

LOYALTY PROGRAMS BENEFITS AND CUSTOMER LOYALTY AMONG PATRONS OF STAR RATED HOTELS IN KENYA: A MODERATED MEDIATION MODEL OF EXPERIENTIAL ENCOUNTER AND CUSTOMER SATISFACTION

Daniel Waari 

Department of Marketing & Logistics, Moi University, Kenya
dnderius@gmail.com

Ronald Bonuke

Department of Marketing & Logistics, Moi University, Kenya

David Kosgei

Department of Management Science, Moi University, Kenya

Abstract

The marketing field has become competitive leading to firm's adoption of various marketing strategies geared towards customer retention and building of loyalty. Various studies have focused on the relationship between marketing relationship strategies and customer loyalty. However, one limitation of the previous studies is that they disregard the interactive mechanism of customer participation during service delivery process and marketing relationship strategies. The aim of present study was to investigate a resilience model in the relationship between loyalty program benefits, customer satisfaction, experiential encounter and customer loyalty using a moderated mediation analysis. 384 loyalty programs members were selected using stratified random sampling method. Participants completed a self administered questionnaire on loyalty program benefits, experiential encounter, satisfaction levels and loyalty to the hotel. A moderated mediation analysis was carried out using the PROCESS macro which allowed inclusion of moderator and mediator in the same model. The results showed that customer

satisfaction mediated the association between loyalty programs benefits and customer loyalty. In addition, the mediating effect of customer satisfaction was partially moderated by experiential encounter. The current findings indicated that the impact of loyalty programs benefits on customer loyalty through customer satisfaction can be buffered by introduction of experiential encounter as an intervention in the early stage of customer patronage. Interventions should target individuals with low level loyalty programs benefits.

Keywords: Loyalty programs benefits, customer satisfaction, experiential encounter, customer loyalty

INTRODUCTION

The marketing field has changed dramatically in the last three decades; this has been attributed to the introduction of better means of communication, the establishment of new channels of distribution, changes in regulatory environment and a general rise in consumer awareness (Axelsson & Wynstra, 2002). The introduction of various elements of information, communication, and technology coupled with clamour for market liberalization has resulted in service organizations operating in a dynamic and competitive environment (Carson, Gilmore, & Walsh, 2004). To maintain and retain customers as well as forestall defections to competitors, marketing organizations have resorted to customer relationship management (CRM) and strategies (Abbas, Khalid, Azam, & Riaz, 2010; Osarenkhoe & Komunda, 2013). According to (Voorhees, et al., 2017), service relationships are built from a series of experiential encounters that evokes feelings or emotions enabling a consumer to sense his worth, feel the benefits and relate with the service provider(s). When the service relationship is designed in such a manner it gives rise to a mutually beneficial relationship between the customer and the business organization, where customer is rewarded, relate and feel the product and the organization learns, innovates and makes profit.

The movement from transactional marketing to CRM has taken bold steps from supplier oriented focus to customer oriented focus (Gummesson, 1987; Gronroos, 1994). This movement has been made possible through application of tactics like loyalty programs (Uncles, Rowling, & Hammond, 2003). Acknowledgements on the success of loyalty programs as a tactic towards the aim of customer satisfaction, repeat purchases, and firm profitability is documented in the following studies (Mimouni-Chaabane & Volle, 2010; Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994; Berezan, Raab, Tanford, & Kim, 2013). Despite these notable successes, some academicians and practitioners have faulted the structure, application, and benefits of

loyalty programs as a firm determined CRM tactics skewed towards suppliers benefits (Hennig-Thurau & Hansen, 2000; Wagner, Hennig-Thurau, & Thomas, 2009). These tactics are more defensive than offensive oriented and their main aim is to ring fence the customers from other competitors (Uncles, Rowling, & Hammond, 2003).

