

**SERVICE LOYALTY: THE EFFECTS OF  
PERCEIVED SERVICE QUALITY AND  
THE MEDIATING ROLE OF  
CUSTOMER SATISFACTION  
IN THE SEAFOOD  
RESTAURANTS  
IN KOTA  
KINABALU**

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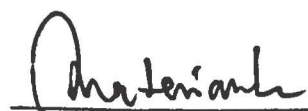
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## DECLARATION

The materials in this thesis are original except for quotations, excerpts, summaries and references, which have been duly acknowledged.

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## ABSTRACT

Customer loyalty is the name of the game in today's highly competitive restaurant industry. As such, restaurateurs and managers must put much effort on developing long-term customers' service loyalty in order to remain competitive and meet the ever-increasing demands of the more sophisticated customers. This study investigates the relationships and links between perceived service quality, customer satisfaction and service loyalty. The effects and impact of customer satisfaction as a mediator is also being examined. For the purpose of this study, seven seafood restaurants in Kota Kinabalu were identified and customers of these restaurants were the respondents during the 6 weeks questionnaire survey period. Data were collected from a sample of 160 respondents in Kota Kinabalu City, Sabah. Results indicate that positive and significant relationships exist between the dependent variable, service loyalty and the independent variables, perceived service quality and customer satisfaction. It was also found that customers' evaluation and expectation of perceived service quality go beyond just the basic service provided and customer's satisfaction is needed to earn long term loyalty. The findings also provide some insights for future research.



## **ABSTRAK**

### **KESETIAAN PERKHIDMATAN: PENGARUH KUALITI PERKHIDMATAN DAN PERANAN PENGANTARAAN KEPUASAN HATI PELANGGAN DI RESTORAN MAKANAN LAUT DI KOTA KINABALU**

*Kesetiaan pelanggan merupakan perkataan yang sangat penting dalam prasarana industri restoran yang giat bersaing pada masa ini. Oleh itu, pemilik serta pengurus restoran mesti berusaha untuk meningkatkan kesetiaan perkhidmatan pelanggan untuk tetap berdaya saing. Kajian ini akan menyelidik perhubungan di antara kualiti perkhidmatan, kepuasan hati pelanggan dan kesetiaan perkhidmatan. Impak dan pengaruh kepuasan hati pelanggan sebagai pengantara juga telah diselidiki. Untuk tujuan penyelidikan ini, sebanyak tujuh buah restoran makanan laut di Kota Kinabalu telah dipilih dan kajian telah dijalankan selama enam minggu berturut-turut. Data telah diambil dan dikumpul daripada 160 orang responden di persekitaran Kota Kinabalu, Sabah. Hasil penyelidikan menunjukkan bahawa perhubungan yang positif dan penting didapati diantara kesetiaan perkhidmatan, kepuasan hati pelanggan dan kualiti perkhidmatan. Juga didapati bahawa pelanggan telah mengharapkan kualiti perkhidmatan yang lebih tinggi daripada pekerja/pelayan restoran yang terlibat. Kualiti perkhidmatan asas yang telah diberikan selama ini tidak memadai untuk melahirkan kesetiaan pelanggan yang kukuh terhadap restoran tersebut. Disamping ini, hasil penyelidikan telah juga memberi pemahaman yang penting untuk meneruskan penyelidikan.*

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Overview**

Urbanization and the rising personal income have led towards changes in lifestyle and increasing consumerism. Eating away from home has become frequent affairs for many Malaysians.

Urbanization has caused greater time pressure on the working population creating demand for instant or convenience foods especially younger people and singles that prefer to eat away from home.

Today, more women get themselves employed and the trend is expected to increase in the future as they are educated and more sophisticated. Traditionally women have prepared family meals but as more women enter the workforce, they have less time to do so and increasingly rely on food services for their family meals. (GAIN report, 2005).

Moreover, business lunches and dinners are also increasingly popular among businesses. All these factors have led to the proliferation of many types of restaurant ranging from gourmet, popular family restaurant, other ethnic restaurants such as Malay, Chinese and Indian restaurants and the ever increasing fast food outlets like Kentucky Fried Chicken, Kenny Rogers, Burger King, McDonalds etc. These restaurants offer great varieties of food, beverages and also some comes with ambience and music to attract their customers. Therefore, competition amongst the restaurants is extremely high.



## 1.2 Research Problem

With today's financial pressures and the changing lifestyle, loyal and satisfied customers are essential to the success of a restaurant business. Operations have to recognize and understand the needs of the customers in order to survive (Almanza *et al.*, 1994).

