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THE MEDIATING EFFECT OF CUSTOMER INSPIRATION BETWEEN
MARKET ORIENTATION, SATISFACTION AND
LOYALTY AMONG PROTON USERS

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ABSTRACT



05-

The purpose of this study was to investigate the mediating effect of customer inspiration between customer-defined market orientation, customer satisfaction and customer loyalty among PROTON users. The study was quantitative in nature. A Total of 357 responses was collected through random sampling from respondents who were users of PROTON automobile in Malaysia. Resource Based Theory (RBT) was used to explain the effect of customer-defined market orientation on customer satisfaction and customer loyalty, with mediator customer inspiration. Partial Least Square (PLS) technique was used to test the proposed research model. Results revealed that customer satisfaction ($R^2 = 0.412$) and customer loyalty ($R^2 = 0.578$) are directly influenced by customer-defined market orientation and customer inspiration. The study reported significant factors customer orientation ($\beta = 0.1955$, $t = 2.7731$), competitor orientation ($\beta = 0.1841$, $t = 2.3567$) and inter-functional coordination ($\beta = 0.1322$, $t = 2.3281$) which effect customer satisfaction. The study also identified significant factors customer orientation ($\beta = 0.3255$, $t = 3.4389$), competitor orientation ($\beta = 0.1289$, $t = 2.1120$) and inter-functional coordination ($\beta = 0.1267$, $t = 2.6454$) which effect customer loyalty. Further, results reveal that customer inspiration partially mediate the effect between customer orientation (VAF = 0.3960), competitor orientation (VAF = 0.3191) and inter-functional coordination (VAF = 0.3114) to customer satisfaction. The results also report that the customer inspiration partially mediate the effect between customer orientation (VAF = 0.3273), competitor orientation (VAF = 0.4185) and inter-functional coordination to customer loyalty (VAF = 0.3683). In conclusion, results showed that customer-defined market orientation and customer inspiration perform a significant role in mediating customer satisfaction and customer loyalty. Hence, business organizations need to focus on customer-defined market orientation and customer inspiration to satisfy their customer and gain their loyalty. In implication, business organizations should focus on customer satisfaction and customer loyalty by reinforcing market orientation and customer inspiration.





KESAN PENGENALAN INSPIRASI PELANGGAN ANTARA ORIENTASI PASARAN, KEPUASAN PELANGGAN DAN KEHIDUPAN DENGAN PENGGUNA PROTON

ABSTRAK



Kajian ini bertujuan mengkaji kesan mediasi inspirasi pelanggan antara orientasi pasaran pelanggan, kepuasan pelanggan dan kesetiaan pelanggan dalam kalangan pengguna kereta PROTON. Kajian ini bersifat kuantitatif dan data dikumpul melalui kaedah tinjauan dalam talian. Sejumlah 357 respon dikumpul melalui persampelan rawak daripada responden yang merupakan pengguna kereta PROTON di Malaysia. Resource Based Theory (RBT) digunakan untuk menerangkan kesan orientasi pasaran pelanggan terhadap kepuasan pelanggan dan kesetiaan pelanggan, dengan inspirasi pelanggan mengantara. Partial Least Square (PLS) digunakan untuk menguji model penyelidikan yang dicadangkan. Dapatan menunjukkan bahawa kepuasan pelanggan ($R^2 = 0.412$) dan kesetiaan pelanggan ($R^2 = 0.578$) secara langsung dipengaruhi oleh orientasi pasaran pelanggan dan inspirasi pelanggan. Kajian melaporkan hubungan signifikan antara orientasi pelanggan ($\beta = 0.1955$, $t = 2.7731$), orientasi pesaing ($\beta = 0.1841$, $t = 2.3567$) dan koordinasi antara fungsi ($\beta = 0.1322$, $t = 2.3281$) dengan kepuasan pelanggan. Kajian ini juga mengenal pasti hubungan signifikan antara orientasi pelanggan ($\beta = 0.3255$, $t = 3.4389$), orientasi pesaing ($\beta = 0.1289$, $t = 2.1120$) dan koordinasi antara fungsi ($\beta = 0.1267$, $t = 2.6454$) kepada kesetiaan pelanggan. Selain itu, dapatan menunjukkan bahawa inspirasi pelanggan sebahagiannya mengantara hubungan antara orientasi pelanggan (VAF = 0.3960), orientasi pesaing (VAF = 0.3191) dan koordinasi antara fungsi (VAF = 0.3114) kepada kepuasan pelanggan. Dapatan juga melaporkan bahawa inspirasi pelanggan sebahagiannya mengantara hubungan antara orientasi pelanggan (VAF = 0.3273), orientasi pesaing (VAF = 0.4185) dan koordinasi antara fungsi dengan kesetiaan pelanggan (VAF = 0.3683). Kesimpulannya, dapatan menunjukkan bahawa orientasi pasaran pelanggan dan inspirasi pelanggan berperanan penting dalam mendapatkan kepuasan pelanggan dan kesetiaan pelanggan. Oleh itu, organisasi perniagaan perlu memberi tumpuan kepada orientasi pasaran yang ditetapkan pelanggan dan inspirasi pelanggan untuk memuaskan pelanggan dan memperoleh kesetiaan mereka. Secara implikasinya, organisasi perniagaan lebih berupaya meningkatkan kepuasan pelanggan dan kesetiaan pelanggan dengan mengukuhkan orientasi pasaran dan inspirasi pelanggan.



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LIST OF ABBREVIATION

AAF	ASEAN Automotive Federation
AFTA	ASEAN Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
CBU	Complete Build-up Units
CKD	Completely Knock-Down
CML	Completely Made Locally
DRB	Diversified Resources Bhd
EEV	Energy Efficient Vehicle
HDI	Human Development Index
MAI	Malaysia Automotive Institute
MBM	Med-BumiMekar
MITI	Ministry Of International Trade and Industry
MWR	Market Watch Report
MWR	Market Watch Report
NAP	National Automobile Policy
NCP	The National Car Project
PLS	Partial Least Square
PNB	Permodalan Nasional Berhad
RBT	Resource Base Theory



LIST OF APPENDICES

- A Research Questionnaire
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CHAPTER 1

INTRODUCTION



Since 1960, organizations had concentrated on providing a high-quality product at reasonable prices, however, due to the increased standard of living and globalization customers are confronting multiple commodities option from all over the globe. Therefore, the automobile companies are not only concern to provide a high-quality product to the customer, but they also need to create customer satisfaction and loyalty through customer-oriented business strategies.

