# THE EFFECT OF SERVICE QUALITY, BRAND IMAGE AND CUSTOMER SATISFACTION ON CUSTOMER LOYALTY: EVIDENCE FROM HOTEL INDUSTRY

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# ABSTRACT

Hospitality industry is trying to provide, good quality services to the customers, create strong and effective image and are focussed on satisfying customers to maintain and retain the exiting customers and to attract new customers. This research paper evaluates the impact of service quality on brand image, customer satisfaction and customer loyalty; the impact of brand image on customer satisfaction and customer loyalty and lastly, impact of customer satisfaction on customer loyalty. The study was conducted on customers staying in the hotels. Sample size was 173 respondents. Non probability purposive sampling technique was used to collect the data. Structural equation modelling was used to test the conceptual model. As per the results, there is a significant impact of service quality on brand image, customer loyalty and also of brand image on customer satisfaction and customer loyalty and also of brand image on customer satisfaction and customer loyalty and also of customer satisfaction on customer loyalty.

Key words: Service Quality, Brand Image, Customer Satisfaction and Customer Loyalty

## **INTRODUCTION**

In an increasingly competitive environment, a large number of organizations i.e. companies, institutions, hospitals, hotels, stores, etc. pay attention to creating and maintaining customers' loyalty. Many scholars have suggested that customer

loyalty is the most important concept of marketing science (Virvilaite, Piligrimiene and Kliukaite, 2015 and Jasinskas, et. al. 2016).

The hotel industry is the fastest growing and developing industry so it is needed to maintain and retain the exiting customers and also to look for the new customers. It is needed for hotel's success. Therefore, every owner and executives of the hotel must understand the influential factors.

Service Quality, consistency and flexibility of services offered by the hotels has become the basis to differentiate them from other hotels. Lu et.al. (2015) tried to find out whether there is any disparity between services offered by hotels and the way customers actually experience them.

Establishing a strong brand image is important to ensure the overall organizational success (Lahap, et. al., 2016) in terms of enhancement of financial performance, market value of property and other essential indicators such as occupancy, pricing, revenue and return on hotels' investment (Qawasmeh, 2016). Brand image is necessary to promote the competitiveness of hotels (Hsieh, Pan and Setiono, 2004) and therefore, an effective brand image will facilitate the hotel to have a strong market position.

Providing qualitative services, those customers desire, is an initiating point for satisfying the customers. Service providers' job in the hotel industry is to keep customer happy and satisfied, therefore, customer satisfaction is largely dependent upon quality of services provided in the hotel industry (Dominici and Rosa, 2010).

# LITERATURE REVIEW

The service quality causes, directly, the brand image (Malik, Naeem and Nasir, 2011). There is a direct and positive relationship between the service quality and the brand image (Malik, Naeem and Nasir, 2011 and Paul, Yeh and Hsiao, 2011). Saleem and Raja (2014) stated that service quality is significantly related to brand image. Service quality plays a significant role in building corporate image (Kuo and Tang, 2013).

The current study is aimed at evaluating the causal relationship between Service Quality as independent variable and Brand Image as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

# H<sub>ot</sub>: Service Quality significantly affects Brand Image

Service quality is said to be a determinant of customer satisfaction (Wilson et al., 2008) and an antecedent to customer satisfaction (Oliver, 1993). There exists a

strong relationship between service quality and customer satisfaction (Sureshchanndra, Rajendran and Anantharaman, 2003). The studies of Wang and Shieh (2006); Zafar et al. (2012); Harileela (2013); Kuo and Tang (2013) and Setiawan and Sayuti (2017) demonstrate that there is a positive and significant relationship between service quality and customer satisfaction. There is a significant relationship between service quality and customer satisfaction (Chao, Wu and Yen, 2015). Thus, high service quality can result in achieve high customer satisfaction (Hu, Kandampully and Juwaheer, 2009). However, a study of Ali et al. (2015) revealed that there is negative and insignificant relationship between these two variables.

