Loyalty Program Membership Influences Perceptions of Service Quality, Customer Satisfaction and Loyalty: Evidence from Macao Casinos

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OUTLINE

• Introduction
• Literature Review and Hypotheses
• Methods
• Results
• Conclusion and Discussion
INTRODUCTION: Practitioners' viewpoint

• Fierce competition: 34 casinos, 5,242 game tables, 16,102 slot machines in Macau (Gaming Statistics from the DICJ, Jan. 2012)

• Many casinos spend millions of dollars: develop loyalty programs, acquire members, and adopt membership marketing strategy
INTRODUCTION: Academics' viewpoint

• “Do customer loyalty programs really work?”
  ➢ Yes (e.g., Bolton et al., 2000)
  ➢ No (e.g., Dowling & Uncles, 1997)
  ➢ Only in a minority of customer segments (e.g., Long & Schiffman, 2000; Palmer & Mahoney, 2005; Sharp & Sharp, 1997)

• Diverse methods to measure the impact of loyalty programs (Dubé & Shoemaker, 1999; Shoemaker & Lewis, 1999)
**INTRODUCTION : Academics' viewpoint**

- **Most** of them have concentrated on the *main effect* of a loyalty program on customer loyalty. (Dubé & Shoemaker, 1999; Shoemaker & Lewis, 1999)

- Very **limited** research has discussed the *moderating effects* of loyalty program membership (e.g., Bolton et al., 2000)

<table>
<thead>
<tr>
<th>Service quality $\rightarrow$ satisfaction $\rightarrow$ loyalty</th>
<th>(Gronholdt et al., 2000; Oliver 1997, 2010; Szymanski &amp; Henard, 2001)</th>
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</table>

- **Only a few studies** have examined the external factors moderating the relationship (Homburg & Giering, 2001; Mittal & Kamakura, 2001)
(1) The **moderating** effect of customer **membership** on the relationship between **service quality** and **satisfaction**;
(2) The **moderating** effect of customer **membership** on the relationship between **satisfaction** and **loyalty**.

**Figure 1. Hypothesized Model of the Relationships**
LITERATURE REVIEW AND HYPOTHESES

- **Hypothesis 1a.** Perceptions of service quality will be *positively related to customer satisfaction.*
  (Cronin & Taylor, 1992; Gruen et al., 2000; Spreng & Mackoy, 1996; Taylor & Baker, 1994)

- **Hypothesis 1b.** Customer satisfaction will be *positively related to customer loyalty.*
A. Interaction of service quality and membership on satisfaction

- Studies based on expectation theory (Oliver, 1980, 1997; Parasuraman et al., 1991b; Teas, 1993, 1994; Woodruff et al., 1983)
- Special treatment and benefits: Total Rewards program of Harrah’s casino (Anonymous, 2002; Palmer & Mahoney, 2005)
- Members have higher expectations about service quality, the satisfaction of members is likely to be more negatively affected by service quality
- Hypothesis 2a. Customer membership will moderate the relationship between service quality and satisfaction such that the relationship will be weaker for members than for nonmembers.
B. Interaction of satisfaction and membership on loyalty

- **Switching costs positively moderate** the effect of satisfaction on loyalty (Lee et al., 2001; Sharma & Patterson, 2000; Zhilin & Robin, 2004)
- Members have **higher switching costs** due to **benefits & losses** associated with their membership (Anonymous, 2002; Palmer & Mahoney, 2005)
- Members are likely to be **less knowledgeable and less certain** about the performance of competing establishments (Bolton et al., 2000)
- The positive impact of satisfaction on loyalty be **intensified** for members.
- **Hypothesis 2b.** Customer membership will **moderate** the relationship between satisfaction and loyalty such that the relationship will be **stronger for members than for nonmembers.**
Research Questions and Hypothesized Model

(1) The **moderating** effect of customer membership on the relationship between service quality and satisfaction;

(2) The **moderating** effect of customer membership on the relationship between satisfaction and loyalty.
METHODS

• **Sample and procedure:**

• Survey on the site at the shuttle bus station of **Six Casinos** located in **Macao** SAR, China, **2011**

• **745** questionnaires in total are distributed and collected, and **672** questionnaires are qualified **(90.2%)**
METHODS

• **Measures:**
  - Multi-item scales were adapted from prior studies’ validated measures
  - *Perceptions of Service Quality.* PZB’s 22-item SERVQUAR scale, $\alpha = 0.93$
    (Parasuraman, Zeithaml, and Berry, 1985, 1991a; Cronin & Taylor, 1992)
  - *Customer Satisfaction.* A three-item scale, $\alpha = 0.87$
    (Anderson et al., 1993, 1997; Fornell et al., 1996)
  - *Customer Loyalty.* A four-item scale was adapted, $\alpha = 0.79$
    (Baloglu, 2002; Fornell, 1992; Gronhold et al., 2000; PZB, 1996)
  - *Customer Membership.* “Are you a member of the club?”
  - *Controls.* Gender, age at last birthday, education level, and salary ranges.
    (e.g. Homburg & Giering, 2001; Lang, 2009; Mittal & Kamakura, 2001)
METHODS

• *Reasons to select PZB’s 22-item SERVQUAR scale:*

  • They adequately cover the service quality domain in a casino setting which has been listed as groups of service quality features in related research (Chen et al., 2005)

  • **No good scale** to measure casino service quality has yet been published, and there is **no evidence** that the SERVQUAL scale is inappropriate in the casino setting (Garry et al., 2007)

  • Some academics are trying to develop a casino service quality scale, **CASERV** (Wong & Fong, 2012), but it remains to be validated.

