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# **Do Customer Satisfaction and Service Quality Predict Loyalty in Nigerian Hospitality Industry?**

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*Abstract:* It has been emphasized in the literature that there exist consistent justification for the effect of customer satisfaction and service quality on customer loyalty in most service industries. However, substantial numbers of these studies were conducted in advanced countries ranging from the United States of America, Canada, European countries, China, Malaysia, India and other countries outside Africa. Hence, the need to replicate these studies in Africa and Nigeria in particular considering the present economic challenges the country is presently experiencing, which to a large extent have a negative impact on the patronage of goods and services. Specifically, the paper intends to ascertain the attributes capable of generating customer loyalty in the hotels. It also seeks to identify the correlation among customer satisfaction, service quality and hotels guest loyalty in Nigeria. As Shoemaker and Lewis (1999) observed that hospitality industry's survival lie solely on their ability to achieve customer loyalty. Therefore, the study proposed that a positive and significant relationship exists between; customer satisfaction, service quality and customer loyalty. Extant literature review in the study found that positive and significant relationship exists between the studied variables in most studies. Scholars are therefore recommended to empirically investigate the relationship between the studied variables in the Nigerian context. Also, the study recommends that hotel industry managers should strive and ensure that their offerings are in conformity or even exceed the requirements of their esteemed guests.

Key words: Customer Satisfaction, Service Quality, Customer Loyalty, Hospitality, Nigeria

## **INTRODUCTION**

Today's businesses are being operating in a globalised world, characterized with stiff competition; easy accessibility of information as well as enlightened customers. These had created a scenario where future

survival of organizations is not guaranteed by reducing prices or improving the qualities of products (Johan *et al.*, 2014). But, on the quality of services provided as well satisfaction derived by customers to remain loyal to such organizations (Bowen & Shoemaker, 1998). In fact, one of the daunting task facing organizations is devising strategic means for survival and winning the competition (Kandampully & Suhartanto, 2000; Kim & Kim, 2016).

The concept of customer loyalty is of great importance not only to marketing scholars but also to business practitioners (Kandampully & Zhang, 2015). Especially, now that businesses operates in a market that is very competitive, dynamic and turbulent, customer loyalty is therefore regarded as a strategic weapon in achieving long-term competitive advantages (Kandampully & Suhartanto, 2000). According to Johan *et al.* (2014), customer loyalty is considered to be the strategy organizations should strive to imbibe in order to achieve competitive advantage. Therefore, for organizations to strive, they must devise various strategies in order to win the trust and by extension the loyalty of their current customers (Kim & Kim (2016), and will subsequently motivate and induce the customers to communicate positively to others regarding the offerings of the organizations (Karim, 2014). Thus, staying ahead of competition and achieving competitive advantage is one of the daunting tasks ahead of many business organizations.

According to Adeleke and Aminu (2012), Loyalty is regarded as the willingness of a customer to continue patronizing organizational products continuously, and at the same time, recommending the products to others. Loyalty exists when organizations create something of value to their customers to induce them to maintain and repeatedly patronise organizational offerings (Anderson & Jacobsen, 2000) in (Adeleke & Aminu 2012). According to Anil (2015), creating and maintaining customer loyalty is beneficial to the organizations, as it help them develop long standing, mutually beneficial relationships with their clients, these loyal customers are more committed toward organization's offerings. Hence, cannot be easily influenced by competitors (Rai & Medha, 2013). Bowen and Shoemaker (1998) specifically emphasized that loyal customer are not normally being influenced by price increment, and they are cheaper to maintain. In fact, loyal customers attract new buyers by spreading positive word of mouth.

As hospitality industry globally is characterized with stiff competition, this equally applies to the hospitality segments of the sub Saharan African region. For instance, in 2016, there was an 18% increase of foreign guests visiting Africa signifying 58 million with majority of them went to the countries in the sub Saharan African region and the figure is expected to be maintained (UNWTO 2017). And according to Manzuma-ndaaba and Harada (2014) such guests are to stay in hotels. In similar vein, Ladipo, Rahim, Oguntoyibo, and Okikiola (2016) revealed that the Nigerian sector is predicted to grow at an annual rate of 6.20%. Further, according to them, the growth rate will reach up to 2023. Thus, as hotels are hotels are operating in an environment which is extermely competitive and dynamic in nature (Berezina, Bilgihan, Cobanoglu, & Okumus, 2016), their chances for survival significantly depends on their ability in meeting the needs of their respective guests (Oyner & Korelina, 2016). Hence the need to ensure that guest requirements are met through meeting their needs and providing them enhanced service quality (Albayrak, Caber, & Bideci, 2016). In similar vein, provision of enhanced service quality to guests in order not only attract, but retain them has equally being acknowledged (Jasinskas, Streimikiene, Svagzdiene, & Simanavicius, 2016). In fact, (Kandampully, 1998) posit that organizations that fails ro embrace customer loyalty stands a greater chance of loosing their customers to their rivals.