Thus, this chapter will discuss some related issues and threats faced by national automobile companies in Malaysia. First, this chapter will provide an introduction of automobile industry, importance of automobile industry, Malaysian experience in automobile production and Emergence of PROTON automobile company. Then in the next





section provides a background of research theories, ASEAN automotive industry, and Malaysian automotive industry in order to identify the problem of the statement. In successive parts, this chapter will provide the objective of the study, the significance of the study, theoretical framework of research, the scope of the study, limitation of the study and operational definition of relevant terms. The summary of the chapter is provided in the end.

1.1 Introduction

This empirical research is conducted on the Malaysian automobile industry concentrating on Proton automobile, hence it is vital to analyze the main element that has influenced the industry previously and keep on doing as such. The elements incorporate the prior improvement of the industry, the execution of the Malaysian government protectionist policies, the present deals and piece of the overall market of Proton, factors adding to Proton's inability to contend, and advancement in the worldwide automobile market with identifying possible risk from the Japanese and Chinese vehicle industry. A comprehension of every one of these issues is essential for the vehicle industry, in particular, Proton, in its endeavors to position itself as a neighborhood and worldwide player.





1.2 The Significance of the Automobile Market

The automobile market includes the plan, advancement, assembling, advertising, and sales of automobile, which is noteworthy for the financial improvement, mechanical company, technologies, and the living standard of manufacturing countries (Rosli 2006). Turnbull, Oliver, and Wilkinson (1992) stated that the automotive market is considered as one of the largest producing sectors in the world. According to Smitka (1991), Japanese and American derived more than 10 percent of industrial output from the automobile industry. The automotive market is considered as one of the key drivers of world economic development and can possibly shape “how we make things..... how we work..... what we buy, how we think and the way we live” (Womack, Jones & Roos 1990).



Through the automobile market, “strong inter-industry effects” can be shaped by a direct-indirect link to another industry sector. According to Jan and Hsiao (2004) “the automotive industry can drive the development of related industries, particularly the mechanical and electronics industries. Such effects are inevitable of major interest to the government and public”. Moreover, Rosli (2006) states that: Automobile industry has a substantial positive effect on resource-based industries, like, iron and steel, concoction, nonferrous metal, elastic and plastic related industries as well as petroleum industries; and on non-resource based industries, to be specific electrical and hardware related parts. In the tertiary area, it gives administration related exercises, for example, stepping, fixing, structuring and designing, banking, shipping, stock, insurance protection, and delivery and advertising stations. Altogether, the car market requires a lot of creation frameworks



connecting a broad scope of industrial companies, with extraordinary varieties in size and complexity. Figure 1.1 demonstrates a reasonable image of the connection between industry divisions that adds to the employment opportunities.

Other than connecting numerous sorts of manufacturing organizations, from material makers to middle and capital makers and last constructing agents, the automobile industry makes job opportunities. For example, “Taiwan had a total of 448 automotive industry companies at the end of 1999, employing approximately 90,000 people excluding sales and after-sales maintenance personnel. Moreover, the China automotive industry comprised of 2,426 companies employing almost two million people at the end of 1998” (Jan & Hsiao 2004).

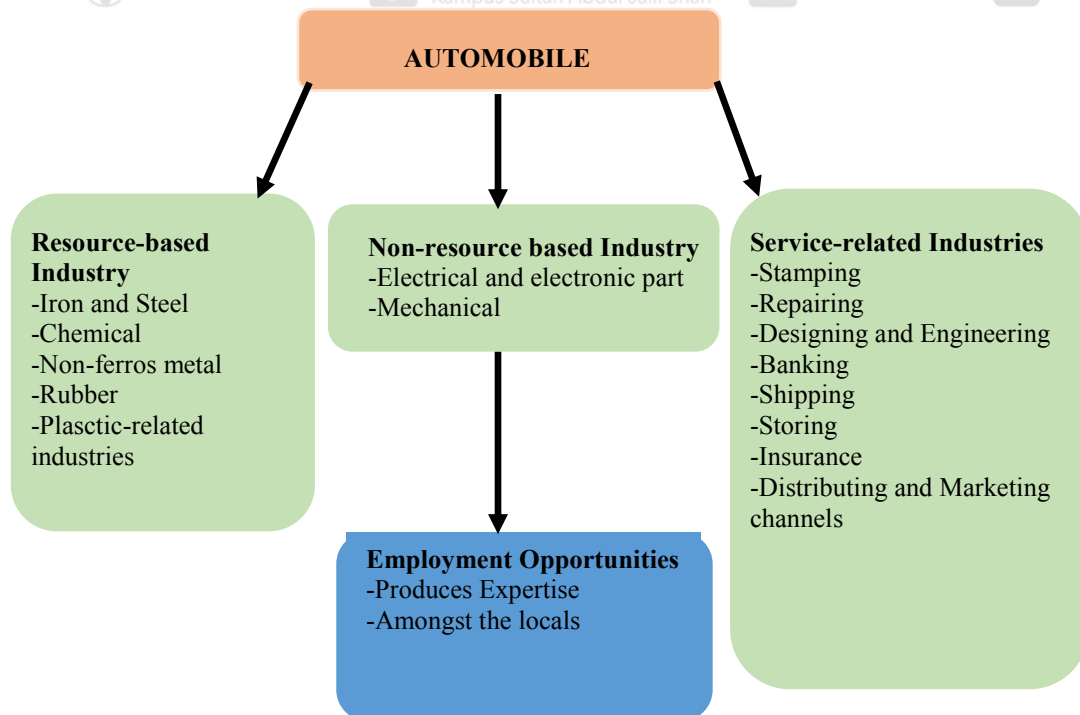


Figure 1.1. Automotive Industry



The automobile market assumes a vital job in the accomplishment of financial improvement around the world. An extra preferred standpoint is that this industry gives huge employment opportunities and creates skill among local communities through innovation exchange and joint-venture with international automobile producers.

