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### Analysing the Mediating Effect of Customer Satisfaction on the Relationship between Service Quality and Customer Loyalty in Indian Organized Retail Sector

Alaka Samantaray<sup>1</sup>, Uma Sankar Mishra<sup>2\*</sup>, Jyoti Ranjan Das<sup>2</sup> and Jyotirmaya Mahapatra<sup>3</sup>

<sup>1</sup> Lecturer, Institute of Business and Computer Studies (IBCS), Faculty of Management Sciences, Siksha 'O' Anusandhan University, Khandagiri, Bhubaneswar, Odisha, India, E-mail: [alakasamantaray@soauniversity.ac.in](mailto:alakasamantaray@soauniversity.ac.in)

<sup>2\*</sup> Associate Professor, Institute of Business and Computer Studies (IBCS), Faculty of Management Sciences, Siksha 'O' Anusandhan University, Khandagiri, Bhubaneswar, Odisha, India

E-mails: (Corresponding Author: [connectuma123@gmail.com](mailto:connectuma123@gmail.com)); [jyotiranjandas@soauniversity.ac.in](mailto:jyotiranjandas@soauniversity.ac.in)

<sup>3</sup> Former Professor, Institute of Business and Computer Studies (IBCS), Faculty of Management Sciences, Siksha 'O' Anusandhan University, Khandagiri, Bhubaneswar, Odisha, India, E-mail: [jmahapatra2003@yaboo.co.in](mailto:jmahapatra2003@yaboo.co.in)

**Abstract:** The basic purpose of this research study was to examine the cause-effect relationship of Indian organised retail customers' perceived service quality with their loyalty levels through the degree of satisfaction they get in product use in the eastern region of India. A sample of 300 customers was drawn of various retail malls situated at different cities. After collecting the responses through a well tested survey instrument, structural equation modelling approach was used to test the existence of mediating effect of customer satisfaction on the relationship between service quality and customer loyalty. Research outcomes revealed that customer satisfaction had neither full nor partial mediating effect in the established relationship.

**Keywords:** Customer Satisfaction, Retail Service Quality, Customer Loyalty, Organized retail sector, India

**JEL Classification Codes:** M37, M31, C38

### INTRODUCTION

According to Asubonteng *et al.*, 1996, due to extreme competition and the hostility of environmental factors, service quality has become a keystone marketing strategy for companies. This highlights how vital enhancing service quality is to associations for their survival and development since it could help them handle these challenges they face in the competitive markets. This implies service based organizations, like retail sectors are constrained to give excellent services to their customers with a specific end goal to have a

sustainable competitive advantage. So there is a requirement for these organisations understand what service quality is in order to attain their objectives.

A retail store is, in truth, the final links inside the syndication funnel linking the manufacturers with the people. Retailing would be the number of small business routines of which gives value to the services marketed for consumers for their personal or household use. Typically people consider retailing simply for the reason that purchase regarding merchandise in shops, however retailing in addition will involve the purchase regarding solutions. Retailing both equally as being a consumer passion in addition to being the organizational task possesses altered substantially during recent years. This is one of the worlds greatest and the most diverse industry. The Indian retail industry is no more promising right now. There is a significant change with retail store trading over the years, coming from tiny kiranawalas from the area to help massive tremendous marketplaces; a new change is going on in the standard retail store field to help organized retailing.

In a competitive market where companies fight for customers, customer satisfaction is actually seen as a critical differentiator and progressively more has developed into key element of business tactic. “Satisfaction may be the buyer assessment of a goods and services in terms of no matter if in which goods and services offers attained this customer’s desires and expectations” (Wilson et al 2008). If the product or service provided by the company do not complete exactly what customers expect, many people turn out to be dissatisfied and in turn search for better offering from competitors.

Customers get satisfaction both from the experiences in the retail store and also usage of each item and service purchased from the retail store. Thus, total notion associated with satisfaction comprises a number of evaluation products on their experiences. Regarding checking the previous experiences, the literature shows that perceived service quality, and perceived product price usually are antecedents associated with customer satisfaction (Zeithami, Berry and Parasuraman, 1996).

