customer satisfaction has positive effect on willingness to recommend (referral).*

Brand Image

Aaker defines brand reputation as a perception of quality associated with the name. Brand image is established and developed in consumer s' mind through communication and experience. Brand image is believed to be able to stimulate purchase by simplifying decision making process. For the purpose of this article we concentrate on two aspects – repurchase, or in case of complex nation brand it is willingness to return to specific country for holiday and second question – willingness to recommend country to the friends. The last one is also dominant part of the so called Net Promoter Score, introduced in 2003 by loyalty consultant Fred Reichheld and executives from some world's most prestigious firms have wholeheartedly adopted Net Promoter Score as a gauge of their firms' effort to improve customer loyalty.[10]

Importance of brand associations as antecedents to brand preferences such as brand attitudes and purchase intentions is well established and described, but the non attribute associations (e.g. image) has been examined only recently (Batra, Homer, 2004).

For the purpose of this study we have developed an assumption.

H3:   *Brand has less strong impact on customer loyalty than satisfaction.*

As far as we prefer to measure customer loyalty through two independent measures – willingness to return (repurchase, revisit) and willingness to recommend two derived sub hypotheses have been developed:

H3a: *Brand image has positive effect on willingness to recommend.*

H3b: *Brand image effect on repurchase intention is less significant than effect of satisfaction.*
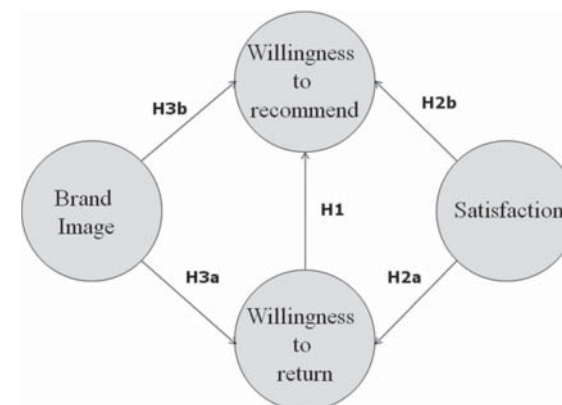
Our model is then described as follows:

Fig.2: Measurement model.

Methodology

A total of 321 respondents out of 423 interviewed have had personal experience in visiting Slovakia. Those 423 have been representative sample of the Czech population, whilst 321 is sub sample without representativeness. Each interview lasted about 25 minutes and was done strictly personally, face-to-face in the period of February 25-March 20, 2010. Survey has been carried out by GfK Czech Republic and data provided in CSV format have been evaluated by IMP consulting by its own statistical SW IMPtools.

Customer satisfaction was measured via the responses to a single question on the customer-satisfaction questionnaire:

Q14: "Overall, how satisfied have you been with your last visit to Slovakia?" Responses for this question similarly to others were made on 0-10 Likert-type scales labelled "very satisfied" (10) and "very dissatisfied" (0) at each extreme. The problems associated with the use of a single response variable were mitigated by: the simplicity of the question; and Yi's (1990)[11] suggestion that a single overall satisfaction measure scored as this one was is "reasonably valid" (p. 71).

Relationship analysis has been executed utilizing open source software smartPLS,[12] which is based on Partial least squares regression (PLS-regression). This is a statistical method that bears some relation to principal components regression; it finds a linear regression model by projecting the predicted variables and the observable variables to a new space. Because both the X and Y data are projected to new spaces, the PLS family of methods are known as bilinear factor models.

PLS is used to find the fundamental relations between two matrices (X and Y), i.e. a latent variable approach to modelling the covariance structures in these two spaces. A PLS model will try to find the multidimensional direction in the X space that explains the maximum multidimensional variance direction in the Y

Berlin (Germany)
9   "Would You Recommend Us?" Business Week, January 30, 2006
10   T.L.Kenningham- B.Cooil- T.W.Andreassen- L.Aksoy: A Longitudinal Examination of Net Promoter and Firm Revenue Growth. In: Journal of Marketing, Vol. 71 (July 2007), 39-51

11   Yi, Y.: "A critical review of consumer satisfaction", in Zeithaml, V. (Ed.), Review of Marketing, 1990, American Marketing Association, Chicago, IL, pp. 68-123.
12   www.smartpls.de

space. PLS-regression is particularly suited when the matrix of predictors has more variables than observations, and when there is multicollinearity among X values. By contrast, standard regression will fail in these cases.

