

# THE MEDIATING ROLE OF BRAND REPUTATION: THE ANALYSIS OF DISCREPANCY BETWEEN THEORY AND FACT

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**Abstract:** *The aim of this research is to investigate the role of brand reputation as a mediating variable in the relationship between service quality and loyalty. The MRI's survey shows that there is a degradation in the ranking of the Oversea Chinese Bank Corporation- Nilai Inti Sari Penyimpan Bank (OCBC-NISP Bank) from 2009 to 2011, while the number of customers has increased over the same time frame. This indication highlighted the fact that although the quality of service decreased, the consumer's loyalty increased. This shows a contradiction in regard to previous research into the relationship between service and loyalty, such as Al-Rousan and Mohamed (2010), and Akbar et al., (2010). The authors suggest the existence of a variable that mediates the relationship between service (service quality) and consumer loyalty, which is brand reputation. The sample size of this research was determined at 125 respondents. The data were collected by self-administered questionnaires. Results showed that a partial mediation, performed by brand reputation, occurred in the relationship between service quality and loyalty. This research shows that brand reputation is still deemed to be the cause of loyalty. The authors also made some recommendations.*

**Keywords:** Bank, Service quality, Brand Reputation, Loyalty, Partially mediated

**JEL Classification:** M30

## Introduction

Service quality can be interpreted as the effort expended to meet the needs and desires of consumers, and the delivery accuracy in meeting consumers' expectations (Zeithaml, 1988). Some studies show that service quality is related to loyalty of consumers (Al-Rousan and Mohamed, 2010; Akbar et al., 2010). However, Caruana and Ewing (2010) study in the e-commerce consumers didn't find the relationship between service quality and consumer loyalty.

The difference between Caruana and Ewing (2010) finding and Al-Rousan and Mohamed (2010) and Akbar et al., (2010) findings, thus supported by a condition which happened with the OCBC-NISP bank, raises the opportunity to replicate and extend the relationship between service quality and loyalty, especially in the field of banks' customers.

The contradiction above is reflected in the bank's condition, as shown in Tables 1,2 and 3, which describes a condition which happened with the OCBC-NISP bank, which gives an overview of the different investigation results with Al-Rousan and Mohamed (2010), and Akbar et al., (2010).

## 1. Statement of a problem

The Marketing Research Indonesia (MRI) survey on Bank Service Excellence Monitor (BSEM) shows that OCBC-NISP bank ranking had declined in 2011 (see Table 1), but at the same time the total number of customers and the amount of money deposited were

continuously increasing, particularly into savings accounts, as the third-party funds at OCBC-NISP were dominated by savings accounts (Table 2 and Table 3). This phenomenon shows a discrepancy between the theory and the facts described. This highlighted the fact that the quality of service decreased, but the consumers' loyalty increased. Furthermore, this fact has allowed us to speculate that service quality has no relationship with consumer loyalty as described in Al-Rousan and Mohamed, (2010) and Akbar *et al.*, (2010) findings.

**Table 1: List of BSEM (Bank Service Excellence Monitor) ranked based on MRI survey 2009-2011**

Rank	2009	2010	2011
1	Bank Mandiri	Bank Mandiri	Bank Mandiri
2	Bank Internasional Indonesia	Bank Internasional Indonesia	Bank Permata
3	Bank CIMB Niaga	<b>Bank OCBC NISP</b>	Bank Internasional Indonesia
4	<b>Bank OCBC NISP</b>	Bank Permata	BNI
5	Bank Danamon	BNI	BRI
6	BCA	CIMB Niaga	<b>Bank OCBC NISP</b>
7	BNI	BRI	Bank CIMB NIAGA
8	PermataBank	BCA	Bank Danamon
9	Bank Bukopin	Bank Danamon	Bank BCA
10	Citibank.	Bank Bukopin	BTN

source: Infobank magazine 2009, 2010, 2011

**Table 2: Number of Third Party Funding from 2009 – 2012 at OCBC-NISP, Cimahi Branch**

(in million rupiah)