The wave of organised retail hit over a decade ago. Currently, the actual list circumstance with Indian is actually grappling with the wanted degrees of profitability as well as returns. Irrespective of weighty expense of their time as well as capital with this long growth time period, the return from the organization has long been a serious concern.

Again, customer loyalty explained by Oliver (1999) as “deeply held commitment to rebury or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts, having the potential to cause switching behaviour”. Customer loyalty is the final goal that any business firm applies CRM tactics, by establishing long-term mutual relationship with customers.

In the above context, the present research study aims to investigate the direct effect of retail service quality (RSQ) on customer loyalty (CL) in retail sector and also to study the existence of mediating effect of customer satisfaction (CS) in the relationship between RSQ and CL.

## **LITERATURE REVIEW**

Subhashini Kaul (2005) discussed that consumers are delighted by the actual store’s service quality are most likely to keep dependable. The Service quality is being progressively more perceived as a powerful

tool to boost value to the consumer; as a method involving positioning in a aggressive setting, to be sure consumer fulfilment, retention and also patronage. Irrespective of the ideal value, Indian retailers do not need the ideal instrument to determine service quality. Paswan & Vahie (2006) in their study concluded that store atmosphere and store quality are positively affect the perception of private label brand's quality, where by the actual congruence in between national brands and also store image features are unfavorably affect on private label brand's quality. Andukuri Raj Shrvanthi and Ann Pauline D. (2013) concluded that personal interaction, physical and policy attributes are the factors mostly influence the service quality of the store, for that reason these are some of the areas that the retail store would need to emphasis to improve the service quality and. Service quality in retail sector is different from every other product/service atmosphere (Finn & Lamb, 1991; Gagliano & Hatchcote, 1994; Hanjunath & Naveen, 2012). With retail establishing particularly retail stores where mostly we find there is mix of product in addition to support, retailers will probably get affected service quality greater than on product top quality (Dabholkar *et al.*, 1996).

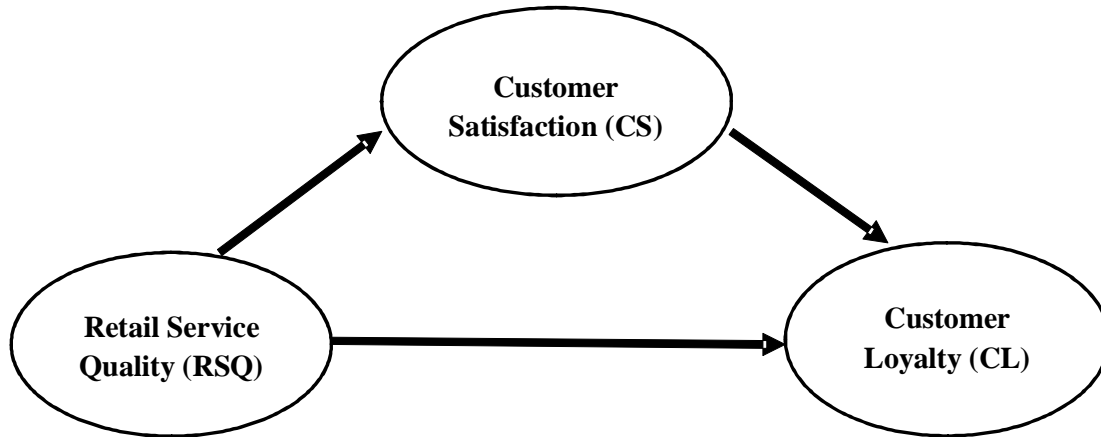
The requirement for client loyalty in business has been perceived by numerous researchers. Customer loyalty is a standout amongst the most every now and again talked about subjects in the showcasing and administration writing (Eshghi *et al.*, 2007; Heskett and Sasser, 2010). In the challenging service industry of India, customer satisfaction has a positive impact on creating and maintaining loyalty level, ultimately achieving growth of business in long run (Mishra U. S. et al, 2016). The efficient optimization of both customer satisfaction and customer loyalty positively give a remarkable organization's market performance (Taylor C.S, 2013). Customer satisfaction has remarkable positive effects on customer loyalty intention in the retail supermarket chain (Neupane R., 2015). Another research by Rasmey and Sohi (1997) contend that consumer loyalty and customer satisfaction are correlated. Some different researchers demonstrated that consumer loyalty assume indispensable part in upgrading and keeping up long haul relationship among organizations and their clients, consumer loyalty is delighted to be the enhanced indicator of client dedication (Haq and Amin, 2009). Kuuisk (2007) suggested that there is an immediate association among devotion and fulfilment, fulfilled client happen to faithful and disappointed client changes to another seller.

