# THE CONDITIONAL EFFECT OF EXPERIENTIAL ENCOUNTER ON THE RELATIONSHIP BETWEEN LOYALTY PROGRAMS BENEFITS AND CUSTOMER SATISFACTION AMONG HOTEL PATRONS IN COASTAL REGION, KENYA

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**Abstract**

**Purpose -** The purpose of this paper is to develop an original framework to explore the indirect effect of experiential encounter on the association between loyalty programs benefits and customer satisfaction.

**Design/methodology/approach -** This study applies two original concepts – loyalty programs benefits and experiential encounter to develop an integral model that enhances customer satisfaction. In addition, this research employs an empirical study by means of the questionnaire survey method to verify the hypotheses and to explore their managerial and theoretical implications. Hayes' (2013) PROCESS macro and hierarchical regression analysis are applied to verify the moderation framework.

**Findings -** The empirical results show that loyalty programs benefits and experiential encounter directly and significantly affect customer satisfaction. Furthermore, this study demonstrates that there is a conditional effect of experiential encounter between loyalty programs benefits and customer satisfaction. Hence, hotels should focus on upgrading the human contact aspect in the service delivery process.

**Originality/value -** This study summarizes the literature on loyalty program benefits and experiential encounter into a new managerial framework of customer satisfaction. It utilizes new arrangement of two constructs; loyalty programs benefits and experiential encounter, to develop an original framework that enhances customer satisfaction. Although past research has highlighted the relevant issues about customer satisfaction, none has explored it with experiential encounter and more so in Sub-Saharan African context to the best of our knowledge.

Therefore, this paper develops the research framework of customer satisfaction to fill the research gap specifically in Kenya hospitality industry context.

**Keywords:** loyalty program benefits, customer satisfaction, experiential encounter, PROCESS macro.

**Paper type** Research paper

## INTRODUCTION

Customer satisfaction has been held in high regard by both market practitioners and business organizations (Larivie're et al., 2016). This is due to the increased business competition and unpredictable business environment which has led to increased development and search for new customer relationship strategies (Dutu, 2012; Alqahtani & Farraj, 2016). In consideration of the new business strategy orientation, from a transactional to relational oriented strategy, customer satisfaction and its drivers have received considerable attention (Dutu, 2012; Arokiasamy, 2013). The desire to satisfy customers is responsible for the strategic orientation shift as the businesses focus on establishing long term profitable relationships with customers (Daikh, 2015).

Many firms do recognize the importance of customer satisfaction as a source of competitive advantage, but relatively few do recognize its interrelationship with customer loyalty programs or the experiential encounter (Arokiasamy, 2013; Pham & Huang, 2015). In modern competitive hospitality industry, growth markets are limited and the focus has shifted to customer retention. According to (Simiyu & Bonuke, 2017), the stunted growth and high competition experienced in service markets, requires businesses to retain customers for their survival. This is reiterated by (Kuloba & Wesonga, 2015) who contend that today's customers are more informed and demanding and they rarely tolerate poor services and goods leading to high rates of attrition. Previous studies have shown that well managed customer relationship strategies and drivers like loyalty programs, preferential treatment, service quality, membership, and interpersonal communication lead to customer satisfaction (Abdullah, Putit, & Chui, 2014; Zhang & Feng, 2009; Doaei, Rezaei, & Khajei, 2011).

Specifically, the study intends to establish the following objectives: (1) to investigate the effect of loyalty programs benefits on customer satisfaction within the Kenyan hospitality industry (2) to assess the direct effect of experiential encounter on customer loyalty within the hospitality industry in Kenya (3) to determine the conditional effect of experiential encounter on the relationship between loyalty programs benefits and customer satisfaction within the Kenyan hospitality industry. Prior studies have used constructs associated with experiential encounter like service processes, service encounter, experiential marketing as either independent or intervening for relationship marketing (Lee & Chang, 2012; Pham & Huang, 2015) and to the best of our knowledge, no study has examined the conditional effect of experiential encounter on the relationship between loyalty programs and customer satisfaction.

