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**MEASURING DIRECT ASSOCIATION BETWEEN CUSTOMER**  
**SATISFACTION AND CUSTOMER RETENTION AMONG**  
**GENERATION Y**

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*Abstract*

The association of satisfaction and retention among customer has grabbed researcher attention for many years. In achieving an organization success, customer satisfaction issue is a detrimental and should be given serious attention since dissatisfied customer will have an intention to switch and create an adverse impact to the organization performance. This paper proposed to measure the association between customer satisfaction and retention among generation Y. Questionnaires were distributed to final year student in a private higher education institution in Pahang. Data was analysed using PLS-SEM with 5 point likert scale. The finding revealed a strong relationship between variables. Since Generation Y is the biggest customer segment worldwide, business organization must reconsider their approaches in initiating positive and lasting relationship. The challenge is real as generation Y is known as least loyal, most emotional and least satisfied customers as compared previous generations. Indeed, maintaining satisfied customer in the era of globalization nowadays is detrimental for business survival.

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**Keywords:** Customer satisfaction, customer retention, partial least square.



## **1. Introduction**

Association between satisfactions among consumer in dynamic professional workplace appear as extraordinarily impacts to clients buying intention and any disappointment has been viewed as an essential element for customer's turnover intention (Faizan, Nawaz & Khan, 2011). Gummesson, (2002) demonstrated that so as to retain clients overtime, professional need to be more endeavours in maintaining individual associations with the customers, as it is a solid security binds clients to the firm. In order to retain customers, serious attention must be given on making sure that customer remain satisfied and an organization supposed to strive toward elimination stitching barrier (Njane, 2013).

In marketing literature, customer satisfaction has been considered as a crucial factor influencing customer loyalty (Kumar, Dalla & Ganesh, 2013; Lee, Jeon, & Kim, 2011; Gerpott, Rams, & Schindler, 2001). Consumer satisfaction is the most vital issue concerning business association, defended by the oriented philosophy of customer and the standards of process which constantly changes in the present day (Arokiasamy, 2013). Satisfaction is employed as a prevalent marketing benchmark to measure a product's performance in the market. Previous studies have recognized customer satisfaction as a key factor in achieving customer's retention and loyalty (Levesque & McDougall, 1996). Customer retention on the other hand, is a financially savvy and beneficial system as it is regarded as business continuity between organization and their customer (Awara, 2010; Gerpott et al, 2001).

## **2. Problem Statement**

Ibojo (2015) contended that in attaining organizational objective and business success, it is critical to retain customer satisfaction. Hence, it is clear that currently, in the globalised environment customer satisfaction is very essential. This is because a dissatisfied customer will have an intention to switch (Daikh, 2015) and create an adverse impact to the organization performance. Other than that, service providers must not feel comfortable as not all retained customers are satisfied and not all of them can be always retained (Osman & Sentosa, 2013). One of the customer segments that receiving greater attention is the youth market, which is known as Generation Y (Foscht, Schloffer, Maloles & Chia, 2009). Descriptions characterizing Generation Y, which is the largest segment in the world, derive predominantly from studies conducted in the United States (Heaney, 2007). Besides, over the next five to 10 years, Generation Y's will become the largest customer segment worldwide (Mettler, 2015). Thus, marketers need to revisit their strategies in order to establish a positive and lasting relationship with this new customer segment. This is a challenging task, considering that this segment represents the least loyal, most emotional and least satisfied customers compared to all other generations (Tripadvisor, 2015). Generation Y also have very unique taste and preferences and it is important to consider their level of satisfaction and maintain their loyalty (Kumar & Lim, 2008). Therefore, this study is conducted to identify the association of satisfaction and retention among Generation Y.

## **3. Research Questions**

From the above research problem, research question is drawn to measure the association of satisfaction and customer retention between Generation Y customers

#### 4. Purpose of the Study

The presumption of building a decent association with the customer implies as retention of customer. Customer satisfaction has been and still is viewed as a major determinant of long term purchaser behaviour (Yi, 1990). The more fulfilled customers are, the more noteworthy is their retention (Anderson, 1994). Generation Y is three times more the size of Generation X and constitutes the largest market since baby boomers (Belleau, Summers, Xu, & Pinel, 2007). Determining the specific factors that influence Millennials and their purchasing attitudes and patterns has become an important focus of consumer research as their potential spending power, the ability to be trendsetters, adoption to new products and potential for becoming a lifetime customer (Martin & Bush, 2000; Ordun, 2015). Therefore, this paper aim at examining the association of satisfaction and retention among Generation Y.

#### 5. Research Methods

A purposive sampling technique was used targeted to final year degree program of a Private Higher Education institution in East Coast area in Pahang. The sample is chosen because there has been little academic research into their unique responses to marketing efforts (Bakewell & Mitchell, 2003). Besides, loyalty cards can be one way of increasing their brand loyalty, because it makes them feel like they belong to a group (Gronbach, 2000; Tsui and Hughes, 2001). Total number of questionnaire distributed is 150, however only 87 are returned making the response rate for this study is 58%. Data were collected base on primary data that were obtained from questionnaires. Questionnaire for this study consisted of three section. First section is on respondent demographic profile, second section, consisted of questions for customer satisfaction. As for section three, the questions consisted of question for customer retention. A five point likert scale were apply on this study. Data employed (PLS-SEM) version 3.0 using double stages methodology by Anderson and Gerbing (1988) namely the measurement and structural model analysis. The criteria and procedures proposed in the literature, by Henseler et al. (2009) and Hair, Sarstedt, Ringle, et al. (2012), are also included in the evaluation of the results.

