

Impact of Service Quality on Customer Retention of Listed Food and Beverages Companies in Kaduna State

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Abstract

This study examines the effect of service quality on customer retention of listed food and beverages companies in Kaduna State. The main objective of this study is to examine the effect of service quality on customer retention of listed food and beverages companies in Kaduna State. The study used an explanatory research design also known as Causal research. It is the investigation of (research into) cause-and-effect relationships. The Kerjcie and Morgan (1970) sample size determination table was used to determine the sample of this study which was 343. The source of data collection for the study is primary. The method for data analysis and technique was multiple regression. The findings of the study show that service quality is positive and significantly associated with the customer retention. It reveals that outcome quality has a t-value of 3.349, coefficient value of 0.471 and a significance value of 0.002. The study concludes that service quality has been established to influence the customer retention of listed food and beverages company, Kaduna. The study recommends that the management should also give equal opportunity to all employees irrespective of service quality, so as to enhance effectiveness in the organizational performance and customer retention.

Keywords: *Service Quality, Outcome Quality and Customer Retention*

Introduction

Service quality and customer retention have long been recognized as playing a crucial role for success and survival in today's competitive market (Ibojo, 2015). Service quality entails constant anticipation of what customers expect from the service provider. Organizations are seeking ways to forge and maintain an on-going relationship with their customers in order to protect their long-term interest. Retention of existing customer is cheaper than attracting new ones. This simply means that building loyalty through long-term customer relationships is important.

Quality in a service business has become a measure of the extent to which the service provided meets the customer's expectations. Companies have found that in order to increase profits and market share, they should pay much attention to the quality of services they provide to their customers (Kemp & Rotmans, 2005).

Service quality plays a vital role in every organization of a nation; it decides growth and survival of the organization in this hugely competitive market in the modern era. Service quality has been revealed as a key factor in search for sustainable competitive advantage, differentiation and excellence in the service sector (Iniesta & Sánchez 2002). According to Heskett (2002) the service quality is considered essential for the success and survival in a competitive environment and this influence the consumer behavior in a decision-making process, and also the level of relationship between customer and company and can impact customer's loyalty.

In terms of attitude and behavior, retention appears as a brand preference or emotional commitment. Therefore, it is measured with the intention of buying, rejection of better alternatives, price tolerance, and intention of recommending the product or service to others. Retention behavior can take on several forms, but is usually viewed as future intention to repurchase products and services or continue a working relationship (Dick & Basu, 2009). Most often, when people are satisfied with a product/service they tend to make repeat purchase of that product or service rendered. Service quality in beverage industry is relatively more challenging to measure than in other service industries, in which system and work processes consist of distinct but inter-related tasks.

Against this background this study intends to examine the effect of service quality on customer retention of listed food and beverages companies in Kaduna State. Also to determine the impact of interactive quality on customer retention of listed Nigerian food and beverages companies in Kaduna State. Finally to investigate the impact of outcome quality on customer retention of listed Nigerian food and beverages companies in Kaduna State. This paper will provide the understanding of studies in the field of service quality and gives an overview of concepts related to the study which include customer satisfaction and customer retention by different scholars and researchers as well as their relationships and others.

Conceptual Review

Concept of Service Quality

Service quality is composed by the act of interactions between customers and employees, in which employees try to seek an advantage to influence customers'

perceptions and the image of the carriers (Gursoy, 2005). Service quality conceptualization incorporates procedure related to service delivery and service outcome (Parasuraman, 2008). Service quality is the customers' attitude or global judgment of a company's service over time (Lam & Zhang, 1999). Rahaman, Abdullah and Rahman (2011) define Service quality "as an approach to manage business processes in order to ensure full satisfaction of the customers which will help to increase competitiveness and effectiveness of the industry".

The service quality as a global judgment or attitude relates to the superiority of a service (Zeithaml & Bitner, 2003). Providing a high level of service quality is very important for service providers to compete with other peers. Rahaman, Abdullah and Rahman (2011) define service quality as the difference between consumers' perceptions of services and their expectations about such services offered by a firm. Yoo and Bai (2013) view service quality as components of product which is perceived by a customer. In the literature, the most common concepts are service quality and customers' satisfaction.