Financial pressures as a result of the September 11, incident, outbreak of SARS and Bird Flu for example have badly affected the tourism industry and lead to a drop in restaurant sales as tourists are also customers of the exotic restaurants in Malaysia, particularly the seafood restaurants in Sabah.

Customers are more sophisticated and demand more from merely a good food when dining at the restaurants. Furthermore, as the competition amongst restaurants increases in terms of diversity and number of establishments, customers have more options from which to choose. It becomes increasingly important that restaurants become more aware of these changes in customer attitudes and behavior, not only to gain new customers, but to retain their present customers.

Therefore based on the factors above, the study has come up with the following research questions:-

- a. To what extent does service quality as encountered by the customers during their meal experiences in the seafood restaurants plays as an important factor that leads to service loyalty?
- b. To what extent is the effect of customers' satisfaction as a mediator in enhancing the impact of perceived service quality on service loyalty?
- c. Does service quality play as an important antecedent and service loyalty as an outcome variable of customer satisfaction?
- d. To what extend does service quality found to act on service loyalty via customer satisfaction?

To sum up the above questions in a single problem statement, with the proliferation of many restaurants ranging from gourmet, to fast-food outlets and to meet the ever-increasing demands of the more sophisticated customers , restaurateurs find it more difficult to remain competitive in the existing and future marketplace and long-term loyalty is needed to survive in the industry.

Therefore, it is hoped that the desired results from this findings will serve as a feedback for the restaurateurs/managers to improve the performance of their restaurants, increase customer retention and subsequently to sustain in the food industry.

### **1.3 Research Objectives**

The purpose of this research is to examine the roles played by each of the three variable mentioned above and what are the underlying factors that will influence service loyalty.

Therefore, the objectives of this study are as follows:

- a. To examine whether service quality acts as an important factor that leads to service loyalty;
- c. To find out if service quality is an important antecedent and loyalty as an outcome variable to customer satisfaction?
- d. Attempt to further examine the effect of customers' satisfaction role as a significant mediator between perceived service quality and service loyalty?

### **1.4. Scope of Study**

Seven seafood restaurants are earmarked to be used to conduct this research.

They are as follows:-

1. Gayang Seafood Restaurant
2. Port View Seafood Restaurant
3. Garden Seafood Restaurant





4. Gaya Seafood Restaurant
5. Kg. Nelayan Seafood Restaurant
6. Atlantis Seafood Restaurant, Bundusan
7. Ocean Seafood Restaurant

All these restaurants are located within the vicinity of Kota Kinabalu, the State Capital of Sabah, Malaysia. They are privately owned and managed by employees, most of which represent the locals from different ethnic groups of Sabah.

### **1.5 Significance of the Study**

In examining the roles of each of the variables namely, service quality, customer satisfaction and loyalty in the seafood restaurants, it is hoped that the study is able to contribute to the body of knowledge and put the findings into practicability by:

- a) providing a clearer understanding of the interrelationship amongst the variables which will become an input to restaurant managers to improve their service performance;
- b) To provide restaurant managers the knowledge where best to devote marketing attention and scarce resources;
- c) To serve as a guideline for restaurant managers to maximize the resources, thus increasing customer satisfaction and also service loyalty in the restaurants which subsequently will lead to greater profitability.
- d) To further expand the development of the service marketing not only in the service industry alone but also to the food service industry as well.
- e) To boost up the tourism industry by increasing performance of the restaurants.

### **1.6 Definition of Terms**

Key terms are vital and also form an integral part of a research paper. They are essential to enable the readers to understand the exact definition of the key terms



being used throughout the study. Therefore, for purpose of clarification so as not to confuse them, in this study, the key terms are defined as follows:-

### **1.6.1 Seafood Restaurants**

Seafood restaurants are normally full-serviced, tabled restaurants serving various kinds of seafood dishes which include fish, crabs, lobsters, shells etc. These restaurants also provide fresh seafood usually put into oxygenated tanks for the customers to choose when they opt to dine there. They are then cooked according to the preferred or desired style requested by the customers.

### **1.6.2 Perceived Service Quality**

Parasumaran *et al.* (1988) described service quality as:

The ability of the organization to meet or exceed customer expectations. Customer expectations may be defined as the "desires and wants of consumers" i.e. what they feel a service provider should offer rather than would offer.

For the purpose of this study, the perceived service quality is the expected services qualities accompanying the meal experience that should be offered by the restaurant which are to be measured based on the dimensions of SERVQUAL model as identified by Parasumaran *et al.*, (1988) in their studies.

### **1.6.3 Customer Satisfaction**

It is defined by Parasumaran *et al.* (1994) and Teas (1993) that overall satisfaction is based on information from all previous experiences with the service provider, and is a function of all previous transaction-specific satisfactions.



