The Effect of Customer Satisfaction on Customer Loyalty: The Moderation Roles of Experiential Encounter And Customer Patronage

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Abstract: *This study investigated the links between customer satisfaction and customer loyalty related to customers patronizing star rated hotels, and the moderation roles of experiential encounter and customer patronage. This was investigated in a sample of 347 loyalty program members. Data was analyzed using descriptive analysis and bivariate relationships. In addition simple moderation, additive moderation and moderated moderation were performed to analyze the effects of customer satisfaction, experiential encounter, and customer patronage in predicting customer loyalty of loyalty program members patronizing star rated hotels. Results show that customer satisfaction moderated by experiential encounter did not predict the levels of change in customer's loyalty to star rated hotels. Additive moderation shows a significant conditional effect of experiential encounter and customer patronage on the relationship between customer satisfaction and customer loyalty. This raises the importance of further researching customer satisfaction impacts on loyalty programs members especially during periods of high customer patronage of the star rated hotels.*

Keywords*: Customer satisfaction, experiential encounter, customer patronage, customer loyalty*

I.   Introduction

The current nature of economy is synonymous with consumerism where the population is exposed to promotional materials encouraging them to continuously purchase products and services. Developing economies have been caught up in this loop of increased consumption especially in the food and hospitality industry (Liu, Lee, & Hung, 2017). The development of consumerism in the hospitality industry is associated to the prominent feature of one to one interaction between the customers, service providers and the facilities (Rust, 2004; Liu, Lee, & Hung, 2017). Relationship marketing plays important role in ensuring symbiotic relationship exists between the service provider and the customer (Gummerson, 1994), where they enjoy mutual exchange and fulfilment of promises (Sheth & Kellstadt, 2002). As the business makes profits, the customers not only get access to services but also affective, enjoyable and ethical relation with the service providers (Hunt, Arnett, & Mashavaram, 2006)

According to (Garga & Bambale, 2016), the social and economic justification for the existence of any business is pegged on the customer's patronage. A study conducted on a shopping mall in Bangkok established the factors that influence customers' patronage, they included; service quality, physical factors, compliance to the law, service provider's characteristics and tangible objects within the facility (Msallam, 2015; Majid & Zulhanizar, 2016). Majority of the empirical work on customer patronage has been conducted on retail stores patronage (Sheth, 1983; Bauer, Kotouc, & Rudolph, 2012; Huang, 2014). These studies have focussed on the stores assortments, service quality, demographics and consumer exchanges, and strategic intentions with intention of establishing their link with customer patronage (Bianchi, 2009; Heider & Moeller, 2012). The survival rate in today's competitive market has been established to depend on the rate of customer patronage which is also influenced by customer satisfaction (Ogwo & Igwe, 2012). Customer satisfaction is linked to customer patronage, whereby, a rise in one prompts a rise in the other, and at the same time influencing the customer's loyalty to the business products or brand experience (Oliver, 1997).

The customer experience during service delivery process influences commitment to the firm's products and brand loyalty (Gronroos, 2004). Therefore, we can impute the existence of a link between experiential encounter and customer patronage. As indicate (Majid & Zulhanizar, 2016) the people and facility factors affecting customer patronage tends to be synonymous with the same factors that influence the multidimensional aspects of experiential encounter; sense, feel, relate and ambience (Schmitt, 1999; Hirschman & Holbrook, 1982). However, there is a research gap on the effect of experiential encounter on customer loyalty especially on hospitality industry. Moreover, various studies have showed the effect of physical facilities, interaction between service delivery process and customer, service quality and their implication on consumer's behaviour. Thus, many authors have claimed the necessity of further empirical testing with regard to its development and effect in

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the developing markets of Sub-Saharan Africa in order to form a basis of comparison with the developed economies relying on hospitality industry as an economic development driver.

In a study conducted in the beauty industry, it was established that the multidimensional aspects of experiential encounter influenced the purchasing behaviour of the customers (Wong & Tsai, 2010). Purchasing behaviour, according to (Sheth & Kellstadt, 2002), acts as indicator of customer loyalty with high frequency associated with higher loyalty. This corroborates with studies conducted by (Lee, Hsiao, & Yang, 2011; Wong & Tsai, 2010) and (Chao, 2015) which established that experiential encounter elements plays key roles in inducing customer satisfaction. (Wong & Tsai, 2010), found out that human contact makes a significant difference to customers experience making them to indulge more in repeat purchases. In the same (Wong & Tsai, 2010) study, the results indicated no significant effect of sense factor on consumer purchasing behaviour while relate and feel factors returned a significant effect. These results are contrary to those established by (Pham & Huang, 2015) who found a positive and significant relationship between experiential encounter factors and customer satisfaction in a study conducted in Vietnam hotel sector.

