Antecedents of Customer satisfaction and its outcomes

A study of Pakistani service sector

Imran Saeed
(Lecturer KPK Agricultural university (IBMS))

Muhammad Abdullaah Niazi
(Lecturer KPK Agricultural university (IBMS))

Muhammad Arif
(Lecturer KPK Agricultural university (IBMS))

Noor Jehan
(Lecturer KPK Agricultural university (IBMS))

Abstract

This paper aims to examine these proposed linkages by using data from service sector i.e. from hotel industry. The data used in the analysis is collected from twin cities of Pakistan i.e. Islamabad and Rawalpindi from three big hotels i.e. Holiday Inn, Pearl continental and Serena hotel. A total of 115 sample size is selected for this study. Results indicated that in relationship between antecedents and customer satisfaction. Three antecedents (price, quality and image of service) significantly relates to customer satisfaction.

Keywords: Prices Of Services, Quality Of Services, Hotel Image And Customer Satisfaction.

Introduction:

All the business and marketing activities revolve around the customer satisfaction. Marketing research has focused deeply on customer satisfaction and recommended it as a core idea for success of a business. Many antecedents of customer satisfaction have been described in literature. Price of service, quality of service and brand image are the main antecedents of customer satisfaction. So in this study I will try to explore the theoretical base for these three antecedents. If customer is satisfied he or she will purchase the service repeatedly to become a loyal customer. Also loyal customers are more likely to generate word of mouth for the service. The hotel industry today has been recognized as global industry, with producers and consumers spread around the world. The use of hotel facilities such as: room, restaurant, bar, nightclub or health club is no longer considered as luxury. For many people these services have become an integral component of lifestyle. Hotel that attempt to improve their market share by discounting price, however run the serious risk of having a negative impact on the hotel’s medium- and long-term profitability. As a result, it is quality of services and price that has become the key to a hotel’s ability to differentiate itself from its competitors and to gain customer loyalty that leads to customer satisfaction. Hospitality managers believe that firms can improve their profits by satisfying customers.

Literature Review

Customer satisfaction: The entire marketing paradigm is revolving round customer satisfaction. Researchers of business and marketing has focused much more on the importance of customer satisfaction and also recommended marketers to avoid from customer dissatisfaction-due to its disastrous impact on business more
then 15000, research contributions have been published on customer satisfaction and dissatisfaction (Peterson & Wils, 1992). Marketing scholars has focused on reviewing this concept deeply (Hunnt, 1997, Oh Parks 1997). The Overall satisfaction or dissatisfaction with the organization based on all encounters and experiences with that particular organization (Bitner and Hubbert, 1993).

From the literature of the service marketing it is clear that customer satisfaction is the result of a customer’s perception of the value received in transaction or relationship where value equal to perceived service quality relative to price and customer acquisition cost (Blanchard and Galloway, 1994; Heskett et al, 1990).

From the business perspective where the underlying products have become commodity like, the quality of services heavily depend on the quality of its personnel. Approximately 40 percent of customers switch off banks because of the poor services which they considered, further that nearly three-quarters of the banking customers as a prime consideration in choosing different banks. So an increasing use of service quality or sales and professional behaviors e.g. formal greetings which improved customer satisfaction and reduced customer attrition (Leeds (1992).)

According to Reichheld (1996) “unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere”.

**Price of services and customer satisfaction:**

A price acceptance represents a direct attempt to establish the potential buyers’ willingness to purchase as a function of various prices (Monroe, 1990). The level of acceptance can thus be defined as the maximum price which a buyer is ready to pay for the product. Consumer price acceptance can be represented by means of the individual utility profiles (Kohli and Mahajan, 1991).

Customer satisfaction determines the willingness of a customer to pay for product & services. Higher the satisfaction level of a customer satisfaction higher will be the willingness to pay more prices (Bansal and Taylor, (1999). Customer purchases the services or product to satisfy his/her need, or to solve the problem. Focusing on need is the center point for company marketing strategies. Success or failure of the company based on the solution of customer problem or fulfillment of customer, satisfaction of unfulfilled need is very important. The significance of the satisfaction rating is that of customer satisfaction measures are the important indicators of future profits” (Hauser et al, 1994)

**Quality of services and customer satisfaction:**

Customer perception about product/service is based on quality of service or product. (Zeithaml, 1988).

According to Parasuraman et al (1985,) “the most common definition is the traditional notion that views quality as the customer’s perception of services excellence, i.e. quality is the customer’s impression of the services provided”.