PLS-regression is an important step in PLS path analysis, a multivariate data analysis technique that employs latent variables. This technique is often referred to as a form of variance-based or component-based and prediction-oriented structural equation modelling technique.

PLS path modelling is widely applied in business and social sciences in order to predict endogenous latent variables and to estimate as well as test relationships between latent variables (causal analysis). PLS is a robust technique that allows for formative measurement of constructs.

Findings and hypothesis verification

We have extended our original model by introducing effect of brand image on satisfaction that has proved to be rather significant.

Convergent validity was assessed by examining construct loadings and construct reliability. Examination showed that all construct loadings were significant (p<0.001) and above recommended 0.70 parameter value. Construct reliability was evaluated by using two indices: composite reliability (CR) and average variance extracted (AVE). All of the evaluated indices were above the recommended thresholds of 0.60 for CR and 0.5 for AVE. Table displays composite reliability, average variance extracted, R2 and Cronbachs Alpha for the constructs.

Explanatory power demonstrates the quality of PLS models, and evaluation of the square multiple correlation (R2) of endogenous constructs determines explanatory power. In case of our sample, the independent variables explain 72.8% of variation in the level of willingness to recommend the brand Slovakia (R2 = 0.728841) and 56.27% of variation in the level of willingness to revisit Slovakia (R2 = 0.562704).

Examination of significance levels, directions and magnitude of standardized estimates of paths provide evidence for relationship among the satisfaction, brand image and loyalty attributes, represented herein by willingness to recommend (referral) and willingness to return (revisit or repurchase).

The results reveal the difference between the significance of the effects of satisfaction and brand image and thus in majority cases are confirming our hypothesis. Our hypothesis that for the traveller the own experienced plays more important role than perception of the destination brand has not been proved and is increasing the importance of the right brand image building for Slovakia.

HYPOTHESIS DESCRIPTION	HYPOTHESIS SUPPORTED (YES/NO)
H1: The repurchase intention is strongly supporting loyalty.	yes
H2 : Customer satisfaction has positive impact on customer loyalty.	
H2a: Customer satisfaction has positive effect on repeat purchase (revisit).	yes
H2b: Customer satisfaction has positive effect on willingness to recommend.	yes
H3: Brand image has less strong impact on customer loyalty than satisfaction.	
H3a: Brand image has positive effect on willingness to recommend.	yes
H3b: Brand image effect on repurchase intention is less significant than satisfaction.	no

Tab.1: Hypothesis verification (results after PLS modelling)

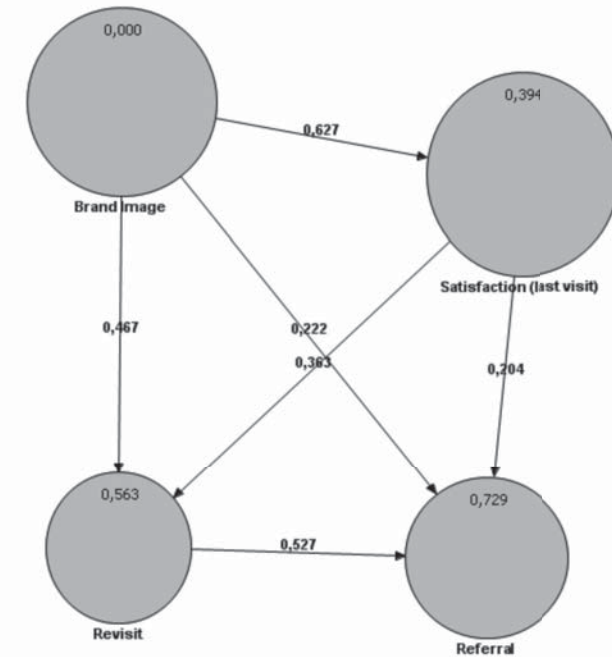|	AVE	Composite Rreliability	R²	Cronbachs Alpha	Communality	Redundancy
Brand Image	0.61018	0.933179		0.918678	0.610185	
Referral	1.00000	1.000000	0.728841	1.000000	1.000000	0.268512
Revisit	1.00000	1.000000	0.562704	1.000000	1.000000	0.430729
Satisfaction	1.00000	1.000000	0.393748	1.000000	1.000000	0.393748

Tab.2: PLS Quality Criteria.

