



The Mediating Effect of Customer Satisfaction on the Relationship between Service Quality and Customer Loyalty

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To attain a higher level of customer loyalty in convenience stores in Davao region prompted the researcher to investigate service quality that could influence customer loyalty; service quality that could influence customer satisfaction as well as the mediating role of customer satisfaction on the relationship between service quality and customer loyalty. A descriptive correlational design was used. A total of 420 respondents were chosen. The level of service quality is moderate; the level of customer satisfaction is moderate; the level of customer loyalty is also moderate. The relationship between service quality and customer loyalty is significant. The relationship between service quality and customer satisfaction is significant and the relationship between customer satisfaction and customer loyalty is also significant. Customer satisfaction as a mediator on the relationship between service quality and customer loyalty in selected convenience stores in Davao region is significant and resulted into a partial mediation based on the given techniques by Baron and Kenny, and supplemented by the Sobel z-test.

Field of Research: Marketing Management

1. Introduction

The survival of convenience stores in the midst of intense competition among retail grocery stores in the global market has made customer loyalty an essential element in keeping customers. In Sweden, consumers are often less loyal to a retail store. It is easy for them to change stores, at least in Gothenburg, because the proximity of these stores is near (Nillson & Sandberg, 2010). The customers realize that front personnel of these stores do not have authority or right competence to handle complaints so they do not complain on matters they believe that personnel cannot handle. This consequently resulted to a customer dissatisfaction that can eventually accumulate and affect customers which may change stores or result to a negative word-of-mouth (Danilov & Hellgren, 2010; Nillson & Sandberg, 2010). Dissatisfaction as failures that do not generate customer complaints can eventually have greater impact on customer loyalty.

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Burke (2002) enumerated in-store shopping features that consumers would like to have: knowledgeable and helpful sales assistants; availability of products in stock; efficient cashiers who can scan and bag products; accepting payment and providing a printed receipt at checkout, fast and accurate. Burke claimed further that shoppers want fast and convenient shopping for frequently purchased non-durable goods.

One of the major problems of urban shoppers is the slow queue or slow checkout. The other two shopping problems are stockouts and high temperature store conditions making shopping in convenience stores uncomfortable (Gutierrez & Jegasothy, 2010). The study of Burke also stated that about three-fourths of these customers still visit the same store while the remainder visits another store. Although convenience stores are usually more expensive than any regular grocery store, they still sprout in many locations within the city, brought about by relatively high demands and stiff competition (Edgedavao, 2010).

To attain a higher level of customer loyalty is considered an elusive issue for these convenience stores. The researcher has not found any studies related to convenience stores in Davao Region using customer satisfaction as a mediating variable on the relationship between the service quality and customer loyalty. This prompted the researcher to investigate whether customer satisfaction can mediate the relationship between service quality and customer loyalty in selected convenience stores in Davao Region.

2. Literature Review

He and Song (2009) made a study based on Baron and Kenny's mediation technique. Satisfaction may function as a mediator when: (i) variations in the perceived quality and value significantly account for the variations in satisfaction; and (ii) variations in satisfaction significantly account for variations in repurchase intentions; and (iii) the direct link between perceived quality and repurchase intention and that value and repurchase intentions are no longer significant, when (i) and (ii) hold. This theory was corroborated by Mosahab, Mahamad and Ramayah (2010). Service quality is one of the determinants of customer satisfaction and customer loyalty. In fact, the same authors mentioned that nearly 43% of the increase in customer satisfaction is attributed to service quality. Service quality has also direct relationship with customer loyalty; about 45% of the customer loyalty changes are explained by service quality changes. About 80% of customer loyalty changes can be explained by customer satisfaction and service quality. There is a positive relationship among the service quality factors with customer satisfaction and customer loyalty. This theory is further strengthened by Reddy, Reddy and Azeem (2011), when they stressed that the store loyalty is being recognized as the ultimate objective of the store satisfaction measures. The higher the customer satisfaction, the more will be the loyalty of customers to a store and the higher the customer protection from competition. This view is also consistent with Sivadas and Baker-Prewitt (2000) that customer satisfaction is an important factor in influencing the store loyalty.