Chanaka Ushantha R.A. *et al* (2014) found that the retail service quality has a positive correlation with customer satisfaction. Further, customer satisfaction in the retail super market is determined by the retail service quality. Consequently, service quality is considered as a strategic formula in the marketing practices among all retail outlets to improve the customer satisfaction in both developed and developing countries. Hypothetically, positive connections between administration quality, consumer loyalty, and client unwaveringness are all around recorded in the surviving writing. Administrations Quality is considered as a noteworthy determinant in client maintenance and building esteem relationship (Venetis and Ghauri, 2004). Benefit quality outcomes in rehashed deals and expanded piece of the overall industry, which prompts to client faithfulness (Buzzell and Gale, 1987). Giving a high administration quality can lead an association to charge premium value (Brown *et al.*, 1992). High administration quality upgrades clients' positive behavioural aims while all the while decreases their horrible expectations (Zeithaml *et al.*, 1996). The ramifications of the above talk is that with high administration quality, Retail customers are pulled in, and when upbeat and fulfilled, and have an expanded penchant to remain longer with their specialist organization.

At this backdrop, the current research study set the following hypotheses:

H<sub>1</sub>: Retail Service Quality (RSQ) positively affects Customer Loyalty (CL).

H<sub>2</sub>: Retail Customers' Satisfaction level (CS) has mediating effect on the relationship between Service Quality (RSQ) & Customer Loyalty (CL).



### **STUDY DESIGN AND METHODS**

The study was mainly based on field survey and was exploratory in nature. The sources of data were mainly primary and data were collected through one ready-made questionnaire. The data for the study were collected through the structured questionnaire from 300 organized retail customers covering major cities of eastern India during the year of 2016. The method of random sampling was followed while choosing a retail customer, and the respondents were approached through personal contact approach. Data related to RSQ and CL were collected in a 5-point Likert scale, ranging from 1 indicating strongly disagreed response category to 5 indicating strongly agreed. The two latent variables RSQ and CL were having 60 and 13 measuring items respectively. RSQ were having five major dimensions like, tangibility, reliability, responsiveness, assurance and empathy. However, the responses related to CS were collected in 5-point Likert scale, where 5 represented 'highly satisfied' and 1 represented 'highly dissatisfied' categories. The questionnaire containing all the items related to customer satisfaction was having five dimensions, namely, product, price, place, promotion and employee interaction. All the measuring items were developed referring past literatures with minor modifications, which was used for customer survey and administered keeping the broad objectives in mind. The data collected through measurement instrument were entered into an Excel spread sheet and then transferred to SPSS data sheet for further processing. Statistical tools like confirmatory factor analysis, structural equation modelling etc were used to make data analysis and draw some other useful findings.

### **MEASUREMENT SCALE VALIDATION**

The questionnaire was mainly adapted from previous studies, and modified according to the study requirements. For the scale items of retail service quality, customer satisfaction and loyalty, the key parameters were identified and modified by making thorough investigation of the items given in the literatures by Rajasekhar A (2010), Bansal G (2012) and Samridhi (2011).

SPSS version 20 statistical software was used to perform a Cronbach's alpha test to test reliability of three latent variables RSQ, CS and CL, for which data of pilot study got used. The alpha value was found to be 0.825, 0.856 and 0.813 for RSQ, CS & CL respectively, which are greater than 0.800, generally suggested as the minimum alpha value to be considered reliable for group research.

