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RESEARCH ARTICLE

THE RELATIONSHIP BETWEEN SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY IN SELECTED RESTAURANTS IN DAVAO CITY

Jenner Y. Chan and Jovelyn A. Castro

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Abstract

To sustain a business, one must assess the service quality that it provides to the customers and investigate its impact on both customer satisfaction and customer loyalty. To examine the relationship among these variables, a descriptive correlational design was used. There are 400 respondents who participated in this study. The results showed that the level of service quality experienced by customers is high; the level of customer satisfaction experienced by the customers is high; the level of customer loyalty manifested is also high. Furthermore, 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. The study also found out that customer satisfaction acting as a mediator on the relationship between service quality and customer loyalty in selected restaurants in Davao City is significant and resulted in a partial mediation.

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Introduction:-

The fierce competition in the restaurant industry has made loyalty an essential parameter in keeping customers. It is more profitable to have existing customers than to continuously seek them (Bowen and Chen, 2001). Loyal customers, in effect, contribute to the decrease of the marketing cost and provides more word of mouth that promote restaurants (Zhang, Ye, Law and Li, 2010). Thus, loyalty becomes a significant factor of stability and growth for a restaurant industry.

In Thailand, customers are capable and willing to shoulder more cost for better service, cleaner environment and nicer décor than those in United States according to Murase and Bojanic (2004). According to Newstex, the recent boost in the economic performance of the Philippines has brought an improved growth in full-service restaurants. Although there are some closures of independent players in the industry, restaurant industry still yielded 4% current value growth in 2013. Indeed, the increasing purchasing power and rush schedule of busy people in Metro Manila and key vibrant cities has led to more spending on food products and services like restaurants. In the Businessworld by Hernani De Leon, Davao City offers the cheaper and exceptional services usually from restaurants providing eat all you can treats. In some hotels, buffet meals are cheaper which are offered at P500 or less, compared to buffet meals in Manila.

The study allows the customers to become part in assessing the level of service quality and find out the relationship between service quality and their loyalty, relationship between service quality and their satisfaction, as well as the

mediating effect of their satisfaction on the relationship between service quality and their loyalty in selected restaurants accredited by Department of Tourism and listed in the Restaurant Owners Association of Davao City.

Theoretical Framework

This study is based on the theory made by Albert Caruana (2002) when he concluded that customer satisfaction is denoted as a mediator in the relationship between service quality and customer loyalty. He also mentioned that overall satisfaction does lead to customer loyalty. His views have been significantly based on the statements of Bearden and Teel (1983) who posited that customer satisfaction is basically essential because it is generally assumed to be an important factor in determining repeat sales, positive word of mouth, basically consumer loyalty.

The independent variable in this study is service quality, which is indicated by *reliability, responsiveness, assurance, tangibility and empathy*; mediating variable is customer satisfaction and dependent variable is customer loyalty.

Methodology:-

The design used in this study is descriptive-correlational. By using a survey questionnaire to gather primary data, the study was able to investigate the relationship between service quality and customer loyalty; the relationship between service quality and customer satisfaction; and the mediating effect of customer satisfaction on the relationship between service quality and customer loyalty among customers in selected restaurants in Davao City (Maruya, 2012).

Using 5% level of significance, the estimated sample size is 400. Quota sampling was used to select at least ten customers per restaurant (Changing Minds, n.d.)

The study utilized a three-part questionnaire. The first part questionnaire of service quality taken from Victoriano (2011) was adopted and modified. This part has five items of *tangibility*, five items of *reliability*, five items of *responsiveness*, five items of *assurance* and five items of *empathy*. The second- and third-part questionnaires of customer satisfaction and customer loyalty taken from Lu and Tang, (2001) were adopted and modified. Each item in the questionnaire for service quality, customer satisfaction and customer loyalty are rated on a five-point scale from numeral 1 as strongly disagree to numeral 5 as strongly agree. The higher the scores, the higher the service quality (Wang, Chen, & Chu, 2009; Victoriano, 2011); the higher the scores, the greater the customer satisfaction (Wang, et al. 2009; Victoriano, 2011); and the higher the scores, the higher the customer loyalty (Wang, et al. 2009).