Concept of Customer Retention

Customer retention can be defined in two distinct ways. First, retention is an attitude. Different feelings create an individual's overall attachment to a product, service, or organization. These feelings define the individual's (purely cognitive) degree of loyalty. The second definition of retention is behavioral. Examples of retention behaviour include continuing to purchase services from the same supplier, increasing the scale and or scope of a relationship, or the act of recommendation (Wilkins, Merrilees, & Herington, 2007).

Customer retention is a consumer who intends to repurchase from the same service firms, to keep an optimistic attitude towards the service firm, and to willingly refer the service to others (Kandampully & Suhartanto, 2000). Instead, retention of customers is providing truthful and productive feedback, they combine the volume of their category purchases with the firm, they never mistreat firm employees, and they enthusiastically provide referral to their relatives and friends (Shoemaker & Bowen, 2003). Dick and Basu (2009) indicated that level of customer retention is measured by examining the frequency of purchases or the amount of brand switching. However, this steady customer may be originated from the situational factors (i.e. price) but not always influenced by psychological factor.

Theoretical Framework

Hierarchical Service Quality Theory (HSQM)

Brady and Cronin (2001) proposed a new hierarchical theory by developing previous models. They tried to develop SERVQUAL dimensions by refining its dimensions to what should be reliable, responsive, empathic, assured, and tangible. Brady and Cronin believed that SERVQUAL dimensions need to be specifically defined. Because of the theoretically strong support for multidimensional and multilevel of service quality, they suggested three sub-dimensions for each dimension; attitude, behavior, and expertise for interaction quality dimension, ambient condition, design, and social factors for environment quality, and waiting time, tangibles, and valence for outcome quality dimension.

By specifying these factors, they determined what should be reliable, responsiveness, and empathy as suggested in SERVQUAL theory. This theory developed a new way of measuring service quality by having strong literature support and combining several theories. This theory has the ability to have other dimensions and sub-dimensions related to specific service industries. Some researchers adopted hierarchical theory and developed it by modifying dimensions or/and sub – dimensions based on specific service industries e.g. in health care, (Akter, D'Ambra & Ray, 2010) mobile, health and phone service subscribers and hairdresser (Pollack, 2009). To date, this theory is the most suitable and applicable theory for service quality measurement. It is on this premise that the study seeks to adopt this model for its variables.

Social Exchange Theory

Social exchange theory grew out of the intersection of economics, psychology and sociology. It was developed to understand the social behavior of humans in economic undertakings (Homans, 1961). Exchange theory is based on the premise that human behavior or social interaction is an exchange of activity, tangible and intangible (Homans, 1961). Exchange not only permeates the market but also the non-economic realm (Blau, 1964).

Blau (1964) states that SET assume that exchange parties intend to obtain benefits from their relationships that would not be achievable on their own. Benefits can also include non-economic rewards derived from increasing their partner's utility (Andaleeb & Saad, 1995). This is perhaps the most widely articulated aspect of social exchange. Emerson (1976) referred to productive exchanges where the

actors in the exchange relationship work together to produce an end product or outcome that is shared and valued by both parties.

Empirical Review of Related Studies

Caruana (2000) study on the service loyalty examined the effects of service quality and the mediating role of customer satisfaction. The study aimed to distinguish between service quality and customer satisfaction by using a meditational model that links service quality and service loyalty via customer satisfaction. The service quality model by Parasuraman, Zeithaml and Berry (1985) SERVQUAL model was used for the study. The study was conducted on 1000 individuals of banking customers in Europe. The results revealed that customer satisfaction does play a mediating role in the effect of service quality on service loyalty. The study recommended that further study should be conducted on service quality, loyalty and customer satisfaction in the banking industry.

Bowen and Chen (2001) assessed the relationship between customer loyalty and customer satisfaction. The study aimed to develop and implement a method for hotels to identify attributes that will increase customer loyalty. The study was conducted by using a mail survey in their methodology sent to 564 hotels guests in USA. The study found that the relationship between customer satisfaction and customer loyalty was non-linear and therefore, the non-linearity found in the study was reported based on the empirical findings from the study. Therefore, the study concluded that this non-linearity could be as a result of multi co linearity and heteroscedasticity amongst the variables. The study also recommended that to get the linearity amongst the variables, further study should conduct a unit root test to avoid the effect of linearity.