  • The SERVQUAL scale has been **widely tested** in various service settings.
• **Data analysis:**

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Loading</th>
<th>CR</th>
<th>AVE</th>
<th>α</th>
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<tbody>
<tr>
<td><strong>Service Quality</strong></td>
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<tr>
<td>1. Tangibility</td>
<td>0.68</td>
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<td>2. Reliability</td>
<td>0.88</td>
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<td>3. Responsiveness</td>
<td>0.72</td>
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<td>4. Assurance</td>
<td>0.94</td>
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<td>5. Empathy</td>
<td>0.95</td>
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<tr>
<td><strong>Customer Satisfaction</strong></td>
<td>0.87</td>
<td>0.70</td>
<td>0.87</td>
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<tr>
<td>1. Overall satisfaction</td>
<td>0.90</td>
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<td>2. Confirmation of expectations</td>
<td>0.81</td>
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<td>3. Performance versus ideal</td>
<td>0.79</td>
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<tr>
<td><strong>Customer Loyalty</strong></td>
<td>0.84</td>
<td>0.57</td>
<td>0.79</td>
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<td>1. Repurchase intention</td>
<td>0.74</td>
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<td>2. Recommendation intention</td>
<td>0.82</td>
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<tr>
<td>3. Positive word of mouth</td>
<td>0.85</td>
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<td>4. Preference</td>
<td>0.58</td>
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Notes: CR=Composite Reliability; AVE=Average Variance Extracted; α=Cronbach's Alpha. For details of the scale items, please refer to the appendix.
# Results

## Table 4

Results of Moderated Regression Analysis

| Variables                  | Model 1: Satisfaction | | | | | | Model 2: Loyalty | | | |
|----------------------------|------------------------|-------|-------|-------|-----------------|-------|-------|-------|-------|
|                            | \( \beta \) | \( F \) | \( R^2 \) | \( \Delta R^2 \) | \( \beta \) | \( F \) | \( R^2 \) | \( \Delta R^2 \) |
| **Step 1: Controls**       |                      |       |       |       |                 |       |       |       |       |
| Gender                     | 0.03                  | 6.09** | 0.04** | 0.04** | -0.11**         | 2.80* | 0.02* | 0.02* |
| Age                        | -0.10                 |        |        |        |                 | 0.03  |       |       |
| Education                  | 0.06                  |        |        |        |                 | 0.02  |       |       |
| Salary                     | -0.17**               |        |        |        |                 | 0.07  |       |       |
| **Step 2: Main effects**   |                      |       |       |       |                 |       |       |       |       |
| SERVQUAL                   | **0.76***             | 165.89*** | 0.60*** | 0.56*** |
| Member                     | 0.08**                |        |        |        |                 |       |       |
| Satisfaction               | **0.17***             |        |        |        |                 |       |       |
| **Step 3: Moderating effects** | |       |       |       | | | | | |
| SERVQUAL* Member           | **-0.33***            | 159.48*** | 0.63*** | 0.03*** |
| Satisfaction* Member       | **0.16***             |        |        |        |                 | 182.03*** | 0.66*** | 0.01*** |

Notes: CI = 95% confidence interval for \( \beta \); \( n = 672 \); * \( p < 0.05 \); ** \( p < 0.01 \); *** \( p < 0.001 \).
Figure 2
Moderating Effect of Membership on Service quality-Satisfaction-Loyalty

- - - - - Nonmembers

- - Satis. = 0.76 * SERV
- - Satis. = (0.76-0.33) * SERV+0.08

- - Loy. = 0.78 * Satis
- - Loy. = (0.78+0.16) * Satis+0.17

Members
CONCLUSIONS AND DISCUSSION

- Empirical evidence in Macao casinos: quality $\rightarrow$ satisfaction $\rightarrow$ loyalty
- Loyalty programs undoubtedly are effective
- By comparing the regression coefficients of program members and nonmembers in the relationships, the effectiveness of loyalty programs can be better understood
- Members may be more difficult to satisfy than nonmembers
- Members may be more prone to loyalty than nonmembers

Figure 1. Hypothesized Model of the Relationships
• **Limitations and Recommendations:**

  • The validity of **SERVQUAL scale** in the casino industry needs to be examined more carefully.
  
  • Further study should explore developing a scale for **service quality in casinos**.

  • **Generalization** in other casinos outside Macao.
  
  • Further research could explore the moderating effect in various customer **segments**.
Thanks for your attention!

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