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Effects of perceived quality and satisfaction on brand loyalty in China: The moderating effect of customer orientation

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The domain of customer orientation, perceived quality and brand loyalty has been well documented in the Western market (for example, Europe and US). However, the afore-mentioned themes are under-explored in the Chinese market. Therefore, this study investigates the effects of customer orientation, perceived quality and satisfaction on brand loyalty. Both perceived quality and customer satisfaction are hypothetically associated with brand loyalty through customer orientation acting as a moderating variable. Our study of 547 surveyed customers shows that endogenous constructs have an impact on brand loyalty. Our results present an alternative perspective on the moderating role of customer orientation. Conclusions and implications are drawn and discussed for brand loyalty development.

Key words: Chinese services sector, perceived quality, customer orientation, customer satisfaction, brand loyalty.

INTRODUCTION

Over the past decades, there has been a growing recognition among researchers and practitioners that a completed understanding of brand loyalty formation represents a source of global advantage. The marketing literature acknowledged the need to capture consumer perceptions at “the heart of a company’s most valuable customer group” (Genesh et al., 2000: 65). A number of studies have investigated the advantage of customer-focused brand loyalty and their potential to achieve superior results (Oliver, 1999; Russell-Bennett et al., 2007).

Some marketing scholars argue that brand loyalty is gradually declining in both US and Europe over time (Tod, 1984; Kapferer, 2006). East and Hammond (1996) have showed that the percentage of repeat-buyers tends to decline, while Dekimpe et al. (1997) have found little support for the often-heard contention that brand loyalty continues to decline. Their models that have been used to create a time series of brand loyalty estimates provide valuable insights for a better understanding of how brand loyalty is being evaluated, while a different approach is necessary to establish brand loyalty in emerging markets, particularly in China. From a theoretical perspective, it is relevant to understand what key elements make up brand loyalty. From a practical perspective, it is important to figure out how brand loyalty can be reinforced in order to enhance the overall brand experience.

To date, the study of perceived quality, and satisfaction factors related to brand loyalty have dominated the service literature. The bases for these discussions have been both operational and conceptual, with particular attention paid to identifying the relationships between the two factors (Brady and Robertson, 2001). This study particularly focuses on the importance of customer orientation with these determinants on brand loyalty because the concept of customer orientation has evolved into the core of strategic marketing (Jaworski and Kohli, 1991; Luo and Seyedian, 2003; Webb et al., 2000). To formulate a successful service marketing strategy in the Chinese markets, companies need a deeper...
understanding of how customer orientation plays a significant role in the relationship between brand loyalty and its determinants and how it translates into brand loyalty.

This issue has certainly not escaped researchers’ attention as they have tried to relate customer-focused services in novel ways toward achieving brand loyalty (Na and Shim, 2010; Ha et al., 2009). Cries for relevant theoretical perspectives that can breathe new life into brand loyalty research have been raised (Fournier and Yao, 1997; Fournier, 1998). The current study responds to this need by providing an account of brand loyalty that is tested by moderating effects that have had little empirical work.

The remainder of this paper is organized as follows: Background to the study before discussing our model and hypotheses in more detail. We then turn to the retail service industries as the context for testing our hypothesized model. This is followed by a description of the methodology used for measuring key concepts and collecting data and lastly key results and their implications.

BACKGROUND

The traditional model is essentially based on Olsen’ satisfaction-loyalty model (2002). The satisfaction-loyalty model is structured in such a way that satisfaction acts as a mediator between perceived quality and brand loyalty. This indicates that quality has only an indirect influence on loyalty through satisfaction. This approach is also in accordance with the cognition-affect-behavior hierarchy within expectation-value theory (Eagly and Chaiken, 1993) and supports the loyalty phase framework (Oliver, 1999). In the marketing literature, however, satisfaction has been also established as a major antecedent of loyalty (Henning-Thurau, 2004; Oliver, 1997; Shankar et al., 2003). These literatures generally support the view that consumers’ judgments on consumption with a brand will affect their behavior as loyalty is dependent on consumer satisfaction.

