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Title : CONTRACT MANUFACTURING SERVICE QUALITY AND ITS RELATIONSHIP WITH CUSTOMER SATISFACTION AND LOYALTY IN F&B INDUSTRY

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Business environment is highly competitive especially for the low entry barrier industry such as F&B industry, characterized by low high-tech involvement. As a result, the industry draws high number of players competing for the target markets. In order to sustain the business as well as to improve their financial performance, F&B manufacturers opt to offer contract manufacturing services (CMS) while marketing intermediaries contracted-out their products. There is a formal relationship established between the service provider and the buyer. However, the impact of service quality on retaining the business relationship particularly has not been empirically investigated. To fill this gap, this study explores the determinants of contract manufacturing service quality (CMSQ) and the interrelationship among CMSQ, customer satisfaction and loyalty of the F&B CMSs' customers in Malaysia. Four focus group interviews (28 participants) were held in this study using a semi-structured guide questions and they comprised 12 contract manufacturers and 16 business customers. The participants were the key personnel, representing organizations that are actively engaged in CMS. Three new dimensions were discovered from the focus group interviews; product development capability, Halal and outcome quality in addition to the

SERVQUAL dimensions. Based on service quality literature and focus group discussions, relevant information via structured questionnaires were collected via online survey and drop-off method. 146 usable questionnaires were analysed using partial least squares. The results indicate that CMSQ consists of eight dimensions namely empathy, assurance, reliability, responsiveness, tangibles, outcome quality, Halal and product development capability. Using a one-tailed probability test with a significance level of 5%, all the three linkages are significant: CMSQ dimensions positively influenced customer satisfaction, customer satisfaction positively influenced loyalty and CMSQ positively influenced loyalty. CMSQ was found to have a small effect size on loyalty while customer satisfaction largely influenced loyalty. The result implies that contract manufacturing service quality is a complement in the formation of customer loyalty while customer satisfaction mediates partially the relationship between CMSQ and loyalty. The findings also provide empirical evidence that the contextual specific service quality is essential particularly for contract manufacturing in F&B.