Fig.3: Revised model with path coefficients and square multiple correlations.

	Brand Image	Referral	Revisit	Satisfaction
Brand Image	1.00000			
Referral	0.715982	1.000000		
Revisit	0.694762	0.814977	1.00000	
Satisfaction	0.627493	0.688930	0.656200	1.000000

Tab.3: Latent Variable Correlations.

Discussion and implication

This study demonstrates the importance of brand image in case of tourism industry and its strong impact on loyalty. Our original assumption (H3b) was not confirmed and on the contrary has shown the greater importance of brand image. Of course satisfaction has still higher impact on repurchase intention than on referral; nonetheless brand image is a driving force in both cases – repurchase (revisit intension) and referral, which are in overall creating loyalty index.

The study is direct confirmation of the importance of building proper communication and creating a shared picture of Slovakia among the target market groups. It was not an aim to criticize current fragmented approach in Slovakia towards the brand image building but the result is confirming that this problem must be solved in reasonable time frame otherwise Slovakia will not be able to compete on highly competitive destination markets.

From theoretical aspects we have to analyze further the partial impact of those parameters that are creating brand image – brand attractiveness, brand uniqueness, brand awareness and brand self identification and breakdown all of these sub indexes into particular questions as far as current results of the research made in 9 countries have shown dramatically bad position for Slovakia with overall brand image below average rating of 3 (3.58) - see fig.4.

We believe that this extension of analysis would be beneficial for better understanding which part of the brand image needs the highest attention and focus.
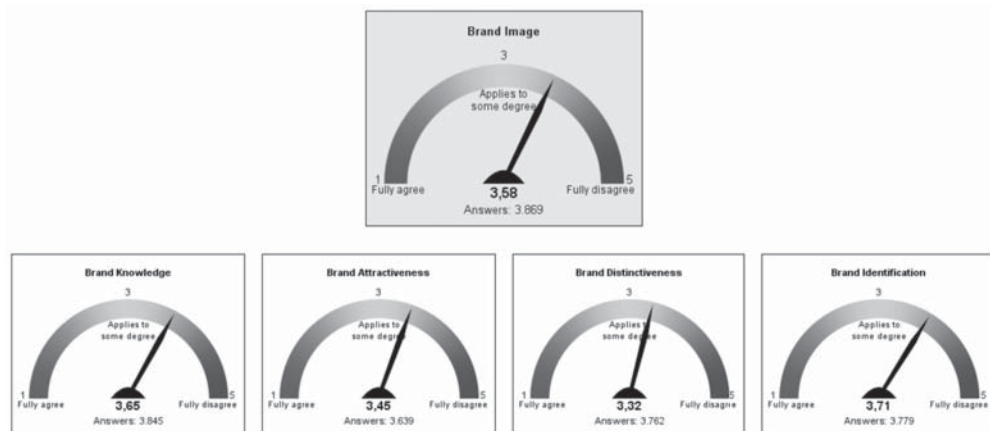
Fig.4: Brand image index of Slovakia. Sample: 3.869 respondents. Sample collection: GfK, March-April 2010.[13]

Despite the criticism regarding the perception of importance of brand image creation in Slovakia, the study reveals several important points:

1. Leaders and organizations with responsibility for country positioning should pay higher attention to the building of brand image;
2. Satisfaction plays strong support role besides brand image influencing the revisit intention, therefore organizations and leaders with direct hospitality responsibility have to increase their effort to improve this aspect;
3. We need to analyze further details of brand image to explore and understand where to focus the future effort of organizations.

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