#### 6. Findings

##### 6.1. Respondent profile

This study is dominated by female student with 63 student (72.4%). Most of them are Malay 71 (81.6%) and majority currently enrolled under Bachelor of Human Resource 68 (78.2%). Types of loyalty program enrolled mostly Watson followed by Jusco, Tesco, Bonus Link and Guardian. The tenure for the usage is less than 5 years and they opted to enrol mainly because they want to enjoy the discount offered.

**Table 01.** Respondent demographic profile

Items	Characteristics	Frequency	Percentage
<b>Gender</b>	Male	24	27.6
	Female	63	72.4
<b>Race</b>	Malay	71	81.6
	Indian	13	14.9
	Chinese	1	1.1
	Others	2	2.3

<b>Occupation</b>	Student	86	98.9
	Private Sector	1	1.1
<b>Academic qualification</b>	Bachelor of Accounting	6	6.9
	Bachelor of Finance and Economic	1	1.1
	Bachelor in HRM	68	78.2
	Bachelor in International Business	12	13.8
<b>Type of loyalty program enrolled</b>	BCard	5	5.7
	Bonus Link	14	16.1
	Watson	45	51.7
	Plus One	1	1.1
	Jusco	18	20.7
	Tesco	15	17.2
	The Store	5	5.7
	Guardian	14	16.1
	Giant	13	14.9
	Mydin	12	13.8
	Others	5	5.7
<b>Period of usage</b>	1 - 5 years	74	85.1
	6 -10 years	10	11.5
	10 years and above	3	3.4
<b>Reason for enroll in the loyalty program</b>	Discount	47	54.0
	Rebate	21	24.1

## 6.2. Measurement model

First the analysis of loading and cross loading were done to assess if there are any problem with any items used in this study. As suggested by Garson (2007) and Kline (2005), all factor loading with cut off value less than 0.6 is deleted. In this study, 4 items were deleted, CS4, CS5, CS10 and CS11, since the loading is less than 0.6.

To evaluate the scales reliability, composite reliability (CR) and Cronbach's alpha ( $\alpha$ ) were deliberated. Composite reliability value is range from 0.838 to 0.912, which is more than 0.6, indicated that they had good construct (Fornell & Larcker, 1981). In general, Cronbach's alpha ( $\alpha$ ) value of  $\alpha \geq 0.9$ , the internal consistency is considered to be excellent, and if  $0.7 \leq \alpha$ , it is considered to be good. As presented in Table 02 below, all the extracted factors have good internal consistency.

Construct validity is confirmed through convergent and discriminant validity. Construct validity is used to find out how well does the developed instrument measures a particular construct. Convergent validity is assessed through the AVE. According to Spreng and Mackoy (1996), AVE value for the variables must be near or greater than 0.50. As in Table 02 below, the AVE value ranging from 0.463 to 0.511, all the value of AVE is accepted as according to Fornell and Lacker's (1981) if AVE is less than 0.5, but composite reliability is higher than 0.6, the convergent validity of the construct is still acceptable.

Next, to confirm the discriminant validity Fornell and Laker (1981) method were used. Fornell and Laker (1981), contended that discriminant validity is satisfied if its independent variance is higher than shared value with other constructs as evident in Table 02. Since all square roots of the AVEs are higher compared to all inter-construct correlations, therefore discriminant validity is confirmed (Hair, Ringle, & Sarstedt, 2011). However, there has been a recent criticism of the Fornell-Larcker (1981) criterion do not

reliably detect the lack of discriminant validity in common research situations (Henseler, Ringle, & Sarstedt, 2015). Therefore, for this study, to confirm the validity, we have also test the Heterotrait-Monotrait (HTMT) that was introduced by Henseler et al. (2015). He suggested a threshold value of 0.90 for HTMT and value which is above 0.90 shows a lack of discriminant validity (Henseler et al., 2015). Table 03 shows that HTMT criterion has been fulfilled as all HTMT value are below than 0.90.

**Table 02.** Outer loading/cross loading

Construct	Customer satisfaction	Customer retention
CS1	<b>0.687</b>	
CS2	<b>0.805</b>	
CS3	<b>0.706</b>	
CS6	<b>0.722</b>	
CS7	<b>0.654</b>	
CS8	<b>0.682</b>	
CS9	<b>0.715</b>	
CS12	<b>0.753</b>	
CS13	<b>0.695</b>	
CS14	<b>0.720</b>	
CR1		<b>0.667</b>
CR2		<b>0.694</b>
CR3		<b>0.735</b>
CR4		<b>0.691</b>
CR5		<b>0.666</b>
CR6		<b>0.625</b>

\*Note: CS= Customer satisfaction, CR= customer retention

**Table 03.** Result of reliability, convergent validity and discriminant validity analysis

	CR	Cronbach alpha	AVE	#1	#2
#1 Customer retention	0.838	0.771	0.463	<b>0.680</b>	
#2 Customer satisfaction	0.912	0.893	0.511	0.653	<b>0.715</b>

Notes: Bold diagonal elements are the square roots of the AVEs, off-diagonal elements are correlation coefficients among variables.

