

Predictors of customer loyalty: A mediation analysis

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ABSTRACT

Customer loyalty in the world of cut throat completion is the only way out for an organisation to excel the heights of success. This paper is an endeavor to study the predictors of customer loyalty with respect to restaurants. The objective of the study is to analyze the relationship among service quality perception, satisfaction and loyalty of customers visiting the restaurants. The data for the study has been collected from 250 such customers. The results revealed that there exists a positive relationship between service quality and customer loyalty; service quality and customer satisfaction; customer satisfaction and customer loyalty. Further the mediating role of customer satisfaction has been investigated in the relationship between customer loyalty and service quality relationship and it has been found that customer satisfaction partially mediate the relationship. These findings provide considerable evidence for the need of improving different components of service quality in order to win over the loyalty of customers.

1. Introduction

Customer loyalty is of high concern of management, academicians, researchers or consultants. The reason is obvious, loyal customers remain with a particular product or service for a fairly long time and has high tendency to recommend others also. It has become a popular topic for managers, consultants, and academics (Zeithaml, 2000). Often, the business or non-business firms keep themselves embraced with the help of customer feedback. Repurchase intention customer satisfaction, quality perception, customer preference and word-of-mouth intention (Morgan and Rego, 2006) are the commonly used measuring gauge of customer behavior.

Customer loyalty means behavior of customers to repeat their purchase behaviour tendency to give good ratings, reviews, or any other testimonials (Kumar and Advani, 2009). It is a process, a program, or a group of programs that has motive to keep a customer happy so that they provide more business to the firm. An important thing to mention here is that it is developed over a period of time from a constant evidence of meeting, and sometimes even exceeding customer expectations by the firm. Door to door services, rebates, offers, credit facilities, preferential services, coupons, low interest rates on financing, extended warranties, and other rewards are means to enhance customer loyalty. Customer loyalty is of great financial significance as cost cutting by way of reduced efforts to attract new customers and of course by enhancing sales volume and both these leading to high profitability of firm. Customers who are loyal to the business unit are not easily influenced by rival firms and their volume is generally higher than those who are less loyal.

Customer satisfaction is the necessary foundation for the company to retain the existing customers. Customer satisfaction refers to "the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer's prior feelings

about the consumption experience" (Oliver, 1981) Guo, Xiao & Tang, 2009 was also of opinion that satisfied customers are easy to retain for a long time. Similar view was expressed by Lin & Wu, 2011 that unsatisfied customers can't stay with a particular product or service.

Literature shows that customer satisfaction can be sub-divided into two types: transaction-specific and general overall satisfaction. First one is related to evaluation made by customers about a specific and the second concept refers to the customers' rating of the brand or a firm on the basis of experiences garnered by them over a number of purchases of firm's products or services. In this study overall customer satisfaction with a particular restaurant visited by them has been assessed.

Service quality has been defined as "the extent of discrepancy between the customers' expectations and perceptions". Parasuraman et al. (1988) defined service quality as "the degree of discrepancy between customers' normative expectation for service and their perceptions of service performance". They further extended this concept as the overall assessment of a definite service firm that results from making comparison of firm's performance with the customer's general expectations of how firms in that industry should carry out their business. It is a multi-dimensional phenomenon covering tangibles, reliability, responsiveness, assurance, and empathy; known as SERVQUAL (Parasuraman et al., 1988). Tangibles include equipments, physical facilities and appearance of employees. Reliability is the ability to perform the promised service consistently and correctly. Responsiveness is willingness to help customers and provide prompt service. Assurance includes competence, courtesy, credibility and security. It is related to knowledge and courtesy of employees and their ability to inspire trust and confidence among customers. Empathy relates to care and individualized attention provided to customers.

Cronin & Taylor (1992); Parasuraman et al. (1988) and Soteriou & Chase (1998) demonstrated the validity and reliability of these measures for perceived service quality. SERVQUAL framework has guided numerous studies in the service sector focusing on various organizations, like dental services (Baldwin & Sohal 2003), hospitals (Mostafa 2005), hotels (Akan, 1995), tourism (Atilgan 2003).