For construct validity check of the constructs service quality and customer satisfaction, confirmatory factor analysis (CFA) was done. The fit indicators used were normal chi-square (CMIN/df), goodness of fit index (GFI), normed fit index (NFI), relative fit index (RFI), incremental fit index (IFI), comparative fit index (CFI), and the root mean square error of approximation (RAMSEA). As illustrated in table 1, the normal Chi-square value was 1.008 (less than 3) for customer satisfaction. The RMSEA was also less than 0.08. These values showed a good model fit. In addition, NFI, RFI, IFI, and CFI were more than 0.9. The values of factor loading were also acceptable (above 0.50) for both RSQ and CS. Average Variance Extracted (AVE) values in case of RSQ and CS were also found to be more than 0.5 for all the dimensions.

**Table 1**  
**Goodness of Fit Indices for Scale Validation**

<i>Constructs</i>	<i>Normal Chi-square</i>	<i>GFI</i>	<i>NFI</i>	<i>RFI</i>	<i>CFI</i>	<i>RAMSEA</i>
Retail Service Quality	4.002	0.985	0.991	0.971	0.993	0.078
Customer Satisfaction	1.008	0.994	0.995	0.989	0.997	0.056

Therefore, based on the result of confirmatory factor analysis through Amos 17, it was found that all the items of RSQ & CS were having good construct validity after few modification in final model, so that almost all the concerned items are the perfect measuring variables of this study.

## **RESULTS AND DISCUSSION**

Customer were asked to rate their level of satisfaction, perceived service quality and loyalty level with respect to all measurement items on a five-point Likert scale. A summary of descriptive statistics is presented in table 2. It indicated that both CS and RSQ were having almost same value of average response and variance. But for CL, mean and standard deviations were lower in comparison to other two.

**Table 2**  
**Descriptive statistics of RSQ, CS & CL**

<i>Variables</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
Retail Service Quality (RSQ)	300	3.97	0.543
Customer Satisfaction (CS)	300	4.09	0.532
Customer Loyalty (CL)	300	3.51	0.397

The main purpose of this research was to examine the direct relationship of retail service quality with customer loyalty and also the mediating effect of customer satisfaction on this. For this purpose, structural equation modelling approach was taken in this study treating RSQ as exogenous and CL as endogenous

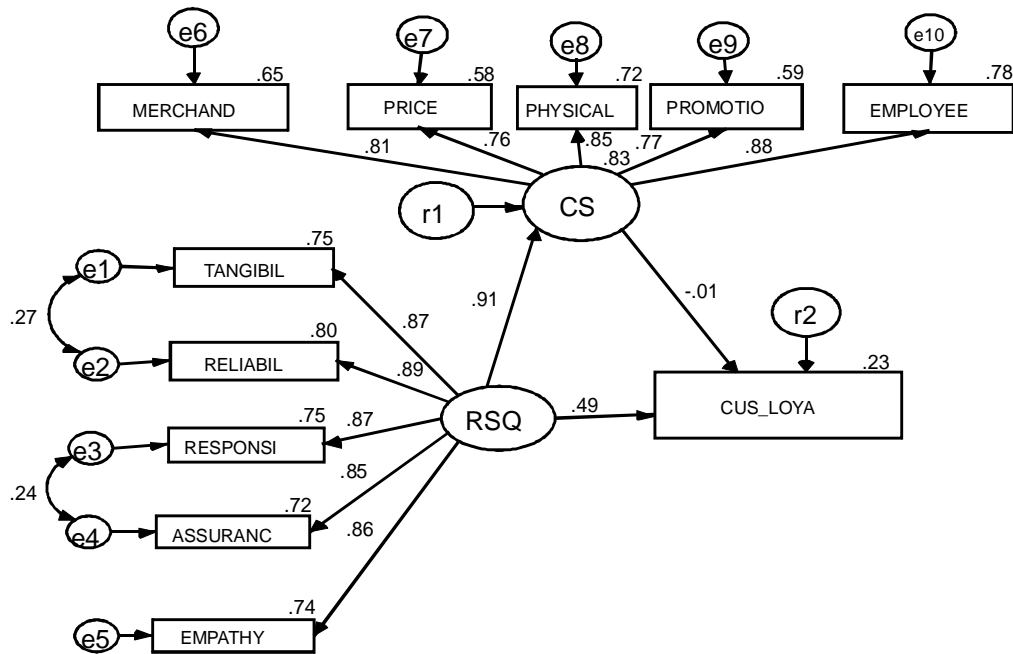
variables. CS was taken as mediating latent variable in between these two (figure 1). By this approach the previous formulated hypothesized relationships among all the three variables of study were examined.