#### **1.6.4 Service Loyalty**

Based on the conceptual ideas of Caruana (1999), and Gremler and Brown (1996), service loyalty in this study is defined as:

The willingness of customer to consistently re-patronize the same service provider/service company, that maybe the first choice among alternatives, thereby complying with actual behavioural outcomes and attaching with favorable attitude and cognition, regardless of any situational influences and marketing efforts made to induce switching behavior.

However, the service loyalty mentioned does not imply the definition of 100% loyalty because very few customers will have 100% loyalty toward only a single service provider in reality. Instead, customers usually have two or three choices within any category from which they regularly buy (O'Malley 1998). In addition, the service loyalty defined here excludes the meaning of "membership" in order to avoid "locking-in" customers' consumption behavior. Therefore, the formation of service loyalty in this study must satisfy three conditions (Barnes, 1994).

1. the customer should have strong desire for the service continuously or periodically;
2. the customer should have freedom to choose their favourite service provider or service company;
3. there should have more than one service provider within the same service industry.

#### **1.7 Organisation of Study**

The researcher is aided by lecturers from the School of Business and Economics, University Malaysia Sabah (UMS) throughout this research study. She hopes to obtain enough usable samples to be used for her further analysis and continue the research. Samples are to be distributed to the above-mentioned six seafood

restaurants upon approval of the presentation of the thesis proposal. The distribution is administered with the help of the restaurant assistants and the researcher herself, if possible. It is expected to take 10 minutes for each participant to fill the questionnaire which is to be given after each meal session, i.e. while waiting for their bills.

The proposal of this study is set up as follows:

### **Chapter 1 – Introduction**

This section reports on the marketing problem being studied in this proposal. The study seeks to examine the interrelationships between service quality, customer satisfaction and service loyalty in the seafood restaurant business. It is hoped to clarify the roles of each of them and hence will provide useful information for the restaurant owners/managers to improve their performance and how best to allocate their scarce resources.

### **Chapter 2 – Literature Review**

This section narrates a brief history and review on marketing services carried out by the researches and studies done by previous researches, academicians etc. Specifically, the marketing services reported here are those of studies done on quality services, customer satisfaction and service loyalty.

### **Chapter 3 – Theoretical Framework and Research Methodology**

This chapter identifies both the independent and dependent variables to be investigated and also outlines the hypothesis to be tested for the study. The statistical methods to be used during the testing are also reported here. A diagram to illustrate the theoretical framework is also shown here as in figure 3.1.

### **Chapter 4 – Findings**

This chapter basically reports on the findings and results obtained from the analysis conducted based on the data collected from the survey which have been carried out. Statistical outputs are also provided as attached in the appendices.



Outputs of analysis are also illustrated using charts, diagrams, tables for the ease of the readers.

## **Chapter 5 – Discussion and Conclusion**

This chapter covers the discussions of the findings as reported in Chapter 4. The researcher will attempt to relate the findings from the literature review as set out in Chapter 2. Managerial implications, limitations as well as direction for future research will also be provided.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Literature review plays a crucial role in the formulation of research projects. It is a process of identifying and bonding with previously published research topics and is a source of ideas, both substantive and methodological. It can be very important even when it uncovers no literature on the topic of interest. This chapter will look into and discuss more thoroughly on the various research conducted previously, in which the researcher thinks it is relevant to the subject of interest.

#### **2.1 Background Literature on Service Quality**

According to a recent study done by Power and Associates (2004), highly satisfied customers visit restaurant chains more frequently, recommend them more often and spend more money compared to customers who experience low levels of satisfaction at quick service and family/casual dining chains. Their findings showed that the customer dining experience as equal in importance and posit that in order to promote customer commitment, restaurateurs have a unique challenge to delight customers in both the service environment and the quality of the meal.

Findings from a research conducted by Koo L. C. *et al.* (1999) showed that customers prefer to get better service for family meals than business meals and seafood is more preferred for family meals than business meals.

According to findings from Kivela *et al.* (2000), restaurateurs must recognise their dependence on repeat customer. Repeat customers not only bring revenue





into the business, they also provide predictability, security and enjoyment for those involved in the business.

Parasumaran *et al.* (1985) observed that service firms find it difficult to anticipate and comprehend what specs insinuate high quality to consumers, and the levels of those aspects that are required to deliver high-quality service. They elucidated that this perspicacity was in consonance with earlier research in services that suggested service marketers might not always conceive the logic behind consumers' reactions and responses. Gronroos (1984) in his studies also subscribed to this view, stating that only when a service provider knew how the service would be assessed by the consumer, would he/she be in a position to propose how best to direct these assessments in the preferred direction.