According to (Reiinger & Turner, 2003), contend that customers become satisfied the moment their experience supersedes their expectations. (Chen, Ouyang, Huang, & Lee, 2016), contend that customer satisfaction in the hospitality industry relates to the comparison of customers expectations or pre-purchase perceptions and the service experienced. Satisfied customers serve as a good indicator of an organization that is creating customer loyalty towards a brand (Mittal & Kamakura, 2001), and in the words of (Torres-Moraga, Vasquez-Parraga, & Zamora- Gonza'lez, 2008), satisfaction and loyalty are two distinct stages to customers reaction towards company's offering and promotional strategies, with satisfaction being the initial stage. Firm's should therefore strive to satisfy their customer as a satisfied customer is likely to carry out repeat purchases, transact longer with the firm (El-Adly & Eid, 2016; Chen S. , 2012), and recommend to others (Lee, Hsiao, & Yang, 2011). Other studies like (Reichheld, 1994) argue that customer satisfaction does not necessarily influence customer loyalty. A similar scenario is also pointed out by (Bennet & Rundle-Thiele, 2004; Kapferer, 2005), arguing that today's customers have become loyal though linking it to the increased number of businesses offering the same kind of products in addition to more varieties. The need to carry out this study is informed with respect to the above contrasting perspective between experiential encounter and customer satisfaction and also between customer satisfaction and customer loyalty.

II.   Study Methods And Material

Design, Procedure and Participants

The study adapted a stratified sampling of loyalty program members patronizing star rated hotels in Coastal Region of Kenya (N= 383). The survey was conducted between June and September considered a high season for patrons in hospitality industry. A self administered questionnaire was used to collect data from the registered loyalty program members as listed in the hotels register. The research assistant relied heavily on the referrals from the management of the hotel to locate the respondents so as to access them at their convenience. Before, the administration of the questionnaire the researcher assistant obtained informed consent from the respondents, assuring them of confidentiality and right to withdraw from the study process. Approval to carry out the study was granted by Kenya National Commission for Science, Technology & Innovation.

For this specific study only loyalty program members patronizing star rated hotels (3 stars to 5stars) were included in the analysis.

Measures

Customer Satisfaction

Customer satisfaction was measured using a scale of 10 items adapted from prior published empirical studies questionnaires used by (DeWulf, Oderkerken-Schroder, & Iacobucci, 2001; Cronin & Taylor, 1992). The study respondents were requested to rate their level of agreement with the items on a scale of 1 (strongly disagree) to 5 (strongly agree). The reliability coefficient of the customer satisfaction scale items was ($\alpha = 0.70$), which is reliably good.

Customer Loyalty

The customer loyalty measures are adapted from customer loyalty scales and questionnaires used in prior published works of (Söderlund, 2006; Dick & Basu, 1994; McMullan & Gilmore, 2002). There were 12 items adapted from the customer loyalty scales. The items representing customer loyalty for the present study demonstrated a good reliability ($\alpha = 0.73$).

Experiential Encounter

In this study experiential encounter adopts a multidimensional nature consisting of three dimensions: sense, feel and relate. The scale items are based on measurement items developed by (Schmitt, 1999; Yang & He, 2011; Parasuraman & Zeithaml, 1985; Keng, Huang, Cheng, & Hsu, 2007).

Customer Patronage

This was measured as the number of years a customer has been a loyalty program member within the hotel.