**Table 04.** Heterotrait-Monotrait (HTMT)

	#1	#2
#1 Customer retention		
#2 Customer satisfaction	0.756	

### 6.3. Structural model

When adopting PLS-SEM, this model is analysed on collinearity diagnostic, predictive relevance and statistical significance as per Hair et al (2011).

### 6.3.1. Collinearity diagnostics

This assessment is established using variance inflation factors (VIF). According to Hair, Ringle, and Sarstedt, (2013), VIF values need to maintain below 5.0. Base on the result present on Table 03 below, it is confirmed that there is no multi collinearity issue among the variables (Hair et al, 2013).

**Table 05.** VIF results

	VIF		VIF
Independent variable (Customer satisfaction)		Dependent variable (customer retention)	
CS1	1.909	CR1	1.362
CS12	1.985	CR2	1.353
CS13	2.565	CR3	1.542
CS14	2.785	CR4	1.419
CS2	2.509	CR5	1.589
CS3	1.855	CR6	1.494
CS6	2.315		
CS7	1.921		
CS8	1.839		
CS9	1.865		

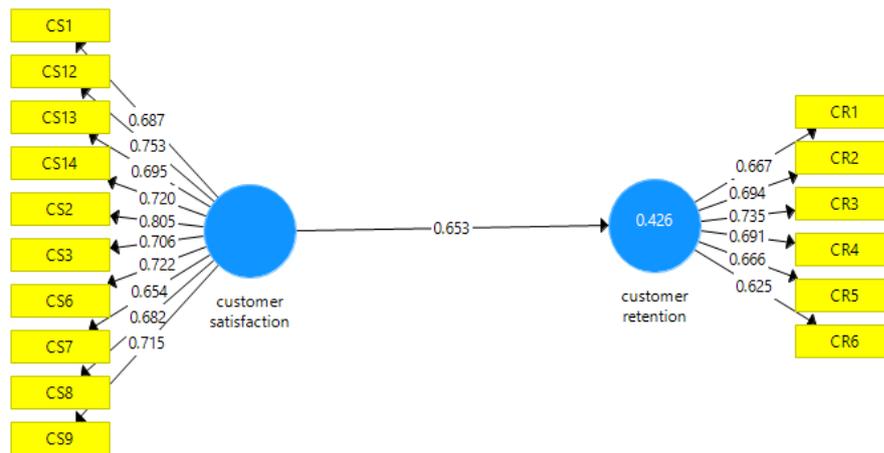
### 6.3.2. Significance and Predictive Relevance of the Structural Models

To generate the outcome for the path coefficients significance levels through *t*-statistics and predictive relevance, bootstrapping procedure is used as suggested by Vinzi et al (2010). Result as presented in Table 04 indicated a strong connection between variables with *t*-value of 8.368\*\*, therefore, the hypothesis proposed for this study is accepted. The findings are similar with previous findings that indicated significant connection between variables (Bolton, 1998; Cronin & Taylor, 1992; Choi & Chu, 2001, Ibojo, 2015, Sim, Mak & Jin, 2006). Figure 01 below illustrated the path coefficient model for this study. As presented in Table 04 below,  $R^2$  value of 0.426 showed that the construct explain the customer retention 43% having a substantial statistical power (Hair et al, 2013). The model validity can also be measured through predictive relevance ( $Q^2$ ). It is done through blindfolding procedure. Generally,  $Q^2$  values must be greater than 0 in order to have a predictive relevance.  $Q^2$  for structural model which indicated the predictive relevance of the model is adequate which is 0.165 (Hair Sarstedt, Hopkins, & Kuppelwieser, 2014). Hence the model is regarded as appropriate.

**Table 06.** Bootstrapping result

Hypothesis	Standard data	Standard error	t-value	Decision	$R^2$	$Q^2$	$F^2$
Customer Satisfaction - > Customer Retention	0.653	0.078	8.368**	Accepted	0.426	0.165	0.743

Note:  $p < 0.01$



**Figure 01.** Path coefficient model

## 7. Conclusion

The business environment and customer demand have been continuously evolving regardless of unlimited research works in service quality, customer satisfaction, customer retention and also loyalty (Boshoff & Gray, 2004). Result from the findings indicated a strong relationship between variables. Since Generation Y is the biggest customer segment worldwide (Mettler, 2015), business organization must reconsider their approaches in inaugurating positive and lasting relationship. The challenge is real as generation Y is well known as least loyal, most emotional and least satisfied customers as compared previous generations (Tripadvisor, 2015). Since the survey is carried out among business student in private higher education institution in Pahang, the result therefore cannot be generalised. Further study should cover larger and different population. Indeed, maintaining satisfied customer in the era of globalization nowadays is detrimental for business survival.

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