Customer perceptions of convenience, including operating hours and availability of free, ample parking, can exert a positive influence on customer satisfaction such that

they should draw new customers and encourage frequent return visits to an establishment (Berry & Mccollough, 2000; Gonzalez-Benito & Gonzalez-Benito, 2005). Unlike supermarkets, it is noted that the relative importance of these factors associated with convenience stores does not appear to shift significantly over time or between trading areas. However, very few customers identified convenience stores as their primary source of food but were identified as a source for fill-in items (Kimani, Kagira, Kendi, & Wawire, 2012).

This study is based on the SERVQUAL model which was developed by Parasuraman, Berry and Zeithaml (1988) to measure the perceptions of the customers. The notion of service quality is very important in customer satisfaction (Gee & Nicholson, 2008). There is a direct positive link between service quality and customer behavioral intentions and strong customer service leads to customer satisfaction, which in turn will lead to loyal behavior (Gee & Nicholson, 2008). The perceived value of products relative to price, staff friendliness and willingness to assist as well as the quality and freshness of products, store appearance, and the degree of customer service are some factors affecting customer satisfaction (Gomez, Mclaughlin, & Wittink, 2004).

Customer satisfaction is a key factor in the formation of customer's desires for future purchases (Mittal & Kamakura, 2001). For example, in the Middle Eastern cultures, people's lives have been shaped through communication with other people that build society. The satisfied customers will eventually share to others about their good experiences (Jamal & Naser, 2002). Brown and Gulycz (2001) consider the satisfaction of customers as an important tool to retain customers in the future and with positive repurchase intentions. With these foregoing findings, improving customer loyalty can be achieved either increasing service quality or through customer satisfaction as a mediating variable on the relationship between service quality and customer loyalty (Ahmed, et al. 2010).

In the study conducted by Huang (2012), major findings in his study showed that customer satisfaction plays a mediated role between relationship marketing and customer loyalty. Mediation effect implies a causal relationship whereby the relationship quality causes satisfaction which causes customer loyalty. Relationship quality had both direct and indirect effects on customer loyalty. While the mediator which is customer satisfaction came into model, the indirect effects significantly impact customer loyalty, but the direct effect became insignificant. It results in the indirect effect is greater than the total effect. In other words, the strength of relationship quality and customer loyalty decreased when customer satisfaction came into the model. Customer satisfaction has been frequently suggested to be the leading determinant of customer loyalty (Lam & Burton, 2006). Ehigie (2006) suggested that there is significant positive relationship between customer satisfaction and customer loyalty. As such, customer satisfaction in the research of Kheng (2010) is acting as a mediator on the relationship between service quality and customer loyalty.

In a study by Cheng (2011), it has noted that customer satisfaction and corporate image show significant and positive influences on attitudinal loyalty; therefore if we want to improve customer attitudinal loyalty that is creating positive word of mouth or persuading customers to recommend to others, improving customer satisfaction, or

holding events that build corporate image are all feasible solutions. If we want to stimulate behavioral loyalty of the customers that is repurchase intentions, service staff must spend more time cultivating relationships with customers, customized services should be provided, deeply cut prices or discounts should be granted to existing customers and services provided should differ from those at the other stores (Cheng, 2011).

Loyalty should also be considered based on the relative importance of attitude or behavior to the loyalty construct that would appear to be related to the object of loyalty and conditions of the market. For example, in case of fast moving consumer goods where customer purchase involvement is low, one would expect behavioral loyalty to play stronger role in predicting loyalty than attitudinal loyalty (Cheng, 2011).

It is believed that customer satisfaction leads to repeat purchase intentions and word of mouth recommendations, which are the main indicators of customer loyalty. Marketing literature has paid much attention to the relationship between customer satisfaction and customer loyalty (Chi, 2005). A number of studies have confirmed a significant positive relationship between customer satisfaction and customer loyalty. If consumers are satisfied with the product or service, they are more likely to carry on purchasing and are more willing to spread positive word of mouth (Chi, 2005).

In the study by Akbar and Parvez (2009), high quality service helps to generate customer satisfaction, customer loyalty, and growth of market share by soliciting new customers, and improved productivity and financial performance. When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down. Therefore, it is understandable that establishing contact with a customer and achieving the first sales often costs so much that the net return on the transaction is minimal or even negative. But as the relationship continues, leading to more business, the customer becomes profitable to the seller (Bennett & Bove, 2002). Hackl, Scharitzer, and Zuba (2000) had also substantiated the point by adding that customer satisfaction is a prerequisite of customer retention and loyalty.