DESCRIPTION	2009	2010	2011	May-12
Giro	19,125	24,955	25,318	28,731
Saving	86,461	89,452	102,655	95,746
<b>Total CASA (Saving)</b>	<b>105,586</b>	<b>114,407</b>	<b>127,973</b>	<b>124,477</b>
<b>Time Deposit (Deposito)</b>	<b>56,772</b>	<b>70,025</b>	<b>59,306</b>	<b>54,184</b>
<b>Total 3rd party fund</b>	<b>162,358</b>	<b>184,432</b>	<b>187,279</b>	<b>178,661</b>

source: OCBC-NISP 2009, 2010, 2011

**Table 3: Number of Saving Accounts from 2009 – 2012 at OCBC-NISP, Cimahi Branch**

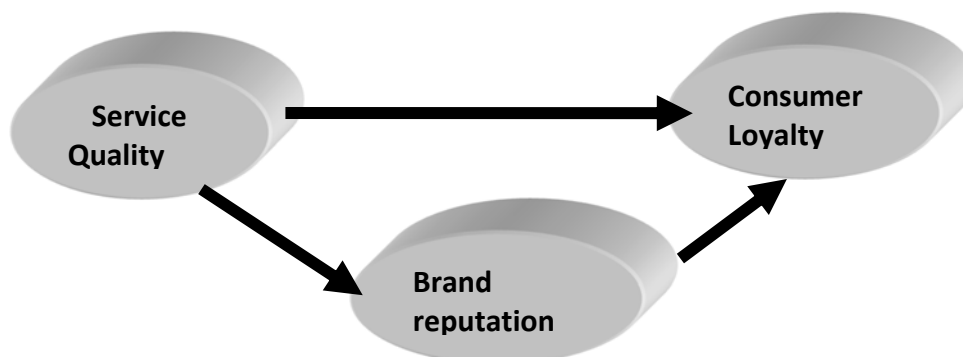
DESCRIPTION	2009	2010	2011	May-12
Number of accounts				
Giro	236	240	248	251
Saving	19,602	22,463	23,394	24,227
Time Deposit (Deposito)	791	771	714	681
<b>Total Account (Rekening)</b>	<b>20,629</b>	<b>23,474</b>	<b>24,356</b>	<b>25,159</b>

(source: OCBC-NISP)

Brown, S. W., and C. F. Gaulden, (1982) suggested that the replication and extension of research findings are the fundamentals for the development of theories into consumer behavior. This study replicates and extends Han et al. (2015) finding. Han et al. (2015) research is in the e-commerce consumers while this research examining their model using brand reputation as the mediating variable to Banking Consumers in Bandung, Indonesia.

MacKinnon and Dwyer (1993) stated that one of the objectives in analyzing mediating variables was to find out whether the independent variables affect the dependent variables directly or through other variables as intermediaries (mediating variables), so that the intermediate variables needed to be taken into account. Moreover, MacKinnon and Fairchild (2010) revealed that through their investigation of the role of mediating variables, the existing relationship would provide a more detailed picture of the relationship. In addition, several studies examined the relationship between service quality and loyalty through the use of some mediating variables, e.g., Osman and Sentosa (2013); Motlagh (2013); Dhandabani (2010); and Jeon (2009). All of these studies revealed that there was a mediation role of satisfaction in the service quality and loyalty relationship, although the studies were not into the same products.

**Figure 1. Research Model**



The aforementioned studies illustrated the direct and indirect relationship between perceived service quality and customer loyalty for tourism (Osman and Sentosa, 2013), hotels (Motlagh et al., 2013), banking (Dhandabani, 2010), or e-businesses (Jeon, 2009). In addition, Han, et al. (2015) found that reputation partially mediates the relationship between

service quality and Loyalty, while Caruana and Ewing (2010) found that reputation fully mediates the relationship between customer service and loyalty. Those research show that in the field of service, the mediating role of a variable is an important thing to investigate, especially reputation as mediating variable. Based on the description above, authors investigate the relationship among Service Quality, Reputation, and Loyalty as depicted in figure 1.

## **2. Literature Review and Hypotheses**

### **2.1. Service Quality and Loyalty**

In the field of service, the importance of loyalty can be seen from some previous research which investigated the relationship between service quality and loyalty and found that the relationship is an antecedent of loyalty, for example Al-Rousan and Mohamed (2010) and Akbar *et al.* (2010). Al-Rousan and Mohamed (2010) research into a five star hotel in Jordan found that the dimensions of the service quality significantly predict customers' loyalty. Among the dimensions of tourism's service quality, tangibility is the most significant predictor of customers' loyalty.