Similarly according to Gupta *et al.* (2004) in Watson, Beck, Henderson, and Palmatier (2015) the ability of an organization to retain just 1% of its customers will lead to at least an increase of their profitability position to 5%. That is why Cossío-silva and Revilla-camacho (2015) viewed loyalty an important intangible assets to be possessed by organizations considering its impact as a differentiator as well as its competitive power.

## **PROBLEM STATEMENT**

The importance of the hospitality sector cannot be over emphasized considering its tremendous contributions in enhancing economic growth and development of various countries in terms of employment generation thereby improving county's Gross Domestic Product (Rosa & Hastings, 2016). The contributions of tourism and hospitality industry towards enhancing global economy is highly significant, contributing about USD\$ 1.3 trillion in 2012 (Babalola & Oluwatoyin, 2014). In fact, the industry has significantly improved economies of various countries, such as; South Africa, Kenya, Hong Kong and the Caribbean (Adeola & Ezenwafor 2016). Similarly, the contribution of the sector to the development of the Nigerian economy has also been acknowledged by the country's apex bank; the central bank if Nigeria which rose from \$USD 3million in 1980 to over USD 12million in 2006 (Adeola & Ezenwoafa 2016). Furthermore, the United Nations World Tourism Organization (UNWTO) indicated "between 70 and 75 per cent of international tourists expenditure goes to hospitality services on annual basis" (Babalola & Oluwatoyin, 2014, p.41).

According to Kandampully and Suhartanto (2000), the stiff competition existing in the hospitality industry globally has forced the hoteliers to come up with various strategies to survive and gain a competitive edge over their rivals, as hotel industry is extremely competitive characterized with increasing demand of services from well informed customers. The competition allows the customers to have more alternatives by having a greater value for their money, as well as their quest for improved services.

Today, the services rendered by most hotels are more or less similar as a result of the intense competition existing in the industry making it difficult for the guests to distinguish significant differences among competing offerings (Banki, Ismail, Danladi, & Dalil, 2016). This point has earlier been supported by Berezina, Bilgihan, Cobanoglu, and Okumus (2016), who stressed that the commoditization of the hotels' offerings necessitated the need for the hoteliers to come up with various strategies aimed at soliciting customer loyalty. And by extension providing enhanced service quality that will exceed the requirements of their customers. In fact, the hotel sector in Nigeria is facing a serious challenge as a result of the economic recession the country is experiencing which has an impact on consumers' income (Ecosystem, 2016). Specifically, Chima, 2016) stated that Nigerian hotel sector is negatively affected as a result of the present economic recession the country is presently experiencing where the tenancy rate dropped drastically by 35 per cent. Hence the call for hotel industry managers to come up with strategic measures aimed at ensuring consumer retention. Therefore, a dedicated focus on the core determinants of guest loyalty is the necessary prerequisite for the future survival of hotels businesses. Understanding of what will meet and exceed the needs of the consumers and the quality of their desired services should be given utmost priority. This will be of tremendous relevance to hotels industry managers, as it will determine where marketing attention will be focused in soliciting customer loyalty.

Despite the submission of Adeleke and Aminu (2012), that customer loyalty is among the most researched areas in the service marketing scholarship, there is paucity of studies in Nigeria regarding the

predictors of customer loyalty, as most of the studies were conducted in advanced countries; in South America, Europe, Asia, and their findings may not necessarily be of benefit to Africa, and Nigeria in Particular. Kandampully and Zhang (2015) in their meta-analysis where extant literature were reviewed and synthesized recommend that research in less developed countries should be encouraged in view of their peculiarities.