These approaches have been well developed in the literature, while consumers often rely on the behavior of service employees when evaluating their behavioral sequence. Prior research has focused on the development of brand loyalty (Chaudhuri and Holbrook, 2001: Oliver, 1997) and reveals there may be two quite distinct motivations for investigating brand loyalty. One appears to be a customer orientation-focused motivation intended to estimate the direct role of determinants on brand loyalty. For example, researchers investigated the direct impact of customer orientation on brand loyalty (Appiah-Adu and Singh, 1998; Dean, 2002). The other approach focuses on the indirect effect of these determinants on brand loyalty. From a marketer’s perspective, customer orientation may be reasonable to be understood as a commencement point for the indirect effect on brand loyalty. While much attention has been devoted to the foundation on the construct (Brady and Cronin, 2001; Brown et al., 2002; Kennedy et al., 2003), the moderating effect of customer orientation on brand loyalty are relatively limited in the literature. This precipitates the motivation to investigate the relationships between determinants of brand loyalty.

CONCEPTUAL MODEL

The hypothesized model proposes that customer satisfaction mediates the relationship between perceived quality and brand loyalty. Customer orientation is proposed to moderate the relative strength of the relationships between perceived quality, satisfaction and brand loyalty. The following text offers our rationale for the proposed relationships between these constructs.

Perceived quality and customer satisfaction

Definitions of perceived quality in a service context suggest that this is the result of comparisons that customer makes between his/her expectations about a service and perception of the way that service has been performed (Caruana, 2002; Parasuraman et al., 1994). The most common definition of perceived quality integrates consumer experience of the service and perceptions of the firm providing the service (González et al., 2007). Thus, this study conceptually defines perceived quality as the customer’s cognitive evaluation of the overall experience of a brand (bank or department store).

Over the years, numerous definitions of satisfaction have been proposed by marketing scholars. After reviewing the literature on satisfaction, Oliver (1997: 28) concludes that the wide variation in defining the factor of satisfaction was best reconciled in the definition of satisfaction as “the summary psychological state resulting when the emotion surrounding disconfirmed expectation is coupled with prior feelings about the customer experience.” In this study we define satisfaction as a summary affective response of varying intensity after the customer frequently visits a facility (bank or department store).

Although most marketing researchers accept a theoretical framework in which quality performance leads to satisfaction (Oliver, 1997; Olsen, 2002), it has been suggested that this debate seems to be on the many studies which only consider the effect of either service quality or satisfaction on behavioural intentions, but does not test models that include both of these factors (Brady and Robertson, 2001; Gotlieb et al., 1994). Such studies may lead to biased results which potentially overstate the importance of one or both of these factors in the brand...
loyalty formation. Thus the link of perceived quality to satisfaction on brand loyalty is consistent with Gotlieb et al.'s (1994) suggestion that an empirical examination of the antecedents and the effects of these two factors are needed.

On the other hand, previous research provides considerable support for the predictive effect of perceived quality on customer satisfaction. For example, Cronin and Taylor (1992) assess several models and conclude that perceived quality leads to satisfaction. Lee and Back (2008) similarly find empirical evidence supporting this relationship in the branding context. This link has also been previously established in numerous other quality studies (Brady and Robertson, 2001; Fornell, 1992; Tse and Wilton, 1988). The link of perceived quality to satisfaction is expected to perform the best in terms of predicting brand loyalty because consumer behavior theory suggests that cognition (evaluation of service quality) influences affect (judging the satisfaction for the service) (Brady and Robertson, 2001). Thus, we suggest the following:

Hypothesis 1: Perceived quality will be positively related to customer satisfaction.

Perceived quality and brand loyalty

Brand loyalty can be defined as “a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour” (Oliver 1999: 34). This definition emphasizes both behavioural and attitudinal perspectives, and brand loyalty is considered as one of the most important factors affecting consumer choice (Baldinger and Rubinson, 1996). This research draws on the conceptual work of Dick and Basu (1994), who propose that customer loyalty is the result of psychological processes and has behavioural manifestations, and should therefore incorporate both attitudinal and behavioural components. In this study, therefore, we conceptually define brand loyalty as an attitudinal and behavioural function of an evaluative psychological process for a particular brand.