3. Methodology

The design used in this study is descriptive-correlational. It investigated the relationship between variables – service quality, customer satisfaction and customer loyalty at 5% level of significance.

Descriptive statistics (mean and standard deviation) were used to determine the level of service quality, level of customer satisfaction and level of customer loyalty. The Regression Techniques provided by Baron and Kenny were used to determine the significance of the relationship of variables and the mediating effect of customer satisfaction on the relationship between service quality and customer loyalty. The MedGraph using Sobel z-test was also used to prove the mediation and to strengthen the result obtained.

4. Findings

The overall level of service quality in terms of the mean is 3.40. It is considered moderate service quality. It means overall service quality is sometimes present. It has an overall standard deviation of 0.62, which shows very consistent responses among customers of the selected convenience stores in Davao region. Of all the indicators, empathy got the highest mean score of 3.52, with a standard deviation of 0.64. Basically, many customers prefer convenience and accessibility of the store every time they need to buy something. Customers do also need more caring and individualized attention of the employees when they are in the store. Of all the indicators, responsiveness has the lowest mean score of 3.26, as compared to the other indicators.

The overall customer satisfaction level has a mean score of 3.31 which means it is moderately experienced in selected convenience stores in Davao region. On the other hand, the overall standard deviation has a value of 0.78, which means that the satisfaction responses of the customers are very consistent.

The overall customer loyalty level reached a moderate mean score of 3.20. Overall customers' loyalty is sometimes manifested in the selected convenience stores. If the service quality is excellent, customers would plan to continue to buy at the convenience store. The mean score reached as high as 3.68, which means, if service quality is high, customer loyalty is manifested most of the time.

If the service quality is excellent, customers would plan to continue to buy at the convenience store. The mean score reached as high as 3.68, which means, if service quality is high, customer loyalty is manifested most of the time. Customer loyalty is high when the customer's satisfaction level is high, the mean score is 3.62. It tells us that customer loyalty is manifested most of the time when their customer satisfaction is high.

The researcher tested the statements at 5% level of significance. Since the p-value is 0 and it is below 0.05, there is a significant relationship between customer satisfaction and service quality. Since the p-value is 0 and it is below 0.05, there is a significant relationship between customer loyalty and service quality. Since the p-value is 0 and it is below 0.05, there is also significant relationship between customer loyalty and customer satisfaction experienced by customers in selected convenience stores in Davao region.

Service quality and customer loyalty are positively correlated and they have an r value of 0.56; service quality and customer satisfaction are positively correlated and they have an r value of 0.81 and customer satisfaction and customer loyalty are also positively correlated and they have an r value of 0.57. The correlation results are computed based on the technique provided by Baron and Kenny (1986).

With the use of Baron and Kenny's steps in testing mediation of customer satisfaction, the researcher proved that mediation is significant and there is partial mediation. First regression, the independent variable (service quality) affects the mediator (customer satisfaction) at a correlation value of 0.81 and the relationship is

significant at p-value equal to 0. Second regression, the independent variable (service quality) affects the dependent variable (customer loyalty) at a correlation value of 0.56 and the relationship is significant at p-value equal to 0. Third regression, for the mediation to hold, the mediator (customer satisfaction) affects the dependent variable (customer loyalty) at a correlation value of 0.57 and the relationship is significant at p-value equal to 0. Lastly, the dependent variable (customer loyalty) is regressed on both independent variable (service quality) and mediator (customer satisfaction). Since the coefficient of the service quality has been reduced from 0.56 to 0.30, but is still significant, partial mediation of customer satisfaction on the relationship between service quality and customer loyalty is attained. This result is consistent with the study of Polyorat and Sophorinsi (2010) when they used Baron and Kenny's technique in proving the partial mediation of customer satisfaction on the relationship between service quality and customer loyalty.

Sobel test tells us that to prove its mediating effect, regression coefficient and standard error of the path B and C are used to compute for Sobel z-value. If the outcome of the z value is more than 1.96 at alpha 0.05, then path B and C are clearly significant and there is mediating effect of customer satisfaction. Eventually, mediator and independent variables (IV) are used together to predict dependent variable (DV). When the coefficient of the path A is now reduced, but is not zero, and its coefficient is still significant, partial mediation is attained.