## LITERATURE REVIEW

### The Concept of Customer Satisfaction

Most of research to date on customer satisfaction has focused on its antecedents like core product benefits delivery but not on the service process experience (Placeholder2). Customer satisfaction is conceptualized as the degree of fulfilment either confirmation or disconfirmation (Oliver,

2010). As argued by (Kumar, 2016), customer satisfaction has attracted the most attention among the potential performance drivers in organizations. This is further affirmed by (Oliver, 1999), who contends that the construct satisfaction denotes the degree to which the organization meets the customers' defined or non- defined expectations. This is buttressed by (Yeung, 2013), who argue that a business organization needs to establish and understand the customer's needs and cultures, enabling it to recreate the right business environment.

Customer satisfaction occupies a central role in marketing as various past studies have established. (Fornell, Mithas, Morgeson III, & Krishnan, 2006), established a positive link between customer satisfaction and organization performance which was a confirmation to the work done by (Fornell, Morgeson, & Hult, 2016), which linked customer satisfaction to the firm's profitability. On the other hand, (Danaher & Arweiler, 1996) in a study conducted on the satisfaction of tourist established that customer satisfaction led to repeat purchases and growth in coincidence towards the organizations products and services.

**Loyalty Programs and Customer Satisfaction**

According to (Soderlund & Colliander, 2015; Lacey, 2007), loyalty programs benefits are common in many service industries and several empirical studies have established a link between them and customer satisfaction, customer commitment and customer share (Soderlund & Colliander, 2015; Melancon, Noble, & Noble, 2011). Other empirical studies have established a link between loyalty programs rewards, increased revenue, and improved share of wallet (Palmatier, Dant, Grewal, & Evans, 2006)and enhanced word of mouth(Ranaweera & Prabhu, 2003). This is summarized by (Gwinner, Gremler, & Bitner, 1998), who imputes that loyalty program rewards are supposed to produce benefits to both the customers and the companies providing the benefits.

In light of the above company's spends fortunes in implementing loyalty program as this informed by their desire to cultivate and enhance loyalty and satisfaction with their customers and other stakeholders (Butscher, 2002). According to (Oliver & Rust, 1997) loyalty is "a deeply held commitment to rebut or re-patronize a preferred product or service consistently in the future, causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour".

According to (Oliver & Rust, 1997), customer satisfaction arises from the perceived discrepancy between the expected performance of loyalty programs and their actual performance on the value dimensions being considered by the customer. This is based on the expectancy disconfirmation theory which according to (Jones, Reynolds, & Anorld, 2006; Chitturi, Raghunathan, & Mahajan, 2008), different processes underlie three types of value that affect the level of customer satisfaction. The utilitarian benefits or value perceived from the loyalty programs which encompasses tangible attributes is cognitively processed generating satisfaction by evoking feelings of confidence, while hedonic and symbolic value constitutes emotional responses that trigger feelings of cheerfulness and excitement (Aurier & Guintcheva, 2014; Chitturi, Raghunathan, & Mahajan, 2008).

In the same vain as discussed above, (Demoulin & Zidda, 2008; Omar, Ramly, Alam, & Nazri, 2015) give prominence to the design, composition and delivery of the loyalty programs benefits to the customers for their effectiveness. They argue that satisfaction is pegged on the customer affirmativeness to the rewards offered by the company. A study done in Malaysia grocery stores established that there are certain types of loyalty programs benefits that did not influence customer satisfaction(Omar, Ramly, Alam, & Nazri, 2015). One of the listed benefits found to be insignificantly associated to customer satisfaction was hedonic type of benefits. Another study focusing on Lithuanian grocery sector returned similar results though for a different type of benefit. In the Lithuanian study the effect of recognition and convenience benefits were found to be insignificant towards customer satisfaction (Kyguoliene, Zikiene, & Grigaliunaite, 2017), this is attributed to multitude of people becoming members of loyalty programs.

To summarize the above review and resolve the emerging conflict, the research hypothesis is summarized as below:

Hypothesis 1 ($H_1$): Loyalty programs benefits have a positive and significant effect on customer satisfaction