The current study is aimed at evaluating the causal relationship between Service Quality as independent variable and Customer Satisfaction as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

# H<sub>02</sub>: Service Quality significantly affects Customer Satisfaction

Creating good brand image would increase the customers' satisfaction (Morgan, 2000). Many scholars have found that the brand image has a positive effect on customer satisfaction (Romaniuk and Sharp, 2003; Chien-Hsiung, 2011; Neupane, 2015). There is a significant impact of brand image on customer satisfaction (Dunuwille and Pathmini, 2016). Thus, brand image influences customer satisfaction (Lahap, et. al., 2016). There is a significant impact of corporate brand image on customer satisfaction (Tu, Wang and Chang, 2012 and Tu, Li and Chih, 2013). The corporate image influences customer satisfaction (Kuo and Tang, 2013; Ali et al., 2015 and Setiawan and Sayuti, 2017). However, Chung, et al. (2015), found insignificant relationship between the two variables.

The current study is aimed at evaluating the causal relationship between Brand Image as independent variable and Customer Satisfaction as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

### H<sub>03</sub>: Brand Image significantly affects Customer Satisfaction

Service Quality is most important competitive strategy to maintain the customer sustainability and making great impact to influence customers' intention. The service quality is significantly related to customer loyalty (Ramzi and Mohamed, 2010). Service quality is positively and significantly influence the customer loyalty (Auka, Bosire, and Matern, 2013; Karunanithy and Rasanayagam, 2013 and Setiawan and Sayuti, 2017). Minh and Huu, 2016) indicated that service quality is an important antecedents of customer loyalty. The findings of Kheng, et al. (2010)

indicates that improvement in service quality can enhance customer loyalty. However, Aydin, and Özer, (2005) demonstrated that service quality is essential but not adequate condition for customer loyalty.

The current study is aimed at evaluating the causal relationship between Service Quality as independent variable and Customer Loyalty as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

### H<sub>04</sub>: Service Quality significantly affects Customer Loyalty

The customer satisfaction is the starting point for customer loyalty (Munari, Ielasi and Bajetta, 2013) whereas Minh and Huu (2016) indicated that customer satisfaction is an essential antecedent of customer loyalty. Strong impact of customer satisfaction on customer loyalty was found by Tu, Wang and Chang (2012) and significant impact of customer satisfaction on customer loyalty was found by Tu, Li and Chih (2013); Chao, Wu and Yen (2015) and Chung, et al. (2015). The customer satisfaction is positively related with customer loyalty (Kandampully and Suhartanto, 2000 and Andreani, Taniaji and Puspitasari, 2012). The customer satisfaction have positive and significant impact on customer loyalty (Zafar, et al., 2012; Ariff, et al., 2013; Harileela, 2013; Karunanithy and Rasanayagam, 2013; Yuktanandana and Prasertsakul, 2015 and Setiawan and Sayuti, 2017). However, Bowen and Chen (2001) found the non linear relationship between customer satisfaction and customer loyalty.

The current study is aimed at evaluating the causal relationship between Customer Satisfaction as independent variable and Customer Loyalty as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

### H<sub>05</sub>: Customer Satisfaction significantly affects Customer Loyalty

The image is positively related with customer loyalty (Kandampully and Suhartanto, 2000). There is a strong positive relationship between brand image and loyalty intention (Upamannyu and Sankpal, 2014). There is a significant impact of corporate brand image on customer loyalty (Tu, Wang and Chang, 2012 and Tu, Li and Chih, 2013). There is a significant impact of brand image on customer loyalty (Chao, Wu and Yen, 2015) and Chung, et al. (2015). Vazquez-Carrasco and Foxall (2006) and Da Silva and Syed Alwi (2006) and Sondoh et al. (2007) and Hung (2008) and Wu, Yeh and Hsiao (2011) found that the brand image has a positive impact on customer loyalty. Karunanithy and Rasanayagam (2013) found that brand image has positive and significant effect on customer loyalty.