In determining the level of service quality, the means were interpreted using the scale as shown below.

Mean	Descriptive Level	Interpretation
4.50 – 5.00	Very High	Quality is always present.
3.50 – 4.49	High	Quality is present most of the time.
2.50 – 3.49	Moderate	Quality is sometimes present.
1.50 – 2.49	Low	Quality is rarely present.
1.00 – 1.49	Very Low	Quality is not present.

In determining the level of customer satisfaction, the means were interpreted using the scale as shown below.

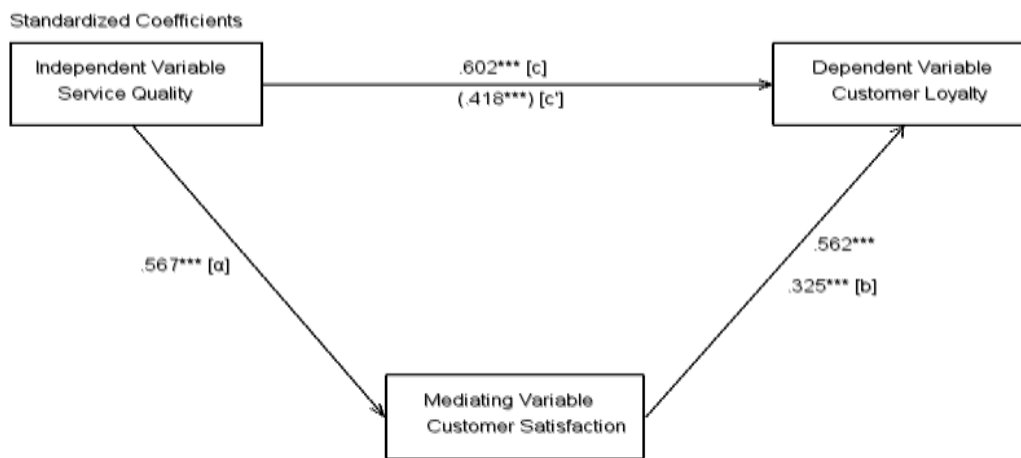
Mean	Descriptive Level	Interpretation
4.50 – 5.00	Very High	Satisfaction is always experienced.
3.50 – 4.49	High	Satisfaction is experienced most of the time.
2.50 – 3.49	Moderate	Satisfaction is moderately experienced
1.50 – 2.49	Low	Satisfaction is rarely experienced.
1.00 – 1.49	Very Low	Satisfaction is not experienced.

In determining the level of customer loyalty, the means were interpreted using the scale as shown below

Mean	Descriptive Level	Interpretation
4.50 – 5.00	Very High	Loyalty is always manifested.
3.50 – 4.49	High	Loyalty is manifested most of the time.
2.50 – 3.49	Moderate	Loyalty is sometimes manifested.
1.50 – 2.49	Low	Loyalty is rarely manifested.
1.00 – 1.49	Very Low	Loyalty is not manifested.

The Regression Techniques provided by Baron and Kenny was 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 validate the mediating effect of customer satisfaction.

Findings and Discussion:-



NOTE: The numerical values in the parentheses are beta weights taken from the second regression and the other values are zero order correlations.

Figure 1:- Medgraph Showing the Variables of the Study.

Shown on Data Entry for Different Paths is the regression analysis on the mediating effect of customer satisfaction and its relationship between service quality and customer loyalty. The data in this table were used as inputs to the MedGraph in Figure 1. There are three steps to be met for a third variable to act as a mediator. The Step 1 (Path C) is the service quality which acts as the independent variable (IV) significantly predicts customer loyalty, the dependent variable (DV). In Step 2 (Path A), service quality (IV) significantly predicts customer satisfaction, the mediator (MV). In step 3, customer satisfaction (MV) which significantly predicts customer loyalty. The combined effect of service quality and customer satisfaction on customer loyalty is significant; this completes the Step 4.

