

# Customer Orientation and Customer Satisfaction As the Predictors of Customer Loyalty: Empirical Study of Service Industry

## Abstract

In this globalized era, service industry is facing great competition because of increased demands and awareness of customers. Company policymaking are based on satisfying customers, as they are the king of the market. The purpose of research is to study the significant impact of customer orientation and customer satisfaction on customer loyalty in the context of service sector like insurance and hotel industry. The data was collected from professionals of both the service organization of Gwalior region. Data from target respondents was analyzed in the form of descriptive analysis and reliability test. Linear regression was applied to find out the combined impact of both the independent variables on dependent variable. Result showed that there is significant effect of customer orientation and customer satisfaction on the customer loyalty. This study has certain implications and suggestions.

**Keywords:** Customer Loyalty, Customer Orientation, Customer Satisfaction and Service Sector

## Introduction

To achieve competitive edge, the service industries are compelled to carve innovation and to deliver the best possible for the satisfaction of their customers and making them loyal. Now a day's, industries are improving their bottom line by increasing attention on their most valuable asset – their customers: as they are the only source of generating profit. Customer satisfaction is a marketing asset and acts as a benchmark for performance. Due to social media and online marketing, buyers can find, compare and evaluate purchases in a matter of minutes. Many companies are now focusing on their online portals to attract and to develop customer loyalty and retention programs, so to earn more and more profits. Customer satisfaction drives customer loyalty and profit is generated by loyal customers, because they act as a basis for organizational profit and these customers repurchase the product and service, deliver positive word of mouth and increased referrals from their side.

## Service Sector

This sector deals with selling of services that is not caught in hand but benefits are given. Apart from applying 4Ps in marketing service, firms are applying 3Ps that are Process, Physical layout and People. Because people or work force plays crucial role in service industry success and if, any company want to achieve financial goals and to gain competitive advantage they have to focus on differentiating their services from their competitors. Activities in service sector: Banking, Hospitality, Health, Social work, Recreational activities, Electricity, Education, Real estate, Cyber cafes. In India, there is a huge development done in the fields of service industry. The service industry is one of the fastest growing sectors in entire global world; the contribution of service sector in the development of the country is mark able. A study done on service sector revealed that, this sector business made around 50 to 55% of India's GDP in 2006-2007 and it helps in providing various employment opportunities and helpful in generating income. It helps in getting foreign money exchange by attracting foreign tourist in hospitality sector. There are ample of opportunities lies in the service industry because it comprises of healthcare, education, hotels and banks.

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## Customer orientation

Developing a customer-oriented employee is a big challenge for management. The primary concern of customer orientation is to understand, what consumers need and serve them accordingly. Customer orientation is any activity of business or of an employee's that is geared towards delivering sound services to the customers. i.e. employee behavior that helps in identifying customers want and satisfy them accordingly. Employees are the base for organizational success because it is they who have direct interaction with customers and helps in building an image of an organization that can be positive or negative. Customer orientation (CO) plays an important role in hospitality industry because employees are responsible for selling and if their behavior geared towards the customer, then only an organization is able to achieve profit. Customer orientation is one of the most critical business success factors and defined as "closeness to the customer." Presently, every organization is following proactive customer orientation, which deals with understanding and satisfying customer latent and future needs. Customer orientation deals with collection of relevant information relating to customer demands and formulation of policies by the employees to fulfil them and make long-lasting relationship with customer.

(Hennig-Thurau and Thurau, 2003) suggested a three-dimensional conceptualization of customer oriented service employees.

1. An employee's customer oriented skills,
2. His or her motivation to serve customers and
3. His or her self perceived decision-making authority.

## Customer Satisfaction

Customer satisfaction is one of the key factors for creating competitive edge and it is an important indicator for hospitality service industry. In intense competition and globalization, customer satisfaction has become very important concept for every hotel industry whether big or small. To deliver high quality services to customers is a must to gain competitive advantage as, it directly effects the sales of any product or services and if the customers are satisfied they will do repeated purchase, become loyal towards company, with their products and services and will give rise to positive word of mouth. Customer satisfaction divided into following:

1. Satisfaction arises by the price of the product.
2. Satisfaction from the various offers or schemes or any benefit provided from products or services
3. Customer satisfaction from the employee behavior
4. Satisfaction from the company
5. Satisfaction from the complaint handling or service recovery

When it comes to corporate sector, customer satisfaction acts as a key component which effects on the overall relationship with their customer whether it will go longer or not.