Since the link of perceived quality and customer loyalty is well addressed in the literature, the relationship between perceived quality and brand loyalty is relatively limited. For example, the brand equity literature views two constructs as dimensions of brand equity (Aaker, 1996; Keller, 1998; Parasuraman and Grewal, 2000; Yoo et al., 2000), but relatively few studies have focused on the relationship between the two constructs (Chiang, 1991; McConnell, 1968). Such a relationship has the potential to contribute differentially to customer attitudes and behaviors, because the strength of brand loyalty could be explained by perceived quality (McConnell, 1968). Thus, we hypothesize the following:

Hypothesis 2: Perceived quality will be positively related to brand loyalty.

Customer satisfaction and brand loyalty

A number of empirical studies show that satisfaction is an antecedent of brand attitude, brand repurchase intention, and attitudinal brand loyalty for consumer retailing services (Oliver, 1980; Pritchard et al., 1999; Russell-Bennett et al., 2007). Satisfaction is found to increase loyalty when brand loyalty is measured in a number of successive purchases of the same brand (LaBarbera and Mazursky, 1983). Similarly, research has shown that evaluation of a retail service following purchase and consumption leads to two aspects of brand loyalty--purchase loyalty and attitudinal loyalty--which play a critical role in determining whether the consumer will purchase that service again (Bennett, Härtil, and McColl-Kennedy, 2005; Chaudhuri and Holbrook, 2001). However, research on satisfaction and brand loyalty from the context of Chinese retailing services is not well documented. Thus, the following hypothesis is arrived:

Hypothesis 3: Satisfaction will be positively related to brand loyalty.

The moderating role of customer orientation

Since considerable research has shown that organizations are more successful when they embrace a customer orientation, the literature tends to focus on descriptive of the process for implementing this desired orientation (Kennedy et al., 2003; Luo and Seyedian, 2003). These studies have focused on the construct of how an organization adopts a customer orientation by refining understanding of market performance, while another approach is to address the role of customer orientation of how customer-oriented services translate into service performance perceptions and behavioral outcomes. From a customer perspective, we conceptually define customer orientation as a practical level of a firm’s employees which are perceived as the application of employees’ specialized activities, through identifying, analyzing, understanding, and answering customer needs for the benefit of the entity itself (Vargo and Lusch, 2004: 326).

To date, most of the available research examines the direct relationship between customer orientation and loyalty or repurchase intentions (Brady and Cronin, 2001; Hernig- Thurau, 2004; Deshpandé et al., 1993), but there is little research that addresses the moderating effect of customer orientation on service quality/customer...
satisfaction-loyalty relationships. Building from the reasoning, we anticipate that high levels of customer orientation will reinforce overall the positive effect of perceived quality and satisfaction on customers' intent to stay with a particular brand. Customer-oriented firms outperform competitors by anticipating the developing needs of consumers and responding with goods and services to which superior value and greater satisfaction are consistently attributed (Brady and Cronin, 2001). However, if a firm feels the relationship between satisfaction and loyalty is ambiguous, the firm might enhance brand loyalty when customers benefit from a high practical level of a firm's employees. As a result, they might remain "locked in" with the same brand by their willingness to stay or repurchase.

On the other hand, when firms consistently identify and then satisfy the desires of customers, they accrue a positional advantage over competitors as reflected in growing sales and building loyal customers (Hult and Ketchen, 2001; Zhu and Nakata, 2007). One reason is that customers perceive that the firm offers greater value in its products and services. As satisfied customers are likely to be loyal, the notion of positional advantage suggests that greater customer orientation corresponds with the reinforcement of the link between satisfaction and loyalty. Thus, we hypothesize the following:

Hypothesis 4: The positive relationship between satisfaction and brand loyalty will be stronger where customers benefit from customer orientation.

Customers remain with the brand when service quality is less ambiguous. Despite the advancements of both the strategy and service literature in understanding the mechanisms that govern the effects of perceived service quality on brand loyalty, firm performance could be improved if there is an identical effect on customers' perceptions of a firm's customer orientation (Brady and Cronin, 2001). For example, firms attempting to increase brand loyalty must be especially sensitive to market reactions to service offerings, because those reactions hold insight on how best to deliver on high levels of service quality. As those reactions are reflected in customer orientation, if a firm is intent on fulfilling the deepest wants of current and prospective customers, it refers to customer orientation measures (Zhu and Nakata, 2007) in order to monitor how well the link between perceived service quality and brand loyalty is accomplished. Equally, it could be argued that customers who perceive a high practical level of a firm's employees would evaluate overall quality provided by employees and then, they form their intentions to stay or repurchase with the brand. On the basis of these arguments, we finally suggest the following:

Hypothesis 5: The positive relationship between perceived quality and brand loyalty will be stronger where customers benefit from customer orientation (Figure 1).