The result of the mediation computation is shown in Figure 1. The association between service quality (IV) and customer loyalty (DV) has been significantly reduced by the inclusion of the mediating variable which is customer satisfaction. It could be seen in the graph that .602 is reduced to .418 in the successive regression. The 95% confidence interval conclusively tells that significant mediation has occurred.

The result also generated a small standard error (se) of .03142 obtained by subtracting the lower limit (.13880) from the upper limit (.26197) and dividing the difference with 3.92 (constant). The small se measures the precision of the estimate of the coefficient. The smaller the standard error, the more precise the estimate becomes.

The effect size (.306) measures how much of the effect of service quality (IV) on customer loyalty (DV) can be attributed to the indirect path (IV to MV to DV). The total effect (.602) is the raw correlation between service

quality (IV) and customer loyalty (DV). The direct effect (.418) is the size of the correlation between service quality (IV) and customer loyalty (DV) with customer satisfaction (MV) included in the regression. The indirect effect is the amount of the original correlation between the IV and the DV that now goes through the mediator to the DV ($A*B$) where “A” corresponds to the path between IV and MV and “B” refers to the path between the MV and the DV. The ratio index is computed by dividing the indirect effect by the total effect, in this case 0.184 by 0.602. It seems that about 30.6% of the total effect of the IV on the DV goes through the MV, and about 69.4% of the total effect is either direct or mediated by other variables not included in the model.

These findings are consistent with the statement of Brown and Gulycz (2001). They adduced that improving customer loyalty can be achieved by either increasing service quality or through customer satisfaction as a partial mediating variable on the relationship between service quality and customer loyalty. In fact, the mediation result is also consistent with the conclusion made by Caruana (2002) that customer satisfaction acts as a mediator in the relationship between service quality and customer loyalty.

Under Baron and Kenny’s Technique

The first regression shows that the independent variable (service quality) affects the mediator (customer satisfaction) at a correlation value of 0.567 and the relationship is significant at p-value equal to 0. In the second regression, the independent variable (service quality) affects the dependent variable (customer loyalty) at a correlation value of 0.602 and the relationship is significant at p-value equal to 0. Moreover, the third regression proves that for the mediation to hold, the mediator (customer satisfaction) affects the dependent variable (customer loyalty) at a correlation value of 0.562 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 0.602 to 0.418, 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 utilized Baron and Kenny’s technique in proving the partial mediation of customer satisfaction on the relationship between service quality and customer loyalty.

Under Sobel Test

The Sobel’s z-value of 6.37721 is greater than 1.96 at 0.05 significance level and yields a p-value less than 0.05 which is 0.000001. There is a significant mediation of customer satisfaction on the relationship between service quality and customer loyalty in selected restaurants in Davao City. Since customer satisfaction acts as a significant mediator, this signifies that increasing customer loyalty can be achieved by passing through customer satisfaction, apart from using the path from service quality going to customer loyalty. This result is reinforced by Bei and Chiao (2001) which they posited that service quality has only indirect effect on customer loyalty through customer satisfaction.

Conclusions:-

1. The level of service quality experienced by customers is high. Responsiveness has a lowest score among the five service quality indicators. Service quality is present most of the time in selected restaurants in Davao City.
2. The level of customer satisfaction experienced by customers is high. Customer satisfaction is experienced most of the time in selected restaurants in Davao City.
3. The level of customer loyalty is high. Customer loyalty is manifested most of the time in selected restaurants in Davao City.
4. Therelationship between service quality and customer loyalty in selected restaurants in Davao City is significant. It shows that high service quality is associated with high customer loyalty.
5. Therelationship between service quality and customer satisfaction in selected restaurants in Davao City is significant. It shows that high service quality is associated with high customer satisfaction.
6. The mediating effect of customer satisfaction on the relationship between service quality and customer loyalty is significant. There is partial mediation of customer satisfaction after the customer satisfaction as a mediator was considered between service quality and customer loyalty. For the customers to be loyal, they may either experience quality service or experience both quality service and satisfaction in the restaurant.

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