## Customer loyalty

Customer loyalty for a firm, acts as a key determinant of their financial success and it is a

primary concern for every organization whether it is service or product selling industry. Now a day's customer loyalty has become a key concern area of planning in management as it leads to firm's financial success. The most critical issue for the organizations is to measure the customer loyalty. Customer loyalty is winning the confidence of the customer in favor of an organization, such that the relationship becomes a win-win situation for both the organization as well as the customer and it is a feeling of attachment to the service shop. It acts as a vital role for smooth running of the business. It may be measured by recommendation of product to others, repurchasing and positive word of mouth. If the customer is committed towards the firm, buy their products or services and referring it to the colleagues, then such customer is called a loyal customer. Referral increases if the customer is loyal and leads to reduction of cost in acquiring new customers. Presently, every service sector is focusing on increasing customer loyalty and loyal customers know each and everything about the company. Features of any product or service help the consumer, to give positive referrals and help in reduction of unnecessary expense done on the product or service promotion.

## Objectives of the Study

1. To standardize a questionnaire for customer orientation and customer satisfaction and customer loyalty.
2. To study the impact of customer orientation and customer satisfaction on customer loyalty.
3. To test the hypothesized model.
4. To open new vistas for further research.

## Review of Literature

(Brady & Cronin, 2001) revealed that customer orientation, service quality, customer value and customer satisfaction were positively correlated, which means that the more customer orientation, the higher service quality. The more customers service the higher customer satisfaction. (Kushwaha and Dubey, 2012) tested the customer oriented and sales oriented behavior of frontline employees in financial services and observed that customer oriented approach of employee's leads to customer satisfaction.

(Kelley, 1990) examined customer orientation of the customer contact personals in four banks. He emphasized on the relationships between employee motivation, satisfaction, and role clarity and customer orientation. The results of the study revealed that motivation, satisfaction, role clarity directly related to customer orientation.

(Brady and Cronin, 2001) studied the impact of customer orientation on service performance perceptions and outcome behavior. This study attempted to evaluate customer orientation on customer quality perception, customer satisfaction and service value. The result of the study revealed that customer orientation directly related to customer's evaluations of employee service performance, physical goods and service escapes and indirectly

influences the organizational quality customer satisfaction, value attribution.

(Adu & Singh, 1998) analyzed the impact of customer orientation on performance, its impact on innovation orientation, market dynamism and competitive intensity on customer orientation. The result of the study revealed that customer orientation had positive impact on performance in small and medium scale enterprises. (Rust and Zahorik, 1993) stated that greater customer satisfaction leads to greater intent to repurchase and customer satisfaction had direct impact on loyalty.

(Hokansan, 1995) emphasized on the various facilities provided by the bank, such as fast and efficient services, confidentiality of bank, speed of transaction, friendliness of bank, personnel accuracy of billing, billing timeliness, billing clarity, competitive pricing and service quality were the key factors which effects the level of satisfaction of the customers leads to customer loyalty.

(Jones & Sasser, 1995) investigated a cross-sectional study of the relationship between customer loyalty across five service industry i.e. automobile, personal computers, hospitals, airlines and local telephone service. The sample size was 30 and the main findings were customer satisfaction was positively correlated with customer loyalty. They analyzed that customer satisfaction and customer loyalty were non-linear (only highly satisfied customers can be a more significant performance measure, if a company is pursuing a loyal strategy).

(Sivadas & Baker-Prewitt, 2000) examined the link between customer satisfaction, measurement and customer loyalty. They stated that the satisfaction also influence the likelihood of recommending a bank as well as repurchase. It fosters loyalty to the extent that is a prerequisite for maintaining a favourable relative attitude and for recommending and repurchasing from the bank. If any customer recommends a financial institution, it increases both repurchase and loyalty towards that financial institution.

(Bowen & Chen, 2001) examined the relationship between customer satisfaction and customer loyalty and stated that, having satisfied customer is not sufficient for any organization, but efforts should be made to make them extremely satisfied because customer loyalty is only generated by customer satisfaction. Building customer loyalty is not a choice any longer with business it is the only way of building sustainable competitive advantage.

(Kristensen, Juhl and Ostergard, 2001) studied the relationship between the customer satisfaction and customer loyalty in Danish retailing business using the European Customer Satisfaction Index (ECSI). This model linked customer satisfaction to drivers (e.g. Customer expectations, perceived company image, perceived quality and perceived value) and in turn, to its consequences that is customer loyalty. The result revealed that customer satisfaction had strong impact on customer loyalty.

(Wang and Lo, 2002) conducted a study on telecommunication industry and concluded that

network quality was one of the most significant drivers of service quality, service value, and customer satisfaction.