1.2.1 Malaysian Experience in Automobile Manufacturing

Since 1962, the automobile industry was initiated in Malaysia. The first automobile company was established namely “The Ford Motor Company of Malaya” with 16 workers, and perform different operations including paint touch-up, doing body repair, and wheels fitting work in rented shop-houses in Singapore. During 1963, the Federal Government identifies the potential of automobile industry, and show its interest to promote the establishment of automotive industry under the industrialization program. The government declared its underlying policy on vehicle motor assembly in May 1964 (Simpson, Sykes and Abdullah 1998). In the late 1960s, assembly stations were established to provide an alternative for automobile imports and to create employment (Iswalah 2002).

In Malaysia, the growth of automobile industry occurred in two stages, including the development of three procedures that comprised of Completely Built-up (CBU) units, Completely Knock-Down (CKD) units lastly, Completely Made Locally (CML) units.





In the early stage of automobile industry development, which focused on the Import Industrialization Approach, the accentuation was on the assembling exercise of both traveler and business automobiles, so as to create employment and decrease import charges (Rosli 2006). Automobile organizations began with Completely Built-Up (CBU) units, which were utilized to assemble foreign-made vehicles, like, Nissan, Volvo, Peugeot, and Mazda. In later period these were supplanted by Completely Knocked-Down (CKD) packs, fulfilling the domestic requirement to support the development of parts production. Creating CKD packs gave chances to domestic segments producers and expanded work opportunities. Advancement occurred in the Malaysian automobile industry after the government chose to manufacture Completely Made Locally (CML) vehicles. National vehicle organizations included “Perusahaan Otomobil Nasional” (Proton), “Perusahaan Otomobil Kedua Sdn. Bhd” (Perodua), “Industri Otomotif Komersial Malaysia” (Inokom), and “Malaysian Truck and Bus Sdn. Bhd” (MTB).

In 1981, Tun Mahathir Mohammad became the fourth Prime Minister of Malaysia. During that time new accentuation happened with the government policies towards building an intensely industrialized country. The second stage started with vehicles delivered by four national vehicle organizations.

In 1981, The National Car Project (NCP) was established through the automobile company “Perusahaan Otomobil Nasional” (Proton) as a joint venture with “Mitsubishi Motors Corporation of Japan”. The automobile production was initiated with the production of Proton Saga in 1985 (Iswalah 2002). The investors were (MMC) Mitsubishi





Motor Corporation (8.03 percent), MC Mitsubishi Corporation (8.03 percent), Employees Provident Fund Board (with 11.02 percent), Khazanah Nasional Berhad (17.96 percent), Petronas (Petroleum Nasional) (27.17 percent) shareholding, and other local and foreign investor with 27.79 percent shareholding (Billette and Ryan 2001).

In 1993, “Perusahaan Otomobil Kedua Sdn Bhd” (Perodua) was presented, bolstered by two government-supported organizations, in particular, PNB (Permodalan Nasional Berhad), Equity Resource Corp. Sdn. Bhd., and Med-BumiMekar (MBM) Sdn. Bhd. The rest of the share was dispensed to privately owned firms from Malaysia and Japan. Later, the share structure changed with the goal that the Japanese Daihatsu held a greater part of shares (Rosli 2006).



Perodua identifies its own niche market and emphasis on creating low price and small vehicles for that market. Perodua gain position in the market for creating fuel-saving vehicles for people with low and middle income. It has created different models for, for example, the Viva, Rusa, Kancil, Myvi, Kembara, Kelisa and Kenari, from the starting of operations. The first model launched by Perodua was Kancil. In 1996, Perodua exported 283 units of Kancil to different countries like Cyprus, Brunei, Malta, Darussalam, and Mauritius. At the end of 1998, the Perodua extended the export destination due to intense demand by including countries such as Fiji, Comoros, Egypt, Cyprus, Jordan, Malta, Singapore, Lebanon, Mauritius, Sri Lanka, Qatar, UK, and Yugoslavia and increased the export to 2322 units (Iswalah 2002).





In the same year as Perodua, “Industri Otomotif Komersial Malaysia” (Inokom) rose in the Malaysian automobile industry producing subcompact autos. In the Malaysian automobile market, Inokom presents itself as one of the pioneer automakers that produce non-national autos, for example, Suzuki (Japanese) and Renault (European-based vehicles) (Rosli 2006). In recent years, most of Inokom’s vehicle production has been based on existing Hyundai models such as Inokom Santa Fe, Lorimas, Atos, Getz, and Matrix.

The fourth national car company emerged on October 18th, 1997, launched by Diversified Resources Bhd (DRB) as its new subsidiary, named Malaysian Truck and Bus Sdn. Bhd. (MTB) which produced non-national automobiles, namely Isuzu, Mitsubishi, Musso, and Tata (Rosli 2006). The market report by the Malaysian Automotive Association (MAA) showed that among the four brands, Isuzu D-Max and Mitsubishi Triton appeared in the Top 40 Vehicles list in 2007.

1.2.2 The Emergence of Proton

The idea of producing the first Malaysian made car came from the fourth Malaysian Prime Minister, Tun Dr. Mahathir Mohammad. Malaysia, like most of its neighbors, began a drive towards industrial development at the beginning of the 1980s in an effort to reduce the country’s dependence on imported items. Amongst the segments focused by Mahathir for improvement, the local automobile industry was one of the crucial sectors. Instead of making a local industry from the beginning, Mahathir tried to band together with



recognizing automaker (Grant 2004). In light of the "Look East" policy presented in February 1982, Mahathir selected Japan to be its counselor in helping Malaysia to achieve his dream. This was the "Look East" policy, which concentrated on Asian countries as development alliances rather than the west. The Mahathir government considered Japan to be a profoundly alluring accomplice for rapid economic improvement and industrialization in Malaysia and was especially sharp for Japanese multinationals to put resources into Malaysian technology advancement. One of the foreseen focal points of Japanese investment in Malaysia was the exchange of mechanical proficiency to local workers (Furuoka 2007).

In 1982, National Car Project (NCP) was permitted a joint-venture contract between "Heavy Industries Corporation of Malaysia Holdings Berhad" (HICOM) and "Mitsubishi Corporation" was settled. This contract set up a manufacturing compound in Shah Alam, a suburb of Kuala Lumpur, Malaysia's capital, and Proton was started (Zafar and Humphreys 2008).