**Experiential Encounter and Customer Satisfaction**

Experiential encounter is a construct developed from combining experiential marketing constructs and service encounter elements. The construct focuses on the different interaction processes or points between the customer and the organization; interaction between the customer and the organizations physical evidence, interaction between the customer and the service process, interaction between the customer and the company's information or news and the interaction between the customer with the company's employees, before during and after the consumption process (Shostack, I985; Sahin, Zehir, & Kitapci, 2011; Balakumar & Swarnalatha, 2015). Unlike service encounter that is limited to the interaction during the consumption process, experiential encounter, that occurs whenever there is a direct or indirect interaction between the customer and service process, company's employees, company's intangibles and tangibles (Brakus, Schmitt, & Zarantonello, 2009). According to (Balakumar & Swarnalatha, 2015), in the competitive business environment where a service provider has to create a distinctive and competitive position it's advisable for the business to employ marketing strategies that appeal to the customers emotions. Further as established by (Mathwick, Malhotra, & Rigdon, 2001; Balakumar & Swarnalatha, 2015), the satisfaction level of the customer is not only determined by customer attitude, customers experience during service process but also the encounter with the company's employees and its offerings.

Positive experiential encounter is a key indicator of the business elements performance in the service industry. (Lee & Chang, 2012; Sahin, Zehir, & Kitapci, 2011), contends that positive customer experience has a positive link to customer satisfaction, which then results to further business recommendations, referrals, repetitive purchases and development of emotional bonds. The designing of the marketing techniques and framing of marketing attributes and promotion activities should influence customer attitude and feelings evoking positive experiences and
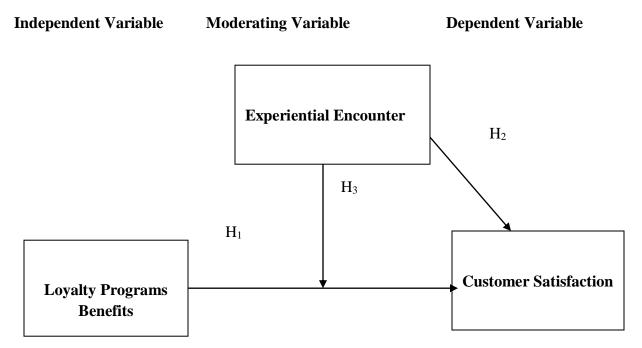
emotions of the services being promoted (Balakumar & Swarnalatha, 2015; Oliver & Rust, 1997; Reichheld & Earl Sasser, 1990). Experiential encounter creates feelings, sensations, cognition and behavioural responses that are evoked by the interaction between the customer and company's marketing promotional activities, interaction with the service process and the evaluation of the physical facilities provided by the service provider (Zeithmal & Bitner, 2003). Therefore this study sets out to establish the following proposed hypotheses:

Hypothesis 2 ($H_2$): Experiential encounter has a positive and significant effect on customer satisfaction.

Hypothesis 3 ($H_3$): The conditional effect of experiential encounter has significant effect on the relationship between loyalty programs and customer satisfaction.

Fig 1.0 Conceptual Framework

**Independent Variable**         **Moderating Variable**         **Dependent Variable**



**Research Methodology**

The study was designed to establish the conditional effect of experiential encounter on the relationship between loyalty programs benefits and customer products on customers patronizing star rated hotels in Coastal regions of Kenya. The participating customers are loyalty program members. This study investigates the effect of loyalty programs benefits on customer's satisfaction at a specific point in time, thus informing the choice of cross-sectional research design. The adopted study design has the ability to test a stated hypothesis (Creswell, 1994). Data was collected using a comprehensive close-ended self-administered questionnaire though with the guidance of a research assistant.

## ANALYSIS AND RESULTS

### Response Rate and Descriptive Statistics

There were 400 questionnaires that were distributed to the respondents and only 347 that were returned. This represented 86.8 % response rate. The study had to drop one questionnaire due to having faults that could not be cured through the known research and statistical methods. The demographic characteristics of the respondents is presented in Table 1.0

The descriptive analysis revealed that the majority of respondents were male 231 (66.6%) while female were 116 (33.4%). The study also showed that the majority of the respondents were aged between 35 and 44 (56.2%), and those aged between 25 and 34 (23.3%) while those aged 45 and above years represented (20.5%) of the respondents. On the number of years as a loyalty program member, the findings show that those respondents who have been members for 1-3 years were 37.5% of the respondents, 4- 6 years were 39.5%, 7-9 years as members were 19.9 % of the participants while those over 10 years as members were 3.2%  of the respondents. The study also shows 21 (6.1%) of the respondents had only ordinary level education, 20 (5.8%) have obtained certificate qualification, 11 (3.2%) have obtained Diploma qualifications, 149 (42.9%) have Bachelor's degree qualification, and 146 (42.1%) postgraduate degrees qualifications.

