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LOYALTY PROGRAMS BENEFITS AND CUSTOMER LOYALTY: THE MEDIATING ROLE OF CUSTOMER SATISFACTION

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Abstract

The purpose of this study was to develop an original framework to explore the direct effect of customer loyalty programs benefits on customer loyalty and to discuss the mediating role of customer satisfaction to develop an integral model that enhances customer loyalty. In addition, this research employs an empirical study by means of the questionnaire survey method to verify the hypotheses and to explore their managerial and theoretical implications. Hayes' (2013) PROCESS macro and the four steps mediation process (Mackinnon, 2008) has been applied to verify the research framework. The empirical results showed that loyalty programs benefits and customer satisfaction significantly affect customer loyalty. Furthermore, this study demonstrates that the indirect relationship between loyalty programs benefits and customer loyalty is mediated by customer satisfaction. The indirect path presents partial mediation; hence, the need for hotels to establish other factors that indirectly influence the relationship between loyalty program benefits and customer loyalty as well as they enhance the antecedents of customer satisfaction during the service delivery process to increase customer loyalty. This study summarizes the literature on loyalty program benefits and customer satisfaction into a new managerial

framework of customer loyalty. It utilizes new arrangement of two constructs; loyalty programs benefits and customer satisfaction, to develop an original framework that enhances customer loyalty. Although past research has highlighted the relevant issues about customer loyalty, none explores it within hospitality industry Sub-Saharan context to the best of our knowledge. Therefore, this paper develops the research framework of customer loyalty to fill the research gap specifically in Kenya hospitality industry context.

Keywords: Loyalty program benefits, customer satisfaction, customer loyalty, PROCESS macro

INTRODUCTION

Relationship marketing has become a major marketing concern and increasingly popular with the service industry. The strategy implies implementation of various programs, tactics, and systems that enhances mutual and beneficial relationships with customers (Stawomir, 2014). One of the most common forms involves the implementation of loyalty programs by players in the service industry (Dowling & Uncles, 1997; Baran, Strunk, & Galka, 2008). The design of the loyalty program is of outmost importance as it determines the level of satisfaction the customer experiences (Keh & Lee, 2006). In addition, the design determines whether the benefits experienced by the customers are hard or soft benefits that transcend beyond the monetary aspects (Mulhern & Duffy, 2004).

According to (Zakaria, Rahman, Othman, Yunus, Dizulkipli, & Osman, 2014), loyalty programs are implemented by business organizations to induce customer satisfaction and forestall any defections from customers. This argument is supported by (Hussain, 2016), who impute that due to a competitive business environment and lack of proper mechanisms of establishing dialogue with customers, organizations result to loyalty programs that would create a continuous experience that is accompanied with benefits to the customers. Customer satisfaction has been found to be a key determinant in establishing and maintaining key business environment (Ganiyu, 2017). This similar to results established by (Hussain, 2016) who contend that customer satisfaction is the basis for customer loyalty, and acts as a process of building sustainable customer relationship that culminates to organizations competitive advantage. In this context, the study assesses whether customer satisfaction mediated the relationship between loyalty programs benefits and customer satisfaction: (1) the influence of loyalty programs benefits on customer satisfaction; (2) the effect of customer satisfaction on customer loyalty.

This article is organized in the following sequence; first, the theoretical background of the study is presented. This is followed by empirical analysis of the variable and formulation of the study hypothesis. Research methods and study measures are described followed by empirical discussion of the study results. Lastly, the managerial and researchers implications are presented along with the limitations of the study and directions the future research may take.

LITERATURE REVIEW

Loyalty Programs

Past Studies on loyalty programs have focused on role of loyalty program on behavioral and affective loyalty, customer retention, loyalty membership, switching costs (Soderlund & Colliander, 2015; Meyer-Waarden, 2007; Kandampully, Zhang, & Bilgihan, 2015; Lewis, 2004). This is driven by the organization desire to not spare any effort in ensuring their customers are satisfied and retained (Bahri-Ammari & Bilgihau, 2017) . According to (Wright & Sparks, 1999) loyalty program is defined as a “mechanism for identifying and rewarding loyal customers”, where registered customers are rewarded according to points accumulated. Loyalty programs are best described by their pertinent features of membership, accumulation of points, reinforcements, redemption at owners will and distinct organization offering them (Liu, 2007; Meyer-Waarden, 2007; Uncles, Dowling, & Hammond, 2003).