Brian (2005) conducted a research on a new examination of service loyalty by identifying the antecedents and outcomes of an attitudinal loyalty framework. The study aimed to gain a better understanding of the formation of customer loyalty and the effects that loyalty has on customer outcome behaviors. The loyalty measurement model and subsequent structural research model are tested on a sample of 2,187 consumers from such wide-ranging service industries as movie theatres, dry cleaners, sporting events, hair salons/barber shops, auto repair and physicians. Finding of the study suggests that overall perceptions of service quality, satisfaction, value, and trust all significantly drive customers' attitudinal loyalty. Findings also indicate that identification, exclusive consideration, advocacy strength of preference and share of wallet behaviors are direct outcomes of service loyalty. Furthermore, it recommended that gender, age, and income are

demographic variables that moderate the relationships between loyalty and its antecedents. Likewise, the level of complexity, justice, and risk inherent in the service delivery also moderate the strength of the relationships between the antecedents to loyalty and loyalty.

Evangelos and Graham (2007) examined a study on cultural influences on service quality and customer satisfaction in Greek insurance. The study aimed to examine the impact of culture on service quality and customer satisfaction. The study used an instrument developed for measuring service quality in Greek Insurance for the purpose of measuring individuals, hypotheses on all 25 possible relationships between culture dimensions and service quality are determined and tested. The study sample consisted of 252 individuals. The study found that from the 25 hypothesized relationships between the culture dimensions and service quality, 23 are confirmed and the remaining two are directionally supported. The research also found that, the expected association between quality dimensions importance and their relationships strength with customer satisfaction is only directionally supported in their findings. The study recommended that further study should be conducted using different sub-cultures in varying market segments in order to determine quality investment priorities.

A study conducted by Rita (2008) on the impact of satisfaction and image on loyalty in Alpine ski resorts. The study aimed to investigate the relationship between customer satisfaction and loyalty. The study developed a causal relationship model of customer satisfaction and image in order to predict customer loyalty. The sample consisted in the study results show that ski resorts with highest satisfaction ratings and highest image ratings have the highest loyalty scores in the resorts. The results showed that the ski resorts with highest satisfaction rating and image rating have the highest loyalty scores. The study recommended that researcher should view this study and use it as a yardstick in conducting studies in the area of satisfaction and imaging.

A study by Ahmad and Kyriaki (2009) investigated the effects of individual dimensions of service quality in creating and enhancing customer loyalty via customer satisfaction. The study also investigated the direct and indirect impacts of customer expertise on customer loyalty using sample which consists of 200 bank clients in Greece. Self-administered questionnaire was used to collect the required data. Findings revealed that reliability, tangibility and empathy are positively related to customer satisfaction, which in turn is positively related to loyalty. While, expertise is negatively related to loyalty and it positively moderates the link

between satisfaction and loyalty. The study recommended that further research should be conducted in the direction of service quality, customer loyal and satisfaction.

Study by Ilias and Panagiotis (2010) aimed to investigate main factors that lead to customer loyalty in mobile telephone sector in Greece, namely service quality and customer satisfaction. In addition, the authors investigate the mediation impact of customer satisfaction on service quality and customer loyalty. The study used an explanatory research approach in order to examine and explain the cause-and-effect relationships between service quality, customer satisfaction and loyalty. The study sample consisted of residential non-business mobile phone users in Greece amounting 205 individuals. Survey research was conducted using a self-administered questionnaire. Findings of the study revealed that service quality dimensions: customer service, pricing structure and billing system are the more significant positive influence on customer satisfaction, which in its turn has a significant positive impact on customer loyalty. The study also found that mediation role of customer satisfaction on service quality and customer loyalty relationship was confirmed. The study recommended that operators in matured markets such as Greece should try to understand what the drivers of customer loyalty are.