Parasumaran *et al.* (1988) in their studies found out that their initial results, based on some focus group findings, yielded 10 dimensions of service quality that included tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication and understanding the customer.

Later investigations by the same group of researchers showed that some of the ten dimensions were correlated, hence refinements were made until the instrument was composed of five higher-order dimensions which subsumed the previous ten.

As shown in table 2.1 below, Parasumaran *et al.* (1988) listed the five dimensions of service quality which include reliability, responsiveness, assurance, empathy and tangibles.



**Table 2.1: Service Quality Dimensions**

Service quality dimensions	Definition
Reliability	Ability to perform the promised service dependably and accurately.
Responsiveness	Willingness to help customers and provide prompt service.
Assurance	Employees' knowledge and courtesy and their ability to inspire trust and confidence.
Empathy	Caring, individualised attention given to customers.
Tangibles	Appearance of physical facilities, equipment, personnel and written materials.

In their empirical work, Cronin and Taylor (1992) controverted the framework of Parasuraman *et al.* (1988) with respect to conceptualization and measurement of service quality, and propounded a performance-based measure of service quality called 'SERVPERF' by illustrating that service quality is a form of consumer attitude. They argued that the performance-based measure was an enhanced means of measuring the service quality construct.

In another empirical work, Teas (1993) investigated conceptual and operational issues associated with a 'perceptions-minus-expectations (P-E)' service quality model. The author developed alternative models of perceived service quality based evaluated performance (EP) and normated quality (NQ). It was concluded that EP model could overcome some of the problems associated with the P-E gap conceptualization of service quality.

Rust and Oliver (1994) in his studies, noted that quality is one dimension on which satisfaction is based. Service quality is viewed as an antecedent to satisfaction.

In yet another empirical work, Parasuraman *et al.* (1994b) revamped SERVQUAL's structure to embody not only the discordance between perceived



service and desired service (labelled as measure of service superiority or MSS), but also the discrepancy between perceived service and adequate service (labelled as measure of service adequacy, or MSA).

Gronroos (1978) in his studies, defined service quality as a perceived judgement resulting from an evaluation process where customers compare their expectations with the service they perceive to have received. The author also suggested that service quality issues could be split into technical quality (what is done) and functional quality (how it is done).

Gronroos (1984) further declared that the quality of a service is dependent on two variables: expected service and perceived service, and that any previous experience with a service could influence the expectations of a consumer, whereas the perceived service is the result of a consumer's perception of the service itself. Following the above definitions, service quality has also been described as a form of attitude, related but not equivalent to satisfaction, that results from the comparison of expectations with performance (Bolton and Drew, 1991; Parasuraman *et al.*, 1988).

Dick and Basu (1994) in their studies, noted that perceived service quality is a cognitive antecedent of relative attitude because service quality will influence the accessibility, centrality, and clarity of attitudes.

The effect of this atmospherics, popularly known as 'servicescapes', according to (Britner, 1992) does affect customers in myriad manners.

## 2.2 Customer Satisfaction

Rust and Oliver (1994) in their studies suggested that customer satisfaction or dissatisfaction – a "cognitive or affective reaction"- emerges as a response to a single or prolonged set of service encounters.

Satisfaction is a "post consumption" experience which compares perceived quality with expected quality, whereas service quality refers to a global evaluation of



a firm's service delivery system. (Anderson and Fornell, 1994; Parasuraman *et al.*, 1985).

Fornell (1992) pointed out that high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition.

It is defined by Parasuraman *et al.* (1994) and Teas (1993) that overall satisfaction is based on information from all previous experiences with the service provider, and is a function of all previous transaction-specific satisfactions.

According to Anderson and Fornell (1994), customer loyalty is determined to a large extent by customer satisfaction.

Similarly, Almanza *et al.* (1994), Dube *et al.* (1994), Lowenstein (1995), Lee and Hing (1995), Oh and Jeong (1996), Yau and Lee (1996), Pettijohn *et al.* (1997) and Qu (1997), in their studies have identified customer satisfaction to be equally important for marketers, who are responsible for measuring dining satisfaction, and who must position restaurant operations competitively in the existing and future marketplace.

Kivela *et al.* (1999) reported that exacting customer demands mean that restaurant organisations must endeavour to deliver not only quality products and services, but also a high level of dining satisfaction that will lead to increased customer return and greater market share.

Shoemaker and Lewis (1999) explain, " we can have satisfaction without loyalty, but it is hard to have loyalty without satisfaction".

McDougall and Levesque (2000) pointed that customer satisfaction was a strong predictor of service loyalty in four different services; dentist, auto service, restaurant and haircut.

Customer satisfaction measures how well the service/product offering matched a customer's expectations, whereas customer loyalty measures their



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