**Table 1.0 Demographic Characteristic of the Respondents**

| Variables | | Frequency | Percentage |
|---|---|---|---|
| **Gender** | Male | 231 | 66.6 |
| | Female | 116 | 33.4 |
| **Age** | 25-34 | 81 | 23.3 |
| | 35-44 | 195 | 56.2 |
| | 45 and above | 71 | 20.5 |
| **Level of Education** | O-Level | 21 | 6.1 |
| | Certificate | 20 | 5.8 |
| | Diploma | 11 | 3.2 |
| | Bachelor's Degree | 149 | 42.9 |
| | Post Graduate Degree | 146 | 42.1 |
| **Category of Hotel** | 5 Star | 100 | 28.8 |
| | 4 Star | 117 | 33.7 |
| | 3 Star | 130 | 37.5 |
| **Number of Years as an LP Member** | 1 – 3 years | 130 | 37.5 |
| | 4 – 6 years | 137 | 39.5 |
| | 7 – 9 years | 69 | 19.9 |
| | Over 10 years | 11 | 3.2 |

**Scale Reliability and Correlation Analysis**

The study applied Cranach alpha to test the reliability of the research instrument; the procedure was carried out through SPSS version 21. The output as demonstrated in Table 2.0 indicates that all constructs achieved alpha values of more than 7.0 as advised by (Nunnally, 1978). The findings revealed that customer satisfaction had a Cranach alpha of 0.70; experiential encounter had 0.76 while loyalty programs had the highest at 0.77.

To evaluate association between constructs, Pearson's correlation analysis was applied. The relationship between loyalty programs benefits and customer satisfaction was the strongest at r = 0.166, p< 0.001, while that of customer satisfaction and experiential encounter was r = 0.126, p < 0.05. In summary, the findings provide strong support for reliability and correlation assumptions among all scales as indicated in Table 2.0

**Table 2.0 Results for Reliability and Correlation**

| Construct | No. of Items | Cronbach Alpha | Correlation | |
|---|---|---|---|---|
| Customer Satisfaction | 10 | 0.70 | | |
| Experiential Encounter | 15 | 0.76 | 0.126[*] | |
| Loyalty Program Benefits | 14 | 0.77 | 0.166[***] | 0.137[**] |
| **Overall Items and their Reliability** | **39** | **0.89** | | |

[**]p<0.001, [*]p<0.05

**Factor Analysis**

To assess the adequacy and appropriateness of the data for statistical analysis, Kaiser-Meyer Olk in (KMO) and Bartlett's Test of Sphericity were conducted. These tests establish the validity of the data collected and. Principal component analysis with Varimax Rotation was applied to our data set to compress the large number of scale items to related factors. According to (Field, 2000)a data set can be regarded to be adequate and appropriate for statistical analysis should the value of KMO is greater than 0.5.

Table 3.0 indicates the factor loadings for each item of the study variables. The table shows loyalty programs benefits with 6 items factor loadings from a total of 14 items. The other 8 items were dropped as they did not meet a threshold of 0.5. The loading from the six items were of 0.727, 0.723, 0.623, and 0.601 values with Eigen value of 3.576 and a percentage variance of 27.5%. This indicates that more than 27.5% of the total variance can be explained by the six

items of loyalty programs benefits. On the other hand factor loadings of experiential encounter were, 0.892, 0.782, 0.747 and 0.598 with an Eigen value of 2.088 and percentage variance of 16.1%. This implies that the four items of experiential encounter can explain 16.1% of the total variance.

The dependent variable (customer satisfaction) returned three items from the ten original items after factor analysis. This means that seven items were dropped for not meeting the required threshold of 0.5. The factor loadings for customer satisfaction were; 0.849, 0.782 and 0.648 with an Eigen value of 1.991 and percentage variance of 15.3%. This implies that the three items of the dependent variable can explain 15.3% of the common variance.