The assumption behind this definition is that the customers form a perception of service quality according to the service performance they experienced. It is therefore the customer’s perception that rates the service quality of an entity (Anderson and Sullivan, 1993.

There are five dimensions of services qualities viz. reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman et al, 1998). According to (Spreng and Mackoy, 1996, p.175) that “service quality and customer satisfaction are the two core concepts at the crux of the marketing theory and practice”.

Service quality has been described as a form of attitude a long runs overall evaluation, and the two constructs (service quality and attitude) are viewed as similar (Zeithaml, 1988; Bitner and Hubert, 1994)
According to the previous research, service quality and satisfaction are distinct constructs (Bitner, 1990). Yi (1990) mentioned that “customer’s satisfaction is influenced by two factors experience and expectations with service performance”. Crosby et al (1990) “demonstrated that customer’s past satisfaction affects their decision to have a continuing relationship with the service provider”. Similarly Fornel (1992) found that a satisfied customer tends to maintain their consumption pattern and will consume similar products or services. Thus customer satisfaction has become an important indicator of quality and future revenue (Andreassen, 1994).

Hotel image and customer satisfaction:

Hotel that attempt to improve their market share by discounting price, however run the serious risk of having a negative impact on the hotel’s medium- and long-term profitability (Olson, 1987). An organization’s image is an important variable that positively or negatively influences Marketing activities. Image is considered to have the ability to influence customer’s perception of the goods and services offered (Zeithaml and Bitner, 1996). Thus image will have an impact on customers’ buying behavior. The literature of services marketing mentions a number of factors that reflect image in The customer mind. Image is considered to influence customer’s minds through the combined effects of advertising, public relations, physical image, word-of-mouth and Their actual experiences with the goods and services (Normann, 1991). The literature of the service industry found that quality was the single most important Determinant of image. Thus, a customer’s experience with the products and services is Considered to be the most important factors that influences his/her mind with regard to Image (Aaker, 1991). Hotel image is the important factor, and to maintain relatively high score rating among loyal customers (Heung et al, 1996). Image is positively associated with customer satisfaction and customer preference (dimension of customer loyalty) in luxury hotel. This indicates that a desirable image leads to customer satisfaction and customer preference, while an undesirable image may lead to dissatisfaction (Mazanec, 1995). The hotel or brand image and customer satisfaction have close relationship with each other. Satisfaction reinforces positive attitudes toward the brand, leading to a greater likelihood that the same brand will be purchased again ... dissatisfaction leads to negative brand attitudes and lessens the likelihood of buying the same brand again (Assael, 1987). If consumers are satisfied with a product or brand, they will be more likely to continue to purchase and use it and to tell others of their favorable experience with it and they will be more satisfied with the brand on the other hand .. if they are dissatisfied, they will be more likely to switch off brands and complain to manufacturers, retailers, and other consumers about the product (Peter and Olson, 1987). The image of an organization is an important variable that positively or negatively influences marketing activities and the image is considered to have the ability to influence customer’s perception of the goods and services offered (Zeithaml and Bitner, 1996). From the service literature it identifies that a number of factors that reflects image in the customer’s mind. So image is considered to influence customer’s minds through the combined effects of advertising, public relations, physical image, word-of-mouth, and their actual experiences with the goods and services (Normann, 1991). Building strong brands is one of the most important goals of product and brand management. Strong brands result in higher revenue streams, both short term and long term (Aaker, 1991; Kapferer, 2004; Keller, 2003). Therefore, the stated goal of strategic brand management is to build brands that last for decades and can be leveraged in different product categories and markets (Aaker, 1996). Earlier models – such as Aaker’s brand equity model and Keller’s customer-based brand equity model – have focused heavily on how consumer perceive and
evaluate brands by investigating certain knowledge structures such as brand awareness, image and personality (Aaker, 1997; Keller, 1993). Establishing a high level of brand awareness and positive brand image in memory produces the knowledge structures that can affect the customer response and produce customer based brand equity (Keller, 1998). Service brand image is the customer’s “mental picture of the brand created in response to brand related stimuli” (Padgett and Allen, 1997). According to Berry (2000), “the primary source of brand meaning for customers who have actually experienced a service is the experience itself”. So the literature shows that brand image has a great effect on customer satisfaction.

Outcomes of customer satisfaction:
The outcomes of the customer satisfaction mentioned in search are loyalty, retention and word of mouth.