Meanwhile, (Srivastava, 2016) brings into perspective the need to incorporate customer driven tactics in a CRM process, as customers not only visit stores to make purchases but also for enjoyment and entertainment purposes. To make complete the CRM process in a competitive market there is need to include individual characteristics that encompass customer's involvement during the service delivery process; this would complete the missing gap in the third model of customer loyalty as discussed by (Uncles, Rowling, & Hammond, 2003) and bring into focus a CRM that is customer determined. The present study differs from other previous studies in that it brings into perspective the role of experiential encounter in the loyalty programs- customer loyalty relationship. In addition to the constructs of the experiential encounter as explained by (Voorhees, et al., 2017; Bitner, 1992)

The principal aim of this study was to test a general framework for building benefits-loyalty relationship from a customer relationship management view. In addressing this issue, the study performs a test on the research hypotheses by empirically reviewing and evaluating the proposed conceptual framework. The paper is structured into different parts that build into each other for continuity and cohesiveness of the study constructs commencing with a review and discussion of literature on loyalty program benefits, customer satisfaction, experiential encounter and customer loyalty culminating into hypotheses development.

LITERATURE REVIEW

Loyalty Programs Benefits

According to (Uncles, Rowling, & Hammond, 2003; Magatef & Tomalieh, 2015) loyalty programs have two main aims; increasing revenue through encouraging frequent patronage or usage and harnessing a closer bond with the customers in a bid to forestall any defections to competing businesses. Loyalty programs are institutionalized and structured systems that encourage cumulative purchases beyond the influence of discounts and core offerings (Omar, Ramly, Alam, & Nazri, 2015; Magatef & Tomalieh, 2015; Henderson, Beck, & Palmatier, 2011). Loyalty programs have been found to affect the satisfaction levels of customers ((Irshad, Amjad, & Janjua, 2015; Demoulin & Zidda, 2009). This is supported by previous studies of (Omar, Ramly, Alam, & Nazri, 2015; Omar, Aziz, & Nazri, 2011; Meyer-Waarden & Benavent, 2009) carried out in retail stores that when members of loyalty programs are satisfied they become more faithful to the organization and less price sensitive.

Satisfaction should be emboldened within the service delivery process; this can be enhanced by the experiential encounter. According to (Schmitt, 1999), the service offered should not only create a moment of truth, continuous impression but also evoke feelings that leads one to relate with the totality of the service delivery process as proposed by (Uncles, Rowling, & Hammond, 2003; Hennig-Thurau & Hansen, 2000; Voorhees, et al., 2017), the effectiveness of loyalty programs could be increased through consideration of customer oriented and directed relationship management. Thus, when offering services the service delivery process should not only evoke emotions but bridge the benefits with loyalty.

Customer Satisfaction

According to (Chen, Ouyang, Huang, and Lee, 2016 and Reisinger and Turner, 2003) customer satisfaction in the context of hospitality industry relates to the comparison of customers expectation or pre-purchase perceptions and the service experience. Reisinger and Turner (2003) further explain that customers' are satisfied the moment their experience supersedes the expectations while a sense of discontent arises when expectations are not met. In today's competitive environment businesses need to establish the satisfaction levels of their customers. Literature on customer satisfaction from previous studies has shown that there are numerous benefits that an organization realizes after investing in relationship marketing more so customer satisfaction. Studies conducted by (Radojevic, Stanistic, and Stanic, 2015; Forozia, Zadeh and Gilani, 2013), found out that through customer satisfaction metrics, hotel managers establish and identify the real requirements and needs of customers resulting to rise in hotel patronage thus leading to increased revenues (Oh and Parks, 1997); improves the reputation index thus, cementing the brand positioning of the organization in the industry (Hussein, 2012); establishes the needs of the customers hence improved service delivery processes and the company products or services so as to take into consideration the ever increasing changes of customers' attitudes and preferences. Customer satisfaction measures inform organization wide strategies of either increasing perceived product performance or decreasing expectation.