**Table 3.0 Principal Component Analysis for the Study Variables**

| Rotated Component Matrix[a] | | | | Eigen Values | % Variance |
|---|---|---|---|---|---|
| Scale Items | Component Loadings | | | | |
| | 1 | 2 | 3 | | |
| I feel a sense of belonging | .727 | | | 3.576 | 27.5 |
| I'm able to access express check in and out counters | .723 | | | | |
| I'm updated on hotel events | .673 | | | | |
| I feel close to the brand/I like to be identified with the hotel | .626 | | | | |
| I'm treated with more respect as a member | .623 | | | | |
| The hotel provides free parking services | .601 | | | | |
| Enquire about the customers day/ talk about their day | | .892 | | 2.088 | 16.1 |
| The hotel offer personal experience of a product/service | | .782 | | | |
| Enquire and discuss about the customers likes and dislikes | | .747 | | | |
| The hotel services and physical evidence makes me emotional | | .598 | | | |
| I'm satisfied with the hotel service offering | | | .849 | 1.991 | 15.3 |
| I'm satisfied with the hotel service quality | | | .782 | | |
| The benefits I receive from this program meets my expectation | | | .648 | | |

**HYPOTHESES TESTING**

*Results for Direct Effect – Testing Hypothesis H₁ and H₂*

To test the hypotheses this study employed multiple regression analysis. There are three models as presented in Table 4.0 used to test the hypotheses with model 1 and model 2 dedicated for testing $H_1$ and $H_2$. Model 1 indicates the test results for control variables which had a coefficient of determination $R^2$ of .190 implying that they explain 19 % variation in overall customer satisfaction. The goodness of Fit for model 1 is statistically significant at 0.001% with a value of F= 13.258, this is as indicated by the F-statistics. Looking further into the model results, we realize that it's only Gender that had a positive and significant relationship with a $\beta = 0.461$, p=0.00 and $t = 7.112$.

In model 2 as indicated in Table 4.0, the inclusion of the independent variables to test the direct effect of loyalty programs benefits and experiential encounter as reflected in Hypotheses, **H₁ and H₂**, while controlling for Gender, Age, level of Education, Hotel category, Years as a loyalty program member and Years patronizing the hotel. The model shows a goodness of fit as indicated by the F statistics at F= 16.631 which was significant at 0.001% and a coefficient of determination $R^2$ with a value of 0.283. This implies that the independent variables, loyalty programs and experiential encounter explain 28.3 % of the variations of overall customer satisfaction. The results show that loyalty program had a coefficient of $\beta = .317$, t = 4.729 and p = 0.000, while experiential encounter had a coefficient of $\beta = 0.163$, t = 3.274 and p = 0.001 both positively and significantly affect customer satisfaction. Hence hypotheses, **H₁ and H₂**, are therefore supported.

**Table 4.0 Summary of Hierarchical Regression Analysis Results**

| Predictors | Model 1 Customer Satisfaction | | Model 2 Customer Satisfaction | | Model 3 Customer Satisfaction | |
|---|---|---|---|---|---|---|
| | *B* | *T* | *B* | *T* | *B* | *T* |
| Constant | 3.995*** | 16.232 | 1.710*** | 4.107 | 3.8548*** | 16.668 |
| Gender of Respondent | .461*** | 7.112 | .468*** | 7.631 | .4331** | 7.041 |
| Age of Patron | .102 | 1.802 | .233*** | 3.858 | .180* | 2.901 |
| Highest Education Level | -.030 | -1.206 | -.058* | -2.466 | -.059 | -2.509 |
| Number of years patronizing the hotel | .021 | .478 | .077 | 1.793 | .082 | 1.935 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Number of years as a LP member | -.075 | -1.423 | -.207** | -3.741 | -.169** | -3.029 |
| The Category of the Hotel | -.070 | -1.791 | -.067 | -1.794 | -.042 | -1.122 |
| Loyalty Programs Benefit (LP) | | | .317*** | 4.729 | .255*** | 3.700 |
| Experiential Encounter (EE) | | | .163*** | 3.274 | .089 | 1.653 |
| LP x EE | | | | | -.226** | -3.208 |
| $R^2$ | .190 | | 0.283 | | .304 | |
| $AdjR^2$ | .176 | | 0.266 | | | |
| $F$ | 13.258*** | | 16.631*** | | 16.344*** | |
| $Durbin\text{-}Watson$ | 1.821 | | 1.859 | | | |

*Note.* Each column is a regression model that predicts the criterion at the top of the column. For model three regression analysis is carried out using Hayes (2013) Process Macro for moderated mediation. Gender was dummy coded such that 0 = female and 1= male

*p<.05, **p<.01, ***p<0.001

### Results for Conditional Effect- Testing for Hypothesis H₃

Model 3 includes the interaction variable and when it is run, it's found that experiential encounter has a significant negative conditional effect on the relationship between loyalty programs benefits and customer satisfaction with ($\beta$= -.226, p=0.01 and $t$ = -3.208). The model results indicates a goodness of fit as presented by F Statistics (F = 16.344) which was significant at 0.001 level and coefficient of determination ($R^2$) with a value of .304. Since the p-value is less than 0.05, Hypothesis **H₃**, is supported.