Lu, Wei and Zhang (2010) conducted a research on understanding customer satisfaction and loyalty in an empirical study of mobile instant messages in China. The study investigated the factors affecting customer satisfaction and loyalty of Mobile Instant Message (MIM) in China. Also, the study focused on the effects of trust, perceived service quality, and customer value on customer satisfaction using a structure equation model and a questionnaire survey was also used to collect data on mobile phone users' perceptions of mobile instant message. The results of their study showed that trust, perceived service quality, perceived customer value, including functional value and emotional value; contribute to generating customer satisfaction with Mobile Instant Message. Also, the findings showed that trust, customer satisfaction and switching cost directly enhance customer loyalty. The study recommended that customers perceive value should always be considered in other to enhance mobile instant messages in china.

A study carried out by Ogunnaike and Ogbari (2011) in Nigeria on the impact of customer service on customer satisfaction; Empirical Evidences from Nigerian Banking Industry. The study investigated performance of service that creates true customers: customers who buy more and who influence others to buy. Two

hypotheses were formulated in the study and multiple regression and correlation statistical techniques employed to test the hypotheses. Findings of the study discovered that there is a relationship between customer service and customer satisfaction. The results also show that there is a relationship between gender and customer service. The study recommended that the banks should focus more on their customers rather than on the products and services, which they sell because customers are the true business of every company.

Study by Chris, Elliot and Burton (2012) on the modeling of customer satisfaction and loyalty using survey data against data mining. The study examined the nature of this association in retail banking, an issue that has not been tested empirically, using survey methodology to examine bank customers' attitudes, perceptions, and behavior with sample of 200 respondents. The study found non-linear relationship between customer satisfaction and customer loyalty. The study also found that predictors of loyalty were associated with customers' intentions to remain with their bank. The results also indicated that market conditions such as switching costs, benefits and recent consumer behavior add explanatory power. The study also contrasted a full model explaining 56.9 percent of the variation in loyalty with a model based only on variables known to banks, which explained only 8.4 percent. The study recommended that the models of the study can be used by banks to profile customers who are likely to remain loyal, allowing practitioners to implement proactive marketing action to reward such loyalty.

Another study by Chodzaza and Gombachika (2013) was conducted in Malawi on the quality, customer satisfaction and loyalty among industrial customers of a public electricity utility. The study examined the relationship between service quality, customer satisfaction and loyalty among industrial customers of the public electricity utility organization in Malawi by using models of correlation and regression analysis. The population of the study consisted of 286 industrial customers of the public electricity utility organization in the southern region of Malawi: data were collected from 92 respondents, as a sample using a questionnaire. The finding showed that the service quality is poor, irrespective of demographic characteristics of the industrial customer, and this simply leads to customer dissatisfaction and disloyal. The study recommended that public electricity utility must direct its resources in order to satisfy its industrial consumers.

Rahim (2016) examined the perceived service quality and customer loyalty: the mediating effect of passenger satisfaction in the Nigerian Airline Industry. The

author examines the relationship among service quality, customer satisfaction and loyalty in the Nigerian airline industry using cross-sectional survey research design in order to collect the primary data on structured questionnaire. Convenience sampling was adopted to draw a sample of 800 respondents. The data collected were analyzed using correlation and multiple regression analysis. The findings of this study largely support the hypothesized relationships proposed in the conceptual framework. The results specifically revealed that perceived service quality is positively related to both passengers' satisfaction and loyalty. The relationship between passenger satisfaction and loyalty towards the airlines was also found to be positive. The mediating effect of customer satisfaction between perceived service quality and customer loyalty is also found to be positive and partially supported. The research concluded that perceived service quality does influence passenger satisfaction, and by extension, loyalty to the airlines. Thus, improvement of service quality is an adjuvant factor to sustainable differentiation and competitiveness in the airline industry. The study also recommended that airline operators develop and implement market-oriented service strategies to identify customers' needs and expectations in order to serve them better. The study further recommended that airline operators should measure service quality regularly to assure that they are keep meeting passengers' expectations, and consider customizing their products and services (as needed) to enhance customer satisfaction and loyalty.