According to Simpson, Sykes, and Abdullah (1998), the objectives of the Malaysian national car project were to: "rationalize the local automotive industry; spearhead the development of a local component industry and enhance greater use of local components; encourage the upgrading of technology, engineering knowledge and technical skills of the country workforce; assist and develop the Bumiputera's (the indigenous people of Malaysia) participation in the automotive industry".



Proton sent its selected worker from the research and development department to process plant generation of Japan, therefore gained knowledge in producing up to the mark vehicles. In the beginning, Proton started manufacturing by producing Proton Saga during 1985 (Iswalah 2002). Currently, the Proton automobile has introduced the number of vehicles models such as Putra, Iswara, Wira, Tiara, Satria, Juara, Perdana, Arena, Waja, Gen 2, Savvy, and Persona. Basically, all the models except Waja, Gen 2, Savvy, and Persona, adopted the wheel-based of Mitsubishi cars. The Wira and Perdana models are largely Mitsubishi designs, while Tiara, follows a Citroen design, and Putra and Satria are redesigned variations of Wira (Abdullah 2006). For instance, Proton Wira was launched based on the Mitsubishi Colt, Lancer, while Proton Perdana follows Mitsubishi Galant/Eterna wheel-based.



Currently, Proton cars are exported globally. Initially, Proton started automobile export in 1986 to countries including United Kingdom, United Arab Emirates, Turkey, Taiwan Province of China, Sri Lanka, Slovenia, Singapore, Saudi Arabia, Russian Federation, Qatar, Philippines, Oman, Mauritius, Maldives, Libya, Lebanon, Kuwait, Jordan, Germany, Fiji, Egypt, Cyprus, Chile, Brunei Darussalam, Belgium, Bangladesh, Bahrain, Australia and Argentina (Iswalah 2002).

The joint venture with its partner company, Mitsubishi Motors, has given Proton an extraordinary favorable position as far as information in the car manufacturer and sales revenue since the Saga was launched. With quick changes in innovation and technology in the international automobile industry, Proton expected the technological change pace to be



quick. Though this did not occur and the Japanese vehicle producer was moderate in acquainting their mechanical developments with Proton. Moreover, the Malaysian government started apprehensively for Proton's technological dependence on Mitsubishi Motor. Hence, in order to reduce this dependency, Proton bought 80% share of the British sports car maker, Lotus, in 1996 (Fletcher & Poh 1997). The advantage of including the Lotus engineering and design technology in Proton was that it could reposition into the export market that focused on the sporty and luxury segment. Moreover, the engineering and design staff were maintained, as was their work for third-party car makers, and production of the company's elite Elise sports vehicle was sustained (Grant 2004). According to Tengku Mahaleel, Chief Executive of Proton, "the brief for Lotus is ambitious: make Proton the BMW of the East. The Waja is the first step in that direction" (Wilson 2001). In 2000, Proton launched the Waja ("steel" in Malay). The Waja offered a sleek, scandalous design together with the impact of Lotus' structure and designing aptitude (Grant 2004) and was the consequence of more than three years of research and development exertion and investment of nearly RM1 billion. It was the primary Proton model to be to a great extent structured by local engineers and designed in-house. According to Abdullah (2006) "local manufacture of the Waja was expected to reduce the external royalties the company was paying and also greatly reduce foreign exchange losses. Savings were calculated to be in the region of RM900 million".

In addition to the alliance with "Mitsubishi Motors Corporation", there were different endeavors at acquiring more alliances, for example with Cherry Automobile Co., Jinhua Youngman, French PSA Peugeot Citroen, India's Mahindra & Mahindra,

Germany's Volkswagen AG, China's Goldstar Heavy Industrial Co., and General Motors Corp. In some cases these joint-ventures were successful but sometimes it was not successful. For example, the joint venture of Proton initiated in the early 1990s with French PSA Peugeot Citroen was considered a failure. The Proton Tiara which was based on the Citroen AX was a flop as it was badly created, lacking features and suffering mechanical problems (Tan 2008). In this venture, France Citroen agreed to provide engines and technological support for new Proton models. Besides upgrading technology, the purpose of the Proton-French Citroen partnership was to make Proton independent from Japanese technological control (Wad 2004).

The joint venture endeavors with China automaker began with “Jinhua Youngman Automobile Manufacturing Co Ltd.” in which Proton Gen 2 rebranded the Europe star. Another scope of 'Made-in-China' Europe star autos with the building administrations of Lotus was to be created which was likewise called the Europe star (Lim 2007). Other than China, there were a couple of other global automaker organizations Proton was intrigued to be in coalition with. Sadly these contracts did not emerge yet, because of unanticipated conditions. For example, the dealings for Proton among Khazanah and two noteworthy global automobile makers - Volkswagen and General Motors - were canceled because of changes in the National Automotive Policy on seeking a foreign strategic partner (Wad 2009).

In 2015, Proton Holdings Berhad had underwritten the joint-venture contract with the “Lotus Group” and “China's Goldstar Heavy Industrial” to spread the Lotus brand

among the people of China. Along with the benefits provided by the Fujian Provincial Government, the contract has witness advancement in the growth of Lotus cars in the top-notch sports category in China. Under this agreement, a new joint venture set up with the objective of R&D activities with utilization of the latest technology (Paultan, 2015).

In 2017, Proton Automobile and Geely partnership have established. DRB-Hicom and Zhejiang Geely (ZGH) consented to the contract for the Chinese carmaker to attain a 49.9% value share in Proton. The Prime Minister of the time Najib Tun Razak and ZGH chairman Li Shufu witnesses the deal between DRB-Hicom group MD Datuk Seri Syed Faisal Albar and ZGH president An Conghui. It was decided in the partnership that Proton use as the manufacturing spot for Geely's right-hand drive models. This partnership provides Proton access to ZGH's products, platform and technologies which promote opportunity for proliferate talent with the Chinese carmaker's global engineering centers. Moreover, the partnership with Geely Automobile support Proton to get access over the markets outside of Malaysia (Paultan, 2017).

1.3 Background of Research

Twenty-first centuries is being described as a period of intense transformation (Castells, 2010). The label is attributed to the time due to advance technological developments, globalization and the effect of modern science on human life and different demographic characteristics of various countries. In this fast-changing era, companies must strive to get



success. In fact, during the past two decades with expansion in business economy “Marketing” has turned into a substantial area in the business and marketing consider as a crucial part of today organizations. For this reason, market orientation has received attention from researchers (Eris and Ozmen, 2012; Lopez, 2010; Brik, Rettab and Mellahi, 2011; Schalk, 2008; Deshpande, Farley and Webster, 1993; Kholi and Jawoski, 1996; Slater and Narver, 1990).