According to (Keh & Lee, 2006), effectiveness of loyalty programs is measured through attainment of certain level of customer satisfaction threshold. In (Demoulin & Ziddah, 2008) study they established that satisfied customers who were also loyalty program members tended to be more loyal and less sensitive to price. In another study (Soderlund & Colliander, 2015), in a study conducted in the retail industry established that the nature and design of loyalty programs benefits (under or over benefits) had the potential to either reduce satisfaction and repatronization intentions among non-members or lead to dissatisfaction and reduced repetitive purchasing by loyalty program members. This scenario may be experience in the instance where the market is saturated with loyalty programs leading to decreased customer satisfaction as established in the study (Liu & Yang, 2009). Therefore this builds consternation on the effect of loyalty programs benefits on customer satisfaction leading to the development of this study.

Customer Satisfaction

This study takes the view that customer satisfaction is a post-evaluation choice customers make after making purchases (Westbrook & Oliver, 1991; Soderlund & Colliander, 2015). Customer satisfaction may be equated to the final impressions customers arrives at based on the ability to evaluate the preferential treatment accorded, the level of reward (over or under reward) and the

interaction with the service process (Babin & Griffin, 1998; Szymanski & Henard, 2001). This perspective is in line with the definition of (Oliver, 1997; Bridson, Evans, & Hickman, 2008), whereby satisfaction is “the consumers’ fulfillment response”. The above definitions highlight the judgmental nature of customer satisfaction where a customer has to evaluate whether the service, service process, hotels physical evidence meets their predetermined expectations (Bridson, Evans, & Hickman, 2008). Thus, the theoretical perspective that this study adopts is based on the expected disconfirmation paradigm whereby, satisfaction results from an evaluation process (Olsen, Witel, & Gustafsson, 2014).

Another aspect of customer satisfaction is addressed by (Sivadas & Baker-Prewitt, 2000; Omar, Aziz, & Nazri, 2011) who demonstrated that customer satisfaction mediates the relationship between loyalty programs and customer loyalty. Literature reveals further that loyalty programs are antecedents of customer satisfaction (Soderlund & Colliander, 2015; Meyer-Waarden, 2007; Demoulin & Ziddah, 2008) and customer satisfaction is antecedent of customer loyalty (Keh & Lee, 2006; Kandampully, Zhang, & Bilgihan, 2015). This may not be the case as (Oliver, 1999), who contended that customer satisfaction doesn’t always result to customer loyalty under all circumstances. This same argument is put forth by (Egan, 2000; McIlroy & Barnett, 2000; Vesel & Zabkar, 2009) who argue that customer satisfaction is a necessary but not sufficient condition to customer loyalty. Further arguments indicate that customer satisfaction is one of the antecedents of customer loyalty that tends to appeal to customers emotions and cognition (Vesel & Zabkar, 2009) and other factors are required to forestall any customer defections.

Customer Loyalty

According to (Oliver, 1999) customer loyalty is the deeply held customers’ affection and association with the product or organization. In addition to the deeply held association the customer is also supposed to portray these five kinds of behaviors; (1) praise the service provider to others, (2) recommend the service provider to others, (3) encourage friends and relatives to patronize the service provider, (4) prioritize the service provider products over others, and (5) carry out repeat purchases (Chi-Chen, Chang, & Chuang, 2016; Parasuraman, Zeithamal, & Berry, 1994). Such kind of a customer who is willing to practice the above for an organization must be within a mutual valued connection (Morgan & Hunt, 1994).