METHODS

Data collection

Data was collected from the department store industry. The customers purchased their products and services during March to June of 2008 across-national China. The service was chosen because customers in this service had direct contact with the firms. The wide variety of service types in the department industry allows for variance on the relevant independent and dependent variable.

Respondents were screened before the questionnaire was administered to make sure that they were familiar with the service context in question. For research survey, respondents were intercepted in the customer service lounge at targeted multiple stores. This method of sampling was chosen as it was easy to target respondents with previous service experience. The main criteria for selecting participants for the sample was a minimum of two years experiences shopping at department stores with at least five purchases during that period. Trained interviewers indicated the information would be used by university researchers and offered assurances of confidentiality.

Self-administered surveys were distributed to 600 current customers from the selected industries. After accounting for sample bias and missing data, this study used a total of 547 questionnaires, which represents a 91.2% response rate. Respondent demographic characteristics showed that approximately 53% of the group was female and 21% were older than 41 years of age.

Following Armstrong and Overton's suggestion (1977), we assessed non response bias through a series of t-tests that compared early (responses to the initial survey) with late (responses to the follow-up survey) respondents in terms of all key constructs. The results suggested that there was no significant difference between early and late respondents on the key variables.

Measures

The four factors were measured using twelve questions (responses on five-point Likert scales) adapted from published scales (Table 1). Customer orientation was measured with four items adapted from Saxe and Weitz (1982). Perceived quality was measured with three items adapted from Yoo et al. (2000). Satisfaction was measured with two items adapted from Ragunathan and Irwin (2001). Brand loyalty finally was measured with three items adapted from Yoo and Donthu (2001).

All survey questions were originally written in English and translated into Chinese. To make sure that the translation was accurate, the translation and back-translation method was utilized. As the translation should be written in the appropriate Chinese language spoken by a Chinese population at the specific time, two researchers were consulted on the wording and understandability of the Chinese language survey. Overall, there was an acceptable good fit between the back-translated versions and the original version, indicating that the Chinese survey had a high level of translation quality.

Control variable

We controlled industry type as the characteristic has been shown to moderate the relationship customer orientation and business performance. For example, Sin and colleagues (2005) found that gender difference is significantly influenced by the moderating effects of industry type in a transitional Chinese economy. In this
study, we asked respondents to indicate their responses according to their sexes as either male (1) or female (2).

Common method bias
To determine the presence of common method variance bias among the proposed variable, a Harman's one factor test (1967) was performed following the approach outlined by previous researchers (Mattila and Enz, 2002; Podsakoff et al., 2003). All self-report variables were entered into a principal components factor analysis with varimax rotation. According to this technique, if a single factor emerges from the factor analysis, or one “general” factor accounts for over 50% of the covariation in the variables, common method variance is present (Mattila and Enz, 2002: 272). Our analysis revealed a three-factor structure, with each factor accounting for less than 50% of the covariation. Thus, no general factor was apparent.

RESULTS
Measurement model
We first assessed the measurement model followed by hypotheses testing according to the guidelines suggested by Anderson and Gerbing (1988). We conducted exploratory and confirmatory factor analysis (CFA) to test for convergent validity. First, from a statistical perspective, the item-total correlation was considered, and values that were well below other item-total correlations were targeted for deletion. Next, based on initial CFA results, any item that loaded less than 0.50 on its intended construct were candidates for deletion. As a result of applying these guidelines, one item from the original customer orientation scale and two items from the brand loyalty scale were dropped from the original pool of items. When the resulting pool of items for customer orientation, perceived quality, customer satisfaction, and brand loyalty were subjected to an exploratory factor analysis with the principal factor as the extracted method followed by a varimax rotation, four factors emerged that corresponded to how we had initially measured these constructs.