2. Review of literature

Quality of service is very important for service providers to compete with other competitors (Bharati & Berg, 2005; Kemp, 2005; Yoo & Park, 2007) and ensuring customer loyalty (Lai, Griffin, & Babin, 2009). Further some researchers have found that customer satisfaction has direct impact on loyalty (Rust and Zahorik (1993) Auh and Johnson (2005) Shankar, Smith and Rangaswamy (2003), Kim, Jeong, Park, Park, Kim, and Kim (2007)

Bloemer, et al. (1998) have presented a model to show how service quality influences customer loyalty directly and indirectly. Wong and Sohal (2003) & Ehigie (2006) also found a positive relationship between service quality and customer loyalty. Another study on bank customers by Caruana (2002) revealed that service quality effects service loyalty through customer satisfaction. Boulding et al. (1993) and Akbar and Parvez (2009) taking into account the rudiments of repurchasing and the willingness to recommend as measures of customer loyalty, found positive relationships of repurchase intentions and willingness to recommend with service quality. Focusing on repurchase intentions as a measure of loyalty, Cronin and Taylo (1994) observed that service quality does not have a significant (positive) effect on repurchase intentions. Studies of Bitner (1990) and Ennew & Binks (1996) reported that there is no relation between service quality & customer loyalty.

3. Need of the study

Variation in the quality and value of products and services provided to customer creates variation in customer satisfaction and that create variation in customer loyalty. Therefore this paper assesses the impact of service quality on customer satisfaction and customer loyalty. Most of the previous studies on service quality and its related variables have been conducted in western countries and very little research has been done in context of developing countries like India. Researcher has found no study on loyalty of customers toward with respect to restaurants in Chandigarh.

4. Objectives

- To study the relationship between service quality perception and customer loyalty
- To study the relationship between service quality perception and Customer satisfaction
- To study the relationship between customer loyalty and Customer satisfaction
- To study the mediating effect of customer satisfaction in relationship between customer loyalty and service quality perception

5. Hypotheses

- H₁: Service quality perception has direct and positive effect on customer loyalty
- H₂: Service quality perception is positively related to Customer satisfaction
- H₃: Customer satisfaction is positively related to Customer loyalty
- H₄: Service quality perception has indirect effect on Customer loyalty through Customer satisfaction

6. Research Methodology

A descriptive study was undertaken in various restaurants operating in Chandigarh city. The data has been collected from 250 respondents visiting restaurants at different point of time. Questionnaire was used to measure the customer satisfaction, perceived service quality and customer loyalty. For measuring customer loyalty, three items have been adapted from Lin and Wang (2006). Service quality has been measured with 22 items of SEVQUAL scale, having five dimensions (reliability, tangibles, responsiveness, assurance, and empathy) developed by Parasuraman et al. (1988). Service quality, customer satisfaction and customer loyalty were measured on a five-point scale. The scales were ordered regressively as follows: Strongly agree (5), Agree (4), Neutral (3), Disagree (2), and strongly disagree (1).

Descriptive statistics analysis was used to measure study variables. The relationship among variables has been determined with the help of path analysis.

7. Results

With intend to achieve the research objectives the data has been collected from 250 respondents covering different demographic factors (Table 1). As far as gender is concerned male respondents are little higher than females. Majority (148) respondents are unmarried. As far as occupation is concerned majority are salaried class, followed by business class (70), students (39). With the respect to age most of the respondents (110) were in the age group (20-29), followed by 88 & 52 in 29-35 & above 35 years category. Thus data is widely distributed on the basis of demographics.

Table 1
Distribution of respondents

Gender	No. of Respondents	% of Respondents
Male	131	52.4%
Female	119	47.6%
Marital Status	No. of Respondents	% of Respondents
Married	102	40.8%
Single	148	59.2%
Occupations	No. of Respondents	% of Respondents
Salaried	115	46%
Business	70	28%
Students	39	15.6%
Others	26	10.4%
Age	No. of Respondents	% of Respondents
18-26	110	44%

26-34	88	35.2%
34 & above	52	20.8%

Table 2
Descriptive Statistics

	Mean	S.D.	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic
Customer satisfaction	3.48	.38	-.151	-.224
Customer Loyalty	3.95	.31	.128	-.074
Service quality perception	3.45	.35	-.612	.985