(Galiyu et.al.2012) examined the relationship between customer satisfaction and customer loyalty. The result of the study revealed that customer satisfaction strongly connected with customer loyalty. They further stated that there are so many factors apart from customer satisfaction helps in making customer loyal.

(Inmaullah Khan, 2012) studied the impact of customer satisfaction and customer retention on customer loyalty in mobile telecommunication industry. Study focused on a relatively high level of construct in an effort to contribute to growing body of theoretical and empirical knowledge. Regression analysis was applied and results were that customer satisfaction had positive impact on customer loyalty and customer retention had insignificant impact.

(U. Dineshkumar and P.Vikkraman, 2012) investigated customer satisfaction in the organized retail outlets in Erode city of Tamil Nadu State in India. They found that organized retail outlet provides better services as compared to unorganized outlet and customers were satisfied by the services provided by the organized retail outlet. They further stated that there was a positive correlation between the monthly income of the respondents and their monthly purchase in organized retail outlets.

(Rai and Medha, 2013) conducted a study in life insurance industry in India and presented seven variables, which were responsible for making customer loyal and the importance of these variables, were identified by multiple regression analysis and found that service quality and commitment were strongest predictors of customer loyalty in Life insurance industry. This paper attempted to assess the loyalty status of LIC in India and drawn a comparative study between public and private sector in the field of life insurance. The findings suggested that customers prefer public sector more, in comparison to private life insurance sector because it provides a feeling of stability and security.

(Pratminisingh et.al. 2013) examined the model for investigating the influence of satisfaction, trust and commitment on customer loyalty toward online shopping. Multiple regression and qualitative analysis was used to test the study hypotheses. The empirical study revealed that satisfaction, trust and commitment had significant impact on student loyalty toward online shopping.

(Gul, 2014) analyzed the inter relationship of reputation, customer satisfaction and trust on customer loyalty. Self-administered questionnaire was used and regression analysis was applied to find out the connection between the variables. Result revealed that there was a positive and significant relationship among reputation, customer satisfaction, and trust and customer loyalty.

(Ahmad et.al. 2015) studied the relationship between customer satisfaction, customer trust, switching cost and customer loyalty in mobile telecommunication service market in Pakistan. The

major findings of this study were that customer satisfaction and customer trust plays a key role in determining customer loyalty.

**Rationale of the study**

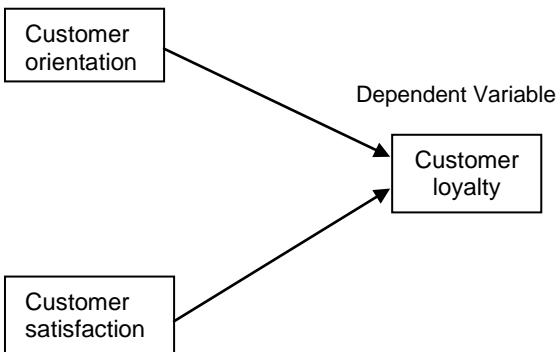
In the above literature, strong emphasis is placed on the importance of customer orientation, customer satisfaction and the positive association between customer satisfaction and customer loyalty. This study is rationale for measuring the combined impact of both the independent variables on the dependent variable that were customer orientation and customer satisfaction on customer loyalty in the service sector of Gwalior region.

**Hypothesis**

**H<sub>A</sub>:** There is no significant impact of customer orientation and customer satisfaction on customer loyalty.

**Proposed Model**

Independent variables



**Figure: 1 Model shows the relationship between the variables.**

**Research methodology**

**Study and Sample**

The study was quantitative, in nature where survey method was used to collect the data. The population included customers of service sector in Gwalior region. The data were collected from customers of insurance and hotel industry, sample size was two hundred.

**Collection of Data**

Collection of data is done through standardized questionnaires. The responses taken on

the Likert type of 1 to 5 where 1 represent strongly disagree and 5 represent the strongly agree.

**Measurements**

**Customer Orientation**

Instrument to measure customer orientation was taken from (Thomas; Soutar & Ryan, 2000). The scale consists of five statements.

**Customer Satisfaction**

Instrument to measure customer satisfaction was taken from (Bettencourt, 1997) out of which three questions were taken and two questions were taken from (Bitner and Hubbert, 1994).

**Customer Loyalty**

Seven statements were taken in which five questions were taken from (Dick and Basu, 1994) and two questions are taken from (Homburg and Giering, 2001).

**Data Analysis**

SPSS 20 was used to analyze the data. Various statistical tools and techniques were applied. Cronbach alpha was used to assess the reliability. Multiple regression applied to find out the relationship between the variables.