Academicians and practitioners have explored the various benefits of customer loyalty and its competitive edge in a very hostile business environment (Seto-Pamies, 2012; Saleem, Zahra, Ahmad, & Ismail, 2016). In the studies (Reichheld, 1996; Reichheld & Earl Sasser, 1990; Schlesinger & Heskett, 1991) the authors argue that customer loyalty is able to; increase sales,

foster repeat purchases through continuous patronage, generate new business leads through referrals and reduce costs of operations due to amortization within the long period of relationship. To sustain their business amidst the competitive environment and shore up profits companies have deployed offensive and defensive strategies. Defensive strategies like loyalty programs have become more popular due to their ability in retaining customers and transforming them to loyalty as established by (Seto-Pamies, 2012; Fornell, Johson, Anderson, Cha, & Bryang, 1996). Service marketing industries prefer to apply relationship commitment marketing strategies due to intangibility of products, high acquisition costs, and curiosity for exploring new services and products, and variety seeking behavior of the customers (Hunt, Arnett, & Madhavaram, 2006)

The Current Study

The purpose of this study is to establish whether customer satisfaction would mediate the link between loyalty programs benefits and customer loyalty. The research question forms a mediation model (how does a loyalty program benefit lead to customer loyalty) mechanism that addresses the relationship between loyalty programs benefits, customer satisfaction, and customer loyalty. Fig. 1 illustrates the conceptual model. Based on the literature review the current study proposed the following hypotheses.

Hypothesis 1 (H_1): Loyalty programs benefits would be indirectly related to customer loyalty through customer satisfaction.

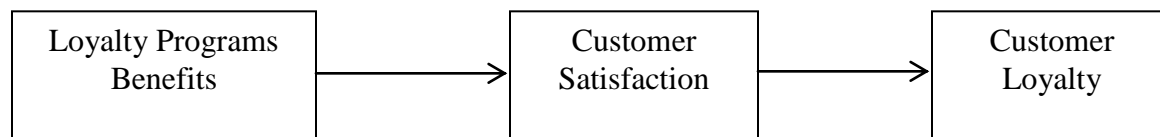


Figure 1. The proposed mediation model

RESEARCH METHOD

Design and Participants

The study adopted a cross-sectional research design. Data for the present study was taken from *Factors Influencing Customer loyalty in the Hospitality Industry* that was designed to examine the influence of relationship marketing factors on customer loyalty. The study was designed to use stratified random sampling in selection of respondents from the different categories of star rated hotels. The sample size was determined through the use of Cochran's sample size determination equation whereby, 384 participants were recruited from the 112 star

rated hotels in Coastal Region of Kenya. The gender distribution was 66.6 percent male and 33.4 percent female. The mean age of the respondents was 30 years (SD = 0.66, range 25-35). Loyalty program members patronizing the star rated hotels completed a survey designed research instrument to collect data regarding, demographic variables, customer loyalty, customer satisfaction, and loyalty programs benefits. The demographics showed that 77 percent of the respondents had been loyalty programs members for less than seven years while 23 percent had been members for more than seven years.

Procedure

The study was first approved by the ethics committee in National Commission for Science, Technology & Innovation- Kenya. Secondly, informed consent was sought from the selected hotels management and the loyalty program members. The research instrument was administered to the participating members by a well versed research assistant on relationship marketing. All participants received instructions and were informed that the research was voluntary and their privacy was guaranteed. To encourage a high response rate the anonymity of the study was emphasized at the beginning and questionnaires administered at the respondents convenience. The research assistant checked for any missing data before accepting the questionnaire for data analysis.

Measures

Loyalty programs Benefits

The benefits enjoyed by members of loyalty programs were measured using the five dimensional measurement scales proposed by (Sweeney & Soutar, 2001). The study also borrowed from prior published questionnaires (Mimouni-Chaabane & Volle, 2010; Bose & Rao, 2011), loyalty programs scales. That is loyalty is operationalized as a multidimensional concept consisting of five dimensions including monetary, exploration, entertainment, recognition and social. The selected items were measured on a five point scale anchored by strongly agree and strongly disagree. For the present study, the measures demonstrated a good reliability ($\alpha = 0.79$).

Customer Satisfaction

Customer satisfaction was measured with 10 items adapted from prior published questionnaires used by (DeWulf, Oderkerken-Schroder, & Iacobucci, 2001; Cronin & Taylor, 1992). Participants were asked to rate their level of agreement with the items on a scale of 1 (strongly disagree) to 5 (strongly agree). For the present study, the measures demonstrated a good reliability ($\alpha = 0.73$).

Customer Loyalty

Customer loyalty was assessed with 12 items adapted from prior published empirical studies, customer loyalty scales and questionnaires used by (Söderlund, 2006; Dick & Basu, 1994; McMullan & Gilmore, 2002). The items representing customer loyalty for the present study demonstrated a good reliability ($\alpha = 0.78$).