Experiential Encounter

From a service marketing perspective, the relationship between the firm and customer is seen as a series of experience encounters at various impact points within the serviscapes that impacts emotional or experiential attachment with the firm (Voorhees, et al., 2017; Bitner, 1992). Experiential encounter has four elements; strategic experience modules, which are different types of experiences; service encounter (Schmitt, 1999), which is any discrete interaction between the customer and the service provider relevant to the service being offered (Bitner &

Wang, 2014); service experience, is that period of time where the customer experiences all services related to the product or service of choice (Voorhees, et al., 2017) while servicescapes; are the physical cues and environment that interacts with the customer together with the service provider influencing the customers decision making process (Bitner, 1992).

Management of customer experience tends to be the most important element within customers experiential encounter process (Crosby & Johnson, 2007). This is informed by the consideration that customer experience is the accumulation of all the critical service encounters between the customer and the firm (Bitner & Wang, 2014; Srivastava, 2016).

Customer Loyalty

Customer loyalty has more prominence in the service industry, due to the highly involvement of the human element in the production and consumption compared to goods (Rai & Srivastava, 2012). The importance of customer loyalty has grown due to the decreased capability of differentiating services in today's competitive world, simultaneity and concurrent characteristic of production and consumption, and the intangibility and perishable nature of services (Reichheld & Sasser, 1990; Rai & Srivastava, 2012). In a study conducted in the automobile sector in India, it was established that customer loyalty was determined by the level of customer centrality, the trustworthiness of the service providers and the regularity of communication between the automobile sales organization and the customers (Gaurav, 2016). These findings are consistent with the findings of previous studies of (Jumaev, Kumar, & Hanaysha, 2012; Ndubisi, 2007).

Present Study

The purpose of this study is to establish whether the indirect relationship between loyalty programs benefits and customer loyalty through customer satisfaction would be moderated by experiential encounter. This research question forms a moderated mediation model, which can address both mediation and moderation concurrently. Based on the review of empirical literature the present study proposes the following hypothesis:

Hypothesis 1 (H_1): Experiential encounter would moderate the indirect association between loyalty program benefits and customer loyalty via customer satisfaction.

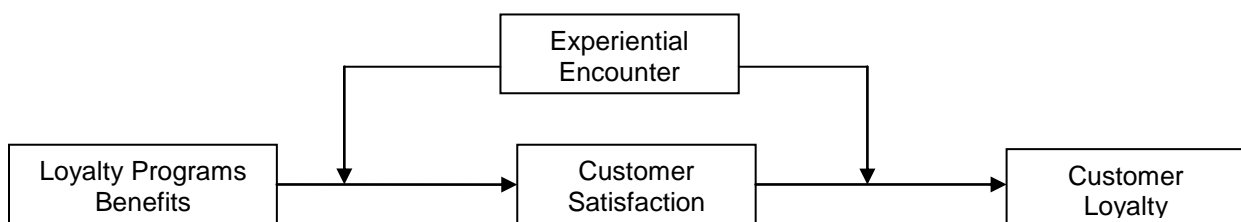


Figure 1. The proposed moderated mediation model

RESEARCH METHODOLOGY

Study Design and Participants

The data for the present study was derived from a research conducted on loyalty programs in the hospitality industry, Kenya. There were 384 participants who were selected using stratified random sampling methodology in a bid to overcome heterogeneity of the study population due to different characteristics exhibited by the star rated hotels located within the Coastal Region of Kenya. The sample size was determined using the Cochran's sample size determination equation. The mean age of the participants was 30 years of age (SD= 0.66, range = 25 - 35 years).

The participants were drawn from the registered members of various loyalty programs on offer in the 112 hotels within the Coastal region of Kenya. Reflecting on the demographics, 77 percent of the respondents had been loyalty programs members for less than seven years while 23 percent had been Loyalty program members for more than seven years.

Study Procedure

The materials and procedures used in this study were first approved by the Research Ethics committee of the Authors University. Further study authorization and approval was sought from Research and Ethics Committee of National Commission for Science, Technology & Innovation-Kenya. Before, the administration of the questionnaire the Research Assistants informed the respondents of the voluntary participation nature of the study and provided instructions on the process of filling the questionnaire. Informed consent was obtained from the respondents, as well as assurances of the privacy and anonymity of the study in order to encourage honest answers to the research items. Less than 10 per cent of the participants declined to submit the filled questionnaire.