**Results and Discussions**

**Reliability**

Reliability reflects the consistence of a set of items variables scale by measuring the concept in a particular. It illustrates the individuals differences concerning the amount of agreement or disagreement of the concept studied. In this study, reliability measurement is important to verify the variables consistencies through customer orientation, customer satisfaction and customer loyalty. Cronbach's alpha is computed using SPSS scale reliability programme for each set of constructs.

The value of Cronbach's alpha is reported in Table 1.

**Table 1: Reliability analysis**

Factor	Items	Cronbach's Alpha
Customer orientation	05	.820
Customer satisfaction	05	.843
Customer loyalty	07	.802

**Multiple Regression**

Multiple regression values for customer orientation and customer satisfaction as independent variables and customer loyalty as dependent variable:

**Table 2: Model Summary**

Model		R	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
dimension0	1	.828 <sup>a</sup>	.654	.651	6.84535	.654	115.539	2	197	.000	1.548

a. Predictors: (Constant), customer orientation, customer satisfaction

b. Dependent Variable: customer loyalty

**Table 3: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.675	2.048		2.260	.019
	Customer orientation	.232	.049	.272	4.377	.000
	Customer satisfaction	.760	.057	.602	9.475	.000

$$Y = a + bx + cx$$

$$Y = 4.675 + .232X_1 + .760X_2 + \text{Error}$$

Where,  $X_1$  = Customer orientation (independent variable)

$X_2$  = Customer satisfaction (independent variable)

Y = Customer loyalty (dependent variable)

The Result of regression is indicated in the coefficient table indicates that values for customer orientation and customer satisfaction have significant relationship with customer loyalty having beta values of .272 and .602 which were significant at .000 and .000 level of significance as indicated by t-value of 4.377 and 9.475 respectively. The model summary table indicates that value for customer orientation and customer satisfaction explained 65.1% variance in the customer loyalty as indicated by adjusted  $r^2$  value of 0.651. So we can conclude that there is significant impact of customer orientation and customer satisfaction on customer loyalty. Hence null hypothesis of our study has been rejected.

### Implications

This research is practically important for implementation. The theoretical contribution of this study will provide valuable information about the importance of employee satisfaction, customer satisfaction and customer loyalty and create value for companies. It acts as a basis to find out various ways of achieving loyal customer and they are strong marketing asset. In service industry, employees are direct representative of the entire company, so managers must know the importance of employees and try to adopt such policies, which will help in employee satisfaction. If the employees are satisfied, then they will handle customers properly which will lead to enhance customer satisfaction and profitability. This study makes an important contribution in field of marketing and research because it established relationship between customer orientation, customer satisfaction and customer loyalty that are the most critical areas of marketing. It provides important steps that every company should take to increase the employee satisfaction and customer satisfaction.

### Suggestions

1. There should be proper service recovery procedure that can convert angry and frustrated customers into loyal and if the service recovery would be proper, it will lead to make the customers loyal for that product or service. It is

the duty of every management, to ensure that each front line employees has the skill, motivation and authority to execute service recovery effectively.

2. It is the duty of every organization to train employees in such way, that they emphasize on stay close to the customer and every management should put the customer at the top of the organizational chart.
3. There should be an effective marketing strategy, which includes identifying and attracting the customers and serve them best of an organization's offerings. An organization should try to take every possible step to enhance customer satisfaction.
4. Every company should differentiate their customer satisfaction and retention programme and making them loyal by identifying and connecting with the unique characteristics of their customer base.

### Future research

Future research could add new empirical evidence for other service industries such as, education, health and local administration. New insights could arise from a deeper analysis of mediated and moderated relationship between employee's customer orientation and its consequence. Managers should concentrate on trying to instill a customer orientation amongst their employees. The study makes a useful contribution to knowledge by suggesting the adoption of customer orientation approach.

### Conclusion

Every company should focus on customer-oriented approach rather than profit-making approach. By doing so, they can able to earn profit and makes customers for a long term. Because when the satisfaction is low, customers have the option to exit (e.g. going to a competitor) or express their complaints. In order to achieve competitive advantage every firm should create new products and services that deliver unexpected benefits to prosper in the future and it is the duty of every organization to anticipate the needs of customers, so that steps should be taken to satisfy their demands at proper time. Various studies suggested that service quality acts as an important antecedent of customer satisfaction. If the customers are satisfied, with the service, quality will lead to increase customer satisfaction and in turn will have repurchased intentions and it became one of the key concern issues for every organization. Every company who wants to gain competitive advantage must focus on delivering products and services of superior quality.

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