Moreover, in Nigeria researchers give more emphasis on non-marketing areas, for example, Babalola and Oluwatoyin (2014) in their study, focused their attention on the manpower need in the industry, specifically the hotel sector. On their part, Adeola and Ezenwafor (2016) conducted a study, were issues and challenges afflicting the Nigerian hotels industry were extensively elaborated. Ogechi, 2016 seek to identify weaknesses in human capital development in the country's hotel sector with the aim of proffering sustained remedies. Trevor (2016), reviewed contributions made to the strategic question about human capital issues in Nigerian hotels and means of tackling them. Nwokorie (2016) in his study gave emphasis on service recovery tactics. (Nwosu, 2016) provided an outline of the dynamics that define, govern and shape the tourism and hospitality sector in Nigeria, specifically; the hotel industry with respect to its size, structure and leading issues that impact it. Opara (2016) examined the correlation between Customer Relationship Management and Marketing efficiency of Nigerian hotels. Peter (2014) evaluates the effect of interpersonal relationship on the performance of Hotels. Nevertheless, Banki, et, al. (2016), investigated how service quality, perceived value, as well as customer satisfaction impacted on the guest intention to patronize hotels in Nigeria, specifically in Minna city. This clearly justifies the paucity of studies regarding the area of customer loyalty in Nigerian hospitality industry, specifically the hotels sector. Therefore, the main focus of this study lies in determining; impact of guest satisfaction and service quality on customers' loyalty in Nigerian hotel sector. As according to Angelova and Zekiri (2011), delivering high quality service is highly significant in achieving sustainable competitive advantage. Also, satisfying customers' needs has a positive effect on the profitability of the organizations. They further added that Service quality and customer satisfaction should be accorded prominence for organizations to survive the competition and remain relevant.

## LITERATURE REVIEW

The theoretical framework underpinning the study is; the expectancy/disconfirmation paradigm extracted from the process theory with both service quality and customer satisfaction serving as antecedents of customer loyalty. Armstrong and Seng (2000), in explaining this theory maintained that consumers normally become satisfied with an organization if the performance of its product/service exceeds their expectation. Conversely, they become highly dissatisfied if the performance of the product did not meet their anticipation. This is equally supported by the disconfirmation model of service quality developed by Oliver, (1980). Similarly, the same theory can equally extend to service quality to provide the theoretical foundation as used by Caruana (2002), Pizam, Shapoval, and Ellis (2016). Additionally, Santos (2003) maintained that the literature conceptualized service quality based on disconfirmation approach or performance only approach.

Traditionally, the tactics normally employed by hotel industry managers to outwit their rivals include; cost leadership strategy by reducing their prices, and adopting customer loyalty measures aimed at adding distinctive values to the customers. But reduced prices have an impact on the organizational earnings either in the short-run or in the long-run. Hence the need for the hotel operators to embrace the concept of customer loyalty, which according to Reichheld and Sasser (1990) a five percent rise in customer loyalty can

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lead to the increment of profit ranging from twenty five to eighty five percent. This therefore calls for the need to adopt the idea of customer loyalty rather than depending entirely on price reduction. Thus, the concept of service quality is of strategic relevance to hospitality researchers and practitioners (Worsfold *et al.*, 2016). Further, Markovic and Raspor (2010) cited in Ghaith *et al.*, (2016) affirm that customer satisfaction significantly predicts customer loyalty in hotels context.

# RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

Satisfaction can be referred to "a person's feeling of pleasure or disappointment that results from comparing a product's perceived performance or outcome with their expectations" (Kotler & Keller, 2009, p. 789). Kandampully and Suhartanto (2000) assert that customer satisfaction as an important concept improves organizations to increase their market share; it induces repeat patronage and recommends organizational offerings to others which significantly increase their return on investments. Cronin and Taylor, (1992) in their studies related to service industry found a positive and significant associations between customer satisfaction and purchase intentions in all the researched areas which are; pest control, banking, dry cleaning and fast food.