All the above mentioned research clearly suggests that there is a relationship between service quality and customer loyalty. On the other hand, Caruana and Ewing (2010) and the data described in Tables 1 to 3 shows that there is no relationship between service quality and customer loyalty. The authors see that the difference or gap between the research and the data in the three tables should be verified. Meanwhile, the authors' standpoint is that there is a relationship between service quality and customer loyalty, as suggested by the above mentioned research.

The hypotheses drawn in this study are meant to verify the difference between the results of the previous research and the data described.

**H1 : There is a positive relationship between service quality and customer loyalty for bank customers.**

### **2.2. Brand Reputation and Loyalty**

Fombrun and Van Riel (in Stenger, 2014) defined reputation as "The overall esteem in which a company is held by its constituents". Furthermore, Stenger (2014) suggested that reputation could also be considered as an intangible asset. The definition by Fombrun and Van Riel is in line with Kumbhar's (2012) investigation, which revealed that the reputation of the brand is part of the service quality dimensions evaluated by the services' consumers. This suggests that the reputation of the brand is also a part of the service attributes that should be taken into account in the management of a bank. Stenger (2014), through qualitative research, found five issues that should be paid attention to by online managers in managing reputation, namely monitoring, content suppression, right of reply, crisis communication, and claims management. Stenger (2014) findings expressed that reputation should be managed specifically and professionally, in terms of managing a business entity.

Based on the issues above, the author made an effort to verify Stenger's (2014) work. The second hypothesis of this research is developed through some research investigating the relationship between brand reputation and loyalty. These research had been conducted by Selnes (1993), Cretu and Brodie (2007), Casalo et al., (2008), (Dahlen et al. (2009), and Foroudi *et al.* (2016).

Selnes (1993) expressed that brand reputation was the strongest driver of customers' loyalty, compared to customers' satisfaction. In fact, when the intrinsic cues are ambiguous, it's found that customer satisfaction does not drive customer loyalty. Selnes' research (1993) revealed that the reputation of the brand can be a more important variable for influencing loyalty than satisfaction. This is consistent with the finding of Cretu and Brodie (2007) who reported that brand image had a more specific influence on customers' perceptions of product and service qualities, while the company's reputation had a broader influence on the customers' perceptions of value and loyalty.

Casalo et al., (2008), in the electronic commerce transaction research found that reputation and satisfaction have a positive effect on website loyalty, and usability has a positive effect on satisfaction. Additionally, (Caruana and Ewing, 2010) through four sequential stages of attitude by Oliver, found that corporate reputation has significant effect on online loyalty, and corporate reputation has a mediating role in the relationships between service quality and online loyalty. Dahlen, et al. (2009) found that non-traditional media enhanced consumer-perceived values. The effects were greater on brands with a poor reputation than on those with a higher or better reputation. High reputation brands were more sensitive to the appropriateness and expense of the marketing activities. Consumer-perceived value led to higher purchasing and word-of-mouth intentions.

Lai, et al. (2010) found that CSR and corporate reputation had positive effects on industrial brands' equities and brands' performance. In addition, corporate reputation and industrial brand equity partially mediate the relationship between CSR and brand performance. Abimbola and Kocak (2007) suggested that branding and reputation building were key resources which allowed an organization to be successful over an extended period of time. In terms of research design and method, we found that an interdisciplinary approach was important for further exploration of the nexus between a brand's reputation and entrepreneurship. Because they are fuzzy concepts loaded with meaning and interpretations, they are better explored through qualitative data in the first instance. These findings are germane to paradigmatic development to distill the ideas, explanations and the reality that binds the concepts of brand reputation.

Corkindale and Belder (2009) found that there was a significant relationship between Corporate Brand (CB) strength and the respondents' likelihood in adopting the service. The CB construction was found to comprise of two factors: Conative and cognitive, where the former was more influential on the adoption probability. Omar et al. (2009) *findings* – identified that credibility and trust were significant elements which must be managed and communicated to maintain firms' corporate images and reputations.