We further subjected the resultant pool of items to a CFA using AMOS 6.0 with the covariance matrix as input. The measurement model suggested good fit to the data, $\chi^2 (48) = 173.464, p < 0.01$, comparative fit index (CFI) = 0.952, non-normed fit index (NNFI) = 0.934, goodness-of-fit (GFI) = 0.950, adjusted goodness-of-fit index (AGFI) = 0.918, and root mean square error of approximation (RMSEA) = 0.069. The results of the CFA with factor loadings and t-values are summarized in Table 1. All factor loadings were relatively high and significant, providing strong evidence for convergent validity (Bagozzi and Yi, 1988). Support for convergent validity is also demonstrated by the high average variance extracted (AVE) for all four constructs (Bagozzi and Yi, 1988). All AVEs exceeded the recommended level of 0.50, rating from 0.598 (customer orientation) to 0.788 (satisfaction).

Discriminant validity was assessed by calculating the shared variance between pairs of constructs and verifying that it was lower than the average variances extracted for the individual constructs (Fornell and Larcker, 1981). As shown in Table 2, the shared variances between pairs of all possible scale combinations indicated that the
Table 1. Results of the CFA analysis.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Factor loading</th>
<th>t-Values</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer orientation</strong></td>
<td></td>
<td></td>
<td>0.777</td>
</tr>
<tr>
<td>Employees go beyond normal call of duty to please customers.</td>
<td>0.758</td>
<td>16.43</td>
<td></td>
</tr>
<tr>
<td>Employees understand what product attributes customer value most.</td>
<td>0.672</td>
<td>14.73</td>
<td></td>
</tr>
<tr>
<td>Employees are given adequate resources to meet customer needs.</td>
<td>0.561</td>
<td>12.26</td>
<td></td>
</tr>
<tr>
<td>Employees understand customers’ real problems.</td>
<td>0.730</td>
<td>15.99</td>
<td></td>
</tr>
<tr>
<td>Composite reliability</td>
<td>0.856</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average variance extracted</td>
<td>0.598</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Perceived quality</strong></td>
<td></td>
<td></td>
<td>0.728</td>
</tr>
<tr>
<td>The store is of high quality.</td>
<td>0.717</td>
<td>14.73</td>
<td></td>
</tr>
<tr>
<td>The likelihood that the store is reliable is very high.</td>
<td>0.690</td>
<td>14.16</td>
<td></td>
</tr>
<tr>
<td>The likely quality of the store is extremely high.</td>
<td>0.665</td>
<td>13.71</td>
<td></td>
</tr>
<tr>
<td>Composite reliability</td>
<td>0.848</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average variance extracted</td>
<td>0.651</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Satisfaction</strong></td>
<td></td>
<td></td>
<td>0.730</td>
</tr>
<tr>
<td>Overall I am satisfied with specific experiences with the store.</td>
<td>0.747</td>
<td>15.72</td>
<td></td>
</tr>
<tr>
<td>I am satisfied with my decision to purchase from this store.</td>
<td>0.774</td>
<td>16.07</td>
<td></td>
</tr>
<tr>
<td>Composite reliability</td>
<td>0.881</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average variance extracted</td>
<td>0.788</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brand loyalty</strong></td>
<td></td>
<td></td>
<td>0.797</td>
</tr>
<tr>
<td>This store would be my first choice.</td>
<td>0.721</td>
<td>14.84</td>
<td></td>
</tr>
<tr>
<td>I consider myself to be loyal to this store.</td>
<td>0.730</td>
<td>15.01</td>
<td></td>
</tr>
<tr>
<td>I will not buy other brands if the same product is available at the store.</td>
<td>0.717</td>
<td>14.78</td>
<td></td>
</tr>
<tr>
<td>Composite reliability</td>
<td>0.881</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average variance extracted</td>
<td>0.712</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Discriminant validity (N = 547).