The current study is aimed at evaluating the causal relationship between Brand Image as independent variable and Customer Loyalty as dependent variables through Structural Modelling approach. Following hypothesis will evaluate the causal relationship:

H<sub>06</sub>: Brand Image significantly affects Customer Loyalty

## **RESEARCH METHODOLOGY**

The study was causal in nature with survey method being used for data collection data was collected from customers staying in the hotels. A sample size of 250 respondents was finalized using non probability purposive sampling technique. Individual respondents were the sample element. Standardized questionnaire on all the variables of the study i.e. service quality, brand image, customer satisfaction and customer loyalty was randomly distributed to 220 hotels' customers/guests by researcher personally. A total of 197 responses were returned, and due to inappropriate data 24 questionnaires with missing information were removed, finally leading to 173 usable responses were used for further data analysis. Data was collected using Likert type scale of 1 to 7 where 1 indicated minimum agreement and 7 indicated maximum agreement. Tests such as reliability and factor analysis were applied to check the reliability and internal consistency of the data. Structural equation modelling was applied to test the model having service quality as independent variable and brand image, customer satisfaction and customer loyalty as dependent variables.

#### **RESULTS AND DISCUSSION**

#### RELIABILITY

Reliability test was carried out by using SPSS software and the reliability test measures are given below:

S. No.	Variables	Cronbachs Alpha	No. of Items
1.	Service Quality	0.979	15
2.	Brand Image	0.925	12
3.	Customer Satisfaction	0.922	10
4.	Customer Loyalty	0.911	7

If the computed reliability of a measure is greater than 0.5 the measure is considered reliable. The Cronbach's alpha coefficient reliability of service quality, brand image, customer satisfaction and customer loyalty measures as indicated in the table above were 0.979, 0.925, 0.922 and 0.911 which were all higher than 0.7 hence the measures used were highly reliable.

### **Factor Analysis**

Kaiser Meyer Olkin measure of Sampling Adequacy and Bartlett's Test of Sphericity: KMO and Bartlett's test of sphericity was calculated using PASW 18 to identify sampling adequacy as well as sphericity in the data collected on all the measures. Further principle component factor analysis with Varimax rotation was applied to identify underlying factors of the questionnaire.

S. No.	Variables	KMO Test of	Bartletts Test of Sphericity		Variance	Factors
		Adequacy	Chi Square Value	-	Explained	Generated
1.	Service Quality	.976	3120.666	.000	77.780	1
2.	Brand Image	.927	1172.745	.000	55.195	1
3.	Customer Satisfaction	.929	994.378	.000	58.879	1
4.	Customer Loyalty	.914	696.322	.000	65.278	1

**Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy:** The Kaiser - Meyer - Olkin Measure of Sampling Adequacy value for the service quality, brand image, customer satisfaction and customer loyalty measures were higher than 0.5 indicating that the sample size was adequate to consider the data suitable for factor analysis and was normally distribute.

**Bartlett's test of Sphericity:** Bartlett's test of sphericity is a test statistic used to examine the hypothesis that the variables are uncorrelated in the population. In other words, the item to item correlation matrix is an identity matrix; each variable correlates perfectly with itself (r = 1) but has no correlation with the other variables (r = 0). The Bartlett's Test of Sphericity was tested through Chi-Square value for service quality, brand image, customer satisfaction and customer loyalty was significant at 0% level of significance. Therefore, the above hypothesis is rejected, indicating that the item to item correction matrix is not an identity matrix and hence the data collected through all the above mentioned measures was suitable for factor analysis.

#### **Exploratory Factor Analysis**

Principal component Factor analysis with Varimax Rotation was applied to find out the underlying factors of the questionnaire. Factor Analysis converged on only one factor for all the variables i.e. service quality, brand image, customer satisfaction and customer loyalty. The variance explained by all the factors was higher than 50% and the Eigen values were higher than 1 or very close to 1 therefore the data was having strong internal validity.

## **Structural Equation Modelling**

Structural Equation Modelling was applied between service quality, brand image and customer satisfaction as independent variables and customer loyalty as

dependent variable. Initially model fit was checked using different measures and the results as indicated in the table below proved that the model was having good fit as the chi square value was 502.687 significant at 0.280,  $\chi^2$ /df was between 1 to 2 as well as the fit indices such as CFI, IFI and TLI were higher than 0.95 and RMSEA was less than 0.05 and the badness of fit index such as GFI and NFI was less than 0.95 but very close to the criteria. Thus, computed values of all the goodness of fit indices reflected the good fit of the model.