On the basis of the previous research mentioned above, particularly Selnes' (1993), Cretu's and Brodie's (2007), and Dahlen et al. (2009), then the second and the third

hypotheses of this research can be formulated as follows:

**H2: There is a positive relationship between brand reputation and customer loyalty for bank customers.**

### **2.3. Service Quality and Brand Reputation**

The Foroudi *et al.* (2016) research through complexity theory found that in the retail consumers environment, technical innovation capability operationalized as the development of new service, service operations, and technology has a significant effect on reputation. In line with Foroudi *et al.* (2016) works, Han et al. (2015) in the work of brand reputation as mediating variable between brand equity and brand trust, found that food and service quality had a positive effect on brand reputation. Caruana and Ewing (2010) study through four sequential theory of Oliver (1993) found that service quality has a significant effect on corporate reputation. Based on the previous research, this study hypothesizes that:

**H3: There is a positive relationship between service quality and brand reputation for bank customers.**

### **2.4. Mediating Role of Brand Reputation**

The aim of this research is to investigate the role of brand reputation as a mediating variable in the relationship between service quality and loyalty. It is derived from the difference between the results of the MRI survey on bank services with the number of customers at OCBC-NISP bank's Cimahi branch. The phenomenon shows that there is indeed a decrease in OCBC-NISP's ranking; however, the number of customers increases.

The decrease in the bank's ranking shown in the BSEM, and the increasing number of loyal customers at its Cimahi branch, as proven by the increasing amount of savings or funds, indicates that there is no relationship between service quality and loyalty, as revealed in Al-Rousan et al. (2010) and Akbar et al. (2010) works. In addition, this study expects to examine whether the variable of service quality has a direct effect on loyalty, or goes through the other variable – reputation, so that the role of reputation in determining loyalty needs to be explored Lewis (1996: 57), and Caruana and Calleya (1998).

Han et al. (2015) expressed that in the chain restaurant consumer, brand reputation is a mediating variable between brand equity and brand trust. In their work they found that brand reputation partially mediates the relationships between food and service quality, brand affect, and brand awareness and brand trust. Except relationship between brand association and brand trust is fully mediated. Caruana and Ewing, (2010) beside found that Customer Service is associated with corporate reputation, they also found that corporate reputation mediates the relationship between customer service and online loyalty.

This motivated the authors to verify the role of brand reputation as a mediating variable between service quality and customer loyalty. This also drove us to suggest that brand reputation will certainly mediate the relationship between service quality and customer loyalty, since brand reputation is part of the service quality dimensions which are evaluated by e-service consumers (Kumbhar, 2012), and that brand reputation is the strongest driver of

customer loyalty (Selnes, 1993). Based on the explanation above, the fourth hypothesis of this research is formulated as follows:

**H4: There is a mediating role by brand reputation in the relationship between service quality and customer loyalty.**

### **3. Methods**

The population of this study was the 4322 customers who owned an account at OCBC NISP's Cimahi branch. Cimahi is a small town near Bandung, the capital of West Java, Indonesia. The sample size was 200, determined by use of Slovin's formula. The data were collected through random sampling and self-administered questionnaires.

Reputation is operationalised based on Barnett et al. (2006) Barnett et al.(2006) and Fombrun and Shanley's definition in Stenger (2014). Loyalty is operationalised based on the study by Reichheld and Schefter (2000) and measured by 5 items. Service quality is operationalised through 5 dimensions of Parasuraman et al. (1988), and measured by 10 items, brand reputation construct is also measured by 10 items, in which all of the items use a Likert scale, and are then indexed by averaging the values.

This research used of three variables to analyzed, these are Service Quality, Brand Reputation, and Consumer Loyalty, consequently, there are three relationships which are analyzed (Baron and Kenny, 1986), those are the relationship between Service Quality and Consumer Loyalty, Service Quality and Brand Reputation, and Brand Reputation and Consumer Loyalty. The using of multivariate regression analysis in this study is only to explain the role of brand reputation as a mediating variable, as suggested by Baron and Kenny ( 1986), and not to explain the causality of the independent variable and the dependent variable. This research places more emphasis on the role of brand reputation as a mediating variable, rather than the influences among variables. Consequently the authors do not explain the influences between the independent variables and the dependent variable in this study in detail.

Furthermore, during the attempt to analyze the mediating effect of brand reputation, the authors referred to Wuensch (2009) who suggested that mediation occurs when the relation between the Independent Variable (IV) and the Dependent Variable (DV) is mediated by a Mediator (M). To test the mediating function of M in the relationship between IV and DV, the authors analyzed four regression models in a simultaneous manner.