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation</td>
<td>0.59</td>
<td></td>
<td></td>
<td></td>
<td>3.42</td>
<td>1.01</td>
</tr>
<tr>
<td>Perceived quality</td>
<td>0.38</td>
<td>0.65</td>
<td></td>
<td></td>
<td>3.63</td>
<td>0.95</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.46</td>
<td>0.51</td>
<td>0.78</td>
<td></td>
<td>3.54</td>
<td>0.89</td>
</tr>
<tr>
<td>Brand Loyalty</td>
<td>0.42</td>
<td>0.46</td>
<td>0.55</td>
<td>0.71</td>
<td>3.55</td>
<td>1.04</td>
</tr>
</tbody>
</table>

The diagonal entries (in bold italics) represent that the average variance extracted by the dimension; the off-diagonal entries represent the variance shared (squared correlation) between the dimensions.

variances extracted were higher than the associated shared variance in all cases.

Hypotheses testing results

This study first tested the relationship between satisfaction and perceived quality (H1) using regression analysis procedure and then we used hierarchical moderated regression analysis to test our hypotheses (Cohen, 1988). In doing so, two models were developed. One is the “main-effects model (M2)” excluding interaction terms and the other is the “interaction model (M3)” including the interaction effects. All scales were averaged to form a composite. Once the composites were formed we mean centered the constructs to avoid any potential threat of multicollinearity when calculating the interaction terms (Aiken and West, 1991).

As expected, regression analysis supported H1 at p < 0.01 \((b = 0.38)\). We now turn to test our hypotheses
Table 3. Assessment of main effects and moderating effects.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Model b (t-value)</th>
<th>Main-effect model b (t-value)</th>
<th>Interaction model b (t-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Controls</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>0.03 (.76)</td>
<td>0.02 (.50)</td>
<td>0.04 (1.22)</td>
</tr>
<tr>
<td><strong>Direct effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceived quality (H2)</td>
<td>0.40 (10.04)*</td>
<td>0.31 (7.49)*</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction (H3)</td>
<td>0.35 (8.72)*</td>
<td>0.25 (5.88)*</td>
<td></td>
</tr>
<tr>
<td><strong>Interaction effects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction ×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation (H4)</td>
<td></td>
<td>0.19 (4.74)**</td>
<td></td>
</tr>
<tr>
<td>Perceived quality ×</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer orientation (H5)</td>
<td></td>
<td>0.24 (5.81)*</td>
<td></td>
</tr>
<tr>
<td>(R^2)</td>
<td>0.01</td>
<td>0.45</td>
<td>0.49</td>
</tr>
<tr>
<td>Adjusted (R^2)</td>
<td>-0.00</td>
<td>0.44</td>
<td>0.48</td>
</tr>
<tr>
<td>F-model</td>
<td>0.59</td>
<td>152.15*</td>
<td>130.27*</td>
</tr>
<tr>
<td>(\Delta F)</td>
<td></td>
<td>227.68*</td>
<td>35.57*</td>
</tr>
<tr>
<td>(\text{Effect size (ES)})</td>
<td>0.80</td>
<td>0.08</td>
<td></td>
</tr>
</tbody>
</table>

*Significant at \(p < 0.01\) level; **Significant at \(p < 0.05\) level; \(\text{ES} = \frac{R^2_{IM} - R^2_M}{1 - R^2_{IM}}\); where IM = interaction model and M = main-effect model.

including the interaction effects. In Table 3, Models 1 to 3 used brand loyalty as the dependent variable. We used Model 1 to test the effects of the control variable on brand loyalty, and then added the main effects of the antecedent variables (perceived quality and satisfaction) in Model 2, which contributes 44% more variance explained than the control variable. Model 3 \((R^2 = 49\%\), ES = 0.08\) included the control variable, main effects, and the hypothesized two-way interaction terms. In particular, Model 3 shows the results of our hypotheses testing. The interaction effects were significant, granting an additional 4 percent to the explanatory power of the model. No control variable approached significance.

Hypotheses 2 and 3 stated that perceived quality and satisfaction would be positively related to brand loyalty. This is a test of the main effects on brand loyalty. Both hypotheses were supported in that the effects of perceived quality \((b = 0.31; p < 0.01)\) and customer satisfaction \((b = 0.25; p < 0.01)\) on brand loyalty were significantly positive. Next, we checked the moderating effects to test H 4 and 5, which stated that the positive relationship between perceived satisfaction/quality and brand loyalty would be stronger where customers benefit from a high practical level of a firm’s employees. Results from Model 3 show that the positive effect of customer loyalty on brand loyalty is bolstered with a high practical level of customer orientation, in support of H4 \((b = 0.19; p < 0.05)\). Perceived quality on brand loyalty is significantly moderated by customer orientation, in support of H5 \((b = 0.24; p < 0.01)\). We summarize the results in Table 3.