Statistical Analyses

The study first established the descriptive statistics for the variables of interest and the control variables; this was followed by correlation analysis. Second, this study followed (Mackinnon, 2008), four step procedure and the PROCESS macro (Model 4) to test the mediation effect.

RESULTS

The purpose of this study was to explore whether customer satisfaction would mediate the relationship between loyalty programs benefits and customer loyalty. This research question was examined in three steps.

Preliminary analyses

The Table 1 presents the descriptive statistics and zero order correlations of the main study variables. There is a positive but not significant association between loyalty program benefits and customer satisfaction $r = 0.100$, $p > 0.05$. The association between loyalty program benefits and customer loyalty was positive and significant as $r = 0.194$ $p < 0.01$ while the association between customer satisfaction and customer loyalty was positive and significant at $r = 0.338$, $p < 0.01$.

Table 1. Descriptive Analysis; Means, SDs, and Correlations of Key Variables

Variable	μ	SD	Cronbach α	3	4
1 Age	30	0.66			
2 Gender	1.33	0.42			
3 Loyalty Programs Benefits	4.34	0.43	0.79	-	
4 Customer Satisfaction	4.44	0.43	0.73	0.100	-
5 Customer Loyalty	4.11	0.55	0.78	0.194**	0.338**

$p < 0.05$, ** $p < 0.01$, Gender was a dummy coded as 1 = Male and 2 = Female

Testing for Mediation Effect

In Hypothesis 1, the present study anticipated that customer satisfaction would have a significant mediating effect on the relationship between loyalty programs and customer loyalty. To test this hypothesis, this study followed (Mackinnon, 2008) four step procedure to establish the mediation effect, which are stated as follows (a) a significant relationship between loyalty

programs and customer loyalty; (b) a significant relationship between loyalty program and customer satisfaction; (c) a significant relationship between customer satisfaction and customer loyalty while controlling for the loyalty programs; and (d) a significant coefficient for the indirect path between loyalty programs and customer loyalty through customer satisfaction. To ascertain whether the fourth condition is satisfied the study makes use of the bias-corrected bootstrap method.

According to (Mackinnon, 2008) in order to test mediation effect, zero order correlations between variables have to be computed. Zero order correlations assess the relationships between two variables while ignoring the influence of other variables in prediction. The multiple regression analysis conducted indicated that, in the first step, loyalty programs was significantly associated with customer loyalty $b = 0.199$, $t = 3.027$, $p < 0.01$ (see Model 1 of Table 4.9). In the second step, loyalty programs was significantly associated with customer satisfaction $b = 0.142$, $t = 2.762$, $p < 0.01$ (see Model 2 of Table 4.9). In the third step when the study controls for loyalty program, customer satisfaction was significantly associated with customer loyalty, $b = 0.428$, $t = 6.505$, $p < 0.01$. The final step, the bias – corrected percentile bootstrap method indicated that the indirect effect of loyalty program on customer loyalty through customer satisfaction was significant, $ab = 0.0607$, $SE = 0.0340$, $95\% \text{ CI} = [0.0019, 0.1357]$. The mediation effect accounted for 30.44 per cent of the total effect. The four criteria's above for establishing mediation effect have been fully satisfied. Therefore, Hypothesis 1 was rejected

Table 2. Testing the mediation effect of Loyalty program on Customer Loyalty

Predictors	Model 1		Model 2		Model 3	
	Customer Loyalty		Customer Satisfaction		Customer Loyalty	
	B	T	B	T	B	T
Loyalty Programs	.199**	3.027	.142**	2.762	.139	2.205
Customer Satisfaction					.428	6.505
Gender of Respondent	.116	1.682	.276**	5.153	-.003	-.037
Age of Patron	-.070	-1.156	.043	.906	-.089	-1.543
Highest Education Level	-.044	-1.677	-.019	-.929	-.036	-1.446
Number of years patronizing the hotel	-.184**	-3.910	.030	.809	-.197	-4.423
Number of years as an LP member	.269**	4.773	.012	.267	.264	4.960
The Category of the Hotel	-.114**	-2.743	-.080*	-2.473	-.080	-2.013
R ²	0.142		.153		.238	
F	8.047**		8.753**		13.190**	
Durbin-Watson	2.364		1.669		2.354	

Note. Each column is a regression model that predicts the criterion at the top of the column.