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, Perceived benefits of loyalty programs: Scale development and implications for relational strategies, 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 ($\alpha = 0.73$).

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). For the present study the measures demonstrated a good reliability ($\alpha = 0.78$).

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 bivariate association among the variables of the study. Second, this study carried out a moderated mediation to establish whether the mediation process is moderated by experiential encounter. The moderated mediation is used to examine whether the magnitude of a mediation effect is conditional on the value of a moderator (Hayes, 2013). This study adopts (Hayes, 2013) PROCESS macro (Model 59) to perform the moderated mediation analysis. Bootstrapping method was used to test the significance of the effects in order to obtain robust standard errors for parameter estimation (Hayes, 2013). The bootstrapping process produced 95 percent bias corrected confidence intervals of these effects from 5000 resample's of the data. Confidence intervals generated that do not contain zero signify effects that are significant at $\alpha = 0.05$.

RESULTS

The purpose of this study was to explore whether the indirect relationship between loyalty programs benefits and customer loyalty would be moderated by experiential encounter. The examination of the research question was undertaken in three steps as indicated in the moderated mediation analysis section.

Preliminary analyses

The Table 1 presents the means, standard deviations (SD), and zero order correlations of the main study variables. The association between loyalty program benefits and customer satisfaction is positive but not significant $r = 0.100$, $p > 0.05$. In the association between loyalty program benefits and customer loyalty was positive and significant such that $r = 0.194$ $p < 0.01$ while the association between customer satisfaction and customer loyalty was positive and significant at $r = 0.338$, $p < 0.01$. The same scenario is observed in the association between experiential encounter and the other three main variables returning a positive and significant association; customer loyalty ($r = 0.127$, $p < 0.05$), customer satisfaction ($r = 0.127$, $p < 0.05$), and loyalty program benefits ($r = 0.277$, $p < 0.01$).

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

Variable	μ	SD	Cronbach α	3	4	5
1 Age	30	0.66				
2 Gender	1.33	0.42				
3 Loyalty Programs Benefits	4.35	0.43	0.79	-		
4 Customer Satisfaction	4.44	0.43	0.73	0.100	-	
5 Customer Loyalty	4.11	0.54	0.78	0.194**	0.338**	
6. Experiential Encounter	4.32	0.52	0.78	0.277**	0.127*	0.127*

* $p < 0.05$, ** $p < 0.01$

Gender was a dummy coded as 1= Male and 2 = Female

Testing for Moderated Mediation

To test Hypothesis “Experiential encounter would moderate the indirect association between loyalty program benefits and customer loyalty via customer satisfaction”, the study makes use of integrated approach applying model 59 as discussed by (Edwards & Lambert, 2007), and (Hayes, 2013). The PROCESS macro followed by path coefficients is used to determine the direction and strengths of the factors. In Hypotheses H_1 , it is anticipated that the moderating

effect of experiential encounter has a significant effect on the following relationships: 1) the relationship between loyalty programs benefits and customer loyalty (Model 1); 2) the relationship between customer satisfaction and customer loyalty (Model 2); 3) the relationship between loyalty programs benefits and customer satisfaction.

According to (Dardas & Ahmad, 2015), the presence of moderating variable causes changes in the magnitude or the direction of the relationship between variables. Further, (Dardas & Ahmad, 2015), argue that moderation which implies interaction effect would (i) increase the predictors' effect on the outcome (ii) Decrease the predictors effect on the outcome or, (iii) reverse the predictors effect on the outcome. To test the hypotheses that the relationship between loyalty programs and customer satisfaction would be moderated by experiential encounter a simple moderation analysis using the PROCESS macro was carried out. Moderated mediation is established in the instance if either or both of two patterns existed: (i) the path between loyalty programs benefits and customer satisfaction is moderated by experiential encounter, and or (ii) the path between customer satisfaction and customer loyalty is moderated by experiential encounter (Hayes, 2013).