III.   Data Analyses

In the first instance data was analyzed using descriptive statistics and bivariate relations. Secondly, to analyse the effects of customer satisfaction, experiential encounter and customer patronage in predicting change in customer loyalty, simple moderation, additive moderation, and moderated moderation models of regressions were performed using Hayes' PROCESS macro for SPSS (Hayes', 2013). Each of the associations between variables was tested using a bootstrapped approach and significance was determined at 95% bias-corrected confidence intervals. To address the occurrence of multicollinearity in the analysis, all the variables were continuous and centered prior to the analysis, the estimated effects were reported as unstandardized regressions coefficients (Hayes', 2013). Thirdly, to address the confounding effects of education levels, category of hotel, gender and age, all models were tested including these as covariates. Gender was coded with 1 representing males and 0 representing female. Education level of respondents was coded with 1 indicative of secondary level education, 2 indicative of post secondary certificate, 3 indicative of diploma, 4 representing undergraduate degree, and 5 indicative of postgraduate level of education.

IV.   Results

Table 1 presents the descriptive statistics and bivariate for the survey measures. Customer satisfaction was positively correlated with customer loyalty. Customer patronage and experiential encounter were also positively correlated with customer loyalty.

Moderation Analysis

A simple moderation analysis using the PROCESS macro was performed to test the hypothesis that the relationship between customer satisfaction and customer loyalty would be moderated by experiential encounter. To avoid multicollinearity issues, customer satisfaction and experiential encounter were mean centered prior to analysis and an interaction term between customer satisfaction and experiential encounter was produced. Fig 1 shows the simple moderation model tested. From the results of the PROCESS model 1 in addition to the control variables, the interaction term causes a variance change though not significant [$\Delta R^2 = 0.0005$, b = 0.0247, t (337) = 0.5395, p>0.05]. Therefore we reject the hypothesis, that the moderating effect of experiential encounter has a significant effect on the relationship between customer satisfaction and customer loyalty.

Table 1. Means, SDs, and Correlations of Key Variables

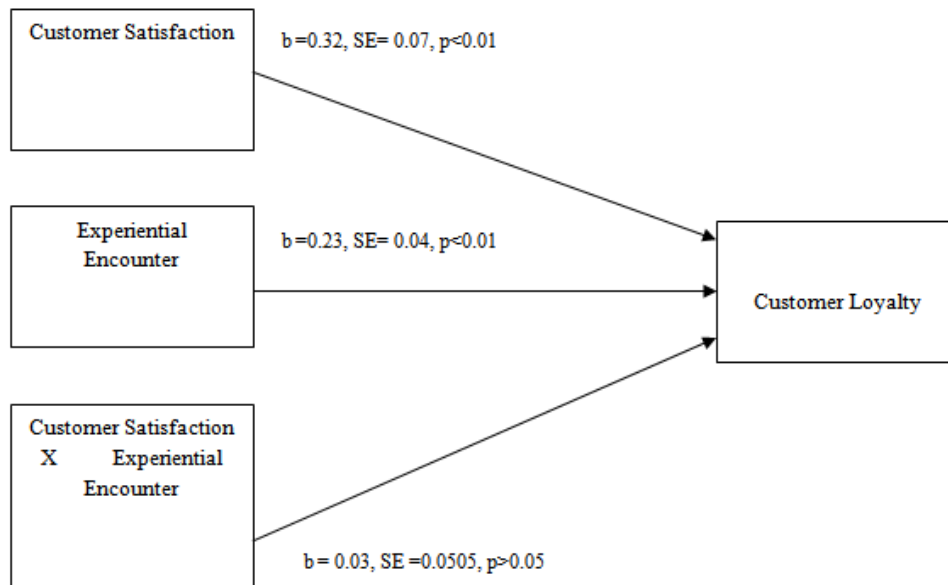|		μ	Sd	1	2	3
1	Customer Satisfaction	4.43	0.53			
2	Experiential Encounter	4.33	0.63	0.126[*]		
3	Loyalty Program Membership	2.00	0.83	0.037	0.297[**]	
4	Customer Loyalty	4.09	0.58	0.264[**]	0.177[**]	0.181[**]

[**]p<0.01, [*]p<0.05

Fig. 1 Simple Moderation Analysis Results with Unstandardized Regressions Coefficient