### Discussions and Conclusion

This study was conducted using theoretical and empirical framework developed for this study but with an input from previous studies. In conclusion, this paper suggests what is practical, and implementable by both marketers and academicians in terms of loyalty programs benefits, experiential encounter and customer loyalty.

The effects of loyalty program benefits: This study establishes a positive and significant relationship between customer loyalty program benefits and customer satisfaction. These findings are supported by (Melancon, Noble, & Noble, 2011; Omar, Ramly, Alam, & Nazri,

2015; Soderlund & Colliander, 2015). Loyalty programs benefits create an opportunity to treat each customer as an individual offering personalized treatment to each customer. This creates a sense of mattering, inducing positive emotional engagement with the organization thus increasing the satisfaction levels (Omar, Ramly, Alam, & Nazri, 2015).

The effects of experiential encounter: The study establishes a direct and positive association between experiential encounter and customer satisfaction. This is a confirmation of the studies carried out by (Lee & Chang, 2012; Mathwick, Malhotra, & Rigdon, 2001; Balakumar & Swarnalatha, 2015). The results also indicate that experiential encounter not only affects customer satisfaction but also influences the strength of the relationship between loyalty programs and customer satisfaction.

**Theoretical and Managerial Implications**
Taking into consideration that companies are operating under heightened competition, they need to satisfy their customers in the hope that satisfied customers rarely defect (Uncles, Dowling, & Hammond, 2003). The findings establish that loyalty programs benefits have a direct relationship with customers' satisfaction. This adds to more understanding of the literature on loyalty programs and customer satisfaction. Managers within the hospitality industry should embark on registering customers to loyalty programs and continue offering loyalty program benefits in the hindsight that design, package and process of delivery of the programs is taken into consideration as advised by (Demoulin & Zidda, 2008; Omar, Ramly, Alam, & Nazri, 2015).

The findings show that experiential encounter has a significant conditional effect on the relationship between loyalty programs benefits and customer satisfaction. This adds theoretical knowledge on loyalty program benefits effect on customer satisfaction within the hospitality industry, that the introduction of human contact affects the intensity of the effect. This means that managers cannot ignore the presence and involvement of service providers despite having provided benefits to the consumers. Experiential encounter triggers feelings and emotional senses to the customers and at the same time providing that ambience of recognition and appreciation by the organization. Management should therefore invest in upgrading the customer relations skills of its human capital plus the physical appearance and set up of the hotel physical facilities.

**Limitations and Further Research**
Like many other researches, this study is subject to several limitations. First, the design adopted for this study is cross-sectional research design; therefore results should be interpreted cautiously. Future studies can be used to clarify the causal effects using experimental or longitudinal research. This is informed by the inclusion of psychological and intangible variables like experiential encounter and customer satisfaction. Secondly, although the sample size included in this study was large (N=347), and the data was collected in one region, the generalizability of the results is brought into disrepute and thus more regions should be incorporated in future studies. Thirdly, this study relied on self-reported measures, which may

create biasness when assessing behaviour or affect, including objective measures like standard observations would provide more accurate information.

A useful recommendation for future research is to investigate whether analyzing data according to hotels rating would generate similar results. Further research should focus on the antecedents of loyalty programs benefits; the design of loyalty programs and their polygamous nature and how loyalty program benefits dimensions are influenced and structured by the design of the loyalty programs. Finally, this study has focused on loyalty programs benefits role on customer satisfaction. More specifically, the core objective has been customer oriented benefits rather than organization benefit. As differences may arise when customer oriented and organizational oriented benefits are analyzed, future studies that consider simultaneous analyses or separate analyses then comparison carried out are performed would be of great interest. Nevertheless, this study offers new insights on the interaction effect and adds to the literature on consumers' response to relationship marketing strategies and drivers.

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