The Sobel's z-value of 4.765468 is greater than 1.96 at 0.05 significance level and yields a p-value less than 0.05 which is actually 0.000002; Hence, significant mediation is determined. There is a significant mediation of customer satisfaction on the relationship between service quality and customer loyalty in selected convenience stores in Davao region. Since customer satisfaction acts as a significant mediator, it means that increasing customer loyalty can be achieved by passing through customer satisfaction, aside from using the path from service quality going to customer loyalty.

After the inclusion of the customer satisfaction as mediating variable in the multiple regression, the direct association between service quality and customer loyalty has been reduced from 0.56 to 0.30. Because of this, only partial mediation is attained, considering that the association between service quality and customer loyalty at 0.30 is still significant at $p < 0.001$, though it has been reduced from its original value of 0.56. However, if the association between the two variables (service quality and customer loyalty) is not significant or has dropped to zero, then full mediation has been achieved. The result is supported by the study of Huang (2012). He stated in his study that the strength of relationship between independent variable (relationship quality) and dependent variable (customer loyalty) decreased when customer satisfaction came into the model.

The total effect (0.56) is the correlation between service quality and customer loyalty. The direct effect (0.30) is the size of the correlation between service quality and customer loyalty with customer satisfaction included in the regression. The indirect effect (0.26) is the amount of original correlation between service quality and customer satisfaction (0.81) that now goes through customer satisfaction to customer loyalty (0.326). The ratio of 0.464 is computed by dividing the indirect

effect by the total effect. In this case, 46% of the effect of service quality on customer loyalty goes through customer satisfaction as mediating variable. These findings are consistent with the statement provided by Brown and Gulycz (2001). They said that improving customer loyalty can be achieved either increasing service quality or through customer satisfaction as a partial mediating variable on the relationship between service quality and customer loyalty. This is also agreed by Ahmed et al., (2010) in their study on mediation.

5. Summary and Conclusions

This research sought the answers to the following questions: What is the level of service quality experienced by customers in selected convenience stores in Davao region in terms of reliability, responsiveness, tangibility, empathy and assurance? What is the level of customer satisfaction experienced by customers in selected convenience stores in Davao region? What is the level of customer loyalty manifested in selected convenience stores in Davao region in terms of attitudinal loyalty and behavioral loyalty? Is there a significant relationship between service quality and customer loyalty in selected convenience stores in Davao Region? Is there a significant relationship between service quality and customer satisfaction in selected convenience stores in Davao Region? Is the mediating effect of customer satisfaction on the relationship between service quality and customer loyalty significant?

The level of service quality is moderate. Service quality is sometimes present in the convenience stores. The level of customer satisfaction is moderate. Customer satisfaction is moderately experienced in the convenience stores. The level of customer loyalty is moderate. Customer loyalty is sometimes manifested in the convenience stores in Davao region.

There is a significant relationship between service quality and customer loyalty in selected convenience stores in Davao region. There is also significant relationship between service quality and customer satisfaction in selected convenience stores in Davao region. The mediating effect of customer satisfaction on the relationship between service quality and customer loyalty is significant.

Many SERVQUAL studies either use structural equation modeling, or Baron and Kenny Techniques alone to predict customer satisfaction or to prove the mediating effect of customer satisfaction. However, in this study, SERVQUAL is utilized with both Baron and Kenny's technique and Sobel Test to prove the mediation effect of customer satisfaction.

It is essential for convenience stores to provide better service quality and maintain it. If the service quality is high, there can be higher customer satisfaction. As a mediator, customer satisfaction can also enhance customer loyalty. If customers are very satisfied, they can be loyal and eventually, recommend the store to other people through positive word-of-mouth, they will regularly go back to buy things at the store even if it's more expensive or something has changed, and they can even consider the store as their first choice. The management ought to explore marketing strategies that constantly cultivate relationships with customers and ought to initiate

programs that customize services more convenient than the other stores and ultimately, satisfied customers become loyal to convenience stores.

Service quality and customer satisfaction as predictors resulted to a low r^2 at 0.355 and indicated a weak ability to explain for changes in the dependent variable. Future researchers may include additional independent variables in the future researches to better predict customer loyalty.

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