An additive moderation analysis was conducted to test whether the effect of customer satisfaction on customer loyalty was moderated by both experiential encounter and customer patronage (Fig 2). After adding the customer satisfaction x customer patronage interaction to the moderation model (PROCESS Model 2 by Hayes, 2013), the interaction between customer satisfaction and experiential encounter remains non-significant [b = 0.80, SE=0.051, t (335) = 1.58 , p = 0.11], but the interaction between customer satisfaction and customer patronage which is a proxy for the number of years as a loyalty program member was found to be significant [b = -0.24, SE = 0.96,t(335) = -2.45, p<0.05]. Thus the effect of customer satisfaction on customer loyalty was found to be additively dependent on both experiential encounter and customer patronage [$R^2\Delta = 0.017$, F (2,335) = 3.20, p<0.05]
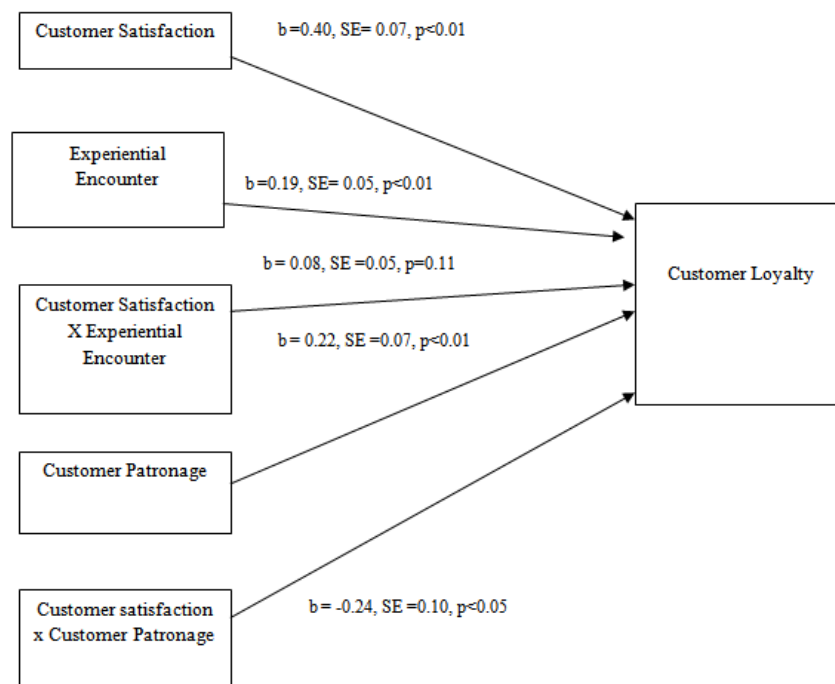

Fig. 2 Additive moderation Analysis Results with Unstandardized Regression Coefficients

Moderated Moderation

To test whether the interaction between customer satisfaction and experiential encounter in the additive model was moderated by customer patronage, a moderated moderation analysis (also known as three-way interaction) was performed (Fig. 3). The overall model accounted for significant amount of variance on change in customer loyalty [F $(12,333)$ = 18.35, R^2 = 0.26, $p < 0.001$]. However, the interaction between customer satisfaction, experiential encounter and customer patronage was not statistically significant [b = -0.20, SE = 0.12, t (333) = -1.68, p = 0.09]. The interaction between customer satisfaction and experiential encounter accounted for a significant moderation effect on customer loyalty [b = 0.18, SE = 0.05, t (333) = 3.59, $p < 0.001$]. Similar results were established for the interaction between customer satisfaction and customer patronage [b = -0.26, SE = 0.08, t (333) = -3.17, $p < 0.01$], whereas the third interaction between experiential encounter and customer interaction also accounted for a significant moderation effect on customer loyalty [b = 0.44, SE = 0.07, t (333) = 6.58, $p < 0.001$].
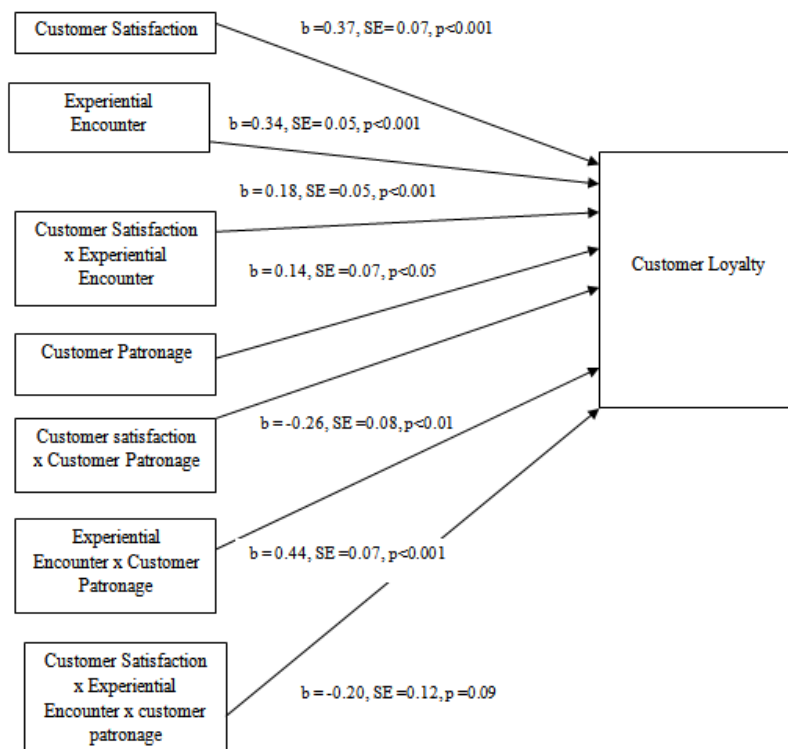

