An Investigation of Mediating and Moderating Variables in Service Quality – Customer Loyalty Relationship: A Research Agenda

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ABSTRACT

With the increasing focus on customer relationships and profound impact that customer’s evaluative judgments exercise on customer loyalty, it is important to uncover the directional as well as moderating influences on customer loyalty formation. A complete understanding of type and strength of the relationship and their influencers would contribute in developing a comprehensive model that may not just clearly define the form and structure of relationship for future researches but also help industries in building loyalty and rationalize marketing expenditure. The present study aims to delineate the concept and significance of customer loyalty and offers a conceptual framework involving service quality, customer satisfaction and customer loyalty. A comprehensive survey of literature explored that customer satisfaction provides a directional influence to the relationship of service quality and customer loyalty and a mediation model integrating the relationships among service quality, customer satisfaction and customer loyalty is proposed for investigation. Furthermore, moderating effects on the service quality and customer loyalty link have been examined and four moderating variables namely, customer knowledge and expertise, price perceptions, service convenience and switching costs have been extracted from the literature. These variables need to be investigated to assess their role and strength in moderating the relationship between the two constructs.

Keywords: Customer Knowledge and Expertise, Customer Loyalty, Customer Satisfaction, Mediation Model, Moderating Variables, Price Perceptions, Relationship Influencers, Service Convenience, Service Quality, Switching Costs

DOI: 10.4018/jcrmm.2013070102
INTRODUCTION

Customer relationships gained significance first in business to business relationships and it’s only afterwards that they received importance in business to customer services context (Dwyer et al., 1987; Morgan & Hunt, 1994). The concept of customer loyalty is fore grounded in the framework of customer relationship management (Reichheld & Sasser, 1990; Sheth & Parvatiyar, 1995). Ball et al. (2004) also shared the similar notion and point that the theoretical as well as practical scaffold of relationship marketing should integrate customer loyalty as a fundamental aspect.

Every business that is mature enough to keep a finger on the pulse of the market understands that customer centricity is the key to growth and profitability. This customer centricity brings in customer responses in discrete forms and degrees such as Voice of the Customer, Customer Engagement, Customer Experience, Customer Satisfaction and Customer Loyalty. Among these, customer loyalty has broadly been acclaimed to significantly affect the business success and profitability. Thus, organizations are suggested to regard customer loyalty as a source of competitive advantage by Bharatwaj et al. (1993).

Service quality is another significant aspect of business that has received considerable attention from academics as well as corporate minds. It has been seen as a principal antecedent of customer satisfaction and loyalty. Customer satisfaction and customer loyalty are also found to be related across several cultural contexts and industrial settings. Thus, a research model integrating service quality as the antecedent of customer satisfaction and customer loyalty as its outcome can provide interesting insights into the relationships among these constructs.

The present study aims to delineate the concept and significance of customer loyalty and offers a conceptual framework involving service quality, customer satisfaction and customer loyalty. The relationship between service quality and customer loyalty as well as the directional influence of customer satisfaction on this relationship have been explored through a comprehensive survey of literature and a mediation model integrating the relationships among service quality, customer satisfaction and customer loyalty is proposed. Further, moderating effects on the service quality and customer loyalty link have been investigated and four moderating variables namely, customer knowledge and expertise, price perceptions, service convenience and switching costs have been extracted from the literature. The paper concludes with a moderation model depicting direct relationship between service quality and customer loyalty while incorporating these relationship influencers.

CUSTOMER LOYALTY: CONCEPTUAL DIMENSION

Marketing literature has largely used the terms customer retention and customer loyalty to explain the same phenomenon (Reichheld & Sasser, 1990; Zeithaml et al., 1996). A quick observation of customer loyalty is repeat buying (Ball et al., 2004; Copeland, 1923; Newman & Werbel, 1973; Tellis & Chandy, 1998). Firm would want repeat purchases mainly because such behaviour in consumers can:

- Apparently show the customer preference for a brand or product (Bowen and Shoemaker, 1998);
- Reflect a customer’s purchase intention (Mellens et al., 1996); and
- Presumably secure profitability (Reichheld & Sasser, 1990; Rust et al., 2004; Reinartz et al., 2005) by increasing market share (Chaudhuri & Holbrook 2001).

However, Stewart (1996) claimed that “Customer loyalty and customer retention are not synonymous”.

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