Table 3 presents the hypothesis testing results which showed that hypothesis H<sub>1</sub> with respect to direct relationship was significantly supported and the relationships between the variables RSQ and CL was in the desired direction. Retail service quality was found to have a significant positive relationship with customer loyalty ( $\beta = 0.480, p = 0.000$ ), therefore, H<sub>1</sub> was supported.

**Table 3**  
SEM results of direct relationships

Hypothesis	Path	$\beta$	B	S.E.	C.R.	P	CMIN/df	GFI	CFI	RMSEA
H <sub>1</sub>	RSQ → CL	0.480	0.371	0.043	8.66	0.000	3.174	0.98	0.99	0.07

Further, to assess the relationship of RSQ with CL through the mediating variable CS examined simultaneously, structural equation modelling was used (see figure 2) to validate the hypothesized model shown in figure 1. Analysis was conducted to investigate the effect of the mediating variable (customer satisfaction) on the relationship between RSQ and CL, following Hair *et al.*'s (2010) recommendations that a full mediating effect exists if the relationship between exogenous variable (RSQ) and endogenous variable (CL) is not only reduced in magnitude, but also becomes insignificant.



**Figure 2: Structural Equation Model**

Table 4 provides the empirical results which did not support this fact of existence of full or even partial mediating effect of customer satisfaction in-between REQ and CL. Again, the model fit indices provided evidence towards the validity of the empirical model.

**Table 4**  
**SEM results of mediating relationship of customer satisfaction**

<i>Sl. No.</i>	<i>Path</i>	$\beta$	<i>B</i>	<i>S.E.</i>	<i>C.R.</i>	<i>p</i>	<i>CMIN/df</i>	<i>GFI</i>	<i>CFI</i>	<i>RMSEA</i>
1	RSQ → CS	0.908	0.864	0.055	15.635	0.000	3.427	0.929	0.965	0.079
2	CS → CL	-0.011	-0.009	0.138	-0.067	0.947				
3	RSQ → CL	0.049	0.379	0.132	2.88	0.004				

Table 4 gave the idea that customer satisfaction has no role in creating loyalty ( $p > 0.05$ ) or even due to the mediator of CS, the relationship between RSQ and CL did not get disturbed significantly ( $B = 0.379$ ,  $p < 0.01$ ).

### MANAGERIAL IMPLICATIONS

The Indian retail division is prepared to go up against difficulties from worldwide retail players, for example, Wal-shop and Carrefour on the grounds that not at all like them, they have a superior comprehension of the Indian buyer's mind. Eventually, an effective retailer is one who comprehends his client. The Indian client is searching for a passionate association, a feeling of having a place. Subsequently, to be fruitful any retail outlet must be confined. The client ought to feel that it is a piece of his way of life, his apparent values, and does not attempt to force outsider qualities or ideas on him. Indian client is not quick to purchase something since it is sold by a worldwide organization. Eventually, it comes down to how much limitation and adjustment the organization will accomplish for India. Other than enormous cash control, worldwide organizations have nothing additional or unique that the Indian retail business does not have.

The success or failure of the Indian retail business depends on what of customer relationship it practices through quality service delivery. In the modern age of competition, growing rate of consumerism, and information revolution, the one single element that stands out as the factor of success is the customer loyalty. For that reason, retail marketers in India focus more on improved version of service quality to retain their customers in long run.

The present research study empirically explored that customer satisfaction is not the major target to achieve by any organized retailers in order to retain customers, make them loyal, and create advocates for spreading well about the business. Although, customer satisfaction has been proved to be a major factor in business development in many service industries of India, but here in the current study it was found that it has least role in loyalty establishment among retail customers. Rather, service quality plays major role in making customers loyal directly. Therefore retail strategists should be of more concern in designing the basic contents of service quality, and give more priority what customers like to perceive about service delivery, so that they would be more happy and loyal.

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