#### **3.1. Validity and Reliability**

The validity test is done through confirmatory factor analysis (CFA), the result is depicted in Table 1. The 5 out of 10 variable items of service quality (SQ) not confirmed, those are SQ1,SQ6,SQ7,SQ9, and SQ10; 4 out of 10 Brand Reputation variable items are also not confirmed, these are BR4, BR8, BR9, and BR10; and 2 out of 5 variable items of Consumer Loyalty also were not confirmed, those are CL1, CL3. Then the 10 variables which not confirmed were dropped, not to be analyzed furtherly.

**Table 1. Rotated Component Matrix<sup>a</sup>**

	Component		
	1	2	3
SQ2		.612	
SQ3		.770	
SQ4		.830	
SQ5		.763	
SQ8		.600	
BR1	.893		
BR2	.842		
BR3	.783		
BR5	.649		
BR6	.605		
BR7	.747		
CL2			.557
CL4			.709
CL5			.840

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Reliability testing is done through Cronbach's alpha, Table 2,3, and 4 are the results of a Cronbach's alpha value for each variable. All the variables value are exceed of 0.6, then all of them are appropriate for further analysis.

**Table 2. Service Quality Reliability Statistics**

Cronbach's Alpha	N of Items
.826	5

**Table 3. Brand Reputation Reliability Statistics**

Cronbach's Alpha	N of Items
.877	6

**Table 4. Consumer Loyalty Reliability Statistics**

Cronbach's Alpha	N of Items
.636	3

#### 4. Results

Table 5. the coefficient of regression for brand reputation on service quality is 1.022 and the t-value is 30.625, and the p-value is 0.000, which is lower than 0.05, showing the relationship is significant. This means that service quality has an effect on brand reputation



and supported the first hypothesis of this research. The greater the service quality is, the greater the reputation will be.

**Table 5. Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.185	0.112		-1.653	0.101
	SERVQUAL	1.022	0.033	0.940	30.625	0.000

a. Dependent Variable: BRAND\_REP

The independent variable in Table 6 is brand reputation, and the dependent variable is loyalty. The coefficient of regression for loyalty on brand reputation is 0.688 and it is significant at  $p = 0.000$  level ( $p < 0.05$ ). This means that brand reputation has an effect on loyalty and supported the second hypothesis of this research. The greater the brand's reputation is, the greater the loyalty will be.

**Table 6. Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.907	0.150		6.045	0.000
	BRAND_REP	0.688	0.046	0.803	14.964	0.000

a. Dependent Variable: LOYALTY

The independent variable in Table 7 is service quality, and the dependent variable is loyalty. The coefficient of regression for loyalty on service quality is 0.758 and it is significant at  $p = 0.000$  ( $p < 0.05$ ) level. It means that service quality has an effect on loyalty and supported the third hypothesis of this research. The greater the service quality is, the greater the loyalty will be.

**Table 7. Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.601	0.163		3.679	0.000
	SERVQUAL	0.758	0.049	0.814	15.556	0.000

a. Dependent Variable: LOYALTY

Table 8 illustrates the results of the two steps of regression which analyzed the mediating effect of brand reputation in the relationship between service quality and loyalty. Model 1 is the first step where service quality is the independent variable, and loyalty is the dependent variable. The result shows that the coefficient of regression is 0.758 and it is significant at  $p = 0.000$  ( $p < 0.05$ ) level. It means that service quality has a significant effect on loyalty. It also means that the greater service quality is, the greater the loyalty will be.

Model 2 is the second step, which shows the regression between the variables of service

quality and brand loyalty with the addition of the brand reputation variable as a control variable (Model 2). The result shows that the coefficients of both the independent variable and mediating variable in Model 2 (control model) are significant, so it can be considered that the relationship between the variables of service quality and loyalty is partially mediated by brand reputation, since the regression coefficient of the independent variable (service quality) is significant and is increased (from 0.000 in Model 1 to 0.001 in Model 2), and the coefficient of the mediating variable (brand reputation) is also significant (0.033) **in both models**. This indication specifically shows that the fourth hypothesis is supported.