Loyalty:
The customer loyalty is a concept that has enjoyed wide currency and usage within the field of consumer behaviors for many years. Dick and Basu (1994) viewed “customer loyalty as the strength of the relationship between an individual’s relative attitude towards an entity (brand, service, store, or vendor) and repeat patronage”. Customer loyalty can be defined from the literature of marketing in two distinct ways (Jacoby and Kyner, 1973). The first define loyalty as an attitude, different feelings are created form the individual’s overall attachment to a product, service, or organization (Fornier, 1994). The second definition of loyalty is behavioral, examples of behavioral loyalty includes continuing to purchase services from the same supplier, increasing the scope of relationship or increasing the scale, or the act of recommendation (Yi, 1990). Although several factors have been reported as relevant for gaining customer’s loyalty, nonetheless, customer satisfaction is highly recognized for its fundamental role (Jamal and Naser, 2002).

Loyal customer is a customer who repurchases from the same services provider whenever possible, and who continues to recommend or maintains a positive attitude towards the service provider (Anderson, 1990).

Commitment to customers and service quality enhance satisfaction, which leads to close and successful relationships (Buttle, 1996). According to (Berry, 1995; Vavra, 1995), if “we admit that it is more profitable holding on to existing customers then winning new customers the firm will try to achieve the satisfaction of their existing customers providing them incentives such as discounts, free products or fidelity cards. So these loyalty programs are structured marketing efforts, which reward and therefore encourage, loyal behavior. The loyalty programs customers should show changes in repeat purchase loyalty which is not evident amongst non-program members (Sharp and Sharp, 1997). The impact of satisfaction on customer’s loyalty is rather complex. Fisher (2001) believes that customer satisfaction accounts for only part of why people change product or service providers. Other studies have shown that customer satisfaction is a leading factor in determining loyalty (Anderson and Fornell, 1994; Rust and Zahorik, 1993). According to Jones and Sasser (1995) “an increase in customer satisfaction produces a stronger effect on loyalty among customers who are at the high end of satisfaction scale and customer satisfaction on loyalty are different depending on the level of satisfaction. Many studies have found that there is significant relationship between customer satisfaction and loyalty. Hence, the primary objective of service providers and Marketers is to develop and provide services that satisfy customer needs and expectations (Berry, 1995).

RetentionPolicy:
The second outcome of the customer satisfaction is retention, which can be defined as; the customer retention is the future propensity of a customer to stay with the service provider.
There are two types of retention i.e. direct retention and indirect retention. The direct retention is based on the customer benefit effect and the indirect retention is based on the consequence of the knowledge effect (Reichheld and Sasser, 1990). Previous studies have identified the benefits that customer retention delivers to an organization (Colgate et al., 1996; Reichheld and Sasser, 1990; Storbacka et al., 1994). The literatures have found that the costs of customer retention activities are less than the cost of acquiring new customers. Here we take example that financial implications of attracting new customers may be five as costly as keeping existing customers (Rust and Zahorik, 1993). Customer satisfaction and retention are critical for retail banks because they have an impact on profit (Levesque and McDougall, 1996).

Regarding customer retention, proven concept of operationlization that was applied it includes the emotional-cognitive retention constructs (Liking, identification, commitment, trust) as well as behavioral intentions (willingness to recommend and repurchase intention) (Diller, 1997). A considerable body of research has tested the main effect of satisfaction on retention (Anderson and Sullivan, 1993; Rucci et al, 1998; Bansal and Taylor, 1999; Cronin et al, 2000). Previous research has generally found a significant positive effect of satisfaction. So satisfaction is the strongest driver of customer retention.

Word-Of-Mouth:
And the third outcome is word of mouth which is defined as informal communication directed to other consumers about the ownership, usage or characteristics of particular goods and services and their sellers (Westbrook, 1987). Another definition of word of mouth is the extent to which a customer informs friends, relatives and colleagues about an event that has created a certain level of satisfaction. Research shows that the impact of word of mouth is particularly important in services (Gremler, 1994; Heskett et al, 1997), where consumers are more likely to be dependent on the communication of others.

Positive word of mouth has offered different types of advantages. Word of mouth is nine times as effective as traditional advertising in converting unfavorable or neutral predispositions into positive attribute which early studies have suggested (Day, 1971). Word of mouth can be very influential in any purchase decision, particularly it is important in service sector because services are intangible and very difficult from before purchasing and also they have no guarantee and nor standardized and these are associated with higher risk than goods (Mangold et al, 1999; Murray, 1991; Zeithaml, 1981).