Gender was dummy coded as 0 = female and 1 = male

* $p < .05$, ** $p < .01$

DISCUSSION

The mediating role of customer satisfaction

Although previous research has shown that customer satisfaction is a crucial mediation mechanism linking loyalty programs, other relationship management constructs (Omar, Aziz, & Nazri, 2011; Demoulin & Ziddah, 2008) and customer loyalty, the present study is the first to document the mediating effect of customer satisfaction in the association between loyalty programs benefits and customer loyalty in the hospitality industry context focusing on the star rated hotels in Sub Saharan Africa. These findings go beyond the previous literature by uncovering the full mediation aspect of the indirect relationship that empirically adds to the studies conducted by (Egan, 2000; Oliver, 1999; Zakaria, Rahman, Othman, Yunus, Dizulkipli, & Osman, 2014). This study tends to contribute towards resolving the conflicting effect of loyalty programs on customer loyalty, where loyalty programs benefits sometimes influence loyalty to the reward rather than to the superiority of the product or relevance of the brand (McMullan & Gilmore, 2002; Capizzi & Furguson, 2005). The results of the study indicate loyalty program membership and the years the customer has patronized a hotel are positively associated with customer satisfaction and customer loyalty. The solution to the conflicting problem lies in the strategy of ensuring that customer satisfaction mediates the relationship between loyalty programs and customer loyalty. The structuring of the loyalty programs and customer experiences are a major contributor towards appealing the emotional aspect of the relationship between the customer and the product superiority (Kaura, 2013)

In addition to the above mediation results, each of the separate stages of the mediation model is important. For the first stage of the mediation process (i.e. loyalty programs benefits customer satisfaction), our findings support the hypothesis that loyalty programs are significantly associated \rightarrow with customer satisfaction. This finding corroborates with the expectancy disconfirmation theory (Oliver, 1997).

PRACTICAL IMPLICATIONS

The present study has practical implications. First, these findings points out that loyalty program benefits are a potential target for intervention among patrons of star rated hotels. Improving the satisfaction levels of loyalty program members may improve their retention and repurchase intentions. The structure of loyalty programs benefits should include both the soft and hard attributes, such that it forestalls defections that may arise due to lack or absence of one of the attributes (Barlow, 1995). Secondly, our findings can help practitioners in understanding the pathway to customer loyalty and the important role played by the mediating role of customer satisfaction. This study confirms a direct relationship between loyalty programs benefits and

customer loyalty, the effect is enhanced or becomes stronger when the customer satisfaction mediates the relationship. Although customer satisfaction exhibits strength of customer loyalty in hospitality industry, it can be weakened by other factors like customer service, service experience, physical evidence and service process (Kaura, 2013). Therefore interventions aimed at appealing to the brand experience or product superiority should be aimed at rather than focusing on the uniqueness of loyalty program benefits and rewards system.

LIMITATIONS AND FUTURE DIRECTIONS

The findings in this study should be interpreted taking into consideration several limitations. The first is the generalizability of the study results to other formats. The study focused on three stars to five star rated hotels, future research should be conducted encompassing one star and two stars hotels, different star ratings, non-rated hotels and other service providing industries to generalize the results of this study to other populations. Secondly, this is a cross-sectional study and thus cannot establish causality, especially the effect of loyalty programs on customer satisfaction which could either be positive or negative. Thus, future research should adopt longitudinal designs to seek more evidence for causal assumptions and to take into consideration the frequency of interaction between the respondent and the loyalty programs benefits together with the service process.

CONCLUSIONS

Despite the limitations of the present study, this study contributes to a better understanding of the mediating mechanism of customer satisfaction in the hospitality industry. Based on our study customer satisfaction only partially mediates the relationship between loyalty programs benefits and customer loyalty, an indicator that there are other factors within the environment that the organization should consider other factors whenever developing strategies for cultivating and maintaining customer loyalty. The present study provides a theoretical and practical approach regarding which factors should be considered in creating and strengthening customer loyalty.

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