The findings of several studies revealed positive and significant relationship between customer satisfaction and loyalty. For example, Nesset and Helgesen (2009) in their empirical study consisting of 240 students respondents as their sample from Aalesund University Norway using a two-step confirmative modeling in hypotheses testing found a direct positive relationship between satisfaction and customer loyalty. Armstrong and Seng (2000) revealed that corporate satisfaction impacted positively with repurchase intentions. Also, Halimi, Chavosh Choshali (2011) conducted a study that developed a model which connect various constructs of relationship marketing determinants to customer loyalty in the context of Singaporean tour and travel context. Their correlations and regression results showed that positive and significant relationship exist between customer satisfaction and customer loyalty. In the study conducted by Kandampully and Suhartanto (2000), to determine the impact of customer satisfaction and image on hotels loyalty in New Zealand, their findings revealed a positive and significant relationship exist between customer satisfaction and hotels guest loyalty. However, there are some studies whose findings revealed insignificant and negative associations between the construct of customer satisfaction and customer loyalty. Among them is Dagger and David (2012), the results of their studies consisting of 509 customers from nine different service firms indicated nonlinear relationship between customer satisfaction and customer loyalty. Also, Baumann, Elliott and Burton (2012) conducted a study in the context of retail banking in Australia using Bivariate and Multivariate technique in testing two different models found that there is no positive relationship between customer satisfaction an customer loyalty. Similarly Shiang-Lih (2001) in their efforts of finding the factors that will enhance customer loyalty among Hotel guests found negative correlations between customer satisfaction and loyalty. The mix findings therefore, suggest that research on the link between satisfaction and loyalty as well as between trust and loyalty is inconclusive.

## **RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY**

The concept of service quality is of significant importance not only in meeting the profitability objectives of an organization, but also in prompting customers' behavioural intentions thereby holding valued customers

in an organization (Zeithaml, Berry, & Parasuraman, 1996). Similarly, Santos (2003) argued that the concept is of relevance to researchers due to its pivotal role as a competitive weapon in achieving competitive advantage. Lewis and Mitchell (1990) assert that despite the significance of the concept of service quality in achieving in achieving various organizational objectives, yet, there is no universally accepted definition of quality, as majority of the definitions emphasize mainly on satisfying the requirements of their customers.

However, Parasuraman, Zeithaml, & Berry (1985 p. 42), defined service quality as "the comparison between customers' expectations and performance of the service" According to them, evaluating service quality as variance between perceived service and expected service is of significant to the service industry as it will allow them to identify strategic areas or gaps that need to be improved. Also, Parasuraman, Zeithaml and Berry (1988) viewed service quality as; the assessment of customers' anticipations of firm's services with the performances of the services rendered. Similarly, Kotler and Keller (2009, p. 789) defines service as "any intangible act or performance that one party offers to another that does not result in the ownership of anything".

Banki *et al.* (2016) examines the connections between service quality and behavioral intentions in Nigerian hotels. Using a structural equation modeling (SEM) in testing the proposed conceptual model, involving 263 guests from eight 4-star hotels. The result revealed that the hotels are only providing services to their guests on an average level. They therefore call for the enhancement of the services offered by the hotels in order to meet the requirements of their customers and by extension achieve customer loyalty.

Mey, Akbar, and Fie (2006) in their study aimed at evaluating the expectations as well as the perceptions of hotel service quality in Malaysia, made a comparison between customers that are from Malaysia, customers from other Asian countries and those from non – Asian countries. They found that customers' perception of service quality delivered by their chosen hotels did not match their expectations. And the least perceived were from Malaysian hotel customers. Similarly, Cheng and Lew (2015) in their efforts to find important determinants of customer loyalty in the hospitality in the Malaysian hotel industry, their empirical result shows that perceived service quality significantly predict customer loyalty.

Kandampully and Hu (2007), in their study intended to find out the correlation among service quality and customer satisfaction and their effect on customer loyalty in Mauritius, found that service quality is a prerequisite for achieving customer loyalty. Service quality has also been found to be one of strongest determinant of customer loyalty out of the seven concepts identified by Rai and Medha (2013). Their results were obtained by the use of Multiple Regression Analysis in the context of Indian insurance sector. Similarly, Gbenga and Osotimehin (2015) found a linear relationship between hotel service quality and customer loyalty. In fact, the concept of service quality has been widely researched by many researchers including hospitality researchers (Worsfold, Fisher, And, & Andrew, 2016).

## CONCLUSION

The study examined the impact of two determinants of loyalty which are; customer satisfaction and service quality and after reviewing extant literature the study found that they determine customer loyalty to a large extent. Especially now that the Nigerian hospitality industry is presently facing serious challenges, specifically, the hotels industry, the study therefore recommends to the hotel industry managers to pay adequate attention

to these variables especially in today's environment which is characterized with stiff competition and increased demand from the customers who are provided with ample alternatives.

The need to empirically examine the impact of customer satisfaction as well as service quality as predictors of loyalty in African context, specifically in the Nigerian hospitality domain is highly suggested. Similarly, the inclusion of other variables in order to mediate or moderate the link between the constructs that determine loyalty in the Nigerian hotels context is equally encouraged in future studies.

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