Word of mouth is generally agreed to be the informal communication between private parties in which products and services are evaluated. This definition has been accepted for the present study purposes so word of mouth excludes formal communication between customers and an organization (e.g., complaints) or between an organizations and customers (e.g., promotions, seminars) (Anderson, 1998). Typically word of mouth can be extremely positive or negative; relate to vivid, novel or memorable experiences; may or may not include an active recommendation; and in the case of negative word of mouth, includes complaining behavior, rumor and product denigration. Thus it can be suggested that researcher has not fully explored the richness and depth of the word of mouth concept (Walker, 1995). Further word of mouth in terms of the level of praise and word of mouth activity about a specific organization over time. However the word of mouth can be given one person one time, one person several times, to several different people once or several times by a single customer. The basic unit of word of mouth is, therefore, a specific incident in which word of mouth is given (Harrison-Walker, 2001). Consumer’s personal abilities also influence word of mouth i-e self-confident people, are socially integrated, have high levels of product involvement, want to reduce their dissonance may offer more word of
mouth (Dichter, 1966; Engel et al., 1969; Lampert and Rosenberg, 1975). Successful outcomes for the service organization, such as customer satisfaction, and positive word-of-mouth can be significantly influenced by the personal interaction of service employees and customers (Hennig et al., 2002).

Research limitations/implications
Major problem to this study is that it includes a small number of sample size. It may not be generalizes in other context. A simplistic focus on improving customer satisfaction in order to improve customer retention, customer loyalty, and word-of-mouth. Thus customer satisfaction leads to all these outcomes. The study has a significance importance as it is conducted on service industry in Pakistan. The study provides further information of this field as previously limited research has been conducted on quality of service, price of services and image of services in relation with customer satisfaction.

Hypothesis Theoretical Framework
Hypothesis:
H1: Price of service is positively related to customer satisfaction.
H2: Quality of service is positively related to customer satisfaction.
H3: Hotel image is positively related to customer satisfaction.

Methodology:
The study is based on data taken from three hotels in twin city Islamabad and Rawalpindi. Data on service quality, price of services, hotel image and customer satisfaction were collected from Holiday Inn, Pearl Continental and Serena hotel located in Islamabad and Rawalpindi. In this research almost 115 customers from these two hotels of different locations have been analyzed to find out how their perceptions and expectations affected by the quality of service provided in these two hotels.

Procedure:
Overall fully completed self-administrated questionnaires were obtained. Questionnaires were left in the room at the table in order to increase its visibility. The guest fill the questionnaire anonymously, put it into envelope and left it in room or return it to reception. Customer was requested to ensure secrecy of the data.
Instrument:
The model contained of four section and for every section a very important likert scale is used i.e. 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree and 5 = strongly agree.

The first section (04 items) asks for information about the customer’s background (gender, age, Occupation and Number of Visit per Month in Hotel). The second section (9 items) contains the service quality scales. Service quality means being able to provide services from the customer’s point of view and then meeting the customer expectation for service. The Cronbach's Alpha of quality of service and customer satisfaction is 0.742. To measure hotel service quality attributes we referred to the items from the well-known SERVQUAL instrument developed by Parasuraman et al. (1985) and widely used in subsequent studies across different countries. The third section (02 items) measures Hotel image. Hotel image was operationalized by using the dimension of image attributes and image holistic developed by (Kandampully & Suhartanto, 2000). The Cronbach's Alpha of hotel image and customer satisfaction is 0.769. The fourth section (04 items) measures price of services. To measure price of services attribute we referred to the items from the instrument developed by Zeithaml et al (1996). Price of service means their customers don’t switch to any other if they don’t provide a good services with valid prices or reasonable prices according to their customer needs. The Cronbach's Alpha of price of service and customer satisfaction is 0.716 which shows significant result. The fifth section (04 items) measures customer satisfaction. To measure satisfaction, customers were asked to state their overall satisfaction with the hotel, their overall satisfaction with the employees’ service and the quality of services and price of services offered by the hotel. The Cronbach's Alpha of customer satisfaction is 0.782 which also shows significant result.