Nowadays organizations show more concern in order to make a maximum profit through satisfying customers and keeping a profitable relationship with customers, as it has been realized by an organization that without customer satisfaction it is exceptionally hard to survive in the industry while earning profits. Customer satisfaction is perceived as a fundamental constraint to gain a sustainable competitive advantage by organization, it occurs due to a hyper-competitive business environment that organization confront; thus higher level of customer satisfaction derives greater customer loyalty, increased productivity as well as sales, high new product success and innovation directing towards sustainable competitive advantage (Marzie, Hormoz, and Feridon, 2013; Wang and Lo, 2003).

When considering customer perspective, specifically today's customers are more knowledgeable and rational as compare to past. They always expect a higher quality level of the product, by fulfilling their needs and wants through product and services to reach an appropriate satisfactory level. Hence, the organization required to do their best to find themselves in a satisfactory book of customers. Accordingly, Maydeu and Lado (2009)



proposed that the organization ought to execute business strategies and formed organizational policies by considering things that customer are expecting from the organization.

During the end of the last century, the theory of market orientation has identified as a cornerstone for enhancing business performance. The dynamics which are used in the 1970s and 1980's such as economies of scale, market power, and product line expansion have ceased to provide a competitive advantage. Currently researcher emphasis on providing superior value to customers (Parasuraman, Zeithaml, and Berry, 1985; Day and Wensley, 1988; Bitner, 1990).

The market orientation has been the focal point of researchers due to the pace of change in the market. According to Webster (1988), some factors such as globalization, international competition low tariff barriers, and highly demanding customers are compelling organizations to respond quickly to market need in order to retain their customers.

Initially, many kinds of research have conducted on market orientation as management perceived phenomenon (Narver and Slater 1990; Kohli and Jaworski 1990). Though, in subsequent years researchers contend that since market orientation consists of a solid customer focus, an organization can characterize as market-oriented only when its customer perceive it as such. Firstly, this view was supported by Desphande, Farley, and Webster (1993) who claimed that organization evaluation of customer orientation should



also come from the customer, and it has not just focus managers of an organization. Steinman, Desphande, and Farley (2000) responded to the question of what level of market orientation should an organization need to adopt? He answered that the appropriate level of market orientation of organization is what their customers think it should (Webb, Webster, and Kreppa, 2000).

Market orientation is an overall organization value system theorized with its sub-dimensions: customer orientation, competitor orientation, and inter-functional coordination (Kohli and Jaworski, 1990). Correspondingly, Webb, Webster, and Kreppa (2000) proposed that it is one-sided if the market orientation is considered as a purely management-define phenomenon due to the fact this ignores the substantial role that customer play in term of value recognition.

Malaysia is a highly open, upper-middle income, developing economy. For the past four decades, Malaysia has a diversified economy from producing raw material to emerging multi-sector economy and automobile is one of the important sectors which developed a platform for economic development. The automobile sector has developed by Malaysia with the aim of reducing the effect of fluctuation in rubber and palm oil prices on the economy as well as to abstain economy having a trade deficit as Malaysia knows that robust automobile sector creates employment, economic advancement, and status.

In 1983, Proton short form of Perusahaan Otomobil Nasional Berhad was formed as the first national automobile company of Malaysia in conjunction with Mitsubishi to



assemble the first national car. By 1985, Proton commercially launched the first national car ‘Proton Saga’ meanwhile the local automobile industry had restructured from an assembler to manufacturing stage.

After Proton Company the second Malaysian automobile manufacturing company Perodua, an acronym for Perusahaan Otomobil Kedua Berhad, was formed in 1993 as the second national automobile company. In 1994, Perdua was appeared to be a reliable quality built and intelligently designed vehicles at a reasonable price.

Malaysia is a member of the Association of the South East Asian Nations (ASEAN), where a combined sales of passenger and commercial vehicles equal to 576,635 in 2017. According to ASEAN automotive federation statistic, Malaysia is the third largest automotive market in the region, behind leaders Indonesia and Thailand, in 2017 among the eight ASEAN countries (shown in figure 1.2). The ministry of international trade and industry (MITI) present that in 2018, the automotive industry will create more than 755,000 jobs and contribute 4.5% in the country’s GDP from 4% registered previous year.

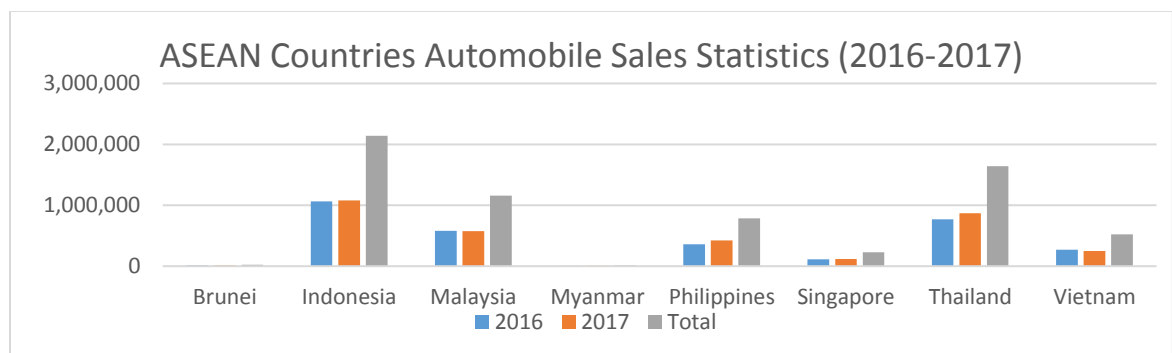


Figure 1.2. ASEAN Countries Automobile Sale Statistics



In 1998, the automotive market of Malaysia is dominated by national automobile companies, Proton and Perodua represent 90% of total vehicle sold every year. In 2011, these two big Malaysian automobile companies hold 59% of the market share. However, currently, the foreign automotive manufacturer and their sale of foreign cars continue to expand every year (Market Watch Report, 2012).