Methodology

The study used an explanatory research design also known as Causal research. It is the investigation of (research into) cause-and-effect relationships. **The Kerjcie and Morgan (1970) sample size determination table will be used to determine the sample of this study. Sample size formula for arriving at a finite population is;**

$$S = \frac{x^2 NP(1 - P)}{d^2(N - 1) + x^2 P(1 - P)}$$

Where;

S = required sample size

X = z value (e.g. 1.96 for 95% confidence level)

N = population size

P = population proportion (expressed in decimal) (assumed to be 0.5) 50%

.d = degree of accuracy (5%) expressed as a portion (0.5); it is margin of error.

$$S = \frac{1.96^2 \times 3195 \times 0.5(1-0.5)}{0.05^2(3195-1)+1.96^2 \times 0.5(1-0.5)}$$

$$\begin{aligned}
S &= \frac{3.841 \times 3195 \times 0.5(1-0.5)}{0.0025(3195-1)+3.841 \times 0.5(1-0.5)} \\
S &= \frac{6135.9975 (1-0.5)}{6.78-0.0025+1.9205(1-0.5)} \\
S &= \frac{6135.9975-3067.99875}{7.9875 + 1.9205 - 0.96025} \\
S &= \frac{3067.99875}{7.895 + 0.96025} \\
S &= \frac{3067.99875}{8.94525} \\
S &= 342.9751823593527
\end{aligned}$$

Sample size is approximately 343 retailed customers

The source of data for this study is the primary sources. Primary source was used which involves the use of questionnaire. The questionnaire for data collection was a combination of the modified versions of the questionnaire on service quality, Harsandaldeep and Hermeen (2012) questionnaire on customer retention, while Anand and Selvaraj (2012) questionnaire on customer satisfaction. **The technique of analysis used in the study is the correlation and regression analysis, simply because correlation analysis was used to explain the relationship between the mediating, dependent and independent variables in terms of association. The study intends to use models for this study and they are as follows:**

The model is captured from (Brady & Cronin, 2001) study on Hierarchical service quality model but modified by the researcher to include; the dependent variable customer retention is a function of the independent variable which is service quality.

In equation form is represented as follows:

$$\text{CUSR: } \alpha + B_1 \text{INTV_Q} + B_2 \text{PHYE_Q} + B_3 \text{OUTC_Q} + E_i$$

Where:

CUSR = customer retention

INTV_Q = interactive quality

PHYE_Q = physical environmental quality

OUTC_Q = outcome quality

E= Standard Error of Estimate

α = Constant or Intercept

$B_1 - B_3$ = Coefficient of independent Variables

Data Presentation and Analysis

This section tries to analyze the collected data from the respondents of the study. This section discusses the descriptive statistics, correlation matrix and the regression analysis, in order to test the hypotheses of the study.

Descriptive Statistics

The descriptive statistics of the data collected for the study is presented and discussed in this section. The descriptive statistics shows that our measure of customer retention (CUSR) has a minimum value of 1 and 5 as the maximum value, this indicates that 1 is the lowest value in the data set, while 5 is the highest value in the data set, which signifies that there is no serious outlier issues in the data set. The average value of the CUSR is 2.69 with standard deviation of 1.447, signifies that the data deviate from both side of the mean value by 1.447 approximately. This implies that there is a bit dispersion of the data from the mean, because of the value of standard deviation which is close to the mean.

The results from the table also indicate that the minimum and maximum values of the transparency on interactive quality (INTVQ) are 1 and 5 respectively; this indicates non-existence of outliers' issues from the data set. The mean value of 2.98 and standard deviation of 1.438 in the data implies that there is dispersion from the mean value by approximately 1.44. The results from the table also indicate that the minimum and maximum values of the transparency outcome quality (OUTCQ) are 1 and 5 respectively; this indicates non-existence of outliers' issues from the data set. The mean value of 2.97 and standard deviation of 1.459 in the data implies that there is dispersion from the mean value by approximately 1.47.

Correlation Matrix

In this aspect, the result of the Pearson correlation Coefficients of the variables of the study is presented that the correlation matrix is used to determine the degree of association between independent variables and the dependent variable. It is also used identify whether there is a relationship between independent variables themselves, to detect the possibility of multicollinearity amongst the explanatory variables. This is necessary so that a broader picture than we could have got when regressed separately against performance would be obtained.