Note: N=250; S.E. = Standard error; S.D. = Standard deviation

Table 2 shows the descriptive statistics for variable under study. It has been observed that average customer satisfaction is 3.48 (with standard deviation 0.38) which is above scale average. It means that customers' satisfaction is high. The value of skewness was -0.151 which depicts the distribution is negatively skewed but is less than -1. This value is within the acceptable limit of normality and is acceptable as having skewness of moderate degree. The value of Kurtosis was -.224; which indicated that the curve was platykurtic. Thus, it may indicate the fact that distribution of customer satisfaction score approximated to normal distribution.

In case of customer loyalty, average score is 3.95 (Standard deviation 0.31), and it is quite high than the scale average. It means that customers are loyal to the restaurants they visit. The value of skewness was 0.128 which depicts the distribution is positively skewed and is less than +1. This value is within the acceptable limit of normality and is acceptable as having skewness of moderate degree. The value of Kurtosis The value of Kurtosis was -.074; which indicated that the curve was platykurtic. Thus, it may indicate the fact that distribution of customer loyalty score approximated to normal distribution.

In case of service quality perception, average score is 3.45 (Standard deviation 0.512), and it is quite higher than the scale average. It means that customers have high perception of service quality delivered by the restaurants they visit. The value of skewness was -0.612 which depicts the distribution is negatively skewed and is less than -1. This value is within the acceptable limit of normality and is acceptable as having skewness of moderate degree. The value of Kurtosis was 0.985; which indicated that the curve was leptokurtic. Thus, it may indicate the fact that distribution of service quality score approximated to normal distribution.

Next we analyzed the relationship among customer loyalty, Customer satisfaction and Service quality perception with the help of path analysis. Table 3 shows the results of regression analysis related to unmediated relationship between SQ and CL for restaurants. Table 4 shows the results of regression weights after entering mediator variable (CS).

Service quality perception is found to be directly and positively related to Customer loyalty (B=0.74, p=.00). Thus Hypothesis (H1) is confirmed.

As evident from the table 4 Hypotheses H₂, H₃ are confirmed. Service quality perception is positively related to CS (B=0.85, p=.00). CS is found positively related to Customer loyalty (B=0.21, p=.00). As evident from the table that direct effect between SQ and CL (B=0.57, p=.00) is reduced, but is still significant after entering the mediator variable, therefore it can be interpreted that CS partially mediates the relationship between SQ and CL.

To test the validity of mediator model, bias - corrected bootstrap 95% confidence interval was performed. The results of bootstrap validated the indirect effect of Service quality perception on Customer loyalty through CS (0.13, 0.27). Thus hypothesis H₄ is confirmed and CS has been found as significantly mediating the relationship between Service quality perception and normative commitment.

Table 3
Regression weights for the path of SQ, CL before mediator variable enter the model

	Estimat	S.E.	C.R.	p
CL <--- SQ	.74	.050	14.73	.00

Note: S.E. = Standard error; C.R. = Critical Ratio; p= Significance value

Table 4
Regression weights for the path of SQ, CL after mediator variable (CS) enter the model

	Estimate	S.E.	C.R.	p
CS <--- SQ	.85	.073	11.63	.00
CL <--- CS	.21	.047	4.38	.00
CL <--- SQ	.57	.062	9.12	.00

Note: S.E. = Standard error; C.R. = Critical Ratio; p= Significance value

8. Limitations and Recommendations of the Study

This study is limited only to restaurants, so, findings cannot be generalized to other industries. Therefore, for better results other sectors could also be considered. This study has not categorized the restaurants on any parameter. A cross comparison can also be made amongst the different restaurants. Sample size could have been more and the method used in the research in order to collect data is Questionnaire method, whereas other method like personal interview would have proven more useful.

9. Conclusion

The study was undertaken with the purpose to assess the relationship among service quality perception, loyalty and satisfaction of restaurant customers. Survey of 250 respondents of Chandigarh city revealed that perception of service quality positively impacts customer loyalty and customer satisfaction. Besides it has been found that customer satisfaction act as partial mediator in the relationship between customer loyalty and service quality.

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