		df.	p-value	df.		GFI	RMSEA	NFI	CFI	IFI	TLI
Criterion	-	-		1< df.	<2	0.90	< 0.08	0.90	0.90	0.90	0.90
Obtained values	502.687	485	.280	1.03	36	0.855	0.015	0.891	0.996	0.996	0.995
	Chi- Squ	are					df.	Degrees of Freedom			
GFI	Goodnes	s of F	it Index				RMSEA	Root Mean Square Error Approx.			
NFI	Normated Fit Index				CFI	Comparative Fit Index					
IFI	Increment	Incremental Fit Index					TLI	Tucker	Lewis In	dex	

**Regression Weights: (Group number 1 - Default model):** Regression weight table below is representing the relationship between all the variable of the study

			Estimates	S.E.	C.R.	Р	Label
Brand Image	<	Service Quality	.318	.045	7.060	***	
Customer_Satisfaction	<	Service Quality	.628	.072	8.748	***	
Customer_Satisfaction	<	Brand Image	639	.116	-5.496	***	
Customer_Loyalty	<	Service Quality	.378	.103	3.656	***	
Customer_Loyalty	<	Customer_Satisfaction	040	.112	361	.718	
Customer_Loyalty	<	Brand Image	179	.143	-1.253	.210	

Standardized Estimate (Regression value) between service quality and brand image is 0.045, significant at 0.000 indicating that service quality significantly contributes to brand image. The results find strong support in the findings of Parani, et al. (2017), Kurniawan and Sidharta (2016).

Service quality contributed significantly to customer satisfaction as indicated by a high value of standardized estimate value of 0.072, and the p value of 0.000. The results find support in the findings of Ismoyo, et al. (2017) wherein they reported significantly positive effect of service quality on customer satisfaction.

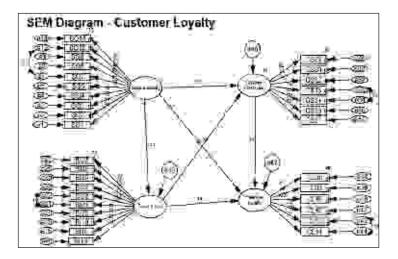
The Standardized estimate between brand image and customer satisfaction is 0.116, significant at p value of 0.000, indicating that brand image contributes significantly in predicting customer satisfaction. The results find strong support in the findings of Nazir, Ali and Jamil (2016). They evaluated the effect of brand image on customer satisfaction and found that brand image had a significant impact on customer satisfaction.

SEM results indicate significant impact of service quality on customer loyalty as indicated by standardized estimate value of 0.103 and p value of 0.000. Hafeez and Muhammad (2012), Tanisah and Maftuhah (2015) and Jasinskas, et al. (2016) reported a significant impact of service quality on customer loyalty, providing support to the results of the study.

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Customer Satisfaction contributes insignificantly to Customer Loyalty with a standardized estimate value of 0.112 and p value of .718. The result finds strong supports in the findings of Chen and Tsai (2008) and Tanisah and Maftuhah (2015) where they reported that customer satisfaction insignificantly contributes to customer loyalty that again provides a strong support to the finding of the study.

Brand Image contributes insignificantly in predicting Customer Loyalty indicated by standardized estimate value of 0.143 and p value of 0.210. The results of the study are supported by the findings of Sayeed et al. (2013) where in they found strong positive relationship between the Brand Image and Customer Loyalty. Basavaraj and Shivashankar (2017) also found strong positive impact of Brant Image on Brand Loyalty. Ogba (2009) identified significant positive relationship between Brand Image and expression of Brand Loyalty.



# CONCLUSION

Reliability and factor analysis was applied to check the reliability and internal consistency of the questionnaires on service quality, brand image, customer satisfaction and customer loyalty. The data was found reliable with strong internal consistency. Principal component Factor analysis with Varimax Rotation was applied to find out the underlying factors of the questionnaire and only one factor was generated for all the variables i.e. service quality, brand image, customer satisfaction and customer loyalty. Structural Equation Modelling was applied between service quality, brand image and customer satisfaction as independent variables and customer loyalty as dependent variable. From the above results it can be said that if the hotel industry want to differentiate them in the competitive environment and create loyalty among customers the hotel must offer the good quality of services, try to establish a strong and effective brand image and always keep customers satisfied and happy.