In 2006, National Automobile Policy (NAP) was introduced by Government which aims the progress of car market liberalization through strategic tie-up and alliances in order to increase domestic market competitiveness. The NAP 2014, envisions to create Malaysia as the region of energy efficient vehicle (EEV) hub by the year 2020. Recently, the market share of national cars has dropped under 50 percent due to the ASEAN Free Trade Agreement (AFTA). The top three foreign brands Honda, Toyota, and Nissan collectively hold the 33.8 percent market share of Malaysian automobile sale in 2016.

The national automobile manufacturing companies, Proton and Perodua cover 47.84 percent of total vehicles sold in 2017 and the remaining 52.16 percent were captured by other 45 automobile producers. In spite of the increasing international brand influence, Perodua successfully retains the position as the top seller of automobile meanwhile, Proton holds the third position in Malaysia Automobile market during 2017. Although, Honda led the foreign brand with 19 percent of the sale, followed by Toyota and Nissan with 12.1 and 4.7 percent of sales in 2017 respectively (refer Table 1.1).



Table 1.1

Top Ten Brand Wise Passenger and Commercial Vehicle's Sale in Malaysian During 2016-17

Total Vehicles	Sales Units		Market Share		Ranking	
Make	Jan – Dec 2017	Jan – Dec 2016	Jan - Dec 2017	Jan - Dec 2016	Jan - Dec 2017	Jan - Dec 2016
Perodua	204,887	207,110	35.5%	35.7%	1	1
Honda	109,511	91,830	19%	15.8%	2	2
Proton	70,991	72,290	12.3%	12.5%	3	3
Toyota	69,492	63,757	12.1%	11%	4	4
Nissan	27,154	40,706	4.7%	7%	5	5
Mercedes	12,344	12,017	2.1%	2.1%	6	8
Isuzu	10,979	12,818	1.9%	2.2%	7	6
BMW	10,618	9,000	1.8%	1.6%	8	9
Mazda	9,730	12,493	1.7%	2.2%	9	7
Mitsubishi	7,034	9,395	1.2%	1.6%	10	10

Adopted from *Paultan* (2018)

In this competitive automobile industry, it is crucial to retain customer through customer satisfaction and loyalty. The automobile companies required to focus on customer-defined market orientation to involve in continuous superior business performance by fulfilling customer need and want effectively, understand competitor well, and integrate functions of the company together to compete for the international brands and reposition national automobile companies to face new global challenges.

1.4 Statement of Problem

Malaysian local automobile industry was heavily swayed by Malaysian government policies. The automobile industry in Malaysia, as compared to the automobile industry of other countries, have the element of serious price cutting in national's auto. Though this feature is no more beneficial for national cars.

According to Human development report, (2016) Human development index (HDI) of Malaysia was 0.789 in 2015, which place the country in higher human development category. Malaysia position on 58th out of 187th countries according to HDI ranking. Hence, Malaysians are sufficiently rich to purchase other foreign automobile brands. Consequently, the price isn't a leading factor in a purchase decision. According to Devaraj, Matta, and Winter (2001) these days customers don't really bother price as a criterion for purchase decision, even they are willing to pay a premium price for quality products.

The car industries have been confronting highly competitive business environment. To gain competitive advantage customer satisfaction and customer loyalty are the top strategic issue in the automobile industry. It is proposed by Kotler (2000) that customer satisfaction is the key to strengthen the relationship between customer and organization.

According to Wad (2009) national automobile industry of Malaysia stalled and faced declined at the national market, then again national automobile industry grew to capture market share while foreign automobile manufacturer also struggling to gain market



share. Thus car companies like PROTON need to strive in making marketing strategies, maintain cost efficiency and high quality to satisfy their customer, sustain their loyalty in order to gain competitive advantage and hold their market share.

After 35 years, the existence of the first Malaysian national car company Proton is threatened. One of the factors that have led to this situation is the gradual elimination of a 'protectionist' policy by the Malaysian Government, which had previously given the local industry an advantage in terms of the price of Complete Build-up (CBU) units. This change will have a substantial impact on Proton in the future and will be a big challenge for the company, as it will have a significant impact on their sales. However, even when the local automotive industry was protected by the Malaysian government, there is evidence to show that the Malaysian public still preferred to purchase imported cars, although inexpensive prices were offered by the local car manufacturer. Reasonably, customers are willing to pay a premium price to prefer products (Devaraj, Matta, and Winter 2001). The NAP (2014) introduced liberalization policies to create a more competitive environment that would enable greater market forces which lead to more competitive prices. This indicates that in future Malaysian national automobile companies will be facing threats from established foreign automotive companies. Thus, Proton needs to clarify its direction in order to match the standards of its competitors through strong customer-defined market orientation strategies. Market orientation with its sub-dimensions: customer orientation, competitor orientation, and inter-functional coordination have a positive and significant effect on business performance and profitability (Narver and Slater, 1990).





In terms of car sales, Proton has been losing money and market share in Malaysia. The decline started in 2003 when the Proton market share slid from 60% to 48%, then gradually decreased to 44% in 2004 and dramatically fell to 40% in 2005 (The star epaper, 2005). In 2014 PROTON maintain its second position despite lower market share in 2014 i.e. 17.4% as compared to a market share of 2013 i.e. 21.2% (MAI, 2015). Currently, PROTON is the third larger automobile seller in Malaysia and holds 12.3% of the total market share.

In the last decade, Proton faces the terrible fell in market share which indicates the loss of customer satisfaction and customer loyalty. The market share slid of proton shows that the consumer had lost their confidence in the company. In an interview with Malaysian Digest (2016), former Chief Executive Officer (CEO) of Proton Holdings Bhd, Datuk Syed Zainal Abidin Tahir said Proton needs to rebuild its lost confidence in order to make a turnaround. It is probable that Proton's failure is not in its technical performance. TNS Automotive conducted a study of the Malaysian automotive market, TNS is a company which carries out research for automotive manufacturers, inquired vehicle-owners what they thought of rival brands. The feedback reveals that Proton was poorly providing "extroverted need states", which customer expect from Proton, therefore, it shows the poor customer-defined market orientation strategies of PROTON. Thus, their priority ought to inspire customer, satisfy them and gain their loyalty through customer-defined market orientation.