On the other hand total effect moderation occurs when all the following pattern exist: (i) the path between loyalty programs benefits and customer satisfaction is moderated by experiential encounter, and (ii) the path between customer satisfaction and customer loyalty is moderated by experiential encounter and, (iii) the path between loyalty programs benefits and customer loyalty is moderated by experiential encounter. To avoid multicollinearity problems as advised by (Aiken & West, 1991; Pedhazur, 1997; Frاسquilho, Matos, Marques, Neville, Gaspar, & Caldas--de-Almeida, 2016), loyalty programs and experiential encounter were mean centred before running the analysis and an interaction term between loyalty programs and experiential encounter produced.

The specifications of the PROCESS model 59 are summarized in the table 2. As the Table 2 depicts, in model 1, loyalty program benefits did not have a significant effect on customer satisfaction, $b = .066$, $p > 0.05$, and this effect was moderated by experiential encounter $b = -.248$, $p < 0.05$. Model 2 shows that the effect of loyalty programs benefits on customer loyalty was positive but not significant, $b = 0.105$, $p > 0.05$, and was not moderated by experiential encounter, $b = -.198$, $p > 0.05$.

Table 2. Testing the moderated mediation effect loyalty programs benefits on customer loyalty

Predictors	Model 1		Model 2	
	Customer Satisfaction		Customer Loyalty	
	B	T	B	T
<i>Gender</i>	.229***	3.829	-.032	-.393
<i>Age</i>	.083	1.809	-.100	-1.646
<i>No. Of Years as a Loyalty Program Member (LP)</i>	-.041	-.901	0.265***	4.463
<i>Education Level</i>	-.031*	-1.452	-.040	-1.414
<i>Years Patronizing the Hotel</i>	.055	1.273	-.185**	-3.844
<i>Hotel Star Rating</i>	-.069*	-2.386	-.067	-1.566
<i>LP</i>	.066	1.059	0.105	1.604
<i>Experiential Encounter (EE)</i>	.133**	2.685	.001	.015
<i>LP x EE</i>	-.248*	-2.087	-.198	-1.307
<i>Customer Satisfaction (CS)</i>			.406***	5.695
<i>CS x EE</i>			-.018	-.144
<i>R²</i>	.194		.245	
<i>F</i>	11.117***		9.633***	

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

Gender was dummy coded such that 0 = female and 1 = male

* $p < .05$, ** $p < .01$, *** $p < 0.001$

Finally, there was a significant main effect of customer satisfaction on customer loyalty, $b = .406$, $p < 0.001$, and this effect was not moderated by experiential encounter, $b = -.018$, $p > 0.05$.

The bias corrected bootstrap results further indicated that the indirect effect of loyalty programs benefits on customer loyalty via customer satisfaction was moderated by experiential encounter. For below average experiential encounter, the indirect effect of loyalty programs benefits on customer loyalty via experiential encounter was significant $b = 0.081$, $SE = 0.038$, $95\% CI = [0.01, 0.16]$. In contrast, this indirect effect was non-significant for high experiential encounter process, $b = -0.02$, $SE = 0.03$, $95\% CI = [-0.11, 0.05]$. Given that experiential encounter moderated only the first stage of the mediation processes, the current study calls this a partial moderation model, which is one form of the moderated mediation. Thus the study Hypothesis was partially supported.

DISCUSSION

Moderated Mediation

The main aim of the present study was to investigate a resilience model in the relationship between loyalty programs benefits, customer satisfaction, experiential encounter and customer loyalty. They were two key findings: customer satisfaction partially mediated the relationship between loyalty programs benefits and customer loyalty. The results indicated that loyalty programs benefits had an indirect effect on the customer loyalty via customer satisfaction. There has been a dearth of research investigating the specific mechanisms linking loyalty programs with customer satisfaction. The current study expands on the results of the previous studies by demonstrating that customer satisfaction mediates the association between loyalty programs benefits and customer loyalty. Secondly, the mediating effect of customer satisfaction on the relationship between loyalty programs benefits and customer loyalty was moderated by experiential encounter. The results highlight the need of customer participation in the service delivery process, designing of loyalty programs and ambience of the physical structures within the service delivery process.