Customer retention (CUSR) has a weak positive relationship with transparency interactive quality (INTVQ) as denoted by the value 0.051. Interactive quality

(INTVQ) has a moderate positive relationship with customer retention (CUSR) with the value of 0.479. Outcome quality (OUTCQ) has a moderate positive relationship with customer retention (CUSR) and value of 0.479; (OUTCQ) has a moderate negative relationship with (INTVQ) with value of -0.301.

Summary of Regression Results

Service Quality and Customer Retention

The result shows that three explanatory variables have significant impact on customer retention at 1% and 5% levels of significance. Cumulatively, the R^2 (0.308) which is the combined coefficient of determination indicates the extent to which the independent variables explain the total variation in the dependent variable and the remaining 69% is explained by the other factors not captured by the model of this study. Thus, it signifies that 31% of the total variation in customer loyalty is by INTVQ and OUTCQ. The F-statistics of 6.079, which is significant at one percent level indicates that the joint coefficients of the study are fit.

Discussion of Findings

This section shows the analysis carried out with a view to testing the hypotheses formulated in chapter one.

Interactive Quality and Customer Retention

Interactive Quality is found to have positively and significantly impacted on the customer retention at five percent level of significance. This signifies that interactive quality is positively and significantly impacting on the customer retention. Therefore, interactive quality can improve customer retention. With this, the null hypothesis is therefore rejected and the alternate hypothesis is accepted.

Outcome Quality and Customer Retention.

Outcome Quality is found to be statistically positive and significantly associated with the customer retention. This evidence shows that outcome quality is positive and significantly influencing customer retention.

Conclusion and Recommendations

Service quality remains a significant organizational challenge, managers must learn how to engage their employees in service managerial skills needed in a multicultural work environment. Supervisors and managers must be prepared to teach themselves and others within their organizations to value multi-dynamic

environment and the differences in both associates and customers, so that everyone is treated with dignity. It has been observed that interactive quality has impact in the customer retention of listed food and Beverages Company, because in the course of interaction helps the organization to understand the needs and prioritization of customer and then can be able to create product in the customer will buy and appreciate. Outcome quality has been established to influence the customer retention of listed food and Beverages company, because the outcome of a product determines how customer will appreciate the product or may respond to the quality and effectiveness of the product. The study recommends that the management of the companies should develop policies on how to neutralizes the dominance of one interactive quality against the other and also adopt best International practices in service quality in an organization. In addition, the management should also give equal opportunity to enable them feel the need to improve in their services, in order for all employee irrespective of outcome quality to enhance effectiveness in the organizational performance, which may resulted into creating customer retention.

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Appendix I

Table 4.1: Descriptive Statistics of the Variables

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-----------------------|-----|---------|---------|------|----------------|
| CUSR | 343 | 1 | 5 | 2.69 | 1.443 |
| INTVQ | 343 | 1 | 5 | 2.98 | 1.438 |
| OUTCQ | 343 | 1 | 5 | 2.97 | 1.459 |
| Valid N (listwise) | 343 | | | | |

Source, Field, 2020

Table 4.2 Correlation Matrix

| | CUSR | INTVQ | OUTCQ |
|------------------------------|------|-------|-------|
| Pearson Correlation CUSR | 1 | | |
| Pearson Correlation INTVQ | .051 | 1 | |
| Pearson Correlation OUTCQ | .479 | -.301 | 1 |

Source, Field, 2020

Table 4.3 Summary of Regression Result

| Variables | Co-efficient | t-values | p-values |
|-------------------------|--------------|----------|----------|
| Coefficient | 1.233 | 1.434 | 0.159 |
| INTVQ | 0.239 | 1.739 | 0.090 |
| OUTCQ | 0.471 | 3.349 | 0.002 |
| R ² | 0.308 | | |
| Adjusted R ² | 0.257 | | |
| F-stat | 6.079 | | |
| F-sig | | | 0.002 |

Source, Field, 2020