**Table 8. Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.601	0.163		3.679	0.000
	SERVQUAL	0.758	0.049	0.814	15.556	0.000
2	(Constant)	0.653	0.163		4.009	0.000
	SERVQUAL	0.472	0.141	0.508	3.350	0.001
	BRAND REP	0.279	0.130	0.326	2.153	0.033

a. Dependent Variable: LOYALTY

## 5. Discussion

The results of this study is align with Al-Rousan *et al.*(2010), Akbar *et al.*, (2010), which found that there is a relationship between service quality and loyalty and also align with Han et al.(2015) which found that reputation partially mediates the relationship between service quality and loyalty. These mean that there is indeed a relationship between service quality and customer loyalty at OCBC-NISP bank's Cimahi branch, which is partially mediated by brand reputation. This suggests that the OCBC-NISP bank's brand reputation plays an important role in increasing the number of loyal customers. So even though the quality of the bank's and branch's services declined, it didn't directly minimize the customers' loyalty. It was instead partially mediated by the reputation of the brand. Therefore it can be concluded that the reputation of the brand should also be taken into account when looking to increase customer loyalty, aside from the quality of the services offered. This is in line with the previous research that supported brand reputation as a mediating variable, such as Han et al. (2015), Kumbhar (2012), and Caruana and Ewing (2010).

This study also shows that the reputation requires appropriate management. One way to manage reputation is through five activities suggested by Stenger (2014), Those are monitoring, Content Suppression, Right of Reply, Crisis Communication, and Claim Management. Such five activities are employed to respond the challenge related to customer participation on Social Media. The five activities seem to be able to be performed by Bank Managers in managing Brand Reputation as a part of service dimensions as suggested by Kumbhar (2012) as afformentioned in the literature review at the subsection Brand Reputation of this paper.

Those five activities are:

1. Monitoring: Finding and monitoring what is said online (*in this case saving or*

- deposti bank, authors*) by constituents (customers, employees, suppliers...) or any stakeholders (journalist, NGO...) about brands or firms organizations.
2. Content suppression: Dealing with content posted illegally and content that undermines the image and reputation of the brand
  3. Right of Reply: Dealing with content that undermines the image and reputation of the brand company
  4. Crisis Communication: Dealing with rumours, polemics, crisis communication
  5. Claims management: Dealing with a large number of claims on social media (*in this case Bank, authors*) mainly coming from customers or Internet users (*in this case Bank customers, authors*) which can be anonymous.

Maintaining a brand's reputation can also be done by managing the brand based on the Analyses of the average score for the brand's reputation in the questionnaire, the highest score was 625, which was derived from the number of respondents (125 respondents) x (5 (the highest score in a Likert scale), while the lowest score was  $125 \times 1 = 125$ :

- a. The dimension of the brand's reputation or the items earning the highest average score are the emotional approach, with an average score of 412. This means that the customers felt emotionally connected to the brand, which in turn drove them to save their money at OCBC NISP bank's Cimahi branch. Consequently, a way of maintaining the OCBC-NISP brand's reputation is by maximizing its relationship marketing, which focuses on how to tighten the emotional bond with its customers, by providing programs which give emotional rewards (esteem rewards) to those who are willing to save their money and stay loyal to OCBC NISP's Cimahi branch. Such emotional rewards may be in the form of birthday presents or souvenirs for religious festivals. Also, to maintain such an emotional connection with its customers, the bank should provide training for its front-line staff (eg the tellers and customer service officers), to train them how to provide excellent personal service and to show empathy with their clients.
- b. The items related to the variables of the brand's reputation which obtained the lowest scores were about the statements regarding the vision and the leadership of the bank, with an average score of 377. This means that the customers did not have a firm understanding of the vision and the leadership of the bank's Cimahi branch. The two are important in creating a brand's reputation, especially in triggering the consumers' trust for saving or managing their money in the respective bank or branch.

## Conclusion

The role of brand reputation, which partially mediates the relationship between service quality and customer loyalty provides the following some conclusions:

1. The brand reputation is partially mediates the relationship between service quality and loyalty
2. The brand reputation of OCBC-NISP bank must be managed and maintained or even enhanced because it plays an important role in determining customers' loyalty.
3. To manage and Maintain the reputation, the manager could follows Stenger (2014) suggestion and/or the average score for the brand's reputation in the questionnaire

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