Results And Discussion:
Correlations:
Table 1

<table>
<thead>
<tr>
<th></th>
<th>quality of service</th>
<th>hotel image</th>
<th>services of price</th>
<th>customer satisfaction</th>
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<tbody>
<tr>
<td>quality of service</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.174</td>
<td>.110</td>
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<tr>
<td></td>
<td>Sig. (2-tailed)</td>
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<td>N</td>
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<td>115</td>
<td>115</td>
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<tr>
<td>hotel image</td>
<td>Pearson Correlation</td>
<td>.174</td>
<td>1</td>
<td>.047</td>
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<td>Sig. (2-tailed)</td>
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<td>.617</td>
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<td>services of price</td>
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<td>Sig. (2-tailed)</td>
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<td>.617</td>
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<tr>
<td></td>
<td>N</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>customer satisfaction</td>
<td>Pearson Correlation</td>
<td>.293**</td>
<td>.235*</td>
<td>.322**</td>
</tr>
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</table>
Regression analysis:

**Coefficients** Table 2

<table>
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<tr>
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<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
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<tr>
<td>1</td>
<td>(Constant)</td>
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<td></td>
<td>1.954</td>
<td>.330</td>
<td>5.917</td>
<td>.000</td>
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<td></td>
<td>.382</td>
<td>.117</td>
<td>.293</td>
<td>3.253</td>
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<tr>
<td></td>
<td>quality of service</td>
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</tr>
</tbody>
</table>

A. Dependent Variable: customer satisfaction

The result of regression analysis from the above table 2 shows the significant positive impact of quality of service on the customer satisfaction because the T value is greater than 2. The value of regression coefficient (B=.382) reveals that the value of customer satisfaction variable will increase by (.382) with every one unit increase in the value of the customer satisfaction variable.

**Reliability Statistics** Table 3

<table>
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<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
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<td>.742</td>
<td>9</td>
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The table 3 shows that Cronbach’s Alpha of quality of service is (.742) which is greater than .7 so it shows a positive result.

**Coefficients** Table 4

<table>
<thead>
<tr>
<th>Model</th>
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<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
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<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
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<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
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<td></td>
<td>2.272</td>
<td>.293</td>
<td>7.750</td>
<td>.000</td>
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<td></td>
<td>hotel image</td>
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<tr>
<td></td>
<td>.205</td>
<td>.080</td>
<td>.235</td>
<td>2.570</td>
</tr>
</tbody>
</table>

A. Dependent Variable: customer satisfaction

The result of regression analysis from the above table 4 shows the significant positive impact of hotel image on the customer satisfaction because the T value is greater than 2. The value of regression coefficient (B=.204)
reveals that the value of customer satisfaction variable will increase by (.205) every one unit increase in the value of the customer satisfaction variable.

Table 5 Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.769</td>
<td>2</td>
</tr>
</tbody>
</table>

The above table 5 shows that Cronbach's Alpha of hotel image and customer satisfaction is (.769) which shows a significant result.

Table 6 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.115</td>
</tr>
<tr>
<td></td>
<td>services of price</td>
<td>.332</td>
</tr>
</tbody>
</table>

a. Dependent Variable: customer satisfaction

The result of regression analysis from the above table 6 shows the significant positive impacts of services of price on the customer satisfaction because the T value is greater than 2. the value of regression coefficient (B= .322) reveals that the value of customer satisfaction variable will increase by (.322) with every one unit increase in the value of the customer satisfaction variable.

Table 7

<table>
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<tr>
<th>Reliability Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>.716</td>
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</tbody>
</table>

The above table 7 Cronbach's Alpha of price of service and customer satisfaction is (.716) which shows significant relationship.

Table 8

<table>
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<tbody>
<tr>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>.782</td>
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</tbody>
</table>
The above table 8 shows that Cronbach's Alpha of customer satisfaction is (.782) which is greater than (.7) so it shows that result is significant.

**Conclusion:**

The finding of this study shows that all the predictor variables are positively associated with customer satisfaction. The nature of these relationships has been discussed with reference to table 1 to 8. The finding of this study reveals that quality of services is positively related to customer satisfaction. Therefore it is concluded that higher the level of quality of services the higher will be the customer satisfaction. Therefore it is important to note that quality of services continue to have an impact on customer satisfaction.

Another finding confirms the almost obvious statement that price of services is positively related with customer satisfaction, the better the relationship between prices of services; the higher will be the customer satisfaction which ultimately leads to better performance. The third predictor variable which is hotel image positively related to customer satisfaction. It means that hotel image has greater influence on customer satisfaction.
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