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# Annexure1: Exploratory Factor Analysis Results

# 1. Factor Analysis for Service Quality

KMO and Bartlett's Test							
Kaiser-Meyer-Olkin Measure of Sampling Adequacy							
Bartlett's Test of Sphericity	Approx. Chi-Square	3120.666					
	Df	105					
	Sig.	.000					

		To	tal Variance Expla	ained		
Components		Initial Eigen v	alues	Extra	ction Sums of Sq	uared Loadings
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	11.667	77.780	77.780	11.667	77.780	77.780
2	.426	2.841	80.621			
3	.387	2.580	83.201			
4	.360	2.397	85.598			
5	.310	2.068	87.666			
6	.272	1.815	89.481			
7	.252	1.677	91.158			
8	.233	1.554	92.712			
9	.190	1.266	93.978			
10	.182	1.216	95.194			
11	.175	1.166	96.360			
12	.156	1.040	97.400			
13	.147	.977	98.377			
14	.132	.881	99.258			
15	.111	.742	100.000			
Extraction Me	thod: Pri	ncipal Componen	t Analysis.			

# 2. Factor Analysis for Brand Image

KMO and Bartlett's Test							
Kaiser-Meyer-Olkin Measur	.927						
Bartlett's Test of	Approx. Chi-Square	1172.745					
Sphericity	Df	66					
	Sig.	.000					

	Total Variance Explained								
Component		Initial Eigen v	alues	Extrac	tion Sums of Squ	ared Loadings			
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %			
1	6.623	55.195	55.195	6.623	55.195	55.195			
2	.926	7.718	62.913						
3	.826	6.886	69.799						
4	.675	5.622	75.420						
5	.555	4.623	80.044						
6	.436	3.631	83.675						
7	.414	3.449	87.124						
8	.378	3.151	90.274						
9	.352	2.936	93.211						
10	.301	2.505	95.715						
11	.280	2.336	98.051						
12	.234	1.949	100.000						

# 3. Factor Analysis for Customer Satisfaction

KMO and Bartlett's Test							
Kaiser-Meyer-Olkin Measure of Sampling Adequacy929							
Bartlett's Test of	Approx. Chi-Square	994.378					
Sphericity	df	45					
	Sig.	.000					

	Total Variance Explained								
Component		Initial Eigen va	lues	Extracti	Extraction Sums of Squared Loadings				
	Total	% of	Cumulative	Total	% of Variance	Cumulative			
		Variance	%			%			
1	5.888	58.879	58.879	5.888	58.879	58.879			
2	.764	7.640	66.518						
3	.700	7.003	73.522						
4	.543	5.434	78.955						
5	.441	4.413	83.368						
6	.413	4.128	87.496						
7	.387	3.867	91.363						
8	.348	3.485	94.847						
9	.310	3.102	97.949						
10	.205	2.051	100.000						
Extraction Me	thod: Princip	al Component A	nalysis.						

# Factor Analysis for Customer Loyalty

KMO and Bartlett's Test							
Kaiser-Meyer-Olkin Meas	.914						
Adequacy.							
Bartlett's Test of	Approx. Chi-Square	696.322					
Sphericity	df	21					
	Sig.	.000					

Total Variance Explained									
Component		Initial Eigen	values	Extraction Sums of Squared Loadings					
	Total	% of Variance	Cumulative %	Total	% of	Cumulative			
					Variance	%			
1	4.569	65.278	65.278	4.569	65.278	65.278			
2	.526	7.509	72.788						
3	.523	7.468	80.256						
4	.486	6.936	87.192						
5	.319	4.555	91.747						
6	.304	4.344	96.091						
7	.274	3.909	100.000						
Extraction N	/lethod:	Principal Comp	onent Analysis.						

ANNEXTURE-2: RESULTS FOR STRUCTURAL EQUATION MODELLING (SEM)

# Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	Р	CMIN/DF
Default model	76	502.687	485	.280	1.036
Saturated model	561	.000	0		
Independence model	33	4631.029	528	.000	8.771

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# RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.078	.855	.832	.739
Saturated model	.000	1.000		
Independence model	.794	.175	.123	.164

# **Baseline Comparisons**

Model	NFI	RFI	IFI	TLI	CFI
	Delta1	rho1	Delta2	rho2	
Default model	.891	.882	.996	.995	.996
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000