Most studies have exclusively investigated the association between loyalty programs and customer retention, purchase repetition and customer referrals. In addition, customer retention, repeat purchases and customer loyalty have been equated to customer loyalty (Lee, Hsiao, & Yang, 2011; El-Adly & Eid, 2016) and our results are in line with such findings. Although loyalty program benefits and customer retention may have different outcomes in a buyer seller relationship, loyalty programs may lead to a customer being susceptible to brand loyalty as well as reward loyalty (Kaura, 2013). Our results indicate that loyalty programs benefits had an indirect effect on the customer loyalty through customer satisfaction. Although our cross sectional data is limited in separating the causal links, these findings indicate that loyalty programs may confer loyalty to a firms products/services through customer satisfaction.

Interestingly, our findings indicate that not all customers who are members of loyalty programs and enjoying loyalty program benefits and satisfied are turned to loyal customers. Some of them, who are exposed to higher experiential encounter (more than average), appear to not to be loyal customers through customer satisfaction. In other words when customers are enrolled to loyalty programs that provide more benefits they might not be satisfied for them to become loyal customers, whereas those who may not be exposed to experiential encounter may likely become loyal through customer satisfaction. This indicates that not all customers who enjoy loyalty program benefits are loyal customers. The finding that the impact of experiential encounter does not affect the link between customer satisfaction and customer loyalty indicates

the importance of early intervention through incorporating the customer in service delivery process in the initial stages of her encounter or contact with the hotel.

LIMITATIONS AND FUTURE DIRECTIONS

This section brings to light the several limitations and future suggestions that this study faces. The study is limited by the geographical location, there is need to expand participation of patrons from all star rated facilities in the country. With an increased geographical coverage, an in-depth analysis of the study variables can be carried out, whereby a variable like loyalty programs benefits that has dichotomous categories can be split to soft based loyalty program benefits and hard based loyalty program benefits (Butler & D'Souza, 2011; Hilgeman, 2014). This may also apply on the experiential encounter as it can be categorized as service experience, and physical evidence or ambience of service providing facilities.

The study makes use of self-reported measures which may be fraught with respondent's personal biasness. The majority of the respondents were male which might affect the validity of this study; other informants may add unique perspective to the study and would be helpful in decreasing the limitation of the subjectivity of the results. Future research should focus on the long term consequence of loyalty programs benefits, the antecedents of customer satisfaction and application of service profit chain in influencing the loyalty and repeat purchase intentions of the customers.

Practical Implications

Despite the above limitations, the findings in this current study have important practical implications. Understanding customer satisfaction and customer loyalty is important as it informs the designing and application of loyalty programs and extent of application of customer satisfaction. First, these findings highlight loyalty program benefits and experiential encounter regulation as potential target interventions among patrons of star rated hotels. Loyalty programs benefits may also be used to increase the retention rate of customers and the frequency of their purchases. The service providers should be trained to understand the customers likes and dislikes and apportion or provide the right amount of service experience to ensure that it leads to customer satisfaction. When a customer is satisfied the level of experiential encounter does not play a significant role in leading to customer loyalty. Secondly, our study can help practitioners understand pathways by which loyalty programs benefits are associated with customer loyalty, indicating a possible venue for interventions. Third, considering that the direct and indirect conditional effects of loyalty programs benefits on customer loyalty are non-significant for high experiential encounter processes, it can be stated that the findings may help

to design effective relationship marketing interventions aimed at improving experiential encounter of patrons who are already satisfied and loyal to the organization. The conditional indirect effect findings are a good pointer of why a service provider organization should implement strategic intervention early enough with its relation with the customer. This is based on the findings that experiential encounter does not significantly impact the second stage of our model.

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