Hence, it is substantial to investigate what customer perceives about the market orientation of proton car and its connection with customer satisfaction and customer loyalty. As customer satisfaction and customer loyalty play a substantial role in stimuli growth, market share, and profitability (Naumann, Jackson, and Rsenbaum 2001). According to Bottger, Rudolph, Evanschitzky, and Pfrang (2017) the customer inspiration is linked with buying intention, as well as to satisfaction and loyalty intention. Therefore investigating the impact of customer-oriented market orientation, along with its sub-dimension customer orientation, competitor orientation and inter-functional on customer satisfaction and customer loyalty with testing the mediating effect of customer inspiration on the defined relationship will significantly contribute and enrich the research literature.

1.5 Research Objectives

The objective of this research is to develop an in-depth understanding, the role, and impact of implementing customer-defined market orientation on customer satisfaction and customer loyalty and explore the effect of customer inspiration as a mediator on the proposed model. In previous literature, many researchers have examined the impact of market orientation on customer loyalty and customer satisfaction, however, researchers have not explored the impact of customer-defined market orientation on customer loyalty and customer satisfaction with mediating effect of customer inspiration. Thus, the researcher plan to examine the impact of customer-defined market orientation on customer loyalty and customer satisfaction with the mediating effect of customer inspiration.

In first, the researcher examines the mechanism in a direction to gain an understanding of the relationship between value creation capabilities [i.e. customer satisfaction] and sustained [customer loyalty] by the company via implementing customer-defined market orientation. In addition, the researcher intends to explore the role of customer inspiration as a mediator in the above-mentioned relationships. Hence, research will be directed to meet the succeeding research objectives:

- 1.5.1 To determine the relationship between customer-defined market orientation and customer satisfaction.
- 1.5.2 To determine the relationship between customer-defined market orientation and customer loyalty.
- 1.5.3 To determine the role of customer inspiration as a mediator between customer-defined market orientation and customer satisfaction.
- 1.5.4 To determine the role of customer inspiration as a mediator between customer-defined market orientation and customer loyalty.

1.6 Research Questions

The aim of this study is to understand the effect of customer-defined market orientation on customer satisfaction and customer loyalty with the mediating effect of customer inspiration. This objective is further translated into specific research questions, these research questions are listed below:

- 1.6.1 Is customer-defined market orientation effect on customer satisfaction?
- 1.6.2 Is customer-defined market orientation effect on customer loyalty?
- 1.6.3 Is customer inspiration play a role as mediator between customer-defined market orientation and customer satisfaction?
- 1.6.4 Is customer inspiration play a role as mediator between customer-defined market orientation and customer loyalty?

1.7 Research Hypotheses

- H1: Customer orientation positively significant relationship with customer satisfaction.
- H2: Competitor orientation positively significant relationship with customer satisfaction.
- H3: Inter-functional coordination positively significant relationship with customer satisfaction.
- H4: Customer orientation positively significant relationship with customer loyalty.
- H5: Competitor orientation positively significant relationship with customer loyalty.
- H6: Inter-functional coordination positively significant relationship with customer loyalty.

- H7: Customer inspiration mediate the positive effect of customer orientation on customer satisfaction.
- H8: Customer inspiration mediate the positive effect of competitor orientation on customer satisfaction.
- H9: Customer inspiration mediate the positive effect of inter-functional coordination on customer satisfaction.
- H10: Customer inspiration mediate the positive effect of customer orientation on customer loyalty.
- H11: Customer inspiration mediate the positive effect of competitor orientation on customer loyalty.
- H12: Customer inspiration mediate the positive effect of inter-functional coordination on customer loyalty.

1.8 Theoretical Framework

In this study, the author aims to investigate the effect of strategic resources of the firm on customers, therefore resource theories provide theoretical backing to this study. Resource-based theory (RBT) is one of the popular theory in strategic management studies (Barney 1991; Sirmon, Hitt, and Ireland 2007). According to Hult and Slater (2007), RBT can be a preliminary source of a theoretical framework for strategic management studies. RBT state that heterogeneity exists in resource endowments of organizations which create a variation on the level of organizational performance. The organization who successfully acquire

valuable resources would achieve superior organizational performance (Tokarczyk et al., 2007).

Previously, researchers have formulated their theoretical framework base on resource-based theory to investigate the role of market orientation in shaping organization performance (Hult, Ketchen and Slater 2005). Gouthier and Schmid (2003) conducted a research to examine the customer's perception and customer relationships with firm in perspective of resource-based theory. They intend to propose that customers are the reason for production and delivery, without customer organization cannot perform these functions. Furthermore, customers perform a different role to create value for an organization. Hence, customers can be considered as the resource for an organization, which lead to competitive

In this study, researcher focus on customer-defined market orientation practices of an organization in customer perspective, therefore, researcher use resource-based theory to formulate hypotheses in order investigate the effect of customer-defined market orientation on customer satisfaction and customer loyalty with mediating role of customer inspiration.

1.9 Research Framework

The research framework of this study is based on literature review and conceptual framework which is presented in chapter two. The research framework of the study is



comprised of the customer-defined market orientation practices with its sub-dimensions i.e. customer orientation, competitor orientation, and inter-functional coordination as independent variables associated with dependent variables customer loyalty and customer satisfaction. Further, customer inspiration is linked as mediator. The research framework of the study is shown in figure 1.3 on next page.