**DISCUSSION**

Overall we find support for all hypotheses in our proposed model. The main effect of perceived quality on satisfaction would come as no surprise to researchers, while the current finding highlights that the link of perceived quality to satisfaction performs the best in terms of predicting brand loyalty. This effect is stronger than other main effects. This is consistent with Brand and Robertson (2001) who suggest that cognition (evaluation of service quality) influences affect (judging the satisfaction for the service). Our first result suggests that retail service firms whose brand loyalty process is not well developed are able to survive from the improvement of service quality.

The relationship between satisfaction and brand loyalty has been well researched in consumer markets, focusing mainly on fast moving consumer goods (Fournier and Yao, 1997; Oliver, 1997). Consistent with past findings from consumer studies, the pattern of results reported here suggests that satisfaction is antecedent to brand loyalty, at least in the Chinese context studied. When consumers visit retailing service stores, they are more likely to be satisfied with the outcome, which leads to improving brand loyalty. As respondents are repeat customers, this may become an issue for repurchasing behaviors that become automated over time, such as straight repurchase. In this case, as customer satisfaction level increases with the nature of service quality perceptions, the level of brand loyalty is also increased.
Our findings highlight the significant moderating effects between perceived quality and customer orientation and between satisfaction and customer orientation on brand loyalty. The results suggest that customer orientation has an impact on the way in which customers evaluate the brand through both cognitive and accumulate points of view. These findings provide a starting point for unrevealing some confusion on brand loyalty formation in the literature regarding the role of customer orientation in customers’ decision making process. More specifically, the reinforcement of both constructs on brand loyalty is contingent upon a high level of customer orientation. In China’s retailing service circumstances, it becomes more important for brand loyalty formation so that the service organization guides customers’ need to reinforce their judgments.

Managerial implications

Several managerial implications emerge from this study. By combining the theoretical perspectives that examine customer orientation at the individual levels of measurement, a more complete view of the effects of customer orientation on brand loyalty formation can be seen. Previous studies that have underestimated the possible influence of moderators, have omitted a key driver. If customers’ needs are well managed by service employees, customer-oriented firms will be consistently perceived as having better service quality and delivering customer satisfaction. Furthermore, this effect is not only evidence for perceptions of the servicescape, but also a fundamental process for the reinforcement of brand loyalty.

Service firms collect customer-focused data to reinforce brand loyalty, but the current study suggest that when the data become a shared firm-wide platform from which strategic decisions are made, a customer orientation prospers and become self-reinforcing (Kennedy et al., 2003). Since customer orientation is the belief that understanding and satisfying customer needs should be a firm’s priorities (Luo and Seyedian, 2003), our empirical findings also suggest that all members of a firm must continuously create superior value for customers, and must do so better than the competitors. This has advantages for improving market performance and reinforcing brand loyalty.

LIMITATIONS AND FURTHER RESEARCH

As with any empirical study, our study also has some limitations, which may provide other promising avenues for further research. The study’s focus on retailing services may limit the extent to which the findings can be generalized. It is plausible that the nature of the observed relationships would change with services that are higher or lower in credence properties (for example, higher private hospital, top-quality hotel, and legal services, respectively) as the potential for customer building expertise is like to vary significantly across these industries (Bell et al., 2005). This could provide insights on the possible generalization of customer orientation when researchers focus on the development of brand loyalty formation. This would be an important extension of the current study.

Another potential limitation of our study is the range of constructs we applied to indicate brand loyalty formation. A possible direction for further research involves testing the different role of satisfaction and perceived quality as antecedents of brand loyalty. This type of research would highlight the differences in brand loyalty formation and maintenance. Since the role of perceived quality is still strongly supported by the literature, the research model may need to be adapted for situational cases of brand loyalty formation.

REFERENCES