Fig. 3 Moderated Moderation Analysis Results with Unstandardized Regressions Coefficients

V.   Discussions

In this study we examined the effect of customer satisfaction on customer loyalty, and the moderating roles of experiential encounter and customer patronage. The results confirmed the hypothesis that customer satisfaction is associated with customer loyalty. The relationship is however not moderated by experiential encounter. This means that experiential encounter has no significant effect on the strength of the relationship between customer satisfaction and customer loyalty. The result of the relationship between customer satisfaction and customer loyalty corroborates the idea that firms should strive to meet the customer expectations in order to maintain their loyalty (Soderlund & Colliander, 2015). Further additive and multiplicative moderation analysis revealed that the effect of customer satisfaction on customer loyalty was moderated by combining experiential encounter and customer patronage.

The findings on the direct effect of customer satisfaction and experiential encounter are consistent with expectancy disconfirmation theory (Oliver, 1997). This model acknowledges that customer satisfaction, customer patronage and experiential encounter affect customer loyalty (Pham & Huang, 2015; Oliver, 1997; El-Adly & Eid, 2016). Our results showed that experiential encounter did not moderate the relationship between customer satisfaction and customer loyalty. This may be explained by prior research showing that some elements of experiential encounter have no significant effect on long term purchasing behavior which is an indicator of customer loyalty (Wong & Tsai, 2010) and in some studies where customer satisfaction does not necessarily affect customer loyalty (Reichheld, 1994). Further, the moderated mediation or three ways

interaction show that moderation of experiential encounter on the relationship between customer satisfactions on customer loyalty by customer patronage is not significant. This brings into fore the complexity of understanding the association between customer satisfaction and customer loyalty for organizations operating in dynamic environment, thus the study should go beyond experiential encounter and customer patronage to consider variables like; physical facilities, service quality and pricing.

Limitations of the Study

First the study made use of cross-sectional research design, limiting causal inference and generalization of the study results. Secondly, this was a self reporting study and prone to reporter bias because hotel patrons reported on their satisfaction, loyalty and experience with customers products and services. In future it would be useful to design a study that embraces longitudinal research design and has multiple-informant study that includes non-loyalty program members. Third, the results are obtained from a sample of respondents from one geographical areas patronizing three stars to four star rated hotels, there is need to expand the geographical area and include other star rated hotels to help in inference drawing and generalization of the study outcome.

Despite these limitations our study is the first – to our knowledge to contribute to the understanding of the moderated effect of experiential encounter and customer patronage on the relationship between customer satisfaction and customer loyalty. The findings might help in designing and implementation of customer relationship management strategies and tactics. The design on the interaction between the physical facilities, human contact and the customer experiencing a service is vital as it influences his feel, sense and relate. The emphasis should be in designing the right mix, period of exposure and extent of interaction.

Summary

This study examined whether customer satisfaction is associated with customer loyalty within the hospitality industry set up, and whether this link is moderated by experiential encounter. Results showed that customer satisfaction was associated with customer loyalty and that experiential encounter did not moderate this association. On additive moderation of customer satisfaction, the two way interaction turned to be significant. Such results add to existing literature about the impact of additional marketing strategies within a business. This is useful in raising awareness given the rise in competition within the hospitality industry and the desire to automate the services thus reducing instances of human contact.

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