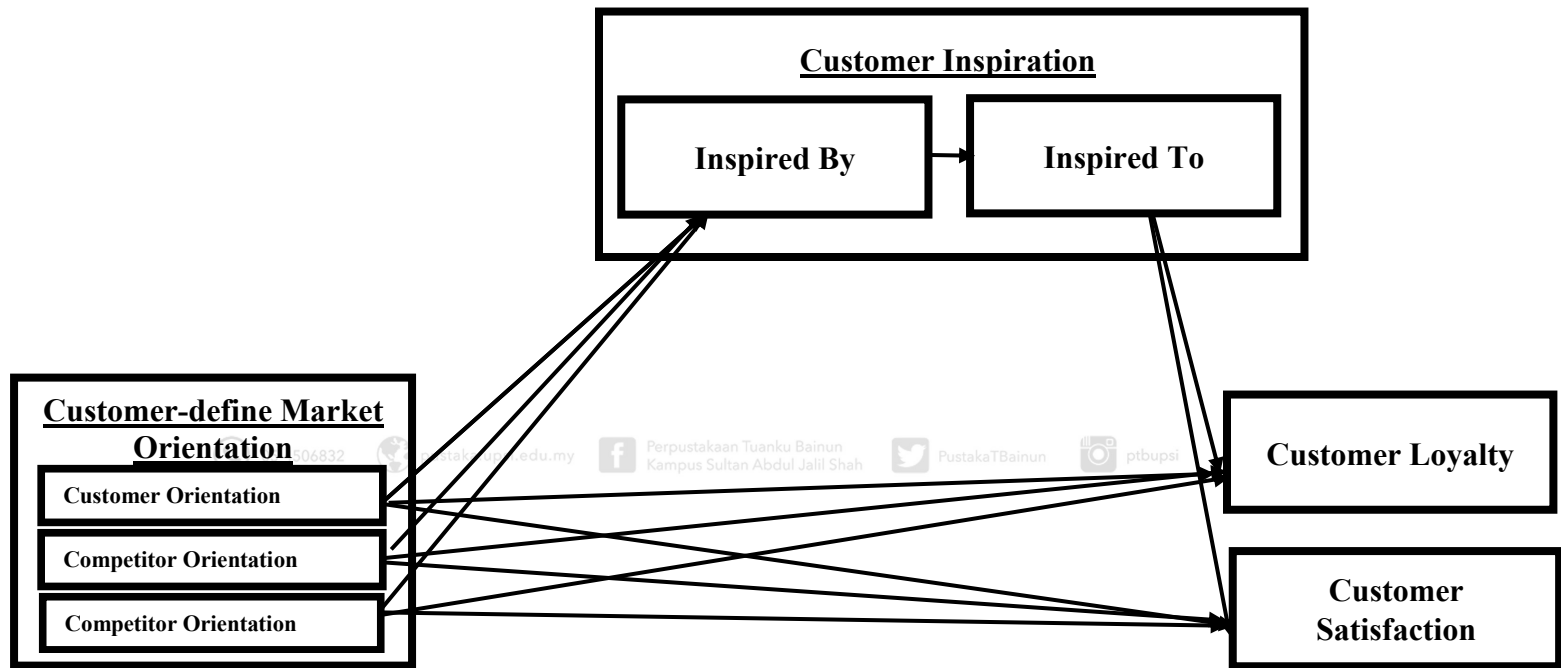


Figure 1.3. Research Framework

1.10 Significance of Study

Since a number of organizations have shown concern for the consumer satisfaction and loyalty, so there is need to immediately study the response from involved parties through conducting research on customer perception about the market orientation of an organization. This research may answer the curiosity of people about how much customer-defined market orientation is important to create customer loyalty and satisfaction in the Malaysian automobile market. After completion, this study would provide numerous benefits to the automobile market. The customer perception about the market orientation of an organization that influences their satisfaction and loyalty, and the role of customer inspiration as a mediator in the relationship, would be very useful for the Malaysian automobile market in the future. Expectantly, the findings of this study may contribute to further research on the automobile industry to evaluate their market orientation strategies and investigate the effect of customer inspiration in order to create loyalty and satisfaction in their customers.

This research provides new insight into the field of marketing. It examines the mediating role of customer inspiration between customer-defined market orientation, customer loyalty and customer satisfaction which still lacking in the literature. Hence this research contributed an element of “customer inspiration” in the proposed framework. This research is a significant contribution in the field of the Automobile industry as automobile industry plays an important role in the economy of a country in terms of revenue and



employment generation. The findings from this research assist automobile showroom' managers in designing sound policies to improve the market orientation practices of their firms and to enhance customer satisfaction and loyalty.

More specifically, this research provides insight for Proton to evaluate the effect of customer-defined market orientation on customer satisfaction and customer loyalty with mediator customer inspiration for its existing customer. Proton Automobile would benchmark the results of this study to identify an area of improvement for better market orientation strategies. Additionally, the information collects in this study assist Proton to evaluate its current market orientation strategies and the effect of customer inspiration in order to create loyalty and satisfaction in their customers. The customers of a national automobile organization, Proton Holding Berhad are focused in this study. Hence, the study targeted the customer through an online questionnaire survey on different research forum. The customers who owned the Proton Automobile were selected as the respondents of this study to reveal their perception of Proton's customer-defined market orientation and its impact on customer satisfaction and loyalty.

Finally, this research has the potential to stimulate further comparative studies which analyze the effects of customer-defined market orientation practices on customer satisfaction and customer loyalty with the mediating role of customer inspiration in different industries and demographics.



1.11 Operational Definition of the Terms

The following operational definitions of important terms i.e. market orientation, customer satisfaction, customer loyalty, and customer inspiration, are employed for this research which is valid only for this study.

1.11.1 Customer Defined Market Orientation

Customer-defined market orientation asserts that evaluation of market orientation at organization level should also come from customers, not only from the employees of an organization (Deshpande et al. 1993). By consuming products or services mainly in the long run, customers are qualified to create opinion and develop a cognitive evaluation of providing the organization's market orientation level (Akinyele 2011).

1.11.2 Customer Satisfaction

Customer satisfaction refers to the customer comparative verdict which results from a product/service perceive performance in connection to his/her expectation (Kotler et al. 2009). If the perceived performance of product/service misses the mark of expectation, the customer feels disappointment and dissatisfaction. On the other hand, if the perceived



performance of product/service exceeds or attain the expectation, the customer will become satisfied and delighted.

1.11.3 Customer Loyalty

Customer loyalty refers to the strong commitment of customer to re-buy the preferred brand's product steadily in the future, despite circumstance and marketing effort can possibly cause behavior switching (Oliver 1997).



1.11.4 Customer Inspiration

Customer inspiration refers to a “Customer’s temporary motivational state that facilitates the transition from the reception of a marketing-induced idea to the intrinsic pursuit of a consumption-related the goal” (Bottger, et al. 2017).

1.12 Summary of Chapter

This chapter presented background of the study, and the discussion based on the nature and importance of market orientation practices and customer satisfaction and customer loyalty





in the organization. It also presented a brief view of the PROTON Automobile and builds a notion that through customer-defined market orientation practices national automobile company of Malaysia “PROTON” can regain its market share and can contribute for greater economic and social development. The chapter, therefore, helps to identify key variables for research, discussed in the available literature of customer-defined market orientation practices, to develop a ground for developing a conceptual framework of this study in the next chapter.

